

**AUDITORS' REPORT
TO THE MEMBERS OF
BHUTAN NATIONAL BANK
THIMPHU, BHUTAN.**

We have audited the attached Balance Sheet of Bhutan National Bank, Thimphu as at 31st December, 2002 and also the Profit & Loss Account and the Cash Flow Statement for the year ended on that date (in which are incorporated general ledger balances and transactions, nor audited by us of the branches at Samdrupjhongkar, Trashigang and Gelephu). These financial statements are the responsibility of the Management of the Bank. 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. These 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 'B' a statement on the matters specified therein to the extent applicable to the Bank.

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.
2. In our opinion proper books of accounts as required by law have been kept by the Bank so far as appears from our examination of those books.
3. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account.
4. In our opinion, the aforesaid financial statements have been compiled on the basis of generally accepted accounting principles.

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 Significant Accounting Policies and Notes on Accounts as per Schedules 1 toand subject to our comments in the annexure 'A' and 'B' attached here with, give the information required under the Companies' Act of the Kingdom of Bhutan ,2000 in the manner so required and give a true and fair view :

- (a) in the case of Balance Sheet of the state of affairs of the Bank as at 31st December, 2002
- (b) in the case of Profit & Loss Account of the Profit earned by the Bank for the year ended on that date;

a n d

- (c) in the case of Cash Flow Statement of the cash flows for the year ended on that date.

For N. C. MITRA & CO.
Chartered Accountants

The 7th May , 2003
Kolkata.


(U. K. BASU)
PARTNER

BHUTAN NATIONAL BANK

BALANCE SHEET AS AT 31st DECEMBER 2002

	<u>SCHEDULE</u>	<u>31st DEC 2002</u>		<u>31st DEC 2001</u>	
		<u>Nu.</u>	<u>ch.</u>	<u>Nu.</u>	<u>ch.</u>
<u>ASSETS</u>					
Cash and Bank Balances	1	3,300,246,497.96		2,844,883,342.16	
Investments	2	17,582,035.00		18,173,875.00	
Loans	3	1,688,408,958.17		1,208,339,796.25	
Other Assets	4	11,988,857.35		28,774,927.02	
Fixed Assets (at cost, less depreciation)	5	44,464,964.47		24,014,942.57	
Total Assets		5,062,691,312.95		4,124,186,883.00	
<u>LIABILITIES</u>					
Share Capital	6	59,504,000.00		59,504,000.00	
Reserves	7	269,016,421.99		243,795,308.67	
Deposits	8	4,522,207,860.64		3,610,161,114.38	
Current Liabilities	9	85,064,722.57		83,506,307.60	
Provisions	10	112,022,307.75		97,468,152.35	
Proposed Dividend		14,876,000.00		29,752,000.00	
Total Liabilities		5,062,691,312.95		4,124,186,883.00	
<u>SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS</u>	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


U. K. Basu
Partner




CHAIRMAN


MANAGING
DIRECTOR

Date : 7.05.2003
Place : Kolkata

PROFIT & LOSS ACCOUNT FOR THE YEAR-ENDED 31st DECEMBER 2002

PARTICULARS

	<u>31st DEC 2002</u>		<u>31st DEC 2001</u>	
	Nu.	ch.	Nu.	ch.
Interest on loans	195,858,597.01		151,285,030.69	
Interest on bills & cheques	33,750.50		58,590.31	
Interest on deposits with other banks	87,183,259.64		146,871,444.19	
Interest on RGOB & RMA bills and CRR	23,783,950.13		12,270,262.28	
Interest Income	306,859,557.28		310,485,327.47	
Interest on savings deposits	17,191,140.57		15,883,509.33	
Interest on fixed deposits	181,516,572.36		176,700,427.72	
Interest on recurring deposits	188,046.20		370,800.46	
Interest on fixed term units	1,280,894.25		3,364,079.00	
Interest on miscellaneous accomodations	0.00		104,661.30	
Interest Expenses	200,176,653.38		196,423,477.81	
Interest Differential	106,682,903.90		114,061,849.66	
Exchange, commissions, & recoveries	18,315,427.05		15,093,957.93	
Dividends	1,138,430.00		6,439,275.00	
Forex gains	13,780,261.30		32,261,348.15	
Surpluses on disposal of assets	420,000.00		293,169.44	
Rents & other receipts	3,306,207.69		2,273,715.07	
Other Income	36,960,326.04		56,361,465.59	
Gross Operating Income	143,643,229.94		170,423,315.25	
Employment costs	27,484,071.26		25,437,156.46	
Establishment overheads	6,352,201.57		5,097,819.25	
Communication costs	3,379,006.50		3,246,517.38	
Travelling expenses	2,489,339.70		2,261,880.75	
Vehicles expenses	396,651.16		532,765.14	
Computer running & maintenances	2,996,325.64		2,263,576.64	
Advertisements & publicity	759,092.80		919,367.75	
Entertainments	136,746.00		121,510.55	
Gifts	101,677.00		110,960.00	
Donations	265,000.00		0.00	
HRD costs	6,922,424.70		3,115,779.04	
Audit fees & expenses	120,000.00		120,000.00	
Legal & listing expenses	93,550.00		38,800.00	
Board meetings expenses	217,533.00		139,404.00	
Other banks charges	851,785.90		589,528.34	
Miscellaneous expenses	1,566,794.85		820,988.71	
Depreciation	5,976,479.42		5,358,490.67	
Operating Expenses	60,108,679.50		50,174,544.68	
Net Operating Income (carried forward)	83,534,550.44		120,248,770.57	



PROFIT & LOSS ACCOUNT FOR THE YEAR-ENDED 31st DECEMBER 2002


PARTICULARS

	<u>31st DEC 2002</u>		<u>31st DEC 2001</u>	
	Nu.	ch.	Nu.	ch.
Net Operating Income (brought forward)	83,534,550.44		120,248,770.57	
Write-offs & losses	1,705,078.24		1,677,814.60	
Charge for / (write-back of) provisions (net)	24,547,881.74		6,992,678.10	
Profit Before Tax	57,281,590.46		111,578,277.87	
Provision for taxation	17,184,477.14		33,473,483.36	
Profit After Tax	40,097,113.32		78,104,794.51	
Proposed dividend	14,876,000.00		29,752,000.00	
Transfer to Staff Training Fund	3,000,000.00		0.00	
Transfer to Foreign Exchange Fluctuation Reserve	3,445,065.00		0.00	
Transfer To General Reserve	18,776,048.32		48,352,794.51	

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


U. K. Basu
Partner



Date : 7.05.2003
Place : Kolkata


CHAIRMAN


MANAGING
DIRECTOR

Notes on Accounts

1. In conformity with the accounting policies and guidelines (issued by the Royal Monetary Authority of Bhutan) interest earned (but not collected) aggregating to Nu. 23,297,030.35 (previous year Nu. 25,512,696.50) has not been recognised as income and kept under 'Interest - in - Suspense' Account.
2. Guarantees given and Letters of Credit issued (on behalf of various clients) are outstanding at the year end amounting to Nu. 190,589,527.26 (Total margin Nu. 267,200.00) and Nu.135,730,531.43 (Total Margin Nu. 4,917,748.74) respectively, previous year Nu. 201,928,685.91 and Nu. 176,994,865.56.
3. Depreciation on assets acquired (through capital grants) has been charged off to revenue, instead of adjusting the same against capital reserve.
4. Confirmation, being not available, book balances of loans, advances and other receivables are reflected in this account.
5.
 - a) Additional amount of provision against loan (excluding interest - in - suspense) amounting to Nu. 26,499,537.40, being the difference between provision of Nu. 66,282,253.79 as on 31.12.2002 required as per the prudential guidelines issued by Royal Monetary Authority of Bhutan and the amount of provision Nu. 39,782,716.39 held as on 31.12.2001, has been provided for during the year.

b) As a prudent policy the bank has provided Nu. 9,200,000.00 (being 50% of the total estimated provision of Nu. 18,400,000.00 required to be provided by the year 2003 based on the figures of non-performing assets of this year under the Transitional Stipulation of the prudential guidelines, 2002 issued by Royal Monetary Authority of Bhutan) in this account and the same is included in the additional amount of provisions as stated above.

c) In case of Loans pending fixation of repayment schedules (Bullet Loans) provisions and suspension of interests are made wherever interest remains overdue for more than 90 days except in case of Industrial Loans and Housing Loans where provisions have not been made during the "gestation period".

d) In case of Rescheduled Loans, provisions are made taking into consideration the Transitional Stipulation Guidelines
6. Provision for taxation includes :-

Tax on current year's profit	: Nu. 17,184,477.14
Less : Advance Tax Paid	: Nu. 8,026,011.81

Payable	: Nu. 9,158,465.33



7. Capital work - in progress amounting to Nu.14,885,639.20 (previous year Nu.1,057,173.00) represents the expenditure incurred in connection:
- | | | | |
|----|---|-----|---------------|
| a) | with the preparation of model & drawing
the proposed office building | Nu | 558,163.00 |
| b) | purchase of office building for Gelephu
office under renovation, | Nu. | 1,575,000.00 |
| c) | cabling work between Head Office and Branch | Nu. | 499,010.00 |
| d) | acquisition cost of banking software migration
from MICROBANKER to FLEXCUBE. | Nu. | 12,253,466.20 |
| | | | <hr/> |
| | | Nu | 14,885,639.20 |
| | | | <hr/> <hr/> |
8. Classification of loan, like secured/partly secured/ unsecured, based on security coverage are not made due to inadequate information/documentation.
9. Other assets (advance, claims, pre-payments, deferrals etc.) include an unadjusted balance in 'debits - in - suspense account amounting to Nu. 546,322.19 (previous year Nu. 15,006,194.84) pertaining to inter-branch transactions of earlier years pending reconciliation. Similarly, other current liabilities include an unadjusted balance in credit - in - suspense account of International Banking, Division amounting to Nu. 3,048,994.62 (Nu. 17,838,246.09) representing receipt from the foreign sources pending identification of the payees.
10. 'Tax deducted at Source' on income from interest on time deposits with banks outside Bhutan for the year is amounting to Nu. 2,424,712.27.
11. Market value of Quoted Equity Investments at the end of the year is amounting to Nu. 43,073,585.00 (previous year Nu. 37,711,800.00). Market value of RMA discount bills and RGOB treasury bills are amounting to Nu. 200,000,000.00 and 120,000,000.00 respectively. Diminution in value of investment of Bhutan Board Products Ltd. to the extent of Nu. 16,800.00 has been provided.
12. a) Unclaimed matured deposits, Unit Shares and other payables of miscellaneous nature aggregating Nu. 33,647,110.55 are not claimed by the beneficiaries, have been kept under 'Unclaimed Deposit' Account.
- b) Recoveries amounting to Nu. 9,244,083.02 (previous year Nu. 9,144,083.02) from certain old Bad loan accounts(which were liquidated by Ministry of Finance, Royal Government of Bhutan at the time of incorporation of the Bank) are included in Other Liabilities.

