

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2005.

**The Shareholders,
Bhutan National Bank Ltd.
Thimphu,
Bhutan.**

We have audited the attached Balance Sheet of Bhutan National Bank Ltd. as at 31st December, 2005 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, Gelephu and Mongar). 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, 2005;
 - 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:23.03.2006

PLACE: KOLKATA



**For T K GHOSE & CO.
CHARTERED ACCOUNTANTS**

Nikhilendra Nath Basu

Partner

BALANCE SHEET AS AT 31st DECEMBER 2005

	SCHEDULE	31st DEC 2005		31st DEC 2004	
		Nu.	ch.	Nu.	ch.
ASSETS					
Cash and Bank Balances	1	3,019,317,926.92		2,219,360,463.36	
Investments	2	723,431,565.19		723,437,717.42	
Loans	3	3,961,993,988.49		3,870,387,638.81	
Other Assets	4	37,824,805.12		53,129,425.50	
Fixed Assets (at cost, less depreciation)	5	71,782,119.15		55,292,014.58	
Total Assets		7,814,350,404.87		6,921,607,259.67	
LIABILITIES					
Share Capital	6	119,008,000.00		119,008,000.00	
Reserves	7	638,856,207.44		570,523,439.17	
Deposits	8	6,424,627,251.87		5,761,611,952.54	
Current Liabilities	9	188,681,092.89		158,314,576.65	
Provisions	10	359,872,252.67		252,645,291.31	
Proposed Dividend		83,305,600.00		59,504,000.00	
Total Liabilities		7,814,350,404.87		6,921,607,259.67	

SIGNIFICANT ACCOUNTING

POLICIES & NOTES ON ACCOUNTS	11	0.00	0.00
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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 T K Ghose & Co.

Nikhilendra Nath
Chartered Accountants
Partner



[Signature]
CHAIRMAN

[Signature]
MANAGING
DIRECTOR

Date : 23.03.2006

Place: Kolkata

PROFIT & LOSS ACCOUNT FOR THE YEAR-ENDED 31st DECEMBER 2005

PARTICULARS	31st DEC 2005		31st DEC 2004	
	Nu	ch.	Nu.	ch.
Interest on loans	421,292,160.54		334,792,749.77	
Interest on bills & cheques	473,411.30		119,949.98	
Interest on deposits with other banks	26,695,418.09		23,486,051.16	
Interest on RGOB & RMA bills and CRR	60,801,934.23		57,606,039.43	
Interest Income	509,262,924.16		416,004,790.34	
Interest on savings deposits	21,098,129.14		19,279,807.25	
Interest on fixed deposits(including FTU)	176,728,052.58		160,610,888.31	
Interest on recurring deposits	39,563.45		49,711.95	
Interest on miscellaneous accomodations	798,030.37		868,073.93	
Interest Expenses	198,663,775.54		180,808,481.44	
Interest Differential	310,599,148.62		235,196,308.90	
Exchange, commissions, & recoveries	39,427,936.68		28,253,748.88	
Dividends (Gross)	3,183,822.00		3,088,320.00	
Forex gains	32,197,549.93		11,169,555.84	
Fees Income	10,317,849.27		9,066,850.59	
Rents & other receipts	141,000.60		75,250.35	
Other Income	85,268,158.48		51,653,725.66	
Gross Operating Income	395,867,307.10		286,850,034.56	
Employment costs	41,597,874.54		36,987,890.22	
Establishment overheads	8,312,038.55		8,681,858.83	
Communication costs	7,246,682.70		5,162,004.83	
Travelling expenses	6,359,510.50		5,365,886.92	
Vehicles expenses	571,079.67		502,224.25	
Computer running & maintenances	3,077,170.63		2,971,926.98	
Advertisements & publicity	1,160,869.67		862,554.65	
Entertainments	389,453.97		400,973.20	
Gifts	83,561.00		208,271.32	
Donations	100,000.00		380,000.00	
HRD costs	11,280,298.56		9,132,089.13	
Audit fees	150,000.00		120,000.00	
Legal & Regulatory expenses	361,084.15		306,565.00	
Board meetings expenses	551,958.00		316,142.00	
Other banks charges, fees etc	1,323,295.51		1,524,092.91	
Stores	633,164.13		235,992.00	
Miscellaneous expenses	1,228,044.92		913,964.92	
Depreciation	11,728,212.68		11,759,723.00	

**PROFIT & LOSS ACCOUNT FOR THE YEAR-ENDED
31st DECEMBER 2005 (continued)**

Operating Expenses	96,154,299.18	85,832,160.16
Net Operating Income (carried forward)	299,713,007.92	201,017,874.40
Net Operating Income (brought forward)	299,713,007.92	201,017,874.40
Write-offs & losses	2,012,352.01	290,891.98
Charge for/(write-back of) provisions (net)	81,074,415.52	83,730,773.52
Profit Before Tax	216,626,240.39	116,996,208.90
Provision for taxation	64,987,872.12	35,098,862.67
Profit After Tax	151,638,368.27	81,897,346.23
Balance in Profit & Loss Account (brought forward)	1,266,344.70	1,122,802.99
Transfer of Balance in Staff Training Fund	0.00	6,000,000.00
Profit Available for Appropriation	152,904,712.97	89,020,149.22
Proposed dividend	83,305,600.00	59,504,000.00
Transfer To Capital Reserve	0.00	888,211.65
Transfer to Foreign Exchange Fluctuation Reserve	8,049,387.00	2,792,389.00
Transfer To General Reserve	45,491,510.48	24,569,203.87
Balance in Profit & Loss Account (carried forward)	16,058,215.49	1,266,344.70

**SIGNIFICANT ACCOUNTING POLICIES &
NOTES ON ACCOUNTS** (Schedule 11)

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

for T K Ghose & Co.
Chartered Accountants

Nikhilendra Nath

Partner

Date : 23.03.2006

Place: Kolkata



[Signature]
CHAIRMAN

[Signature]
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.38,979,322.89 (previous year Nu. 34,579,946.50) 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.416,420,824.27 (Total Margin Nu.392,978.00) & Nu.228,795,932.38 (Total Margin Nu. 31,505,594.73) with corresponding previous year figures of Nu. 384,100,715.36 (Total Margin Nu.157,200.00) and Nu.596,280,617.21 (Total Margin Nu. 29,016,645.36) respectively.
3. Confirmation, being not available, book balances of loans, advances and other receivables are reflected in this account.
4. a) Additional amount of provision against loan (excluding interest - in - suspense) amounting to Nu.71,562,053.31 being the difference between provision of Nu.251,630,698.76 as on 31.12.2005 required as per the prudential guidelines issued by Royal Monetary Authority of Bhutan and the amount of provision Nu. 180,068,645.45 held as on 31.12.2004, has been provided for during the year.

b) The bank has provided Nu.79,040,000.00 (previous year Nu.81,620,000.00) 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".

d) During the year 2005, a misappropriation of loan account under the head Government Employee Loan amounting to Nu. 20,244,713.37 (Principal & Interest) was detected by the Management and necessary legal action has been taken by the Management to recover the amount. However, these outstanding loan amount have been fully provided for in the books of accounts.

5. Provision for taxation includes :-

Tax on current year's profit	: Nu. 64,987,872.12
Less : Advance Tax Paid	: Nu. 19,134,298.37
(net of TDS)	-----
Payable	: Nu. 45,853,573.75
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6. Capital work - in progress amounting to Nu.288,000.00 (previous year Nu. 2,309,462.50) represents the expenditure in connection with the purchase of HR cum Asset Software.
7. Other assets (advance, claims, pre-payments, deferrals etc.) include balances in Sundry Receivables accounts aggregating to Nu. 16,083,338.16 (previous year Nu 13,502,493.47) 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. 23,932,308.14 (previous year Nu 24,154,155.73) representing receipt from the foreign sources pending identification of the payees.

NOTES ON ACCOUNTS (continued)

8. 'Tax deducted at Source' on income from interest on time deposits with banks outside Bhutan for the year is amounting to Nu. 196,386.00 (previous year Nu 324,741.00)
9. Market value of Quoted Equity Investments at the end of the year is amounting to Nu. 49,121,360.00 (previous year Nu. 45,599,860.00). 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. 527,002,000.00) respectively. Diminution in value of investment of Bhutan Board Products Ltd. to the extent of Nu.15,400.00 (Previous year Nu. 15,400.00) has been maintained. Further the face value of the RICBL shares have been reduced from Nu. 1,000.00 to Nu. 100.00 per share and the face value of PCAL shares have been split from Nu. 1000.00 to Nu. 100.00 per share in 2005.
10. a) Unclaimed matured deposits, Unit Shares and other payables of miscellaneous nature aggregating Nu.84,926,068.97 (previous year Nu 61,432,157.90), that are not claimed by the beneficiaries, have been kept under 'Unclaimed Deposit' Account. Out of the above figure, Nu 73,750,667.68 is high value deposits and those that matured on the last two days of the year.
- b) Aggregate recoveries till date amounting to Nu.9,796,032.12 (previous year Nu 9,696,032.12) 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.
11. 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 219,680.17 that had been fully provided for in the previous year account, has been maintained.

12. Remuneration and expenditure paid, reimbursed or accrued to the Managing Director was as follows :

	Current year	Previous Year
Salary & other benefits	: Nu. 801,491.98	Nu. 769,631.18
Vehicle Expenses (official)	: Nu. 220,267.88	Nu. 255,947.55
Travel-local/foreign(official)	: Nu. 566,208.00	Nu. 404,848.13
Medical reimbursement	: Nu. 13,248.54	Nu. 11,217.00
Training & Seminars	: Nu. 423,924.00	Nu. 481,749.10
Total	: Nu. 2,025,140.40	Nu. 1,923,392.96

13. Tax assessment of the bank has been completed upto 31st December, 2002.
14. Forex Gains include gains (net) arising out of foreign exchange trading amounting to Nu.24,318,756.72 (previous year 17,871,980.41) and gains (net) arising out of foreign exchange valuation as per rates prevailing on the closing date of the account amounting to Nu 7,878,793.21 (previous year Nu. 6,702,424.57).
15. 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 949,137.20 (previous year Nu.1,849,552.39) has been transferred towards provision for



NOTES ON ACCOUNTS (continued)

gratuity as at the end of the year. The total fund stood at Nu.14,825,400.00 (previous year Nu. 13,717,285.00). During the year Nu.380,245.00 (previous year Nu. 338,255.00) has been paid towards Separation/ Superannuation of the employees of the bank.

16. 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 earlier in Assets Acquired in Satisfaction of Debts is now capitalized and booked as land asset of the bank. The valuation of the land as per Bank's own internal assessment is adequate.
17. Proposed Dividend of 70% has been considered in the account subject to the approval of the Board.
18. Previous Year's figures have been re-arranged & regrouped, wherever necessary.

