



Bhutan National Bank Ltd.

ANNUAL REPORT 2012

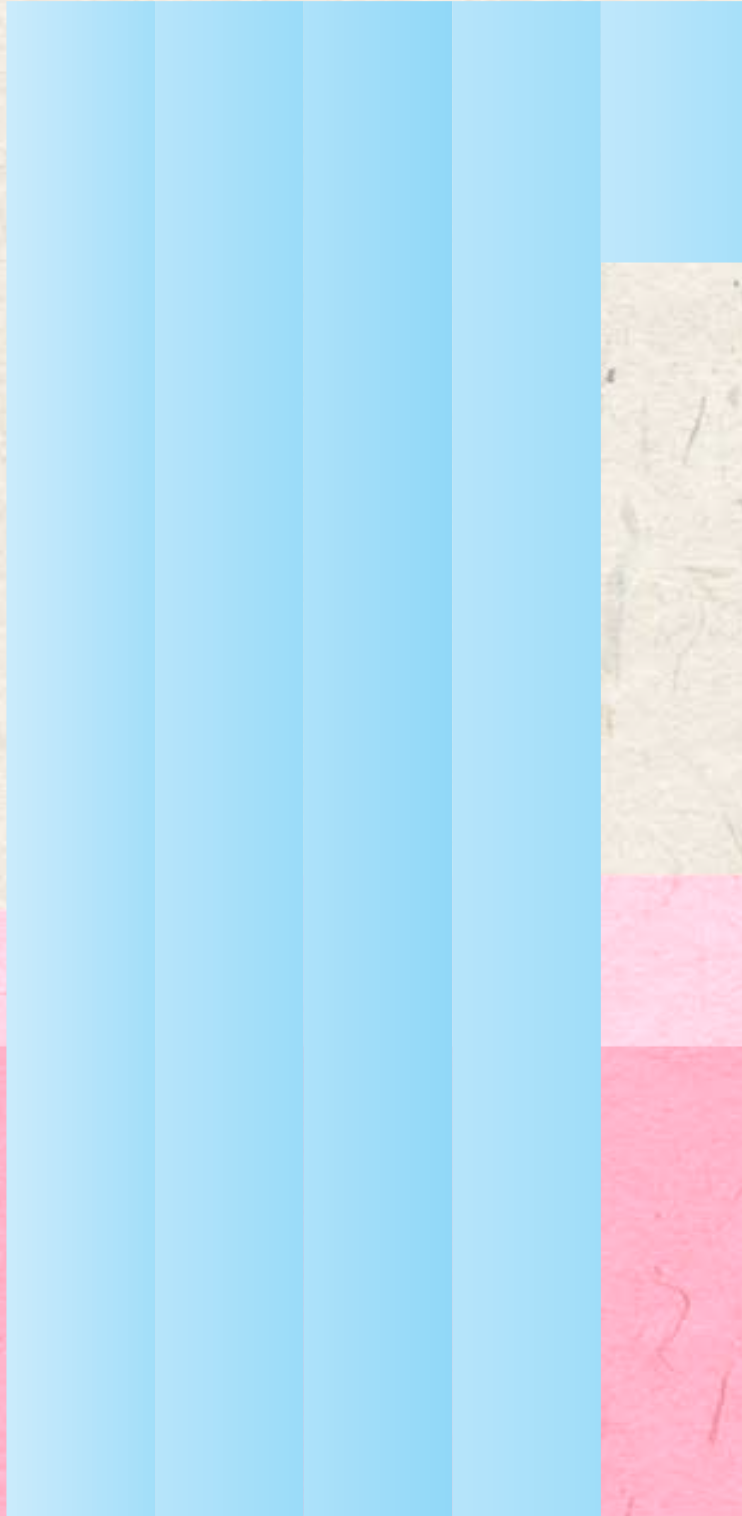
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FINANCIAL HIGHLIGHTS





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

Kipchu Tshering	Chief Executive Officer
Sonam Tobgay	Dy CEO
Kalyan Kumar Bhaduri	Advisor
Dorji Namgyal Rinchen	Company Secretary
Tandin Dukpa	Chief Credit Officer
Gyam A.D.Namgyal	Chief Finance Officer
Pelzore Rumba	Chief Operations Officer
Kesang Namgyel	Chief Resource Officer
Tashi Dorji Rinchen	Head, Internal Audit Department
Karma Deki	Head, Human Resource & Administration
Tshewang Samdrup	Head, Credit Administration
Bidha Dorji	Head, Credit Department
Dorji	Head, Accounts Department
Sonam Tobgay	Head, Office of Strategy Management
Norbu Wangchuk	Head, Corporate Banking
Sangay Wangdi	Head, Engineering Department
Mann Bdr Rai	Head, IT Department
Deki Wangmo	Head, Legal Department
Shree P Subedi	Head, Branch Operations
Dellay Phuntshok	Branch Manager, Thimphu Branch
Karma Choki	Branch Manager, Phuentsholing Branch
Lhaki Wangmo	Branch Manager, Paro Branch
Dorji Drakpa	Branch Manager, Mongar
Dorji Cheten	Branch Manager, Gelephu
Purna Bdr Mongar	Branch Manager, Wangduephodrang
Kesang Deki	Branch Manager, Bumthang
Pema Gyamtsho	Branch Manager, Trashigang
Pema Rinzin	Branch Manager, Samdrupjongkhar
Chencho Tshering	Branch Manager, Gomtu
Surja Man Samal	Branch Manager, Tsirang

Mr. Kunzang Dechen, Chairperson, 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.

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.

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.

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.

Dr. 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 31st December, 2012.

Inspite of the liquidity problem and the Rupee crunch faced by the economy as a whole and enhanced competition from other Banks, your bank has performed well in generating healthy profits and sustaining loans and advances that will propel future earnings growth. Moreover, anticipating a more challenging environment, the Board of Directors 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 & policies.



BUSINESS

The Bank's deposits and loan & advances reached Nu. 19,893 million and Nu. 17,860 million respectively as on 31.12.12. The total business of the bank grew by 2.55% i.e. 37,754 million in comparison to 36,817 million in 2011.

NET PROFIT & RESERVE

The Bank's profit after tax of Nu 697.92 million after tax has gone up by 36.83% in 2012 in comparison to Nu. 510.05 million in 2011. Reserves & surplus registered a growth of 6.75% in 2012 over the previous year which strengthened the capital structure of the Bank. In 2012, the bank issued bonus shares in the ratio 1.8:1 and made dividend payment in the form of shares in the ratio of 0.2:1. In total, 2 shares were issued against one share held by the shareholders. Moreover, at the end of the year, IFC's equity participation to the extent of 20 percent of the total equity has strengthened the bank's capital structure, and as a result the Capital Adequacy Ratio (CAR) has now gone up to 25.49%.

DIVIDEND

In view of the good performance, the Board of Directors of the bank proposed a dividend of Nu 16.64 per share maintaining a satisfactory return to shareholder's while also ploughing back a healthy amount into its reserves.

OTHER NOTABLE ACHIEVEMENTS

- i. Interest income from loan & advances increased by Nu 244.73 million i.e. 14.73%
- ii. Total interest income increased by 245.09 million i.e. 13.98%
- iii. Profit increased by 36.83 %% from 510.05 million to Nu 637.62 million
- iv. Total business grown by 2.55 %.
- vi. During the year the bank opened a branch at Tsirang and five extension counters at Trongsa under Bumthang branch, at Rangjung and at Wamrong under Trashigang branch, at Tala under Phuentsholing branch and at Taba under Thimphu branch.

- vii. Six new ATMs installed during the year taking the total of BNB ATMs to 29.
- viii. In-house training programme conducted at Phuentsholing, Samdrupjongkhar and Trashigang branches.
- ix. A new product 'Piggy Bank Account' opened during the year for the children to inculcate savings habit from the childhood.
- x. Categorized branches and extension offices into Large, Medium, Small and Micro.
- xi. B-Wallet service launched by Bhutan Telecom in partnership with BNB.
- xii. Streamlining of verticals and organization structure.

CORPORATE GOVERNANCE

The Bank is committed to the best practices in the area of corporate Governance. The Bank believes that proper corporate governance facilitates effective management and control of business. This, in turn, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders. The objectives can be summarized as:

- To enhance shareholder value
- To protect interest of shareholders and other stakeholders including customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all.
- To ensure accountability for performance and to achieve excellence at all levels.
- To provide corporate leadership of highest standard for others to emulate.

The Bank is committed to:

- Ensuring that the Bank's Board of Directors meets regularly, provides effective leadership, exercise control over management and monitors executive performance.
- Establishing a framework of strategic control and continuously reviewing its efficacy.
- Establishing clearly documented and transparent management process for policy development, implementation and review, decision-making, monitoring, control and reporting.
- Providing free access to the Board to all relevant information, advices and resources as are necessary to enable it to carry out its role effectively.

During the year, the Board met seven times complying with the requirements of the Companies Act of the Kingdom of Bhutan, 2000 and RMA prudential regulation. The quorums of these meetings were duly maintained. The statutory records/documents have been duly maintained by the Bank as per the Companies Act 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 2012.

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



DIRECTOR'S REPORT

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 Bank. In this connection, the different Board Committees met several times during 2012, the details of which are given below:-

- Credit and Risk Management Committee – 4 times
- Audit, Compliance and Grievance Committee – 3 times
- Governance, Recruitment & Remuneration Committee – 2 times
- Investment & Asset-Liability Management Committee – 3 times

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:-

- His Majesty Kidu Fund for Wangduephodrang Dzong Reconstruction Nu 500,000
- Medical Treatment Nu 230,000
- Ability Bhutan Society for disabled children Nu 50,000

STATUTORY AUDITORS

The Board sincerely thanks M/s N.C.Mitra & Co. for auditing the accounts of 2012.

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 Office 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 to all the employees of the Bank for their dedicated services and contribution for the overall performance of the Bank.

Mr. Kunzang Dechen
Chairperson

Dear Shareholders,

It is a privilege for me to place before you, the bank's Annual Report 2012 and to draw your attention to a few significant achievements made by the bank in spite of stiff competition faced during the year.

I am glad to report that the bank's profit after tax increased by 36.83% to Nu 697.92 million in 2012 from Nu 510.05 million in 2011. During the period, although the bank suffered a slight negative growth (1.67%) in deposits, the loans and advances registered a growth of 7.7%. However the overall business of the bank registered a growth of 2.55%.



ECONOMIC BACKDROP AND BANKING ENVIRONMENT

During the year, Bhutan's economy faced severe liquidity problem mainly due to rupee shortage. The rupee shortage can be attributed to two main factors namely rise in aggregate demand and limited supply. The increase in aggregate demand had led to surge in imports as the domestic production capacity is unable to support the demand. On the supply side, the earnings from electricity export to India remain Bhutan's single largest export item, followed by exports of processed minerals like ferrosilicon, calcium carbide, cement etc. The gap between imports and exports had risen alarmingly thereby increasing the trade deficit. As more than 80% of imports are held in rupee, the important macro- economic fundamentals like current account deficit in rupee increased causing alarming rupee shortage.

Our macro- economic fundamentals continue to be entrenched by the fact that Bhutan is an aid dependent and import driven economy, characterized by high domestic credit growth. As a result, the economy is at risk of overheating due to multiple factors such as growth underpinned by hydro power development, increasing consumption, escalating external debt, upward inflationary pressures eroding gains in growth and external imbalances due to monetary expansion.

As the banks play an important role in the economy, most banks also suffered liquidity crisis during the year. Even with such constraints, through proper fund management, our bank fared well and increased its profitability by 36.83%.

FINANCIAL PERFORMANCE

1. Profit

The operating profit of the Bank in 2012 stood at Nu 1082 million as against Nu 1064 million in



CHIEF EXECUTIVE'S REPORT

2011 registering a growth of 1.69%. The low growth was mainly due to low foreign exchange gain of Nu 45.56 million in 2012 in comparison to Nu 104.37 million gain in 2011.

The bank has posted a net profit of Nu 697.92 million in 2012 as compared to Nu 510.05 million in 2011 registering a growth of 36.83 %. The growth in net profit has been achieved mainly due to increase in net interest income and low provisioning against loans & advances.

2. Net Interest Income

The net interest income of the bank registered a growth of 13.40% from Nu 1054.58 million in 2011 to Nu 1195.90 million in 2012. This was mainly due to growth in interest income on loans and advances by 14.73% from Nu 1660.98 million in 2011 to 1905.70 million in 2012. Interest from resources deployed in treasury operations and on deposit with other banks increased from Nu 86.40 million in 2011 to Nu 87.75 million registering a growth of only 1.56%. On the other hand interest cost on deposits and others had gone up by 14.86% from Nu 698.35 million in 2011 to Nu 802.12 million in 2012.

3. Non-interest Income

Non-interest income registered a negative growth of 36.67% from Nu 279.47 million in 2011 to Nu 176.98 million in 2012. The negative growth was mainly due to fall in foreign exchange gain from Nu 104,37 million in 2011 to Nu 45.56 million in 2012. Moreover, the earnings through exchange, commission and recoveries also registered a negative growth of 31.12% from Nu 135.54 million in 2011 to Nu 93.37 million in 2012. The dividend income registered a growth of 18.31 % from Nu 15.07 million in 2011 to Nu 17.83 million in 2012.

4. Operating Expenses

The operating expenses increased by 7.57 % from Nu 269.86 million in 2011 to Nu 290.28 million in 2012. The major increase was due to increase in employment cost, establishment overheads, HRD costs, communication costs, travelling expenses and computer running and maintenance cost.

5. Provision

The major amounts of provision made in 2012 are as under:

- (i) Nu 90.80 million fresh provisions for non-performing loans (against Nu 333.17 million in 2011).
- (ii) Nu 297.86 million towards provision for Income Tax against Nu 217.87 million in 2011.

6. Reserves & Surpluses

- (i) An amount of Nu 348.96 million was transferred to General Reserve in 2012 as against Nu 186.81 million in 2011.
- (ii) An amount of Nu 11.39 million was transferred to Foreign exchange fluctuation reserve in 2012 as against Nu 26.09 million in 2011.

ASSETS

The total assets of the bank increased by 7.59% from Nu 25,754.38 million in 2011 to Nu 27,708.30 million in 2012. During the year, its loan portfolio increased by 7.69% from Nu 16,584.93 million in 2011 to Nu 17,859.94 million in 2012. Investment also registered a growth of 396.89% from Nu 643.12 million in 2011 to Nu 3195.65 million in 2012. The major portion of investment was in the nature of RMA Treasury Bills and fixed deposits in Banks in Bhutan.

LIABILITIES

The bank's aggregate liabilities had also gone up by 7.59% in 2012. This was mainly due to the International Finance Corporation's (IFC) participation in BNB's equity thereby increasing bank's capital & reserve from Nu 3767.96 million in 2011 to Nu 5,811.57 million in 2012.

PERFORMANCE INDICATORS

	<u>2012</u>	<u>2011</u>
1. Interest expenses / deposits	4.03%	3.45%
2. Interest income / Loans	10.70%	10.05%
3. Credit- deposit ratio	89.78%	81.97%
4. Deposit growth	(-) 1.67%	(-)14.85%
5. Advance growth	7.69%	23.47%
6. Increase/decrease in provisions	(-) 72.74%	42.19%
7. Increase/decrease in forex income	(-) 56.35%	495.07%
8. Return on investment (PAT/capital x 100)	12.04%	14.92%
9. Earnings per share (PAT/ no. of shares)	27.54	75.47
10. Net Profit ratio (PBT/Total income)	45.79%	35.87%
11. Capital Adequacy ratio	25.49%	20.90%
12. NPA Ratio	6.88%	4.92%

PERFORMANCE HIGHLIGHTS OF 2012

1. TREASURY OPERATION

- a. During the year, the bank took proactive steps to utilize the SLR fund at best by investing in RMA Treasury bills as well as by investing in Banks of Bhutan. As a result, Nu 15.48 million income could be raised in the year.
- b. Due to sudden weakening of Rs/Nu against US dollar and instability of rate during the year, the foreign exchange gain dropped in comparison to the gain in 2011. However, constant monitoring of foreign currency movement helped bank to make a gain of Nu 45.56 million resulting 56.35% decrease in gain during the year in comparison to 2011.



CHIEF EXECUTIVE'S REPORT

2. TOTAL BUSINESS

- a. Deposits: During the period, deposits fell down slightly by 1.67% due to heavy withdrawal by large corporate. However, the retail based deposits improved during the year.
- b. Loans & advances: During the year loans & advances grew by 7.69% and the growth was Nu 1275 million.
- c. Total Business: The total business of the bank have grown by 2.55% i.e Nu 37,754 million in 2012 in comparison to Nu 36,817 million in 2011.

3. ASSET QUALITY

The Bank's gross NPL increased from 4.90% in 2011 to 6.88% in 2012 mainly due to the overall liquidity problem suffered by the economy.

4. INFORMATION TECHNOLOGY

(i) ATM Project:

During the year six ATMs were installed taking the total number of BNB ATMS to 29. ATM usage registered an impressive growth during the year. In total 410,002 no of transactions were held through all ATMS against 3,29,995 transactions held in 2011. Cash withdrawal amounting Nu 1,664,704,300 were held during the year against cash withdrawal of Nu 1,431,339,450 in 2011.

(ii) Bhutan Financial Switch (BFS)

BFS is a shared ATM network, interconnecting banks' ATM switch together. The Royal Monetary Authority (RMA) enunciated this project with an objective to make ATM deployment more economical and viable to banks by pooling resources together instead of reinventing the wheel. BFS increases the ATM technology usage across the country by leveraging on the use of Information Communication Technologies (ICTs). This is also expected to improve the convenience and reduce the cost for the customers. The BFS network will facilitate both ATM and POS transactions and e-commerce transaction services among all the member banks participating in this network. In Phase-II, it will interconnect with National Payment Corporation of India (NPCI) switch in India. This will allow cross-border transactions to flow seamlessly between Bhutan and India.

(iii) B-Wallet service

In partnership with Bhutan Telecom Ltd, the following services are offered through B-Wallet:

- (a) BNB Fund Transfer: B-Wallet users will be able to transfer money from one account to another within BNB accounts.

- (b) BT-prepaid Self-Top-Up: This service will allow B-mobile users to top-up any prepaid number via their mobile handset by using the BNB account directly.

5. RISK MANAGEMENT AND INTERNAL CONTROL

To achieve the global best standard in the area of risk management, the bank has introduced credit scoring model 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 (ALCO) is engaged in evolving optimal asset-liability structure for the Bank on an on-going basis with a view to containing mismatches, optimizing profit through liquidity risk management.

6. MANAGEMENT INFORMATION 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 statutory requirements.

After establishment of Credit Information Bureau (CIB) at RMA, it has now been possible for the Bank to collect information against new loan applicants / existing borrowers which helped Bank to take faster credit decision.

7. ALLIED SERVICES

(i) Customer Service

Bank has given focused attention at all levels to meet the expectation of the customers. New products and services such as 'Piggy Bank Account' for children to inculcate the savings habit from childhood, B-Wallet service etc have been introduced. Account opening form has been redesigned to make it more customer friendly. Moreover, customer service division has been redesigned and restructured. Bank has also converted hotline no 144 to toll free no. which is free for customers as well as branches to contact to the Head office. 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

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:

- | | |
|--|------------|
| (a) Medical treatment | Nu 230,000 |
| (b) His Majesty Kidu Fund for Wangduephodrang Dzong Reconstruction | Nu 500,000 |



(c) Ability Bhutan Society for disabled children

Nu 50,000

8. HUMAN RESOURCE MANAGEMENT

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

- i. Revamping of the Reward & Recognition Schemes for outstanding performance.
- ii. Revamping of performance Management System (PMS) with focus on competency based assessments for career progression. Individual goal sheets have been distributed to employees for 2013.
- iii. Training
 - 85 employees were deputed in the Institutes outside the country.
 - 55 employees were given in-house training at Phuentsholing, Samdrupjongkhar and Trashigang branch.
 - International Banking Division conducted training program at Thimphu for the branch staff.
 - Six members of staff were granted study leave for higher studies outside the country.
- iv. Organizational Change Process

As per recommendation of OSM department, the Board approved the following organizational changes:

(a) Change of designation:

- Chief (Risk Analytics & Management) changed to Chief Credit Officer(CCO)
- Chief (Financial Control & Credit Administration) changed to Chief Finance Officer(CFO)
- Chief (Banking Operation & Development) changed to Chief Operation Officer (COO).
- Chief (Resource) changed to Chief Resource Officer (CRO)

(b) There have also been major changes in the department structure of the bank. These changes are expected to improve the functioning of the bank and provide better and more efficient service to its customers.

v. Staff Strength

The Bank had total staff strength of 390 as on 31.12.12. Of this 171 (44%) were officers, 164(42%) were Assistants and the remaining 55(14%) were sub-staffs. Of the total employees, 230(59%) were male and 160(41%) were female staffs.

vi. Bank deputed staff members for participating in national job fair conducted by MOLHR.

- vii. Bank participated in career development program conducted by colleges in Bhutan
- viii. Helped in performing project work to students from various colleges in Bhutan and outside Bhutan as 'intern'.

ACHIEVEMENTS DURING 2012

- Profit increased by 36.83% from Nu 510.05 million to Nu 697.92 million.
- Interest income from loans & advances increased by Nu 244.73 million i.e. 14.73%.
- Total interest income increased by Nu 245.09 million i.e. 13.98%.
- A sizeable growth in loans & advances could be achieved.
- More than 70% internal data clean up & customer segmentation could be made during the year.
- Branches and extension offices have been categorized as large, medium, small and micro.
- One new branch at Tsirang and 5 new extension offices could be opened during the year.
- In-house training program was conducted to all the staff members of Phuentsholing, Samdrupjongkhar and Trashigang branches.

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 297.86 million as Corporate Income Tax to the National Exchequer.

DIVIDEND

The bank made a post-tax profit of Nu 697.92 million. After transferring Nu 360.35 million out of profit to General reserve, foreign exchange fluctuation reserve, in view of the future growth of the Bank, the Board, out of the allocable surplus, recommended dividend of Nu 16.64 per share subject to approval of the shareholders amounting to Nu 337.37 million thus giving them a handsome return this year. It is expected that your future return will continue to be good,

OUR STAKEHOLDERS

We consider that our customers are nucleus and the stakeholders are the catalyst for achieving our goals. Our business interests are inalienable from the wellbeing of the community we work in. Our customers, shareholders and other stakeholders enjoy excellent banking with us. This is well reflected in our yearly performance. The spontaneous support from our customers gives 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.



CHIEF EXECUTIVE'S REPORT

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 not be possible. BNB gives more emphasis for their development in terms of knowledge and skill which is the major contributor to the overall performance and growth of an individual. 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 94.40 million in 2011 to Nu 96.80 million in 2012 thereby achieving a growth of 2.54%. 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 due to stiff competition from our competitors as well as the measures taken by RMA to bail out the country from the existing 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 (RMA) of Bhutan, Company Registry Division of the MOEA, the RSEBL, 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

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

We have audited the attached Balance Sheet of Bhutan National Bank Ltd. as at 31st December, 2012 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 8 branches (Mongar, Gelephu, Wangdue, Bumthang, Samdrupjongkhar, Gomtu, Tsirang 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 financial statement 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



AUDITORS' REPORT



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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 with Schedules 1 to 18 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 31st December, 2012;
 - 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: *16.03* 2013
Place: Kolkata

For N.C. Mitra & Co
Chartered Accountants
FRN: 306027E


(U.K. Basu)
Partner
M.No. 052L95





ANNEXURE-A

N.C. Mitra & Co
Chartered Accountants

ANNEXURE-A

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

As required by the minimum audit examination and reporting requirements under 2nd paragraph of scheduled XIV under section 75 of The Companies Act of the Kingdom of Bhutan 2000, read with Part II of Schedule XIV to the extend applicable, and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we further report that:

1. The Bank is maintaining proper records showing full particulars including quantitative details and situation of Fixed Assets. Physical verification of Fixed Assets has been conducted by the management during the year. No significant discrepancies were detected with reference to entries in the Fixed Assets Register.
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. As per the available information, branches are 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. Fund based or non-fund based facilities were provided to the directors or any other parties to the directors or with the company or firms in which directors are directly or indirectly interested under similar terms and conditions as are applied with other parties. Such terms and conditions are not prejudicial to the interest of the other shareholders or the other directors of the bank.
7. According to records, the Bank is regular in depositing rates and taxes, duties, provisions and other statutory dues with the appropriate authority.

...undisputed amount in respect of rates, taxes, duties, royalties, provisions and other statutory dues outstanding at the year end.

...charges have been charged other than that payable under contractual obligations and in accordance with generally accepted business practices.



N.C. Mitra & Co
Chartered Accountants

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 bank has not granted any loans to other companies or firms or to companies under same management terms of which are prejudicial to the interest of 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 dealt or traded in shares, securities and other investment during the year as reflected under notes 9,10 and 11.
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.
19. The Bank has complied with the requirements of The Financial Services Act of Bhutan, 2011 and any other applicable laws, rules and regulations and guidelines issued by the appropriate Authorities as explained by the management.
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 as per the Prudential Norms issued by RMA.

2. The Bank has in place a system of physical verification and standards for valuation of loans and advances. Mortgage deeds are executed and insured that the assets are free of any prior lien or charges.



ANNEXURE-A

N.C. Mitra & Co
Chartered Accountants

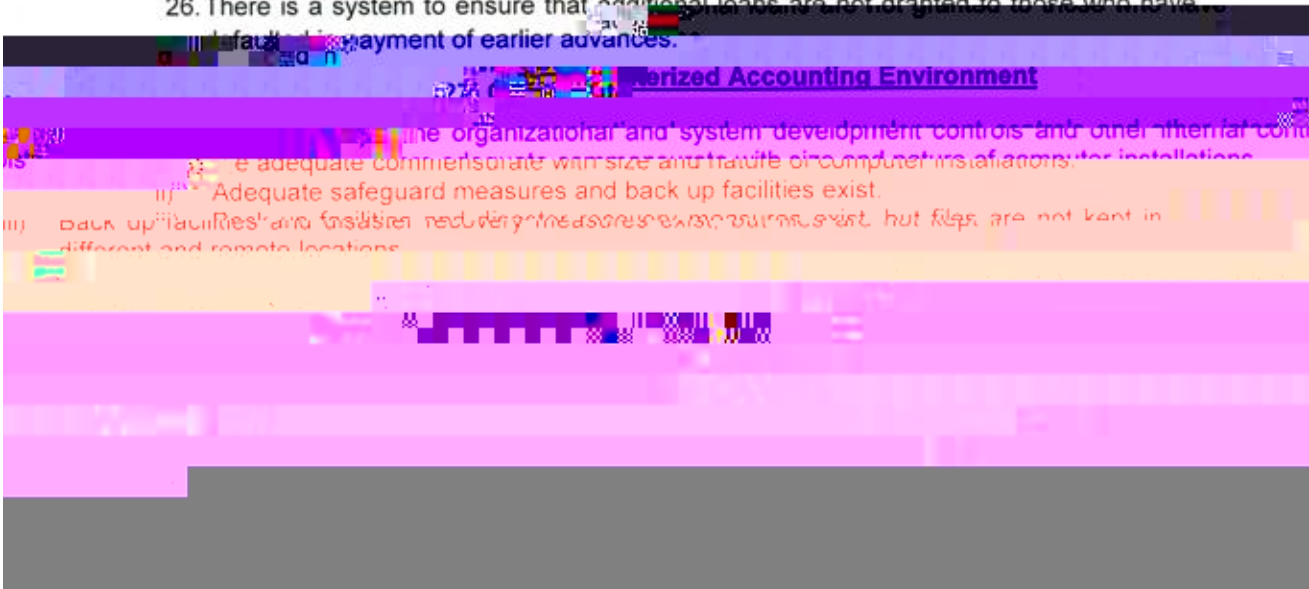
23. The Bank has a system of monitoring the projects for which loans have been provided to ensure that the loan amounts are used for the specified purposes and project activities are progressing satisfactorily. However, Bank is required to strengthen its present system in respect of the following:

- a. *Submission of annual financial statements/stocks & receivable statements by the borrowers, insurance coverage of assets charged to the bank and end use of fund in case of Industrial Loan.*
- b. *Recovery of loans kept under "Non Scheduled" (Bullet) category is inconsistent with the Terms of Loan agreements.*
- c. *Special monitoring of rephrased/rescheduled accounts to avoid any sort of deterioration in asset quality with respect to rescheduled loan of Nu. 211,904,927.*

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 211,904,927 (previous year Nu. 56,020,466) after they have become due for payment, fully or partially, were revised during the year of which Nu 572,133 (previous year Nu. 34,440,300) has been liquidated. Of the remaining loans amounting to Nu. 211,332,793 (previous year Nu. 212,926,040) is categorized as standard assets. An additional provision has been made for non-performing loans of Nu 144,255 (previous year Nu. 3,742,157) which was rescheduled after June, 2012 as per the Prudential Guidelines issued by RMA.

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



N.C. Mitra & Co
Chartered Accountants

- 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 31st December, 2012 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 31st December,2012 has been fairly assessed and such ratio is more than the prescribed limit by the RMA.

Capital Adequacy Ratio of the Bank as on 31st December, 2012 has been fairly assessed and such ratio is more than the prescribed limit by the RMA.





EXHIBIT -1 TO ANNEXURE

*N.C. Mitra & Co
Chartered Accountants*

Exhibit -1 to Annexure

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

RATIO ANALYSIS

Sl No	Particulars	31-12-2012	31-12-2011
1	Interest Expense / Deposits	4.03%	3.45%
2	Interest Income / Loans		

BALANCE SHEET

As at 31st December 2012



Annual Report 2012

<u>SCHEDULE</u>	<u>As at 31st DEC 2012</u>	<u>As at 31st DEC 2011</u>
	Nu.	Nu.
<u>CAPITAL AND LIABILITIES</u>		
Share Capital	1 2,534,377,900	675,834,100
Reserves	2 2,927,192,599	2,742,134,320
Subordinated term debts	3 350,000,000	350,000,000
Deposits	4 19,893,581,183	20,231,990,140
Current Liabilities	5 254,894,370	380,392,329
Provisions	6 1,748,255,862	1,374,033,731
Total Liabilities	27,708,301,915	25,754,384,620
<u>ASSETS</u>		
Cash and Bank Balances	7 6,245,918,499	8,233,789,586
Investments	8 3,195,651,763	643,124,352
Loans and Advances	9 17,859,939,319	16,584,934,983
Fixed Assets (at cost, less depreciation)	10 123,063,902	117,399,552
Other Assets	11 283,728,432	175,136,148
Total Assets	27,708,301,915	25,754,384,620
<u>SIGNIFICANT ACCOUNTING POLICIES</u>	17	
<u>NOTES ON ACCOUNTS</u>	18	

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 N.C Mitra & Co
Chartered Accountants
FRN: 306027E

K. Srinivas..

CHIEF EXECUTIVE



PROFIT & LOSS ACCOUNT

For the year ended 31st December, 2012

PARTICULARS	SCHEDULE	31st DEC 2012	31st DEC 2011
		Nu.	Nu.
Interest Income	12	1,998,024,478	1,752,929,453
Interest Expenses	13	802,123,123	698,352,294
Interest Differential		1,195,901,355	1,054,577,159
Other Income	14	176,984,406	279,467,425
Gross Operating Income		1,372,885,760	1,334,044,584
Operating Expenses	15	290,280,180	269,859,215
Net Operating Income		1,082,605,581	1,064,185,369
Write-offs & losses		2,554,661	2,013,535
Charge for / (write-back of) provisions (net)	16	90,807,691	333,168,043
Add: Write back of capital reserve		6,598,207	0
Profit Before Tax		995,841,436	729,003,790
Provision for taxation		297,858,094	217,868,609
Assessed tax paid for earlier period		59,584	1,077,592
Profit After Tax		697,923,758	510,057,589
Balance in Profit & Loss Account (brought forward)		303,937,396	237,098,358
Profit Available for Appropriation		1,001,861,154	747,155,947
Proposed Dividend		337,376,383	135,166,820
Transfer to/(from) Foreign Exchange Fluctuation Reserve		11,389,722	26,092,749
Transfer To General Reserve		348,961,879	186,808,982
Building Reserve		0	34,150,000
Contingency Reserve		0	1,000,000
Bond Redemption Reserve		0	60,000,000
Balance in Profit & Loss Account (carried forward)		304,133,171	303,937,396

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

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

for N.C Mitra & Co
Chartered Accountants

CHAIRPERSON
OFFICER
CHIEF EXECUTIVE
FRN: 30

K. V. Basu
Partner
M No. 052985
2013

CASH FLOW STATEMENT

For the year ended 31st December, 2012



	Nu	Nu
Net cash flow from operating activities (A)	(649,867,943)	
Returns on investments and servicing of finance (Note 1)		(117,332,161)
Taxation (Note 2)		(304,876,291)
Capital expenditure (Note 3)		(46,321,985)
Net cash inflow/ (outflow) from investing activities (B)		<u>(468,530,436)</u>
Net cash inflow/ (outflow) before financing (A-B)	(1,118,398,379)	
Financing (Note 4)	1,683,054,703	
Management of liquid resources (Note 5)	<u>(1,434,858,203)</u>	
Net cash inflow/ (outflow)	(870,201,878)	
Increase/ (Decrease) in cash (other than RGOB & RMA Bills and Time Deposits) (Note 6)		<u>(870,201,878)</u>

Notes:

1. Returns on investments and servicing of finance

Dividends paid	(135,166,820)
Dividends received	17,834,659
	<u>(117,332,161)</u>

2. Taxation

Net Tax for 2011 paid in 2012	211,660,812
Advance Tax & TDs Paid during the year 2012	93,155,894
Tax paid for earlier years	59,584
	<u>304,876,291</u>



CASHFLOW STATEMENT

For the year ended 31st December, 2011



Annual Report 2012

To derive the Net Cash Flow from operating activities:

Profit Before Tax	995,841,436
(1) Add back :	
Depreciation Charges	20,894,701
Write Off of Fixed Assets	19,762,934
(2) Deduct :	
Dividend received	(17,834,659)
	<u>1,018,664,411</u>
(Increase)/ Decrease in Loans/Other Assets	(1,296,648,522)
Increase/ (Decrease) in Current Liability	(371,883,832)
Net Cash Flow from Operating Activities	(649,867,943)

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

For N.C Mitra & Co
Chartered Accountants
FRN:306027E


CHAIRPERSON


CHIEF EXECUTIVE
OFFICER


U.K Basu
Partner
M.No. 052995
Date: 16/03 2013





Annual Report 2012

SCHEDULES

Schedules forming part of Balance Sheet

SCHEDULES

Schedules forming part of Balance Sheet



SCHEDULE 4 : DEPOSITS

Fixed deposits

12,721,833,419

12,029,795,483

Interest accrued, but not

[The table content is obscured by a large grey rectangle.]



SCHEDULES

Schedules forming part of Balance Sheet

	31ST DEC 2012		31ST DEC 2011	
	Nu.	ch.	Nu.	ch.
SCHEDULE 7 : CASH AND BANK BALANCES				
Cash in hand		632,784,903		260,348,926
Balances with Bank in Bhutan in current accounts		1,353,523,004		1,432,938,066
Balances with RMA				
- RMA Current Account		256,090,688		(49,385,447)
- CRR With RMA Account		1,024,625,529		3,643,451,200
- RMA Penalty Account		85,000		85,000
- RMA - BFS Settlement Account		(386,159,049)		(2,508,250)
- RMA - BFS Settlement Account - POS		(121,722)		0
- RMA Currency Chest		641,431,776		627,990,395
Total Balances with RMA		1,535,952,222		4,219,632,898
Balances with banks in India		102,894,866		129,206,576
Balances with banks outside Bhutan & India		1,941,363,504		394,593,911
Time deposits with banks in Bhutan		350,000,000		1,476,819,209
Time deposits with banks outside Bhutan & India		329,400,000		320,250,000
Total		6,245,918,499		8,233,789,586
SCHEDULE 8 : INVESTMENTS				
Equity Shares				
<u>Name of Company</u>	<u>No. of shares</u>			
<u>Quoted</u>				
Penden Cement Authority Ltd.	35,955	7,436,278		7,436,278
Bhutan Board Products Ltd.	1,400	141,400		141,400
Bhutan Carbide & Chemicals Ltd.	50,000	5,000,000		5,000,000
Bhutan Polymers Co. Ltd.	12,714	1,271,400		1,271,400
Royal Insurance Corpn. of Bhutan	8,850	732,957		732,957
Druk Ferro Alloys Ltd.	579,553	91,463,480		91,463,480
<u>Unquoted</u>				
Bhutan Development Finance Corpn.	2,500	2,500,000		2,500,000
Investment in shares of subsidiary - BNB Securities Ltd.	5,000	500,000		500,000
Total (A)		109,045,515		109,045,515
Marketable Securities				
	<u>No. of Bonds</u>			
RMA discount bills		2,548,135,891		0
Interest accrued, but not due, on discount bills		4,391,521		0
Druk Air Bonds - 1(G003)	380,734	380,734,000		380,734,000
Druk Air Bonds - 2(G004)	40,897	40,897,000		40,897,000
Druk Air Bonds - 4(G006)	27,887	27,887,000		27,887,000
Druk Air Bonds - 5(G007)	77,484	77,484,000		77,484,000
Interest accrued, but not due, on treasury bills & Other Bonds		7,076,837		7,076,837
Total (B)		3,086,606,248		534,078,837
Total (A + B)		3,195,651,763		643,124,352
SCHEDULE 9 : LOANS AND ADVANCES				
Term Loan		13,316,651,163		12,946,410,075
Overdrafts		3,020,734,934		2,465,815,547
Working capital		807,581,415		638,362,727
Bills discounted		110,878,081		9,879,926
Cheques purchased		1,240,439		1,487,322
Credit cards' outstandings		6,326,320		8,094,393
Suspended loans		401,504,231		398,245,950
Sub Total		17,885,003,583		17,885,003,583

SCHEDULES

Schedules forming part of Balance Sheet

SCHEDULE 10 : FIXED ASSETS

PARTICULARS	Original cost as on 01.01.12		Addition during the year		Sale/transfer during the year		Total cost as on 31.12.12		Accumulation as on 01.01.12		For the year		Adjustment/disposal		Accumulation as on 31.12.12		As on 31.12.12		As on 31.12.11		
	Nu.	ch.	Nu.	ch.	Nu.	ch.	Nu.	ch.	Nu.	ch.	Nu.	ch.	Nu.	ch.	Nu.	ch.	Nu.	ch.	Nu.	ch.	
Land	23,336,464				1,596,590		21,739,875		1,757,151		0	0	0	0	0	2,373,437	0	21,739,875	0	23,336,464	0
Building	20,542,860		0		338,884		20,542,860		3,096,266		588,232	0	0	0	0	3,396,164		18,169,452	1,833,306	18,785,739	
Electric Appliances & Machineries	5,263,337		305,077		407,348		5,229,531		15,760,855		2,906,460	290,334	0	0	0	18,256,724		11,619,481	9,964,200	2,165,072	
Furniture, fixtures, & fittings	25,725,145		4,570,408		1,873,376		29,886,204		10,770,049		2,371,194	1,673,247	0	0	0	11,467,956		9,512,929	9,688,229	9,688,229	
Office equipments	20,458,277		2,396,024		9,208,373		20,960,825		62,066,509		9,523,865	9,034,433	0	0	0	62,556,001		31,275,876	33,226,605	33,226,605	
Computer hardwares	96,293,174		7,747,075		215,168		93,831,877		32,134,428		2,892,389	692,706	0	0	0	35,026,817		9,206,696	2,470,213	2,759,573	
Softwares	43,000,363		1,235,150		1,403,716		44,236,513		2,562,577		811,006	97,602	0	0	0	3,785,283		2,470,213	2,759,573	2,759,573	
Security tools	5,352,150		403,346		0		5,755,496		811,006		0	0	0	0	0	811,006		216,673	304,862	304,862	
Carpets & soft furnishings	1,115,868		11,570		0		912,270		6,336,262		1,205,936	1,403,717	0	0	0	6,138,481		10,817,463	1,590,218	1,590,218	
Vehicles	7,926,480		10,433,182		15,043,457		16,565,944		135,327,162		20,894,701	13,013,362	0	0	0	143,208,500		116,864,023	112,686,987	112,686,987	
Sub-total	248,014,149		27,101,832		27,101,832		260,072,504		135,327,162		20,894,701	13,013,362	0	0	0	143,208,500		116,864,023	112,686,987	112,686,987	
Capital works-in-progress	4,712,565		6,199,878		4,712,565		6,199,878		0		0	0	0	0	0	0		6,199,878	4,712,565	4,712,565	
Total	252,726,714		33,301,710		19,795,022		266,272,402		135,327,162		20,894,701	13,013,362	0	0	0	143,208,500		123,063,902	117,399,552	117,399,552	
Previous year	229,359,051		30,143,068		6,775,405		252,726,714		116,585,631		19,136,038	384,507	0	0	0	135,327,162		117,359,552	112,773,420	112,773,420	



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SCHEDULES

Schedules forming part of Profit & Loss Account

	31st DEC 2012		31st DEC 2011	
	Nu.	ch.	Nu.	ch.
SCHEDULE 12: INTEREST INCOME				
Interest on loans	1,905,700,649		1,660,978,784	
Interest on bills & cheques	4,566,620		5,537,161	
Interest on deposits with other banks	32,235,689		46,374,072	
Interest on RGOB & RMA bills	55,521,521		40,039,436	
Total	1,998,024,478		1,752,929,453	
SCHEDULE 13: INTEREST EXPENSES				
Interest on savings deposits	131,150,877		93,440,291	
Interest on fixed deposits(including FTU)	647,279,203		600,082,515	
Interest on recurring deposits	302,653		21,269	
Interest on miscellaneous accomodations	2,390,390		435,616	
Interest on Subordinated Debts	21,000,000		4,372,603	
Total	802,123,123		698,352,294	
SCHEDULE 14: OTHER INCOME				
Exchange, commissions, & recoveries	93,367,161		135,544,244	
Dividends (Gross)	17,834,659		15,067,371	
Forex gains	45,558,888		104,370,995	
Fees Income	7,179,077		24,320,475	
Profit on disposal of fixed assets	12,792,870		31,491	
Locker Rent	251,750		132,850	
Total	176,984,406		279,467,425	
SCHEDULE 15: OPERATING EXPENSES				
Employment costs	164,404,257		158,002,643	
Establishment overheads	28,511,777		27,911,989	
Communication costs	15,256,149		11,578,719	
Travelling expenses	12,344,084		8,295,952	
Vehicles expenses	984,340		1,273,732	
Computer running & maintenances	9,156,933		7,530,007	
Advertisements & publicity	3,012,648		2,707,935	
Entertainments	427,838		821,031	
Gifts	21,100		18,620	
Donations	780,000		350,000	
HRD costs	17,506,793		16,170,383	
Audit fees & expenses	241,098		201,968	
Legal/Regulatory expenses & Professional fees	2,897,711		4,765,702	
Board meetings expenses	1,142,159		1,416,183	
Board Developmental Cost	0		1,932,407	
Management Meeting Expenses	2,439,497		974,734	
Other banks charges, fees etc	5,528,237		4,053,449	
Stores	1,637,241		1,284,827	
Miscellaneous expenses	3,093,617		1,432,896	
Depreciation	20,894,701		19,136,038	
Total	290,280,180		269,859,215	
Schedule 16: Provision & Contingency				
General Provision	(43,695,101)		43,868,072	
Specific Provision	49,211,764		289,299,971	
Dynamic Reserve	85,291,029		0	
	90,807,691		333,168,043	

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SCHEDULE 17

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 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 of their validity.
- e) Commission on credit card is accounted for on cash basis.

03. LOANS :-

- a) Loans are stated at principal amount, together with accrued interest thereon. In 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 possible shortfall, as considered appropriate by Management. Claims on such property by third party, if any, is disclosed as Contingent Liability.



SCHEDULES

Schedules forming part of Profit & Loss Account

05. FIXED ASSETS :-

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

SCHEDULE 18

Notes on Accounts

1. Provision against loans amounting to Nu. 90,807,691 has been made during the year 212 (Previous year Nu. 332,318,712) as per the prudential guidelines issued by the National Monetary

This year there is a charge of Nu. 23,561,927 to the interest income (Previous year the write back to interest income was Nu. 12,696,489).
 Guarantees given and Letters of Credit issued outstanding at the year-end amounting to Nu. 321,939,037 & Nu. 2,256,680,490, respectively. (Previous year Nu. 2,283,848,262 & Nu. 1,134,381,925). Total margin money collected against Guarantees is Nu. 114,342,819,250. Total margin money against Letter of Credit is Nu. 17,116,765,000. (Previous year Nu. 211,558,063).

3. Provision for taxation

includes		
	Tax on Current Year's Profit	Nu.297,858,094
	Less: Advance Tax Paid	Nu.89,207,805
	Less: Withholding tax	Nu.3,948,089
	Net Tax payable	Nu.204,702,200

4. Other assets (advance, claims, pre-payments, deferrals etc.) include balances in Sund

receivable Account aggregating Nu. 172,148,500. Market value of quoted Equities is Nu. 180,660,158.



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.2,441,792	Nu.2,389,538
Vehicle expenses	Nu.278,016	Nu.651,881
Travel-Local/Foreign	Nu.1,282,857	Nu.357,177
Medical Reimbursement	Nu.410,758	Nu.0
Training & Seminars	Nu.0	Nu.364,868
Total	Nu.4,413,423	Nu.3,763,463

7. Tax assessment of the bank has been completed upto 31st December 2010.

8. During the year, the bank has made a gain on foreign exchange transactions/assets and liabilities amounting to Nu. 45,558,888 (previous year: Nu. 45,558,888)



13. Current liabilities include unclaimed deposits of Nu. 70,937,179 out of which Nu. 629,207 is above five years old.
14. Interest income for the year amounting to Nu.3,744,958 (previous year Nu.3,092,047) on Gratuity Trust Fund has been added with Gratuity Fund.
15. Land measuring 77,424 sqft located at Hejo, Thimphu under thram number 39/B, 768/A & 216A has been declared green and acquired by Royal Government of Bhutan vide reference number TCC/ACC-01/2011-2012/414 for Nu.13,959,465 which has resulted a profit of Nu. 12,362,875.
16. Capital Reserve of Nu. 6,598,207 has been written back towards adjustment of non-appropriation of depreciation on Fixed Assets acquired through grant received from Asian Development Bank of Nu. 2,657,457 in year 2006 and Nu. 3,940,750 in the year 1997.
17. Previous year's figure have been re-arranged and regrouped, wherever necessary.



BNB Securities Limited
Auditors' Report
and
Financial Statements



AUDITORS' REPORT

**The Shareholders,
BNB Securities Ltd,
Thimphu,
Bhutan.**

We have audited the attached Balance Sheet of BNB Securities Limited as at 31st December, 2012 and Profit & Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date. 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 financial statement 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 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 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 Services Act of Bhutan, 2011 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.

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 6 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 as at 31st December, 2012 and
 - b) In case of the Profit & Loss Account, of the profit of the Company 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 : 16.03 2013
PLACE: KOLKATA

For N. C. Mitra & Co
CHARTERED ACCOUNTANTS
(FRN: 306027E)


(U.K. Basu)
Partner
M.No. 052995





ANNEXURE –A

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

The company has not availed any loan, secured or unsecured from companies, firms or other parties or from the companies under the same management.

The Company has not granted any loan, secured or unsecured to other companies, firms or other parties.

The Company has not granted any loan, secured or unsecured to other companies, firms or other parties.

The Company has not granted any loan, secured or unsecured to other companies, firms or other parties.



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


Ratios	Year Ended 2012	Year Ended 2011	% of Growth +/-
Return on Investment (%)	9.88	17.61	(43.90)
Earnings per Share	146.08	234.74	(37.77)
Book Value per Share	1,478.88	1,332.81	10.96

12. **Compliance with the Companies Act of the Kingdom of Bhutan 2000:**
The company has complied with the provisions of The Companies Act of the Kingdom of Bhutan only in respect of holding the meetings of the board of Director and shareholders.

Date :- 16.03, 2013
Place:- Kolkata

For **N. C. Mitra & Co**
Chartered Accountants
(FRN: 306027E)




(U. K Basu)
Partner
M.No. 052995



BALANCE SHEET

As at 31st December 2011

PARTICULARS	SCHEDULE	31ST Dec, 2012	31ST Dec, 2011
CAPITAL AND LIABILITIES			
Share Capital	1	500,000.00	500,000.00
Reserves & Surplus	2	6,894,419.57	6,164,040.65
Current Liabilities & Provisions	3	753,201.22	602,861.99
TOTAL LIABILITIES		8,147,620.79	7,266,902.64
ASSETS			
Balances with Banks	4		
In Current & Saving Bank Accounts		1,139,832.25	2,312,561.95
Brokerage Receivable			220.05
In Deposit Accounts		6,052,985.27	3,943,750.00
Interest accrued but not due on deposits with Banks		253,264.58	503,841.78
Investments	5	700,000.00	500,000.00
TDS on fixed deposit		1,538.69	6,528.86
TOTAL ASSETS		8,147,620.79	7,266,902.64
Significant Accounting Policies & Notes on Accounts	6		

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

M/S N.C MITRA & CO.
Chartered Accountants
FRN - 306027E


CHAIRPERSON


CHIEF EXECUTIVE OFFICER


U.K BASU
Partner
M. NO - 052995
Date : 18.03.13
Place : Kolkata



PROFIT & LOSS ACCOUNT

For the year ended 31st December, 2011



PARTICULARS	31st Dec., 2012	31st Dec., 2011
[Redacted content]		



CASH FLOW STATEMENT

For the year ended 31st December, 2011

	2012	
	Nu.	Ch.
Net Cash Flow from operating Activities(A)	1,695,536.23	
Returns on Investment and Servicing of Finance (note 1)		
Taxation Paid (note 2)	(559,250.71)	
Capital Expenditure (note 3)	(200,000.00)	
Net Cash Inflow/(Outflow) from Investing Activities (B)		
Net Cash Inflow/(Outflow) before Financing Activities (A-B)		
Financing (note 4)		
Management of Liquid Resources (note 5)	(2,109,235.27)	
Net Cash Inflow/(outflow)	(1,172,949.75)	

Notes:

1. Returns on Investments and Servicing of Finance

- Interest Received
- Interest Paid
- Dividends Paid
- Dividends Received

2. Tax Paid

Tax Paid 2011	503,010.25
Assessed Tax to RRCO	56,240.46
Total Tax Paid	559,250.71

3. 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	(200,000.00)

4. 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

5. Management of Liquid Resources

(Part of ...)

CASH FLOW STATEMENT

For the year ended 31st December, 2011



Annual Report 2012

Increase/ (decrease) in current Liability/ Deposits & Provisions (other than Tax)	316,226.89
Net Cash Flow from Operating Activities	1,695,536.23

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

M/S N.C MITRA & CO.
Chartered Accountants
FRN - 306027E


CHIEF EXECUTIVE OFFICER


U.K. BASU
Partner
M. NO - 052995
Date :
Place : Kolkata







SCHEDULES

Schedules forming part of Profit & Loss Account

	31 st Dec, 2012	31 st Dec, 2011
Schedules 1 : Share Capital		
Authorised Capital		
5000 Equity Shares of Nu.100 each	500,000.00	500,000.00
Issued, Subscribed and Fully paid up		
5000 Equity Shares of Nu.100 each	500,000.00	500,000.00
Schedule 2 : Reserves and Surplus		
General Reserve :		
Opening Balance	6,164,040.65	4,990,350.07
Add. Transferred from Profit and Loss Account	730,378.92	1,173,690.58
TOTAL	6,894,419.57	6,164,040.65
Schedule 3 : Current Liabilities and Provisions		
Current Liabilities :		
Trading Fees Payable	229,625.63	37,236.74
Sundry Payable (Audit fees)	20,000.00	10,000.00
Sitting Fees Payable	15,000.00	15,000.00
Post Paid Bill Payable	5,000.00	500.00
Employment Cost (Outstanding Staff PF)	2,528.00	29,216.00
Advertisement Bill Payable		5,775.00
Mis. Expenses Payable		2,124.00
Client deposit	143,925.00	
Provisions :		
Provision for Taxation	337,122.59	503,010.25
TOTAL	753,201.22	602,861.99
Schedule 4 : Balances With Banks		
Bhutan National Bank (5004027002)	993,907.25	2,312,561.95
Bhutan National Bank (4025008)	144,925.00	
Bhutan National Bank(4025027)	1,000.00	
Brokerage Receivable		220.05
TOTAL	1,139,832.25	2,312,782.00
Fixed Deposit with Bhutan National Bank	6,052,985.27	3,943,750.00
Schedule 5 : Investment		
- Investment in BNBL	500,000.00	500,000.00
- Investment in Settlement Guarantee Fund	200,000.00	
TOTAL	700,000.00	500,000.00



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.





SCHEDULE 6

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.

03. INVESTMENTS:-

Investments are stated at acquisition cost.

NOTES ON ACCOUNTS

- a) Investment in unquoted equity shares of the Royal Securities Exchange of Bhutan Ltd. of Nu.500,000.00 (Previous year Nu.500,000.00) is still pending for registration in the name of BNB Securities Ltd.



FOREIGN CORRESPONDENT BANKS



Annual Report 2012

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

Kasikornbank PCL

400/22 Phahon Yothin Avenue, Bangkok
10400, Thailand

Bank of America N.A

100 West 33RD Street New York,
NY 10001, USA

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 Chartered 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

Standard Chartered Bank

Mumbai, India

Bank of America N.A

Mumbai-6205

Standard Chartered Bank Nepal Limited

Naya Baneshwor
Kathmandu, Nepal



FOREIGN CORRESPONDENT BANKS

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

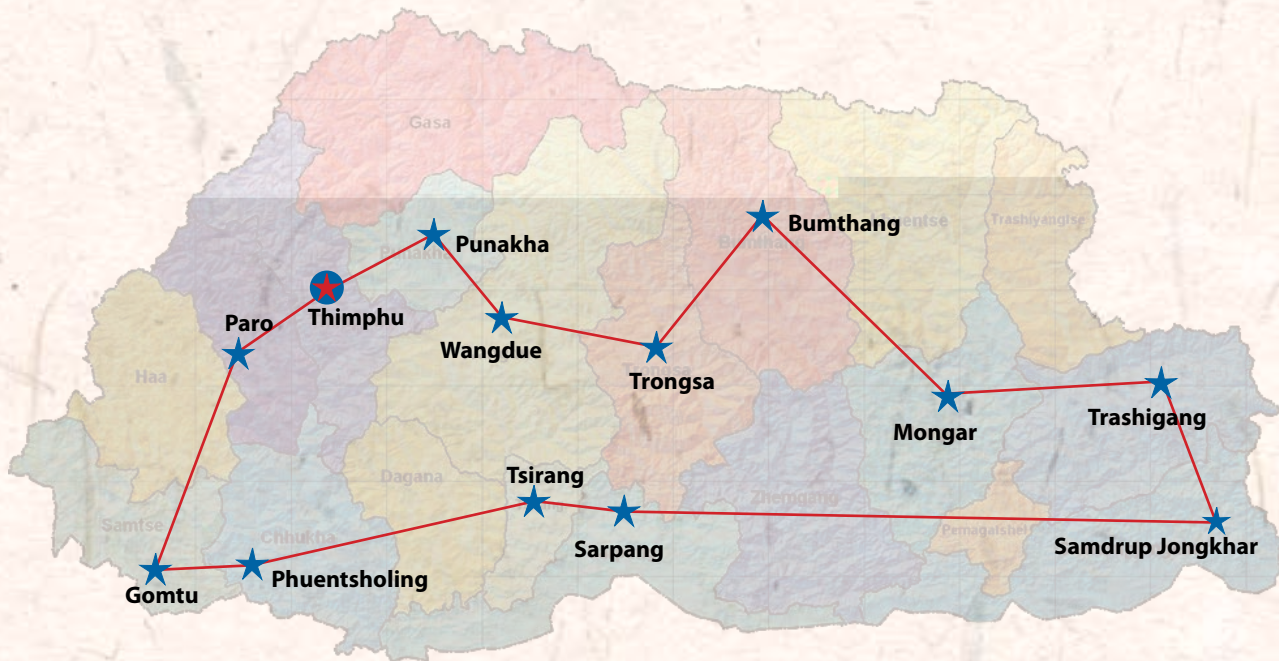
Sonali Bank (Local Office)

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

OUR OFFICES



Annual Report 2012



Head Office, Thimphu

Post Box no.: 439
RICBL Building
PABX: 02—322767/328577/78/328587/88
Hotline: 144
Fax: 02-328839

Branch Office, Thimphu

Post Box No. 439
Bhutan Post Building
PABX: 02-323895/325297/328585
Hotline: 144
Fax: 02-331778/336112
Branch Manager: 02-327535
E-mail: thimphu@bnb.bt

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, 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, Gelephu

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

Branch Office, Wangdue

Post Box No: 1271
Bajo Town
PABX: 02-481912/13
Fax: 02-481916
Manager: 02-481915
Email: wangdi@bnb.bt



Branch Office, Mongar

Post Box No: 108
Mongar Town
PABX: 04-641494/95/97
Fax: 04-641493
Manager: 04-641494
Email: mongar@bnb.bt

Branch Office, Bumthang

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

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

Branch Office, Gomtu

PABX: 05-371270/71
Fax: 05-371273
Manager: 05-371272
Email: gomtu@bnb.bt

Branch Office, Tsirang

PABX: 06-471235/471251
Fax: 06-471239
Manager: 17117464
Email: tsirang@bnb.bt

Gyalpozhing Extension Office, Mongar

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

Khuruthang Extension Office, Punakha

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

Olakha Extension Office, Thimphu

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

Trongsa Extension Office, Trongsa

Phone: 03-521537
Fax: 03-521538
Email: trongsa@bnb.bt

Taba Extension Office, Thimphu

Phone: 02-365314
Fax: 02-365313

Tala Extension Office, Rinchentse, Chukha

Phone: 7710118

Ranjung Extension Office, Trashigang

Phone: 04-561170

Wamrong Extension Office, Trashigang

Phone: 04-571169



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