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## VISION STATEMENT

Our vision is to achieve Sustainable growth with profitability while focusing on consolidation of internal processes and growth sectors.

a. We will achieve our Vision by earning the loyalty of our clients through:

1. Quality Product Good Advice
2. Dependable Service
3. Efficient Payment and Receipt of Funds

b. Giving our Employees purpose and pride through:

1. Recognition of Performance
2. Authority commensurate with Responsibility
3. Competitive Pay Scale and Benefits
4. Training

c. And maintaining the confidence and support of our Share-Holders through:

1. Prudence
2. Fore-sight
3. Progress

# FINANCIAL HIGHLIGHTS



Annual Report '10

## SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

As of and for the years ended  
December 31 (in thousands of  
ngultrums, unless otherwise  
noted)

### Financial Results

|                        | 2010      | 2009      | 2008    | 2007    | 2006    | 2005    |
|------------------------|-----------|-----------|---------|---------|---------|---------|
| Interest Income        | 1,446,104 | 1,204,970 | 986,440 | 798,185 | 615,119 | 509,263 |
| Interest Expenses      | 751,994   | 634,903   | 367,442 | 245,470 | 236,063 | 198,664 |
| Interest Differential  | 694,110   | 570,067   | 618,998 | 552,714 | 379,056 | 310,599 |
| Other Income           | 138,048   | 86,148    | 163,111 | 9,875   | 63,556  | 85,268  |
| Gross Operating Income | 832,159   | 656,216   | 782,109 | 562,590 | 442,612 | 395,867 |
| Operating Expenses     | 234,224   | 241,989   | 217,226 | 162,188 | 140,517 | 96,154  |
| Net Operating Income   | 597,934   | 414,227   | 564,883 | 400,401 | 302,094 | 299,713 |
| Profit before Tax      | 361,080   | 377,502   | 451,148 | 362,141 | 274,834 | 216,626 |
| Profit after Tax       | 250,817   | 266,269   | 310,349 | 249,545 | 191,762 | 151,638 |

### Balance Sheet Information

|                    |            |            |            |            |            |           |
|--------------------|------------|------------|------------|------------|------------|-----------|
| Total Assets       | 26,637,920 | 24,106,473 | 16,733,959 | 10,481,057 | 10,051,834 | 7,799,412 |
| Capital & Reserves | 1,603,094  | 1,453,599  | 1,288,652  | 950,313    | 705,575    | 638,856   |
| Other Liabilities  | 25,034,826 | 22,652,874 | 15,445,307 | 9,530,744  | 9,346,259  | 7,160,566 |

### Common Share Information

|                                    |        |        |        |        |         |        |
|------------------------------------|--------|--------|--------|--------|---------|--------|
| Dividend Declared (In Nu) (in Mil) | 101.32 | 101.32 | 101.32 | 47,603 | 119,008 | 83,306 |
| Earnings per share (in Nu)         | 70.55  | 74.90  | 87.29  | 209.69 | 161.13  | 127.42 |
| Book Value per share (in Nu)       | 450.92 | 408.87 | 354.67 | 852.98 | 683.29  | 622.16 |
| Dividend per share (in Nu)         | 28.50  | 28.50  | 28.50  | 40.00  | 100.00  | 70.00  |



## DIRECTOR'S PROFILE

**Mr Ugyen Namgyal. Chairman**, appointed on 23rd July 2009. He has worked as the General Manager of Finance in Bhutan Development Finance Corporation for 6 years after which he took over as the CFO in Druk Green Power Corporation and has been in the current position for the last 2 years. Mr. Ugyen is a member of the CPA Australia with Bachelors in Business from University of South Australia and has a Bachelor of Commerce (Hons) degree from Sherubtse College, Kanglung.

**Mr. Ugyen Wangchhuk. Director**, appointed as an additional director on 21 March 2008. He worked in the Royal Audit Authority for more than fifteen years. At present he is the Secretary General of the Bhutan Football Federation. Mr. Wangchhuk brings to the BNBL his vast and valuable expertise in the field of auditing. He is the Chairman of the Board Audit Committee.

**Ms. Eutha Karchung. Director**, appointed on 21 March 2008. She works in the leading tour company, Etho Metho since 2005. She has degree in Economics from Knox College and post graduate diploma in integrated marketing communications from University of California Berkeley, CA. Ms. Eutha brings to the BNBL valuable experience of tourism industry.

**Mr Tobgay S. Namgyal. Director**, appointed 7 August 2002, re-elected on 23 March 2007. He is a conservationist trained at Sherubtse College and Yale University. Since 1999, Mr Namgyal has been the director of the Bhutan Trust Fund, the world's first environmental trust fund. Mr Namgyal brings to BNBL valuable capital market expertise and the long-term investment horizon of a major institutional investor.

**Mr. Sonam Rinchen. Director**, appointed on 21 March 2008, representing the the DHI. He worked in the Ministry of Economic Affairs for more than ten years in the various capacities. At present he is the Senior Analyst in the Druk Holding and Investments. He is the member of the Board Credit Committee.

**Dasho Tashi Phuntsog. Director**, appointed on the 14th of July 2010 as a representative of the National Pension and Provident Fund. Dasho Tashi Phuntsog is the Cabinet Secretary in the Royal Government of Bhutan and brings to the board a vast experience in the field of management. Dasho is the Chairperson of the Board Governance Committee and a member of the Board Executive and Review Committee

**Mr. T.S.Bhattacharya. Director**, appointed on 23rd March 2010. Mr. Bhattacharya is a Director, Transaction Advisory Services in Ernst & Young. He specializes in the setting up of new strategic initiatives in the form of new business, new products and new markets in the financial markets space. Before joining Ernst & Young TSB was the Managing Director of State Bank of India which has seen him manage diversified and challenging roles.

# MANAGEMENT TEAM



Annual Report '10

|                        |                                                  |
|------------------------|--------------------------------------------------|
| Kipchu Tshering        | Chief Executive Officer                          |
| Sonam Tobgay           | Deputy Chief Executive Officer                   |
| Kalyan Kumar Bhaduri   | Advisor                                          |
| Dorji Namgyal Rinchhen | Company Secretary                                |
| Tandin Dukpa           | Chief, Risk Analytics & Management               |
| Gyam A.D. Namgyel      | Chief, Financial Control & Credit Administration |
| Pelzore Rumba          | Group Head, Banking Operations                   |
| Kesang Namgyel         | Group Head, Business Development                 |
| Chewang Samdrup        | Head, Internal Audit Department                  |
| Karma Deki             | Head, Human Resource & Administration            |
| Tashi Dorji Rinchhen   | Head, Credit Administration & Review Unit        |
| Bidha Dorji            | Head, Risk Analytics & Management                |
| Tashi Lhamo            | Head, Financial Control Unit                     |
| Norbu Wangchuk         | Head, Corporate Banking                          |
| Dorji Drukpa           | Officiating Head, Legal Department               |
| Sangay Wangdi          | Head, Engineering                                |
| Mann Bdr. Rai          | Head, IT Department                              |
| Tapas Dutta            | Project Manager                                  |
| Delay Phuntsho         | Branch Manager, Thimphu                          |
| Karma Choki            | Branch Manager, Phuentsholing                    |
| Lhaki Wangmo           | Branch Manager, Paro                             |
| Dorji Drakpa           | Branch Manager, Monger                           |
| Biren Rai              | Branch Manager, Gelephu                          |
| Purna Bdr. Mongar      | Branch Manager, Wangduephodrang                  |
| Kesang Deki            | Branch Manager, Bumthang                         |
| Sonam Wangdi           | Branch Manager, Trashigang                       |
| Pema Rinzin            | Branch Manager, Samdrup Jongkhar                 |



# DIRECTOR'S REPORT

## Dear shareholders,

The Board of Directors of the Bank have great pleasure in presenting before you the Annual Report of your Bank and its subsidiary for the year ended 31<sup>st</sup> December, 2010.

With the changing needs of the customers, the Board and the management have steered your bank to its new path of development with clear vision, mission and goals supported by appropriate strategic action plans and policies.

### **Business:**

The Bank has made a significant growth in business mix by 13.6% from Nu 32,744.23 million to Nu 37,192.74 million in 2010. The Bank's deposits and loans and advances reached a level of Nu 23,759.92 million and 13,432.82 million respectively in 2010. The deposit growth was 9.7% and the growth in loans and advances was 21%.

### **Net Profit and Reserve :**

Bank's net profit of Nu 250.81 million after tax has gone slightly down by 5.8% in 2010 in comparison to the profit of Nu 266.26 million achieved in 2009. The lowering of profit was mainly due to provision of Nu 234.31 million provisions against loans and advances and also due to non-utilization of SLR fund fully.

Reserves and surplus registered a growth by 11.51% in 2010 over previous year which strengthened the financial structure of the bank for further growth and sustainability. The capital adequacy ratio, however, declined to 10.57% due to high growth in loans and advances and corresponding high growth of risk weighted assets as per the prudential norms of RMA.

### **Dividend:**

The Board of Directors of the Bank proposed to declare dividend of Nu 28.50 per share on the restructured enhanced paid up capital thereby maintaining the shareholders' return to a great extent.

### **Long term corporate strategy:**

As communicated about the Bank's commitment to maximize the wealth creation of its stakeholders through implementation of long term corporate strategy plans on best global banking practices, prudent corporate governance, sound risk management, improved standards of banking services and productivity of the employees under more challenging conditions, I am pleased to inform you that the bank has already started its action plan for implementation of strategies through an internationally renowned consultancy firm Ernst and Young, its strengths, weaknesses, opportunities and threats in order to streamline the bank's various delivery channels for achieving its long term corporate objectives.

The Bank's short term and long term target setting have been made keeping in view of the following four parameters:-

- (i) Shareholders Return
- (ii) Organization Growth Perspective
- (iii) Efficiency Perspective
- (iv) Quality Perspective

During 2010, the Board of Directors approved the following:

- (i) **IT Policy:** The policy basically revolves around the guiding principles for protecting and safeguarding the Bank's information assets. The security model encompasses around data classification, physical application, network, e-mail, operating system, internet and password. The various processes which have been standardized in this policy are related to software and hardware acquisition and maintenance, license management, back up and recovery help desk & change management. The IT policy also details guidelines in relation to outsourcing, business continuity, Disaster recovery and Incident Management.
- (ii) **Credit Manual:** The credit manual of the bank has been approved by the Board in 2010. The manual consists of credit policy, credit process, credit functions and responsibilities as well as the structure and powers of Credit Committee and Credit Review Unit. It provides a frame work for the bank which would enable future activities to take place in a timely, consistent and prudent manner. Through a sound credit policy, the bank will strive to achieve its vision to become a leading commercial bank by creating good quality assets through effective risk management. It will serve as a tool to translate strategies into tactical and operational objectives while assigning responsibility across the organization. The policy will also support accountability, performance measurement and reward, thus promoting operational efficiency at all levels.
- (iii) **5- Year Investment Policy:** The Board has approved the five year investment policy during the year. The investment policy has been framed with an objective of distributing the bank's fund for maximum gain as well as mitigating the risk. The policy highlighted the possible areas of investments in Government securities like Treasury bills, bonds, investment in commercial banks in Bhutan, investment in Fixes Assets and other miscellaneous securities.

### **Other Notable accomplishments:**

- (i) Two new loan products and one deposit product were launched during the year.
- (ii) One Extension Counter at Gyelposhing under Mongar Branch opened.
- (iii) An off-site new ATM has been set up at Lobesa, taking a total BNB ATM to 16 on 31.12.10.
- (iv) Risk focused audit has been introduced.
- (v) Financial :
  - (a) Interest income from loans & advances increased by 220 million i.e. 19.16%.
  - (b) Total interest income increased by 241 million i.e. 20%.
  - (c) Cost of deposits lowered down to 3.74% in 2010 against 3.96% in 2009.
  - (d) Operational cost reduced by 2.9%,



## DIRECTOR'S REPORT

- (e) Fee based income (other income) increased by 60.4% i.e. from 86 million in 2009 to 138 million in 2010.
- (f) NPL reduced to 4.47% in 2010 from 5.06% in 2009.
- (vi) A new agreement has been signed with ADB to participate in their Trade Finance Project,
- (vii) Bank's web site has been redesigned.
- (viii) During the year, bank has started in-house training programme for the staff members.

### **Corporate Governance:**

The Bank is committed to achieving a high standard of Corporate Governance in terms of best banking practices, transparency and accountability. The Board has already adopted the following recommendations made by the consultants Ernst and Young on Corporate Governance framework and policy to increase internal control and to increase transparency and effectiveness across bank:

- Corporate Governance policy
- HR policy
- Dividend policy
- Procurement policy
- Delegation matrix for responsibilities
- Detailed roles and responsibilities

The Board met five times during the year complying with the requirements of the Companies Act of the Kingdom of Bhutan, 2000 and RMA Prudential Regulations. The quorums of these meetings were duly maintained.

The statutory records/documents have been duly maintained by the bank as per Companies Act of the Kingdom of Bhutan, 2000. The terms of the Act relevant to the bank have generally been followed. Overall, the bank has followed practices of good corporate Governance during the year 2010.

### **Statutory Compliance:**

The Bank has improved the compliance procedures further with the requirements of RMA's Prudential Regulations, 2002. The bank has complied with the requirements of classification of assets, provisioning norms for non-performing loans, CRR and SLR requirements, disclosures on liquidity and related party transactions.

The Bank is in the process of further consolidation of its risk management techniques for improvement in compliance in future.

### **Board Committees:**

As per the recommendations of the consultants, the different Board Committees were formed by the





Board to effectively monitor the performance as well as to implement different strategies made by the Bank. In this connection, the different Board Committees met several times during 2010, the details of which are given below:

- Credit and Risk Management Committee – 10 times
- Audit, compliance and Fraud Committee – 4 times
- Governance, Recruitment & Remuneration Committee- 3 times
- Executive Committee- 1 time
- Investment Committee- 5 times

The Credit & Risk Management Committee approved loans up to Nu 50 millions which were not required to be sent to the Board. This helped in speedy disposal of loans. The Bank has already implemented retail credit risk models for appraisals and is expected to implement the corporate credit risk model very soon. During the year, the Bank has prepared the credit manual which clearly indicated the credit policy, credit process, functions and responsibilities as well as structure and powers of Credit Committee and Credit Review Unit. The Investment Committee framed the five year investment plan during the year.

### **Donations:**

Apart from normal banking operation, the Bank as a responsible and responsive corporate citizen, seeks to reinvest part of its profit in various community welfare projects to improve the quality of life of the poor, neglected, weaker and downtrodden sections of the society. During the year, the Bank made donations as given below

- Donation to His Majesty's Kidu Fund for Bumthang Fire victims
- Cleaning Campaign by students

### **Statutory Auditor:**

The Board sincerely thanks M/s K.C.Bhattacharjee & Paul for auditing the accounts of 2010.

### **Acknowledgement:**

The Board expresses its sincere gratitude to the Royal Government of Bhutan, Royal Monetary Authority of Bhutan, Royal Audit Authority of Bhutan, Royal Securities Exchange of Bhutan, Regional Revenue and Customs of Bhutan and other regulators for their valuable guidance and support. The Board also thanks all the financial Institutions in Bhutan, correspondent banks for their cooperation and patronage.

The Board acknowledges the unstinted support of its customers and shareholders and also wishes to place on record its appreciation of all the employees of the Bank for their dedicated services and contribution for the overall performance of the Bank.

Tashi Delek

**Ugyen Namgyal**  
**Chairperson**



# CHIEF EXECUTIVE'S REPORT

**Dear shareholders,**

It is a great privilege for me to place before you, the Bank's Annual Report, 2010 and to draw your attention to a few significant achievements made by the Bank in spite of stiff competition from the new competitors. As communicated to you last year on the future growth prospect of the Bank, I am pleased to inform you that the Bank was able to achieve the targeted business in a commendable manner under current economic scenario. It is expected that your Bank will continue its march towards further growth in the coming years crossing the different hurdles through planned and sincere efforts.

## **Economic Backdrop and Banking Environment**

The economy in Bhutan is growing steadily. The growth in Gross Domestic Product (GDP) in 2008 was 5% which grew to 7.4% in 2009 (estimated). New industries like power, cement and IT are coming up and the service sector like Hotels and Tourism retained its growth momentum. Both investment and consumer demand, underpinned by low interest rates fuelled the economic growth.

In the last 5 years, the exports growths have doubled to Nu 23.9 billion in 2009 whereas imports in 2009 were Nu 25.6 billion. As a result, the trade deficit became Nu 1.6 billion in 2009 resulting in current account deficit in balance of payment position of Nu 5.4 billion (10% of GDP) in 2008-09 compared to a deficit of Nu 1.1 billion (2.1% of GDP) in 2007-08. The deficit in current account has been substantiated with the borrowings from outside. The country's total outstanding external debt as of June, 2010 stood at USD 840.7 million. Of this total, USD 352.5 million were outstanding convertible currency debt and an equivalent of USD 488.2 million (Rs 22.8 billion) were Indian Rupee debt. Debt servicing as of June, 2010 amounted to USD 20.4 million on convertible currency debt and Rs 7.5 billion on Rupee denominated debt. The Foreign Exchange Reserve position as of June, 2010 was USD 827.7 million. Of the total, convertible currency reserve was USD 798 million and Indian rupee Reserve was Rs 1.3 billion. The reserve position might be considered adequate as it could serve 50% of yearly debt as well as serve 3 months import.

The year witnessed the opening of two more new banks (Druk-PNB and T-Bank) in Bhutan. As a result, the competition has become stiffer and retaining market share posed as a threat to already established banks. The pressure on interest spread has already started declining due to stiff competition. This year, the bank has introduced various new innovative products to retain its market share.

Going forward, the growth prospects for Bhutan economy remain bright. The growth in economy is reflected, among others, in increased investments and strengthening of Balance Sheet.

## **Long-Term Corporate Strategy**

BNB is committed to maximize the wealth creation of its stakeholders through implementation of long term corporate strategies on best global banking practices, prudent corporate governance, sound risk management, improved standards of banking services and productivity of the employees under more challenging conditions. I am pleased to inform you that in this regard the bank engaged an internationally renowned consultancy firm Ernst and Young to study the bank with reference to its business and banking environment, its strengths, weaknesses, opportunities and threats in order to streamline the bank's various delivery channels for achieving its long term corporate objectives. As per the recommendations of the consultants, the bank has implemented the following:

1. Organization restructuring
2. Performance Management System
3. Salary Harmonization

4. Customer Profiling
5. Risk Based Internal Audit
6. Credit Risk Mitigation
7. Business Process Re-engineering
8. Policy and Governance Framework
9. Financial Modeling
10. Management Information System
11. IT Policy
12. Knowledge Transfers

### **Corporate Social Responsibility**

Considering its corporate obligation to the society, the Bank extended its cooperative hand to the fire victim people of the society.

### **Network Expansion**

During the year, the Bank opened an extension counter at Gyelposhing under Mongar branch with the objective of reaching more people of rural Bhutan with minimum overhead costs.

### **Financial Performance**

1. **Profit:** The operating profit of the bank for 2010 stood at Nu 597.93 million as compared to Nu 414.22 million in 2009, recording a growth of 44.35%. The Bank has posted a Net Profit of Nu 250.82 million in 2010 as compared to Nu 266.27 million in 2009, registering a negative growth of 5.80%. The growth in operating profit in 2010 has been achieved due to increase in Net Interest Income and containment of operating expenses at a moderate level. The Profit after tax was reduced mainly due to high provision during the year.
2. **Dividend:** The bank has proposed a dividend of Nu. 28.50 per share.
3. **Net Interest Income**

The Net Interest Income of the Bank registered a growth of 21.76% from Nu 570.06 million in 2009 to Nu. 694.11 million in 2010. This was mainly due to growth in interest income on advances and lower cost of deposits.

Despite declining interest rates, the interest income from advances registered an increase from Nu 1148 million in 2009 to Nu 1368 million in 2010 due to higher volume.

Average yield on advance slightly came down from 11.83% in 2009 to 11.40% in 2010. However, volume increase of Nu 2346 million (i.e. by 21.16%) in the average level of advances contributed to the increase in interest income from advances.



# CHIEF EXECUTIVE'S REPORT

Interest from resources deployed in treasury operations increased from 54.4 million in 2009 to Nu 72.87 million in 2010 registering growth of 33.95%

4. Non-Interest Income: Non-interest income registered a growth of 60.24% from Nu. 86.15 million in 2009 to Nu 138.05 million in 2010. The growth was mainly due to forex gains of Nu 17.54 million in 2010 against a loss of Nu. 19.51 million in 2009. Moreover, the earning through exchange, commission and recoveries registered a growth of 24.48% from 87.42 million in 2009 to Nu 108.82 million in 2010. During the year, the Bank received an income of Nu 4.28 million (Nu. 3.45 million in previous year) by way of dividend.
5. Operating Expenses: The total operating expenses decreased slightly by 3.32% from Nu. 242 million in 2009 to Nu 234.22 million in 2010. Cost in regard to Legal & Professional fees lowered down during the year whereas cost on HRD increased due to putting more employees on training outside the country.
6. Provisions: Major amounts of provisions made in 2010 are as under:-
  - (i) Nu 234.32 million fresh provisions for non-performing loans (against Nu. 36.72 million) in 2009.
  - (ii) Nu 110.26 million towards provision for Income Tax as against Nu. 110.89 million in 2009.
7. Reserves & Surplus: (i) An amount of Nu 75.24 million was transferred to General Reserves in 2010 as against Nu. 79.88 million in 2009.
  - (ii) An amount of Nu. 27.50 million was transferred to Building reserve as against Nu. 50 million in 2009.

## **ASSETS**

The total assets of the Bank increased by 10.50% from Nu 24,106 million in 2009 to Nu 26,638 million in 2010. During the period, its loan portfolio increased by 21.16% from Nu. 11086.24 million to Nu 13,432.82 million and investment by 197.75% from Nu. 551.66 million to Nu 1642.61 million. A major portion of investment was in the domestic market in government treasury bills, fixed deposits in banks of Bhutan and other securities.

## **LIABILITIES**

The bank's aggregate liabilities (excluding capital & reserve) rose by 10.38% from Nu 22,652.88 in 2009 to Nu 25,040.15 million in 2010. The increase in liabilities was mainly contributed by increase in deposits. The deposits increased by 9.70% from Nu. 21657.98 million in 2009 to Nu 23,759.92 million in 2010.

## **KEY PERFORMANCE INDICATORS**

|                                       | 31.12.10 | 31.12.09 |
|---------------------------------------|----------|----------|
| 1. Interest Expenses/ Deposits        | 3.16%    | 2.93%    |
| 2. Interest Income/ Loan              | 10.22%   | 10.38%   |
| 3. Credit/ Deposit Ratio              | 56.54%   | 51.19%   |
| 4. Deposit Growth                     | 9.71%    | 48.33%   |
| 5. Advance Growth                     | 21.17%   | 20.66%   |
| 6. Increase/ Decrease in Provision    | 538.04%  | -67.46%  |
| 7. Increase/ Decrease in Forex Income | 189.90%  | -100%    |



|                                           |        |        |
|-------------------------------------------|--------|--------|
| 8. Return on Investment(PAT/capitalx100)  | 15.70% | 18.32% |
| 9. Earning per share (PAT/No. of shares)  | 70.55  | 74.90  |
| 10. Net Profit ratio ( PBT/ Total income) | 22.79% | 29.24% |

## **PERFORMANCE HIGHLIGHTS**

### **A. CORE OPERATIONS**

1. Treasury operations
2. Corporate Banking Group
3. Retail Banking Group
4. Asset Quality
5. Information Technology

### **B. Miscellaneous Operations:**

- a. Risk Management & Internal Control
- b. Management Information System
- c. Allied services
- d. Human Resource Management

#### **1. Treasury Operations**

- (i) During the year, the bank took proactive steps to utilize the SLR fund at best in Government Treasury bills as well as investing in the Banks within Bhutan. As a result, 30 million income could be raised in the year.
- (ii) Constant monitoring of foreign currency movement helped bank to make forex gain to the tune of Nu 17.54 million.

#### **2. Corporate Banking Group (CBG)**

Deposits as on 31/12/10 = Nu 17,729.21 million

Advances as on 31/12/ = Nu 5,227.34 million

The corporate deposit constitutes 74.6% of total deposit and the corporate loans constitute 38.9% of total loans. The CBG successfully launched a new product named 'Business Advantage Cord' in which the corporate will be sanctioned one time limits of BG & LC for their entire requirement for a period of one year. During the year, a new agreement with ADB has been signed to participate in their 'Trade Finance' projects.

#### **3. Retail Banking Group (RBG)**

Deposits as on 31/12/10 = Nu 6,030.71 million

Advances as on 31/12/10=Nu 8,205.48 million

The retail deposit constitutes 25.4% of total deposits and retail loans constitute 61.1% of total loans. The RBG successfully launched a new product 'consumer loan' during the year to meet up the needs of the consumer items of our customers.



# CHIEF EXECUTIVE'S REPORT

As a result of Bank's continuous efforts to provide customers with a wider choice, a new deposit product 'Recurring deposit account' could be launched during the year. This will help to increase the retail deposit which is very low in comparison to total deposits.

Opening up of Extension counter: An extension counter at Gyelposhing under our Mongar branch has been opened with the objective of reaching more people in rural Bhutan with minimum overhead costs.

## 4. **Asset Quality**

The Bank's Gross NPL as on 31.12.10 has been reduced to below 4.47% in comparison to 5.06% on 31.12.09.

## 5. **Information Technology**

Several IT projects, encompassing various facets of modern day banking have been launched.

### (i) **ATM Project**

An off-site new ATM was set up at Lobesa during the year, taking a total of BNB ATM's to 16 as on 31.12.10. ATM usage registered an impressive increase during the year. In total 2,70,896 no. of transactions were held through all ATM's and cash withdrawals amounting Nu. 1,180,706,650 were held during the year.

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## **B. MISCELLANEOUS**

### **(a) Risk Management**

The Bank's aim has been to reach global best standards in the area of risk management and to ensure that risk management processes are sufficient as well as efficient.

A credit scoring model has been introduced in Retail advances to minimize the credit risk. Credit committee of the Board oversees the policy and strategy for integrated risk management relating to various risk exposures of the bank. Asset liability Management committee is engaged in evolving optimal asset/liability structure for the bank on an on-going basis with a view to containing mismatches, optimizing profits through liquidity risk management. Risk Focused Internal Audit (RFIA) has been introduced in the Bank's internal audit system. All the branches have been segregated into three groups on the basis of business profile and risk exposures and are being subjected to RFIA.

### **(b) Management Informatics System (MIS)**

MIS in the Bank is being constantly fine-tuned to cater to the ever growing information needs, both for decision support as well as for statutory requirements.

Credit information system (CIS), a comprehensive solution for meeting all information needs on loans & advances has been implemented at all branches of the bank. This system has been developed with a view to supply the information to credit information Bureau (CIB) established at RMA. The data formats, software applications, data processing, data base architecture etc. have been standardized and are applied across all branches. The solution has resulted in development of a rich database which will enhance capabilities in the areas of product development, risk management and business intelligence in the days ahead.

### **(c) Allied Service**

**Customer Service:** Meeting the expectation of the customers has been receiving focused attention at all levels. New products and services have been developed and all operating offices have been geared up to provide customer service of a high order. The Bank's websites has been redesigned to provide a wide range of information. Relationship Managers previously used to extend product based services i.e. an RM was responsible to extend services on specific products. But now it has been shifted to customer based services i.e. all needs of a customer are now being serviced by a RM. As a result, the RMs are now acquainted with all products of the bank and in a position to offer products as per the needs of the customer.

### **Community Service:**

Apart from normal banking operation, the Bank, as a responsible and responsive corporate citizen, seeks to reinvest part of its profit in various community welfare projects to improve the quality of life of the poor, neglected, weaker and downtrodden sections of society.

During the year, the bank made donations as given below:-

- (i) Donation to His Majesty's Kidu Fund for Bumthang fire victims
- (ii) Cleaning campaign by Students

### **(d) Human Resource Management**

Bank recognizes its employees as the most valuable corporate asset. Underrated wide ranging HRD initiatives were taken during the year:-



## CHIEF EXECUTIVE'S REPORT

- (i) Conducting in house training for risk officers and Relationship Managers (RMs). All RMs were given practical oriented training how to analyze financials, how to inspect a unit and what other factors needed to be taken care of the existing and proposed loans. Trainings were also imparted to many staffs in the institutes outside the country.
- (ii) Revamping of performance Management system (PMS) with focus on competency – based assessments for Career progression.
- (iii) Arrangement of recruitment test for appointment of officers, Legal assistants and sub-staff.

### **Achievements during 2010**

- 1) Throughout the year CD ratio was maintained around 60-65%
- 2) Liquidity management exercise was conducted every fortnight. The interest rates of deposits were fine – tuned several times to avoid excess liquidity. As a result, deposit growth could be restricted to 9.7%, whereas advance growth of 21.16 % could be achieved. The cost of deposits could be lowered down from 3.96% in 2009 to 3.74% in 2010.
- 3) SLR fund management could be made successfully. Except the treasury bill launched in Jan, 2010, all the treasury bills issued by RMA could be purchased by us. Moreover, more than 1.5 billion could be invested in different banks of Bhutan as SLR investments. From this SLR fund management, nearly 30 million interest income could be increased during the year.
- 4) In- house training to different staff members were given in Thimphu and Phuentsholing.
- 5) Operating cost could be restricted in 2010. The cost was reduced by Nu 7.78 million in 2010 in comparison to 2009.
- 6) Other income could be raised from 86 million to 138 million.
- 7) A sizeable growth in advance far above the budgeted level could be achieved.
- 8) Marketing Division prepared a Survey Report on 'Customer Satisfaction' during the year. From the extract of the report, we made our action plan for the year 2011.

### **Contribution to National Exchequer**

It is our pleasure to inform the shareholders that the bank as a contributor to the development of the nation paid Nu.110.26 million as Corporate Income Tax to the National Exchequer.

### **Dividend**

The Bank made a post tax profit of Nu 250.81 million. After transferring Nu 108.13 million out of profit to General Reserve, Foreign exchange fluctuation reserve, contingency reserve and Building reserves in view of the future growth of the bank , the Board, out of the allocable surplus, recommended dividend of Nu 30.00 per share subject to approval of the shareholders amounting to Nu 106.65 million on its increased capital structure thus giving them a handsome return this year also. It is expected that your future return will continued to be good.



## **Our Stakeholders**

We consider that our customers are nucleus and the stakeholders are the catalysts for achieving our goals. Our business interests are inalienable from the well being of the community we work in. Our customers, shareholders and other stakeholders enjoy excellent banking with us. This is well reflected in our performance. The spontaneous support from our customers lends us impetus to meet our target. Beyond any doubt, we take vigorous efforts to ensure highest standards of corporate governance, transparency and accountability. We strictly adhere to the rules, regulations, guidelines, acts and policies set out by our Board, the Central Bank and other regulators.

## **Our People**

BNB considers its employees as its most precious asset of the organization for its continuing growth and prosperity without whom the march towards excellence would have not been possible.

The Bank is giving more emphasis for their development in terms of knowledge and skill which is the major contributor of the overall performance and growth. A number of initiatives have been taken with a focus to facilitate knowledge management, skill enhancement, motivational strategies and cultural changes to equip the employees to face the competitive environment.

The business per employee increased from Nu 86.40 million in 2009 to Nu 92.06 million in 2010 thereby achieving a growth of 6.55%. This growth contribution by the employees indicates their commitment to the Bank.

## **Conclusion**

I am confident that the march towards excellence and growth in all the spheres of our Bank will be continued through team efforts striving for highest standards of excellence. All of us know that the coming years will be more challenging with the opening of two new Banks in the country. I am confident that the bank will be able to face these challenges successfully and continue to deliver its best in the coming years through implementation of wider range of customer friendly products, improved technologies and processes and excellent customer service.

I express my deepest appreciation and gratitude to Royal Monetary Authority of Bhutan, other regulators, Board of Directors, shareholders, customers, auditors and all other stakeholders for their continued guidance and support without which the achievements made by us would not have been possible.

Tashi Delek



**Kipchu Tshering**  
**(Chief Executive Officer)**

**Auditors' Report  
and  
Financial Statements**

# AUDITORS' REPORT



Annual Report '10





## AUDITORS' REPORT

3. The Bank has complied with the various provisions of the Financial Institution Act 1992 and other applicable laws, rules & regulations, systems, procedures and practices except otherwise stated elsewhere in this report.
4. The Balance Sheet and Profit & Loss Account dealt with by this report have been prepared on the basis of generally accepted accounting principles and are in agreement with the books of account.
5. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with Significant Accounting Policies (Schedule-11) and Notes on Accounts (Schedule-12) give the information required by the Companies Act of the Kingdom of Bhutan, 2000 in the manner so required and subject to :

*Adjustment of certain items in sundry receivable account amounting to Nu. 115,336,275.80 (previous year Nu. 88,467,456.64), sundry payables account amounting to Nu. 11,275,337.45 (previous year Nu. 3,923,526.48) as mentioned in Note 4 of Schedule 12. The consequential impact of the above in the financial statements is not ascertainable.*

6. In our opinion, and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit & Loss Account and the Cash Flow Statement read with Schedules 1 to 12 and subject to para 5 above and our comments in the **Annexure-A** attached herewith, give the information under The Companies Act of the Kingdom of Bhutan 2000 in the manner so required and exhibit a true and fair view:
  - a) In case of the Balance Sheet, of the state of affairs of the Bank as at 31<sup>st</sup> December, 2010;
  - b) In case of the Profit & Loss Account, of the profit of the Bank for the year ended on that date; and
  - c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

Date: 6-5-2011  
Place: Kolkata

For K.C. Bhattacharjee & Paul  
Chartered Accountants  
(FRN-303026E)



(G.N. Chattopadhyay)  
Partner  
M.No. 053272

# ANNEXURE-A



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## ANNEXURE-A

10. In our opinion and on the basis of available records and information, the activities carried on by the bank are lawful and intravires the Articles of Incorporation of the Bank.
11. The Bank has an established annual budgetary control system. Performance vis a vis the budget should be reviewed at quarterly intervals and variances should be analysed for proper monitoring.
12. The remuneration of the Chief Executive Officer and the Board Meeting Expenses has been disclosed in the Accounts. As per information available no other remuneration, commission or other payments have been made in cash or in kind to any members of the Board of Director or any of their relatives by the Bank. However in absence of specified records, we were unable to verify the same.
13. The directives of the Board of Directors have been complied with.
14. We have no information where the officials of the Bank have transmitted any price sensitive information which are not made publicly available, unauthorized to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
15. The Bank has maintained adequate documents and records where it has granted loans and advances for which agreements have been drawn up and timely entries have been made. However, in case of Addendum to the Loan Agreements, the repayment schedules are not properly specified.
16. The Bank has not dealt or traded in shares, securities and other investment during the year.
17. The Bank has adequate records for funds collected from depositors and for interest payments.
18. The bank has the system of providing for permanent diminutions in value of investment vide Policy No. 4 of Schedule 11. However Note No. 5 of Schedule 12 maybe referred in this respect.
19. The Bank has complied with the requirements of Financial Institution Act, 1992 and any other applicable laws, rules and regulations and guidelines issued by the appropriate Authorities except in some cases bank has given loan against its own shares and in some cases bank has given loan against shares exceeding 50% of its market value.
20. The requirements of RMA Prudential Regulations, 2002 relating to provisioning for the non- performing Loans have been complied with.



# ANNEXURE-A



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## ANNEXURE-A

- iii) Back up facilities and disaster recovery measures exist, but files are not kept in different and remote locations.
- iv) The operational controls are adequate to ensure correctness and validity of input data and output information.
- v) The measures to prevent unauthorized access over the computer installation and files are adequate; however no exceptional reports are generated to track irregular transactions.

### GENERAL:

#### **1. Going Concern Problems:**

Based on the net asset position reflected by the Bank's Balance Sheet as at 31<sup>st</sup> December, 2010 audited by us in accordance with the generally accepted auditing standards and on the basis of such other tests as we considered necessary in this regards, we have no reason to believe that the Bank is not a going concern on the Balance Sheet date and is not likely to become sick in the near future.

#### **2. Ratio Analysis:**

The significant ratios indicating the financial health and profitability of the bank are given in Exhibit-1 to Annexure.

#### **3. Compliance with the Companies Act of the Kingdom of Bhutan,2000.**

The Bank has complied with the various provisions of the Companies Act of the Kingdom of Bhutan concerning conducting of the meetings, adherence to laws, rules and regulations, filing requirements, maintenance of records and all other matters specified in the said Act.

#### **4. Adherence to Laws, Rules and Regulations**

The audit of the Bank is governed by the Companies Act Kingdom of Bhutan,2000 and RMA Prudential Regulations,2002. The scope of audit is limited to examination and review of the financial statement as produced to us by the management.

The Bank has complied with the applicable laws, rules and regulations, systems procedures and practices except for non maintenance of statutory register of contracts in which Directors are interested.

The risk weighted assets as on 31<sup>st</sup> December,2010 has been fairly assessed and such ratio is more than the prescribed limit by the RMA.

Capital Adequacy Ratio of the Bank as on 31<sup>st</sup> December,2010 has been fairly assessed





and such ratio is more than the prescribed limit by the RMA.

Cash Reserve Ratio of the Bank as on 31<sup>st</sup> December, 2010 has been fairly assessed and such ratio is more than the prescribed limit by the RMA.

Other clauses of the said reporting requirements are not applicable to the Bank during the year under audit.





## EXHIBIT -1 TO ANNEXURE

### RATIO ANALYSIS

| Sl No. | Particulars                                           | 31-12-10 | 31-12-09 |
|--------|-------------------------------------------------------|----------|----------|
| 1      | Interest Expenses/ Deposit                            | 3.16%    | 2.93%    |
| 2      | Interest Income/ Loan                                 | 10.22%   | 10.38%   |
| 3      | Credit/ Deposit Ratio                                 | 56.54%   | 51.19%   |
| 4      | Deposit Growth                                        | 9.71%    | 48.33%   |
| 5      | Advance Growth                                        | 21.17%   | 20.66%   |
| 6      | Increase /(Decrease) in Provision                     | 538.04%  | -67.46%  |
| 7      | Increase /(Decrease) in Forex Income                  | 189.90%  | -100.00% |
| 8      | Return on Investment<br>(PAT/ Capital Employed X 100) | 15.65%   | 18.32%   |
| 9      | Earning per Share<br>(PAT/ No. of Shares issued)      | 70.55    | 74.90    |
| 10     | Net Profit Ratio<br>(PBT/Total Income X 100)          | 22.79%   | 29.24%   |



# BALANCE SHEET

As at 31st December, 2010



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|                                               | <u>SCHEDULE</u> | <u>31st DEC 2010</u>     |     | <u>31st DEC 2009</u>     |     |
|-----------------------------------------------|-----------------|--------------------------|-----|--------------------------|-----|
|                                               |                 | Nu.                      | ch. | Nu.                      | ch. |
| <b><u>CAPITAL AND LIABILITIES</u></b>         |                 |                          |     |                          |     |
| Share Capital                                 | 1               | 355,517,500.00           |     | 355,517,500.00           |     |
| Reserves                                      | 2               | 1,247,576,876.14         |     | 1,098,082,013.62         |     |
| Deposits                                      | 3               | 23,759,921,144.91        |     | 21,657,989,114.83        |     |
| Current Liabilities                           | 4               | 312,778,248.50           |     | 265,258,287.35           |     |
| Provisions                                    | 5               | 962,126,551.83           |     | 729,626,182.62           |     |
| <b>Total Liabilities</b>                      |                 | <b>26,637,920,321.38</b> |     | <b>24,106,473,098.42</b> |     |
| <b><u>ASSETS</u></b>                          |                 |                          |     |                          |     |
| Cash and Bank Balances                        | 6               | 11,270,337,466.58        |     | 12,274,310,731.58        |     |
| Investments                                   | 7               | 1,642,610,065.94         |     | 551,660,871.65           |     |
| Loans and Advances                            | 8               | 13,432,826,653.53        |     | 11,086,247,445.01        |     |
| Fixed Assets (at cost, less depreciation)     | 9               | 112,773,419.84           |     | 99,210,739.48            |     |
| Other Assets                                  | 10              | 179,372,715.49           |     | 95,043,310.70            |     |
| <b>Total Assets</b>                           |                 | <b>26,637,920,321.38</b> |     | <b>24,106,473,098.42</b> |     |
| <b><u>SIGNIFICANT ACCOUNTING POLICIES</u></b> | 11              |                          |     |                          |     |
| <b><u>NOTES ON ACCOUNTS</u></b>               | 12              |                          |     |                          |     |

The Schedules referred to above form part of the Balance Sheet.  
This is the Balance Sheet referred to in our report of even date.

for K.C.Bhattacharjee & Paul  
Chartered Accountants

G.N. Chattopadhyay  
Partner  
M. No. 053272  
Date : 6.5.2011  
Place: Kolkata



CHAIRPERSON

CHIEF EXECUTIVE OFFICER



# PROFIT & LOSS ACCOUNT

For the year ended 31st December, 2010

| PARTICULARS                                                   | 31st DEC 2010        |            | 31st DEC 2009        |            |
|---------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                               | Nu.                  | ch.        | Nu.                  | ch.        |
| Interest on loans                                             | 1,367,996            | 991.96     | 1,148,000            | 240.30     |
| Interest on bills & cheques                                   | 5,229,687            | 97         | 2,543,634            | 08         |
| Interest on deposits with other banks                         | 19,710,732           | 17         | 5,203,826            | 18         |
| Interest on RGOB & RMA bills and CRR                          | 53,167,114           | 29         | 49,222,875           | 01         |
| <b>Interest Income</b>                                        | <b>1,446,104,526</b> | <b>39</b>  | <b>1,204,970,575</b> | <b>57</b>  |
| Interest on savings deposits                                  | 73,045,327           | 59         | 45,320,975           | 39         |
| Interest on fixed deposits (including FTU)                    | 678,942,483          | 30         | 588,937,599          | 99         |
| Interest on recurring deposits                                |                      | 260.89     |                      | 0.00       |
| Interest on miscellaneous accommodations                      |                      | 6,303.30   |                      | 644,526.15 |
| <b>Interest Expenses</b>                                      | <b>751,994,375</b>   | <b>08</b>  | <b>634,903,101</b>   | <b>53</b>  |
| <b>Interest Differential</b>                                  | <b>694,110,151</b>   | <b>31</b>  | <b>670,067,474</b>   | <b>04</b>  |
| Exchange, commissions, & recoveries                           | 108,817,778          | 05         | 87,423,918           | 94         |
| Dividends (Gross)                                             | 4,282,740            | 00         | 3,449,300            | 00         |
| Forex gains                                                   | 17,539,324           | 67         | (19,510,417)         | 81         |
| Fees Income                                                   | 7,199,963            | 88         | 14,677,977           | 47         |
| Rents & other receipts                                        |                      | 209,091.10 |                      | 108,132.74 |
| <b>Other Income</b>                                           | <b>138,048,897</b>   | <b>70</b>  | <b>86,148,911</b>    | <b>34</b>  |
| <b>Gross Operating Income</b>                                 | <b>832,159,049</b>   | <b>01</b>  | <b>656,216,385</b>   | <b>38</b>  |
| Employment costs                                              | 135,197,903          | 53         | 133,547,018          | 06         |
| Establishment overheads                                       | 22,658,834           | 75         | 22,188,701           | 19         |
| Communication costs                                           | 10,239,681           | 95         | 10,141,212           | 78         |
| Travelling expenses                                           | 6,782,434            | 24         | 8,288,876            | 70         |
| Vehicles expenses                                             | 743,407              | 78         | 886,787              | 13         |
| Computer running & maintenances                               | 7,100,693            | 45         | 7,137,133            | 67         |
| Advertisements & publicity                                    | 3,130,208            | 00         | 3,369,872            | 02         |
| Entertainments                                                | 526,024              | 26         | 1,360,457            | 80         |
| Gifts                                                         | 44,565               | 00         | 21,747               | 00         |
| Donations                                                     | 515,000              | 00         | 500,000              | 00         |
| HRD costs                                                     | 15,929,171           | 35         | 8,121,458            | 42         |
| Audit fees                                                    | 200,000              | 00         | 200,000              | 00         |
| Legal/Regulatory expenses & Professional fees                 | 1,834,192            | 34         | 16,696,322           | 81         |
| Board meetings expenses                                       | 1,520,705            | 90         | 2,506,350            | 75         |
| Board Developmental Cost                                      | 1,918,883            | 79         | 1,945,682            | 74         |
| Other banks charges, fees etc                                 | 4,230,671            | 54         | 2,256,594            | 89         |
| Stores                                                        | 858,797              | 00         | 1,277,143            | 50         |
| Miscellaneous expenses                                        | 2,750,534            | 02         | 2,572,681            | 85         |
| Depreciation                                                  | 18,042,825           | 34         | 18,971,340           | 56         |
| <b>Operating Expenses</b>                                     | <b>234,224,534</b>   | <b>24</b>  | <b>241,989,381</b>   | <b>87</b>  |
| <b>Net Operating Income</b>                                   | <b>597,934,514</b>   | <b>77</b>  | <b>414,227,003</b>   | <b>51</b>  |
| Write-offs & losses                                           | 2,536,514            | 90         |                      | 0.00       |
| Charge for / (write-back of) provisions (net)                 | 234,317,885          | 44         | 36,724,668           | 87         |
| <b>Profit Before Tax</b>                                      | <b>361,080,114</b>   | <b>43</b>  | <b>377,502,334</b>   | <b>64</b>  |
| Provision for taxation                                        | 110,262,764          | 41         | 111,233,092          | 10         |
| <b>Profit After Tax</b>                                       | <b>250,817,350</b>   | <b>02</b>  | <b>266,269,242</b>   | <b>54</b>  |
| <b>Balance in Profit &amp; Loss Account (brought forward)</b> | <b>195,733,531</b>   | <b>33</b>  | <b>142,157,131</b>   | <b>24</b>  |
| <b>Profit Available for Appropriation</b>                     | <b>446,550,881</b>   | <b>35</b>  | <b>408,426,373</b>   | <b>78</b>  |
| Proposed Dividend                                             | 101,322,487          | 50         | 101,322,487          | 50         |
| Transfer to/(from) Foreign Exchange Fluctuation Reserve       | 4,384,831            | 17         | (19,510,417)         | 81         |
| Transfer To General Reserve                                   | 75,245,205           | 01         | 79,880,772           | 76         |
| Building Reserve                                              | 27,500,000           | 00         | 50,000,000           | 00         |
| Contingency Reserve                                           | 1,000,000            | 00         | 1,000,000            | 00         |
| <b>Balance in Profit &amp; Loss Account (carried forward)</b> | <b>237,098,357</b>   | <b>68</b>  | <b>195,733,531</b>   | <b>33</b>  |

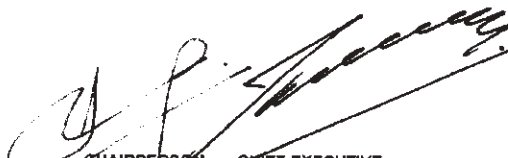
## SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS (Schedule 11 and 12)

This is the Profit &amp; Loss Account referred to in our report of even date.

for K.C.Bhattacharjee & Paul  
Chartered Accountants

  
G.N. Chattopadhyay  
Partner  
M. No. 053272  
Date: 6.5.2011  
Place: Kolkata



  
CHAIRPERSON      CHIEF EXECUTIVE  
OFFICER

# CASHFLOW STATEMENT

For the year ended 31st December, 2010



Annual Report '10

|                                                                              | Nu                        | Nu                        |
|------------------------------------------------------------------------------|---------------------------|---------------------------|
| Net cash flow from operating activities (A)                                  | <b>372,113,910.48</b>     |                           |
| Returns on investments and servicing of finance (Note 1)                     |                           | (97,039,747.50)           |
| Taxation                                                                     |                           | (156,247,760.00)          |
| Capital expenditure (Note 2)                                                 |                           | (123,313,953.69)          |
| Net cash inflow/ (outflow) from investing activities (B)                     |                           | <b>(376,601,461.19)</b>   |
| Net cash inflow/ (outflow) before financing (A-B)                            | <b>(4,487,550.71)</b>     |                           |
| Financing (Note 3)                                                           | -                         |                           |
| Management of liquid resources (Note 4)                                      | <u>(2,154,208,149.25)</u> |                           |
| <b>Net cash inflow/ (outflow)</b>                                            | <b>(2,158,695,699.96)</b> |                           |
| Increase/ (Decrease) in cash (other than RGOB & RMA Bills and Time Deposits) |                           | <b>(2,158,695,699.96)</b> |

## Notes:

### 1. Returns on investments and servicing of finance

|                    |                        |
|--------------------|------------------------|
| Dividends paid     | (101,322,487.50)       |
| Dividends received | 4,282,740.00           |
|                    | <u>(97,039,747.50)</u> |

### 2. Capital Expenditure

|                                              |                         |
|----------------------------------------------|-------------------------|
| Payments to acquire tangible fixed assets    | (31,953,283.69)         |
| Receipts from sales of tangible fixed assets | 102,810.00              |
| Payment to acquire Investment                | (91,463,480.00)         |
|                                              | <u>(123,313,953.69)</u> |





# CASHFLOW STATEMENT

For the year ended 31st December, 2010

### 3. Financing

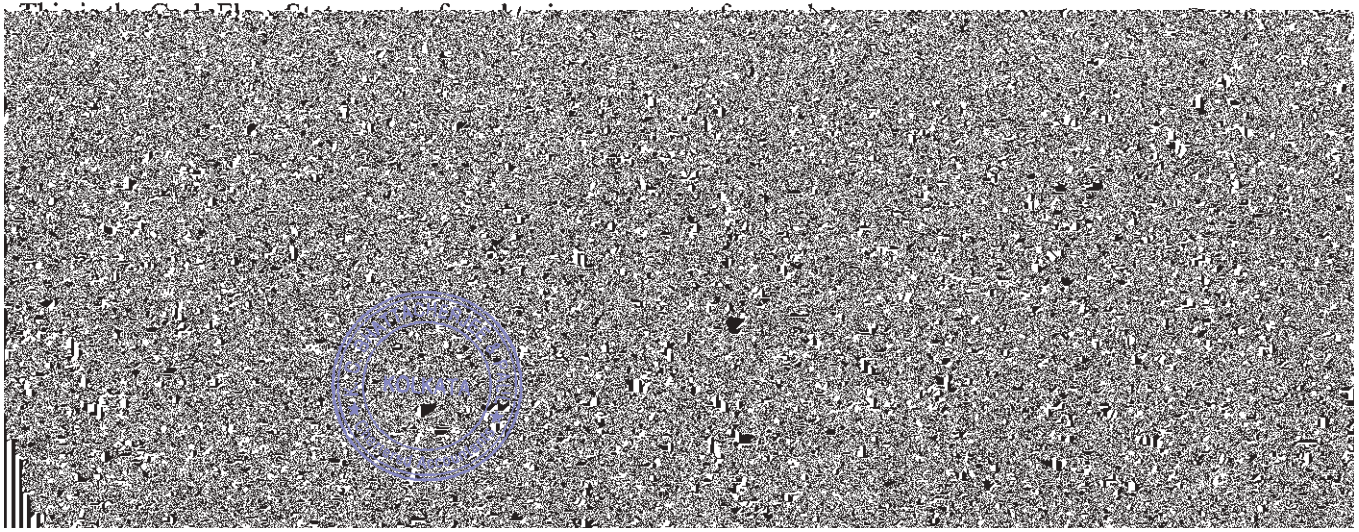
0.00

### 4. Management of Liquid resources

|                                                  |                           |
|--------------------------------------------------|---------------------------|
| Purchase)/ Sale of Treasury bills/Discount bills | (999,485,714.29)          |
| (Increase)/Decrease in Term Deposit              | (1,154,722,434.96)        |
|                                                  | <u>(2,154,208,149.25)</u> |

*To derive the Net Cash Flow from operating activities:*

|                                             |                       |
|---------------------------------------------|-----------------------|
| Profit Before Tax                           | 361,080,114.43        |
| (1) Add back :                              |                       |
| Depreciation Charges                        | 18,042,825.34         |
| Write Off of Fixed Assets                   | 244,967.99            |
| (2) Deduct :                                |                       |
| Dividend received                           | (4,282,740.00)        |
|                                             | <u>375,085,167.76</u> |
| (Increase)/ Decrease in Loans/Other Assets  | (2,385,549,855.41)    |
| Increase/ (Decrease) in Current Liability   | 2,382,578,598.13      |
| <br>Net Cash Flow from Operating Activities | <br>372,113,910.48    |



# SCHEDULES

## Schedules forming part of Balance Sheet



Annual Report '10

|                                                                                                                              | <u>31st DEC 2010</u>            |                                | <u>31st DEC 2009</u>            |                                |
|------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|                                                                                                                              | Nu.                             | ch.                            | Nu.                             | ch.                            |
| <b>SCHEDULE 1 : SHARE CAPITAL</b>                                                                                            |                                 |                                |                                 |                                |
| <b>Authorised Capital</b>                                                                                                    |                                 |                                |                                 |                                |
| 10,000,000 Equity shares of Nu. 100/- each                                                                                   | <u>1,000,000,000.00</u>         |                                | <u>1,000,000,000.00</u>         |                                |
| <b>Issued -</b>                                                                                                              |                                 |                                |                                 |                                |
| 3,570,218 Equity shares of Nu. 100/- each                                                                                    |                                 |                                |                                 |                                |
| <b>Subscribed &amp; Fully Paid-up</b>                                                                                        |                                 |                                |                                 |                                |
| 3,555,175 Equity shares of Nu. 100/- each                                                                                    | <u>355,517,500.00</u>           |                                | <u>355,517,500.00</u>           |                                |
| (Of the above, 1,786,016 shares are allotted as fully paid up Bonus Shares(2008) by capitalization of Share Premium Account) |                                 |                                |                                 |                                |
| <b>SCHEDULE 2 : RESERVES</b>                                                                                                 |                                 |                                |                                 |                                |
| <b>Share Premium</b>                                                                                                         |                                 |                                |                                 |                                |
| Opening Balance                                                                                                              | 96,946,280.00                   |                                | 96,946,280.00                   |                                |
| Less: Transfer for issue of Bonus Shares                                                                                     | <u>0.00</u>                     | 96,946,280.00                  | <u>0.00</u>                     | 96,946,280.00                  |
| Capital Reserve                                                                                                              |                                 | 6,598,207.10                   |                                 | 6,598,207.10                   |
| <b>Foreign Exchange Fluctuation Reserve</b>                                                                                  |                                 |                                |                                 |                                |
| Opening balance                                                                                                              | 1,616,259.19                    |                                | 21,126,677.00                   |                                |
| Add : Forex Gain/(Loss) transferred from Profit & Loss Account                                                               | <u>4,384,831.17</u>             |                                | <u>(19,510,417.81)</u>          |                                |
| Closing balance                                                                                                              |                                 | 6,001,090.36                   |                                 | 1,616,259.19                   |
| <b>General Reserve</b>                                                                                                       |                                 |                                |                                 |                                |
| Opening balance                                                                                                              | 685,187,736.00                  |                                | 605,306,963.24                  |                                |
| Add : Transfer from Profit & Loss Account                                                                                    | <u>75,245,205.01</u>            |                                | <u>79,880,772.76</u>            |                                |
| Closing balance                                                                                                              |                                 | 760,432,941.01                 |                                 | 685,187,736.00                 |
| <b>Specific Reserves</b>                                                                                                     |                                 |                                |                                 |                                |
| <b>Building Reserve</b>                                                                                                      |                                 |                                |                                 |                                |
| Opening Balance                                                                                                              | 100,000,000.00                  |                                | 50,000,000.00                   |                                |
| Add : Transfer from Profit & Loss Account                                                                                    | <u>27,500,000.00</u>            |                                | <u>50,000,000.00</u>            |                                |
| Closing balance                                                                                                              |                                 | 127,500,000.00                 |                                 | 100,000,000.00                 |
| <b>Digitization Reserve</b>                                                                                                  |                                 |                                |                                 |                                |
| Opening balance                                                                                                              | 10,000,000.00                   |                                | 10,000,000.00                   |                                |
| <b>Contingency Reserve</b>                                                                                                   |                                 |                                |                                 |                                |
| Opening balance                                                                                                              | 2,000,000.00                    |                                | 1,000,000.00                    |                                |
| Add : Transfer from Profit & Loss Account                                                                                    | <u>1,000,000.00</u>             |                                | <u>1,000,000.00</u>             |                                |
| Closing balance                                                                                                              |                                 | 3,000,000.00                   |                                 | 2,000,000.00                   |
| Profit & Loss Account                                                                                                        |                                 | <u>237,098,357.68</u>          |                                 | <u>195,733,531.33</u>          |
| <b>Total</b>                                                                                                                 |                                 | <b><u>1,247,576,876.14</u></b> |                                 | <b><u>1,098,082,013.62</u></b> |
| <b>SCHEDULE 3 : DEPOSITS</b>                                                                                                 |                                 |                                |                                 |                                |
| <b>Fixed deposits</b>                                                                                                        |                                 |                                |                                 |                                |
| Interest accrued, but not due, on fixed deposits                                                                             | 15,288,930,311.03               |                                | 16,911,874,159.60               |                                |
| Recurring deposits                                                                                                           | 777,966,074.58                  |                                | 555,899,734.77                  |                                |
| Interest accrued, but not due, on recurring deposits                                                                         | 93,500.00                       |                                | 0.00                            |                                |
| Savings deposits                                                                                                             | 260.89                          |                                | 0.00                            |                                |
| Interest accrued, but not due, on savings deposits                                                                           | 2,529,043,627.88                |                                | 1,956,850,678.64                |                                |
| Current deposits                                                                                                             | 556.07                          |                                | 556.07                          |                                |
| Total                                                                                                                        | <u>5,163,886,814.46</u>         |                                | <u>2,234,363,985.75</u>         |                                |
|                                                                                                                              | <b><u>23,769,921,144.91</u></b> |                                | <b><u>21,657,989,114.83</u></b> |                                |
| <b>SCHEDULE 4 : CURRENT LIABILITIES</b>                                                                                      |                                 |                                |                                 |                                |
| Sundry creditors                                                                                                             | 1,283,111.06                    |                                | 811,296.00                      |                                |
| Deferred income                                                                                                              | 23,058,072.91                   |                                | 14,934,919.32                   |                                |
| Unclaimed Deposits                                                                                                           | 15,177,759.60                   |                                | 16,854,158.57                   |                                |
| Other liabilities                                                                                                            | 273,259,304.93                  |                                | 232,657,913.46                  |                                |
| <b>Total</b>                                                                                                                 | <b><u>312,778,248.50</u></b>    |                                | <b><u>265,258,287.35</u></b>    |                                |
| <b>SCHEDULE 5 : PROVISIONS</b>                                                                                               |                                 |                                |                                 |                                |
| Against Interest in Suspense                                                                                                 | 63,798,367.18                   |                                | 65,388,268.09                   |                                |
| Against loans                                                                                                                | 616,321,938.77                  |                                | 444,075,774.58                  |                                |
| Against fixed assets including Off-balance sheet items                                                                       | 62,071,721.25                   |                                | 0.00                            |                                |
| For retirement benefits                                                                                                      | 8,349,272.72                    |                                | 7,950,650.35                    |                                |
| For taxation                                                                                                                 | 110,262,764.41                  |                                | 110,889,002.10                  |                                |
| For Proposed Dividend                                                                                                        | 101,322,487.50                  |                                | 101,322,487.50                  |                                |
| <b>Total</b>                                                                                                                 | <b><u>962,126,551.83</u></b>    |                                | <b><u>729,626,182.62</u></b>    |                                |





# SCHEDULES

Schedules forming part of Balance Sheet







# SCHEDULES

Schedules forming part of Balance Sheet

Annual Report '10

## SCHEDULE 9 : FIXED ASSETS

| PARTICULARS                     | COST                         |               |                          |              |                               |      | DEPRECIATION              |                |                             |               |              |      | BOOK VALUE          |      |                             |                |                |               |                |     |
|---------------------------------|------------------------------|---------------|--------------------------|--------------|-------------------------------|------|---------------------------|----------------|-----------------------------|---------------|--------------|------|---------------------|------|-----------------------------|----------------|----------------|---------------|----------------|-----|
|                                 | Original cost as on 01.01.10 |               | Addition during the year |              | Sale/transfer during the year |      | Total cost as on 31.12.10 |                | Accumulation as on 01.01.10 |               | For the year |      | Adjustment/disposal |      | Accumulation as on 31.12.10 |                | As On 31.12.10 |               | As on 31.12.09 |     |
|                                 | Nu.                          | ch.           | Nu.                      | ch.          | Nu.                           | ch.  | Nu.                       | ch.            | Nu.                         | ch.           | Nu.          | ch.  | Nu.                 | ch.  | Nu.                         | ch.            | Nu.            | ch.           | Nu.            | ch. |
| Land                            | 23,336,464.29                | 0.00          | 0.00                     | 0.00         | 0.00                          | 0.00 | 23,336,464.29             | 0.00           | 0.00                        | 0.00          | 0.00         | 0.00 | 0.00                | 0.00 | 0.00                        | 23,336,464.29  | 0.00           | 23,336,464.29 | 0.00           |     |
| Building                        | 7,789,254.15                 | 12,753,635.50 | 286,480.00               | 11,874.00    | 0.00                          | 0.00 | 20,542,889.65             | 741,563.92     | 0.00                        | 0.00          | 399,300.18   | 0.00 | 0.00                | 0.00 | 1,140,864.10                | 19,402,025.55  | 7,047,690.23   | 0.00          | 7,047,690.23   |     |
| Electric Appliances & Machinery | 4,216,076.42                 | 286,480.00    | 1,814,512.92             | 530,461.98   | 11,874.00                     | 0.00 | 4,490,682.42              | 2,122,660.36   | 11,787,218.04               | 2,394,293.04  | 5,517.03     | 0.00 | 0.00                | 0.00 | 2,600,146.44                | 1,890,535.98   | 2,093,416.06   | 0.00          | 2,093,416.06   |     |
| Furniture, fixtures, & fittings | 20,586,494.66                | 1,814,512.92  | 4,697,395.63             | 4,741,846.61 | 28,109.98                     | 0.00 | 16,741,597.57             | 6,964,747.35   | 11,787,218.04               | 1,597,977.97  | 18,803.28    | 0.00 | 0.00                | 0.00 | 8,543,922.04                | 8,286,601.45   | 8,799,275.62   | 0.00          | 8,799,275.62   |     |
| Office equipments               | 12,070,701.94                | 4,560,316.85  | 699,284.34               | 776,750.00   | 11,702.00                     | 0.00 | 82,386,176.07             | 48,711,211.06  | 26,749,888.31               | 2,791,434.21  | 1,091.09     | 0.00 | 0.00                | 0.00 | 53,088,707.69               | 29,297,468.38  | 33,856,494.75  | 0.00          | 33,856,494.75  |     |
| Computer hardwares              | 82,567,705.83                | 39,876,663.44 | 3,273,201.72             | 1,086,419.09 | 7,951,280.24                  | 0.00 | 40,549,837.80             | 26,749,888.31  | 1,492,892.13                | 524,734.97    | 130,133.69   | 0.00 | 0.00                | 0.00 | 29,540,231.43               | 11,009,606.37  | 13,126,775.13  | 0.00          | 13,126,775.13  |     |
| Softwares                       | 3,273,201.72                 | 1,086,419.09  | 7,951,280.24             | 0.00         | 0.00                          | 0.00 | 4,038,249.72              | 569,107.56     | 1,492,892.13                | 130,133.69    | 0.00         | 0.00 | 0.00                | 0.00 | 2,005,927.10                | 2,032,322.62   | 1,780,309.59   | 0.00          | 1,780,309.59   |     |
| Security tools                  | 1,086,419.09                 | 7,951,280.24  | 0.00                     | 0.00         | 0.00                          | 0.00 | 1,096,639.09              | 569,107.56     | 1,492,892.13                | 130,133.69    | 0.00         | 0.00 | 0.00                | 0.00 | 599,241.27                  | 2,032,322.62   | 1,780,309.59   | 0.00          | 1,780,309.59   |     |
| Carpets & soft furnishings      | 7,951,280.24                 | 0.00          | 0.00                     | 0.00         | 0.00                          | 0.00 | 7,951,280.24              | 4,404,232.52   | 4,404,232.52                | 978,414.33    | 0.00         | 0.00 | 0.00                | 0.00 | 5,382,646.85                | 2,568,633.39   | 3,547,047.71   | 0.00          | 3,547,047.71   |     |
| Vehicles                        | 202,754,261.78               | 0.00          | 25,588,595.24            | 6,354,688.45 | 5,348,494.57                  | 0.00 | 223,004,362.45            | 103,543,522.29 | 103,543,522.29              | 18,042,825.35 | 0.00         | 0.00 | 0.00                | 0.00 | 116,585,631.06              | 106,418,731.39 | 99,210,739.47  | 0.00          | 99,210,739.47  |     |
| Sub-total                       | 202,754,261.78               | 0.00          | 25,588,595.24            | 6,354,688.45 | 5,348,494.57                  | 0.00 | 223,004,362.45            | 103,543,522.29 | 103,543,522.29              | 18,042,825.35 | 0.00         | 0.00 | 0.00                | 0.00 | 116,585,631.06              | 106,418,731.39 | 99,210,739.47  | 0.00          | 99,210,739.47  |     |
| Capital works-in-progress       | 182,789,565.50               | 21,073,659.96 | 31,953,283.69            | 1,108,963.68 | 5,348,494.57                  | 0.00 | 229,359,050.90            | 85,071,414.37  | 103,543,522.29              | 18,042,825.35 | 0.00         | 0.00 | 0.00                | 0.00 | 116,585,631.06              | 112,773,419.84 | 99,210,739.47  | 0.00          | 99,210,739.47  |     |
| Total                           | 202,754,261.78               | 21,073,659.96 | 31,953,283.69            | 1,108,963.68 | 5,348,494.57                  | 0.00 | 229,359,050.90            | 85,071,414.37  | 103,543,522.29              | 18,042,825.35 | 0.00         | 0.00 | 0.00                | 0.00 | 116,585,631.06              | 112,773,419.84 | 99,210,739.47  | 0.00          | 99,210,739.47  |     |
| Previous year                   | 182,789,565.50               | 21,073,659.96 | 31,953,283.69            | 1,108,963.68 | 5,348,494.57                  | 0.00 | 229,359,050.90            | 85,071,414.37  | 103,543,522.29              | 18,042,825.35 | 0.00         | 0.00 | 0.00                | 0.00 | 116,585,631.06              | 112,773,419.84 | 99,210,739.47  | 0.00          | 99,210,739.47  |     |



*[Handwritten signature]*



# SCHEDULES

Schedules forming part of Balance Sheet



- b) Depreciation/amortisation is provided at the rates specified under Part 1, Rule 4 of Annexure II of Rules on the Income Tax Act of the Kingdom of Bhutan 2001, and is computed under straight-line method.

**06. STAFF BENEFITS :-**

- a) Gratuity liability is provided on an estimated basis, presuming that all employees cease to work as at the year-end.  
b) Bonus is accounted for on cash basis.  
c) Leave encashment liability is provided on the basis of leave accrued to the employees as at the end of the year considering the last basic pay of each employee.

**07. FOREIGN EXCHANGE FLUCTUATIONS :-**

- a) Foreign exchange transactions are converted into local currency by using exchange rates prevailing on the date of transaction as published by Royal Monetary Authority of Bhutan.  
b) Monetary assets & liabilities (denominated in foreign currencies) are converted at rates prevailing at the year-end.  
c) Acceptances, endorsements and other obligations are reported at the exchange rate prevailing on the date of the commitment.  
d) In accordance with the guidelines issued by the Royal Monetary Authority of Bhutan, gains or loss on foreign currencies assets/liabilities arising out of fluctuation on exchange rates is recognized in Profit & Loss Account. An amount equivalent to one-fourth of the gain on fluctuation is transferred to Foreign Exchange Fluctuation Reserve and the balance is transferred to Profit & Loss Account. The loss is first charged against the Foreign Exchange Fluctuation Reserve and remaining loss, if any, is treated as expenses.

**08. GRANTS :-**

In accordance with the guidelines (issued by the Ministry of Finance, Royal Government of Bhutan), grants received for purchase of fixed assets are treated as Capital Reserve, and those received for other purposes are treated as income.

**09. STOCK OF STORES :-**

Small value items of assets consumable in nature have been considered as stores and are fully charged as expense in the year of purchase.

**10. NET PROFIT or LOSS :-**

The result declared (in the Profit & Loss Account) is after considering-

- provision on loans,
- provision for depreciation on Bank's property,
- other usual/necessary provisions as required,
- Provision for tax.





# SCHEDULES

Schedules forming part of Balance Sheet

## SCHEDULE 12

### Notes on Accounts

1. Provision against loans amounting to Nu. 234,317,885.44 has been made during the year 2010 (Previous year Nu. 36,724,668.87) as per the prudential guidelines issued by Royal Monetary Authority of Bhutan. This year there is a write back of Nu. 1,589,900.91 to the interest income. (Previous year the write back to interest income was Nu. 1,405,711).
2. Guarantees given and Letters of Credit issued outstanding at the year-end amounting to Nu. 1,586,293,155.89 & Nu. 791,502,781.07 respectively (Previous year Nu. 1,005,070,421.14 & Nu. 610,535,076.71). The total margin money collected against Guarantees is Nu. 46,000.00 (Previous year Nil). Total margin money against Letter of Credit amount to Nu. 155,453,563.38 (Previous year Nu 113,382,112.25).

3. Provision for taxation includes

|                                            |                         |
|--------------------------------------------|-------------------------|
| Tax on Current Year's Profit               | Nu.110,262,764.41       |
| Less: Advance Tax Paid                     | Nu.44,411,917.17        |
| Less: Withholding tax on Dividend Received | Nu.946,840.73           |
| Net Tax payable                            | <u>Nu.64,904,006.51</u> |

Advance tax paid inclusive of Nu. 1,216,621.93 paid earlier from Gratuity Fund now claimed as per DRC directives.

4. Other assets (advance, claims, pre-payments, deferrals etc.) include balances in Sundry Receivable Account aggregating to Nu. 115,336,275.80 (previous year Nu. 88,467,456.64) pending settlement of claims on various parties. Similarly, other Liabilities include an unadjusted balance in Sundry Payables Account of International Banking Division amounting to Nu. 11,275,337.45 (previous year Nu. 3,923,526.48) representing receipt from foreign sources pending identification of the payees.
5. Market value of quoted Equity Investments at the end of the year is Nu. 132,557,150.00 (previous year Nu. 74,601,850.00) including investment in Druk Ferro Alloys at the cost of Nu. 91,463,480.00 (market value Nu. 57,955,300.00). The market value being rights issue renounced to BNBL.



6. Remuneration and expenditure paid, reimbursed or accrued to the Chief Executive Officer:

|                                    | Current Year           | Previous Year          |
|------------------------------------|------------------------|------------------------|
| <b>Salary &amp; Other Benefits</b> | : Nu.2,184,737.56      | Nu.2,104,939.56        |
| <b>Vehicle expenses</b>            | : Nu.135,124.29        | Nu.209,554.53          |
| <b>Travel-Local/Foreign</b>        | Nu.509,482.72          | Nu.687,936.70          |
| <b>Medical Reimbursement</b>       | : Nu.0.00              | Nu.0.00                |
| <b>Training &amp; Seminars</b>     | Nu.530,763.02          | Nu.518,037.74          |
| <b>Total</b>                       | <b>Nu.3,360,107.59</b> | <b>Nu.3,520,468.53</b> |

7. Tax assessment of the bank has been completed upto 31<sup>st</sup> December 2007.
8. During the year, the bank has made a gain on foreign exchange transactions/assets and liabilities amounting to Nu. 17,539,324.67 (previous year loss of Nu. 19,510,417.81). An amount of Nu.4,384,831.17 being one fourth of the forex gain is appropriated and transferred to the Foreign Exchange Fluctuation Reserve as per RMA Prudential Regulations.
9. BNB Employee Gratuity Fund is a separate fund created under the aegis of The Bhutan National Bank Employees Gratuity Trust. As per the directive of the DRC the liability has been adjusted with the interest income of the Gratuity Fund from the year 2003. The total interest of the Gratuity Fund after netting off the liability for the year has been taken as income this year. The total income from Gratuity Fund clubbed to the bank as income is Nu. 11,553,968.25. During the year a sum of Nu. 8,681,849.00 (Previous year Nu. 11,297,535.00) has been provided towards gratuity liability.
10. The revival proposal of Bhutan Concast Pvt. Ltd. is under active consideration. Meanwhile the unsettled Letters of Credit to the extent of Nu. 62,071,721.25 (net of margin) have been fully provided in the accounts. BNBL is the lead financier of the consortium, other members being BOBL, RICBL and BDFCL. The total BNB's exposure is Nu. 304.88 million. An additional provision of 18.5% amounting to Nu. 56.41 have been provided on account of this.
11. Previous year's figure have been re-arranged and regrouped, wherever necessary.




**BNB Securities Limited**  
**Auditors' Report**  
**and**  
**Financial Statements**

The directors are pleased to present their report and the audited statements for 2010

## **Main Activities**

Trading in securities such as shares, bonds, bills, etc..

## **Transfer to Reserves**

The entire profit after tax of Nu. 867,885.36 was transferred to the general reserve

## **Corporate Governance**

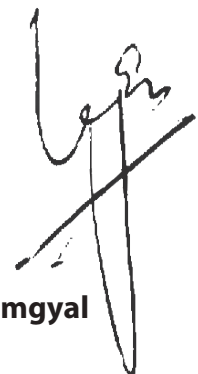
The board met four times during the year

## **Board Composition**

The board consists of three senior officers of its parent company, who have the collective responsibility of ensuring that the affairs of the company are managed competently and with integrity.

## **Auditors**

A resolution was passed in the Annual General Meeting held on 24 March 2009 confirming the fresh appointment of M/s K.C Bhattacharjee & Paul, Chartered Accountance for the year 2011.



**Gyam A.D. Namgyal**  
Chairperson



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# AUDITORS' REPORT





4. The Balance Sheet and the Profit & Loss Account dealt with by this report have been prepared on the basis of generally accepted accounting principles and are in agreement with the books of account.
5. In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit & Loss Account and the Cash Flow Statement read together with Schedule 1 to 5 and subject to our comments in the Annexure-A attached herewith give the information under the Companies Act of the Kingdom of Bhutan 2000 in the manner so required and exhibit a true and fair view:
- In case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> December, 2010 and
  - In case of the Profit & Loss Account, of the profit of the Company for the year ended on that date; and
  - In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

**DATE : 06.05.2011**  
**PLACE: KOLKATA**

**For K. C. Bhattacharjee & Paul**  
**Chartered Accountants**  
**(FRN: 303026E)**



**(G.N. Chattopadhyay)**

**Partner**  
**M.No. 053272**





## ANNEXURE –A

### MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

1. The company has no fixed assets. Fixed assets of Bhutan National Bank Ltd. (BNBL) are used by the company since it is a 100% subsidiary of BNBL.
2. The Company has not availed any loan, secured or unsecured from companies, firms or other parties or from the companies under the same management.
3. The Company has not granted any loan, secured or unsecured to other companies, firms or other parties or to the companies under the same management.
4. The Company has established a system of internal control to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the rules/regulations, systems and procedures. However, the Brokerage Account is maintained in Saving Deposit Account with Bhutan National Bank.
5. As explained to us, the transactions in respect of dealing or trading in shares, securities and other investments entered into by the Company wherein the Directors are directly or indirectly interested are not prejudicial to the interest of the other shareholders and the Company.
6. The Company is generally regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authority.
7. Personal expenses, except under contractual obligations, have not been charged to the Company's accounts.
8. The management of liquid resources particularly cash/bank and short term deposits etc. are adequate and that excessive amount are not lying idle in non-interest bearing accounts.
9. The activities carried out by the company are lawful and intra-vires to the licence given by Ministry of Economic Affairs, Royal Government of Bhutan.
10. The directives of Board of Directors have been complied with.



11. **Ratio Analysis:-**The following major ratios indicate the financial health of the company:-

| Ratios                   | Year Ended<br>2010 | Year Ended<br>2009 | % of Growth<br>+/( -) |
|--------------------------|--------------------|--------------------|-----------------------|
| Return on investment (%) | 23.17              | 15.15              | 52.93                 |
| Earning per Share        | 173.58             | 101.32             | 71                    |
| Book Value per Share     | 1098.07            | 924.49             | 18.78                 |

12. **Compliance with the Companies Act of the Kingdom of Bhutan 2000:**  
The Bank has complied with the various provisions of the Companies Act of the Kingdom of Bhutan,2000.

Date :- 06.05.2011

Place:- Kolkata

For **K. C. Bhattacharjee & Paul**  
Chartered Accountants  
(FRN:303026E)



(G.N. Chattopadhyay)  
Partner  
M.No. 053272





# BALANCE SHEET

As at 31st December 2010

| PARTICULARS                                         | SCHEDULE | 31ST Dec, 2010      | 31ST Dec, 2009      |
|-----------------------------------------------------|----------|---------------------|---------------------|
| <b><u>CAPITAL AND LIABILITIES</u></b>               |          |                     |                     |
| Share Capital                                       | 1        | 500,000.00          | 500,000.00          |
| Reserves & Surplus                                  | 2        | 4,990,350.07        | 4,122,464.71        |
| Current Liabilities & Provisions                    | 3        | 554,440.65          | 155,889.38          |
| <b>TOTAL LIABILITIES</b>                            |          | <b>6,044,790.72</b> | <b>4,778,354.09</b> |
| <b><u>ASSETS</u></b>                                |          |                     |                     |
| <b><u>Balances with Banks</u></b>                   |          |                     |                     |
|                                                     | 4        |                     |                     |
| In Current & Saving Bank Accounts                   |          | 2,028,814.33        | 488,744.65          |
| - In Deposit Accounts                               |          | 3,193,750.00        | 3,587,100.00        |
| Interest accrued but not due on deposits with Banks |          | 316,509.34          | 202,509.44          |
| Investments                                         |          | 500,000.00          | 500,000.00          |
| TDS on fixed deposit                                |          | 5,717.05            | 900.00              |
| <b>TOTAL ASSEST</b>                                 |          | <b>6,044,790.72</b> | <b>4,778,354.09</b> |
| Significant Accounting Policies & Notes on Accounts | 5        |                     |                     |

The schedules referred to above form part of the Balance Sheet.  
This is the Balance Sheet referred to in our report of even date.

For K.C Bhattacharjee & Paul  
Chartered Accountants

G. N Chattopadhyay  
Partner M.N. 53222



Place: KOLKATA  
Date: 06-05-2011

CHAIRPERSON

CHIEF EXECUTIVE OFFICER

# PROFIT & LOSS ACCOUNT


For the year ended 31st December, 2010

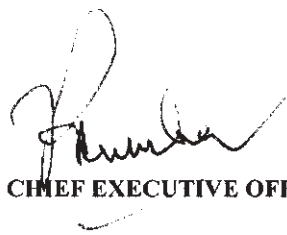


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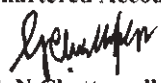
| PARTICULARS                  | 31ST Dec, 2010      | 31ST Dec, 2009      |
|------------------------------|---------------------|---------------------|
| Brokerages                   | 1,662,098.00        | 1,062,908.00        |
| Interest from banks          | 274,147.81          | 238,697.73          |
| <b>Total Income</b>          | <b>1,936,245.81</b> | <b>1,301,605.73</b> |
| Legal & Regulatory Expenses  | 215,080.41          | 84,700.61           |
| Establishment cost           | 0.00                | 300.00              |
| Employment Cost              | 315,395.80          | 360,498.54          |
| Training Expenses            | 54,024.00           | 59,408.80           |
| Sitting Fees                 | 57,000.00           | 63,000.00           |
| Postage                      | 12,500.00           | 0.00                |
| Audit Fees                   | 10,000.00           | 10,000.00           |
| <b>Total Expenditure</b>     | <b>664,002.21</b>   | <b>577,907.95</b>   |
| <b>Profit before Tax</b>     | <b>1,272,245.60</b> | <b>723,697.78</b>   |
| Less. Provision for Taxation | 381,673.68          | 217,109.33          |
| Less Additional Tax          | 22,686.56           |                     |
| <b>Profit after Tax</b>      | <b>867,885.36</b>   | <b>506,588.45</b>   |


**Significant Accounting Policies & Notes on Accounts (Schedule-5)**  
This is the Profit & Loss Account referred to in our report of even date.

  
**CHAIRPERSON**

  
**CHIEF EXECUTIVE OFFICER**

for K.C Bhattacharjee & Paul  
Chartered Accountants

  
**G. N Chattopadhyay**  
 Partner *M.M. 53272*



Place: KOLKATA  
Date: 06-05-2011



# CASH FLOW STATEMENT

For the year ended 31st December, 2010

|                                                                 | Nu.                 |
|-----------------------------------------------------------------|---------------------|
| Net Cash Flow from operating Activities(A)                      | 1,258,808.45        |
| Returns on Investment and Servicing of Finance ( note 1)        |                     |
| Taxation                                                        | (112,088.77)        |
| Capital Expenditure ( note 2 )                                  |                     |
| Net Cash Inflow/( Outflow ) from Investing Activities ( B )     |                     |
| Net Cash Inflow/( Outflow ) before Financing Activities ( A-B ) |                     |
| Financing ( note 3 )                                            |                     |
| Management of Liquid Resources ( note 4 )                       | 393,350.00          |
| <b>Net Cash Inflow/( outflow )</b>                              | <b>1,540,069.68</b> |

## Notes:

### 1. Returns on Investments and Servicing of Finance

Interest Received  
Interest Paid  
Dividends Paid  
Dividends Received

### 2. Capital Expenditure

Payments to acquire Intangible Fixed Assets  
Payments to acquire Tangible Fixed Assets  
Receipts from sales of Tangible Fixed Assets  
Receipts from sales of Investments  
Payment to acquire Investment

### 3. Financing

Issue of shares and debentures  
Redemption of shares and debentures  
Payments of Amount Borrowed ( other than Overdrafts )  
Payments of expenses or commission on any Equity Shares

### 4. Management of Liquid Resources

(Purchase)/ Sale of treasury Bills/ Discount Bills  
(Increase)/ Decrease in Term Deposits

393,350.00



# CASH FLOW STATEMENT

For the year ended 31st December, 2010



Annual Report '10

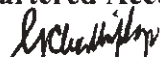
(A) To derive the net Cash flow from Operating Activities:

**Indirect Method :**

|                                                                                       |                     |
|---------------------------------------------------------------------------------------|---------------------|
| Net profit before Tax                                                                 | <u>1,272,245.60</u> |
| 1. Add Back                                                                           |                     |
| Depreciation Charges                                                                  |                     |
| Write off/capitalisation of Fixed Assets                                              |                     |
| 2. Interest receivable                                                                |                     |
| Dividends received                                                                    | <u>1,272,245.60</u> |
| (Increase)/ decrease in stock                                                         |                     |
| (Increase)/ decrease in Loans/Other Assets                                            | (118,816.95)        |
| Increase/ (decrease) in current Liability/<br>Deposits & Provisions ( other than Tax) | 105,379.80          |
| Net Cash Flow from Operating Activities                                               | 1,258,808.45        |

This is the Cash flow Statement referred to in our report of even date.

for K.C Bhattacharjee & Pual  
Chartered Accountants

  
G. N Chattopadhyay  
Partner



  
CHAIRPERSON

  
CHIEF EXECUTIVE OFFICER



# SCHEDULES

Schedules forming part of Balance Sheet

|                                                                           | 31 st Dec, 2010     | 31st Dec. 2009      |
|---------------------------------------------------------------------------|---------------------|---------------------|
| <b>Schedules 1 : Share Capital</b>                                        |                     |                     |
| <b>Authorised Capital</b>                                                 |                     |                     |
| <b>5000 Equity Shares of Nu.100 each</b>                                  | <b>500,000.00</b>   | <b>500,000.00</b>   |
| Issued, Subscribed and Fully paid up<br>5000 Equity Shares of Nu.100 each | 500,000.00          | 500,000.00          |
| <b>Schedule 2 : Reserves and Surplus</b>                                  |                     |                     |
| <b>General Reserve :</b>                                                  |                     |                     |
| <b>Opening Balance</b>                                                    | <b>4,122,464.71</b> | <b>3,615,876.26</b> |
| Add. Transferred from Profit and Loss Account                             | 867,885.36          | 506,588.45          |
| <b>TOTAL</b>                                                              | <b>4,990,350.07</b> | <b>4,122,464.71</b> |
| <b>Schedule 3 : Current Liabilities and Provisions</b>                    |                     |                     |
| <b>Current Liabilities :</b>                                              |                     |                     |
| Trading Fees Payable                                                      | 140,080.41          | 34,700.61           |
| Sundry Payable (Audit fees)                                               | 10,000.00           | 10,000.00           |
| <b>Provisions :</b>                                                       |                     |                     |
| <b>Provision for Taxation</b>                                             | <b>404,360.24</b>   | <b>217,109.33</b>   |
| Less Advance Tax Paid to RRCO                                             | -                   | 105,020.56          |
| <b>Less TDS on Fixed Deposit</b>                                          | <b>5,717.05</b>     | <b>900.00</b>       |
| <b>TOTAL</b>                                                              | <b>554,440.65</b>   | <b>155,889.38</b>   |
| <b>Schedule 4 : Balances With Banks</b>                                   |                     |                     |
| <b>Current A/C with Bank of Bhutan</b>                                    | <b>4,162.50</b>     | <b>4,162.50</b>     |
| Saving Deposit A/C with Bhutan National Bank                              | 2,024,651.83        | 484,582.15          |
| <b>TOTAL</b>                                                              | <b>2,028,814.33</b> | <b>488,744.65</b>   |
| Fixed Deposit with Bhutan National Bank                                   | <b>3,193,750.00</b> | <b>3,587,100.00</b> |








## SCHEDULE 5

### SIGNIFICANT ACCOUNTING POLICIES

#### 01. METHOD OF ACCOUNTING

The Financial Statements have been prepared by following the going concern concept on historical cost convention and generally accepted accounting policies & procedures (prevailing in the country), unless otherwise stated.

#### 02. REVENUE RECOGNITION

- a) Accrual method of accounting is followed, unless otherwise stated.
- b) Brokerage are shown net of direct expenses incurred for earning the same.

#### 03. INVESTMENTS

Investments are stated at acquisition cost.

### NOTES ON ACCOUNTS

- a) Administrative and operating expenses are substantially borne by Bhutan National Bank Ltd.
- b) Last year's figures have been rearranged and regrouped, wherever necessary.





## FOREIGN CORRESPONDENT BANKS

**Standard Chartered Bank Ltd.,**

One Madison Avenue, New York,  
NY 10010-3603  
CHIPS ABA: 0256

**Standard Chartered Bank Ltd.,**

GPO Box 3990, Naya  
Baneshwor Kathmandu, Nepal

**Standard Chartered Bank**

6 Battery Road  
Singapore 049909

**Citi Bank N.A**

Wall Street, 19th Floor  
New York, NY 10046  
CHIPS ABA: 0008

**Standard Chartered Bank Ltd.,**

37 Gracechurch Street  
London EC3V 0BX

**Standard Chartered Bank Ltd.,**

Tokyo, 30-16, Ogikubo 4-Chome  
Suginami – Ku, Tokyo 167 – 8530, Japan

**Bank of America,**

New York, USA

**Export-Import Bank of Thailand**

Thailand, Bangkok

**Standard Chartered Bank Ltd.,**

(Germany) GmbH Franklinstrasse 46-48  
60486 Frankfurt am Main Germany

**Bank Asia Ltd.,**

(MCB-Dilkusha Branch)  
Dhaka, Bangladesh

**Janata Bank Ltd.,**

Local Office  
Dhaka Bangladesh

**Standard Bank Ltd.,**

Dhaka, Bangladesh

**Axis Bank Ltd.,**

Spectrum House, Sevoke Road, Siliguri  
734401, India

**HDFC Bank Ltd.,**

Samiti Building, Pani Tanki, Sevoke Road  
Siliguri-734001, West Bengal

**IDBI Bank Ltd.,**

Siliguri

**ICICI Bank Ltd.,**

ICICI Towers, Bandra-Kurla  
Complex Mumbai 400 051  
India

**Standard Chartered Bank Ltd.,**

23-25 MG Road Mumbai 400001

**State Bank of India**

Hasimara

**State Bank of India**

EKTIASAL



## Thimphu

Telephone Numbers 322767, 325297, 328585, 328582, 328583, 328578, 328588, 328577, 323895, 328580, 328587

Fax Number 328839

Branch Office

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Visa Card 236BNBBANKTUP B

Email Address [bnbtpu@druknet.bt](mailto:bnbtpu@druknet.bt)

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Fax Nos. (05) 252647

## Paro

Telephone Nos. (08) 2727 30/32

Fax No. (08) 272733

## Mongar

Telephone Nos. (04) 6414 94/96/ 95

Fax Nos. (04) 641493

## Gelephu

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Fax No. (06) 251161

## Wangduephodrang

Post Box No. 1217

Telephone Nos. (02) 481915/ 481912/ 481913

Fax No. (02) 481916

## Bumthang

Post Box No. 143

Telephone Nos. (03) 631625/ 631897

Fax No. (03) 631713

## Trashigang

Post Box No. 111

Telephone Nos. (04) 52 1149/1462/ 521466

Fax No. (04) 52 1195

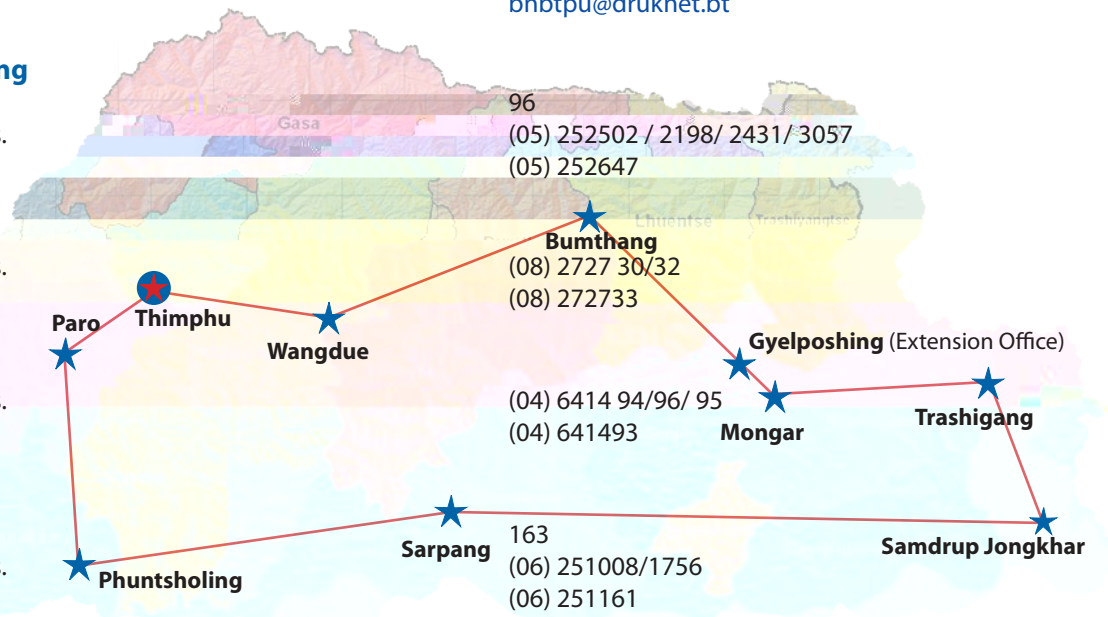
## Samdrup Jongkhar

Post Box No. 138

Telephone Nos. (07) 25 1149/ 1667

Fax No. (07) 25 1208

**Gyelposhing** (Extension Office) (04) 744258





# NEW PRODUCTS



## RUPEE DENOMINATED PREPAID CARD AND RECURRING DEPOSIT

“Your Relationship Bank”

### RECURRING DEPOSIT

- Period of deposit** - Minimum 1 year & maximum 10 years
- Installation amount** - Minimum of Nu. 1000 per month (multiple of Nu. 100 thereafter)
- Pre-Mature Facility** - Will be provided with a penalty rate of 1% less than the deposit period rate
- Loan Facility** - Maximum of 75% of the deposited value can be availed
- Who can apply** - 1. Individuals

|                    |               |      |
|--------------------|---------------|------|
| One year           | < Two years   | 5.0% |
| Two years          | < Three years | 5.5% |
| Three years        | < Five years  | 6.5% |
| Five years         | < Seven years | 7.5% |
| Seven to ten years |               | 8.0% |

### RUPEE DENOMINATED PREPAID CARD

BNB rupee denominated prepaid card is a plastic card. This card needs to be loaded with the desired amount not exceeding Nu. 50,000 from our bank and can be used in India at all ATMs, POS terminals of VISA merchants and on-line shopping.

#### PRODUCT FEATURES:

1. The card is usable only in India
2. The maximum value of Nu. 50,000 can be loaded at one time

#### PRODUCT BENEFITS:

- \* Plastic money - Hassle - free, secure & convenient alternative to cash
- \* Protects from the loss of cash
- \* Can make purchases from the POS terminal
- \* Don't have to look for INDIAN RUPEE TO TRAVELING TO INDIA

[www.bnb.bt](http://www.bnb.bt)