





# Laxmi Bank

**ANNUAL REPORT 2011/12**

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**WE ARE COMMITTED TO EXCELLENCE  
IN DELIVERY OF THE 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.**

## Cautionary Statement Regarding Forward Looking Statements

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

Forward-looking statements are statements that are not historical facts and includes the Bank's beliefs and expectations.

Forward-looking statements use words like such as 'aim', 'expect', 'anticipate', 'target', 'intend', 'plan', 'believe', 'seek', 'estimate', 'potential', 'reasonably possible' and variations of these words and similar expressions.

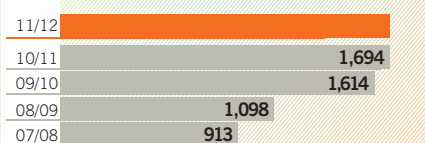
By their nature, forward-looking Statements involve risk and uncertainty because they relate to future events or circumstances and a number of factors beyond Laxmi Bank's control. In view of this, readers are cautioned that a number of factors could cause actual results to differ, in some instances materially,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

## 5 YEAR FINANCIAL HIGHLIGHT

### PAID UP CAPITAL

{In NPR Millions}

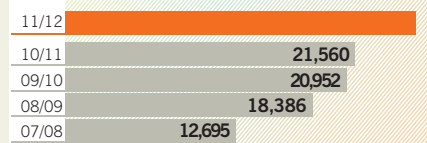
# 1,694



### TOTAL ASSETS

{In NPR Millions}

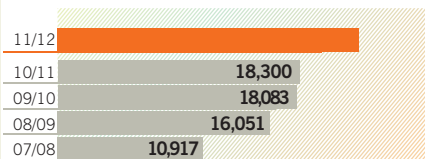
# 26,029



### CUSTOMER DEPOSITS

{In NPR Millions}

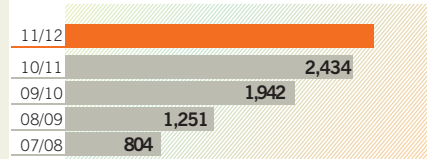
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### TOTAL REVENUE

{In NPR Millions}

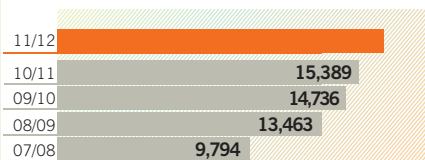
# 2,604



### LOANS & ADVANCES

{In NPR Millions}

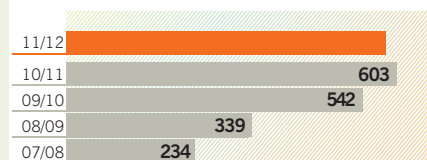
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### OPERATING PROFIT

{In NPR Millions}

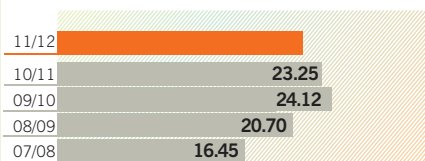
# 585



### EARNING PER SHARE

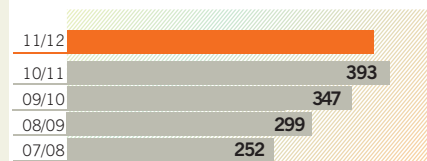
{In NPR}

# 21.55



### NUMBER OF EMPLOYEES

# 374



## CHAIRMAN'S STATEMENT

Laxmi Bank completes ten years of a successful operation.

We have achieved sound growth with a wide array of products and services.

Our risk management practices remain robust and strong.

The bank will continue to expand its services through new services and better market reach, merchant banking, microfinance and add value with modern technology.

I thank all the customers and stakeholders for their patronage.

Thank You.

**Rajendra Kumar Khetan**

*Chairman*



## BOARD OF DIRECTORS



**MR. RAJENDRA KUMAR KHETAN**  
*Chairman*

*Honorary Consul* of Portugal  
*Senator*, Kathmandu University  
*Ex-Member*, Constituent Assembly



**MR. RISHI RAM GAUTAM**  
*Director (Representing CIT)*

*Executive Director*, Citizen Investment Trust



**MR. JIBAN RAJ KANDEL**  
*Director (Representing the General Public)*



**MR. CHANDRA PRAKASH KHETAN**  
*Director*





**MR. RATAN LAL SHANGAI**

*Director*

*Chairman*, Everest Insurance Co. Ltd.  
Engaged in Garment, Textile, Plastic manufacturing



**MR. BHOLA B. ADHIKARY**

*Director (Representing the General Public)*



**MR. GOPI KRISHNA SIKARIA**

*Director*

*Director*, Nepal Petroleum Pvt. Ltd.  
*Director*, Prime Life Insurance Co. Ltd.



**MR. MADHU SUDAN AGRAWAL**

*Advisor*

*Chairman*, SR Drugs Lab Pvt. Ltd.  
*Executive Director*, Sunrise Group  
*Director*, Everest Insurance Co. Ltd.  
*Ex-Member*, Constituent Assembly



**MR. SHAMBHU PARSAD ACHARYA**

*Professional Director*



**MR. SUMAN JOSHI**

*Chief Executive Officer*



## THE EXECUTIVES

FROM LEFT TO RIGHT

**MANISH RAJ KUNWAR**  
*Senior Relationship Manager - Corporate Banking*

**SUDESH KHALING**  
*Executive Vice President / Chief Risk Officer*

**AJAYA B SHAH**  
*Head - Retail Financial Services*

**JIWAN LIMBU**  
*Chief Technology Officer*

**BHUBAL RAI**  
*Chief-Internal Auditor / Head - Compliance & Assurance*

**NIRMAL DAHAL**  
*Head-Credit*

**BHARTI PANDE (Sitting)**  
*Head - New Road Business Center*

**SUMAN JOSHI (Sitting)**  
*Chief Executive Officer*



FROM LEFT TO RIGHT

**SANJEEV RAJ JOSHI**  
Chief Operating Officer

**SUMED BHATTARAI**  
Head - Corporate Banking

**RAJIV SAPKOTA**  
Head - Business Development

**PIYUSH ARYAL**  
Head - Finance & Treasury / Company Secretary

**AMIT SHARMA**  
Manager, Human Resources

**DIPESH AMATYA**  
Head - Small Business Financial Services

**EUDEN KOIRALA (Sitting)**  
Branch Manager - Hattisar / Manager Service Excellence

**AMIT SINGH KARKI (Sitting)**  
Senior Manager - Corporate Banking



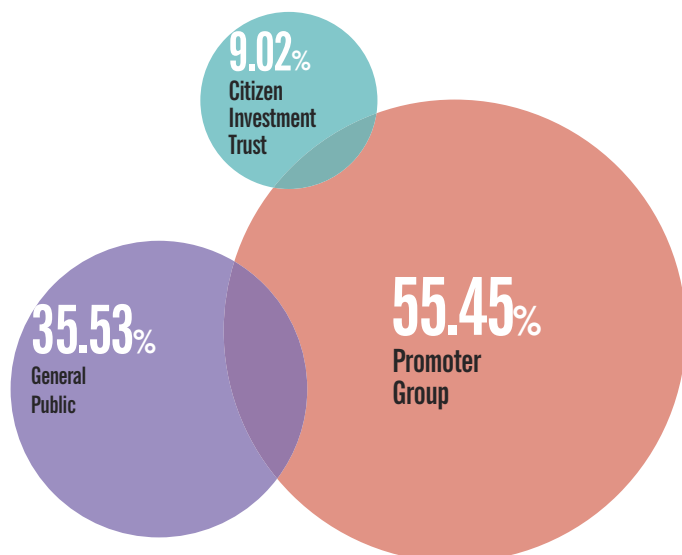
10th Anniversary Celebrations  
April 1, 2012



## OWNERSHIP

Laxmi Bank's ownership structure comprises of 3 broad categories of shareholders:

- The Promoter Group representing some the leading corporate houses - **55.45%**
- Citizen Investment Trust, a Government of Nepal undertaking - **9.02%**
- 11,285 Public Shareholders - **35.53%**



Laxmi Bank was incorporated in April 2002 as the 16th commercial bank in Nepal. The Bank is registered as a Category “A” financial institution under the “Banks and Financial Institutions Act”. Our shares are listed and actively traded in the Nepal Stock Exchange.

In 2004 the Bank merged with HISEF Finance Limited, a first generation finance company a landmark in the Nepalese corporate history as the first ever merger in Nepal.

We take pride in having established a responsible bank that has set the standards for the industry especially in the areas of corporate governance, risk management and technologically driven products and services.

Today we serve a wide range of customers across the country with 400 employees through 31 branches.

We work with more than 700 business correspondents across the country who help us distribute remittances and support our mobile wallet business. We have leveraged on our technological capabilities to complement this ‘bricks and mortar’ network with pioneering electronic banking services such as internet banking in 2002 and mobile banking in 2009.

Our balance sheet size of NPR 26,028 million. We are today one of the best managed banks in the country and a top 10 bank in terms of market share, size of operations and quality of profits.

Laxmi Bank aspires to be a fully sustainable business and has embraced environment as the primary area for our corporate social responsibility investments and initiatives.

Laxmi Bank’s merchant banking subsidiary – Laxmi Capital Market Limited has been in operation since February 2009. A second subsidiary – Laxmi Microfinance Financial Institution commenced business in June 2012. Apart from these subsidiaries, Laxmi Bank owns 15% shares in Prime Life Insurance Company Limited.

## LAXMI BANK BRAND

In a relatively short history of 10 years we are proud to have established a brand that is recognized as a young, forward looking and responsible Bank. We understand that banking is a long term proposition and brand management is as important as balance sheet and risk management in our business.

The “Laxmi Bank” brand has been managed and nurtured carefully through the years and that has helped us achieve sustainable business growth despite adverse business conditions of the last decade.

In pursuit of balance sheet growth we recognize the need to expand our reach and services to newer customer segments and move into semi-urban areas which in turn will require us to make appropriate revisions to our branding and communication strategy. In this context we continue to make the brand transition from an elitist, hi-tech bank to a bank that provides hi-tech user friendly modern banking services that empowers all hard working, god loving Nepali citizens.



Diversity Day in Laxmi Bank



## OUR BUSINESS

We are in the business of empowering our customers in order for them to meet their financial goals and aspirations through innovative and progressive financial solutions delivered efficiently and professionally.

In a competitive and crowded market we understand the need to give our customers clear and real reasons to trust their finances to us and over the past 10 years we have invested in creating a responsible and responsive customer service culture within the Bank. We have adopted new technologies and ideas with the aim of making banking convenient, cost effective and simple for our customers.

We take pride in having established thousands of relationships with customers who choose to patronize us due to our sustainable relationship approach making Laxmi Bank a partner in growth and progress.

### REACHING OUT THROUGH BRICKS AND CLICKS

As thought leaders of electronic banking in Nepal since 2002, we rely on 'bricks & clicks' approach to reach out to new customers and new markets. Our customers are able to touch us through 31 branches, 40 ATMs, 700 business correspondents as well as the internet and mobile phones.

Over the past 10 years we have opened branches key urban centres as well as emerging semi-urban areas that meet our medium and long term strategic goals - balance sheet growth, network completion and improving access to finance across the country. While we promote adaptation and usage of electronic service channels for standardized transactions, our customers use our branches for specialized services such as investments, mortgages and small business services.

We operate through 11 branches inside Kathmandu valley that are strategically located and designed to cater to the upwardly mobile urban population of the metropolis. Among these, 3 branches – Ekantakuna, Lagankhel and Pulchowk are in Lalitpur district and the remaining 8 – Boudha, Sukedhara, Maharajgunj, Bhatbhateni, New Baneshwor, Teku, New Road and Hattisar in Kathmandu district.

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

- Banepa, Khadichour, Charikot
- Biratnagar, Itahari, Damak, Dharan, Hile, Birtamod and Ilam
- Nepalgunj, Bhairahawa, Butwal and Taulihawa
- Pokhara -New Road and Pokhara Industrial Estate
- Narayanghat and Parsa-Chitwan
- Birgunj and Janakpur

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

### **BUSINESS CORRESPONDENTS**

We have partnered with over 700 remittances pay-out agents who represent Laxmi Bank across the length and breadth of the country mainly helping us move internal and domestic remittances in remote areas where we do not yet have a physical branch.

In the past year we have upgraded a number of such agents to Business Correspondents or Hello Paisa Operators by linking them to our mobile financial services initiatives allowing them to sign up new customer wallets as well as carry out pay-in and pay-out activities for the Hello Paisa customer wallets. This additional role is not only a source of new revenue/income for the Business Correspondents but also helps them strengthen their

relationships with their own customer base as facilitators of financial solutions that include – savings, payments and micro-credit.

Laxmi Bank is the first financial institution in Nepal to receive approval from the central bank to appoint and use Business Correspondents for mobile financial services. Please refer to a separate section on page 17. that highlights “Hello Paisa” activities for more details.

### **ATM NETWORK**

Laxmi Bank’s 40ATMs are today located across the country. For the convenience of patients and visitors we have placed ATMs at the 5 major hospitals inside Kathmandu valley - Patan Hospital, SahidGangalal Heart Center, Tilganga Eye Hospital, Norvic International Hospital and Shree Birendra Hospital.

Laxmi Bank is a founding member of the SCT network, an integrated shared services network for ATMs and Point-of-Sale terminals managed through a national switch. Apart from Laxmi Bank ATMs, our customers have access to over 1,000ATMs and 2,000merchants across the country under the SCT network.

Similarly Laxmi Bank is a member of the Visa International network which gives our card-holders access to more than 30,000 ATMs in Nepal and India with their Laxmi Bank Visa cards.

### **INTERNET BANKING**

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

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



## MOBILE FINANCIAL SERVICES

### Mobile Money

Laxmi Bank's Mobile Money is the first complete mobile banking solution in the country. It started as a basic enquiry service launched several years ago that allowed customers to check their account balances, foreign exchange rates and to receive transaction alerts through their mobile phones. In 2009, it evolved further with introduction of features such as p2p fund transfers, bill payment, airtime top up and remittance that enabled real time financial transactions to be carried out from a simple mobile phone.

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

### Mobile Wallets

Laxmi Bank introduced mobile wallets a transformational mobile financial solution as a member of a national platform – Hello Paisa in February 2012. We received approval from the central bank to launch Hello Paisa nationwide after a successful pilot in Sindhupalchowk district where over 1,000 and growing number of previously under-banked individuals are making use of this channel to save and pay money. At the time of this report we have expanded this service to 15 districts with over 4,500 active customer wallets. This program has been supported by the Nepal Economic, Agriculture and Trade (NEAT) Activity of the USAID.



## CORPORATE BANKING

Corporate Banking holds the largest portion of risk asset portfolio and continues to be a principal revenue driver for the Bank. Its total contribution is around 60% of revenue. Our risk asset portfolio touches almost all business sectors. Corporate Banking achieved a number of major 'wins' by putting together as the lead bank, syndicated loan arrangements for borrowers in areas of energy tourism and manufacturing.

Corporate Banking is managed by knowledgeable and proficient Relationship Managers. Corporate Banking is able to offer entire gamut of financial services such as project finance, working capitals, trade finance and foreign exchange management to our high end business customers. Corporate Banking aims to provide customized financial solutions by work on building, understanding and deepening customer relationships. This approach has always given us a distinct advantage of over our competitors and is reflected in the loyalty and trust our customers have bestowed on us. We have been successful both at retaining and growing the wallet share of existing customers as well as building new relationships who fit our risk appetite.

The Corporate Banking services is provided through 6 locations: New Baneshwor, New Road and Hattisar in Kathmandu Valley and at Birgunj, Biratnagar and Bhairahawa outside Kathmandu Valley. With the presence of services from East to West, we are able to service the business need of corporate customers all over Nepal.

Corporate Banking is not just all about increasing loans and risk asset. Under "Corporate Banking Plus" we go beyond the scopes and dimension of credit and lending products. As a result, the team actively pursues non-funded business prospects such as high value bonding business, institutional deposit management, co-branding activities and general financial advisory services. These activities are expected to generate satisfactory revenue for the bank and helps us to diversify our revenue sources.

## MICROFINANCE

Microfinance is a strong focus area for Laxmi Bank both as a source of new business opportunities as well as a tool to empower micro entrepreneurs in areas with relatively low access to finance in line with our band vision. Apart from wholesale loans through our partner Microfinance Institutions we provide micro loans directly to the end consumers through various programs launched across the country. Laxmi Bank's microfinance business is an independent profit center that comprises of relationship managers who bring their experience and select branches who manage the loans in their target areas.

### **At present we are involved in 4 distinct microfinance activities.**

- We have joined hands with one of the country's largest private dairy processors to finance milk yielding livestock in 5 districts – Kaski, Tanahun, Nawalparasi, Rupendehi and Chitwan. An estimated 1,500 people have directly benefited from this program.



■ Using our Laxmi Bank Business Correspondents in the eastern part of the country we have extended loans to support various micro enterprises in Jhapa district. These loans support income generating activities such as animal husbandry, foreign employment, groceries, eateries etc.

■ Our Banepa branch extends loans to farmers and entrepreneurs in Banepa, Panauti, Nala, Nepalthok and Sanga. These loans support various income generating activities such as carpentry, pharmacy, agriculture, groceries and are managed under the group guarantee model.

■ In Mukundapur VDC of Nawalparasi district we have tied up with the country's largest brewery to extend loans to finance purchase of livestock to individuals who reside in and around the vicinity of the plant. Till date around 100 families have benefited from this scheme which is partly subsidized by the brewery as part of their Corporate Social Responsibility program.

Laxmi Bank's microfinance subsidiary – “Laxmi Laghubitta Bittiya Sanstha Limited has been operating since April 2012 as a national level microfinance institution. It currently operates with 7 branches and is focused mainly in the hill regions which have relatively weaker access to finance as compared to the plains or terai region”.

#### Key highlights of the subsidiary as of February 11, 2013:

KEY INDICATORS	AMOUNT IN NPR
Savings Deposits	4,020,413.34
Total Loan Disbursement	38,571,000.00
Loan Outstanding (Gross)	27,513,631.47
Cash and Bank Balance	16,038,432.47
Investment in Fixed Deposits	40,000,000.00
Total Income	5,540,384.18
Total expenses including LLP	6,940,041.17
Number of Members	2,255
Number of Borrowers	1,163
District Covered	8
Number of Branches	7
Number of Delivery Centers	151

## TREASURY

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

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

Revaluation gain, which occurs from speculative position taken by treasury, has been a major contributor to the total Exchange Earning which resulted due to sound technical and fundamental analysis by the treasury team. Growth in exchange earning has been achieved in spite of intense competition in remittance and trade business which has continuously narrowed the forex spread. Liquidity squeeze in the banking sector during the fiscal year also resulted in lower volumes of trade related activities.

The core treasury operations comprise the balance sheet management function, the client-related corporate markets business and the proprietary trading activity. Fiscal year 2011/2012 saw volatility in global stock and commodity markets with varying liquidity conditions, credit tightening and inflationary concerns resulting in significant movement in the market interest as well as exchange rate at various points in time. The principal responsibilities of the Treasury included management of liquidity and exposure to market risks.

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

portfolio, while maintaining an appropriate portfolio duration given the volatile interest rate environment.

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

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

### **BULLION TRADING**

This fiscal year, Laxmi Bank Treasury added silver trading to the array of products offered to the customers. In a span of short time, Laxmi Bank has become a major player in the bullion trading market. The bank has currently been trading in physical gold bars and silver.

To mark our 10th Anniversary, we have issued commemorative silver coins weighing 20 Grams with our anniversary logo imprinted. The coin is being sold through our branch network.

### **FX FORWARD AND DERIVATIVES**

Laxmi Bank Treasury is a major participant in the FX Forward market. The Bank deals in FX Forward for balance sheet management and market making purposes whereby the Bank offers forward products to its customers, enabling them to hedge their risks. Dealing in FX Forward is carried out by authorized dealers based on the purpose of the transaction.

### **OTHER FUNCTIONS**

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

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

## **INSTITUTIONAL BANKING**

Laxmi Bank's Institutional Banking is an independent unit that provides customized financial services to government and semi government entities, foreign counter parties, infrastructure developers, insurance companies and other businesses with large and typically complex banking needs.

We are a preferred banker for all major public and private institutions in the country based on our balance sheet strength, quality of assets and professional relationship management approach. Institutional Banking provides services such as financial advisory, investments, trade finance, cash management, bonding, and linkage to other traditional banking businesses.

In July 2012 the bank managed to conclude a high value deal to establish a letter of credit amounting to USD 18 million on behalf of one of the public entities. This is one of the single largest financial transaction in Nepali banking history and reflects the confidence of the market on brand Laxmi Bank.

## **RETAIL FINANCIAL SERVICES**

Laxmi Bank has been a thought leader in the Nepalese retail banking space for the past 10 years. Today, we offer one of the widest range of personal financial services and solutions. We promise and deliver hi-tech and user friendly banking experience to a diversified customers - salaried individuals, women, youth, students, children, migrant workers, non-residents, small business owners and high net worth individuals.

### **BRANCHES**

Branch Banking is the major channel that distributes our retail financial services. Our 31 and growing number of branches help in customer acquisition, sales and servicing.

Our branches offer a number of innovative retail deposit schemes such as "Green Savings", "Super Woman Savings", "Maxi Invest" and "Reinvestment Deposit Plan". We have continued to invest in research and development of new and innovative deposit schemes complimented by excellence in our customer service standards. These initiatives help us to improve our customer deposit mix in favor of retail liabilities that now contribute more than 50% of our local currency liabilities portfolio.

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

A number of our branches especially emerging markets outside Kathmandu valley serve small businesses by extending lines of credit and cash management services to them.

### CONSUMER FINANCE

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

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

Laxmi Bank also offers a number of Personal Loan schemes such as Green Loans for purchase and installation of solar home systems.

We started Loans against Gold in October 2011 for individuals seeking quick liquidity against their gold assets. This service has since been extended to 3 locations – Pulchowk and New Road in Kathmandu valley and most recently Biratnager in the Eastern region.

### CARDS

Laxmi Bank has been a member of Visa International since 2007 and issue Classic Credit and Debit. This association with Visa gives our cardholders access to Visa's India-Nepal network of over 30,000 ATMs and 400,000 merchant outlets. In September 2011 we started issuing an international travel card that is accepted in the Visa International network across the world.

In addition to Visa branded cards, Laxmi Bank offers "DhanaLaxmi" – a SCT branded ATM Card. SCT has gained brand acceptance as the major shared services card platform in Nepal with participation of almost all major financial institutions as issuers and acquirers. Today there are over 1,000 ATMs and 2,000 merchant outlets under the SCT network.

### ELECTRONIC BANKING

Bank 2.0 is an independent unit within Retail Financial Services that drives and manages our electronic banking and alternative service channels.

This unit was introduced in 2009 in response to the growth in the overall e-banking activities, customers and products. Bank 2.0 is responsible for research and development and deployment of new products and solutions in the e-banking domain. This unit works with Laxmi Bank branches for customer acquisition and servicing as well as linking them with external vendors and payment partners allowing payments for goods and services to be made through electronic channels such as internet and mobile phones.



Laxmi Bank's Bank 2.0 unit is recognized as the industry leader and pioneers of a number of innovative e-payment solutions.

Bank 2.0 is also driving the Hello Paisa mobile wallet business since its launch in February 2012.

**WORKFORCE REMITTANCES**

Laxmi Bank Express Money Transfer (EMT) is the brand under which Laxmi Bank serves the large number of Nepalese migrant workers in the Middle East, South East Asia, Europe and the United States. With more than 2 million Nepalese employed in these regions workforce remittance has been a mainstay of Nepal's economy in the last decade. Laxmi Bank has been a major player in "bringing money home" since we entered this space in 2007. With strategic alliances with major internationally

active money transfer companies, Laxmi Bank helps channel more than USD 100M per year to Nepal which are distributed through all Laxmi Bank branches and 1,000 Business Correspondents covering 68 districts.

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

"Manakamana Savings" is customized savings account for our workforce remittance customers. This account can be opened and operated by a Remitter or a Beneficiary. This has helped the previously under-banked customers avail all basic financial services such as savings, insurance and credit.



inception in 2002. We have a strong base of customers across the small business spectrum from exporters, handicrafts, traders and services. With a strong tradition in this segment and experience built over the years, we are today in a position to offer total financial solutions including advisory services to the small business owners adding value to their business and personal finances.

In the past year we have increased our business appetite in this segment and have introduced a number of new products such as Saana Byawasai Karjaa and Laxmi Udyami Karjaa aimed at making it easier for small businesses to access credit from us. We have also expanded the geographic reach of our small business lending program riding on our branch network in emerging semi urban areas and we are excited with the response received from these new markets.

**SMALL BUSINESS FINANCIAL SERVICES**

Laxmi Bank has been a preferred bank for small businesses in select segments and markets since our

Together with our mobile financial services we expect our small business lending programs to make a significant contribution to improving access to financial services.



DEEPAK SILWAL



MANOHAR RAJ UPRETY



BHUBAL RAI



NEHA MALLA



SUMAN JOSHI



SUBHA KUMAR SATYAL

# 10 Years of Service with Laxmi Bank



DIPESH AMATYA



SANJEEV RAJ JOSHI



SIDDHA B. BHANDARI



ANITA UPADHYAY



SAROTTAM DAWADI



KRISHNA PRASAD HUMAGAIN



JEEWAN LIMBU



SANJEEV KUMAR SINGH



SUMED BHATTARAI



KESHAV THAPA

## DIRECTOR'S REPORT FY 2011/12

This report reviews the Bank's activities during the financial year 2011/12 including a commentary on the progresses, achievements, challenges and plans for the future and has been prepared in conformity with the provisions of the Company Act 2063, Banking and Financial Institutions Act 2063 and applicable Nepal Rastra Bank Directives.

The Directors present this report along with the Balance Sheet and Profit and Loss statements for the financial year that ended on July 15, 2012.

### 1. REVIEW OF BANK'S OPERATION FOR THE FINANCIAL YEAR 2011/12

#### A. KEY FINANCIAL HIGHLIGHTS

The bank achieved growth of 24.77% in Deposits and 12.75% in Risk Assets, in the FY 2011/12. The bank takes pride in achieving these growth figures and is confident of maintaining the growth momentum in the coming years as well. The bank has been able to achieve growth momentum in spite of the unfavorable economic condition of the country. Non Performing Assets level of the bank can be considered one of the lowest in the Nepalese banking industry.

The major financial indicators for the fiscal year are highlighted below:

PARTICULAR	Figures in NPR Millions	
	16/7/2011	15/7/2012
Paid up capital	1,694	1,694
Net Worth	2,113	2,291
Deposits	18,299	22,832
Risk Assets	15,389	16,697
Investments	3,101	4,417
Operating Profit	602	584
Net Profit	375	356
Provision for Loan Loss	189	220

The bank gives high priority to Corporate Governance and Risk Management standards and has established itself as a leading private commercial bank in Nepal. The bank is recognized for its management capabilities and latest technology driven services.

#### B. NETWORK & REPRESENTATION

The Bank is represented by 31 branches as on December End 2012.

During the review period, the Bank added 3 new branches at Birtamod (Jhapa), Ilam and Mahankal (Kathmandu). The Bank has plans for further expansion with new branches during the current financial year.

Strategic expansions through branches and remote delivery channels is expected to help the Bank cater to a large customer base and in generating retail deposits, strengthening distribution and delivery of workforce remittance payments and expanding retail financial services to the local customers.

#### C. ATM NETWORK

Our ATMs have been installed at 39 locations in 15 different cities. We plan to continue increasing our reach through expansion of ATM locations.



The Bank has been issuing SCT and VISA cards as well as Dollar Travel Cards for its customers travelling abroad. The bank plans to expand and further strengthen the card based services to its customers.

#### D. REMITTANCES

Remittance business of the bank has already expanded from Saudi Arabia in the Middle East to UAE, Malaysia, Oman and even USA, UK, Canada and Denmark. The bank has been working jointly with 18 agents in these countries for providing efficient remittance services.

The Bank continues to maintain representatives and staffs abroad who are responsible for business development and client servicing. The bank has successfully established itself as a key player in this sector. To further strengthen the service, the bank has appointed a super agent for remittance payments supported by a growing network of Payout Agents reaching many rural areas of the country covering more than 65 districts.

#### E. MOBILE SERVICES

To add to an array of modern technology based services, the bank has launched its mobile based service by the name 'mobile khata' whereby customers can avail various basic banking services like deposit, withdrawal, and utility bill payment using their mobile phones and the bank's agent network at various locations. Various credit related transactions can also be done using the service. The bank launched the product at seven rural locations with support from USAID-NEAT Activity.

#### F. ACTIVITIES OF THE BANK'S SUBSIDIARIES

##### 1. Laxmi Capital Market Limited.

The bank's merchant banking subsidiary, Laxmi Capital Market Limited has been operating from Pulchowk, Lalitpur since 16 January 2011. The company is licensed by SEBON for functions like portfolio management, issue management, share underwriting and registrar to shares. The company has been involved in portfolio management, market / industry research, consultancy and advisory services.

Laxmi Bank is now a member of the CDS and Clearing Limited and has started dematerialization of its shares. The bank plans to appoint Laxmi Capital as its registrar to shares.

Laxmi Capital has also received license from CDS and Clearing Limited to function as a depository participant.

NEW PRODUCTS LIKE LOAN AGAINST GOLD, MOBILE KHATA AND LOAN PRODUCTS TARGETED FOR SMALL AND MEDIUM BUSINESS ENTERPRISES LIKE SANA BYABASAI KARJA AND LAXMI UDHYAMI KARJA HAVE GAINED MUCH POPULARITY AMONG THE CUSTOMERS.

The company could not expand its services in the review period due to the country's economic scenario with unstable capital market and volatile Nepse index. The company plans to increase its business volumes and profitability in the current financial year.

##### 2. Laxmi Laghubitta Bittiya Sanstha Limited

The bank has expanded its micro finance initiative through its subsidiary - Laxmi Laghubitta Bittiya Sanstha Limited. The company has been operating from its head office at New Baneshwor, Kathmandu and five branch locations at Dolakha, Sindupalchowk, Nuwakot and Dhading districts. The company plans to

increase the branch network to ten by the end of the current financial year. The company also plans to provide remittance and micro-insurance services to its customers.

#### G. NEW SERVICES

The Bank has introduced a number of financial products and solutions to its customers during the year. These include innovative deposit products, new loan products, insurance related products and modern technology based services.

New products like loan against gold, mobile khata and loan products targeted for small and medium business enterprises like Sana Byabasai Karja and Laxmi Udhyaami Karja have gained much popularity among the customers. The scale and scope of these services will be expanded in the current financial year.

The Bank has received regulatory license from Securities Board of Nepal to launch its own Mutual Fund. The bank plans to launch the product soon thorough Laxmi Capital Market Limited.

## H. OTHERS

1. 11th AGM of the bank approved 5% bonus shares to its shareholders and increase in issued and paid up capital of the bank. Upon approval from the central bank, necessary amendments have been made in the article and memorandum of association of the company at the company registrar's office.

## 2. IMPACT OF NATIONAL AND INTERNATIONAL EVENTS ON THE BANK'S BUSINESS

The major economic indicators of Nepal have shown some positive signals during the FY 2011/12. However, sustainability in the financial sector has remained questionable. Investment in the productive sector remained low despite of excess liquidity in the banking sector. Real estate and capital market that has huge investment by the financial sector could not achieve expected momentum and growth.

Considering the above economic scenario and political situation of the nation, the overall external environment cannot be considered favorable for business.

The economy was not able to gain the expected momentum due to various reasons such as political instability, weak security situation, energy crisis and weak distribution system.

Competition in the banking sector increased along with scarce skilled human resource, increased operating cost, limited investment opportunities and unstable foreign exchange and interest rates. Notwithstanding these events, the Bank was successful in maintaining the momentum and achieving sound growth in the Balance Sheet. We can assume that the expected political stability, peace and security for the business sector will herald a new era not only for the Banking industry but for the entire nation in the days ahead.

**NOT WITHSTANDING THESE EVENTS, THE BANK WAS SUCCESSFUL IN MAINTAINING THE MOMENTUM AND ACHIEVING SOUND GROWTH IN THE BALANCE SHEET.**

## 3. CURRENT YEAR'S ACHIEVEMENTS AND PLAN OF ACTION:

### A. FINANCIAL HIGHLIGHTS AS ON 30 NOVEMBER 2012 IS PRESENTED BELOW:

PARTICULARS	FIGURES IN NPR THOUSAND
Deposits	24,241,909
Risk Assets	17,747,010
Investments	4,367,440
Operating Profit	266,060

### B. THE BOARD OF DIRECTORS OF THE BANK HAVE ENVISAGED THE FOLLOWING ACTION PLAN FOR THE FUTURE PROGRESS OF THE BANK:

- Strengthen bank's control and risk management practices under monitoring by the Board level Risk Management Committee.
- Expand distribution network through new branches, additional ATMs and agent network
- Introduce new deposit and other modern products and services
- Increase quality risk assets volume
- Expand technology driven banking services including mobile banking and its network
- Continue bullion trading business
- Work towards expansion of the services by leveraging in the current infrastructure and services developed over the past years
- Launch mutual fund and start share depository services through Laxmi Capital Market Limited and increase investment in the company as required
- Expand micro finance initiative through the subsidiary - Laxmi Laghubitta Bittiya Sanstha Ltd.

## 4. INDUSTRIAL AND PROFESSIONAL RELATIONS

The Bank takes great efforts to maintain cordial professional relationship with various national and international governmental and non-governmental entities and with all its stakeholders. With increasing growth in our operations and network, the Bank has been able to

build cordial and transparent relationships with all levels / sections of the society.

### HUMAN RESOURCES

In order to develop the skills and quality of our workforce, we continue to provide in-house and external trainings and opportunities to participate in seminars and workshops related to their work areas to our staff members that provide them exposure in national and international best practices. 28 in-house training programs were conducted during the review period where 301 bank officials participated while 78 bank officials received external trainings. Our Performance Management system continues to be based on performance linked incentives and benefits aimed at recognizing and motivating deserving performers. Our policy and systems ensures that employees undergo an Annual Performance Appraisal to determine salary increments. The Bank is active in recruiting skilled and qualified manpower and adopts proactive measures to ensure that we motivate and retain such skilled and committed workforce.

### CORPORATE SOCIAL RESPONSIBILITY

The Bank recognizes its roles and responsibility towards the society we operate in and actively engages in activities aimed at betterment of our community.

The bank continues to manage its CSR activities through "Laxmi Nishwarth Pahal" (Laxmi Cares), a non-profit organization managed by Laxmi Bank family. Various functions like movie charity shows and mountain bike rally were organized during the fiscal year and proceeds were used for various charitable contributions including installation of solar lights at Thapathali bridge linking Kathmandu and Lalitpur districts. We will continue to contribute for helping people in need and development of sports, education and health system in the country. Campaign of "One Account One Tree" was continued whereby the bank plants one tree for each Green Savings account opened. Details are also available at [www.laxmicares.com.np](http://www.laxmicares.com.np).

THE BANK  
RECOGNIZES ITS  
ROLES AND  
RESPONSIBILITY  
TOWARDS  
THE SOCIETY  
WE OPERATE IN  
AND ACTIVELY  
ENGAGES IN  
ACTIVITIES AIMED  
AT BETTERMENT  
OF OUR  
COMMUNITY.

## 5. CHANGES IN THE BOARD OF

The promoters meeting of the bank held on 18 May 2012 has continued Mr. Rajendra Khetan, Mr. Ratan Lal Sanghai, Mr. Gopi Krishna Sikaria and Mr. Chandra Prakash Khetan as board directors of the bank representing the promoter shareholders. Subsequent Board meeting decided on continuation of Mr. Rajendra Kumar Khetan as the Chairman of the Bank. With continuation of the directors, there has been no change in the composition of the Board of directors. Mr. Madhusudan Agrawal has been continued as advisor to the Board of the bank.

## 6. MAIN FACTORS AFFECTING THE BUSINESS

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

- Possibility of unhealthy competition and the risk of operating in such an environment
- Risk associated with volatile liquidity conditions in the banking sector
- Risk due to limited investment opportunities
- Challenge to maintain quality assets in deteriorating economic environment
- Risk associated with changes in laws and regulations
- Risk due to volatility in the capital market
- Effects of volatility in the global financial market

## 7. COMMENTS AND JUSTIFICATIONS ON ANY REMARKS ON THE AUDIT REPORT

There are no significant remarks in the Audit Report. Issues raised have already been corrected.

## 8. RECOMMENDATION FOR DISTRIBUTION OF DIVIDEND

128th Board Meeting held on 3 October 2012 has proposed 10% Cash Dividend on the share capital as at the Fiscal Year End 2011/12. We believe that the proposed dividend will be approved by the Annual General Meeting.

**THE BANK PLANS TO LAUNCH MUTUAL FUND THROUGH ITS SUBSIDIARY-LAXMI CAPITAL MARKET LIMITED. LAXMI LAGHUBITTA BITTYA SANSTHA- THE BANK'S MICRO FINANCE SUBSIDIARY HAS ALSO STARTED ITS OPERATIONS.**

#### 9. FORFEITURE OF SHARES AND PARTICULARS THERE OF

No shares were forfeited during the year under review.

#### 10. PROGRESS REPORT OF THE BANK AND SUBSIDIARIES

Bank's progress in the financial year 2011/12 has already been highlighted above. The bank plans to launch Mutual Fund through its subsidiary – Laxmi Capital Market Limited. Laxmi Laghubitta Bittyta Sanstha – the bank's micro finance subsidiary has also

started its operations. Consolidated financials of the bank including the subsidiaries has been presented along.

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

These have been disclosed above.

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

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

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

The Bank does not have any information of any Director or Management committee member having transacted in any shares of the Bank.

#### 14. DETAILS OF CONTRACTS / AGREEMENTS ENTERED BY THE BANK WITH ANY DIRECTORS OR ANY ENTITIES WHERE ANY DIRECTOR OR AN IMMEDIATE FAMILY MEMBER OF DIRECTORS HAS PERSONAL INTEREST

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

#### 15. DETAILS OF BUY BACK OF SHARES, IF ANY

The Bank has not bought back any shares till date.

#### 16. INTERNAL CONTROL SYSTEM AND DETAILS THERE OF

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

The bank has also established a Board level Risk Management Committee to further strengthen its control and risk management functions of the bank. In this regard, the bank has also appointed Chief Risk Officer at a senior management level.

#### 17. MANAGEMENT EXPENSES IN THE LAST FISCAL YEAR

The breakdown of Management Expenses in the financial year 2011/12 is as follows:

PARTICULARS OF MANAGEMENT EXPENSES	AMOUNT IN NPR MILLIONS
Staff Expenses	178
Office Overhead Expenses	195
Total Management Expenses	373

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

The Audit Committee constitutes of three members, Mr. Ratan Sanghai, Mr. Rishi Ram Gautam and Mr. Shambhu Prasad Acharya who are directors of the bank.

Mr. Bhubal Rai, Head - Internal Audit, is an ex-officio member of the committee.

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

During the review period, the Audit Committee met 12 times for which total meeting fee allowance of NPR 180,000.00 was paid to the members.

The ex-officio member of the committee is not entitled to meeting fee allowance.

## 19. DETAILS OF RECEIVABLES FROM DIRECTORS, CHIEF EXECUTIVE OFFICER, GENERAL SHAREHOLDERS OR ANY COMPANY, FIRM OR ENTITY ASSOCIATED WITH SUCH INDIVIDUALS OR THEIR IMMEDIATE FAMILY MEMBERS

There are no receivables from any such individuals or entities.

## 20. REMUNERATION AND ALLOWANCE PAID TO THE BOARD /COMMITTEE MEMBERS, MANAGEMENT EXECUTIVES

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

The remuneration paid to the Chief Executive during the financial year was NPR 13.068 Million. The

**THE DIRECTORS ARE CONFIDENT THAT THE PREVAILING SALARY AND BENEFITS TO THE EXECUTIVES IS COMMENSURATE WITH THE EXISTING FINANCIAL POSITION OF THE BANK AND FUTURE GROWTH PROSPECT OF THE BANK.**

Management Executives received NPR 59.955 Million in the year under the same heading.

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

The bank is aware of the appropriateness of salary and benefits to the Chief Executive and other management executives. The directors are confident that the prevailing salary and benefits to the executives is commensurate with the existing financial position of the bank and future growth prospect of the bank.

## 21. UNCLAIMED DIVIDENDS

As of the report date, NPR 93,695 worth of cash dividends declared in financial year 2055/56 by HISEF Finance Limited prior to merger with the Bank remained unclaimed. Further, NPR 5,114,196.75 out of 13% cash dividend declared in the fiscal year 2009/10 and NPR 8,357,600.50 out of 10% cash dividend declared in the fiscal year 2010/11 remained unclaimed. Reports of unclaimed dividend have been sent to Nepal Rastra Bank and claim notice published in national newspapers.

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

Detailed on schedule 4.14

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

Detailed on schedule 4.33 point number 15

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

### 1. DETAILS RELATING TO LEGAL ACTION

a. Case filed by or against the organized institution during the fourth quarter – There is no other major case except those arising in normal course of banking business related to lending and income tax.

Particulars	For the Quarter ending 17 October 2011	For the Quarter ending 14 January 2012	For the Quarter ending 12 April 2012	For the Quarter ending 15 July 2012
Maximum Price	269	240	257	340
Minimum Price	259	231	242	325
Last Price	264	240	257	340
Transaction volume (number of shares)	339,675	46,602	225,889	416,926
Days of transaction	48	48	50	60

b. Case relating to disobedience of prevailing law or commission of criminal offense filed by or against the Promoter or Director of organized institution – No such information has been received.

c. Case relating to financial crime filed against any Promoter or Director – No such information has been received.

## 2) ANALYSIS OF SHARE TRANSACTION AND PROGRESS OF ORGANIZED INSTITUTION

a. Management view on share transaction of the organized institution at securities market – Some effect of the overall change in the stock index has been observed in the institution's share as well in the past. However since price and transaction of the bank's shares are being determined at Nepal Stock Exchange through open share market operations, management view on this is neutral.

b. Maximum, minimum and last share price of the organized institution including total transaction number of shares and days of transaction during each quarter of the fiscal year.

HIGHLIGHT-  
LAXMI BANK  
CLEARLY  
RECOGNIZES  
THE IMPORTANCE  
OF TRANSPARENCY  
AND ACCOUNTABILITY  
TO ALL ITS  
STAKEHOLDERS,  
PARTICULARLY ITS  
SHAREHOLDERS AND  
INVESTORS.

## 3. PROBLEMS AND CHALLENGES

### Internal

- Recruitment and retention of quality manpower
- Increasing cost of operation

### External

- Competition both on maintaining lending yield and mobilizing deposits at lower cost
- Rapidly deteriorating business environment
- Volatility in the Foreign Exchange rates caused by changes in the global economic conditions
- Unstable local socio-political situation

### Strategy

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

## 4. CORPORATE GOVERNANCE

Laxmi Bank is committed to high standards of corporate governance, business integrity and professionalism in

all our activities that assures all stakeholders that the bank is being managed ethically in compliance with best practices and applicable legislation and within predetermined risk parameters, and is also adding value to and protecting their investment.

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

### A) DIRECTOR'S ELECTION OF ASSOCIATION

■ Section 8.3 of the bank's article of association specifies tenure of its board directors as four years. Tenure of two directors representing the general shareholders of the bank completes this Annual General Meeting date. In line with related acts / policies and provisions in the AOA and MOA of the bank, election of two public directors has been scheduled in this Annual General Meeting. We request the shareholders to approve the election.

### B) COMMUNICATION WITH SHAREHOLDERS

Laxmi bank clearly recognizes the importance of transparency and accountability to all its stakeholders, particularly its shareholders and investors. In this regards, the bank releases annual reports, quarterly reports and other such appropriate and relevant

information about the bank's operations using different channels on a timely basis as well as through bank's website [www.Laxmi Bank.com](http://www.Laxmi Bank.com). Recognizing the importance of the Annual General Meetings as the appropriate forum to discuss the various queries and issues that are raised by individual shareholders, the Bank encourages all shareholders to participate in such Annual General Meetings to review the progress made by the Bank.

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

Thank you.

### Board of Directors

Date: 19 December 2012

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





## 10 YEARS OF RESPONSIBLE BANKING

Banking landscape is now beginning to change in favour of consolidation. Continued political instability coupled with lack of focus on economic agenda have left the banking sector vulnerable in spite of increased reach of banks and better access to finance for people at large. We knew we had too many banking institutions. We had to make the journey we did over last 10 years to come to this point where we recognize that we need stronger banks, not many banks.

Excess liquidity and limited avenues of investment were the highlights of 2011/12. These factors impacted our profitability. However, current year numbers are already looking better and we have achieved a healthy topline growth. A few concerns triggered by challenges in the real estate sector remain but they are temporary and well within our balance sheet strength.

Needless to mention, early resolution of the political gridlock, passage and implementation of a full national budget will contribute to return of buoyance in the banking industry as a whole.

In its journey over last 10 years, Laxmi Bank has faced and overcome a number of challenges and we now stand tall as a well-established bank, setting standards in many areas. I am grateful to the Chairman, the Board of Directors, shareholders and regulators for their support and guidance. I am particularly indebted to my colleagues for their perseverance – we have an excellent team. Above all, we couldn't have made it this far without the trust and faith of our customers.

As we stand here and contemplate the next decade of our journey, we pledge that Laxmi Bank will continue to remain fundamentally strong and tread along a sound growth path.

We look forward to your continued support as we seek to financially empower hard working god loving Nepalis.

**Suman Joshi**  
*Chief Executive Officer*  
 December 2012



10th anniversary celebrations  
with all stakeholders





## Highlights

Net Profit of NPR 356 Mio

Operating Profit of NPR 585 Mio

Net Interest Income of NPR 644 Mio

Fees & Other Income of NPR 314 Mio

Deposits up by 24.77% to NPR 22.83 Bio

Loans and Advances up by 8.40% to NPR 16.48 Bio

Investments up by 23.56% to NPR 3.76 Bio

Network of branches increased to 31

Total number of ATMs went up to 39

NPA ratio as a percentage of Risk Assets of 0.62%

Earnings per share of NPR 21.55

Proposed Cash Dividend of 10%

Capital Adequacy Ratio stood at 11.02% as against the minimum regulatory norm of 10%

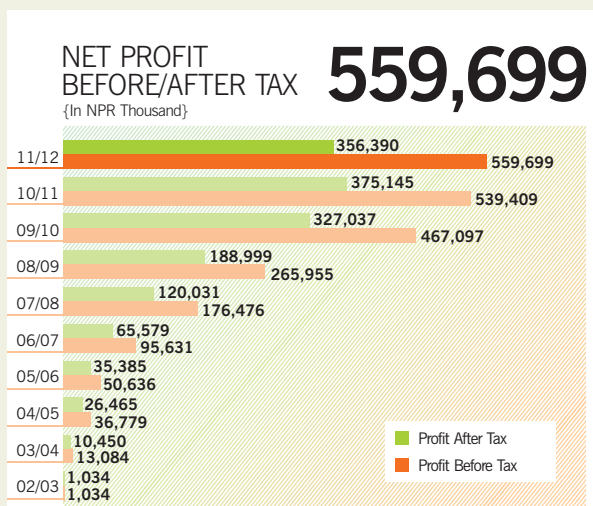
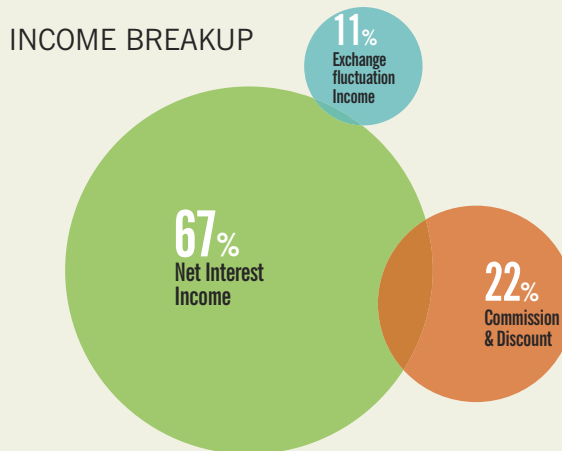
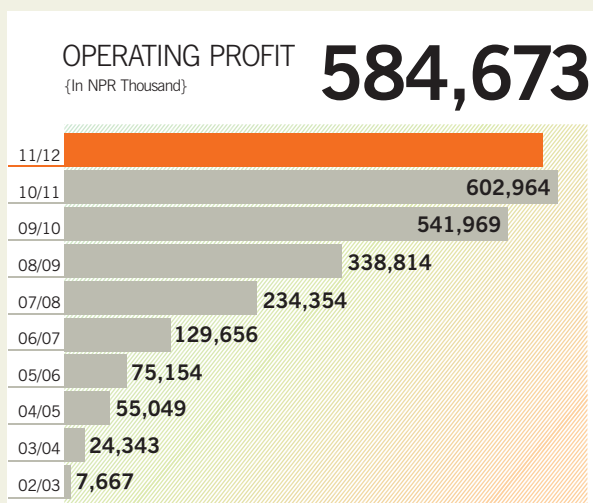
	FY 2011/12	FY 2010/11	FY 2009/10	FY 2008/09	FY 2007/08	FY 2006/07	FY 2005/06	FY 2004/05	FY 2003/04	FY 2002/03
Interest Income	2,289,360	2,233,333	1,787,692	1,098,985	711,006	470,495	319,253	214,132	124,046	49,787
Interest Expenditure	1,645,718	1,503,851	1,135,610	712,348	421,872	280,278	190,590	118,439	63,177	20,096
Net Interest Income	643,642	729,482	652,082	386,637	289,135	190,217	128,664	95,694	60,869	29,692
<b>Non Interest Income</b>										
Fee Income	149,818	69,788	46,867	29,635	20,943	15,157	15,039	14,136	11,299	4,262
Exchange Earning	107,951	63,128	47,563	51,005	46,637	20,905	9,426	5,770	6,076	4,534
Other Income	56,391	67,523	60,032	70,917	25,482	15,710	9,789	7,597	1,026	896
Operating Income	957,801	929,920	806,544	538,194	382,197	241,989	162,917	123,197	79,271	39,383
<b>Other Expenses</b>										
Employee Expenses	178,285	157,662	122,406	86,407	63,995	48,785	37,640	29,934	19,198	14,394
Overhead Expenses	194,843	169,294	142,169	112,973	83,849	63,547	50,123	37,122	35,730	17,322
Bad Debts Written off	-	-	7,698	3,367	8,222	4,309	1,124	1,092	-	-
Operating Profit	584,673	602,964	541,969	338,814	234,354	129,656	75,154	55,049	24,343	7,667
Non Oper Expenses / (Income)	5,834	(3,222)	3,041	12,008	15,632	12,674	9,695	9,089	55	-
Loan Loss Provision	30,808	12,838	25,122	34,255	21,700	14,046	9,559	5,503	9,750	6,518
Profit Before Tax	559,699	539,409	467,097	265,955	176,476	95,631	50,636	36,779	13,084	1,034
Profit After Tax	356,390	375,145	327,037	188,999	120,031	65,579	35,385	26,465	10,450	1,034

## PROFIT FOR THE YEAR

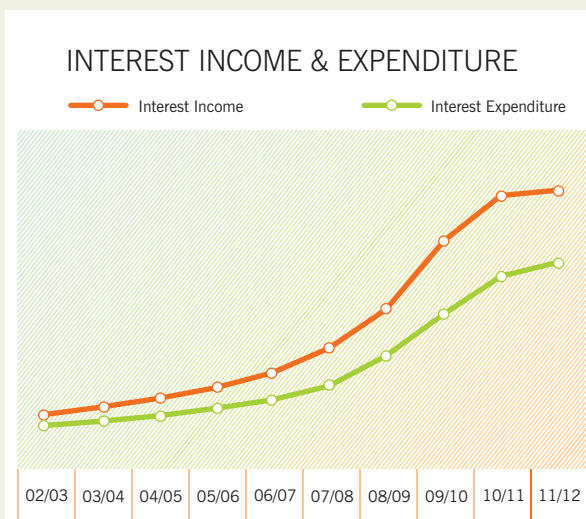
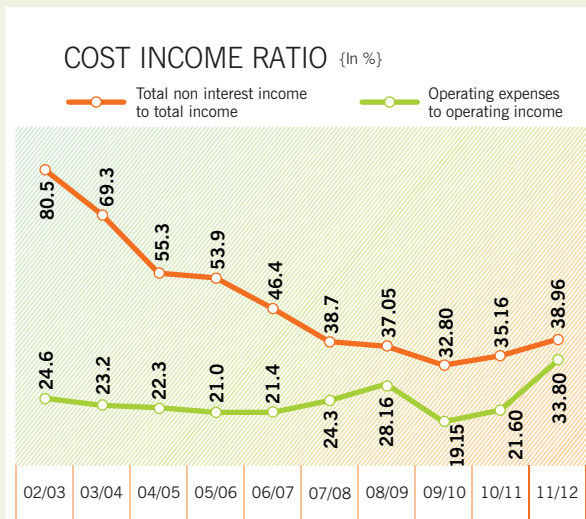
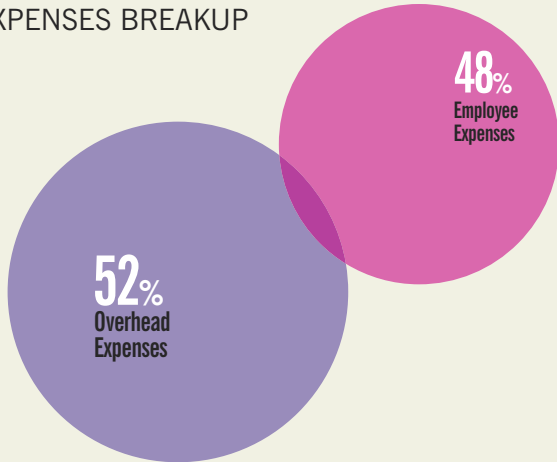
In a difficult year for the financial sector where management of liquidity and risk asset quality remained a challenge for the entire banking sector, the Bank has been successful in achieving sound growth. Profit for the year was slightly lower than expected which represents the overall market scenario. During the year, operating profit saw a nominal decline of 3.03% as compared to the previous financial year.

The principal growth area in the operating income has been non interest income which has grown by 56.74%. Net interest income decreased by 11.77% during the fiscal year. The yield on risk assets and investments during the year stood at 11.77% p.a. compared to 12.11% in the previous year. The Bank was able to maintain a healthy return despite the competitive market pressures and at the same time was able to reduce Non Performing Assets level to 0.62% from 0.90% in the previous year. Cost of fund stood at 7.86% in FY 2011/12 as compared to 8.09% in FY 2010/11. There has been downward movement both on yield and cost of fund during the year with contact pressure to maintain the required interest spread. Moreover, the bank has been able to maintain expected interest spread throughout the year though the overall weighted average interest spread decreased to 3.91% from 4.02% in the previous year.

In general, the bank has been able to maintain all revenue streams at satisfactory level. Contribution of NII on the income portfolio of the bank in reduced to 67% due to significant growth in commission income. Owing to higher rate of increase in interest expenses as compared to that in interest income, NII has decreased by 11.77% in the year. CD ratio calculated as per NRB's definition as on the year-end was 71.43%, reduced from 80.21% in the previous year. This is against the regulatory maximum limit of 80% for the fiscal year.



## EXPENSES BREAKUP



Total exchange earning grew by 71% amidst intense competition in remittance and trade business which continuously narrowed the forex spread.

During the fiscal year the bank was able to achieve significant growth in trade activities resulting into 115% growth in commission and discount income. Fees income (Commission & Discount) contributed about 22% to the total income. Trade related fees, in addition to Loan Processing fees, have also contributed significantly to the growth in fee based income during the financial year. This year, the non-interest income totaled 33% of the total income. The bank shall continue to make every effort to increase this ratio in the coming years by continuing to grow the remittance business, trade finance business and earnings made through technology based services.

Operating Expenses include Employee Expenses and Overhead Cost. Operating Expense to Operating Income stood at 38.96%, increase by 3.80% compared to the previous financial year.

The Bank has made large investments in infrastructure and systems geared to handle significantly larger business volumes. During the year there was an increase in employee cost in absolute terms mainly on account of regular increment of salaries and allowance. The Bank had opened three new branches during the year under review and a few more are in the pipeline. With increased footprint and access to more markets, the bank expects to achieve further economies of scale in coming years and improve profitability.

## SHAREHOLDER RATIOS/ CAPITAL MARKET

Bank's capital adequacy ratio in the fiscal year end 2011/12 stood at 11.02%, as against the mandatory requirement of 10% indicating bank's adequate capital fund with the potential to grow further.

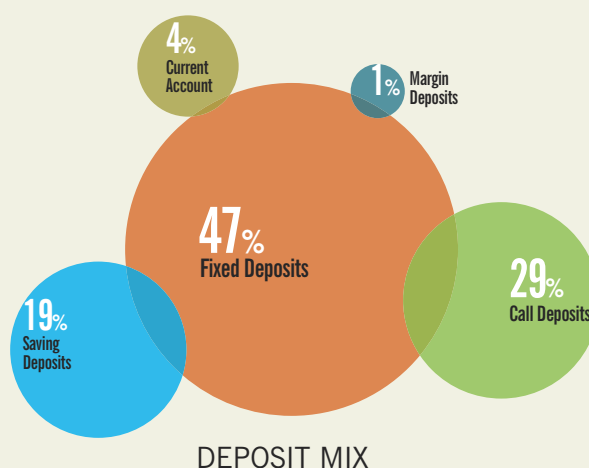
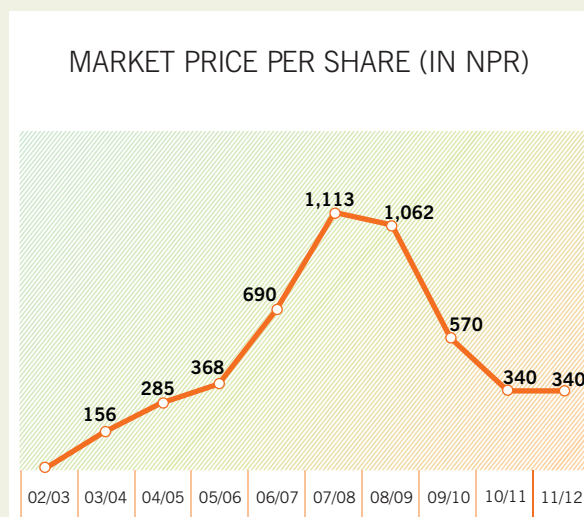
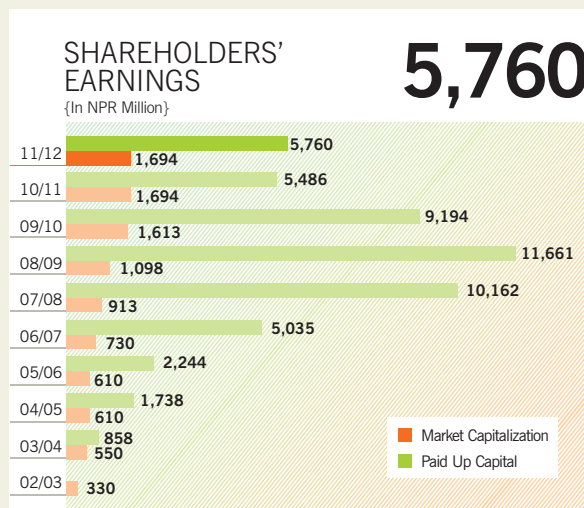
Paid-up capital of the bank stood at NPR 1.694 Bio after capitalizing bonus shares of NPR 80.6 Mio proposed in fiscal year 2010/11.

Profit after Tax in the review period stood at NPR 356 million as compared to NPR 375 million in the previous year. Earning per share of the bank in the year under review was NPR 21.55.

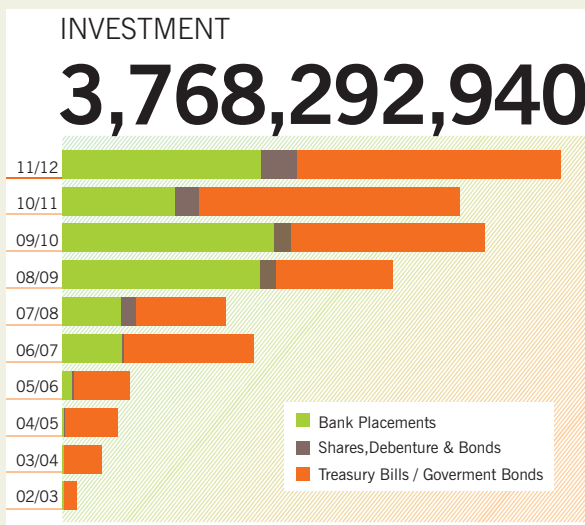
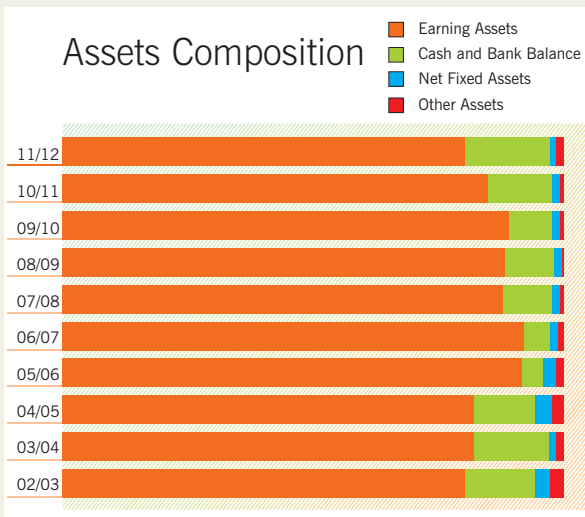
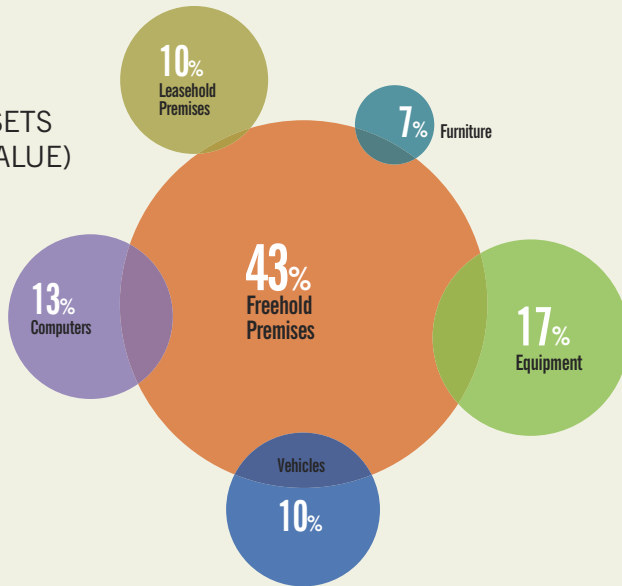
Shareholders' wealth increased during the year as the market capitalization increased from 5.48 billion to 5.76 billion due to listing of Bonus shares. Overall stock index showed a bearish trend during the fiscal year. However, public faith, low non-performing asset level and continued profitability have curtailed the reduction in share price. The Bank's share price at the end of the year stood at Rs 340.

The bank has proposed cash dividend of 10% on the paid up capital standing as on the FYE.

Out of the net profit generated in the fiscal year, NPR 50 Mio has been set aside as Debenture Redemption Fund. The fund now totals to NPR 200 Mio. Laxmi Bank Debenture 2072 of NPR 350 Mio with tenure of 7 years matures on November 2015.



**FIXED ASSETS  
(GROSS VALUE)**



**DEPOSITS**

There has been significant growth in the deposit volumes during the financial year. Deposit volume increased by 24.77% as compared to the previous year. Deposits comprise of non-interest bearing current and margin deposits, and interest bearing deposits in the form of savings (various types), fixed and call deposits. The bank is putting efforts in the direction of soliciting low cost deposits. Due to relative ease in market liquidity as compared to the previous years, the contribution of Fixed Deposit has decreased slightly while an increase by similar margin has been observed in Call and Saving Deposits. A number of initiatives for introducing innovative deposit schemes, market linked investment products and Retail Fixed Deposit Schemes have helped in balancing the deposit mix. Moreover, the bank has also been able to diversify its deposit portfolio with reduction in concentration on the large depositors. Overall cost of fund of the bank decreased by 0.23% compared to the previous year.

Deposit concentration has also improved with decreasing reliance on few large institutional depositors. Products like Super Woman Savings, Green Savings, Shakti Bachat and Maxi Investment have been very popular and provide a strong base to the bank's deposit portfolio.

**ASSETS**

The total asset size of the bank has increased by 20.73%. Cash and bank balances increased by 60.34% which shows lack of adequate opportunities in the market to invest funds. There has been increase in our other assets portfolio (166%) largely pertaining to our new business drive on Bullion trade. Other assets primarily consist of Deferred Expenses related to Software Cost and other IT related costs, Accrued Interest, Advance Income Tax and Other receivables. There has been a net decrease in Fixed Assets by 12.54% owing to transfer of few vehicles under Staff OYVS scheme. Fixed Assets also includes new branches opened during the fiscal year and outflow relating to ongoing expansion of the corporate office building at Hattisar.



### INTEREST BEARING ASSETS

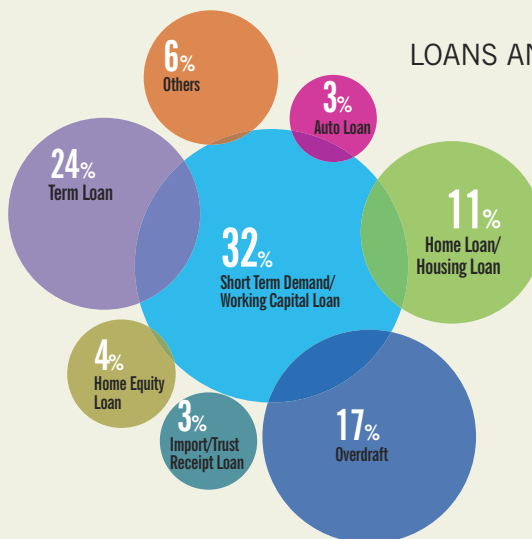
During the year, the gross earning assets base of the bank has increased by 14.23%. Loans & Advances grew by 8.4% while Investments grew by 23.56%. Investments includes portfolio in Treasury Bills / Government Bonds, inter-bank lending and investment in shares and bond of institutions. There has been a significant growth in Money at Call with outstanding of NPR 659 Mio as compared to NPR 50 Mio in the previous year which primarily accounts for the short term investments in the form of placements in FCY accounts.

### LOANS & ADVANCES

Laxmi Bank follows a strategy of building a diversified and low risk asset portfolio and limiting or correcting concentrations in particular sectors. Maximum exposure concentrated on a single unit or group is 2.91% of total loan portfolio. Retail loans, SME loans and deprived sector comprise about 24.42% of our risk asset portfolio with the rest flowing into corporate entities.

All credit exposures are classified as per Nepal Rastra Bank's guidelines into performing and non-performing assets. Non-performing assets are further classified into restructured/rescheduled, sub standard, doubtful and bad loans. The bank has made additional provisions (i.e., more than required per Nepal Rastra Bank) where it was considered necessary by the management. Non-performing loans aggregated 0.62% of the loan portfolio as at the year-end (break up: 0.39% restructured/rescheduled 0.05% substandard, 0.05% doubtful and 0.12% bad loans). NPA level at the end of the previous year was 0.90%. The current level of Non-performing asset is considered to be one of the lowest in the industry for our generation bank and replicates the credit standard of the Bank. Total provision held as of the date is 212.56% of the NPL indicating a comfortable cushion. No loans have been written off during the financial year.

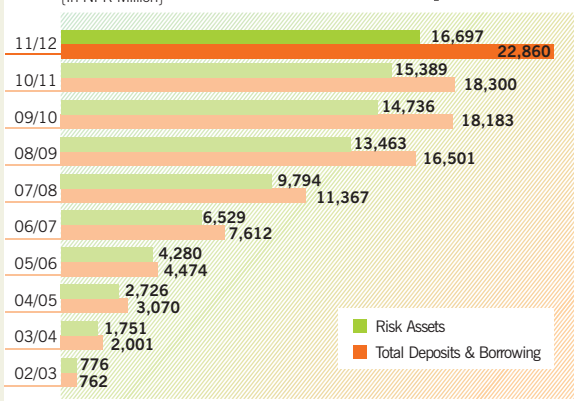
### LOANS AND ADVANCES



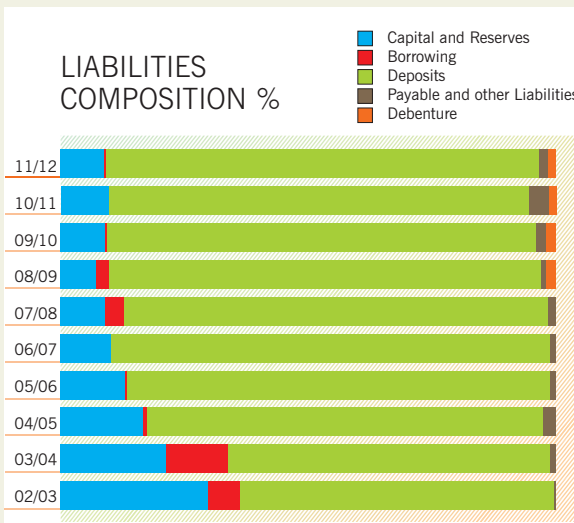
### GROWTH OF RISK ASSETS & BORROWINGS

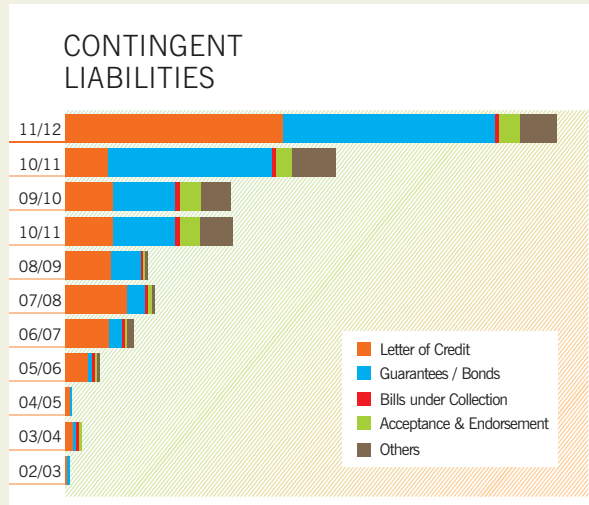
(In NPR Million)

# 22,860



### LIABILITIES COMPOSITION %





## CONTINGENT LIABILITIES

There has been an increase in the total Contingent Liabilities by 81.64% compared to previous year primarily due to increase in the volume of LC commitments and guarantees. The total contingent liabilities stood at NPR 9.05 billion. The major contributors to the contingent liabilities were Guarantees and Letter of Credit which also contributed significantly to increased fee based income for the Bank.

There has been decrease in other contingent liabilities due to decrease in contingent liability related to forward exchange contracts.

## KEY FINANCIAL INDICATORS

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

PARTICULARS	FY 2011-12	COMMENTS
1. Earning Per Share	<b>Rs 21.55</b>	This indicates that Bank is earning Rs. 21.55 for each share of Rs 100 invested by the shareholders. This ratio has decreased compared to previous year (23.25) as a result of decrease in net profit and increase in number of shares.
2. Interest Income/Loans & Advances and Investment	<b>11.77%</b>	The rate of return of 11.77% is considered to be good in the current market scenario. The return was 12.11% in the previous year
3. Interest Expenses on Total Deposits & Borrowings	<b>7.86%</b>	Interest Expenses to Total Deposit and Borrowings has decreased by 0.23% since the previous year. However, current interest spread of 3.91% can be considered to be satisfactory in the current market scenario
4. Adequacy of Capital Fund on Risk Weighted Assets		This ratio judges the adequacy of capital fund with the risk exposure of the bank, and is in compliance with NRB requirements (minimum 10%).
Core Capital	<b>9.52%</b>	Previous year 9.79%
Supplementary Capital	<b>1.50%</b>	Previous year 1.84%
Total Capital Fund	<b>11.02%</b>	Previous year 11.63%
5. Liquidity (CRR)	<b>19.60%</b>	This is in satisfaction of the norms of NRB requiring minimum 5% CRR.
6. Non-performing Credit/Total Credit	<b>0.62%</b>	Decrease from 0.90% in the previous year.
7. Price to Earning Ratio	<b>15.78</b>	Increased from 14.62 in the previous year due to decrease in the earning per share.

## CORPORATE GOVERNANCE REPORT

Laxmi Bank is committed to high standards of corporate governance, business integrity and professionalism across all our activities that assure all stakeholders that the Bank is managed ethically, in compliance with best practices and applicable legislation and within predetermined risk parameters.

### CORPORATE GOVERNANCE FRAMEWORK

All Directors and the staff members including the Chief Executive Officer have observed in spirit and in word the Nepal Rastra Bank directives on corporate governance. All Directors are registered taxpayers and have not defaulted in payment of loans to any financial institution.

All Laxmi Bank staff are required to sign a comprehensive Code of Conduct and an Oath of Secrecy.



### THE BOARD

The Board is responsible for providing leadership and control of the Bank by directing and supervising the Bank's affairs at strategic and governance level. As the apex decision-making body, the Board is accountable to the shareholders for financial and operational performance.

The Board is in complete control of the Bank's affairs and is fully cognizant to the Bank's obligations towards the shareholders, depositors and other stakeholders. Whilst the day-to-day management of the Bank is delegated to a professional management team, the Board typically involves itself in making decisions relating to:

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

The Board places high priority on internal controls, constantly reviewing and updating the Bank's corporate governance structures and culture. It is the Board's aim to exceed mandatory requirements in terms of the extent and timeliness of corporate disclosures and financial reporting.

## ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman of the Board and the Chief Executive Officer are segregated, with a clear division of responsibilities.

The Chairman is an independent non-executive Director who is responsible for the leadership and management of the Board with active engagement and contribution from all Directors to discharge its regulatory and fiduciary responsibilities fully and in an effective manner.

The Chief Executive Officer has responsibility for all businesses and acts in accordance with the authorities and discretions delegated by the Board. The Chief Executive Officer has been delegated the authority for developing policies and strategies and is responsible for all operational management of the Bank with the support of the Executive team.

## BOARD COMPOSITION

All members of the Board are in capacity of non-executive directors and advisors. The current Board comprises members who come from a variety of backgrounds, with a diverse range of business, banking and professional experience. Laxmi Bank benefits from having such Directors who are able to bring to the table their skills, knowledge and independent judgment.

The current Board comprises of the Chairman, 7 Directors and 1 Advisor.

The promoter group is represented by 4 Directors. The public is represented by 2 Directors who were elected by the Annual General Meeting. The tenure of these Directors is 4 years from the date of appointment.

The Citizens Investment Trust nominates 1 Director to the Board.

ALL DIRECTORS  
HAVE ACCESS  
TO THE  
COMPANY  
SECRETARY  
WHO IS  
RESPONSIBLE  
FOR ENSURING  
THAT THE BOARD  
PROCEDURES  
AND APPLICABLE  
RULES AND  
REGULATIONS ARE  
COMPILED WITH.

A Professional Director has been appointed to the Board since July 2006 as per the provisions of the Bank & Financial Institutions Act.

Brief introduction of the Directors have been presented in this report on Page 8.

## FUNCTIONING OF THE BOARD

### THE PROCESS

Board meetings are held once a month on an average, where reports on the progress of the Bank's business operations and deliberations of Board Committees are tabled for review by members of the Board. At these Board meetings, the members of the Board also evaluate business propositions and corporate proposals that are to be approved by the Board owing to

statutory requirements, or possible significant financial impact on the Bank.

The Company Secretary provides written notice and a comprehensive package of relevant information to all Directors prior to each board meeting in order to ensure that they are informed in advance of the issues to be considered. The agenda for every Board meeting, together with management reports, proposal documents are furnished to all Directors for their perusal in advance of the Board meeting date, so that the Directors have ample time to review matters to be deliberated at the Board meeting and to facilitate informed decision making.

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

Senior executives are invited to attend Board meetings as and when required to offer the Board their professional opinion, and provide clarification to any issues that may be raised.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are complied with. The Directors are regularly updated and advised by the Company Secretary on new statutory as well as regulatory requirements relating to duties and responsibilities of Directors, including policy guidelines issued by Nepal Rastra Bank.

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

### RESPONSIBILITIES OF DIRECTORS

The Board is collectively responsible for ensuring that the Bank's activities, performance and overall strategic direction in order to deliver long-term value for the stakeholders.

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

All Directors keep abreast of the conduct, business activities and development of the Bank and satisfy themselves on the integrity of financial and non-financial information, controls and systems within the Bank. The Directors review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

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

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

### MANAGEMENT FUNCTIONS & BOARD COMMITTEES

As required by Directive number 6 of the Nepal Rastra Bank Unified Directive 2068 the oversight functions of the Board are performed through the following three Committees:

- Audit Committee
- Risk Management Committee
- Human Resources Management Committee

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

#### AUDIT COMMITTEE

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

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

The Audit Committee reports to the Board, drawing the Board's attention to salient points that the Board should be aware of, identifying any matters in respect of which it considers that action or improvements needed and making relevant recommendations. The Committee has unrestricted access to members of the management, staff and any records / information etc. that it reasonably may require to carry out its responsibilities.

#### COMPOSITION OF AUDIT COMMITTEE

The Committee comprises of 3 non-executive directors:

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

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

#### RISK MANAGEMENT COMMITTEE

The Risk Management Committee is responsible for taking collective risk management decisions to safeguard the interests of the Bank and all stakeholders. The Committee also ensures that relevant stakeholders, primarily the Board are properly informed about the risks in functioning of the Bank and provide stakeholders the opportunity to request and challenge information relating to such risks. This Committee broadly covers risks associated with: Credit, Market, Liquidity, Operational

and Reputational working under the terms of reference determined by the Board.

The Risk Management Committee consists of the following representatives from the Board:

- Mr. Chandra Prakash Khetan
- Mr. Gopi Sikaria
- Mr. Jiban Raj Kandel

The committee also includes the Chief Risk Officer and other senior executives who are in risk management roles.

### HUMAN RESOURCES COMMITTEE

The Human Resources Committee reviews recommendations made by the management in respect to revisions to the Human Resources Policy Guide of the Bank including compensation structure and benefit schemes. The Committee also ensures that relevant stakeholders, primarily the Board are properly informed about the overall human resource strategy of the Bank.

The Human Resources Committee comprises of Mr. Bhola Babu Adhikari and is supported by the members of the Bank management as appropriate.

### CORE BANKING SOFTWARE COMMITTEE

Apart from the above 3 Committees, the Board has also formed a Core Banking Software Committee comprising of the following members:

- Mr. Gopi Krishna Sikaria
- Mr. Jiban Raj Kandel

This committee has been formed due to the need for the Bank to upgrade the core banking solution. The committee has been assigned the responsibility of selecting, recommending, the appropriate solution with the support and inputs of the Bank's Information Technology department as well as external experts, as necessary.

### REMUNERATION OF DIRECTORS

Remunerations of the Board and Board committee members are approved by the Annual General meetings taking into consideration industry practices as well as time commitment of the. The Directors' remuneration is currently restricted to meeting allowances and fixed monthly reimbursement for telephone expenses. Additionally, the Bank also reimburses travel expenses

(domestic airfare) for Directors who are required to travel from outside Kathmandu valley to attend Board meetings.

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

#### ■ Chairman

NPR 8,000.00 per meeting

#### ■ Directors

NPR 6,000.00 per meeting

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

Details of remuneration and reimbursement paid by the Bank to the Board and Board Committee members during 2011/12 is as follows:

Board Meeting	NPR 448,000.00
Audit Committee Meeting	NPR 174,000.00
Risk Management Committee Meeting	NPR 36,000.00
Human Resources Committee Meeting	NPR 6,000.00
Core Banking Software Committee Meeting	NPR 24,000.00
Mobile Telephone Reimbursement	NPR 168,000.00
Travel Reimbursement	NPR 22,145.10
Other Miscellaneous*	NPR 22,788.35
<b>Total</b>	<b>NPR 900,933.45</b>

\* expenses related to refreshments for Board meetings etc.

## ACCOUNTABILITY & AUDIT FINANCIAL REPORTING

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

results of the Bank are announced in a timely manner within the limits prescribed by the law.

### GOING CONCERN

The Directors satisfied that there are no material uncertainties relating to events or conditions which may cause significant doubt upon the Bank's ability to continue as a going concern and confirms that the Bank has adequate resources to continue in business. Accordingly, the Directors have prepared the financial statements of the Bank on the basis of a going-concern concern. A full Directors' Report is presented in this report.

### STATEMENT ON INTERNAL CONTROL

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

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

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

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

### SYSTEMS AND PROCEDURES

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

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

- Areas of responsibilities for all business and operational units are clearly defined to ensure effective checks and balances.
- General Authority Schedule (GAS) sets the limit for operating and capital expenditure for each level of management and is regularly reviewed and revised to ensure its effectiveness.
- Business and functional units are responsible for the assessment of individual types of risk arising under their areas of responsibility, the management of the risks in accordance with risk management procedures and reporting on risk management.
- Job descriptions defining each task and competency required at all critical levels have been formalized. Skill, knowledge and abilities of the staff are continuously enhanced through training and development activities, which enable them to operate and monitor the system of internal control effectively.
- Budgetary System is used to measure and monitor the Bank's performance against the strategic plans approved by the Board, covering all key financial and operating indicators. A detailed budgeting process is established encompassing all key operating activities to prepare budgets, which are discussed and approved by the Board. Effective monitoring system is in place to compare actual performance against approved budget and to investigate significant variances.
- Fully computerized system allows management to focus timely on the areas of concerns through the system itself. Checks have been built in the system itself for the integrity of the data and consequently the MIS. Relevant risk management reports are reviewed on

periodic basis by concerned executives or committees for review and action as appropriate.

- Review of internal control is carried out on regular basis by the Internal Audit department which is independent of the management. Results of such reviews are directly reported to the Audit Committee.

- Risk units such as Credit Risk Control and Compliance & Assurance operate separately and independent from the Internal Audit for effective assessment and management of risks and ensuring appropriate levels of due diligence at all times.

- Internal control weaknesses identified by audits, review and inspections are accorded top priority and addressed within prescribed rectification time lines.

- Disaster Recovery Plan and Business Continuity Plans are in place to ensure minimum disruption in business and services in the event of a major disaster or incident that would impact our ability to operate under normal circumstances.

- Employees are encouraged to speak up against unethical or illegal issues to the concerned authorities. The Bank's "whistle blowing" provides individuals to raise such issues through structured reporting procedure that assures anonymity. All systems and procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

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

### INTERNAL AUDIT

The Board has approved a charter (Audit Policy) on the Bank's Internal Audit. The charter isolates and insulates the Internal Audit Department from the control or influence of the Executive Management and also frees

staff within the internal audit unit from operational and management responsibility that could impair their ability to make independent reviews of aspects of the bank's operations. Under the charter, the Internal Auditor reports directly to the Audit Committee which is chaired by a non-executive Director.

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

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

Internal Audit Department carries out the following key functions:

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

### STATUTORY AUDITORS

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

THE AUDIT COMMITTEE ASSISTS THE BOARD IN MEETING ITS RESPONSIBILITIES FOR ENSURING AN EFFECTIVE SYSTEM OF INTERNAL CONTROL AND COMPLIANCE, AND IN MEETING ITS EXTERNAL FINANCIAL REPORTING OBLIGATIONS.



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

Total fees charged by the Bank's statutory auditor for audit services in 2011/12 is NPR 5,50,000.00 plus applicable taxes.

### AUDIT COMMITTEE

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

The Audit Committee performs the following functions:

- provide assistance to the Board in fulfilling its responsibilities relating to accounting policies, internal control, financial reporting and business ethics policies,
- oversee the Bank's financial reporting process and ensure correct, adequate and credible disclosure of financial information,
- review with the Management quarterly financial statements with special emphasis on the accounting policies and practices, compliance of accounting standards and other legal requirements concerning financial statements,
- review Internal Audit's basis for assessment and risk rating of the proposed areas of audit and make periodic review of the Bank's audit policy,
- review and approve annual audit plan with consideration of scope and coverage over the activities of the respective business areas of the Bank,
- review the findings of the internal audit department into matters of fraud & irregularities (if any) or failure of internal control system and suggest strengthening of control mechanism and monitor the agreed follow up actions,

- interact with statutory auditors before the finalization of the annual accounts and audit report, focusing on the changes in accounting policies and practices,

- review the draft Management Letter (for any qualifications therein) and the management response to such qualifications,

- review with the management the performance of statutory and internal auditors and adequacy of the internal control system,

- recommend to the Board and to the Shareholders a suitable accounting firm to Act as the Bank's Statutory Auditors.

The Committee uses bank's audit policy, Nepal Rastra Bank directives, Basel Committee stipulations and other international best practices as the parameters for its own functioning and is fully committed to inculcating a compliance-oriented culture.

### CHIEF RISK OFFICER

In line with the Bank's continuous efforts to enhance risk management standards and practices a Chief Risk Officer was appointed in August 2011. The Chief Risk Officer is a senior executive with responsibility for all risk functions, strategies, processes and systems across the Bank and subsidiaries.

The Chief Risk Officer also co-ordinates the activities of the Risk Management Committee.

### COMMUNICATION WITH SHAREHOLDERS

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

The Annual Report is one of the main channels of communication with shareholders and investors. The contents and disclosures made in these reports are well beyond the minimum legal and regulatory requirements. The Bank's financial statements are in full compliance

with Nepal Rastra Bank's guidelines and Nepal Accounting Standard.

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

Laxmi Bank also conducts media briefings on a regular basis to keep the market informed about its activities, products and services. Quarterly financial results of Laxmi Bank are published in national newspapers for review by all stakeholders.

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

## HUMAN RESOURCES

The human resources policy and practices of the Bank is designed to attract and retain people of the highest caliber and to motivate them to excel in their careers, as well as uphold the Bank's brand image. A critical element of the Bank's human resource management is a transparent performance management and appraisal system that ensures that our employees across all levels have the necessary skills and experience to perform their functions effectively in the best interest of the Bank and that there are sufficient parameters to monitor and evaluate their performance.

### REMUNERATION

The Bank's compensation packages for employees take into account job levels, responsibilities and composition of salary and allowances across the industry. Salaries are reviewed in the context of individual and business performance, market practice, internal relativities and competitive market pressures.

The Chief Executive Officer received total annual remuneration of NPR 13,068,000.00. Apart from this, he is entitled to receive allowances as per the Bank's Human Resources Policy and statutory bonuses as per the law.

The total remuneration to other executives and managers during the year was NPR 59,955,000.00.

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

### EMPLOYEE DEVELOPMENT

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

A total of 388 employees received various banking and management related trainings conducted by external agencies in Nepal and abroad during the financial year.

New staff attend induction programs that provide them with a better understanding of the brand vision, culture and values of the Bank.

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

Relationship Managers in credit functions undergo an accreditation program from Omega Performance, a global training institute, which reflects our commitment towards developing world class workforce capable of maintaining high risk management standards.

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

### HUMAN RESOURCES COMMITTEE

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

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

### EMPLOYEE ENGAGEMENT

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

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

### CODE OF CONDUCT

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

Code Orange sets out ethical standards and values to which staff are required to adhere to and covers a wide range of legal, regulatory and ethical issues such as relationships with authorities, clients, competitors, employees, shareholders, suppliers and the community. It also covers workplace standards, and adherence to practices that avoids conflict of interest of employees at Laxmi Bank towards the bank. The Bank has appropriate procedures and mechanisms in place to ensure all elements of the Code are complied with.

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

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

### HEALTH AND SAFETY

The Bank recognizes the need for effective management of health and safety in order to provide a safe working environment. The Bank takes measures to remove, reduce or control material risks of fires and other accidents or injuries to employees and visitors. Fire wardens are appointed for each unit / branch and periodic fire drill is conducted by external specialist who also impart trainings on use of fire fighting equipments. Apart from safety in the workplace, the Bank also encourages all employees to be familiar with best practices in personal safety standards that can be adopted at home. Employees have access to personal safety handbooks that cover different events such as fire, earthquake, robbery etc.

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

### CORPORATE RESPONSIBILITY

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

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

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

## RISK MANAGEMENT & GOVERNANCE

Laxmi Bank operates in a dynamic business environment engaging with customers across different geographic regions providing a wide range of services: from basic deposit accounts to complex credit products. We deliver our services via a number of channels such as branches, ATMs, internet, mobile phones. Changes in business conditions, customers and counterparties' financial position, values of collateral, law and order situation and the economy in general can have adverse impact on the Bank's balance sheet.

Adding to our operating and risk management challenges is the fact that businesses and individuals are today increasingly dependent on the global economy. Laxmi Bank too is hence exposed to a number of risks and outcomes beyond our immediate control, such as exchange rates, commodity prices, demand for Nepali workforce in the Middle East and the health of international financial institutions. In the context of the continuing uncertainty at the political level, deteriorating business environment and the growth in size and scope of our balance sheet we recognize the need for us to upgrade our risk management systems and practices in line with the domestic and global changes and challenges.

Essentially, as a Bank, we are in the business of risk and we profit from managing it.

### OUR OBJECTIVES & STRATEGY

The Bank has clear risk management objectives and a well-established strategy and infrastructure to deliver them

At a strategic level, our risk management objectives are:

- To identify all significant risks
- To formulate risk appetite at strategic and balance sheet levels
- To ensure that risk taking decisions are in line with the business strategy and objectives set by the Board, while

establishing strong and independent review and challenge structures.

- To manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions.
- To help executives improve control and co-ordination of risk taking decisions in the course of writing business
- To ensure that sufficient capital as a buffer is available to assume risk

Our approach to risk management is to provide direction on: understanding the principal risks to achieving Bank strategy; establishing Risk Appetite; and establishing and communicating the risk management framework. Each of these steps is broken down further, to establish end to end activities within the risk management process and the infrastructure needed to support it to ensure that every product, process or counterparty transaction is understood in the context of possible changes in the business conditions and general economy as well as assessment of our own ability to manage their impact on our business.

Our risk management foundation is built around:

- a formal governance process that is constantly reviewed and updated
- organization wide commitment to constantly exceed internal standards that are benchmarked against international best practices

- development of risk frameworks that take into consideration our objectives vis-à-vis our capabilities
- continuous research and development of new and improved risk management processes and tools supported by effective Management Information Systems
- adopting more stringent internal standards than those prescribed by the prevailing regulating bodies
- all business segments are responsible and accountable for risks in their respective areas and are assisted, where appropriate by independent risk managers

We believe that our approach gives us the advantage of pursuing growth in a risk controlled manner and through calculated and informed decision making process that helps increase risk adjusted returns across our operations.

## RISK EXPOSURES

As a Commercial Bank, we are in the business that is essentially a customer driven activity where substantial risk is the credit risk from our counterparties such as corporate, personal and institutional borrowers. Our activities also expose us to market risk arising from repricing and mismatches in our assets and liabilities. These mismatches give rise to various risks in terms of interest rate, liquidity and foreign exchange positions. In the course of conducting our businesses, the Bank also handles a large volume of financial transactions which inherently exposes us to operational risks arising from possible failure of internal processes and systems, deficiencies in people and management or operational failure arising from external events.

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

## RISK ORGANIZATION

At Laxmi Bank responsibility for risk management resides at all levels from the Board and the Executive Committee down through the organisation to each business manager

AT LAXMI BANK  
RESPONSIBILITY  
FOR RISK  
MANAGEMENT  
RESIDES AT ALL  
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THROUGH THE  
ORGANIZATION  
TO EACH  
BUSINESS  
MANAGER AND  
RISK CONTROLLERS.

and risk controllers. The responsibilities for effective review and challenges reside with senior managers, Internal Control & Assurance Unit, Internal Audit, the Board Risk Committee and, ultimately, the Board.

The Board is responsible for approving Risk Appetite which is the level of risk the Bank chooses to take in pursuit of its business objectives.

### A Risk Management Committee

comprising of non executive directors, the **Chief Risk Officer** and other senior executives is responsible to take collective risk management decisions to safeguard the interests of the Bank and all stakeholders. This Committee broadly covers risks associated with: Credit, Market, Liquidity, Operational

and Reputational working under the terms of reference determined by the Board and provides inputs and guidance at a strategic level to the management.

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

The Chief Risk Officer regularly presents a report to the Board summarising developments in the risk environment and performance trends in the key portfolios.

## OPERATIONAL RISK

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

changes in external factors. Operational risk is inherent in all business activities. The prime responsibility for the management of operational risk and the compliance with control requirements rests with the business and functional units where the risk arises. These risks are managed by Business and Support Units in accordance with control requirements as mandated by Bank Policies and/or Risk Control Frameworks.

The Bank identifies and assesses all material risks within each business unit and evaluates the key controls in place to mitigate those risks. Managers in the business units use self-assessment techniques/tools to identify risks, evaluate the effectiveness of controls in place and assess whether the risks are effectively managed to within business risk appetite. The businesses are then able to make decisions on what, if any, action is required to reduce the level of risk to the Bank. These risk assessments are monitored on a regular basis to ensure that each business continually understands the risks it faces.

Recognizing the importance of operational risk both in terms of managing day to day business as well as the impact of Basel II Capital Accord, an independent Operational Risk Unit is in place to oversee the adequacy and effectiveness of controls. The unit establishes relevant policies and guidelines and also acts as partners to business units in conducting periodic trainings and adding value to business process re-engineering/re-structuring. The unit is involved in any new products / services that the Bank launches early on at the development/ conceptualization stage providing insight and expertise.

The Operational Risk unit carries out periodic on-site and off-site reviews of businesses to provide positive assurance to the management of the effectiveness of the control system complementing the work of Internal Audit.

## THE FRAMEWORK

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

## SPEAKING UP

The Bank actively encourages employees to speak up against misconducts and unethical behavior within the organization. A whistle blowing program has been designed whereby employees can report any issue or incident online anonymously to the Chief Executive Officer or any other individual or group of executives. All

issues that are reported are immediately investigated independently and where required necessary action taken. This system has helped identify and resolve a number of problems and issues at early stages that has helped avoid or minimize financial and non-financial losses for the Bank.

## BUSINESS CONTINUITY PROCESS

Laxmi Bank recognizes and is prepared for a situation where it may not be possible to run the business as usual. Events such as strikes, riots and natural disasters etc. which are beyond the bank's control may compel the bank to suspend or temporarily close down the operation in order to avoid untoward incidents and to protect Bank's interests and safety of employees. Failure to recover business operations in a timely

manner from such incidents could result in our inability to process transactions for a period of time leading to potentially serious adverse impact on the business, through compensation claims, inability to manage fund position, loss of customer/business and overall damage to the Bank's reputation.

In order to mitigate risks and manage the impact of such

**LAXMI BANK'S RISK FRAMEWORK IS REINFORCED BY AN INTERNAL CONTROL SYSTEM THAT STRENGTHENS THE "RISK AWARE" CULTURE IN THE BANK BY ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF STAFF AND THEIR "RIGHTS AND OBLIGATIONS" IN THE CONTROL FUNCTION.**

unforeseen events, detailed Business Continuity Plans are in place for all major units and branches that documents processes and procedures to ensure uninterrupted or immediate resumption of critical functions.

## INFORMATION SYSTEM MANAGEMENT

Laxmi Bank places high priority in managing and protecting its information resources and computer systems. A comprehensive IT Policy is in place, which covers data centre operation, hardware, network security and computer system related issues. Our computer and information systems are supported by high-end world-class database.

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

## DISASTER RECOVERY PLAN

The Bank's 'Disaster Recovery Plan' is designed specifically for the recovery and/or replacement of hardware, critical systems applications with data restoration, on any computer platform together with connectivity between the various system components. Back up of all data is maintained off-site. A full - fledged DRP site has been set up at a secure off-site location and we are reasonably confident of our ability to resume our operations within reasonable time in case our main data centre suffers physical damage.

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

## REPUTATIONAL RISK

Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational

A FULL- FLEDGED DRP SITE HAS BEEN SET UP AT A SECURE OFF-SITE LOCATION AND WE ARE REASONABLY CONFIDENT OF OUR ABILITY TO RESUME OUR OPERATIONS WITHIN REASONABLE TIME IN CASE OUR MAIN DATA CENTRE SUFFERS PHYSICAL DAMAGE.

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

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

## CREDIT RISK MANAGEMENT

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

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

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

- all credit applications are subjected to comprehensive evaluation to ensure that sound understanding of the customer has been established to take informed lending decisions and that primary importance is placed on identifying, understanding and assessing future cash flows and repayment sources
- all borrowers are risk graded appropriately to reflect the risk of default in the ensuing 12 month period
- all loans are priced appropriately through a pricing model based on **Risk Adjusted Return on Capital**
- all credit exposures to a single client group are aggregated to determine the appropriate level of approval required and to ensure that the Bank takes informed views based on exposure to all related entities
- constant monitoring of account / portfolio and periodic review is done to help determine changes in risk levels and detect early warning signals from borrowers in financial difficulties for implementation of remedial management action to minimize risk and loss to the Bank
- various credit portfolio reports that captures exposure to single client group, product and segment wise exposures etc. are reviewed on regular frequency and these are used to form strategies at all levels

A management level credit sub-committee meets periodically to review and discuss issues at portfolio and account levels. Officers involved in originating lending proposals receive accreditation through an international training agency - Omega Performance.

### **CREDIT APPROVAL PROCESS**

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

Credit extensions to customers are generally required to meet pre-defined target market criteria, which set the risk acceptance standards in terms of various factors such as industry, business, value etc. Given the element of subjective judgements, loans require dual approval with an independent credit executive to ensure objectively in underwriting decisions with the exception of a few consumer finance programs that are underwritten as per pre-approved credit programs using objective parameters.

Different risk grading systems are used for Corporate, Small Business and Consumer Finance borrowers..

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

### **CREDIT RISK CONTROL**

Credit Risk Control is independent from the business units that originates loan proposals. This unit manages post approval processes including preparation of legal and security documentation, contracts etc. as per the approval terms. This ensures that all contracts and covenants are prepared in accordance to the approved terms outside the influence of the loan officers. Finally, loans are disbursed to borrowers only after Credit Risk Control unit checks and confirms that all security documentation have been perfected.

### **POST DISBURSAL MONITORING & PORTFOLIO MANAGEMENT**

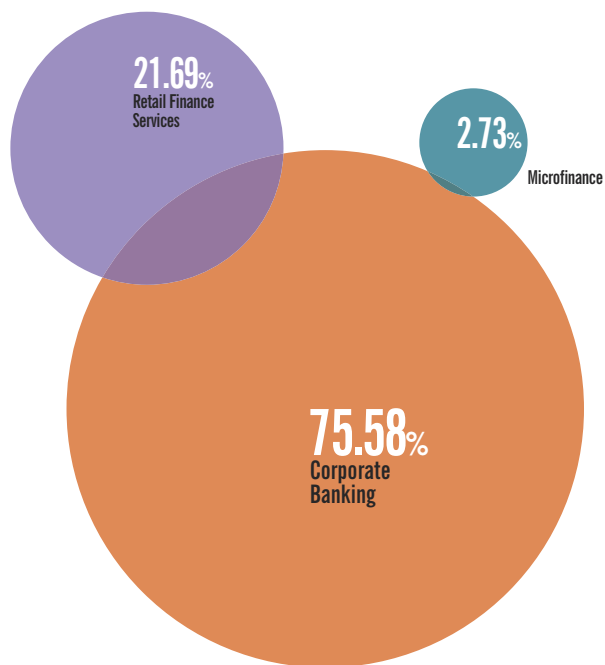
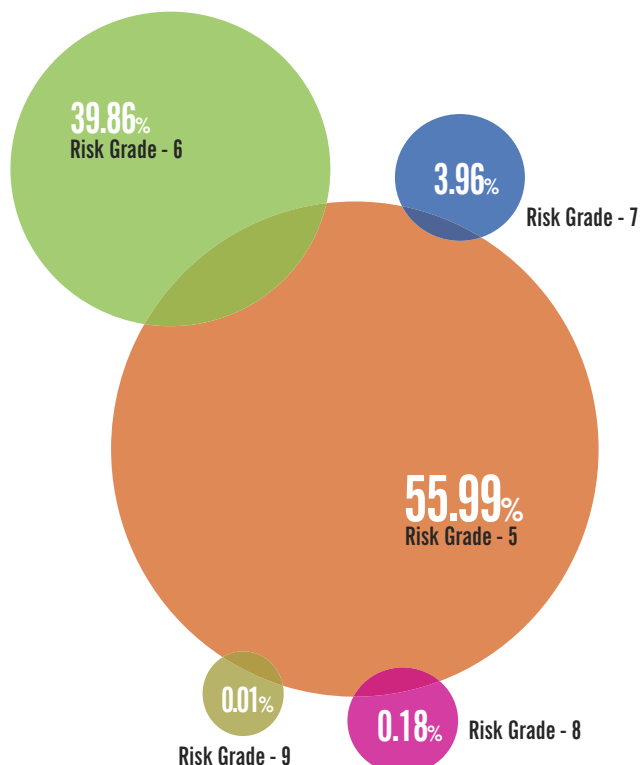
All relationships are constantly monitored both at account and portfolio levels to detect signs of credit quality deterioration. Standard procedures for carrying out periodic credit reviews, frequency and monitoring processes are documented in related risk management guidelines. All such reviews and customer contacts are documented.

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

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



## SEGMENT-WISE FUNDED EXPOSURE AS AT 31 JULY 2012

DISTRIBUTION OF RISK ASSETS BY QUALITY  
(Rating of 1 represents the highest quality of assets and 10 the lowest)

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

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

**RISK GRADING**

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

**Risk Grade 0-4 will be 0%**

**CREDIT CONCENTRATION**

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

During the year under review we continued to take steps to manage and reduce our exposure in the real estate sector that has been adversely affected due to continued political uncertainty, regulations, price correction and low demand. Our exposure in this sector is within prudent norms and regulatory requirement. Our real estate borrowers are primarily developers with established track records and in many cases units of a larger corporate group with diversified businesses and we are confident of their ability to perform in the long term despite current down turn. Not with standing this comfort, we are closely monitoring this segment and are prepared to take necessary steps to minimize losses in a worst case scenario of industry wide defaults.

### **NON PERFORMING ASSET (NPA ) MANAGEMENT**

Laxmi Bank's NPA Management Policy provides guidance on all aspects of management of impaired assets. The policy stipulates guidelines in terms of recognition, provisioning, security enforcement, asset disposal, write offs and accounting for such NPAs.

### **MARKET & LIQUIDITY RISKS**

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

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

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

### **ASSETS AND LIABILITIES MANAGEMENT FRAMEWORK**

The Asset Liability Committee (ALCO) is a management level committee that is responsible for overseeing the Bank's balance sheet risks. The ALCO is chaired by the Chief Executive Officer and comprises of senior executives

**DURING THE YEAR UNDER REVIEW WE CONTINUED TO TAKE STEPS TO MANAGE AND REDUCE OUR EXPOSURE IN THE REAL ESTATE SECTOR THAT HAS BEEN ADVERSELY AFFECTED DUE TO CONTINUED POLITICAL UNCERTAINTY, REGULATIONS, PRICE CORRECTION AND LOW DEMAND. OUR EXPOSURE IN THIS SECTOR IS WITHIN PRUDENT NORMS AND REGULATORY REQUIREMENT.**

and is responsible for reviewing the Bank's balance sheet structure to ensure availability of sufficient cash flows to meet all of the bank's financial commitments and to facilitate expansion of business. The ALCO also reviews the current and prospective funding requirements for our operations through monitoring of cash flows, liquidity ratios and maturity profile reviews and takes strategic decisions on portfolio and pricing of liability products.

### **INTEREST RATE RISK**

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

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

### **LIQUIDITY**

Our policy on liquidity maintenance is generally more conservative than prevailing regulatory requirements. Treasury Middle Office prepares a detailed liquidity position of the Bank on daily basis that are reviewed by

the Chief Executive Officer and Chief Risk Officer. We ensure adequate liquidity at all times through systematic funds planning and maintenance of liquid investments of appropriate quality to ensure that short-term funding requirements are covered. The Bank's strategy is to diversify the funding sources and minimize concentration across the various deposit sources. The ALCO sets and reviews concentration limits from a single deposit source as a prudent risk management policy.

Customer deposits continue to remain core source of the Bank's funding.

Laxmi Bank's Assets and Liability Management (ALM) guide covers policies and procedures including contingency funding plan to manage liquidity risks and pricing risks on a regular to extraordinary crisis situation as witnessed in the year 2010/11.

#### **FOREIGN EXCHANGE RISK**

The bank's foreign exchange risk stems from foreign exchange position taking and commercial dealing. Fluctuations in foreign exchange rates can have a significant impact on a Bank's financial position. Laxmi Bank has adopted measures to appropriately hedge the risks that arise while carrying out international trade transactions.

The Bank's risk management policies prevent the holding of significant open positions in foreign currencies outside the regular trading portfolio managed by dealers.

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

#### **STRESS TESTING**

We consider stress testing as a primary responsibility of risk management to ensure that the Bank is prepared for the worst event as we pursue our business goals. Stress testing as mandated by the regulators helps us to understand how our portfolios would react if business conditions became significantly more challenging. We generate specific forward-looking scenarios under various conditions and analyse how well our profitability, would be maintained, whether our levels of capital would be adequate and what Bank could do in advance to mitigate the risk.

## Shashi Satyal & Co.

Chartered Accountants

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Kathmandu, Nepal

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Fax: 977 (1) 4413307  
E-mail: ssatyal@vianet.com.np

### INDEPENDENT AUDITOR'S REPORT

#### THE SHAREHOLDERS OF LAXMI BANK LIMITED

We have audited the accompanying consolidated financial statements of Laxmi Bank Limited (the "Bank") and its subsidiaries which comprise the consolidated balance sheet as at 15 July 2012, the consolidated profit and loss account, consolidated statements of changes in equity and consolidated cash flow for the period then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Nepal Accounting Standards so far as applicable in compliance with prevailing laws. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Nepal Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Opinion*

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiaries as at 15 July 2012, and of their financial performance and cash flows for the year then ended in accordance with Nepal Accounting Standards so far as applicable in compliance with prevailing laws.

Shashi Satyal  
Proprietor



Shashi Satyal & Co.  
Chartered Accountants

Kathmandu, 4 October 2012

## CONSOLIDATED BALANCE SHEET

as at **Ashad 31, 2069** (July 15, 2012)

CAPITAL & LIABILITIES	This Year (in NPR)	Previous Year (in NPR)
1. Share Capital	<b>1,694,081,100</b>	1,694,196,525
2. Reserves and Surplus	<b>610,443,874</b>	420,798,956
3. Debentures & Bonds	<b>350,000,000</b>	350,000,000
4. Borrowings	<b>27,980,000</b>	-
5. Deposit Liabilities	<b>22,715,603,339</b>	18,206,949,467
6. Bills Payable	<b>1,765,225</b>	302,100,039
7. Proposed Cash Dividend	<b>169,408,110</b>	174,098,862
8. Income Tax Liabilities (net)	-	4,257,932
9. Other Liabilities	<b>347,632,270</b>	317,350,775
<b>Total Capital and Liabilities</b>	<b>25,916,913,918</b>	<b>21,469,752,557</b>

ASSETS	This Year (in NPR)	Previous Year (in NPR)
1. Cash Balance	<b>407,792,354</b>	356,669,236
2. Balance with Nepal Rastra Bank	<b>3,845,300,276</b>	1,869,990,707
3. Balance with Banks/Financial Institution	<b>195,610,178</b>	556,940,278
4. Money at Call and Short Notice	<b>659,731,070</b>	50,000,000
5. Investment	<b>3,634,045,909</b>	2,936,421,767
6. Loans, Advances and Bills Purchase	<b>16,480,781,109</b>	15,199,847,905
7. Fixed Assets	<b>314,129,664</b>	357,546,280
8. Non Banking Assets (net)	-	-
9. Other Assets	<b>379,523,358</b>	142,336,383
<b>Total Assets</b>	<b>25,916,913,918</b>	<b>21,469,752,556</b>

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: **3 Oct 2012**  
Place: **Kathmandu**

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

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Interest Income	2,289,980,227	2,236,877,702
2. Interest Expenses	1,636,423,205	1,501,506,951
<b>Net Interest Income</b>	<b>653,557,022</b>	<b>735,370,751</b>
3. Commission and Discount	149,903,906	67,852,136
4. Other Operating Income	57,329,940	69,534,877
5. Exchange Income	107,950,625	63,127,874
<b>Total Operating Income</b>	<b>968,741,493</b>	<b>935,885,638</b>
6. Staff Expenses	181,669,953	158,385,935
7. Other Operating Expenses	199,252,649	171,940,117
8. Exchange Loss	-	-
<b>Operating Profit before provision for Possible Loss</b>	<b>587,818,891</b>	<b>605,559,585</b>
9. Provision for Possible Losses	30,850,350	13,634,832
<b>Operating Profit</b>	<b>556,968,541</b>	<b>591,924,754</b>
10. Non Operating Income /(Loss)	6,277,872	873,687
11. Loan Loss Provision Written Back	-	798,406
<b>Profit from Regular Operations</b>	<b>563,246,413</b>	<b>593,596,847</b>
12. Profit/(Loss) from Extra-Ordinary Activities	-	2,348,347
<b>Net Profit after including all Activities</b>	<b>563,246,413</b>	<b>595,945,194</b>
13. Provision for Staff Bonus	50,892,317	54,149,835
14. Provision for Income Tax	-	-
* Provision for Current Year's Tax	155,552,386	162,018,263
* Provision for Previous Years' Tax	-	-
* Deferred Tax Expense/ (Income)	(2,235,939)	2,865,487
<b>Net Profit/Loss</b>	<b>359,037,649</b>	<b>376,911,609</b>

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: 3 Oct 2012  
Place: Kathmandu

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

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## CONSOLIDATED PROFIT AND LOSS APPROPRIATION ACCOUNT

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>INCOME</b>		
1. Accumulated Profit up to Previous Year	12,851,254	16,894,378
2. Current Year's Profit	359,037,650	376,911,608
3. Exchange Fluctuation Fund	-	-
4. Capital Adjustment Fund transferred	-	-
5. Adjustments in Retained Earnings	15,377	
<b>Total</b>	<b>371,904,281</b>	<b>393,805,986</b>
<b>EXPENSES</b>		
1. Accumulated Loss up to Previous Year	-	-
2. This Year's Loss	-	-
3. General Reserve	71,292,891	75,070,600
4. Contingent Reserve	-	-
5. Institutional Development Fund	-	-
6. Dividend Equalization Fund	-	-
7. Staff Related Reserves	-	-
8. Proposed Dividend	169,408,110	174,098,862
9. Proposed Bonus Shares	-	80,676,025
10. Special Reserve Fund	-	-
11. Exchange Fluctuation Fund	5,165,874	1,716,210
12. Capital Redemption Reserve Fund	50,000,000	50,000,000
13. Capital Adjustment Fund	-	-
14. Investment Adjustment Reserve	700,000	1,899,530
14. Adjustments:	-	-
Deferred Tax Reserve	1,876,948	(2,506,495)
<b>Total</b>	<b>298,443,823</b>	<b>380,954,732</b>
15. Accumulated Profit/(Loss)	73,460,458	12,851,254

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: 3 Oct 2012  
Place: Kathmandu

**Bhola Babu Adhikary**  
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**Rishi Ram Gautam**  
**Sambhu P Acharya**  
Directors

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Fiscal Year 2068/69

PARTICULARS	SHARE CAPITAL	ACCUMULATED PROFIT/LOSS	GENERAL RESERVE	INVESTMENT ADJUSTMENT RESERVE	SHARE PREMIUM	EXCHANGE FLUCTUATION FUND	DEBENTURE REDEMPTION FUND	DEFERRED TAX RESERVE	OTHER RESERVES & FUND	TOTAL AMOUNT
<b>Opening Balance</b>										
<b>at 1 Shrawan 2068</b>	1,694,196,525	12,851,254	230,066,584	3,440,197	13,071,581	11,369,339	150,000,000	-	-	2,114,995,481
<b>Adjustments</b>										
Adjustments										
in Retained Earnings	-	15,377	-	-	-	-	-	-	-	15,377
<b>Restated Balance</b>	<b>1,694,196,525</b>	<b>12,866,632</b>	<b>230,066,584</b>	<b>3,440,197</b>	<b>13,071,581</b>	<b>11,369,339</b>	<b>150,000,000</b>	<b>-</b>	<b>-</b>	<b>2,115,010,858</b>
Net profit for the period	-	359,037,650	-	-	-	-	-	-	-	359,037,650
Transfer to General Reserve	-	(71,292,891)	71,292,891	-	-	-	-	-	-	-
Capital Adjustment Fund	-	-	-	-	-	-	-	-	-	-
Proposed Bonus Shares	-	-	-	-	-	-	-	-	-	-
Proposed Dividend	-	(169,408,110)	-	-	-	-	-	-	-	(169,408,110)
Exchange Fluctuation										
Fund	-	(5,165,874)	-	-	-	5,165,874	-	-	-	-
Bonus provision carried forward - fractional shares	(115,425)	-	-	-	-	-	-	-	-	(115,425)
Debtenture										
Redemption Fund	-	(50,000,000)	-	-	-	-	50,000,000	-	-	-
Share Premium	-	-	-	-	-	-	-	-	-	-
Investment Adjustment										
Reserve	-	(700,000)	-	700,000	-	-	-	-	-	-
Deferred Tax Reserve	-	(1,876,948)	-	-	-	-	-	1,876,948	-	-
Fractional Bonus shares carried over	-	-	-	-	-	-	-	-	-	-
<b>Closing Balance</b>										
<b>at 31 Ashad 2069</b>	<b>1,694,081,100</b>	<b>73,460,459</b>	<b>301,359,475</b>	<b>4,140,197</b>	<b>13,071,581</b>	<b>16,535,213</b>	<b>200,000,000</b>	<b>1,876,948</b>	<b>-</b>	<b>2,304,524,973</b>



## CONSOLIDATED CASH FLOW STATEMENT

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>(a). Cash Flow from Operating Activities</b>	<b>1,678,750,344</b>	<b>1,061,978,465</b>
<b>1. Cash Received</b>	<b>2,620,343,470</b>	<b>2,506,183,221</b>
1.1 Interest Income	2,295,390,596	2,292,580,706
1.2 Commission and Discount Income	158,717,216	79,691,496
1.3 Income from Foreign Exchange transaction	107,950,625	63,127,874
1.4 Recovery of Loan Written off	-	807,000
1.5 Other Income	58,285,033	69,976,145
<b>2. Cash Payment</b>	<b>2,165,786,305</b>	<b>1,999,978,419</b>
2.1 Interest Expenses	1,614,622,418	1,512,811,119
2.2 Staff Expenses	234,227,304	205,095,639
2.3 Office Operating Expenses	149,399,552	122,465,688
2.4 Income Tax Paid	167,537,030	159,605,973
2.5 Other Expenses	-	-
<b>Cash Flow before changes in Working Capital</b>	<b>454,557,165</b>	<b>506,204,802</b>
<b>(Increase) / Decrease in Current Assets</b>	<b>(2,840,793,813)</b>	<b>427,137,900</b>
1.(Increase)/Decrease in Money at Call and Short Notice	(609,731,070)	854,377,086
2. (Increase)/Decrease in Short Term Investment	(681,684,142)	246,984,127
3. (Increase)/Decrease in Loans, Advances and Bills Purchase	(1,311,783,553)	(653,066,943)
4. (Increase)/Decrease in Other Assets	(237,595,048)	(21,156,370)
<b>Increase /( Decrease) in Current Liabilities</b>	<b>4,064,986,992</b>	<b>128,635,763</b>
1. Increase/(Decrease) in Deposits	4,508,653,872	123,991,480
2. Increase/(Decrease) in Certificates of Deposits	-	-
3. Increase/(Decrease) in Short Term Borrowings	27,980,000	(100,000,000)
4. Increase/(Decrease) in Other Liabilities	(471,646,880)	104,644,283
<b>(b) Cash Flow from Investment Activities</b>	<b>(13,532,333)</b>	<b>(119,082,482)</b>
1. (Increase)/Decrease in Long-term Investment	(15,940,000)	-
2. (Increase)/Decrease in Fixed Assets	1,680,212	(119,082,482)
3. Interest income from Long term Investment	-	-
4. Dividend Income	727,455	-
5. Others	-	-
<b>(c) Cash Flow from Financing Activities</b>	<b>(115,425)</b>	<b>-</b>
1. Increase/(Decrease) in Long term Borrowings (Bonds, Debentures etc)	-	-
2. Increase/(Decrease) in Share Capital & Share Premium	(115,425)	-
3. Increase/(Decrease) in Other Liabilities	-	-
4. Increase/(Decrease) in Refinance/facilities received from NRB	-	-
<b>(d) Income/Loss from change in exchange rate in Cash &amp; Bank Balance</b>	<b>-</b>	<b>-</b>
<b>(e) Current Year's Cash Flow from All Activities</b>	<b>1,665,102,586</b>	<b>942,895,983</b>
<b>(f) Opening Balance of Cash and Bank</b>	<b>2,783,600,222</b>	<b>1,840,704,239</b>
<b>(g) Closing Balance of Cash and Bank</b>	<b>4,448,702,808</b>	<b>2,783,600,222</b>

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: 3 Oct 2012  
Place: Kathmandu

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

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## CONSOLIDATED SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

### I) GENERAL INFORMATION

#### A. REPORTING ENTITY

Laxmi Bank Limited (“the Bank”) is a limited liability company domiciled in Nepal. The address of its registered office is in Hattisar, Nepal. The Bank has a primary listing on the Nepal Stock Exchange Limited. The Bank is running a commercial banking business in Nepal.

#### B. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Bank as of 15 July 2012 comprises of the Bank and its subsidiaries. The financial year of subsidiaries is common to that of the parent company.

### II) STATEMENT OF COMPLIANCE

The consolidated financial statements of the group and separate financial statements of the Bank have been prepared in accordance with Nepal Accounting Standards (“NAS”) issued by the Nepal Accounting Standard Board except otherwise stated, Generally Accepted Accounting Principles (“GAAP”), Bank & Financial Institutions Act (“BAFIA”), presentation and other requirements of NRB Directives and in conformity with the Companies Act, 2063.

### III) BASIS OF CONSOLIDATION

The group’s financial statements comprise of consolidation of financial statements of the Bank and its subsidiaries, Laxmi Laghubitta Bittiya Sanstha Ltd (“LLBS”) and Laxmi Capital Market Ltd (“LCM”).

A subsidiary is an entity that is controlled by another entity (known as the parent). Control exists when the bank has the power, directly or indirectly to govern the financial and operating policies of and enterprise from the date that control commences until the date that control ceases.

The consolidated financial statements have been prepared in accordance with International Accounting Standards 27 “Consolidated and Separate Financial Statements”. In preparing the consolidated financial statements, the financial statements are combined line by line by adding the like items of assets, liabilities, equity, income and expenses.

Transaction eliminated on consolidation:

All intra group transaction and balances, income and expenses and any unrealized gains/ losses arising from such

inter-company transactions and balances are eliminated in full while preparing the consolidated financial statements.

### IV) PREVIOUS YEAR’S FIGURES

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

## Notes to Accounts

### 1. Tax liability reconciliation

Reconciliation of profit as per financial statement is reconciled with taxable profit to compute tax liability as follows for the Group and separately for the Bank:

PARTICULARS	Amount in NPR'000			
	BANK	LCM	LLBS	GROUP
<b>Profit before tax as per Profit &amp; Loss Account</b>	<b>508,817</b>	<b>3,431</b>	<b>106</b>	<b>512,354</b>
<b>Add: Adjustments for</b>		-		-
Depreciation as per Schedule 24 considered separately	33,064	890	180	34,135
Equipment & furniture charged to revenue considered in depreciation	2,105	10	110	2,225
Leasehold amortization considered in depreciation	11,698	-	54	11,753
Software amortization considered in depreciation	2,646	51	22	2,719
Repairs and Maintenance added to the Pool as per Income Tax Act	2,389	-	-	2,389
Premium on Government Bonds amortized in this fiscal year	2,620	-	-	2,620
Gain on disposal of a Pool of Asset	-	213	-	213
<b>Less: Adjustments for</b>		-	-	-
Depreciation as per Income Tax Act	(42,807)	(853)	(328)	(43,988)
Profit on sale of fixed assets considered separately	(4,386)	(210)		(4,595)
Dividend income	(727)	-		(727)
<b>Taxable Profit as per Income Tax Act 2058</b>	<b>515,420</b>	<b>3,533</b>	<b>144</b>	<b>519,097</b>
<b>Corporate Income Tax ( 30% for Bank and LLBS and 25% for LCM)</b>	<b>154,626</b>	<b>883</b>	<b>43</b>	<b>155,552</b>

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

Carrying amount of assets & liabilities where temporary differences arise as on 31 Ashad 2069 (15.07 2012) are as follows:

PARTICULARS	Amount in NPR'000			
	CARRYING AMOUNT	TAX BASE	NET TEMPORARY DIFFERENCE	DEFERRED TAX LIABILITY/ (ASSET) AS ATASHAD END 2069 (@ 30% FOR BANK AND LLBS AND @ 25% FOR LCM)
Bank	200,566	206,981	(6,415)	(1,925)
Subsidiaries	6447	6249	198	48
<b>Group</b>	<b>207,013</b>	<b>213,230</b>	<b>(6,217)</b>	<b>(1,877)</b>
Deferred Tax Liability/ (Asset) till Ashad end 2068				359
Deferred Tax Expense/ (Income) for Current Year				(2,235)

Deferred Tax Asset of the Group as of 31 Ashad 2069 (15 July 2012) is NPR 1,876,948.

NPR 2,235,939 has been recognized as deferred tax income in Consolidate Profit and Loss Account in the current year.

**INDEPENDENT AUDITOR'S REPORT**

**THE SHAREHOLDERS OF  
LAXMI BANK LIMITED**

We have audited the accompanying financial statements of Laxmi Bank Limited (the "Bank") which comprise the balance sheet as at 15 July 2012, the profit and loss account, statements of changes in equity and cash flow for the period then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Nepal Accounting Standards so far as applicable in compliance with prevailing laws. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Nepal Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Report on the Requirements of the Companies Act 2063, Bank and Financial Institution Act 2063**

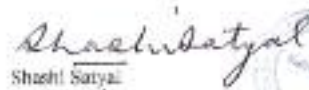
We have obtained information and explanations asked for, which, to the best of our knowledge and belief, were necessary for the purpose of our audit. In our opinion, the balance sheet, the profit and loss account and the cash flow statement, prepared in the format prescribed by Nepal Rastra Bank, are in agreement with the books of account of the Bank; and proper books of account as required by law have been kept by the Bank. In our opinion the returns received from the branches were adequate for the purpose of the audit though the statements are independently not audited.

In our opinion, so far as appeared from our examination of the books, the Bank has maintained adequate capital funds and adequate provisions for possible impairment of assets in accordance with the directives of Nepal Rastra Bank.

To the best of our information and according to explanations given to us and from our examination of the books of account of the Bank necessary for the purpose of our audit, we have not come across cases where Board of Directors or any employees of the Bank have acted contrary to the provisions of law, or committed any misappropriation or caused loss or damage to the Bank and violated any directives of Nepal Rastra Bank or acted in a manner to jeopardise the interest and security of the Bank, its depositors and investors.

**Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 15 July 2012, and of its financial performance and its cash flows for the year then ended in accordance with Nepal Accounting Standards so far as applicable in compliance with prevailing laws and comply with the provision of the Companies Act 2063, Nepal Rastra Bank Directives and Banks and Financial Institutions Act 2063.

  
Shashi Satyal  
Proprietor



Shashi Satyal & Co.  
Chartered Accountants

Kathmandu, 4 October 2012

## BALANCE SHEET

as at **Ashad 31, 2069** (July 15, 2012)

CAPITAL & LIABILITIES	SCHEDULE	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Share Capital	4.1	<b>1,694,081,100</b>	1,694,196,525
2. Reserves and Surplus	4.2	<b>606,177,808</b>	419,180,198
3. Debentures & Bonds	4.3	<b>350,000,000</b>	350,000,000
4. Borrowings	4.4	<b>27,980,000</b>	-
5. Deposit Liabilities	4.5	<b>22,831,842,639</b>	18,299,627,620
6. Bills Payable	4.6	<b>1,765,225</b>	302,100,039
7. Proposed Cash Dividend		<b>169,408,110</b>	74,098,862
8. Income Tax Liabilities (net)		-	4,678,074
9. Other Liabilities	4.7	<b>347,273,355</b>	316,010,075
<b>Total Capital and Liabilities</b>		<b>26,028,528,237</b>	<b>21,559,891,393</b>

ASSETS	SCHEDULE	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Cash Balance	4.8	<b>407,788,874</b>	356,669,236
2. Balance with Nepal Rastra Bank	4.9	<b>3,845,300,276</b>	1,866,490,707
3. Balance with Banks/Financial Institution	4.10	<b>195,585,115</b>	551,432,373
4. Money at Call and Short Notice	4.11	<b>659,487,873</b>	50,000,000
5. Investment	4.12	<b>3,758,105,909</b>	3,041,421,767
6. Loans, Advances and Bills Purchase	4.13	<b>16,476,630,201</b>	15,199,847,906
7. Fixed Assets	4.14	<b>308,172,110</b>	352,338,243
8. Non Banking Assets (net)	4.15	-	-
9. Other Assets	4.16	<b>377,457,879</b>	141,691,161
<b>Total Assets</b>		<b>26,028,528,237</b>	<b>21,559,891,393</b>

Contingent Liabilities	Schedule 4.17
Directors' Declaration	Schedule 4.29
Statement of Capital Fund	Schedule 4.30 (A1)
Statement of Risk weighted Assets and CRM	Schedule 4.30(B, C, D, E)
Principal Indicators	Schedule 4.31
Principal Accounting Policies	Schedule 4.32
Notes to Accounts	Schedule 4.33
Statement of Loans and Advances of Promoters/ Promoter Group by pledging the shares in their ownership	Schedule 4.34
Comparison of Unaudited and Audited Financial Statement	Schedule 4.35
Unaudited Financial Results (Quarterly)	Schedule 4.A

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

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: **3 Oct 2012**  
Place: **Kathmandu**

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

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## PROFIT AND LOSS ACCOUNT

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

PARTICULARS	SCHEDULE	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Interest Income	4.18	2,289,359,534	2,233,332,791
2. Interest Expenses	4.19	1,645,718,018	1,503,851,025
<b>Net Interest Income</b>		<b>643,641,516</b>	<b>729,481,766</b>
3. Commission and Discount	4.20	149,817,868	69,787,924
4. Other Operating Income	4.21	56,390,780	67,522,839
5. Exchange Income	4.22	107,950,625	63,127,874
<b>Total Operating Income</b>		<b>957,800,789</b>	<b>929,920,403</b>
6. Staff Expenses	4.23	178,284,804	157,662,248
7. Other Operating Expenses	4.24	194,842,563	169,294,370
8. Exchange Loss	4.22	-	-
<b>Operating Profit before provision for Possible Loss</b>		<b>584,673,422</b>	<b>602,963,785</b>
9. Provision for Possible Losses	4.25	30,808,421	13,634,832
<b>Operating Profit</b>		<b>553,865,001</b>	<b>589,328,954</b>
10. Non Operating Income /(Loss)	4.26	5,834,022	873,687
11. Loan Loss Provision Written Back	4.27	-	798,406
<b>Profit from Regular Operations</b>		<b>559,699,023</b>	<b>591,001,047</b>
12. Profit/(Loss) from Extra-Ordinary Activities	4.28	-	2,348,347
<b>Net Profit after including all Activities</b>		<b>559,699,023</b>	<b>593,349,394</b>
13. Provision for Staff Bonus		50,881,729	53,940,854
14. Provision for Income Tax		-	-
* Provision for Current Year's Tax		154,626,044	161,482,469
* Provision for Previous Years' Tax		-	-
* Deferred Tax Expense/ (Income)		(2,199,092)	2,780,975
<b>Net Profit/Loss</b>		<b>356,390,342</b>	<b>375,145,095</b>

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

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: 3 Oct 2012  
Place: Kathmandu

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

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## PROFIT AND LOSS APPROPRIATION ACCOUNT

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>INCOME</b>		
1. Accumulated Profit up to Previous Year	11,274,078	17,042,134
2. Current Year's Profit	356,390,342	375,145,095
3. Exchange Fluctuation Fund	-	-
4. Capital Adjustment Fund transferred	-	-
5. Adjustments in Retained Earnings	15,377	
<b>Total</b>	<b>367,679,797</b>	<b>392,187,229</b>
<b>EXPENSES</b>		
1. Accumulated Loss up to Previous Year	-	-
2. This Year's Loss	-	-
3. General Reserve	71,278,068	75,029,019
4. Contingent Reserve	-	-
5. Institutional Development Fund	-	-
6. Dividend Equalization Fund		
7. Staff Related Reserves	-	-
8. Proposed Dividend	169,408,110	174,098,862
9. Proposed Bonus Shares	-	80,676,025
10. Special Reserve Fund	-	-
11. Exchange Fluctuation Fund	5,165,874	1,716,210
12. Capital Redemption Reserve Fund	50,000,000	50,000,000
13. Capital Adjustment Fund	-	-
14. Investment Adjustment Reserve	700,000	1,899,530
14. Adjustments:	-	-
Deferred Tax Reserve	1,924,612	(2,506,495)
<b>Total</b>	<b>298,476,664</b>	<b>380,913,151</b>
15. Accumulated Profit/(Loss)	69,203,133	11,274,078

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: 3 Oct 2012  
Place: Kathmandu

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

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## STATEMENT OF CHANGES IN EQUITY

Fiscal Year 2068/69

PARTICULARS	SHARE CAPITAL	ACCUMULATED PROFIT/LOSS	GENERAL RESERVE	INVESTMENT ADJUSTMENT RESERVE	SHARE PREMIUM	EXCHANGE FLUCTUATION FUND	DEBENTURE REDEMPTION FUND	DEFERRED TAX RESERVE	OTHER RESERVES & FUND	TOTAL AMOUNT
<b>Opening Balance</b>										
<b>at 1 Shrawan 2068</b>	<b>1,694,196,525</b>	<b>11,274,078</b>	<b>230,025,003</b>	<b>3,440,197</b>	<b>13,071,581</b>	<b>11,369,339</b>	<b>150,000,000</b>	<b>(0)</b>	<b>-</b>	<b>2,113,376,723</b>
<b>Adjustments</b>										
Adjustments in Retained Earnings		15,377								15,377
<b>Restated Balance</b>	<b>1,694,196,525</b>	<b>11,289,455</b>	<b>230,025,003</b>	<b>3,440,197</b>	<b>13,071,581</b>	<b>11,369,339</b>	<b>150,000,000</b>	<b>(0)</b>	<b>-</b>	<b>2,113,392,100</b>
Net profit for the period	-	356,390,342	-	-	-	-	-	-	-	356,390,342
Transfer to General Reserve	-	(71,278,068)	71,278,068	-	-	-	-	-	-	-
Capital Adjustment Fund	-	-	-	-	-	-	-	-	-	-
Proposed Bonus Shares	-	-	-	-	-	-	-	-	-	-
Proposed Dividend	-	(169,408,110)	-	-	-	-	-	-	-	(169,408,110)
Exchange Fluctuation Fund	-	(5,165,874)	-	-	-	5,165,874	-	-	-	-
Bonus provision carried forward - fractional shares	(115,425)	-	-	-	-	-	-	-	-	(115,425)
Debtenture Redemption Fund	-	(50,000,000)	-	-	-	-	50,000,000	-	-	-
Share Premium	-	-	-	-	-	-	-	-	-	-
Investment Adjustment Reserve	-	(700,000)	-	700,000	-	-	-	-	-	-
Deferred Tax Reserve	-	(1,924,612)	-	-	-	-	-	1,924,612	-	-
Fractional Bonus shares carried over	-	-	-	-	-	-	-	-	-	-
<b>Closing Balance at 31 Ashad 2069</b>	<b>1,694,081,100</b>	<b>69,203,132</b>	<b>301,303,072</b>	<b>4,140,197</b>	<b>13,071,581</b>	<b>16,535,213</b>	<b>200,000,000</b>	<b>1,924,612</b>	<b>-</b>	<b>2,300,258,907</b>



## CASH FLOW STATEMENT

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>(a) Cash Flow from Operating Activities</b>	<b>1,704,680,623</b>	<b>1,149,022,542</b>
<b>1. Cash Received</b>	<b>2,618,340,440</b>	<b>2,501,669,219</b>
1.1 Interest Income	2,294,856,614	2,288,142,953
1.2 Commission and Discount Income	158,421,654	79,635,246
1.3 Income from Foreign Exchange transaction	107,950,625	63,127,874
1.4 Recovery of Loan Written off	-	807,000
1.5 Other Income	57,111,547	69,956,145
<b>2. Cash Payment</b>	<b>2,168,105,405</b>	<b>1,997,870,773</b>
2.1 Interest Expenses	1,623,917,231	1,513,832,927
2.2 Staff Expenses	232,225,658	204,371,951
2.3 Office Operating Expenses	144,813,798	120,059,922
2.4 Income Tax Paid	167,148,717	159,605,973
2.5 Other Expenses	-	-
<b>Cash Flow before changes in Working Capital</b>	<b>450,235,036</b>	<b>503,798,445</b>
<b>(Increase) / Decrease in Current Assets</b>	<b>(2,835,523,444)</b>	<b>423,966,941</b>
1. (Increase)/Decrease in Money at Call and Short Notice	(609,487,873)	854,377,086
2. (Increase)/Decrease in Short Term Investment	(681,684,142)	246,984,127
3. (Increase)/Decrease in Loans, Advances and Bills Purchase	(1,307,590,717)	(653,066,943)
4. (Increase)/Decrease in Other Assets	(236,760,712)	(24,327,329)
<b>Increase / (Decrease) in Current Liabilities</b>	<b>4,089,969,031</b>	<b>221,257,156</b>
1. Increase/(Decrease) in Deposits	4,532,215,019	216,669,632
2. Increase/(Decrease) in Certificates of Deposits	-	-
3. Increase/(Decrease) in Short Term Borrowings	27,980,000	(100,000,000)
4. Increase/(Decrease) in Other Liabilities	(470,225,988)	104,587,524
<b>(b) Cash Flow from Investment Activities</b>	<b>(30,483,251)</b>	<b>(215,134,463)</b>
1. (Increase)/Decrease in Long-term Investment	(35,000,000)	(101,500,000)
2. (Increase)/Decrease in Fixed Assets	3,789,294	(113,634,463)
3. Interest income from Long term Investment	-	-
4. Dividend Income	727,455	-
5. Others	-	-
<b>(c) Cash Flow from Financing Activities</b>	<b>(115,425)</b>	<b>-</b>
1. Increase/(Decrease) in Long term Borrowings (Bonds, Debentures etc)	-	-
2. Increase/(Decrease) in Share Capital & Share Premium	(115,425)	-
3. Increase/(Decrease) in Other Liabilities	-	-
4. Increase/(Decrease) in Refinance/facilities received from NRB	-	-
<b>(d) Income/Loss from change in exchange rate in Cash &amp; Bank Balance</b>	<b>-</b>	<b>-</b>
<b>(e) Current Year's Cash Flow from All Activities</b>	<b>1,674,081,947</b>	<b>933,888,079</b>
<b>(f) Opening Balance of Cash and Bank</b>	<b>2,774,592,316</b>	<b>1,840,704,239</b>
<b>(g) Closing Balance of Cash and Bank</b>	<b>4,448,674,263</b>	<b>2,774,592,316</b>

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

**Suman Joshi**  
Chief Executive Officer

**Rajendra K. Khetan**  
Chairman

As per our Report  
of even date

Date: 3 Oct 2012  
Place: Kathmandu

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

**Shashi Satyal**  
Proprietor  
for Shashi Satyal & Co.  
Chartered Accountants

## SHARE CAPITAL AND OWNERSHIP

As at Ashad 31, 2069 (July 15, 2012)

Schedule 4.1

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>1. Share Capital</b>		
<b>1.1 Authorized Capital</b>	<b>2,000,000,000</b>	<b>2,000,000,000</b>
a) 20,000,000 Ordinary Shares of NPR 100.00 each	2,000,000,000	2,000,000,000
b) ...Non-redeemable Preference Shares of NPR....each		
c) ...Redeemable Preference Shares of NPR....each		
<b>1.2 Issued Capital</b>	<b>1,694,081,100</b>	<b>1,613,520,500</b>
a) 16,940,811 Ordinary Shares of NPR 100.00 each	1,694,081,100	1,613,520,500
b) ...Non-redeemable Preference Shares of NPR....each		
c) ...Redeemable Preference Shares of NPR....each		
<b>1.3 Paid Up Capital</b>	<b>1,694,081,100</b>	<b>1,613,520,500</b>
a) 16,940,811 Ordinary Shares of NPR 100.00 each	1,694,081,100	1,613,520,500
b) ...Non-redeemable Preference Shares of NPR....each		
c) ...Redeemable Preference Shares of NPR....each		
<b>1.4 Proposed Bonus Share</b>	-	<b>80,676,025</b>
<b>1.5 Calls in Advance</b>	-	-
<b>Total (1.3 + 1.4 + 1.5)</b>	<b>1,694,081,100</b>	<b>1,694,196,525</b>

## SHARE OWNERSHIP

As at Ashad 31, 2069 (July 15, 2012)

PARTICULARS	%	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)	%
<b>(A) Local Ownership</b>	<b>100.00</b>	<b>1,694,081,100</b>	<b>1,613,520,500</b>	<b>100.00</b>
1.1 Government of Nepal				
1.2 "Ka" Class Licensed Institution				
1.3 Other Licensed Institution				
1.4 Other Organisations (Promoters)	30.10	509,845,800	569,199,900	35.28
1.5 General Public	35.53	601,932,200	573,378,100	35.53
1.6 Others (Promoters)	34.37	582,303,100	470,942,500	29.19
<b>(B) Foreign Ownership</b>				
<b>Total</b>	<b>100.00</b>	<b>1,694,081,100</b>	<b>1,613,520,500</b>	<b>100.00</b>

## SHARE CAPITAL & OWNERSHIP

List Of Shareholders Holding More Than 0.5% Of Share Capital

NAME	THIS YEAR	
	AMOUNT (in NPR)	%
1. Himalayan Exim P.Ltd.	204,232,800	12.06
2. Sarika Khetan	174,113,000	10.28
3. Citizen Investment Trust	152,806,500	9.02
4. Ratan Lal Sanghai	145,860,700	8.61
5. MTC Investment Pvt. Ltd.	136,136,700	8.04
6. Gopi Krishna Shikaria	104,186,200	6.15
7. P.A. Investment Pvt Ltd	103,756,800	6.12
8. Prime Holding Pvt. Ltd.	42,467,700	2.51
9. Amit Gupta Agrawal	36,032,400	2.13
10. Ruchi Jajodiya	25,223,000	1.49
11. Mutual Trading Co. Pvt. Ltd.	16,669,800	0.98
12. Rajendra K Khetan	16,669,800	0.98
13. Sabita Devi Rungta	13,891,500	0.82
14. Deepak Kumar Malhotra	11,635,000	0.69
15. Madhu Sudan Agrawal	27,400,400	1.62
16. Anjalai Sarawagi	23,982,800	1.42
17. Sunil Kumar Bansal	20,374,200	1.20
18. Nepal Life Insurance Company Limited	10,500,000	0.62
19. Rabi Kumar Gupta	9,593,200	0.57
20. Pashupati Katha Mills	8,511,900	0.50

## RESERVES FUNDS

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.2

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>1. General Reserve Fund</b>	<b>301,303,072</b>	<b>230,025,003</b>
<b>2. Proposed Bonus Shares</b>		
<b>2. Capital Reserve Fund</b>	<b>13,071,581</b>	<b>13,071,581</b>
a. Share Premium	13,071,581	13,071,581
<b>3. Capital Redemption Reserve</b>	<b>200,000,000</b>	<b>150,000,000</b>
a. Laxmi Bank Debenture 2072	200,000,000	150,000,000
<b>4. Capital Adjustment Fund</b>	-	-
<b>5. Other Reserves &amp; Funds</b>	<b>6,064,809</b>	<b>3,440,197</b>
a. Contingent Reserve	-	-
b. Institutional Development Fund	-	-
c. Dividend Equalization Fund	-	-
d. Special Reserve Fund	-	-
e. Assets Revaluation Reserve	-	-
f. Other Free Reserves	-	-
g. Investent Adjustment Reserve	4,140,197	3,440,197
h. Deferred Tax Reserve	1,924,612	-
<b>6. Accumulated Profit/Loss</b>	<b>69,203,133</b>	<b>11,274,078</b>
<b>7. Exchange Fluctuation Fund</b>	<b>16,535,213</b>	<b>11,369,339</b>
<b>Total</b>	<b>606,177,808</b>	<b>419,180,198</b>

## DEBENTURES AND BONDS

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.3

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>1. 8.5% Debentures 2072 of NPR 1000 each</b>	<b>350,000,000</b>	350,000,000
Issued on 25th November 2008 and maturity on 24 November 2015 A.D. (Outstanding balance of Redemption Reserve NPR 200,000,000)		
<b>2. ....% Bond/Debentures of NPR.....each</b>	-	-
Issued on ..... and matured on .....		
(Outstanding balance of Redemption Reserve NPR...)	-	-
<b>3. ....% Bond/Debentures of NPR.....each</b>	-	-
Issued on ..... and matured on .....		
(Outstanding balance of Redemption Reserve NPR...)		
<b>Total (1+2+3)</b>	<b>350,000,000</b>	<b>350,000,000</b>

## BORROWINGS

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.4

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>A. Local</b>	-	-
1. Government of Nepal	-	-
2. Nepal Rastra Bank	27,980,000	-
3. Repo Obligations	-	-
4. Inter Bank and Financial Institutions	-	-
5. Other Organized Institutions	-	-
6. Others	-	-
<b>Total</b>	27,980,000	-
<b>B. Foreign</b>	-	-
1. Banks	-	-
2. Others	-	-
<b>Total</b>	-	-
<b>Total (A+B)</b>	27,980,000	-

## DEPOSIT LIABILITY

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.5

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>1. Non-Interest bearing accounts</b>		
<b>A. Current Deposits</b>	<b>878,558,734</b>	<b>749,549,431</b>
<b>1. Local Currency</b>	<b>803,904,941</b>	<b>665,521,260</b>
1.1 Government of Nepal	2,644,769	1,657,676
1.2 "Ka" Class Licensed Institutions	10,391,986	5,178,777
1.3 Other Licensed Institutions	53,138,999	9,138,897
1.4 Other Organized Institutions	716,704,182	621,078,789
1.5 Individuals	21,025,004	28,467,121
1.6 Others		
<b>2. Foreign Currency</b>	<b>74,653,793</b>	<b>84,028,171</b>
2.1 Government of Nepal		
2.2 "Ka" Class Licensed Institutions		
2.3 Other Licensed Financial Institutions		
2.4 Other Organized Institutions	74,532,552	84,028,171
2.5 Individuals	121,241	
2.6 Others		
<b>B. Margin Deposits</b>	<b>286,001,674</b>	<b>192,182,173</b>
1. Employees Guarantee	-	-
2. Guarantee Margin	135,195,294	85,072,721
3. Margin on Letter of Credit	150,806,379	107,109,452
<b>C. Others</b>	<b>12,611,508</b>	<b>14,781,379</b>
1. Local Currency	12,611,508	14,781,379
1.1 Financial Institutions	-	-
1.2 Other Organized Institutions	12,611,508	14,781,379
1.3 Individual	-	-
2. Foreign Currency	-	-
2.1 Financial Institutions	-	-
2.2 Other Organized Institutions	-	-
2.3 Individual	-	-
<b>Total of Non-Interest Bearing Accounts</b>	<b>1,177,171,916</b>	<b>956,512,983</b>

## DEPOSIT LIABILITY

As at *Ashad 31, 2069* (July 15, 2012)

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>2. Interest Bearing Accounts</b>		
<b>A. Saving Deposits</b>	<b>4,403,230,072</b>	<b>3,215,722,333</b>
<b>1. Local Currency</b>	<b>4,224,680,944</b>	<b>3,070,628,735</b>
1.1 Organizations/ Institutions	4,348,441	4,438,579
1.2 Individual	4,220,332,503	3,066,190,156
1.3 Others		
<b>2. Foreign Currency</b>	<b>178,549,128</b>	<b>145,093,598</b>
2.1 Organizations/ Institutions		
2.2 Individual	178,549,128	145,093,598
2.3 Others		
<b>B. Fixed Deposits</b>	<b>10,733,641,389</b>	<b>9,453,568,370</b>
<b>1. Local Currency</b>	<b>9,343,865,051</b>	<b>8,600,527,120</b>
1.1 Organizations/ Institutions	5,268,384,984	5,117,464,929
1.2 Individual	4,075,480,067	3,483,062,191
1.3 Others		
<b>2. Foreign Currency</b>	<b>1,389,776,338</b>	<b>853,041,250</b>
2.1 Organizations/ Institutions	1,388,011,338	849,481,250
2.2 Individual	1,765,000	3,560,000
2.3 Others	-	-
<b>C. Call Deposits</b>	<b>6,517,799,262</b>	<b>4,673,823,934</b>
<b>1. Local Currency</b>	<b>5,061,357,565</b>	<b>4,403,834,721</b>
1.1 "Ka" Class Licensed Institutions		-
1.2 Other Licensed Financial Institutions	549,333,919	705,087,604
1.3 Other Organized Institutions	3,012,444,936	2,211,562,312
1.4 Individual	1,499,578,710	1,487,184,805
1.5 Others		
<b>2. Foreign Currency</b>	<b>1,456,441,697</b>	<b>269,989,213</b>
2.1 "Ka" Class Licensed Institutions	-	-
2.2 Other Licensed Institutions		-
2.3 Other Organized Institutions	1,395,364,639	195,346,227
2.4 Individual	61,077,058	74,642,986
2.5 Others		
<b>D. Certificate of Deposit</b>	<b>-</b>	<b>-</b>
1. Organized Institution	-	-
2. Individual	-	-
3. Others	-	-
<b>Total of Interest Bearing Accounts</b>	<b>21,654,670,723</b>	<b>17,343,114,637</b>
<b>Total Deposit (1+2)</b>	<b>22,831,842,639</b>	<b>18,299,627,620</b>

## BILLS PAYABLE

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.6

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Local Currency	1,765,225	302,100,039
2. Foreign Currency	-	-
<b>Total</b>	<b>1,765,225</b>	<b>302,100,039</b>

## OTHER LIABILITIES

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.7

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Pension/Gratuity Fund	-	-
2. Employees Provident Fund	-	-
3. Employees Welfare Fund	-	-
4. Provision for Staff Bonus	50,881,729	53,940,854
5. Interest Payable on Deposits	193,658,671	170,673,440
6. Interest Payable on Borrowings	24,914	0
7. Interest Payable on Debentures	2,303,065	3,512,421
8. Unearned Discount and Commission	23,069,922	14,466,136
9. Sundry Creditors	55,482,816	56,608,455
10. Branch Account	-	-
11. Deferred Tax Liability	-	274,480
12. Unpaid Dividend	13,590,940	7,751,048
13. Others	8,261,299	8,783,241
(a) Audit Fee Payable	621,500	497,200
(b) Remittance Payable	1,146,210	2,817,499
(c) Others	6,493,589	5,468,542
<b>Total</b>	<b>347,273,355</b>	<b>316,010,075</b>

## CASH BALANCE

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.8

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Local Currency (Including Coins)	398,860,466	351,640,994
2. Foreign Currency	8,928,408	5,028,242
<b>Total</b>	<b>407,788,874</b>	<b>356,669,236</b>



## BALANCE WITH NEPAL RASTRA BANK

As at **Ashad 31, 2069** (July 15, 2012)

Schedule 4.9

PARTICULARS	LOCAL CURRENCY	FOREIGN CURRENCY (IN EQUIVALENT NPR)			THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
		INR	CONVERTIBLE	TOTAL		
1. Nepal Rastra Bank	3,777,413,055	-	67,887,221	67,887,221	<b>3,845,300,276</b>	1,866,490,707
a. Current Account	3,777,413,055	-	67,887,221	67,887,221	<b>3,845,300,276</b>	1,866,490,707
b. Other Account	-	-	-	-	-	-

## BALANCE WITH BANKS/FINANCIAL INSTITUTIONS

As at **Ashad 31, 2069** (July 15, 2012)

Schedule 4.10

PARTICULARS	LOCAL CURRENCY	FOREIGN CURRENCY (IN EQUIVALENT NPR)			THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
		INR	CONVERTIBLE FCY	TOTAL		
<b>1. Local Licensed Institutions</b>	<b>76,005,091</b>	-	<b>12,287,932</b>	<b>12,287,932</b>	<b>88,293,023</b>	<b>135,779,788</b>
a. Current Account	76,005,091	-	12,287,932	12,287,932	<b>88,293,023</b>	135,779,788
b. Other Account	-	-	-	-	-	-
<b>2. Foreign Banks</b>	-	<b>38,149,159</b>	<b>69,142,934</b>	<b>107,292,092</b>	<b>107,292,092</b>	<b>415,652,585</b>
a. Current Account	-	38,149,159	69,142,934	107,292,092	<b>107,292,092</b>	415,652,585
b. Other Account	-	-	-	-	-	-
<b>Total</b>	<b>76,005,091</b>	<b>38,149,159</b>	<b>81,430,866</b>	<b>119,580,024</b>	<b>195,585,115</b>	<b>551,432,373</b>

Note: Total balance for which the confirmations are received from respective licensed institutions NPR 4,109,559,218 and the difference amount have been identified and are reconciled.

## MONEY AT CALL AND SHORT NOTICE

As at **Ashad 31, 2069** (July 15, 2012)

Schedule 4.11

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Local Currency	-	50,000,000
2. Foreign Currency	<b>659,487,873</b>	-
<b>Total</b>	<b>659,487,873</b>	<b>50,000,000</b>

## INVESTMENTS

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.12

PARTICULARS	PURPOSE		THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
	TRADING	OTHER		
1. Government of Nepal Treasury Bills		1,788,459,600	<b>1,788,459,600</b>	1,952,615,489
2. Government of Nepal Saving Bonds		-	-	-
3. Government of Nepal Other Securities		217,050,000	<b>217,050,000</b>	17,050,000
4. Nepal Rastra Bank Bonds		-	-	-
5. Foreign Securities		-	-	-
6. Local Licensed Institutions		-	-	-
7. Foreign Bank	-	1,500,250,000	<b>1,500,250,000</b>	854,409,969
8. Shares of Organized Institutions		212,533,340	<b>212,533,340</b>	177,533,340
9. Bonds and Debentures of Organized Institutions		50,000,000	<b>50,000,000</b>	50,000,000
10. Other Investments		-	-	-
<b>Total Investment</b>	-	<b>3,768,292,940</b>	<b>3,768,292,940</b>	<b>3,051,608,798</b>
<b>Provision</b>	-	<b>10,187,031</b>	<b>10,187,031</b>	<b>10,187,031</b>
<b>Net Investment</b>	-	<b>3,758,105,909</b>	<b>3,758,105,909</b>	<b>3,041,421,767</b>

## INVESTMENT IN SHARES, DEBENTURES AND BONDS

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.12(A)

PARTICULARS	THIS YEAR (IN NPR)			PREVIOUS YEAR (IN NPR)
	COST PRICE	MARKET PRICE	PROVISION	
<b>1. Investment in Shares</b>	<b>212,533,340</b>			<b>177,533,340</b>
1.1 Nepal Bank Limited				
29,000 Ordinary Shares of NPR 100 each paid (Refer Note 11 on Schedule No. 4.33)	9,740,031	N/L	9,740,031	9,740,031
1.2 Everest Insurance Company Limited				
11,711 Ordinary Shares of NPR 100 each paid (including 8,241 Bonus Shares)	2,082,000	3,138,548	-	2,082,000
1.3 Soaltee Hotel Limited				
17,382 Ordinary Shares of NPR 10 each paid (including 11,051 Bonus Shares)	740,809	3,997,860	-	740,809
1.4 Himalayan Distillery Limited				
4,470 Ordinary Shares of NPR 100 each paid (Refer Note 11 on Schedule No. 4.33)	447,000	447,000	447,000	447,000
1.5 Credit Information Center (CIC) Ltd.				
43,200 Ordinary Shares of NPR 100 each paid (including 24,965 Bonus Shares)	1,823,500	N/L	-	1,823,500
1.6 Prime Life Insurance Company Limited				
648,000 Ordinary Shares of NPR 100 each paid (including 108,000 Bonus Shares)	54,000,000	123,120,000	-	54,000,000
1.7 Nepal Clearing House Limited				
25,000 Ordinary Shares of NPR 100 each paid	2,500,000	N/L	-	2,500,000
1.8 National Banking Training Institute Pvt Ltd				
12,000 Ordinary Shares of NPR 100 each paid	1,200,000	N/L	-	1,200,000
1.9 Laxmi Laghubitta Bittiya Sanstha Ltd (700,000 Promoter Shares of NPR 100 each paid)	70,000,000	N/L	-	35,000,000
1.10 Laxmi Capital Market Ltd (700,000 Promoter Shares of NPR 100 each paid)	70,000,000	N/L	-	70,000,000
<b>2. Investment in Debentures and Bonds</b>	<b>50,000,000</b>	-	-	<b>50,000,000</b>
2.1 Nepal Electricity Authority (7.75% NEA Power Bond of NPR. 1,000 each)	50,000,000	-	-	50,000,000
2.2 .....	-	-	-	-
<b>Total Investment</b>	<b>262,533,340</b>			<b>227,533,340</b>
<b>3. Provision for Loss</b>			<b>10,187,031</b>	
3.1 Up to previous year	10,187,031		10,187,031	10,187,031
3.2 Increase/(Decrease) this year	-		-	-
<b>Total Provision</b>	<b>10,187,031</b>		<b>10,187,031</b>	<b>10,187,031</b>
<b>Net Investment</b>	<b>252,346,309</b>			<b>217,346,309</b>

Note: Nepal Bank Ltd, Himalayan Distillery Limited, Nepal Clearing House Ltd, National Banking Training Institute Pvt Ltd, Laxmi Laghubitta Bittiya Sanstha Ltd and Laxmi Capital Market Ltd have not declared and distributed dividend in the last three years

## INVESTMENTS (HELD FOR TRADING)

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.12.1

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

## INVESTMENTS (HELD TO MATURITY)

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.12.2

PARTICULARS	COST PRICE (A)	ACCUMULATED	CURRENT YEAR	CURRENT S YEAR	PREVIOUS YEAR	REMARKS
		LOSS (B)	LOSS (C)	PROFIT/(LOSS)	PROFIT/(LOSS)	
					(RS.)	
1. Government of Nepal - Treasury bills	1,788,459,600	-	-		-	
2. Government of Nepal - Savings Bonds	-	-	-		-	
3. Government of Nepal - Development Bonds	217,050,000	-	-		-	
4. Nepal Rastra Bank Bonds	-	-	-		-	
5. Foreign Securities	-	-	-		-	
6. Shares of Local Licensed Institutions	-	-	-		-	
7. Bonds & Debentures of Local Licensed Institutions	-	-	-		-	
8. Shares, Bonds & Debenture of Organized Institutions	50,000,000	-	-		-	
9. Placement	1,500,250,000	-	-		-	
10. Other Investment	-	-	-		-	
<b>Total Investment</b>	<b>3,555,759,600</b>				-	

## INVESTMENTS (AVAILABLE FOR SALE)

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.12.3

PARTICULARS	COST PRICE(RS)	PREVIOUS MARKET VALUE(RS) (A)	CURRENT MARKET VALUE(RS) (B)	CURRENT YEAR'S ADJUSTMENT FUND (B-A)	PREVIOUS YEAR PROFIT/(LOSS) (RS.)	REMARKS
1. Government of Nepal - Treasury bills						
2. Government of Nepal - Savings Bonds	-	N/A	N/A	N/A	-	
3. Government of Nepal - Development Bonds						
4. Nepal Rastra Bank Bonds						
5. Foreign Securities						
6. Shares of Local Licensed Institutions	79,740,031				-	
7. Bonds & Debentures of Local Licensed Institutions						
8. Shares, Bonds & Debenture of Organized Institutions	132,793,309				-	
9. Placement						
10. Other Investment						
<b>Total Investment</b>	<b>212,533,340</b>				-	

## CLASSIFICATION OF LOANS, ADVANCES AND BILLS PURCHASED & PROVISIONING

As at Ashad 31, 2069 (July 15, 2012)

PARTICULARS	LOANS & ADVANCES						BILLS PURCHASED/DISCOUNTED			THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
	DOMESTIC			FOREIGN	TOTAL	DOMESTIC	FOREIGN	TOTAL			
	DEPRIVED SECTOR		OTHER								
	INSURED	UNINSURED									
<b>1. Performing Loan</b>	-	493,222,187	15,099,201,673	151,661,516	15,744,085,376	45,353,454	803,921,967	849,275,421	16,593,360,797	15,250,632,742	
1.1 Pass	-	493,222,187	15,099,201,673	151,661,516	15,744,085,376	45,353,454	803,921,967	849,275,421	16,593,360,797	15,250,632,742	
-	-	-	-	-	-	-	-	-	-	-	
<b>2. Non-Performing Loan</b>	-	11,039,233	92,663,123	-	103,702,356	-	-	-	103,702,356	138,839,694	
2.1 Restructured / Rescheduled	-	65,892,364	65,892,364	-	65,892,364	-	-	-	65,892,364	112,538,152	
2.2 Sub-Standard	-	54,480	8,284,148	-	8,338,628	-	-	-	8,338,628	9,925,734	
2.3 Doubtful	-	227,513	8,519,061	-	8,746,574	-	-	-	8,746,574	3,193,607	
2.4 Loss	-	10,757,240	9,967,549	-	20,724,789	-	-	-	20,724,789	13,182,201	
<b>A. Total Loan</b>	-	504,261,420	15,191,864,796	151,661,516	15,847,787,732	45,353,454	803,921,967	849,275,421	16,697,063,153	15,389,472,436	
3. Loan Loss Provision	-	-	-	-	-	-	-	-	-	-	
3.1 Pass	-	5,012,118	161,745,461	1,516,615	168,274,194	453,535	8,039,220	8,492,754	176,766,948	158,108,032	
3.2 Restructured/ Rescheduled	-	16,473,091	16,473,091	-	16,473,091	-	-	-	16,473,091	14,256,060	
3.3 Sub-Standard	-	13,620	2,081,216	-	2,094,836	-	-	-	2,094,836	2,481,433	
3.4 Doubtful	-	113,757	4,259,530	-	4,373,287	-	-	-	4,373,287	1,596,804	
3.5 Loss	-	10,757,240	9,967,549	-	20,724,789	-	-	-	20,724,789	13,182,201	
<b>B. Total Provisioning</b>	-	15,896,735	194,526,848	1,516,615	211,940,198	453,535	8,039,220	8,492,754	220,432,952	189,624,530	
4. Provisioning up to Previous Year	-	-	-	-	-	-	-	-	-	-	
4.1 Pass	-	4,865,228	151,705,287	270,054	156,840,570	1,266,972	491	1,267,462	158,108,032	148,605,076	
4.2 Restructured/ Rescheduled	-	-	14,256,060	-	14,256,060	-	-	-	14,256,060	12,640,236	
4.3 Sub-Standard	-	38,465	2,442,968	-	2,481,433	-	-	-	2,481,434	531,160	
4.4 Doubtful	-	68,020	1,528,783	-	1,596,804	-	-	-	1,596,804	1,172,284	
4.5 Loss	-	869,355	12,312,846	-	13,182,201	-	-	-	13,182,201	13,347,148	
<b>C. Total Provisions up to Previous Year</b>	-	5,841,068	182,245,945	270,054	188,357,068	1,266,972	491	1,267,462	189,624,530	176,295,904	
D. Written Back this year	-	-	-	-	-	-	-	-	-	(306,206)	
E. Addition this year	-	10,055,666	12,280,903	1,246,561	23,583,130	(813,437)	8,038,729	7,225,292	30,808,421	13,634,832	
Changes this year	-	10,055,666	12,280,903	40,557	23,583,130	(813,437)	8,038,729	7,225,292	30,808,421	13,328,626	
<b>Net Loan (A-B)</b>	-	488,364,685	14,997,337,948	40,740	15,635,847,534	44,899,920	795,882,747	840,782,667	16,476,630,201	15,199,847,906	

## LOANS, ADVANCES AND BILLS PURCHASED SECURITY WISE

As at **Ashad 31, 2009** (July 15, 2012)

Schedule 4.13 (A)

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
A. Secured	<b>16,697,063,153</b>	15,389,472,436
1. Movable/Immovable Assets	<b>16,432,149,378</b>	15,096,759,303
2. Guarantee of Local Licensed Institutions	-	-
3. Government Guarantee	<b>134,633,490</b>	134,633,490
4. Internationally Rated Bank Guarantee	-	-
5. Export Documents	-	-
6. Fixed Deposit Receipts	<b>77,383,625</b>	131,187,277
a. Own Fixed Deposit Receipts	<b>77,383,625</b>	131,187,277
b. Fixed Deposit Receipts of Other Licensed Institutions	-	-
7. Government Bonds	<b>1,834,155</b>	2,272,014
8. Counter Guarantee	-	-
9. Personal Guarantee	<b>51,062,505</b>	24,620,352
10. Other Securities	-	-
B. Unsecured	-	-
<b>Total</b>	<b>16,697,063,153</b>	<b>15,389,472,436</b>

## FIXED ASSETS

As at **Ashad 31, 2009** (July 15, 2012)

Schedule 4.14

PARTICULARS	ASSETS					THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
	BUILDING	VEHICLES	MACHINERY	OFFICE EQUIPMENT	OTHERS		
<b>1. Cost Price</b>							
a. Previous Year balance	49,873,724	103,779,657	-	165,777,323	-	<b>319,430,704</b>	261,639,706
b. Addition during the year	15,068,931	137,400	-	21,977,556	-	<b>37,183,887</b>	64,915,826
c. Revaluation/Written Back this year	-	-	-	-	-	-	-
d. Sold during the year	-	(56,007,842)	-	(1,412,798)	-	<b>(57,420,641)</b>	(7,124,828)
e. Written off during the year	-	-	-	-	-	-	-
<b>Total Cost (a+b+c+d+e)</b>	<b>64,942,655</b>	<b>47,909,214</b>	-	<b>186,342,081</b>	-	<b>299,193,950</b>	<b>319,430,704</b>
<b>2. Depreciation</b>							
a. Up to previous year	8,741,161	28,295,200	-	96,173,843	-	<b>133,210,204</b>	103,350,347
b. For this year	1,272,777	7,392,786	-	24,398,903	-	<b>33,064,466</b>	33,664,734
c. Depreciation on revaluation/Written Back	-	-	-	-	-	-	-
d. Adjustment/Write back of Depreciation amount	-	(17,291,814)	-	(1,344,425)	-	<b>(18,636,239)</b>	(3,804,877)
<b>Total Depreciation</b>	<b>10,013,937</b>	<b>18,396,172</b>	-	<b>119,228,322</b>	-	<b>147,638,431</b>	<b>133,210,204</b>
3. Book Value (WDV*) (1-2)	54,928,718	29,513,043	-	67,113,759	-	<b>151,555,520</b>	186,220,500
4. Land	-	-	-	-	-	<b>65,620,187</b>	65,620,187
5. Capital Construction (pending Capitalization)	-	-	-	-	-	<b>59,960,233</b>	61,958,509
6. Leasehold Assets	-	-	-	-	-	<b>31,036,171</b>	38,539,047
<b>Total (3+4+5+6)</b>	<b>54,928,718</b>	<b>29,513,043</b>	-	<b>67,113,759</b>	-	<b>308,172,110</b>	<b>352,338,243</b>

## NON BANKING ASSETS

As at **Ashad 31, 2069** (July 15, 2012)

Schedule 4.15

NAME & ADDRESS OF BORROWER OR PARTY	DATE OF ASSUMING NON BANKING ASSETS	TOTAL NON BANKING ASSETS (IN NPR)	LOSS PROVISION		NET NON BANKING ASSETS (IN NPR)	PREVIOUS YEAR (IN NPR)
			%	IN NPR		
Ram Krishna Manandhar, Hetauda	2063/01/27	25,500	100%	25,500	-	-
<b>Grand Total</b>		<b>25,500</b>		<b>25,500</b>	-	-

## OTHER ASSETS

As at **Ashad 31, 2069** (July 15, 2012)

Schedule 4.16

PARTICULARS		THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Stationery Stock		-	-
2. Income Receivable on Investment		<b>26,157,783</b>	31,654,864
3. Accrued Interest on Loan	79,060,061	-	40,113,632
Less:Interest Suspense Account	79,060,061		40,113,632
4. Commission Receivable		-	-
5. Sundry Debtors		-	-
6. Staff Loan & Advances		<b>161,000,257</b>	89,099,193
7. Pre Payments		<b>8,497,448</b>	7,028,865
8. Cash in Transit		-	-
9. Other Transit items (including Cheques)		-	-
10. Drafts Paid Without Notice		-	-
11. Expenses not Written Off		-	-
12. Branch Account Reconciliation		-	-
13. Deferred Tax Assets		<b>1,924,612</b>	
14. Others		<b>179,877,779</b>	13,908,239
a. Deferred Software Expenses (to the extent not written off)	9,347,653	<b>5,807,358</b>	
b. Advance tax (net)	7,844,599		-
Advance Tax (Gross)	661,720,730		
Tax Provision	(653,876,132)		
c. Remittance Receivable			
d. Others	162,685,527		8,100,881
<b>Total</b>		<b>377,457,879</b>	<b>141,691,161</b>



## OTHER ASSETS (ADDITIONAL STATEMENT)

As at **Ashad 31, 2069** (July 15, 2012)

Schedule 4.16(A)

PARTICULARS	THIS YEAR (IN NPR)				PREVIOUS YEAR (IN NPR)
	UP TO 1 YEAR	1 TO 3 YEAR	ABOVE 3 YEARS	TOTAL	
1. Accrued Interest on Loan	<b>78,764,137</b>	<b>295,924</b>	-	<b>79,060,061</b>	40,113,632
2. Drafts Paid without notice	-	-	-	-	-
3. Branch Account	-	-	-	-	-
4. Agency Account	-	-	-	-	-

## CONTINGENT LIABILITIES

As at **Ashad 31, 2069** (July 15, 2012)

Schedule 4.17

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Claims on institution not accepted by the Institution	-	-
2. Letter of Credit (Full Amount)	<b>3,999,767,780</b>	812,280,238
a. Less than 6 months maturity	<b>2,797,129,678</b>	796,082,038
b. More than 6 months maturity	<b>1,202,638,102</b>	16,198,200
3. Rediscounted Bills	-	-
4. Unmatured Guarantees/Bonds	<b>2,581,180,472</b>	1,706,178,756
a. Bid Bonds	<b>1,328,920,825</b>	672,721,920
b. Performance Bonds	<b>1,252,259,647</b>	1,033,456,836
c. Other Guarantee/Bonds	-	-
5. Unpaid Shares in Investment (Refer Note 11 on Schedule No. 4.33)	-	447,000
6. Outstanding Liabilities on Forward Exchange Contract	<b>80,190,188</b>	183,923,760
7. Bills under Collection	<b>87,132,549</b>	85,712,857
8. Acceptance & Endorsement	<b>377,062,973</b>	311,466,383
9. Underwriting Commitment	-	-
10. Irrevocable Loan Commitment	<b>547,205,633</b>	551,341,969
11. Guarantees issued against Counter Guarantee of Internationally Rated Banks	-	-
12. Advance Payment Guarantee	<b>1,299,287,421</b>	1,269,710,904
13. Financial Guarantee	<b>2,380,000</b>	4,080,000
14. Capital Commitments	-	-
15. Contingent Liabilities on Income Tax	<b>71,410,230</b>	54,727,926
16. Others	-	-
<b>Total</b>	<b>9,045,617,247</b>	<b>4,979,869,793</b>

## INTEREST INCOME

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.18

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>A. On Loans, Advances and Overdraft</b>	<b>2,179,310,529</b>	<b>2,055,055,678</b>
1. Loans & Advances	1,592,562,517	1,452,073,182
2. Overdraft	586,748,012	602,982,496
<b>B. On Investment</b>	<b>82,613,851</b>	<b>114,603,002</b>
1. Government of Nepal Securities	78,754,923	103,809,228
a. Treasury Bills	72,029,704	102,737,978
b. Development Bonds	6,725,219	1,071,250
c. National Saving Certificates	-	-
2. Foreign Securities	-	-
a. ....	-	-
b. ....	-	-
3. Nepal Rastra Bank Bonds	-	-
4. Debentures & Bonds	3,858,928	3,875,000
a. Financial Institutions	-	-
b. Other Institutions	3,858,928	3,875,000
5. Interest on Inter Bank Investment	-	6,918,774
a. Bank/ Financial Institutions	-	6,918,774
b. Other Institutions	-	-
<b>C. On Agency Balances</b>	<b>-</b>	<b>-</b>
1. Local Banks / Financial Institutions	-	-
2. Foreign Banks	-	-
<b>D. On Money at Call and Short Notice</b>	<b>1,228,790</b>	<b>36,162,631</b>
1. Local Banks/Financial Institutions	1,037,002	36,049,440
2. Foreign Banks	191,788	113,191
<b>E. On Others</b>	<b>26,206,364</b>	<b>27,511,480</b>
1. Certificate of Deposits	-	-
2. Inter-Bank / Financial Institutional Loan	-	-
3. Others	-	-
a. FCY placements	26,206,364	27,511,480
b. Others	-	-
<b>Total</b>	<b>2,289,359,534</b>	<b>2,233,332,791</b>

## INTEREST EXPENSES

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.19

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>A. ON DEPOSIT LIABILITIES</b>	<b>1,615,859,815</b>	<b>1,464,477,160</b>
<b>1. Fixed Deposits</b>	<b>1,037,980,527</b>	<b>907,372,130</b>
1.1 Local Currency	994,719,892	870,202,024
1.2 Foreign Currency	43,260,635	37,170,106
<b>2. Saving Deposits</b>	<b>211,447,913</b>	<b>181,600,602</b>
2.1 Local Currency	208,893,700	178,107,736
2.2 Foreign Currency	2,554,212	3,492,866
<b>3. Call Deposits</b>	<b>366,431,376</b>	<b>375,504,428</b>
3.1 Local Currency	361,009,606	370,396,017
3.2 Foreign Currency	5,421,770	5,108,411
4. Certificate of Deposits	-	-
<b>B. ON BORROWINGS</b>	<b>29,858,203</b>	<b>39,373,865</b>
1. Debentures & Bonds	29,706,129	29,750,000
2. Loan from Nepal Rastra Bank	24,914	1,282,763
3. Inter Bank /Financial Institutions Borrowing	127,161	8,341,102
4. Other Organized Institutions	-	-
5. Other Loans	-	-
<b>C. ON OTHERS</b>	<b>-</b>	<b>-</b>
1.	-	-
2.	-	-
<b>Total</b>	<b>1,645,718,018</b>	<b>1,503,851,025</b>

## COMMISSION AND DISCOUNT INCOME

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.20

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
<b>A. Bills Purchased &amp; Discount</b>	<b>53,284,509</b>	<b>4,522,943</b>
1. Local	-	-
2. Foreign	53,284,509	4,522,943
<b>B. Commission</b>	<b>67,846,501</b>	<b>47,129,484</b>
1. Letters of Credit	21,945,910	11,393,827
2. Guarantees	31,777,489	19,156,996
3. Collection Fees	251,987	198,842
4. Remittance Fees	12,969,267	15,393,164
5. Credit Card	901,848	986,655
6. Share Underwriting/Issue	-	-
7. Government Transactions	-	-
8. E.Pra. Commission	-	-
9. Exchange Fee	-	-
<b>C. Others</b>	<b>28,686,858</b>	<b>18,135,497</b>
<b>Total</b>	<b>149,817,868</b>	<b>69,787,924</b>

## OTHER OPERATING INCOME

For the period Shrawan 1, 2068 to **Ashad 31, 2069** (July 17, 2011 to July 15, 2012)

Schedule 4.21

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Safe Deposit Lockers Rental	3,070,000	2,746,250
2. Issue & Renewals of Credit Cards	432,825	331,275
3. Issue & Renewals of ATM Cards	7,123,286	7,015,916
4. Telex / T. T.	6,203,891	5,761,757
5. Service Charges	25,702,010	40,922,415
6. Renewal Fees	-	-
7. Others	13,858,768	10,745,226
<b>Total</b>	<b>56,390,780</b>	<b>67,522,839</b>

## EXCHANGE GAIN/LOSS

For the period Shrawan 1, 2068 to **Ashad 31, 2069** (July 17, 2011 to July 15, 2012)

Schedule 4.22

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
a. Revaluation Gain (Loss)	20,663,497	6,864,839
b. Trading Gain (except Exchange Fees)	87,287,129	56,263,035
<b>Total Income (Loss)</b>	<b>107,950,625</b>	<b>63,127,874</b>

## EMPLOYEES EXPENSES

For the period Shrawan 1, 2068 to **Ashad 31, 2069** (July 17, 2011 to July 15, 2012)

Schedule 4.23

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Salary	79,491,880	71,810,044
2. Allowances	65,652,780	58,674,630
3. Contribution to Provident Fund	7,575,948	6,623,526
4. Training Expenses	3,066,420	3,620,237
5. Uniform	-	-
6. Medical	6,438,759	5,642,010
7. Insurance	123,221	113,827
8. Pension and Gratuity	5,880,464	3,935,325
9. Others	10,055,332	7,242,649
<b>Total</b>	<b>178,284,804</b>	<b>157,662,248</b>

## OTHER OPERATING EXPENSES

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.24

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. House Rent	30,851,883	28,209,549
2. Light, Electricity & Water	11,597,927	9,966,897
3. Repair & Maintenance	7,529,212	5,953,177
a. Building	5,313,950	4,143,317
b. Vehicles	533,499	444,503
c. Others	1,681,763	1,365,357
4. Insurance	6,384,246	3,268,169
5. Postage, Telex, Telephone & Fax	4,464,623	3,963,512
6. Office Equipment, Furniture and Repair	2,105,429	1,745,830
7. Travelling Allowances & Expenses	18,240,782	3,951,497
8. Printing & Stationery	6,127,086	5,882,442
9. Books & Periodicals	27,500	24,900
10. Advertisements and Business Promotion	7,819,360	11,269,081
11. Legal Expenses	455,382	547,916
12. Donations	-	-
13. Expenses relating to Board of Directors	900,933	1,071,508
a. Meeting Fees	688,000	830,000
b. Other Expenses	212,933	241,508
14. Annual General Meeting Expenses	469,186	374,945
15. Expenses relating to Audit	885,685	701,016
a. Audit Fees	621,500	497,200
b. Other Expenses	264,185	203,816
16. Commission on Remittances	892,784	2,654,001
17. Depreciation on Fixed Assets	33,064,467	33,664,734
18. Amortization of Pre-operating Expenses	-	-
19. Share Issue Expenses	241,682	29,003
20. Technical Services Fee Reimbursement	-	-
21. Entertainment Expenses	129,658	103,624
22. Written Off Expenses	-	-
23. Security Expenses	18,141,222	14,586,192
24. Credit Guarantee Premium	-	-
25. Commission & Discount	-	-
26. Others	44,513,517	41,326,377
(a) Subscription & Membership	14,221,953	13,265,899
(b) Computer Software Maintenance/ Amortisation	5,024,444	5,127,681
(c) Lease Hold Assets Amortisation	11,698,173	10,413,031
(d) Others	13,568,948	12,519,766
<b>Total</b>	<b>194,842,563</b>	<b>169,294,370</b>

## PROVISION FOR POSSIBLE LOSSES

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.25

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Increase in Loan Loss Provision	30,808,421	3,634,832
2. Increase in Provision for Loss on Investment	-	-
3. Provision Against Non-Banking Assets	-	-
4. Provision Against Other Assets	-	-
<b>Total</b>	<b>30,808,421</b>	<b>13,634,832</b>

## NON-OPERATING INCOME / (LOSS)

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.26

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Profit (Loss) on Sale of Investments	-	-
2. Profit (Loss) on Sale of Assets	4,385,801	432,419
3. Dividend	727,455	-
<b>4. Subsidies received from Nepal Rastra Bank</b>	<b>-</b>	<b>-</b>
a. Reimbursement of losses of specified branches	-	-
b. Interest Compensation	-	-
c. Exchange Counter	-	-
<b>5. Others</b>	<b>720,767</b>	<b>441,268</b>
a. Amortisation of Goodwill	-	-
b. Other non operating income/(Expenses)	720,767	441,268
<b>Total Non-Operating Income (Loss)</b>	<b>5,834,022</b>	<b>873,687</b>

## LOAN LOSS PROVISION WRITTEN BACK

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.27

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Loan Loss Provision Written Back	-	306,206
2. Provision against Non Banking Assets Written Back	-	492,200
3. Investment Provision Written Back	-	-
4. Provision against other Assets Written Back	-	-
<b>Total</b>	<b>-</b>	<b>798,406</b>

## PROFIT/LOSS FROM EXTRA - ORDINARY ACTIVITIES

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.28

PARTICULARS	THIS YEAR (IN NPR)	PREVIOUS YEAR (IN NPR)
1. Recovery of Written off Loans	-	807,000
2. Voluntary Retirement Scheme Expenses	-	-
3. Loan Write -Offs {4.28 (a)}	-	-
4. Other Expenses/Income	-	383,547
5. Profit on sale of NBA	-	1,157,800
<b>Total</b>	<b>-</b>	<b>2,348,347</b>

## STATEMENT OF LOAN WRITTEN-OFF

For the period Shrawan 1, 2068 to Ashad 31, 2069 (July 17, 2011 to July 15, 2012)

Schedule 4.28(A)

TYPES OF LOAN	WRITTEN OFF AMOUNT (NPR)	TYPES OF SECURITY	BASIS OF VALUATION OF COLLATERAL	NAME/DESIGNATION OF LOAN APPROVER	INITIATIONS MADE FOR RECOVERY OF LOAN	REMARKS
1. Working Capital Loan						
2. Project Loan						
3. Fixed Capital Loan						
4. Personal Loan						
5. Other Loan						
<b>Total Loan</b>	<b>-</b>					

## STATEMENT OF LOANS AND ADVANCES TO DIRECTORS/ CHIEF EXECUTIVE /PROMOTERS/EMPLOYEES AND SHAREHOLDERS

As at Ashad 31, 2069 (July 15, 2012)

Schedule 4.29

(in NPR)

NAME OF PROMOTER/DIRECTOR/ CHIEF EXECUTIVE	OUTSTANDING UP TO LAST YEAR		RECOVERED IN CURRENT YEAR		ADDITIONAL LENDING IN THIS YEAR	OUTSTANDING AS OF ASHAD END 2066	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST		PRINCIPAL	INTEREST
<b>A. Directors</b>	-	-	-	-	-	-	-
1. ....	-	-	-	-	-	-	-
2. ....	-	-	-	-	-	-	-
3. ....	-	-	-	-	-	-	-
<b>B. Chief Executive</b>	-	-	-	-	-	-	-
1. ....	-	-	-	-	-	-	-
2. ....	-	-	-	-	-	-	-
<b>C. Promoters</b>	-	-	-	-	-	-	-
1. ....	-	-	-	-	-	-	-
2. ....	-	-	-	-	-	-	-
3. ....	-	-	-	-	-	-	-
<b>D. Employees</b>	-	-	-	-	-	-	-
1. ....	-	-	-	-	-	-	-
2. ....	-	-	-	-	-	-	-
3. ....	-	-	-	-	-	-	-
<b>E. Shareholders</b>	-	-	-	-	-	-	-
1. ....	-	-	-	-	-	-	-
2. ....	-	-	-	-	-	-	-
3. ....	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-

Note: As per Clause 6 of the Nepal Rastra Bank (The Central Bank of Nepal) Directive No.6, loans given to employees are as per the Human Resource Policy of the Bank. and disclosed under Schedule 4.16 - Other Assets



## CAPITAL ADEQUACY TABLE

Schedule 4.30 (A1)

As at *Ashad 31, 2069* (July 15, 2012)

	CURRENT YEAR AS AT ASHAD END 2069	PREVIOUS YEAR AS AT ASHAD END 2068
<b>1. 1 RISK WEIGHTED EXPOSURES</b>		
a. Risk Weighted Exposure for Credit Risk	20,882,957,169	18,747,444,885
b. Risk Weighted Exposure for Operational Risk	1,147,755,521	868,462,971
c. Risk Weighted Exposure for Market Risk	44,987,083	26,101,695
<i>Adjustment under Pillar II</i>		
d. 2% of Total RWE under Supervisory review	441,513,995	392,840,191
<b>Total Risk Weighted Exposures (a+b+c)</b>	<b>22,517,213,768</b>	<b>20,034,849,742</b>
<b>1.2 CAPITAL</b>		
<b>Core Capital (Tier 1)</b>	<b>2,143,898,056</b>	<b>1,962,298,157</b>
a. Paid up Equity Share Capital	1,694,081,100	1,613,520,500
b. Irredeemable Non-cumulative preference shares		
c. Share Premium	13,071,581	13,071,581
d. Proposed Bonus Equity Shares (incl. fractional shares c/f)	583,590	80,676,025
e. Statutory General Reserves	301,303,072	230,025,003
f. Retained Earnings	69,203,133	11,274,078
g. Unaudited current year cumulative profit	-	-
h. Debenture Redemption Reserve	200,000,000	150,000,000
i. Capital Adjustment Reserve	-	-
j. Deferred Tax Reserve	1,924,612	-
k. Other Free Reserve	-	-
l. Less: Goodwill	-	-
m. Less: Fictitious Assets	-	-
n. Less: Investment in equity in licensed Financial Institutions	(9,740,031)	(9,740,031)
o. Less: Investment in equity of institutions with financial interests	(126,082,000)	(126,082,000)
p. Less: Investment in equity of institutions in excess of limits		
q. Less: Investments arising out of underwriting commitments	(447,000)	(447,000)
r. Less: Reciprocal crossholdings		
s. Less: Other Deductions		
<b>Supplementary Capital (Tier 2)</b>	<b>336,729,921</b>	<b>367,747,294</b>
a. Cumulative and/or Redeemable Preference Share		
b. Subordinated Term Debt	150,000,000	200,000,000
c. Hybrid Capital Instruments		
d. General loan loss provision	166,054,510	152,937,758
e. Investment Adjustment Reserve	4,140,197	3,440,197
f. Assets Revaluation Reserve		
g. Exchange Equalization Reserve	16,535,213	11,369,339
h. Other Reserves		
<b>Total Capital Fund (Tier I and Tier II)</b>	<b>2,480,627,977</b>	<b>2,330,045,451</b>
<b>1.3 CAPITAL ADEQUACY RATIOS</b>		
Tier 1 Capital to Total Risk Weighted Exposures	9.52%	9.79%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	11.02%	11.63%

**RISK WEIGHTED EXPOSURE FOR CREDIT RISK**

As at Ashad 31, 2069 (July 15, 2012)

**Schedule 4.30 (B)**

	CURRENT YEAR					PREVIOUS YEAR		
	BOOK VALUE A	SPECIFIC PROVISION B	ELIGIBLE CRM C	NET VALUE D=A-B-C	RISK WEIGHT E	RISK WEIGHTED EXPOSURES F=D*E	NET VALUE D=A-B-C	RISK WEIGHTED EXPOSURES F=D*E
<b>A. Balance Sheet Exposures</b>								
Cash Balance	407,855,627	-	-	407,855,627	0%	-	356,735,989	-
Balance With Nepal Rastra Bank	3,845,300,276	-	-	3,845,300,276	0%	-	1,866,490,707	-
Investment in Nepalese Government Securities	2,005,509,600	-	-	2,005,509,600	0%	-	1,969,665,489	-
All Claims on Government of Nepal	134,762,240	-	-	134,762,240	0%	-	155,927,141	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-	-	-
All claims on Nepal Rastra Bank	-	-	-	-	0%	-	-	-
Claims on Foreign Government and Central Bank (ECA 0-1)	-	-	-	-	0%	-	-	-
Claims on Foreign Government and Central Bank (ECA -2)	-	-	-	-	0%	-	-	-
Claims on Foreign Government and Central Bank (ECA -3)	-	-	-	-	20%	-	-	-
Claims on Foreign Government and Central Bank (ECA-4-6)	-	-	-	-	50%	-	-	-
Claims on Foreign Government and Central Bank (ECA -7)	-	-	-	-	100%	-	-	-
Claims On BIS, IMF, ECB, EC and on Multilateral Development Banks (MDBs) recognized by the framework	-	-	-	-	150%	-	-	-
Claims on Other Multilateral Development Banks	-	-	-	-	0%	-	-	-
Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	100%	-	-	-
Claims on Public Sector Entity (ECA 2)	-	-	-	-	20%	-	-	-
Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	50%	-	-	-
Claims on Public Sector Entity (ECA 7)	69,994,000	-	-	69,994,000	100%	104,991,000	50,000,000	75,000,000
Claims on domestic banks that meet capital adequacy requirements	65,398,463	-	-	65,398,463	20%	13,079,693	427,118,576	85,423,715
Claims on domestic banks that do not meet capital adequacy requirements	22,894,560	-	-	22,894,560	100%	22,894,560	741,212	741,212
Claims on foreign bank (ECA Rating 0-1)	242,547,684	-	-	242,547,684	20%	48,509,537	9,301,215	1,860,243
Claims on foreign bank (ECA Rating 2)	-	-	-	-	-	-	50%	-
Claims on foreign bank (ECA Rating 3-6)	662,583,123	-	-	662,583,123	100%	662,583,123	315,257,648	63,051,530
Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-	-	-
Claims on foreign banks incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	1,361,899,159	-	-	1,361,899,159	20%	272,379,832	711,529,884	711,529,884
Claims on Domestic Corporates	10,707,106,718	1,500,000	-	10,705,606,718	100%	10,705,606,718	8,890,118,042	8,890,118,042
Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-	-	-

continue... RISK WEIGHTED EXPOSURE FOR CREDIT RISK

## Schedule 4.30 (B)

continue... RISK WEIGHTED EXPOSURE FOR CREDIT RISK

	CURRENT YEAR					PREVIOUS YEAR		
	BOOK VALUE	SPECIFIC PROVISION	ELIGIBLE GRM	NET VALUE	RISK WEIGHT	RISK WEIGHTED EXPOSURES	NET VALUE	RISK WEIGHTED EXPOSURES
	A	B	C	D=A-B-C	E	F=D*E	D=A-B-C	F=D*E
Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-	-	-
Claims on Foreign Corporates (ECA 3-6)	-	-	-	-	100%	-	-	-
Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-	-	-
Regulatory Retail Portfolio (Not overdue)	501,440,366		50,000	501,390,366	75%	376,042,774	263,865,220	197,898,915
Claims fulfilling all criterion of regulatory retail except granularity	165,921,562		-	165,921,562	100%	165,921,562	236,526,585	236,526,585
Claims secured by residential properties	1,084,916,040		494,000	1,084,422,040	60%	650,653,224	1,922,957,986	1,153,774,792
Claims not fully secured by residential properties	-		-	-	150%	-	-	-
Claims secured by residential properties (Overdue)	883,130,847	3,779,098	-	879,351,749	100%	879,351,749	308,132,432	308,132,432
Claims secured by Commercial real estate	1,454,117,071		1,125,000	1,452,992,071	100%	1,452,992,071	2,825,028,021	2,825,028,021
Past due claims (except for claim secured by residential properties)	589,070,261	39,886,906	0	549,183,355	150%	823,775,033	228,282,200	342,423,300
High Risk claims (Venture capital, private equity investments, personal loans and credit card receivables)	1,156,732,799		114,529,761	1,042,203,039	150%	1,563,304,558	411,755,787	617,633,680
Investments in equity and other capital instruments								
of institutions	75,523,500	-	-	75,523,500	150%	113,285,250	40,523,500	60,785,250
not listed in the stock exchange	-	-	-	-	-	-	-	-
Investments in equity of institutions listed in the stock exchange	740,809	-	-	740,809	100%	740,809	740,809	740,809
Staff loan secured by residential property	-	-	-	-	60%	-	-	-
Interest Receivable/claim on government securities	10,600,451.6			10,600,452	0%	-	-	-
Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-	-	-
Other Assets (as per attachment)	1,436,951,993	915,880,645	-	360,071,092	100%	360,071,092	472,219,301	472,219,301
TOTAL	26,874,396,697	959,546,649	117,698,761	25,636,151,030		18,216,182,583	21,462,917,744	16,042,887,711
<b>B. Off Balance Sheet Exposures</b>								
Revocable Commitments	528,743,219			528,743,219	0%	-	-	-
Bills Under Collection	87,132,549			87,132,549	0%	-	85,712,856	-
Forward Exchange Contract Liabilities	80,190,188			80,190,188	10%	8,019,019	187,409,793	18,740,979
LC Commitments With Original Maturity Up to 6 months domestic counterparty	2,797,129,678	-1,903,038,063		894,091,615	20%	178,818,323	728,530,027	145,706,005
foreign counterparty (ECA Rating 0-1)				-	20%	-	-	-
foreign counterparty (ECA Rating 2)				-	50%	-	-	-
foreign counterparty (ECA Rating 3-6)				-	100%	-	-	-
foreign counterparty (ECA Rating 7)				-	150%	-	-	-

continue... RISK WEIGHTED EXPOSURE FOR CREDIT RISK

## Schedule 4.30 (B)

continue... RISK WEIGHTED EXPOSURE FOR CREDIT RISK

	CURRENT YEAR					PREVIOUS YEAR		
	BOOK VALUE A	SPECIFIC PROVISION B	ELIGIBLE CRM C	NET VALUE D=A-B-C	RISK WEIGHT E	RISK WEIGHTED EXPOSURES F=D*E	NET VALUE D=A-B-C	RISK WEIGHTED EXPOSURES F=D*E
LC Commitments With Original Maturity Over 6 months	673,894,883	596,312,971	77,581,912	50%	38,790,956	-	-	
domestic counterparty								
foreign counterparty (ECA Rating 0-1)				20%				
foreign counterparty (ECA Rating 2)				50%				
foreign counterparty (ECA Rating 3-6)				100%				
foreign counterparty (ECA Rating 7)				150%				
Bid Bond, Performance Bond and Counter guarantee								
domestic counterparty	2,064,861,858	-114,697,136	1,950,164,722	50%	975,082,361	1,638,328,778	819,164,389	
foreign counterparty (ECA Rating 0-1)	89,150,000	-	89,150,000	20%	17,830,000	-	-	
foreign counterparty (ECA Rating 2)	272,125,244	-	272,125,244	50%	136,062,622	-	-	
foreign counterparty (ECA Rating 3-6)				100%				
foreign counterparty (ECA Rating 7)				150%				
Underwriting commitments				50%				
Lending of Bank's Securities or Posting of Securities as collateral				100%				
Repurchase Agreements, Assets sale with recourse (including repo/ reverse repo)				100%				
Advance Payment Guarantee	649,804,228	- 20,334,158	629,470,070	100%	629,470,070	1,255,339,972	1,255,339,972	
Financial Guarantee	2,380,000	- 164,000	2,216,000	100%	2,216,000	3,672,000	3,672,000	
Acceptances and Endorsements	377,062,973	- 38,334,407	338,728,566	100%	338,728,566	296,937,509	296,937,509	
Unpaid portion of Party paid shares and Securities				100%				
Irrevocable Credit commitments (short term)	547,205,633	-	547,205,633	20%	109,441,127	551,341,969	110,268,394	
Irrevocable Credit commitments (long term)				50%				
Claims on foreign banks incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	804,526,563		804,526,563	20%	160,905,313			
Other Contingent Liabilities	71,410,230		71,410,230	100%	71,410,230	54,727,926	54,727,926	
Unpaid Guarantee Claims								
<b>TOTAL</b>	<b>9,045,617,246</b>	<b>-2,672,880,735</b>	<b>6,372,736,511</b>		<b>2,666,774,585</b>	<b>4,802,000,830</b>	<b>2,704,557,174</b>	
<b>Total RWE for credit Risk (A) + (B)</b>	<b>35,920,013,943</b>	<b>959,546,649</b>	<b>2,790,579,496</b>		<b>20,882,957,169</b>	<b>26,264,918,574</b>	<b>18,747,444,885</b>	

**ELIGIBLE CREDIT RISK MITIGANTS**As at **Ashad 31, 2012** (July 15, 2012)

Schedule 4-30 (C)

CREDIT EXPOSURES	DEPOSITS	DEPOSITS	GOLD	GOVT &	G'TEE OF	SEC/G'TEE OF	G'TEE OF	SEC/G'TEE OF	TOTAL
	WITH BANK	WITH OTHER	(C)	NRB	GOVT OF	OTHER	DOMESTIC	FOREIGN	
	(A)	(B)	(C)	SECURITIES	NEPAL	SOVEREIGNS	BANKS	BANKS	(I)
		BANKS/FI		(D)	(E)	(F)	(G)	(H)	
<b>Balance Sheet Exposures</b>									
Claims on Foreign Government and Central Bank (ECA-2)	-								-
Claim on Foreign Government and Central Bank (ECA-3)	-								-
Claim on Foreign Government and Central Bank (ECA-4-6)	-								-
Claim on Foreign Government and Central Bank (ECA-7)	-								-
Claims on Other Multilateral Development Banks	-								-
Claims on Public Sector Entity (ECA 0-1)	-								-
Claims on Public Sector Entity (ECA 2)	-								-
Claims on Public Sector Entity (ECA 3-6)	-								-
Claims on Public Sector Entity (ECA 7)	-								-
Claims on domestic banks that meet capital adequacy requirements	-								-
Claims on domestic banks that do not meet capital adequacy requirements	-								-
Claims on foreign bank (ECA Rating 0-1)	-								-
Claims on foreign bank (ECA Rating 2)	-								-
Claims on foreign bank (ECA Rating 3-6)	-								-
Claims on foreign bank (ECA Rating 7)	-								-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	-								-
Claims on Domestic Corporates	1,500,000	-	-	-	-	-	-	-	1,500,000
Claims on Foreign Corporates (ECA 0-1)	-								-
Claims on Foreign Corporates (ECA 2)	-								-
Claims on Foreign Corporates (ECA 3-6)	-								-
Claims on Foreign Corporates (ECA 7)	-								-
Regulatory Retail Portfolio (Not Overdue)	50,000	-	-	-	-	-	-	-	50,000
Claim fulfilling all criterion of regulatory retail except granularity	-								-
Claims secured by residential properties	-								-

continue... ELIGIBLE CREDIT RISK MITIGANTS

## Schedule 4.30 (C)

CREDIT EXPOSURES	DEPOSITS WITH BANK (A)	DEPOSITS WITH OTHER BANKS/FI (B)	GOLD (C)	GOVT. & NRB SECURITIES (D)	G/TEE OF GOVT. OF NEPAL (E)	SEC/G/TEE OF OTHER SOVEREIGNS (F)	G/TEE OF DOMESTIC BANKS (G)	G/TEE OF FOREIGN BANKS (H)	SEC/G/TEE OF FOREIGN BANKS (I)	TOTAL
Claims not fully secured by residential properties	494,000									494,000
Unsecured portion of claims secured by residential properties										0
Claims secured by residential properties (Overdue)										-
Claims secured by Commercial real estate	1,125,000									1,125,000
Past due claims (except for claim secured by residential properties)										-
High Risk claims (Venture capital, private equity investments, personal loans and credit card receivables)	55,725,967	- 56,969,639	1,834,155							114,529,761
Investments in equity and other capital instruments of institutions not listed in the stock exchange										-
Investments in equity and other capital instruments of institutions listed in the stock exchange										-
Other Loans and Advances										-
Cash and cash items in transit										-
Fictitious Assets										-
Other Assets (as per attachment)										-
<b>Total</b>	<b>58,894,967</b>	<b>- 56,969,639</b>	<b>1,834,155</b>							<b>117,698,761</b>
<b>Off Balance Sheet Exposures</b>										
Forward Exchange Contract Liabilities										
LC Commitments With Original Maturity Up to 6 months domestic counterparty (ECA Rating 0-1)	1,727,484,880						175,553,184			1,903,038,063
foreign counterparty (ECA Rating 2)										-
foreign counterparty (ECA Rating 3-6)										-
foreign counterparty (ECA Rating 7)										-
LC Commitments With Original Maturity Over 6 months domestic counterparty	6,338,065						589,974,906			596,312,971
foreign counterparty (ECA Rating 0-1)										-
foreign counterparty (ECA Rating 2)										-
foreign counterparty (ECA Rating 3-6)										-
foreign counterparty (ECA Rating 7)										-

continue... ELIGIBLE CREDIT RISK MITIGANTS

## Schedule 4.30 (C)

CREDIT EXPOSURES	DEPOSITS WITH BANK		DEPOSITS WITH OTHER BANKS/FI		GOLD	GOVT. & NRB SECURITIES		G'VEE OF GOVT. OF NEPAL		SEC/G'VEE OF OTHER SOVEREIGNS		G'VEE OF DOMESTIC BANKS		SEC/G'VEE OF FOREIGN BANKS		TOTAL
	(A)	(B)	(B)	(B)		(C)	(D)	(E)	(F)	(G)	(H)	(I)				
Bid Bond, Performance Bond and counter guarantee domestic counterparty	114,697,136	-	-	-	-	-	-	-	-	-	-	-	-	-	-	114,697,136
foreign counterparty (ECA Rating 0-1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
foreign counterparty (ECA Rating 2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
foreign counterparty (ECA Rating 3-6)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
foreign counterparty (ECA Rating 7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Underwriting commitments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lending of Bank's Securities or Posting of Securities as collateral	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repurchase Agreements, Assets sale with recourse (including repo/ reverse repo)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Advance Payment Guarantee	20,334,158	-	-	-	-	-	-	-	-	-	-	-	-	0	-	20,334,158
Financial Guarantee	164,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	164,000
Acceptances and Endorsements	38,334,407	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,334,407
Unpaid portion of Partly paid shares and Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Irrevocable Credit commitments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Contingent Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,907,352,645</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>765,528,090</b>	<b>-</b>	<b>2,672,880,735</b>
<b>Grand Total</b>	<b>1,966,247,612</b>	<b>-</b>	<b>56,969,639</b>	<b>1,834,155</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>765,528,090</b>	<b>-</b>	<b>2,790,579,496</b>

## RISK WEIGHTED EXPOSURE FOR OPERATIONAL RISK

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.30 (D)

PARTICULARS	CURRENT YEAR			PREVIOUS YEAR
	2010/11	2009/10	2008/09	
Net Interest Income	729,481,766	652,082,650	386,637,141	
Commission and Discount Income	67,795,886	46,866,912	29,634,632	
Other Operating Income	69,514,877	60,031,631	70,917,293	
Exchange Fluctuation Income	63,127,874	47,563,308	51,004,554	
Additional Interest Suspense during the period	10,861,852	7,333,071	2,657,596	
<b>Gross income (a)</b>	<b>940,782,255</b>	<b>813,877,572</b>	<b>540,851,215</b>	
<b>Alfa (b)</b>	<b>15%</b>	<b>15%</b>	<b>15%</b>	
<b>Fixed Percentage of Gross Income [c=(a×b)]</b>	<b>141,117,338</b>	<b>122,081,636</b>	<b>81,127,682</b>	
<b>Capital Requirement for operational risk (d) (average of c)</b>			<b>114,775,552</b>	<b>86,846,297</b>
<b>Risk Weight (reciprocal of capital requirement of 10%) in times (e)</b>			<b>10</b>	<b>10</b>
<b>Equivalent Risk Weight Exposure [f=(d×e)]</b>			<b>1,147,755,521</b>	<b>868,462,971</b>

## RISK WEIGHTED EXPOSURE FOR MARKET RISK

As at *Ashad 31, 2069* (July 15, 2012)

Schedule 4.30 (E)

CURRENCY	CURRENT YEAR			PREVIOUS YEAR
	OPEN POSITION (FCY)	OPEN POSITION (NPR)	RELEVANT OPEN POSITION	
1. AED	(3,440)	(80,565)	80,565	34,011
2. AUD	(1,630)	(146,912)	146,912	48,435
3. CAD	(3,300)	(286,160)	286,160	-
4. CHF	(810)	(72,787)	72,787	-
5. CNY	(3,754)	(51,918)	51,918	-
6. DKK	(134,685)	(1,955,626)	1,955,626	3,283,444
7. EUR	(70,781)	(7,659,241)	7,659,241	2,012,154
8. GBP	(16,345)	(2,244,598)	2,244,598	2,748,325
9. HKD	(3,150)	(35,642)	35,642	9,085
10. INR	(22,813,990)	(36,519,901)	36,519,901	30,283,684
11. JPY	(376,702)	(420,211)	420,211	229,372
12. KRW				
13. MYR	-	-	-	14,112
14. NLG	-	-	-	-
15. NPR		94,751,331		
16. QAR	(3,480)	(83,851)	83,851	2,915
17. SAR	(660)	(15,444)	15,444	75,520
18. SEK	(9,000)	(112,365)	112,365	-
19. SGD	(3,693)	(256,885)	256,885	-
20. THB	(1,640)	(4,521)	4,521	-
21. USD	(453,568)	(40,027,541)	40,027,541	13,462,332
<b>Total Open Position (a)</b>			<b>89,974,167</b>	<b>52,203,389</b>
<b>Fixed Percentage (b)</b>			<b>5%</b>	<b>5%</b>
<b>Capital Charge for Market Risk {c=(a*b)}</b>			<b>4,498,708</b>	<b>2,610,169</b>
<b>Risk Weight (reciprocal of capital requirement of 10%) in times (d)</b>			<b>10</b>	<b>10</b>
<b>Equivalent Risk Weight Exposure {e=(c*d)}</b>			<b>44,987,083</b>	<b>26,101,695</b>



## PRINCIPAL INDICATORS

(At least for previous 5 years)

Schedule 4.31

PARTICULARS	INDICATORS	F.Y.	F.Y.	F.Y.	F.Y.	F.Y.	F.Y.	F.Y.
		2062/2063	2063/2064	2064/2065	2065/2066	2066/2067	2067/2068	2068/2069
1. Percentage of Net Profit/								
Gross Income	%	21.72%	27.10%	31.41%	35.12%	40.55%	40.34%	37.21%
2. Earnings Per Share								
	NPR	5.80	10.75	16.45	20.70	24.12	23.25	21.55
3. Market Value per Share								
	NPR	368.00	690.00	1,113.00	1,062.00	570.00	340.00	340.00
4. Price Earning Ratio								
	Ratio	63.44	64.18	67.66	51.31	23.63	14.62	15.78
5. Dividend on share capital								
(Bonus share + Cash dividend)	%	-	-	21.05%	5.26%	13.00%	15.79%	10.00%
6. Cash Dividend on share capital								
	%	-	-	1.05%	0.26%	13.00%	10.79%	10.00%
7. Interest Income/Loans & Advances and Investments								
	%	8.30%	7.84%	7.85%	8.76%	9.97%	12.11%	11.77%
8. Employee Expenses/Total								
Operating Expenses	%	42.89%	43.43%	48.22%	43.34%	46.27%	48.22%	47.78%
9. Interest Expenses on Total Deposits and Borrowings								
	%	5.05%	4.64%	4.45%	5.05%	6.42%	8.09%	7.86%
10. Exchange Fluctuation Gain/								
Total Income	%	5.79%	8.64%	12.20%	9.48%	5.90%	6.79%	11.27%
11. Staff Bonus/ Total Staff Expenses								
	%	11.86%	16.39%	21.62%	23.54%	27.62%	25.49%	22.20%
12. Net Profit/Loans & Advances								
	%	1.01%	1.21%	1.47%	1.63%	2.32%	2.49%	2.22%
13. Net Profit/ Total Assets								
	%	0.79%	0.95%	1.13%	1.22%	1.66%	1.76%	1.50%
14. Total Credit/Deposit								
	%	96.30%	85.78%	89.72%	83.88%	81.49%	84.10%	73.13%
15. Total Operating Expenses/								
Total Assets	%	1.94%	1.63%	2.17%	1.28%	1.35%	1.54%	1.57%
16. Adequacy of Capital Fund on Risk								
Weightage Assets								
a. Core Capital	%	13.71%	11.33%	10.10%	8.47%	11.17%	9.79%	9.52%
b. Supplementary Capital	%	1.25%	1.10%	1.07%	3.01%	2.54%	1.84%	1.50%
c. Total Capital Fund	%	14.96%	12.43%	11.17%	11.48%	13.71%	11.63%	11.02%
17. Liquidity (CRR)								
	%	5.67%	5.65%	5.65%	8.61%	7.24%	9.22%	19.60%
18. Non Performing Loans/Total Loans								
	%	0.78%	0.35%	0.13%	0.08%	0.12%	0.90%	0.62%
19. Weighted Average Interest								
Rate Spread	%	3.24%	3.20%	3.40%	3.71%	3.55%	4.02%	3.91%
20. Book Net worth								
	NPR	649,048,621	843,946,939	1,145,533,225	1,342,295,325	1,912,330,490	2,113,376,723	2,300,258,908
21. Total Shares								
	Number	6,100,000	7,296,970	9,131,963	10,980,861	16,135,205	16,135,205	16,940,811
22. Total Employees								
	Number	145	186	252	299	347	393	374

## SIGNIFICANT ACCOUNTING POLICIES

Schedule 4.32

### I) GENERAL INFORMATION

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

The Bank is "A" class licensed institution. The financial statements were authorized for issue by the Board of Directors.

### II) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### III) STATEMENT OF COMPLIANCE

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

### IV) BASIS OF PREPARATION

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

### V) INTEREST INCOME

Interest income on loans and advances are recognized on cash basis as per the Nepal Rastra Bank Directives although this practice is not in accordance with NAS 7 (Revenue Accounting), which prescribes that the revenue should be recognized on accrual basis. The practice followed by the Bank (as per NRB Directives) is more conservative.

Interest income on investments is accounted for on accrual basis.

### VI) COMMISSION INCOME

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

### VII) DIVIDEND INCOME

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

### VIII) FOREIGN EXCHANGE TRANSACTIONS

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

Income realized from the difference between buying and selling rates of Foreign Exchange is accounted for on a daily basis and shown as "Trading Gain" under "Exchange Gain" in Schedule 4.22.

Gains/ losses arising due to fluctuation in exchange rate of different foreign currencies is

accounted for on a daily basis and shown as "Revaluation Gain". 25% of such revaluation gain is transferred to Exchange Fluctuation Reserve through Profit and Loss Appropriation Account as per Nepal Rastra Bank Directives.

### IX) INTEREST EXPENSE

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

### X) LOANS AND ADVANCES INCLUDING BILLS PURCHASED

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

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

### XI) STAFF LOANS

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

### XII) LOAN LOSS PROVISION

The provision for possible losses for loans and advances and bills purchased are provided at the rates ranging from 1% to 100% according to the classification of such risk assets as per Nepal Rastra Bank Directives.

### XIII) WRITE OFF

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

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

### XIV) INVESTMENTS

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

#### A. HELD FOR TRADING

Investments that are made for the purpose of generating profit from short term fluctuations in price are classified under this category.

These investments are marked to market and differences reflected in the profit and loss account.

#### B. HELD TO MATURITY

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

#### C. AVAILABLE FOR SALE

All other investments that are neither "held for trading" nor "held to maturity" are classified under this category. These investments are marked to market on a regular basis and the difference adjusted through reserves (equity). All investments are subject to regular review as required by Nepal Rastra Bank Directives.

### XV) FIXED ASSETS AND DEPRECIATION

a. Fixed assets are stated at cost less accumulated depreciation.

b. Assets with a value less than NPR 5,000 are charged off as a revenue expense in the year of purchase irrespective of its useful life.

c. Depreciation is charged to profit & loss account on a straight line basis over the estimated useful life of items of fixed assets. Land is not depreciated. The useful life of the assets are as follows:

NATURE OF ASSETS	USEFUL LIFE (YEARS)
Furniture	5
Equipments	5
Vehicles	5
Computers	5
Free hold premises	20 - 40

d. Fixed assets under construction, advances paid towards acquisition of fixed assets and costs of assets not ready for use before year end are shown as capital construction (pending capitalization).

### XVI) NON BANKING ASSETS

Non Banking Assets (NBA) are valued at lower of receivable amount (Principal & Interest) or fair market value of the assets acquired.

Provisions for NBA are made in accordance with the Nepal Rastra Bank Directives.

### XVII) SOFTWARE EXPENSES

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

### XVIII) AMORTIZATION

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

Computer Software 5 years

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

### XIX) EMPLOYEE BENEFITS

#### A. PROVIDENT FUND

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

#### B. GRATUITY

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

### XX) STATIONERY STOCK

Stationery purchased are charged to revenue at the time of purchase as most stationeries are specific to Laxmi Bank Ltd.

### XXI) INCOME TAX

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

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

Deferred taxes are accounted using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases.

Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on the laws that have been enacted or subsequently enacted by the reporting date.

## XXII) LEASE

Assets held under finance leases are initially recognized as assets of the bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statement as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of

interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## XXIII) PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank creates a provision when there is a present obligation as a result of past events that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible

obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

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

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

## XXIV) PREVIOUS YEAR'S FIGURES

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

## NOTES TO ACCOUNTS

### 1. INTEREST INCOME AND INTEREST SUSPENSE

Entire interest receivable on loans & advances as of year end has been transferred to interest suspense account as per the Directives of NRB. Interest accrued as of 31 Ashad 2069 and collected after year end upto 15 Shrawan 2069 is not recognized as income during the FY 2011-12 although permitted by NRB through its circular dated 2069/05/06.

### 2. PROVISION FOR STAFF BONUS

Provision for staff bonus amounting to NPR 50,881,729 has been computed and provided for at 10% of net profit after bonus.

### 3. STAFF HOUSING FUND

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

### 4. GRATUITY FUND

Gratuity fund maintained with Laxmi Bank Retirement Fund, an approved retirement fund, has sufficient balance to cover the gratuity liability (Gratuity liability is NPR 28,546,691.93 outstanding as of 15 July 2012) calculated as per accrual liability basis in accordance with the HR Policy Guide of the Bank.

### 5. GENERAL RESERVE

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

### 6. EXCHANGE FLUCTUATION FUND

25% of the Revaluation gain of NPR 20,663,497, amounting to NPR 5,165,874 has been transferred to Exchange Fluctuation Fund by debiting Profit and Loss Appropriation

Account as per Nepal Rastra Bank Directives.

### 7. INVESTMENT ADJUSTMENT RESERVE

Investment adjustment reserve as at 31 Ashad 2069 (15 July 2012) stands at NPR 4,140,197 (2% of the Investment in shares available for sale in line with NRB guidelines) and NPR 700,000 is transferred from Profit and Loss Appropriation Account this year as per the requirement under Capital Adequacy framework.

### 8. FIXED ASSETS

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

### 9. INCOME TAX ISSUES

The tax authorities have raised an additional demand of NPR 1,661,043 on tax returns filed under self assessment by the then HISEF Finance Limited for the financial year 2057/58. The Bank had disputed the demand of tax authorities and filed an appeal with the Revenue Tribunal. Pending receipt of decision, the Bank has shown such disputed tax demand under contingent liability.

For fiscal year 2061/62 (Hisef related) Large Taxpayers' Office (LTO) has raised an additional demand of NPR 16,079,489 which the bank has disputed and filed an appeal for administrative review. The amount of demand has been disclosed as contingent liability on Income Tax under schedule 4.17. The bank has deposited NPR 3,048,000 against above demand. However, the Inland Revenue Department (IRD) has returned the file to LTO for revision citing possibility of double counting of taxable income by Large Taxpayers Office.

On the assessment of the Income Tax Returns of the bank for the fiscal years 2060/61, 2061/62 (Laxmi Bank), 2062/63 and 2063/64 Large Taxpayers' Office (LTO) has raised an additional demand of NPR 5,153,916.55 for 2060/61, NPR 9,618,611 for 2061/62 (Laxmi Bank), NPR 10,645,185 for 2062/63 and NPR 11,569,681 for 2063/64 respectively. The bank disputed the demand as not tenable and has filed appeals with the Revenue Tribunal. The amount of demand has been disclosed as contingent liability on Income Tax under schedule 4.17. The bank has paid NPR 13,353,807 as deposits against above claim.

The Bank has received as additional demand of NPR 16,682,304 from LTO relating to tax returns for the year 2064/65 on which the Bank disputed the demand as not tenable and is in process of filing appeals with the Revenue Tribunal. The amount of claim is shown as contingent liability on Income Tax under schedule 4.17. The bank has paid NPR 5,560,768 as deposits against above claim.

Pending decision no provisions have been made against these additional demands. The Bank has filed tax returns to the LTO up to the financial years 2067/68 under self assessment procedures.

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

### 11. INVESTMENT IN SHARE CAPITAL OF OTHER CORPORATE A. NEPAL BANK LIMITED

Investment in shares of Nepal Bank Limited was made by then HISEF Finance Limited. The bank has not been able to dispose off these shares as these have been delisted by Nepal Stock Exchange Limited, The bank has created a 100% loss provision against the investment.

## B. HIMALAYAN DISTILLERY LIMITED

The Bank (then Hisef Finance Limited) had underwritten the shares of Himalayan Distillery Limited. As the shares were not fully subscribed, the bank had accepted those shares by paying NPR 50 per share (call amount at that point of time). The failure to pay the second call amount had resulted in forfeiture of the shares against which the Bank and other financial institutions involved had filed a case disputing the decision of the forfeiture. Upon the court decision in favor of the banks and financial institutions, the bank has received the share certificate for 4470 shares of Rs 100 each in full settlement of the amount paid.

## C. LAXMI CAPITAL MARKET LTD

In line with the guidelines of Nepal Rastra Bank, Laxmi Bank Ltd has opened a merchant banking subsidiary – “Laxmi Capital Market Ltd” by investing NPR 70,000,000 as promoter share (70% of the total issued capital) during the year. The subsidiary has obtained license for commercial operation from SEBON on 2067/9/13 under Securities Business person (Merchant Banker) Rules 2007.

## D. LAXMI LAGHUBITTA BITTIYA SANSTHA LTD

Laxmi Bank Ltd has opened a “D” class financial institution - Laxmi Laghubitta Bittiya Sanstha Ltd to carry out the microfinance business with investment of NPR 70,000,000 as promoter share. The subsidiary has obtained operating license from NRB on 2068/11/23.

## 12. LIEN OVER INVESTMENTS

The Bank has made placements with Standard Chartered Bank Plc (London and Singapore), amounting to USD 2,000,000 as of 15 July 2012, which was under lien as per the lien letter signed with Standard Chartered Bank Plc.

## 13. TRAVEL ALLOWANCES AND EXPENSES

Travelling Allowances & Expenses under schedule 4.24 - Other Operating Expenses includes travel allowance given to eligible bank officials with effect from this fiscal year as per the latest amendment in human resource policy of the bank.

## 14. ADVANCE AGAINST BULLION

The Bank has NPR 144Mio outstanding for advance against stock of bullion (gold and silver) as of 15 July 2012 and is shown under others of schedule 4.16 Other Assets.

## 15. RELATED PARTY DISCLOSURE

Details of Compensation paid to key management personnel during the year: Short term employee benefit paid to Key Management Personnel (which includes CEO, Company Secretary and all other managerial level staff) during the fiscal year amounts to NPR 73,023K. In addition, they are entitled to other benefits and facility as per the Human Resource Policy of the bank and employment terms and conditions.

There is no post employment, other long term or share based payments to the employees.

Employees are entitled to gratuity (as termination benefits) as per the Human Resource Policy of the bank.

Transaction with the members of Board of Directors during the year: (in NPR)

Meeting fees: 688,000

Other meeting expenses: 212,933

## 16. RECONCILIATION STATUS

RECONCILIATION STATUS	TOTAL AMOUNT	Amount in NPR'000				
		UP TO 3 MONTHS	3 TO 9 MONTHS	9 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	MORE THAN 3 YEARS
Branch Reconciliation	-	-	-	-	-	-
Agency Accounts	932,389	920,267	3,807	708	7,374	231

## 17. LEASE

### FINANCE LEASE

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

### OPERATING LEASE

The bank has entered into a lease arrangement for office premises and ATM space outside of the branch for different periods, which can be terminated by either party giving prior notice as

stipulated in the contract / agreement. The future minimum lease payment under non-cancelable operating leases, where the bank is lessee is NIL. There is no rental expense under non-cancelable operating leases.

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

Amount in NPR'000

PARTICULARS	AMOUNT
Loans Disbursed	48,324,096
Loans Recovered	47,016,505
Loans Written off	0
Interest written off	0

## 19. SUMMARY OF CHANGES IN DEPOSIT LIABILITIES

Amount in NPR'000

PARTICULARS	PREVIOUS YEAR	NET CHANGES	CURRENT YEAR
	32/3/2068 (16/07/2011)	DURING THE YEAR	31/3/2069 (15/07/2012)
Call Deposits	4,673,823	1,843,976	<b>6,517,799</b>
Current Deposits	749,549	129,010	<b>878,558</b>
Fixed Deposits	9,453,568	1,280,073	<b>10,733,641</b>
Saving Deposits	3,215,722	1,187,508	<b>4,403,230</b>
Margin & Other Deposits	206,963	91,650	<b>298,613</b>

## 20. WEIGHTED AVERAGE INTEREST SPREAD

PARTICULARS	RATE %
Average Rate of return from loans and advances and investments	11.77%
Average Rate on deposits & borrowings	7.86%
Net Spread	3.91%

## 21. SUMMARY OF CONCENTRATION OF EXPOSURE

Amount in NPR'000

PARTICULARS	LOANS, ADVANCES AND BILLS PURCHASED	DEPOSITS AND BORROWINGS	CONTINGENTS
Total amount as on 15/07/2012	16,697,063	22,859,822	9,045,617
Highest exposure to a single unit/ group	485,215	1,107,331	1,758,308 *
Percentage of exposure to/from single unit (in %)	2.91%	4.84%	19.44%

Related to exposure on LC (NPR 1.6Billions) with 100% cash lien/ security.

## 22. CLASSIFICATION OF ASSETS AND LIABILITIES BASED ON MATURITY

PARTICULARS	Amount in NPR Lacs							TOTAL
	1-7 DAYS	8-30 DAYS	31-90 DAYS	91-180 DAYS	181-270 DAYS	271-365 DAYS	MORE THAN 1 YEAR	
<b>Assets</b>								
1. Cash Balance	4,078	-	-	-	-	-	-	4,078
2. Balance with Banks & FIs	39,336	-	-	-	-	-	-	39,336
3. Investment in Foreign Banks	7,668	-	-	-	-	-	-	7,668
4. Call Money	-	-	-	-	-	-	-	-
5. Government Securities	-	-	-	-	15,408	2,476	-	17,885
6. Nepal Rastra Bank Bonds	-	-	-	-	-	-	2,171	2,171
7. Inter Bank & FI Lending	-	883	-	14,120	-	-	-	15,003
8. Loans & Advances	7,340	14,608	44,532	19,655	11,908	12,295	56,634	166,971
9. Interest Receivable	422	1,387	3,618	5,427	5,427	5,427	-	21,706
10. Reverse Repo	-	-	-	-	-	-	-	-
11. Acceptance Receivable	-	-	-	-	-	-	-	-
12. Payments under S. No. 20,21 & 22	-	-	-	-	-	-	-	-
13. Others	-	-	-	-	-	-	-	-
<b>Total (A)</b>	<b>58,843</b>	<b>16,877</b>	<b>48,149</b>	<b>39,201</b>	<b>32,743</b>	<b>20,198</b>	<b>58,805</b>	<b>274,816</b>
<b>Liabilities</b>								
14. Current Deposits	3,514	439	439	439	439	439	3,075	8,786
15. Saving Deposits (incl. call)	26,115	3,347	3,347	3,699	3,919	4,140	64,643	109,210
16. Fixed Deposits	-	6,168	13,596	27,497	20,310	25,885	13,881	107,337
17. Debentures/Bonds	-	-	-	-	-	-	3,500	3,500
18. Borrowings	-	-	-	-	-	-	-	-
Call/Short Notice	-	-	-	-	-	-	-	-
Inter-bank/Financial Institutions	-	-	-	-	-	-	-	-
Refinance	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
19. Other Liabilities and Provisions	402	735	1,918	2,878	2,878	2,878	-	11,688
Sundry Creditors	178	-	-	-	-	-	-	178
Bills Payable	-	-	-	-	-	-	-	-
Interest Payable	224	735	1,918	2,878	2,878	2,878	-	11,510
Provisions	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
<b>Total (B)</b>	<b>30,031</b>	<b>10,689</b>	<b>19,301</b>	<b>34,513</b>	<b>27,546</b>	<b>33,341</b>	<b>85,099</b>	<b>240,521</b>
<b>Net Financial Assets (A-B)</b>	<b>28,812</b>	<b>6,187</b>	<b>28,848</b>	<b>4,689</b>	<b>5,197</b>	<b>(13,143)</b>	<b>(26,295)</b>	<b>34,295</b>
<b>Cumulative Net Financial Assets</b>	<b>28,812</b>	<b>35,000</b>	<b>63,848</b>	<b>68,536</b>	<b>73,733</b>	<b>60,590</b>	<b>34,295</b>	<b>-</b>



## 23. CREDIT CONCENTRATION

Amount in NPR Millions

SECTORS	NUMBER	PRINCIPAL	INTEREST
1. Agricultural	260	320.10	0.47
2. Fishery	0	0	0
3. Mining	0	0	0
4. Manufacturing	510	4,278.78	4.67
5. Construction	882	2,905.76	25.79
6. Electricity, Gas and Water	32	187.55	0.07
7. Metal Prod, Machinery & Electronic Equip & assemblage	15	30.08	0.13
8. Transport, Communication and Public Utilities	121	807.86	1.37
9. Wholesaler & Retailer	981	3,299.84	12.51
10. Finance, Insurance and Real Estate	567	3,018.27	17.07
11. Hotel or Restaurant	11	52.47	0.16
12. Other Services	134	595.60	4.33
13. Consumption Loans	1498	640.81	3.50
14. Local Government	1	134.63	0
15. Others	309	425.31	1
<b>Total</b>	<b>5321</b>	<b>16,697.06</b>	<b>71.07</b>

## 24. DETAILS OF GROSS NON BANKING ASSETS (NPR)

PREVIOUS YEAR	ADDITION DURING THE YEAR	DISPOSAL DURING THE YEAR	BALANCE AT THE END OF THE YEAR
25,500	-	-	25,500

## 25. DETAILS OF LEASEHOLD ASSETS AMORTIZATION

Amount in NPR

LEASE HOLD ASSETS UP TO LAST YEAR	THIS YEAR ADDITION / DELETION (NET)	AMORTIZATION DURING THE YEAR	NET BALANCE AT THE END OF THE YEAR
38,539,047	4,195,297	11,698,173	31,036,171

## 26. TAX LIABILITY RECONCILIATION

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

PARTICULARS	AMOUNT
<b>Profit before tax as per Profit &amp; Loss Account</b>	<b>508,817</b>
<b>Add: Adjustments for</b>	
Depreciation as per Schedule 24 considered separately	33,064
Equipment & furniture charged to revenue considered in depreciation	2,105
Leasehold amortization considered in depreciation	11,698
Software amortization considered in depreciation	2,646
Repairs and Maintenance added to the Pool as per Income Tax Act	2,389
Premium on Government Bonds amortized in this fiscal year	2,620
<b>Less: Adjustments for</b>	
Depreciation as per Income Tax Act (including lease and software)	(42,807)
Profit on sale of fixed assets considered separately	(4,385)
Dividend income	(727)
<b>Taxable Profit as per Income Tax Act 2058</b>	<b>515,420</b>
<b>Corporate Income Tax @ 30%</b>	<b>154,626</b>

## 27. DEFERRED TAX LIABILITY/ (ASSET)

Carrying amount of Assets & Liabilities where temporary differences arise as on 31 Ashad 2069 (15.07 2012) are as follows:

PARTICULARS	Amount in NPR'000		
	CARRYING AMOUNT	TAX BASE	NET TEMPORARY DIFFERENCE
Fixed Assets	182,592	186,387	(3,795)
Premium on Government Bonds	17,974	20,594	(2,620)
<b>Net Temporary Differences</b>	<b>200,566</b>	<b>206,981</b>	<b>(6,415)</b>
<b>Deferred Tax Liability / (Asset) as at Ashad end 2069 @ 30%</b>			<b>(1,925)</b>
Deferred Tax Liability / (Asset) till Ashad end 2068			274
Deferred Tax Expense / (Income) credited to Profit and Loss Account			(2,199)

Deferred Tax Asset as of 31 Ashad 2069 (15 July 2012) is NPR 1,924,612. NPR 2,199,092 has been recognized as deferred tax income in Profit and Loss Account in the current year.

As required by NRB, Deferred Tax Reserve was created amounting to NPR 1,924,612 through Profit and Loss Appropriation Account against Deferred Tax Asset.

## 28. 8.5% LAXMI BANK DEBENTURE, 2072

The Bank issued 350,000 unsecured debentures of NPR 1,000 each for NPR

350,000,000 on 25 November 2008 with a coupon rate of 8.5%, and tenure of 7 years. Interest on debenture is payable on semi annual basis.

NRB circular allows appropriation of fund for the purpose of Debenture Redemption during the last five years of maturity. However as a prudent banking practice, Laxmi Bank has decided to appropriate NPR 50,000,000 each year until the maturity of the Debenture starting from the first year. Laxmi Bank has established a Debenture Redemption Fund by appropriating NPR 50,000,000 during this year also, in line with previous year practice,

from the Profit appropriation account to repay the Debenture in 7 years period. Total Debenture Redemption Fund as of 15 July 2012 stands at NPR 200,000,000.

## 29. CASH DIVIDEND

The board has decided to distribute 10% cash dividend (gross) to shareholders out of profit of current year subject to approval from Nepal Rastra Bank and Annual General Meeting. Cash dividend is shown as proposed dividend (NPR 169,408,110) in the Balance Sheet.

## STATEMENT OF LOANS AND ADVANCES OF PROMOTERS/ PROMOTER GROUP BY PLEDGING THE SHARES IN THEIR OWNERSHIP IN OTHER BANK AND FINANCIAL INSTITUTIONS

As at Ashad 31, 2069 (July 15, 2012)

Schedule 4.34

NAME OF PROMOTER/ SHAREHOLDERS UNDER PROMOTER GROUP	SHAREHOLDING		LOAN DETAILS			
	TOTAL NO OF SHARES	% OF TOTAL PAID UP CAPITAL	NAME OF THE LENDING BANK AND FINANCIAL INSTITUTIONS	LOAN AMOUNT	NO OF SHARES PLEDGED	REMARKS
1. Satya Narayan Manadhar	34,185	0.21%	Siddhartha Bank	2,360,265	34,185	
2. Narayan Bajaj	15,120	0.09%	Himalayan Bank	6,214	14,400	
3. Amit Agrawal	343,166	2.13%	Himalayan Bank	12,723,292	167,185	
4. Madhusudan Agrawal	260,957	1.62%	Bank of Kathmandu		100,000	

## COMPARISON OF UNAUDITED AND AUDITED FINANCIAL STATEMENT

As of FY 2011/12

Schedule 4.35

PARTICULARS	AS PER	AS PER	VARIANCE		REASONS FOR VARIANCE
	UNAUDITED FINANCIAL STATEMENT	AUDITED FINANCIAL STATEMENT	AMOUNT	IN %	
<b>1 Total Capital and Liabilities ( 1.1 to 1.7)</b>	<b>26,222,541,109</b>	<b>26,028,528,237</b>	<b>(194,012,872)</b>	<b>-1%</b>	
1.1. Paid Up Capital	1,694,081,100	1,694,081,100	-		
1.2. Reserve & Surplus	775,951,268	606,177,808	(169,773,460)	-22%	Effect of Cash dividend and tax provisions
1.3. Debenture & Bond	350,000,000	350,000,000	-		
1.4. Borrowings	27,980,000	27,980,000	-		
1.5. Deposits ( a+b )	22,831,842,639	22,831,842,639	-		
a) Domestic Currency	19,729,796,532	19,732,421,683	-		
b) Foreign Currency	3,102,046,107	3,099,420,956	-		
1.6. Income Tax Liability	-	-	-		
1.7. Other Liabilities (including Bills payable, dividend payable etc)	542,686,102	518,446,691	(24,239,412)	-4%	Regrouping of provisions
<b>2. Total Assets (2.1 to 2.7 )</b>	<b>26,222,541,109</b>	<b>26,028,528,237</b>	<b>(194,012,872)</b>	<b>-1%</b>	
2.1. Cash & Bank Balance	4,448,674,265	4,448,674,265	-		
2.2. Money at call and Short Notice	659,487,873	659,487,873	-		
2.3. Investments	3,768,292,940	3,758,105,909	(10,187,031)	-0.3%	Net of provision in Audited Financials
2.4. Loan & Advances	16,697,063,153	16,476,630,201	(220,432,952)	-1%	Net of provision in Audited Financials
a. Real Estate Loan	2,614,039,067	2,587,588,910	(26,450,157)	-1%	
(i) Residential Real Estate	383,819,658	379,981,461	(3,838,197)	-1%	
(ii) Business Complex & Residential Apart. Construction Loan	997,086,704	987,115,837	(9,970,867)	-1%	
(iii) Income generating Commercial Complexes Loan	698,881,728	691,583,145	(7,298,583)	-1%	
(iv) Other Real Estate Loan	534,250,977	528,908,468	(5,342,510)	-1%	
b. Personal Home Loan of Rs 100 lacs or less	733,552,029	725,110,052	(8,441,976)	-1%	
c. Margin Type Loan	224,132,707	221,891,380	(2,241,327)	-1%	
d. Term Loan	2,695,114,327	2,650,400,823	(44,713,504)	-2%	
e. Overdraft Loan/ TR Loan/ WC Loan	7,828,649,433	7,729,820,421	(98,829,011)	-1%	
f. Others	2,601,575,591	2,561,818,615	(39,756,976)	-2%	
2.5. Fixed Assets	308,172,111	308,172,110	(0)	0%	
2.6. Non Banking Assets (net)	-	-	-		
2.7. Other Assets	340,850,767	377,457,879	36,607,111	11%	Regrouping of provisions

continue... COMPARISON OF UNAUDITED AND AUDITED FINANCIAL STATEMENT

continue... COMPARISON OF UNAUDITED AND AUDITED FINANCIAL STATEMENT

## Schedule 4.35

PARTICULARS	AS PER		VARIANCE		REASONS FOR VARIANCE
	UNAUDITED	AUDITED			
	FINANCIAL	FINANCIAL	AMOUNT	IN %	
STATEMENT	STATEMENT				
<b>3. Profit &amp; Loss Account</b>					
3.1. Interest Income	2,289,359,534	2,289,359,534	(0.01)		
3.2. Interest Expenses	1,645,718,018	1,645,718,018	-		
<b>A. Net Interest Income ( 3.1-3.2 )</b>	<b>643,641,515</b>	<b>643,641,516</b>	<b>1</b>		
3.3. Fees, Commission & Discount	149,817,868	149,817,868	-		
3.4. Other Operating Income	56,390,780	56,390,780	-		
3.5. Foreign Exchange Gain & Loss	107,950,625	107,950,625	-		
<b>B. Total Operating Income ( A+3.3+3.4+3.5 )</b>	<b>957,800,788</b>	<b>957,800,789</b>	<b>1</b>		
3.6. Staff Expenses	178,284,804	178,284,804	-		
3.7. Other Operating Expenses	194,842,563	194,842,563	-		
<b>C. Operating Profit before Provisions ( B -3.6-3.7 )</b>	<b>584,673,420</b>	<b>584,673,422</b>	<b>1</b>		
3.8. Provision for Possible Losses	31,352,831	30,808,421	(544,409)	-2%	Grouped under write back below
<b>D. Operating Profit ( C- 3.8 )</b>	<b>553,320,590</b>	<b>553,865,001</b>	<b>544,411</b>	<b>0%</b>	
3.9. Non Operating Income/Expenses ( Net )	5,834,022	5,834,022	-		
3.10. Loan Loss Provision Written Back	544,409	-	(544,409)	-100%	Grouped under Provisions above
<b>E. Profit from Regular Activities ( D+3.9+3.10 )</b>	<b>559,699,021</b>	<b>559,699,023</b>	<b>2</b>		
3.11. Extraordinary Income/Expenses (Net)	-	-	-		
<b>F. Profit before Bonus and Taxes (E+3.11 )</b>	<b>559,699,021</b>	<b>559,699,023</b>	<b>2</b>		
3.12. Provision for Staff Bonus	50,881,729	50,881,729	0		
3.13. Provision for Taxes	152,645,188	154,626,044	1,980,856	1%	Tax calculation as per Income tax act in Audited Financials
Deferred Tax Expense/ (Income)	-	(2,199,092)	(2,199,092)		Deferred tax calculated
<b>G. Net Profit/ Loss ( F-3.12-3.13 )</b>	<b>356,172,105</b>	<b>356,390,342</b>	<b>218,237</b>		

## UNAUDITED FINANCIAL RESULTS (QUARTERLY)

As at 4rd Quarter (15/7/2012) of the Fiscal Year 2011/12

Schedule 4.A  
NPR in ' 000

PARTICULARS	THIS QUARTER	PREVIOUS QUARTER	CORRESPONDING PREVIOUS
	ENDING 30 CHAITRA 2068 12-APR-12	ENDING 30 CHAITRA 2068 12-APR-12	YEAR QUARTER ENDING 32 ASHAD 2068 16-JUL-11
<b>1. Total Capital and Liabilities ( 1.1 to 1.7)</b>	<b>26,222,541</b>	<b>23,099,676</b>	<b>21,757,378</b>
1.1. Paid Up Capital	1,694,081	1,694,081	1,613,521
1.2. Reserve & Surplus	775,951	669,843	676,879
1.3. Debenture & Bond	350,000	350,000	350,000
1.4. Borrowings	27,980	-	-
1.5. Deposits ( a+b )	22,831,843	19,670,877	18,299,628
a) Domestic Currency	19,729,797	17,892,357	16,945,032
b) Foreign Currency	3,102,046	1,778,519	1,354,596
1.6. Income Tax Liability	-	-	-
1.7. Other Liabilities	542,686	714,875	817,350
<b>2. Total Assets (2.1 to 2.7 )</b>	<b>26,222,541</b>	<b>23,099,676</b>	<b>21,757,378</b>
2.1. Cash & Bank Balance	4,448,674	2,529,353	2,774,592
2.2. Money at call and Short Notice	659,488	-	50,000
2.3. Investments	3,768,293	3,200,988	3,051,609
2.4. Loan & Advances	16,697,063	16,573,358	15,389,472
a. Real Estate Loan	2,614,039	2,923,467	3,423,184
(i) Residential Real Estate	383,820	422,661	441,903
(ii) Business Complex & Residential Apart.Construction Loan	997,087	1,234,857	1,405,028
(iii) Income generating Commercial Complexes Loan	698,882	703,122	754,089
(iv) Other Real Estate Loan	534,251	562,827	822,164
b. Personal Home Loan of Rs 100 lacs or less	733,552	701,084	620,140
c. Margin Type Loan	224,133	205,426	149,569
d. Term Loan	2,695,114	2,598,267	2,666,342
e. Overdraft Loan/ TR Loan/ WC Loan	7,828,649	7,618,192	6,787,122
f. Others	2,601,576	2,526,921	1,743,115
2.5. Fixed Assets	308,172	298,278	352,338
2.6. Non Banking Assets (net)	-	-	-
2.7. Other Assets	340,851	497,700	139,366
<b>3. Profit &amp; Loss Account</b>	<b>Up to This Quarter</b>	<b>Up to Last Quarter</b>	<b>Up to Corresponding Previous Year This Quarter</b>
3.1. Interest Income	2,289,360	1,699,956	2,233,333
3.2. Interest Expenses	1,645,718	1,226,151	1,503,851
<b>A. Net Interest Income ( 3.1-3.2 )</b>	<b>643,642</b>	<b>473,805</b>	<b>729,482</b>
3.3. Fees, Commission & Discount	149,818	108,095	67,796
3.4. Other Operating Income	56,391	36,644	69,515
3.5. Foreign Exchange Gain & Loss	107,951	72,358	63,128

continue... UNAUDITED FINANCIAL RESULTS (QUARTERLY)

continue... UNAUDITED FINANCIAL RESULTS (QUARTERLY)

## Schedule 4.A

3. PROFIT & LOSS ACCOUNT	UP TO THIS QUARTER	UP TO LAST QUARTER	UP TO CORRESPONDING PREVIOUS YEAR THIS QUARTER
<b>B. Total Operating Income ( A+3.3+3.4+3.5 )</b>	<b>957,801</b>	<b>690,903</b>	<b>929,920</b>
3.6. Staff Expenses	178,285	128,686	157,662
3.7. Other Operating Expenses	194,843	126,703	169,294
<b>C. Operating Profit before Provisions ( B -3.6-3.7 )</b>	<b>584,673</b>	<b>435,514</b>	<b>602,964</b>
3.8. Provision for Possible Losses	31,353	50,602	13,622
<b>D. Operating Profit ( C- 3.8 )</b>	<b>553,321</b>	<b>384,913</b>	<b>589,341</b>
3.9. Non Operating Income/Expenses ( Net )	5,834	3,398	874
3.10. Loan Loss Provision Written Back	544	4,648	786
<b>E. Profit from Regular Activities ( D+3.9+3.10 )</b>	<b>559,699</b>	<b>392,958</b>	<b>591,001</b>
3.11. Extraordinary Income/Expenses (Net)	-	-	2,348
<b>F. Profit before Bonus and Taxes (E+3.11 )</b>	<b>559,699</b>	<b>392,958</b>	<b>593,349</b>
3.12. Provision for Staff Bonus	50,882	35,723	53,941
3.13. Provision for Taxes	152,645	107,170	161,823
<b>G. Net Profit/ Loss ( F-3.12-3.13 )</b>	<b>356,172</b>	<b>250,064</b>	<b>377,586</b>
<b>4. Ratios At the End of</b>	<b>At the End of This Quarter</b>	<b>At the End of Previous Quarter</b>	<b>Corresponding Previous Year Quarter</b>
4.1. Capital Fund to RWA	11.76%	11.71%	13.21%
4.2. Non Performing Loan (NPL) to Total Loan	0.62%	1.73%	0.90%
4.3. Total Loan Loss Provision to Total NPL	212.56%	82.26%	136.58%
4.4. Net Interest Spread (4.6 - 4.7)	2.50%	2.60%	2.71%
4.5. CD ratio (Calculated as per NRB Directives)	71.43%	77.77%	80.21%

## DISCLOSURE AS PER BASEL II

### 1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

#### ■ TIER 1 CAPITAL AND A BREAKDOWN OF ITS COMPONENTS;

PARTICULARS	IN NPR '000
Paid up Equity Share Capital	1,694,081
Statutory General Reserves	301,303
Retained Earnings	69,203
Share Premium	13,072
Debenture Redemption Reserve	200,000
Deferred Tax Reserve	1,925
Fractional bonus shares carried forward	583
Core Capital	2,280,167

#### ■ TIER 2 CAPITAL AND A BREAKDOWN OF ITS COMPONENTS;

PARTICULARS	IN NPR '000
Subordinated Term Debt (8.5% Laxmi Bank Debenture, 2072) – (net of Redemption Reserve of NPR 200 mio)	150,000
General loan loss provision	166,054
Exchange Equalization Reserve	16,535
Investment Adjustment Reserves	4,140
Supplementary Capital	336,729

#### ■ DETAILED INFORMATION ABOUT THE SUBORDINATED TERM DEBTS WITH INFORMATION ON THE OUTSTANDING AMOUNT, MATURITY, AMOUNT RAISED DURING THE YEAR AND AMOUNT ELIGIBLE TO BE RECKONED AS CAPITAL FUNDS.

8.5% Laxmi Bank Debenture, 2072	
Outstanding Amount	NPR 350 Million
- Maturity	24 November 2015
- Amount raised during the year	NPR 350 Million
- Amount eligible for Tier 2 capital fund (net of Redemption Reserve)	NPR 150 Million



### ■ DEDUCTIONS FROM CAPITAL

PARTICULARS	IN NPR '000
Investment in equity in licensed Financial Institutions	9,740
Investment in equity of institutions with financial interests	126,082
Investments arising out of underwriting commitments	447
<b>Total</b>	<b>136,269</b>

### ■ TOTAL QUALIFYING CAPITAL

PARTICULARS	IN NPR '000
Tier 1 Capital	2,280,167
Tier 2 Capital	336,729
Deductions	(136,269)
<b>Total Qualifying Capital (Total Capital Fund)</b>	<b>2,480,627</b>

### ■ CAPITAL ADEQUACY RATIO;

- 11.02%

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

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

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

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

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

## 2. RISK EXPOSURES

### ■ RISK WEIGHTED EXPOSURES FOR CREDIT RISK, MARKET RISK AND OPERATIONAL RISK

PARTICULARS	IN NPR '000
Risk weighted exposures for Credit Risk	20,882,957
Risk weighted exposures for Operational Risk	1,147,755
Risk weighted exposures for Market Risk	44,987
2% Additional RWE under supervisory review	441,514
<b>Total Risk Weighted Exposures</b>	<b>22,517,213</b>

### ■ RISK WEIGHTED EXPOSURES UNDER EACH OF 11 CATEGORIES OF CREDIT RISK

PARTICULARS	IN NPR '000
a) Claims on government & central bank	-
b) Claims on other official entities	219,017
c) Claims on banks	1,019,447
d) Claims on corporate & securities firms	10,705,607
e) Claims on regulatory retail portfolio	541,964
f) Claims secured by residential properties	1,530,005
g) Claims secured by commercial real state	1,452,992
h) Past due claims	823,775
i) High risk claims	1,563,304
j) Other assets	360,071
k) Off balance sheet items	2,666,775
<b>Total</b>	<b>20,882,957</b>

### ■ TOTAL RISK WEIGHTED EXPOSURE CALCULATION TABLE

PARTICULARS	IN NPR '000
Risk weighted exposures for Credit Risk	20,882,957
Risk weighted exposures for Operational Risk	1,147,755
Risk weighted exposures for Market Risk	44,987
2% Additional RWE under supervisory review	441,514
<b>Total Risk Weighted Exposures</b>	<b>22,517,213</b>
Total Capital Fund	2,480,627
<b>Total Capital to Total Risk Weighted Exposures</b>	<b>11.02%</b>

### ■ AMOUNT OF NPAS (BOTH GROSS AND NET) (IN NPR '000)

#### Restructured/ Rescheduled Loan

Gross	NPR 65,892
Net	NPR 49,419

#### Substandard Loan

Gross	NPR 8,338
Net	NPR 6,244

#### Doubtful Loan

Gross	NPR 8,746
Net	NPR 4,373

#### Loss Loan

Gross	NPR 20,725
Net	NIL

#### NPA ratios

Gross NPA to gross advances  
0.62%

Net NPA to net advances  
0.36%

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

Additional Loan loss provision NPR 631

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

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

Presented in the Financial Statement schedule 4.12.1, 4.12.2 and 4.12.3

### 3. RISK MANAGEMENT FUNCTION RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Our approach to risk managements is built around:

- formal governance processes that is constantly reviewed and updated

- top level commitment & development of risk framework through close alignment of risk capabilities to business objectives

- ensuring that responsibility for risk resides at all levels – from the Board down through all individual employees

- continuous research and development of new and improved risk management processes and tools supported by effective Management Information Systems

- all businesses are accountable for managing risk in their own area, assisted, where appropriate, by independent risk specialists
- by embedding this approach to measure and understand key risks to ensure the viability of all processes and transactions

### ■ MOVEMENT OF NON PERFORMING ASSETS

Amount in NPR '000

PARTICULARS	PREVIOUS YEAR	NET ADDITION/ (REDUCTION) DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Restructured	112,537	(46,645)	65,892
Substandard	9,925	(1,587)	8,338
Doubtful	3,194	5,552	8,746
Loss	13,182	7,543	20,725
<b>Total</b>	<b>138,838</b>	<b>(35,137)</b>	<b>103,701</b>

### ■ WRITE OFF OF LOANS AND INTEREST SUSPENSE (IN NPR '000)

Loan written off	NIL
Interest written off	NIL

### ■ MOVEMENTS IN LOAN LOSS PROVISIONS AND INTEREST SUSPENSE

Amount in NPR '000

Particulars	Previous Year	Addition/ (reduction) during the year	Balance at the end of the Year
Loan loss provision	189,625	30,808	220,433
Interest Suspense	40,114	38,946	79,060

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

## RISK MANAGEMENT FRAMEWORK AND ORGANIZATION

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

## CREDIT RISK

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

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

Board level committee comprising of non-executive board members and senior management further reviews credit portfolio and industry concentration aspects regularly and make decisions / strategies based on the need of the hour.

## Credit Approval Process

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

## Post Disbursal Review and Monitoring

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

## Distribution of Risk Assets by Industry sector / Concentration Risk

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

## MARKET RISK

The bank's foreign exchange risk stems from foreign exchange position taking and commercial dealing. All foreign exchange positions are managed by the Treasury. Fluctuation in foreign exchange rates can have a significant impact on a Bank's financial position. Laxmi Bank has adopted measures to appropriately hedge the risks that arise while carrying out international trade transactions. Code of ethics for treasury dealers is in place to ensure that professionalism and confidentiality are

maintained and ethical dealing practices observed. Our treasury dealers have gained exposure to international markets as well in addition to having undergone appropriate trainings. The Bank has followed the structure of a Treasury back office independent of Treasury dealing room functions.

## OPERATIONAL RISK

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

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

## Compliance and Assurance / Operations Risk Unit

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

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

Credit risk mitigants used are deposits and cash margin held with own bank and deposits held with other banks and financial institutions and guarantees from banks and financial institutions including those from MDBs.



## Solar Lights

*Sustainable CSR through Laxmi Cares*



## CORPORATE RESPONSIBILITY

The most meaningful contribution we can make to our society is by being good at we do – Banking. While fulfilling Investor expectations, we are mindful of our responsibility to deliver our services in a prudent, professional and responsible manner that provides long term and sustainable benefits to all stakeholders.

We have broadly identified the following 5 areas for our Responsible Banking initiatives:

### RESPONSIBLE LENDING

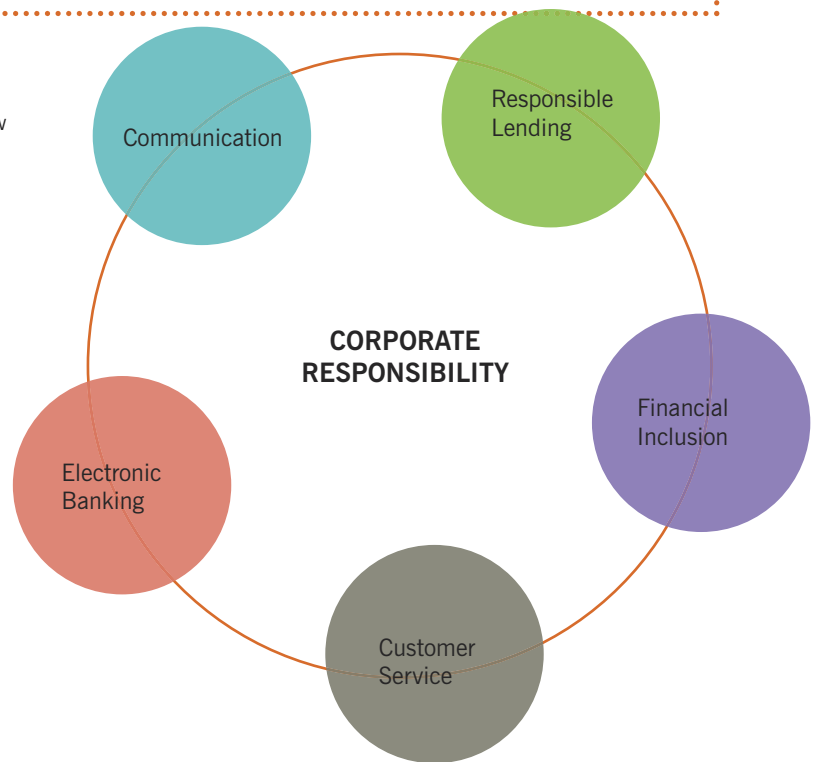
Our lending decisions are based on cash flow and the ability of the borrower to repay a loan. We ensure that loan products and structures are based on the borrower’s needs and conform to prudent banking norms. We disclose upfront the terms and conditions of a loan and the financial and non-financial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

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

### FINANCIAL INCLUSION

Approximately 3% of our loans are extended to microenterprises either through intermediaries or directly to the end consumers. We are committed to reaching out to the under-banked segment of the society through different ways and this commitment has been further reinforced with the creation of Laxmi Laghubitta Bittiya Sanstha, our microfinance subsidiary.

The Small Business segment is a priority area for our retail lending portfolio and we introduced 2 new programs this year – Sana Byawasai Karjaa and Laxmi Udyami Karjaa. These loans offer small businesses



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

We introduced mobile wallets under the brand name – Mobile Khata under the Hello Paisa platform this year. This service is available from more than 200 retail merchants in 20 districts that have relatively low bank branch penetration. Hello Paisa allows customers to carry out basic banking services such as savings, peer-to-peer transfers, airtime top ups etc. through their registered mobile phones

## SERVICE EXCELLENCE

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

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

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

## ELECTRONIC BANKING

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

Since our inception in 2002 we have pioneered and promoted the use of electronic service delivery channels in the country. We take the responsibility of being the thought leaders in electronic banking very seriously and are committed to working with all stakeholders to enhance its scope and dimension. We have taken a number of steps to educate the consumers and encourage them to adopt these channels so that they enjoy the benefits from progresses made in the field of communication and technology.

## COMMUNICATION

At Laxmi Bank, communication with our stakeholders is an important part of our Responsible Banking initiative. Customers who make informed decisions are empowered and can contribute to the overall financial health of the economy. Through the years we have made partner with a number of publications to disseminate information and advises related to personal finances, small businesses and career planning We will continue to work with like-minded partners to improve the awareness level of the consumers on banking and financial matters.

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

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The Laxmi Bank story began 10 years ago. Today, through a network of 31 branches and a host of IT enabled channels, we serve a wide range of customers-from large institutions and corporate to small businesses and micro entrepreneurs-who represent the new Nepali society : ambitious, confident and progressive.

As our journey continues into the second decade and beyond, we take this opportunity to thank you for your patronage and to reinforce our commitment to prudent, fundamentally sound banking practices to make you feel secure, valued and empowered.

We also thank our investors, regulators and the communities where we operate for your belief, support and guidance.



Laxmi Bank



Laxmi Bank

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