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## FINANCIAL HIGHLIGHTS

### SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

As of and for the year ended December 31 (in thousands of ngultrums, unless otherwise noted)	2011	2010	2009	2008	2007	2006
<b>Financial Results</b>						
Interest Income	1,752,930	1,446,104	1,204,970	986,440	798,185	615,119
Interest Expenses	698,352	751,994	634,903	367,442	245,470	236,063
Interest Differential	1,054,577	694,110	570,067	618,998	552,714	379,056
Other Income	279,467	138,048	86,148	163,111	9,875	63,556
Gross Operating Income	1,344,045	832,159	656,216	782,109	562,590	442,612
Operating Expenses	269,859	234,224	241,989	217,226	162,188	140,517
Net Operating Income	1,064,185	597,934	414,227	564,883	400,401	302,094
Profit before Tax	729,004	361,080	377,502	451,148	362,141	274,834
Profit after Tax	510,058	250,817	266,269	310,349	249,545	191,762
<b>Balance Sheet Information</b>						
Total Assets	25,754,385	26,637,920	24,106,473	16,733,959	10,481,057	10,051,834
Capital & Reserves	3,417,968	1,603,094	1,453,599	1,288,652	950,313	705,575
Other Liabilities	22,336,416	25,034,826	22,652,873	15,445,307	9,530,744	9,346,259

## MISSION STATEMENT



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### Our Purpose:

“To provide financial choice through innovation”

### Our Values:

**Integrity:** through fair and honest actions;

**Innovation:** by being a learning organization that puts good ideas to practice;

**Leadership:** by example, humility, recognition and empowerment;

**Teamwork:** through individual respect, underpinned by a united purpose; and

**Discipline:** through people, thought and action.

### Vision:

“To gain regional recognition by being #1 in all our services and work culture”



## MANAGEMENT TEAM

Tandin Dukpa	Chief, Risk Management
Gyam A.D. Namgyel	Chief, Financial Control & Credit Administration
Pelzore Rumba	Chief, Banking
Kesang Namgyel	Chief, Resource
Tshewang Samdrup	Head, Internal Audit Department
Karma Deki	Head, Human Resource & Administration
Tashi Dorji Rinchen	Head, Credit Administration & Review Unit
Bidha Dorji	Head, Risk Analytics & Management
Tashi Lhamo	Head, Financial Control Unit
Sonam Tobgay	Head, OSM
Norbu Wangchuk	Head, Corporate Banking
Sangay Wangdi	Head, Engineering
Mann Bdr. Rai	Head, IT Department
Deki Wangmo	Head, Legal Department
Shree P Subedi	Head, Retail Banking
Tapas Dutta	Project Manager
Delay Phuntsho	Branch Manager, Thimphu
Karma Choki	Branch Manager, Phuentsholing
Lhaki Wangmo	Branch Manager, Paro
Dorji Drakpa	Branch Manager, Mongar
Biren Rai	Branch Manager, Gelephu
Surja Man Samal	Branch Manager, Wangduephodrang
Kesang Deki	Branch Manager, Bumthang
Sonam Wangdi	Branch Manager, Trashigang
Pema Rinzin	Branch Manager, Samdrup Jongkhar

## DIRECTOR'S PROFILE



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**Dasho Tashi Phuntsog**, Chairperson, 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 Tashi is the Chairperson of the Board Governance Committee.

**Mr Ugyen Namgyal**, Director, appointed on 23rd July 2009 and reappointed on 23rd March 2011. 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 3 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 on 21st March 2008 and re-appointed, in 2010. 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.

**Dr. Pema Choephyel**, Director, appointed on 2nd March 2011 representing the BTF. He is the Director of the Bhutan Trust Fund for Environmental Conservation. Dr. Pema Choephyel's career has covered environmental conservation, research in renewable natural resources and commercial finance. He began his career with the Royal Civil Service Commission; as a civil servant he held various positions as the Principal at Royal Veterinary Institute, Department of Animal Husbandry, Pedagogic Head (VP) at the Natural Resources Training Institute, Chief Research Officer, Chief Extension Officer, Director, Council of RNR Research of Bhutan and as an Advisor to the Bhutan Development Finance Corporation Limited. A graduate of Bombay Veterinary College, Bombay, India, Dr. Pema Choephyel received his master's degree in Rural Development and Communication from Lincoln University, New Zealand in 1991.

**Mr. Kunzang Dechen**, Director, appointed on 4th May 2011. He has a master's degree in International Relations from the University of Hawaii and a Post Graduate Diploma in US Economic Policy and Domestic US Legislation from Georgetown University, Washington DC, the United States. During his post graduate studies in the US, he also worked as a research intern in the International Relations Division at the East-West Center, Honolulu for two and a half years. He served in the Foreign Service for 10 years and last served as the Head of the Economic Division at the Royal Bhutanese Embassy in New Delhi. Thereafter for the last thirteen years, he has worked extensively as a consultant for the Royal Government of Bhutan and with various international development agencies, primarily the EU, ACB and the UNDP. He has also worked part-time as the Senior Policy Advisor to the UNDP.

**Dasho Tenzing Yonten**, Director, appointed on 17th August 2011. He has a degree in Mechanical Engineering from the University of California, Berkeley and an MBA from Yale University. He has worked in the power sector of Bhutan for 14 years and has experience in a wide range of areas covering policy formulation, planning, project management, contracts, regulation and operations. He has also done some consulting work and interned at the World Bank in Washington DC. His last position was as General Manager for the Customer Services & Distribution Department of the Bhutan Power Corporation. He is the founder and the current Director of Royal Thimphu College and has been fully involved in all aspects of the project from planning, design and project management to institutional development and organization.

**Damber Singh Kharka**, Director, appointed on 2nd March 2011 is an economist with long years of experience in training, consulting and research in different disciplines of management that he accumulated through his nineteen years academic career at the Royal Institute of Management. His strengths are in areas of Economics, Corporate Governance, Finance and Human Resources. He had very successfully transited from the world of academia to a corporate world. Besides having provided consulting and training services for several years, he also has to his credit many papers published at the national, regional and international publications. He is a person of a very good blend of conceptual knowledge and practical experiences in the Bhutanese corporate world. Damber is currently working as a Director at the Druk Holding and Investments, an organization that is mandated to act as the investment arm of the Royal Government of Bhutan.



## 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 subsidiaries for the year ended 31<sup>st</sup> December, 2011.

In spite of global economic slowdown, competition from the new banks, your bank has performed exceptionally well in terms of profit making and investment in loans and advances. Moreover, with the changing needs of the customer, 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.

the capital structure of the bank. As the Capital Adequacy Ratio (CAR) fell down to 16.37% in 2010, bank issued Bonds as well as Rights Share during the year to strengthen the capital and to improve the CAR to a most satisfactory position.

### DIVIDEND

The Board of Directors of the Bank proposes a dividend of Nu. 20.00 per share not through fund outlays but through issue of bonus shares kept as capital within the bank.

### 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 also

# DIRECTOR'S REPORT



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- Delegation Matrix for Responsibilities
- Detailed Roles and Responsibilities
- Credit Manual

in line with the requirements of the Companies Act of the Kingdom of Bhutan. The statutory records/documents have been duly maintained per the 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 2011.

## OTHER NOTABLE ACHIEVEMENTS

### (I) Financial:-

- (a) Interest income from loans & advances increased by 293 million i.e. 21.42%.
- (b) Total interest income increased by Nu 306.83 million i.e. 21.22%.
- (c) Cost of deposits lowered by Nu 53.64 million i.e. 7.13%.
- (d) Operating cost restricted to Nu 269.86 million.
- (e) Foreign Exchange gain increased by Nu 86.83 million i.e. 495.07% i.e. from Nu 17.54 million in 2010 to Nu 104.37 million in 2011.
- (f) Total other income increased by 102.44% i.e. from Nu 138.05 million in 2010 to Nu 279.47 million in 2011.
- (g) Nu 333 million fresh provisions had to be made in 2011 against Nu 234 million in 2010.

The Bank has complied with the requirements of the Regulations, 2002. The Bank has complied with the requirements of disclosure 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.



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## DIRECTOR'S REPORT

### BOARD COMMITTEES

As per the recommendations of the consultant, the different Board Committees were formed by the Board to effectively monitor the performance as well as to implement different strategies made by Bank. In this connection, the different Board Committees met several times during 2011, the details of which are given below:-

- Credit and Risk Management Committee - 8 times
- Audit, Compliance and Fraud Committee- 5 times
- Governance, Recruitment & Remuneration Committee- 3 times

### EXTERNAL AUDITOR

The Board sincerely thanks M/s K.C. Bhattacharjee & Paul for auditing the accounts of 2011.

### 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.



## CHIEF EXECUTIVE'S REPORT



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Dear Shareholders,

It is a great privilege for me to place before you, the Bank's Annual Report, 2011 and to draw your attention to a few significant achievements made by the Bank in spite of stiff competition from the new competitors.

I am delighted to report that the Bank's Profit after Tax increased by about 103% to 510 million in 2011 from Nu. 250.81 million in 2010. During the period, although the Bank suffered a negative growth in deposits, but the loans and advances registered a remarkable growth of 23.46%.

wholesale and retail trade, Hotels and restaurants, Transport, Storage and communication. Needless to mention that banks and financial sectors play a major role in the growth of production of all the above sectors.

The economy of Bhutan faced tremendous rupee crunch during the year which had to be managed by selling US\$ 200 million in the Indian market. The trade deficit reached almost Nu. 20 billion in the year 2010-11 fiscal year. The widening trade deficit to perform development work in fulfilling 10<sup>th</sup> plan obligations makes the economy more vulnerable. Moreover, weakening of Rupee as well as Ngultrum in the second half of the year made imports costly which also contributed in widening trade deficit as well as current a/c deficit. In Bhutan's balance of payment (BOP) position, the current account recorded a deficit of Nu. 16.1 billion (22.2% of GDP) in 2010-11 compared to a deficit of Nu. 6.6 billion (10.8% of GDP) in 2009-10. The above huge current a/c deficit translate to rupee crunch.

In the Banking sector, the year witnessed stiff competition among the bankers. Most banks suffered tared well and could increase its profitability to more than 100%.

### LONG TERM CORPORATE STRATEGY

As per the recommendations of the renowned consultancy firm Ernst and Young, Bank has implemented various long term strategies on best global banking practices, prudent corporate governance, sound risk management, improved standards of banking services and productivity of the



## CHIEF EXECUTIVE'S REPORT

employees. BNB implemented the organizational restructuring, performance management system, salary harmonization, customer profiling, risk based internal audit, credit Risk mitigation, business process re-engineering, policy and government framework, financial modeling, MIS, IT policy and knowledge transfer. These long term corporate strategies have helped BNB in maximizing the wealth creation of its stakeholders.

### CORPORATE SOCIAL RESPONSIBILITY

Considering its corporate obligation to the society, the bank extended its cooperative hand by giving donations for medical treatment, for construction of Thongdrel at Rinpong Dzong and to Human Wildlife Conflict Management Endowment Fund.

### NETWORK EXPANSION

During the year, the Bank opened a branch at Gowa, a branch at Kuruha, under

of 103.35%. The growth in net profit in 2011 has been achieved due to increase in net interest income, increase in other income and containment of operating cost at a moderate level.

2. Net Interest Income: The net interest income of the Bank registered a growth of 51.93% from Nu. 694.11 million in 2010 to Nu.1054.58 million in 2011. This was mainly due to growth in interest income on loans and advances and lower cost of deposits. Despite declining interest rates, the interest income from loans registered a growth of 21.42% from Nu. 1367.99 million in 2010 to Nu. 1660.97 million in 2011. Interest from resources deployed in treasury operations increased from Nu. 72.87 million in 2010 to Nu. 86.40 million registering a growth of 18.57%. On the other hand, interest cost on deposits and others lowered down by 7.13% from Nu. 751.99 million in 2010 to Nu. 698.35 million in 2011.
3. Non-interest income : Non-interest income registered a growth of 102.44% from Nu. 138.05 million in 2010 to Nu. 279.47 million in 2011. The growth was mainly due to forex growth of 495% from Nu. 17.54 million in 2010 to Nu. 104.37 million in 2011. Moreover, the earnings through exchange, commission and recoveries registered a growth of 24.55% from Nu. 108.82 million in 2010 to Nu. 135.54 million in 2011. The dividend income also registered a growth of 251.82% from Nu. 4.28 million in 2010 to Nu. 15.07 million in 2011.

## CHIEF EXECUTIVE'S REPORT



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4. Operating expenses: The operating expense increased by 15.22% from Nu. 234.22 million in 2010 to Nu. 269.86 million in 2011. The major increase was due to increase in employment cost and establishment overheads.
5. Provision: Major amounts of provision made in 2011 are as under:-
  - (i) Nu. 333.17 million fresh provisions for non-performing loans (against Nu. 234.32 million in 2010)
  - (ii) Nu 217.86 million towards provision for Income Tax as against Nu. 110.26 million in 2010.
6. Reserves & surplus: (i) An amount of Nu. 186.81 million was transferred to General Reserve in 2011 as against Nu. 75.24 million in 2010. (ii) An amount of Nu. 34.15 million was transferred to Building Reserve as against Nu. 27.50 million in 2010.

### ASSETS

The total assets of the Bank slightly decreased by 3.31% from Nu. 26,637.92 million in 2010 to Nu. 25,754.38 million in 2011. During the year, its loan portfolio increased by 23.46% from Nu. 13,432.82 million in 2010 to Nu. 16,584.93 million in 2011. Investment was lowered by 59.75% from Nu. 1,642.61 million in 2010 to Nu. 661.12 million in 2011. The major portion of investment was in the domestic market by way of fixed deposits in Banks of Bhutan and other securities.

### LIABILITIES

The Bank's aggregate liabilities had also gone down by 3.31% in 2011. This was mainly due to fall in deposits by 14.85%. But due to issue of bond of Nu. 350 million and issue of Rights Share at premium during the year, bank's capital and reserve increased by 113.21% from Nu. 1,603.09 million to Nu. 3,417.97 million.

### KEY PERFORMANCE INDICATORS

	31-12-11	31-12-10
1 Interest Expenses/deposits	3.45%	3.45%
8 Return on Investment (PAT/Capital x100)	14.92%	15.65%
9 Earnings per share (PAT/No. of shares)	75.47	70.55
10 Net Profit Ratio (PBT/Total Income)	35.87%	22.79%
11 Capital Adequacy Ratio	20.90%	10.69%



## CHIEF EXECUTIVE'S REPORT

### PERFORMANCE HIGHLIGHTS

1. Treasury operation
2. Total Provision
3. Asset Quality
4. Information Technology
5. Risk Management & Internal control
6. Management Information system
7. Allied Services
8. Human Resource Management

#### 1. TREASURY OPERATION

- (i) During the year, the bank took proactive steps to utilize the SLR fund at best by investing in the Banks within Bhutan. As a result, Nu.-26.66 million income could be raised in the year.
- (ii) Constant monitoring of foreign currency movement helped bank to make forex gain to the tune Nu.104.27 million in 2011.

- (i) DEPOSITS: During the year, deposits fell down by 14.85% due to heavy withdrawal by a single large corporate client at the fag'end of the year. However, the retail based deposit improved during the year.
- (ii) LOANS AND DEPOSITS:- During the year, loans and advances grew by 23.46% and the growth was Nu. 3,152.10 million
- (iii) TOTAL BUSINESS:-Due to negative growth of deposit, the total business fell down slightly by 1.01% from Nu. 37,192.75 million in 2010 to Nu. 36,816.92 million in 2011

#### 3. ASSET QUALITY

The bank's gross NPL slightly increased from 4.47% in 2010 to 4.90% in 2011 due to classification of a single large industry as NPL.

#### 4. INFORMATION TECHNOLOGY

- (i) ATM PROJECT:- During the year, five new ATMs installed taking a total of BNB ATMs to 21 as on 31.12.2011. ATM usage registered an impressive increase during the year. In total, 3,29,995 number of transactions were held through all ATMs and cash withdrawals amounting to Nu. 1,431,339,450 were held during the year.



## (ii) RUPEE-DENOMINATED PREPAID CARD

Apart from the normal banking products, bank has taken steps in the area of plastic card business. Recently, we have launched such card whereby customers can load Bhutan currency on the card and then use the same under all umbrellas of VISA along with on-line shopping through internet and verified by VISA (VbV). They can also withdraw cash from any ATM in India.

## (iii) ELECTRONIC FUND TRANSFER (NEFT)

In-co-ordination of Royal Monetary Authority (RMA), three payment systems namely NECS credit, NECS debit and the NEFT under Electronic Funds Transfer and clearing systems (EFTCS) could be implemented at our bank. NEFT system is a nationwide funds transfer system that facilitates transfer of funds from one bank branch to any other bank branch. NEFT facilitates transfer of funds from one individual to other individual, one institution to other institution, one institution to one individual. In other words, under NEFT, funds can normally be transferred between two parties.

## (iv) IT POLICY

The policy basically revolves around the guiding principles for protecting and safeguarding the Banks information assets. The security model encompasses around data classification, physical application, network, e-mail, operating system, internet and intranet and password. The various processes which have been standardized in this policy are related to software and hardware acquisition and maintenance, license management, backup and recovery helpdesk and change management. The IT po

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.



## CHIEF EXECUTIVE'S REPORT

bank to collect information against new loan applicants/existing borrowers which helped bank to take faster credit decision.

### 7. ALLIED SERVICE

#### (i) CUSTOMER SERVICE

Bank has given focused attention at all levels to meet the expectation of the customers. New products and services have been developed and all operating officers have been geared up to provide customer service of a high order. The Bank's website has been re-designed to provide a wide range of information. Customer complaint, if any, is taken care of on top priority for immediate redressal.

Bank accepts the complaint as a tool for improvement in the standards of service as perceived by the customers.

#### (ii) COMMUNITY SERVICE

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of total staff) of staffs in the Institutes outside the country.

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## CHIEF EXECUTIVE'S REPORT

- (vi) Total number of masters level employees increased to 21 and 6 more employees are pursuing masters courses taking study leave from bank.

### ACHIEVEMENTS DURING 2011

- (i) Throughout the year CD ratio was maintained around 70-72%
- (ii) Liquidity management exercise was conducted every week. The cost of deposit could be reduced by 7.13% whereas income on loans could be raised by 21.42%. The overall cost of deposit could be lowered down from 3.74% in 2010 to 3.45% in 2011.
- (iii) Through SLR fund management, Nu. 26.66 million income could be raised during the year.
- (iv) Foreign exchange gain could be increased from Nu. 17.54 million in 2010 to Nu. 104.37 million in 2011.
- (v) Other income could be raised by 103.44% from Nu. 38.30 million in 2010 to Nu. 279.47 million in 2011.
- (vi) Total number of masters level employees increased to 21 and 6 more employees are pursuing masters courses taking study leave from bank.
- (vii) In-house training program was conducted to all staff members of Thimphu, Paro, Wangdue, Gelephu and Gomtu branches.
- (viii) Profit growth of 103.35% i.e. more than double could be achieved during the year.

### 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. 217.87 million as Corporate Income Tax to the National Exchequer.

### DIVIDEND

The Bank made a post-tax profit of Nu. 510.05 million. After transferring Nu. 308.05 million out of profit to General reserve, Foreign exchange fluctuation reserve, building reserve, contingency reserve and bond redemption reserves in view of the future growth of the Bank, the Board, out of the allocable surplus, recommended dividend of Nu. 20 per share subject to approval of the shareholders amounting to Nu. 135.17 million thus giving them a handsome return this year. It is expected that your future return will continue to be good.

### OUR STAKE HOLDERS

We consider that our customers are nucleus and the stakeholders are the catalysts for achieving our



# CHIEF EXECUTIVE'S REPORT

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## 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. It is giving more emphasis for their development and growth.

Various 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.

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 due to stiff competition from our competitors as well as due to the measures taken by RMA to bail out the country from rupee crisis. 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 which the achievements made by us would not have been possible without them.



Auditors' Report

and

Financial Statements



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## AUDITORS' REPORT

**The Shareholders,  
Bhutan National Bank Ltd.  
Thimphu, Bhutan.**

We have audited the attached Balance Sheet of Bhutan National Bank Ltd. as at 31<sup>st</sup> December, 2011 and also the Profit & Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date in which are incorporated returns of 3 branches (Phuentsholing, Thimphu and Paro) audited by us and the returns of unaudited 7 branches (Mongar, Gelephu, Wangdue, Bumthang, Samdrupjongkhar, Gomtu and Trashigang). The returns received from these unaudited offices have been found to be adequate for the purpose of consolidation. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our Audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion. As required by section 75 of the Companies Act of the Kingdom of Bhutan 2000 read with section II of the Schedule XIV thereto (the Minimum Audit examination and Audit Reporting Requirements issued by the Royal Audit Authority), we enclose in the **Annexure A** a statement on the matters specified therein to the extent applicable to the Bank.

Further to our comments in the **Annexure A** referred to above, we report that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory.
2. In our opinion, proper books of account have been kept by the Bank so far as it appears from our examinations of those books.

# AUDITORS' REPORT



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prepared on the basis of generally accepted accounting principles and in accordance 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-16) and Notes on Accounts (Schedule-17) give the information required by the Companies Act of the Kingdom of Bhutan 2000 in the manner so required and

given to us, the said Balance Sheet and Profit & Loss Statement read with Schedules 1 to 17 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, 2011;
- 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: 20.07.2012  
Place: KOLKATA

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



  
(G.N. Chattopadhyay)



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## ANNEXURE-A

### MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

1. The Bank is maintaining proper records showing full particulars including quantitative and situational details of Fixed Assets. Physical verification of Fixed Assets has not been conducted by the auditors.
2. The Fixed Assets have not been revalued during the year.
3. The loans/advances granted to officers/staff are in keeping with the provisions of service rules and no excessive/frequent advances are granted and accumulation of large advances against particular individual is avoided.
4. The Bank has an established system of internal controls 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 bank as well as to ensure adherence to the rules / regulations and systems and procedures. However, as per available information, branches are not maintaining Cash retention Limit.
5. There is a system of competitive biddings, commensurate with the size of the bank and the nature of its business, for the purchase of goods and services including stores and other assets and for the sale of assets.
6. As explained to us, the transactions entered into by the Bank wherein the Directors are directly or indirectly interested are not prejudicial to the interest of the other shareholders. In absence of proper record (examined minutes), we are

10. In our opinion and on the basis of evidence available to us, the business carried on by the bank are lawful and intravires the Articles of Incorporation of the Bank.



12. The remuneration of the Chief Executive Officer and the Board Meeting Expenses has been disclosed in the Accounts. On verification of the minutes 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.
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.
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 16. However Note No. 5 of Schedule 17 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.
20. The requirements of RMA Prudential Regulations, 2002 relating to provisioning for the non- performing Loans have been complied with.
21. Recognition of interest income in respect of non-performing assets has been deferred.
22. The Bank has in place a system of physical verification and standards for valuation of assets hypothecated against loans and advances. Mortgage deeds are executed and are ensured that the assets are free of any prior lien or charges.
23. The Bank has a system of monitoring the projects for which loans have been provided to ensure that the loan amounts are used for the specified purposes and project activities are progressing satisfactorily. However,

coverage of assets and  
Industrial Loan requires improvement.

- b. Recovery of loans kept under "**Non Scheduled**" (**Bullet**) category is inconsistent with the Terms of Loan agreements.
- c. While monitoring the borrower accounts, the financial of the units are not considered except for when there is proposal for enhancement of bank's exposure. In some major accounts (**5 Accounts with 787 M. NU. outstanding**) there was considerable drainage of funds due to accumulated losses. Though other borrower disciplines are maintained and backed by adequate collaterals. **These accounts require close monitoring to prevent slipping to non-performing loans.**

24. The disposals of assets taken over for repayment defaults etc. are made through open/sealed bids.

25. Proper analysis is generally carried out before re-phasing/rescheduling of loans. The repayment schedule of certain advances amounting to Nu. 56,020,466.05 (previous year Nu. 627,888,698.29) after they have become due for payment, fully or partially, were revised during the year of which Nu. 34,440,299.74 (previous year Nu. 128,318,020.90) has been liquidated. Of the remaining loans amounting to Nu. 220,595,398.66, Nu. 7,669,351.59 have been categorized as non-performing and the

2011 as per the Prudential Guidelines issued by RMA.

256 There is a system to ensure that additional loans are not granted to those who have defaulted in payment of earlier advances.



- 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, 2011 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, 2011 has been fairly assessed and such ratio is more than the prescribed limit by the RMA.



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## ANNEXURE-A

Capital Adequacy Ratio of the Bank as on 31<sup>st</sup> December, 2011 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, 2011 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



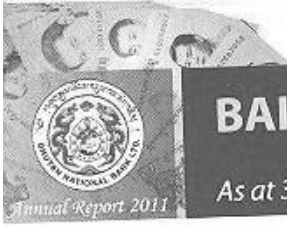
Annual Report 2011

**BHUTAN NATIONAL BANK LTD.**  
**THIMPHU :: BHUTAN**

## RATIO ANALYSIS

Sl No	Particulars	31-12-2011	31-12-2010
1	Interest Expense / Deposits	3.45%	3.16%
2	Interest Income / Loans	10.05%	10.22%
3	Credit / Deposit Ratio	81.97%	56.54%
4	Deposits Growth	-14.85%	9.71%
5	Advance Growth	23.47%	21.17%
6	Increase (Decrease) in Provision	42.19%	538.04%
7	Increase (Decrease) in Forex Income	495.07%	189.90%
8	Return On Investment (PAT / Capital Employed X 100)	14.92%	15.65%
9	Earnings Per Share (PAT / No. of Shares Issued)	75.47	70.55
10	Net Profit Ratio (PBT / Total Income X 100)	35.87%	22.79%





# BALANCE SHEET

As at 31st December, 2011

SCHEDULE

31st DEC 2011

31st DEC 2010

Nu. ch.

Nu. ch.

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 : 20.01.2012  
Place: Kolkata

CHAIRPERSON

CHIEF EXECUTIVE  
OFFICER



# PROFIT & LOSS ACCOUNT

For the year ended 31st December, 2011



Annual Report 2011

PARTICULARS	SCHEDULE	31st DEC 2011		31st DEC 2010	
		Nu.	ch.	Nu.	ch.
Interest Income	12	1,752,929,453.38		1,446,104,526.39	
Interest Expenses	13	698,352,294.42		751,994,375.08	
Interest Differential		<u>1,054,577,158.96</u>		<u>694,110,151.31</u>	
Other Income	14	279,467,425.14		138,048,897.70	
Gross Operating Income		<u>1,334,044,584.10</u>		<u>832,159,049.01</u>	
Operating Expenses	15	269,859,215.41		234,224,534.24	
Net Operating Income		<u>1,064,185,368.69</u>		<u>597,934,514.77</u>	

## SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS (Schedule 16 and 17)

This is the Profit & Loss Account referred to in the

Accountants



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# CASHFLOW STATEMENT

For the year ended 31st December, 2011

	Nu	Nu
Net cash flow from operating activities (A)	(5,619,460,781.83)	
Returns on investments and servicing of finance (Note 1)		(86,255,116.50)
Taxation		(72,189,395.21)
Capital expenditure (Note 2)		(48,111,576.82)
Net cash inflow/ (outflow) from investing activities (B)		(206,556,088.53)
Net cash inflow/ (outflow) before financing (A-B)	(5,826,016,870.36)	
Financing (Note 3)	1,789,983,275.30	
Management of liquid resources (Note 4)	776,763,940.42	
<b>Net cash inflow/ (outflow)</b>	<b>(3,259,269,654.64)</b>	
<b>Increase/ (Decrease) in cash (other than RGOB &amp; RMA Bills and Time Deposits)</b>		<b>(3,259,269,654.64)</b>

**Notes:**

1. Returns on investments and servicing of finance



# CASHFLOW STATEMENT

For the year ended 31st December, 2011



Annual Report 2011

## 3. Financing

Issue of Shares and Debentures	1,789,983,275.30
	<u>1,789,983,275.30</u>

## 4. Management of Liquid resources

Purchase)/ Sale of Treasury bills/Discount bills	999,485,714.29
(Increase)/Decrease in Term Deposit	(222,721,773.87)
	<u>776,763,940.42</u>

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

Profit Before Tax	729,003,790.03
(1) Add back :	
Depreciation Charges	19,136,037.68
Write Off of Fixed Assets	6,349,407.23
(2) Deduct :	
Dividend received	<u>(15,067,371.00)</u>
	<u>739,421,863.94</u>
(Increase)/ Decrease in Loans/Other Assets	(3,169,022,723.22)
Increase/ (Decrease) in Current Liability	(3,189,859,922.55)
Net Cash Flow from Operating Activities	(5,619,460,781.83)

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

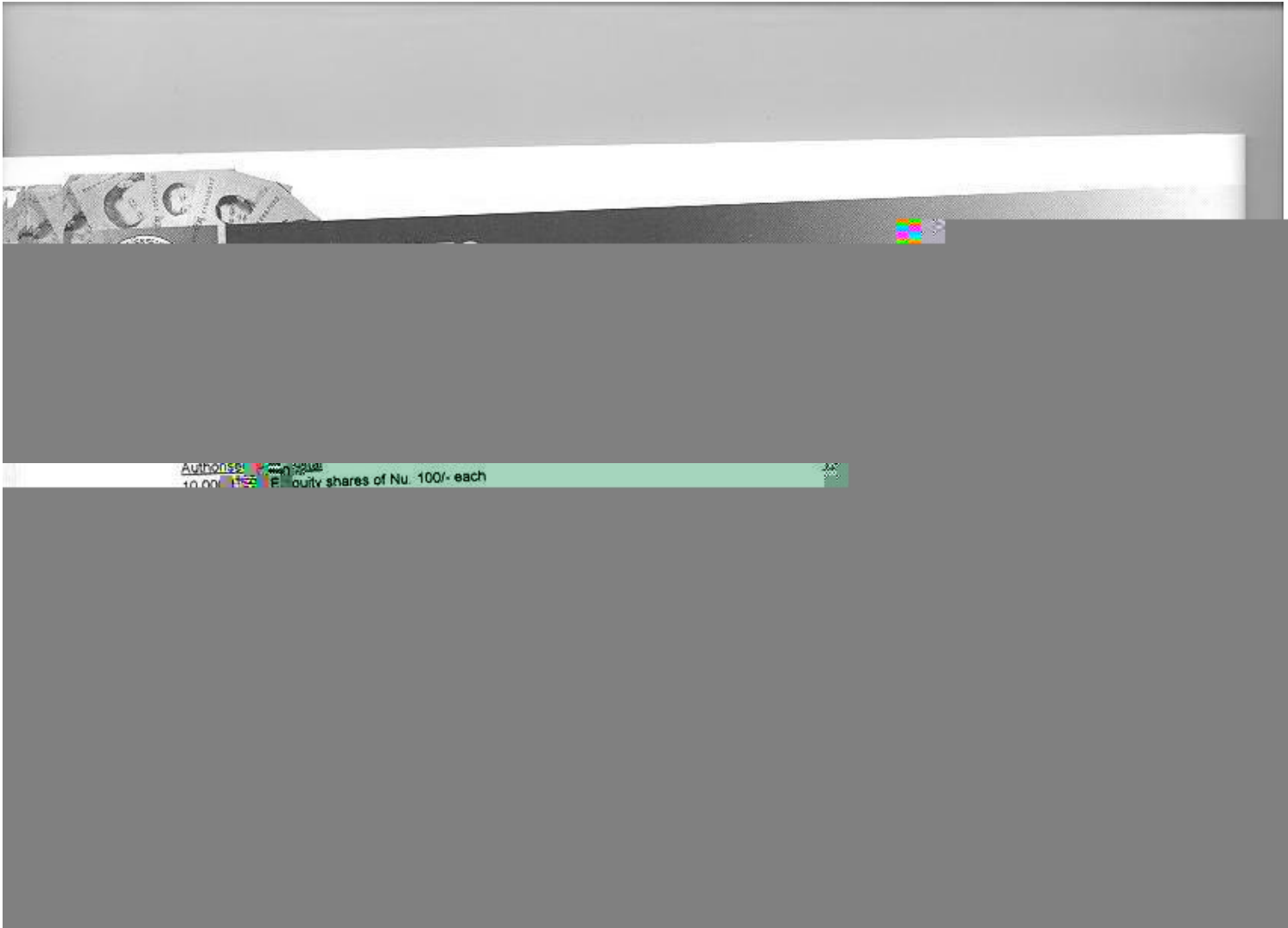
For K.C. Bhattacharjee & Paul  
Chartered Accountants

  
CHAIRPERSON

  
CHIEF EXECUTIVE OFFICER

G.N. Chattopadhyay  
Partner  
M. No. 053272  
Date : 20.07.2012  
Place: Kolkata





Authorized  
10.00 Equity shares of Nu. 100/- each



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# SCHEDULES

Schedules forming part of Balance Sheet



Annual Report 2011

## SCHEDULE 4 : DEPOSITS

Fixed deposits	12,029,795,482.96	15,288,930,311.03
Interest accrued, but not due, on fixed deposits	916,523,213.88	777,966,074.88
Recurring deposits	11,477,050.71	93,500.00
Interest accrued, but not due, on recurring deposits	7,385.33	260.89
Fixed term units		0.00
Interest accrued, but not due, on fixed term units		0.00
Savings deposits	2,865,447,491.21	2,529,043,627.88
Interest accrued, but not due, on savings deposits	2,494.60	556.07
Current deposits	4,408,737,021.64	5,163,886,814.46
<b>Total</b>	<b>20,231,990,140.33</b>	<b>23,769,921,144.91</b>

## SCHEDULE 5 : CURRENT LIABILITIES

Dues to Centurion Bank	0.00	0.00
Sundry creditors	3,813,649.08	1,283,111.06
Deferred income	27,997,880.02	23,058,072.91
Unclaimed Deposits	20,156,859.97	15,177,759.60
Other liabilities	272,946,156.09	273,259,304.93
Interest accrued, but not due, on subordinated term debts(Bonds)	4,372,602.74	
<b>Total</b>	<b>329,287,147.90</b>	<b>312,778,248.50</b>

## SCHEDULE 6 : PROVISIONS

Against Investments	0.00	0.00
Against Interest in Suspense	51,105,181.12	63,798,367.18
Against loans	984,389,179.99	616,321,938.77
Against fixed assets including Off-balance sheet items	27,172,523.23	62,071,721.25
For retirement benefits	9,436,598.21	8,349,272.72
For taxation	110,262,764.41	
Proposed Dividend	101,322,487.50	
<b>Total</b>	<b>1,425,138,911.86</b>	<b>962,126,551.83</b>



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**SCHEDULE 8 : INVESTMENTS**

**Equity Shares**

Name of Company	No. of shares		
<u>Quoted</u>			
Perden Cement Authority Ltd.	35,955	7,436,278.00	7,436,278.00
Bhutan Board Products Ltd.	1,400	141,400.00	141,400.00
Bhutan Carbide & Chemicals Ltd.	50,000	5,000,000.00	5,000,000.00
Bhutan Polymers Co. Ltd.	12,714	1,271,400.00	1,271,400.00
Royal Insurance Corpn. of Bhutan	3,540	732,957.00	732,957.00
Druk Ferro Alloys Ltd.	579,553	91,463,480.00	91,463,480.00
<u>Ungquoted</u>			
Bhutan Development Finance Corpn.	2,500	2,500,000.00	2,500,000.00
Investment in shares of subsidiary - BNB Securities Ltd.	5,000	500,000.00	500,000.00
FI Training Institute		18,000,000.00	0.00
<b>Total (A)</b>		<b>127,045,515.00</b>	<b>109,045,515.00</b>

**Marketable Securities**

	No. of Bonds		
RMA discount bills		0.00	996,400,000.00
Interest accrued, but not due, on discount bills		0.00	3,085,714.29
Druk Air Bonds - 1(G003)	380,734	380,734,000.00	380,734,000.00
Druk Air Bonds - 2(G004)	40,897	40,897,000.00	40,897,000.00
Druk Air Bonds - 4(G006)	27,887	27,887,000.00	27,887,000.00
Druk Air Bonds - 5(G007)	77,484	77,484,000.00	77,484,000.00
Interest accrued, but not due, on treasury bills & Other Bonds		7,076,836.65	7,076,836.65
<b>Total (B)</b>		<b>634,078,836.65</b>	<b>1,533,564,550.94</b>
<b>Total (A + B)</b>		<b>661,124,351.65</b>	<b>1,642,610,065.94</b>

**SCHEDULE 9 : LOANS AND ADVANCES**

Secured against mortgage/hypothecation of properties	15,324,706,147.07	12,628,866,743.88
Secured against pledge of deposits	274,945,122.90	39,596,730.02
Secured against undertakings of employers	569,576,112.35	658,444,483.60
Bills discounted	9,879,926.00	25,113,586.79
Cheques purchased	1,487,321.78	154,274.12
Credit cards' outstandings	8,094,393.04	9,309,099.45
Suspended loans	396,245,960.35	71,341,735.67
<b>Total</b>	<b>16,584,934,983.49</b>	<b>13,432,826,653.53</b>

**SCHEDULE 11 : OTHER ASSETS**

Imprinters-in-stock	535,948.65	789,500.80
Advances, claims, pre-payments, deferrals, etc.	42,884,501.11	122,333,102.16
Assets acquired in satisfaction of debts	98,336,700.00	0.00
Interest accrued, but not due, on time deposits with banks in Bhutan	9,055,133.99	10,839,258.15
Interest accrued, but not due, on time deposits with banks outside Bhutan & India	116,067.10	52,096.48
Advance Tax & TDS	6,207,796.91	45,358,757.90
<b>Total</b>	<b>157,136,147.76</b>	<b>179,372,715.49</b>



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# SCHEDULES

Schedules forming part of

Annual Report '09

## SCHEDULE 10 : FIXED ASSETS

PARTICULARS	Original cost as on 01.01.11			Addition during the year			COST			Sale/transfer during the year		
	Nu.			ch.			Nu.			ch.		
	Nu.	ch.	Nu.	Nu.	ch.	Nu.	Nu.	ch.	Nu.	Nu.	ch.	
Land												
Building	23,336,464.29											
Electric Appliances & Machineries	4,490,602.42											
Furniture, fixtures, & fittings	21,870,545.60			517,765.00								
Office equipments	16,744,397.57			4,205,406.01								
Computer hardwares	82,386,176.07			3,716,679.07								
Softwares	40,549,837.80			12,905,998.35								
Security tools	4,038,249.72			2,450,525.00								
Carpets & soft furnishings	1,096,639.09			1,315,900.00								
Vehicles	7,951,260.24			19,729.00								
Capital works-in-progress	223,004,302.45			25,430,803.03								
Total	5,354,688.45			4,712,564.70								
Previous year	229,959,050.90			30,143,067.73								
	202,754,281.76			31,955,263.68								



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Accumulation as on 31.12.11	BOOK VALUE					
	As on 31.12.11			As on 31.12.10		
	Nu.	ch.	Nu.	ch.	Nu.	ch.
	1,757,150.79	0.00	23,336,464.29		19,402,025.55	
	3,098,265.79		18,765,738.86		1,890,535.98	
	10,770,648.70		2,165,071.63		8,288,601.45	
	15,760,854.71		9,964,296.40		8,197,675.53	
	10,770,648.70		9,898,278.54		29,297,488.38	
	63,098,600.06		33,276,803.36		11,009,606.37	
	32,134,427.65		10,865,935.15		2,032,322.62	
	811,006.22		2,759,572.88		397,397.82	
	6,592,282.18		304,881.87		2,568,633.39	
	135,327,161.94	0.00	1,590,218.06		106,418,731.39	
	135,327,161.94		112,696,987.04		6,354,688.45	
	116,905,631.06		4,712,564.70		112,773,419.84	
	116,905,631.06		112,773,419.84		99,210,730.47	

Interest on bills & deposits 46,374,072.84  
 Interest on deposits with other banks 46,029,428.14 53,167,114.29  
 Interest on RGOB & RMA bills and CRR  
**Total 1,446,104,526.39**

**SCHEDULE 13: INTEREST EXPENSES**

93,440,291.16 73,045,327.59

Total

**SCHEDULE 14: OTHER INCOME**

Change, commissions, & recoveries	135,544,243.83	108,817,778.05
Dividends (Gross)	15,067,371.00	4,282,740.00
Realization gains	104,370,994.76	17,639,324.87
Realization losses	24,320,474.65	7,199,500.00
Other income	164,340.91	209,091.10
<b>Total</b>	<b>279,467,425.14</b>	<b>138,048,897.70</b>

**SCHEDULE 15: OPERATING EXPENSES**

Employment costs	27,911,989.20	22,658,834.75
Establishment overheads	11,578,719.32	10,239,681.95
Communication costs	8,569,866.26	6,782,434.24
Travelling expenses	1,273,731.65	743,407.78
Vehicles expenses	7,530,006.86	7,100,693.45
Computer running & maintenances	2,707,935.13	3,130,208.00
Advertisements & publicity	821,031.25	526,024.26
Entertainments	18,620.00	144,565.00



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historical cost convention and generally accepted accounting principles, policies & procedures (prevailing in the country), unless otherwise stated.

02. **REVENUE RECOGNITION :-**

- a) Accrual method of accounting is followed, unless otherwise stated. The financial statements conform to the statutory provisions, instructions, & guidelines issued by the Royal Monetary Authority of Bhutan.
- b) Dividend income is recognised in the accounts in the year of dividend declaration by the Investee companies.
- c) Net income from 'Interest on Time Deposits' with bank outside Bhutan is recognised without considering the amount of tax deducted at source.
- d) Commission and Exchanges on Guarantees and Letters of Credit and Bills are recognised pro-rata over the period.

accordance with the guidelines issued by the Royal Monetary Authority of Bhutan:

- Provisions are made in terms of Prudential Regulations 2002;
  - Interest income for the year, on non-performing loans, to the extent not received, is not recognised as interest income.
- b) Assets acquired from defaulted borrowers are shown at the corresponding value of loans outstanding on the date of acquisition. Provision is made for possible shortfall, as considered appropriate by Management. Claims on such property by third party, if any, is disclosed as Contingent Liability.

04. **INVESTMENTS :-**

Investments are stated at cost. Provision is made for any shortfall in the market value of quoted Investments in comparison to carrying cost. In case of unquoted/unlisted

Management is made.

- a) Fixed assets are stated at cost, less depreciation.





# SCHEDULES

## Schedules forming part of Profit & Loss Account

- 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



Annual Report 2011

1. Provision against loans amounting to Nu. 552,518,712.02 has been made during the year 2011 (Previous year Nu. 234,317,885.44) as per the prudential guidelines issued by Royal Monetary Authority of Bhutan. This year there is a write back of Nu. 12,696,488.98 to the interest income. (Previous year the write back to interest income was Nu. 1,589,900.91).
2. Guarantees given and Letters of Credit issued outstanding at the year-end amounting to Nu. 2,283,848,262.01 & Nu.1,124,391,824.77 respectively (Previous year Nu. 1,586,293,155.89 & Nu. 791,502,781.07). The total margin money collected against Guarantees is Nil (Previous year Nu. 46,000.00). Total margin money against Letter of Credit amount to Nu.211,558,063.37 (Previous year Nu 155,453,563.38).

3. Provision for taxation includes

Tax on Current Year's Profit	Nu.217,868,609.31
Less: Advance Tax Paid	Nu.2,249,568.55
Less: Withholding tax on Dividend Received	Nu.3,959,813.93
Net Tax payable	<u>Nu.211,659,226.83</u>

4. Other assets (advance, claims, pre-payments, deferrals etc.) include balances in Sundry Receivable Account aggregating to Nu. 35,390,298.05 (previous year Nu. 115,336,275.80) 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. 58,081.70 (previous year Nu. 11,275,337.45) 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. 132,557,150.00) 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.



# SCHEDULES

## Schedules forming part of Balance Sheet

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

	Current Year	Previous Year
Salary & Other Benefits	Nu.2,389,538.20	Nu.2,184,737.56
Vehicle expenses	Nu.651,880.54	Nu.135,124.29
Travel-Local/Foreign	Nu.357,177.10	Nu.509,482.72
Medical Reimbursement	Nu.0.00	Nu.0.00
Training & Seminars	Nu.364,867.52	Nu.530,763.02
<b>Total</b>	<b><u>Nu.3,763,463.36</u></b>	<b><u>Nu.3,360,107.59</u></b>

7. Tax assessment of the bank has been completed upto 31<sup>st</sup> December 2010.
8. During the year, the bank has made a gain on foreign exchange transactions/assets and liabilities amounting to Nu. 104,370,994.76 (previous year Nu. 17,539,324.67). An amount of Nu. 26,092,748.69 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. The total interest of the Gratuity Fund for the year has been taken as income this year. The total income from Gratuity Fund clubbed to the bank as income is Nu. 3,092,047.43 (previous year Nu. 11,553,968.25). During the year a sum of Nu. 9,810,400.00 (Previous year Nu. 8,681,849.00) has been provided towards gratuity liability.
10. During the year, rights shares were offered in the ratio of 1:1 at a premium of Nu. 350 per share. The allotment of 3,203,166 shares was made on December 31, 2011.



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

we have audited the attached Balance Sheet of BNB Securities Limited as at 31 December, 2011 and Profit & Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date. These financial statements are the responsibility

Our audit includes examination, on a test basis, of records and supporting documents in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion required by section 11 of the Companies Act of the Kingdom of Bhutan 2007 read with section 11 of Schedule 1 of

the Royal Audit Authority), we enclose in the Annexure-A a statement on the matter specified therein to the extent applicable to the Company.

Further to our comments in the Annexure referred to above, we report that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory.
2. In our opinion, proper books of account have been kept by the Company so far as it appears from our examination of those books.
3. The Company 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 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.





## AUDITORS' REPORT



Annual Report 2011

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:

a) In case of the Balance Sheet, of the state of affairs of the Company

DATE : 20.07.2012  
PLACE: KOLKATA

For K. C. Bhattacharjee  
CHARTERED ACCOUNTANTS  
(FRN: 303026E)



G.N. Chattopadhyay  
Partner  
M.No. 053272

(DNB) ...  
The Company has not availed ... secured or unsecured from companies, ...  
... other parties or from ... from the companies under the said ...  
... The Company ... other parties or to the companies, and ...  
... firms or other ...

- shareholders ...
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.

... and intr... lies to the...



# ANNEXURE - A



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

Ratios	Year Ended 2011	Year Ended 2010	% of Growth +/-
Return on Investment (%)	17.61	15.81	11.42
Earnings per Share	234.74	173.58	35.23
Book Value per Share	1,332.81	1,098.07	21.38

12. **Compliance with the Companies Act of the Kingdom of Bhutan 2000:**  
The company has held one meeting of the Board of Directors in every quarter of the year 2011.

Date :- 20.07.2012  
Place:- Kolkata

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



*G.N. Chattopadhyay*  
G.N. Chattopadhyay  
Partner  
M.No.-053272



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# BALANCE SHEET

As at 31st December 2011

PARTICULARS	SCHEDULE	31ST Dec, 2011	31ST Dec, 2010
<b>CAPITAL AND LIABILITIES</b>			
Share Capital	1	500,000.00	500,000.00
Reserves & Surplus	2	6,164,040.65	4,990,350.07
Current Liabilities & Provisions	3	602,861.99	554,440.65

TDS on fixed deposit

7,366,902.64

6,044,790.72

### NOTES

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

CHAIRPERSON

CHIEF EXECUTIVE OFFICER



Place: KOLKATA  
Date: 20-07-2012

## PROFIT & LOSS ACCOUNT

Legal & Regulatory Expenses	112,238.74	
Employment Cost	372,215.60	315,395.80
Training Expenses	229,273.50	54,024.00
Sitting Fees	51,000.00	57,000.00
Postage	3,290.00	12,500.00
Advertisement	61,856.75	
Bank Charges	50.00	
Post Paid Phone Bill	1,500.00	
Audit Fees	10,000.00	10,000.00
Mis. Expenses	2,124.00	
<b>Total Expenditure</b>	<b>843,546.59</b>	<b>664,000.21</b>
<b>Profit before Tax</b>	<b>1,876,700.83</b>	<b>1,272,245.60</b>
Less. Provision for Taxation	503,010.25	381,673.68
Less Additional Tax		22,686.56
<b>Profit after tax</b>	<b>1,173,690.58</b>	<b>867,885.36</b>

G. N Chattopadhyay  
Partner

Place: KOLKATA  
Date: 20.07.2011





# CASH FLOW STATEMENT

For the year ended 31st December, 2011

	Nu.
Net Cash Flow from operating Activities(A)	1,438,327.91
Returns on Investment and Servicing of Finance ( note 1)	(404,360.24)
Taxation	
Capital Expenditure ( note 2 )	
Net Cash Inflow/( Outflow ) from Investing Activities ( B )	
Net Cash Inflow/( Outflow ) before Financing Activities ( A-B )	
Financing ( note 3 )	(750,000.00)
Management of Liquid Resources ( note 4 )	283,967.67
<b>Net Cash Inflow/( outflow )</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
- (750,000.00)



# CASH FLOW STATEMENT

For the year ended 31st December, 2011



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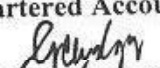
(A) To derive the net Cash flow from Operating Activities:

## Indirect Method :

Net profit before Tax	<u>1,676,700.83</u>
1. Add Back	
Depreciation Charges	
Write off/capitalisation of Fixed Assets	
2. Interest receivable	
Dividends received	<u>1,676,700.83</u>
(Increase)/ decrease in stock	(188,144.25)
(Increase)/ decrease in Loans/Other Assets	
Increase/ (decrease) in current Deposits & Provisions ( other than Tax)	<u>(50,228.67)</u>
Net Cash Flow from Operating Activities	1,438,327.91


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

M.No:- 053272

  
CHAIR PERSON

  
CHIEF EXECUTIVE OFFICER





# SCHEDULES

Schedules forming part of Profit & Loss Account

	31 st Dec, 2011	31st Dec. 2010
<b>Schedule 1 : Share Capital</b>		
<b>Authorised Capital</b>	500,000.00	500,000.00
<b>5000 Equity Shares of Nu.100 each</b>		
Issued, Subscribed and Fully paid up	500,000.00	500,000.00
5000 Equity Shares of Nu.100 each		
<b>Schedule 2 : Reserves and Surplus</b>		
<b>General Reserve :</b>	4,990,350.07	4,122,464.71
<b>Opening Balance</b>	1,173,690.58	867,885.36
Add. Transferred from Profit and Loss Account		
<b>TOTAL</b>	<b>6,164,040.65</b>	<b>4,990,350.07</b>
<b>Schedule 3 : Current Liabilities and Provisions</b>		
<b>Current Liabilities :</b>		
Trading Fees Payable	37,236.74	140,080.41
Sundry Payable (Audit fees)	10,000.00	10,000.00
Sitting Fees Payable	15,000.00	
Post Paid Bill Payable	500.00	
Employment Cost	29,216.00	
Advertisement Bill Payable	5,775.00	
Mis. Expenses Payable	2,124.00	
<b>Provisions :</b>		
<b>Provision for Taxation</b>	503,010.25	404,360.24
Less Advance Tax Paid to RRCCO		
<b>TOTAL</b>	<b>602,861.99</b>	<b>554,440.65</b>
<b>Schedule 4 : Balances With Banks</b>		
<b>Current A/C with Bank of Bhutan</b>		4,162.50
Current A/C with National Bank	2,028,814.33	2,024,651.83





# SCHEDULES

Schedules forming part of Balance Sheet



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## 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.





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# FOREIGN CORRESPONDENT BANKS

**Standard Chartered Bank**  
Institutional Banking  
1 Aldermanborg Square London  
EC2U

**Standard Chartered Bank**  
Postfach 11 01 62  
Theodor - Heuss - Alee 112  
D - 60036 Frankfurt am Main

**Standard Chartered Bank**  
6 Battery Road  
Singapore 049909

**Citi Bank N.A**  
111 Wall Street, 19th Floor  
New York, NY 10034

**Standard Chartered Bank**  
300 Boulevard East  
Weehawken NJ 07087 - 6702

**Standard Chartered Bank**  
30 -16, Ogikubo 4 - Chome  
Suginami - Ku, Tokyo 167 - 8530, Japan

**Export-Import Bank**  
Thailand, Bangkok

**Standard Chartered Bank**  
30 -16, Ogikubo 4 - Chome  
Suginami - Ku, Tokyo 167 - 8530, Japan

**Chase Manhattan Bank**  
4 Newyork Plaza  
Newyork, NY 10004-2477



## India



**Citibank NA**  
Parliament Street  
New Delhi

**State Bank of India**  
Lucknow Main Branch  
Lucknow-226001 (India)

**IDBI BANK**  
Nanak Complex  
Sevoke Road, Siliguri

**Standard Chartard Bank Limited**  
Hamilton House  
Connaught Place  
New Delhi

**International Banking Asia Pacific**  
ICICI Bank Limited  
Bandra  
Mumbai  
India

**AXIS Bank Limited**  
Spectrum House, Sevoke Road  
Siliguri

**HDFC Bank Limited**  
Raheja Centre, Nariman Point, Mumbai  
India

**Bank of America**  
100 West 33RD Street New York,  
NY 10001, USA

**Bank of India**  
Mumbai-6205

**Standard Chartered Bank Nepal Limited**  
Naya Baneshwor  
Kathmandu, Nepal

# FOREIGN CORRESPONDENT BANKS



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## Bangladesh

### Prime Bank Limited

Head Office  
119-120 Motijheel C/A  
Dhaka - 1000  
Bangladesh

### IFIC Bank Limited

Head Office  
BSB Building (18th Floor)  
Dhaka - 1000  
Bangladesh

### United Commercial Bank Limited

Head Office  
Dhaka - 1000  
Bangladesh

### National Bank Limited

Head Office  
Dhaka Bangladesh

### First Security Bank Limited

International Division  
Head Office  
Dhaka  
Bangladesh

### Pubali Bank Limited

Dhaka - 1000  
Bangladesh

### Islami Bank Bangladesh Limited

International Banking Wing  
Head Office  
Dhaka  
Bangladesh

### Eastern Bank Limited

Head Office  
Jiban Bima Bhaban  
Dhaka  
Bangladesh

### The Premier Bank Limited

Iqbal Centre  
Banani, Dhaka

Bangladesh

### Janata Bank

Head Office  
Janata Bhaban  
Motijheel Commercial Area  
Dhaka  
Bangladesh

### Standard Bank Limited

Head Office  
Metropolitan Chamber Building  
Dhaka  
Bangladesh

### Uttara Bank Limited

Head office  
Dhaka  
Bangladesh

### Agarani Bank (Head Office)

Motijheel Commercial Area  
Dhaka

Bangladesh

### International Division

### Arab Bangladesh Bank Limited

Head Office  
Dhaka  
Bangladesh

### Sonali Bank (Local Office)

Post Box No. 147  
Motijheel C/A  
Dhaka - 1000  
Bangladesh



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## OUR OFFICES

### Head Office, Thimphu

Post Box no.: 439  
RICBL Building  
PABX: 02-322767/328577/78/328587/88  
Hotline: 144

### Branch Office, Wangdue

Post Box No: 1271  
Bajo Town  
PABX: 02-481012/13

### Branch Office, Gomtu

PABX: 05-371270/71  
Fax: 05-371273  
Manager: 05-371274



### Branch Office, Phuntsholing

Post Box No: 96  
Bhutan Post Colony  
PABX: 05-252502/252431/253057  
Fax: 05-252647  
Manager: 05-252001  
Email: pling@bnb.bt

### Branch Office, Bumthang

Post Box No: 143  
Dekiling  
PABX: 03-631625/897  
Manager: 03-631626  
Fax: 03-631898  
Email: bumthang@bnb.bt

### Gyalpozhing Extension Office, Mongar

Telephone: 04-744258  
Fax: 04-744263  
Email: gyalpozhing@bnb.bt

### Branch Office, Paro

Post Box No: 1237  
Near Children's Park, Tsongdue  
PABX: 08-272730/31/32  
Fax: 08-272733  
Manager: 08-272688  
Email: paro@bnb.bt

### Branch Office, Trashigang

Post Box No: 111  
Way to Royal Guest House/Hospital  
PABX: 04-521129  
Fax: 04-521195/521386  
Manager: 04-521426  
Email: tgang@bnb.bt

### Khuruthang Extension Office, Punakha

Telephone: 02-584472  
Fax: 02-584475  
Email: khuruthang@bnb.bt

### Branch Office, Gelephu

Post Box No: 163  
Pelri Lam  
PABX: 06-251008/251765  
Manager: 06-251775  
Fax: 06-251161  
Email: gelephu@bnb.bt

### Branch Office, Samdrup Jongkhar

Post Box No: 1328  
Upper Market (near dzong entrance gate)  
PABX: 07-251149/251527  
Fax: 07-251208  
Manager: 07-251667  
Email: sj@bnb.bt

### Olakha Extension Office, Thimphu

Telephone: 02-340604  
Fax: 02-340605  
Email: olakha@bnb.bt

### Trongsa Extension Office, Trongsa

Telephone: 02-584472  
Fax: 02-584475  
Email: trongsa@bnb.bt