

AUDITORS' REPORT

The Shareholders,
BNB Securities Ltd,
Thimphu,
Bhutan.

We have audited the attached Balance Sheet of BNB Securities Limited as at 31st December, 2008 and Profit & Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date. 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 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 matter specified therein to the extent applicable to the Company.

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 Company so far as it appears from our examination of those books.
3. The Company 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 elsewhere in this report.
4. The Balance Sheet and the 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 Schedule 1 to 5 and subject to 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:

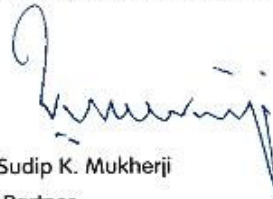


- a) In case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2008 and
- b) In case of the Profit & Loss Account, of the profit of the Company for the year ended on that date; and
- c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

DATE :13-4-2009

PLACE: KOLKATA

For S.N. Mukherji & CO.
CHARTERED ACCOUNTANTS



Sudip K. Mukherji
Partner



BALANCE SHEET AS AT

31st DECEMBER 2008

	SCHEDULE	31st DEC 2008		31st DEC 2007	
		Nu.	Ch.	Nu.	Ch.
CAPITAL AND LIABILITIES					
Share Capital	1	355,517,500.00		119,008,000.00	
Reserves	2	933,135,258.58		902,709,750.06	
Deposits	3	14,601,360,500.74		8,614,753,014.90	
Current Liabilities	4	123,319,029.36		360,756,952.13	
Provisions	5	720,627,383.39		483,829,576.29	
Total Liabilities		<u>16,733,959,672.07</u>		<u>10,481,057,293.38</u>	
ASSETS					
Cash and Bank Balances	6	6,859,758,531.05		2,526,896,990.01	
Investments	7	551,660,871.64		582,350,868.91	
Loans and Advances	8	9,188,347,027.90		7,267,866,466.75	
Fixed Assets (at cost, less depreciation)	9	97,718,151.13		88,571,710.93	
Other Assets	10	36,475,090.35		15,371,256.78	
Total Assets		<u>16,733,959,672.07</u>		<u>10,481,057,293.38</u>	
SIGNIFICANT ACCOUNTING POLICIES &	11				
NOTES ON ACCOUNTS	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 : 13-4-2009
Place : KOLKATA




CHAIRPERSON


CHIEF EXECUTIVE
OFFICER

PROFIT & LOSS ACCOUNT

FOR THE YEAR-ENDED 31st DECEMBER 2008

PARTICULARS	31st DEC 2008		31st DEC 2007	
	Nu.	ch.	Nu.	ch.
Interest on loans	917,720,132.01		682,777,629.01	
Interest on bills & cheques	3,650,677.40		168,095.83	
Interest on deposits with other banks	12,546,545.58		61,825,500.12	
Interest on RGOB & RMA bills and CRR	52,523,352.73		53,713,398.27	
Interest Income	986,440,707.72		798,184,623.23	
Interest on savings deposits	37,770,087.22		28,654,945.89	
Interest on fixed deposits(including FTU)	329,001,649.83		216,087,508.29	
Interest on recurring deposits	0.00		0.00	
Interest on miscellaneous accomodations	670,809.37		727,992.73	
Interest Expenses	367,442,546.42		245,470,446.91	
Interest Differential	618,998,161.30		552,714,176.32	
Exchange, commissions, & recoveries	63,287,375.87		64,524,980.67	
Dividends (Gross)	3,002,800.00		2,957,400.00	
Forex gains	84,506,707.92		-77,210,129.16	
Fees Income	12,156,980.87		17,309,013.87	
Rents & other receipts	157,958.14		2,294,150.91	
Other Income	163,111,822.80		9,875,416.29	
Gross Operating Income	782,109,984.10		562,589,592.61	
Employment costs	119,567,732.31		82,098,981.03	
Establishment overheads	19,270,045.72		16,734,581.59	
Communication costs	9,879,717.27		10,246,437.16	
Travelling expenses	6,528,548.00		6,979,110.53	
Vehicles expenses	732,613.01		1,396,442.71	
Computer running & maintenances	5,484,192.61		5,977,324.36	
Advertisements & publicity	4,169,169.45		1,231,785.11	
Entertainments	1,427,957.60		1,109,299.50	
Gills	15,200.00		66,994.00	
Donations	281,000.00		215,000.00	
HRD costs	21,022,285.53		15,220,497.50	
Audit fees	200,000.00		200,000.00	
Legal & Regulatory expenses	533,344.00		531,810.00	
Board meetings expenses	1,569,782.00		1,114,320.40	
Other banks charges, fees etc	5,848,590.82		2,635,238.41	
Stores	887,518.50		1,222,667.40	
Miscellaneous expenses	2,088,263.28		1,217,317.87	

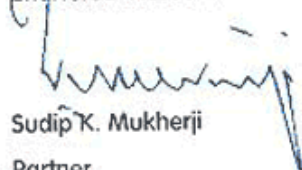
Depreciation	17,720,539.41	13,990,641.30
Operating Expenses	217,226,499.51	162,188,448.87
Net Operating Income (carried forward)	564,883,484.59	400,401,143.74
Net Operating Income		
Net Operating Income (brought forward)	564,883,484.59	400,401,143.74
Write-offs & losses	886,347.33	5,757,145.00
Charge for / (write-back of) provisions (net)	112,848,840.56	32,502,924.99
Profit Before Tax	451,148,296.70	362,141,073.75
Provision for taxation	138,270,011.24	108,642,322.12
Tax paid for earlier period	2,528,689.44	3,953,803.20
Profit After Tax	310,349,596.02	249,544,948.43
Balance in Profit & Loss Account (brought forward)	108,361,578.53	31,283,314.63
Profit Available for Appropriation	418,711,174.55	280,828,263.06
Proposed Dividend	101,322,487.50	47,603,200.00
Transfer to Foreign Exchange Fluctuation Reserve	21,126,677.00	0.00
Transfer To General Reserve	93,104,878.81	124,863,484.53
Building Reserve	50,000,000.00	0.00
Digitization Reserve	10,000,000.00	0.00
Contingency Reserve	1,000,000.00	0.00
Balance in Profit & Loss Account (carried forward)	142,157,131.24	108,361,578.53

SIGNIFICANT ACCOUNTING POLICIES &

NOTES ON ACCOUNTS (Schedule 11 and 12)

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

for S.N. Mukherji & Co.
Chartered Accountants



Sudip K. Mukherji
Partner

Date : 13-4-2009

Place : KOLKATA




CHAIRPERSON


CHIEF EXECUTIVE
OFFICER

NOTES ON ACCOUNTS

SCHEDULE 12

- During the year the Bank has issued Bonus Shares to the existing shareholders in the ratio of 3 shares for every 2 shares held and on the increased capital has issued Rights Shares in the ratio of 1 share for every 5 held. Of the rights issue, 15,043 shares have remained unsubscribed.
- Provision against loans amounting to Nu. 94,750,622.71 has been made during the year 2008 (Nu. 26,761,503.95 in 2007) as per the prudential guidelines issued by Royal Monetary Authority of Bhutan. Similarly interest earned but not collected amounting to Nu. 25,389,859.11 has not been recognized in 2008 (Nu. 156,275.97 in 2007) and kept under Interest-in-Suspense Account.
- Guarantees given and Letters of Credit issued are outstanding at the year-end amounting to Nu. 914,877,316.56 & Nu. 204,881,513.47 respectively (Previous year Nu. 673,488,990.64 and Nu. 369,241,141.20). The total margin money collected against Guarantees amounts to Nu. 16,000.00 and against Letter of Credit Nu. 22,037,098.41 (Previous year Nu. 744,511.20 and Nu. 37,527,080.23 respectively).
- Provision for taxation includes

Tax on Current Year's Profit	Nu. 138,270,011.24
Less: Advance Tax Paid	Nu. 0.00
Less: Withholding tax on Dividend	Nu. 299,890.00
Net Tax payable	Nu. 137,970,121.24

- Other assets (advance, claims, pre-payments, deferrals etc.) include balances in Sundry Receivable Account aggregating to Nu. 19,570,597.96 (previous year Nu. 2,676,396.44) pending settlement of claims on various parties. Similarly, other Liabilities include an unadjusted balance in Sundry Payables Account of International Banking Division amounting to Nu. 5,283,492.48 (previous year Nu. 35,272,738.81) representing receipt from foreign sources pending identification of the payees.
- Market value of quoted Equity Investments at the end of the year is Nu. 72,001,400.00 (previous year Nu. 51,826,400.00).



7. Remuneration and expenditure paid, reimbursed or accrued to the Chief Executive Officer

	Current Year	Previous Year
Salary & Other Benefits	Nu. 2,157,843.52	Nu. 1,616,066.00
Vehicle Expenses	Nu. 172,489.82	Nu. 427,155.00
Travel-Local/Foreign	Nu. 217,084.76	Nu. 759,258.34
Medical Reimbursement	Nu. 87,272.42	Nu. 13,853.00
Training & Seminars	Nu. 388,029.50	Nu. 0.00
Total	Nu. 3,022,720.02	Nu. 2,816,332.34

8. Tax assessment of the bank has been completed upto 31st December 2007. The final tax demand of Nu. 2,528,689.44 have been paid by the bank during the year. The bank has not paid advance tax for the year 2008.
9. During the year, the bank has made a gain on foreign exchange transactions/assets and liabilities amounting to Nu. 84,506,707.92 (loss of Nu. 77,210,129.16 in 2007). Out of the total gain Nu. 21,126,677.00 (Previous year Nu. Nil), has been transferred to Foreign Exchange Fluctuation Reserve as per RMA Prudential Regulations.
10. BNB Employee Gratuity Fund is a separate fund created under the aegis of BNB Employees Gratuity Trust. During the year a sum of Nu. 14,738,686.10 (3,841,707.90 2007) has been provided towards gratuity liability.
11. There is a contingent liability on account of dispute on a land acquired from a defaulted borrower at Samdrup Jangkhar Extension Office. Financial impact, if any, of this dispute is not readily ascertainable.
12. Previous year's figure have been re-arranged and regrouped, wherever necessary.

