

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2001.

The Shareholders,
Bhutan National Bank,
Thimphu, Bhutan.

We have audited the attached Balance Sheet of Bhutan National Bank as at 31st December, 2001 and the relative Profit & Loss Account and Cash Flow Statement (in which are incorporated general ledger balances and transaction, not audited by us of the branches at Samdrupjongkhar, Trashigang and Gelephu) 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 test 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 account have been kept by the Bank so far as appears from our examinations of those books.
4. The Bank has complied with the various provisions of the Financial Institution Act 1992 and other applicable laws, rules & regulations, systems, procedures and practices except otherwise stated else where in this report.
5. The Balance Sheet and Profit & Loss account dealt with by this report have been prepared on the basis of generally accepted accounting principles and are in agreement with the books of account.
6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with Significant Accounting Policies and Notes on Accounts at Schedule-11 and subject to our comments in the annexure-A & B attached here with gives the information required by the Generally Accepted Accounting Standards and Principles in the manner so required and exhibit a true and fair view:
 - a) In case of the Balance Sheet, the state of affairs of the Bank as at 31st December, 2001.
 - b) In case of the Profit & Loss Account of the profit of the Bank for the year ended on that date.

DATE: 27.03.2002
PLACE: KOLKATA

For N.C.MITRA & CO.
CHARTERED ACCOUNTANTS




U.K. Basu
Partner

BHUTAN NATIONAL BANK

BALANCE SHEET AS AT 31st DECEMBER 2001

| | <u>SCHEDULE</u> | <u>31st DEC 2001</u> | | <u>31st DEC 2000</u> | |
|--|-----------------|-------------------------|-----|-------------------------|-----|
| | | Nu. | ch. | Nu. | ch. |
| ASSETS | | | | | |
| Cash and Bank Balances | 1 | 2,844,883,342.16 | | 2,828,887,147.33 | |
| Investments | 2 | 18,173,875.00 | | 15,042,370.00 | |
| Loans | 3 | 1,208,339,796.25 | | 948,760,019.03 | |
| Other Assets | 4 | 28,774,927.02 | | 13,006,726.33 | |
| Fixed Assets (at cost, less depreciation) | 5 | 24,014,942.57 | | 25,789,768.31 | |
| Total Assets | | 4,124,186,883.00 | | 3,831,486,031.00 | |
| LIABILITIES | | | | | |
| Share Capital | 6 | 59,504,000.00 | | 59,504,000.00 | |
| Reserves | 7 | 243,795,308.67 | | 195,442,514.16 | |
| Deposits | 8 | 3,610,161,114.38 | | 3,376,056,100.70 | |
| Current Liabilities | 9 | 83,506,307.60 | | 60,828,315.46 | |
| Provisions | 10 | 97,468,152.35 | | 109,903,100.68 | |
| Proposed Dividend | | 29,752,000.00 | | 29,752,000.00 | |
| Total Liabilities | | 4,124,186,883.00 | | 3,831,486,031.00 | |
| 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.

for N. C. MITRA & CO.
Chartered Accountants


CHAIRMAN


MANAGING
DIRECTOR




U. K. Basu
Partner

Date : 27.03.2002

BHUTAN NATIONAL BANK

PROFIT & LOSS ACCOUNT FOR THE YEAR-ENDED 31st DECEMBER 2001

| <u>PARTICULARS</u> | <u>31st DEC 2001</u> | | <u>31st DEC 2000</u> | |
|---|-----------------------|-----|-----------------------|-----|
| | Nu. | ch. | Nu. | ch. |
| Interest on loans | 151,285,030.69 | | 125,763,278.90 | |
| Interest on bills & cheques | 58,590.31 | | 35,302.82 | |
| Interest on deposits with other banks | 146,871,444.19 | | 143,949,110.50 | |
| Interest on RGOB & RMA bills and CRR | 12,270,262.28 | | 5,365,406.40 | |
| Interest Income | 310,485,327.47 | | 275,113,098.62 | |
| Interest on savings deposits | 15,883,509.33 | | 11,836,807.22 | |
| Interest on fixed deposits | 176,700,427.72 | | 138,769,152.04 | |
| Interest on recurring deposits | 370,800.46 | | 415,103.18 | |
| Interest on fixed term units | 3,364,079.00 | | 4,572,545.13 | |
| Interest on miscellaneous accomodations | 104,661.30 | | 181,758.14 | |
| Interest Expenses | 196,423,477.81 | | 155,775,365.71 | |
| Interest Differential | 114,061,849.66 | | 119,337,732.91 | |
| Exchange, commissions, & recoveries | 15,093,957.93 | | 13,370,914.62 | |
| Dividends | 6,439,275.00 | | 6,034,780.00 | |
| Forex gains | 32,261,348.15 | | 49,248,062.51 | |
| Surpluses on disposal of assets | 293,169.44 | | 0.00 | |
| Rents & other receipts | 2,273,715.07 | | 1,612,290.71 | |
| Other Income | 56,361,465.59 | | 70,266,047.84 | |
| Gross Operating Income | 170,423,315.25 | | 189,603,780.75 | |
| Employment costs | 25,437,156.46 | | 22,001,818.48 | |
| Establishment overheads | 5,097,819.25 | | 3,437,056.33 | |
| Communication costs | 3,246,517.38 | | 2,544,303.04 | |
| Travelling expenses | 2,261,880.75 | | 1,384,771.31 | |
| Vehicles expenses | 532,765.14 | | 683,805.20 | |
| Computer running & maintenances | 2,263,576.64 | | 2,130,819.13 | |
| Advertisements & publicity | 919,367.75 | | 667,616.10 | |
| Entertainments | 121,510.55 | | 146,176.30 | |
| Gifts | 110,960.00 | | 66,675.00 | |
| Donations | 0.00 | | 10,140,000.00 | |
| HRD costs | 3,115,779.04 | | 2,071,309.18 | |
| Audit fees & expenses | 120,000.00 | | 120,000.00 | |
| Legal & listing expenses | 38,800.00 | | 40,221.00 | |
| Board meetings expenses | 139,404.00 | | 170,548.20 | |
| Other banks charges | 589,528.34 | | 359,932.63 | |
| Miscellaneous expenses | 820,988.71 | | 344,784.35 | |
| Depreciation | 5,358,490.67 | | 3,448,627.86 | |
| Bank promotion expenses | 0.00 | | 0.00 | |
| Operating Expenses | 50,174,544.68 | | 49,758,464.11 | |
| Net Operating Income (carried forward) | 120,248,770.57 | | 139,845,316.64 | |



BHUTAN NATIONAL BANK

PROFIT & LOSS ACCOUNT FOR THE YEAR-ENDED 31st DECEMBER 2001

| <u>PARTICULARS</u> | <u>31st DEC 2001</u> | | <u>31st DEC 2000</u> | |
|---|-----------------------|-----|-----------------------|-----|
| | Nu. | ch. | Nu. | ch. |
| Net Operating Income (brought forward) | <u>120,248,770.57</u> | | <u>139,845,316.64</u> | |
| Write-offs & losses | 1,677,814.60 | | 897,796.48 | |
| Charge for / (write-back of) provisions (net) | 6,992,678.10 | | (11,162,990.64) | |
| Profit Before Tax | <u>111,578,277.87</u> | | <u>150,110,510.80</u> | |
| Provision for taxation | 33,473,483.36 | | 47,189,955.88 | |
| Profit After Tax | <u>78,104,794.51</u> | | <u>102,920,554.92</u> | |
| Proposed dividend | 29,752,000.00 | | 29,752,000.00 | |
| Transfer To General Reserve | <u>48,352,794.51</u> | | <u>73,168,554.92</u> | |

SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS (Schedule 11)

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

for N. C. MITRA & CO.
Chartered Accountants


CHAIRMAN


MANAGING
DIRECTOR


U. K. Basu
Partner



Date : 27.03.2002

NOTES ON ACCOUNTS

01. In conformity with the accounting policies and guidelines (issued by the Royal Monetary Authority of Bhutan) interest earned (but not collected) amounting to Nu. 25,512,696.50 (previous year Nu. 25,704,137.80) have not been recognised as income.
02. Guarantees given and letters of credit issued (on behalf of various clients) outstanding at the year end amounting to Nu. 201,928,685.91 (Total Margin Nu. 239,050.00) and Nu. 176,994,865.56 (Total Margin Nu. 6,444,465.58) respectively, previous year Nu. 177,719,538.07 and Nu. 150,077,681.12.
03. Depreciation on assets acquired (through capital grants) has been charged-off to revenue, instead of adjusting the same against capital reserve.
04. Confirmations in respect of balances appearing under loans, advances, & other receivables are not available.
05. Additional amount of Provision against loan amounting to Nu. 8,123,803.88, being the difference between provision required as per the Prudential Guidelines issued by Royal Monetary Authority of Bhutan Nu. 65,295,412.89 as on 31.12.2001 and the amount of provision Nu. 57,171,690.01 held as on 31.12.2000, has been provided for during the year.
06. Provision for taxation includes:-
- | | |
|------------------------------|------------------------|
| Tax on current year's profit | : 33,473,483.36 |
| Less: advance tax paid | : <u>12,424,559.69</u> |
| Total | : <u>21,048,923.67</u> |
07. Capital works-in-progress amounting to Nu. 1,057,173.00 (previous year Nu. 558,163.00) represents the expenditure incurred in connection with preparation of model and drawing of the proposed office building and cabling work between Head Office and Branch.
08. Classification of loan, like secured/partly secured /unsecured, based on security coverage are not made due to incomplete information/documentation.
09. Other assets (advance, claims, pre-payments, deferrals, etc.) include an unadjusted balance in debits-in-suspense account, amounting to Nu. 15,006,194.84. Similarly, other current liabilities include an unadjusted balance of Nu. 17,838,246.09 in credit-in-suspense account.
10. 'Tax deducted at source' on income from interest on time deposits with banks for the year is amounting to Nu. 3,053,181.00
11. 'Surplus on disposal of fixed assets' amounting to Nu. 293,169.44 is net of 'Loss of disposal of fixed assets' incurred to the tune of Nu. 141,681.83.
12. Market value of Quoted Equity Investments at the end of the year is amounting to Nu. 37,711,800 (previous year Nu. 28,700,600).
13. Remuneration and expenditure paid/reimbursed to the Managing Director was as follows:
- | | |
|---------------------------|-------------------|
| Salary & other benefits - | 613,575.00 |
| Travel local/Foreign - | 268,736.00 |
| Medical reimbursement - | 13,093.00 |
| Training & seminars - | <u>95,877.00</u> |
| Total : | <u>991,281.00</u> |
14. Previous year's figures have been re-arranged & regrouped, wherever necessary.

