

EMPOWER



2009/10 AT A GLANCE

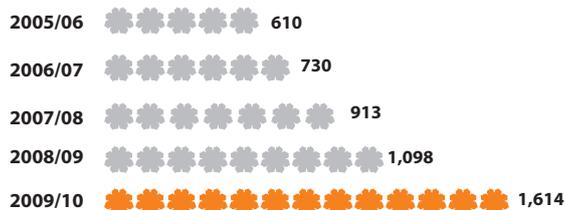
- Total Revenue up by 55% to NPR 1,942 million
- Operating Profit up 60% to NPR 542 million
- Loans & Advances grew by 9% to NPR 14,736 million
- Non Performing Assets at 0.12% remains the best in the industry
- Customer Deposits grew 13% to NPR 18,083 million
 - Number of Employees grew by 16% to 347
- Cost to Income Ratio improved from 37% to 32.8%
 - Number of Branches: 25
- Earnings per Share up 26% to NPR 20.70

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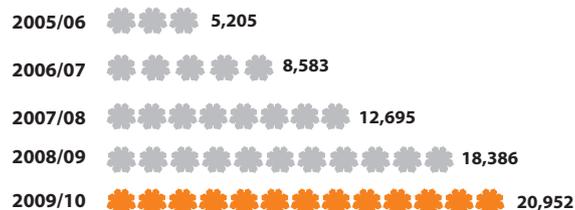
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5 YEAR FINANCIAL HIGHLIGHTS

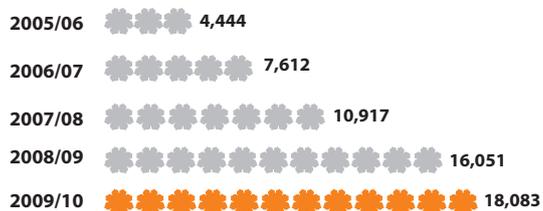
PAID UP CAPITAL (Rs in million)



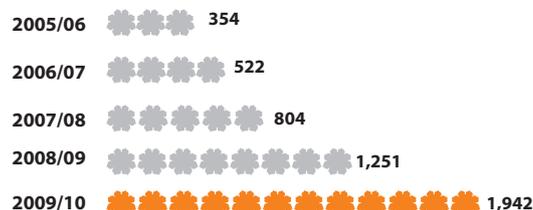
TOTAL ASSETS (Rs in million)



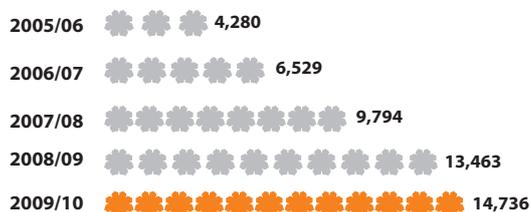
CUSTOMER DEPOSITS (Rs in million)



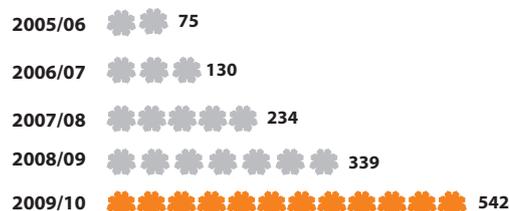
TOTAL REVENUE (Rs in million)



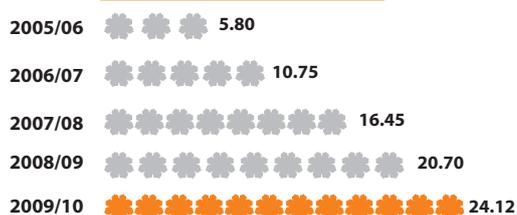
LOANS & ADVANCES (Rs in million)



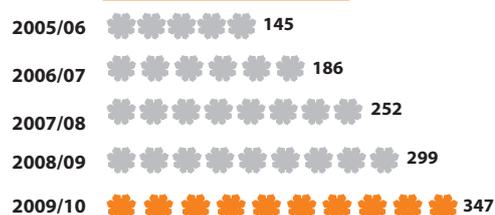
OPERATING PROFIT (Rs in million)



EARNINGS PER SHARE (in Rs)



NUMBER OF EMPLOYEES



CHAIRMAN'S STATEMENT

The financial year 2009/10 can be best described as a period when Nepal was overwhelmed by lower economic growth, high trade deficit, double-digit inflation, liquidity crunch and continued political instability resulting in reduced confidence of the public in the financial services sector. Despite the adverse business environment, Laxmi Bank has been able to achieve a growth of 70% in our operating profits. This has been possible due to the trust and patronage of our customers and stakeholders. I am confident that Laxmi Bank will continue to receive similar trust and support in the years ahead.

The Bank today operates through 25 branches and 21 ATMs. We provide a wide range of services including Visa branded cards, internet banking, mobile banking and new and innovative deposit schemes to our customers. We are in the process of establishing our merchant banking subsidiary – Laxmi Capital Market Limited – which will commence operation from the financial year 2010/11. Similarly we are working on establishing a second subsidiary to drive our microfinance business which is also expected to come into operation in the running financial year. We will continue to expand and increase the number of remittance service agents in order to support the growth we have envisaged on the remittance business – both international and domestic.

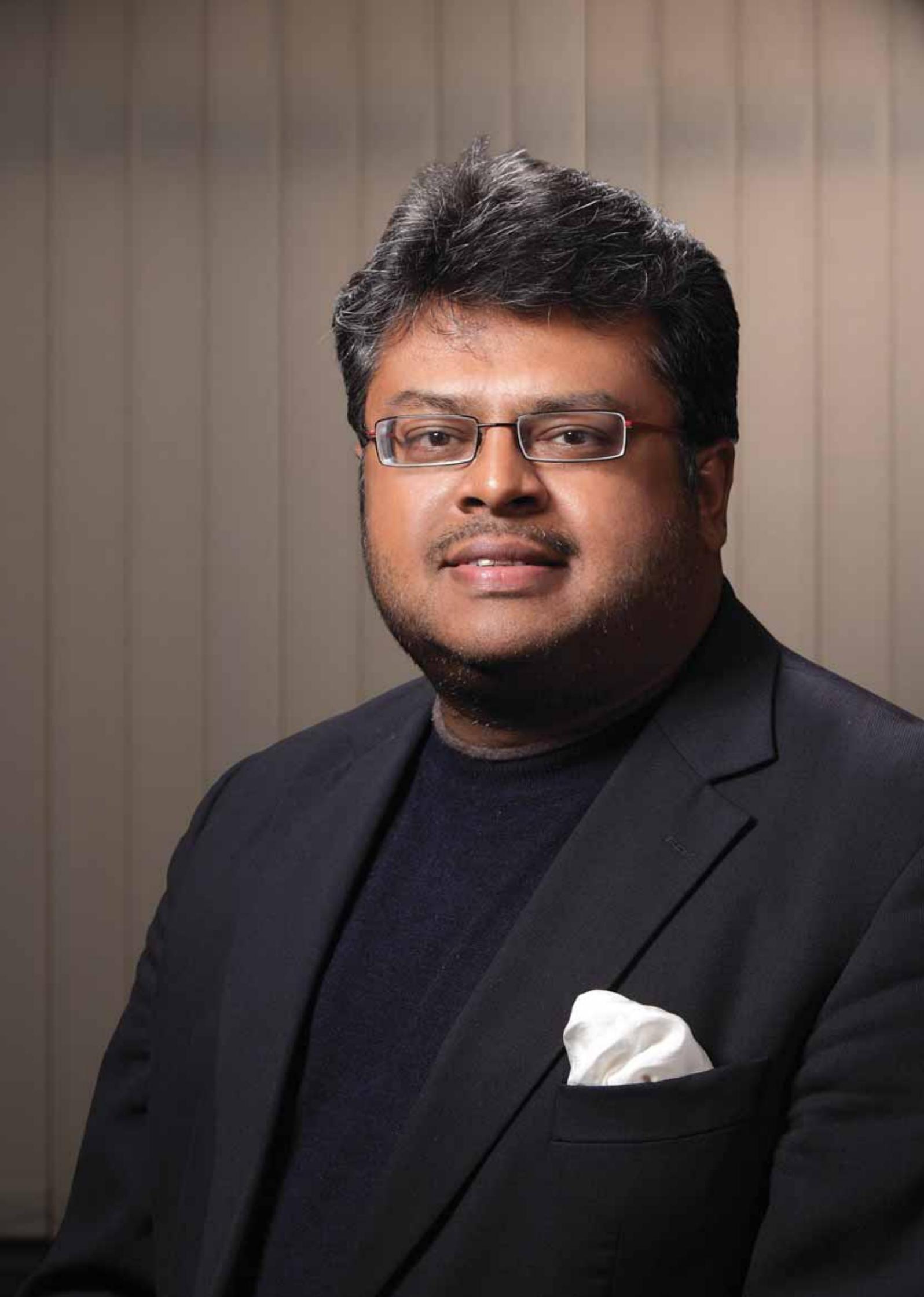
We have proposed a cash dividend of 13% to our shareholders. I am confident that the Bank will be able to continue delivering sound performance in the years ahead and further enhance shareholder's values and returns due to our risk management capabilities, trained and experienced human resources and the patronage of our growing number of customers.

I take this opportunity to express my sincere gratitude to Nepal Rastra Bank and other regulatory bodies for their guidance and encouragement. Similarly I thank our shareholders for the trust and belief you have placed on Laxmi Bank and our customers for your patronage and support. I appreciate and thank the staff and management of the Bank for their hard work and unwavering commitment towards achieving our goals.

Thank you.



Rajendra Kumar Khetan
Chairman



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.

BOARD OF DIRECTORS



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
Pvt. Ltd.



**MR. GOPI KRISHNA
SIKARIA**
Director

Director,
Nepal Petroleum Pvt. Ltd.



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 MADHU SUDAN AGRAWAL
Advisor

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



MR. SHAMBHU PARSAD ACHARYA
Professional Director



MR. SUMAN JOSHI
Chief Executive Officer



MANAGEMENT

(Standing from left to right)

Dipesh Amatya
Head – Small Business Financial Services

Bhubal Rai
Chief Operating Officer

Bharti Pande
Head – Private Banking

Ajaya B Shah
Head – Retail Financial Services

Amit Sharma
Manager – Human Resources

Sanjeev Raj Joshi
Head – Payments, Trade & Credit Operations

Bhuwaneshwor P. Shah
Corporate Affairs Director

Nirmal Dahal
Head – Credit Risk

Piyush Aryal
Head – Finance & Treasury

Rajiv Sapkota
Head – Business Development

Suman Joshi
Chief Executive Officer

Euden Koirala
Manager – Service Excellence

Sumed Bhattarai
Head – Corporate Banking

(Seated from left to right)

Amit Singh Karki
Senior Manager – Corporate Banking

Jiwan Limbu
Chief Technology Officer

PROFILE

Laxmi Bank was incorporated in April 2002 as the country's 16th Commercial Bank. In 2004 the Bank merged with HISEF Finance Limited, a first generation Finance Company, marking the first ever corporate merger in Nepal.

Laxmi Bank today is one of the best managed Banks in the country. With an asset size of NPR 21 billion, 25 branches and 350 employees, we are today amongst the 10 top Financial Institutions in terms of market share and operations.

Laxmi Bank was re-registered in 2006 as a Category 'A' Financial Institution under the "Banks and Financial Institutions Act". The Bank's shares are listed and traded in the Nepal Stock Exchange.

We are recognized for our high standards of corporate governance, risk management capabilities, innovative financial solutions and technology strength which help us deliver our services in a convenient and efficient manner to our customers.

Laxmi Bank is a responsible corporate citizen and a green friendly company

actively contributing to the betterment of the communities we operate in and the planet.

BRAND LAXMI BANK

Despite a relatively short history we are encouraged by the growing recognition and appreciation of our Brand and what "we stand for" among all our stakeholders. We recognize the value and necessity of continuing to strengthen brand Laxmi Bank as a Bank that empowers our customers for their financial progress and prosperity.

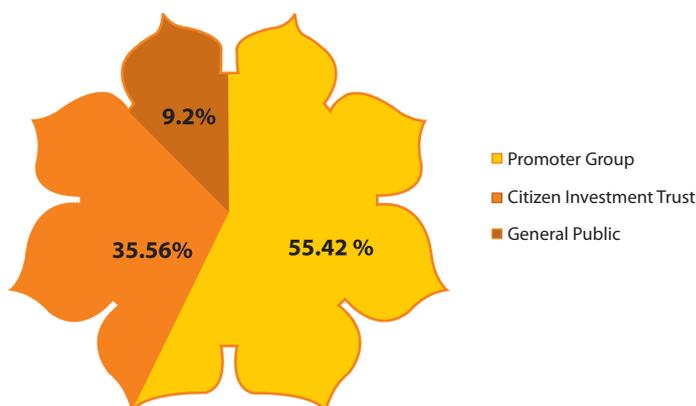
We approach banking as a long term proposition which is reflected in the way we conduct ourselves in our business, balance sheet management and branding. This culture is embraced across the organization – from the Board to each and every employee.

Over the last 8 years of our operations we have given equal importance to building and strengthening our operations, systems, network and delivery channels as we have to customer acquisition and balance sheet growth. This has ensured that we maintain a steady year-on-year growth since our inception in 2002 without compromising the high ethical and business standards.



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



OWNERSHIP

Laxmi Bank's ownership structure consists of three broad categories of shareholders:

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

EMPOWER

as a major player in bringing money back home from the migrant workforce we put the smile on many faces and help them fulfill their dreams and aspirations



WHAT WE DO

We are in the business of empowering our customers to help them realize their financial goals and aspirations through innovative financial solutions delivered efficiently and professionally.

We give our customers clear and real reasons to trust their finances to us as protectors of their hard earned wealth.

We provide reliable and responsive customer service and invest in technology and ideas to make banking convenient, cost effective and simple for our customers. Our customers patronize us for our relationship based approach that positions Laxmi Bank as a partner in their growth and progress.

BRICKS & CLICKS

As leaders of electronic banking in Nepal since 2002, Laxmi Bank uses 'bricks & clicks' strategy to reach out to new customers and new markets. Our customers are now able to touch us through 25 bricks & mortar branches, 22 ATMs, 400 plus remittance agents in addition to internet, email and mobile phones.

We have continued to add new branches in our network identifying places of strategic and commercial importance to our goal of helping enhance access to finance across the country. While we promote remote service delivery channels for standardized transactions, our customers use our branches for specialized services such as investments, mortgages and small business services.

We have 10 branches inside the Kathmandu valley strategically located and designed to cater to the upwardly mobile urban population of the metropolis. Among these 3

branches – Ekantakuna, Lagankhel and Pulchowk are in Lalitpur district and the remaining 7 – Sokedhara, Maharajgunj, Bhatbhateni, New Baneshwor, Teku, New Road and Hattisar in Kathmandu district.

We use a hub-spoke model for branches outside Kathmandu valley primarily for operational efficiency, control and risk management purposes. We currently offer both general and customized services to the local populace from deposit accounts to small and micro loans to bancassurance from the following clusters:

- **Central hub** - Banepa
- **Eastern hub** – Biratnagar, Itahari, Damak and Dharan
- **Western hub** – Nepalgunj, Bhairahawa, Butwal and Taulihawa
- **Pokhara hub** – Pokhara and Pokhara Industrial District
- **Narayani hub** – Narayanghat and Parsa-Chitwan
- **Birgunj hub** – Birgunj and Janakpur

We plan to continue expanding our branch network in emerging semi-urban and rural markets around the country in order to reach to newer customers who have limited or no access to modern banking services.

Laxmi Bank Service Agents

More than 400 service agents represent Laxmi Bank across the length and breadth of the country. These agents were initially appointed to deliver services to workforce remittance beneficiaries. Many of these service agents now offer services beyond remittance payments.

A number of our agents in the Eastern region act as sales and service agents for our micro enterprise loans.

We have recently linked our Mobile Money service with the Service Agents network to allow our bank account



OUR VALUES

- 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

holders to deposit or withdraw cash through these service outlets.

We shall continue to develop, train and enhance the capabilities and roles of our Service Agents that will allow them to render more services to our customers that will result in financial benefit for the Agents along with added convenience to our customers.

ATM Network

We have continued to add our ATM points which now is spread over 25 locations in 10 cities - Kathmandu, Lalitpur, Pokhara, Birgunj, Nepalgunj, Butwal, Itahari, Dharan, Banepa & Taulihawa. We expect to add at least 15 new ATMs during the year as part of our efforts to increase our footprints.

Laxmi Bank ATMs are available in most major hospitals in Kathmandu valley – Patan Hospital, Sahid Gangalal Heart Center, Tilganga Eye Hospital and Norvic International Hospital. We plan to install ATMs in all major medical centres in the country for the convenience and safety of our customers.

Laxmi Bank is a founding member of the SCT network, an integrated shared services network for ATMs and Point-of-Sale terminals managed through a national switch. Apart from Laxmi Bank ATMs, our customers have access to over 600 additional ATMs and 1300 PoS under the SCT network around the country.

Laxmi iBank – complete internet banking

Laxmi iBank is our flagship electronic banking channel that has been helping our customers manage their financial transactions through the internet in a safe and convenient manner since 2002. Laxmi iBank continues to enjoy its position in the market as the most complete and versatile internet banking service. Laxmi iBank users enjoy true 24 hour banking from their home, workplace or the road allowing them to access their Laxmi Bank account for various purposes such as – bill payments, mobile phone air

time top ups, fund transfers to other accounts, balance viewing, statement downloads etc.

Laxmi iBank today is used extensively by both personal account holders as well as corporate/institutions.

Mobile Money – complete mobile banking

Laxmi Bank offers the first complete mobile banking solution in the country. It started as a basic enquiry service launched several years ago that allowed customers to check their account balances, foreign exchange rates and to receive transaction alerts through their mobile phones. In 2009, it evolved further with the introduction of features such as peer-to-peer fund transfers, bill payment, airtime top up and remittance that enabled real time financial transactions to be carried out from a simple mobile phone.

The Mobile Money system has been developed and managed in-house and has built-in multiple layers of security that ensures safe and secure SMS banking for our customers.

While Mobile Money is an additive model that caters mainly to the urban populace we plan to add more services aimed at the rural mass and people who do not have conventional bank accounts. This transformational model based on ‘mobile wallets’ holds the potential to bring the country’s 7 million and increasing mobile phone users into formal financial system and usher in a new era in Nepalese financial history. A mobile phone is a tool for empowerment in more ways than one and Laxmi Bank is keen to leverage on its ubiquity to enhance access to formal finance for the larger segment of our population who remain un-banked.

Laxmi Bank is working with telecom operators, development agencies and private entrepreneurs to introduce a transformational based mobile banking solution within 2010.



Laxmi Bank ATMs are available in most major hospitals in Kathmandu valley – Patan Hospital, Sahid Gangalal Heart Center, Tilganga Eye Hospital and Norvic International Hospital



CORPORATE BANKING

Corporate Banking continues to be a principal revenue driver for the Bank, contributing 60% of total revenue. Corporate Banking also holds the largest chunk of loan portfolio and we continually strive to maintain best books in our risk asset portfolio. Our customer base mostly includes top end of the market. We have been providing the entire gamut of business financial services such as project finance, working capital loan, trade finance and foreign exchange management to our corporate customers.

Corporate Bank's business philosophy is to provide a customized service/ solution to each of our valuable customers. We have a strong team of dedicated, skilled and solution oriented relationship managers to work on building and deepening our customer relationship. This approach has always given us the distinct advantage over our competitors and is reflected in the loyalty and the trust our customers have bestowed on us. We have been successful both at retaining and growing the wallet share of the existing customer as well as building new relationship with customers fitting our risk appetite.

With the presence of Corporate Banking Business Center in five different locations including two centers within the Valley as well as in Birgunj, Biratnagar and Bhairahawa, we are able to service the business needs of corporate customers all over Nepal. This year, the Corporate Bank team is putting together, as the lead bank, a number of syndicated loan arrangements for borrowers in the areas of infrastructure, tourism and manufacturing.

Corporate Banking Plus is an initiative launched in 2009 aimed 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, co-branding activities 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.

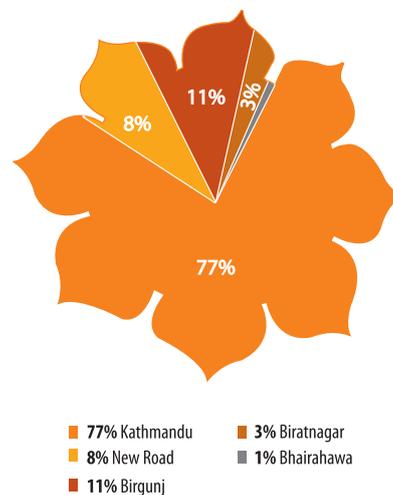
MICROFINANCE

Microfinance continues to remain a strong focus area for Laxmi Bank as a tool to empower micro entrepreneurs in areas with relatively low access to finance. Apart from wholesale loans through our partner Microfinance Institutions we also provide small loans directly to the end consumers through various programs and schemes. Laxmi Bank's microfinance business is an independent profit center that comprises of relationship managers who bring their experience and select branches who manage the loans in their target areas.

At present we are involved in 3 distinct microfinance activities.

- We have joined hands with one of the country's largest private dairy processors to finance milk yielding livestock in 5 districts – Kaski, Tanahun, Nawalparasi, Rupendehi and Chitwan. An estimated 1,500 people have directly benefited from this program.
- Using our Laxmi Bank Service Agents in the eastern part of the country we have extended loans to support various micro enterprises in Jhapa district. These loans support income generating activities such as animal husbandry, foreign employment, groceries, eateries etc.
- Our Banepa branch extends loans to farmers and entrepreneurs in Banepa, Panauti, Nala, Nepalthok and Sanga. These loans support various income generating activities such as carpentry, pharmacy, agriculture, groceries and are managed under the group guarantee model.

Corporate Banking Regional Exposures



Microfinance continues to remain a strong focus area for Laxmi Bank as a tool to empower micro entrepreneurs in areas with relatively low access to finance

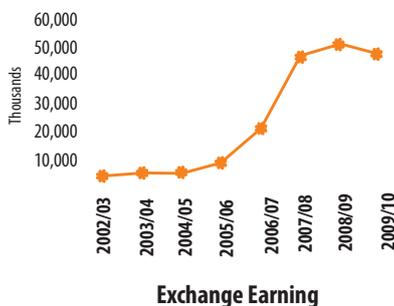


Having had first-hand experience in microfinance in various models and markets, Laxmi Bank has applied with Nepal Rastra Bank to establish a subsidiary - “Laxmi Microfinance Development Bank” as a national level category “D” financial institution. We expect to receive an operating license for this subsidiary and commence operations within 2010.

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 primary earnings is in the form of exchange income which comes 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 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 28% of the total Exchange Earning which resulted due to sound technical and fundamental analysis by the treasury team. However, the total exchange earning was not at the pace of previous years because of intense competition in remittance and trade business which continuously narrowed the forex spread. Liquidity squeeze in the banking sector during the fiscal year also resulted in lower volumes of trade related activities.

The core treasury operations comprise the balance sheet management

function, the client-related corporate markets business and the proprietary trading activity. Fiscal year 2009/10 saw high volatility in interest rates with 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. The principal responsibilities of treasury included management of liquidity and exposure to market risks.

Nepal Rastra Bank Treasury Bill markets also witnessed significant volatility in yields. The balance sheet management function continued to actively manage the cash, bank balances, other investments and government securities portfolio held for compliance with statutory reserves viz. Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) and Liquid Assets Ratio of the bank and 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.

Further, Treasury leveraged its strong relationships with other national and international financial sector players to provide a wide range of banking services in addition to its liability products.

FX Forward and Derivatives

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 authorized dealers based on the purpose of the transaction.

Other Functions

There are other functions housed within the treasury department, including a process known as funds transfer pricing (FTP). At a high-level, 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 and capital levels including the rules set forth in the Capital Adequacy Framework under Basel II by Nepal Rastra Bank.

Treasury Back office

Whilst all money market transactions are concluded by dealers in the 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.

SMALL BUSINESS FINANCIAL SERVICES

Our Small Business portfolio continues to grow both in terms of quality and size. Recognizing the potential and value of small businesses to our overall growth plans we have taken a strategic decision to create an independent Small Business Financial Services unit. This unit will serve both existing as well as new customers focusing on urban and semi-urban markets – primarily providing full range of financial solutions to sectors such as services, light manufacturing and trading.

Laxmi Bank's experience in serving this segment since our inception in 2002 along with trained, dedicated relationship managers and customized solutions has helped create a quality

portfolio and foundation for stronger growth in the years ahead.

We believe in providing total financial solutions including financial advisory to Small Business owners add value to their businesses. This approach helps us in serving special groups of entrepreneurs such as women, start-ups and second generation business owners who require financial advisory as much as credit products.

We expect the SBFS unit to continue leading our risk asset growth for sometime.

INSTITUTIONS

In 2009 we created an independent business unit to service our Institutional clients. This move reflects the growth in our Institutional Banking portfolio that comprises of large government, semi-government, insurance companies and other private companies.

Laxmi Bank is the preferred banker for all major public and private institutions in the country based on our balance sheet strength, quality of assets and professional relationship management approach. We are one of the major bankers for Nepal Telecom, the largest telco in the country and handle their cash management, investments and trade requirements. Similarly, Laxmi Bank has been appointed to manage funds related to Nepal Army Welfare and Nepal Army UN Peace-keeping missions.

Laxmi Bank manages the accounts and banking side for two of the country's largest commodity exchanges– Mercantile Exchange and Nepal Spot Exchange. The Bank offers customized deposit accounts both for the clearing members and individual investors for smooth and trouble-free banking experience.





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. Our promise is to deliver hi-tech and user friendly banking experience to our customers.

Retail Financial Services (RFS) serves a diversified base of customers - salaried individuals, women, youth, students, children, migrant workers, non-residents and high networth individuals.

Branch Banking

Branch Banking is the major channel that distributes our retail financial services. Our 25 and growing number of branches help in customer acquisition, sales and servicing. In our efforts to increase our customer base we have continued to invest in opening new branches in order to increase our market share and wallet share.

Our branches offer a number of innovative retail deposit schemes such as "Green Savings", "Super Woman Savings" and "My Money Market Account". With growing competition for retail liabilities we have focused on introducing innovative deposit schemes complimented by enhancing our customer service standards. During the year we introduced new deposit schemes such as "Shakti Bachat" – targeted at the brave men and women in uniform, "Barquat Khata" – the country's first deposit product based on Islamic banking principles and "e-Sewa Savings" – linked to the country's leading online payment platform.

The Bank also offers various term deposit products for our customers ranging from 3 months to 5 years with various interest cycle options.

Our retail deposit portfolio contributes to around 45% of the total liabilities portfolio.

In addition to deposits, our Branches also offer our customers a number of life insurance solutions under our Bancassurance service. Laxmi Bank is an authorized agent of all major life insurance companies in the country and is also a 15% owner of Prime Life Insurance Limited.

Consumer Finance

Laxmi Bank is a key mortgage lender in the Kathmandu valley. We have a quality portfolio comprising of loans extended for purchase and / or construction of residential homes, home improvements and home equity loans.

We are also a major lender for Hyundai private vehicles in the country through our partnership with the authorized distributor for Hyundai vehicles.

Laxmi Bank also offers Green Loans for purchase and installation of solar home systems under our consumer finance solutions.

Cards

Laxmi Bank has been a member of Visa International since 2007 and we currently issue Classic Credit and Debit cards to our customers. This association with Visa gives our cardholders access to Visa's India-Nepal network of over 30,000 ATMs and 400,000 merchant outlets.

We plan to launch Visa branded international travel cards in 2010 to offer our customers added convenience and security during their international travels.

In addition to Visa branded cards, Laxmi Bank offers "Dhana Laxmi" – a SCT branded ATM Card. These cards can be used in 600 ATMs in Nepal at a nominal cost to the cardholder. SCT has gained brand acceptance as a major card network in Nepal and Laxmi Bank expects to leverage on our relationship with SCT to offer more services for cardholders in the country.

Bank 2.0

Bank 2.0 is the business unit that drives and manages our electronic banking and alternative service channels.

This unit was introduced in 2009 in response to the growth in the overall e-banking activities, customers and products. Bank 2.0 is responsible for customer acquisition (in coordination with the Branches), servicing of such customers, research & development and new products in the e-banking domain.

Bank 2.0 works closely with all other business units to bring about synergy in terms of merging existing customers and products with new technology and processes. Bank 2.0 has recently worked with the Workforce Remittance unit to start Mobile Money based domestic remittances.

- Please refer to Laxmi Bank and Mobile Money in the “Bricks & Clicks” section for more information on Bank 2.0 activities and future plans.

Laxmi Bank Express Money Transfer

Laxmi Bank Express Money Transfer (EMT) is the brand under which Laxmi Bank serves the 1.5 million Nepalese working in the Middle East, South East Asia, Europe and the United States. Workforce remittance has been a mainstay of Nepal’s economy in the last decade in line with the global phenomenon of movement of human capital from developing countries to developed economies. Through EMT we are one of the major players in “bringing money home” for the past 4 years.

With strategic alliances with major internationally active money transfer companies, Laxmi Bank helps channel around USD 100M per year to Nepal which are distributed through all Laxmi Bank branches and 400 Service Agents located in 60 districts.

Our major partners in the Middle East include Al Ahalia, Arab National Bank, Wall Street Exchange, Xpress Money, Instant Cash, Majan Exchange and Delma Exchange. In Malaysia our partners Merchantrade Asia operates 60 branches across the country. We have recently entered into an alliance with Mobile Union in the United Kingdom that will help people transfer money back to Nepal using the on-line system called mtexpress.

EMT also supports domestic money transfer services through the same network of Service Agents. This on-line platform offers a safe and secure medium of sending and receiving money within Nepal in locations where Laxmi Bank does not yet have a branch.

“Manakamana Savings” is customized savings scheme for our workforce remittance customers. This account can be opened and operated by a Remitter or a Beneficiary and helps them develop a savings habit and more importantly give the previously under banked segment access to savings, insurance and credit facilities offered by Laxmi Bank.



EMPOWER

mobile phones are weapons for mass empowerment that will help bring the largely under-banked population of the country into formal financial channels



DIRECTORS' REPORT FY 2009/10

This is a review of the Bank's activities during the financial year 2009/10 including a commentary on the progresses, achievements, challenges and plans for the future. This report 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 16, 2010.

1. REVIEW OF BANK'S OPERATION FOR THE FINANCIAL YEAR 2009/10

A. Key Financial Highlights

The bank achieved growth of 13% in Deposits, 9% in Risk Assets, 60% in Operating Profits and 73% increase in Net Profit in the FY 2009/10. The bank takes pride in achieving these growth figures and is confident of maintaining the growth momentum in the coming years as well. Non Performing Assets level of the bank can be considered the lowest in the Nepalese banking industry.

Major financial indicators for the fiscal year are highlighted below:

(Figures in NPR millions)

Particular	15/7/2009	16/7/2010	% Change
Paid up capital	1,098	1,613	47 %
Net Worth	1,342	1,912	42 %
Deposits	16,051	18,082	13 %
Risk Assets	13,463	14,736	9 %
Investments	2,899	4,101	41 %
Operating Profit	338	542	60 %
Net Profit	189	327	73 %
Provision for Loan Loss	148	176	19 %

As in the previous years, the key financial indicators continue to improve and the bank has been able to achieve growth momentum in spite of the unfavorable economic condition of the country. The bank gives high priority to Corporate Governance standards and has established itself as a leading private commercial bank in Nepal. The Bank is recognized for its management capabilities and technology driven services.

B. Network & Representation

The Bank now has 23 branches across the country.

During the review period the Bank added 4 new branches at Sukedhara (Kathamndu), Nepalgunj, Butwal and Taulihawa.

Our Taulihawa branch is the first private commercial bank in the area. Furthermore, two new branches at Ekantakuna and Dharan became operational in the current fiscal year. The Bank has plans for further expansion of branches.

Strategic expansion through branches and remote delivery channels is expected to help the Bank cater to a

larger customer base and in generating retail deposits, strengthening distribution and delivery of workforce remittance payments and expanding retail financial services to the local customers.

C. ATM Network

ATMs have been installed at 23 locations. We plan to continue increasing our reach through expansion of ATM locations.

D. Remittances

Remittance business of the bank has already expanded to UAE, Malaysia, Oman, USA and UK. We are in the process of completing service level agreements for remittance from Canada and Bahrain. The bank has been working jointly with 14 agents in these countries for providing efficient remittance services. We continue to maintain representatives and staff abroad who are responsible for business development and client servicing. We have successfully established ourselves as a key player in this sector with a network of 400 payout agents reaching many rural areas of the country covering 65 districts.

E. Micro Finance

The bank through some of its branches has continued micro-finance programs targeting small entrepreneurs, individuals and groups and this has benefited a lot of the rural population. Small farmers in the rural districts of Chitwan, Kaski, Rupendehi, Nawalparasi and Tanahu have benefitted from our livestock financing program. This has not only enabled them to access modern financial services and raise their living standards but has also inculcated banking habits in them. We shall continue extending this service in a larger scale in the rural areas by establishing a separate microfinance subsidiary.

F. New Services

A number of modern financial products and solutions were

introduced during the year. These include innovative deposit products like Green Savings, Milijuli Bachat, Shakti Bachat, a number of new loan products and insurance related products.

Our Mobile Money service launched in October 2009 is the first of its kind in Nepal. Customers can use their mobile phones for balance check, account statement request, fund transfer, bill payment, mobile recharge, remittance and merchant payment by using the service.

A separate subsidiary 'Laxmi Capital Market Limited' is in the process of being set up to commence merchant banking business. Upon receiving operating license from the Securities Board, the subsidiary will be involved in issue management, registrar to shares, share underwriting and portfolio management services which will further increase the scope of earnings for the bank.

G. Right Shares

The 40% Right Issue of the bank declared in the Eighth Annual General Meeting has been completed and listed with Nepal Stock Exchange. In this regard, renouncement of rights by shareholders and public auction of unsubscribed shares were conducted successfully for the first time.

Likewise, 5% bonus shares declared by the Ninth Annual General Meeting were issued and listed with Nepal Stock Exchange.

H. Others

The bank has acquired additional 2 ropanis of land behind Laxmi Complex (existing corporate office at Hattisar, Kathmandu) and has started construction of office complex in joint ownership with three other companies. The construction is expected to be completed within this fiscal 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 2009/10, the national economy witnessed low economic growth, increased trade deficit, double digit inflation, liquidity squeeze in the banking sector, decreased agriculture production, unemployment, unstable capital market and reduction in government's foreign currency reserves due to BOP deficit. Further, the year saw increase in petroleum and gold prices the international market. 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 political instability, weak security situation, energy crisis and weak distribution system. Competition in the banking sector increased along with scarcity of skilled human resource, increased operating cost, limited investment opportunities and unstable foreign exchange and interest rates. Notwithstanding these events, the Bank was successful in maintaining the momentum and achieving substantial growth in the Balance Sheet. We can assume that the expected political stability, peace and security for the business sector 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 as on 20 September 2010:

(Figures in NPR Thousand)

S.NO.	PARTICULAR	20/09/2010
1.	Deposits	16,757,795
2.	Risk Assets	14,782,642
3.	Investments	2,848,445
4.	Operating Profit	119,773

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 microfinance program through a separate subsidiary company
- Start merchant banking services through a separate subsidiary company
- 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
- Start gold trading business
- Work towards long term asset growth and increased financial strength with sustainable deposit growth focusing on retail deposits
- Provide financial services to a larger customer segment through mass marketing
- Double the investment in agriculture, tourism, energy and small enterprises sector within three years as envisaged in the monetary policy.

4. INDUSTRIAL AND PROFESSIONAL RELATIONS

The Bank takes great efforts to maintain cordial professional relationships with various national and international governmental and non-governmental entities and with all its 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.

a. 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 to our staff members which provide them exposure in national and international best practices. 325 bank officials received various trainings during 2009/10. 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 ensure that employees undergo an Annual Performance Appraisal. The Bank is active in recruiting skilled and qualified manpower and adopts proactive measures to ensure that we motivate and retain such skilled and committed workforce.

b. 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. The Bank manages its CSR activities through "Laxmi Nishwarth Pahal" (Laxmi Cares), a non-profit organization managed by Laxmi Bank family. Various functions like movie shows, staging of a drama, documentary show and mountain bike rally 2010 were organized during the fiscal year and proceeds were used for various charitable contributions. We will continue to contribute for helping people in need and development of sports, education and health system in the country. As a part of its environment conscious initiative, Laxmi Bank introduced Green Savings account which emphasizes on paper free banking. Further campaign of "One Account, One Tree" was started whereby the bank plants one tree for each Green Savings account opened.

5. CHANGES IN THE BOARD OF DIRECTORS

One of the promoters, MTC Investment P. Ltd withdrew its representative in the bank's Board and the promoters decided to nominate Mr. Chandra Prakash Khetan

to fill the vacancy since 8th January 2010 for the remaining tenure. Besides this, there is no change in the composition of the Board of Directors.

6. MAIN FACTORS AFFECTING THE BUSINESS

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

- a. Possibility of unhealthy competition and the risk of operating in such an environment
- b. Maintain quality assets in the deteriorating economic environment
- c. Risks associated with changes in laws and regulations
- d. Risk due to changes in the capital market
- e. Risk due to low investment opportunities
- f. Deteriorating political and economic situation causing hurdles for growth
- g. Effects in foreign employment opportunities due to global financial crisis
- h. Risk due to increasing trade deficits

7. 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 103rd Board Meeting held on 19th August 2010, we have proposed cash dividend of 13% on the share capital as at the Fiscal Year End 2009/10. We believe that the proposed 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

Shares of Prime Life Insurance Company Limited, an associate of Laxmi Bank, has been listed with Nepal

Stock Exchange. The company earned net profit of NPR 31 Million during the year under review.

11. MAIN TRANSACTIONS OF THE BANK AND ITS SUBSIDIARY COMPANY DURING THE FINANCIAL YEAR AND IMPORTANT CHANGES, IF ANY, THEREIN

These have been disclosed above.

12. DETAILS OF INFORMATION MADE AVAILABLE TO THE BANK BY GENERAL SHAREHOLDERS

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

13. DETAILS OF SHARES PURCHASED BY THE BOARD DIRECTORS AND OFFICE BEARERS OF THE BANK

The directors and the members of management committee received the 10:4 right shares and 5% bonus shares (after the right issue) as decided by the 9th AGM resulting in increase of the number of shares held by them. Besides this, Mr. Chandra Prakash Khetan purchased 2,520 number of promoter shares through the right renouncement process.

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.

14. 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 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 2009/10 is as follows:

PARTICULARS OF MANAGEMENT EXPENSES	AMOUNT IN NPR MILLIONS
Staff Expenses	122
Office Overhead Expenses	142
Total Management Expenses	264

18. DETAILS OF MEMBERS OF THE AUDIT COMMITTEE, REMUNERATION PAID TO THEM AND REPORT OF THEIR ACTIVITIES

The Audit Committee constitutes of three members, Mr. Ratan Sanghai, Mr. Rishi Ram Gautam and Mr. Shambhu Prasad Acharya who are directors of the Bank. Ms. Chandnee Jha, Manager Internal Audit, is an ex-officio member of the committee.

The Audit Committee has been carrying out its regular duties through the Internal Audit department including audits of 23 Branches and 12 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 198,000.00 was paid to the members. The ex-officio member of the committee is not entitled to meeting fee allowance.

19. 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. Mr. Rajendra Khetan, Chairman, has not claimed mobile expenses reimbursement.

Remuneration paid to the Chief Executive was NPR 730,564.87 per month including basic salary of NPR 438,338.92 and allowance of NPR 292,225.95. The management executives received NPR 25,161,049 in the year under the same heading.

The Chief Executive Officer was provided one month's gross salary as an incentive for achieving profitability exceeding the annual target. No such provision has been made for this fiscal year.

Further, all staff members received facilities as per the Human Resource Policy of the bank.

The bank is aware of the issues surrounding appropriateness of salary and benefits to the Chief Executive and other management executives. The directors are satisfied that the prevailing salary and benefits to the executives is commensurate with the Bank's financial strength and future growth prospect.

21. UNCLAIMED DIVIDENDS

As of the report date, NPR 125,375.00 worth of cash dividends declared in financial year 2055/56 by HISEF Finance Limited prior to merger with the Bank remained unclaimed.

22. DETAILS OF FIXED ASSETS PURCHASE / SALES AS PER THE REQUIREMENT OF SECTION 141

Detailed on schedule 4.14

23. DETAILS OF TRANSACTIONS WITH RELATED PARTIES AS PER THE REQUIREMENT OF SECTION 175

Detailed on schedule 4.33 point number 16

24. DISCLOSURE AS PER RULE 22 (1) OF SECURITIES REGISTRATION AND ISSUANCE REGULATION

1. Details relating to legal action

- Case filed by or against the organized institution during the fourth quarter – There is no other major case except those arising in normal course of banking business related to lending.
- Case relating to disobedience of prevailing law or commission of criminal offence filed by or against the Promoter or Director of organized institution – No such information has been received.
- Case relating to financial crime filed against any Promoter or Director – No such information has been received.

2. Analysis of share transaction and progress of organized institution

- Management view on share transaction of the organized institution at securities market – Some effect of the overall decrease in the stock index has been observed in the institution's share as well in the past. However since price and transaction of the bank's shares are being determined at Nepal Stock Exchange through open share market operations, management view on this is neutral.
- Maximum, minimum and last share price of the organized institution including total transaction number of shares and days of transaction during each quarter of the fiscal year:

Particulars	For the Quarter ending 17 October 2009	For the Quarter ending 14 January 2010	For the Quarter ending 13 April 2010	For the Quarter ending 16 July 2010
Maximum Price	1,144	1,009	815	656
Minimum Price	805	535	669	361
Last Price	1,000	730	669	570
Transaction volume (number of shares)	99,647	95,222	15,232	65,359
Days of transaction	33	16	12	43

3. Problems and Challenges

Internal

- Competition both on maintaining lending yield and mobilizing deposits at lower cost
- Recruitment and retention of quality manpower
- Increasing cost of operation

External

- Deteriorating Risk environment with decreasing investment opportunities
- Volatility in the foreign exchange rates caused by changes in the global economic conditions
- Unstable local socio-political situation and increased load-shedding hours
- Volatile liquidity conditions in the banking industry

Strategy

- Re-pricing of assets / liabilities and increase in spread as per the market conditions
- New products and services being introduced / capitalize on existing array of services
- Strong risk management approaches / portfolio management
- Identify new areas for investment
- Reinforcement of prudent banking fundamentals

4. Corporate Governance

Laxmi Bank is committed to high standards of corporate governance, business integrity and professionalism in all our activities that ensure 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.

25. OTHER DISCLOSURES AS REQUIRED BY THE COMPANY ACT OF 2063 B.S.

a) Amendments in the Memorandum and Articles of Association

The Bank has put forward a special agenda for change in its registered address to Kathmandu. The major reasons for the proposed amendment are a) overwhelming majority of the shareholders are based in Kathmandu, b) request from shareholders in the past to hold AGM in Kathmandu, c) Bank's tax issues are handled by Large Tax Payers office in Kathmandu and d) volatile law and order situation in the Terai region. Further, to ensure maximum participation for the share holders in the forthcoming AGMs, we request for approval of the proposed changes in Clause 2(1) of the Memorandum and Clause 2 of the Articles of Association of the bank.

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 regard, 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.

Lastly, 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 contributed to the success of the Bank.

Thank you.
Board of Directors
Date: September 23, 2010

(Original version of this report is in Nepali and is available on request from the Bank's Corporate Office)



“

Laxmi Bank has chosen to leverage on its high governance standard to face the challenges and take responsive and responsible financial services to the masses

”

CEO's PERSPECTIVE

EMPOWER

FY 2009/10 was a highly satisfying year for Laxmi Bank. Not only did we achieve excellent financial results, we also consolidated our position as one of the best managed banks in Nepal.

We are particularly pleased with how we approached and managed the industry-wide liquidity crunch experienced during the third and fourth quarters while maintaining quality of our assets.

Foundations were laid during the year to position ourselves as a key player in improving access to finance, covering the entire spectrum of financially active but unbanked population: be it base of the pyramid family living off remittances or individual savers looking to optimize returns or an aspiring small entrepreneur. We shall achieve this objective through our 3M approach: Mobile Money, Microfinance and Merchant Banking.

Following its introduction to Nepali market in October 2009, our Mobile Money service has been received very well and we are now ready to take it

to the next level in order to achieve explosion and ubiquity. With a little help from regulators and industry players, we shall be able to bring a large number of mobilized-unbanked people into formal economy.

Building on the experience we have gained, we shall scale up our microfinance business through our subsidiary - Laxmi Microfinance Development Bank (proposed). We shall leverage on technology and work honestly toward adding value to Nepal's already successful microfinance movement.

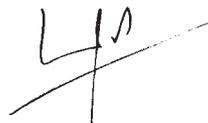
Capital market has been bearish for several months now. There are challenges with respect to structures and systems driving our capital market. Laxmi Capital, our subsidiary – which has already received a letter of intent to operate as a merchant bank – will seek to lead capital market development in Nepal by bringing in fresh perspectives and sound practices.

Banking industry faces challenges emerging mainly on corporate governance front. A key factor contributing to Laxmi Bank being one

of the best managed banks is our high standard of corporate governance, for which significant credit goes to our investors. However, the industry will be strong only if every licensed financial institution makes it a priority to uphold good governance. The need of the hour is self-regulation.

A bigger challenge is in the shape of continued political uncertainty and government apathy to economic growth. Private sector resilience appears to be running out of steam too. Banking is Nepal's best performing industry and we must do what we can to salvage the economy out of this quagmire. Laxmi Bank has chosen to leverage on its high governance standard to face the challenges and take responsive and responsible financial services to the masses.

We seek to empower the hard working God loving citizens of Nepal.



Suman Joshi
Chief Executive Officer
October, 2010

EMPOWER

we offer a wide range of credit and debit cards that allow our customers to pay for goods and services in a safe, reliable and convenient manner



FINANCIAL REVIEW

HIGHLIGHTS

- Net Profit up 73% to NPR 327 million
- Operating Profit up 59.96% to NPR 541.96 million
- Net Interest Income up 68.65% to NPR 652 million
- Fee & Other Income up 6.31% to NPR 106.89 million
- Deposits up 12.7% to NPR 18.08 billion
- Loans and Advances up 9.46% to NPR 14.73 billion
- Investments up 28.34% to NPR 3.18 billion
- Network of branches increased to 23
- Total number of ATMs 23
- NPA ratio as a percentage of Risk Assets of 0.12%
- Earnings per share increased from NPR 20.70 to NPR 24.12
- Proposed Cash Dividend of 13%
- Capital Adequacy Ratio 13.71% as against the minimum regulatory norm of 10%

KEY OPERATING RESULTS

in NPR'000s

	FY 2009/10	FY 2008/09	FY 2007/08	FY 2006/07	FY 2005/06	FY 2004/05	FY 2003/04	FY 2002/03
Interest Income	1,787,692	1,098,985	711,006	470,495	319,253	214,132	124,046	49,787
Interest Expenditure	1,135,610	712,348	421,872	280,278	190,590	118,439	63,177	20,096
Net Interest Income	652,082	386,637	289,135	190,217	128,664	95,694	60,869	29,692
Non Interest Income								
Fee Income	46,867	29,635	20,943	15,157	15,039	14,136	11,299	4,262
Exchange Earning	47,563	51,005	46,637	20,905	9,426	5,770	6,076	4,534
Other Income	60,032	70,917	25,482	15,710	9,789	7,597	1,026	896
Operating Income	806,544	538,194	382,197	241,989	162,917	123,197	79,271	39,383
Operating Expenses								
Employee Expenses	122,406	86,407	63,995	48,785	37,640	29,934	19,198	14,394
Overhead Expenses	142,169	112,973	83,849	63,547	50,123	37,122	35,730	17,322
Operating Profit	541,969	338,814	234,354	129,656	75,154	55,049	24,343	7,667
Non Operating Expenses	3,041	12,008	15,632	12,674	9,695	9,089	55	-
Loan Loss Provision	25,122	34,255	21,700	14,046	9,559	5,503	9,750	6,518
Profit Before Tax	467,097	265,955	176,476	95,631	50,636	36,779	13,084	1,034
Profit After Tax	327,037	188,999	120,031	65,579	35,385	26,465	10,450	1,034

PROFIT FOR THE YEAR

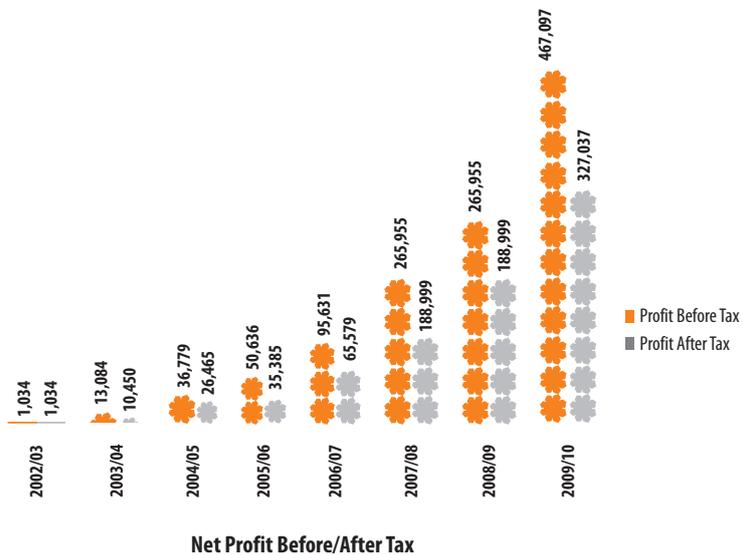
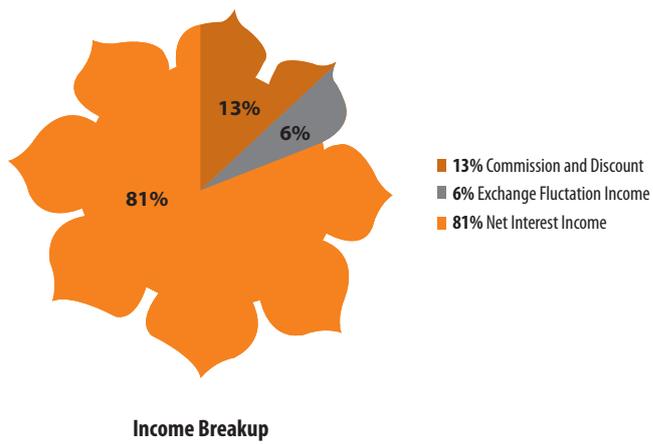
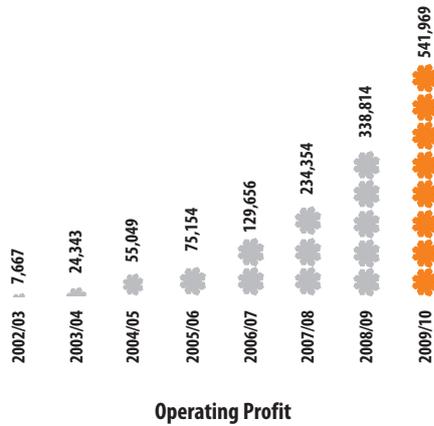
In a difficult year for the financial sector, the Bank has delivered a very strong performance for the year in line with the management’s expectations. During the year, operating profit grew by 59.96% as compared to the previous financial year. Profitability recorded a growth in terms of market share as well.

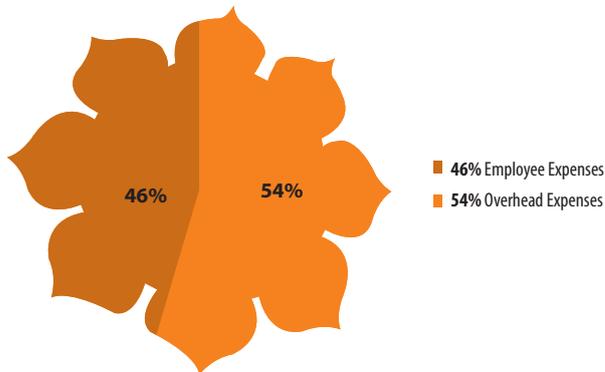
Principal growth area in the operating income has been the net interest income which has grown by 68.65%. Fee based income grew by 6.31%. Yield on risk assets was at 9.97% p.a. compared to 8.76% p.a. last year. The Bank was able to maintain a healthy yield on its risk assets despite the competitive market pressures and at the same time was able to maintain Non Performing Assets level at 0.12% which is one of the lowest in the industry. Cost of fund stood at 6.42 as compared to 5.05% in FY 2008/09. The cost of fund can be considered satisfactory amidst the liquidity concerns in the banking sector during the fiscal year which resulted in the interest rate moving up rapidly. Increasing cost on Deposits and Borrowings resulted in the overall weighted average interest spread decrease to 3.55% from 3.71% the previous year.

In general there has been satisfactory growth in all revenue streams. NII continues to occupy a major share of the income portfolio.

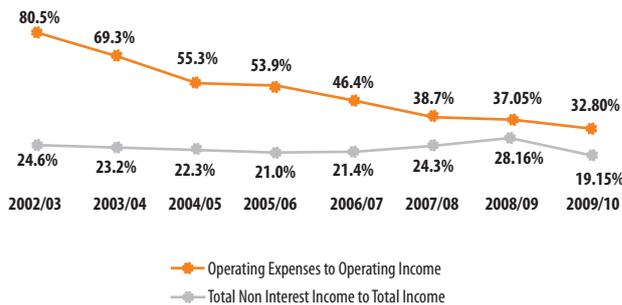
There has been a growth of 68.65% in NII. CD ratio calculated as per NRB’s definition as on the year-end was 82.66%, improved from 83.23% in the previous year. This is against the regulatory minimum requirement of 95%.

Total exchange earning was not at the pace of previous years because of intense competition in remittance and trade business which continuously narrowed the forex spread. Liquidity squeeze in the banking sector during the fiscal year also resulted in lower volumes of trade related activities.

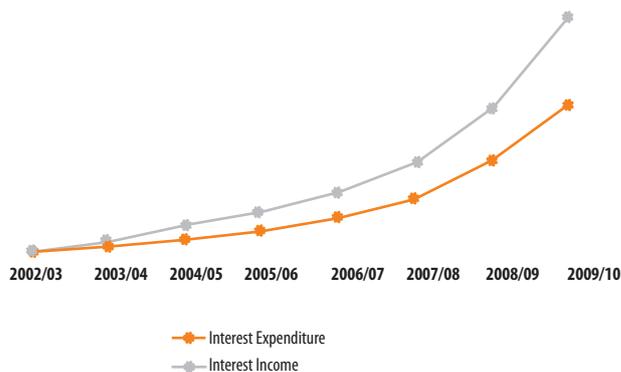




Expense Breakup



Cost Income Ratios



Fee income (Commission & Discount) contributed about 13% 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 19% of the total income. 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 Expenses include Employee Expenses, Overhead Cost and Computer Cost. Operating Expense to Operating Income is at 32.8%, which is 4.2% lower than the previous financial year. Cost to Income ratio is decreasing every financial year though.

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 48 additional employees to support network expansion and business growth.

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.

SHAREHOLDER RATIOS / CAPITAL

Bank's capital adequacy ratio in the fiscal year 2009/10 was 13.71%, as against 11.48% in the previous year indicating that the Bank has adequate capital fund with the potential to grow further.

Paid-up capital stood at NPR 1.613 billion as at the year end, an increase of NPR 515 million over the previous year's figure. The increment was due to 40% Rights issue and distribution of 5% Bonus Shares thereafter.

Profit after Tax in the review period has been NPR 327 million as compared to NPR 189 million in the previous year. Return on equity was 17.10% against 14.07% in the previous year, and has been in increasing trend since its operation. Shareholders' wealth decreased during the year as the market capitalization fell down from 1,166 billion to 919 billion following a bearish stock market. However, public faith, low non-performing asset level and continued profitability growth have curtailed the reduction in share price when compared to the stock index.

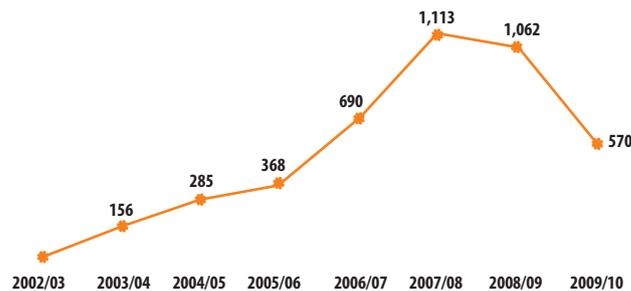
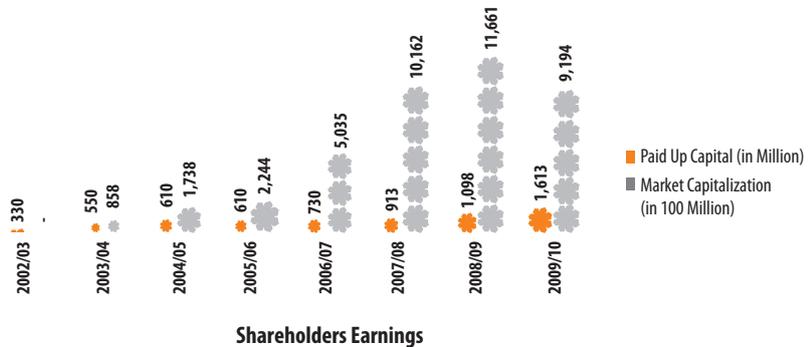
Against the benchmark stock index NEPSE, falling by 36.23% YOY, Laxmi Bank's share price YOY declined by 46% even with additional 40% right share issue and 5% bonus shares distributed during the fiscal year. Market Price at the close of the fiscal year stood at NPR 570 per share.

The bank has declared cash dividend of 13% on the paid up capital standing as on the FYE subject to approval by the forthcoming Annual General Meeting.

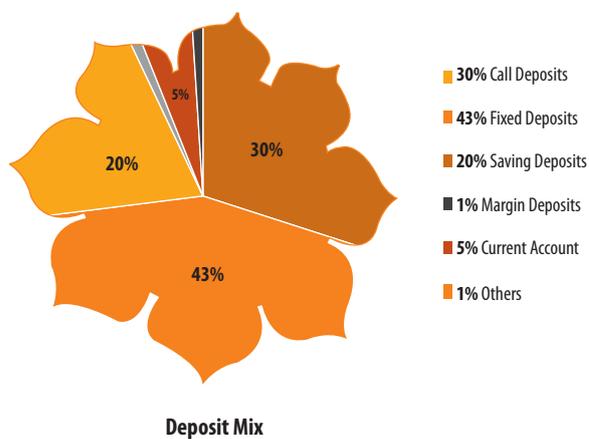
Out of the net profit generated in the fiscal year, NPR 50 million has been set aside as Debenture Redemption Fund. The fund now totals to NPR 100 Mio. Laxmi Bank Debenture 2072 of NPR 350 Mio with tenure of 7 years matures on November 2015.

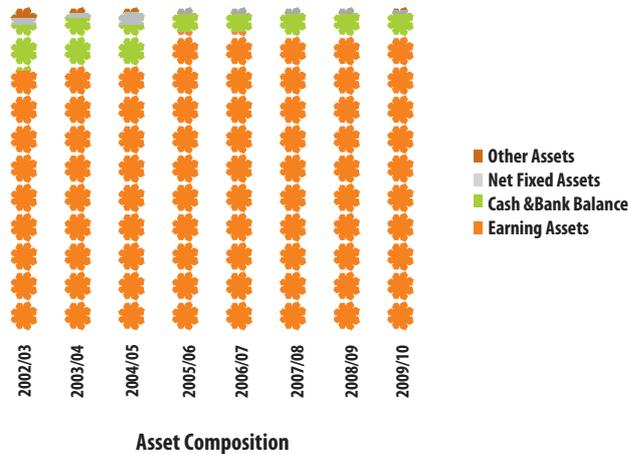
DEPOSITS

Deposit volume increased by 12.7% as compared to the 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. There has been a change in the composition of the deposits since the last fiscal year. Fixed deposits contribution has decreased with replacement through call deposit percentage. A number of initiatives at introducing innovative schemes

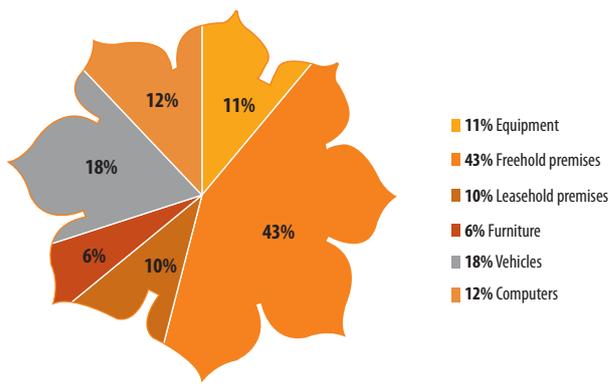


Market Price per Share (in NPR)





Asset Composition



Fixed Assets (Gross Value)



Investment

and new products like Green Savings, Milijuli Bachat, Shakti Bachat and Retail Fixed Deposit Schemes have helped in achieving the improvement in the deposit mix. Overall cost of fund of the bank increased by 1.37% compared to previous year due to upward movement of the market interest rate.

Deposit concentration has also improved with decreasing reliance on few large institutional depositors.

Super Woman Savings, Green Savings, Shakti Bachat 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 13.95%. Contribution to the increase in asset has mainly been through increase in gross interest earning asset by 15.12%. There has also been a net increase in Fixed Assets by 13.97% 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 15.12%. Loans & Advances grew by 9.46% while money at call grew by 123%. Investments grew substantially from NPR 2.49 billion to NPR 3.19 billion. Investments comprise of portfolio in Treasury Bills / Government Bonds, inter-bank lending and investment in shares and bond of institutions.

LOANS & ADVANCES

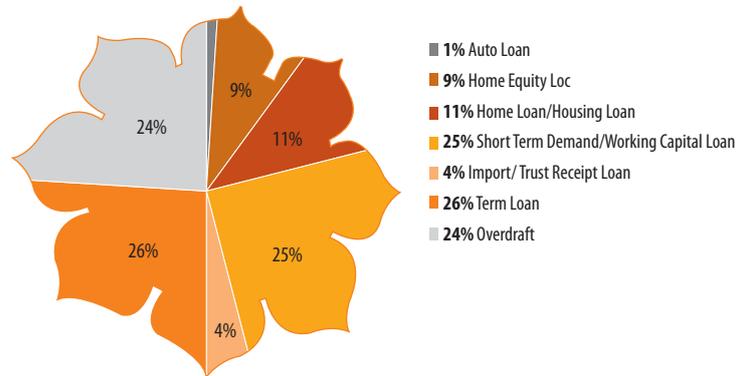
Laxmi Bank follows a strategy of building a diversified and low risk asset portfolio and limiting or correcting concentrations in particular sectors.

Maximum exposure concentrated on a single unit or group is 2.96% of total loan portfolio. Retail and Small Business loans comprise about 28% of our risk asset portfolio with the rest flowing into corporate entities.

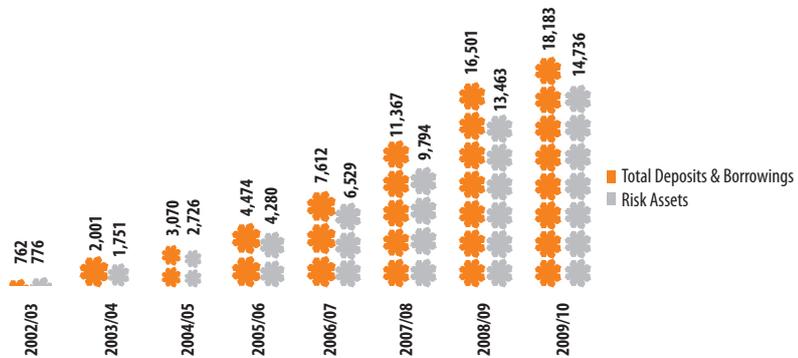
All credit exposures are classified as per Nepal Rastra Bank's guidelines into performing and non-performing assets. Non-performing assets are further classified into sub standard, doubtful and bad loans. The bank has made additional provisions (i.e., more than required per Nepal Rastra Bank) where it was considered necessary by the management. Non-performing loans aggregated 0.12% of the loan portfolio as at the year-end (break up: 0.01% substandard, 0.02% doubtful and 0.09% bad loans). The current level of Non-performing asset is considered to be one of the lowest in the industry and reflects the credit standard of the Bank. Total provision held as of the date is 996.13% of the NPL indicating a comfortable cushion. Loans of NPR 7.69 million have been written off during the year; 100% loan loss provision had already been provided for the written off loans. NPR 3.25 million was recovered from loan written off in earlier years.

CONTINGENT LIABILITIES

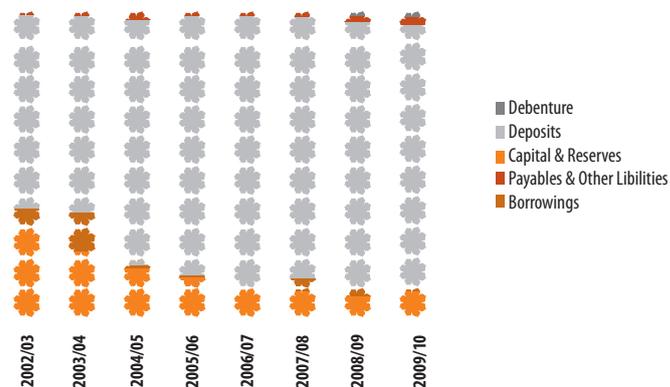
There has been an increase in the total Contingent Liabilities by 102% compared to previous year primarily due to increase in the level of outstanding guarantees. The total contingent liabilities stood at NPR 3.06 billion. The major contributors to the contingent liabilities were Letter of Credit and Guarantees. Letter of Credit business has been a major contributor in Commission Income as well.



Loans and Advances



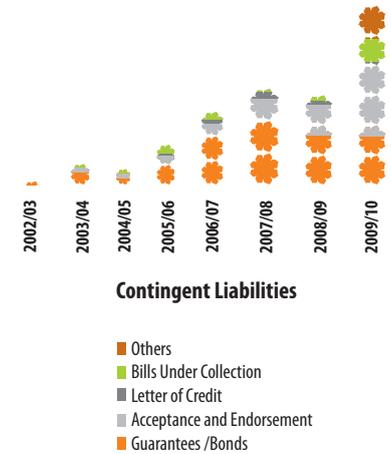
Growth of Risk Assets & Deposits & Borrowings



Liabilities Composition

There has been increase in other contingent liabilities relating to tax assessment of previous years.

	2005/06	2006/07	2007/08	2008/09	2009/10
Letter of Credit	405,875,959	815,071,994	1,132,627,549	853,459,760	876,558,043
Guarantees /Bonds	108,280,637	255,770,494	362,155,757	542,386,205	1,165,231,187
Bills Under Collection	36,631,155	23,076,367	13,193,935	54,320,312	59,680,323
Acceptance and Endorsement	22,756,505	44,670,650	82,168,521	42,691,320	386,779,000
Others	61,897,543	142,224,525	65,350,147	17,482,957	575,581,522



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 2009/10	COMMENTS
1	Earning Per Share	24.12	This indicates that Bank is earning Rs. 24.12 for each share of Rs 100 invested by the shareholders. This ratio has increased by 16.55% compared to previous year as a result of increase in profitability of the bank.
2	Interest Income/Loans & Advances and Investment	9.97%	The rate of return of 9.97% can be considered good in the current market scenario. The return was 8.76% in the previous year.
3	Interest Expenses on Total Deposits & Borrowings	6.42%	Interest Expenses to Total Deposit and Borrowings has increased from 5.05% in the previous year. Current spread of 3.55% can be considered satisfactory in the current scenario. Interest spread was 3.71% in the previous year.
4	Adequacy of Capital Fund on Risk Weighted Assets		This ratio judges the adequacy of capital fund compared to the risk weighted assets of the bank. The ratio is in compliance with NRB requirements. The cushion over the regulatory requirement of 10% shows the growth potential of the bank in terms of asset size.
	Core Capital	11.17%	Increase by 2.7% since the previous year
	Supplementary Capital	2.54%	Increase by 0.47% since the previous year
	Total Capital Fund	13.71%	Increase by 2.23% since the previous year.
5	Liquidity (CRR)	7.24%	This is in line with prevailing norms of NRB
6	Non-performing Credit/Total Credit	0.12%	Increase from 0.08% in the previous year.
7	Return on Shareholders' Equity	17.10%	This indicates the overall return in total shareholders' funds for the year.
8	Price to Earning Ratio	23.63	Decreased from 51.31 in the previous year due to decrease in the market price of share.

EMPOWER

we are privileged to have played a small part in the stories of many small businesses over the last 8 years including a number of successful women entrepreneurs



CORPORATE **GOVERNANCE** REPORT

Laxmi Bank is committed to high standards of corporate governance, business integrity and professionalism in all our activities that assure 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.

CORPORATE GOVERNANCE FRAMEWORK

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 institutions.

Every staff member has signed a comprehensive Code of Conduct and an oath of secrecy.

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 and 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.

Roles of the Chairman and 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 management of the Board with active engagement and contribution from all Directors to discharge its legal and regulatory responsibilities fully and in an effective manner.

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 and advisors. The current Board comprises members who come from a variety of backgrounds, with a diverse range of business, banking and professional



experience. The Bank benefits from having such Directors who are able to bring to the table their skills, knowledge and independent judgment.

The current Board comprises of the Chairman, 7 Directors and an 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 3rd December 2008. The tenure of these Directors is 4 years from the date of appointment.

The Citizens Investment Trust nominates 1 Director to the Board.

A Professional Director has been appointed to the Board with effect from 17th 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 pages 7 and 8.

FUNCTIONING OF THE BOARD

The 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.

The Company Secretary provides written notice and a comprehensive package of relevant information to all Directors 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 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.

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 available for inspection by the Directors.

Responsibilities of Directors

The Board is collectively responsible for ensuring that the Bank's activities, performance and overall strategic direction will

deliver long-term value for the stakeholders.

The Bank arranges induction programs 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.

All Directors keep abreast of the conduct, business activities and development of the Bank and satisfy themselves on the integrity of financial and non-financial information, controls and systems within the Bank. The Directors review 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

The Board met 12 times during the financial year 2009/10.

Name	Number of meetings eligible to attend during financial year 2009/10	Number of meetings attended
Mr. Rajendra Kumar Khetan	12	12
Mr. Bhola Babu Adhikari	12	6
Mr. Chandra Prakash Khetan	12	10
Mr. Gopi Krishna Sikaria	12	10
Mr. Jiban Raj Kandel	12	11
Mr. Ratan Lal Sanghai	12	10
Mr. Rishi Ram Gautam	12	12
Mr. Sambhu Prasad Acharya	12	9

Management Functions & Board Committees

The oversight functions of the Board are performed through 4 Committees:

- Audit Committee
- Remuneration Committee
- Credit Committee
- New Business Initiative 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 Act 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 Committee currently comprises of 3 non-executive directors:

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

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

The Audit Committee met 12 times during the year.

Name	Number of meetings eligible to attend during financial year 2009/10	Number of meetings attended
Mr. Ratan Lal Sanghai	12	12
Mr. Rishi Ram Gautam	12	10
Mr. Sambhu Acharya	12	10

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 closely following the on-going public debate on the necessity for the central bank to regulate executive compensation practices. While considering the Chief Executive's remuneration the Committee takes into consideration performance of the Bank in terms of quality of earnings and sustainability of the business along with industry dynamics. The Board is satisfied that the Bank's current practice at determining remuneration and compensation is commensurate with the Bank's position and future potential.

The Remuneration committee also reviews 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.

The Committee 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 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 6th May 2008 and consists of the following non-executive Directors appointed to the Committee:

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

The Credit Committee met 8 times during the year.

Name	Number of meetings eligible to attend during financial year 2009/10	Number of meetings attended
Mr. Chandra Prakash Khetan	8	8
Mr. Gopi Krishna Sikaria	8	2

New Business Initiative Committee

The New Business Initiative Committee is responsible for identifying possible new sectors for the Bank to invest in order to diversify our revenue base in the context of increasing competition and shrinking margins in conventional banking services. The Committee was formed in 2009 and has been involved in providing guidance and support to the management in our efforts to establish separate subsidiaries for merchant banking and microfinance.

The Committee meets as and when necessary.

The Committee comprises of 2 non-executive directors:

- Mr. Bhola Babu Adhikari - Member
- Mr. Jiban Raj Kandel - Member

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 which takes into consideration industry practices as well as time commitment of the Directors for determining their remuneration. The Directors' remuneration is currently restricted to meeting allowances and fixed monthly reimbursement for telephone expenses. Additionally, the Bank also reimburses travel expenses (domestic airfare) for Directors who require to travel from outside Kathmandu valley to attend Board meetings.

The present scale of Director's meeting fee is outlined below:
Chairman NPR 8,000.00 per meeting
Directors NPR 6,000.00 per meeting

Meeting fees are not paid to the Company Secretary and Executives.

Details of remuneration and reimbursements paid by the Bank to the Board and Board

Committee members during 2009/10 is as follows:

Board Meeting	NPR 554,000
Audit Committee Meeting	NPR 198,000
Credit Committee Meeting	NPR 60,000
Remuneration Committee Meeting	NPR 24,000
Mobile Telephone Reimbursement	NPR 167,000
Travel Reimbursement	NPR 60,505
Other Miscellaneous*	NPR 56,942
TOTAL	NPR 1,144,447

* expenses related to refreshments for Board 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 satisfied that there are no 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,
- ii. ensure the implementation of appropriate control system to manage those risks, and
- iii. periodic review of 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.

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 assures 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 has appointed Shashi Satyal & Co., Chartered Accountants as the Statutory Auditors for the year.

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 2009/10 is NPR 452,000.00

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, Nepal Rastra Bank 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. 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 Laxmi Bank attaches great importance to communications with shareholders and uses different means to keep our shareholders fully informed through extensive disclosure of appropriate and relevant information.

The Annual Report is one of the main channels of communication

with shareholders and investors. The contents and disclosures made in these reports are well beyond the minimum legal and regulatory requirements. The Bank's financial statements are in full compliance with Nepal Rastra Bank's guidelines and Nepal Accounting Standard.

The Annual General Meeting provides a forum for shareholders to exchange views with the Board. It is the Bank's desire to make constructive use of such meetings. 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.

Laxmi Bank's website: www.laxmibank.com contains an investor relations section which offers our shareholders timely access to relevant business information.

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 image. 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.

Remuneration

The Bank's compensation packages for employees take into account job levels, responsibilities and composition of salary

and allowances across the industry. Salaries are reviewed in the context of individual and business performance, market practice, internal relativities and competitive market pressures.

The Chief Executive Officer received total monthly remuneration of NPR 730,564.87 that includes salary of NPR 438,338.92 and allowances of NPR 292,225.95. Apart from this, he is entitled to receive allowances as per the Bank's Human Resources Policy and statutory bonuses as per the law.

The total remuneration to other executives and managers during the year was NPR 25,161,041.00.

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.

Employee 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 49 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 brand vision, culture and values of the Bank.

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

Relationship Managers in credit functions undergo an accreditation program from Omega Performance, a global training institute, which reflect

our commitment towards developing world class workforce capable of maintaining high 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.

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.

The Human Resources Committee also reviews all individual annual performance reviews for check and balance purpose as well as to ensure performance assessments are uniform across the Bank. The Committee is also responsible for recommending promotions, job evaluations, increments, performance awards and appointments to key positions to the Chief Executive Officer.

Employee 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 takes measures to remove, reduce or control material risks of fires and other accidents or injuries to employees and visitors. Fire wardens are appointed for each unit / branch and periodic fire drill is conducted by external specialist who also impart trainings on use of fire fighting equipments.

Apart from safety in the workplace, the Bank also encourages all employees to be familiar with best practices in personal safety standards that can be adopted at home. Employees have access to personal safety handbooks that cover different events such as fire, earthquake, robbery etc.

In recognition of the need for work-life balance the Bank has a policy of a mandatory 14 days annual leave during which the bank pays "annual leave fare allowance" equivalent to one month's salary. The Bank's intranet, Makuri has a special dedicated section which carries relevant news, information and best practices related to personal health and safety.

A full time Security Officer is responsible for overseeing and managing all issues related to the physical security of our premises, assets and employees.

CORPORATE RESPONSIBILITY

Laxmi Bank uses the phrase "Corporate Responsibility" to describe our approach to meeting a wide range of financial and 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.

"Laxmi Cares" is a registered not-for-profit organization that is managed by the Laxmi Bank family and is involved in various social activities aiming with active involvement of our employees and customers.

Some of our Corporate Responsibility initiatives are detailed separately in this report.



EMPOWER

we have initiated a number of services and programs targeting the youth over the years and opened up a youth financial helpline via huhu@laxmibank.com (help us help u) earlier this year that allows the youth to receive information, advise on financial and career issues

RISK MANAGEMENT

THE CONTEXT

Laxmi Bank operates in a dynamic business environment and engages with customers across different geographic regions providing a wide range of services from simple deposit accounts to consumer finance to business loans and hedging of foreign currency positions. Furthermore our services are delivered through various channels – branches to self-service medium such as ATMs, internet and mobile phones. This invariably means that changes in business conditions, customers and counterparties' financial position, real estate prices, law and order situation and the economy in general can have adverse impact of the Bank's balance sheet.

Apart from domestic conditions, the fact that businesses and individuals are now increasingly dependent on the global economy and are vulnerable to numerous factors such as exchange rates, commodity prices, demand for Nepali workforce in the Gulf and Malaysia etc. also add to our operating challenges.

In the context of our growing operations and balance sheet size, liberalization, advances in technology and increasing sophistication of customer transactions, we recognize that Laxmi Bank must continue to upgrade and update the way in which we manage our risks.

OUR APPROACH

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

Our approach to risk managements is based on the philosophy that all

risks must be properly understood, mitigated, measured and monitored. Every product, process or counterparty transaction is understood in the context of possible changes in the business conditions and general economy as well an assessment of our own ability to manage and mitigate their impact on our business. Our risk management foundation is built around:

- a formal governance processes that is constantly reviewed and updated
- organization wide commitment to constantly exceed our own high standards that are benchmarked against international best practices
- development of risk frameworks that take into consideration our objectives vis-à-vis our capabilities
- continuous research and development of new and improved risk management processes and tools supported by effective Management Information Systems
- adopting more stringent internal standards than those prescribed by the prevailing regulations bodies
- all business segments are responsible and accountable for risks in their respective areas and are assisted, where appropriate by independent risk managers

We believe that our approach gives us the advantage of pursuing growth in a risk controlled manner and through calculated and informed decision taking processing that helps increase risk adjusted returns of the Bank.

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 our counterparties such as corporate, personal and institutional borrowers. Our activities also expose us to market risk arising from re-pricing and mismatches in our



assets and liabilities. These mismatches give rise to various risks in terms of interest rate, liquidity and foreign exchange positions. In the course of conducting our businesses, the Bank also handles a large volume of financial transactions which inherently exposes us to operational risks arising from possible failure of internal processes and systems, deficiencies in people and management or operational failure arising from external events.

The following pages of this chapter cover 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 that standards are maintained as per agreed parameters, directly or through various Board and Board 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.

The responsibility of risk controllers for credit and operational risk are assumed by teams led by senior executives who work independent of any sales targets. These teams are responsible for managing risks at day to day operating and portfolio levels. The heads of these risk units provide active support to the Chief Executive Officer to ensure all businesses and processes are conducted within the approved risk framework/parameter of the Bank. They are also responsible for designing and implementing effective risk management guidelines and periodically review procedures, products and portfolios in line with the changing business and regulatory environment.

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.

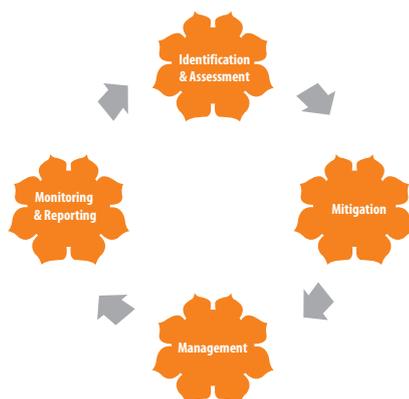
We manage our operational risks through standardization of internal processes and monitoring mechanisms. Data security, dual control, periodic departmental reviews are some of the tools that are used to manage such risks.

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 is in place to provide 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 complementing 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.



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 are 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, assesses 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,

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 has been built – in to the risk management culture and reinforces the obligation that each employee has towards the Bank. Our whistle blowing program has been widely adopted and used by our employees which has helped resolving problems and issues at early stages.

- 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, a management level credit sub-committee meets periodically to review and discuss issues at portfolio and account levels. All officers involved in originating lending proposals are required to take accreditation tests run by an international agency – Omega Performance who works with 2,500 financial services company around the globe.

Credit Approval Process

The Bank has standard procedures for credit approval that ensure appropriate guidelines and tools are employed for the type of credit and counterparty 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 pre-defined target market criteria, which set the risk acceptance standards 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 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 loans are risk graded using Laxmi Bank's proprietary Small Business Score Card.

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 along with concrete action plans for correction.

BUSINESS CONTINUITY PROCESS

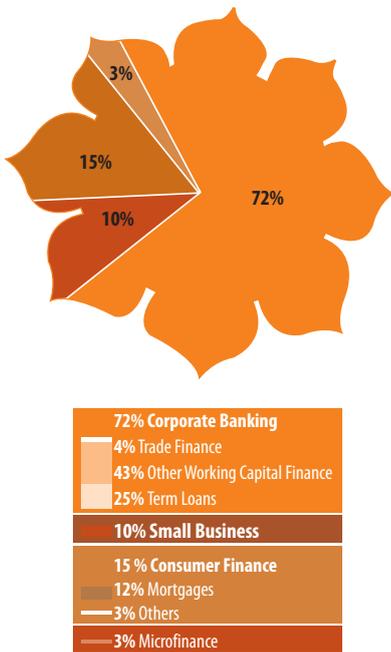
Laxmi Bank recognizes and is prepared for a situation where it may not be possible to run the business as usual. Events such as strikes, riots, natural disasters etc. which are beyond the bank's control may compel the bank to suspend or temporarily close down the operation in order to avoid untoward 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 for all major units and branches that documents processes and procedures to ensure uninterrupted or immediate resumption of critical functions.

Since consumer loans are granular in nature, a portfolio approach in managing these high volume loans is adopted with periodic review of portfolio status and key indicators.

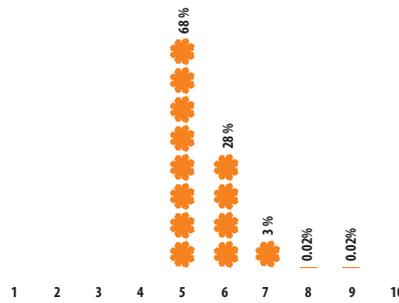
Segment and Product wise funded exposure as at 15 July 2010

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



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 are 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

CREDIT 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.

During the financial year 2009/10 we took proactive steps to manage our exposure in the real estate sector in anticipation of an industry downturn. Our exposure in this sector is well within the prudent norms and regulatory requirement. Our real estate borrowers are primarily developers with long track records and in many cases units of a larger corporate group with diversified businesses. Not with standing this comfort, the Bank is monitoring the sector closely and is prepared for any adverse impact of realty prices and demand.



Credit Risk Concentration

The Bank uses NAICS codes to monitor sector-wise exposures on business loans

Non Performing Asset (NPA) Management

Laxmi Bank's NPA Management Policy provides guidance on 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. Laxmi Bank's 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 our market risk management is to minimize the impact of losses on earnings and equity capital due to market risk.

The key elements in management of market and liquidity risks are policies, risk limits and risk measurement tools. Our 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 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 products.

Market Risks

Due to increased financial liberalization and deregulation, market risk has escalated and become more complex for the industry. To ensure stable earnings, it has become essential for us 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. Our investments to such financial institutions are made within the market limit approved and reviewed periodically for specific counterparties based on a comprehensive credit scoring model developed in-house.

Interest Rate Risk

One of the major functions of Laxmi Bank's Treasury is measuring, monitoring, and controlling of interest rate risk (IRR), a part of market risk. IRR is the risk that changes in prevailing interest rates will adversely impact the value of the bank's assets and liabilities. Treasury closely monitors and forecasts net interest income (NII) and measures the sensitivity of NII to changes in interest rates by employing a variety of standard and proprietary models to measure this risk.

The output of this analysis is tabled at the ALCO, which is responsible for overseeing a variety of asset and liability (ALM) activities including the establishment of guidelines for the bank's risk tolerance levels. The treasury department is further tasked with ensuring IRR stays within guidelines set by ALCO by entering into a variety of financial transactions, such as interest

rate swaps and forward contracts. Interest rate risk is measured through the use of re-pricing gap analysis and duration analysis.

Liquidity

Our policy on liquidity maintenance is generally more conservative than prevailing regulatory requirements. Treasury prepares a detailed liquidity position of the Bank on daily basis for review 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 minimize concentration across the various deposit sources. The ALCO sets and reviews concentration limits from a single deposit source as a prudent risk management policy.

Customer deposits continue to remain core source of the Bank's funding and short term funds are borrowed from the inter-bank market to maximize liquidity management.

Laxmi Bank's Assets and Liability Management (ALM) guide covers 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 abide by 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 for the recovery

and/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 all data is maintained off-site. A full - fledged DRP site has been set up at a secure off-site location and we are reasonably confident of our ability to resume our operations within reasonable time in case our main data centre suffers physical damage.

Periodic DRP tests are conducted jointly by Information Technology unit and Operational Risk in the form of mock drills to test the readiness of our back-up systems.

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 sustainability. 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.



THE CARING GEN-NEXT BANKERS

The Laxmi Bank workforce is young, spirited and innovative. With an average age of less than 30 years we are positioned to deliver hi-tech and user friendly modern banking services to our customers.

We are proud of the culture we have built over the past 8 years and our people are recognized in the industry as knowledgeable professionals who can excel in honest, ethical and transparent working environment.

We have taken the challenge of carving out an identity of the "Caring Gen-Next Bankers" that will be a strong differentiator for brand Laxmi Bank.

The Bank recognizes the importance of a diverse and motivated workforce that is passionate about empowering and delivering great customer experience at all times. We are an equal opportunity employer. Female members make up about 40% of our total staff strength. Our recruitment practice is designed to attract people who fit our stakeholder culture and Laxmi Bank values.

To the extent possible we recruit entry level employees from the local communities in our branches. This helps us stay closer and more grounded to our customer base apart from contributing to local employment.

We provide a free and fair career opportunity supported by a transparent and robust performance management system. Wherever possible, vacant positions are filled through internal job announcements that provide opportunities for qualified and confident people.

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, e-learning portal, mentoring etc. Performance Objectives for Line Managers include goals for team development and effective succession planning.

COMMUNICATION & ENGAGEMENT

Our efforts at building a strong communication culture starts at home. Our internal communications portal (intranet) - "Makuri", is an interactive forum that allows employees to keep updated and participate in the Bank's activities at both formal and semi-formal levels.

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.

Annual Staff Surveys help the management feel the pulse of the organization and identify strength and weaknesses in our people management practice allowing us to take corrective measures where appropriate.

EMPLOYEE ENGAGEMENT SURVEY 2009	POSITIVE RESPONSE RATE
Organizational Citizenship Behavior	92%
Job Involvement & Job Engagement	85%
Organization Engagement	94%
Organizational Commitment	82%

Engagement at all levels is paramount creating a cohesive and productive workplace where common values are shared and a sense of personal

purpose and importance is recognized. We are proud to have one of the most engaged and passionate workforce in the country. "Laxmi Cares" is a registered not-for-profit / NGO through which our people engage with and support a number of relevant social causes. "Laxmi Cares" is managed by a committee comprising of our employees and is supported by the Bank, employees and our customers. The Bank organizes a number of internal events throughout the year that helps our employees engage in friendly competition and bond with each other in an informal atmosphere. Similarly our people also represent Laxmi Bank in external sporting events, general knowledge contests etc.

WELFARE

Our employees participate in "Laxmi Bank Retirement Fund", an independent legally incorporated fund manager. The Fund offers our employees a secure, high return retirement investment option for their retirement benefits.

The Staff Welfare Committee is represented by 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 its own by-laws.

Our plan of introducing

Employee Stock Options has been put on hold pending regulatory approval.

EMPOWER

our microfinance programs have touched the lives of thousands of under-banked individuals and their families around the country helping them access funds to invest in sustainable income generating activities



Shashi Satyal & Co.

Chartered Accountants

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Kathmandu, Nepal

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E-mail:ssatyal@vianet.com.np

THE SHAREHOLDERS OF LAXMI BANK LIMITED

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Balance Sheet of **Laxmi Bank Limited**, as of 16 July 2010 (Corresponding to 32 Ashadh 2067), the related Profit and Loss Account and the Cash Flow Statement for the year then ended. These financial statements are the responsibility of the management of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As per the requirement of the Companies Act, 2063 and Bank and Financial Institutions Act, 2063 we also report that:

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 16 July 2010 (Corresponding to 32 Ashad 2067), the results of operations and its cash flows for the year then ended in accordance with Nepal Accounting Standards except for the matters stated in note (v) of schedule 4.32 and comply with the provisions of the Companies Act, 2063, Nepal Rastra Bank Directives and Bank and Financial Institutions Act, 2063.


Shashi Satyal
Principal



For and on behalf of
Shashi Satyal & Co.,
Chartered Accountants
Date: 19 August 2010
Kathmandu

Balance Sheet

as at Ashad 32, 2067 (July 16, 2010)

(in NPR)

CAPITAL & LIABILITIES	SCHEDULE	THIS YEAR	PREVIOUS YEAR
1. Share Capital	4.1	1,613,520,500	1,174,952,127
2. Reserves and Surplus	4.2	298,809,990	168,266,945
3. Debentures & Bonds	4.3	350,000,000	350,000,000
4. Borrowings	4.4	100,000,000	450,000,000
5. Deposit Liabilities	4.5	18,082,957,988	16,051,303,096
6. Bills Payable	4.6	5,262,902	16,158,286
7. Proposed Dividend		209,757,665	4,045,580
8. Income Tax Liabilities (net)		2,801,578	5,001,279
9. Other Liabilities	4.7	289,138,935	166,685,668
Total Capital and Liabilities		20,952,249,558	18,386,412,982

ASSETS	SCHEDULE	THIS YEAR	PREVIOUS YEAR
1. Cash Balance	4.8	244,205,091	211,721,472
2. Balance with Nepal Rastra Bank	4.9	1,219,716,716	1,243,649,202
3. Balance with Banks/Financial Institution	4.10	376,782,432	377,407,049
4. Money at Call and Short Notice	4.11	904,377,086	405,700,000
5. Investment	4.12	3,186,905,894	2,483,151,161
6. Loans, Advances and Bills Purchase	4.13	14,560,109,588	13,315,604,304
7. Fixed Assets	4.14	282,349,126	247,733,210
8. Non Banking Assets (net)	4.15	-	-
9. Other Assets	4.16	177,803,626	101,446,583
Total Assets		20,952,249,558	18,386,412,982

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/ Promoter Group by pledging the shares in their ownership	Schedule 4.34
Comparison of Unaudited and Audited Financial Statement	Schedule 4.35
Unaudited Financial Results (Quarterly)	Schedule 4.A

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

Piyush Raj Aryal
Head - Finance & Treasury

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

Shashi Satyal
Proprietor
for Shashi Satyal & Co.
Chartered Accountants

Date: 19 Aug, 2010
Place: Kathmandu

Profit and Loss Account

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PARTICULARS	SCHEDULE	THIS YEAR	PREVIOUS YEAR
1. Interest Income	4.18	1,787,692,540	1,098,985,452
2. Interest Expenses	4.19	1,135,609,890	712,348,311
Net Interest Income		652,082,650	386,637,141
3. Commission and Discount	4.20	46,866,912	29,634,632
4. Other Operating Income	4.21	60,031,631	70,917,293
5. Exchange Income	4.22	47,563,308	51,004,554
Total Operating Income		806,544,500	538,193,620
6. Staff Expenses	4.23	122,405,630	86,407,247
7. Other Operating Expenses	4.24	142,169,232	112,972,785
8. Exchange Loss	4.22	-	-
Operating Profit before provision for Possible Loss		541,969,638	338,813,588
9. Provision for Possible Losses	4.25	28,766,525	41,360,065
Operating Profit		513,203,114	297,453,523
10. Non Operating Income /(Loss)	4.26	1,325,486	(7,594,833)
11. Loan Loss Provision Written Back	4.27	3,644,550	7,105,053
Profit from Regular Operations		518,173,150	296,963,743
12. Profit/(Loss) from Extra-Ordinary Activities	4.28	(4,366,416)	(4,413,129)
Net Profit after including all Activities		513,806,734	292,550,614
13. Provision for Staff Bonus		46,709,703	26,595,510
14. Provision for Income Tax		-	-
* Provision for Current Year's Tax		141,441,317	80,983,152
* Provision for Previous Years' Tax		-	-
* Deferred Tax Expense/ (Income)		(1,381,327)	(4,026,685)
Net Profit/Loss		327,037,041	188,998,637

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

Piyush Raj Aryal
Head - Finance & Treasury

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

Shashi Satyal
Proprietor
for Shashi Satyal & Co.
Chartered Accountants

Date: 19 Aug, 2010
Place: Kathmandu

Profit and Loss Appropriation Account

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PARTICULARS	SCHEDULE	THIS YEAR	PREVIOUS YEAR
INCOME			
1. Accumulated Profit up to Previous Year		21,270,508	5,509,849
2. Current Year's Profit		327,037,041	188,998,637
3. Exchange Fluctuation Fund		-	-
4. Capital Adjustment Fund transferred		-	-
5. Adjustments in Retained Earnings		192,089	408
Total		348,499,637	194,508,894
EXPENSES			
1. Accumulated Loss up to Previous Year		-	-
2. This Year's Loss		-	-
3. General Reserve		65,407,408	37,799,727
4. Contingent Reserve		-	-
5. Institutional Development Fund		-	-
6. Dividend Equalization Fund		-	-
7. Staff Related Reserves		-	-
8. Proposed Dividend		209,757,665	4,045,580
9. Proposed Bonus Shares		-	76,866,027
10. Special Reserve Fund		-	-
11. Exchange Fluctuation Fund		3,370,437	3,401,883
12. Capital Redemption Reserve Fund		50,000,000	50,000,000
13. Capital Adjustment Fund		-	-
14. Investment Adjustment Reserve		1,540,667	-
14. Adjustments:		-	-
Deferred Tax Liability		-	-
Deferred Tax Reserve		1,381,327	1,125,168
Total		331,457,504	173,238,385
15. Accumulated Profit/(Loss)		17,042,133	21,270,508

Piyush Raj Aryal
Head - Finance & Treasury

Suman Joshi
Chief Executive Officer

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Jiwan Raj Kandel
Ratan Lal Sanghai
Rishi Ram Gautam
Sambhu P Acharya
Directors

As per our Report
of even date

Shashi Satyal
Proprietor
for Shashi Satyal & Co.
Chartered Accountants

Date: 19 Aug, 2010
Place: Kathmandu

Statement of Changes in Equity

Fiscal Year 2066/67

(in NPR)

PARTICULARS	SHARE CAPITAL	ACCUMULATED PROFIT/LOSS	GENERAL RESERVE	PROPOSED BONUS SHARE	INVESTMENT ADJUSTMENT RESERVE	SHARE PREMIUM	EXCHANGE FLUCTUATION FUND	DEBENTURE REDEMPTION FUND	DEFERRED TAX RESERVE	OTHER RESERVES & FUND	TOTAL AMOUNT
Opening Balance at 1 Shrawan 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
Adjustments											
Adjustments in Retained Earnings		192,089		(182,485)							9,604
Restated Balance	1,098,086,100	21,462,597	89,588,576	76,683,542	-	-	6,282,693	50,000,000	1,125,168	-	1,343,228,676
Net profit for the period	-	327,037,041	-	-	-	-	-	-	-	-	327,037,041
Transfer to General Reserve	-	(65,407,408)	65,407,408	-	-	-	-	-	-	-	-
Capital Adjustment Fund	-	-	-	-	-	-	-	-	-	-	-
Proposed Bonus Shares	-	-	-	-	-	-	-	-	-	-	-
Proposed Dividend	-	(209,757,665)	-	-	-	-	-	-	-	-	(209,757,665)
Exchange Fluctuation Fund	-	(3,370,437)	-	-	-	-	3,370,437	-	-	-	-
Bonus share and Right share collection	515,434,400	-	-	(76,200,000)	-	-	-	-	-	-	439,234,400
Debtenture Redemption Fund	-	(50,000,000)	-	-	-	-	-	50,000,000	-	-	-
Share Premium	-	-	-	-	-	13,071,581	-	-	-	-	13,071,581
Investment Adjustment Reserve	-	(1,540,667)	-	-	1,540,667	-	-	-	-	-	-
Deferred Tax Reserve	-	(1,381,327)	-	-	-	-	-	-	1,381,327	-	-
Fractional Bonus shares carried over	-	-	-	(483,542)	-	-	-	-	-	-	(483,542)
Closing Balance at 32 Ashad 2067	1,613,520,500	17,042,134	154,995,984	-	1,540,667	13,071,581	9,653,130	100,000,000	2,506,495	-	1,912,330,491

Cash Flow Statement

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
314,080,096	(a). Cash Flow from Operating Activities	(374,970,993)
1,239,822,347	1. Cash Received	1,888,043,224
1,084,864,744	1.1 Interest Income	1,728,815,089
30,610,926	1.2 Commission and Discount Income	48,310,617
51,004,554	1.3 Income from Foreign Exchange transaction	47,563,308
2,424,831	1.4 Recovery of Loan Written off	3,258,695
70,917,293	1.5 Other Income	60,095,515
962,163,547	2. Cash Payment	1,456,112,191
705,388,290	2.1 Interest Expenses	1,059,788,935
104,054,810	2.2 Staff Expenses	149,001,140
76,944,797	2.3 Office Operating Expenses	103,681,098
75,775,651	2.4 Income Tax Paid	143,641,018
-	2.5 Other Expenses	-
277,658,800	Cash Flow before changes in Working Capital	431,931,033
(5,097,197,063)	(Increase) / Decrease in Current Assets	(2,498,882,455)
(153,962,226)	1.(Increase)/Decrease in Money at Call and Short Notice	(498,677,086)
(1,242,109,429)	2. (Increase)/Decrease in Short Term Investment	(703,754,733)
(3,672,277,812)	3. (Increase)/Decrease in Loans, Advances and Bills Purchase	(1,280,754,083)
(28,847,597)	4. (Increase)/Decrease in Other Assets	(15,696,553)
5,133,618,359	Increase /(Decrease) in Current Liabilities	1,691,980,430
5,134,070,730	1. Increase/(Decrease) in Deposits	2,031,654,892
-	2. Increase/(Decrease) in Certificates of Deposits	-
-	3. Increase/(Decrease) in Short Term Borrowings	(350,000,000)
(452,371)	4. Increase/(Decrease) in Other Liabilities	10,325,538
(71,353,026)	(b) Cash Flow from Investment Activities	(68,742,446)
-	1. (Increase)/Decrease in Long-term Investment	-
(71,361,468)	2. (Increase)/Decrease in Fixed Assets	(68,974,244)
-	3. Interest income from Long term Investment	-
8,442	4. Dividend Income	231,799
-	5. Others	-
351,889,800	(c) Cash Flow from Financing Activities	451,639,954
350,000,000	1. Increase/(Decrease) in Long term Borrowings (Bonds, Debentures etc)	-
1,889,800	2. Increase/(Decrease) in Share Capital & Share Premium	451,639,954
-	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	-
594,616,870	(e) Current Year's Cash Flow from All Activities	7,926,516
1,238,160,853	(f) Opening Balance of Cash and Bank	1,832,777,723
1,832,777,723	(g) Closing Balance of Cash and Bank	1,840,704,239

Share Capital and Ownership

SCHEDULE 4.1

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
	1. Share Capital	
1,600,000,000	1.1 Authorized Capital	2,000,000,000
1,600,000,000	a) 20,000,000 Ordinary Shares of NPR 100.00 each	2,000,000,000
	b) ...Non-redeemable Preference Shares of NPR....each	
	c) ...Redeemable Preference Shares of NPR....each	
1,098,086,100	1.2 Issued Capital	1,613,520,500
1,098,086,100	a) 16,135,205 Ordinary Shares of NPR 100.00 each	1,613,520,500
	b) ...Non-redeemable Preference Shares of NPR....each	
	c) ...Redeemable Preference Shares of NPR....each	
1,098,086,100	1.3 Paid Up Capital	1,613,520,500
1,098,086,100	a) 16,135,205 Ordinary Shares of NPR 100.00 each	1,613,520,500
	b) ...Non-redeemable Preference Shares of NPR....each	
	c) ...Redeemable Preference Shares of NPR....each	
76,866,027	1.4 Proposed Bonus Share	-
-	1.5 Calls in Advance	-

Share Ownership

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	%	PARTICULARS		
1,098,086,100	100.00	(A) Local Ownership		
		1.1 Government of Nepal		
		1.2 "Ka" Class Licensed Institution		
		1.3 Other Licensed Institution		
409,968,000	37.33	1.4 Other Organisations (Promoters)		
390,506,000	35.56	1.5 Individuals		
297,612,100	27.10	1.6 Others (Promoters)		
		(B) Foreign Ownership		
1,098,086,100	100.00	Total		

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.	194,507,400	12.05
2	Sarika Khetan	165,821,900	10.28
3	Citizen Investment Trust	145,530,000	9.02
4	Ratan Lal Sanghai	144,233,400	8.94
5	MTC Investment Pvt. Ltd.	129,654,000	8.04
6	Gopi Krishna Shikaria	99,225,000	6.15
7	Shiva Bhagwan Ind. P. Ltd.	83,632,500	5.18
8	Poonam Khetan	46,860,400	2.90
9	Nepal Mentha Products Pvt. Ltd.	43,145,600	2.67
10	Prime Holding Pvt. Ltd.	40,434,400	2.51
11	Ruchi Jajodiya	33,731,200	2.09
12	Amit Gupta Agrawal	33,453,000	2.07
13	Nepal Remittance Pvt. Ltd.	31,586,800	1.96
14	Dreams Capital Pvt. Ltd.	25,640,400	1.59
15	Krishi Premura Properties Pvt Ltd	17,294,000	1.07
16	Mutual Trading Co. Pvt. Ltd.	15,876,000	0.98
17	Rajendra K Khetan	15,876,000	0.98
18	Harati Investment Pvt Ltd	15,418,700	0.96
19	Sabita Devi Rungta	13,230,000	0.82
20	Deepak Kumar Malhotra	11,080,900	0.69

Reserves Funds

SCHEDULE 4.2

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
89,588,576	1. General Reserve Fund	154,995,984
-	2. Capital Reserve Fund	13,071,581
-	a. Share Premium	13,071,581
50,000,000	3. Capital Redemption Reserve	100,000,000
50,000,000	a. Laxmi Bank Debenture 2072	100,000,000
-	4. Capital Adjustment Fund	-
1,125,168	5. Other Reserves & Funds	4,047,162
	a. Contingent Reserve	-
	b. Institutional Development Fund	-
	c. Dividend Equalization Fund	-
	d. Special Reserve Fund	-
	e. Assets Revaluation Reserve	-
	f. Other Free Reserves	-
-	g. Investent Adjustment Reserve	1,540,667
1,125,168	h. Deferred Tax Reserve	2,506,495
21,270,508	6. Accumulated Profit/Loss	17,042,133
6,282,693	7. Exchange Fluctuation Fund	9,653,130
168,266,945	Total	298,809,990

Debentures and Bonds

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.3

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
350,000,000	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 100,000,000)	350,000,000
-	2.% Bond/Debentures of NPR.....each Issued on and matured on (Outstanding balance of Redemption Reserve NPR...)	-
-	3.% Bond/Debentures of NPR.....each Issued on and matured on (Outstanding balance of Redemption Reserve NPR...)	-
350,000,000	Total (1+2+3)	350,000,000

Borrowings

As at Ashad 32, 2067 (July 16, 2010)

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	100,000,000
-	5. Other Organized Institutions	-
-	6. Others	-
450,000,000	Total	100,000,000
-	B. Foreign	-
-	1. Banks	-
-	2. Others	-
-	Total	-
450,000,000	Total (A+B)	100,000,000

Deposit Liability

SCHEDULE 4.5

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
	1. Non-Interest bearing accounts	
1,043,826,321	A. Current Deposits	819,960,806
1,014,444,428	1. Local Currency	769,326,522
-	1.1 Government of Nepal	
20,000	1.2 "Ka" Class Licensed Institutions	3,898,799
9,129,878	1.3 Other Licensed Institutions	40,918,893
980,778,627	1.4 Other Organized Institutions	698,928,816
24,515,923	1.5 Individuals	25,580,014
-	1.6 Others	
29,381,894	2. Foreign Currency	50,634,284
-	2.1 Government of Nepal	
-	2.2 "Ka" Class Licensed Institutions	
-	2.3 Other Licensed Financial Institutions	
29,267,817	2.4 Other Organized Institutions	50,576,853
114,077	2.5 Individuals	57,431
-	2.6 Others	-
208,520,762	B. Margin Deposits	148,006,565
-	1. Employees Guarantee	-
45,513,684	2. Guarantee Margin	52,942,974
163,007,078	3. Margin on Letter of Credit	95,063,591
146,810,616	C. Others	153,181,042
146,810,616	1. Local Currency	153,181,042
-	1.1 Financial Institutions	-
146,810,616	1.2 Other Organized Institutions	153,181,042
-	1.3 Individual	-
-	2. Foreign Currency	-
-	2.1 Financial Institutions	-
-	2.2 Other Organized Institutions	-
-	2.3 Individual	-
1,399,157,700	Total of Non-Interest Bearing Accounts	1,121,148,413

Deposit Liability

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.5

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
	2. Interest Bearing Accounts	
3,463,222,338	A. Saving Deposits	3,684,915,748
3,287,723,240	1. Local Currency	3,464,176,405
154,904,188	1.1 Organizations/ Institutions	744,799
3,132,819,052	1.2 Individual	3,463,431,606
-	1.3 Others	
175,499,098	2. Foreign Currency	220,739,343
3,732,587	2.1 Organizations/ Institutions	
171,766,510	2.2 Individual	220,739,343
-	2.3 Others	
7,183,978,726	B. Fixed Deposits	7,821,458,105
6,405,478,726	1. Local Currency	6,472,376,105
5,349,987,233	1.1 Organizations/ Institutions	4,307,155,655
1,055,491,493	1.2 Individual	2,165,220,450
-	1.3 Others	
778,500,000	2. Foreign Currency	1,349,082,000
778,500,000	2.1 Organizations/ Institutions	1,349,082,000
-	2.2 Individual	-
-	2.3 Others	-
4,004,944,333	C. Call Deposits	5,455,435,721
3,842,966,354	1. Local Currency	4,947,301,645
65,494,878	1.1 "Ka" Class Licensed Institutions	162,095,113
132,113,333	1.2 Other Licensed Financial Institutions	997,132,532
3,018,231,529	1.3 Other Organized Institutions	2,704,919,918
627,126,613	1.4 Individual	1,083,154,082
-	1.5 Others	
161,977,979	2. Foreign Currency	508,134,076
-	2.1 "Ka" Class Licensed Institutions	-
-	2.2 Other Licensed Institutions	-
73,185,717	2.3 Other Organized Institutions	486,528,820
88,792,262	2.4 Individual	21,605,256
-	2.5 Others	
-	D. Certificate of Deposit	-
-	1. Organized Institution	-
-	2. Individual	-
-	3. Others	-
14,652,145,396	Total of Interest Bearing Accounts	16,961,809,575
16,051,303,096	Total Deposit (1+2)	18,082,957,988

Bills Payable

SCHEDULE 4.6

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
16,158,286	1. Local Currency	5,262,902
-	2. Foreign Currency	-
16,158,286	Total	5,262,902

Other Liabilities

SCHEDULE 4.7

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
-	1. Pension/Gratuity Fund	-
-	2. Employees Provident Fund	-
-	3. Employees Welfare Fund	-
26,595,510	4. Provision for Staff Bonus	46,709,703
91,732,396	5. Interest Payable on Deposits	163,335,764
5,127,397	6. Interest Payable on Borrowings	8,901,370
11,487,016	7. Interest Payable on Debentures	11,930,630
1,183,071	8. Unearned Discount and Commission	2,626,776
22,394,614	9. Sundry Creditors	43,382,036
-	10. Branch Account	-
-	11. Deferred Tax Liability	-
126,220	12. Unpaid Dividend	150,822
-	13. Others	-
429,400	(a) Audit Fee Payable	452,000
4,866,747	(b) Remittance Payable	7,501,291
2,743,296	(c) Others	4,148,542
166,685,668	Total	289,138,935

Cash Balance

SCHEDULE 4.8

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
200,600,187	1. Local Currency (Including Coins)	239,853,850
11,121,285	2. Foreign Currency	4,351,241
211,721,472	Total	244,205,091

Balance With Nepal Rastra Bank**SCHEDULE 4.9**

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	LOCAL CURRENCY	FOREIGN CURRENCY (IN EQUIVALENT NPR)			THIS YEAR
			INR	CONVERTIBLE	TOTAL	
1,243,649,202	1. Nepal Rastra Bank	1,203,685,781	-	16,030,934	16,030,934	1,219,716,716
1,244,428,052	a. Current Account	1,203,685,781	-	16,030,934	16,030,934	1,219,716,716
(778,850)	b. Other Account	-	-	-	-	-

Balance With Banks/Financial Institutions**SCHEDULE 4.10**

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	LOCAL CURRENCY	FOREIGN CURRENCY (in Equivalent NPR)			THIS YEAR
			INR	CONVERTIBLE	TOTAL	
	1. Local Licensed Institutions					
59,362,354		38,886,718	-	-	-	38,886,718
59,362,354	a. Current Account	38,886,718	-	-	-	38,886,718
-	b. Other Account	-	-	-	-	-
318,044,695	2. Foreign Banks	-	73,432,833	264,462,881	337,895,714	337,895,714
318,044,695	a. Current Account	-	73,432,833	264,462,881	337,895,714	337,895,714
-	b. Other Account	-	-	-	-	-
377,407,049	Total	38,886,718	73,432,833	264,462,881	337,895,714	376,782,432

Note: Total balance for which the confirmations are received from respective licensed institutions NPR 1,780,645,096 and the difference amount have been identified and are reconciled.

Money at Call and Short Notice**SCHEDULE 4.11**

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
250,000,000	1. Local Currency	150,000,000
155,700,000	2. Foreign Currency	754,377,086
405,700,000	TOTAL	904,377,086

Investments

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.12

(in NPR)

PREVIOUS YEAR	PARTICULARS	PURPOSE		THIS YEAR
		TRADING	OTHER	
866,594,580	1. Government of Nepal Treasury Bills		1,452,304,585	1,452,304,585
-	2. Government of Nepal Saving Bonds		1,000,000	1,000,000
17,050,000	3. Government of Nepal Other Securities		17,050,000	17,050,000
-	4. Nepal Rastra Bank Bonds		-	-
-	5. Foreign Securities		-	-
680,000,000	6. Local Licensed Institutions		469,000,000	469,000,000
810,735,272	7. Foreign Bank	-	1,131,705,000	1,131,705,000
68,958,340	8. Shares of Organized Institutions		76,033,340	76,033,340
50,000,000	9. Bonds and Debentures of Organized Institutions		50,000,000	50,000,000
-	10. Other Investments		-	-
2,493,338,192	Total Investment	-	3,197,092,925	3,197,092,925
10,187,031	Provision	-	10,187,031	10,187,031
2,483,151,161	Net Investment	-	3,186,905,894	3,186,905,894

Investment In Shares, Debentures and Bonds

SCHEDULE 4.12 (A)

As at Ashad 32, 2067 (July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR		
		COST PRICE	MARKET PRICE	PROVISION
68,958,340	1. Investment in Shares	76,033,340		
9,740,031	1.1 Nepal Bank Limited 29,000 Ordinary Shares of NPR 100 each paid (Refer Note 12 on Schedule No. 4.33)	9,740,031	N/L	9,740,031
2,082,000	1.2 Everest Insurance Company Limited 11,711 Ordinary Shares of NPR 100 each paid (including 8,241 Bonus Shares)	2,082,000	3,665,543	-
740,809	1.3 Soaltee Hotel Limited 11,142 Ordinary Shares of NPR 10 each paid (including 2701 Bonus Shares)	740,809	2,551,518	-
447,000	1.4 Himalayan Distillery Limited 8,940 Ordinary Shares of NPR 50 each paid (Refer Note 12 on Schedule No. 4.33)	447,000	-	447,000
1,823,500	1.5 Credit Information Center (CIC) Ltd. 20,000 Ordinary Shares of NPR 100 each paid (including 1,765 bonus shares)	1,823,500	N/L	-
54,000,000	1.6 Prime Life Insurance Company Limited 540,000 Ordinary Shares of NPR 100 each paid	54,000,000	199,800,000	-
125,000	1.7 Nepal Clearing House Limited	2,500,000	N/L	-
-	1.8 National Banking Training Institution	1,200,000	N/L	-
-	1.9 Laxmi Microfinance Development Bank Ltd (5% advance against share)	3,500,000	N/L	-
50,000,000	2. Investment in Debentures and Bonds	50,000,000	-	-
50,000,000	2.1 Nepal Electricity Authority (7.75% NEA Power Bond of NPR. 1,000 each)	50,000,000	-	-
-	2.2	-	-	-
118,958,340	Total Investment	126,033,340	-	-
	3. Provision for Loss			10,187,031
10,187,031	3.1 Up to previous year	10,187,031		10,187,031
-	3.2 Increase/(Decrease) this year	-		-
10,187,031	Total Provision	10,187,031		10,187,031
108,771,309	Net Investment	115,846,309		

Note:

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

2 Except Soaltee Hotel Ltd and Everest Insurance Company Ltd none of the other companies have declared cash dividend in last three years

We have received 10% cash dividend and 20% Bonus Share from Soaltee Hotel Ltd and 20% cash dividend from Everest Insurance Co. Ltd during the year

Investments (Held for Trading)

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.12.1

(in NPR)

PREVIOUS YEAR	PARTICULARS	COST PRICE	PREVIOUS MARKET VALUE (A)	CURRENT MARKET VALUE (B)	CURRENT YEAR PROFIT/(LOSS) (B-A)	REMARKS
	1. Government of Nepal - Treasury bills	-	-	-	-	
	2. Government of Nepal - Savings Bonds	-	-	-	-	
	3. Government of Nepal - Development Bonds	-	-	-	-	
	4. Nepal Rastra Bank Bonds	-	-	-	-	
	5. Foreign Securities	-	-	-	-	
	6. Shares of Local Licensed Institutions	-	-	-	-	
	7. Bonds & Debentures of Local Licensed Institutions	-	-	-	-	
	8. Shares, Bonds & Debenture of Organized Institutions	-	-	-	-	
	9. Placement	-	-	-	-	
	10. Interbank Lending	-	-	-	-	
	11. Other Investment	-	-	-	-	
	Total Investment	-				

Investments (Held to Maturity)

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.12.2

(in NPR)

PREVIOUS YEAR	PARTICULARS	COST PRICE (A)	ACCUMULATED LOSS (B)	CURRENT YEAR LOSS (C)	CURRENT YEAR PROFIT/(LOSS)	REMARKS
866,594,580	1. Government of Nepal - Treasury bills	1,452,304,585	-	-		
	2. Government of Nepal - Savings Bonds	-	-	-		
17,050,000	3. Government of Nepal - Development Bonds	17,050,000	-	-		
	4. Nepal Rastra Bank Bonds	-	-	-		
	5. Foreign Securities	-	-	-		
	6. Shares of Local Licensed Institutions	-	-	-		
	7. Bonds & Debentures of Local Licensed Institutions	-	-	-		
50,000,000	8. Shares, Bonds & Debenture of Organized Institutions	50,000,000	-	-		
1,490,735,272	9. Placement	1,600,705,000	-	-		
	10. Other Investment	-	-	-		
2,424,379,852	Total Investment	3,120,059,585				

Investments (Available for Sale)

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.12.3

(in NPR)

PREVIOUS YEAR	PARTICULARS	COST PRICE	PREVIOUS MARKET VALUE (A)	CURRENT MARKET VALUE (B)	CURRENT YEAR PROFIT/(LOSS) (B-A)	REMARKS
	1. Government of Nepal - Treasury bills					
-	2. Government of Nepal - Savings Bonds	1,000,000	N/A	N/A	N/A	
	3. Government of Nepal - Development Bonds					
	4. Nepal Rastra Bank Bonds					
	5. Foreign Securities					
68,958,340	6. Shares of Local Licensed Institutions	76,033,340				
	7. Bonds & Debentures of Local Licensed Institutions					
	8. Shares, Bonds & Debenture of Organized Institutions					
	9. Placement					
	10. Other Investment					
68,958,340	Total Investment	77,033,340				

Classification of Loans, Advances and Bills Purchased & Provisioning

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.13
(in NPR)

PREVIOUS YEAR	PARTICULARS	LOANS & ADVANCES						BILLS PURCHASED/DISCOUNTED			THIS YEAR	
		DOMESTIC			FOREIGN			TOTAL	DOMESTIC	FOREIGN	TOTAL	
		PRIORITY SECTOR		OTHER	INSURED	UNINSURED	INSURED					UNINSURED
		INSURED	UNINSURED									
13,452,558,228	1. Performing Loan	-	-	14,713,984,170	-	14,713,984,170	-	1,302,110	3,302,860	4,604,970	14,718,589,140	
13,452,558,228	1.1 Pass	-	-	14,612,862,278	-	14,612,862,278	-	1,302,110	3,302,860	4,604,970	14,617,467,248	
-	1.2 Restructured/ Rescheduled	-	-	101,121,892	-	101,121,892	-	-	-	-	101,121,892	
10,790,791	2. Non-Performing Loan	-	-	17,816,353	-	17,816,353	-	-	-	-	17,816,353	
-	2.1 Sub-Standard	-	-	2,124,638	-	2,124,638	-	-	-	-	2,124,638	
2,495,836	2.2 Doubtful	-	-	2,344,567	-	2,344,567	-	-	-	-	2,344,567	
8,294,954	2.3 Loss	-	-	13,347,148	-	13,347,148	-	-	-	-	13,347,148	
13,463,349,018	A. Total Loan	-	-	14,731,800,523	-	14,731,800,523	-	1,302,110	3,302,860	4,604,970	14,736,405,493	
	3. Loan Loss Provision	-	-		-		-					
138,201,652	3.1 Pass	-	-	148,559,027	-	148,559,027	-	13,021	33,029	46,050	148,605,077	
-	3.2 Restructured/ Rescheduled	-	-	12,640,236	-	12,640,236	-	-	-	-	12,640,236	
-	3.3 Sub-Standard	-	-	531,159	-	531,159	-	-	-	-	531,159	
1,247,729	3.4 Doubtful	-	-	1,172,283	-	1,172,283	-	-	-	-	1,172,283	
8,295,333	3.5 Loss	-	-	13,347,148	-	13,347,148	-	-	-	-	13,347,148	
147,744,714	B. Total Provisioning	-	-	176,249,855	-	176,249,855	-	13,021	33,029	46,050	176,295,905	
	4. Provisioning up to Previous Year	-	-		-		-					
97,764,471	4.1 Pass	-	-	138,028,735	-	138,028,735	-	-	172,917	172,917	138,201,652	
4,131,924	4.2 Restructured/ Rescheduled	-	-	-	-	-	-	-	-	-	-	
328,094	4.3 Sub-Standard	-	-	-	-	-	-	-	-	-	-	
324,845	4.4 Doubtful	-	-	1,247,729	-	1,247,729	-	-	-	-	1,247,729	
10,940,369	4.5 Loss	-	-	8,295,333	-	8,295,333	-	-	-	-	8,295,333	
113,489,702	C. Total Provisions up to Previous Year	-	-	147,571,797	-	147,571,797	-	-	172,917	172,917	147,744,714	
(7,105,053)	D. Written Back this year	-	-	(75,445)	-	(75,445)	-	-	(139,888)	(139,888)	(215,334)	
41,360,065	E. Addition this year	-	-	28,753,503	-	28,753,503	-	13,021	-	13,021	28,766,525	
34,255,012	Changes this year	-	-	28,678,058	-	28,678,058	-	13,021	(139,888)	(126,867)	28,551,191	
13,315,604,304	Net Loan (A-B)	-	-	14,555,550,668	-	14,555,550,668	-	1,289,089	3,269,831	4,558,920	14,560,109,588	

Loans, Advances and Bills Purchased Security Wise

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.13 (A)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
13,463,349,018	A. Secured	14,736,405,493
13,068,412,433	1. Movable/Immovable Assets	14,107,522,752
28,000,000	2. Guarantee of Local Licensed Institutions	12,000,000
55,107,911	3. Government Guarantee	134,633,490
-	4. Internationally Rated Bank Guarantee	-
-	5. Export Documents	-
291,638,026	6. Fixed Deposit Receipts	464,310,073
290,091,822	a. Own Fixed Deposit Receipts	463,018,739
1,546,205	b. Fixed Deposit Receipts of Other Licensed Institutions	1,291,334
898,394	7. Government Bonds	-
-	8. Counter Guarantee	-
19,292,254	9. Personal Guarantee	17,939,178
-	10. Other Securities	-
-	B. Unsecured	-
13,463,349,018	Total	14,736,405,493

Fixed Assets

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.14

(in NPR)

PREVIOUS YEAR	PARTICULARS	ASSETS					THIS YEAR
		BUILDING	VEHICLES	MACHINERY	OFFICE EQUIPMENT	OTHERS	
	1. Cost Price						
179,118,137	a. Previous Year balance	49,873,724	57,993,607	-	107,603,319	-	215,470,650
42,483,571	b. Addition during the year	-	22,325,200	-	28,434,301	-	50,759,501
-	c. Revaluation/Written Back this year	-	-	-	-	-	-
(6,131,059)	d. Sold during the year	-	(4,300,495)	-	(289,950)	-	(4,590,445)
-	e. Written off during the year	-	-	-	-	-	-
215,470,650	Total Cost (a+b+c+d+e)	49,873,724	76,018,312	-	135,747,669	-	261,639,705
	2. Depreciation						
60,965,747	a. Up to previous year	6,230,624	14,315,355	-	58,378,196	-	78,924,175
22,399,705	b. For this year	1,255,268	8,251,577	-	17,250,931	-	26,757,776
-	c. Depreciation on revaluation/ Written Back	-	-	-	-	-	-
(4,441,276)	d. Adjustment/Write back of Depreciation amount	-	(2,108,384)	-	(223,221)	-	(2,331,605)
78,924,175	Total Depreciation	7,485,893	20,458,548	-	75,405,906	-	103,350,346
136,546,474	3. Book Value (WDV*) (1-2)	42,387,832	55,559,764	-	60,341,763	-	158,289,359
65,620,187	4. Land	-	-	-	-	-	65,620,187
19,328,802	5. Capital Construction (pending Capitalization)	-	-	-	-	-	29,620,918
26,237,747	6. Leasehold Assets	-	-	-	-	-	28,818,662
247,733,210	Total (3+4+5+6)	42,387,832	55,559,764	-	60,341,763	-	282,349,126

Non Banking Assets

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.15

(in NPR)

PREVIOUS YEAR	NAME & ADDRESS OF BORROWER OR PARTY	DATE OF ASSUMING NON BANKING ASSETS	TOTAL NON BANKING ASSETS	LOSS PROVISION		NET NON BANKING ASSETS
				%	IN NPR	
-	Guna Bahadur Thapa, Kathmandu	2059/11/06	492,200.00	100%	492,200.00	-
-	Ram Krishna Manandhar, Hetauda	2063/01/27	25,500.00	100%	25,500.00	-
-	Grand Total		517,700		517,700	-

Other Assets

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.16

(in NPR)

PREVIOUS YEAR	PARTICULARS		THIS YEAR
1,157,360	1. Stationery Stock		1,698,374
27,587,575	2. Income Receivable on Investment		86,465,026
21,918,709	3. Accrued Interest on Loan	29,251,780	-
21,918,709	Less: Interest Suspense Account	29,251,780	
-	4. Commission Receivable		-
-	5. Sundry Debtors		-
53,006,649	6. Staff Loan & Advances		64,499,436
5,105,506	7. Pre Payments		6,955,755
-	8. Cash in Transit		-
-	9. Other Transit items (including Cheques)		-
-	10. Drafts Paid Without Notice		-
923,747	11. Expenses not Written Off		-
-	12. Branch Account Reconciliation		-
1,125,168	13. Deferred Tax Assets		2,506,495
12,540,578	14. Others		15,678,539
10,279,153	a. Deferred Software Expenses (to the extent not written off)		7,974,662
	b. Advance tax (net)		
	c. Remittance Receivable		4,272,735
2,261,425	d. Others		3,431,142
101,446,583	TOTAL		177,803,626

Other Assets (Additional Statement)

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.16 (A)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR			TOTAL
		UP TO 1 YEAR	1 TO 3 YEAR	ABOVE 3 YEARS	
21,918,709	1. Accrued Interest on Loan	29,251,780		-	29,251,780
-	2. Drafts Paid without notice	-	-	-	-
-	3. Branch Account	-	-	-	-
-	4. Agency Account	-	-	-	-

Contingent Liabilities

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.17

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
-	1. Claims on institution not accepted by the Institution	-
853,459,760	2. Letter of Credit (Full Amount)	876,558,043
735,420,260	a. Less than 6 months maturity	876,558,043
118,039,500	b. More than 6 months maturity	-
-	3. Rediscounted Bills	-
483,540,108	4. Unmatured Guarantees/Bonds	1,165,231,187
30,225,050	a. Bid Bonds	467,925,106
453,315,058	b. Performance Bonds	432,885,462
-	c. Other Guarantee/Bonds	-
447,000	5. Unpaid Shares in Investment (Refer Note 12 on Schedule No. 4.33)	447,000
11,264,280	6. Outstanding Liabilities on Forward Exchange Contract	87,669,600
54,320,312	7. Bills under Collection	59,680,323
42,691,320	8. Acceptance & Endorsement	386,779,000
-	9. Underwriting Commitment	-
-	10. Irrevocable Loan Commitment	429,430,682
-	11. Guarantees issued against Counter Guarantee of Internationally Rated Banks	-
56,306,097	12. Advance Payment Guarantee	260,740,619
2,540,000	13. Financial Guarantee	3,680,000
5,771,677	14. Contingent Liabilities on Income Tax	58,034,240
-	15. Others	-
1,510,340,554	Total	3,063,830,075

Interest Income

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

SCHEDULE 4.18

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
1,019,089,813	A. On Loans, Advances and Overdraft	1,633,076,679
713,008,919	1. Loans & Advances	1,106,428,614
306,080,894	2. Overdraft	526,648,065
45,529,371	B. On Investment	110,763,211
31,090,030	1. Government of Nepal Securities	67,695,704
30,018,780	a. Treasury Bills	66,621,478
1,071,250	b. Development Bonds	1,074,226
-	c. National Saving Certificates	-
-	2. Foreign Securities	-
-	a.	-
-	b.	-
-	3. Nepal Rastra Bank Bonds	-
3,869,692	4. Debentures & Bonds	3,875,000
-	a. Financial Institutions	-
3,869,692	b. Other Institutions	3,875,000
10,569,650	5. Interest on Inter Bank Investment	39,192,507
10,569,650	a. Bank/ Financial Institutions	39,192,507
-	b. Other Institutions	-
-	C. On Agency Balances	-
-	1. Local Banks / Financial Institutions	-
-	2. Foreign Banks	-
11,608,615	D. On Money at Call and Short Notice	11,134,531
10,371,327	1. Local Banks/Financial Institutions	10,816,683
1,237,288	2. Foreign Banks	317,848
22,757,652	E. On Others	32,718,119
-	1. Certificate of Deposits	-
-	2. Inter-Bank / Financial Institutional Loan	-
-	3. Others	-
22,757,652	a. FCY placements	32,718,119
-	b. Others	-
1,098,985,452	Total	1,787,692,540

Interest Expenses

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

SCHEDULE 4.19

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
655,252,196	A. ON DEPOSIT LIABILITIES	1,045,198,157
405,450,103	1. Fixed Deposits	561,686,949
381,571,534	1.1 Local Currency	528,960,663
23,878,569	1.2 Foreign Currency	32,726,287
105,158,871	2. Saving Deposits	180,368,498
102,138,878	2.1 Local Currency	176,241,532
3,019,993	2.2 Foreign Currency	4,126,965
144,643,223	3. Call Deposits	303,142,710
142,984,277	3.1 Local Currency	298,485,274
1,658,946	3.2 Foreign Currency	4,657,436
-	4. Certificate of Deposits	-
57,096,115	B. ON BORROWINGS	90,411,733
19,999,541	1. Debentures & Bonds	29,831,507
722,765	2. Loan from Nepal Rastra Bank	19,443,702
36,373,808	3. Inter Bank /Financial Institutions Borrowing	41,136,524
-	4. Other Organized Institutions	-
-	5. Other Loans	-
-	C. ON OTHERS	-
-	1.	-
-	2.	-
712,348,311	Total	1,135,609,890

Commission and Discount Income

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

SCHEDULE 4.20

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
1,275,495	A. Bills Purchased & Discount	2,829,571
-	1. Local	-
1,275,495	2. Foreign	2,829,571
25,723,206	B. Commission	37,376,767
8,910,462	1. Letters of Credit	12,776,052
6,323,603	2. Guarantees	11,663,267
136,748	3. Collection Fees	196,858
9,579,356	4. Remittance Fees	11,999,892
773,037	5. Credit Card	740,699
-	6. Share Underwriting/Issue	-
-	7. Government Transactions	-
-	8. E.Pra. Commission	-
-	9. Exchange Fee	-
2,635,931	C. Others	6,660,573
29,634,632	Total	46,866,912

Other Operating Income

SCHEDULE 4.21

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
1,128,625	1. Safe Deposit Lockers Rental	2,025,750
433,907	2. Issue & Renewals of Credit Cards	433,781
926,917	3. Issue & Renewals of ATM Cards	3,661,714
3,550,056	4. Telex / T. T.	3,643,500
58,873,483	5. Service Charges (Loan Processing Fees)	40,264,219
-	6. Renewal Fees	-
6,004,305	7. Others	10,002,667
70,917,293	Total	60,031,631

Exchange Gain/Loss

SCHEDULE 4.22

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
13,607,533	a. Revaluation Gain (Loss)	13,481,747
37,397,021	b. Trading Gain (except Exchange Fees)	34,081,561
51,004,554	Total Income (Loss)	47,563,308

Employees Expenses

SCHEDULE 4.23

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
40,933,048	1. Salary	54,967,442
33,404,878	2. Allowances	44,527,389
3,561,411	3. Contribution to Provident Fund	4,977,645
604,977	4. Training Expenses	1,980,031
-	5. Uniform	-
3,055,433	6. Medical	4,557,911
135,668	7. Insurance	97,848
-	8. Pension and Gratuity	7,040,028
4,711,831	9. Others	4,257,335
86,407,247	TOTAL	122,405,630

Other Operating Expenses

SCHEDULE 4.24

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
16,448,108	1. House Rent	24,005,854
6,720,075	2. Light, Electricity & Water	8,712,743
3,684,138	3. Repair & Maintenance	4,743,301
2,518,040	a. Building	3,251,477
184,069	b. Vehicles	292,329
982,029	c. Others	1,199,495
2,088,128	4. Insurance	2,328,027
3,421,194	5. Postage, Telex, Telephone & Fax	3,832,673
1,217,430	6. Office Equipment, Furniture and Repair	1,649,198
2,603,655	7. Travelling Allowances & Expenses	2,866,336
4,660,829	8. Printing & Stationery	5,310,628
89,730	9. Books & Periodicals	9,717
7,077,371	10. Advertisements	12,178,884
484,500	11. Legal Expenses	332,967
108,500	12. Donations	-
1,000,366	13. Expenses relating to Board of Directors	1,144,447
784,000	a. Meeting Fees	972,000
216,366	b. Other Expenses	172,447
1,015,891	14. Annual General Meeting Expenses	516,955
615,916	15. Expenses relating to Audit	605,739
429,400	a. Audit Fees	452,000
186,516	b. Other Expenses	153,739
3,979,301	16. Commission on Remittances	2,835,850
22,399,705	17. Depreciation on Fixed Assets	26,757,776
-	18. Amortization of Pre-operating Expenses	-
3,130,724	19. Share Issue Expenses	3,351,299
-	20. Technical Services Fee Reimbursement	-
88,668	21. Entertainment Expenses	208,957
-	22. Written Off Expenses	-
8,308,897	23. Security Expenses	11,555,016
-	24. Credit Guarantee Premium	-
-	25. Commission & Discount	-
23,829,659	26. Others	29,222,865
7,430,297	(a) Subscription & Membership	10,021,325
4,275,452	(b) Computer Software Maintenance/ Amortisation	4,234,230
6,222,107	(c) Lease Hold Assets Amortisation	8,630,355
5,901,803	(d) Others	6,336,955
112,972,785	TOTAL	142,169,232

Provision for Possible Losses**SCHEDULE 4.25**

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
41,360,065	1. Increase in Loan Loss Provision	28,766,525
-	2. Increase in Provision for Loss on Investment	-
-	3. Provision Against Non-Banking Assets	-
-	4. Provision Against Other Assets	-
41,360,065	Total	28,766,525

Non-operating Income/(Loss)**SCHEDULE 4.26**

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
-	1. Profit (Loss) on Sale of Investments	-
596,231	2. Profit (Loss) on Sale of Assets	1,029,803
8,442	3. Dividend	231,799
-	4. Subsidies received from Nepal Rastra Bank	-
-	a. Reimbursement of losses of specified branches	-
-	b. Interest Compensation	-
-	c. Exchange Counter	-
(8,199,506)	5. Others	63,884
(9,101,956)	a. Amortisation of Goodwill	-
902,449	b. Other non operating income/(Expenses)	63,884
(7,594,833)	Total Non-Operating Income (Loss)	1,325,486

Loan Loss Provision Written Back**SCHEDULE 4.27**

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
7,105,053	1. Loan Loss Provision Written Back	215,334
-	2. Provision against Non Banking Assets Written Back	3,429,217
-	3. Investment Provision Written Back	-
-	4. Provision against other Assets Written Back	-
7,105,053	Total	3,644,550

Profit/Loss From Extra - Ordinary Activities**SCHEDULE 4.28**

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

(in NPR)

PREVIOUS YEAR	PARTICULARS	THIS YEAR
2,424,831	1. Recovery of Written off Loans	3,258,695
-	2. Voluntary Retirement Scheme Expenses	-
(3,367,147)	3. Loan Write -Offs {4.28 (a)}	(7,697,609)
(3,470,813)	4. Other Expenses/Income	-
-	5. Profit on sale of NBA	72,498
(4,413,129)	Total	(4,366,416)

Statement Of Loan Written-Off

For the period Shrawan 1, 2066 to Ashad 32, 2067 (July 16, 2009 to July 16, 2010)

SCHEDULE 4.28 (A)
(in NPR)

S.NO	TYPES OF LOAN	WRITTEN OFF AMOUNT	TYPES OF SECURITY	BASIS OF VALUATION OF COLLATERAL	NAME/DESIGNATION OF LOAN APPROVER	INITIATIONS MADE FOR RECOVERY OF LOAN	REMARKS
1	Working Capital Loan						
2	Project Loan						
3	Fixed Capital Loan						
4	Personal Loan	7,697,609	Personal Gtee	Shortlisted valuator	Suman Joshi/CEO & Ajaya Shah/HRFS	Follow up/ 35 days legal notice	
5	Other Loan						
	TOTAL LOAN	7,697,609					

Statement Of Loans and Advances to Directors/Chief Executive /Promoters/Employees And Shareholders

Aa at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.29
(in NPR)

NAME OF PROMOTER/DIRECTOR/ CHIEF EXECUTIVE	OUTSTANDING UP TO LAST YEAR		RECOVERED IN CURRENT YEAR		ADDITIONAL LENDING IN THIS YEAR		OUTSTANDING AS OF ASHAD END 2066	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	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 32, 2067 (July 16, 2010)

SCHEDULE 4.30 (A1)

(in NPR)

1.1 RISK WEIGHTED EXPOSURES	CURRENT YEAR AS AT ASHAD END 2067	PREVIOUS YEAR AS AT ASHAD END 2066
a Risk Weighted Exposure for Credit Risk	15,774,906,694	14,557,570,091
b Risk Weighted Exposure for Operational Risk	588,086,230	399,133,439
c Risk Weighted Exposure for Market Risk	69,330,592	40,569,004
Adjustment under Pillar II		
d Additional Risk-Weighted Exposure for Liquid Asset Shortfall	-	-
TOTAL RISK WEIGHTED EXPOSURES (A+B+C)	16,432,323,516	14,997,272,534
1.2 CAPITAL	CURRENT YEAR AS AT ASHAD END 2067	PREVIOUS YEAR AS AT ASHAD END 2066
Core Capital (Tier 1)	1,834,867,663	1,269,743,601
a Paid up Equity Share Capital	1,613,520,500	1,098,086,100
b Irredeemable Non-cumulative preference shares		
c Share Premium	13,071,581	
d Proposed Bonus Equity Shares	-	76,866,027
e Statutory General Reserves	154,995,984	89,588,576
f Retained Earnings	17,042,133	21,270,508
g Unaudited current year cumulative profit	-	-
h Capital Redemption Reserve	100,000,000	50,000,000
l Capital Adjustment Reserve	-	-
j Deferred Tax Reserve	2,506,495	1,125,168
k Other Free Reserve		
l Less: Goodwill	-	-
m Less: Miscellaneous Expenses not written off	-	(923,747)
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		
q Less: Investments arising out of underwriting commitments	(447,000)	(447,000)
r Less: Reciprocal crossholdings		
s Less: Other Deductions		
Supplementary Capital (Tier 2)	418,194,617	451,430,601
a Cumulative and/or Redeemable Preference Share		
b Subordinated Term Debt	250,000,000	300,000,000
c Hybrid Capital Instruments		
d General loan loss provision	146,813,790	134,960,877
e Investment Adjustment Reserve	11,727,698	10,187,031
f Assets Revaluation Reserve		
g Exchange Equalization Reserve	9,653,130	6,282,693
h Other Reserves	-	-
TOTAL CAPITAL FUND (TIER I AND TIER II)	2,253,062,280	1,721,174,202
1.3 CAPITAL ADEQUACY RATIOS	CURRENT YEAR AS AT ASHAD END 2067	PREVIOUS YEAR AS AT ASHAD END 2066
Tier 1 Capital to Total Risk Weighted Exposures	11.17%	8.47%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	13.71%	11.48%

Risk Weighted Exposure for Credit Risk

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.30 (B)

(in NPR)

	A. BALANCE SHEET EXPOSURES			SPECIFIC PROVISION			ELIGIBLE CRM	NET VALUE		RISK WEIGHT	RISK WEIGHTED EXPOSURES	
	BOOK VALUE	B	C	D=A-B-C	E	F=D*E						
Cash Balance	244,271,844	-	-	244,271,844	0%	-	-	-	-	-	-	-
Balance With Nepal Rastra Bank	1,219,716,716	-	-	1,219,716,716	0%	-	-	-	0%	-	-	-
Investment in Nepalese Government Securities	1,469,354,585	-	-	1,470,354,585	0%	-	-	-	0%	-	-	-
All other Claims on Government of Nepal	166,145,539	-	-	166,145,539	0%	-	-	-	0%	-	-	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-	-	-	0%	-	-	-
All other claims on Nepal Rastra Bank	1,000,000	-	-	1,000,000	0%	-	-	-	0%	-	-	-
Investment in Foreign Government Securities (ECA Rating 0-1)	-	-	-	-	0%	-	-	-	0%	-	-	-
Investment in Foreign Government Securities (ECA -2)	-	-	-	-	20%	-	-	-	20%	-	-	-
Investment in Foreign Government Securities (ECA -3)	-	-	-	-	50%	-	-	-	50%	-	-	-
Investment in Foreign Government Securities (ECA-4-6)	-	-	-	-	100%	-	-	-	100%	-	-	-
Investment in Foreign Government Securities (ECA -7)	-	-	-	-	150%	-	-	-	150%	-	-	-
Claims On BIS, IMF, ECB, EC	-	-	-	-	0%	-	-	-	0%	-	-	-
Claims on Multilateral Development Banks (MDB's)	-	-	-	-	0%	-	-	-	0%	-	-	-
Claims recognized by the framework	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Other Multilateral Development Banks	-	-	-	-	100%	-	-	-	100%	-	-	-
Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	20%	-	-	-	20%	-	-	-
Claims on Public Sector Entity (ECA 2)	-	-	-	-	50%	-	-	-	50%	-	-	-
Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-	-	-	100%	-	-	-
Claims on Public Sector Entity (ECA 7)	50,000,000	-	-	50,000,000	150%	-	-	-	150%	-	-	75,000,000
Claims on domestic banks that meet capital adequacy requirements	871,285,463	-	-	871,285,463	20%	-	-	-	20%	-	-	174,257,093
Claims on domestic banks that do not meet capital adequacy requirements	10,701,255	-	-	10,701,255	100%	-	-	-	100%	-	-	10,701,255
Claims on foreign banks established within SAARC region having capital adequacy ratio in excess of 1% than regulatory requirement	509,596,931	-	-	509,596,931	20%	-	-	-	20%	-	-	101,919,386
Claims on foreign bank (ECA Rating 0-1)	1,476,874,319	-	-	1,476,874,319	20%	-	-	-	20%	-	-	295,374,864
Claims on foreign bank (ECA Rating 2)	-	-	-	-	50%	-	-	-	50%	-	-	-
Claims on foreign bank (ECA Rating 3-6)	12,305,202	-	-	12,305,202	100%	-	-	-	100%	-	-	12,305,202
Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-	-	-	150%	-	-	-
Claims on Domestic Corporates	8,466,109,413	-	410,254,111	8,055,855,302	100%	-	-	-	100%	-	-	8,055,855,302
Claims on Foreign Corporates	-	-	-	-	20%	-	-	-	20%	-	-	-
Claims on Foreign Corporates	-	-	-	-	50%	-	-	-	50%	-	-	-
Claims on Foreign Corporates	-	-	-	-	100%	-	-	-	100%	-	-	-
Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-	-	-	150%	-	-	-
Regulatory Retail Portfolio (Not overdue)	67,441,838	-	26,912,505	40,529,333	75%	-	-	-	75%	-	-	30,396,999
Regulatory Retail Portfolio (Overdue) -Except Granularity	183,341,564	-	-	183,341,564	100%	-	-	-	100%	-	-	183,341,564
Claims secured by residential properties	2,302,933,891	-	315,000	2,302,618,891	60%	-	-	-	60%	-	-	1,381,571,334
Unsecured portion of claims secured by residential properties	-	-	-	-	150%	-	-	-	150%	-	-	-
Claims secured by residential properties (Overdue)	187,383	-	-	187,383	100%	-	-	-	100%	-	-	187,383
Claims secured by Commercial real estate	3,164,879,774	-	1,498,999	3,163,380,775	100%	-	-	-	100%	-	-	3,163,380,775
Past due claims (except for claim secured by residential properties)	14,264,017	15,050,591	-	0	1.5	-	-	-	1.5	-	-	-

SCHEDULE 4.30 (B) CONT'D....

	402,614,123	-	68,371,864	334,242,259	150%	501,363,388
B. OFF BALANCE SHEET EXPOSURES	GROSS BOOK VALUE	SPECIFIC PROVISION	ELIGIBLE CRM	NET VALUE	RISK WEIGHT	RISK WEIGHTED EXPOSURES
High Risk claims (Venture capital, private equity investments, personal loans and credit card receivables)	-	-	-	-	150%	501,363,388
Investments in equity of institutions not listed in the stock exchange	9,023,500	-	-	9,023,500	150%	13,535,250
Investments in equity of institutions listed in the stock exchange	740,809	-	-	740,809	100%	740,809
Other Loans and Advances	-	-	-	-	150%	-
Other Assets (as per attachment)	922,838,501	495,249,089	-	430,359,716	100%	430,359,716
TOTAL	21,566,626,666	510,299,680	507,352,479	20,552,531,385		14,430,290,321
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	59,680,323	-	-	59,680,323	0%	-
Forward Foreign Exchange Contract	87,637,493	-	-	87,637,493	10%	8,763,749
LC Commitments With Original Maturity Up to 6 months (domestic)	876,558,043	-	58,781,756	817,776,287	20%	163,555,257
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)	-	-	-	-	50%	-
ECA Rating 0-1	-	-	-	-	20%	-
ECA Rating 2	-	-	-	-	50%	-
ECA Rating 3-6	-	-	-	-	100%	-
ECA Rating 7	-	-	-	-	150%	-
Bid Bond and Performance Bond (domestic)	900,810,568	-	42,126,966	858,683,602	50%	429,341,801
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 repo)	-	-	-	-	100%	-
Advance Payment Guarantee	260,740,619	-	7,713,138	253,027,481	100%	253,027,481
Financial Guarantee	3,680,000	-	368,000	3,312,000	100%	3,312,000
Acceptances and Endorsements	386,779,000	-	17,037,484	369,741,516	100%	369,741,516
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments	429,430,682	-	-	429,430,682	20%	85,886,136
Other Contingent Liabilities	30,988,432	-	-	30,988,432	100%	30,988,432
TOTAL	3,036,305,161	510,299,680	126,027,344	2,910,277,817		1,344,616,373
TOTAL RWE FOR CREDIT RISK (A) +(B)	24,602,931,826	510,299,680	633,379,823	23,462,809,201		15,774,906,694

Eligible Credit Risk Mitigants

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.30 (C)
(in NPR)

CREDIT EXPOSURES	DEPOSITS WITH BANK (A)	DEPOSITS WITH OTHER BANKS/FI (B)	GOLD (C)	GOVT.& NRB SECURITIES (D)	G'TEE OF GOVT. OF NEPAL (E)	SEC/G'TEE OF OTHER SOVEREIGNS (F)	G'TEE OF DOMESTIC BANKS (G)	G'TEE OF MDBS (H)	SEC/G'TEE OF FOREIGN BANKS (I)	TOTAL
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 adequacy requirements										-
Claims on domestic banks that do not meet capital adequacy requirements										-
Claims on foreign bank (ECA Rating 0-1)										-
Claims on foreign bank (ECA Rating 2)										-
Claims on foreign bank (ECA Rating 3-6)										-
Claims on foreign bank (ECA Rating 7)										-
Claims on Domestic Corporates	410,254,111	-	-	-	-	-	-	-	-	410,254,111
Claims on Foreign Corporates (ECA 0-1)										-

Eligible Credit Risk Mitigants

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.30 (C) CONT'D....

CREDIT EXPOSURES	DEPOSITS WITH BANK (A)	DEPOSITS WITH OTHER BANKS/FI (B)	GOLD (C)	GOVT.& NRB SECURITIES (D)	G'TEE OF GOVT. OF NEPAL (E)	SEC/G'TEE OF OTHER SOVEREIGNS (F)	G'TEE OF DOMESTIC BANKS (G)	G'TEE OF MDBS (H)	SEC/G'TEE OF FOREIGN BANKS (I)	TOTAL
Claims on Foreign Corporates (ECA 2)										-
Claims on Foreign Corporates (ECA 3-6)										-
Claims on Foreign Corporates (ECA 7)										-
Regulatory Retail Portfolio	26,912,505			-						26,912,505
Regulatory Retail Portfolio (Overdue) -Except Granularity	-									-
Claims secured by residential properties (with condition)										-
Claims secured by residential properties (without condition)	315,000			-						315,000
Unsecured portion of claims secured by residential properties										-
Claims secured by residential properties (Overdue)										-
Claims secured by Commercial real estate	1,498,999									1,498,999
Past due claims (except for claim secured by residential properties)										-
High Risk claims (Venture capital, private equity investments, personal loans and credit card receivables)	65,080,530	1,291,334		2,000,000						68,371,864
Investments in equity of institutions not listed in the stock exchange										-
Investments in equity of institutions listed in the stock exchange										-
Other Loans and Advances										-
Cash and cash items in transit										-
Fictitious Assets										-
Other Assets (as per attachment)										-
Off Balance Sheet Exposures										
LC Commitments With Original Maturity Up to 6 months (domestic)	58,781,756									58,781,756

Eligible Credit Risk Mitigants

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.30 (C) CONT'D....

CREDIT EXPOSURES	DEPOSITS WITH BANK	DEPOSITS WITH OTHER BANKS/FI	GOLD	GOVT. & NRB SECURITIES	G'TEE OF GOVT. OF NEPAL	SEC/G'TEE OF OTHER SOVEREIGNS	G'TEE OF DOMESTIC BANKS	G'TEE OF MDBS	SEC/G'TEE OF FOREIGN BANKS	TOTAL
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	
ECA Rating 0-1										
ECA Rating 2										
ECA Rating 3-6										
ECA Rating 7										
LC Commitments With Original Maturity Over 6 months (domestic)	-									
ECA Rating 0-1										
ECA Rating 2										
ECA Rating 3-6										
ECA Rating 7										
Bid Bond and Performance Bond (domestic)	42,126,966									42,126,966
ECA Rating 0-1										
ECA Rating 2										
ECA Rating 3-6										
ECA Rating 7										
Underwriting commitments										
Lending of Bank's Securities or Posting of Securities as collateral										
Repurchase Agreements, Assets sale with recourse (including repo/ reverse repo)										
Advance Payment Guarantee	7,713,138									7,713,138
Financial Guarantee	368,000									368,000
Acceptances and Endorsements	17,037,484									17,037,484
Unpaid portion of Partly paid shares and Securities										
Irrevocable Credit commitments										
Other Contingent Liabilities										

Risk Weighted Exposure for Operational Risk

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.30 (D)

(in NPR)

PARTICULARS	2008/09	2007/08	2006/07
Net Interest Income	386,637,141	289,134,528	190,216,982
Commission and Discount Income	29,634,632	20,943,463	15,156,901
Other Operating Income	70,917,293	25,482,082	15,710,023
Exchange Fluctuation Income	51,004,554	46,637,081	20,904,775
Additional Interest Suspense during the period	2,657,596	-	11,135,409
Gross income (a)	540,851,215	382,197,154	253,124,090
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [c=(a×b)]	81,127,682	57,329,573	37,968,614
Capital Requirement for operational risk (d) (average of c)	58,808,623		
Risk Weight (reciprocal of capital requirement of 10%) in times (e)	10		
Equivalent Risk Weight Exposure [f=(d×e)]	588,086,230		

Risk Weighted Exposure for Market Risk

As at Ashad 32, 2067 (July 16, 2010)

SCHEDULE 4.30 (E)

(in NPR)

S. NO.	CURRENCY	OPEN POSITION (FCY)	OPEN POSITION	RELEVANT OPEN POSITION
1	AED	(640)	(12,691)	12,691
2	AUD	(1,020)	(66,683)	66,683
3	CAD	-	-	-
4	CHF	-	-	-
5	CNY	-	-	-
6	DKK	-	-	-
7	EUR	6,002	577,215	577,215
8	GBP	4,004	460,177	460,177
9	HKD	-	-	-
10	INR	(76,197,620)	(121,977,540)	121,977,540
11	JPY	(419,343)	(360,216)	360,216
12	KRW	-	-	-
13	MYR	(755)	(17,467)	17,467
14	NLG	-	-	-
15	NPR			
16	QAR	(5,098)	(104,050)	104,050
17	SAR	-	-	-
18	SEK	-	-	-
19	SGD	(856)	(46,370)	46,370
20	THB	-	-	-
21	USD	(201,497)	(15,038,775)	15,038,775
Total Open Position (a)				138,661,184
Fixed Percentage (b)				5%
Capital Charge for Market Risk {c=(a*b)}				6,933,059
Risk Weight (reciprocal of capital requirement of 10%) in times (d)				10
Equivalent Risk Weight Exposure {e=(c*d)}				69,330,592

Principal Indicators

(At Least for Previous 5 year)

SCHEDULE 4.31

(in NPR)

PARTICULARS	INDICATORS	F. Y.	F. Y.	F. Y.	F. Y.	F. Y.
		2062/2063	2063/2064	2064/2065	2065/2066	2066/2067
1. Percentage of Net Profit/Gross Income	%	21.72%	27.10%	31.41%	35.12%	40.55%
2. Earnings Per Share	NPR	5.80	10.75	16.45	20.70	24.12
3. Market Value per Share	NPR	368.00	690.00	1,113.00	1,062.00	570.00
4. Price Earning Ratio	Ratio	63.44	64.18	67.66	51.31	23.63
5. Dividend on share capital (Bonus share + Cash dividend)	%	-	-	21.05%	5.26%	13.00%
6. Cash Dividend on share capital	%	-	-	1.05%	0.26%	13.00%
7. Interest Income/Loans & Advances and Investments	%	8.30%	7.84%	7.85%	8.76%	9.97%
8. Employee Expenses/Total Operating Expenses	%	42.89%	43.43%	43.34%	43.34%	46.27%
9. Interest Expenses on Total Deposits and Borrowings	%	5.05%	4.64%	4.45%	5.05%	6.42%
10. Exchange Fluctuation Gain/Total Income	%	5.79%	8.64%	12.20%	9.48%	5.90%
11. Staff Bonus/ Total Staff Expenses	%	11.86%	16.39%	21.62%	23.54%	27.62%
12. Net Profit/Loans & Advances	%	1.01%	1.21%	1.47%	1.63%	2.32%
13. Net Profit/ Total Assets	%	0.79%	0.95%	1.13%	1.22%	1.66%
14. Total Credit/Deposit	%	96.30%	85.78%	89.72%	83.88%	81.49%
15. Total Operating Expenses/Total Assets	%	1.94%	1.63%	1.48%	1.28%	1.35%
16. Adequacy of Capital Fund on Risk Weightage Assets						
a. Core Capital	%	13.71%	11.33%	10.10%	8.47%	11.17%
b. Supplementary Capital	%	1.25%	1.10%	1.07%	3.01%	2.54%
c. Total Capital Fund	%	14.96%	12.43%	11.17%	11.48%	13.71%
17. Liquidity (CRR)	%	5.67%	5.65%	5.65%	8.61%	7.24%
18. Non Performing Loans/Total Loans	%	0.78%	0.35%	0.13%	0.08%	0.12%
19. Weighted Average Interest Rate Spread	%	3.24%	3.20%	3.40%	3.71%	3.55%
20. Book Net worth	NPR	649,048,621	843,946,939	1,145,533,225	1,342,295,325	1,912,330,490
21. Total Shares	Number	6,100,000	7,296,970	9,131,963	10,980,861	16,135,205
22. Total Employees	Number	145	186	252	299	347

Schedule 4.32: Significant Accounting Policies

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.

The amount recovered from borrowers is first applied to interest recoverable and remaining amount is applied against settlement of outstanding principal.

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

Investments are classified as held for trading, held to maturity and available for sale.

A. HELD FOR TRADING:

Investments that are made for the purpose of generating profit from short term fluctuations in price are classified under this category. These investments are marked to market and differences reflected in the profit and loss account.

B. HELD TO MATURITY:

The investments made with positive intent and ability of the bank to hold till maturity are classified as held to maturity investments. The held to maturity investments are valued at amortized cost i.e. the cost price less any impairments (if applicable). The impairments are included in the profit and loss accounts for the period.

C. AVAILABLE FOR SALE:

All other investments that are neither "held for trading" nor "held to maturity" are classified under this category. These investments are marked to market on a regular basis and the difference adjusted through reserves.

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.

b. 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	20 - 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.

e. Land and building located at Hattisar is in joint ownership with Everest Insurance Company Limited, Gorkha Brewery Limited and Himalayan Snax Pvt. Limited. Laxmi Bank owns 40.34% of the total value of the property.

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.

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) AMORTIZATION

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

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.

XIX) 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.

XX) 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.

XXI) PROVISION FOR TAXATION

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

Provision for taxation is made on the basis of the taxable profits computed for the current accounting period in accordance with the Income Tax Act, 2058.

Deferred taxes are accounted using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on the laws that have been enacted or subsequently enacted by the reporting date.

XXII) LEASE

Assets held under finance leases are initially recognized as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the financial statement as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more repre-

sentative of the time pattern in which economic benefits from the leased asset are consumed.

XXIII) PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank creates a provision when there is a present obligation as a result of past events that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an economic benefit will arise, the asset and related income are recognized in the period in which the change occurs.

Liability on account of derivative contracts are reported under Contingent liabilities under subheading Outstanding Liabilities for Forward Exchange Contract. These include notional principal on outstanding forward rate agreements.

XXIV) PREVIOUS YEAR'S FIGURES

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

Schedule 4.33: Notes to Accounts

1. 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 amounting to NPR 46,709,703 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 (Gratuity liability is NPR 16,380,482 outstanding as of 16 July 2010) 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 13,481,747, 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. INVESTMENT ADJUSTMENT RESERVE

Investment adjustment reserve has been created by transferring NPR

1,540,667 (2% of the Investment in shares available for sale) from Profit and Loss appropriation account as per the requirement of Capital Adequacy framework.

8. INCOME TAX ISSUES

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 2065/66 under self assessment procedures.

On the assessment of the Income Tax Returns of the bank for the fiscal year 2060/61, Large Taxpayers' Office (LTO) 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 net of advances and deposits (NPR 4,110,634) has been disclosed as contingent liability on Income Tax under schedule 4.17.

For fiscal year 2061/62, 2061/62 (Hisef related) and 2062/63 LTO has raised an additional claim amounting to NPR 9,618,611 for 2061/62 (Laxmi Bank), NPR 16,079,489 for 2061/62 (Hisef related) and NPR 10,645,185 for 2062/63. The bank has filed an appeal to administrative review for all these assessment orders. The amount of claim net of all the advances and deposits

(NPR 25,216,756) has been disclosed as contingent liability on Income Tax under schedule 4.17.

9. NONE OF THE BANK'S BORROWINGS ARE AGAINST THE COLLATERAL OF ITS OWN ASSETS.

10. RIGHT SHARES

The bank has issued right shares during the year to the existing shareholders in the ratio of 2 shares for every 5 shares held (40% of the share capital) as approved by the 8th AGM.

11. SHARE PREMIUM

Shares that were unsubscribed during the issue of right shares to the existing shareholders were auctioned during the year after obtaining the required approvals. The amount collected during the auction of 36,497 unsubscribed shares in excess of par value has been recognized as share premium (NPR 13,071,581) and disclosed in schedule 4.2.

12. BONUS SHARES

In line with the approval of the 9th AGM, the Bank has distributed 5% bonus shares during the year to its shareholders. The value of bonus shares capitalized during the year was NPR 76,200,000. The fractional shares claim of 4,835 shares has been carried over.

13. ACCUMULATED PROFIT AND LOSS

The bank has adjusted NPR 192,089 in the opening balance of accumulated profit and loss account this year as a result of writing back of the excess bonus provision (NPR 182,485) and excess dividend provision (NPR 9,604) made during the previous fiscal year arising in relation to the portion of unsubscribed right shares. Further, this has also been disclosed in the

Statement of Changes in Equity in the Financial Statement as adjustment in accumulated profit / loss.

14. 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 could not be 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.

15. LIEN OVER INVESTMENTS

The bank has made placements with Standard Chartered Bank (London and Singapore), amounting to USD 14,390,283 as of 16 July 2010, which was under lien as per the lien letter signed with Standard Chartered Bank.

16. RELATED PARTY TRANSACTION

Transactions with related companies:

Total insurance premium paid to Everest Insurance Company Limited (a related party under common holding) during the FY 2009/10 amounts to NPR 2,380,553.

Details of Compensation paid to key management personnel during the year:

Short term employee benefit paid to Key Management Personnel (which includes CEO, Company Secretary and all other managerial level staff) during the fiscal year amounts to NPR 41,769,357. In addition, they are entitled to other benefits and facility as per the Human Resource Policy of the bank and employment terms and conditions.

There is no post employment, other long term or share based payments to the employees. Employees are entitled to gratuity (as termination benefits) as per the Human Resource Policy of the bank.

Transaction with the members of Board of Directors during the year:

	NPR
Meeting fees	972,000
Other meeting expenses	172,447

17. RECONCILIATION STATUS

RECONCILIATION	TOTAL AMOUNT	UPTO 3 MONTHS	3 TO 9 MONTHS	9 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	MORE STATUS THAN 3 YEARS
Branch						
Reconciliation	-	-	-	-	-	-
Agency Accounts	443,414	419,479	21,858	1,830	245	

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.

18. LEASE Finance Lease

The bank has not entered into any finance lease and does not have any obligation in respect of finance lease.

Operating Lease

The bank has entered into a lease arrangement for office premises and

ATM space outside of the branch for different periods, which can be terminated by either party giving prior notice as stipulated in the contract / agreement. The future minimum lease payment under non-cancelable operating leases, where the bank is lessee is NIL. There is no rental expense under non-cancelable operating leases.

19. SUMMARY OF LOANS AND ADVANCES DISBURSED, RECOVERED AND PRINCIPAL & INTEREST WRITTEN OFF

Amount in NPR'000

PARTICULARS	AMOUNT
Loans Disbursed	18,410,397
Loans Recovered	17,137,340
Loans Written off	7,698
Interest written off	2,620

20. SUMMARY OF CHANGES IN DEPOSIT LIABILITIES

Amount in NPR'000

PARTICULARS	PREVIOUS YEAR	NET CHANGES	CURRENT YEAR
	31/3/2066 (15/07/2009)	DURING THE YEAR	32/3/2067 (16/07/2010)
Call Deposits	4,004,944	1,450,492	5,455,436
Current Deposits	1,043,826	(223,865)	819,961
Fixed Deposits	7,183,978	637,480	7,821,458
Margin Deposits	208,520	(60,513)	148,007
Saving Deposits	3,463,222	221,694	3,684,916

21. WEIGHTED AVERAGE INTEREST SPREAD

	RATE %
Average Rate of return from loans and advances and investments	9.97
Average Rate on deposits & borrowings	6.42
Net Spread	3.55

22. SUMMARY OF CONCENTRATION OF EXPOSURE

Amount in NPR'000

PARTICULARS	LOANS, ADVANCES AND BILLS PURCHASED	DEPOSITS AND BORROWINGS	CONTINGENTS
Total amount as on 16/07/2010	14,736,405	18,182,958	3,063,830
Highest exposure to a single unit	436,201	1,289,858	420,394
Percentage of exposure to/from single unit (in %)	2.96%	7.09%	13.72%

23. CLASSIFICATION OF ASSETS AND LIABILITIES BASED ON MATURITY

Amount in NPR Lacs

ASSETS	1 - 90 DAYS	91 - 180 DAYS	181 - 270 DAYS	271 - 366 DAYS	ABOVE ONE YEARS	TOTAL AMOUNT
1. Cash Balance	2,442	-	-	-	-	2,442
2. Bank Balance	12,586	-	-	-	-	12,586
3. Investment in Foreign Banks	3,689	-	-	-	-	3,689
4. Money at Call and Short Notice	9,044	-	-	-	-	9,044
5. Government Securities	-	-	2,520	12,003	-	14,523
6. NRB Bonds					171	
7. Inter Bank Loans and Advances	7,790	4,482	1,494	747	1,494	16,007
8. Loans and Advances	48,012	19,790	15,600	10,098	53,864	147,364
9. Interest Income (expected)	4,421	4,421	4,421	4,421	-	17,684
10. Reverse Repo	-	-	-	-	-	-
11. Funds Receivable from others under Contracts/Commitments						
12. Payment of Facilities under Serial no:20,21 and 22						
13. Others						
TOTAL ASSETS	87,984	28,693	24,035	27,269	55,529	223,339
LIABILITIES						
14. Current Deposits	4,099	410	410	410	2,869	8,198
15. Savings Deposits	184	368	553	737	35,007	36,849
16. Fixed Deposits	32,167	13,447	10,729	14,618	7,256	78,216
17. Bonds	-	-	-	-	3,500	3,500
18. Borrowings						
Demand/Short Notice						
Inter Banks/ Finance Companies	1,000	-	-	-	-	1,000
Refinance						
Others						
19. Call Account	27,277	2,728	2,728	2,728	19,094	54,554
19. Other Liabilities and Management						
Sundry Creditors	482	-	-	-	-	482
Bills Payable						
Interest Payable (expected)	2,978	2,978	2,978	2,978		11,914
Provisions						
Others						
20. Payment to Other Institutions under commitment						
21. Unutilized Facilities						
22. Letter of Credit						
23. Repo						
24. Payment of Facilities under Serial no 11						
25. Others						
TOTAL LIABILITIES	68,187	19,931	17,397	21,471	67,726	194,713
NET FINANCIAL ASSETS	19,797	8,762	6,637	5,798	(12,198)	28,797
CUMULATIVE NET FINANCIAL ASSETS	19,797	28,559	35,196	40,994	28,797	-

24. CREDIT CONCENTRATION

Amount in NPR Lacs

SECTORS	NUMBER	PRINCIPAL	INTEREST
1 Agriculture	546	168	1
2 Mines			
3 About Productions			
4 Construction	452	32,438	31
5 Metal Productions, Machinery & Electrical Tools & fitting	899	33,582	142
6 Transportation Equipment Production & Fitting	27	1,425	1
7 Transportation, Communications & Public Services	12	327	1
8 Wholesaler & Retailers	110	6,098	10
9 Finance, Insurance & Fixed Assets	880	21,265	21
10 Service Industries	459	34,124	41
11 Consumable Loan	10	593	2
12 Local Government	87	4,987	15
13 Others	659	2,864	8
TOTAL	4,342	147,364	279

25. DETAILS OF GROSS NON BANKING ASSETS (NPR)

PREVIOUS YEAR	ADDITION DURING THE YEAR	SALE DURING THE YEAR	BALANCE AT THE END OF THE YEAR
3,946,917	-	3,429,217	517,700

26. DETAILS OF LEASE HOLD ASSETS AMORTIZATION

Amount in NPR

LEASE HOLD ASSETS UP TO LAST YEAR	THIS YEAR ADDITION / DELETION	AMORTIZATION DURING THE YEAR	NET BALANCE AT THE END OF THE YEAR
26,237,747	11,211,270	8,630,355	28,818,662

27. TAX LIABILITY RECONCILIATION

Reconciliation of Profit as per financial statement is reconciled with Taxable profit to compute tax liability as follows:

Amount in NPR'000

PARTICULARS	AMOUNT
Profit before tax as per Profit & Loss Account	467,097
Add: Adjustments for	
Depreciation as per Schedule 24 considered separately	26,757
Equipment & furniture charged to revenue considered in depreciation	1,649
Leasehold amortization considered in depreciation	8,630
Software amortization considered in depreciation	4,234
Less: Adjustments for	
Depreciation as per Income Tax Act	(33,860)
Swift expenses (included in software amortization)	(1,775)
Profit on sale of fixed assets considered separately	(1,029)
Dividend income	(231)
Taxable Profit as per Income tax Act 2058	471,471
Corporate Income Tax @ 30%	141,441

28. DEFERRED TAX LIABILITY/ (ASSET)

Carrying amount of Assets & Liabilities where temporary differences arise as on 32 Ashad 2067 (16.07 2010) are as follows:

PARTICULARS	Amount in NPR		
	AS PER BOOKS OF ACCOUNTS	AS PER INCOME TAX ACT	DIFFERENCE
Fixed Assets	187,108,021	195,463,006	(8,354,985)
Net Temporary Differences	187,108,021	195,463,006	(8,354,985)
Deferred Tax Liability/ (Asset) as at Ashad end 2067 @ 30%			(2,506,495)
Deferred Tax Liability/ (Asset) till Ashad end 2066			(1,125,168)
Deferred Tax Expense/ (Income) for Current Year			(1,381,327)

Deferred Tax Asset as of Ashad end 2067 (16 July 2010) is NPR 2,506,495. NPR 1,381,327 has been recognized as deferred tax income in Profit and Loss Account in the current year.

As required by Nepal Rastra Bank directives, the deferred tax assets of NPR 1,381,327 created in the current year has been credited to Deferred Tax Reserve through the Profit and Loss Appropriation Account.

29. 8.5% LAXMI BANK DEBENTURE, 2072

With the objective of strengthening the capital position by increasing the

Supplementary Capital, Laxmi Bank had 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 this year also, in line with previous year practice, from the Profit appropriation account to repay the Debenture in 7 years period. Total Debenture Redemption Fund as of 16 July 2010 stands at NPR 100,000,000.

30. CASH DIVIDEND

The board has decided to distribute 13% cash dividend to shareholders out of profit of current year subject to approval from Nepal Rastra Bank and Annual General Meeting.

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 32, 2067 (July 16, 2010)

SCHEDULE 4.34

(in NPR)

S.No	Name of Promoter/ Shareholders under Promoter Group	Shareholding		Loan Details			Remarks
		Total No of shares	% of Total Paid up Capital	Name of the Lending Bank and Financial Institutions	Loan Amount	No of Shares Pledged	
1	Himalayan Exim Pvt Ltd	1,945,074	12.05%	NMB Bank	149,756,399.30	1,355,332	
2	"	"	"	Rastriya Banijya Bank	104,974,289.00	400,100	Additional security of 199,980 kitta Ordinary Share held by Prime Holding Pvt Ltd
3	Satya Narayan Manandhar	34,185	0.21%	Siddhartha Bank	-	23,256	
4	Surendra Silwal	26,460	0.16%	Rastriya Banijya Bank	-	18,000	
5	MTC Investment Pvt Ltd.	1,296,540	8.04%	Nepal Investment Bank	150,000,000.00	1,034,800	
6	Narayan Bajaj	15,120	0.09%	Himalayan Bank	-	12,000	
7	Amit Gupta Agrawal	334,530	2.07%	Himalayan Bank	17,959,000.00	150,000	

Comparison Of Unaudited and Audited Financial Statement

As of FY 2009/10

SCHEDULE 4.35

(in NPR)

S.N.	PARTICULARS	AS PER UNAUDITED FINANCIAL STATEMENT		AS PER AUDITED FINANCIAL STATEMENT		VARIANCE		REASONS FOR VARIANCE
		FINANCIAL STATEMENT	FINANCIAL STATEMENT	FINANCIAL STATEMENT	FINANCIAL STATEMENT	AMOUNT	IN %	
1	Total Capital and Liabilities (1.1 to 1.7)	21,138,732,493	21,138,732,493	20,952,249,558	(186,482,935)	-1%		
1.1	Paid Up Capital	1,613,520,500	1,613,520,500	1,613,520,500	-			
1.2	Reserve & Surplus	509,041,592	509,041,592	298,809,990	(210,231,601)	-41%	Cash Dividend declared and adjustment in Opening Retained Earnings	
1.3	Debenture & Bond	350,000,000	350,000,000	350,000,000	-			
1.4	Borrowings	100,000,000	100,000,000	100,000,000	-			
1.5	Deposits (a+b)	18,082,957,989	18,082,957,989	18,082,957,988	-			
	a) Domestic Currency	15,951,633,414	15,951,633,414	15,954,368,284	-			
	b) Foreign Currency	2,131,324,574	2,131,324,574	2,128,589,703	-			
1.6	Income Tax Liability	2,801,578	2,801,578	2,801,578	-			
1.7	Other Liabilities (including Bills payable, dividend payable etc)	480,410,834	480,410,834	504,159,502	23,748,668	5%	Regrouping of provisions and cash dividend.	
2	Total Assets (2.1 to 2.7)	21,138,732,493	21,138,732,493	20,952,249,558	(186,482,935)	-1%		
2.1	Cash & Bank Balance	1,840,704,239	1,840,704,239	1,840,704,239	-			
2.2	Money at call and Short Notice	904,377,086	904,377,086	904,377,086	-			
2.3	Investments	3,197,092,925	3,197,092,925	3,186,905,894	(10,187,031)	-0.3%	Net of provision in Audited Financials	
2.4	Loan & Advances	14,736,405,493	14,736,405,493	14,560,109,588	(176,295,905)	-1%	Net of provision in Audited Financials	
2.5	Fixed Assets	282,349,125	282,349,125	282,349,126	0	0%		
2.6	Non Banking Assets (net)	-	-	-	-			
2.7	Other Assets	177,803,626	177,803,626	177,803,626	-	0%		
3	Profit & Loss Account							
3.1	Interest Income	1,787,692,540	1,787,692,540	1,787,692,540	-			
3.2	Interest Expenses	1,135,609,890	1,135,609,890	1,135,609,890	-			
A. Net Interest Income (3.1-3.2)		652,082,650	652,082,650	652,082,650	-			
3.3	Fees, Commission & Discount	46,866,912	46,866,912	46,866,912	-			
3.4	Other Operating Income	60,031,631	60,031,631	60,031,631	-			
3.5	Foreign Exchange Gain & Loss	47,563,308	47,563,308	47,563,308	-			
B. Total Operating Income (A+3.3+3.4+3.5)		806,544,500	806,544,500	806,544,500	-			
3.6	Staff Expenses	122,405,630	122,405,630	122,405,630	-			
3.7	Other Operating Expenses	142,169,232	142,169,232	142,169,232	-			
C. Operating Profit before Provisions (B -3.6-3.7)		541,969,638	541,969,638	541,969,638	-			
3.8	Provision for Possible Losses	28,766,525	28,766,525	28,766,525	0	0%		
D. Operating Profit (C - 3.8)		513,203,114	513,203,114	513,203,114	(0)	0%		
3.9	Non Operating Income/Expenses (Net)	1,325,486	1,325,486	1,325,486	-			
3.10	Loan Loss Provision Written Back	3,644,550	3,644,550	3,644,550	0	0%		
E. Profit from Regular Activities (D+3.9+3.10)		518,173,150	518,173,150	518,173,150	-			
3.11	Extraordinary Income/Expenses (Net)	(4,366,416)	(4,366,416)	(4,366,416)	(0)			
F. Profit before Bonus and Taxes (E+3.11)		513,806,734	513,806,734	513,806,734	(0)			
3.12	Provision for Staff Bonus	46,709,703	46,709,703	46,709,703	(0)			
3.13	Provision for Taxes	141,441,317	141,441,317	141,441,317	-	0%		
	Deferred Tax Expense/ (Income)	(1,381,327)	(1,381,327)	(1,381,327)	-			
G. Net Profit/ Loss (F-3.12-3.13)		327,037,041	327,037,041	327,037,041	(0)			

Unaudited Financial Results (Quarterly)

As at 4th Quarter (16/7/2010) of the Fiscal Year 2009/10

SCHEDULE 4.A

Rs in '000 (in NPR)

S.N. PARTICULARS	THIS QUARTER	PREVIOUS QUARTER	CORRESPONDING
	ENDING	ENDING	PREVIOUS YEAR
	32 ASHAD 2067	31 CHAITRA 2066	31 ASHAD 2066
	16-Jul-10	13-Apr-10	15-Jul-09
1 Total Capital and Liabilities (1.1 to 1.7)	21,138,732	19,886,576	18,386,413
1.1 Paid Up Capital	1,613,521	1,613,521	1,098,086
1.2 Reserve & Surplus	509,042	429,947	245,133
1.3 Debenture & Bond	350,000	350,000	350,000
1.4 Borrowings	100,000	100,000	450,000
1.5 Deposits (a+b)	18,082,958	16,875,165	16,051,303
a) Domestic Currency	15,951,633	15,177,712	14,905,944
b) Foreign Currency	2,131,325	1,697,453	1,145,359
1.6 Income Tax Liability	2,802	-	5,001
1.7 Other Liabilities	480,411	517,944	334,634
2 Total Assets (2.1 to 2.7)	21,138,732	19,886,576	18,386,413
2.1 Cash & Bank Balance	1,840,704	1,843,036	1,832,778
2.2 Money at call and Short Notice	904,377	19,868	405,700
2.3 Investments	3,197,093	3,178,806	2,483,151
2.4 Loan & Advances	14,736,405	14,341,379	13,463,349
a. Real Estate Loan	3,346,256	3,644,162	4,418,612
b. Home/ Housing Loan	858,211	867,374	749,692
c. Margin Type Loan	228,797	218,863	278,432
d. Term Loan	2,157,336	2,160,364	2,163,564
e. Overdraft Loan/ TR Loan/ WC Loan	6,634,039	5,919,550	5,029,443
f. Others	1,511,765	1,531,066	823,606
2.5 Fixed Assets	282,349	242,850	247,733
2.6 Non Banking Assets (net)	-	-	-
2.7 Other Assets	177,804	260,637	101,447
3 PROFIT & LOSS ACCOUNT	UP TO THIS	UP TO LAST	UP TO CORRESPONDING
	QUARTER	QUARTER	PREVIOUS YEAR
3.1 Interest Income	1,787,693	1,279,267	1,098,985
3.2 Interest Expenses	1,135,610	804,983	712,348
A. Net Interest Income (3.1-3.2)	652,083	474,284	386,637
3.3 Fees, Commission & Discount	46,867	34,069	29,635
3.4 Other Operating Income	60,032	47,296	70,917
3.5 Foreign Exchange Gain & Loss	47,563	36,916	51,005
B. Total Operating Income (A+3.3+3.4+3.5)	806,545	592,565	538,194
3.6 Staff Expenses	122,406	82,587	86,407
3.7 Other Operating Expenses	142,169	99,479	112,973
C. Operating Profit before Provisions (B -3.6-3.7)	541,970	410,500	338,814
3.8 Provision for Possible Losses	28,767	29,165	41,360
D. Operating Profit (C - 3.8)	513,203	381,335	297,454
3.9 Non Operating Income/Expenses (Net)	1,325	700	(7,595)
3.10 Loan Loss Provision Written Back	3,645	815	7,105
E. Profit from Regular Activities (D+3.9+3.10)	518,173	382,850	296,964
3.11 Extraordinary Income/Expenses (Net)	(4,366)	6,774	(4,413)
F. Profit before Bonus and Taxes (E+3.11)	513,807	389,624	292,551
3.12 Provision for Staff Bonus	46,710	35,420	26,596
3.13 Provision for Taxes	141,441	106,261	80,983
Deferred Tax	(1,381)	-	(4,027)
G. Net Profit/ Loss (F-3.12-3.13)	327,037	247,943	188,999
4 RATIOS	AT THE END OF	AT THE END OF	AT THE END OF
	THIS QUARTER	PREVIOUS QUARTER	CORRESPONDING
			PREVIOUS YEAR
			QUARTER
4.1 Capital Fund to RWA	14.99%	15.44%	11.48%
4.2 Non Performing Loan (NPL) to Total Loan	0.12%	0.16%	0.08%
4.3 Total Loan Loss Provision to Total NPL	996.13%	781.93%	1369.17%
4.4 Net Interest Spread (4.6 - 4.7)	2.69%	2.75%	3.78%
4.5 CD ratio (Calculated as per NRB Directives)	82.66%	83.64%	83.23%
4.6 Average Yield (LCY)	9.88%	9.71%	9.63%
4.7 Average Cost of Fund (LCY)	7.20%	6.95%	5.85%
4.8 Return on Equity	20.01%	20.73%	14.86%
4.9 Return on Assets	1.65%	1.73%	1.21%

Disclosure as Per Basel II

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

• Tier 1 capital and a breakdown of its components;

Amount in NPR'000

PARTICULARS	AMOUNT
Paid up Equity Share Capital	1,613,520
Statutory General Reserves	154,996
Retained Earnings	17,042
Share Premium	13,072
Debenture Redemption Reserve	100,000
Deferred Tax Reserve	2,506
Core Capital	1,901,136

• Tier 2 capital and a breakdown of its components;

Amount in NPR'000

PARTICULARS	AMOUNT
Subordinated Term Debt (8.5% Laxmi Bank Debenture, 2072) – (net of Redemption Reserve of NPR 100 mio)	250,000
General loan loss provision	146,814
Exchange Equalization Reserve	9,653
Investment Adjustment Reserves	11,728
Supplementary Capital	418,195

• Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds.

8.5% Laxmi Bank Debenture, 2072

- Outstanding Amount	NPR 350 Million
- Maturity	24 November 2015
- Amount raised during the year	NPR 350 Million
- Amount eligible for Tier 2 capital fund (net of Redemption Reserve)	NPR 250 Million

• Deductions from capital;

Amount in NPR'000

PARTICULARS	AMOUNT
Investment in equity in licensed Financial Institutions	9,740
Investment in equity of institutions with financial interests	56,082
Investments arising out of underwriting commitments	447
Total	66,269

• Total qualifying capital;

Amount in NPR'000

PARTICULARS	AMOUNT
Tier 1 Capital	1,901,136
Tier 2 Capital	418,195
Deductions	(66,269)
Total Qualifying Capital (Total Capital Fund)	2,253,062

• **CAPITAL ADEQUACY RATIO;**

- 13.71 %

• Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable;

The bank's capital management strategy is designed to maximize shareholders value. The bank is adequately capitalized not only to comply with individual capital ratios prescribed by Nepal Rastra Bank but also to fund growth of our assets and operations, absorb potential losses and maintain the confidence of all the stakeholders.

• Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.

Main features of the Subordinated debt – 8.5% Laxmi Bank Debenture 2072:

NAME	LAXMI BANK DEBENTURE – 2072
Amount	NPR 350,000,000.00 (Three Hundred Fifty Million Only)
Interest Rate	8.5% per annum (before tax) payable half yearly
Type	Unsecured and Redeemable at Maturity. No call / convertible feature
No. of Debentures	350,000 (Three Hundred and Fifty Thousand Only)
Face Value	NPR 1,000.00
Maturity Period	7 Years
Priority to Debenture Holders	At the time of liquidation, priority of payment to the debenture holders will be after the depositors
Listing	Listed with Nepal Stock Exchange

2. RISK EXPOSURES

• **Risk weighted exposures for Credit Risk, Market Risk and Operational Risk;**

Amount in NPR'000	
PARTICULARS	AMOUNT
Risk weighted exposures for Credit Risk	15,774,907
Risk weighted exposures for Operational Risk	588,086
Risk weighted exposures for Market Risk	69,331
Total Risk Weighted Exposures	16,432,324

• **Risk Weighted Exposures under each of 11 categories of Credit Risk;**

Amount in NPR'000	
PARTICULARS	AMOUNT
a) Claims on government & central bank	-
b) Claims on other official entities	89,276
c) Claims on banks	594,558
d) Claims on corporate & securities firms	8,055,855
e) Claims on regulatory retail portfolio	213,739
f) Claims secured by residential properties	1,381,759
g) Claims secured by commercial real state	3,163,381
h) Past due claims	-
i) High risk claims	501,363
j) Other assets	430,360
k) Off balance sheet items	1,344,616
Total	15,774,907

• **Total Risk Weighted Exposure calculation table;**

Amount in NPR'000	
PARTICULARS	AMOUNT
Risk weighted exposures for Credit Risk	15,774,907
Risk weighted exposures for Operational Risk	588,086
Risk weighted exposures for Market Risk	69,331
Total Risk Weighted Exposures	16,432,324
Total Capital Fund	2,253,062
Total Capital to Total Risk Weighted Exposures	13.71%

• **Amount of NPAs (both Gross and Net) (in NPR '000)**

o Substandard Loan	
Gross	NPR 2,124
Net	NPR 1,593
o Doubtful Loan	
Gross	NPR 2,344
Net	NPR 1,172
o Loss Loan	
Gross	NPR 13,347
Net	NIL
• NPA ratios	
o Gross NPA to gross advances	0.12%
o Net NPA to net advances	0.02%

• **Movement of Non Performing Assets**

Amount in NPR'000			
PARTICULARS	PREVIOUS YEAR	NET ADDITION/ (REDUCTION) DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Substandard	-	2,125	2,125
Doubtful	2,496	(152)	2,344
Loss	8,295	5,052	13,347
Total	10,791	7,025	17,816

• **Write off of Loans and Interest Suspense (in NPR '000)**

Loan written off	7,698
Interest written off	2,620

• **Movements in Loan Loss Provisions and Interest Suspense**

Amount in NPR'000			
PARTICULARS	PREVIOUS YEAR	ADDITION/ (REDUCTION) DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Loan loss provision	147,745	28,551	176,296
Interest Suspense	21,919	7,333	29,252

• Details of additional Loan Loss Provisions (in NPR '000)

Additional Loan loss provision
NPR 724

(Includes loan loss provision in excess of the regulatory requirement)

• Segregation of Investment portfolio into Held for trading, Held to maturity and Available for sale category

As presented in the Financial Statement schedule 4.12.1, 4.12.2 and 4.12.3

**3. RISK MANAGEMENT FUNCTION
Risk Management Objectives and Policies**

Laxmi Bank's objective to risk management goes beyond mitigation and control. We believe that our risk management approach is a Strategic Differentiator and a key driver for our sustained and quality growth.

Our approach to risk managements 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

- 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

In the past years we have continued to make significant progress in enhancing our risk management capabilities including measuring and monitoring of risk activities that we undertake in our normal course of business.

Risk Management Framework and Organization

The Board sets out the risk appetite and philosophy for the Bank, which is supported by various Executive Committees who are primarily responsible for ensuring that the risk standards are maintained as per the agreed parameters. The Bank's Internal Audit functions independent of management influence and reports to the Audit Committee. The Chief Governance Officer has a role of balancing the growing business of the Bank remaining fully compliant to the legal and regulatory guidelines. As part of prudent banking practices, Laxmi Bank has senior executives in the role of risk managers who work independent of any business targets. The Credit Risk Department and Operation Risk Department are especially responsible in management of risk in their respective areas.

CREDIT RISK

Laxmi Bank - 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 to account for changing operating environment and industry behavior.

Laxmi Bank identifies, assesses and manages the probability of default by borrowing clients through a number of

proactive risk management techniques and tools under a broad risk framework.

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.

Credit Approval Process

The Bank has standard procedures for Credit Approval for both retail and corporate credit proposals that ensure that appropriate resources and tools are employed for the type of credit assessment required.

Post Disbursal Review and Monitoring

The Bank has standard procedures for credit review and monitoring systems, which is documented in Credit Policy Guide and other Risk Management Guidelines. The policy stipulates the frequency and procedures for credit review and monitoring

Distribution of Risk Assets by Industry sector / Concentration Risk

It is Laxmi Bank's policy to ensure that the Bank's exposure on any particular sector/industry does not exceed a predefined cap of the total portfolio. The Bank has adopted the NAICS codes to analyse our exposure on sectors. Industry analyses help us monitor industries at risk and make strategic decisions based on such reviews.

MARKET RISK

The bank's foreign exchange risk stems from foreign exchange position taking and commercial dealing. All foreign exchange positions are managed by the Treasury. Fluctuation in foreign exchange rates can have a significant impact on a Bank's financial position.

Laxmi Bank has adopted measures to appropriately hedge the risks that arise while carrying out international trade transactions. Code of ethics for treasury dealers is in place to ensure that professionalism and confidentiality are maintained and ethical dealing practices observed. Our treasury dealers have gained exposure to international markets as well in addition to having undergone appropriate trainings. The Bank has followed the structure of a Treasury back office independent of Treasury dealing room functions.

OPERATIONAL RISK

Operational risk is inherent in all business activities. Whilst risks can never be eliminated, at Laxmi Bank we follow a number of procedures and practices like Business Continuity Plan, Whistle Blowing – A Culture of Speaking Up to manage and mitigate 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 are used to manage risks.

OPERATIONS RISK UNIT

Recognizing the importance of Operations Risk in terms of managing day-to-day business, we have a full fledged Operations Risk team that reports to Chief Governance Officer.

- Types of eligible credit risk mitigants used and the benefits availed under CRM.

- Credit risk mitigants used are deposits and cash margin held with own bank and deposits held with other banks and financial institutions.

Laxmi Cares  
MOUNTAIN BIKE RALLY
2010 GO GREEN



Event Partners



Brought to you by:

Laxmi Cares
A Social Initiative by Laxmi Bank Employees

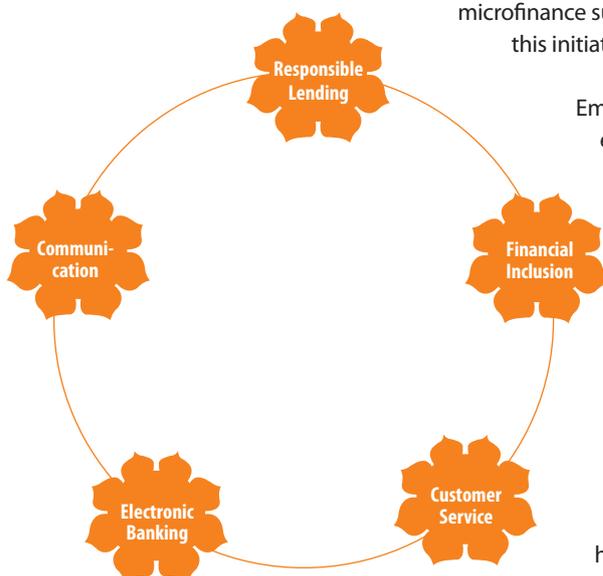
CORPORATE RESPONSIBILITY

RESPONSIBLE BANKING

We believe that the most meaningful contribution we can make to our society is by being good at what we do – Banking. Laxmi Bank's Responsible Banking initiative encompasses a number of products, practices and programs that ensure we deliver our services in a prudent, professional and responsible manner.

Our Responsible Banking initiatives not only help strengthen our brand image but also ensure that we stay the course to our goal of being the best managed bank in the country. This serves as a constant, positive pressure to maintain our thought leadership in many areas such as customer service quality, communications and electronic banking. We are confident that this structured approach will continue to be a differentiator for us in terms of both brand and business.

Our Responsible Banking initiatives can be broadly classified into 5 broad categories:



Responsible Lending

Our lending decisions are based on cash flow and financial performance of the borrower. We ensure that loan products and structures are based on the borrower's needs and conform to prudent banking norms. We disclose upfront the terms and conditions of a loan and the financial and non-financial obligations so that our customer fully aware of the implications of borrowing – legal and otherwise.

As a result we have and will lose some business to competitors in the current "overbanked" economy, but will remain steadfast in maintaining our ethical and professional standards.

Financial Inclusion

Approximately 3% of our loans finance microenterprises either through intermediaries or directly to the end consumers. We are committed to reaching out to the under-banked segment of the society through different ways and this commitment is reflected in our intention to create a microfinance subsidiary that will drive this initiative more effectively.

Empowering women entrepreneurs continues to be a strong driver for our Small Business Banking program. We offer specialized banking solutions and financial advisory services to these entrepreneurs and feel privileged to have been a part of the several success stories.



Our Responsible Banking initiatives not only help strengthen our brand image but also ensure that we stay the course to our goal of being the best managed bank in the country



Our Workforce Remittance services provides a safe, convenient and cost efficient way for money to reach the hands of beneficiaries in the cities and villages across the country. This has also helped the traditionally unbanked segment of the population gain access to various other banking services such as savings accounts, home loans and insurance.

Service Excellence

Enhancing customer experience across all our channels, products and services is a top priority for us. Our customers are provided with full access to information on a product or service they are buying from us in order to help them make informed decisions that will ultimately affect their finances.

A senior level position has been created to assess, and implement initiatives aimed to improve our service quality with the help of Service Excellence Group comprising of members from different service delivery units.

All executives and managers are responsible for evaluating, monitoring and improving customer service standards as part of their job descriptions and performance objectives.



Electronic Banking

Electronic Banking makes banking safe, convenient, cost effective and green (eco-friendly).

Since our inception in 2002 we have pioneered and promoted the use of electronic service delivery channels in the country. We take the responsibility that comes with being the industry and thought leaders in electronic banking. We have taken a number of steps to educate the consumers and encourage them to adopt these channels so that they enjoy the benefits from progresses made in the field of communication and technology.

Communication

At Laxmi Bank, communication with our stakeholders is an important part of our Responsible Banking initiative. Customers who make informed decisions are empowered and can contribute to the overall financial health of the economy. Through the years we have made partnered with a number of publications such as Arthik Abhiyan for Banking related Question & Answer section and Wave for career and employment advice aimed at the Youth. We will continue to work with like-minded partners to improve the awareness level of the consumers on banking and financial matters.





LAXMI CARES

“Laxmi Cares”, is a registered NGO that is managed by Laxmi Bank employees.

Laxmi Cares brings the Bank, our employees and our customers together to support various causes and project where we believe we can make the most positive impact.

Through Laxmi Cares, we encourage our employees to contribute time, skills and finances. Laxmi Cares works closely with a number of partners who have the experience and expertise to implement the programs and goals we have identified. The Bank also recognizes individuals who volunteer for social activities in their personal capacities through the annual Laxmi Value Champion awards.

Laxmi Cares raises funds through a number of events throughout the year and supports various causes from the proceeds. Laxmi Cares accounts are audited and available for review by all members of the NGO.

The Mountain Bike Rally 2010 was held in April. This annual event aims to raise awareness of healthy living and cleaner environment. More than 200 riders took part in 10 KM rally that went around the city and ended at Chobhar where a cross country race was organized for professionals and semi-professional riders.

Laxmi Bank joined hands with Nepal-Indo Deaf Art & Culture Society to bring the country's first deaf art exhibition in March 2010. The exhibition helped bring deaf artists from Nepal and India to showcase and sell their work.

Laxmi Bank employees provide financial support for disabled children from low economic backgrounds undergoing rehabilitation at the Patan CBR through monthly cash contribution.



LAXMI CAPITAL MARKET LIMITED

POWERED BY LAXMI BANK

VISION

To lead the capital market development in Nepal

MISSION STATEMENT

To be the preferred provider of world class merchant banking services through state of the art technology and cutting edge financial research while providing sustainable returns to our shareholders



Laxmi Capital Market Limited (Laxmi Cap) – a proposed merchant banking subsidiary of Laxmi Bank – recently received the Letter of Intent from Securities and Exchange Board of Nepal. Laxmi Cap is currently in the process of setting up the infrastructure and expects to come into operation by early 2011.

Laxmi Cap has a capital of NPR 100 million. Laxmi Bank will own 70% of the shares and 30% will be issued to the public.

In the past, structural rigidities and political instability have impeded the development of capital market in Nepal. However as the Nepali economy progresses and the public confidence in the capital market grows, Laxmi Cap sees adequate opportunities in this space.

Laxmi Cap will play a vital role of an intermediary in the system acting

as a link between sources of funds with investment opportunities. The importance of developing the capital market cannot be stressed enough as it supports the real economy helping generate activities such as investment, trade, wealth creation and employment. Laxmi Cap aims to bring a more professional approach to investment banking activities in the country with Laxmi Bank providing support in terms of improved governance standards, risk management systems and technology based service channels.

Laxmi Cap will be involved in issue management and underwriting of Initial Public Offering (IPO), rights issue, follow on public offering (FPO) etc. of public limited companies. Recognizing the demand for wealth management services Laxmi Cap also expects to offer Portfolio Management Services to institutions, high networth clients and the growing Nepali middle class.

PRIME LIFE INSURANCE COMPANY LIMITED

POWERED BY LAXMI BANK



Established in 2007, PrimeLife Insurance Company has carved a niche for itself with a new and fresh style of conducting the life insurance business in Nepal. The Nepalese insurance industry has undergone a substantial change, from being the domain of nationalized players to attracting private sector companies and PrimeLife is determined to play a positive role in terms of developing of this sector through innovative life solutions delivered in a professional manner using available modern technologies.

PrimeLife is listed in the Nepal Stock Exchange and currently has a paid up capital of NPR 360 million. Laxmi Bank holds 15% stake in the company as an institutional promoter.

PrimeLife has issued more than 240,000 policies till date.

PrimeLife extends its services through 68 locations in 49 districts and plans

to increase its footprints to 91 locations covering 70 districts in the near future. The company uses Soham Life, an internationally tested software that allows all branches to remain connected resulting in faster service delivery and turnaround time. In order to decrease lapse policy ratio, company uses SMS and a dedicated Conservation Unit for renewal reminders for the convenience of policyholders.

Since 2010, PrimeLife has been involved in an unprecedented and aggressive branding campaign that has helped the company gain distinct visibility among the Nepali consumers. The campaign has not only helped PrimeLife's business but has also helped raise awareness of the benefits of life insurance in terms of "savings", "life security" and "tax benefits" with its popular tag line "zero or three, what's it going to be?".

FINANCIAL HIGHLIGHTS JULY 16, 2010

• Total Capital	NPR 360 million
• Reserves & Surplus	NPR 129 million
• Number of Policies	241,660
• Premium	NPR 710 million
• Total Investment	NPR 659 million

One account.
One tree.



We are overwhelmed by your response to our Green Savings initiative.

They say the best time to plant a tree was 20 years ago.
The next best time is now.

As a token of our appreciation to your contribution to a greener planet, Laxmi Bank pledges to plant a tree for every Green Savings account opened with us.

Plant a tree. Plant a hope.



Laxmi Bank

www.laxmibank.com

ORANGE LOVES GREEN

CORPORATE RESPONSIBILITY

LAXMI BANK IS A GREEN COMPANY.

Since our inception in 2002 we have widely adopted a paperless work culture and use available technologies like intranet and email for most of our internal communications. Our intranet portal "makuri" supports electronic sharing and dissemination of information such as policies, circulars, central bank regulations, contact detail, operation guidelines etc. that not only helps reduce use of paper but also makes our work faster and more efficient. We are equally conscious about energy consumption across all our offices and encourage practices such as turning off of lights and electronic equipment when not in use, recycling and refilling printer ink cartridges, recycling paper, print duplexing where possible etc.

Laxmi Bank incorporates best and applicable practices laid down in the Equator Principles in our project financing activities. Furthermore, we are conscious about lending to sectors that have the potential of causing environmental damage and have taken measures to cap these portfolios at predetermined levels.

We encourage our customers to adopt green friendly banking habits by developing products and services that are not only convenient but also cost effective and environmentally friendly. Our Green Savings is a popular savings product that rewards depositors with a high rate of interest in return by switching to paperless and commute-free banking. Similarly we have taken the lead to educate customers on the benefits of electronic banking channels such as the internet and mobile to reduce use of paper cheque books, statements etc.

We introduced Green Loans in 2010 to finance solar home systems. These loans are designed to make purchases of such systems easy and affordable for the urban household.

In 2010 the Bank launched the "One Account, One Tree" – an ambitious and long term campaign to plant and conserve trees. The Bank has pledged to plant a tree for each Green Savings account with the help and support of our customers, employees and implementation partners. Till September 2010 we have planted around 2,000 tree saplings in different parts of Kathmandu as part of this campaign.





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Laxmi Complex, Hattisar
Tel. 014444684/685
Fax 01 4444640/743

BRANCHES

KATHMANDU VALLEY

BHATBHATENI

Bhatbhateni, Dhuge Dhara, Kathmandu
Tel No.01-4442075/94/95
Fax:01-4442110

EKANTAKUNA

Ekantakuna - 13, Lalitpur
Tel No: 01-5000532
Fax No: 01-5000541

HATTISAR

Hattisar, Kathmandu, Nepal
Tel. 014444684/685
Fax 01 4444640/743

LAGANKHEL

Patan Hospital, Lagankhel
Tel No.: 01 – 5548375/6
Fax: 01- 5548377

MAHARAJGUNJ

Narayan Gopal Chowk, Maharajgunj Ring Road
Maharajgunj
Tel No.:01 - 4016002, 4016088
Fax: 01- 4016019

NEW BANESWOR

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

NEW ROAD

New Road, Kathmandu
Tel No.:01-4233309,4233310
Fax: 01-4233307

PULCHOWK BRANCH

Ward No. 3, Pulchowk, Lalitpur
Tel No.01 5553545, 5552391

SUKEDHARA

Sukedhara, Kathmandu
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Laxmi Bank

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