

AUDITOR'S REPORT

*The Board of Directors,
BNB Securities Ltd.,
Thimphu, Bbutan.*

We have audited the attached Balance Sheet of BNB Securities Limited as at 31st December, 1998 and the Profit and Loss Account of the Company for the year ended on that date and report as follows:-

- 1. Our examination was made in accordance with the generally accepted auditing standards and accordingly included such tests of accounting records and other auditing procedures as we considered appropriate for the purpose of our audit.*
- 2. 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.*
- 3. In our opinion, proper books of accounts have been kept by the Company so far as appears from our examination of those books.*
- 4. The Balance Sheet and the Profit and 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.*

The said accounts give the informations required by the generally accepted accounting standards and principles, in the manner so required and give a true and fair view:

- a) In case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 1998 and*
- b) In case of the Profit and Loss Account of the profit of the Company for the year ended on that date.*

25th March, 1999

*Deloitte Haskins and Sells
Chartered Accountants*

BALANCE SHEET AS OF 31ST DECEMBER, 1998

	Schedule	31st Dec 1998		31st Dec 1997	
		Nu.	Ch.	Nu.	Ch.
ASSETS					
Cash and Bank Balances	1	631,281,018.15		309,299,357.65	
Equity Investments	2	11,266,675.00		10,441,000.00	
Loans	3	732,062,952.01		686,998,463.64	
Other Assets	4	6,697,095.80		5,862,366.01	
Fixed Assets (at cost, less depreciation)	5	21,509,412.10		20,694,010.81	
Total Assets		1,402,817,153.06		1,033,295,198.11	
LIABILITIES					
Share Capital	6	59,504,000.00		59,504,000.00	
Reserves	7	98,218,497.34		80,185,371.49	
Deposits	8	1,110,848,595.56		767,365,651.22	
Current Liabilities	9	15,766,191.76		20,602,525.48	
Provisions	10	118,479,868.40		105,637,649.92	
Total Liabilities		1,402,817,153.06		1,033,295,198.11	
SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS					
	11				

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

Sd/-
DELOITTE HASKINS AND SELLS
Chartered Accountants

Sd/-
Chairman

Sd/-
Managing Director

25th March, 1999

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1998

Particulars	31st Dec 1998		31st Dec 1997	
	Nu.	Ch.	Nu.	Ch.
Interest on loans	104,971,385.17		95,659,222.66	
Interest on bills and cheques	173,683.93		48,712.26	
Interest on deposits with other banks	10,721,665.67		3,835,167.21	
Interest on RMA bills and CRR	5,129,359.14		4,274,677.74	
Interest Income	120,996,093.91		103,817,779.87	
Interest on savings deposits	5,444,263.90		2,390,819.24	
Interest on fixed deposits	43,977,399.76		33,768,277.89	
Interest on recurring deposits	604,183.00		435,008.30	
Interest on fixed term units	10,815,383.84		14,499,925.31	
Interest on personal funds	176,247.29		849,040.43	
Interest on loan from RMA		0.00	385,274.00	
Interest on unit shares		0.00	4,468,438.73	
Interest Expenses	61,017,477.79		56,796,783.90	
Interest Differential	59,978,616.12		47,020,995.97	
Exchange, commissions and recoveries	4,864,998.36		1,476,647.98	
Dividends	5,151,790.00		1,905,480.00	
Forex gains	10,988,033.08		5,558,726.00	
Service charges		0.00	824,279.82	
Revenue grants from Asian Development Bank		0.00	2,185,950.84	
Surpluses on disposal of assets		5,871.42	325,687.40	
Rents and other receipts	621,755.03		365,252.95	
Other Income	21,632,447.89		12,642,024.99	
Gross Operating Income	81,611,064.01		59,663,020.96	
Employment costs	16,232,998.01		13,932,368.45	
Establishment overheads	2,464,197.72		2,974,504.20	
Communication costs	1,786,114.00		1,304,945.89	
Travelling expenses	1,140,055.51		588,908.02	
Vehicles expenses	557,498.40		384,282.42	
Computerisation	1,556,540.05		1,746,329.15	
Advertisements and publicity	456,384.00		455,125.80	
Entertainments	100,431.60		218,027.37	
Gifts	122,955.00		171,841.00	
Donations	90,000.00		342,000.00	
HRD costs	469,192.60		1,780,855.87	
Audit fees and expenses	120,000.00		120,000.00	
Legal expenses	34,889.00		22,368.00	
Board meetings expenses	94,798.40		83,630.60	
Other banks charges	343,176.88		302,207.88	
Miscellaneous expenses	439,640.73		448,785.68	
Depreciation	2,580,588.47		2,246,838.99	
Bank promotion expenses	1,645,544.65		1,795,538.88	
Operating Expenses	30,235,005.02		28,918,558.20	
Net Operating Income (carried forward)	51,376,058.99		30,744,462.76	

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1998

Particulars	31st Dec 1998		31st Dec 1997	
	Nu.	Ch.	Nu.	Ch.
Net Operating Income (brought forward)	51,376,058.99		30,744,462.76	
Write-offs and losses (net)	4,416,302.90		12,913,390.08	
Write-back of provisions (net)	(21,304,708.76)		(3,117,980.33)	
Profit Before Tax	68,264,464.85		20,949,053.01	
Provision for taxation	20,479,339.00		0.00	
Profit After Tax	47,785,125.85		20,949,053.01	
Provision for dividends	29,752,000.00		11,900,800.00	
Transfer To General Reserve	18,033,125.85		9,048,253.01	

SIGNIFICANT ACCOUNTING POLICIES &
NOTES ON ACCOUNTS (SCHEDULE 11)

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

Sd/-
DELOITTE HASKINS AND SELLS
Chartered Accountants

Sd/-
Chairman

Sd/-
Managing Director

25th March, 1999

NOTES FORMING PART OF ACCOUNTS

1. In conformity with the Accounting Policy and Guidelines of RMA, interest earned but not collected amounting to Nu. 24,025,674.78 has not been recognised as income.
2. Guarantees given and letters of credit issued on behalf of various parties outstanding at the year-end amount to Nu. 97,399,175.84 and Nu. 10,343,009.60 (net of margins) respectively (previous year Nu. 52,163,685.99 and nil respectively).
3. During the year Guarantee Commission has been accounted for on accrual method. This change in method of accounting has resulted in reduction of income of Nu. 1,583,127.97 during the year with a corresponding decrease in the year's profit.
4. Corporate Tax has become applicable to the Bank during the year. As a result, Corporate Tax has been provided @30% according to Taxation Policy.
5. Depreciation on assets acquired through Capital Grants has been charged off to revenue instead of adjusting the same against Capital Reserve.
6. Previous year's figures have been re-arranged/re-grouped, wherever necessary.