

LAXMI
BANK
LIMITED

Annual Report 2003 / 2004

LAXMI BANK LIMITED

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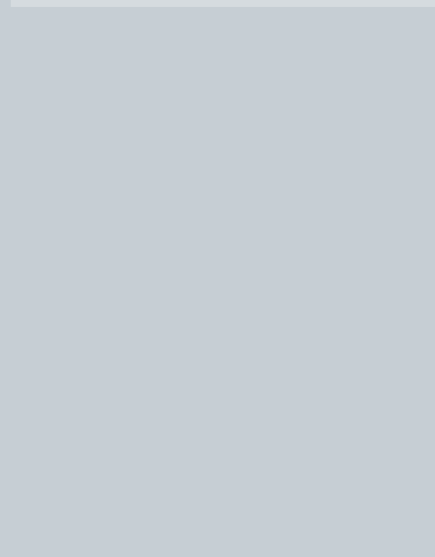
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BOARD OF DIRECTORS

MOHAN GOPAL KHETAN

Chairman

- ▶ Chairman, Khetan Group
- ▶ Honorary Consul General of Turkey
- ▶ Advisor, Federation of Nepalese Chamber of Commerce and Industry
- ▶ Advisor, Confederation of Nepalese Industries
- ▶ EC Member of SAARC Chamber of Commerce & Industry

CHANDRA PRAKASH KHETAN

Director

- ▶ Director, Khetan Group
- ▶ Managing Director, Gorkha Brewery Pvt. Ltd.
- ▶ Director, Himalayan Snax & Noodles Pvt. Ltd.
- ▶ Hon. Secretary, Nepal India Chamber of Commerce & Industry
- ▶ Executive Member, Nepal Chamber of Commerce
- ▶ Advisor, Nepal Scandinavia Chamber of Commerce & Industry
- ▶ Member, Nepal Bhutan Joint Economic Council

GOPI KRISHNA SIKARIA

Director

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

MADHUSUDAN AGRAWAL

Director

- ▶ President, SR Drugs Laboratories P. Ltd.
- ▶ Executive Director, Sunrise Group
- ▶ Director, Everest Insurance Co. Ltd.
- ▶ Executive Member, Nepal Chamber of Commerce
- ▶ Treasurer, Nepal China Chamber of Commerce & Industry

RATAN LAL SHANGHAI

Advisor to the Board of Directors

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

NARENDRA K. BASNYAT

Advisor to the Board of Directors

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

NANDAN HARI SHARMA

Observer

- ▶ Executive Director, Citizen Investment Trust

SUMAN JOSHI

CEO

- ▶ Professional banker since 1989
- ▶ Board Member, Asian Bankers Association



Management Committee

MR. SUMAN JOSHI

Chief Executive Officer

MR. BHUVANESHWAR P. SHAH

Corporate Affairs Director

MR. BHUBAL RAI

Head of Operations

MR. AJAYA SHAH

Manager Credit & Head of Consumer Bank

MR. SANJEEV R. JOSHI

Manager Branches

MR. SUMED BHATTARAI

Senior Relationship Manager

MR. JIWAN P. LIMBU

Head of Information Technology

MR. SANTOSH NIRLA

Head of Internal Audit and Compliance

MS. MONICA MATHEMA

Head of HR & Organization Development

MR. RAKSHENDRA M. PATRABANSH

Manager - Special Projects

MS. BRINDA SHRESTHA

Treasury Dealer

A B O U T U S

In operation since April 2002, Laxmi Bank has grown rapidly with branches / offices in Birgunj, Banepa, Pokhara and Kathmandu. The bank merged with Hisef Finance Ltd., a decade old first generation finance company, to bring about business synergies and economies of scale, making it the first merger in Nepalese corporate history. Post merger, Hisef Finance's office in Hattisar has been converted to that of Laxmi Bank, transferring 40% of the ownership of the prime corporate building at Hattisar, Kathmandu to Laxmi Bank.

After the issuance of the initial public offering in August 2003 and with the merger of Hisef Finance Ltd., the bank's issued capital has been raised to NPR 610 million, in line with the authorized capital of NPR 1 billion. The shares of the bank are now actively traded in Nepal Stock Exchange. The current approximate shareholding pattern of the bank constitutes of promoters holding 55.42 percent, Citizen Investment Trust holding 9.02 percent and the general public holding 35.56 percent.

With the bank's continued effort to provide safe, seamless, quick and advance banking services, the bank has been heavily investing in contemporary banking technologies. With a banking platform of Flexcube, which incidentally is one of the best and largely circulated banking system in the world, the bank has been able to provide its services through a host of delivery channels including cell phone, Internet, ATM, Point of Sales (PoS) terminals, to name a few.

As a mark of its technological advancement, the bank has introduced its Internet banking facility with online payment and

online shopping capabilities, which is a new phenomenon in Nepal. Similarly, through the bank's alliance with Smart Choice Technologies (SCT), the ATM/Debit cardholder of Laxmi Bank has an access over a network of ATMs, and Point of Sales (PoS) terminals located in all major urban centers of the country. The bank also continues to strengthen its trade finance activities through its membership with the SWIFTNet community, an advanced version of the SWIFT technology, which is used for speedy and secure remittances and trade finance services. In fact, Laxmi Bank is the first bank in the SAARC region to implement SWIFTNet, the advanced and sophisticated version of the technology.

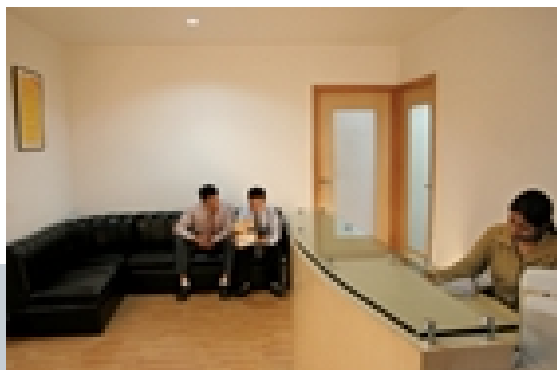
The bank also continues its Technical Service Agreement (TSA) with Hatton National Bank (HNB), a prominent bank in Sri Lanka. The TSA has been providing the bank with HNB's technical and managerial expertise, training to bank's staff and allowing access to HNB's vast network of over 450 banks in over 80 countries.

With a management team comprising of young, enthusiastic, professional bankers with extensive experiences with leading banks, and with a strong commitment to the safety of the customers' deposits, confidentiality, professionalism, transparency, good governance and sound business growth and more, the bank strives to break free from traditional banking to give a whole new meaning to banking business. The bank believes in working closely with its customers, in order to improve and provide customized banking solutions that suit the financial needs of each customer. In the coming days, Laxmi Bank seeks to gain prominence and place itself as a technology-driven, outward looking bank with a focus primarily on trade and retail business. In the days ahead, the bank seeks to move ever forward with a vision of being one of the top banks in Nepal, with its passion for excellence.



Deposit Services

To meet growing needs of the depositors and backed by a cutting edge technology and committed to superior customer service, Laxmi Bank has rolled out various forms of deposit products, to suit varied customer requirements. Specialized accounts for children, students, servicemen, corporate employees are in the offing with specific features, based on the unique needs of each segment.



2

Consumer Financing

Laxmi Bank has been providing a host of flexible consumer financing products, including auto loan, home loan and personal loan, at highly competitive interest rates. In modulation to the existing consumer financing products, customers can now plan their own repayment to best suit their future cash flow.

SME Focus

The small and mid-sized enterprises (SMEs) in Nepal have been making a significant contribution to the country's economy. However, there is a big gap between the SMEs' need and their access to reasonably priced funds. In this backdrop, Laxmi Bank has taken an initiative to approach this segment in a structured manner. SMEs can now supplement entrepreneurs' investments to start a small business or to achieve growth in capacity by borrowing term and working capital funds from Laxmi Bank. The Bank has created a full-fledged SME cell to cater to the financing need of small and medium sized business enterprises.

Financial institutions, particularly commercial banks, have hitherto been reluctant to lend money to this sector owing to perceived high-risk nature of the exposure. Laxmi Bank's foray into this business therefore assumes significance. The Bank believes that it has the wherewithal to manage the risk of lending to SMEs. The decision to engage in this sector is in line with the Bank's philosophy to "grow with the customers" as SMEs essentially are emerging corporates.



Treasury Services

The bank provides full range of foreign exchange services applicable to the Nepalese market. The bank uses "Telerate" to access up-to-date knowledge on foreign exchange markets, currency movements and commodity prices in the world market. With this, Laxmi Bank has the capability to provide various treasury related services, which include financial advisory services through informative newsletters and updates and through the incorporation of various hedging tools provided to the customers.



SMS Banking

Laxmi Bank launched its mobile banking service - sms@laxmibank, which enables the accountholders of Laxmi Bank perform a host of banking transactions through their mobile phone using the Short Messaging Service (SMS) facility. Mobile Banking comes as a part of the bank's initiative to offer multiple delivery channels for the convenience of its customers.



Payroll Management

The bank introduced its Payroll Management services, which entails managing and disbursing salaries of the employees of various organizations. The service comes with a host of premium benefits to the employees of those organizations, while reducing the administrative work of the employer.

NRN Services

The bank has strengthened its services to the Non Residents Nepalese (NRN) through its dedicated NRN cell that caters to their needs. Appropriate services have been tailored for their requirement. Further, to channalize funds into Nepal, NRNs no longer need to visit the bank to open an account. All it takes is a quick visit to the web service of Laxmi Bank, through which they can open an account and have it funded accordingly. Appropriate financial advisory services are also regularly provided to those NRNs interested in investing in Nepal.



4

Partners in Education

The bank continues its association with Kathmandu University, whereby the bank provides pre-employment exposure to students through internship, personalized mentorship, career counseling and company presentation to name a few. The bank also provides educational loans to the deserving students. The bank has initiated a special student savings account for the students of the University providing them with a host of free benefits.

Services to the Gurkha Soldiers

The bank has a special focus on financial needs of individual servicemen and therefore has drawn up a portfolio of special products and services for the Gurkha servicemen and their families. Laxmi Bank recognizes the gap between the banking needs of individual servicemen and availability of such services in Nepal and expects to contribute towards reducing this gap.



Safe Deposit Lockers

Laxmi Bank offers Safe Deposit Lockers of the highest standard to safeguard the valuables of customers. Safe Deposit Lockers are located in a safe and secure location at few of our branches. These Lockers have been built to weather the rigors of nature and are equipped with many special security features to ensure the highest standard of safety and maximum protection.



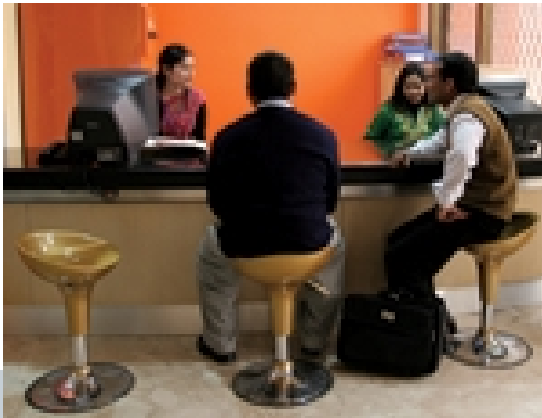
Dhana Laxmi - The New Colour of Money

The bank has joined hands with Smart Choice Technologies (SCT), the first company in Nepal to provide networked ATMs and PoS terminals. Dhana Laxmi, the ATM/Debit Card of Laxmi Bank allows its customers to access a vast network of ATMs located in various points in Kathmandu and other major cities within Nepal. The ATM card allows the cardholder to withdraw cash, inquire account balances, print mini statements and transfer funds between accounts. The card can also be used to pay for purchases in various stores, restaurants, shops and other merchant establishments with Point of Sales (PoS) terminals.

Currently eight banks are the member of this shared network, with the possibility of more banks joining the network. Laxmi Bank in its endeavor to provide contemporary customer services has also installed ATMs at its branches.

CIT Employee Savings Growth Fund

Citizen Investment Trust (CIT), a major investor in Laxmi Bank, is the government authorized agency to accept employee provident/retirement fund from employees of various organizations. Monthly contribution to this fund entitles salary-earning employees with certain tax rebates. CIT has given the authority to Laxmi Bank to accept these deposits on behalf of their customers.



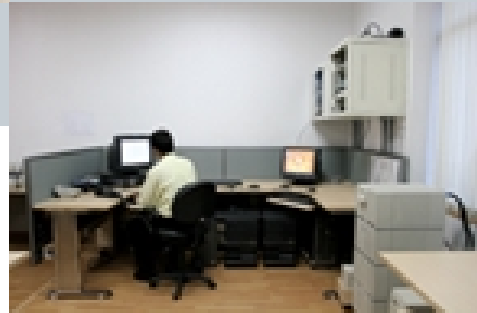
6

Utility Bills Payment

Laxmi Bank has signed up with Nepal Telecom, to pay monthly bills/rentals of the various telecommunication services provided by Nepal Telecom, on behalf of its subscribers. This arrangement allows the accountholders of the bank to have their bills/rentals paid, for the telecom services.

Market Maker for the Issuance of Bonds

Nepal Rastra Bank (NRB), Public Debt Management Department issued Laxmi Bank a license to operate as a market maker for government bonds issued by HMG / NRB for the FY 2004/05. The approval entitles Laxmi Bank to buy and sell these bonds through the primary and secondary markets.



SWIFTNet

SWIFT, (Society for Worldwide Interbank Financial Telecommunication) is the Belgium based cooperative owned by banks and specialized in inter/intra bank financial transaction and movement. SWIFT is a very efficient and secured international fund movement and financial messaging system available today, making earlier systems like telex obsolete. Its popularity has been increasing due to its efficiency, reliability as well as its strong security. For the usages of the SWIFT services, financial institutions are required to be a member under it.

Laxmi Bank is the first bank in the SAARC region to implement SWIFTNet, the advanced version of SWIFT technology. With this system in place, the bank has been able to provide efficient and quick fund transfers to and from member banks with advising/messaging facility to third and fourth parties as and when required.



Remittance Card

Smart Choice Technology (SCT) has signed up Krishi Premura (KP) - a Hongkong based money transfer company, as an associate member of SCT Network. KP will ride on Laxmi Bank's affiliation with the network and arrange for ATM cards to be issued to its clients.

Under this arrangement with SCT and Laxmi Bank, KP will be able to provide its customers with pre-paid ATM cards, in lieu of the remittances they receive from abroad. These customers will have access to SCT's network of ATMs located in all major urban centers of the country. The customers of KP will have their cards automatically "re-charged" when fresh remittances are received. Introduction of remittance cards in Nepal is expected to bring about a whole new dimension to the vibrant remittance business and help channel more remittances into Nepal through legal means.

International Money Transfer

As a step towards establishing itself as a key player in remittance business, Laxmi Bank signed up with Western Union (WU) as its agent in Nepal to handle incoming remittances from abroad. With an experience of 150 years and an over 170,000 agent locations in over 190 countries, WU Money Transfer is the world's leading money transfer service provider; trusted worldwide for its reliability, convenience, ease and speed of recipient. Annapurna Travels & Tours Pvt. Ltd., WU's primary agent in Nepal, will co-ordinate Laxmi Bank's association with Western Union.

Woman Entrepreneur Award

With its objective of recognizing contribution made by women entrepreneurs and to support the cause of women empowerment, Laxmi Bank has been promoting the annual event, "Celebrating Womanhood" which is the forum for the "Woman Entrepreneur of the Year" award. This year the recipient of the Laxmi Woman Entrepreneur Award was Ms. Binita Pradhan, the Executive Director of AVCO International Pvt. Ltd. The company is the sole distributor of Hyundai Motor Company, besides representing a host of other multinationals companies. She has been recognized for her strategic planning and leadership qualities. The bank looks forward to honoring more such women in future.

Laxmi Online

Laxmi Online enables users to view their account balance, transfer funds, stop cheque payments, download account statement, send instructions etc., 24 hours a day, 7 days a week, from anywhere in the world, thus empowering them with their financial affairs, on a click of a mouse.

Laxmi Bank has taken every effort to ensure maximum security and comfort of conducting financial transactions on the net, through this service. The bank has also introduced its online capabilities for its corporate customers, who can now initiate the process of opening Letter of Credit and Bank Guarantees online.



e-payments

Enhancing the capabilities of the Internet banking services, the bank has added more service providers in its list of online payment partners. Laxmi Bank customers can directly make payments to partner service providers for their services. Similarly, in association with online shopping sites, the bank has introduced online shopping facilities, bringing in new age shopping experience.

The bank has also initiated B2B e-payment mechanism, wherein business enterprises can now make real time online payments, through which their suppliers/ manufactures can dispatch goods, based on the instant alerts they receive through their emails or SMS. This service is expected to partially replace traditional cheque payment mechanism.





CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

I, on behalf of the Board of Directors, cordially welcome you all to the 4th Annual General Meeting of the bank and am pleased to present you the Annual Report of your Bank for fiscal year 2060/61 (2003/04).

During the fiscal year 2003/04, the Nepalese economy achieved a growth of 3.6 percent as compared to 2.7 percent during previous fiscal year. We were unable to take advantage of buoyant growth achieved by our two large neighboring countries owing primarily to continued insurgency.

2003/04 was the second full year of operation of your bank. We continue to progress toward accomplishment of our mission and have now been identified as an emerging key player in the Nepalese financial services sector.

Your bank opened a full-fledged branch in Pokhara during the year. We now conduct business through 5 points of representation across the country in addition to the internet and a network of ATMs. We are pleased to have introduced ATM services for the very first time in towns like Banepa and Birgunj.

Your bank has received approvals for merger with Hisef Finance Limited. The merger is the first of

its kind in Nepal and we are proud to have concluded it smoothly. As a result, your Bank now has a presence in Kathmandu. However NRB has permitted limited operation through this office. We therefore urge NRB to formalize and publish transparent and detailed regulations governing a merger between financial institutions.

Nonetheless, the business volumes achieved as of 15th July 2004 have been satisfactory. Activities and portfolios have been diversified whilst maintaining the quality of loans and advances. Efforts at recovery of loans on account of erstwhile Hisef Finance have been particularly satisfying. Provisions against this portfolio have been held conservatively and as a result we expect positive contribution to your Bank's bottomline in future years. Post merger, paid-up equity of your Bank continues to be the highest among all Nepalese banks.

Your bank is geared to meet the challenges of the current economic situation and competition within the financial services sector through strong IT capabilities and operating systems that are well laid out. Good governance is very high on our agenda and we shall continue to uphold it.

I express my gratitude to our valued shareholders, customers, regulators and auditors for their support and cooperation. The management team and the members of staff deserve a special appreciation for their efforts and commitment.

Thank you.

M G Khetan
Chairman

DIRECTOR'S REPORT

The Directors of the Board of Laxmi Bank Limited are pleased to present their report on the business and operation of your Bank for the year ended July 15, 2004. The report is in compliance with the provisions of the Companies Act 1997 and applicable Nepal Rastra Bank's directives.

Economy

During the fiscal year 2003/04, Nepalese economy grew by 3.6% compared to 2.7% during the previous year. This has been attributed to favourable monsoon in the year, which triggered a growth of 3.7% in Agriculture GDP. Inflation is expected to remain in between 4% to 4.5%.

Following on the trend of the previous year both export and import grew by 5% and 10% respectively. The export to import ratio of 38.3% substantiates the ever-expanding trade gap. Despite negative balance in financial account, there is a substantial surplus in current account of NPR 13.85 billion, which has increased from NPR 11.61 billion in the previous year. The foreign exchange reserve stands at NPR 12.19 billion an increase of 12.66% as compared to the previous year.

The government expenditure increased during the year by 4.9%.

The regular expenditure increased by 13.1% while the development expenditure showed a negative trend for two years in a row with a decrease of 7.8% during the year. Workforce remittances and increased spending by consumers in general have been the mainstay of the economy during 2003/04.

Review of Bank's Operation

During the year, the bank achieved a 300% growth in operating profit - from NPR 7.67 M of previous year to NPR 24.29 M. Increased customer focus, prudent business practices, deft management of assets and liabilities, effective control over operating expenses, introduction of the market oriented products and strategic expansion of network contributed to these results.

During the year, assets grew by 136% financed mainly by customer deposits that increased by 143%. Due to the public issue of equity shares, our paid up capital grew by 67%. As a result of

increase in earning assets by NPR 1,249.42 M, gross income of the bank increased by NPR 82.97 M. This has contributed to the increase in net profit after taxes from NPR 1.03 M during the previous year to NPR 10.45 M in the current year. All our profits have been transferred to Reserve and Surplus.

Deposit gathering has been slower than anticipated owing to lack of a full branch operation in Kathmandu and also a conscious decision to reduce dependence on high cost institutional deposits. Retail deposit base has been increasing at a satisfactory pace and is expected to take a quantum leap once we have a full access to Kathmandu market. Our large equity base and cheap medium term funds accessed from the inter-bank market have supplemented customer deposits to fund our investments and risk assets. A significant portion of our risk assets comprise of short-term exposures. In line with our mission to become a formidable consumer finance bank, the focus on retail financing remained throughout the year. Despite intense competition, our experience in consumer finance has been extremely satisfactory. The SME portfolio has recorded a satisfactory growth as well. Whilst the interest regime have remained soft our overall risk profile remains good. We have been able to maintain our track record of keeping our entire loan and advances as performing assets. This has been possible due to our proactive credit management mechanism.

Financial Highlights

Figures in NPR Millions

	15/7/2003	15/7/2004	% Growth
Paid up capital	330.00	549.79	66.60%
Net Worth	326.82	557.05	70.16%
Deposits	691.81	1,684.16	143.45%
Risk Assets (net)	768.18	1,733.42	125.64%
Investments (including Call Money)	110.91	395.11	256.26%
Operating Profit	7.67	24.29	215.58%
Net Profit	1.03	10.45	950.00%
Provision for Loan Loss	7.76	17.51	124.35%



Your bank introduced a number of new deposit products to cater to students, Gurkha servicemen and small savers during the year. Response to our Gurkha loan scheme has been encouraging as well. Corporate payroll management was launched and has met with satisfactory initial success. Your bank has joined the network of SmartChoice Technologies (SCT) to enable our customers to access a growing number of ATMs and Point of Sale (POS) terminals all over Nepal. We currently manage and/or own 6 ATMs under this network. SCT Network has 8 member banks with more expected to join in.

On April 28, 2004 we signed an agreement with Nepal Stock Exchange to have our shares listed. The shares are currently being actively traded at prices considered attractive for a new bank.

Transparency, corporate governance, compliance and sound business growth continue to be the driving forces behind our business operation. The Board and the management are fully committed to uphold these pillars.

Capital Adequacy

We have a Total Capital Adequacy Ratio of 29.19% as against NRB requirement of 11% and Core Capital Ratio of 28.26% as against the requirement of 5.5%. In the present condition the bank's capital adequacy permits us to increase our business much further.

Activities

The principal activities of the Bank during the year were Corporate Banking, Trade Finance, Consumer Banking and Treasury Operations along with collection of deposits.

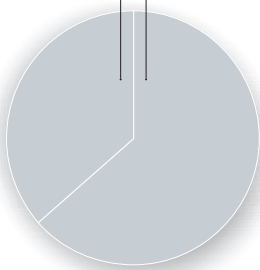
Representation

We opened a fully functional branch in Pokhara in May 2004. Following approval of our merger with Hisef Finance Limited, we converted its Kathmandu office to that of Laxmi Bank as directed by Nepal Rastra Bank. As a result, as of 15th July 2004, the Bank has five points of representation i.e., Birgunj, Jeetpur, Banepa, Pokhara and Kathmandu. Operation of Jeetpur branch has temporarily been suspended owing to prevalent security situation. We are exploring possibilities of relocating this branch to Birgunj Dry Port area during the current financial year. We also expect to open a branch in Biratnagar this year.

Merger with HISEF

You will recall that after in-principle approval from NRB, we obtained your approval last year

Current Deposit/Call Deposit 37% 63% Saving Deposit/Fixed Deposit



DEPOSIT ACCOUNTS

for our merger with Hisef Finance Limited. We are pleased to advise you that the merger has recently been completed. The merger has been executed by issue of Laxmi Bank's shares to HISEF shareholders on 1:1 basis. NRB's final approval was obtained on 2060/12/20 (2nd April 2004). Likewise, the Company Registrar's Office issued its approval on 11/04/2061 (26th July 2004) paving a way for book merger.

Post merger, Laxmi Bank has a paid up capital base of NPR 610M, which is currently one of the largest amongst commercial banks in Nepal. Hisef's office in Hattisaar has been converted to that of Laxmi Bank and all the employees of the company have been absorbed in Laxmi Bank. Your bank will continue to cater to the existing clients of Hisef through this office.

Ever since the shareholders decided to merge the two companies, a conscious effort was made to reduce under-performing loans carried by Hisef. We are pleased to advise you that we have achieved a remarkable success in this front. Highlights:

Provisions for loan loss includes NPR 45.17 M on account of erstwhile Hisef accounts. Your bank expects to recover most of the loans, which have been provided for, and also write back majority of other provisions made against investment in listed company shares and non-banking assets.

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

Technology

Softwares

Your Bank seeks to be technology-driven and as such made a large investment towards achieving this goal. Our banking platform - Flexcube - has now been installed completely. Overall, the quality and usability of the software have been found world-class. This coupled with our oracle based database give us the capability to process and store banking transactions many times higher than our current volume. Technical support from i-flex, the software vendor, is available round the clock to ensure smooth operation.

Accounting data inherited from Hisef have been continued on Pumori for the time being but will be integrated with Flexcube by the end of current fiscal year.

All our branches are linked through a network of v-sat, radio modems and lease lines. Real time domicile-free banking facility is available to all our clients.

Internet Banking

Powered by our software we are offering a robust Internet banking facility, a new phenomenon in Nepalese banking sector. Our online banking facility is gaining popularity both among domestic and non-resident customers. The bank is fully capable of processing online payments. A number of alliances with service providers have been signed up during the year. We have installed world-class security features to ensure maximum safety of transactions conducted through online delivery channels like internet and ATMs. The security features are constantly upgraded as and when they are available.

S.W.I.F.T.

We are a member of Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) and are the first among the banks in South Asia to implement *SWIFTNet*, the advanced version of the technology, which is based on internet protocol.

Intranet

Your bank's IT team has developed and rolled out a highly interactive intranet *Makuri* for use by members of the staff. This forum is being used effectively for information dissemination. Apart from improving efficiency, *Makuri* has contributed greatly towards creating a paperless office environment.

Technical Service Agreement

TSA with Hatton National Bank (HNB), Sri Lanka has been effective since July 2003. We have the opportunity to use the HNB network to get valuable business specially remittances from the Gulf and East Asia regions. HNB is working on our behalf to set up valuable trade links. HNB has shown confidence in your bank by placing foreign currency deposits as well.

Key Financial Figures of the Merged Entity as at 15 October 2004

Figures in NPR Millions

Some of the specific support anticipated from HNB, like international credit card membership, has not been possible due to circumstances beyond HNB's control. We have therefore revised the scope of the TSA and renegotiated (downward) the fee payable to HNB. We continue to receive active management support from HNB including routing of business originating from Sri Lanka. A number of our officers have received on the job exposure at HNB, Colombo. We are constantly working toward reaping the maximum benefit from our association with HNB.

Human Resource

Employees are your Bank's most valuable resources. Your Bank has been able to create a favorable working environment. A transparent recruitment and human resource development process has enabled us to attract and retain high-caliber employees. As at 15 July 2004, total number of staff stood at 93 as compared to 47 of last fiscal year-end. The Bank continues to attract resources from reputed commercial Banks and those with professional academic qualifications.

Training programs are conducted regularly to enhance the skills and efficiency of the human resources. A number of middle managers received trainings at internationally recognized programs of Indian Institute of Management, Asia Pacific Economic Council and an international bank. Three more officers have received short term on the job exposure at HNB, Colombo. Additionally, employees are being sent to various training programs being conducted locally by Nepal Rastra Bank and other training institutes.

We believe that your bank truly has a performance driven and effective human resources management system in place.

Particular	Amount
Paid up Capital	609.72
Reserves and Surplus	7.27
Deposits & Borrowings	2,041.41
Loans and Advances (gross)	2,049.28
Provision for Loan Loss	65.38
Other Provisions	19.92
Operating Profit	14.18

The key financial figures (unaudited) after the merger as on 15 October 2004 (Ashwin end 2061)

Key Financial Figures of Hisef

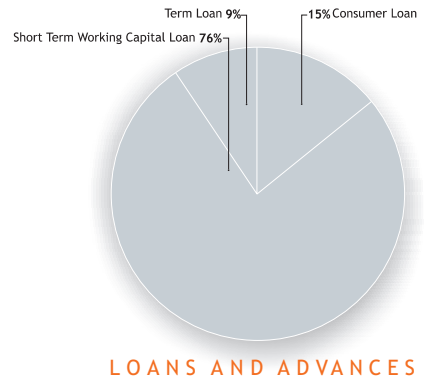
Figures in NPR Millions

	15/10/2004	15/7/2004	16/7/2003
Loans & Advances	78.26	99.88	268.82
Deposits	140.32	183.73	371.96
Loan Loss Provision	45.17	45.17	72.79
Share Loss Provision	10.68	10.68	5.07
Non-Banking Assets	6.67	6.67	12.71

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Board of Directors

The Board of Laxmi Bank consists of 4 directors with wide financial and business knowledge and experience. Mr. Nandan Hari Sharma represents Citizen Investment Trust (CIT) as an observer. This AGM shall confirm appointment of a director representing CIT in addition to electing 2 directors from among the public shareholders.



LOANS AND ADVANCES



WATCH US GROW

In a short span of our existence, we are pleased to have tracked well in realizing our mission. We have been around for just over two years and we are already known as an emerging key player, our IT credentials are arguably the best in the industry and we are setting standards in corporate governance.

We shall continue to make our little efforts in transforming the way banking business is perceived in this country. Banking is a long-term proposition and must be viewed as such. Laxmi Bank is proud to have a board and a management team that truly appreciate this aspect. This spirit is reflected in numerous business and operational policies adopted by the Bank. These policies have been benchmarked against international best practices and customized to suit the local environment. Sound business growth and good governance are the pillars of each policy document that has been rolled out. We have our eyes set for the future. The systems, the culture we have built and continue to build within Laxmi Bank are all designed to create a solid foundation on which the Bank can play a long innings.

Despite global economic progress, current business environment in Nepal is not conducive for an aggressive growth. We understand this aspect well. Laxmi Bank's activities and results thereof over last couple of years clearly indicate that we are not prepared to compromise on quality for short-term growth. We are

“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.”

satisfied that our risk management capability is among the best in the Nepali banking sector - a fact appreciated by the regulator. We shall continue to improve on this aspect.

Laxmi Bank's office in Kathmandu came into being in April 2004 as a result of our merger with Hisef Finance Ltd. This office, as such, is currently allowed limited operation. Considering that we do not have a full-fledged presence in Kathmandu yet, the results we have achieved are encouraging. We expect to obtain a full branch status in Kathmandu in the near future. The coming years will also see Laxmi Bank expanding its geographical reach to include all key economic centers in the country; these bricks and mortar branches will supplement our

electronic delivery channels. Our products and services will continue to be technology driven.

Many of the key business groups in Nepal are already using our services. We are encouraged by the response we have received from SMEs and non-resident Nepalis (NRNs). Laxmi Bank salutes the growing Nepali middle class for your resilience in these difficult times; in fact, you are more prosperous today despite all odds. We are pleased to have played a small part in creating your wealth.

Come grow with us.

SUMAN JOSHI
Chief Executive Officer

RISK MANAGEMENT

A banking business is generally exposed to various risks. Our success lies in our ability to identify and proactively manage our business risks. Following is a brief outline as to how we manage and mitigate key risks in our day to day functions.

Credit Risk

The risk of the borrower not making timely payment of principal or interest is inherent in any lending transaction. Laxmi Bank is well geared to identify, assess and manage any probability of default by borrowing clients. A well-documented, comprehensive Credit Policy Guide is in place, which reflects long-term expectations and represents a key element of uniform, constructive and risk-aware culture throughout Laxmi Bank. This credit policy defines risk parameters and is periodically reviewed to account for changing operating environment and industry behavior. Numerous credit bulletins and credit risk management guidelines have been issued during the year to complement the Credit Policy Guide. This will be an ongoing exercise.

Understanding our customers and proactive relationship management are fundamental aspects of our credit practices. Comprehensive credit evaluation mechanism is in place to ensure that we acquire sound understanding of the customer and take informed lending decisions. Background research and detailed risk analysis as well as assessment of future cash flows are carried out to ensure that our lending is need-based and cash flow driven. Each lending relationship is appropriately risk-graded to reflect the degree of the risk being assumed. These credit risk grades are reviewed on ongoing basis and are used as the basis for formulating relationships and business strategies.

Post-disbursal credit management entails strict compliance with internal and external directives, regular review of exposure, both at account and portfolio levels. Timely detection of early warning signals is the primary objective of tools such as credit risk rating, periodic analysis of the client's performance, industry analysis etc.

Credit portfolio monitoring in terms of business segment, exposure to single client or group, type of credit exposures etc., is carried out on a monthly basis. A credit sub committee comprising of senior managers meets every fortnight to review and discuss the Bank's credit aspects. The credit committee comprising of non-executive board members and the senior credit management further reviews credit portfolio and industry concentration aspects regularly.

A significant portion of Laxmi Bank's credit exposure is either backed by tangible securities or is short-term trade related. In line with the current economic trend and to diversify the risk asset portfolio, the Bank has created a healthy consumer finance portfolio. This is complemented by a growing SME book. The Bank's exposures on corporate, consumer and SME currently stand at approximately 65%, 15% and 20% respectively.

A dual approval mechanism is now in place with an experienced credit resource lending an objective view to the credit

decisions that we make. All credits in SME and Corporate segments need to be additionally approved by a senior credit officer who is divorced from business targets. This is an additional measure to ensure that compliance to credit policies and prudent guidelines is not compromised in pursuit of generating business. The Bank is committed to implementing more such measures as appropriate to continuously strengthen our risk management capabilities.

Assets and Liabilities Committee (ALCO)

Laxmi Bank's Assets and Liability Management (ALM) guide covers policies and procedures to manage liquidity risks and pricing risks. ALCO, chaired by the Chief Executive Officer and attended by the top management executives, meets at least every month to review our balance sheet structure and to ensure availability of sufficient cash flows to meet all of the bank's financial commitments and to facilitate expansion of business. Our policy on maintenance of liquidity is more conservative than currently prevailing central bank guidelines on the subject. Gaps in maturity of funds and pricing are constantly monitored. Limits are allocated to banks and financial institutions, depending on the strength of their operation. Such limits are reviewed on a periodic basis. Inter-bank deals or trade transactions are carried out within the allocated limits.

Foreign Exchange Risk

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 also followed the structure of a Treasury back office independent of Treasury dealing room functions.

Operational Risk

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



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

An internal audit team, headed by a chartered accountant conducts review and audit of the branches and departments to ensure that laid down procedures are followed and relevant directives complied with. The internal auditor has an independent reporting line to the head of the Audit Committee, who is a non-executive director. A comprehensive Audit Policy Guide has been rolled out, which aims to develop a high standard audit function that successfully combines the ability to detect all major control weaknesses and minimize operational risks. A busy audit plan is in place to cover all areas of the Bank.

Business continuity plans and guidelines have been communicated to the employees through various circulars and internal memoranda. With the help of these guidelines, the Bank has successfully managed its business during challenging security situations as well. We are in the process of compiling these into a formal document, which will cover entire gamut of operational risks. Multiple layers of security, as per available international best practice, have been applied to the Bank's online banking system to ensure secure transactions. Computer systems are supported by high-end world-class database. The main banking platform (flexcube) is rated as one of the best in the world today. A comprehensive IT Policy is in place, which covers data centre operation, hardware, network security and computer system related issues. A robust and interactive intranet is operational which is used for information and knowledge dissemination and management.

Basel II

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

Anti-Money Laundering Policy

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

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

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

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

C O R P O R A T E G O V E R N A N C E

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

The current Board members bring in a range of skills, experiences, knowledge and independent judgment. Four of them are non-executive directors representing shareholders. All of them have had significant board level experiences in prominent limited companies. The public shareholders will be represented in the Board by 2 directors to be elected in today's Annual General Meeting. Likewise, Citizen Investment Trust shall appoint one director to the Board. Seasoned professional bankers comprise the management team and compliment formal control systems and processes.

All key policy guidelines have been approved by the Board and put into practice for day-to-day functioning of the Bank. These policy guidelines are subjected to regular reviews on an on-going basis to account for changing environment.

The Board reviews and approves Strategic Financial Plans (Budgets) and monitors performance against Budgets. Financial performance of the Bank is reviewed on a monthly basis.

All appointments to the Bank staff are made in line with a comprehensive HR Policy Guide that seeks to ensure that well-structured, transparent performance-driven HR practices are in place. Objective periodic

performance appraisals are central to Laxmi Bank's HR management system. This HR management system ensures that the management team has the necessary skills and experience to perform their functions effectively in the best interest of the Bank and that there are sufficient parameters to monitor and evaluate their performance. The Board undertakes evaluation of the performance of the CEO at least annually.

Each member of the Board, the staff and the CEO has observed in spirit and in word the Central Bank's directives on corporate governance. All directors are registered as tax-payers and none of them has defaulted in payment of loans to a banking company or a financial institution. Each member of the staff has also signed a comprehensive code of conduct and an oath of secrecy.

The Chairman ensures that all directors are able to contribute to a good governance of the Bank in accordance with their respective capabilities. The Chairman also ensures that the Board is in complete control of the Bank's affairs and is fully cognizant to Bank's obligations towards the shareholders, depositors and other stakeholders.

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

In order to carry out their responsibilities in an effective manner, the Board has formed the following committees:

Audit Committee

The Audit Committee reports directly to the Board and is chaired by a non-executive director. The Committee ensures

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

- ▶ appropriateness of accounting policy in relation to bank's activities
- ▶ periodic review of bank's audit policy

The Committee has unrestricted access to members of the management, staff and any records / information etc. that it reasonably may require to carry out its responsibilities. The Committee is also responsible for recommending appointment, re-appointment, termination and remuneration of external auditor(s).

The internal auditor, who is a qualified chartered accountant, reports to the audit committee in

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

Credit Committee

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

The committee meets as and when necessary to review, discuss, deliberate and/or decide on strategic and policy related aspects of the Bank's credit management process. The objective is to assist the management team in creating a high quality credit portfolio and to maximize returns from risk assets. The emphasis is on value addition. The committee operates within and upholds the Credit Policy Guide.

Banskota & Company,
Chartered Accountants

Auditors' Report to the Shareholders of M/s Laxmi Bank Limited

We have audited the attached Balance Sheet of M/S LAXMI BANK LTD. as at 31st Ashad 2061 corresponding to 15th July 2004 and the Profit & Loss Account and Cash Flow of the Bank for the year ended on that date from the books, record and other documents as maintained by the Bank and report that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
2. In our opinion, proper books of accounts as required by law and Nepal Rastra Bank have been kept by the Bank so far as appears from the examination of those books of accounts.
3. The Balance Sheet, Profit & Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account.
4. In our opinion, the returns received from branches of the Bank were adequate for the purpose of the audit.
5. In our opinion and to the best of our information and according to the explanation given to us, the said accounts read together with the notes appearing thereon, give a true & fair view:
 - a. In case of the Balance Sheet, of the state of affairs of the Bank as at 31st Ashad 2061 (July 15, 2004),
 - b. In case of the Profit & Loss Account, of the Profit of the Bank for the year ended on that date and,
 - c. In case of Cash Flow Statement, the cash flows of the Bank for the year ended on that date.
6. In our opinion and to the best of our information and according to the explanation given to us and from our examination of the books of accounts of the Bank, the Board of Directors or employee of the Bank has neither acted contrary to the provision of law relating to accounts or directive of Nepal Rastra Bank nor caused direct loss or damage to the Bank deliberately.
7. In our opinion, so far as appeared from our examination of the books of accounts, adequate loan loss provisions and capital fund has been maintained in accordance with the directives of Nepal Rastra Bank and business of the bank has been conducted satisfactorily and are not against the interest of Depositors and Investors of the Bank.

KISHOR BANSKOTA, FCA
Banskota & Company,
Chartered Accountants

Date: September 27, 2004

Balance Sheet

As at Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Capital & Liabilities Schedule	Current Year	Previous Year	Assets	Schedule	Current Year
330,000,000	1. Share Capital 1	549,789,000	16,054,364	1. Cash Balance	7	36,976,923
(3,183,708)	2. Reserve Funds 2	7,265,957	137,555,713	2. Balance with Banks	8	342,490,293
70,000,000	3. Borrowings 3	317,005,000		3. Money at Call		
			-	& Short Notice	9	100,000,000
691,809,700	4. Deposit Accounts 4	1,684,158,652	110,914,040	4. Investments	10	295,106,298
2,150,000	5. Bills Payable 5	283,027		5. Loan Advances		
			768,183,565	and Bills Purchased	11	1,733,419,666
5,770,241	6. Other Liabilities 6	26,988,168	30,944,209	6. Fixed Assets	12	32,633,396
			32,894,342	7. Other Assets	13	44,863,228
1,096,546,233	Total Liabilities	2,585,489,804	1,096,546,233	Total Assets		2,585,489,804

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

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

Jagadish Bhattarai
Manager Finance

Suman Joshi
Chief Executive Officer

Chandra Prakash Khetan
Director

As per our Report
of even date

Madhusudan Agrawal
Director

Gopi K. Sikaria
Director

Mohan Gopal Khetan
Chairman

Kishor Banskota
Banskota & Company
Chartered Accountants

Profit and Loss Account

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Expenses	Schedule	Current Year	Previous Year	Income	Schedule	Current Year
20,095,665	1. Interest Expenses	15	63,176,634	49,787,203	1. Interest Income	18	124,045,956
14,394,389	2. Employees Expenses	16	19,198,174	4,261,960	2. Commission & Discount	19	11,299,424
17,321,898	3. Office Overhead Expenses	17	35,729,976	4,533,830	3. Exchange Gain	20	6,076,125
-	4. Exchange Loss	20	-	404,700	4. Non-Operating Income	21	-
-	5. Non-Operating Expenses	21	55,247	490,950	5. Other Income	22	1,026,245
-	6. Bad Debts Written Off		-	-	6. Net Loss Carried Down		-
6,518,217	7. Provision for Loan Loss		9,749,860				
114,847	8. Provision for Staff Bonus		1,453,786				
-	9. Provision for Income Tax		2,634,408				
1,033,627	10. Net Profit Carried Down		10,449,665				
59,478,643	Total		142,447,750	59,478,643	Total		142,447,750

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

Jagadish Bhattarai
Manager Finance

Suman Joshi
Chief Executive Officer

Chandra Prakash Khetan
Director

As per our Report
of even date

Madhusudan Agrawal
Director

Gopi K. Sikaria
Director

Mohan Gopal Khetan
Chairman

Kishor Banskota
Banskota & Company
Chartered Accountants

Profit and Loss Appropriation Account

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year	Previous Year	Particulars	Current Year
4,217,334	1. Accumulated loss up to last year	3,953,435	-	1. Accumulated profit up to Last Year	-
-	2. This year's loss	-	1,033,627	2. This year's profit	10,449,665
206,725	3. General Reserve Fund	2,089,933	3,953,435	3. Accumulated Loss	-
-	4. Contingent Reserve	-			
-	5. Bank Development Fund	-			
-	6. Dividend Equalization Fund	-			
-	7. Employees Related Funds	-			
-	8. Interim and Proposed Dividend	-			
-	9. Issue on Bonus Share	-			
-	10. Special Reserve Fund	-			
563,003	11. Exchange Equalization Fund	144,639			
-	12. Accumulated profit	4,261,658			
4,987,062	Total	10,449,665	4,987,062	Total	10,449,665

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Jagadish Bhattarai
Manager Finance

Suman Joshi
Chief Executive Officer

Chandra Prakash Khetan
Director

As per our Report
of even date

Madhusudan Agrawal
Director

Gopi K. Sikaria
Director

Mohan Gopal Khetan
Chairman

Kishor Banskota
Banskota & Company
Chartered Accountants

Schedule 1 Share Capital and Ownership

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
330,000,000	1. Share Capital	549,789,000
1,000,000,000	1.1 Authorized Capital	1,000,000,000
	A) 10,000,000 Ordinary Shares	
1,000,000,000	of NPR 100 each	1,000,000,000
-	B) Non-redeemable Shares	-
-	C) Redeemable Shares	-
550,000,000	1.2 Issued Capital	550,000,000
	A) 5,500,000 Ordinary Shares	
550,000,000	of NPR 100 each	550,000,000
-	B) Non-redeemable Shares	-
-	C) Redeemable Shares	-
330,000,000	1.3 Paid Up Capital	549,789,000
	A) 5,497,890 Ordinary Shares	
330,000,000	of NPR 100 each	549,789,000
-	B) Non-redeemable Shares	-
-	C) Redeemable Shares	-

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Share Ownership

Previous Year	Particulars	%age	Current Year
330,000,000	1. Local Ownership	100.00%	549,789,000
-	1.1 His Majesty's Government	0.00%	-
-	1.2 Commercial Banks	0.00%	-
12,000,000	1.3 Financial Institutions	0.00%	-
	1.4 Organized Institutions		
166,750,000	(Including Group Ka and Kha)	36.97%	203,250,000
-	1.5 General Public	34.97%	192,289,000
151,250,000	1.6 Others	28.06%	154,250,000
-	2. Foreign Ownership	0.00%	-
330,000,000	Total	100.00%	549,789,000

None of the General Public Shareholders hold more than 0.5% of the shares of the bank individually. The difference between the Issued Share Capital and Paid-up Share Capital pertains to Calls in Arrears from the General Public Shareholders amounting to NPR 211,000.

Schedule 2 Reserve Funds

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
206,725	1. General Reserve Fund	2,296,658
-	2. Capital Reserve Fund	-
-	3. Share Premium	-
563,002	4. Other Reserve Fund	707,641
-	a. Contingent Reserve	-
-	b. Bank Development Fund	-
-	c. Dividend Equalization Fund	-
563,002	d. Exchange Fluctuation Reserve	707,641
-	e. Special Reserve Fund	-
-	f. Assets Revaluation Reserve	-
-	g. Other Free Reserves	-
(3,953,435)	5. Accumulated Profit/Loss	4,261,658
(3,183,708)	Total	7,265,957

Schedule 3 Borrowings

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
-	A. Local	-
-	1. His Majesty's Government	-
-	1.1 Earthquake affected sector reconstruction	-
-	1.2	-
-	1.3	-
-	2. Nepal Rastra Bank	-
-	2.1 Loan	-
-	2.2 Refinance	-
-	2.3	-
70,000,000	3. Interbank	279,780,000
-	3.1 Overdraft	-
70,000,000	3.2 Loan	279,780,000
-	3.3	-
-	4. Other Financial Institutions	-
-	4.1	-
-	4.2	-
-	5. Others	-
70,000,000	Total (1+2+3+4+5)	279,780,000
-	B. Foreign	37,225,000
-	1. Banks	-
-	1.1 Overdraft	-
-	1.2 Others	37,225,000
-	Total	37,225,000
70,000,000	Total (A + B)	317,005,000

Schedule 4 Deposits

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
	1. Non-Interest Bearing Accounts	
49,679,321	A. Current Deposits	211,103,825
47,541,956	1. Local Currency	200,270,578
-	1.1 His Majesty's Government	-
-	1.2 Commercial Banks	-
447,506	1.3 Financial Institutions	50,461,895
45,265,890	1.4 Other Organized Institutions	141,792,700
1,828,560	1.5 Individuals	8,015,983
-	1.6 Others	-
2,137,365	2. Foreign Currency	10,833,247
-	2.1 His Majesty's Government	-
-	2.2 Commercial Banks	-
-	2.3 Financial Institutions	-
1,899,648	2.4 Other Organized Institutions	-
237,716	2.5 Individuals	10,833,247
-	2.6 Others	-
7,739,849	B. Margin Deposits	16,842,759
-	1 Employees Guarantee	-
2,643,607	2 Guarantee Margin	5,661,090
3,860,335	3 Letters of Credit Margin	6,612,819
1,235,908	4 Margin Others	4,568,850
-	C. Others	-
-	1. Local Currency	-
-	1.1 Financial Institutions	-
-	1.2 Other Organized Institutions	-
-	1.3 Individual	-
-	2. Foreign Currency	-
-	2.1 Financial Institutions	-
-	2.2 Other Organized Institutions	-
-	2.3 Individual	-
57,419,170	Total of Non Interest Bearing Accounts	227,946,584

Continued...

Schedule 4 Deposits Continued...

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
	2. Interest Bearing Accounts	
98,548,522	A. Savings Deposits	185,467,960
96,297,022	1. Local Currency	182,997,426
3,217,943	1.1 Organized Institutions	14,854,035
93,079,080	1.2 Individuals	168,143,391
-	1.3 Others	-
2,251,500	2. Foreign Currency	2,470,534
-	2.1 Organized Institutions	-
2,251,500	2.2 Individuals	2,470,534
-	2.3 Others	-
288,601,751	B. Fixed Deposits	1,082,924,872
212,426,001	1. Local Currency	1,082,924,872
187,910,000	1.1 Organized Institutions	1,028,994,876
24,516,001	1.2 Individuals	53,929,996
-	1.3 Others	-
76,175,750	2. Foreign Currency	-
76,175,750	2.1 Organized Institutions	-
-	2.2 Individuals	-
-	2.3 Others	-
247,240,257	C. Call Deposits	187,819,236
247,240,257	1. Local Currency	187,819,236
-	1.1 Commercial Banks	-
235,909,475	1.2 Financial Institutions	186,711,234
6,163,638	1.3 Other Organized Institutions	1,108,002
5,167,144	1.4 Individual	-
-	1.5 Others	-
-	2. Foreign Currency	-
-	2.1 Commercial Banks	-
-	2.2 Financial Institutions	-
-	2.3 Other Organized Institutions	-
-	2.4 Individual	-
-	2.5 Others	-
-	D. Certificate of Deposit	-
-	1. Organized Institutions	-
-	2. Individual	-
-	3. Others	-
634,390,530	Total Interest Bearing Accounts	1,456,212,068
691,809,700	TOTAL DEPOSITS (1+2)	1,684,158,652

Schedule 5 Bills Payable

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
2,150,000	1. Local Currency	283,027
-	2. Foreign Currency	-
2,150,000	Total	283,027

Schedule 6 Other Liabilities

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
-	1. Pension/Gratuity Fund	-
-	2. Employees Provident Fund	-
-	3. Employees Welfare Fund	-
114,847	4. Provision for Staff Bonus	1,453,786
-	5. Unpaid Dividend	-
-	6. Provision for Income Tax (less advance tax paid)	(347,591)
2,325,347	7. Interest Payable on Deposits	18,110,600
19,079	8. Interest Payable on Borrowings	1,612,127
-	9. Unearned Discount and Commission	-
-	10. Proposed Dividend	-
2,361,849	11. Interest Suspense	1,543,943
949,118	12. Sundry Creditors	-
-	13. Branch Adjustment Account	-
-	14. Others	4,615,304
5,770,240	Total	26,988,169

Schedule 7 Cash Balance

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
15,220,201	1. Local Currency (including coin)	33,913,418
834,163	2. Foreign Currency	3,063,505
16,054,364	Total	36,976,923

Schedule 8 Balance with Banks

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year				Total
		Local Currency	Foreign Currency		Total	
			Indian Rupee	Convertible Currency		
79,479,074	1. Nepal Rastra Bank	219,833,038	-	2,763,216	2,763,216	222,596,254
79,788,053	a. Current Account	221,141,991	-	-	-	221,141,991
(308,979)	b. Other Account	(1,308,953)	-	2,763,216	2,763,216	1,454,263
27,154,420	2. Other Local Banks	68,189,368	-	591,089	591,089	68,780,457
25,961,571	a. Current Account	68,189,368	-	591,089	591,089	68,780,457
1,192,849	b. Other Account	-	-	-	-	-
30,922,219	3. Foreign Banks	-	28,044,300	23,069,282	51,113,582	51,133,582
30,922,219	a. Current Account	-	28,044,300	23,069,282	51,113,582	51,133,582
-	b. Other Account	-	-	-	-	-
137,555,713	Total	-	-	-	-	342,490,293

Note: The balance as per the confirmations received from the respective banks is NPR 229,715,507 and the difference amounts have been identified and are under reconciliation

Schedule 9 Money at Call and Short Notice

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
-	1. Local Currency	100,000,000
-	2. Foreign Currency	-
-	Total	100,000,000

Schedule 10 Investments

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year		
		Purpose		Total
		Trading	Others	
95,904,040	1. HMG Securities	-	283,938,798	283,938,798
95,904,040	a. Treasury Bills	-	279,388,798	279,388,798
-	b. Development Bonds	-	4,550,000	4,550,000
-	c. National Saving Bond	-	-	-
-	2. Foreign Govt. Securities	-	-	-
-	3. Nepal Rastra Bank Bonds	-	-	-
-	4. Shares, Debentures and Bonds	-	-	-
15,010,000	5. Other Investments	-	11,167,500	11,167,500
-	a. Certificate of Deposits	-	-	-
-	b. Mutual Fund	-	-	-
-	c. Local Banks	-	-	-
15,010,000	d. Foreign Banks	-	11,167,500	11,167,500
-	e. Others	-	-	-
110,914,040	Total Investment	-	295,106,298	295,106,298
-	Provision	-	-	-
110,914,040	Net Investment	-	295,106,298	295,106,298

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

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year	
		At Cost	At Market Value
-	1. Investment in Shares	-	-
-	2. Investments in Debentures and Bonds	-	-
-	Total Investment	-	-
-	3. Provision for Loss	-	-
-	Total Provision	-	-

Note: The bank has not invested in shares of any company therefore declaration of dividend in the last three years is not relevant

Schedule 11 Classification of Loan and Bills Purchase and Provisioning

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year Particulars	Advances						Bill Purchased/Discounted						Current Year	
	Domestic			Foreign			Domestic			Foreign				
	Priority Sector		Other	Priority Sector		Other	Priority Sector		Other	Priority Sector		Total		
	Insured	Uninsured		Insured	Uninsured		Insured	Uninsured		Insured	Uninsured	Total		
1. Performing Loan														
775,942,995	-	103,410,943	1,597,721,481	-	1,701,132,424	-	49,796,532	49,796,532	-	49,796,532	49,796,532	1,750,928,956		
2. Non-Performing Loan														
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
775,942,995	-	103,410,943	1,597,721,481	-	1,701,132,424	-	49,796,532	49,796,532	-	49,796,532	49,796,532	1,750,928,956		
3. Loan Loss Provision														
7,759,430	-	1,034,110	15,977,215	-	17,011,325	-	497,965	497,965	-	497,965	497,965	17,509,290		
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7,759,430	-	1,034,110	15,977,215	-	17,011,325	-	497,965	497,965	-	497,965	497,965	17,509,290		
4. Provision up to earlier year														
6,505,114	-	785,386	6,852,160	-	7,637,546	-	121,884	121,884	-	121,884	121,884	7,759,430		
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6,505,114	-	785,386	6,852,160	-	7,637,546	-	121,884	121,884	-	121,884	121,884	7,759,430		
1,254,316	-	248,724	9,125,055	-	9,373,779	-	376,081	376,081	-	376,081	376,081	9,749,860		
768,183,565	-	102,376,833	1,581,744,266	-	1,684,121,099	-	49,298,567	49,298,567	-	49,298,567	49,298,567	1,733,419,666		

Schedule 12 Fixed Assets

As at Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Assets					Current Year
		Building	Vehicles	Equipments	Furniture	Computers	
	1. At Cost						
25,859,923	a. Previous Year Balance	-	14,463,207	4,052,910	4,393,987	12,759,469	35,669,573
9,809,650	b. Addition during the Year	-	3,749,900	397,870	2,781,969	3,845,103	10,774,842
-	c. Revaluation/Written back during the year	-	-	-	-	-	-
-	d. Sale during the Year	-	(1,100,000)	-	(15,950)	-	(1,115,950)
-	e. Written off during the Year	-	-	-	-	-	-
35,669,573	Total Cost (a+b+c+d+e)	-	17,113,107	4,450,780	7,160,006	16,604,572	45,328,465
	2. Depreciation						
1,018,130	a. Up to Previous Year	-	2,576,685	960,208	1,163,349	2,975,837	7,676,079
6,657,949	b. For this Year	-	2,663,094	795,842	1,191,745	2,724,732	7,375,413
-	c. Depreciation on revaluation/written back	-	(361,498)	-	(3,745)	-	(365,243)
7,676,079	Total Depreciation	-	4,878,281	1,756,050	2,351,349	5,700,569	14,686,249
	3. Written Down Value (1-2)						
27,993,494		-	12,234,826	2,694,730	4,808,657	10,904,004	30,642,215
	4. C-W-I-P (Pending Capitalization)						
-		-	-	-	-	-	-
2,950,715	5. Leasehold Assets	1,991,180	-	-	-	-	1,991,180
30,944,209	TOTAL (3+4+5)	1,991,180	12,234,826	2,694,730	4,808,657	10,904,004	32,633,396

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

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
775,942,995	(A) Secured	1,750,928,956
	1. Collateral of Movable/ Immovable Assets	1,587,331,682
738,502,084	2. Local Banks and Financial Institutions Guarantee	-
13,277,764	3. HMG Guarantee	-
-	4. Foreign Bank Guarantee	-
10,225,420	5. Export Documents	49,796,532
190,000	6. Fixed Deposit Receipts	2,874,566
-	a) Own FDR	-
190,000	b) FDR of other Banks	2,874,566
898,255	7. Government Bonds	800,190
-	8. Counter Guarantee	-
-	9. Personal Guarantee	-
12,849,472	10. Other Securities	110,125,986
-	(B) Unsecured	-
775,942,995	TOTAL	1,750,928,956

Schedule 13 Other Assets

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
114,477	1. Stationery Stock	239,370
2,027,416	2. Income Receivable on Investments	6,984,523
3,185,124	3. Accrued Interest on Loan	7,872,640
-	4. Commission Receivable	595,524
1,840,548	5. Sundry Debtors	1,453,468
248,750	6. Staff Loan and Advances	-
580,890	7. Prepayments	74,456
-	8. Cash in Transits	-
-	9. Other Transits items (including cheques)	-
-	10. Drafts paid without Notice	-
24,312,125	11. Expenses Not Written Off	25,152,381
-	12. Non-Banking Assets	-
-	13. Branch Adjustment Account	-
585,012	14. Others	2,490,866
32,894,342	TOTAL	44,863,228

Note: Staff Loan for the current year has been grouped under Loans and Advances in Schedule 11

Schedule 13 (A) Other Assets (Additional Statement)

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Up to 1 Year	1 to 3 Yrs	Above 3 Yrs	Total
3,185,124	1. Accrued Interest on Loan	7,872,640	-	-	7,872,640
-	2. Drafts paid without Notice	-	-	-	-
-	3. Branch Adjustment Account	-	-	-	-
3,185,124	TOTAL				7,872,640

Schedule 14 Contingent Liabilities

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
-	1. Claims on bank but not accepted by Bank	-
50,897,625	2. Letter of Credit (Full amount)	198,329,492
50,897,625	a) Less than 6 months maturity	198,329,492
-	b) More than 6 months maturity	-
-	3. Rediscounted Bills	-
14,899,219	4. Unmatured Guarantees/Bonds	74,413,975
-	a) Bid Bonds	-
14,899,219	b) Performance Bonds	74,413,975
-	5. Unpaid Shares in Investment	-
-	6. Forward Exchange Contract Liabilities	-
400,000	7. Bills Under Collection	53,926,019
2,779,778	8. Acceptance and Endorsement	21,596,764
-	9. Underwriting Commitments	-
-	10. Irrevocable Loan Commitments	-
8,195,840	11. Counter Guarantee of Internationally Rated Banks	429,209
-	12. Advance Payment Guarantee	-
-	13. Financial Guarantee	-
-	14. Contingent Liabilities on Income Tax	-
-	15. Others	-
77,172,462	TOTAL	348,695,459

Schedule 15 Interest Expenses

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
19,248,531	A. ON DEPOSIT LIABILITIES	61,154,638
4,778,118	1. Fixed Deposits	43,936,504
4,134,084	1.1 Local Currency	43,903,024
644,034	1.2 Foreign Currency	33,480
2,715,319	2. Saving Deposits	4,797,762
2,715,319	2.1 Local Currency	4,781,015
-	2.2 Foreign Currency	16,747
11,755,094	3. Call Deposits	12,420,372
11,755,094	3.1 Local Currency	12,420,372
-	3.2 Foreign Currency	-
-	4. Certificate of Deposits	-
847,134	B. ON BORROWINGS	2,021,996
-	1. Overdraft	-
185,323	2. Loan from Nepal Rastra Bank	-
661,811	3. Inter Bank Borrowing	1,827,401
-	4. Other Loan and Refinances	194,595
-	C. ON OTHERS	-
20,095,665	Total	63,176,634

Schedule 16 Expenses Relating to Employees

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
10,935,860	1. Salary	13,842,618
-	2. Allowances	-
491,696	3. Contribution to Provident Fund	656,371
389,440	4. Training Expenses	1,461,784
1,210	5. Uniform	-
419,954	6. Medical	549,656
8,412	7. Insurance	41,751
-	8. Pension and Gratuity Provision	-
2,147,817	9. Others	2,645,994
14,394,389	TOTAL	19,198,174

Schedule 17 Office Overhead Expenses

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
870,952	1. House Rent	1,679,682
579,369	2. Electricity and Water	1,379,170
116,245	3. Repair and Maintenance	261,513
84,587	(a) Building	214,891
31,658	(b) Vehicles	46,622
-	(c) Others	-
499,316	4. Insurance	937,653
1,281,405	5. Postage, Telex, Telephone, Fax	1,077,514
	6. Repair on Office Equipment and Furniture	140,095
76,685		
419,111	7. Traveling Allowances and Expenses	522,367
880,059	8. Stationery and Printing	902,677
200	9. Periodicals and Books	983
924,260	10. Advertisements	2,341,755
34,085	11. Legal Expenses	27,500
20,000	12. Donations	2,501
	13. Expenses Relating to Board of Directors	171,758
131,338	(a) Meeting Fees	164,000
-	(b) Other Expenses	7,758
171,879	14. Annual General Meeting Expenses	992,042
153,657	15. Expenses Relating to Audit	223,837
100,000	(a) Audit Fees	100,000
53,657	(b) Other Expenses	123,837
452,337	16. Commission on Remittances	221,542
6,782,574	17. Depreciation on Fixed Assets	7,375,413
	18. Amortization of Preliminary Expenses	652,366
589,399		
-	19. Share Issue Expenses	213,242
-	20. Technical Service Fee	6,104,157
198,321	21. Entertainment	374,693
5,901	22. Written off Expenses	3,873,839
623,349	23. Security Expenses	1,087,281
-	24. Credit Guarantee Premium	-
-	25. Commission and Discount	-
2,511,455	26. Others	5,166,395
17,321,897	TOTAL	35,729,976

Schedule 18 Interest Income

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
43,892,409	A. ON LOANS, ADVANCES AND OVERDRAFT	112,090,635
38,653,316	1. Loan and Advances	100,754,717
5,239,093	2. Overdraft - Local Currency	11,335,918
3,441,976	B. ON INVESTMENT	10,453,978
3,441,976	1. HMG Securities	10,453,978
3,441,976	a. Treasury Bills	10,448,922
-	b. Development Bonds	5,056
-	c. National Saving Certificates	-
-	2. Foreign Securities	-
-	3. Nepal Rastra Bank Bond	-
-	4. Debenture and Bonds	-
-	a. Financial Institutions	-
-	b. Other Organizations	-
-	C. ON AGENCY BALANCE	-
-	1. Local Banks	-
-	2. Foreign Banks	-
1,971,036	D. ON MONEY AT CALL AND SHORT NOTICE	446,174
1,971,036	1. Local Banks	446,174
-	2. Foreign Banks	-
481,782	E. ON OTHERS	1,055,169
-	1. Certificate of Deposits	-
481,782	2. Inter-Bank Loan	1,055,169
-	3. Others	-
49,787,203	Total	124,045,956

Schedule 19 Commission and Discount

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
442,074	A. BILLS PURCHASED AND DISCOUNT	4,086,853
-	1. Local	-
442,074	2. Foreign	4,086,853
1,872,744	B. COMMISSION	3,448,413
916,868	1. Letter of Credit	1,479,929
296,131	2. Guarantee	843,023
2,485	3. Collection Fee	31,807
571,336	4. Remittance Fee	997,979
-	5. Credit Cards	-
-	6. Share Underwriting/Issues	-
-	7. Government Transaction	-
85,924	8. Agency Commission	95,675
-	9. Exchange Fee	-
1,947,142	C. OTHERS	3,764,158
4,261,960	Total	11,299,424

Schedule 20 Exchange Gain/Loss

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
2,252,010	A. Revaluation Gain	578,555
2,281,820	B. Trading Gain (except Exchange Fee)	5,497,570
4,533,830	Total Income/(Loss)	6,076,125

Schedule 21 Non-Operating Income/(Expense)

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
-	1. Profit/(Loss) on Sale of Investment	-
-	2. Profit/(Loss) on Sale of Assets	62,790
-	3. Dividend	-
-	a. Commercial Banks	-
-	b. Rural Development Banks	-
-	c. Financial Institutions	-
-	d. Other Organized Institutions	-
-	(1) Subsidiary Companies	-
-	(2) Others	-
-	4. Subsidies Received from	-
-	Nepal Rastra Bank	-
-	a. Reimbursement of	-
-	losses of specified branches	-
-	b. Interest Subsidy	-
-	c. Exchange Counter	-
404,700	5. Others	(118,037)
404,700	Total Non-Operating Income/(Expense)	(55,247)

Schedule 22 Other Income

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
19,250	1. Rental on Safe Deposit Lockers	27,000
-	2. Issue and Renewals of Credit Cards	-
-	3. Issue and Renewals of ATM Cards	676
471,700	4. Telex/T.T.	998,569
-	5. Service Charges	-
-	6. Renewal Fees	-
-	7. Loss Provision Written Back	-
-	8. Others	-
490,950	Total	1,026,245

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

As on Ashad 31, 2061 (July 15, 2004)

Figures in NPR

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

Name of Promoter/ Director/Chief Executive	Last Year's Balance		This Year Recovery		This Year Addition	Balance as of Ashad end	
	Principal	Interest	Principal	Interest		Principal	Interest
(A) Directors							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
(B) Chief Executive							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
(C) Promoters							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
(D) Employees							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
(E) Shareholders holding more than 1%							
1.	-	-	-	-	-	-	-
2.	-	-	-	-	-	-	-
3.	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Schedule 24 Capital Adequacy

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
326,253,290	A) CORE CAPITAL	552,393,881
330,000,000	1) Paid Up Capital	549,789,000
-	2) Share Premium	-
-	3) Non-Redeemable Preference Share	-
206,725	4) General Reserve Fund	2,296,658
(4,217,334)	5) Cumulative Profit/Loss (up to previous FY)	(3,953,435)
263,899	6) Current Year Profit & Loss (as per Balance Sheet)	4,261,658
8,322,432	B) SUPPLEMENTARY CAPITAL	18,216,931
7,759,430	1) General Loan Loss Provision	17,509,290
563,002	2) Exchange Equalization Reserve	707,641
-	3) Assets Revaluation Reserve	-
-	4) Hybrid Capital Instruments	-
-	5) Unsecured Subordinate Term Debt	-
-	6) Interest Rate Fluctuation Fund	-
-	7) Other Free Reserves	-
334,575,722	C) TOTAL CAPITAL FUND (A+B)	570,610,812
864,819,491	D) Risk Weighted Assets	1,954,883,899
86,481,949	E) Minimum Capital fund required to be maintained on the basis of Risk Weighted Assets	
43,240,975	Capital Fund (@ 11 Percent)	215,037,229
38.69%	Core Capital (@ 5.5 Percent)	107,518,614
248,093,773	Capital Fund Ratio	29.19%
283,012,315	Capital Fund Excess / (Short)	355,573,583
	Core Capital Excess / (Short)	444,875,267

Continued...

Schedule 24 Statement of Risk Weighted Assets (RWA)

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year		On - Balance Sheet Assets	Weightage	Current Year	
Amount	RWA			Amount	RWA
16,054,364	-	Cash Balance	0%	36,976,923	-
-	-	Gold (Tradable)	0%	-	-
79,479,074	-	Balance with Nepal Rastra Bank	0%	222,596,254	-
95,904,040	-	Investment in Government Securities	0%	279,388,798	-
-	-	Investment in NRB Bonds	0%	4,550,000	-
190,000	-	Fully Secured loan against own Fixed Deposit Receipt	0%	-	-
898,255	-	Fully Secured loan against Government Securities	0%	800,189	-
27,154,420	5,430,884	Balance with Domestic banks and financial institutions	20%	68,780,457	13,756,091
-	-	Fully secured FDR Loan against FDR of other banks	20%	-	-
30,922,219	6,184,444	Balance with foreign banks	20%	51,113,582	10,222,716
-	-	Money at call	20%	100,000,000	20,000,000
15,010,000	3,002,000	Other Investments with Internationally rated banks	20%	11,167,500	2,233,500
-	-	Loan against the guarantee of internationally rated banks	20%	-	-
-	-	Investment in Share, Debenture and Bonds	100%	-	-
-	-	Other Investments	100%	-	-
774,854,740	774,854,740	Loan, Advances and Bills Purchase/Discount	100%	1,750,128,767	1,750,128,767
30,944,209	30,944,209	Fixed Assets	100%	32,633,396	32,633,396
25,134,912	25,134,912	All Other Assets	100%	27,353,938	27,353,938
1,096,546,233	845,551,189	(A) Total		2,585,489,804	1,856,328,408
400,000	-	Off-Balance Sheet Items			
-	-	Bills Collection	0%	53,926,019	-
-	-	Forward Foreign Exchange Contract	10%	-	-
50,897,625	10,179,525	Letters of Credit with Maturity of less than 6 months (full value)	20%	198,329,492	39,665,898
-	-	Guarantees provided against counter guarantee of internationally rated foreign banks	20%	429,209	85,842
8,195,840	1,639,168	Letters of Credit with Maturity of more than 6 months (full value)	50%	-	-
-	-	Bid Bond	50%	-	-
14,899,219	7,449,610	Performance Bond	50%	74,413,975	37,206,987
-	-	Advance Payment Guarantee	100%	-	-
-	-	Financial Guarantee	100%	-	-
-	-	Other Guarantee	100%	-	-
-	-	Irrevocable Loan Commitment	100%	-	-
-	-	Contingent Liability in respect of Income Tax	100%	-	-
-	-	All other contingent liabilities	100%	21,596,764	21,596,764
74,392,684	19,268,303	(B) Total		348,695,459	98,555,491
1,170,938,917	864,819,491	Total Risk Weighted Assets		2,934,185,262	1,954,883,899

Schedule 25 Principal Indicators

Figures in NPR

Particulars	Indicators	FY 2058/59	FY 2059/60	FY 2060/61
1. Percent of Net Profit/Gross Income	Percent	-155.99%	1.74%	7.34%
2. Earnings Per Share	Rs.	-	0.31	1.90
3. Market Value Per Share	Rs.	NA	NA	156.00
4. Price Earning Ratio	Ratio	NA	NA	82
5. Dividend (including bonus) on Share Capital	Percent	-	-	-
6. Cash Dividend on Share Capital	Percent	-	-	-
7. Interest Income/ Loan and Advances	Percent	0.40%	5.71%	6.47%
8. Staff Expenses/ Total Operating Expenses	Percent	41.58%	27.78%	16.26%
9. Interest Expenses/ Total Deposit & Borrowing	Percent	0.31%	2.64%	3.16%
10. Exchange Gain/ Total Income	Percent	19.30%	7.62%	4.27%
11. Staff Bonus/ Total Staff Expenses	Percent	-	0.80%	7.57%
12. Net Profit/ Loan and Advances	Percent	-3.40%	0.13%	0.60%
13. Net Profit/ Total Assets	Percent	-1.10%	0.09%	0.40%
14. Total Credit/ Deposit	Percent	109.13%	111.04%	103.96%
15. Total Operating Expenses/ Total Assets	Percent	1.39%	4.73%	4.57%
16. Adequacy of Capital Fund on Risk Weighted Assets				
(a) Core Capital	Percent	133.19%	37.73%	28.26%
(b) Supplementary Capital	Percent	0.61%	0.96%	0.93%
(c) Total Capital Fund	Percent	133.80%	38.69%	29.19%
17. Liquidity (CRR)	Percent	11.24%	13.29%	17.13%
18. Non-performing credit/ Total Credit	Percent	0.00%	0.00%	0.00%
19. Interest Rate Spread	Percent	0.74%	3.03%	2.96%
20. Book Net-worth	Rs.	270,782,666	326,816,292	557,054,957
21. Total Shares	No.	2,750,000	3,300,000	5,500,000
22. Total Staff	No.	22	47	75

Key Indicators (Definitions)

Items	Definitions
Net Profit	Net Profit After Tax
Gross Income	Total of Income side of the Profit and Loss Account
Earnings Per Share (EPS)	Net Profit/No. of Shares at the year end
Interest Income	Interest Income on Loans and Advances as per Schedule 18
Loans and Advances	Net Loans & Advances as per Schedule 11
Staff Expenses	Employees expenses as per Schedule 16
Total Staff Expenses	Staff Expenses + Staff Bonus
Total Operating Expenses	Interest Expenses + Employee Expenses + Office Operating Expenses + Exchange Loss
Interest Expenses	Interest Expenses as per Schedule 15
Total Deposit & Borrowings	Loans + Borrowings + Deposits as per Schedule 3 & 4
Total Assets	Total of Asset side of the Balance Sheet
Total Credit	Gross Loans and Advances + Bills as per Schedule 11
Total Deposits	Deposits as per Schedule 4
Cash Reserve Ratio	Ratio as per NRB Directives, calculated and submitted to NRB as on 15.07.2004
Interest Rate Spread	Rate of Interest Income on Loans and investments less Rate of Interest Expenses on Deposits & Borrowings

Schedule 26 Cash Flow Statement

For the period Shrawan 1, 2060 to Ashad 31, 2061 (July 17, 2003 to July 15, 2004)

Figures in NPR

Previous Year	Particulars	Current Year
12,923,582	(A) CASH FLOW FROM OPERATION (1+2)	46,373,638
54,957,747	1. CASH RECEIPTS	133,103,988
45,266,307	1.1 Interest Income	114,623,715
4,261,960	1.2 Commission and Discount Income	11,299,424
4,533,830	1.3 Exchange Gain	6,076,125
404,700	1.4 Non-Operating Income	78,479
490,950	1.5 Other Income	1,026,245
42,034,165	2. CASH PAYMENTS	86,730,349
17,886,559	2.1 Interest Expenses	45,798,333
13,892,641	2.2 Staff Expenses	18,298,794
10,254,965	2.3 Office Overhead Expenses	22,518,376
-	2.4 Exchange Loss	-
-	2.5 Non-Operating Expenses	-
-	2.6 Other Expenses	114,847
	(B) CASH FLOW FROM INVESTING	
(707,971,015)	ACTIVITIES	(1,480,409,052)
28,133,560	1. Changes in Balance with Banks	(204,934,580)
-	2. Changes in Money at Call and Short Notice	(100,000,000)
(56,887,040)	3. Changes in Investments	(184,192,258)
	4. Changes in Loans, Advances and Bills Purchased	(974,985,964)
(651,821,649)	5. Changes in Fixed Assets	(10,041,306)
(11,468,705)	6. Changes in Other Assets	(6,254,944)
(15,927,181)	(C) CASH FLOW FROM FINANCING	
708,133,957	ACTIVITIES	1,454,957,972
70,000,000	1. Changes in Borrowings	247,005,000
579,212,504	2. Changes in Deposits	992,348,952
1,988,103	3. Changes in Bills Payable	(1,866,973)
1,933,350	4. Changes in Other Liabilities	(2,318,008)
55,000,000	5. Changes in Capital	219,789,000
13,086,524	(D) NET CASH FLOW OF THE YEAR (A+B+C)	20,922,559
2,967,840	(E) OPENING CASH BALANCE	16,054,364
16,054,364	(F) CLOSING CASH BALANCE (D+E)	36,976,923

Schedule 27: Principal Accounting Policies

Basis of Preparation

The financial statements have been prepared in conformity with the generally accepted accounting principles and in accordance with the requirements of the directives of the Nepal Rastra Bank (the Central Bank) and in conformity with the Companies Act and other relevant legislations.

Interest Income

Interest income on loans and advances have been recognised on cash basis as per the directives issued by Nepal Rastra Bank except for the interest accrued as on the year end (15th July 2004) and collected within 1 month of the Balance Sheet date as provided in the directives issued by NRB.

Interest income on Investments has been accounted for on accrual basis.

Commission Income

All the commission incomes have been accounted for on accrual basis. However it is the policy of the bank to recognise income during the current financial year if the income is generated out of transaction with tenor less than 12 months.

Foreign Exchange Transactions

Foreign currency assets and liabilities have been translated at the prevailing mid-rate as at the Balance Sheet date.

Income realised from the difference between buying and selling rates of the foreign exchange are accounted for on a daily basis and shown as "Exchange Profit and Loss".

Interest Expense

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

Loans and Advances including Bills Purchased

Loans and advances, overdrafts and bills purchased include direct finance provided to customers. These includes overdrafts, term loans, consumer loans, supply finance and loans given to priority and deprived sector. All credit exposures are classified as per Nepal Rastra Bank's directives. Loans and Advances, overdrafts and bills purchased are shown net off provisions.

Staff Loans

Loans and advances to staff granted in accordance with the rules of the bank and are shown under Loans and Advances.

Loan Loss Provision

The provision for possible losses from loans and advances has been provided in accordance with the directive of Nepal Rastra Bank. All loans in the books fall under "Pass Loan", hence loan loss provision of 1% has been provided as on the Balance Sheet date.

Investments

All the investments are valued at cost. Bank has the ability and intention to hold its investments till maturity.

Fixed Assets and Depreciation

- Fixed Assets are capitalised and accounted for on historical cost basis.
- Assets purchased during the financial year worth less than NPR 5,000 has been charged off as a revenue expense irrespective of its useful life.
- Fixed assets are depreciated on diminishing balance method and at the rate prescribed by the income tax act.
- Expenses incurred on leasehold property are amortised over the period of 5 years as against the previous year where

depreciation was charged on such asset. Had the leasehold property been depreciated rather than being amortised, profit for the year would have been increased by NPR 828,313.

Amortisation

Advertisement, promotional and business development expenditure are considered as "Expenses to be amortised" and are amortised over the period of 3 years.

Share issue expenses have been amortised for the period of 5 years and the charging of the amortised expense commenced from the date of listing of shares in Nepal Stock Exchange.

Deferred Software Expenses

The expense on computer software has been booked as Deferred Revenue Expenditure to be amortised over five years in equal instalments. Amortisation of Deferred Software Expenses commenced from November 2003 (Kartik 2060) after the full implementation of the software and as advised by NRB.

Stationery

Stationery purchased in bulk for internal consumption and is expensed off over the period of its usage.

Provision for Taxation

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

Rounding off / Previous Year's Figures

All the figures are rounded off to the nearest rupee. Previous year's figures are grouped or regrouped wherever necessary in order to facilitate comparison.

Schedule 28: Notes to Accounts

Interest Income and Interest Suspense

Interest amounting to NPR 6,328,697 collected within 1 month of the Balance sheet date as allowed by the NRB directives has been included in the interest income for the year ended on the Balance Sheet date.

Entire Interest Suspense represents interest accrued on performing loans, given the need to recognise income on cash basis. Thus Interest suspense does not relate to overdue payments.

Provision for Staff Bonus

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

General Reserve

As per the requirement of Nepal Rastra Bank 20% of its net profit amounting to NPR 2,089,933 has been transferred to General Reserves.

Exchange Fluctuation Reserve

Revaluation gain as at the year-end amounted to NPR 578,555, out of which 25% has been transferred to exchange fluctuation reserve by debiting profit and loss appropriation account as per the directives of the Nepal Rastra Bank.

Merger with HISEF

Merger of Laxmi Bank with HISEF Finance was approved by Nepal Rastra Bank effective from 2060/12/20 (2nd April 2004). The book merger of the two entities has not been done as at the Balance Sheet date awaiting approval from the Company Registrar's Office as on that date. Final approval of the merger has been received from the Company Registrar's Office on 11/04/2061 (26th July 2004).

All the HISEF employees have been absorbed in the bank with effective from 01/02/2061 (14th May 2004). As per the conditions set out by NRB, the existing salary and benefits have been continued for the employees so absorbed. The salary and benefits debited to the Profit and Loss Account on account of the HISEF employees amounts to NPR 405,540.

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

Reconciliation Status

NPR

Reconciliation Status	Total Amount	< 3 months	> 3 < 9 months	> 9 months
Branch Reconciliation	NIL	NIL	NIL	NIL
Agency Accounts	13,878,290.23	13,865,718.00	480.23	12,092.00

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

Summary of Changes in Deposit Liabilities

NPR '000

	Current year 31/3/2061 (15/07/2004)	Previous Year 32/3/2060 (16/07/2003)	Changes
Call Deposits	187,819	247,240	(59,421)
Current Deposits	211,104	49,679	161,425
Fixed Deposits	1,082,925	288,602	794,323
Interbank Deposits	317,005	70,000	247,005
Margin Deposits	16,843	7,740	9,103
Saving Deposits	185,468	98,549	86,919

Summary of Loans and Advances, Disbursed, Recovered and Principal & Interest Written-off

NPR ' 000

	Amount
Loans Disbursed	4,873,374
Loans Recovered	3,890,628
Loans Written off	NIL
Interest written off	NIL

Weighted Average Interest Spread

	Rate %
Average Rate of return from Credit and Investments	8.50%
Average Rate on Deposits	5.13%
Net Spread	3.37%

Particulars of Expenses yet to be Expensed-off

NPR ' 000

1. Deferred Software	15,824
2. Pre operating expenses	1,872
3. Others	7,456

Summary of Concentration of Exposure

NPR ' 000

	Loans and Advances and Bills	Deposits and Borrowing	Contingents
Total amount as on 15/07/2004	1,750,929	2,001,164	348,695
Highest exposure to a single unit (in Amount)	137,288	391,669	201,416
Percentage of exposure to single unit/total (in %)	7.84%	19.57%	57.76%

Classification of Assets and Liabilities based on Maturity

NPR '000

	1-90 days	91-180 days	181-270 days	271 days -1 year	More than 1 year	Total
Assets						
Cash	36,977	-	-	-	-	36,977
Bank Balances	342,490	-	-	-	-	342,490
Money at Call and Short Notice	100,000	-	-	-	-	100,000
Investments	163,559	13,633	55,948	57,417	4,550	295,106
Loans, Advances and Bills Purchased	445,283	522,199	155,505	97,260	513,173	1,733,420
Other Assets	44,863	-	-	-	32,633	77,496
Total Assets	1,133,171	535,832	211,453	154,677	550,356	2,585,489
Liabilities						
Borrowings	317,005	-	-	-	-	317,005
Deposit Accounts						
Current / Call Deposits	411,510	-	-	-	4,256	415,766
Saving	-	-	-	-	185,468	185,468
Fixed	6,810	32,520	50,700	146,364	846,530	1,082,924
Bills Payable	283	-	-	-	-	283
Other Liabilities, Capital & Reserve	26,988	-	-	-	557,055	584,043
Total Liabilities	762,596	32,520	50,700	146,364	1,593,309	2,585,489
Net Financial Assets	370,575	503,312	160,753	8,313	(1,042,954)	
Cumulative financial assets	370,575	873,887	1,034,641	1,042,954	-	

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