

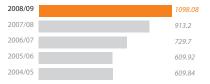
- Operating Profit up 45% to NPR 338 million
- Loans & Advances grew by 38% to NPR 13.3 billion
- Non Performing Assets improved to 0.08% from 0.13%
- Customer Deposits grew by 47% to NPR 10.92 billion
- ~ 6 new Branches
- Number of Employees grew by 19% to 299
- ~ **Cost to Income Ratio** improved from 38.7% to 37.05%
- ~ Earnings per Share up 26% to NPR 20.70

Laxmi Bank completed 7 full years of operation in April 2009. In this short period of existence we are proud to have raised the bar for Nepalese financial industry in many areas – most notably corporate governance, risk management, electronic  $banking\ and\ retail\ financial\ services.$ We have grown our business and footprints – one step at a time ensuring we do not compromise our standards in pursuit of quick balance sheet growth and unsustainable profits. We strongly believe banking is a long term proposition and there are no shortcuts. The theme of this Annual Report – "Responsible Banking" is a reflection of our overall approach to business and our commitment to stay the course to become the most proficient representative of the Nepalese financial services community.

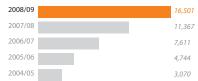


## 5 years financial highlights

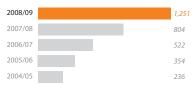
### Paid Up Capital (Rs in million)



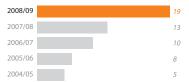
### Deposit & Borrowing (Rs in million)



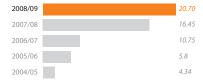
### Total Revenue (Rs in million)



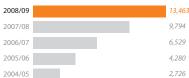
### **Number of Branches**



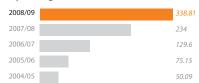
### Earning per Share (Rs)



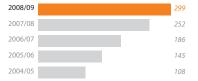
Loans & Advances (gross) (Rs in million)



### Operating Profit (Rs in million)

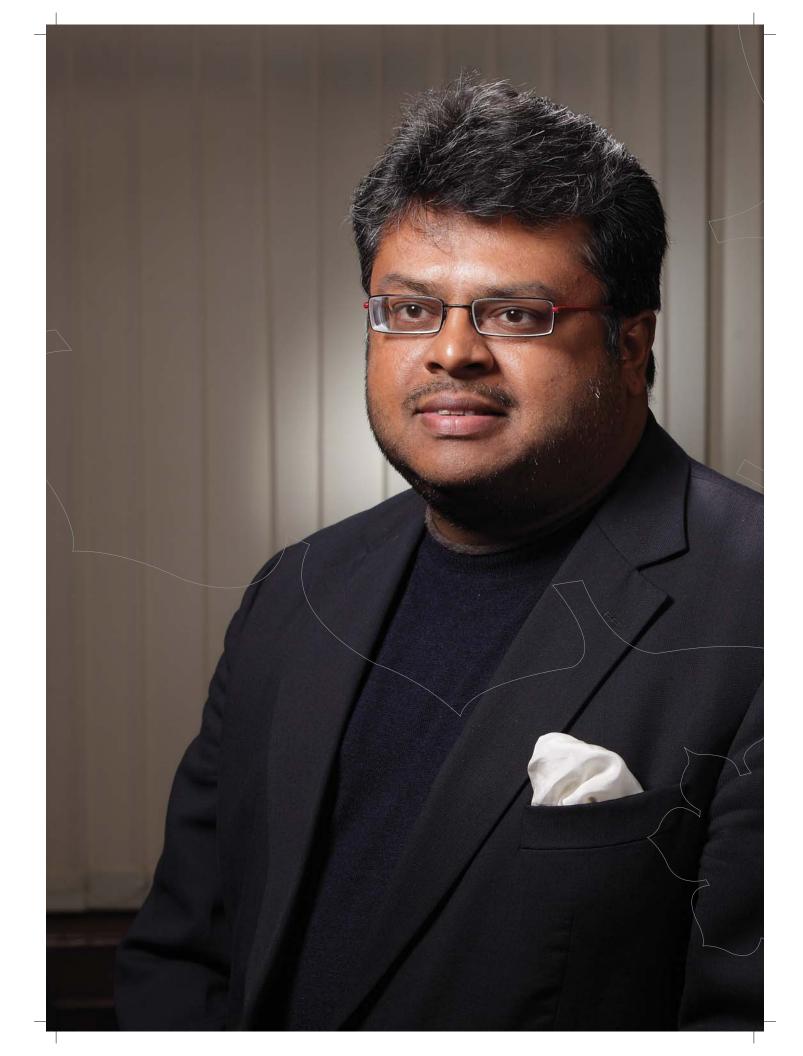


### Number of Employees





Chairman's Statement 2 | Board of Directors 4 | Management 6
Corporate Profile 8 | Our Business 13 | Director's Report 20
CEO's Perspective 24 | Financial Review 26 | Corporate Governance Report 34
Our People 45 | Risk Management 46 | Financial Report 52
Corporate Responsibility 91 | Branches & ATM 96



## chairman's statement

Respected Shareholders,

Notwithstanding the challenges that we faced, Laxmi Bank has registered a growth of 47.03% and 37.46% over the previous year in our deposit and lending business respectively. We were also able to increase our operating profit by 44.57%. In our short history of 7 years, Laxmi Bank has been able to establish itself amongst the top 10 commercial banks in the country in terms of market share. The Bank has been able to maintain and improve the quality of its risk assets with Non Performing Loans of 0.08%. This in itself can be considered exemplary for the industry.

The Bank is currently delivering services to our customers from a network of 21 branches, 16 ATMs, Internet, Mobile etc. The first quarter results of the current financial year is encouraging and augurs well for the remaining period. We are confident our sound risk management systems, trained and experienced employees and the patronage of our ever growing base of customers will help us deliver even better

performance in the days ahead and further increase the returns for our shareholders.

I would like to express my sincere gratitude to Nepal Rastra Bank and other regulatory bodies for their support and encouragement. Similarly I thank our respected shareholders for the trust they have placed in Laxmi Bank. I am particularly grateful to our customers for their patronage without which we could not have reached where we are today. I also appreciate and thank the staff and management of the Bank for their hard work and unwavering commitment towards achieving our common goals. Thank you.

mienber.

Rajendra Kumar Khetan Chairman



Mr. Rajendra K Khetan Chairman

Member, Constitutional Assembly
Chairman, Gorkha Brewery Pvt. Ltd.
Chairman, Himalayan Snax and Noodles Pvt. Ltd..
Chairman, Everest Insurance Co. Ltd.
Chairman, Prime Life Insurance Ltd.
Honorary Consul of Portugal with OIH
Senator - Kathmandu University

Mr. Rishi Ram Gautam Director (Representing CIT)

Executive Director Citizen Investment Trust

Mr. Ratan Lal Shangai Director

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









Mr. Bhola B. Adhikary

Director (Representing the General Public)

Executive Chairman, East Nepal Development Endeavor P. Ltd

### Mr. Gopi Krishna Sikaria Director

Director, Nepal Petroleum P. Ltd.

## board of directors

Mr. Jiban Raj Kandel Director (Representing the General Public)

Director, Sansara Pvt. Ltd.

Mr. C.P. Khetan Director

Managing Director, Gorkha Brewery Pvt. Ltd. Honorary Consul of Turkey

> Mr. Shambhu Prasad Acharya Professional Director











Mr. Madhu Sudan Agrawal Advisor

Member, Constitutional Assembly
Chairman, SR Drugs Lab. P. Ltd.
Executive Director, Sunrise Group
Director, Everest Insurance Co. Ltd.
Executive Member, Nepal Chamber of Commerce
Treasurer, Nepal China Chamber of Commerce & Industry

Mr. Suman Joshi Chief Executive Officer

## management

Suman Joshi

Chief Executive Officer

**Sumed Bhattarai** 

Head – Corporate Banking

**Amit Sharma** 

Manager – Human Resource

Bhuwaneshwor P. Shah

Corporate Affairs Director

Jiwan Limbu

Chief Technology Officer

**Piyush Aryal** 

Head – Finance & Treasury

**Nirmal Dahal** 

Head – Credit Risk

**Bhubal Rai** 

Chief Operating Officer

Ajaya B. Shah

Head – Retail Financial Services





Sanjeev Raj Joshi

 $Head-Trade, Payments\,\&\,Credit\,Operations$ 

**Rajiv Sapkota** Senior Relationship Manager — Institutions

**Dipesh Amatya** Head — Retail Lending

Amit Adhikari

Branch Manager, Sukedhara

Amit Singh Karki **Business Centre** 

Anup Shrestha

Branch Manager, New Baneshwor

**Babin Satyal** 

Branch Manager, Pokhara

**Bharti Pande** Branch Manager, Hattisar

Bidya Basnet

Branch Manager, Maharajgunj

Bikash Lal Shrestha Branch Manager, Banepa Binayak Pokhrel

Branch Manager, Bhairahawa

Deepak Dhungana

Branch Manager, Butwal Euden Koirala

Branch Manager, Lagankhel

Junu Rai

Branch Manager, Damak

**Kshitiz Khadka** Branch Manager, Birgunj

Manohar Uprety

**Pooja Shah** Branch Manager, Bhatbhateni

Purushottam Pudasaini Branch In-charge, Parsa

Raju Bhandari

Branch In-charge, Pokhara Industrial District

Sabina Baskota Branch Manager, Teku Sanjeev Kumar Singh Branch Manager, Janakpur

Saroj Kumar Chaudhary

Branch Manager, Nepalgunj

**Shambhu Rathi** Branch Manager, Biratnagar

Shishu Joshi

Branch Manager, Pulchowk

Siddha Bahadur Bhandari Branch Manager, Itahari

## corporate profile

### INCORPORATION

Laxmi Bank was incorporated in April 2002 as the 16th commercial bank in the country. With an asset size of NPR 20 billion and 22 branches across the country, we are today firmly amongst the top 10 financial institutions in terms of market size and operations.

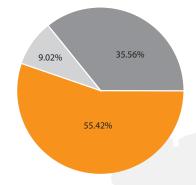
In 2004 Laxmi Bank merged with HISEF Finance Limited, a first generation finance company. This was the first merger in the Nepali corporate history.

Laxmi Bank is a Category 'Ka' Financial Institution and re-registered in 2006 under the "Banks and Financial Institutions Act" of Nepal. The Bank's shares are listed and actively traded in the Nepal Stock Exchange (NEPSE).

High standards of corporate governance, strong information technology credentials, prudent risk management approach and a culture of innovation are our key driving forces.

### OWNERSHIP STRUCTURE

- **Promoter Group** representing the country's leading business groups 55.42%
- Citizen Investment Trust, a government of Nepal undertaking 9.02%
- **General Public** comprising of more than 10,000 shareholders 35.56%



### OUR BRAND

We recognize the value and necessity of creating a strong Laxmi Bank brand that reflects our approach that banking is a long term proposition built on the "trust" placed on us by our customers and there are no short cuts.

We believe our brand is a key competitive advantage for us and we are determined to further enhance and protect its integrity and value in the market by positioning ourselves as the most proficient representative of the financial services community.

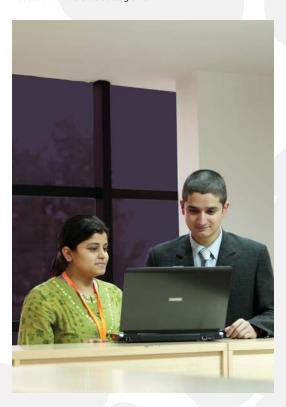
### RAISING THE BAR

- Corporate Governance Standards Laxmi Bank's award winning report in 2005 set the standards for quality, presentation and disclosure in Annual Reports for the industry.
   Risk Management Approach – our risk management approach nd systems are reflected in our business and ratings by regulators and independent auditors.
- Innovation a thought leader in the retail and e-banking domain we have pioneered a range of solutions such as Mobile Money, Bancassurance, Money Market linked deposits, transaction alerts and friendly environmentally green products aimed at improving the customer's experience and meeting the demands of changing times.
- Communication as a responsible financial institution we place a high priority on effective communication related to banking, finance, economy and Laxmi Bank with all our stakeholders.
  - "Laxmi Bank Newsletter" is a trend setting monthly newsletter that started out in print form and has today migrated to an electronic version. The newsletter is distributed free of cost and covers business and economic briefs and financial indicators, local and international. With a number of other financial institutions now producing similar newsletters, access to financial information has improved considerably.
  - "Laxmi Bank Treasury Bulletin" is a weekly bulletin that disseminates important information related to treasury, FX and fund management, to major corporates in the country. This Bulletin is produced in-house by our Treasury Dealers using their insight and expertise in market affairs.
  - "Spark" Laxmi Bank's magazine that celebrated the spirit of Nepali entrepreneurship and designed for light and relaxed reading on "business, lifestyle and financial" issues.
  - "Email Bulletins" update our stakeholders on relevant Laxmi Bank news, events and products.

### **OUR APPROACH**

We approach our business on the basis of our belief that banking is a long term proposition and have made investments on people, innovation, distribution network, delivery channels and risk management systems. We believe our approach has been justified with a steady year-on-year growth since our inception in 2002. Our growth has been achieved without compromising the high ethical and business standards we set for ourselves.

It is our strategy to continue focusing on both the wholesale and retail segments to diversify our risk and revenue sources. We have made recent foray into the microfinance space and aim to build a sustainable portfolio in line with our efforts to create new business lines. We also continue to make efforts at changing the composition of our liabilities portfolio in favor of retail deposits. Primary growth for us is expected through organic channels however we are open to mergers and acquisitions with like-minded forward thinking financial institutions if there is a strategic fit.



### MISSION STATEMENT

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 VALUES**

Our values are built around high standards of good corporate governance. Transparency, professionalism and high ethical tone at the leadership are foundations 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.

### **OUR VISION**

- $\sim$  Provider of most integrated financial services
- ~ Key player and a thought leader in the retail financial services
  - ~ A bank with the best asset book
    - ~ Best IT capability
- ~ Preferred employer in the financial sector

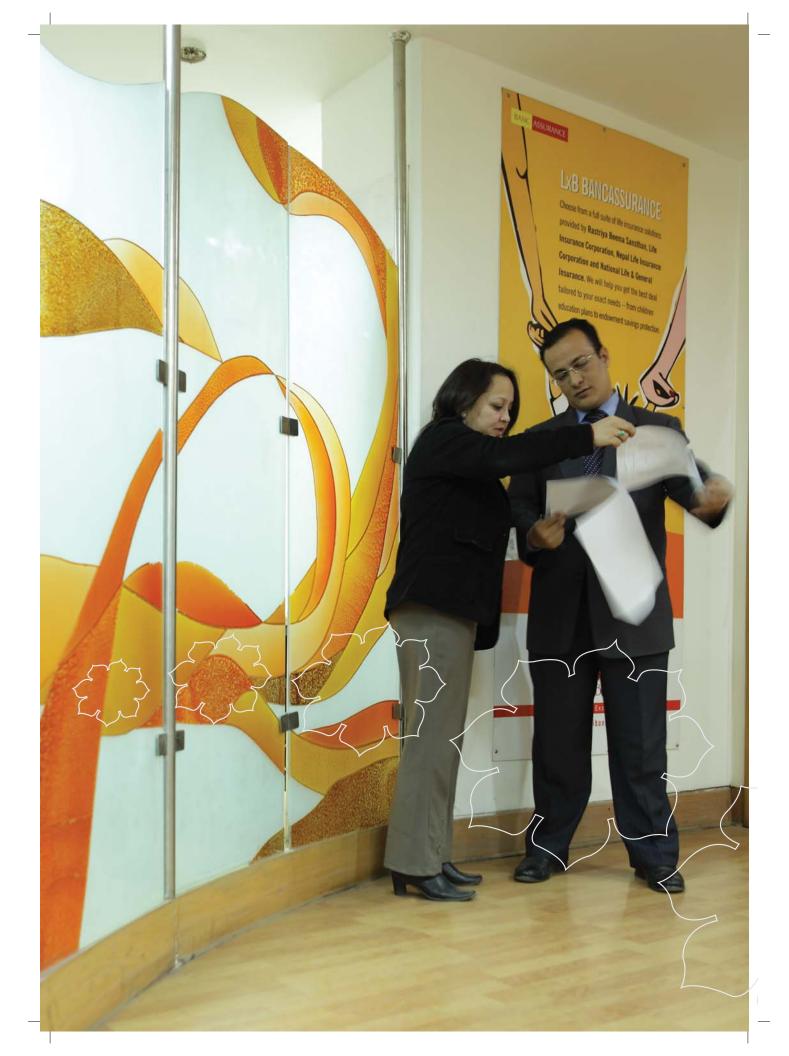


### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements with respect to Laxmi Bank's future financial condition, performance and businesses based on current plans, estimates and projections.

Forward-looking Statements are statements that are not historical facts and includes the Bank's beliefs and expectations. Forward-looking statements use words like such as 'aim', 'expect', 'anticipate', 'target', 'intend', 'plan', 'believe', 'seek', 'estimate', 'potential', 'reasonably possible' and variations of these words and similar expressions.

By their nature Forward-looking Statements involve risk and uncertainty because they relate to future events or circumstances and a number of factors beyond Laxmi Bank's control. In view of this, readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those stated herein due to changes in basic assumed conditions. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they will be revised or updated in the light of new information or future events.



## our business

### **BUILDING PARTNERSHIPS**

We believe in giving our customers clear and real reasons to trust their finances to us. We are continuously improving the way our customers interact with us - making banking as convenient and simple as possible. Our business approach is relationship based as opposed to transaction based and we are keen to build partnerships with customers who represent long term mutually beneficial prospects.

### "BRICKS AND CLICKS"

"Bricks and Clicks" continues to be our strategy for expansion. Our leadership in electronic banking space is complimented by increasing ATM and branch network.

### 22 Branches and growing

We now have a strong network of 9 branches inside Kathmandu valley including 2 new branches added this year – at Lagankhel and Sukedhara. With other branches strategically located at Hattisar, Pulchowk, New Road, Teku and New Baneshwor, Maharajgunj and Bhatbhateni, Laxmi Bank now has one of the strongest branch network in Kathmandu valley. In addition to the branches we also have an information desk and kiosk at NLIC City Centre which is the first of its kind in the country.

Similarly we have added 4 new branches outside Kathmandu valley this year – 3 in the west at Nepalgunj, Bhairahawa and Butwal and 1 at Parsa, Chitwan.

These branches strengthen our distribution network in the Western region of the country giving us access to a new market and customer base. Bhairahawa and Butwal complement each other with former focusing on business and corporate customers and the later on retail activities.

The branch at Parsa, Chitwan reinforces our already strong presence in the Chitwan area and gives us access to an emerging urban market.

We now have 22 strategically located branches that offer a range of services to a growing base of customers. These bricks and mortar branches complement our strong electronic delivery channels. We will continue to increase our footprints across the country in our endeavour to achieve organic growth across all businesses.

### **ATM Network**

Laxmi Bank's ATM network is now spread over 17 locations in 8 cities – Kathmandu, Lalitpur, Birgunj, Pokhara Itahari, Butwal, Banepa and Nepalgunj.

Laxmi Bank is also a founding member of the SCT network, an integrated shared services network for ATMs and Point-of-Sale terminals managed through a national switch. As a member of SCT our cardholders have access to over 400 ATMs and 1300 PoS located around the country.

### **Remittance Agents and M-SME Service Centers**

A network of more than 400 agents represent Laxmi Bank across the length and breadth of the country helping us deliver basic money transfer services. We are working to increase the scope and dimension of their work and have upgraded several of such agents to sales and service agents for micro-enterprise loans.







Laxmi **iBank** plays a vital role in supporting the transactions of Mercantile Exchange, the country's largest commodity exchange platform Laxmi Bank is the settlement bank for e-Sewa Nepal, the country's first online payment gateway. Our wide range of delivery channels also support e-Sewa's business in line with our aim to enhance the role and scope of electronic payment in Nepal.

### **Electronic Channels**

Laxmi Bank is a pioneer and leader in the electronic banking domain. We encourage our customers to adopt the newest technologies that offer efficiency and security for their financial transactions. Furthermore we also promote the use of e-banking as a means of contributing to the 'green' cause helping our customers embrace paper-less and commute-free banking.

Laxmi *iBank* is the most complete and versatile internet banking service in the country allowing users to view transaction details, statements, pay bills and transfer funds.

With Mobile Money, Laxmi Bank now offers complete mobile banking solution. The evolution from basic enquiry services to transaction alerts and now bill payments and fund transfers is now complete. We introduced bill payments and fund transfers through mobile telephones in October 2009 which is till date the only mobile banking solution in the country that allows financial transactions.

### **CORPORATE BANKING**

Laxmi Bank's corporate customers typically belong to the top end of the market. Majority of the country's large corporate houses today use us for their trade, working capital, project finance and foreign exchange management needs.

Our Corporate Banking business philosophy is based on providing solutions to our customers and our team of dedicated and skilled relationship managers work on building and deepening these relationships. We believe that this approach gives us a distinct advantage over our competitors and is reflected in the loyalty and trust our customers have bestowed on us. We have been successful both at retaining and growing the wallet share of existing customers as well as building new relationships who fit our risk appetite.

The Bank has 5 corporate banking centers – at Hattisar and New Road in Kathmandu valley and at Birgunj, Biratnagar and Bhairahawa.

### **Corporate Banking Plus**

Corporate Banking Plus is strategy adopted at enhancing Corporate Bank's scope and dimensions beyond credit / lending products. Under this, Corporate Bank actively pursues non-funded businesses prospects such as high value bonding business, institutional deposit management and financial advisory services. These activities have begun to generate satisfactory revenue for the Bank in line with our general strategy of diversifying our revenue sources. We believe that the growth in terms of size as well as maturity in the market will provide us with reasonable business prospects in the future.

### **Corporate Regional Exposures**

Kathmandu	68%
New Road	11%
Birgunj	13%
Biratnagar	7%
Bhairahawa	1%

### MICROFINANCE

During the year Microfinance was established as an independent business unit. Our microfinance portfolio consists of:

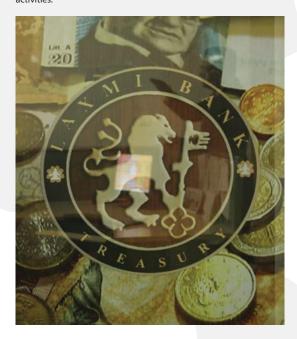
- Wholesale lending to established Micro Finance Institutions (MFI)
- Livestock Financing in alliance with Sujal Dairy Pvt Ltd
- Micro Enterprise Loans in Jhapa
- Cottage Loans to farmers and entrepreneurs in Kavre District

Microfinance is a key area of focus for us and we will continue to increase our activities in this domain.

We have formally applied to Nepal Rastra Bank to register a micro finance subsidiary in line with our strategy to promote an independent

### **TREASURY**

Laxmi Bank's Treasury functions as a separate profit centre / business unit. Treasury has moved beyond its traditional role of managing and monitoring the Bank's projected cash flow and overall asset - liability position to a role where it is involved directly in profit centered activities.



Treasury's earnings come from proactive management of foreign exchange and this has become especially relevant with the increasing inflow of foreign currency through the workforce remittance business and growth of our trade finance activities. Further Treasury also manages structured investment deals wherein it matches high value assets and liabilities.

Revaluation gain, which occurs from speculative position taken by treasury considering both Technical and Fundamental Analysis, consisted of 36% of the total Exchange Earning. The revaluation gain amount was 224% higher than the previous year which resulted due to sound technical and fundamental analysis by the treasury team. However, the growth in the total exchange earnings was not at the pace of previous years because of intense competition in remittance and trade business which continuously narrowed the forex spread.

The core treasury operations comprise the balance sheet management function, the client-related corporate markets business and the proprietary trading activity. Fiscal 2008/09 saw high volatility in interest

EXCHANGE EARNING

60,000

50,000

40,000

10,000

FY EY EY 2002/03 2003/04 2004/05 2005/06 2006/07 2007/08 2008/09

rates, varying liquidity conditions, global credit tightening and inflationary concerns resulting in significant movement in the market interest as well as exchange rate at various points in time.

Nepal Rastra Bank Treasury Bill markets also witnessed significant volatility in yields. The balance sheet management function continued to actively manage the government securities portfolio held for compliance with SLR norms to optimize the yield on this portfolio, while maintaining an appropriate portfolio duration given the volatile interest rate environment.

The focus of our proprietary trading operations was to maximize profits from positions across key markets including bonds, government securities, and foreign exchange markets.

Treasury is involved in management of key functions of the bank including Market Risk and is also a major participant in the domestic FX Market.

We expect the role of Treasury to grow further in terms of scope and size of contributions to our business.

### **FX Forward**

Laxmi Bank Treasury is a major participant in the FX Forward market. The Bank deals in FX Forward for balance sheet management and market making purposes, whereby the Bank offers forward products to its customers, enabling them to hedge their risks.

Dealing in FX Forward is carried out by identified groups in the Treasury of the Bank based on the purpose of the transaction. FX Forward transactions are entered into by the treasury front office. Treasury back office conducts an independent check of the transactions entered into by the front office and also undertakes activities such as confirmation, settlement, accounting, risk monitoring and reporting and ensures compliance with various internal and regulatory guidelines.

### **Other Functions**

There are other functions housed within the Treasury department, including a process known as funds transfer pricing (FTP). At a highlevel, the FTP process centrally manages the funding requirements of the entire bank in lieu of having each division/branch fund its own balance sheet.

Additionally, the department also assumes the responsibility for monitoring the institution's risk capital levels including the rules set forth in the Capital Adequacy Framework under Basel II by Nepal Rastra Bank.

### RETAIL FINANCIAL SERVICES

Laxmi Bank is a thought leader in the Nepalese retail financial services domain and offers one of the widest range of personal financial services and solutions. Retail remains a strong focus area for us and contributes approximately 30% of our revenue. Retail Financial Services (RFS) comprises of several business lines including branch banking, consumer finance, small business banking, credit cards, deposits, private banking, bancassurance and workforce remittances.

Our retail customer base is increasingly diversified with entities across the economic spectrum – individuals to institutions, high networths to small businesses.

### **Deposit Accounts**

The Bank offers a range of deposit accounts ranging from savings accounts to current and call accounts for institutions. We have conciously made efforts to grow our core deposit base in order to improve the asset – liability matching. We are achieving satisfactory year on year growth throught both new acquisitions and increasing wallet share of existing customers.

This year our customers were treated to a special offer where they received Bhatbhateni Club Cards issued by Bhatbhateni Super Market the largest retailer in the country. These cards are distributed exclusively by Laxmi Bank.



### Whats your Savings Goal?

"Green Savings" has recently joined our portfolio of savings products. Green Savings rewards customers with high interest rate of 7.5% p.a. as a reward for joining the Bank's 'Orange loves Green' initiative. Green Savings is especially designed for paper-less and commute-free banking experience which is possible due to the strong electronic banking solutions we can offer.

"Super Woman Savings" was introduced last year as a customized savings solutions for women of all profile. The low minimum balance requirement combined with a high interest rate is our tribute to women and their super powers to balance their lives around home, work, children and other social obligations. This product has received overwhelming response from the market and is now a major contributor to our liability portfolio.

"Milli Julli Bachat" is a special savings account that is targeted at married couples of all ages in the urban and semi-urban areas mainly in cities outside Kathmandu valley. The account offers interest up to 7% p.a. as an incentive for couples to save together for a specific financial goal.

"Manakamana Savings" is a growing portfolio that is offered to our workforce remittance customers. This account can be opened and operated by either/or the Remitter or the Beneficiary and is aimed to inculcate savings habits amongst a segment that mostly remains unbanked

In addition to these we also offer Orange Savings, Laxmi Savings, Junior Savings and USD Money Tree Savings to our customers giving them a wide range of choices for them to meet their savings goals.

### **Payroll Management Solutions**

"Personal Reserve Accounts" (PRA) is a value addition to our Payroll Management Solutions which is subscribed to by a growing number of institutions and corporate houses around the country. PRA offers our payroll customers the flexibility of an personal overdraft in the same account where direct (salary) deposit is made by their employers – earning interest on credit balances. Our Payroll Management Services is bundled with other benefits to the account holders who get easy access to other services such as Credit Cards, Mortgages and Bancassurance.

### M3 – Mv Money Market Account

Laxmi Bank's M3 account was the first of its kind account in the country with interest rates directly linked to Treasury Bills. This account offers our high net worth customers to take advantage of the market's liquidity situation and invest in a high yielding deposit account with a guaranteed minimum rate of return. The rates are linked to the 90 days Treasury Bills issued by the Central Bank.

### It's Rainina Money

We offer a range of Term Deposits to our retail customers. These deposits are structured between 12 months and 60 months and yield returns of up to 10% per annum. Our depositors can also open Cash Flow Deposits where interests on term deposits are paid on Quarterly and Half-Yearly basis to meet specific financial requirement of our customers.

### Mortgages

Our Mortgages portfolio continued to grow at a satisfactory pace with year-on-year growth of approximately 25%. The Bank offers full suite of mortgage products:

- Home Loans to purchase or construct residential properties,
- Home Improvement Loans to finance renovations, extensions or other improvements, and
- Home Equity Loans that allows home owners to unlock built up equity to meet other costs or investment opportunities

We are amongst the most preferred provider of Mortgage solutions and our strong risk and portfolio management systems has helped us maintain a high quality portfolio with delinquency levels at below 0.5%

### Small Business Banking – believing in each other!

Small Business Banking remains a strong focus area for us and despite unfavorable business environment our small business customers have generally grown thereby giving us an opportunity to grow with them. A team of dedicated Relationship Managers especially trained to serve small businesses and use of modern credit risk assessment tools such as the inhouse developed Small Business ScoreCard has helped us achieve this growth and maintain a high quality portfolio.

### Cards

### **Debit Cards**

"Dhana Laxmi" is our Debit/Cash Card which can be used across a network of over 400 ATMs and 1300 Point of Sale terminals under the SCT network.

We installed our own switching system in 2008 and are now preparing to issue Visa branded debit cards and prepaid cards. We expect Visa debit cards to be launched by February 2010. Visa debit cards will

allow our customers to access their accounts through 30,000 ATMs and 300,000 merchant outlets all over Nepal and India.

### **Credit Cards**

In 2007 Laxmi Bank became the 5th bank in the country to issue credit card. Our credit card portfolio is carefully managed and quality focussed. These cards can be used in 30,000 ATMs and 300,000 merchant outlets across Nepal and India. We will continue to seek ways of increasing our cardholder base as we gain experience managing this portfolio.

### Laxmi Bank Express Money Transfer

An estimated 1.5 million Nepalese work in the Gulf and South East Asia as part of the global phenomenon of movement of human capital from developing countries to developed economies. Remittances sent home by this workforce has been a mainstay of country's economy for the past few years. We have been amongst the major players in "bringing money home" since the past 3 years.



We now have strategic alliances with a number of internationally active money transfer companies around the world including US, middle east and Malaysia. Our major partners in the Gulf include Al Ahalia, Arab National Bank, Wall Street Exchange, Instant Cash, Xpress Money and Majan Exchange. Our partners in Malaysia, Merchantrade Asia has grown into a major remittance operator and we serve the Nepali workforce through 60 branches across Malaysia.

We have recently moved on to other markets like the US and UK through tie ups with remittance operators like Transfast and Sagarmatha Remit. We have also entered into a strategic alliance with Surya Remit one of the principal agents of Western Union.

Our remittance distribution network consists of 400+ agents spread across the country. These agents help us distribute money received in an efficient and timely manner.

This year we also commenced domestic money transfer services through the same network of agents. This remittance platform now allows customers and agents to move money to and from locations where Laxmi Bank does not yet have a branch.

### **Portfolio Management Services**

Laxmi Bank has recently entered into a partnership with Beed Invest Limited, the first company to be given portfolio management license by the Securities Exchange Board. Under this arrangement Laxmi Bank customers have access to comprehensive services vis-à-vis stock selection and construction and management of portfolio of stocks listed on the Nepal Stock Exchange taking advantage of innovative research, investment expertise Beed Invest offers.

### green savings

As a conscientious citizen we must play our part in reducing paper and thus protecting trees. Green savings allow our customers to enjoy paperless and commute free banking experience.



# directors' report

This report reviews the Bank's activities during the financial year 2008/09 including a commentary on the progresses, achievements, challenges and plans for the future and has been prepared in conformity with the provisions of the Company Act 2063, Banking and Financial Institutions Act 2063 and applicable Nepal Rastra Bank Directives.

The Directors present this report along with the Balance Sheet and Profit and Loss statements for the financial year that ended on July 15, 2009.

### 1. Review of Bank's Operation for the Financial Year 2008/09

### A. Key Financial Highlights

Figures in NPR Millions

PARTICULAR	15/7/2008	15/7/2009	% CHANGE
Paid up capital	913	1,098	20.25
Net Worth	1,145	1,342	17.18
Deposits & Borrowings	10,917	16,051	47.03
Risk Assets	9,794	13,463	37.46
Investments	1,502	2,899	92.89
Operating Profit	234	338	44.57
Net Profit	120	189	57.46
Provision for Loan Loss	113	148	30.18
Non Performing Loan	0.13%	0.08%	(38.46

### B. Network & Representation

The Bank was represented by 19 branches and 16 ATMs as at July 15, 2009.

**Branch Expansion** 

During the review period the Bank added 6 new branches at:

- Kathmandu
  - Bhatbhateni
  - Maharajgunj
  - Lagankhel
- Itahari
- ~ Bhairahawa
- ~ Parsa

We have opened six new branches during the financial year in line with the Bank's strategic expansion plans. Furthermore, two new branches at Nepalgunj and Butwal are in final stage of completion and are expected to be operational soon. The Bank has plans for further expansion with 4 new branches during the current financial year.

Such strategic expansions through branches and remote delivery channels has helped the Bank achieve overall growth of banking activities especially in generating retail deposits, strengthening distribution and delivery of workforce remittance payments and accessing small and medium sized borrowers.

### C. ATM Network

Laxmi Bank has always given priority in bringing new technology driven products and services in the market. Our ATMs have been installed at 16 locations at Hattisar, New Baneshwor, Bhatbhateni, Maharajgunj, Lagankhel, Pulchowk, Banepa, Pokhara and Birgunj branches and at Yeti Airlines Complex in Sinamangal, Bluebird Departmental Store, Autoland in Teku, New Road, Sherpa Mall in Durbarmarg and City Center at Kamal Pokhari.

The Bank's growing representation points has also helped our overall visibility and strengthened Laxmi Bank brand. We plan to continue increasing our reach through such strategic expansions to compliment our targeted business growth and achieve financial targets we set for ourselves.

### D. Remittances

Given the strong opportunities presented by the sector the Bank continued to strengthen its presence in this business especially in the Gulf and Malaysian corridors. Additionally, the bank has already done service level agreement for remittance from Oman, United States of America and Great Britain and is in final stage to commence remittance service from Canada and Bahrain. The Bank continues to maintain representatives and staffs abroad who are responsible for business development and client servicing. In the past three years, we have established ourselves as one of the leading Banks in this business supported by a growing network of Payout Agents reaching many rural areas of all major districts in the country.

### E. Micro Finance

The bank has continued micro-finance programs through its branches to benefit small entrepreneurs, individuals and groups. Livestock financing program started earlier has gained much popularity. Small farmers in rural areas Chitwan, Tanahu and Kaski have benefitted from the program. This has not only helped them access modern financial services and raise their living standards but has also inculcated banking habits in them. The bank has plans to continue extending its services in the rural areas and expand the program to a larger scale through a separate micro finance subsidiary.

### F. New Services

The Bank has introduced a number of modern financial products and solutions to our customers during the year. These include innovative deposit products, loan products, information technology driven products like mobile banking and insurance related products. The Bank will continue to provide new and innovative financial solutions with the dual aim of satisfying customer demand and increasing sources of revenue.

### G. Riahts Shares

The Bank issued Laxmi Bank Debenture 2072 totaling to NPR 350 Million during the fiscal year. As per the provision of SEBON, no new public issue can be done within 180 days of listing of the earlier security issued. Since listing of debentures was done only on 18 January 2009, issue of 40% Right shares was possible only in the current year.

### 2. Impact of National and International Events on the Bank's Business

The major economic indicators of Nepal have not been very positive. During the FY 2008/09, the national economy witnessed a Gross Domestic Product (GDP) growth of 3.8% on basic price and 4.7% on producers price. Similarly, total exports increased by 13.5% while imports increased by 28.2%. Considering the above economic indicators and political situation of the nation, the overall external environment cannot be considered favorable for business. The economy was not able to gain the expected momentum due to various reasons such as bandhs and agitations, political instability, natural disasters, weak security situation, energy crisis, high inflation and weak distribution system. Competition in the banking sector increased along with scarce skilled human resource, increased operating cost, limited investment opportunities and unstable foreign exchange rate. The global financial crisis observed throughout the world didn't have a direct impact on the Nepalese economy though it has impacted the foreign employment sector. Notwithstanding these events, the Bank was successful in maintaining the momentum achieving substantial growth in the Balance Sheet. We can assume that the expected political stability, peace and security for the business sector along with the conclusion of the peace process will herald a new era not only for the Banking industry but for the entire nation in the days ahead.

### 3. Current year's achievements and Plan of Action:

a. Financial highlights for first quarter of the current fiscal year is presented below:

Figures in NPR Millions

S.NO.	PARTICULAR	17/10/2009
1.	Deposits	15,763
2.	Risk Assets	14,820
3.	Investments	2,431
4.	Operating Profit	137.5

- b. The Board of Directors of the bank have envisaged the following action plan for the future progress of the bank:
- Expand distribution network through new branches and additional ATMs
- Expand micro finance program through a separate subsidiary company
- Start merchant banking services through a separate subsidiary

- company
- Equity participation in company to provide Central Depository System services
- Establish new remittance counters and expand agent network to strengthen the workforce remittance services
- ~ Introduce new deposit and other products and services
- Quality Risk assets growth
- Expand and launch new technology driven banking services like mobile money
- Work towards long term asset growth and increased financial strength with sustainable deposit growth focusing on retail deposits apart from the institutional deposits

### 4. Industrial and Professional relations

The Bank takes great efforts to maintain cordial professional relationship with various national and international governmental and non-governmental entities and with all stakeholders. With increasing growth in our operations and network, the Bank has been able to build cordial and transparent relationships with all levels / sections of the society.

### **Human Resources**

In order to develop the skills and quality of our workforce we continue to provide in-house and external trainings and opportunities to participate in seminars and workshops related to their work areas in order to provide them exposure to national and international best practices. Our Performance Management system continues to be based on performance linked incentives and benefits aimed at recognizing and motivating deserving performers. Our policy and systems ensures that all employees undergo an Annual Performance Appraisal which is the criteria for salary increments. The Bank is active in recruiting skilled and qualified manpower and adopts proactive measures to ensure that we motive and retain such skilled and committed workforce.

### **Corporate Social Responsibility**

The Bank recognizes its roles and responsibility towards the society we operate in and actively engages in activities aimed at betterment of our community. In order to manage the growing number of our CSR activities, a separate social entity managed by Laxmi Bank family named "Laxmi Nishwarth Pahal" (Laxmi Cares) has been registered with the concerned authorities. Various functions were organized through Laxmi Cares and NPR 215,000.00 was donated to flood victims through "Annapurna Flood Victim Relief Fund". Likewise a Mountain Bike Rally was organized and proceeds of NPR 100,000.00 were donated for Patan Hospital's Children Ward renovation. We will continue to contribute for helping people in need and development of sports, education and health system in the country.

### 5. Changes in the Board of Directors

One of the promoters, Himalayan Exim P. Ltd, withdrew its representative in the bank's Board and decided to nominate Mr. Rajendra Kumar Khetan to fill the vacancy. Similarly, Mr. Chandra Prakash Khetan was nominated by the promoters to represent in the bank's Board as a representative of MTC Investments P. Ltd. Mr. Rishi Ram Gautam was nominated by institutional promoter, Citizen Investment Trust to represent in the bank's Board with effect from 26 April 2009 in place of Mr. Nandan Hari Sharma. We welcome Mr. Rishi Ram Gautam into the Board and thank Nr. Nandan Hari Sharma for his valuable contribution to the Bank. Tenure of professional director

Mr. Shambhu Prasad Acharya has been extended for two years beginning from 3 December 2008.

### 6. Main factors affecting the business

Following are the main factors that will affect the Bank's business:

- Unhealthly competition as a result of growing number of financial institutions in the country and the risk of operating in such an environment
- Maintain quality assets in the deteriorating economic environment
- c. Risks associated with changes in laws and regulations
- d. Risk due to fluctuations in the capital market
- e. Risk due to limited investment opportunities
- f. Deteriorating political and economic situation causing hurdles for growh
- g. Effects in foreign employment opportunities due to global financial crisis

### Comments and Justifications on any remarks on the Audit Report

There are no significant remarks in the Audit Report.

### 8. Recommendation for distribution of Dividend

As decided by the 91th Board Meeting held on 13 September 2009, we have proposed Bonus Shares of 7% on the capital as at the Fiscal Year End 2008/09 and cash dividends equivalent to the tax on the Bonus Shares. The proposed bonus shares will be 5% of the capital after the 40% (4 Shares for every 10 Shares) Right Issue declared in the last AGM. We believe that the proposed bonus shares and cash dividend will be approved by the forthcoming AGM.

### 9. Forfeiture of Shares and particulars thereof

No shares were forfeited during the year under review.

### 10. Progress Report of the Bank and Subsidiaries

The Bank's progress report for the year under review has been highlighted above in this section. The Bank does not have any subsidiary as at the date.

### Main transactions of the bank and its subsidiary company during the financial year and important changes, if any, therein

These have been disclosed above.

### Details of information made available to the Bank by basic shareholders

No such information has been made available to the Bank by such Shareholders.

### Details of Shares purchased by the Board Directors and office bearers of the Bank

The Directors and the members of Management committee received the 5:1 bonus shares resulting in increase of the number of shares held by them.

Apart from these, the Bank does not have any information of any Director or Management committee member having transacted in any shares of the Bank.

### Details of contracts / agreements entered by the Bank with any directors or any entities where any Director or an immediate family member of Directors has personal interest

The Bank has not entered into any contracts or agreements with such entities

### 15. Details of buy back of shares, if any

The Bank has not bought back any shares till date.

### 16. Internal Control system and details thereof

The Bank has set up an independent Internal Audit department that reports directly to the Audit Committee which is a Board level committee. Furthermore the Bank has separate units to manage operational and credit risks and has adequate policies and practices in place to manage our risks.

### 17. Management Expenses in the last fiscal year

The breakdown of Management Expenses in the financial year 2008/9 is as follows:

Particulars of Management Expenses	Amount in NPR millions
Staff Expenses	86
Office Overhead Expenses	113
Total Management Expenses	199

### Details of members of the Audit Committee, remenuration paid to them and report of their activities

After the resignation of Mr. Madhusudan Agrawal from the committee on 17 March 2009 and change in representative from Citizen Investment Trust in the Board, the Audit Committee was reconstituted as follows:

1. Mr. Ratan Sanghai, Director	Chairman
2. Mr. Rishi Ram Gautam, Director	Member
3. Mr. Shambhu Prasad Acharya, Director	Member
4 Mrs. Chandnee Iha, Manager Internal Audit	Fx-Officio Member

The Audit Committee has been carrying out its regular activities through the Internal Audit department including audits of 13 Branches and 11 departments, introduction and implementation of measures and standards to make audits more transparent and effective and reviewing and addressing comments made by Nepal Rastra Bank inspections.

During the review period the Audit Committee met 12 times for which total meeting fee allowance of NPR 174,000.00 was paid to the members. The ex-officio member of the Committee is not entitled to meeting fee allowance.

 Details of receivables from Directors, Chief Executive Officer, General Shareholders or any company, firm or entity associated with such individuals or their immediate family members There are no receivables from any such individuals or entities.

### 20. Remuneration and allowance paid to the Board / Committee Members, Management Executives

The Directors are not entitled to receive salaries from the Bank. The Board Meeting allowance for the Chairman has been set at NPR 8,000.00 and NPR 6,000.00 for the Directors per meeting attended. In addition to this NPR 2,000.00 per month is reimbursed to all Directors for mobile telephone expenses and members are provided domestic air ticket at the time of traveling to attend a Board Meeting.

The remuneration paid to the Chief Executive and Management Executives during the year is presented below. The Chief Executive and Company Secretary do not receive Board Meeting allowances.

### IN NPR MILLIONS

S No	Particulars	Salary and all Allowances
1	Chief Executive Officer	11.74
2	Company Secretary	1.95
3	Managers	22.47

### 21. Unclaimed Dividends

As of the report date, NPR 126,220.00 worth of cash dividends declared in financial year 2055/56 by HISEF Finance Limited prior to merger with the Bank remained unclaimed.

### 22. Other disclosures as required by the Company Act of 2063 B.S.

### a) Amendments in the Memorandum

- Amendments to clauses 5, sub-clause Ka, Kha and Ga of the Memorandum for capital increase of the bank.
- Establishment of Micro Credit and Merchant Banking Subsidiary.
- ~ Provision for further public Issue
- ~ Equity Participation in Central Depository System

### b) Communication with Shareholders

Laxmi bank clearly recognizes the importance of transparency and accountability to all its stakeholders, particularly its shareholders and investors. In this regards, the bank releases annual reports, quarterly reports and other such appropriate and relevant information about the bank's operations using different channels on a timely basis as well as through bank's website www.laxmibank.com. Recognizing the importance of the Annual General Meetings as the appropriate forum to discuss the various queries and issues that are raised by individual shareholders the Bank encourages all shareholders to participate in such Annual General Meetings to review the progress made by the Bank.

We express our gratitude to our valued customers, shareholders, regulators and all other stakeholders for their support, guidance and cooperation for the progress of the Bank. Similarly we thank the management team and the members of staff for their efforts and commitment that has resulted in the success of the Bank.

### Thank you.

Board of Directors Date: 12 November 2009

(Original version of this report is in Nepali and is available on request in Corporate Office)

# ceo's perspective

### **Responsible Banking**

2008/09 was another good year for the Bank with all round balance sheet growth. First half of 2009/10 is turning out to be even more exciting. We shall see Laxmi Bank climb a few notches in terms of profitability this year. Superior IT capability, good corporate governance standards and sound risk management practices continue to be our corporatopes.

Nepali economic growth has been driven by the private sector for last several years. Before real estate and remittances, we had steel and ghee and so on and so forth taking the lead. With each new sector emerging as the leader, we continued to balloon the bubble. We knew it then and we know it now that this is not sustainable without large investments flowing into infrastructure development. Prolonged absence of the state from economic growth activities is beginning to take a toll on Nepali economy.

Laxmi Bank's exposure on the real estate sector is well within prudential norms and our portfolio comprise of established top tier players. We are as such satisfied with the quality of our assets. What is of a bigger concern is the liquidity crunch currently gripping the banking industry. This is unprecedented and will not be corrected unless every player in the financial services industry – including the unregulated ones – behaves responsibly. The damage liquidity problems can bring has already been showcased in the global arena in the recent past. Such a crisis does not differentiate between a good bank and a bad. Hence the need for collective action and responsible banking.

This is also a good time to take concrete steps to improve access to finance for the population at large. Most optimistic study indicates

that only 25% of our people use formal channels for their banking needs.

But there are millions of people using mobile phones. This number is growing more rapidly than bank accounts. Mobile phones have much wider and deeper reach – something banks will not be able to replicate through bricks and mortar branches for a long time. But we definitely can ride on this reach to distribute banking services. Surely, mobile phone is the best thing that has happened to mankind after light bulb.

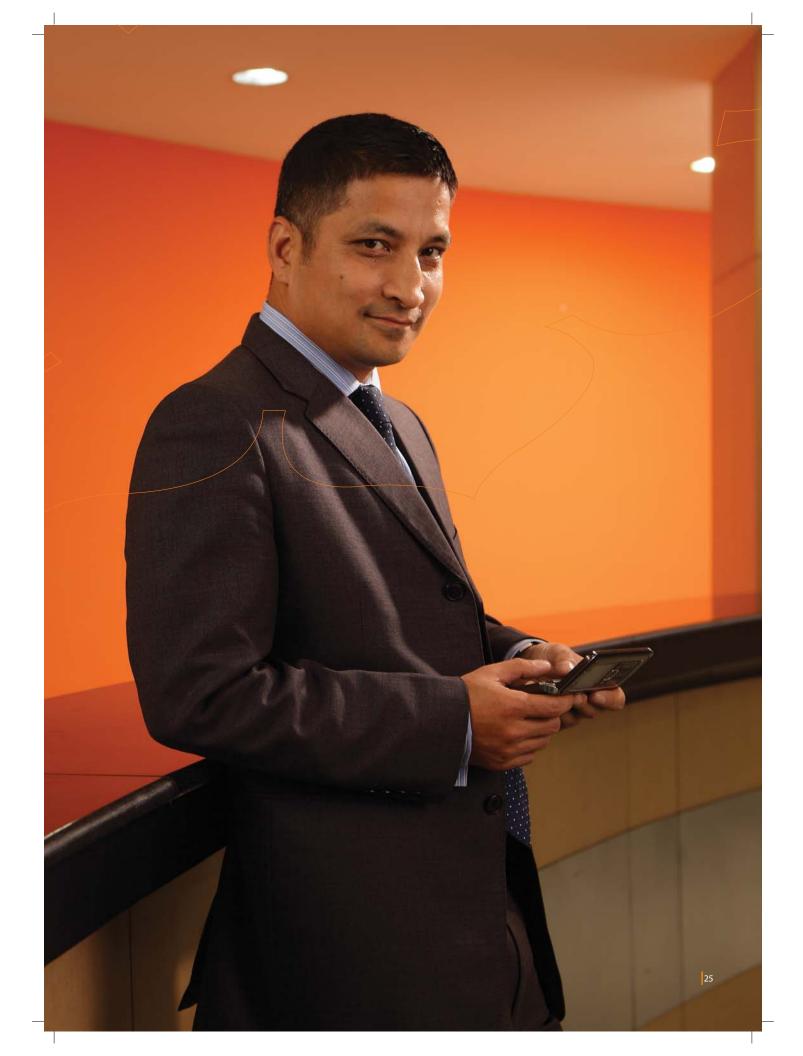
In keeping with our leadership position in electronic banking, Laxmi Bank is proud to have made mobile financial services happen in Nepal. Our Mobile Money service is the first of its kind in Nepal and encompasses all payment possibilities. We urge the telecom operators to improve their carrier platforms and make them robust so that they not only generate additional revenue for themselves through financial transactions over mobile phones, but also play a key role in enabling the unbanked to access financial services conveniently at low cost. Another compelling case for responsible behavior.

Join us in our journey of responsible banking.

Suman Joshi

Chief executive Office

December 2009



## financial review

### **OPERATING RESULTS**

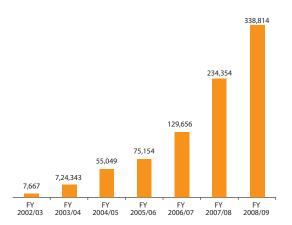
							(in '000)
	FY 2008/09	FY 2007/08	FY 2006/07	FY 2005/06	FY 2004/05	FY 2003/04	FY 2002/03
Interest Income	1,098,985	711,006	470,495	319,253	214,132	124,046	49,787
Interest Expenditure	712,348	421,872	280,278	190,590	118,439	63,177	20,096
Net Interest Income	386,637	289,135	190,217	128,664	95,694	60,869	29,692
Non Interest Income Fee Income	29,635	20,943	15,157	15,039	14,136	11,299	4,262
Exchange Earning	51,005	46,637	20,905	9,426	5,770	6,076	4,534
Other Income	70,917	25,482	15,710	9,789	7,597	1,026	896
Operating Income	538,194	382,197	241,989	162,917	123,197	79,271	39,383
Operating Expenses							
Employee Expenses	86,407	63,995	48,785	37,640	29,934	19,198	14,394
Overhead Expenses	112,973	83,849	63,547	50,123	37,122	35,730	17,322
Operating Profit	338,814	234,354	129,656	75,154	55,049	24,343	7,667
Non Operating Expenses	12,008	15,632	12,674	9,695	9,089	55	-
Loan Loss Provision	34,255	21,700	14,046	9,559	5,503	9,750	6,518
Profit Before Tax	265,955	176,476	95,631	50,636	36,779	13,084	1,034
Profit After Tax	188,999	120,031	65,579	35,385	26,465	10,450	1,034

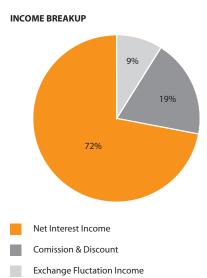
### PROFIT FOR THE YEAR

Profits for the year were in line with management's expectations and represent the bank's continuing steady growth. During the year, operating profit grew by 44.57% as compared to previous financial year. Profitability recorded a growth in terms of market share as well.

The principal growth area in the operating income has been increase in Commission Income. Fee Based income grew by 117% during the year. The yield on risk assets during the year was at 8.76% p.a. compared to 7.85% p.a. last year. The Bank was able to maintain a healthy yield on its risk assets despite the competitive market pressures, at the same time was able to reduce the Non Performing Assets level by 38%; currently at 0.08% which is one of the lowest in the industry. Cost of fund was contained at 5.05% in FY 2008/09 as compared to 4.45% in FY 2007/08. Since the increment on the Yield was higher than the Cost on Deposits and Borrowings, the overall weighted average interest spread increased to 3.71% from 3.40%.

### **OPERATING PROFIT (Rs in thousands)**

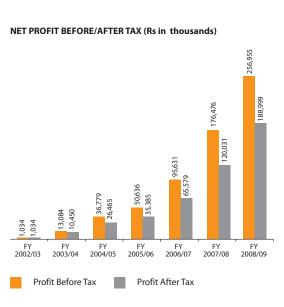




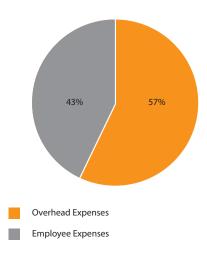
NII continues to occupy a major share of the income portfolio of the bank at 72%.

There has been a growth of 37% in Risk Assets which corresponds to the NII growth of 34%. CD ratio as on year-end was 83%, from 89% in the previous year.

Fee income (Commission & Discount) contributed about 19% to the total income. Loan Processing Fee has been an important source of fee income as was the case in previous year. This year the non-interest income totaled 28% of the total income, an increase of 4% since the last fiscal year. The bank shall continue to make every effort to increase this ratio in the coming years by continuing to grow the remittance business, improving trade finance business and earnings made through technology based services.



### **OPERATING EXPENSE BREAKUP**



In general there has been satisfactory growth in all revenue streams: NII by 34% and Fee Based Income (Commission & Exchange) by 63%.

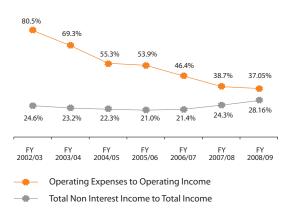
Operating Expenses include Employee Expenses, Overhead Cost and Computer Cost. Operating Expense to Operating Income is at 37%, which is 2% lower than the previous financial year. The Cost to Income ratio is decreasing every financial year.

### **EXCHANGE EARNING**

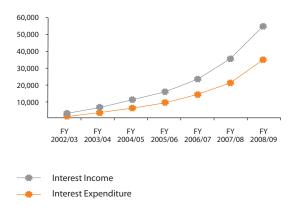
 The Bank has made large investments in infrastructure and systems geared to handle significantly larger business volumes. During the year there was an increase in employee cost in absolute terms mainly on account of regular increment of salaries and allowances and recruitment of 47 new employees to support network expansion and business growth. The Bank had opened five new branches during the year under review and a few more are in the pipeline. With increased footprint and access to more markets, the bank expects to achieve further economies of scale therefore lower cost of operation and improved profitability.

Non-Operating Expenses primarily comprises of amortization of Goodwill of NPR 9.1 million. The Goodwill of NPR 45 million was created following the merger of Laxmi Bank with Hisef, and from this year onwards the Goodwill has been fully amortized.

### **COST INCOME RATIO**



### INTEREST INCOME TO INTEREST EXPENSE (Rs in thousands)



### **SHAREHOLDER RATIOS / CAPITAL**

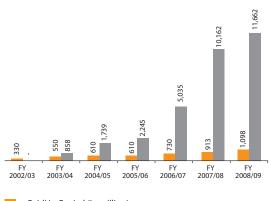
Bank's capital adequacy ratio in the fiscal year 2008/09 was 11.48%, as against 11.17% in the previous year indicating that the bank has adequate capital fund with the potential to grow further.

Paid-up capital of the bank stood at NPR 1.098 Bio at FYE 2008/09. After the 40% Rights issue and the proposed 5% Bonus Shares thereafter, the Paid Up Capital of the bank will increase to NPR 1.61 Bio by next fiscal year.

Profit after Tax in the review period has been NPR 189 million as compared to 120 million in the previous year. Return on equity of the bank in the year under review was 14.07% against 10.38% in the previous year, and has been in increasing trend since its operation. Shareholders' wealth increased during the year as the market capitalization rose from 10.16 billion to 11.66 billion. Increased public faith, low non-performing asset level and continued profitability growth has also had an impact in the increased market value of Laxmi Bank's shares.

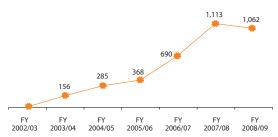
Despite the benchmark stock index NEPSE, falling by over 22% YOY, Laxmi Bank's share price YOY declined by 4% only attributable largely to the announcement of 40% right share issue. The Bank's market price per share has grown at annualized growth rate of 40% p.a. since the operation of the bank. Market Price at the close of the fiscal year stood at NPR 1,062 per share.

### **SHAREHOLDER EARNINGS**





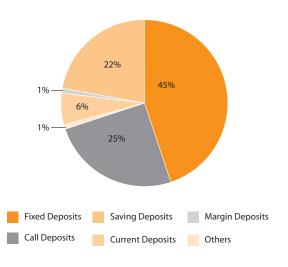
### MARKET PRICE PER SHARE (Rs in thousands)



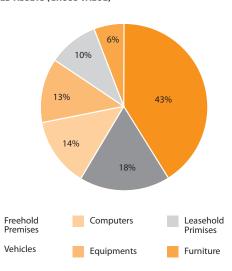
### **DEPOSITS**

Deposit volume increased by 47% as compared to previous year. Deposits comprise of non-interest bearing current and margin deposits, and interest bearing deposits in the form of savings (various types), fixed and call deposits. The efforts in the direction of soliciting low cost deposits have worked positively for the bank. There has been a change in the composition of the deposits since the last fiscal year. Fixed deposits contribution has decreased with replacement through current and call deposit percentage. A number of initiatives at introducing innovative schemes and new products like My Money Market Investment Account (Call account with interest rate linked to the 90 days average treasury bills rate), Super Woman Savings Account and Retail Fixed Deposit Schemes have helped in achieving the improvement in the deposit mix. Overall cost of fund of the bank increased by 0.60% compared to previous year due to upward movement of the market interest rate.

### **DEPOSIT MIX**



### **FIXED ASSETS (GROSS VALUE)**



Super Woman Savings, Orange Savings, My Money Market and Money Tree (USD Tier Based) Savings have been very popular and provide a strong base to the bank's deposit portfolio.

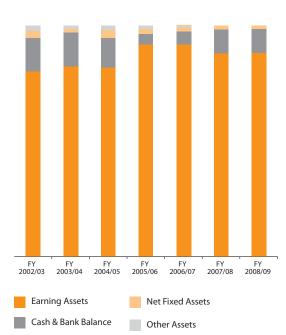
### **ASSETS**

The total asset of the bank has increased by 44.83%. Contribution to the increase in asset has mainly been through increase in interest earning asset by 45%. There has also been a net increase in Fixed Assets by 21.20% with new branches opened during the fiscal year and ongoing expansion of the corporate office building at Hattisar. Other Assets primarily consists of Deferred Expenses related to Software Cost and other IT related costs and Accrued Interest on Loans.

### **INTEREST BEARING ASSETS**

During the year, the gross earning assets base of the bank has increased by 44.43%. Loans & Advances grew by 35% while money at call grew by 61%. Investments grew substantially from NPR 1.25 Bio to NPR 2.48 Billion during the fiscal year. Investments includes portfolio in Treasury Bills / Government Bonds, inter-bank lending and investment in shares and bond of institutions.

### **OPERATING PROFIT**



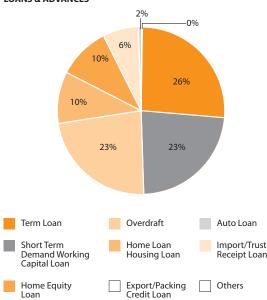
### INVESTMENT



### **LOANS & ADVANCES**

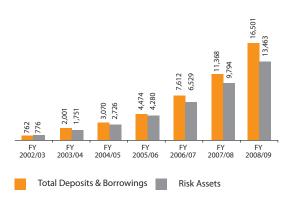
Laxmi Bank follows a strategy of building a diversified and low risk asset portfolio and limiting or correcting concentrations in particular sectors. Maximum exposure concentrated on a single unit or group is 1.91% of total loan portfolio. Retail loans comprise about 30% of our risk asset portfolio with the rest flowing into SMEs and corporate entities.

### **LOANS & ADVANCES**

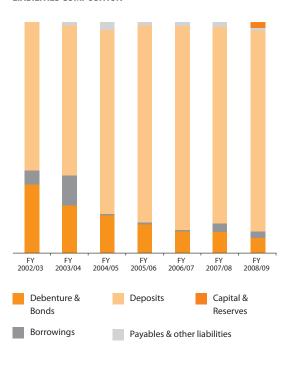


All credit exposures are classified as per Nepal Rastra Bank's guidelines into performing and non-performing assets. Non-performing assets are further classified into sub standard, doubtful and bad loans. The bank has made additional provisions (i.e., more than required per Nepal Rastra Bank) where it was considered necessary by the management. Non-performing loans aggregated 0.08% of the loan portfolio as at the year-end (break up: 0.02% doubtful and 0.06% bad loans). The current level of Non-performing asset is considered to be one of the lowest in the industry and replicates the credit standard of the Bank. Total provision held as of the date is 1,369.17% of the NPL indicating a comfortable cushion. Loans of NPR 3.36 million have been written off during the year; 100% loan loss provision had already been provided for the written off loans. NPR 2.42 Mio was recovered from loan written off in earlier years.

### **GROWTH OF RISK ASSETS& DEPOSITS & BORROWINGS**



### LIABILITIES COMPOSITION

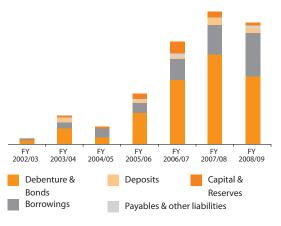


### **CONTINGENT LIABILITIES**

There has been a decrease in the total Contingent Liabilities by 8% compared to previous year primarily due to reduction in the level of Letter of Credit outstanding. The total contingent liabilities stood at 1.51 billion. The major contributors to the contingent liabilities were Letter of Credit and Guarantees. Letter of Credit has been a major contributor in Commission Income as well. Total contribution from Letter of Credit issuance and related services amounted to NPR 8.8 million.

	2004/05	2005/06	2006/07	2007/08	2008/09
Letter of Credit	93.485.578	405.875.959	815.071.994	1.132.627.549	853,459,760
Guarantees /Bonds	113.638.211	108,280,637	255.770.494	362.155.757	542,386,205
Bills Under Collection	6,153,680	36,631,155	23,076,367	13,193,935	54,320,312
Acceptance and Endorsemen	nt 10,476,850	22,756,505	44,670,650	82,168,521	42,691,320
Others	1,410,000	61,897,543	142,224,525	65,350,147	17,482,957

### **CONTINGENT LIABILITIES**



### KEY FINANCIAL INDICATORS

The following key ratios compared with the previous year (s) are indicatives of financial status of the Bank  $\,$ 

S.N	PARTICULARS	FY 2008-09	COMMENTS
1	Earning Per Share	20.7	This indicates that Bank is earning Rs. 20.7 for each share of Rs 100 invested by the shareholders. This ratio has increased by 25.83% compared to previous year as a result of increase in profitability of the bank.
2	Interest Income/Loans & Advances	8.76%	The rate of return of 8.76% can be considered to be good in the current market scenario. The return was 7.85% in the previous year.
3	Interest Expenses on Total Deposits & Borrowings	5.05%	Interest Expenses to Total Deposit and Borrowings has increased by 13.48% since the previous year from 4.45%. Current spread of 3.71% can be considered to be satisfactory in the current scenario. Interest spread was 3.40% in the previous year.
4	Adequacy of Capital Fund on Risk Weighted Assets		This ratio judges the adequacy of capital fund with the risk assets of the bank, are in compliance with NRB requirements. It also signifies that if a Bank is having significantly higher capital that needed, it can grow further.
	Core Capital	8.47%	Decreased by 1.63% since the previous year
	Supplementary Capital	3.01%	Increased by 1.94% since the previous year
	Total Capital Fund	11.48%	Increased by 0.31% since the previous year due to increase in supplementary capital through Debenture Issue.
5	Liquidity (CRR)	8.61%	This is in excess of NRB requirement.
6	Non-performing Credit/Total Credit	0.08%	Decreased from 0.13% in the previous year.
7	Return on Shareholders' Equity	14.07%	Increased from 10.38% in the previous year
8	Price to Earning Ratio	51.31	Decreased from 67.66 in the previous year.



# ride your way to a healthy life

Along with maintaining a fiscally fit portfolio, it is as important to remain physically fit. The annual mountain bike rally organized by Laxmi Cares promotes healthy living and helps raise funds for various social causes.

## corporate governance report

### **OUR COMMITMENT**

Laxmi Bank is committed to high standards of corporate governance, business integrity and professionalism in all our activities that assures all stakeholders that the bank is being managed ethically in compliance with best practices and applicable legislation and within predetermined risk parameters, and is also adding value to and protecting their investment.

All Directors and the staff members including the Chief Executive Officer have observed in spirit and in word the Nepal Rastra Bank directives on corporate governance. All Directors are registered as taxpayers and none of them have defaulted in payment of loans to financial institution. All staff members have signed a comprehensive Code of Conduct and an oath of secrecy.

### **BOARD OF DIRECTORS**

### The Board

The Board has collective responsibility for providing leadership and control of the Bank by directing and supervising the Bank's affairs. As the apex decision-making forum for the Bank it is accountable to the shareholders for financial and operational performance.

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. Whilst the day-to-day management of the bank is delegated to the management team, the Board typically involves itself in making decisions relating to:

- Long term strategies and plans
- ~ Annual plans and performance targets
- Acquisitions and disposals of assets above predetermined thresholds
- Large value loans above the Chief Executive Officer's discretion
- Substantial changes in balance sheet management policy; and
- Other Policy matters.

Furthermore the Board places high priority on internal controls and the manner in which the Bank is managed and led constantly reviews

and updates the Bank's corporate governance structures and makes every effort to set the highest standard in Nepal. It is the Board's aim to exceed mandatory requirements in terms of the extent and timeliness of corporate disclosures and financial reporting.

### **Chairman & Chief Executive Officer**

The roles of the Chairman of the Board and the Chief Executive Officer are segregated, with a clear division of responsibilities. The Chairman is an independent non-executive Director who is responsible for the leadership and effective running of the Board with active engagement and contribution from all Directors. The Chief Executive Officer has responsibility for all businesses and acts in accordance with the authorities and discretions delegated by the Board. The Chief Executive Officer has been delegated the authority for developing policies and strategies and is responsible for all operational management of the Bank with the support of other executives.

### **Board Composition**

All members of the Board are in capacity of non-executive directors / advisors. The current Board comprises members who come from a variety of backgrounds, have a diverse range of business, banking and professional expertise and are able to offer a wide range of skills, experiences, knowledge and independent judgment.

The current Board comprises of 8 Directors (including the Chairman) and 1 Advisor.

The promoter group is represented by 4 Directors. The public is represented by 2 Directors who were elected by the Annual General Meeting that was held on 3 December 2008. The tenure of these Directors 4 years from the date of appointment.

Likewise, Citizen Investment Trust has nominated 1 Director to the Board.

A Professional Director has been appointed to the Board with effect from 17 July 2006 as per the provisions made in the Bank & Financial Institutions Act.

Brief introduction of the Directors have been presented in this report on Page 4-5.

#### **Board Process**

Board meetings are held once a month on an average, 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.

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. 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.

The Chief Executive Officer and the Company Secretary make themselves available for the Board Meetings where they offer their expertise, professional opinion and advice.

Senior management executives are invited to attend Board meetings as and when required to offer the Board their professional opinion and advice, and clarify issues that may be raised by any Director related to their area of responsibility.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are complied with. 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.

Minutes of Board meetings are kept by the Company Secretary and are open for inspection by the Directors.

#### **Responsibilities of Directors**

The Bank regularly reminds all Directors of their functions and responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Bank.

Induction programs are arranged for newly appointed Directors. All Directors have full and timely access to all relevant information about the Bank so that they can discharge their duties and responsibilities as Directors. All Directors have access to independent professional advice on Bank-related matters where appropriate.

The Directors constantly scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

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.

All the directors have signed and submitted self declaration on corporate governance as per Nepal Rastra Bank Directive No.6 and Company Act / Bank and Financial Institution Act.

#### **Board Members Attendance**

During the last financial year, the Board held 12 board meetings and one Annual General Meeting. Details of the board meetings held during the fiscal year 2008/09 along with the attendance record of the directors are as follows:

Name	Number of meetings eli attend during financial yea	,
Mr. Rajendra Kumar Khetan	12	12
Mr. Gopi Krishna Sikaria	12	10
Mr. Bhola Babu Adhikari	12	9
Mr. Ratan Lal Sanghai	12	10
Mr. Chandra Prakash Khetan	12	10
Mr. Sambhu Prasad Acharya	12	7
Mr. Nandan Hari Sharma	8	8
Mr. Rishi Ram Gautam	4	4
Mr. Jiban Raj Kandel	7	7
Mr. Madhu Sudan Agrawal	-	6

- Board members include Directors and Advisors.
- The Annual General Meeting was held on January 10, 2010 at Kathmandu

#### **DELEGATION BY THE BOARD**

#### **Management Functions & Board Committees**

The oversight functions of the Board are performed through 3 Committees:

- Audit Committee
- ~ Remuneration Committee
- ~ Credit Committee

Each of these committees has specific written terms of reference which deal clearly with their authority and duties.

#### AUDIT COMMITTEE

The directives of Nepal Rastra Bank and the relevant Company legislation govern the formation and functioning of a board level Audit Committee.

The Audit Committee meets regularly with senior members of the Internal Audit department, Chief Governance Officer and external auditors to consider the Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. It is also responsible for the appointment, reappointment, removal and remuneration of external auditors.

The Audit Committee reports to the Board, drawing the Board's attention to salient points that the Board should be aware of, identifying any matters in respect of which it considers that action or improvement is needed and making relevant recommendations. 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.

#### **Composition of Audit Committee**

The Audit Committee has been appointed by the Board from amongst the Directors. The Committee currently comprises of 3 non-executive directors:

- Mr. Ratan Lal Sanghai, Chairman
- ~ Mr. Rishi Ram Gautam, Member
- ~ Mr. Sambhu Acharya, Member

Senior executive management members including the Chief Executive Officer attend Audit Committee meetings on need basis.

#### **Committee Members Attendance**

The Audit Committee met 12 times during the year.

Name	Number of meetings eligible to attend during financial year 2008/0	Number of meetings 9 attended
Mr. Ratan Lal Sanghai	12	12
Mr. Madhu Sudan Agrawa	l 8	8
Mr. Nandan Hari Sharma	9	9

- Mr. Madhu Sudan Agrawal resigned from the Committee on 17.03.2009.
- Mr. Nandan Hari Sharma resigned from the Committee on 26.04.2009
- Mr. Rishi Ram Gautam and Mr. Sambhu Acharya joined the Committee on 03.09.2009.

#### REMUNERATION COMMITTEE

The Remuneration Committee considers human resource issues and makes recommendations to the Board on the Bank's policy and structure for remuneration of the Chief Executive Officer, Company Secretary and other senior executives with direct or indirect reporting line to the Board. Furthermore the Remuneration Committee also conducts annual performance reviews of such executives and recommends to the Board on specific adjustments in remuneration and/or reward that reflect their respective contributions for the year.

The Remuneration committee is also responsible for review and recommend adjustments in meeting fees / reimbursements to the members of the board and board level committees.

The Remuneration Committee also assess and recommends to the Board on appointment / selection / re-appointment of Chief Executive Officer, Company Secretary and any senior executive with direct or indirect reporting line to the Board, upon vacancy or expiry of their respective terms.

The Committee meets as and when necessary.

#### **Composition of the Remuneration Committee**

The Audit Committee has been appointed by the Board from amongst the Directors. The Committee currently comprises of 2 non-executive directors:

~	Mr. Ratan Lal Sanghai	Member
~	Mr. Chandra Prakash Khetan	Member

#### CREDIT COMMITTEE

The Credit Committee operates within and upholds the Bank's Credit Policy Guide. The Board through the Credit Committee assumes a proactive role in the Bank's credit management process commensurate with growth in the risk assets portfolio and appetite for quality lending business. The Committee reviews, discusses, deliberates and/or decides strategic 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 Credit Committee meets as and when necessary

#### **Composition of the Credit Committee**

The Credit Committee is appointed by the Board and comprises of 2 non-executive Directors, the Chief Executive Officer and up to 2 senior managers. Other members of the Board and / or external specialists / consultants are invited as and when appropriate.

The current Credit Committee was reconstituted on May 6, 2008 and consists of the following non-executive Directors appointed to the Committee:

~	Mr. Chandra Prakash Khetan	Member
~	Mr. Gopi Krishna Sikaria	Member

#### **Committee Members Attendance**

The Credit Committee met 12 times during the year.

Name	Number of meetings eligible to	Number of
	attend during	
	financial year 2008/09	attended
Mr. Chandra Prakash Khetan	12	11
Mr. Gopi Krishna Sikaria	12	8

#### REMUNERATION OF DIRECTORS

Remunerations of the Board and Board committee members are approved by the Annual General meetings at the recommendation of the Remuneration Committee. For determining the level of fees paid to members of the Board of Directors, market rates and factors such as required commitment is taken into account. Remuneration of a board member is currently restricted to meeting fees and fixed monthly reimbursement of telephone bills. Additionally, the Bank also reimburses travel expenses (domestic airfare) for those Directors who have to travel from outside Kathmandu valley to attend Board meetings.

The present scale of Director's meeting fee is outlined below:

Board of Directors:

~	Chairman	NPR 8,000.00 per meeting
~	Other Directors	NPR 6,000.00 per meeting

Meeting fees are not paid to the Company Secretary and management executives.

The remuneration and reimbursement paid by the Bank to the Board and Board Committee members during 2008/09 is as follows:

**Board Meeting Audit Committee Meeting** Credit Committee Meeting Remuneration Committee Meeting Mobile Telephone Reimbursement Travel Reimbursement Other Miscellaneous\* Total

NPR 512.000.00 NPR 150,000.00 NPR 72,000.00 NPR 12,000.00 NPR 166,000.00 NPR 38,678.00 NPR 21,457.41

NPR 972,135.41

\*represents expenses on board related activities such as refreshments for meetings etc.

#### **ACCOUNTABILITY & AUDIT**

#### **Financial Reporting**

The Board aims at making a balanced, clear and comprehensive assessment of the Bank's performance, position and prospects. An annual operating plan is reviewed and approved by the Board on a yearly basis. Reports on monthly financial results, business performance and variances against the approved annual operating plan are submitted to the Board at each Board meeting for regular monitoring. Strategic planning covering three to five years is also discussed, deliberated and updated by the Board. The annual and quarterly results of the Bank are announced in a timely manner within the limits prescribed by the law.

#### **Going Concern**

The Directors are not aware of any material uncertainties relating to events or conditions which may cause significant doubt upon the Bank's ability to continue as a going concern and confirms that the Bank has adequate resources to continue in business. Accordingly, the Directors have prepared the financial statements of the Bank on the basis of a going-concern concern. A full Directors' Report is presented in this report.

#### Statement on Internal Control

The Bank's internal control system comprises a well established organizational structure and comprehensive policies and standards. The Directors acknowledge their responsibility for maintaining a sound system of internal control to safeguard the shareholders interest and the Bank's assets. The Board is committed to maintaining an adequate control structure and environment for proper conduct of its business. The Board understands and appreciate that following are the principal responsibilities of the Board on risk and internal control:

- i. timely identification of the principal risks,
- ensure the implementation of appropriate control system to ii. manage those risks, and
- periodic review the adequacy and integrity of internal control system of the Bank

The system of internal control covers, inter alia, adherence to bank's policies, safeguarding of the bank's assets, prevention and detection of fraud and errors, accuracy and completeness of accounting records and timely preparation of reliable financial statements. The system provides reasonable but not absolute assurance against material errors, losses or fraud and it is acknowledged that systems and procedures are designed to mitigate and manage rather than completely eliminate risks.



#### WHAT IS A "BAD CHEOUE?"

A "Bad Cheque" is a cheque issued by an accountholder, which is not honored by Bank where the cheque is drawn on.

This can be due to a number of reasons. The most common of them being:

- Balance in the account is not sufficient (Insufficient Funds),
- Signature of the accountholder on the cheque does not match with Bank records,
- Stale cheque (presented after 6 months of issuance) or post dated cheque (future
- Amount in words do not tally with the amount in figure

#### IS WRITING A BAD CHEQUE PUNISHABLE BY LAW?

Yes, if a cheque is returned due to "Insufficient Funds" it is punishable under the prevailing law of Nepal (Negotiable Instrument Act 2034 – clause 107 Ka). Nepal Rastra Bank has issued a separate directive that requires all financial institutions to take specific actions in case of accountholders who issue Bad Cheques.

#### WHY IS LAXMI BANK DRIVING THE STOP BAD CHEOUES INITIATIVES?

Apart from legal issues, writing a Bad Cheque not only results in loss of trust between the concerned parties but more importantly, it affects the credibility of cheques as a mode of payment and pushes us back to being a "cash-based" economy.

### WHAT IS LAXMI BANK DOING TO CURB/STOP THE PRACTICE OF WRITING BAD

A Bad Cheque not only causes great inconvenience to the payee but is also an offence. Laxmi Bank is proud to take this first small step towards curbing / stopping intentional writing of Bad Cheques and will introduce the following measure

- If a cheque drawn on us cannot be honored for any reason we will return the cheque with a standard "Cheque Return Memo
- Where applicable we will also levy a penalty to the accountholder for writing
- We will maintain a record of Cheque Returns due to "Insufficient Funds" and communicate to concerned accountholders requesting them to correct their
- Lastly, we will retain the right to suspend or initiate process to close an account if an accountholder chooses to ignore our requests and continues to issue Bad Cheques with Insufficient Funds repeatedly

#### **HOW CAN YOU AVOID ISSUING BAD CHEOUES?**

The following precautionary measures can be adopted to avoid a Bad Cheque incident:

Ensure there are sufficient funds in your account before issuing any cheques

- Subscribe to services like SMS Alerts, Internet Banking or Email Solutions to keep up to date with your account status
  If you need to transfer money from another account to account on which the
- cheque is drawn, always check with your Bank that your instruction has been
- Check with your Bank to ensure that the cheque you deposited for clearing or collection (i.e. a cheque drawn on another bank) has been cleared and ba is available for you to use (note that clearing time for cheques drawn on different locations differ
- Notify the Bank if your address and contact numbers change this ensures that you can be contacted by the Bank for any important matters without unnecessary

#### WHAT ARE YOUR RIGHTS AS A CUSTOMER?

- Inquire from the Bank the available balance in your account which will ensure that your cheques are not dishonored
- To be notified when cheques you issue are repeatedly dishonored; the Bank will correspond with you through the best available means of communication, so it is important to keep your contact details updated at the Bank To be notified in writing if the Bank initiates process to close your account as a
- result of excessive issuance of Bad Cheques

We are introducing this policy in line with our Responsible Banking initiatives which include adopting a set of practices that encourage prudent financial behavior of our customers and all stakeholders.

As always we look forward to the continued patronage and support of our valued customers in our joint effort at "raising the bar" of our financial system

The Board is committed in improving the effectiveness of internal control, risk management and governance process.

#### **Systems and Procedures**

The Bank has an in built internal control system with well defined responsibilities at each level which sets the tone of an emerging successful bank. The control environment has provided discipline and structure to different facets of the bank's activities.

Recognizing the significance of control environment the Bank has instituted the following;

- Areas of responsibilities for all business and operational units are clearly defined to ensure effective checks and balances.
- General Authority Schedule (GAS) sets the limit for operating and capital expenditure for each level of management and is regularly reviewed and revised to ensure its effectiveness.
- Business and functional units are responsible for the assessment of individual types of risk arising under their areas of responsibility, the management of the risks in accordance with risk management procedures and reporting on risk management.
- Job descriptions defining each task and competency required at all critical levels have been formalized. Skill, knowledge and abilities of the staff are continuously enhanced through training and development activities, which enable them to operate and monitor the system of internal control effectively.
- Budgetary System is used to measure and monitor the Bank's performance against the strategic plans approved by the Board, covering all key financial and operating indicators. A detailed budgeting process is established encompassing all key operating activities to prepare budgets, which are discussed and approved by the Board. Effective monitoring system is in place to compare actual performance against approved budget and to investigate significant variances.
- Fully computerized system allows management to focus timely on the areas of concerns through the system itself. Checks have been in built in the system itself for the integrity of the data and consequently the MIS. Relevant risk management reports are reviewed on periodic basis by concerned executives or committees for review and action as appropriate.
- Review of internal control is carried out on regular basis by the Internal Audit department which is independent of the management. Results of such reviews are directly reported to the Audit Committee.
- Credit Risk and Operational Risk units operate separately and independent from the Internal Audit for effective assessment and management of risks and ensuring appropriate levels of due diligence at all times.
- Internal control weaknesses identified by audits, review and inspections are accorded top priority and addressed within prescribed rectification time lines.
- Disaster Recovery Plan and Business Continuity Plans are in place to ensure minimum disruption in business and services in the event of a major disaster or incident that would impact our ability to operate under normal circumstances.
- Employees are encouraged to speak up against unethical or illegal issues to the concerned authorities. The Bank's "whistle blowing" provides individuals to raise such issues through structured reporting procedure that assurances anonymity.

All systems and procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

More detailed discussions on the policies and procedures for management of each of the major types of risk the Bank faces, including credit, market, liquidity and operational risks, are included in the Risk Management section of this report.

#### Internal Audit

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. Under the charter, the Internal Auditor reports directly to the Audit Committee which is chaired by a non-executive director.

Internal audit plays an important role in the Bank's internal control framework. It monitors the effectiveness of internal control procedures and compliance with policies and standards across all business and operational units. The work of the internal audit function is focused on areas of greatest risk to the Bank as determined by risk assessment.

The Internal Audit Department is an independent, objective assurance and consulting unit designed to add value and improve an organization's operations under the direct supervision of the Audit Committee. It has been designed to help the Bank and accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit Department carries out the following key functions:

- ~ review of accounting & internal control systems
- examination of financial and operating information (including detailed testing of transactions & balances)
- ~ review of economy, efficiency and effectiveness of operations
- review of compliance with external and internal requirements (e.g. laws and management policies)
- ~ special investigations
- ~ provide independent advice to the Audit Committee
- advise management on operational efficiency and other risk management issues

#### **Statutory Auditors**

The Bank's statutory auditors are Baker Tilly Banskota & Co., Chartered Accountants

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment, removal and remuneration of the external auditor. The external auditor's independence and objectivities are also reviewed and monitored by the Audit Committee.

Total fees charged by the Bank's statutory auditor for audit services in 2008/09 is NPR 429.400.00

#### **Audit Committee**

The Audit Committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting obligations. The Committee ensures that effective control and risk management mechanisms are in place across the bank's operations and that the

bank's regulatory compliance obligations are met at all times.

The Audit Committee performs the following functions:

- provide assistance to the Board in fulfilling its responsibilities relating to accounting policies, internal control, financial reporting and business ethics policies,
- oversee the Bank's financial reporting process and ensure correct, adequate and credible disclosure of financial information.
- review with the Management quarterly financial statements with special emphasis on the accounting policies and practices, compliance of accounting standards and other legal requirements concerning financial statements,
- review Internal Audit's basis for assessment and risk rating of the proposed areas of audit and make periodic review of the Bank's audit policy,
- review and approve annual audit plan with consideration of scope and coverage over the activities of the respective business areas of the Bank.
- review the findings of the internal audit department into matters of fraud & irregularities (if any) or failure of internal control system and suggest strengthening of control mechanism and monitor the agreed follow up actions,
- interact with statutory auditors before the finalization of the annual accounts and audit report, focusing on the changes in accounting policies and practices.
- review the draft Management Letter (for any qualifications therein) and the management response to such qualifications,
- review with the management the performance of statutory and internal auditors and adequacy of the internal control system,
- recommend to the Board and to the Shareholders a suitable accounting firm to Act as the Bank's Statutory Auditors.

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.

#### CHIEF GOVERNANCE OFFICER

The Chief Governance Officer is a position within the risk management structure of Laxmi Bank and is in line with high standards of governance we set for ourselves. The Chief Governance Officer is entrusted with the responsibility of ensuring that our operations and activities comply with all applicable laws and to identify and adopt best practices in the corporate governance arena. The Chief Governance Officer assesses governance / compliance practices on a regular basis consulting with various external parties such as regulators, legal advisors and auditors and recommends areas for improvement or change to the Chief Executive Officer.

#### **COMMUNICATION WITH SHAREHOLDERS**

With over 10,000 institutional and individual shareholders the Bank attaches great importance to communications with shareholders and we use a number of different means to keep our shareholders fully informed through extensive disclosure of appropriate and relevant information.

A key channel of communication with shareholders and investors is the annual report. The contents and disclosures made in the annual reports 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.

The Annual General Meeting provides an useful forum for shareholders to exchange views with the Board. It is the Bank's desire to make constructive use of its annual general meeting. The Chairman, Directors, Chairman of the Audit Committee and the Chief Executive Officer are available at the Annual General Meeting along with the external auditors to address queries and provide clarifications to issues raised by the shareholders. All resolutions are put to the house for vote to ensure that shareholders views are reflected.

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

Quarterly financial results of Laxmi Bank are published in national newspapers for review by all stakeholders.

#### **Disclosure Policy**

The Bank's Disclosure Policy serves as the guide for ensuring that relevant information is disclosed to all stakeholders on a fair and timely manner and in compliance with the applicable laws and regulations.

The Disclosure Policy is based on the principle that information concerning the Bank and its activities should be made available to all stakeholders and the general public in the absence of compelling reasons such as the need to protect customer confidentiality or the bank's competitive position.

The Bank considers the following information to be important for such disclosures:

- Information that is required to be disclosed by various laws and regulations and
- Information which is deemed to affect decisions of investors and other stakeholders that may not necessarily fall under the category above

The Bank discloses such information through the official website (www.laxmibank.com), periodic financial statements, national dailies and other reputed print and electronic media, press meetings and in writing to competent authorities in response to their requests.

The Bank follows a media management policy designed to ensure that information related to the Bank is disclosed through official channels thereby avoiding any miscommunications.

#### **HUMAN RESOURCES**

The human resources policy and practices of the Bank is designed to attract and retain people of the highest caliber and to motivate them to excel in their careers, as well as uphold the Bank's brand equity and culture of quality service. A critical element of the Bank's human resource management is a transparent performance management and appraisal system that ensures that our employees across all levels have 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.

#### Statistics

As at 15 July 2009, the Bank's total full time / regular headcount was 257 a modest increase of 2% as compared to the previous year.

	Male	Female
Executives & Managers	17	3
Officers	50	28
Clerical	89	60
Support	10	
TOTAL	166	91

#### Remuneration

Compensation packages take into account levels and composition of pay in the markets in which the Bank operates. Salaries are reviewed in the context of individual and business performance, market practice, internal relativities and competitive market pressures.

#### Remuneration paid to the executives during the year 2008/09

	In NPR '000
Chief Executive Officer	11,744
Company Secretary & Corporate Affairs Director	1,953
Other Executives and Managers	22,469

Allowances include Dashain bonus, medical allowance, mobile phone reimbursement, house rent, vehicle repair & maintenance, and leave fare payments. All members of the staff are covered under Group Personal Accident insurance. Gratuity is paid to employees having completed 3 years' regular full time employment, upon severance.

#### Development

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

A total of 28 employees received various banking and management related trainings conducted by external agencies in Nepal and abroad during the financial year.

New staff joining the Bank attend an induction program that provides them with a better understanding of the history, culture and values of the Bank.

The Bank has also upgraded its Basic Banking Training program that is imparted to junior staff at clerical levels that covers fundamentals of all key areas of banking such as Negotiable Instruments, Treasury, Credit Risk and Customer Accounts.

Other in-house training programs related to enhance knowledge and / or efficiency are conducted throughout the year to staff at various

Employees who work as credit relationship managers at Corporate Banking and Retail Financial Services undergo an accreditation program of Omega Performance which reflect our commitment towards developing world class workforce who help us maintain higher risk management standards.

The Bank offers a learning resource center called e-Learning @ Laxmi Bank through the office intranet system which provides employees with access to various learning materials related to their job.

The Bank is actively developing computer assisted training modules (CAT) which will enhance efficiency of learning in terms of time and reach. Currently CAT modules are being used regularly for credit risk management and the Bank is developing modules for other areas such as trade operations, customer accounts etc.

#### Recognition

The Bank, on an annual basis, recognizes employee(s) who have made the most significant impact to the Bank's strategic goals and deminstrate a high level of commitment and loyalty through Employee of the Year (EoY) awards. The nominations for such candidates are based in the performance, feedback and achievements throughout the year. Apart from exceeding their personal targets, the EoY winners are those who are recognized as role models whose reputation and image cuts across specific business units or departments.

#### **Human Resources Management Committee**

A management level Human Resources Committee comprising of senior executives is involved in all key decisions on employee management. This committee meets every fortnight. The committee is also responsible for initiating and recommending policy level decisions based on changes in applicable regulations and / or industry dynamics.

#### **Engagement**

The Bank attaches great importance to communication with staff. Information pertaining to employment matters, business direction, strategies and factors affecting the Bank's performance are conveyed to the staff through different channels.

We believe that a happy and motivated workforce is the most important factor in achieving our financial and strategic goals.

#### **Code Of Conduct**

To ensure that the Bank operates according to the highest standards of ethical conduct and professional competence, all staffs are required to strictly subscribe to the Code of Conduct contained in the handbook named "Code Orange" drawn along international best practices.

Code Orange sets out ethical standards and values to which staff are required to adhere to and covers a wide range of legal, regulatory and ethical issues such as 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 the Code are complied with.

The Bank uses various communication channels to periodically remind staff of the requirement to adhere to the rules and ethical standards set out in the Code. Failure to maintain ethical standards may result in disciplinary action.

Individuals engaged with the Bank in outsourced functions are also required to comply with the principles of the Code.

#### **Health And Safety**

The Bank recognizes the need for effective management of health and safety in order to provide a safe working environment. The Bank focuses on identifying safety and fire risks in advance, taking any measures necessary to remove, reduce or control material risks of fires and of accidents or injuries to employees and visitors.

With rapid growth of the organization and number of employees, the Bank has put in place various means through which it communicates the importance of personal health and work life balance. The Bank's intranet, Makuri has a special dedicated section which carries relevant news, information and best practices related to personal health.

The Bank celebrates a "Health Week" every year whereby we reinforce the importance of healthy lifestyle not only to our employees but also customers and other stakeholders.

The Bank has recently appointed a full time Security Officer with extensive experience in security management. The Security Officer is responsible for putting in place policies, practises and tools for physical security of our assets, employees and customers.

#### CORPORATE RESPONSIBILITY

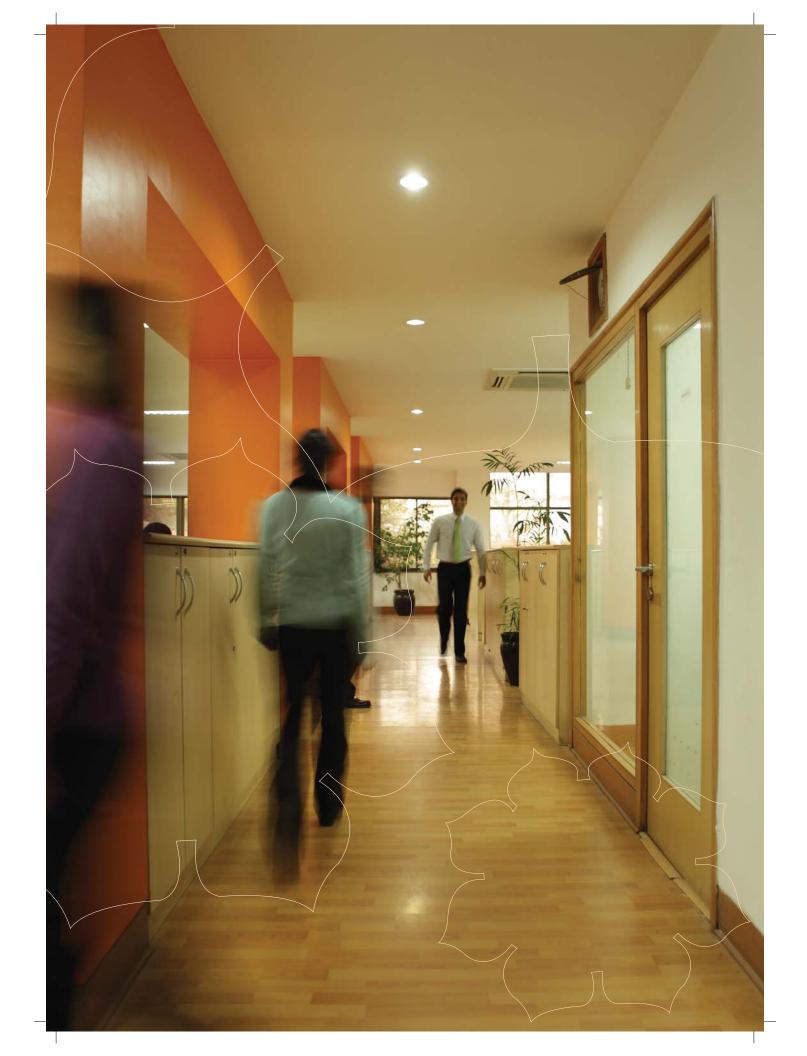
Corporate Responsibility is the term we use to describe our approach to meeting a wide range of non-financial responsibilities which, although not generally enshrined as legal or regulatory requirements, constitute behavior expected of us by our stakeholders, including shareholders, customers and employees.

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. Laxmi Bank family has a registered non-profit "Laxmi Cares" which is involved in various activities aiming at giving back to the stakeholders and the community. Some of our Corporate Responsibility initiatives are detailed in this report.



This year we celebrated Deepawali by sending our valuable customers special green gifts in the form of money plants so that their fortunes continue to grow along with it.





# ourpeople

Our people are passionate, empowered and go the extra mile for our customers.

We recognize the importance of a diverse and committed workforce delivering great customer experience in order to meet our financial and non financial goals. We take particular care in recruiting with an aim to attract people who fit our values and are able to grow in a professional and energetic environment.

We provide a free and fair career opportunity driven by a sound and robust performance management system. Wherever possible, vacant positions are filled through a internal job announcements that encourage qualified people to apply and compete in a free and transparent manner.

Laxmi Bank is a practicing equal opportunity employer and female members of staff make up about 35% of the total workforce.

We place strong emphasis on skill enhancement and personal development of our people. Equal importance is given for both technical and behavioral aspect of their development and these are achieved through various tools - facilitator led training sessions, elearning portal, mentoring etc. Performance Objectives for Line Managers include targets for developing their team and creating their successors.

Average Age of Executives:	38
Average Age of Branch Managers:	34
Average Age of all Employees:	29

#### COMMUNICATION

Our efforts at building a strong communication culture starts at home. We have one of the most vibrant office intranet system: "Makuri". Makuri is the internal communications portal – the lifeline for our employees containing both formal and informal sections. We encourage our employees to engage in and participate in the organization's affairs at every level and Makuri an interactive forum allows our employees to share success stories and ideas with each other.

The CEO's Blog is a medium through which the Chief Executive shares his views, seeks opinion and conducts polls on matters that are relevant to the organization and the industry in general.

#### WELFARE

Employees of the Bank participate in Laxmi Bank Retirement Fund, an independent legally incorporated fund manager. The Fund offers our employees a secure and high yield retirement investment scheme for their long term welfare. The Staff Welfare Committee comprises of members representing employees of all levels. The Committee's primary responsibility is to manage the funds allocated from the profit bonus as per the prevailing laws and grants financial assistance to eligible employees as per it's own by-laws. The Bank has been contributing to this fund since financial year 2006/7.

#### **ENGAGEMENT**

We take constant steps to improve the connection our people feel to their jobs and their workplace. We are proud that we have one of the most engaged workforce in the country and want to keep building the engagement momentum we've built.

The building blocks of our engagement practice is based on creating a cohesive and productive workplace where common values are shared and a sense of personal purpose and importance is recognized.

Our people continue to give back to their communities both financially and by volunteering their time to social events that is generally championed by "Laxmi Cares" a registered non-profit / NGO that supports various social causes. This NGO is managed by our people and supported by the Bank, employees and customers.

We hold a number of fun and competitive events like sports and quiz contests throughout the year that engages our employees and keeps them excited to be with Laxmi Bank.

# risk management

#### CONTEXT

The global financial crisis has claimed a number of high – profile financial institution victims in its wake. Although we did not feel a direct impact of the crises in Nepal we did feel the tremors in the form of exchange rate volatility, commodity price uncertainties and possibilities of reduction in demand for Nepali workforce in the Gulf and Malaysia. This underlines the fact that businesses and individuals are increasingly becoming more dependent on and vulnerable to the global economy. In the context of growing liberalization and increasing sophistication of customer transactions, we recognize that financial institutions must upgrade and update the ways in which they manage risks.

Risk for Nepali financial institutions has taken a new turn in recent days. Liquidity management and exposure on real estate is a growing cause of concern. These risks are further compounded by the instability in the political stage leading to strategic and operational risks.

#### OUR APPROACH

Laxmi Bank's objective to risk management has always been beyond mitigation and control. We believe our approach to risk management approach is a strategic differentiator and a key driver for our sustained and quality growth.

Our approach to risk management is based on the philosophy that all risks must be properly understood, mitigated, measured and monitored and is built around:

- formal governance processes that is constantly reviewed and updated
- top level commitment & development of risk framework through close alignment of risk capabilities to business objectives
- ensuring that responsibility for risk resides at all levels from the Board down through all individual employees
- continuous research and development of new and improved risk management processes and tools supported by effective Management Information Systems
- consciously adopted more stringent internal standards than those prescribed by regulatory bodies
- all businesses are accountable for managing risk in their own area, assisted, where appropriate, by independent risk specialists

 by embedding this approach to measure and understand key risks to ensure the viability of all processes and transactions

This approach enables new business opportunities to be pursued in a risk controlled manner and increases risk adjusted returns through calculated and informed decision making.

#### **Continuous improvement**

We have continued to update and enhance our risk management systems and capabilities to measure and monitor risk activities we undertake in our normal course of business. We enhanced the alignment of risk management practices with business strategies and improved our approach to managing risks more proactively. Through various systems, practices and tools we are committed to focusing on improving our risk infrastructure in line with new financial products and growth in size and activities.

#### RISK EXPOSURES

As a commercial bank, we are in the business that is essentially a customer-driven activity where substantial risk is the credit risk from its corporate, and retail customers. Commercial banking activities also expose the Bank to market risk arising from re-pricing, maturity and mismatches of assets and liabilities. These mismatches give rise to interest rate, liquidity and foreign exchange risks. In the course of conducting our businesses, the Bank handles a large number of financial transactions which inherently exposes us to operational risks arising from failure of internal processes and systems, deficiencies in people and management, or operational failure arising from external exports.

The following pages of this chapter covers the key management practices, policies and framework of Laxmi Bank.

#### **RISK ORGANIZATION**

We believe that risk management is most effective when the responsibility is shared between business units and risk controllers with the Board setting out the risk appetite and providing general oversight ensuring risk standards are maintained as per agreed parameters, directly or through various Board and Executive Committees.

While the Board is the principal committee for oversight of credit, market, operational and other category of risks, it is supported by various committees and units within our risk management framework. Details of Board level committees such as Credit Committee, Audit Committee and independent Internal Audit have been detailed in the Corporate Governance Report section of this Annual Report.

#### Divisional head of risks

- ~ Head Operational Risk,
- ~ Head Credit Risk

These positions are assumed by senior executives who work independent of any business targets. They are especially responsible in management of risk in their respective areas. They support the Chief Executive Officer in ensuring that both the day to day operations and transactions are conducted within the risk framework and parameter of the Bank as well as in designing and implementing effective risk management frameworks and periodically review procedures, products and portfolios in line with the changing business and regulatory environment.

These risk unit heads are supported by individual departments who maintain the same degree of independence from business targets and goals.

#### **OPERATIONAL RISK MANAGEMENT**

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal processes, people, systems, natural or other disasters and unanticipated changes in external factors.

Operational risk is inherent in all business activities. Whilst such risks can never be eliminated, at Laxmi Bank we aim to minimize unexpected losses and manage expected losses to preserve and create value of our business.

We manage our operational risks through standardization of internal processes and monitoring mechanisms. Data security, dual control, periodic departmental reviews are some of the tools that have are used to manage such risks.

Recognizing the importance of operational risk both in terms of managing day to day business as well as the impact of Basel II Capital Accord, a full-fledged Operational Risk unit, reporting to Head – Operational Risk provides independent oversight at both policy and transactional level in terms of risk monitoring and control. The unit establishes relevant policies and guidelines and also acts as partners to business units in conducting periodic trainings and adding value to business process re-engineering/re-structuring. The unit is involved in any new products / services that the Bank launches early on at the development/conceptualization stage providing insight and expertise.

Operational risk department carries out periodic on-site and off-site reviews of businesses to provide positive assurance to the management of the effectiveness of the control system complimenting the work of Internal Audit.

#### The operational risk management framework



The Operational Risk Framework is reinforced by an internal control system that strengthens the "risk aware" culture in the Bank by establishing clear roles and responsibilities of staff and their "rights and obligations" in the control function. In addition, operational risk awareness training sessions and e-learning programs are conducted on an ongoing basis to cultivate a proactive risk management culture in the Bank.

#### WHISTLE BLOWING - A CULTURE OF SPEAKING UP

In achieving good corporate governance, the Bank has a whistle-blowing program to encourage speaking up to report corrupt, illegal or other acts of misconduct. This is built – in to the risk management culture and reinforces the obligation that each employee has towards the Bank.

#### **BUSINESS CONTINUITY PROCESS**

The Bank recognizes and is prepared for a situation where it may not be possible to run the business as usual. Events such as strikes, riots, natural disasters etc. which are beyond the bank's control may 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. Failure to recover business operations in a timely manner from such incidents could result in our inability to process transactions for a period of time leading to potentially serious adverse impact on the business, through compensation claims, inability to manage fund position, loss of customer/business and overall damage to the Bank's reputation.

In order to mitigate risks and manage the impact of such unforeseen events, the Bank has in place detailed Business Continuity Plans that documents processes and procedures to ensure uninterrupted or immediate resumption of critical functions.

#### **CREDIT RISK MANAGEMENT**

Credit Risk is the risk losses from the default of an obligor or counterparty. The main objectives of the Bank's Credit Risk Management is to enable the Bank to write businesses that meet its approved underwriting standard and to ensure that credit losses minimized to the extent possible.

Laxmi Bank's Credit Policy Guide is the highest level policy document and it reflects long-term expectations and represents a key element of uniform, constructive and risk-aware culture throughout the Bank. This credit policy defines acceptable risk parameters and is periodically reviewed and updated to account for changing operating environment and industry behaviour.

Laxmi Bank identifies, assess and manages the probability of default by borrowing clients through a number of proactive risk management techniques and tools under a broad risk framework outlined below:

 all credit applications are subjected to comprehensive evaluation to ensure that sound understanding of the customer has been established to take informed lending decisions and that primary importance is placed on identifying, understanding and assessing future cash flows and repayment sources

- all borrowers are risk graded appropriately to reflect the risk of default in the ensuing 12 month period
- all loans are priced appropriately through a pricing model based on Risk Adjusted Return on Capital
- all credit exposures to a single client group are aggregated to determine the appropriate level of approval required and to ensure that the Bank takes informed views on its exposure to related entities
- constant monitoring of account / portfolio and periodic review is done to help determine changes in risk levels and detect early warning signals from borrowers in financial difficulties for implementation of remedial management action to minimize risk and loss to the Bank
- various credit portfolio reports that captures exposure to single client group, product and segment wise exposures etc. are reviewed on regular frequency and these are used to form strategies at all levels

The credit committee comprising of non-executive board members and senior management further reviews credit portfolio and industry concentration aspects regularly and make decisions / strategies based on the need of the hour. Further an executive level and credit sub committee comprising of senior managers meets periodically to review and discuss issues at portfolio and account levels.

#### **CREDIT APPROVAL PROCESS**

The Bank has standard procedures for credit approval that ensure appropriate guidelines and tools are employed for the type of credit being assessed. The foundation of the credit approval structure is a designation process that delegates specific credit approval discretions to individuals according to their individual credit skills, knowledge, experience, training and integrity.

Credit extensions to customers are generally required to meet a predefined target market criteria which sets the risk acceptance criteria in terms of various factors such as industry, business, value etc. Given the element of subjective judgements, all such loans require dual approval with an independent credit risk executive to ensure objectively in underwriting decisions.

For consumer finances where transactions are numerous and of relatively small values, loans are underwritten under a pre-approved credit program using objective parameters.

Small Business Banking proposals are processed in a hybrid manner using both the relationship management aspect of corporate loans and an element of programmed credit of consumer finance. Small Business Ioans are risk graded using Laxmi Bank's proprietary Small Business ScoreCard developed in-house.

All products are jointly approved by a product approval chain comprising of representatives from business, risk and support functions ensuring objectivity, independence and functional expertise into the approval process.

#### POST DISBURSAL MONITORING & PORTFOLIO MANAGEMENT

All relationships are constantly monitored to detect signs of credit quality deterioration. Standard procedures for carrying out periodic

credit reviews, frequency and monitoring processes are documented in related risk management guidelines. All such reviews and customer contacts are documented.

Credit reviews are conducted at least once a year with updated information on the borrower's financial condition, business and industry outlook, and account conduct.

Credit risk grade reviews are made to reflect changes in risk levels of borrowers on an ongoing basis.

Irregularity reports with respect to the management of excesses, overdue payments of principal or interest and past due bills and deficiencies identified therein are documented and reported to credit chain.

Since consumer loans are granular in nature, a portfolio approach in managing these high volume loans is adopted. The monitoring approach comprises of reviewing predefined portfolio indicators, and customer behavioral patterns to track performance and changes in quality.

#### Segment and Product funded exposure as at 15 July 2009

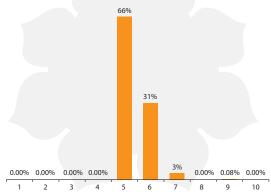
Customer segment and product wise funded exposure of the Bank's exposure is as follows:

Corporate Banking	65%
Trade Finance	6%
Other Working Capital Finance	34%
Term Loans	25%
Retail Financial Services	32%
Mortgages	15%
Small Business Loans	13%
Others	4%
Microfinance – 3%	

#### RISK GRADING

Laxmi Bank follows an internal risk grading system that is more detailed and comprehensive than what is prescribed by the regulators and reflects the various business and industry factors affecting the customer's business and repayment ability. These ratings represent the probability of default over the period of 12 months and is reviewed on a periodic basis to reflect any changes in the risk levels.

#### Distribution of risk assets by quality



Rating of 1 represents the highest quality of assets and 10 the lowest

#### SECTOR-WISE BREAKDOWN OF RISK ASSETS:

The Bank maps its exposures on businesses loans against NAICS codes to monitor industry exposures.

SECTOR	%
Mining	0.29%
Utilities	1.35%
Construction	12.59%
Manufacturing	30.19%
Wholesale Trade	12.96%
Retail Trade	4.60%
Transportation & Warehousing	5.70%
Information	1.85%
Finance & Insurance	7.68%
Real Estate and Rental and Leasing	17.29%
Professional, Scientific and Technical Services	0.31%
Management of Companies and Enterprises	0.21%
Administrative and Support and Waste Management	1.68%
and Remediation Services	
Health Care and Social Assistance	2.20%
Accommodation and Food Services	0.58%
Public Administration	0.51%

#### CONCENTRATION

It is Laxmi Bank's policy to set limits and manage concentration risk to ensure that exposure on any particular sector/industry, customer and product does not exceed a predefined cap of the total portfolio in order to mitigate / minimize losses from events that could impact an industry. Industry exposures are also monitored in relation to the Bank's capital as per regulatory requirements.

#### Exposure on Real Estate (as of November 15, 2009)

Total Risk Assets	NPR 14.6 billion
Real Estate	16.57%
Apartments	3.23%
Independent Units	5.45%
Land	7.89%

#### NON PERFORMING ASSET (NPA) MANAGEMENT

The Bank is in place a comprehensive NPA Management Policy covering all aspects of management of impaired assets. The policy stipulates guidelines in terms of recognition, provisioning, security enforcement, asset disposal, write offs and accounting for such NPAs.

#### **MARKET & LIQUIDITY RISKS**

Market risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices. Our exposure to market risk is a function of our trading and asset-liability management activities and our role as a financial intermediary in customer-related transactions. The objective of market risk management is to minimize the impact of losses on earnings and equity capital due to market risk.

As with other risks, the key elements in management of market and liquidity risks are policies, risk limits and risk measurement tools.

Market risk policies include the Treasury Manual, Investment Policy and the Asset-Liability Management (ALM) Policy. The policies are approved by the Board of Directors. The Asset-Liability Management Committee (ALCO) stipulates liquidity and interest rate risk limits, monitors adherence to limits, articulates the organization's interest rate view and determines the strategy in light of the current and expected environment. These policies and processes are articulated in the ALM Policy.

#### **Assets and Liabilities Management Framework**

The Asset Liability Committee (ALCO) is a management level committee that is responsible for overseeing the Bank's balance sheet risks. The ALCO is chaired by the Chief Executive Officer and comprises of senior executives from both business and support units and meets periodically to review our balance sheet structure to ensure availability of sufficient cash flows to meet all of the bank's financial commitments and to facilitate expansion of business. The ALCO also reviews the current and prospective funding requirements for our operations through monitoring of cash flows, liquidity ratios and maturity profile reviews and takes strategic decisions on portfolio and pricing of liability produts.

#### **Market Risks**

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 analyses of market risk and adequate control over market risk. We make investments in the market through structured deals with other financial institutions. We have allocated market limits to such financial institutions based on a comprehensive credit scoring model developed in-house which are reviewed on a periodic basis. IRR is the risk that changes in prevailing interest rates will adversely impact the value of the bank's assets and liabilities. We manage this risk by forecasting net interest income (NII) and measure the sensitivity of NII to changes in rates. Typically a variety of standard and proprietary models are employed to measure this risk.

The output of this analysis is supplied to the ALCO, which establishes the guidelines for tolerance levels. Interest rate risk is measured through the use of re-pricing gap analysis and duration analysis.

#### Liquidity

Our policy on liquidity maintenance is more conservative than prevailing regulatory requirements. Detailed liquidity position is compiled each day by Treasury and reviewed by the Chief Executive Officer. We ensure adequate liquidity at all times through systematic funds planning and maintenance of liquid investments of appropriate quality to ensure that short-term funding requirements are covered. The Bank's strategy is to diversify the funding sources and minimise concentration across the various deposit sources. The ALCO sets and reviews concentration limits from a single deposit source as a prudent risk management policy. It is in line with this strategy that we have been growing our customer base aggressively and focusing on long term stable retail deposits. Customer deposits continue to remain the most significant source of the Bank's funding sources and short-term funds are also borrowed from the inter-bank market to maximize liquidity management. Liquidity risk is also measured through gap analysis.

We welcome the recent Nepal Rastra Bank directive on liquidity which caps extending loans up to 80% of the bank's deposit plus core capital

and will realign our balance sheet structure accordingly.

Laxmi Bank's Assets and Liability Management (ALM) guide cover policies and procedures to manage liquidity risks and pricing risks.

#### Foreign Exchange Risk

The bank's foreign exchange risk stems from foreign exchange position taking and commercial dealing. Fluctuations 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.

All Treasury Dealers are required to sign a separate Code of Ethics to ensure that professionalism and confidentiality are maintained and ethical dealing practices observed.

#### INFORMATION SYSTEM MANAGEMENT

Laxmi Bank places high priority in managing and protecting its information resources and computer systems. A comprehensive IT Policy is in place, which covers data centre operation, hardware, network security and computer system related issues. Our main banking platform – 'flexcube' is amongst the best platform available in the world today. Our computer and information systems are supported by high-end world-class database.

Given our strong reliance on technology we became the first Bank in Nepal to have our information systems audited by an independent auditor. The independent audit has rated both our overall management of information system and on-line banking system as Highly Secured.

#### DISASTER RECOVERY PLAN

The Bank's 'Disaster Recovery Plan' is designed specifically to ensure 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 Banks data is taken at regular intervals and is maintained off site. A full - fledged DRP site has been set up at on off site location and we are confident of our ability to resume our operations within reasonable time in case the premises where our main systems and data are housed suffers a major physical damage.

DRP testing is done through mock drills to test the back-up systems on a periodic basis jointly by IT department and Operational Risk Unit.

#### REPUTATION RISK

Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events which could result in litigation, financial loss or adverse impact on earnings arising from negative public opinion. We understand that protecting the Bank's reputation is paramount to our growth. We have always aspired to the highest standards of conduct and regularly review and update our practices and procedures for safeguarding against reputational risks. For us, this is an evolutionary process and in the absence of formal guidance on the subject we draw from international best practices having compiled a set of behavioral guidelines and conducts for our employees.

As a matter of culture, reputation downside to the Bank is fully appraised and discussed before any strategic decision is taken or new products and transactions are developed and released. We also apply the same level of appraisals for external communications, vendor selections and at the time of establishing new client relationships including established guidelines on KYC and anti - money laundering.

# Financial Report 2008/09



### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF Laxmi Bank Ltd.

We have audited the attached Balance Sheet of **M/S Laxmi Bank Ltd.** as at 31st Ashad 2066 corresponding to 15<sup>th</sup> July 2009, the Profit & Loss Account, Cash Flow Statement of the Bank for the year ended on that date.

As per the pronouncement of the Institute of the Chartered Accountants of Nepal, the responsibility of the preparation of the financial statements lies on the bank's management and our responsibility is to express an opinion on the financial statements so prepared. 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 conducted our audit in accordance with Nepal Standards on Auditing (NSA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We believe that our audit provides a reasonable basis for our opinion.

With regards to the prevailing Company's Act & Bank & Financial Institution Act, we report that:

- We have obtained all the 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 accounts have been kept by the bank so far as appears from the examination of those books.
- The Balance Sheet, Profit & Loss Account & Cash Flow Statement dealt with by this report are in agreement with the books of account.
- 4. In our opinion and to the best of our information and according to the explanation given to us and as shown by the books of the Bank, have been correctly drawn-up so as to reflect the financial position of the Bank:
  - a. In case of the Balance Sheet of the state of affairs of the Bank as at 31st Ashad 2066 (15th July 2009),
  - In case of the Profit & Loss Account of the profit for the year and;
  - c. In case of Cash Flow Statement of the cash flow for the year.
- 5. In our opinion and to the best of our information and according to the explanation given to us, the Board of Directors, the representative or any employee of the Bank has not acted contrary to the provision of law relating to accounts nor caused direct loss or damage to the Bank deliberately and have not violated Directives issued by the Nepal Rastra Bank or acted in a manner that would jeopardized the interest and security of the bank and its depositors.

Date: September 14, 2009

Place: Kathmandu

Mukunda Dev Adhikari, CA Partner For Banskota & Company Chartered Accountants



Balance Sheet As at Ashad 31, 2066 (July 15, 2009)

			(in NPR)
CAPITAL & LIABILITIES	SCHEDULE	THIS YEAR	PREVIOUS YEAR
1. Share Capital	4.1	1,098,086,100	913,196,300
2. Reserves and Surplus	4.2	245,132,972	243,179,508
3. Debentures & Bonds	4.3	350,000,000	-
4. Borrowings	4.4	450,000,000	450,000,000
5. Deposit Liabilities	4.5	16,051,303,096	10,917,232,367
6. Bills Payable	4.6	16,158,286	5,850,753
7. Proposed Dividend & Unpaid Dividend		4,171,800	9,758,870
8. Income Tax Liabilities		5,001,279	-
9. Other Liabilities	4.7	166,559,448	155,803,719
Total Capital And Liabilities		18,386,412,982	12,695,021,516

ASSETS	SCHEDULE	THIS YEAR	PREVIOUS YEAR
1. Cash Balance	4.8	211,721,472	267,932,363
2. Balance with Nepal Rastra Bank	4.9	1,243,649,202	720,394,571
3. Balance with Banks/Financial Institution	4.10	377,407,049	249,833,920
4. Money at Call and Short Notice	4.11	405,700,000	251,737,774
5. Investment	4.12	2,483,151,161	1,241,041,732
6. Loans, Advances and Bills Purchase	4.13	13,315,604,304	9,680,948,652
7. Fixed Assets	4.14	247,733,210	204,397,323
8. Non Banking Assets (net)	4.15	-	-
9. Other Assets	4.16	101,446,583	78,735,181
Total Assets		18,386,412,982	12,695,021,516

Contingent Liabilities	Schedule 4.17
Directors' Declaration	Schedule 4.29
Statement of Capital Fund	Schedule 4.30 (A1)
Statement of Risk weighted Assets and CRM	Schedule 4.30(B, C, D, E)
Principal Indicators	Schedule 4.31
Principal Accounting Policies	Schedule 4.32
Notes to Accounts	Schedule 4.33
Statement of Loans and Advances of Promoters/	Schedule 4.34
Promoter Group by pledging the shares in their ownership	
Unaudited Financial Results (Quarterly)	Schedule 4.35
Comparison of Unaudited and Audited Financial Statement	Schedule 4.36

Schedules 4.1 to 4.17 are integral part of the Balance Sheet.

Piyush Raj Aryal	
Head - Finance & T	reasury

Suman Joshi Chief Executive Officer Rajendra K. Khetan As per our Report Chairman of even date

Place: Kathmandu Date: 13th September 2009 Bhola Babu Adhikary C. P. Khetan G. K. Sikaria Jiwan Raj Kandel Ratan Lal Sanghai Rishi Ram Gautam Sambhu P Acharya Directors

Mukunda Dev Adhikari, CA Partner for Baker Tilly Banskota & Co. Chartered Accountants

### **Profit and Loss Account**

For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

			(in NPR)
PARTICULARS	SCHEDULE	THIS YEAR	PREVIOUS YEAR
1. Interest Income	4.18	1,098,985,452	711,006,319
2. Interest Expenses	4.19	712,348,311	421,871,791
Net Interest Income		386,637,141	289,134,528
3. Commission and Discount	4.20	29,634,632	20,943,463
4. Other Operating Income	4.21	70,917,293	25,482,082
5. Exchange Income	4.22	51,004,554	46,637,081
Total Operating Income		538,193,620	382,197,155
6. Staff Expenses	4.23	86,407,247	63,994,813
7. Other Operating Expenses	4.24	112,972,785	83,848,664
8. Exchange Loss	4.22	-	-
Operating Profit before provision for Possible Loss		338,813,588	234,353,677
9. Provision for Possible Losses	4.25	41,360,065	36,407,480
Operating Profit		297,453,523	197,946,197
10. Non Operating Income /(Loss)	4.26	(7,594,833)	(7,995,173)
11. Loan Loss Provision Written Back	4.27	7,105,053	11,808,737
Profit from Regular Operations		296,963,743	201,759,761
12. Profit/(Loss) from Extra-Ordinary Activities	4.28	(4,413,129)	(7,636,567)
Net Profit after Considering all Activities		292,550,614	194,123,194
13. Provision for Staff Bonus		26,595,510	17,647,563
14. Provision for Income Tax		-	-
* Current Tax		80,983,152	55,458,170
* Deferred Tax Expense/ (Income)		(4,026,685)	986,114
Net Profit/Loss		188,998,637	120,031,347

Schedules 4.18 to 4.28 are integral part of the Profit & Loss Account.

**Piyush Raj Aryal** Head - Finance & Treasury

Place: Kathmandu Date: 13th September 2009 **Suman Joshi** Chief Executive Officer

> Bhola Babu Adhikary C. P. Khetan G. K. Sikaria Jiwan Raj Kandel Ratan Lal Sanghai

Rishi Ram Gautam

Rajendra K. Khetan

**Sambhu P Acharya** Directors

Chairman

As per our Report of even date

Mukunda Dev Adhikari, CA Partner for Baker Tilly Banskota & Co. Chartered Accountants

## **Profit and Loss Appropriation Account**For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

			(in NPR)
PARTICULARS	SCHEDULE	THIS YEAR	PREVIOUS YEAR
INCOME			
Accumulated Profit up to Previous Year		5,509,849	52,132,183
2. Current Year's Profit		188,998,637	120,031,347
3. Exchange Fluctuation Fund		· · · · · · · · ·	· · · -
4. Capital Adjustment Fund transferred		-	53,419,024
5. Adjustments in Retained Earnings		408	
Total		194,508,894	225,582,554
EXPENSES			
Accumulated Loss up to Previous Year		_	_
2. This Year's Loss		-	-
3. General Reserve		37,799,727	24,006,269
4. Contingent Reserve		-	-
5. Institutional Development Fund		-	-
6. Dividend Equalization Fund		-	-
7. Staff Related Reserves		-	-
8. Proposed Dividend		4,045,580	9,632,000
9. Proposed Bonus Shares		76,866,027	183,000,000
10. Special Reserve Fund		-	-
11. Exchange Fluctuation Fund		3,401,883	1,519,032
12. Capital Redemption Reserve Fund		50,000,000	-
13. Capital Adjustment Fund		-	-
14. Adjustments:		-	-
Deferred Tax Liability		-	1,915,403
Deferred Tax Reserve		1,125,168	-
Total		173,238,385	220,072,705
15.Accumulated Profit/(Loss)		21,270,508	5,509,849

Piyush Raj Aryal Head - Finance & Treasury

Place: Kathmandu Date: 13th September 2009 Suman Joshi Chief Executive Officer Rajendra K. Khetan Chairman

Bhola Babu Adhikary C. P. Khetan G. K. Sikaria Jiwan Raj Kandel Ratan Lal Sanghai Rishi Ram Gautam Sambhu P Acharya Directors

As per our Report

of even date

Mukunda Dev Adhikari, CA Partner for Baker Tilly Banskota & Co. Chartered Accountants

# **Statement of Changes in Equity** Fiscal Year 2065/66

											(in NPR)
PARTICULARS	SHARE Capital	ACCUMULATED PROFIT/LOSS	GENERAL RESERVE	PROPOSED BONUS Share	CAPITAL RESERVE FUND	SHARE PREMIUM	EXCHANGE Fluctuation Fund	DEBENTURE REDEMPTION FUND	DEFERRED TAX RESERVE & FUND	OTHER	TOTAL
Opening Balance at 1 Shrawan 2065	913,196,300	5,509,849	51,788,849	183,000,000	-	-	2,880,810	-	-	-	1,156,375,808
<b>Adjustments</b> Adjustments in Retained Earnings		408									408
Restated Balance	913,196,300	5,510,257	51,788,849	183,000,000	-	-	2,880,810	-	-		1,156,376,216
Net profit for the period	-	188,998,637	-	-	-	-	-			-	188,998,637
Transfer to	-	(37,799,727)	37,799,727	-	-	-	-			-	-
General Reserve											
Capital Adjustment Fund	-	-	-	-	-	-	-			-	-
Proposed Bonus Shares	-	(76,866,027)	-	76,866,027	-	-	-			-	-
Proposed Dividend	-	(4,045,580)	-	-	-	-	-			-	(4,045,580)
Exchange Fluctuation	-	(3,401,883)	-	-	-	-	3,401,883			-	-
Fund											
Bonus share and	184,889,800	-	-	(183,000,000)	-	-	-			-	1,889,800
Right share collection											
Debenture	-	(50,000,000)	-	-	-	-	-	50,000,000		-	-
Redemption Fund											
Deferred Tax Reserve		(1,125,168)							1,125,168		-
Closing Balance At 31 Ashad 2066	1,098,086,100	21,270,508	89,588,576	76,866,027	-	-	6,282,693	50,000,000	1,125,168	-	1,343,219,072

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
668,460,835	(a). Cash Flow from Operating Activities	314,080,096
795,149,653	1. Cash Received	1,239,822,347
702,173,302	1.1 Interest Income	1,084,864,744
20,272,187	1.2 Commission and Discount Income	30,610,926
46,637,081	1.3 Income from Foreign Exchange transaction	51,004,554
585,000	1.4 Recovery of Loan Written off	2,424,831
25,482,082	1.5 Other Incomes	70,917,293
576,924,221	2. Cash Payment	962,163,547
391,302,173	2.1 Interest Expenses	705,388,290
73,557,955	2.2 Staff Expenses	104,054,810
56,569,074	2.3 Office Overhead Expenses	76,944,797
55,495,019	2.4 Income Tax Paid	75,775,651
-	2.5 Other Expenses	-
218,225,432	Cash Flow before changes in Working Capital	277,658,800
(3,319,598,035)	(Increase) / Decrease of Current Assets	(5,097,197,063)
(238,709,774)	1.(Increase)/Decrease in Money at Call and Short Notice	(153,962,226)
196,129,027	2. (Increase)/Decrease in Short Term Investment	(1,242,109,429)
(3,273,420,710)	3. (Increase)/Decrease in Loans, Advances and Bills Purchase	(3,672,277,812)
(3,596,578)	4. (Increase)/Decrease in Other Assets	(28,847,597)
3,769,833,439	Increase /( Decrease) of Current Liabilities	5,133,618,359
3,305,579,061	1. Increase/(Decrease) in Deposits	5,134,070,730
-	2. Increase/(Decrease) in Certificates of Deposits	-
450,000,000	3. Increase/(Decrease) in Short Term Borrowings	-
14,254,378	4. Increase/(Decrease) in Other Liabilities	(452,371)
(83,521,416)	(b) Cash Flow from Investment Activities	(71,353,026)
-	1. (Increase)/Decrease in Long-term Investment	-
(83,521,416)	2. (Increase)/Decrease in Fixed Assets	(71,361,468)
-	3. Interest income from Long term Investment	-
-	4. Dividend Income	8,442
-	5. Others	-
183,499,300	(c) Cash Flow from Financing Activities	351,889,800
-	1. Increase/(Decrease) in Long term Borrowings (Bonds, Debentures etc)	350,000,000
183,499,300	2. Increase/(Decrease) in Share Capital	1,889,800
- · · · · · · · · · · · · · · · · · · ·	3. Increase/(Decrease) in Other Liabilities	-
-	4. Increase/(Decrease) in Refinance/facilities received from NRB	-
-	(d) Income/Loss from change in exchange rate in Cash & Bank Balance	-
768,438,720	(e) Current Year's Cash Flow from All Activities	594,616,870
469,722,133	(f) Opening Balance of Cash and Bank Balances	1,238,160,853
1,238,160,853	(g) Closing Balance of Cash and Bank Balances	1,832,777,723

## **Share Capital and Ownership** As At Ashad 31, 2066 (July 15, 2009)

		(in NPR)
Previous Year	Particulars	This Year
	1. Share Capital	
1,600,000,000	1.1 Authorized Capital	1,600,000,000
1,600,000,000	a) 16,000,000 Ordinary Shares of NPR 100.00 each	1,600,000,000
	b)Non-redeemable Preference Shares of NPReach	
	c)Redeemable Preference Shares of NPReach	
915,000,000	1.2 Issued Capital	1,098,086,100
915,000,000	a) 10,980,861 Ordinary Shares of NPR 100.00 each	1,098,086,100
	b)Non-redeemable Preference Shares of NPReach	
	c)Redeemable Preference Shares of NPReach	
913,196,300	1.3 Paid Up Capital	1,098,086,100
913,196,300	a) 10,980,861 Ordinary Shares of NPR 100.00 each	1,098,086,100
	b)Non-redeemable Preference Shares of NPReach	,,,
	c)Redeemable Preference Shares of NPReach	

**Share Ownership** As At Ashad 31, 2066 (July 15, 2009)

SHARE CAPI	%	PARTICULARS	%	HARE CAPITAL
707,580,	64.44	(A) Promoters	64.57	589,650,000
, ,	-	1.1 Government of Nepal	-	· · ·
	-	1.2 Foreign Institution	-	-
	-	1.3 "Ka" Class Licensed Institution	-	-
	-	1.4 Other Licensed Institution	-	-
409,968,	37.33	1.5 Other Organisations	37.41	341,640,000
	-	1.6 Individuals	-	· · · · -
297,612,	27.10	1.7 Others	27.16	248,010,000
390,506,	35.56	(B) General Public	35.43	323,546,300
1,098,086,	100.00	Total	100.00	913,196,300

**Share Capital & Ownership**List of shareholders holding more than 0.5% of share capital

			(in NPR)
S. NO.	NAME	THIS YEAR	
		AMOUNT	%
1	Himalayan Exim P.Ltd.	132,318,000	12.05%
2	Sarika Khetan	112,804,100	10.27%
3	Citizen Investment Trust	99,000,000	9.02%
4	Ratan Lal Sanghai	98,118,000	8.94%
5	MTC Investment Pvt. Ltd.	88,200,000	8.03%
6	Shiva Bhagwan Ind. P. Ltd.	79,650,000	7.25%
7	Gopi Krishna Shikaria	67,500,000	6.15%
8	Poonam Khetan	33,379,200	3.04%
9	Nepal Mentha Products Pvt. Ltd.	31,314,700	2.85%
10	Prime Holding Pvt. Ltd.	27,506,400	2.50%
11	Ruchi Jajodiya	22,946,400	2.09%
12	Nepal Remittance Pvt. Ltd.	22,655,400	2.06%
13	Dreams Investment Pvt. Ltd.	15,596,600	1.42%
14	Krishi Premura Properties Pvt Ltd	11,435,900	1.04%
15	Mutual Trading Co. Pvt. Ltd.	10,800,000	0.98%
16	Rajendra K Khetan	10,800,000	0.98%
17	Harati Investment Pvt Ltd	10,016,800	0.91%
18	Sabita Devi Rungta	9,000,000	0.82%

### **Reserves Funds**

As at Ashad 31, 2066 (July 15, 2009

Schedule 4.2

(in NPR,			
THIS YEAR		PARTICULARS	PREVIOUS YEAR
89,588,576		1. General Reserve Fund	51,788,849
76,866,027		2. Proposed Bonus Shares	183,000,000
-		3. Capital Reserve Fund	-
50,000,000		4. Capital Redemption Reserve	-
	50,000,000	a. Laxmi Bank Debenture 2072	
-		5. Capital Adjustment Fund	-
1,125,168		6. Other Reserves & Funds	
	-	a. Contingent Reserve	-
	-	b. Institutional Development Fund	-
	-	c. Dividend Equalization Fund	-
	-	d. Special Reserve Fund	-
	-	e. Assets Revaluation Reserve	-
	-	f. Other Free Reserves	-
	1,125,168	g. Deferred Tax Reserves	-
21,270,508		7. Accumulated Profit/Loss	5,509,849
6,282,693		8. Exchange Fluctuation Fund	2,880,810
245,132,972		Total	243,179,508

## **Debentures And Bonds** As at Ashad 31, 2066 (July 15, 2009)

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
-	1. 8.5% Debentures 2072 of NPR 1000 each Issued on 25th November 2008 and maturity on 24 November 2015 A.D. (Outstanding balance of Redemption Reserve NPR 50,000,000)  2	350,000,000
-	Total (1+2+3)	350,000,000

**Borrowings** As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.4

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
-	A. Local	-
-	1. Government of Nepal	-
-	2. Nepal Rastra Bank	-
-	3. Repo Obligations	-
450,000,000	4. Inter Bank and Financial Institutions	450,000,000
-	5. Other Organized Institutions	-
-	6. Others	-
450,000,000	Total	450,000,000
-	B. Foreign	-
-	1. Banks	-
-	2. Others	-
-	Total	-
450,000,000	Total (A+B)	450,000,000

## **Deposit Liability** As at Ashad 31, 2066 (July 15, 2009)

			(III IVFN)
PREVIOUS YEAR	PA	ARTICULARS	THIS YEAR
		Non-listeness through a second	
204 204 222		Non-Interest bearing accounts	4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4
284,396,737	A.	Current Deposits	1,043,826,321
266,264,568		1. Local Currency	1,014,444,428
-		1.1 Government of Nepal	20.000
-		1.2 "Ka" Class Licensed Institutions	20,000
23,587,063		1.3 Other Licensed Institutions	9,129,878
211,280,276		1.4 Other Organized Institutions	980,778,627
31,397,229		1.5 Individuals	24,515,923
-		1.6 Others	-
18,132,169		2. Foreign Currency	29,381,894
-		2.1 Government of Nepal	-
-		2.2 "Ka" Class Licensed Institutions	-
-		2.3 Other Licensed Financial Institutions	-
17,980,989		2.4 Other Organized Institutions	29,267,817
151,180		2.5 Individuals	114,077
-		2.6 Others	-
89,821,305	В.	Margin Deposits	208,520,762
-		1. Employees Guarantee	
34,091,651		2. Guarantee Margin	45,513,684
55,729,653		3. Margin on Letter of Credit	163,007,078
			,,.
59,266,662	C.	Others	146,810,616
59,266,662		1. Local Currency	146,810,616
-		1.1 Financial Institutions	-
59,266,662		1.2 Other Organized Institutions	146,810,616
-		1.3 Individual	-
-		2. Foreign Currency	-
-		2.1 Financial Institutions	-
-		2.2 Other Organized Institutions	-
-		2.3 Individual	-
433,484,703	То	tal of Non-interest Bearing Accounts	1,399,157,700

## **Deposit Liability**As at Ashad 31, 2066 (July 15, 2009)

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
	2. Interest Bearing Accounts	
2,590,407,434	A. Saving Deposits	3,463,222,338
2,412,156,798	1. Local Currency	3,287,723,240
308,724,252	1.1 Organizations/ Institutions	154,904,188
2,103,432,545	1.2 Individual	3,132,819,052
-	1.3 Others	-
178,250,636	2. Foreign Currency	175,499,098
13,140,081	2.1 Organizations/ Institutions	3,732,587
165,110,555	2.2 Individual	171,766,510
-	2.3 Others	-
5,821,955,358	B. Fixed Deposits	7,183,978,726
5,401,828,318	1. Local Currency	6,405,478,726
4,496,461,513	1.1 Organizations/ Institutions	5,349,987,233
905,366,805	1.2 Individual	1,055,491,493
-	1.3 Others	-
420,127,040	2. Foreign Currency	778,500,000
415,200,000	2.1 Organizations/ Institutions	778,500,000
4,927,040	2.2 Individual	-
-	2.3 Others	-
2,071,384,872	C. Call Deposits	4,004,944,333
2,041,495,648	1. Local Currency	3,842,966,354
-	1.1 "Ka" Class Licensed Institutions	65,494,878
306,257,357	1.2 Other Licensed Financial Institutions	132,113,333
1,671,069,293	1.3 Other Organized Institutions	3,018,231,529
64,168,998	1.4 Individual	627,126,613
-	1.5 Others	-
29,889,224	2. Foreign Currency	161,977,979
-	2.1 "Ka" Class Licensed Institutions	-
-	2.2 Other Licensed Institutions	-
24,901,890	2.3 Other Organized Institutions	73,185,717
4,987,335	2.4 Individual	88,792,262
-	2.5 Others	-
-	D. Certificate of Deposit	-
-	1. Organized Institution	-
-	2. Individual	-
-	3. Others	-
10,483,747,664	Total of Interest Bearing Accounts	14,652,145,396
10,917,232,367	Total Deposit (1+2)	16,051,303,096

**Bills Payable** As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.6

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
5,850,753 -	Local Currency     Foreign Currency	16,158,286 -
5,850,753	Total	16,158,286

**Other Liabilities** Schedule 4.7

As at Ashad 31, 2066 (July 15, 2009)

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
-	1. Pension/Gratuity Fund	-
-	2. Employees Provident Fund	-
-	3. Employees Welfare Fund	-
17,647,563	4. Provision for Staff Bonus	26,595,510
91,090,897	5. Interest Payable on Deposits	91,732,396
10,295,890	6. Interest Payable on Borrowings	5,127,397
-	7. Interest Payable on Debentures	11,487,016
206,777	8. Unearned Discount and Commission	1,183,071
19,402,613	9. Sundry Creditors	22,394,614
-	10. Branch Account	-
2,901,517	11. Deferred Tax Liability	-
-	11. Others	-
389,850	(a) Audit Fee Payable	429,400
11,702,292	(b) Remittance Payable	4,866,747
2,166,320	(c) Others	2,743,296
155,803,719	Total	166,559,448

**Cash Balance** 

Schedule 4.8

As at Ashad 31, 2066 (July 15, 2009)

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
262,566,980 5,365,382	Local Currency (Including Coins)     Foreign Currency	200,600,187 11,121,285
267,932,363	Total	211,721,472

## Balance with Nepal Rastra Bank As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.9

(in NPR)						
<b>Previous Year</b>	Particulars	Particulars Local Currency Foreign Currency (in Equivalent NPR)			This Year	
			INR	Convertible	Total	
720,394,571	1. Nepal Rastra Bank	1,224,040,577	-	19,608,625	19,608,625	1,243,649,202
718,688,197	a. Current Account	1,224,819,427	-	19,608,625	19,608,625	1,244,428,052
1,706,374	b. Other Account	(778,850)	-	-	-	(778,850)

As at Ashad 31, 2066 (July 15, 2009)

						(in NPR)
PREVIOUS YEAR	PARTICULARS	LOCAL CURRENCY	FOREIGN CURRENCY (IN EQUIVALENT NPR)			THIS YEAR
			INR	CONVERTIBLE FCY	TOTAL	
45,992,832	1. Local Licensed Institutions	59,362,354	-	-	-	59,362,354
45,992,832 -	a. Current Account b. Other Account	59,362,354	-	-	-	59,362,354 -
<b>203,841,088</b> 203,841,088	2. Foreign Banks a. Current Account b. Other Account	- - -	<b>54,838,912</b> 54,838,912 -	<b>263,205,783</b> 263,205,783	<b>318,044,695</b> 318,044,695	<b>318,044,695</b> 318,044,695
249,833,920	Total	59,362,354	54,838,912	263,205,783	318,044,695	377,407,049

Note: Total balance for which the confirmations are received from respective licensed institutions NPR 1,689,732,504.36 and the difference amount have been identified and are reconciled.

### Money at Call and Short Notice As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.11

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
251,737,774	1. Local Currency	250,000,000
-	2. Foreign Currency	155,700,000
251,737,774	Total	405,700,000

#### Investments

Schedule 4.12

As at Ashad 31, 2066 (July 15, 2009)

(in NPR)				
THIS YEAR	OSE	PURPO	PARTICULARS	PREVIOUS YEAR
	OTHER	TRADING		
866,594,580	866,594,580		1. Government of Nepal Treasury Bills	667,655,823
-	-		2. Government of Nepal Saving Bonds	-
17,050,000	17,050,000		3. Government of Nepal Other Securities	17,050,000
-	-		4. Nepal Rastra Bank Bonds	-
-	-		5. Foreign Securities	-
680,000,000	680,000,000		6. Local Licensed Institutions	-
810,735,272	810,735,272	-	7. Foreign Bank	448,277,600
68,958,340	68,958,340		8. Shares of Organized Institutions	68,245,340
50,000,000	50,000,000		9. Bonds and Debentures of Organized Institutions	50,000,000
-	-		10. Other Investments	-
2,493,338,192	2,493,338,192	-	Total Investment	1,251,228,763
10,187,031	10,187,031	-	Provision	10,187,031
2,483,151,161	2,483,151,161	-	Net Investment	1,241,041,732

# **Investment in Shares, Debentures and Bonds** As At Ashad 31, 2066 (July 15, 2009)

PARTICULARS		PURPOSE	
	COST PRICE	MARKET PRICE	PROVISION
1. Investment in Shares	68,958,340		
1.1 Nepal Bank Limited			
29,000 Ordinary Shares of NPR 100 each paid	9,740,031	N/L	9,740,031
(Refer Note 12 on Schedule No. 4.33)			
1.2 Everest Insurance Company Limited			
10,410 Ordinary Shares of NPR 100 each paid	2,082,000	2,966,850	-
(Refer Note 12 on Schedule No. 4.33)			
1.3 Soaltee Hotel Limited			
8,441 Ordinary Shares of NPR 10 each paid	740,809	1,921,995	-
844 Bonus Shares			
1.4 Himalayan Distillery Limited			
8,940 Ordinary Shares of NPR 50 each paid	447,000	-	447,000
(Refer Note 12 on Schedule No. 4.33)			
1.5 Credit Information Bureau (CIB) Ltd.			
3,530 Ordinary Shares of NPR 100 each paid	353,000	N/L	-
8,825 Right Shares of NPR 100 each paid	882,500	N/L	-
5,880 Right Shares of NPR 100 each paid	588,000	N/L	-
1,765 Bonus Shares	-	-	-
1.6 Prime Life Insurance Company Limited			
540,000 Ordinary Shares of NPR 100 each paid	54,000,000	N/L	-
1.7 Nepal Clearing House Limited	125,000	N/L	-
(Advance payment)			
2. Investment in Debentures and Bonds	50,000,000	-	-
2.1 Nepal Electricity Authority	-	-	-
(7.75% NEA Power Bond of NPR. 1,000 each)	50,000,000	-	-
2.2	-	-	-
Total Investment	118,958,340	-	
3. Provision for Loss			10,187,031
3.1 Up to previous year	10,187,031		10,187,031
3.2 Increase/(Decrease) this year	-		-
Total Provision	10,187,031		10,187,031
Net Investment	108,771,309		
	1.1 Nepal Bank Limited 29,000 Ordinary Shares of NPR 100 each paid (Refer Note 12 on Schedule No. 4.33) 1.2 Everest Insurance Company Limited 10,410 Ordinary Shares of NPR 100 each paid (Refer Note 12 on Schedule No. 4.33) 1.3 Soaltee Hotel Limited 8,441 Ordinary Shares of NPR 10 each paid 844 Bonus Shares 1.4 Himalayan Distillery Limited 8,940 Ordinary Shares of NPR 50 each paid (Refer Note 12 on Schedule No. 4.33) 1.5 Credit Information Bureau (CIB) Ltd. 3,530 Ordinary Shares of NPR 100 each paid 8,825 Right Shares of NPR 100 each paid 5,880 Right Shares of NPR 100 each paid 1,765 Bonus Shares 1.6 Prime Life Insurance Company Limited 540,000 Ordinary Shares of NPR 100 each paid 1.7 Nepal Clearing House Limited (Advance payment)  2. Investment in Debentures and Bonds 2.1 Nepal Electricity Authority (7.75% NEA Power Bond of NPR. 1,000 each) 2.2  Total Investment  3. Provision for Loss 3.1 Up to previous year 3.2 Increase/(Decrease) this year	1. Investment in Shares 1.1 Nepal Bank Limited 29,000 Ordinary Shares of NPR 100 each paid (Refer Note 12 on Schedule No. 4.33) 1.2 Everest Insurance Company Limited 10,410 Ordinary Shares of NPR 100 each paid (Refer Note 12 on Schedule No. 4.33) 1.3 Soaltee Hotel Limited 8,441 Ordinary Shares of NPR 10 each paid 8,441 Ordinary Shares of NPR 10 each paid 8,940 Ordinary Shares of NPR 50 each paid (Refer Note 12 on Schedule No. 4.33) 1.5 Credit Information Bureau (CIB) Ltd. 3,530 Ordinary Shares of NPR 100 each paid 8,825 Right Shares of NPR 100 each paid 5,880 Right Shares of NPR 100 each paid 1,765 Bonus Shares 1.6 Prime Life Insurance Company Limited 540,000 Ordinary Shares of NPR 100 each paid 1.7 Nepal Clearing House Limited (Advance payment)  2. Investment in Debentures and Bonds 2.1 Nepal Electricity Authority (7.75% NEA Power Bond of NPR. 1,000 each) 2.2	COST PRICE   MARKET PRICE

Note: 1. N/L stands for Not Listed in Nepal Stock Exchange Limited (NEPSE).

2. Except Soaltee hotel none of the other companies have declared cash dividend in last three years (Refer Note 12 on Schedule No. 4.33) We have received 10% cash dividend from Soaltee Hotel during the year  $\,$ 

Classification of Loans, Advances and Bills Purchased & Provisioning As At Ashad 31, 2066 (July 15, 2009)

			DOMESTIC	IIC						
					FOREIGN	TOTAL	DOMESTIC	FOREIGN	TOTAL	
		PRIORITY SECTOR INSURED UNINSURED	/ SECTOR UNINSURED	OTHER						
	1. Performina Loan	1	'	13,435,266,540	'	13,435,266,540	'	17,291,688	17,291,688	13,452,558,228
	SS	1		13,435,266,540	'	13,435,266,540	'	17,291,688	17,291,688	13,452,558,228
	1.2 Restructured	1	'		'		1			
	2. Non-Performing Loan	'	'	10,790,791		10,790,791	'	'	•	10,790,791
	2.1 Sub-Standard	'	'		'		'	,	1	
	ubtful	'	'	2,495,836	'	2,495,836	1	1	•	2,495,836
	SS	1	'	8,294,954	1	8,294,954	1	•	1	8,294,954
	Loan	1	'	- 13,446,057,331		- 13,446,057,331	'	17,291,688	17,291,688	13,463,349,018
	3. Loan Loss Provision									
	SS	1	'	138,028,735	•	138,028,735	1	172,916.88	172,917	138,201,652
	3.2 Restructured	'	'	'	'	1	1	,	1	'
	3.3 Sub-Standard	'	'	1	'	1	1	1	1	1
324,845 3.4 Dou	3.4 Doubtful	'	'	1,247,729	'	1,247,729	1	1	1	1,247,729
10,940,369 3.5 Loss	55	1	'	8,295,333	1	8,295,333	1	1	•	8,295,333
113,489,702 B. Total F	B. Total Provisioning	1	'	147,571,797	'	147,571,797	'	172,917	172,917	147,744,714
	4. Provisioning up to Previous Year									
65,761,141 4.1 Pass	SS	'	'	97,659,877	'	97,659,877	1	104,594	104,594	97,764,471
	4.2 Restructured	'	'	4,131,924	'	4,131,924	1	,	1	4,131,924
_	4.3 Sub-Standard	'	'	328,094	'	328,094	1	,	1	328,094
1,795,204 4.4 Doubtful	ubtful	'	'	324,845	'	324,845	1	1	1	324,845
19,171,013 4.5 Loss	SS	1	'	10,940,369	1	10,940,369	•	•	•	10,940,369
91,789,964 C. Total	C. Total Provisions up to Previous Year	'	'	113,385,108	1	113,385,108	•	104,594	104,594	113,489,702
(11,380,204) D.Writter	D.Written Back this year	1	'	(7,105,053)	,	(7,105,053)	1	1		(7,105,053)
33,079,943 E.Additic	E.Addition this year	1	'	41,291,742	'	41,291,742	'	68,323	68,323	41,360,065
21,699,738 Change	Changes this year	1	'	34,186,689	,	34,186,689	1	68,323	68,323	34,255,012
9,680,948,652 Net Loan (A-B)	ın (A-B)	1	'	- 13,298,485,534	1	13,298,485,534	1	17,118,771	17,118,771	13,315,604,304

# Loans, Advances and Bills Purchased Security Wise As at Ashad 31, 2066 (July 15, 2009)

		(in NPR)
Previous Year	Particulars	This Year
9,794,438,354	A. Secured	13,463,349,018
9,256,615,430	1. Movable/Immovable Assets	13,068,412,433
377,337,345	2. Guarantee of Local Licensed Institutions	28,000,000
-	3. Government Guarantee	55,107,911
-	4. Internationally Rated Bank Guarantee	-
-	5. Export Documents	-
148,089,596	6. Fixed Deposit Receipts	291,638,026
128,810,979	a. Own Fixed Deposit Receipts	290,091,822
19,278,617	b. Fixed Deposit Receipts of Other Licensed Institutions	1,546,205
893,644	7. Government Bonds	898,394
-	8. Counter Guarantee	-
11,502,338	9. Personal Guarantee	19,292,254
-	10. Other Securities	-
-	B. Unsecured	-
9,794,438,354	Total	13,463,349,018

### **Fixed Assets**

As At Ashad 31, 2066 (July 15, 2009)

Schedule 4.14

(in	NP	R)

PREVIOUS YEAR	PARTICULARS		1	ASSETS			THIS YEAR
		BUILDING	VEHICLES	MACHINERY	OFFICE EQUIPMENT	OTHERS	
	1. Cost Price						
141,836,754	a. Previous Year balance	49,873,724	48,308,877	-	80,935,536	-	179,118,137
44,561,603	b. Addition during the year	-	15,815,789	-	26,667,782	-	42,483,571
-	c. Revaluation/Written Back this year	-	-	-	-	-	-
(7,280,220)	d. Sold during the year	-	(6,131,059)	-	-	-	(6,131,059)
-	e. Written off during the year	-	-	-	-	-	-
179,118,137	Total Cost (a+b+c+d+e)	49,873,724	57,993,607	-	107,603,319	-	215,470,650
	2. Depreciation						
49,117,574	a. Up to previous year	4,982,026	11,935,441	-	44,048,279	-	60,965,747
16,391,431	b. For this year	1,248,598	6,821,190	-	14,329,917	-	22,399,705
-	c. Depreciation on revaluation/Written Back	-	-	-	-	-	-
(4,543,258)	d Adjustment/Write back of	-	(4,441,276)	-	-	-	(4,441,276)
60,965,747	<b>Total Depreciation</b>	6,230,624	14,315,355	-	58,378,196	-	78,924,175
118,152,390	3. Book Value (WDV*) (1-2)	43,643,100	43,678,252	_	49,225,123	_	136,546,474
66,248,874	4. Land	-	-	-	-	-	65,620,187
1,313,400	<ol><li>Capital Construction (pending Capitalization)</li></ol>	-	-	-	-	-	19,328,802
18,682,659	6. Leasehold Assets	-	-	-	-	-	26,237,747
204,397,323	Total (3+4+5+6)	43,643,100	43,678,252	-	49,225,123	-	247,733,210

<sup>\*</sup> Written Down Value

## Non Banking Assets As At Ashad 31, 2066 (July 15, 2009)

(in NPR)

PREVIOUS YEAR	NAME & ADDRESS OF	DATE OF ASSUMING	TOTAL NON	LOSS P	ROVISION	NET NON
	BORROWER OR PARTY	NON BANKING ASSETS	BANKING ASSETS	%	In NPR	BANKING ASSETS
-	Guna Bahadur Thapa, Kathmandu	2059/11/06	492,200.00	100%	492,200.00	-
-	Karyashila Construction, Gorkha	2064/03/32	457,716.50	100%	457,716.50	-
-	Ram Krishna Manandhar, Hetauda	2063/01/27	25,500.00	100%	25,500.00	-
-	Naresh Shrestha	2065/03/20	2,971,500.00	100%	2,971,500.00	-
-	Grand Total		3,946,917		3,946,917	-

### **Other Assets**

As At Ashad 31, 2066 (July 15, 2009)

Schedule 4.16

			(in NPR)
PREVIOUS YEAR	PARTICULARS		THIS YEAR
1,370,019	1. Stationery Stock		1,157,360
13,466,868	2. Income Receivable on Investment		27,587,575
19,261,113	3. Accrued Interest on Loan	21,918,709	-
(19,261,113)	Less:Interest Suspense Account	21,918,709	-
-	4. Commission Receivable		-
-	5. Sundry Debtors		-
30,327,887	6. Staff Loan & Advances		53,006,649
3,943,074	7. Pre Payments		5,105,506
-	8. Cash in Transit		-
-	9. Other Transit items (including Cheques)		-
-	10. Drafts Paid Without Notice		-
1,740,627	11. Expenses not Written Off		923,747
	12. Branch Account Reconciliation		· -
-	13. Deferred Tax Assets		1,125,168
27,886,707	14. Others		12,540,578
9,101,956	a. Goodwill		-
1,253,680	b. Deferred Software Expenses (to the extent not written off)	10,279,153	-
206,221	c. Advance tax (net)	, ,	_
· -	d. Remittance Receivable	_	_
17,324,850	e. Others	2,261,425	-
78,735,181	Total		101,446,583

## Other Assets (Additional Statements) As At Ashad 31, 2066 (July 15, 2009)

Schedule 4.16 (A)

(in	NF	PRI
,		,

					(
PREVIOUS YEAR	PARTICULARS		THIS YEAR		
		UP TO 1 YEAR	1 TO 3 YEAR	ABOVE 3 YEARS	TOTAL
19,261,113	1. Accrued Interest on Loan	19,609,692	2,309,017	-	21,918,709
-	2. Drafts Paid without notice	-	-	-	-
-	3. Branch Account	-	-	-	-

## **Contingent Liabilities** As at Ashad 31, 2066 (July 15, 2009)

/:	٨	10	10

PREVIOUS YEAR	PARTICULARS	THIS YEAR	
-	Claims on institution not accepted by the Institution	-	
1,132,627,549	2. Letter of Credit (Full Amount)	853,459,760	
1,132,627,549	a. Less than 6 months maturity	735,420,260	
-	b. More than 6 months maturity	118,039,500	
-	3. Rediscounted Bills	-	
362,155,757	4. Unmatured Guarantees/Bonds	542,386,205	
5,799,900	a. Bid Bonds	30,225,050	
322,975,896	b. Performance Bonds	453,315,058	
33,379,961	c. Other Guarantee/Bonds	58,846,097	
447,000	5. Unpaid Shares in Investment (Refer Note 12 on Schedule No. 4.33)	447,000	
62,050,604	6. Outstanding Liabilities on Forward Exchange Contract	11,264,280	
13,193,935	7. Bills under Collection	54,320,312	
82,168,521	8. Acceptance & Endorsement	42,691,320	
-	9. Underwriting Commitment	-	
-	10. Irrevocable Loan Commitment	-	
-	11. Guarantees issued against Counter Guarantee of Internationally Rated	Banks -	
-	12. Advance Payment Guarantee	-	
-	13. Financial Guarantee	-	
1,661,043	14. Contingent Liabilities on Income Tax	5,771,677	
1,191,500	15. Others (Capital Commitment on account of construction contract)		
1,655,495,909	Total	1,510,340,554	

Schedule 4.18 **Interest Income** 

For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
640,674,121	A. On Loans, Advances and Overdraft	1,019,089,813
505,658,091	1. Loans & Advances	713,008,919
135,016,030	2. Overdraft	306,080,894
50,969,249	B. On Investment	45,529,371
28,371,907	1. Government of Nepal Securities	31,090,030
27,303,632	a. Treasury Bills	30,018,780
1,068,274	b. Development Bonds	1,071,250
-	c. National Saving Certificates	-
-	2. Foreign Securities	-
-	a	-
-	b	-
-	3. Nepal Rastra Bank Bonds	-
1,178,425	4. Debentures & Bonds	3,869,692
-	a. Financial Institutions	-
1,178,425	b. Other Institutions	3,869,692
21,418,918	5. Interest on Inter Bank Investment	10,569,650
21,418,918	a. Bank/ Financial Institutions	10,569,650
-	b. Other Institutions	-
-	C. On Agency Balances	-
-	1. Local Banks / Financial Institutions	-
-	2. Foreign Banks	-
16,500,948	D. On Money at Call and Short Notice	11,608,615
4,317,269	1. Local Banks/Financial Institutions	10,371,327
12,183,679	2. Foreign Banks	1,237,288
2,862,001	E. On Others	22,757,652
-	1. Certificate of Deposits	-
-	2. Inter-Bank / Financial Institutional Loan	-
-	3. Others	-
2,862,001	a. FCY placements	22,757,652
-	b. Others	-
711,006,319	Total	1,098,985,452

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
399,850,083	A. ON DEPOSIT LIABILITIES	655,252,196
251,682,334	1. Fixed Deposits	405,450,103
241,900,192	1.1 Local Currency	381,571,534
9,782,142	1.2 Foreign Currency	23,878,569
87,150,203	2. Saving Deposits	105,158,871
83,485,774	2.1 Local Currency	102,138,878
3,664,429	2.2 Foreign Currency	3,019,993
61,017,546	3. Call Deposits	144,643,223
60,339,394	3.1 Local Currency	142,984,277
678,153	3.2 Foreign Currency	1,658,946
-	4. Certificate of Deposits	-
22,021,708	B. ON BORROWINGS	57,096,115
-	1. Debentures & Bonds	19,999,541
765,701	2. Loan from Nepal Rastra Bank	722,765
21,256,007	3. Inter Bank /Financial Institutions Borrowing	36,373,808
-	4. Other Organized Institutions	-
-	5. Other Loans	-
-	C. ON OTHERS	_
-	1.	-
-	2.	-
421,871,791	Total	712,348,311

### **Commission and Discount Income**

Schedule 4.20

For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
847,465	A. Bills Purchased & Discount	1,275,495
-	1. Local	-
847,465	2. Foreign	1,275,495
19,355,010	B. Commission	25,723,206
8,098,587	1. Letters of Credit	8,910,462
4,317,329	2. Guarantees	6,323,603
112,638	3. Collection Fees	136,748
6,397,903	4. Remittance Fees	9,579,356
428,554	5. Credit Card	773,037
-	6. Share Underwriting/Issue	-
-	7. Government Transactions	-
-	8. E.Pra. Commission	-
-	9. Exchange Fee	-
740,988	C. Others	2,635,931
20,943,463	Total	29,634,632

Schedule 4.21

Other Operating Income
For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

(in	A	D	D

		(1114111)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
738,750	1. Safe Deposit Lockers Rental	1,128,625
486,553	2. Issue & Renewals of Credit Cards	433,907
549,208	3. Issue & Renewals of ATM Cards	926,917
3,505,073	4. Telex / T. T.	3,550,056
17,151,747	5. Service Charges (Loan Processing Fees)	58,873,483
-	6. Renewal Fees	-
3,050,751	7. Others	6,004,305
25,482,082	Total	70,917,293

Schedule 4.22

**Exchange Gain/Loss**For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

46,637,081	Total Income (Loss)	51,004,554	
6,076,130 40,560,952	<ul><li>a. Revaluation Gain (Loss)</li><li>b. Trading Gain (except Exchange Fees)</li></ul>	13,607,533 37,397,021	
Previous Year	Particulars	This Year	
		(in NPR)	

#### **Employees Expenses**

Schedule 4.23

(in NPR)

For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

		, ,
PREVIOUS YEAR	PARTICULARS	THIS YEAR
30,786,010	1. Salary	40,933,048
24,727,929	2. Allowances	33,404,878
2,623,994	3. Contribution to Provident Fund	3,561,411
768,058	4. Training Expenses	604,977
-	5. Uniform	-
2,302,580	6. Medical	3,055,433
145,535	7. Insurance	135,668
190,763	8. Pension and Gratuity	-
2,449,944	9. Others	4,711,831
63,994.813	Total	86.407.247

Other Operating Expenses
For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

(in	M	D	D

		(III NPK)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
9,561,486	1. House Rent	16,448,108
4,483,995	2. Light, Electricity & Water	6,720,075
2,812,277	3. Repair & Maintenance	3,684,138
1,978,630	a. Building	2,518,040
233,456	b. Vehicles	184,069
600,191	c. Others	982,029
1,861,177	4. Insurance	2,088,128
2,828,977	5. Postage, Telex, Telephone & Fax	3,421,194
997,648	6. Office Equipment, Furniture and Repair	1,217,430
2,129,284	7. Travelling Allowances & Expenses	2,603,655
3,268,077	8. Printing & Stationery	4,660,829
6,930	9. Books & Periodicals	89,730
4,649,545	10. Advertisements	7,077,371
420,000	11. Legal Expenses	484,500
-	12. Donations	108,500
972,135	13. Expenses relating to Board of Directors	1,000,366
746,000	a. Meeting Fees	784,000
226,135	b. Other Expenses	216,366
748,841	14. Annual General Meeting Expenses	1,015,891
524,168	15. Expenses relating to Audit	615,916
389,850	a. Audit Fees	429,400
134,318	b. Other Expenses	186,516
5,455,203	16. Commission on Remittances	3,979,301
	17. Depreciation on Fixed Assets	22,399,705
-	18. Amortization of Pre-operating Expenses	-
1,040,693	19. Share Issue Expenses	3,130,724
- · · · · · · · · · · · · · · · · · · ·	20. Technical Services Fee Reimbursement	-
130,484	21. Entertainment Expenses	88,668
· -	22. Written Off Expenses	-
5,087,891	23. Security Expenses	8,308,897
-	24. Credit Guarantee Premium	-
-	25. Commission & Discount	-
20,478,422	26. Others	23,829,659
6,641,019	(a) Subscription & Membership	7,430,297
5,701,332	(b) Computer Software Maintenance/ Amortisation	4,275,452
4,146,135	(c) Lease Hold Assets Amortisation	6,222,107
3,989,936	(d) Others	5,901,803
83,848,664	Total	112,972,785

**Provision for Possible Losses**For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

Schedule 4.25

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
33,079,943	1. Increase in Loan Loss Provision	41,360,065
-	2. Increase in Provision for Loss on Investment	-
3,327,537	3. Provision Against Non-Banking Assets	-
-	4. Provision Against Other Assets	-
36,407,480	Total	41,360,065

Schedule 4.26

Non-operating Income / (Loss)
For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
-	1. Profit (Loss) on Sale of Investments	-
1,391,933	2. Profit (Loss) on Sale of Assets	596,231
-	3. Dividend	8,442
-	4. Subsidies received from Nepal Rastra Bank	-
-	a. Reimbursement of losses of specified branches	-
-	b. Interest Compensation	-
-	c. Exchange Counter	-
(9,387,106)	5. Others	(8,199,506)
(9,101,956)	a. Amortisation of Goodwill	(9,101,956)
(285,150)	b. Other non operating income/(Expenses)	902,449
(7,995,173)	Total non-operating income (loss)	(7,594,833)

#### **Loan Loss Provision Written Back**

Schedule 4.27

For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

PREVIOUS YEAR	PARTICULARS	THIS YEAR	
11,380,204	1. Loan Loss Provision Written Back	7,105,053	
428,532	2. Provision against Non Banking Assets Written Back	-	
-	3. Investment Provision Written Back	-	
-	4. Provision against other Assets Written Back	-	
11,808,737	Total	7,105,053	

Schedule 4.28

**Profit/Loss from Extra - Ordinary Activities**For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

		(in NPR)
PREVIOUS YEAR	PARTICULARS	THIS YEAR
585,000	1. Recovery of Written off Loans	2,424,831
-	2. Voluntary Retirement Scheme Expenses	-
(8,221,567)	3. Loan Write -Offs {4.28 (a)}	(3,367,147)
-	4. Other Expenses/Income	(3,470,813)
(7,636,567)	Total	(4,413,129)

#### **Statement of Loan Written-off**

For the period Shrawan 1, 2065 to Ashad 31, 2066 (July 16, 2008 to July 15, 2009)

S.NO	TYPES OF LOAN	WRITTEN OFF AMOUNT	TYPES OF SECURITY	BASIS OF VALUATION OF COLLATERAL	NAME/ OF LOAN DESIGNATION APPROVER	INITIATIONS MADE FOR RE- COVERY OF LOAN	(in NPR)
1	Working Capital Lo	oan					
2	Project Loan						
3	Fixed Capital Loan						
4	Personal Loan	3,367,147			Ajaya B Shah, HRFS/		
					Suman Joshi, CEO		
5	Other Loan						
	Total Loan	3,367,147					

### Statement of Loans and Advances to Directors/Chief Executive /Promoters/Employees and Shareholders As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.29

							(in NPR)
NAME OF PROMOTER/ DIRECTOR/CHIEF EXECUTIVE	OUTSTANDING UP TO LAST YEAR		RECOVERED IN CURRENT YEAR		ADDITIONAL LENDING	OUTSTA <mark>NDING</mark> AS OF ASHA <mark>D END 2066</mark>	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	IN THIS YEAR	PRINCIPAL	INTEREST
A. Directors	-	-	-	_	-	-	-
1	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-
B. Chief Executive	-	_					
1	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-
C. Promoters	-	-	-	-	-	-	-
1	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-
D. Employees		-					
1	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-
E. Shareholders	-	-	-	-	-	-	-
1	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

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 and disclosed under Schedule 4.16 - Other Assets

## Capital Adequacy Table As at Ashad 31, 2066 (July 15, 2009)

4. 4 DICK WEIGHTED EVDOCHDEG	CHEDENTYEAD AC	DDEVIOUS VEAD AS
1. 1 RISK WEIGHTED EXPOSURES	CURRENT YEAR AS AT ASHAD END 2066	PREVIOUS YEAR AS AT ASHAD END 2065
a. Risk Weighted Exposure for Credit Risk	14,557,570,091	11,135,060,645
b. Risk Weighted Exposure for Operational Risk	399,133,439	274,825,342
c. Risk Weighted Exposure for Market Risk	40,569,004	48,385,880
Total Risk Weighted Exposures (A+B+C)	14,997,272,534	11,458,271,867
1.2 CAPITAL	CURRENT YEAR AS	PREVIOUS YEAR AS
Cove Canital (Tion 1)	AT ASHAD END 2066	AT ASHAD END 2065
Core Capital (Tier 1)	1,269,743,601	1,076,383,384
a. Paid up Equity Share Capital	1,098,086,100	913,196,300
b. Irredeemable Non-cumulative preference shares		
c. Share Premium	76 966 027	192 000 000
d. Proposed Bonus Equity Shares e. Statutory General Reserves	76,866,027 89,588,576	183,000,000 51,788,849
f. Retained Earnings		5,509,849
g. Audited current year cumulative profit	21,270,508	3,309,649
h. Capital Redemption Reserve	50,000,000	-
I. Capital Adjustment Reserve	30,000,000	
j. Deferred Tax Reserve	1,125,168	
k. Other Free Reserve	1,123,108	
I. Less: Goodwill		(9,101,956)
m. Less: Miscellaneous Expenses not written off	(923,747)	(1,740,627)
n. Less: Investment in equity in licensed Financial Institutions	(9,740,031)	(9,740,031)
o. Less: Investment in equity of institutions with financial interests	(56,082,000)	(56,082,000)
p. Less: Investment in equity of institutions in excess of limits	(50,002,000)	(30,002,000)
q. Less: Investments arising out of underwriting commitments	(447,000)	(447,000)
r. Less: Reciprocal crossholdings	(447,000)	(447,000)
s. Less: Other Deductions	-	-
Supplementary Capital (Tier 2)	451,430,601	114,964,035
a. Cumulative and/or Redeemable Preference Share	-	-
b. Subordinated Term Debt	300,000,000	-
c. Hybrid Capital Instruments	_	-
d. General loan loss provision	134,960,877	101,896,194
e. Investment Adjustment Reserve	10,187,031	10,187,031
f. Assets Revaluation Reserve	-	-
g. Exchange Equalization Reserve	6,282,693	2,880,810
h. Other Reserves	-	-
Total Capital Fund (Tier I And Tier II)	1,721,174,202	1,191,347,419
1.3 CAPITAL ADEQUACY RATIOS	CURRENT YEAR AS	PREVIOUS YEAR AS
	AT ASHAD END 2066	AT ASHAD END 2065
Tier 1 Capital to Total Risk Weighted Exposures	8.47%	9.39%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	11.48%	10.40%

## **Risk Weighted Exposure for Credit Risk** As at Ashad 31, 2066 (July 15, 2009)

A. BALANCE SHEET EXPOSURES	ВООК	SPECIFIC	ELIGIBLE	NET	RISK	RISK WEIGHTED
	VALUE a	PROVISION b	CRM C	VALUE d=a-b-c	WEIGHT e	EXPOSURES f=d*e
Cash Balance	211,788,225			211,788,225	0%	ı–u e
Balance With Nepal Rastra Bank	1,243,649,202	-	-	1,243,649,202	0%	
Investment in Nepalese Government Securities	883,874,580	-	-	883,874,580	0%	_
All other Claims on Government of Nepal	13,282,514			13,282,514	0%	
Investment in Nepal Rastra Bank securities	13,202,314	-	_	13,202,314	0%	
All other claims on Nepal Rastra Bank	60		_	60	0%	
Investment in Foreign Government	-	_	_	-	0%	_
Securities (ECA Rating 0-1)					070	
Investment in Foreign Government Securities (ECA -2)	_	_	_	_	20%	_
Investment in Foreign Government Securities (ECA -3)	_	_	_	_	50%	_
Investment in Foreign Government Securities (ECA-4-6)	_	_	_	_	100%	
Investment in Foreign Government Securities (ECA -7)	_	_	_	_	150%	_
Claims On BIS, IMF, ECB, EC-	_	_	_	_	0%	_
Claims on Multilateral Development Banks (MDB's)	_	_	_	_	0%	
recognized by the framework					070	
Claims on Other Multilateral Development Banks	_	_	_	_	100%	
Claims on Public Sector Entity (ECA 0-1)			_		20%	
Claims on Public Sector Entity (ECA 2)	_	_	_	_	50%	
Claims on Public Sector Entity (ECA 3-6)	_	_	_	_	100%	
Claims on Public Sector Entity (ECA 7)	50,000,000	_	_	50,000,000	150%	75,000,000
Claims on domestic banks that meet	1,435,976,871		_	1,435,976,871	20%	287,195,374
capital adequacy requirements	1,10,017,0071			1,755,770,071	2070	201,175,51
Claims on domestic banks that do not	254,035,483	_	_	254,035,483	100%	254,035,483
meet capital adequacy requirements	25 1,055, 105			25 1,055, 105	10070	25 1,055, 105
Claims on foreign banks established	109,979,944	_	_	109,979,944	20%	21,995,989
within SAARC region having capital adequacy	117,777,11			107,777,711	2070	21,773,707
ratio in excess of 1% than regulatory requirement						
Claims on foreign bank (ECA Rating 0-1)	413,299,743	_	_	413,299,743	20%	82,659,949
Claims on foreign bank (ECA Rating 2)		_	_	-	50%	02/037/515
Claims on foreign bank (ECA Rating 3-6)	60,550,279	_	_	60,550,279	100%	60,550,279
Claims on foreign bank (ECA Rating 7)		_	_	-	150%	,,
Claims on Domestic Corporates	7,680,848,028	_	276,718,034	7,404,129,994	100%	7,404,129,994
Claims on Foreign Corporates	-	_	-	-	20%	.,,,
Claims on Foreign Corporates	-	_	-	_	50%	
Claims on Foreign Corporates	-	-	-	-	100%	
Claims on Foreign Corporates (ECA 7)	-	-	-	_	150%	
Regulatory Retail Portfolio (Not Overdue)	107,000,630	-	5,534,741	101,465,889	75%	76,099,417
Regulatory Retail Portfolio (Overdue) -	218,176,791	-	14,471,589	203,705,202	100%	203,705,202
Except Granularity						
Claims secured by residential properties	1,149,991,120	-	2,565,000	1,147,426,120	60%	688,455,672
(without condition)						
Unsecured portion of claims secured by	-	-	-	-	150%	
properties residential						
Claims secured by residential	1,413,582,403	-	-	1,413,582,403	100%	1,413,582,403
properties (Overdue)						
Claims secured by Commercial real estate	2,318,318,881	-	-	2,318,318,881	100%	2,318,318,881
Past due claims (except for claim	8,200,423	6,266,438	-	1,933,985	150%	2,900,977
secured by residential properties)						
High Risk claims (Venture capital, private	567,230,741	-	150,512,842	416,717,899	150%	625,076,849
equity investments, personal loans and						
credit card receivables)						
Investments in equity of institutions not	-	-	-	-	150%	
listed in the stock exchange						
Investments in equity of institutions listed	2,689,309	-	-	2,689,309	100%	2,689,309
in the stock exchange	*****			,,		, ,
Other Loans and Advances	-	-	-	-	150%	-
Other Assets (as per attachment)	673,102,551	315,682,045	-	361,225,165	100%	361,225,165
	***					
Total	18,815,577,780	321,948,483	449,802,206	18,047,631,750		13,877,620,944

## **Risk Weighted Exposure for Credit Risk** As at Ashad 31, 2066 (July 15, 2009)

B. OFF BALANCE SHEET EXPOSURES	GROSS BOOK	SPECIFIC	ELIGIBLE	NET	RISK	RISK WEIGHTED
	VALUE	PROVISION	CRM	VALUE	WEIGHT	EXPOSURES
	A	В	C	D=A-B-C	E	F=D*E
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	54,320,312	-	-	54,320,312	0%	-
Forward Foreign Exchange Contract	11,223,473	-	-	11,223,473	10%	1,122,347
LC Commitments With Original Maturity Up to 6 months (domestic)	735,420,260	-	133,461,006	601,959,254	20%	120,391,851
ECA Rating 0-1	-	-	-	-	20%	-
ECA Rating 2	-	-	-	-	50%	-
ECA Rating 3-6	-	-	-	-	100%	-
ECA Rating 7	-	-	-	-	150%	-
LC Commitments With Original Maturity Over 6 months (domestic)	118,039,500	-	12,488,625	105,550,875	50%	52,775,438
ECA Rating 0-1	-	-	-	-	20%	-
ECA Rating 2	-	-	-	-	50%	-
ECA Rating 3-6	-	-	-	-	100%	-
ECA Rating 7	-	-	-	-	150%	-
Bid Bond and Performance Bond (domestic)	454,058,933	-	38,314,529	415,744,404	50%	207,872,202
ECA Rating 0-1	-	-	-	-	20%	-
ECA Rating 2	-	-	-	-	50%	-
ECA Rating 3-6	-	-	-	-	100%	-
ECA Rating 7	-	-	-	-	150%	-
Underwriting commitments	-	-	-	-	50%	-
Lending of Bank's Securities or Posting of Securities as collateral	-	-	-	-	100%	-
Repurchase Agreements, Assets sale with recourse (including repo/ reverse)	se repo) -	-	-	-	100%	-
Advance Payment Guarantee	85,787,272	-	3,916,822	81,870,450	100%	81,870,450
Financial Guarantee	2,540,000	-	254,000	2,286,000	100%	2,286,000
Acceptances and Endorsements	42,691,320	-	3,120,039	39,571,281	100%	39,571,281
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	
Irrevocable Credit commitments	841,439,501	-	-	841,439,501	20%	168,287,900
Other Contingent Liabilities	5,771,678	-	-	5,771,678	100%	5,771,678
Total	2,351,292,249	-	191,555,021	2,159,737,228		679,949,147
Total Rwe For Credit Risk (A) +(B)	21,166,870,029	321,948,483	641,357,227	20,207,368,978		14,557,570,091

## Eligible Credit Risk Mitigants As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.30 (C)

										(in NPR)
CREDIT EXPOSURES	DEPOSITS WITH Bank	DEPOSITS WITH OTHER BANKS/FI	GOLD	GOVT.& NRB SECURITIES	G'TEE OF GOVT. OF NEPAL		G'TEE OF DOMESTIC BANKS	G'TEE OF MDBs	SEC/G'TEE FOREIGN BANKS	TOTAL
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	
Balance Sheet Exposures										
Investment in Foreign Government Securities (ECA-2)	-	-	-	-	-	-	-	-	-	-
Investment in Foreign Government Securities (ECA-3)	-	-	-	-	-	-	-	-	-	-
Investment in Foreign Government Securities (ECA-4-6)	-	-	-	-	-	-	-	-	-	-
Investment in Foreign Government Securities (ECA-7)	-	-	-	-	-	-	-	-	-	-
Claims on Other Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entity (ECA 2)	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entity (ECA 7)	-	-	-	-	-	-	-	-	-	-
Claims on domestic banks that meet capital	-	-	-	-	-	-	-	-	-	-
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	-	-	-	-	-	-

The total amount of Eligible CRM shall be adjusted for the supervisory haircuts and floors. In this regard banks should disclose the total value of eligible collateral in the respective column of type of CRM and while summing up the total value necessary adjustments have to be made.

## Eligible Credit Risk Mitigants As at Ashad 31, 2066 (July 15, 2009)

Calimo on domestic banks that do not meet capital adequacy requirements										
andequative patienments										(in NPR)
Claims an Energy bank (ER Allang 9   1)	Claims on domestic banks that do not meet capital	-	-	-	-	-	-	-	-	
Claims on Engring hank (EA Balling 2)	adequacy requirements									
Clams on Cereipa Dank (EX Pallings) 2-10   Clams on Cereipa Comparetes   Clams on Cereipa Comparetes   276, 282,726   455,309   276, 718,034     Clams on Cereipa Comparetes (EA P.)   276, 282,726   455,309   276, 282,726     Clams on Foeling Comparetes (EA P.)   276, 282,726   282,726   282,726   282,726   282,726     Clams on Foeling Comparetes (EA P.)   282,727   282,72	Claims on foreign bank (ECA Rating 0-1)	-	-	-	-	-	-	-	-	
Claims on Demostric (ECR Patings 7)	Claims on foreign bank (ECA Rating 2)	-	-	-	-	-	-	-	-	
Claims a Demonstic Graporates (EAA - 2)	Claims on foreign bank (ECA Rating 3-6)	-	-	-	-	-	-	-	-	
Claims on foreign Corporates (ECA 2-)	Claims on foreign bank (ECA Rating 7)	-	-	-	-	-	-	-	-	
Claims on Fereign Comprontes (CEA 2)	Claims on Domestic Corporates	276,262,726	455,309	-	-	-	-	-	-	- 276,718,034
Claims on Foreign Carporates (EAA 3-6)	Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	-	-	-	-	
Claims on feeting Corporates [ECA 7]		-	-	-	-	-	-	-	-	
Regulatory Petral Perrefolio		-	-	-	-	-	-	-	-	
Regulatory Retail Portfolio (Dverdue)  Lizerpt Granularity  Calims secured by residential properties (with condition)  Calims secured by residential propertie		-	-	-	-	-	-	-	-	
Exept Canularity Claims secured by residential properties (with condition) Claims secured by residential properties (without condition) Claims secured by residential properties    Claims secured by residential properties   Claims secured by residential properties			-	-	898,394	-	-	-	-	
Claims scured by residential poperties (with condition   2,565,000   2,265,000   2,265,000   1,000,000   2,565,000   2,565,000   2,565,000   1,000,000   2,565,000   2,565,000   2,565,000   1,000,000   2,565,000		14,471,589	-	-	-	-	-	-	-	- 14,471,589
Claims secured by residential properties (without condition)  Claims secured by residential properties  Claims secured by Commercial real estate  Claims secured by Commercial real estate  Part she de claims (secured by care and the state of										
Unsecured by residential properties (Overdue)		-	-	-	-	-	-	-	-	
Claims secured by residential properties (Diverdue)  Claims secured by Commercial real estate  Part due claims (except for claim secured by enabled properties)  Incidential properties)  Indip files kiclaims (Putture capital, private equity inestiments, personal loans and credit card receivable)  Investments in equity of institutions not listed in the stock exchange Investments in equity of institutions listed in the stock exchange  Investments in equity of institutions listed in the stock exchange  Investments in equity of institutions listed in the stock exchange  Other John and Advances  Cach and cash Intensit in transit  Fictitious Assets  Other Assets (as per attachment)  Fictitious Assets (as per attachment)  Fictious Assets  Other Assets  Other Assets  Fictious Assets  Other Assets  Fictious Assets  Other Assets  Fictious Assets  Other Assets  Fictious Assets  Other Assets  Other Assets  Fictious Assets  Other Assets  Fictious Assets  Other Assets  Fictious Assets  Other Assets  Other Assets  Fictious Assets  Other Assets  Fictious Assets  Other Assets  Other Assets  Other Assets  Ot			-	-	-	-	-	-	-	- 2,565,000
Claims secured by Commercial real estate		ties -	-	-	-	-	-	-	-	
Past due claims (except for claim secured by essential properties)  residential properties)  link fisk claims (venture capital, private equity  149, 421,946  1,090,896  1,090,8		-	-	-	-	-	-	-	-	
residential properties)   High Risk claims (Ventrue capital, private equity   149,421,946   1,090,896   150,512,842   investments, pecupity of institutions not listed in the stock exchange   150,512,642   150,512	•	-	-	-	-	-	-	-	-	
High Disk Calms (Venture capital, private quulty mestments, personal loans and credit cart receivables lines stock exchange lines tine stock exchange lines ments in equity of institutions listed in the stock exchange lines ments in equity of institutions listed in the stock exchange lines and Advances		-	-	-	-	-	-	-	-	
investments, personal loans and credit card receivables   Investments in equity of institutions not listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments in equity of institutions listed in the stock exchange   Investments   Inv										
Investments in equity of institutions not listed in the stock exchange			1,090,896	-	-	-	-	-	-	- 150,512,842
stock exchange Investments in equity of institutions listed in the stock exchange  Other Loans and Advances										
Investments in equity of institutions listed in the stock exchange  Stock exchange  Cash and Advances Cash and Advances Cash and Cash items in transit Fictifious Assets Cash and Cash items in transit Citifious Assets Cash and Cash items in transit Citificity Assets Cash Cash Cash Cash Cash Cash Cash Cash		-	-	-	-	-	-	-	-	
Stock exchange   Check   Che	-									
Other Loans and Advances		-	-	-	-	-	-	-	-	
Cash and cash items in transit   Fictitious Assets   Commitments   Commi	=									
Fictitious Assets		-	-	-	-	-	-	-	-	
Other Assets (as per attachment)         -         <		-	-	-	-	-	-	-	-	
OFF BALANCE SHEET EXPOSURES           LC Commitments With Original Maturity Up to 133,461,006         133,461,006		-	-	-	-	-	-	-	-	
LC Commitments With Original Maturity Up to 6 133,461,006	Other Assets (as per attachment)	-	-	-	-	-	-	-	-	
6 months (domestic) ECA Rating 0- ECA Rating 3- ECA Rating 3-6 ECA Rating 3-6 ECA Rating 7- ECA Rating 7- ECA Rating 7- ECA Rating 7- ECA Rating 8- ECA Rating 9- ECA Rating 9- ECA Rating 9- ECA Rating 9- ECA Rating 9-1 ECA Rating 9	OFF BALANCE SHEET EXPOSURES									
6 months (domestic) ECA Rating 0- ECA Rating 3- ECA Rating 3-6 ECA Rating 3-6 ECA Rating 7- ECA Rating 7- ECA Rating 7- ECA Rating 7- ECA Rating 8- ECA Rating 9- ECA Rating 9- ECA Rating 9- ECA Rating 9- ECA Rating 9-1 ECA Rating 9	IC Commitments With Original Maturity IIn to	133 461 006						_		- 133 461 006
ECA Rating 0-       <	- · · · · · · · · · · · · · · · · · · ·	.55) .6.,666								133, 101,000
ECA Rating 2         - <t< td=""><td></td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td><td></td></t<>		_	_	_	_	_	_	_	_	
ECA Rating 7  LC Commitments With Original Maturity Over 12,488,625	-	_	_	_	_	_	_	_	_	
ECA Rating 7  LC Commitments With Original Maturity Over 12,488,625	-			_	_	_	_	_	_	
LC Commitments With Original Maturity Over 12,488,625	_			_		_	_	_	_	
6 months (domestic)  ECA Rating 0-1  ECA Rating 2  ECA Rating 3-6  ECA Rating 3-6  ECA Rating 7-  Bid Bond and Performance Bond (domestic)  38,314,529  ECA Rating 0-1  ECA Ra	_	12.488.625	-	-	-	-	-	-	-	- 12.488.625
ECA Rating 0-1         -		,,.								,,
ECA Rating 2       - <t< td=""><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></t<>		-	-	-	-	-	-	-	-	
ECA Rating 3-6 ECA Rating 7 ECA Rating 7 Bid Bond and Performance Bond (domestic)  88,314,529 ECA Rating 0-1 ECA Rating 2 ECA Rating 3-6 ECA Rating 7 ECA Rating 8 ECA Rating 9-6 ECA Ra		-	-	-	-	-	-	-	-	
ECA Rating 7  Bid Bond and Performance Bond (domestic)  \$18,314,529  ECA Rating 0-1  ECA Rating 2  ECA Rating 3-6  ECA Rating 3-6  ECA Rating 7  COMPARITION COMPA	-	-	-	-	-	-	-	-	-	
Bid Bond and Performance Bond (domestic)       38,314,529       -       -       -       -       -       38,314,529         ECA Rating 0-1       - <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td></td>		-	-	-	-	-	-	-	-	
ECA Rating 0-1       -		38,314,529	-	-	-	-	-	-	-	- 38,314,529
ECA Rating 3-6         -	ECA Rating 0-1	-	-	-	-	-	-	-	-	
ECA Rating 3-6         -		-	-	-	-	-	-	-	-	
ECA Rating 7  Underwriting commitments  I C C C C C C C C C C C C C C C C C C		-	-	-	-	-	-	-	-	
Underwriting commitments  I Compare the provided of the provid		-	-	-	-	-	-	-	-	
Securities as collateral	Underwriting commitments	-	-	-	-	-	-	-	-	
Repurchase Agreements, Assets sale with recourse (including repo/ reverse repo)         a	Lending of Bank's Securities or Posting of	-	-	-	-	-	-	-	-	
recourse (including repo/ reverse repo)         3,916,822         -         -         -         -         -         3,916,822         -         -         -         -         -         3,916,822         - <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td></td>		-	-	-	-	-	-	-	-	
Advance Payment Guarantee         3,916,822         -         -         -         -         -         3,916,822         -         -         -         -         -         -         3,916,822         - <td< td=""><td>Repurchase Agreements, Assets sale with</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></td<>	Repurchase Agreements, Assets sale with	-	-	-	-	-	-	-	-	
Financial Guarantee 254,000  Acceptances and Endorsements	recourse (including repo/ reverse repo)									
Financial Guarantee 254,000  Acceptances and Endorsements		3,916,822	-	-	-	-	-	-	-	- 3,916,822
Acceptances and Endorsements	•									
Unpaid portion of Partly paid shares and Securities		-	-	-	-	-	-	-	-	
Irrevocable Credit commitments	•	-	-	-	-	-	-	-	-	
Other Contingent Liabilities	Irrevocable Credit commitments	-	-	-	-	-	-	-	-	
	Other Contingent Liabilities	-	-	-	-	-	-	-	-	

## **Risk Weighted Exposure for Operational Risk** As at Ashad 31, 2066 (July 15, 2009)

PARTICULARS	2007/08	2006/07	2005/06
Net Interest Income	289.134.528	190.216.982	128.663.559
Commission and Discount Income	20,943,463	15,156,901	15,038,886
Other Operating Income	25,482,082	15,710,023	9,788,554
Exchange Fluctuation Income	46,637,081	20,904,775	9,426,234
Additional Interest Suspense during the period	-	11,135,409	28,401
Gross income (a)	382,197,154	253,124,090	162,945,634
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [c=(a×b)]	57,329,573	37,968,614	24,441,845
Capital Requirement for operational risk (d) (average of c)	39,913,344		
Risk Weight (reciprocal of capital requirement of 10%) in times (e)	10		
Equivalent Risk Weight Exposure [f=(d×e)]	399,133,439		

## **Risk Weighted Exposure for Market Risk** As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.30 (E)

RELEVANT OPEN POSITION	OPEN POSITION (NPR)	OPEN POSITION (FCY)	CURRENCY	S. NO.		
	-	-	AED	1		
135,729	(135,729)	(2,200)	AUD	2		
	-	-	CAD	3		
	-	-	CHF	1		
	-	-	CNY	5		
	-	-	DKK	5		
1,031,772	(1,031,772)	(9,461)	EUR	7		
313,088	313,088	2,464	GBP	3		
	-	-	HKD	9		
59,866,699	(59,866,699)	(37,399,156)	INR	10		
111,045	(111,045)	(133,307)	JPY	11		
10,840	(10,840)	(500)	MYR	12		
	-	-	NLG	13		
			NPR	14		
22,105	(22,105)	(1,040)	QAR	15		
	-	-	SAR	16		
	-	-	SEK	17		
25,610	(25,610)	(480)	SGD	18		
	-	-	THB	19		
19,621,119	(19,621,119)	(251,777)	USD	20		
81,138,008			otal Open Position (a)			
5%			xed Percentage (b)			
4,056,900		sk {c=(a*b)}	pital Charge for Market Ris			
10	Risk Weight (reciprocal of capital requirement of 10%) in times (d)					
40,569,004		sure {e=(c*d)}	uivalent Risk Weight Expos			

## **Principal Indicators**As at Ashad 31, 2066 (July 15, 2009)

PARTICULARS	INDICATORS	F. Y.	F. Y.	F. Y.	F. Y.	F. Y.
		2061/2062	2062/2063	2063/2064	2064/2065	2065/2066
Percentage of Net Profit/Gross Income	%	22.59%	21.72%	27.10%	31.41%	35.12%
2. Earnings Per Share	NPR	4.34	5.80	10.75	16.45	20.70
3. Market Value per Share	NPR	285.00	368.00	690.00	1,113.00	1,062.00
4. Price Earning Ratio	Ratio	65.69	63.44	64.18	67.66	51.31
5. Dividend on share capital (including bonus)	%	-	-	-	20%	5.00%
6. Cash Dividend on share Capital	%	-	-	-	1.05%	0.26%
7. Interest Income/Loans & Advances	%	8.86%	8.30%	7.84%	7.85%	8.76%
8. Employee Expenses/Total Operating Expenses	%	44.64%	42.89%	43.43%	43.29%	43.34%
9. Interest Expenses on Total Deposits and Borrowings	%	4.67%	5.05%	4.64%	4.45%	5.05%
10. Exchange Fluctuation Gain/Total Income	%	4.93%	5.79%	8.64%	12.20%	9.48%
11. Staff Bonus/ Total Staff Expenses	%	10.94%	11.86%	16.39%	21.62%	23.54%
12. Net Profit/Loans & Advances	%	1.18%	1.01%	1.21%	1.47%	1.63%
13. Net Profit/Total Assets	%	0.83%	0.79%	0.95%	1.13%	1.22%
14. Total Credit/Deposit	%	89.33%	96.30%	85.78%	89.72%	83.88%
15. Total Operating Expenses/Total Assets	%	2.09%	1.94%	1.63%	1.39%	1.28%
16. Adequacy of Capital Fund on Risk Weightage						
Assets						
a. Core Capital	%	19.45%	13.71%	11.33%	10.10%	8.47%
b. Supplementary Capital	%	1.43%	1.25%	1.10%	1.07%	3.01%
c. Total Capital Fund	%	20.88%	14.96%	12.43%	11.17%	11.48%
17. Liquidity (CRR)	%	8.95%	5.67%	5.65%	5.65%	8.61%
18. Non Performing Loans/Total Loans	%	1.63%	0.78%	0.35%	0.13%	0.08%
19. Weighted Average Interest Rate Spread	%	4.19%	3.24%	3.20%	3.40%	3.71%
20. Book Net worth	NPR	603,091,075	649,048,621	843,946,939	1,145,533,225	1,342,295,325
21. Total Shares	Number	6,100,000	6,100,000	7,296,970	9,131,963	10,980,861
22. Total Employees	Number	108	145	186	252	299

#### **Key Indicators (Definitions)**

ITEMS	DEFINITIONS
Net Profit	Net Profit After Tax
Gross Income	Total Operating income as per P & L 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 4.18
Loans and Advances	Average Gross Loans & Advances as per Schedule 4.13
Staff Expenses	Employees expenses as per Schedule 4.23
Total Staff Expenses	Staff Expenses + Staff Bonus
Total Operating Expenses	Employee Expenses + Office Operating Expenses + Exchange Loss
Interest Expenses	Interest Expenses as per Schedule 4.19
Total Deposit & Borrowings	Borrowings + Deposits as per Balance Sheet (Average)
Total Assets	Total of Asset side of the Balance Sheet (Average)
Total Credit	Gross Loans and Advances + Bills as per Schedule 4.13 (year end)
Total Deposits	Deposits as per Schedule 4.5 (Year end)
Cash Reserve Ratio	Ratio as per NRB Directives
Interest Rate Spread	Average rate of Interest Income on Loans and Advances less Average rate
	of Interest Expenses on Deposits & Borrowings

#### i) 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 authorized for issue by the Board of Directors.

### ii) 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.

#### iii) 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 Act (BAFIA), presentation and other requirements of NRB Directives and in conformity with the Companies Act.

#### iv) Basis of Preparation

The financial statements are presented in Nepalese Rupees, rounded to the nearest Rupee. 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 judgment in process of applying the Bank's accounting policies.

#### v) Interest Income

Interest income on loans and advances are recognized on cash basis as per the Nepal Rastra Bank Directives although this practice is not in accordance with

NAS 7 (Revenue Accounting), which prescribes that the revenue should be recognized 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.

#### vi) Commission Income

All the commission incomes are accounted for on accrual basis. However, it is the policy of the Bank to recognize income during the current financial year if the income is generated out of a transaction with tenor less than 12 months and commission income is less than NPR 100,000.

#### vii) Dividend Income

Dividends on equity shares are recognized when the right to receive dividend is established. When bonus shares are received, only numbers of shares are increased without changing the cost price of shares.

#### viii) 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 realized 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 4.22.

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.

#### ix) Interest Expense

Interest on deposit liabilities and

borrowings are accounted for on accrual basis.

#### x) Loans and Advances including Bills Purchased

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

#### xi) Staff Loans

Loans and advances granted to staff are in accordance with the rules of the Bank and are shown under Other Assets as per the Nepal Rastra Bank Directives.

#### xii) Loan Loss Provision

The provision for possible losses for 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.

#### xiii) Write Off

Unrecoverable Loan accounts graded 'Loss' in compliance with Nepal Rastra Bank Directives are written off in the books as per criteria/ policy upon approval by the Credit Committee/ Board, without prejudice to Bank's right to recovery.

Amounts recovered against loans written off in earlier years are recognized as income in the year of recovery.

#### xiv) 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 & Nepal Government 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 amortization of premiums or discounts.

Premiums and discounts are capitalized and amortized from the date of purchase to maturity.

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

#### xv) Fixed Assets and Depreciation

- a. 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 in the year of purchase irrespective of its useful life.
- c. 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

d. Fixed assets under construction, advances paid towards acquisition of fixed assets and costs of assets not ready for use before year end are shown as capital work in progress.

#### xvi) Non Banking Assets

Non Banking Assets are valued at lower of receivable amount (Principal & Interest) or fair market value of the assets acquired. Provisions for NBA are made in accordance with the Nepal Rastra Bank Directives. However, Laxmi Bank has fully provided for the NBA during the fiscal year 2007/08 irrespective of the date of booking

which is in excess of requirement of NRB.

#### xvii) Software Expenses

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

#### xviii) 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 amortization.

#### xix) Amortization

Amortization is charged to Profit and Loss Account on a straight line basis over the estimated useful lives of the intangible assets. Goodwill is amortized from the date of initial recognition; other intangible assets are recognized from the date they are available for use. The estimated useful lives are as follows:

<ul> <li>Goodwill</li> </ul>	5 years
Computer Software	5 years

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

#### xx) Employee Benefits

a. Provident fund
 Provident fund is recognized at the time of contribution to the fund which is independent to the Bank.

#### b. Gratuity

As per HR Policy Guide of the Bank gratuity is calculated on accrual basis and funded in an approved retirement fund independent to the Bank.

#### xxi) 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.

#### xxii) Provision for Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

The tax currently payable is provision for income tax calculated on basis of Income Tax Act 2058 and rules formed thereto. However, actual tax liability of the bank may change after tax audit of the current income year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

#### Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

#### xxiii) Previous Year's Figures

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

Notes to Accounts Schedule 4.33

#### Interest Income and Interest Suspense

Entire interest receivable on loans & advances as of year end has been transferred to interest suspense account as per the Directives of NRB.

#### 2. Provision for Staff Bonus

Provision for staff bonus has been computed and provided for at 10% of net profit after bonus.

#### 3. 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 Labor Act, 2048.

#### 4. Gratuity Fund

Gratuity fund maintained with Laxmi Bank Retirement Fund, an approved retirement fund, has sufficient balance to cover the gratuity liability (NPR 9,317,659.37 outstanding as of 15 July 2009) calculated as per accrual liability basis.

#### 5. General Reserve

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

#### 6. Exchange Fluctuation Fund

Revaluation gain as at the year end is NPR 13,607,532.88, out of which 25% has been transferred to Exchange Fluctuation Fund by debiting Profit and Loss Appropriation Account as per Nepal Rastra Bank Directives.

#### 7. Income Tax Issues

Final assessment of income tax return filed by Hisef (now merged with the Bank) for the financial years 2058/059 to 2060/61 is yet to be completed by the Inland Revenue Office.

The tax authorities have raised an additional demand of NPR 1,661,042.71

on tax returns filed under self assessment by HISEF for the financial year 2057/58. The Company had disputed the demand of tax authorities and filed an appeal with the Revenue Tribunal. Pending decision, the Bank has shown such disputed tax demand under contingent liability.

The Bank has filed tax returns to the Large Taxpayers' Office up to the financial years 2064/65 under self assessment procedures. Tax assessments for the fiscal year 2061/62 is being undertaken by Large Taxpayers' Office.

On the assessment of the Income Tax Returns of the bank for the fiscal year 2060/61, Large Taxpayers' Office has raised an additional claim amounting to NPR 5,153,916.55. The bank has filed appeals to the revenue tribunal against this assessment and the matter is pending with the Revenue Tribunal. The amount of claim (NPR 4,110,634) net of advances and deposits has been disclosed as contingent liability on Income Tax under schedule 4.17.

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

#### 9. Unsubscribed Shares

The bank has reissued 18,037 fresh shares at par during the year for the unsubscribed portion of the right shares.

#### 10. Bonus Shares

In line with the approval of the AGM, the Bank has issued 20% Bonus Shares during the year to its shareholders. The value of Bonus Shares capitalized during the year was NPR 183,086,100 including those for fractional shares (861 shares) equivalent to NPR 86,100.

#### 11. Accumulated Profit and Loss

The bank has adjusted Rs 407.87 in the opening balance of accumulated profit and loss account this year as a result of

writing back of the excess dividend provision made during the previous fiscal year. Further, this has also been disclosed in the Statement of Changes in Equity in the Financial Statement as adjustment in retained earnings.

## 12. Investment in Share Capital of other Corporate

#### a. Nepal Bank Limited

Investment in shares of Nepal Bank Limited was made by then HISEF Finance Limited. Since those shares have been delisted by Nepal Stock Exchange Limited, 100% loss provision has been made on those shares. As these shares have been delisted, its disposal to comply with NRB Directives have not been made.

#### b. Himalayan Distillery Limited

The Bank (then Hisef Finance Limited) had underwritten the shares of Himalayan Distillery Limited. As the shares were not fully subscribed, the bank had accepted those shares by paying NPR 50 per share (call amount at that point of time). Since the Bank had not paid the second call amount of NPR 50 per share, the Himalayan Distillery Limited had forfeited those shares, against which the Bank has filed a case at and the case is pending till date.

#### 13. Lien over Investments

The bank has made placement with Standard Chartered Bank (London and Singapore), outstanding as of 15 July 2009 amounting to USD 2,414,069 that was under lien as per the lien letter signed with Standard Chartered Bank.

Schedule 4.33 **Notes to Accounts** 

#### 14. Related Party Transaction

During the year, Laxmi Bank had extended following facilities to Gorkha Brewery Pvt Ltd (under common control of the promoters) and GB Marketing Pvt Ltd (100% Subsidiary of Gorkha Brewery Ltd):

NPR '000

Facilities	Facility Extended To	Limit	Remarks
Letter of Credit	Gorkha Brewery Pvt. Ltd.	45,000	Secured against lien over FD amounting to NPR 50,000K
Guarantee	Gorkha Brewery Pvt. Ltd.	42,000	Secured against lien over FD amounting to NPR 43,120K
Guarantee	GB Marketing Pvt. Ltd.	1,120	

entire facilities were settled during the year and there is no outstanding balance as on 15 July 2009.

#### 15. Reconciliation Status

A	D	D	10	1

Reconciliation Status	Total	Up to 3	3 to 9	9 Months	1 to 3 N	lore than
	Amount	Months	Months	to 1 Years	Years	3 Years
Branch Reconciliation	-	-	-	-	-	-
Agency Accounts	234,384	232,009	1,548	25	797	3

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

#### 16. Summary of Loans and Advances Disbursed, Recovered and Principal & Interest Written off

	NPR '000
Particulars	Amount
Loans Disbursed	17,830,423
Loans Recovered	14,161,512
Loans Written off	3,367
Interest written off	1,529

#### 17. Summary of Changes in Deposit Liabilities

			NPR '000
Particulars	Current year 31/3/2066 (15/07/2009)	Previous year 31/3/2065 (15/07/2008)	Changes
Call Deposits	4,004,944	2,071,385	1,933,559
Current Deposits	1,043,826	284,397	759,429
Fixed Deposits	7,183,978	5,821,955	1,362,023
Margin Deposits	208,520	89,821	118,699
Saving Deposits	3,463,222	2,590,407	872,815

#### 18. Weighted Average Interest Spread

	Rate %
Average Rate of return from loans and advances	8.76
Average Rate on deposits & borrowings	5.05
Net Spread	3.71

#### 19. Particulars of Expenses yet to be Expensed off

NPR '000

Particular	Amount	Final Amortization Date
1. Share Issue expense	924	June 2013
2. Others	-	-

These expenses are being amortized over five year period and have been grouped under fictitious assets while calculating Capital Adequacy in Schedule 4.30 (A1).

#### 20. Summary of Concentration of Exposure

NPR	'000

			MIN UUU
Particulars	Loans, Advances and Bills purchased	Deposits and Borrowings	Contingents
Total amount as on 15/07/2009	13,463,349	16,501,303	1,510,340
Highest exposure to a single unit	257,701	1,981,351	114,439
Percentage of exposure to/from single unit(in %)	1.91%	12%	7.57%

#### 21. Classification of Assets and Liabilities based on Maturity

					(Λ	IPR in Lacs)
Assets	1-90	91-180	181-270	271-365 A	bove One	Total
	days	days	days	days	days	Amount
Cash Balance	2,117	-	-	-	-	2,117
Bank Balance	13,030	-	-	-	-	13,030
Investment in Foreign						
Banks	3,180	-	-	-	-	3,180
Govt Bonds/ Bills	3,088	2,089	1,598	2,121	171	9,066
Inter Bank Loans	13,571	3,853	-	-	1,541	18,964
Loans and Advances/						
Bills Purchase	40,097	28,678	21,567	9,735	34,556	134,633
Total Assets	75,084	34,619	23,165	11,856	36,267	180,992
Liabilities						
Borrowings	2,000	-	-	2,500	-	4,500
Call Account	20,020	2,002	2,002	2,002	14,014	40,039
Current Deposits	5,219	522	522	522	3,653	10,438
Savings Deposits	173	346	519	693	32,901	34,632
Fixed Deposits	29,740	16,108	10,968	6,402	8,632	71,850
Debentures	-	-	-	-	3,500	3,500
Total Liabilities	57,152	18,978	14,011	12,119	62,700	164,960
Net Financial Assets	17,932	15,641	9,154	(263)	(26,432)	16,032
Cumulative Net Financial	Assets17,932	33,574	42,727	42,465	16,032	-

Notes to Accounts Schedule 4.33

#### 22. Credit Concentration

				(NPR in Lacs)
Se	ctors	Number	Principal	Interest
1	Agriculture	521	164	1
2	Mines	-	-	-
3	About Productions	499	30,320	15
4	Construction	914	45,088	103
5	Metal Productions, Machinery & Electrical Tools & fitting	9	191	-
6	Transportation Equipment Production & Fitting	30	3,363	4
7	Transportation, Communications & Public Services	77	3,399	2
8	Wholesaler & Retailers	696	15,865	8
9	Finance, Insurance & Fixed Assets	389	18,022	20
10	Service Industries	113	6,703	9
11	Consumable Loan	488	340	-
12	Local Government	1	551	-
13	Others	522	10,627	53
Tot	tal	4,259	134,633	215

#### 23. Details of Gross Non Banking Assets (NPR)

			NPK
Previous Year	Addition During the year	Sale During the year	Balance at the end of the Year
3,946,917	NIL	NIL	3,946,917

#### 24. Details of Lease Hold Assets Amortization

			NPK
Lease Hold Assets up to Last year	This year Addition / Deletion	Amortization During the year	Net Balance at the end of the year
18,682,659	13,777,195	6,222,107	26,237,747

#### 25. Deferred Tax Liability/ (Asset)

Carrying amount of Assets & Liabilities where temporary differences arise as on Ashad End 2066 (15.07 2009) are as follows:

Particulars	As per Books of Accounts	As per Income Tax Act	Difference	
Fixed Assets	162,784,220	166,534,780	(3,750,559)	
Net Temporary Differences	162,784,220	166,534,780	(3,750,559)	
Deferred Tax Liability/ (Asset) a	(1,125,167)			
Deferred Tax Liability/ (Asset) till Ashad end 2065 2,9				
Deferred Tax Expense/ (Income) for Current Year (4,02				

Deferred Tax Asset as of Ashad end 2066 (15 July 2009) stands at NPR 1,125,167 as computed above and the difference of NPR 4,026,685 has been accounted for as deferred tax income in Profit and Loss account.

#### 26. 8.5% Laxmi Bank Debenture, 2072

With the objective of strengthening the capital position by increasing the Supplementary Capital, Laxmi Bank issued unsecured debenture worth NPR 350,000,000 on 25 November 2008. With a coupon rate of 8.5%, the debenture has tenure of 7 years, face value of NPR 1,000 each and semi-annual interest payment cycle.

NRB circular allows appropriation of fund for the purpose of Debenture Redemption during the last five years of maturity. However as a prudent banking practice, Laxmi Bank has decided to appropriate NPR 50,000,000 each year until the maturity of the Debenture. In line with the above, Laxmi Bank has established a Debenture Redemption Fund by appropriating NPR 50,000,000 during the year from the Profit appropriation account to repay the Debenture in 7 years period.

## Statement of Loans and Advances of Promoters/ Promoter Group by Pledging the Shares in their Ownership in other Bank and Financial Institutions As at Ashad 31, 2066 (July 15, 2009)

Schedule 4.34

S.NO	NAME OF PROMOTER/ SHAREHOLDERS UNDER PROMOTER GROUP	SHAREHOL	LDING	(in N			
		TOTAL NO OF SHARES	% OF TOTAL PAID UP CAPITAL	NAME OF THE LENDING BANK AND FINANCIAL INSTITUTIONS	LOAN Amount	NO OF Shares Pledged	REMARKS
1	Himalayan Exim Pvt Ltd	1,323,180	12.05%	NMB Bank	150,000,000	776,060	
2	II .	"	"	Standard Chartered Bank	-	147,020	
3	II .	II .	II .	Rastriya Banijya Bank	90,000,000	400,100	
4	Surendra Silwal	18,000	0.16%	Rastriya Banijya Bank	3,600,000	18,000	
5	Narayan Bajaj	14,400	0.13%	Himalayan Bank Ltd	-	12,000	

## **Unaudited Financial Results (Quarterly)**As at 4th Quarter (15/7/2009) of the Fiscal Year 2008/09

1.1   1.2   1.3   1.4   1.5   1.6   1.7   2   2.1   2.2   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.1   3.2   3.2	TOTAL CAPITAL AND LIABILITIES ( 1.1 TO 1.7)  Paid Up Capital Reserve & Surplus Debenture & Bond Borrowings Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net) Other Assets	18,543,220 18,543,220 18,543,220 18,543,220 18,543,220 18,543,23 14,905,944 18,145,359 18,543,220 18,543,220 18,832,778 405,700 2,493,568 13,463,349 228,404 119,420	13. Chaitra 2065 13-Apr-09 15,849,442 1,098,086 200,152 350,000 550,000 13,329,608 12,282,995 1,046,613 - 321,596 15,849,442 1,731,266 - 1,525,674 12,207,677 223,173	PREVIOUS YEAR QUARTER ENDING 31 Ashad 2065 15-Jul-08 12,695,022 913,196 243,180 - 450,000 10,917,232 10,267,983 649,249 - 171,413 12,695,022 1,238,161 251,738 1,241,042 9,680,494
1.1   1.2   1.3   1.4   1.5   1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2	Paid Up Capital Reserve & Surplus Debenture & Bond Borrowings Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	15-Jul-09 18,543,220 1,098,086 246,348 350,000 450,000 16,051,303 14,905,944 1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	13-Apr-09 15,849,442 1,098,086 200,152 350,000 550,000 13,329,608 12,282,995 1,046,613 - 321,596 15,849,442 1,731,266 - 1,525,674 12,207,677	15-Jul-08 12,695,022 913,196 243,180 - 450,000 10,917,232 10,267,983 649,249 - 171,413 12,695,022 1,238,161 251,738 1,241,042 9,680,949
1.1   1.2   1.3   1.4   1.5   1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2	Paid Up Capital Reserve & Surplus Debenture & Bond Borrowings Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	18,543,220  1,098,086 246,348 350,000 450,000 16,051,303 14,905,944 1,145,359 - 347,482  18,543,220  1,832,778 405,700 2,493,568 13,463,349 228,404	15,849,442  1,098,086 200,152 350,000 550,000 13,329,608 12,282,995 1,046,613 - 321,596  15,849,442  1,731,266 - 1,525,674 12,207,677	12,695,022 913,196 243,180 - 450,000 10,917,232 10,267,983 649,249 - 171,413 12,695,022 1,238,161 251,738 1,241,042 9,680,949
1.1   1.2   1.3   1.4   1.5   1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2	Paid Up Capital Reserve & Surplus Debenture & Bond Borrowings Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	1,098,086 246,348 350,000 450,000 16,051,303 14,905,944 1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	1,098,086 200,152 350,000 550,000 13,329,608 12,282,995 1,046,613 - 321,596 15,849,442 1,731,266 - 1,525,674 12,207,677	913,196 243,180 - 450,000 10,917,232 10,267,983 649,249 - 171,413 12,695,022 1,238,161 251,738 1,241,042 9,680,949
1.2   1.3   1.4   1.5   1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.7   3   3.1   3.2   3.2	Reserve & Surplus Debenture & Bond Borrowings Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	246,348 350,000 450,000 16,051,303 14,905,944 1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	200,152 350,000 550,000 13,329,608 12,282,995 1,046,613 - 321,596 <b>15,849,442</b> 1,731,266 - 1,525,674 12,207,677	243,180 - 450,000 10,917,232 10,267,983 649,249 - 171,413 12,695,022 1,238,161 251,738 1,241,042 9,680,949
1.3   1.4   1.5   1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	Debenture & Bond Borrowings Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	350,000 450,000 16,051,303 14,905,944 1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	350,000 550,000 13,329,608 12,282,995 1,046,613 - 321,596 15,849,442 1,731,266 - 1,525,674 12,207,677	450,000 10,917,232 10,267,983 649,249 - 171,413 <b>12,695,022</b> 1,238,161 251,738 1,241,042 9,680,949
1.4   1.5   1.6   1.7   2   2.1   (2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	Borrowings Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	450,000 16,051,303 14,905,944 1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	550,000 13,329,608 12,282,995 1,046,613 - 321,596 15,849,442 1,731,266 - 1,525,674 12,207,677	10,917,232 10,267,983 649,249 - 171,413 <b>12,695,022</b> 1,238,161 251,738 1,241,042 9,680,949
1.5   1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.2   3.2	Deposits (a+b) a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	16,051,303 14,905,944 1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	13,329,608 12,282,995 1,046,613 - 321,596 <b>15,849,442</b> 1,731,266 - 1,525,674 12,207,677	10,917,232 10,267,983 649,249 - 171,413 <b>12,695,022</b> 1,238,161 251,738 1,241,042 9,680,949
1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	a) Domestic Currency b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	14,905,944 1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	12,282,995 1,046,613 - 321,596 <b>15,849,442</b> 1,731,266 - 1,525,674 12,207,677	10,267,983 649,249 - 171,413 <b>12,695,022</b> 1,238,161 251,738 1,241,042 9,680,949
1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	b) Foreign Currency Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	1,145,359 - 347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	1,046,613 - 321,596 15,849,442 1,731,266 - 1,525,674 12,207,677	649,249 - 171,413 <b>12,695,022</b> 1,238,161 251,738 1,241,042 9,680,949
1.6   1.7   2   2.1   2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	Income Tax Liability Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	347,482 18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	321,596 15,849,442 1,731,266 - 1,525,674 12,207,677	171,413 12,695,022 1,238,161 251,738 1,241,042 9,680,949
1.7	Other Liabilities  TOTAL ASSETS (2.1 TO 2.7)  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	15,849,442 1,731,266 - 1,525,674 12,207,677	12,695,022 1,238,161 251,738 1,241,042 9,680,949
2 2.1 (2.2 1.2 2.2 2.3 1.2 2.4 1.2 2.5 1.2 2.5 1.2 2.6 2.7 (3.3 1.3 1.3 1.3 2.4 1.3 3.2 1.3 3.2 1.3 1.3 1.3 1.3 1.3 1.3 1.3 1.3 1.3 1.3	TOTAL ASSETS (2.1 TO 2.7 )  Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	18,543,220 1,832,778 405,700 2,493,568 13,463,349 228,404	15,849,442 1,731,266 - 1,525,674 12,207,677	12,695,022 1,238,161 251,738 1,241,042 9,680,949
2.1 (2.2   2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	Cash & Bank Balance Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	1,832,778 405,700 2,493,568 13,463,349 228,404	1,731,266 - 1,525,674 12,207,677	1,238,161 251,738 1,241,042 9,680,949
2.2 2.3 2.4 2.5 2.6 2.7 3 3.1 3.2	Money at call and Short Notice Investments Loan & Advances Fixed Assets Non Banking Assets (net)	405,700 2,493,568 13,463,349 228,404	- 1,525,674 12,207,677	251,738 1,241,042 9,680,949
2.3   2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	Investments Loan & Advances Fixed Assets Non Banking Assets (net)	2,493,568 13,463,349 228,404	12,207,677	1,241,042 9,680,949
2.4   2.5   2.6   2.7   3   3.1   3.2   3.2	Loan & Advances Fixed Assets Non Banking Assets (net)	13,463,349 228,404 -	12,207,677	9,680,949
2.5   2.6   2.7   6   3.1   3.2   1	Fixed Assets Non Banking Assets (net)	228,404		
2.6   2.7   3   3.1   3.2	Non Banking Assets (net)	-	223,173	
3.1   3.2	3 . , ,	119.420		204,397
3.1   3.2	Other 765ets		161,652	78,735
3.1 3.2			101,032	
3.2	PROFIT & LOSS ACCOUNT	UP TO THIS QUARTER	UP TO LAST QUARTER U	P TO CORRESPONDING PREVIOUS YEAR THIS QUARTER
	Interest Income	1,098,985	764,073	711,006
	Interest Expenses	712,348	493,106	421,872
	A. Net Interest Income ( 3.1-3.2 )	386,637	270,967	289,135
3.3	Fees, Commission & Discount	29,635	24,146	20,943
3.4	Other Operating Income	70,917	56,835	25,482
	Foreign Exchange Gain & Loss	51,005	35,614	46,637
	B. Total Operating Income (A+3.3+3.4+3.5)	538,194	387,562	382,197
	Staff Expenses	86,407	61,929	63,995
	Other Operating Expenses	112,973	74,832	83,849
	C. Operating Profit before Provisions (B-3.6-3.7)	338,814	250,802	234,354
	Provision for Possible Losses	40,437	25,817	36,407
	D. Operating Profit (C- 3.8)	<b>298,376</b> (7,595)	224,984	197,946
	Non Operating Income/Expenses ( Net ) Loan Loss Provision Written Back	6,182	(6,470) 1,500	(7,995) 11,809
	E. Profit from Regular Activities ( D+3.9+3.10 )	296,964	220,014	201,760
	Extraordinary Income/Expenses (Net)	(4,413)	(58)	(7,637)
	F. Profit before Bonus and Taxes (E+3.11)	292,551	219.955	194,123
	Provision for Staff Bonus	26,596	19,996	17,648
	Provision for Taxes	79,787	59,988	56,444
	G. Net Profit/ Loss ( F-3.12-3.13 )	186,169	139,972	120,031
4	Ratios	At the End of	At the End of	At the End of
		This Quarter	Previous Quarter	Corresponding
				Previous Year Quarter
		11.49%	12.56%	11.17%
4.2 4.3	Capital Fund to RWA * Non Performing Loan (NPL) to Total Loan	0.05%	0.09%	0.13%

## **Comparison of Unaudited and Audited Financial Statement**As of FY 2008/09

S.N.	PARTICULARS A	AS PER UNAUDITED FINANCIAL STATEMENT	AS PER AUDITED FINANCIAL STATEMENT	VARIANCE		REASONS FOR VARIANCE	
				AMOUNT	IN %		
1	Total Capital and Liabilities ( 1.1 to 1.7)	18,543,219,558	18,386,412,982	(156,806,576)	-1%		
1.1	Paid Up Capital	1,098,086,100	1,098,086,100	-			
.2	Reserve & Surplus	246,348,486	245,132,972	(1,215,514)	0%		
.3	Debenture & Bond	350,000,000	350,000,000	-			
.4	Borrowings	450,000,000	450,000,000	-			
.5	Deposits (a+b)	16,051,303,096	16,051,303,096	-			
	a) Domestic Currency	14,905,944,126	14,905,944,126	-			
	b) Foreign Currency	1,145,358,970	1,145,358,970	-			
.6	Income Tax Liability	-	5,001,279	5,001,279		Regrouped with Income	
	,		.,,	,,,,,		Tax Advances in quarterly results	
.7	Other Liabilities (including	347,481,876	186,889,534	(160,592,342)	-46%	Regrouping of other assets	
.,	Bills payable, dividend payable etc)	3 11/10 1/010	100,002,033	(100)332/312/	1070	and liabilities.	
	Total Assets (2.1 to 2.7)	18,543,219,558	18,386,412,982	(156,806,576)	-1%		
.1	Cash & Bank Balance 1,832,777,723	1,832,777,723	-				
.2	Money at call and Short Notice	405,700,000	405,700,000	-			
.3	Investments	2,493,568,192	2,483,151,161	(10,417,031)	-0.4%	Net of provision in Audited Financials	
.4	Loan & Advances	13,463,349,018	13,315,604,304	(147,744,714)	-1%	Net of provision in Audited Financials	
.5	Fixed Assets	228,404,407	247,733,210	19,328,803	8%	Inclusion of Capital construction -	
			,,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		WIP in Fixed Assets in Audited Financials	
.6	Non Banking Assets (net)	-	-	-			
.7	Other Assets	119,420,218	101,446,583	(17,973,634)	-15%	Regrouping of other assets and liabilities.	
}	Profit & Loss Account						
.1	Interest Income	1,098,985,452	1,098,985,452	-			
.2	Interest Expenses	712,348,311	712,348,311	-			
	A. Net Interest Income (3.1-3.2)	386,637,141	386,637,141	-			
.3	Fees, Commission & Discount	29,634,632	29,634,632	-			
.4	Other Operating Income	70,917,293	70,917,293	-			
.5	Foreign Exchange Gain & Loss	51,004,554	51,004,554	-			
	B. Total Operating Income	538,193,620	538,193,620	-			
	(A+3.3+3.4+3.5)						
.6	Staff Expenses	86,407,247	86,407,247	-			
.7	Other Operating Expenses	112,972,785	112,972,785	-			
	C. Operating Profit before	338,813,588	338,813,588	-			
	Provisions (B-3.6-3.7)	,	,,				
.8	Provision for Possible Losses	40,437,182	41,360,065	922,884	2%	Regrouped under write back of provision	
	D. Operating Profit ( C- 3.8 )	298,376,406	297,453,523	(922,884)	0%		
.9	Non Operating Income/Expenses ( Net )	(7,594,833)	(7,594,833)	-	-,-		
	Loan Loss Provision Written Back	6,182,170	7,105,053	922,884	15%	Regrouped as write back	
	E. Profit from Regular Activities ( D+3.9		296,963,743	296,963,743	.570	negrouped as write back	
.11	Extraordinary Income/Expenses (Net)	(4,413,129)	(4,413,129)				
	F. Profit before Bonus and Taxes (E+3.1		292,550,614	292,550,614	_		
.12	,	26,595,510	26,595,510	->2/330/011			
	Provision for Taxes	79,786,531	80,983,152	1,196,621	1%	Tax computation basis 30% of profit in Quarterly results against actual tax liability calculation	
	Defermed Text Function (10 )		(4.037.705)	(4.026.605)		in Audited Financials	
	Deferred Tax Expense/ (Income)		(4,026,685)	(4,026,685)	2 620 04.	Deferred Tax calculation in Audited Financia	
	G. Net Profit/ Loss ( F-3.12-3.13 )		186,168,572	188,998,637	2,830,064		





## corporate responsibility

#### RESPONSIBLE BANKING

We believe that the most meaningful contribution to the society is by being good at we do – Banking.

"Responsible Banking" is a theme under which we number of practices and programs. We make every effort in delivering our services in a prudent and responsible manner and aim to enhance the "customer experience" across all our touch points. Access to finance and banking services for segments of the society that have remained "unbanked" also remains a strong priority area for us.

Major highlights of our Responsible Banking initiatives are detailed herein:

#### **Responsible Lending**

Our lending decisions are based on cash flow and financial performance of the borrower which holds paramount over any other factor. We accept that this approach that we will lose business to competitors in what is an "overbanked" economy, but are confident that our approach is the correct one and will pay off in the long run.

Responsible Lending for us also means that we provide full information regarding a borrower's loan and other financial and non financial obligations upfront and that the borrower is made aware of the full implications of borrowing – legal and otherwise.

#### **Financial Inclusion**

Approximately 3% of our loans and advances are made to intermediaries who manage microfinance activities around the country. These loans to our partners are made at subsidized lending rates to enable them to pass on the benefits to the end borrowers. In addition to lending through such intermediaries we also reach directly to the borrowers under select microfinance programs extending loans for diverse activities such as livestock financing, agriculture, working capital for micro enterprises, foreign employment etc. Till date we have extended approximately 700 loans directly under these programs.

We give special attention to women entrepreneurs under our Small Business Banking program by way of specialized banking solutions and financial advisory services. We are privileged to have played a small role in the success of many such entrepreneurs and remain committed to a long term and sustainable support.

Our workforce remittance business provides a safe and secured means of bringing home the hard earned money of our fellow countrymen working in Malaysia and the Gulf. We ensure that the beneficiaries receive the money on time without additional costs at their end.

Furthermore we encourage and inculcate savings habit for customers of this segment through Manokamana Savings account which offers attractive returns, low minimum balance requirement and other banking services at discount rates.

#### Service Excellence

Enhancing the customer experience remains a top priority at Laxmi Bank. All executives and managers are responsible for evaluating, monitoring and improving the way we interact with and deliver service to our customers on an on-going basis. Our customers are provided with full access to information on a product or service they are buying from us in order to help them informed decisions that will ultimately affect their finances.

We have no doubt that the quality of customer service will be the differentiating factor between a successful bank and a not so successful one.

#### **Electronic Banking**

Backed by arguably the strongest technological platform in the country, we have assumed the leadership role in introducing and promoting the use of electronic service delivery channels in the country. We educate our customers on how to make best use of the available banking solutions and ensure that benefits from progresses made in the field of communication and technology are passed on to our customers so that banking for them becomes more convenient and cost effective.

#### Communication - Keeping Stakeholders Informed

We believe that customers who make informed decision contribute to the overall financial health of the economy. At Laxmi Bank we view communication with our stakeholders as an integral part of our operations. Our alliance with Arthik Abhiyan the country's leading business weekly continues. We sponsor the Question & Answer section dealing with Banking and Finance by responding to questions asked by the readers of the magazine.

In 2009 we partnered with WAVE, the country's leading youth magazine and sponsored a series of write-ups on employment related issues such as preparing a resume, job interview tips, office communication etc.

#### **LAXMI CARES**

"Laxmi Cares", a registered non-government organization (NGO) is a social initiative of Laxmi Bank family. Through Laxmi Cares we invest



in the communities we operate in by selecting causes where we believe we can make the most positive impact.

Laxmi Cares works in partnership with implementing agencies who provide the experience and expertise while we contribute through financial support and staff time. We encourage our employees to volunteer and make time for social activities and recognize individuals who make the most meaningful contributions to the community through annual LaxmiValue Champion awards.



Laxmi Cares organized the annual Mountain Bike Rally in April 2009 in which riders took part in a route that started from our Pulchowk branch and ended at the historic Bhaktapur Durbar Square amidst a gala program. The Rally not only helped raise funds for the children's wing at Patan Hospital but also promoted a healthy lifestyle.

Laxmi Cares also held a number of other fund raising events such as movie premiers, theatre programs etc. and made contributions to a number a causes related to children and education.

#### **ORANGE GOES GREEN**

Laxmi Bank is a Green Company.

The Bank has adopted a paperless work environment and use available technologies like intranet, and email systems for basic communications.

We have also taken a conscious business decision to monitor our loans to sectors which have the potential to cause environmental damage.

We have invited customers to join the cause by introducing green savings that rewards depositors with a high rate of interest in return for adopting paper-less and commute-free banking habits.

This year we celebrated Deepawali by sending our valuable customers special green gifts in the form of money plants so that their fortunes continue to grow along with it.





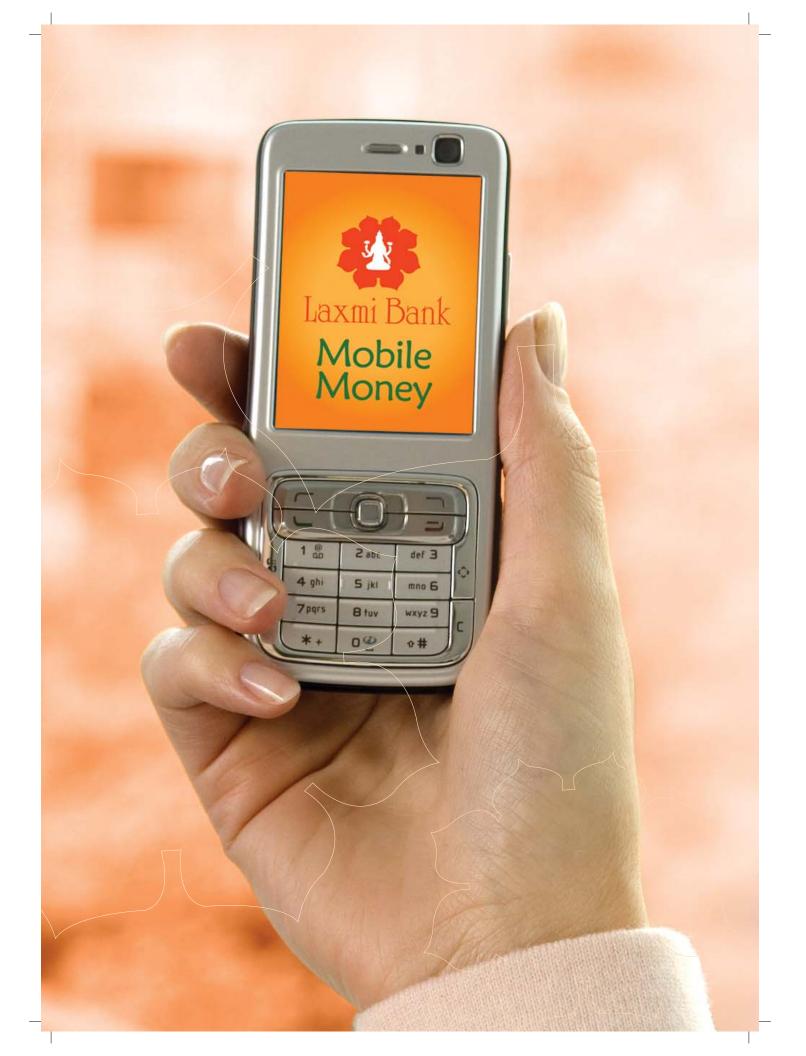












## mobile money

With the internet so much a part of our lives, Mobile Money is a pioneering step towards internet banking through your mobile device.

The year 2009 marked yet another milestone in Nepalese banking industry where we pioneered the Mobile Money service. From the basic SMS based inquiry and alert services that the bank had pioneered in previous years, this marks an evolution – whereby our customer could not only access their account but transact on it as well. A subscriber could transfer funds to designated accounts, pay bills, make merchant payments and also cash-out at our various network touch points. This cash out service has also been able to establish the concept of Human ATM in the industry.

We believe Mobile Banking has the potential to do to mobile phone, what email did to the internet.

Mobile Money is an in-house developed software strategically intended to reflect upon our high security standards. While the system is SMS based and third-party (telecom) dependant, our third-factor-authentication model adds up to the robustness of the system.

Mobile Money, at present, is available only to account-holders of Laxmi Bank. However, we are working on making this service available to a larger population. We believe that the fusion of mobile phones and banking can play a significant role in financial inclusion.

Given the geographic limitation and absence of infrastructural support for the banking channel to proliferate beyond the urban comforts, mobile banking has given new hopes to financial liberalization and financial services to the remote villages in every corner of the country.

# branches & atm

#### CORPORATE OFFICE

Laxmi Complex, Hattisar, PO Box 19593, Kathmandu Tel: 01-4444684, 4444685 Fax: 01-4444640, 4444743

#### REGISTERED OFFICE

Adarshanagar PO Box 61, Birgunj, Parsa Tel: 051-526195, 530394, 691875, 621882 Fax: 051-530393

#### Birauni

Adarshanagar, Parsa, Tel: 051-526195, 530394, 691875, 621882 Fax: 051-530393

#### Banepa

Banepa, Kavre Tel: 011-663425, 663426 Fax: 011-663427

#### **Pokhara**

New Road, Kaski Tel: 061-533580, 540153 Fax: 061-525514

Pokhara Industrial District, Kaski Tel: 061-541783, 522878

#### Hattisar

Hattisar, Kathmandu Tel: 01-4444684, 4444685 Fax: 01-4444640, 4444743

**Biratnagar** Main Road, Morang Tel: 021-538401, 538402 Fax: 021-538403

#### **Pulchowk**

Pulchowk, Lalitpur Tel: 01-5009501, 5009502, 5009503, 5009504 Fax: 01-5009505

#### Narayanghat

Sahid Chowk, Narayanghat, Chitwan Tel: 056-525726, 523626 Fax: 056- 523626

#### Parsa

Khairahani, Parsa, Chitwan Tel: 056-583597 Fax: 056-583598

Teku, Kathmandu Tel: 01-4232501, 4232502, 4223354 Fax: 01-4232503

#### **New Road**

New Road, Kathmandu Tel: 01-4233309, 4233310, 4233647, 4233648 Fax: 01-4233307

#### Janakpur

Bhanu Chowk, Janakpur, Dhanusha Tel: 041-527496 Fax: 041-527497

New Baneshwor New Baneswor, Kathmandu Tel: 01-4785306, 4785307, 4785308 Fax: 01-4785309

#### Damak

Damak Bazar, Jhapa Tel: 023-585207 Fax: 023-584230

#### Bhatbhateni

Bhatbhateni, Kathmandu Tel: 01-4442075, 4442094, 4442095 Fax: 01-4442110

#### Itahari

Itahari Chowk, Sunsari Tel: 025-587021 Fax: 025-587022

**Maharajgunj** Maharajgunj, Kathmandu Tel: 01-4016088, 4016002 Fax: 01-4016019

#### **Bhairahawa**

Aawha Road, Bhairahawa, Rupandehi Tel: 071-523461, 523462 Fax: 071-523421

#### Lagankhel

Patan Hospital, Lagankhel Tel: 01-5548375, 5548376 Fax: 01- 5548377

Nepalgunj Surket Road, Nepalgunj, Banke Tel: 081-527901, 527902, 527692 Fax: 081-527903

Amar Path, Butwal, Rupandehi Tel: 071-551569, 551570 Fax: 071-551571

#### Sukedhara

Sukedhara, Kathmandu Tel: 01-4372850, 4372921 Fax: 01-4372874

#### ATM NETWORK

- Hattisar
- Teku
- Pulchowk
- Yeti Air, Tilganga
- Blue Bird, Thapathali
- Birgunj
- Pokhara
- New Baneshwor
- Bhatbhateni
- Maharjgunj
- **New Road**
- **Durbar Marg** Banepa
- NLIC City Centre, Kamal Pokhari
- Nepalgunj
- Itahari
- Butwal
- Sukedhara



