



BHUTAN NATIONAL BANK LTD.
Annual Report 2013

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FINANCIAL HIGHLIGHTS

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SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

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

Financial Results

	2013	2012	2011	2010	2009	2008
Interest Income	2,038,189.36	1,998,024	1,752,930	1,446,104	1,204,970	986,440
Interest Expenses	935,971.66	802,123	698,352	751,994	634,903	367,442
Interest Differential	1,102,217.70	1,195,901	1,054,577	694,110	570,067	618,998
Other Income	178,725.00	176,984	279,467	138,048	86,148	163,111
Gross Operating Income	1,280,943.28	1,372,886	1,344,045	832,159	656,216	782,109
Operating Expenses	369,548.25	290,280	269,859	234,224	241,989	217,226
Net Operating Income	911,395.03	1,082,606	1,064,185	597,934	414,227	564,883
Profit before Tax	704,733.78	995,841	729,004	361,080	377,502	451,148
Profit after Tax	482,732.95	697,924	510,058	250,817	266,269	310,349

Balance Sheet Information

Total Assets	26,665,817.41	27,708,302	25,754,385	26,637,920	24,106,473	16,733,959
Capital & Reserves	5,740,031.01	5,461,570	3,417,968	1,603,094	1,453,599	1,288,652
Other Liabilities	20,925,786.40	22,246,731	22,336,416	25,034,826	22,652,873	15,445,307

Common Share Information

Dividend Declared (In Nu) (in Mil)	194.13	337.38	135.17	101.32	101.32	101.32
Earnings per share (in Nu)	19.05	27.54	75.47	70.55	74.90	87.29
Book Value per share (in Nu)	226.49	215.50	505.74	450.92	408.41	354.67
Dividend per share (in Nu)	7.66	16.64	20	28.50	28.50	28.50

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

Annual Report 2013

Kipchu Tshering	Chief Executive Officer
Sonam Tobgay	Dy CEO
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
Dellay Phuntshok	Head, Human Resource & Administration
Karma Deki	Head, Sales Department
Bidha Dorji	Head, Credit Department
Dorji	Head, Accounts Department
Sonam Tobgay	Head, Office of Strategy Management
Norbu Wangchuk	Head, Credit Administration & Monitoring Department
Sangay Wangdi	Head, Engineering Department
Mann Bdr Rai	Head, IT Department
Deki Wangmo	Head, Legal Department
Karma Choki	Head, Branch Operations
Shree P Subedi	Branch Manager, Thimphu Branch
Tshewang Samdrup	Branch Manager, Phuentsholing Branch
Lhaki Wangmo	Branch Manager, Paro Branch
Dorji Dagpa	Branch Manager, Mongar
Namgyel Wangda	Branch Manager, Gelephu
Purna Bdr Mongar	Branch Manager, Wangduephodrang
Yeshey Norbu	Branch Manager, Bumthang
Pema Gyamtsho	Branch Manager, Trashigang
Pema Rinzin	Branch Manager, Samdrupjongkhar
Chencho Tshering	Branch Manager, Gomtu
Surja Man Samal	Branch Manager, Tsirang

Dr. Pema Choephyel, Chairperson, appointed on 28th February 2013 representing the BTFEC. 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. Sonam Phuntsho Wangdi, Director, appointed on 28th February 2013 representing the National Pension and Provident Fund. Mr. Sonam is currently the Joint Secretary in the Ministry of Economic Affairs and has held several senior positions in Ministry of Trade and Industry. Mr. Sonam Phuntsho Wangdi has a Masters degree in International Law and Economics from the University of Bern, Switzerland wherein he graduated with Distinction of Magna Cum Laude in 2009.

Mr. Kunzang Dechen, Director, appointed on 28th February 2013. 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 28th February 2013. 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.

Dasho Tenzing Yonten, Director, appointed on 28th February 2013. 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 28th February 2013 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

Annual Report 2013



Your Directors have pleasure in presenting the 2013 Annual Report of Bhutan National Bank Limited with the audited statement of accounts for the year ended December 31, 2013.

FINANCIAL HIGHLIGHTS

The key financial highlights for fiscal year 2013 are summarized in the following table:

	Fiscal Year 2012	Fiscal Year 2013
Total Interest Income	1,998 million	2,038 million
Total Interest Expense	802 million	935 million
Interest Differential	1195 million	1,102 million
Total Other Income	176 million	178 million
Gross Operating Income	1372 million	1,280 million
Operating Expenses	290 million	369 million
Net Operating Profit	1082 million	911 million
Profit before Tax	995 million	704 million
Profit after Tax	697 million	482 million

STATUTORY AUDITORS

The 17th AGM held on 28th February 2013 approved the appointment of auditors M/s N.C.Mitra for the year 2013. As per the Royal Audit Authority regulations, an audit firm may audit an organization for a maximum three years. This will be their second year with the bank.

CORPORATE GOVERNANCE

Bhutan National Bank (BNB) has established a tradition of best practices in corporate governance. The corporate governance framework in BNB is based on an effective independent Board, the separation of the Board's supervisory role from the executive management and the constitution of Board Committees, generally represented by a suitable blend of independent Directors, private shareholding Directors and Directors nominated by the shareholding Institutions and chaired by an able & experienced Director, to oversee critical areas.

i. Philosophy of Corporate Governance

Bhutan National Bank's corporate governance philosophy encompasses not only regulatory and legal requirements, but also several voluntary practices aimed at a high level of business ethics, effective supervision and enhancement of value for all stakeholders.

ii. Whistle Blower Policy

BNB has formulated a Whistle Blower Policy for the bank. In terms of this policy, employees of BNB are free to raise issues, if any, on breach of any law, statute or regulation by the Bank or any of its employees / directors and on the accounting policies and procedures adopted for any area or item and report them to the Audit, Compliance & Grievance Committee through specified channels. This mechanism has been communicated to all concerned of the bank.

iii. Prevention of Insider Trading

In accordance with the requirements of BNB's Corporate Governance policy and requirement by RMA, the regulatory authority for equity trading on exchange, BNB has instituted a comprehensive guidelines / code of conduct for prevention of insider trading.

iv. Code of Business Conduct and Ethics

The Board of Directors of the Bank adopted a comprehensive Code of Business Conduct and Ethics primarily by strengthening and providing illustrative guidance on the existing Code of Business Conduct and Ethics approved by the Board. The code aims at ensuring consistent standards of conduct and business ethical practices across the bank.

v. Board of Directors & Board Committees

The Financial Services Act of Bhutan 2011 states in section 63 (d) and (e) "*every financial institution shall have Board of Directors comprising of not more than 7 directors including the chairman of which two will be Independent Director.* Furthermore RMA Corporate Governance Policy 2011 states in section 5, clause ii, d, "*Directors of a regulated entity shall be elected by shareholders for a term of one year. Directors may stand for re-election.*"

BNB has a Board constituted in compliance with the regulatory and statutory guidelines & laws and in accordance with best practices in corporate governance. The Board functions either as a full Board or through various committees constituted to oversee specific operational areas. At BNB, we believe that governance is focused not only on the boardroom but across the business. The bank believes that good governance ultimately produces in better business and improves long term performance. The work of the board should complement, enhance and support the work of the management.

The Board has constituted four board committees, namely, Board Governance, Recruitment & Remuneration Committee, Board Audit, Compliance & Grievance Committee, Board Credit, Risk Approval & Management Committee and the Board Investment, Asset Liability Management Committee. At December 31, 2013, the Board of Directors consisted of 7 members. There were four meetings of

DIRECTOR'S REPORT

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the Board during fiscal year 2013. The names of the Directors and the details of their attendance at board meetings are set out in the following table:

Name of Member	No. of Board Meetings attended
Dr. Pema Choephyel, Chairperson	3
Dr. Damber Singh Kharka, Director	4
Mr. Sonam P Wangdi, Director	3
Mr. Ugyen Namgyal, Director	4
Dasho Tenzing Yonten, Director	4
Mr. Kunzang Dechen , Director	4
Mr. Kipchu Tshering, Director	4

The Board is assisted by Mr. Sonam Tobgay, Dy CEO who is the Member Secretary to the board. The Company Secretary ensures that the board receives adequate and detailed information in a timely manner to enable full and proper consideration of agenda items. We believe this practice helps board directors make informed and sound decisions.

Directors are also granted an indemnity from the company in respect of liabilities incurred as a result of their office. In respect of those matters for which they cannot be indemnified, the bank maintains appropriate director liability insurance for the benefit of directors.

COMPOSITION OF BOARD COMMITTEES

The **Board Governance, Recruitment & Remuneration Committee** comprised of 4 Directors and was chaired by Dr. Pema Choephyel. There were four meetings of the Committee during the year. The details of the composition of the Committee and attendance at its Meetings are set out in the following table:

Name of Member	No. of Meetings attended
Dr. Pema Choephyel, Chairperson	4
Dr. Damber Singh Kharka, Director	4
Mr. Sonam P Wangdi, Director	4
Mr. Kipchu Tshering, Director	4
Mr. Kesang Namgyal, Chief Resource	4

The **Board Audit, Compliance & Grievance Committee** comprised of 2 Directors and was chaired by Dasho Tenzing Yonten. There were two meetings of the Committee during the year. The details of

DIRECTOR'S REPORT

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the composition of the Committee and attendance at its Meetings are set out in the following table:

Name of Member	No. of Meetings attended
Dasho Tenzing Yonten, Chairperson	2
Dr. Pema Choephyel, Director	2
Mr. Tashi Dorji Rinchen, Head, IAD	2

The **Board Credit, Risk Approval & Management Committee** comprised of 4 Directors and was chaired by Mr. Ugyen Namgyal. There were four meetings of the Committee during the year. The details of the composition of the Committee and attendance at its Meetings are set out in the following table:

Name of Member	No. of Meetings attended
Mr. Ugyen Namgyal, Chairperson	4
Dr. Damber Singh Kharka, Director	4
Mr. Kunzang Dechen, Director	4
Mr. Kipchu Tshering, Director	4
Mr. Tandin Dukpa, Chief Credit	4

The **Board Investment, Asset Liability Management Committee** comprised of 5 Directors and was chaired by Mr. Sonam P Wangdi. There were four meetings of the Committee during the year. The details of the composition of the Committee and attendance at its Meetings are set out in the following table:

Name of Member	No. of Meetings attended
Mr. Sonam P Wangdi, Chairperson	4
Dr. Damber Singh Kharka, Director	4
Mr. Kunzang Dechen, Director	4
Mr. Ugyen Namgyal, Director	4
Mr. Kipchu Tshering, Director	4
Mr. Sonam Tobgay, Dy CEO	4
Mr. Gyam A D Namgyal, Chief Finance	4

- **Annual General Meetings of Shareholders**

The AGM provides the board and management with the opportunity to meet and engage directly with our shareholders. Shareholders who are not able to attend the meeting are always encouraged to send their representatives. The notices of meeting and related papers for the AGM are sent to the leading newspapers and shareholders at least 21 days before the day of the meeting. The 17th Annual General Meeting of Shareholders was held on 28th February 2013 at the Tarayana Foundation conference hall, Thimphu which discussed and approved the financial performance of the bank for the year ended 31.12.2012.

- **Dividend**

For the year ended 31.12.2013, the 18th Annual General Meeting of Shareholders held on 14th February 2014 approved a dividend of 7.66 per share. The dividend was thereafter approved by RMA and paid to all shareholders in March 2014.

- **Means of Communication**

It is Bhutan National Bank's belief that all stakeholders should have access to complete information regarding its position to enable them to accurately assess its future potential. BNB disseminates information on its operations and initiatives on a regular basis. BNB's website serves as a key awareness facility for all its stakeholders, allowing them to access information at their convenience. It also provides comprehensive information on BNB's business segments, financial performance, operational performance, and other relevant information.

BNB's annual financial results are published in the leading news papers in Bhutan and are also available on the banks website for the information of general public.

- **Market Price Information**

The reported high and low closing prices and volume of equity shares of Bhutan National Bank traded during fiscal year 2013 on RSEB are set out in the following table:

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Month (2013)	High Price (Nu.)	Low Price (Nu.)	Total Volume of shares Traded	Amount in Nu.
			No. of shares	
January	320	300	6,554	3,962,400.00
February	360	300	69,237	49,914,840.00
March	360	360	47,765	34,390,800.00
April	360	350	2,594	1,863,900.00
May	350	340	570	395,520.00
June	340	300	10,354	6,599,920.00
July	350	300	10,171	6,487,980.00
August	335	280	4,567	3,253,440.00
September	320	285	15,217	9,763,680.00
October	350	300	29,538	20,950,860.00
November	320	301	4,745	3,004,350.00
December	335	330	33,987	22,017,045.00
		TOTAL	235,299	62,604,735.00

- **Information on Shareholding**

Shareholding pattern (above 5%) of Bhutan National Bank at December 31, 2013;

Shareholder Category	Shares	%-age Holding
National Pension & Provident Fund	5,497,164.00	21.69%
International Finance Cooperation (IFC)	5,068,756.00	20%
Druk Holding & Investment	2,915,712.00	11.50%
Bhutan Trust Fund	1,112,634.00	5.14%
Public	10,749,513.00	41.67%
Total	25,343,779.00	100%

- **Address for Correspondence**

Mr. Dorji Namgyal Rinchen
Company Secretary
Head Office, Bhutan National Bank Ltd
Post Box 439, Thimphu, Bhutan

• DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

1. that in the preparation of the annual accounts, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
2. that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the bank at the end of the financial year and of the profit or loss of the Bank for that period;
3. that they have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act 2000 and the Financial Services Act of Bhutan 2011 for safeguarding the assets of the bank and for preventing and detecting fraud and other irregularities; and
4. that they have prepared the annual accounts on a going concern basis.

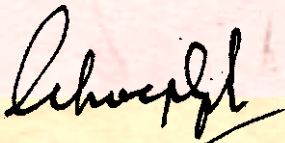
ACKNOWLEDGEMENTS

Bhutan National Bank Limited is grateful to the Royal Government of Bhutan, RMA, Royal Audit Authority and other statutory bodies for their continued co-operation, support and advice. Bhutan National Bank wishes to thank its investors, the domestic banking community, RSEB and Registrar of Companies for their support.

Bhutan National Bank would like to take this opportunity to express sincere thanks to its valued clients and customers for their continued patronage. The Directors express their deep sense of appreciation of all the employees, whose outstanding professionalism, commitment and initiative have made the organization's growth and success possible and continue to drive its progress. Finally, the Directors wish to express their gratitude to the management for their trust and support.

I also confirm that all Directors have affirmed compliance with Bhutan National Bank Code of Business Conduct and Ethics as laid down in its Corporate Governance Policy for the year ended December 31, 2013.

For and on behalf of the Board



Dr. Pema Choephyel
Chairperson

Place: Thimphu

CHIEF EXECUTIVE OFFICER'S REPORT

Annual Report 2013

OVERVIEW

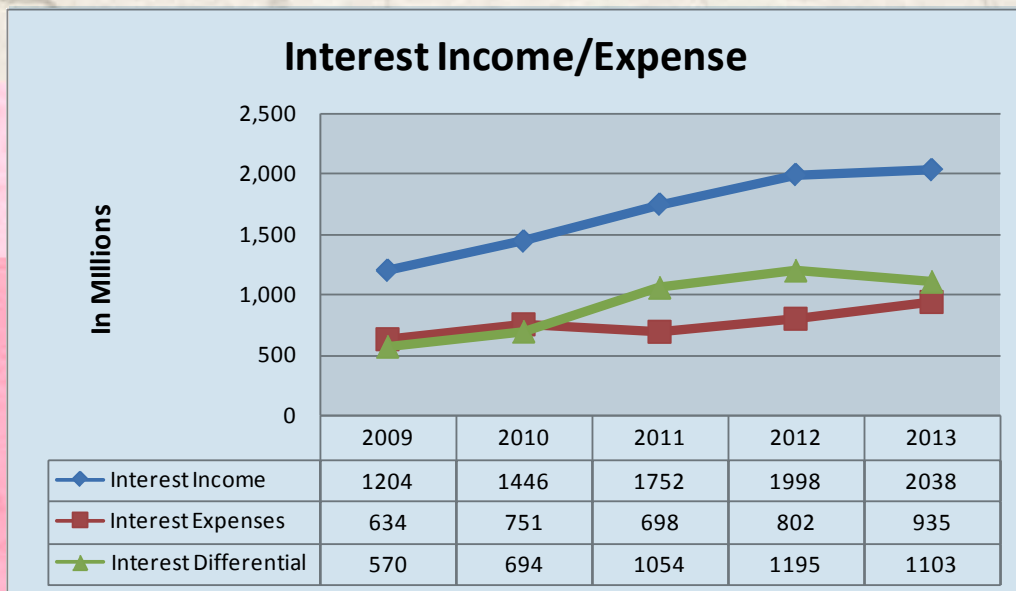
2013 was a very challenging year for the bank. Throughout the year, we continued to focus on our key priorities of strengthening the bank's capital position, funding in difficult market situation, managing our asset quality, reducing our costs and strengthening the bank's net interest margin, while continuing to support and provide excellent service to our customers.

However despite our best efforts to make progress on the above priorities, the bank has not registered substantial growth in the last 12 months mainly due to the economic situation in the country. With the suspension on a few loans, the bank was not able to utilize its fund position to the optimal capacity.

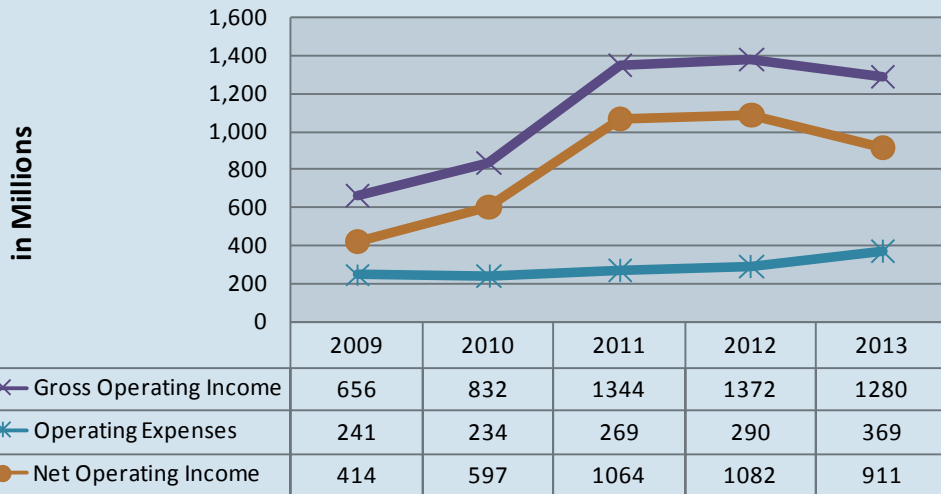
Moreover, with the growth in deposits mainly retail, the bank incurred additional costs which led to the bank under-achieving its financial target for 2013.

Financial Performance

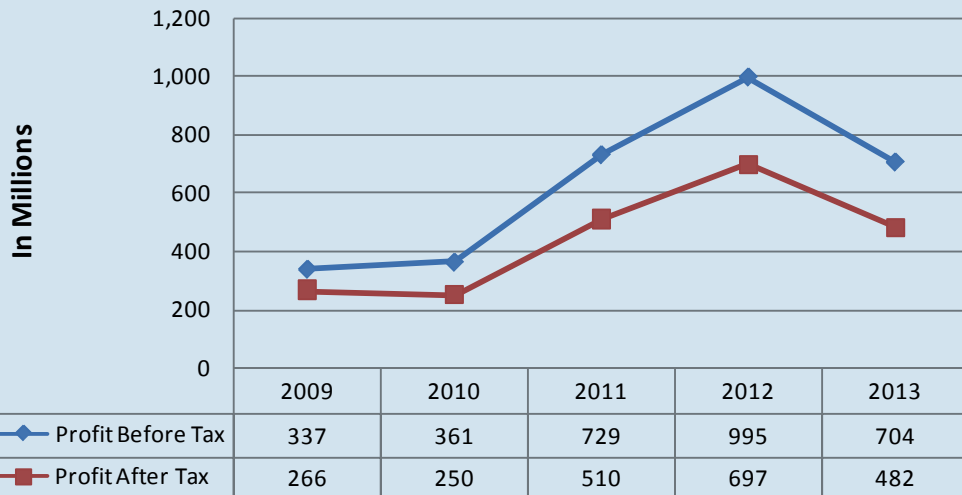
We would like to take this opportunity to inform all shareholders of some of the key financial highlights for the past 12 months as compared to previous years.



Operating Income/Expense



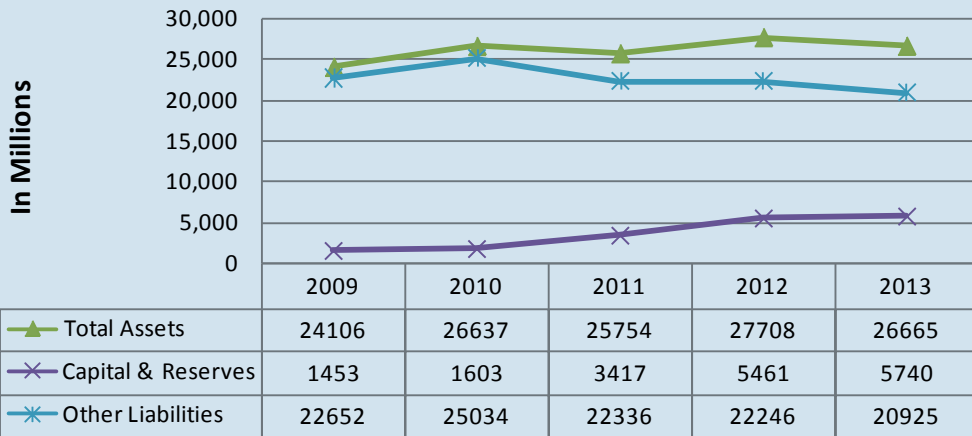
Profit



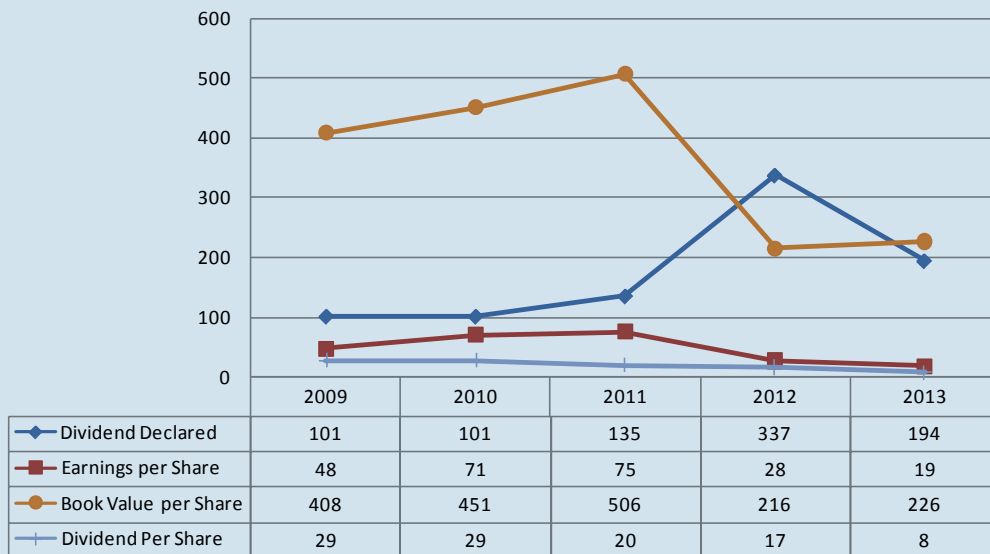
CHIEF EXECUTIVE OFFICER'S REPORT

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Assets, Capital & Reserves & Other Liabilities



Dividend, Earnings & Book Value



Other important financial highlights of the year with proper justification and details are provided in the Chief Finance Officers report.

Other Important Highlights of 2013

I would like to submit some of the important highlights from the year ended 2013.

With regard to credit in 2013, the bank was able to sanction a total of Nu. 3.5 billion there-by increasing its loan portfolio from 17.86 billion to 18.17 billion. In terms of providing credit to the general public, your bank is still the forerunner registering 32% of the total credit portfolio. With regard to the interest earned, the bank was able to generate an income of 1.96 billion from loans with the average yield on loans at 10.55%.

The bank today has 11 branches and 13 extension offices. With regard to business generated from these branch offices and the corporate office, the deposits dropped by 6.7% as compared to 2012. This was mainly due to the large withdrawals by corporate client during the year.

An organization cannot build a good team of working professional without good human resource. We at the bank believe that the key functions of the Human Resource Management includes recruiting people, training them, performance appraisal which the bank adopted through the performance management system (PMS), motivating employees as well as good workplace communication to name a few.

Successful companies are those that consider their human capital as their most important asset. The bank recruited a total of 53 employees in the year increasing the total employee strength to 422. In adherence to the HR policy of the bank, a total of 105 out of 422 employees were promoted to the next grade in 2013. In order to provide more reach and accessibility in the country, the bank opened four new Extension counters at Motithang, Haa, Bonday and Dagapela. Considering the importance of training and enhancement of knowledge and skills of employees, a total of 109 employees were given the opportunity to undergo trainings and seminars ex country.

On the Information and Technology front, there is little doubt that today's digital channel has become critically important to banks and their customers, requiring an intense focus on customer centricity and customer experience. BNB with the approval of the Board will be updating its core banking software from FCC 7.3 to UBS 12.0 in early 2014. We are confident that with this new up-gradation, the bank will be able to provide better and faster service to all its customers. Considering the growing number of clients who are accessing the ATM services all around the country, the bank also installed four new ATM machines in Haa, Bumthang, Zhemgang and Trashigang.

CHIEF EXECUTIVE OFFICER'S REPORT

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As part of the bank's corporate social responsibility, we donated an amount of Nu. 315,000.00 to individuals who required various medical treatments. Nu. 674,520.00 were given for sponsorship of events in the year.

We would like to take this opportunity to inform all our shareholders that the bank paid Nu 222 million as Corporate Income Tax to the National Exchequer thereby contributing to the nation's economy and development. We are confident that 2014 will be an even more successful year with the plans and projects the bank has in place for the coming year. With the support of our able and enthusiast employees and with the guidance of the board of directors, we believe that the shareholders will continue to receive significant returns on their investment in the bank despite the challenges that remain ahead.

In conclusion, I would like to express my deepest appreciation and gratitude to the Royal Government of Bhutan, Ministry of Finance, Royal Monetary Authority (RMA) of Bhutan, Royal Audit Authority, 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

Place: Thimphu

From the Desk of the Deputy CEO

As the forward looking statements and analysis will be addressed by the Board, CEO and CFO, I will delve a little bit on what I do during the year.

As the Deputy Chief Executive Officer (DCEO) my role revolves around three key areas. Foremost is to assist the Chief Executive Officer (CEO) on all matters related to the bank, next is to create and champion our long term plans, and finally to advice and provide direction to the four vertical chiefs.

In assisting the CEO, I officiated as CEO for a quarter of the year. I represent the bank in the Board and its investment and Asset Liability Committee, I am a member of two management committees; the Executive and Disciplinary Committee, and I chair the Employee Grievance Committee. During the year, I participated in all the 54 meetings I was a member of and chaired eight of them. I also represented the bank in a two day IBA Global Banking Conference in Mumbai, arranged by FICCI in August 2013.

In my second role as a long-term planner, I am supported by Office of Strategy Management, where we have worked closely towards continuously improving the bank. In the last year we focused on (a) improving our employees individual goal sheets after conducting exhaustive one-on-one employee interviews, while it continues to be a challenge; we believe that we are moving in the right direction. (b) With our desire to reach all our clients, we have been working towards building our presence in all Dzongkhags. In 2013, we opened extension offices in Haa, Bondey (Paro), Dagapela (Dagana), Motithang and Tingtibi (Zhemgang), and in 2014 we have plans to open in Trashi Yangtse, Pemagatshel, Lhuentse and Gasa. (c) We have also been increasing our ATMs, while being mindful of our population and overcrowding, as of today we have 31 ATMs across the country. (d) We restructured the Credit vertical to improve to make it more efficient and effective. And finally (e) we created a Sales Department with the initial focus of improving the saving habits of our people.

In advising, supervising and providing direction to our four verticals, besides initiating the restructuring and creation of a new department, I have worked closely with the chiefs on day-to-day issues as well as functional plans for the verticals. We as a team have discussed and passed decisions on issues ranging from resource planning to the complexities of Forex and liquidity management.

While 2013, on the most part has been a reflective year where we have gained considerable insight on our capabilities and capacity, and we are confident that the events of this year will only propel us to greater success in the years to come.

Tashi Delek

From the desk of the Chief Operations Officer

It is an immense pleasure for me to submit the 2013 report on the operations vertical. There are three Departments under Operations i.e. Sales, Credit Card & Operations. The sales department and Card Department were formed in 2013. The 11 branches are under the supervisory of operations Head. There is 284 staff in the Branches and EOs.

Business

1. Deposits

During the year the deposit fell down by about 6.76% as compared to Nu. 19,893.581 million in Dec 2012. This is mainly because of heavy withdrawal of deposits by the corporate clients.

2. CASA , RD & FD

The outstanding Amounts and the number of account as of Dec 2013 are as under:

- a) Current Accounts: Number of Accounts- 5791 and Amounts- 3,183.876 million
- b) Recurring Deposits: Number of Accounts - 3135 and Amounts- 100.099 million
- c) Savings Account: Number of Accounts- 100168 and Amounts- 4,032.633 million
- d) Piggy Bank Accounts: Number of Accounts- 3311 and amounts-740 thousand
- e) Fixed Deposits: Number of Accounts- 7310 and Amounts- 11,217.008 million

The outstanding Amounts and the number of account as of Dec 2012 are as under:

- a) Current Accounts: Number of Accounts- 4287 and Amounts- 3,056.766 million
- b) Recurring Deposits: Number of Accounts - 812 and Amounts- 17.487 million
- c) Savings Account: Number of Accounts- 60273 and Amounts- 2,204.358 million
- d) Piggy Bank Accounts: Number of Accounts- 160 and Amounts- 446 thousand
- e) Fixed Deposits: Number of Accounts- 6825 and Amounts- 14,615.215 million

3. Off Balance Sheet Item

The LCs issued as of Dec 2013 is Nu. 773.59 million compared to Nu. 1,845.59 million in Dec 2012. The reduction In the LC amount is due to ban on Import of Vehicle, Non Essential Items by the RMA & imbalance trade with India.

4. Moneygram

The moneygram transactions as of Dec 2013 was Nu. 22.36 million as compared to Nu. 20.68 million in Dec 2012. Transactions have increased in 2013 as the customers were made aware

of the products & the bank providing faster service.

5. Interest Expenses

The interest expenses of the Bank registered a growth of 16.69% from 802.123 million in 2012 to Nu. 935.97 million in 2013 . This was mainly due to the interest paid on the deposits made by the corporate clients.

6. Operating Expenses

The operating expenses increased by 25.70% from Nu. 290.280 million in 2012 to from Nu. 364.87 million in 2013. The increase was due to employment cost, establishment cost & opening of new Extension offices.

7. B-Wallet Service

The B-Wallet users as Dec 2013 is 2445.

8. Internet Banking

The users as of Dec 2013 is 3167.

9. ATM Cardholders

As of Dec 2013 is 35943.

Tashi Delek

CHIEF FINANCE OFFICER'S REPORT

Annual Report 2013

From the desk of the Chief Finance Officer

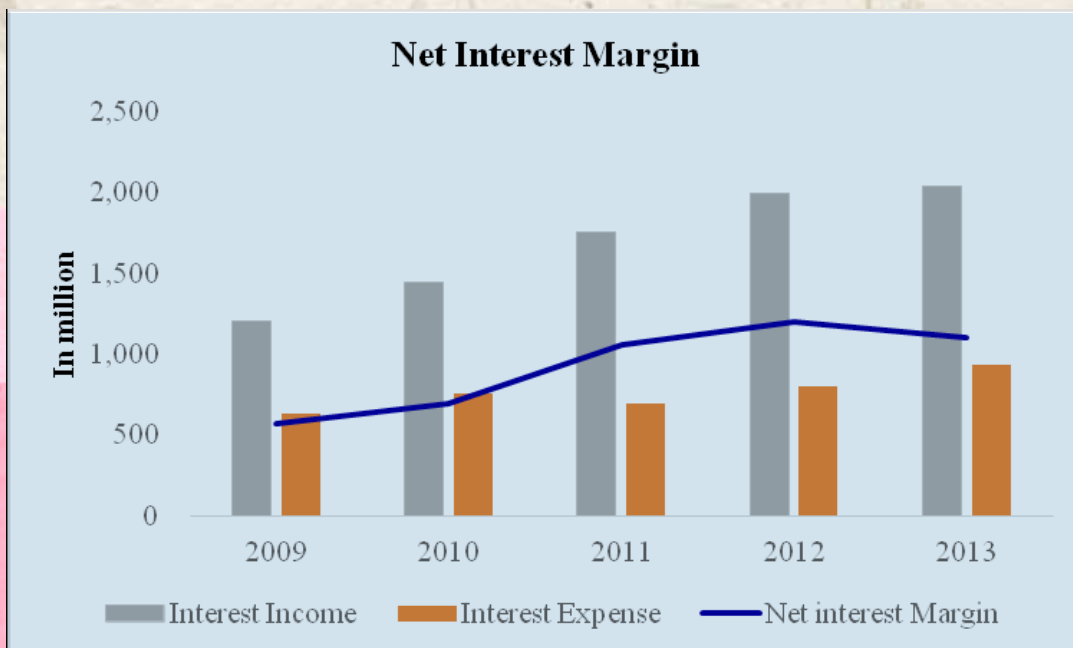
It is an immense pleasure for me to submit the 2013 report on the finance vertical.

Net Interest Income

The total interest income marginally increased by about 2% with over 100% growth in the interest income from deposits with other banks. Although there was growth in the loans & advances, the interest income from loans decreased by about 0.10% as compared to previous year. Interest income from loans decreased primarily due to increase in interest in suspense coupled with continued suspension of loans in the market.

The interest expense on the other hand recorded a growth of about 17% over last year with a growth of over 30% in interest on savings deposits. The interest expenses on Fixed Deposits increased by 14% despite decrease in the balances and this was because of the higher interest rates and maturity of FDs during the year.

The net interest income decreased by 7.83% as compared to previous year and was attributable to lower yield on customer lending and higher cost of fund, especially with the customer deposits.



Other Income

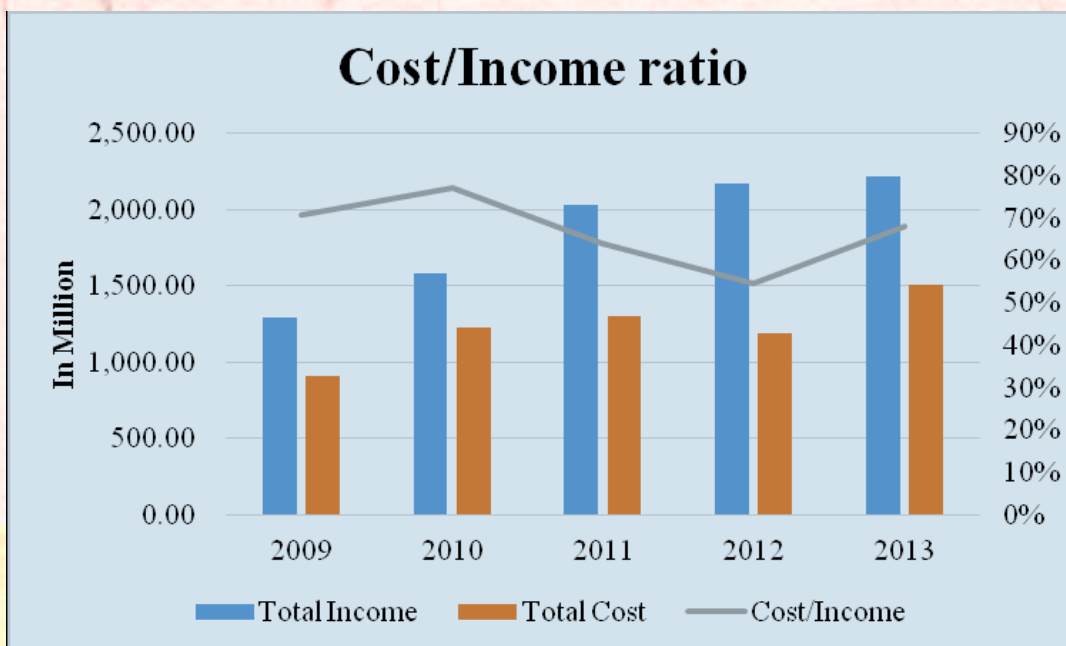
The marginal growth in the other income of 0.98% was mainly driven by increase in the earnings from foreign exchange of 65% from Nu.45.56 million in 2012. Accordingly, the proportion of foreign exchange earnings to operating income increased to 3.40% from 2.09% in 2012. Commission, recoveries, exchange and fee based income has followed the downward trend and the proportion of these incomes to total other income decreased from 57% to 49% in 2013.

Operating expenses

The increase in operating expenses from Nu.290 million to 370 million in 2013 is mainly due to increase in the HRD cost, depreciation and employment cost arising from increased network of extension offices. The operating cost increased by 27% as against operating income growth of 2%, thereby increasing the cost to income ratio from 55% to 68% in 2013. However, the rate of growth in operating income is expected to increase mainly because of credit growth and improvement in the loan quality. Further the rate of growth in operating expenses is expected to decline with moderation of extension openings and other employee related expenses. The bank will continue its effort towards cost management and productivity improvements in a pursuit to achieve moderate cost to income ratio.

Profitability

The profit after tax of the bank was Nu. 482.732 million, a decline of about 31% as compared to Nu. 697.983 million in December 2012. This was primarily due to increase in the loan reserve for Non-performing loans, interest expenses and operating expenses.



CHIEF FINANCE OFFICER'S REPORT

Annual Report 2013

Balance Sheet

The balance sheet size over the last five years has grown at an average rate of 11% but in the year 2013, the size has shrunk by 3.76% primarily due to decrease in the deposits by Nu. 1.36 billion.

Shareholders' funds

Shareholders' fund grew by 5.10% in 2013, enhanced primarily by transfer of 30% of the profit to general reserves and retained earnings. The bank declared a dividend of Nu. 7.66 pershare amounting to Nu. 194.13 million. Bonus share of two shares of every five share held with a record date of March 31, 2014 has been approved. The earnings per share stood at Nu. 19.05, a decrease from Nu. 27.54 in 2012. The Return on Average Assets decreased to 1.78% from 2.61% in 2012 and Return on Average Equity decreased from 15.72% to 8.62% in 2013.

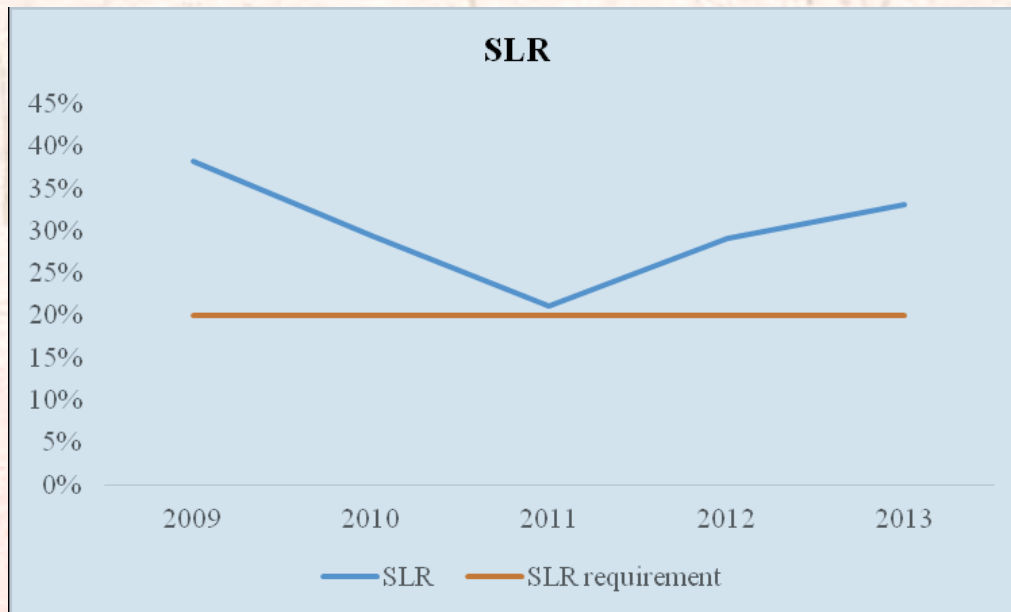
Capital adequacy

The bank's total risk-based capital ratio stood at 23.65%, while the Tier I capital ratio was 20.97%, exceeding the minimum regulatory requirement of 10% and 5% respectively. The bank has strong capital base with Tier I capital constituting 88.65% of the total capital in 2013, a growth of 4.14% as compared to previous year. The sound ratios gives an opportunity for the bank to manage future credit growth and branch expansion. However, the ratios has decreased as compared to 2012 mainly due to increase in risk weightage by RMA on certain loan sectors, which resulted in the increase of total risk weighted assets by 32%. The capital has grown marginally by only 3%.



SLR

The liquid assets of the bank mainly represents balances in current accounts (44%), cash (21%) and other liquid assets (35%) and the ratio was always maintained above the regulatory requirement of 20%. The SLR which was 29.03% in 2012 grew to 33.14% in 2013 and this was mainly because of the increase in the balances in current accounts and investment in time deposits with other banks. In 2012, Treasury bill accounted for 42.36% of the total liquid assets, however, there is no investment in the Treasury bills as at the end of 2013. During the year, investment worth Nu. 10.073 billion were made in RMA treasury bills but got matured within the year.

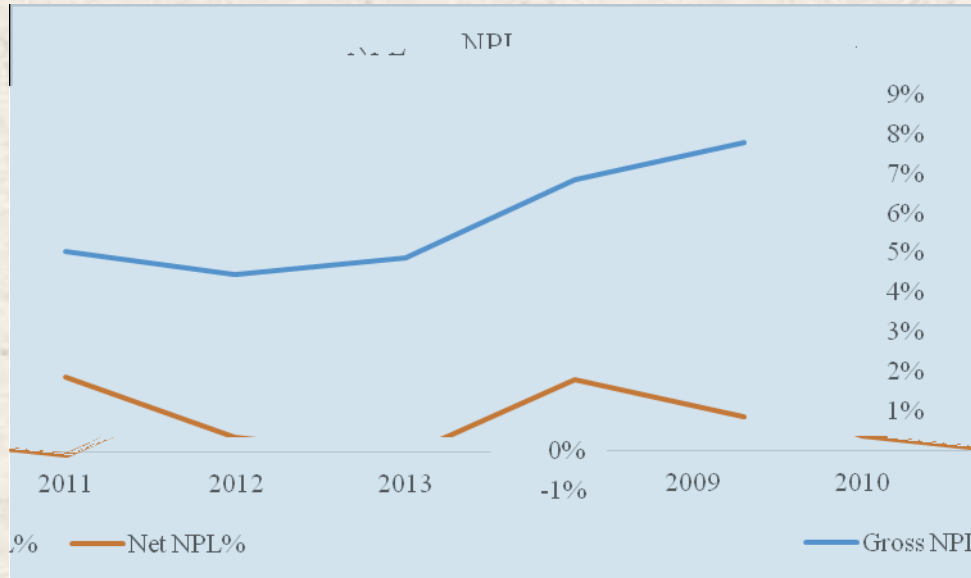


Credit Quality

Despite our effort to reduce NPL, the Gross NPL ratio increased from 6.88% to 7.80% in 2013. The loan impairment provision charged to Profit & Loss account has increased by over 100% as compared to 2012, which resulted in the drastic reduction in Net NPL ratio by over 50% from 1.84% to 0.88% in 2013.

CHIEF FINANCE OFFICER'S REPORT

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Key challenges

The operating environment for the banking sector presented a number of key challenges. The suspension of major loans like Housing and purchase of vehicles restricted the loan growth to about 2%, which has major impact on the interest income from loans (-0.10%). Managing cost of fund was another challenge as liquidity tightened and interest rates increased to keep up to the competition in the market. Despite decrease in the deposit, the interest expense has grown by about 17%. The bank had to maintain at par or more than the industry average to attract deposits and/or to retain the existing deposits.

In 2014, the finance vertical will focus on implementing the Bhutan Accounting Standards as required by Accounting & Auditing Standards Board of Bhutan, implementation of Transfer Pricing Mechanism to evaluate the performance of the branches and frame ALM policy and procedure manual for the bank.

CREDIT REVIEW

There was some realignment of some functions and the Credit Review unit was delinked from the Credit Administration and Recovery unit during 2012. The Credit Review unit was then placed under the Finance Vertical so as to avoid conflict of interest since the Credit Recovery and Administration that was initially under the Finance Vertical was placed under the Credit Vertical. The Review team during the year completed two rounds of review for the bigger branches and once for all other branches, upto date concurrent review of Thimphu, despite the slow growth in Credit. The review Reports for all branches had been discussed with the Chief Credit Officer, Credit Head and Legal Head. In these meetings a lot of issues has been resolved or streamlined

Tashi Delek

From the desk of the Chief Credit Officer

It is a pleasure for me to submit the 2013 report on the credit vertical. With the realignment of the organizational structure in the bank, the Credit Administration Department which was earlier under Finance Vertical was put under the credit vertical in the year 2013 making the number of departments under credit vertical to four.

Credit Department:

The bank during the year sanctioned Nu. 3,510.00 million and the total loan portfolio had increased from Nu.17,859.91 million in 2012 to Nu. 18,166.43million as on 31st December 2013. In 2013 the bank had primarily focused on short term lending to divert credit concentration from the long term lending to other more profitable sectors with shorter term and also match the short term deposits. Housing loan still top the portfolio with 31% followed by manufacturing with 25% and Trade and commerce with 16%.

BNBL is still the leader in facilitating credit to the public with 32% of the total credit portfolio in the country. The total interest earned from loans in 2013 was Nu. 1,955.00million and average yield on loans was 10.55%.

Credit Administration Department:

For the last couple of years the economic activities in the country had slowed down and the credit flow to that extent had also been slowed. The effect to the financial sectors had actually been felt in 2013. The loan recovery during the year was really challenging as the money flow in the market was scarce which resulted in the increase of gross non performing loans (NPL). The bank's NPL had increased by 0.92% in 2013 from 2012. Despite all odds with guidance from the board and the management, the department did fairly.

Legal Department:

2013 had been a busy year for legal department. The increase in the NPL had demanded more action from the legal department. In 2013 alone 66 new cases were registered in addition to the 64 ongoing cases making the total cases registered to 130 with various courts. The department had 45 cases solved or obtained court verdicts during the year. Four auctions were conducted in 2013 and the bank realized worth Nu. 58.17 million from the sales proceeds comprising both moveable and immoveable assets.

Engineering Department:

Initially engineering department was set up primarily for the property valuation of our clients who wishes to avail loan against the properties. However over the time as the bank grew, the services of the engineering department increased with many folds. In 2013 besides doing 814 numbers of

CHIEF CREDIT OFFICERS' REPORT

Annual Report 2013

property valuation, the department had assisted and supported the OSM department in designing, cost estimation and work supervision for setting up five new extension offices, one new branch office and relocation/modification of two branch offices. The engineering department was also busy with the corporate office construction project where the department had reviewed BOQ, tender documents prepared by the consultant and prepared EOI for the project. The corporate office building construction work will start from early 2014.

Tashi Delek

From the desk of the Chief Resource Officer

It's a great honor and pleasure to present to you the report from Resource Vertical. The Resource team understands and believes that our employees are the most important asset and is constantly making cautious effort to motivate and challenge them to perform better in order to help achieve our vision ***"To gain regional recognition by being number one in all our services and work culture"***.

In early April 2013, the Human Resource & Administration (HRA) Department under the Resource Vertical saw a change in its management wherein there were changes in the Head of HR Department and Head, Sales Department.

Below are some of significant achievements made by the vertical in spite of a few challenges:

Highlight of the past 12 months:

The vertical places utmost importance in instilling our values of *"integrity, innovation, leadership, teamwork and discipline"* into the minds of our employees and has therefore taken various initiatives during the year revolving around these values:

1. In our cautious effort to reward our employees the vertical processed the promotion of 105 employees whereby one employee was given accelerated promotion in recognition of his diligent service and exemplary hard work.
2. The Bank recruited a total of 53 new employees in 2013. The total staff strength of the Bank as of December stood at 422 with PAT per employee at 1.14 Million. The table below depicts the number of new recruits since 2010.



3. Resource vertical values the importance of learning and development and has always encouraged employees to pursue their education. During the year the vertical was able to send 109 employees for various short term trainings and seminars outside the country and sanctioned study leave to twelve employees' in order to pursue their master's courses.
4. The vertical was also able to organize its annual Rimdo preside2 ab1ver by His Holiness Sungtrel Rimpoche in July and conducte2 aa mass cleaning campaign across the country as part of our corporate social responsibility activity lead by our Executive Members. These events have helpe2 aus build camaraderie with the society and within ourselves.
5. The IT department had complete2 athe work on(t)-6(h)4(e R)-3(e)-5(d)12(un)4(d)-3(a)9(n)19(t N)25(order to reduce the maintenance and recurring cost.
- 6.

Four (4) numbers ATM were installe2 aat the follb1wing places:

- a- Extension counter, Haa
 - b- Chamkhar to1wn, Bumthang
 - c- Tintibi to1wn, Zhemgang
 - d- Rangjung to1wn, Trashigang
7. After the first launch of B-Wallet in December 2012, we have enable2 athe BT Fixed line phone bill payment.

Problems and challenges faced during the year:

Looking back, 2013 was fairly a reasonable year. Although the vertical saw slight hurdles it was nothing that the vertical couldn't tackle. 2013 saw about 23 employees leave the organization mainly be2 aause these employees mo1ved out of the county while some had left the organization in order to join politics. These shortages in the work force had adde2 awork pressure to some of our employees but this was resoled by recruitment of new employees.

The way ahead 2014:

2014

turnaround the overall work process and efficiency for the Bank. The new Software will be launched in end April 2014

2. The Resource team is also in the process of creating role and vacancy based caps which actually aim to drive employees to develop competencies and to create a highly competitive learning environment. This in turn will increase employee morale, foster innovation and enrich the overall job experience of the employee and further create a sustainable pay module for the Bank in the long run.
3. The vertical is also continuously learning from our experiences and is persistently innovating ourselves in the way we conduct ourselves. Our policy manuals and work process are being revisited so that we adapt to the changing times.

I am confident that 2014 will be a successful year and assure you that my team will continue to deliver its best. I would like to take this opportunity to express my deepest gratitude to the Board of Directors, Senior Management team for their guidance and continuous support.

Tashi Delek

**Auditors' Report
and
Financial Statements**

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ANNEXURE-A

ANNEXURE-A

EXHIBIT -1 TO ANNEXURE

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BALANCE SHEET

As at 31st December 2013

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PROFIT & LOSS ACCOUNT

For the year ended 31st December 2013

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CASH FLOW STATEMENT

For the year ended 31st December 2013

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SCHEDULES

Schedules forming part of Balance Sheet

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SCHEDULES

Schedules forming part of Balance Sheet

SCHEDULES

Schedules forming part of Balance Sheet

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SCHEDULES

Schedules forming part of Balance Sheet

SCHEDULES

Schedules forming part of Profit & Loss Account December 31, 2013

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SCHEDULES

SCHEDULE 18:

SCHEDULES

Schedules forming part of Balance Sheet

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SCHEDULES

Schedules forming part of Balance Sheet

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Schedule 19: Notes to Accounts

SCHEDULES

Schedules forming part of Balance Sheet

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SCHEDULES

Schedules forming part of Balance Sheet

SCHEDULES

Schedules forming part of Balance Sheet

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BNB Securities Limited
Auditors' Report
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ANNEXURE –A

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BALANCE SHEET

As at 31st December 2013

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PROFIT & LOSS ACCOUNT

For the year ended 31st December 2013

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CASH FLOW STATEMENT

For the year ended 31st December 2013

SCHEDULES

Schedules forming part of Balance Sheet

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SCHEDULES

Schedules forming part of Profit & Loss Account

SCHEDULES

Schedules forming part of Balance Sheet

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CORRESPONDENT BANKS

Annual Report 2013

Standard Chartered Bank,
Frankfurt am Main, Germany

Standard Chartered Bank,
London, UK

Standard Chartered Bank,
Tokyo, Japan

Standard Bank Limited,
Dhaka, Bangladesh

Standard Chartered Bank,
New York, USA

Standard Chartered Bank,
Singapore

Standard Chartered Bank Nepal Ltd,
Kathmandu, Nepal

Standard Chartered Bank,
Mumbai, India

Export-Import Bank of Thailand, Bangkok, Thailand
Kasikornbank PCL, 400/22 Phahon Yothin Avenue,
Bangkok, Thailand

Janata Bank Limited, Dhaka, Bangladesh
Bank Asia Limited, Dhaka, Bangladesh

Bank of America, New York, USA

Commerzbank AG Financial Institutions Kaiserplatz
60261 Frankfurt am Main Germany

Commonwealth Bank of Australia Sydney, 201
Sussex Street Floor 27, Sydney NSW 2000, Australia

State Bank of India, Mumbai, India
State Bank of India, Siliguri, India
State Bank of India, Hasimara, India

Axis Bank Ltd, Siliguri, India

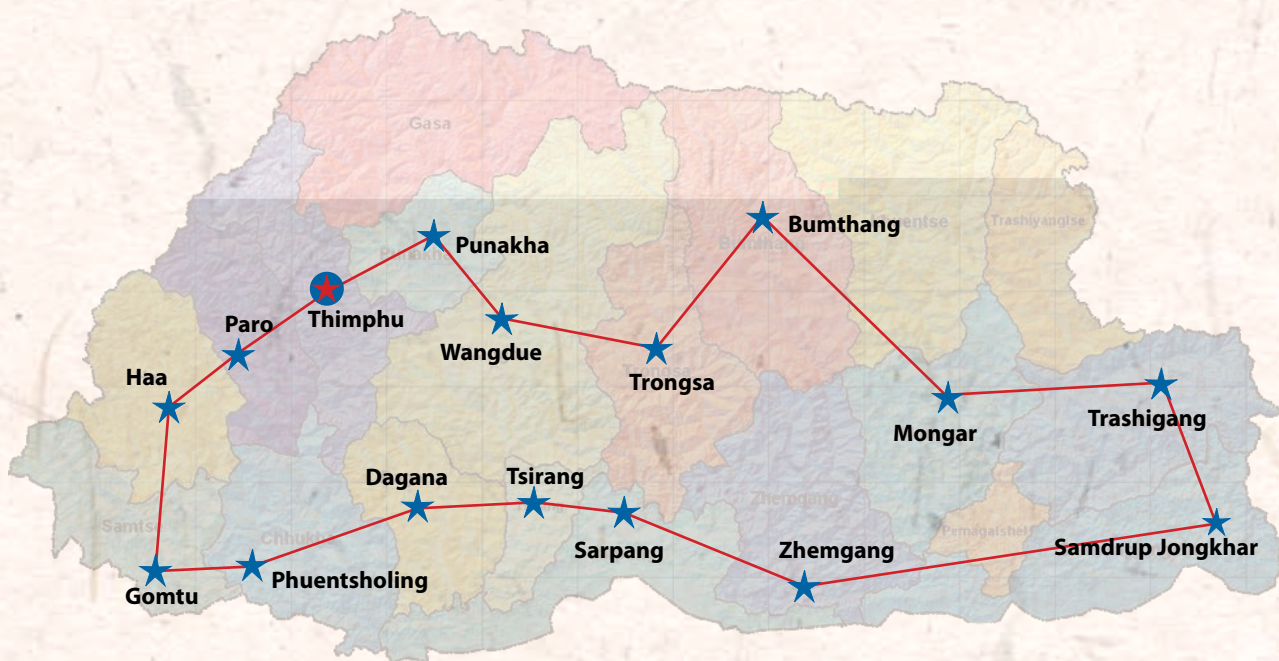
HDFC Bank Ltd, Mumbai, India

ICICI Bank Limited, Mumbai, India

IDBI Bank Limited, Mumbai, India

IndusInd Bank, Mumbai, India

Bank of America N.A, Mumbai-6205, India



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 Vegetable Market, 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 New Town
 PABX: 03-631625/897; Fax: 03- 631898
 Manager: 03-631626
 Email: bumthang@bnb.bt

OUR OFFICES

Annual Report 2013

Branch Office, Trashigang

Post Box No: 111
Below School
PABX: 04-521129; Fax: 04-521195/521386
Manager: 04-521426
Email: tgang@bnb.bt

Branch Office, Samdrup Jongkhar

Post Box No: 1328
Near Dzong entrance gate
PABX: 07-251149/251527, Fax: 07-251208
Manager: 07-251667
Email: sj@bnb.bt

Branch Office, Gomtu

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

Branch Office, Tsirang

P.O. Box No:130
Dampu town
PABX: 06-471235; Fax: 06-471239
Manager: 17117464
Email: tsirang@bnb.bt

Motithang Extension Office, (Thimphu Br.)

Below DGPC Office

Phone: 02-323061/323028; Fax: 02-323132
Email: bnbmotithang@bnb.bt

Taba Extension Office, (Thimphu Br.)

Opposite chorten
Phone: 02-365314; Fax: 02-365313
Email: bnbtaba@bnb.bt

Olakha Extension Office, (Thimphu Br.)

Shearee Square ground floor
Telephone: 02-340604; Fax: 02-340605
Email: bnbolakha@bnb.bt

Gyalpozhing Extension Office, (Mongar Br.)

Gyalpozhing town
Telephone: 04-744258; Fax: 04-744263
Email: bnbgyelpozhing@bnb.bt

Khuruthang Extension Office, (Wangdi Br.)

Upper Market of Khuruthang Town
Telephone: 02-584472; Fax: 02-584475
Email: bnbkhuruthang@bnb.bt

Trongsa Extension Office, (Bumthang Br.)

Trongsa town
Phone: 03-521537; Fax: 03-521538
Email: bnbtrongsa@bnb.bt

Tala Extension Office, (Phuentsholing Br.)

Near THPA Helipad ground
Phone: 17160674; Fax: 16225181
Email: bnbatala@bnb.bt

Rangjung Extension Office, (Trashigang Br.)

Near chorten of Rangjung town
Phone: 04-561170; Fax: 04-561172
Email: bnbtrangjung@bnb.bt

Wamrong Extension Office, (Trashigang Br.)

Wamrong town
Phone/Fax: 04-571169
Email: bnbwamrong@bnb.bt

Tingtibi Extension Office, (Gelephu Br.)

Phone: (03) 790027; Fax: (03) 790028
Email: bnbtingtibi@bnb.bt

Haa Extension Office, (Paro Br.)

Haa main town
Phone: 08-375375; Fax: 08-375374
Email: haa@bnb.bt

Bondey Extension Office, (Paro Br.)

Phone/fax: 08-270191
Email: parobondey@bnb.bt

Dagapela Extension Office, (Tsirang Br.)

Above Dratshang
Phone: 06-483129; Fax: 06-483128
Email: dagapela@bnb.bt

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