

## AUDITORS' REPORT

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

We have audited the attached Balance Sheet of Bhutan National Bank Ltd. as at 31st December, 2007 and also the Profit & Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date in which are incorporated 3 branches (Phuentsholing, Thimphu and Paro) audited by us and the returns of 2 branches (Mongar and Gelephu) and 2 extension offices (Samdrupjongkhar, Trashigang) which have not been audited by us. The returns received from these unaudited offices have been found to be adequate for the purpose of consolidation. These financial statements are the responsibility of the Bank's Management. 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. Those 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 the Schedule XIV thereto (the Minimum Audit examination and Audit Reporting Requirements issued by the Royal Audit Authority), we enclose in the Annexure A 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 and have found them to be satisfactory.
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. Adjustment of certain items in sundry receivable account amounting to Nu. 2,676,396.44 (previous year Nu. 10,972,348.62), sundry payables account amounting to Nu.35,272,738.81 (previous year Nu. 11,755,853.28) as mentioned in Note 7 of Schedule 12 may have impact on profitability, which is not readily ascertainable.
6. In our opinion, as shown by the books of the Bank, 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 Schedules 1 to 12 and subject to para 5 of the above and our comments in the Annexure-A attached herewith give

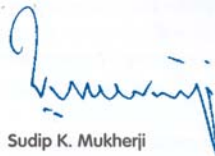
the information under The Companies Act of the Kingdom of Bhutan 2000 in the manner so required and exhibit a true and fair view:

- a) In case of the Balance Sheet, of the state of affairs of the Bank as at 31<sup>st</sup> December, 2007;
- b) In case of the Profit & Loss Account, of the profit of the Bank for the year ended on that date; and
- c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

PLACE: KOLKATA  
DATE :17/04/2008

For S.N. Mukherji & Co.  
CHARTERED ACCOUNTANTS



  
Sudip K. Mukherji  
Partner

# BALANCE SHEET AS AT

31st DECEMBER 2007

	SCHEDULE	31st DEC 2007		31st DEC 2006	
		Nu.	Ch.	Nu.	Ch.
<b>CAPITAL AND LIABILITIES</b>					
Share Capital	1	119,008,000.00		119,008,000.00	
Reserves	2	902,709,750.00		705,575,870.00	
Deposits	3	8,614,753,015.00		8,622,910,435.00	
Current Liabilities	4	360,756,952.00		131,666,916.00	
Provisions	5	483,829,577.00		472,672,824.00	
Total Liabilities		10,481,057,294.00		10,051,834,045.00	
<b>ASSETS</b>					
Cash and Bank Balances	6	2,526,896,990.00		4,265,336,688.00	
Investments	7	582,350,869.00		584,927,237.00	
Loans and Advances	8	7,267,866,467.00		5,094,539,649.00	
Fixed Assets (at cost, less depreciation)	9	88,571,711.00		79,807,283.00	
Other Assets	10	15,371,257.00		27,223,188.00	
Total Assets		10,481,057,294.00		10,051,834,045.00	
<b>SIGNIFICANT ACCOUNTING POLICIES &amp; NOTES ON ACCOUNTS</b>	11				
	12				

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 S.N. Mukherji & Co.  
Chartered Accountants

  
Sudip K. Mukherji  
Partner

Date : 17/04/2008  
Place : KOLKATA



  
CHAIRPERSON

  
CHIEF EXECUTIVE  
OFFICER

## PROFIT & LOSS ACCOUNT

FOR THE YEAR-ENDED 31st DECEMBER 2007

PARTICULARS	31st DEC 2007		31st DEC 2006	
	Nu.	ch.	Nu.	ch.
Interest on loans	682,477,629.01		500,689,752.04	
Interest on bills & cheques	168,095.83		612,431.10	
Interest on deposits with other banks	61,825,500.12		54,854,621.95	
Interest on RGOB & RMA bills and CRR	53,713,398.27		56,693,298.00	
<b>Interest Income</b>	<b>798,184,623.23</b>		<b>612,850,103.09</b>	
Interest on savings deposits	28,654,945.89		23,758,620.61	
Interest on fixed deposits (including FTU)	216,087,508.29		211,518,113.45	
Interest on recurring deposits	0.00		22,093.31	
Interest on miscellaneous accomodations	727,992.73		764,101.53	
<b>Interest Expenses</b>	<b>245,470,446.91</b>		<b>236,062,928.90</b>	
<b>Interest Differential</b>	<b>552,714,176.32</b>		<b>376,787,174.19</b>	
Exchange, commissions, & recoveries	64,524,980.67		48,920,447.63	
Dividends (Gross)	2,957,400.00		2,759,180.00	
Forex gains	(77,210,129.16)		0.00	
Fees Income	17,309,013.87		11,833,855.47	
Rents & other receipts	2,294,150.91		42,900.50	
<b>Other Income</b>	<b>9,875,416.29</b>		<b>63,556,383.60</b>	
<b>Gross Operating Income</b>	<b>562,589,592.61</b>		<b>440,343,557.79</b>	
Employment costs	82,098,981.03		76,464,298.83	
Establishment overheads	16,734,581.59		8,518,766.26	
Communication costs	10,246,437.16		8,750,000.45	
Travelling expenses	6,979,110.53		7,856,959.39	
Vehicles expenses	1,396,442.71		610,616.22	
Computer running & maintenances	5,977,324.36		4,821,903.69	
Advertisements & publicity	1,231,785.11		823,358.90	
Entertainments	1,109,299.50		734,873.19	
Gifts	66,994.00		87,837.50	
Donations	215,000.00		400,000.00	
HRD costs	15,220,497.50		13,295,416.00	
Audit fees & Expenses	200,000.00		150,000.00	
Legal & Regulatory expenses	531,810.00		484,120.00	
Board meetings expenses	1,114,320.40		766,536.00	
Other banks charges, fees etc	2,635,238.41		1,618,720.71	
Stores	1,222,667.40		790,197.25	
Miscellaneous expenses	1,217,317.87		1,265,507.09	

# BALANCE SHEET AS AT

31st DECEMBER 2007

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Current Liabilities	4	360,756,952.00		131,666,916.00	
Provisions	5	483,829,577.00		472,672,824.00	
Total Liabilities		10,481,057,294.00		10,051,834,045.00	
<b>ASSETS</b>					
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<b>NOTES ON ACCOUNTS</b>	12				

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 S.N. Mukherji & Co.  
Chartered Accountants

  
Sudip K. Mukherji  
Partner

Date : 17/04/2008  
Place : KOLKATA



  
CHAIRPERSON

  
CHIEF EXECUTIVE  
OFFICER

NOTES ON ACCOUNTS

1. Provision against loan amounting to Nu. 26,761,503.95 has been made during the year 2007 (Nu.4, 988,032.50 in 2006) as per the prudential guidelines issued by Royal Monetary Authority of Bhutan. Similarly interest earned but not collected amounting to Nu. 156,275.97 have not been recognized in 2007 as interest income (Nu. 2,268,522.09 in 2006 kept under Interest-in-Suspense).
2. Guarantees given and Letters of Credit issued are outstanding at the year-end amounting to Nu. 673,488,990.64 & Nu. 369,241,141.20 respectively (Previous year Nu.633,945,968.49 and Nu. 119,802,651.80). The total margin money collected against Guarantees amounts to Nu. 744,511.20 and against Letter of Credit Nu.37,527,080.23 (Previous year Nu. 1,462,089.00 and Nu. 29,684,308.42 respectively).
3. Confirmation, being not available, book balances of loans, advances and other receivables are reflected in this account.
4. The Land under Fixed assets includes an addition of Nu.2,572,333.56 (previous year Nil) acquired in satisfaction of debts.
5. During the year under review, the Royal Government of Bhutan has acquired a portion of land owned by the bank at Hejo, Thimphu. An amount of Nu. 1,759,826.31, being the difference between the compensation amount received from Royal Government of Bhutan and the cost has been treated as income for the year.
6. Provision for taxation includes

Tax on Current Year's Profit	Nu. 108,642,322.13
Less: Advance Tax Paid	Nu. 13,106,681.61
Less: Withholding tax on Dividend	Nu. 295,740.00
<b>Net Tax payable</b>	<b>Nu. 95,239,900.52</b>

7. Other assets (advance, claims, pre-payments, deferrals etc.) include balances in Sundry Receivable Account aggregating to Nu. 2,676,396.44 (previous year Nu. 10,972,348.62) pertaining to Banking and Accounts Department pending settlement of claims by various parties. Similarly, Other Liabilities include an unadjusted balance in Sundry Payables Account of International Banking Division amounting to Nu. 35,272,738.81 (previous year Nu. 11,755,853.28) representing receipt from foreign sources pending identification of the payees.
8. Market value of quoted Equity Investments at the end of the year is Nu. 51,826,400.00 (previous year Nu. 49,429,400.00)



"Your Relationship Bank"

9. Aggregate recoveries amounting to Nu. 1,014,000.00 from old bad loan accounts (which were liquidated by Ministry of Finance, Royal Government of Bhutan at the time of incorporation of the Bank) have been refunded to Ministry of Finance during the year. Further the recoveries made during the year 2006 amounting to Nu. 163,500.00, which was included under other liabilities has also been refunded to Ministry of Finance during the year.
10. Remuneration and expenditure paid, reimbursed or accrued to the Chief Executive Officer

	Current Year	Previous Year
Salary & Other Benefits	Nu. 1,616,066.00	Nu. 1,357,410.00
Vehicle Expenses	Nu. 427,155.00	Nu. 225,937.04
Travel-Local/Foreign	Nu. 759,258.34	Nu. 326,569.00
Medical Reimbursement	Nu. 13,853.00	Nu 0.00
Training & Seminars	Nu. 0.00	Nu. 609,090.00
<b>Total</b>	<b>Nu. 2,816,332.34</b>	<b>Nu. 2,519,006.04</b>

11. Tax assessment of the bank has been completed upto 31<sup>st</sup> December 2005. The final tax demand of Nu. 3,127,397.74 has been paid by the bank during the year. Further, corporate tax assessment for the year 2006 has not been completed. However, the bank has made a provisional payment of Nu. 826,405.46 in 2007 pending assessment.
12. During the year, the bank has made a loss on foreign exchange trading amounting to Nu. 79,385,016.51 (gain of Nu. 3,752,126.66 in 2006) and loss on account conversion of foreign currency assets/Liabilities at prevailing rate as on December 31, 2007 amounted to Nu. 2,632,981.03 (Previous year Nu. 9,786,034.28). Out of the net loss of Nu. 82,017,997.54 (Previous year Nu. 6,033,907.62), Nu. 4,807,868.38 (Previous year Nu. 6,033,907.62) have been adjusted with the Foreign Exchange Fluctuation Reserve as per RMA Prudential Regulation and balance of Nu. 77,210,129.16 (previous year Nil) is charged to Profit and Loss Account.
13. BNB Employee Gratuity Fund is a separate fund created under the aegis of BNB Employees Gratuity Trust. During the year a sum of Nu. 3,841,707.90 (Nu. 8,474,427.97 in 2006) has been provided towards gratuity liability.
14. There is a contingent liability on account of dispute on a land acquired from a defaulted borrower at Samdrupjongkhar Extension Office. Financial impact, if any, of this dispute is not readily ascertainable.
15. Previous year's figure have been re-arranged and regrouped, wherever necessary.

