

Auditors' Report on the Financial Statements

For the Year ended 31st December, 2004.

The Shareholders,
Bhutan National Bank,
Thimphu,
Bhutan.

We have audited the attached Balance Sheet of Bhutan National Bank as at 31st December, 2004 and the relative Profit & Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. 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 statements. 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 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 account have been kept by the Bank so far as it appears from our examinations of those books.
3. 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.
4. 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.

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 to 11 and subject to our comments in the Annexure-A & B attached here with gives 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, 2004;
- b) in case of the Profit & Loss Account, of the profit of 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.

DATE: 10-03-2005

PLACE: KOLKATA



For T K GHOSE & CO.
CHARTERED ACCOUNTANTS

Nikhilendra Nath Basu

Nikhil. N. Basu
(Membership No. A/8952)
Partner

Balance Sheet

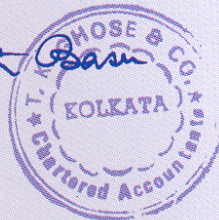
As at 31st December 2004

| | SCHEDULE | 31 st Dec. 2004 | | 31 st Dec. 2003 | |
|--------------------------|----------|----------------------------|-----|----------------------------|-----|
| | | Nu. | ch. | Nu. | ch. |
| ASSETS | | | | | |
| Balances with Banks | 1 | 2,385,802.94 | | 1,482,944.73 | |
| Investment in RSEB | | 500,000.00 | | 500,000.00 | |
| Total Assets | | 2,885,802.94 | | 1,982,944.73 | |
| LIABILITIES | | | | | |
| Share Capital (paid-up) | | 500,000.00 | | 500,000.00 | |
| General Reserve | 2 | 2,049,347.11 | | 1,264,283.50 | |
| Trading fees payable | | 0.00 | | 0.00 | |
| Provision for Taxation | | 336,455.83 | | 218,661.23 | |
| Total Liabilities | | 2,885,802.94 | | 1,982,944.73 | |

The schedules referred to above form part of the Balance Sheet.

for T K Ghose & Co.
Chartered Accountants

Nikhilendra Nath Basu
Nikhil N Basu
(Membership No A/8952)
Partner



Date : 10-03-2005
Place: Kolkata

[Signature]
CHAIRMAN

[Signature]
MANAGING
DIRECTOR

Notes on Accounts

For the Year ended 31st December 2004

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.34,579,946.50 (previous year Nu.28,354,812.24) as on the date of the balance sheet has not been recognized 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.384,100,715.36 (Total Margin Nu.157,200.00) & Nu.596,280,617.21 (Total Margin Nu. 29,016,645.36) with corresponding previous year figures of Nu.287,909,708.71 (Total Margin Nu.485,474.00) and Nu.310,892,224.27 (Total Margin Nu.22,859,994.75) respectively.
3. Assets acquired on capital grant from ADB has been segregated from the other fixed assets and has been shown separately since the previous year. Depreciation on assets acquired (through capital grants) has been charged against capital reserve during the year and in the process book value of assets acquired under Capital Grant has been "Nil" (previous year Nu 888,211.65) as at the end of the year.
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.78,413,687.86 being the difference between provision of Nu.180,068,645.45 as on 31.12.2004 required as per the prudential guidelines issued by Royal Monetary Authority of Bhutan and the amount of provision Nu. 101,654,957.59 held as on 31.12.2003, has been provided for during the year.
 - b) As a prudent policy the bank has provided Nu.49,630,000.00 (previous year Nu.31,990,000.00) as required to be provided 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 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".

6. Provision for taxation includes :-

| | Current Year | Previous Year |
|---------------------------------|--------------------------|--------------------------|
| Tax on current year's profit : | Nu. 35,098,862.67 | Nu. 24,393,856.31 |
| Less : Advance Tax Paid : | Nu. 13,543,235.16 | Nu. 7,324,621.08 |
| Less : Tax Deducted at Source : | Nu. 307,992.00 | Nu. 367,917.00 |
| Payable : | Nu. 21,247,635.51 | Nu. 16,701,318.23 |

7. Capital work - in progress amounting to Nu.2,309,462.50 (previous year Nu.558,163) represents the expenditure in connection with the purchase of :
- | | |
|-------------------------|------------------|
| Cash Delivery Van : | Nu. 2,129,462.50 |
| HR cum Asset Software : | Nu. 180,000.00 |
8. Other assets (advance, claims, pre-payments, deferrals etc.) include balances in Sundry Receivables accounts aggregating to Nu. 13,502,493.47 (previous year Nu 8,508,127.20) pertaining to Banking Division pending settlement of claims by the party. Similarly, Other current liabilities include an unadjusted balance in Sundry Payables Account of International Banking Division amounting to Nu. 24,154,155.73 (previous year Nu 5,580,823.11) representing receipt from the foreign sources pending identification of the payees.
9. 'Tax deducted at Source' on income from interest on time deposits with banks outside Bhutan for the year is amounting to Nu. 324,741.00 (Previous year Nu. 1,559,143.00).
10. Market value of Quoted Equity Investments at the end of the year is amounting to Nu.45,599,860.00 (previous year Nu. 44,387,000). Market value of RGOB treasury bills and Druk Air bond are amounting to Nu.120,000,000.00 (previous year Nu.120,000,000) and Nu.527,002,000.00 (previous year Nu. 421,631,000) respectively. Diminution in value of investment of Bhutan Board Products Ltd. to the extent of Nu.15,400.00 (Previous year Nu. 16,800) has been maintained.
11. a) Unclaimed matured deposits, Unit Shares and other payables of miscellaneous nature aggregating Nu.61,432,157.90 (previous year Nu 11,806,294.79), that are not claimed by the beneficiaries, have been kept under 'Unclaimed Deposit' Account. Out of the above figure, Nu. 44,049,100.83 are high value deposits matured on the last two days of the year.
- b) Aggregate recoveries till date amounting to Nu.9,696,032.12 (previous year Nu 9,546,032.12) 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.
12. MicroBanker software, installed in the year 1997, was replaced by Flexcube software from the beginning of the year, 2003. Consequential impairment loss due to obsolescence of MICROBANKER and few other related softwares amounting to Nu 367,691.35 that had been fully provided for in the previous year account, has been maintained.
13. Remuneration and expenditure paid, reimbursed or accrued to the Managing Director was as follows :

| | Current year | Previous Year |
|----------------------------------|-------------------------|-------------------------|
| Salary & other benefits : | Nu. 769,631.18 | Nu. 681,496.00 |
| Vehicle Expenses (official) : | Nu. 255,947.55 | Nu. 295,509.91 |
| Travel-local/foreign(official) : | Nu. 404,848.13 | Nu. 104,700.00 |
| Medical reimbursement : | Nu. 11,217.00 | Nu. 17,591.00 |
| Training & Seminars : | Nu. 481,749.10 | Nu. 269,108.00 |
| Total : | Nu. 1,923,392.96 | Nu. 1,368,404.91 |

14. Tax assessment of the bank has been completed upto 31st December, 2002.
15. Forex Gains include gains (net) arising out of foreign exchange trading amounting to Nu.17,871,980.41 (previous year Nu.1,333,638.67) and losses (net) arising out of foreign exchange valuation as per rates prevailing on the closing date of the account amounting to Nu.(6,702.424.57) (previous year Nu.16,496,995.39).
16. BNB Employees Gratuity Trust Fund, a separate fund created under the aegis of BNB Employees Gratuity Trust during the previous year has been maintained and a further sum of Nu. 1,849,552.39 (previous year Nu.1,382,063.44) has been transferred towards provision for gratuity as at the end of the year. The total fund stood at Nu.13,717,285.00 (previous year Nu.11,724,990.00). During the year Nu.338,255.00 (previous year Nu.721,825.00) has been paid towards Separation/Superannuation of the employees of the bank.
17. Assets Acquired in Satisfaction of Debts includes an amount of Nu 19,026,307.05 being the book value of 113 decimals of land in Thimphu City Corporation area acquired from a single client in full satisfaction of the debts to the bank. The valuation of the land as per Bank's own internal assessment is adequate.
18. Proposed Dividend of 50% has been considered in the account.
19. Previous Year's figures have been re-arranged & regrouped, wherever necessary.