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**BHUTAN DEVELOPMENT
BANK LIMITED**



Annual Report 2010



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Incorporated by the Royal Charter, in January 1988 to function as a Development Finance Institution (DFI) and presently incorporated under the Companies Act of Kingdom of Bhutan 2000.

On 2nd March 2010, BDBL was licensed to function as a Specialized Deposit taking Bank (Domestic).

BDBL Network

HEAD OFFICE, THIMPHU

Post Box: 256, Norzim Lam

Telephone PABX No: (00975-2) 322579, 323425, 324678, 333865,

Fax 323428, Email: bdbl@bt.com

1. Mr. Karma Jigme, Main Branch, T/phu 02-323852

REGIONAL OFFICES, Regional Managers

	Regional Location	Telephone No
1. Mr. Tshewang Norbu, (Western)	Paro	00975-08-272410
2. Mr. Tenzin Tashi, (Central)	Trongsa	00975-03-521176
3. Mr. Pema Tashi, (East)	Trashigang	00972-04-521243

BRANCH OFFICES, Branch Managers

Western Region

	Location	Phone No.	Fax No
1. Mrs. Sonam Pelden,	Thimphu	02-326853/326855	
2. Mr. Dorji Wangdi,	Paro	08-271334	08-272341
3. Mr. Sonam Dorji,	Haa	08-375459	
4. Mr. Chador Kelzang,	Punakha	02-584106	02-584157
5. Mr. Tashi,	Gasa	16288121	-
6. Mr. Jhamba ,	Wangdue	02-481261	02-481848
7. Mr. Phub Dorji	Chukha	08-478243	08-478427
8. Mr. Yeshey K. Tshering,	Phuntsholing	05-252881	05-258689
9. Mr. Migmar Tshering,	Samtse	05-365469	05-365854
10. Mr. Yeshey Jamtsho	Dorokha	05-342656	

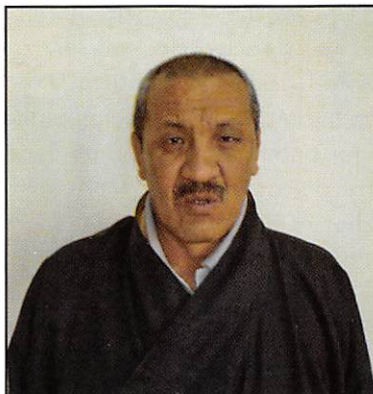
Central Region

1. Mr. Namgay Rinchen,	Bumthang	03-631111	03-631900
2. Mr. Tshering Dorji,	Trongsa	03-521147	03-521515
3. Mr. Sonam Phuntsho,	Zhemgang	03-741127	03-741107
4. Mr. Rinchen Phuntsho,	Panbang	03-794009	-
5. Mr. Sangay Wangdi,	Tsirang	06-471206	06-471197
6. Mr. Yeshey Samdrup,	Dagana	06-481106	06-481242
7. Mr. Tshering Nidup,	Sarpang	06-365136	06-365290
8. Mr. Sangay Jamtsho,	Gelephu	06-252135	06-252136
9. Mr. Tshewang Phuntsho,	Lhamoizingkha	06-241422/241425	

East Region

1. Mr. Mr. Jigme Sonam Tenzin,	Lhuntse	04-545106	04-545145
2. Mr. Tenzin Wangdi,	Mongar	04-641127	04-641177
3. Mr. Tshewang,	Trashigang	04-781105	04-781239
4. Mr. Yonten,	Trashigang	04-521122	04-521386
5. Mr. Pema Tashi,	Wamrong	04-593514	-
6. Mr. Dhendup Namgyal,	Pemagatshel	07-471126	07-471260
7. Mr. Penjor,	Nganglam	07-481190	07-481183
8. Mr. Tshewang Rinzin,	S/Jongkhar	07-251118	07-251292
9. Mr. Jambay	Jomostangkha	07-671104	

BOARD OF DIRECTORS OF BDBL



CHAIRMAN

Mr. Nima Wangdi
Director General, Ministry of Finance



DIRECTOR

Dashi Lhundup Wangchuk
Dzongdag
Dzongkhag Administration,
Wangdue



DIRECTOR

Dr. Tashi Samdup
Director, CORRB
Ministry Agriculture and Forest



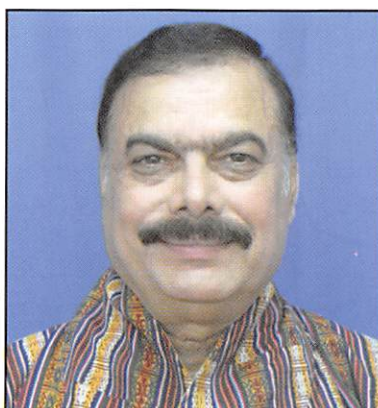
DIRECTOR

Mr. Ugyen Penjor
Director, Dept CSI
Ministry of Economic Affairs



DIRECTOR

Mrs. Tashi Pem
Jt. Commissioner
Department of Revenue and Customs



DIRECTOR

Mr. G.P. Sharma
Ex-Deputy Managing Director
Bank of Bhutan Limited



MEMBER SECRETARY

Mr. Nawang Gyetse
Managing Director
BDBL



BDBL Management Team 2010.



Mr. Nawang Gyetse, the Managing Director has served the BDBL for more than twenty years in various capacity. He was sent on deputation from the RGOB and initially, he was appointed as Joint Managing Director of the Corporation in 1991. He was appointed as the Managing Director of the Company in 2003. Mr. Nawang Gyetse is from Mongar and holds a Bachelors degree in Commerce and Administration from Victoria University and got his MBA from Massey University in New Zealand. He is on the Board of ADFIAP, Secretary General of Financial Institution of Bhutan, Member of the Steering Committee of the ADB projects, Board Director for Royal Securities Exchange of Bhutan and the Board Director for Credit Information Bureau of Bhutan.



Mr. Ugyen Dhendup the Deputy Managing Director started his career in the Ministry of Agriculture as an Asstt. Project Engineer and later left to join the BDBL as Project Engineer in 1992. Prior to his appointment as DMD, he served as a General Manager of the Credit Operation till 2009. Mr. Ugyen Dhendup is from Paro and is an engineer by profession and holds a Bachelors Degree from the Bangladeshi University of Engineering and Technology, Dhaka and has undergone various training in investment and banking. He is also the Board Director of Druk Mining Company Ltd.



Mr. Yeshey Wangdi joined BDBL in 1993 as the Personnel Officer after he served for the Royal Government in the Ministry of Home Affairs for about three years. He then went on to become the Head of Administration Division of BDBL. He also served as Deputy General Manager of the Credit Operations before becoming the General Manager of the Human Resource Management and Administration Division in 2005. Mr. Yeshey Wangdi is from Trashigang and holds a Bachelors Degree in Arts from Sherubtse. He has undergone numerous trainings on Micro and small enterprises, Planning, designing and evaluating development projects for financing and Human Resource and Personnel Management courses.



Mrs. Karma Choden is the General Manager of Credit Operations. She has been working in BDBL since 1992. She served under various positions under the Credit Operations Division. She has been appointed as the General Manager of Credit Operations in 2010. She comes from Chimakothi under Chukha Dzongkhag. She holds a Bachelors of Degree in Commerce from Sherubtse College, Kanglung and has undergone various training in Credit investment, project appraisal, Money and banking, Project Supervision and International Financing, Asset Liability Management and she is also a trained Trainer. She is the Project Manager for CIB, Project Manager for the ADB project under the MSME, a Panel member of the Committee for MSME (CSI) of MEA, and a member secretary for FIAB. She was also a Task Force member for the Peoples Project 2007.



Mr. Bhawani Shankar is the Offtng General Manager of the Finance Division. He started his career in BDBL in 1990. He had initially started as Administrative Officer at the Head Office. He served the Branch Operation as Rural Credit officer. In 1992, he was transferred back to HQ and since then he has been serving in the Finance Division. He was appointed as Deputy General Manager of the Finance Division in 2004 and at present officiates as the General Manager of the Finance Division. Mr. Bhawani Shankar holds a Bachelors Degree from Sherubtse college, Kanglung.



Report of the Board of Directors for the year 2010

1. Introduction

On behalf of the Board of Directors of Bhutan Development Bank Ltd. (BDBL), it is indeed my great pleasure to present the 22nd Annual report for the financial year ended 2010. The BDBL Board is represented by 5 RGOB representatives and one independent representative. We have the collective responsibility of ensuring that the affairs of the company are managed professionally and with high integrity.

BDBL has successfully completed its 22nd year of operations. Despite being the youngest financial institution in the country with the social mandate for rural financial development and increasing challenges posed by the existing and new private banks that have come up over the last one year, the corporation has been able to steer through satisfactorily both in terms of financial as well as in the operation aspects.

2. Financial Highlights

M/S S.N Mukerji & Co of Kolkata was appointed as the Statutory Auditor of the Corporation for the year ended December 2010, by the Royal Audit Authority. BDBL has made a profit before tax of Nu.177.841 million. Although, it is slightly below the budgeted target of Nu.185.295 million, the 19% growth in profitability from the previous year is nevertheless significant. This consistent growth trajectory maintained by the BDBL could be attributed largely to the strenuous effort put in by the staff and the management in the recovery of loans which had drastically brought down the portfolio at risk.

The Total Assets of the Corporation has increased from Nu.2.965 billion in 2009 to Nu.4.243 billion in 2010 recording a growth of 43% from the previous year.

3. Operational Highlights

In 2010, BDBL projected a loan portfolio growth target of 20% keeping about 7.5% higher than the growth achieved in the previous year. Despite the frequent fund crunch encountered by the Corporation, both at the Head office and at the Branches, the overall growth achievement of 29.2% has exceeded the target. However, in accordance with our social mandate, the impetus and priority for portfolio growth was mainly concentrated in the District Branches. The Western Region achieved a growth of 24%, the Eastern Region 43%, while the Central Region's Loan Portfolio had grown by 33%. There was no portfolio growth for the Main Branch.

The growth in portfolio was accompanied by improvement in the Non performing Loans (NPL). The overall Portfolio at Risk (PAR) improved from 13.83% in 2009 to 11.5% in 2010.

4. Specialized Banking License

BDBL is entrusted with a social mandate to play the role of a development financial institution. With this in mind, BDBL focuses and considers delivering rural credit and other related services to the 70% of our population who reside in the rural areas. Mobilizing sufficient fund to meet the demand for Credit on time has always been the major constraint faced by BDBL. The Corporation was earlier only allowed to undertake limited Group and Individual Rural savings. This limited deposit mobilization in the past had also limited the extension of our services to the rural people. However, with the RMA issuing the Specialized Banking License in March, 2010, BDBL is now allowed to undertake and implement domestic Banking Operations in the country. This has vastly facilitated the corporation to competitively compete in the market for both public and corporate deposits. Within a span of less than a year, our country wide deposit mobilization has picked up momentum at a rapid rate as given below.

High lights on Deposit Mobilization.

Products	Achievement
Saving	326.909 million
Recurring	36.707 million
Fixed deposit	109.775 million
Corporate	953.750 million

This growth in the deposits will go a long way in improving the provision of credit delivery and banking services especially to the rural population of our country.

5. OPENING OF THREE BRANCH OFFICES.

BDBL had committed to increase its coverage within the Country by opening four new Branches in the Dungkhags in 2010. However, due to logistic problems, only three new Branch Offices could be opened during the financial year 2010 in the following Dungkhags:

Jomotshangkha branch under the Eastern Region

Dorokha branch under the Western Region

Lhamoizingkha branch under the Central Region

With the opening of these three new offices, BDBL now has a total twenty nine Branch Offices spread across the country. The extensive network of our Branches enables BDBL to feature prominently in the rural areas and helps the Corporation to meet its social mandate of taking Banking services to the door step of our rural population. Meanwhile, Mobile Banking which means literally, a Bank on Wheels or a Bank on the Move is a primary feature of BDBL that covers almost all the 205 gewogs. It is being carried out by our Product Service Officers in the Branch offices throughout the country bringing immeasurable benefits to our rural people.



S/Jonkhar Dzongda inaugurating new branch at Jomotshangkha.



Mobile Banking in Operation

6. Head Office Building

When the office was shifted from the earlier old rented building in August 2009, the internal furnishing and infrastructure arrangements were not fully completed. The year 2010 was devoted much in re-shaping the internal office arrangement and improving the working environment for the staff to provide the best services to our valued customers.

Besides housing the Head Office for BDBL, some areas of the building are also rented out to the SAARC Development Fund and World Bank / IFC, thereby, making the BDBL Building, a centre for financial services in Thimphu.

7. Setting up of Treasury and Banking Division

Having obtained the Banking License in March 2010, BDBL felt the need to have a separate Banking and Treasury Division to manage the fund and the Banking Operations. With the opening of the Division, the fund requirement, investment, retention and overseeing of fund flow from the Head office to the Branches and vice versa are now being handled more systematically. The Division has also prepared a Banking Manual for all the Branches to strictly adhere to in its operations.

8. Setting up of Risk and Portfolio Quality Division

After the Global financial meltdown in 2009, Risk management has become an important factor especially in the Banks and Financial Institutions dealing with public moneys. Due to its importance, BDBL has created a separate Risk and Portfolio Quality Division staffed by three persons and headed by an Assistance General Manager.

The Division has come up with the Risk Assessment format for the Branches and Head office operations and closely monitors all types of risks associated with lending and deposit operations of the Bank.

9. UNCDF/ UNDP/ BASIX Micro-Finance Project

BDBL has been very fortunate to receive the LDC technical grant assistance from UNDP/UNCDF for the implementation of its Business Plan for the years 2008-2012.



BDBL staff and consultant engaged in one of lively business discussion with farmers.

Through this assistance, the Micro-Finance expertise of BASIX from India will assist BDBL from 2009 to 2013 in the following activities:

- Increase access to savings, credit and other services in rural areas.
- Expand Outreach – to different customer segments.
- Develop and promote saving products and Services.
- Develop products and marketing strategies.
- Improve Credit Management Systems (Lending and recovery management systems).
- Introduce agricultural/business development services in identified sectors.
- Support in Micro and Small Enterprises.
- Enhance Risk management, Internal Audit and Supervision capabilities.
- Improve operational and decision making systems through the use of IT by integrating it in the IT MIS.
- Enhance capabilities in the Treasury and Fund Management.
- Produce a research report on the Development of microfinance in Bhutan and role for BDFCL in microfinance.
- Assist to Developing a Micro Finance Policy

10. LAUNCHING OF NEW PRODUCTS

In an effort to bring the very poor under the main stream of credit and related services and to encourage the enterprising farmers to take up income generating activities, a number of New Products have been started under the Group Guarantee Lending Scheme. Some of the new schemes launched in 2010 were as follows:

10.1 Vegetable Vendor Group Loan

The Vegetable Vendor's Group loan scheme was launched at the Centennial Farmers Market in the capital in April, 2010. It provides credit through the formation groups for vending vegetables. The maximum loan given per member is Nu.100, 000 for a term period of 2 years payable on weekly installments. Many farmers in the CFM have shown interest in the Scheme and as of the financial year ending 2010, it has benefited a total of 140 vegetable vendors. His Excellency, the Prime Minister graced the product launching ceremony in April, 2010.



His Excellency, Prime Minister inaugurating the Vegetable Vendors Outreach Banking at CFM, Thimphu

10.2 Micro-Enterprises Group Loan

This product is a result of Memorandum of Understanding signed in collaboration between BDBL and the Bhutan Chamber of Commerce and Industries. It is the first of its kind ever started. Its aim is to provide capital to those enterprising individual having trade license and business experience but are handicapped with lack of funds. The Micro Enterprise Group Loan product was formally launched during the Annual Regional Workshop for Eastern Region in Mongar in April 2010, and was participated by both officials of BDBL and BCCI.



BDBL officials during the Launching of the Micro-Enterprises Group Loan at Mongar.

Similar to other group Schemes, a maximum loan of Nu. 100,000 are given for a term of two years but payable on a monthly installment. This product has become very popular and almost all Dzongkhags are implementing the Scheme and is benefiting a total of 1090 micro-enterprises in the country within just a year after the launch.

11. HR Development & Training for 2010

BDBL recognizes that the employees are the greatest asset of any organization. As such, we are trying our best to motivate our employees by providing relevant training within and outside the country to enhance their skills and knowledge and to bring out their latent potentials and practice what they have gained from such training for the betterment of the organization.

During the year 2010, we have been able to send a total of 44 officials for short study tours and 42 for short Trainings and seminars for different courses to places like Thailand, Philippines, Sri Lanka and India through various donor agencies like TICA, ADB, UNCDF, ADFIAP, CICTAB, and APRACA.

Further, BDBL has also conducted in-house workshop on Business Planning and appraisal techniques by the Credit Department where 170 employees (from Branch Offices, Regional Offices and Head Office) had attended.

With a view to further enhance the skills, knowledge and motivate the employees, BDBL will send more of our field staff in the years to come with the hope to bring about drastic improvement in the overall performance

of BDBL in the long run. BDBL shall focus and systematically identify and develop the potential of each employee, identify and develop their critical capabilities that an employee should possess to realize the vision of BDBL.



BDBL Staff receiving training in Hotel Taj.



Business planning session in progress

12. Corporate Governance

BDBL is committed in achieving a high standard of corporate governance and is in the process of putting in place the best practices in all areas of operations. The impact of good governance is evident in the sound management and stable performance of the Corporation and it will continue to uphold the highest standards of productivity, competency and service delivery.

13. Constraints

As a Development Bank, BDBL is entrusted with delivering credit to the 70% of the population who reside in the rural areas. The delivery of financial services in the rural areas still remains a great challenge in view of the rugged terrain, scattered nature of settlements and due to lack of adequate markets and business opportunities.

14. Future Outlook

BDBL will continue to be a Development Bank in the future with microfinance as one of its main activities. The Organization with assistance from ADB, UNDP/UNCDF has come up with plans and strategies to further improve its products and access to finance. A five year strategy and business plan which includes human resource strategy and performance targets have been prepared to enhance BDBL's efficiency and effectiveness. This exercise is expected to assist the organization in fulfilling its mandate as well as ensuring sustainability and effectiveness.

In keeping with its Vision, BDBL will always aspire "To be the strong, dependable and customer focused bank that provides much more than money, to ensure that businesses grow and succeed and our people enjoy a better tomorrow".



15. Conclusion

I would like to place on record our sincere gratitude to the RGOB, Donor agencies especially ADB, UNDP, UNCDF, IFAD for their continued assistance and guidance. To the shareholders and to our clients, I would like to convey our sincere appreciation for their continuous support and patronage.

Finally, on behalf of the Board of Directors, I would like to place on record, our sincere appreciation for the hard work and dedicated service rendered by the BDBL management and staff.

TASHI DELEK

**CHAIRMAN
BOARD OF DIRECTORS
BDBL**

Bhutan Development Bank Limited
Operational Highlights 2006-2010

		2006	2007	2008	2009	2010
I.	Assets(million)	1,714	1,921	2,546	2,966	4,243
	Head Office	1,114	1,413	1,809	1,929	3486
	Branch Operation	600	508	737	1,037	757
II.	Profits/(Loss) before Corporate Tax(m)	89	70	93	150	177
	Head Office	67	72	70	113	130
	Branch Operation	22	-2	23	37	47
III.	Disbursements(million)	754	939	926	1,000	2,059
	Head Office	494	659	466	401	672
	Branch Operation	260	280	460	599	1,387
IV.	Loan Outstanding(million)	1,580	1,791	2,499	2,818	3,640
	Head Office	1,100	1,343	1,784	1,806	1,782
	Branch Operation	480	448	715	1,012	1,858
V.	On-Time Recovery Rates					
	Head Office	91%	90%	93%	92%	94%
	Branch Operation	82%	82%	91%	91%	93%
VI.	Port Folio at Risk(>90 days)	20%	21%	18%	14%	11%
	Head Office	14%	18%	17%	15%	15%
	Branch Operation	25%	25%	19%	12%	7%
VII.	Number of Active Clients	17,667	17,596	18,627	19,923	25,292
	Head Office	1,668	2,007	2,112	2,608	2,578
	Branch Operation	15,999	15,589	16,515	17,315	22,714
VIII.	Number of New Accounts	15,999	5,880	7,833	8,588	13,280
	Head Office	580	581	545	993	910
	Branch Operation	5,871	5,299	7,288	7,595	12,370
IX.	Cumulative Nos.of Beneficiary	77,308	83,188	91,021	99,609	112,889
	Head Office	4,160	4,741	5,286	6,279	7,189
	Branch Operation	73,148	78,447	85,735	93,330	105,700
X.	Normal Deposit Amount(Million)		79	137	266	496
	Head Office		1	5	11	55
	Branch Operation		78	132	255	441
XI.	No of Depositors(Excluding Corporate)		7,614	10,947	15,879	32,976
	Head Office		185	293	657	1,394
	Branch Operation		7,429	10,654	15,222	31,582
XII.	Corporate Deposit Amount(Million)					954
	Head Office					954
	Branch Operation					0

XIII.	No of Corporate Depositors					2
	Head Office					2
	Branch Operation					0
XIV.	Number of Employess	171	185	209	221	271
	Head Office	57	78	102	95	94
	Branch Operation	114	107	107	126	177
XV.	Active Clients/Employee Ratio:	103	95	89	90	93
	Head Office	29	26	21	27	27
	Branch Operation	140	146	154	137	128
XVI.	Loan/Employee Ratio(million)	9	10	12	13	13
	Head Office	19	17	17	19	19
	Branch Operation	4	4	7	8	10

AUDITORS' REPORT

TO THE MEMBERS OF BHUTAN DEVELOPMENT BANK LIMITED THIMPHU, BHUTAN

We have audited the attached Balance Sheet of Bhutan Development Finance Corporation Limited (Corporation), as at 31st December 2010 and also the Profit & Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date in which are incorporated returns of 8 branches audited by us and the returns of 20 branches 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 Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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 from 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 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 part II of Schedule XIV thereto (Minimum Audit Examination and Reporting requirements), we enclose in the annexure a statement on the matters specified therein to the extent applicable to the Corporation.

Further, to our comments in the annexure as referred 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 Corporation, so far as it appears from our examination of those books.
3. The Corporation has complied with the various provisions of the Financial institution Act 1992 and other applicable laws, rules & regulations, systems and practices except otherwise stated elsewhere in this report.
4. The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with in this report are in agreement with the books of account and have been compiled on the basis of generally accepted accounting principles.
5. We draw attention to the following:
The total borrowing of the Corporation as on 31.12.2010 amounting Nu.1417.94 million exceeded the total Share Capital and Free Reserves amounting to Nu.1079.05 million by Nu.338.89 million. Such excess borrowing has been made without obtaining the necessary approval of the Corporation in General Meeting and is ultra vires in terms of Section 84 of The Companies Act of The Kingdom of Bhutan, 2000.
6. In our opinion, as shown by the books of the Corporation, 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 with Schedules 1 to XX and subject to para 5 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 the case of Balance Sheet, of the state of affairs of the Corporation as at 31st December 2010;
- b) in the case of Profit & Loss account, of the profit of the Corporation 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:

**For S. N. Mukherji & Co.
Chartered Accountants.**

Date

**Sudip K. Mukherji
Partner**

(ANNEXURE A)**MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT (Part-II of schedule XIV to The Companies Act of the Kingdom of Bhutan, 2000)**

1. The Corporation is maintaining records showing full particulars including quantitative details of fixed assets. Situation of fixed assets and descriptions thereof are maintained by Accounts department. Physical verification of fixed assets has been carried out by the corporation as on 31.12.2010 through internal audit. Reconciliation of physical assets as per internal audit report with the book balance as per physical asset register has been done. Missing items observed by the internal audit department have been separately arrived and reflected by the internal audit reports but accounting adjustments/ entries have not been effected in the fixed asset ledger for those missing items. The accounting entries for such missing items are required to be passed to make the physical balance at par with the book balance.
2. No revaluation of Fixed Assets has been conducted during the year.
3. Physical verification of various stores items were carried out by the internal audit as on 31.12.2010. There are some items where shortages have been observed while comparing the physical balances with the book balances. No action has yet been taken for adjustments of these shortages in the books of accounts. The total financial implication is Nu. 7468.50.
4. During the year the Corporation has availed any fresh loan from Asian Development Bank. The terms and conditions of the loans are prima facie not prejudicial to the interest of the Corporation. The Corporation has not taken any loan, secured or unsecured from companies, firms and other parties under the same management.
5. The loans granted by the Corporation are prima facie not prejudicial to the interest of the Corporation. However in the absence of any detailed records (including the statutory records required under section 97 of The Companies Act of The Kingdom of Bhutan, 2000) we are unable to comment on whether any loan, secured or unsecured, have been granted to other companies, firms or other parties under the same management. The advances granted to officers/staffs are in keeping with the provisions of service rule and no excessive and frequent advances are given.
6. In our opinion, the internal control procedures of the Corporation should be strengthened to ensure completeness, accuracy and reliability of accounting records, in carrying out the business in orderly and efficient manner, to safeguard the assets of the Corporation as well as to ensure adherence to the systems and procedures.
7. There is a system of competitive bidding, commensurate with the size of the Corporation and the nature of its business for the purchase of goods and services including stores, equipments and other assets. The Corporation is not engaged in manufacturing or trading activities.
8. In the absence of any detailed records (including the statutory records required under section 97 of The Companies Act of The Kingdom of Bhutan, 2000) we are unable to comment on whether any transactions have been entered into by the directors or any other party(ies) related to the directors or with Corporation or firms in which the directors are directly or indirectly interested.

9. Unserviceable or damaged stores have been determined on the basis verification conducted at periodic interval.
10. The Corporation is maintaining reasonable records for sale and disposal of scrap.
11. According to the records, the Corporation has been regular in depositing rates and taxes, duties etc. and other statutory dues with the appropriate authorities during the year 2010.
12. There are no undisputed amounts payable in respect of rates, taxes, duties, provident funds and other statutory deductions payable at the last day of the financial year 31.12.2010.
13. According to the information and explanations given to us, no personal expenses have been debited to the Profit and Loss Account other than those payable under contractual obligations/service rules of the Corporation.
14. The Corporation has a reasonable system of recording receipts, issues and consumption of stores items commensurate with the nature and size of its business.
15. The Corporation has a reasonable system for follow-up with various parties for recovery/adjustment of outstanding amounts.
16. The management of liquid resources particularly cash and bank balances is inadequate and excessive amounts of liquid resources are being held in the form of idle funds by the Branches without any utilisation for generating income from such funds.
17. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Corporation are in our opinion lawful and intravires to the Articles of Incorporation of the Corporation.
18. The Corporation has a system of approval of the Board for all capital investment decision and investments in new projects and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.
19. The Corporation has established an effective budgetary control system.
20. The details of remuneration to the Managing Director have been indicated in the Notes to the Accounts (Note No.XX, Schedule No.XX).
21. The directives of the Board have generally been complied with.
22. According to the information and explanations given to us, the officials of the Corporation have not transmitted any price sensitive information, which is not made publicly available to their relatives/friends/associates, or close persons, which would directly or indirectly benefit themselves.

In Case of Finance and Investment Corporation:

1. There have been some lapses on the documentation part of loans granted by the Corporation and this area require further improvement.
2. Proper records of the transactions and contracts have been maintained and timely entries have been made for the investments made.
3. The Corporation has maintained reasonable records for funds collected from depositors and for interest payment.
4. Investments made by the Corporation and outstanding in its books as on 31.12.2010 have not undergone any permanent diminution in value.
5. There have been a few non-compliance of the Guidelines issued by both RMA as well as The Companies Act of The Kingdom of Bhutan, 2000.
6. Requirements relating to provisioning for the non-performing assets including loans and advances have been complied with.
7. Recognition of interest income in respect of non-performing assets have been duly deferred.
8. Except for few cases, assets hypothecated against loans and advances have been physically verified and properly valued by management and mortgage deed have been executed and it has been ensured that the assets are free of any prior lien or charges.
9. The Corporation has a system of monitoring of projects for which loans have been provided to ensure that loan amounts are used for the specified purposes and project activities are progressing satisfactorily.
10. Taking over of assets for repayment defaults are made through open / sealed bids.
11. In some cases proper analysis was not carried out before re-phasing / rescheduling of loans. Guidelines of RMA on this issue have not been complied with.
12. There is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.

Computerized Accounting environment

1. The Corporation has a Computerized accounting system and the internal control system seems to be adequate taking into account the size and nature of its computer installations.
2. Adequate safeguard measures and back up facilities exist.
3. Back up facilities and disaster recovery measures do not include keeping files in different and remote locations.

4. Operational controls are adequate to ensure correctness and validity of input data and output information.
5. There are adequate preventive measures to prevent unauthorized access over the computer installation and files.

GENERAL

1. Going Concern Problem

Based on the Corporation's financial statements for the year ended 31st December, 2010 audited by us, the Corporation has earned sufficient profit during the year under audit and we have no reason to believe that the Corporation is not a going concern.

2. Ratio Analysis

Financial and operational ratio in respect of the Corporation is given in the statement of Ratio Analysis.

3. Compliance of Companies Act of Kingdom of Bhutan:

The Corporation has failed to comply with the following areas of The Companies Act of the Kingdom of Bhutan, 2000:

- (a) Section 97 on the maintenance of statutory records. The Corporation is yet to introduce and maintain the following records:
 - Register of Charges
 - Register of Inter- Corporate Loans
 - Register of Inter – Corporate Investments
 - Register of Contracts in which Directors are interested
- (b) The Corporation has not yet issued Global Share Certificate. Section 24 of The Companies Act of The Kingdom of Bhutan, 2000 requires a public Corporation to issue a Global Share Certificate representing all outstanding shares and to deposit such certificate with a depository in accordance with the Rules of the Securities Exchange.
- (c) The total borrowings outstanding as on 31.12.2010 (Nu.1 417.94 million) exceed the aggregate of the paid up share capital and free reserves (Nu.1079.05 million) of the Corporation and is in contravention of Section 84 of The Companies Act of The Kingdom of Bhutan, 2000, since no approval for such excess borrowing has been obtained by the Corporation in General Meeting.
- (d) As per Section 12 of the Income Tax Act of The Kingdom of Bhutan, 2001, amount of gratuity provision is required to be invested in a separate Gratuity Fund Account. The Corporation invested only Nu.10.20 million as against the total gratuity provision of Nu.32,001,329 as on 31.12.2010. Income from the investment has been taken as income of the Corporation instead of adding to Gratuity Fund Account.

4. Adherence of Laws Rules & Regulations:

Audit of the Corporation is governed by The Companies Act of the Kingdom of Bhutan, 2000 and the scope of audit is limited to examination and reviews of the financial statement as produced to us by the management. In the course of audit, we have considered the compliance of provision of the said Companies Act and its Article of Incorporation. The Corporation does not have a comprehensive Compliance Reporting and Recording System as regards adherence to all laws, rules and regulations, systems, procedures and practices. Under the circumstances we are unable to comment on the compliance of the same by the Corporation during the year 2010.

The significant ratios indicating the financial health and profitability of the corporation are given below:

RATIOS	2010	2009
A. Ratios for assessing Financial health		
Capital Turnover Ratio:		
(Income / Capital Employed)	0.38	0.40
Current Ratio		
(Current Assets / Current Liabilities)	10.98	6.26
Fixed Assets Turnover Ratio		
(Income/Fixed Asset)	3.68	4.04
B. Ratios for assessing Profitability		
Profit on Capital Employed Ratio	16.43%	16.47%
(Profit after Tax / Capital Employed)		
Profit on Turnover Ratio	42.69%	41.53%
(Net Profit/Total Income) *100		
Operating Ratio	30.49%	30.64%
(All Expenses – Finance Charges)/Total Income*100		
Total Expenses to Total Income Ratio	57.31%	58.47%
(Total Expense/Total Income)*100		

BALANCE SHEET AS AT 31st DECEMBER 2010

	Schedule	31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SHAREHOLDERS' FUND & LIABILITIES			
Share Capital	1	200,000,000	200,000,000
Reserves & Surplus	2	882,291,525	710,844,218
Grants	3	212,190,910	178,586,010
Borrowings	4	1,417,946,847	1,557,480,683
Deposits	5	1,459,232,379	264,019,781
Current Liabilities & Provisions	6	70,871,575	53,818,636
		4,242,533,236	2,964,749,329
ASSETS			
Fixed Assets	7	113,179,301	89,403,665
Investments	8	1,381,000	1,381,000
Loans Receivable	9	3,349,955,852	2,536,797,417
Current Assets & Advances	10	778,017,083	337,167,247
		4,242,533,236	2,964,749,329
Significant Accounting Policies	17		
Notes on Accounts	18		

The Schedules referred to above form an integral part of the Balance sheet.

In terms of our attached report of even date.

For S.N Mukherji & Co.
Chartered Accountants

Sudip K. Mukherji
Partner
Membership No. 13321

Managing Director

Chairman

Date :

Place :

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER , 2010

Schedule	31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
INCOME FROM OPERATIONS		
Interest on Loans 11	391,087,686	338,598,426
Interest & Dividend on Deposits & Investments 12	6,991,977	3,413,036
Other Income 13	18,555,499	19,289,422
	416,635,161	361,300,883
LESS : EXPENSES		
Operating Expenses 14	110,993,348	99,733,480
Financial Expenses 15	111,780,483	100,532,503
Write-Off / Provisions 16	16,019,686	10,983,731
	238,793,517	211,249,714
OPERATING PROFIT	177,841,644	150,051,169
APPROPRIATIONS :		
Transferred to General Reserve	53,352,493	45,015,351
Transferred to Staff Training Fund	3,000,000	
Transferred to Retained Earnings	121,489,151	105,035,818
Significant Accounting Policies 17		
Notes on Accounts 18	0.00	

The Schedules referred to above form an integral part of the Balance sheet.
In terms of our attached report of even date.

For S.N Mukherji & Co.
Chartered Accountants

Sudip K Mukherji
Partner
Membership No. 13321

Managing Director

Chairman

Date :
Place

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2010

	(Nu.)	(Nu.)
Operating Profit excluding Prior Period Adjustment		176,918,685
(a) Depreciation	11,243,390.00	
(b) Provision on Loan	16,019,685.62	
(c) Loss on sale of Fixes Assets	10,664.05	
(d) Dividend on Share	(437,250.00)	
(e) Interest on FDR	(6,554,727.38)	
(f) Profit Prior Period Adjustment	922,958.85	21,204,721
Cash Inflow from Operating Activities before Working Capital Changes		198,123,407
Increase in Stock of Stationeries and Spares	(548,603.85)	
Increase in Accounts/Other Receivables	(4,107,506.75)	
Increase in Accrued Interest on Short Term Deposit	(1,412,694.18)	
Decrease in Advances and Prepayment	18,521,607.00	
Decrease in Provision for loss against Receivables	(124,224.89)	
Accrued Interest on Deposits	11,453,519.25	
Accrued Interest on Borrowings	1,251,819.61	
Accounts Payable	2,146,003.83	
Tender Refundable Deposit	(261,164.54)	
Margin Money Deposit	(132,500.00)	
Income Received in Advance	(498,664.30)	
Security Deposit	78,263.00	
Provision for Audit Fees & Expenses	61,000.00	
Accrued Expenses	(218,736.75)	
Provision for Gratuity	3,164,171.00	29,372,288
Cash Inflow from Operating Activities		227,495,695
Purchase of Fixed Assets(Net)	(35,009,797.97)	
Loss on sale of Fixed Asset	(10,664.05)	
Dividend on Shares	437,250.00	
Interest on FDR	6,554,727.38	(28,028,485)
Cash Inflow from Investing Activities		(28,028,485)
Cash Flow From Financing Activities		
Increase in ADB Grant	3,999,315.00	
Increase in HSF Loan Fund (UNDP)	55,000.00	
Increase in HSF Project (UNDP)	(112,407.61)	
Increase in UNCDF(Savings & Lending)	29,610,806.26	
Increase in Sengor Community Loan Fund	52,186.00	
Increase in Fixed Deposits	997,188,593.80	
Increase in Recurring Deposit	16,034,556.41	

Increase in Saving Deposit	159,338,049.29	
Increase in Current Deposit	22,651,398.52	
Decrease in Staff Training Fund	(6,394,337.63)	
Repayment of ADB Line of Credit (Phase I)	(1,858,158.80)	
Repayment of ADB Line of Credit (Phase II)	(11,888,766.00)	
Repayment of ADB Line of Credit (A/C# 0088/008)	69,252,783.84	
Repayment of KFAED Line of Credit	(8,783,185.16)	
Repayment to International Fund for Agricultural Development Line of Credit	(701,312.00)	
Received from International Fund for Agricultural Development	19,665,344.46	
Repayment of Borrowing from NPPF	(80,000,000.00)	
Repayment of Borrowing from NPPF-I	(10,000,000.00)	
Repayment of Borrowing from Bhutan National Bank	(46,935,859.10)	
Repayment of Borrowing from Bank of Bhutan	(68,284,682.66)	
Repayment of Term Loan	(799,638,082.55)	
Repayment of Continuous Loan	(23,917,830.68)	
Repayment of Staff Loan	(4,131,197.55)	
Increase in Interest Receivable from Loan	4,890,431.63	
Increase in Specific Provision	7,990,427.65	
Withdrawal of Non Specific Ad-hoc Provision	(18,000,000.00)	
Increase in General Provision	12,272,465.46	
Increase in Suspended Interest/Penalty	7,375,350.76	
Increase in Provision on Loans	(16,019,685.62)	
Cash in Flow from Financing Activities		253,711,204
Increase in Cash & Bank Balance as per Cash Flow		453,178,414
Actual Increase in Cash & Bank Balance		453,178,414

For S.N Mukherji & Co.
Chartered Accountants

Sudip K. Mukherji
Partner

Managing Director

Chairman

Membership No. 13321

Date :

Place :

	31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SCHEDULE 1 : SHARE CAPITAL		
Authorized Share Capital		
500000 Equity shares of Nu. 1000 each	500,000,000	500,000,000
Issued, Subscribed and Paid up:		
200,000 Equity shares of Nu.1,000 each	200,000,000	200,000,000
Fully paid-up.	200,000,000	200,000,000

NOTE - Of the above 75,000 shares valuing Nu. 75,000,000 have been issued to Royal Government of Bhutan against conversion of Grants.

SCHEDULE 2:**RESERVES & SURPLUS GENERAL RESERVES**

Opening Balance	331,206,190		
Add : Transferred from Profit & Loss Account	53,352,493	384,558,683	331,206,190

STAFF TRAINING FUND

Opening Balance	10,803,684		
Less : Expenditure during the year	(6,394,338)		
Add : Transferred from Profit & Loss Account	3,000,000	7,409,346	10,803,684

RETAINED EARNINGS

Opening Balance	368,833,784		
Add : Transferred from Profit & Loss Account	121,489,151	490,323,495	368,834,344

TOTAL		882,291,525	710,844,218
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		31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SCHEDULE 3 : GRANTS			
(i)	UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)	91,100,100	91,100,100
(ii)	ASIAN DEVELOPMENT BANK (ADB)		
	Highland Livestock Development Project		
	Opening Balance	8,088,640	
	Add : Received during the year	3,999,315	8,088,640
(iii)	UNCDF GRANTS (For Revolving Bike Fund)	1,352,400	1,352,400
(iv)	SWISS DEVELOPMENT CORPORATION (SDC)	4,946,000	4,946,00
(v)	HELVETAS	446,151	446,151
(vi)	UNDP HSF LOAN FUND (Pilot micro finance to the rural community)		
	Opening Balance	2,184,801	
	Add : Received during the year	55,000	2,184,801
(vii)	ROYAL GOVT. OF BHUTAN GRANT	68,101,00	68,101,000
(viii)	UNDP HSF Project		
	Opening Balance	330,668	
	Add : Received during the year	69,420	
	Less : Utilized during the year	(130,954)	
	Less : Depreciation on assets	(50,874)	330,668
(ix)	UNCDF (Savings/Lending)		
	Received during the year	33,554,605	
	Less : Utilized during the year	(3,923,506)	
	Less : Depreciation on assets	(20,293)	29,610,806
(x)	Sengor Community Collateral Fund		
	Loan Received	2,000,000	
	Add : Interest capitalized till 31/12/2010	88,436	2,036,250
	TOTAL	212,190,910	178,586,010

		31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SCHEDULE 4: BORROWINGS			
a. Secured Loans	Note		
Asian Development Bank- Line of Credit (Phase 1)	1	33,446,858	35,305,017
Asian Development Bank - Line of Credit (Phase 2)		83,221,364	95,110,130
Asian Development Bank -Line of Credit - A/C # 0088/008		116,605,962	47,353,179
Kuwait Fund for Arab Economy Development - Line of Credit	2	26,349,556	35,132,741
"International Fund for Agricultural Development - Line of Credit (Second Eastern Zone Agricultural Programme)"	3	41,377,358	42,078,670
"International Fund for Agricultural Development (Agriculture Marketing & Enterprise Promotion Programme)"	4	51,945,677	32,280,333
Borrowing from National Pension & Provident Fund - II	5	500,000,000	500,000,000
Borrowing from National Pension & Provident Fund		-	80,000,000
Borrowing from Bhutan National Bank Limited		-	46,935,859
Borrowing from Bank of Bhutan Limited	6	500,000,000	500,000,000
Sub Total		1,352,946,775	1,414,195,928
b. Unsecured Loans			
Borrowing from National Pension & Provident Fund - I		65,000,000	75,000,000
Borrowing from Bank of Bhutan Limited - Overdraft Facility		72	68,284,755
Sub Total		65,000,072	143,284,755
TOTAL		1,417,946,847	1,557,480,683

Note :

Borrowings from Asian Development Bank-line of credit is secured by guarantee of Royal Government of Bhutan.	1
Borrowing Kuwait Fund for Arab Economy Development is secured by guarantee of Royal Government of Bhutan.	2
Borrowing International Fund for Agricultural Development is secured by guarantee Royal Government of Bhutan guarantee.	3
Borrowing International Fund for Agricultural Development is secured by guarantee Royal Government of Bhutan.	4
Borrowings National Pension & Provident Fund is secured by pledge of FDR of Nu. 100 million with BNB and 40,000 sq.ft of land at Chubachu, Thimphu and guarantee by RGOB to the extent of Nu. 400 million	5
Borrowings from Bank of Bhutan is secured by guarantee of Royal Government of Bhutan.	6

	31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SCHEDULE 5: DEPOSITS		
Fixed Deposit	1,064,080,136	66,891,542
Recurring Deposit	36,707,318	20,672,762
Savings Deposit	334,384,001	175,045,952
Current Deposit	24,060,924	1,409,526
TOTAL	1,459,232,379	264,019,781

SCHEDULE 6 : CURRENT LIABILITIES & PROVISIONS**A. Current Liabilities**

Accrued Interest on Deposits	15,360,693	3,907,174
Accrued Interest on Borrowing	5,356,184	4,104,364
Accounts Payable	3,952,460	1,806,456
Tender Refundable Deposit	1,567,608	1,828,773
Margin Money Deposit	981,250	1,113,750
Income Received in Advance	3,197,353	3,696,017
Security Deposits	78,263	0
Provision for Audit Fees & Expenses	276,000	215,000
Accrued Expenses	8,111,855	8,333,242
Others	11,878	0
Sub Total	38,893,544	25,004,776

B. Provisions

Provision for Gratuity	31,978,031	28,813,860
Sub Total	31,978,031	28,813,860
Total	70,871,575	53,818,636

SCHEDULES 7 FIXED ASSETS

GROSS BLOCK						DEPRECIATION			NET BLOCK		
PARTICULARS	DEPRECIATION RATE	OPENING 01-01-2010 Nu.	SALES/ ADJUST. Nu.	ADDITIONS Nu.	AS AT 31-12-2010 Nu.	OPENING 01-01-2010 Nu.	SALES/ ADJUST. Nu.	FOR THE YEAR Nu.	AS AT 31-12-2010 Nu.	AS AT 31-12-2010 Nu.	AS AT 31.12.2009 Nu.
LAND	0%	2,588,623	-	-	2,588,623	-	-	-	-	2,588,623	2,588,623
BUILDING	3%	35,611,244	-	23,868,971	59,480,214	447,824	-	1,073,172	1,520,995	57,959,219	35,163,420
FURNITURE & FIXTURES	15%	9,764,960	129,160	1,938,212	11,574,012	3,502,496	120,433	1,297,979	4,680,042	6,893,970	6,262,464
OFFICE EQUIPMENTS	15%	3,740,550	23,951	1,358,847	5,075,446	1,945,740	23,945	404,367	2,326,162	2,749,284	3,252,354
ELECTRICAL EQUIPMENTS	15%	6,262,005	-	(0)	6,262,005	369,537	-	939,301	1,308,838	4,953,167	4,310,397
NETWORK EQUIPMENTS	15%	18,724,233	-	1,131,780	19,856,013	474,169	-	2,823,602	3,297,771	16,558,242	18,354,696
COMPUTER HARDWARE	15%	18,482,022	103,153	24,447	18,403,317	7,923,624	102,922	3,792,830	11,613,533	6,789,784	10,558,398
COMPUTER SOFTWARE	15%	8,750,638	-	2,668,434	11,419,072	3,090,513	-	-	3,090,513	8,328,559	5,660,125
MOTOR VEHICLES	15%	6,265,292	-	2,696,450	8,961,741	3,326,806	-	772,292	4,099,098	4,862,643	2,938,486
OTHER EQUIPMENTS	100%	78,908	1,500	20,000	97,408	78,851	1,499	19,995	97,347	61	57
ART & ARTIFACTS	0%	159,060	1,700	25,900	183,260	-	-	-	-	183,260	159,060
SECURITY EQUIPMENTS	15%	345,000	-	1,276,758	1,621,758	189,417	-	119,853	309,270	1,312,488	155,583
TOTAL FIXED ASSETS		110,772,534	259,464	35,009,798	145,522,868	21,348,977	248,799	11,243,389	32,343,567	113,179,301	89,403,665
CAPITAL W.I.P		-	-	-	-	-	-	-	-	-	-
PREVIOUS YEAR		110,772,534	259,464	35,009,798	145,522,868	21,348,977	248,799	11,243,389	32,343,567	113,179,301	89,403,665
		80,234,738	2,773,175	33,291,079	110,752,642	17,658,332	2,561,413	6,252,058	21,348,977	89,403,665	-

Notes : 1. No depreciation has been charged on Art&Artifacts as per the Income Tax Act of the Kingdom of Bhutan, 2001.

2. Depreciation for the year
Less : Depreciation on assets acquired out of Grants
Charged to Operating expenses Schedule 14

Nu.
11,243,390
71,167
11,172,223

	31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SCHEDULE 8 : INVESTMENTS (At Cost)		
<u>Quoted</u>		
1) 2500 Equity Shares of Nu. 100 each of Bhutan Carbideand Chemicals Limited	500,000	500,000
2) 3750 Equity Shares of Nu. 100 each of Bhutan Dairy Limited	-	375,000
3) 3810 Equity Shares of Nu. 100 each of Penden Cement Authority Limited	381,000	381,000
Sub Total	881,000	1,256,000
<u>Unquoted</u>		
1) 5000 Equity Shares of Nu. 100 each of Royal Securities Exchange of Bhutan Limited"	500,000	500,000
Sub Total	500,000	500,000
	1,381,000	1,756,000
Less: Provision for Bhutan Dairy Limited	-	375,000
TOTAL	1,381,000	1,381,000
Note : Market / Book value of Quoted Investments	4,035,000	5,107,500
SCHEDULE 9 : LOANS*(Recievable)		
Term Loan	3,126,104,064	2,326,465,982
Continuous Loan	400,366,100	376,448,270
Staff Loan	22,220,164	18,088,966
Principal Outstanding	3,548,690,328	2,721,003,218
Add : Interest Receivable on Loans	91,710,829	96,601,261
Total Outstanding	3,640,401,157	2,817,604,478
<u>Less : Provision For Loss</u>		
Specific Provisions	186,754,241	178,763,813
Non Specific Ad-hoc Provision	0	18,000,000
General Provisions	48,120,886	35,848,420
Suspended Interest/Penalty	55,570,178	48,194,828
Total Provision for loss	290,445,305	280,807,061
Loans Net of Provisions	3,349,955,852	2,536,797,417

31st Dec 2010	31st Dec 2009
(Nu.)	(Nu.)

SCHEDULE 10 - CURRENT ASSETS AND ADVANCES**A. Current Assets**

Cash and Bank Balances

(i) Cash in Hand	56,844,514	25,122,273
(ii) Cheques in Hand	629,545	2,412,760
(iii) Balances with Commercial Banks	204,979,430	168,121,661
(iv) CRR Deposit with Royal Monetary Authority	235,294,807	-
(v) Balance with Royal Monetary Authority	886,812	-
Short Term deposit with Bhutan National Bank Ltd.*	100,000,000	100,000,00
Short Term deposit with Tashi Bank -Gratuity Fund	10,200,000	10,000,00
Short Term deposit with Tashi Bank Ltd.	150,000,000	-

Sub Total	758,835,108	305,656,694
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B. Loans & Advances

Stock of Stationeries and Spares	1,154,264	605,660
Accounts/Other receivables	11,147,298	7,039,792
Asset Acquired on Settlement of Loans	15,000	15,000
Accrued Interest on short term deposits	3,249,207	1,836,512
Advances & Prepayments	7,265,798	25,787,405

Sub Total	22,831,567	35,284,370
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Less: Provision For Loss

Against Receivables	3,634,592	3,758,817
Against Asset Acquired on Settlement of Loans	15,000	15,000

Sub Total	19,181,975	31,510,553
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TOTAL	778,017,083	337,167,247
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* Short term deposit with Bhutan National Bank Limited has been pledged against the loan obtained from National Pension & Provident Fund.

SCHEDULE 11 : INTEREST ON LOANS

Term Loan	339,471,488	284,978,343
Continuous Loan	50,401,732	52,613,997
Staff Loan	1,214,466	1,006,086
TOTAL	391,087,686	338,598,426

	31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SCHEDULE 12 : INTEREST & DIVIDEND ON		
DEPOSITS & INVESTMENTS		
Interest on FDR - BOB(Gratuity Fund)	1,506,856	83,835
Interest on FDR - BNB & BOB	5,047,871	3,000,000
Dividend on Shares	437,250	329,200
TOTAL	6,991,977	3,413,036
SCHEDULE 13 - OTHER INCOME		
Legal Documentation Fee	1,045,670	505,890
Commission on Guarantee	11,724,178	13,301,452
Audit Recovery	244,143	74,626
Rental Income	2,823,815	1,000,000
Charges on repayment of loan of other Branches	720,355	442,790
Profit/(Loss) on Asset Sold/Discarded	(10,664)	623,898
Prior Period Income/(Expense)Net	(922,959)	1,505,798
Miscellaneous	2,930,961	1,834,968
TOTAL	18,555,499	19,289,422
SCHEDULE 14 : OPERATING EXPENSES		
Salary and Personnel Expenses	70,541,721	66,435,912
Workshop/Seminar/Training	2,027,633	3,900,416
Rent	1,389,991	1,823,264
Power and Water	550,089	344,613
Communications	4,210,707	2,212,117
Repairs and Maintenance	612,646	512,921
Annual Software Maintenance	1,299,984	1,238,927
Stationery and Supplies	3,943,528	3,391,436
Motor Vehicle Expenses	1,049,043	1,083,417
Subscriptions	568,711	266,776
Donation	30,000	140,000
Auditor's Fees and Expenses	276,000	215,000
Travel Expenses	8,873,684	6,983,660
Insurance	162,703	97,907
Transportation Charges	164,331	81,570
Entertainment/Business Promotion	1,253,250	872,250
Land Tax	34,044	31,569
Advertisement and Publicity	685,187	562,975
Fees and Commission Expenses	144,470	307,625
Bank Charges	895,581	588,502
Depreciation	11,172,223	6,232,722
Consultancy Fees	10,000	862,596
Office Security Expense	928,800	311,600
Other Expenses	169,023	1,235,706
TOTAL	110,993,348	99,733,480

	31st Dec 2010 (Nu.)	31st Dec 2009 (Nu.)
SCHEDULE 15: FINANCIAL EXPENSES		
a. Interest on Deposits		
Savings Deposits	9,783,033	4,989,816
Recurring Deposits	1,948,806	793,398
Fixed Deposits	17,412,212	3,133,471
Sub Total	29,144,051	8,916,685
b. Interest on Borrowings		
In - Country	69,190,184	80,179,241
Third - Country Through Royal Government of Bhutan	13,446,248	11,436,576
Sub Total	82,636,432	91,615,817
TOTAL	111,780,483	100,532,503
SCHEDULE 16 :WRITE OFF / PROVISIONS		
Written-Off	-	251,254
Provision on Loans	16,019,686	10,732,478
TOTAL	16,019,686	10,983,731

SCHEDULE 17 – SIGNIFICANT ACCOUNTING POLICIES:**1. SYSTEM OF ACCOUNTING**

- 1.1 The financial statements have been prepared by following the going concern concept on historical cost basis and conform to the statutory provisions, various instructions, circulars and guidelines issued by the Royal Monetary Authority (RMA) of Bhutan from time to time and generally accepted accounting policies and procedures prevailing in the country unless otherwise stated.

2. REVENUE RECOGNITION

- 2.1 Interest income on loans is recognized on accrual basis except for non-performing loans with default over 90 days, in respect of which the interest income as per the guidelines issued by the Royal Monetary Authority of Bhutan, is shown under the head "Interest Suspense" which is taken to Profit & Loss Account on actual realization only.
- 2.2 Interest on investment is recognized on accrual basis.
- 2.3 Dividend income is recognized in the accounts in the year of dividend declaration by the investee companies.
- 2.4 Commission and exchange on Guarantee and letters of credit are recognized on pro rata basis over the period of their validity.

3. LOANS

- 3.1 Loans are stated at principal amount plus interest accrued thereon.
- 3.2 Assets acquired from defaulted borrowers are shown at the corresponding value of balances outstanding on the date of acquisition. Provision is made for possible shortfall, if any, as considered appropriate by management. Claims on such property by third party, if any, is disclosed as contingent liability.

4. INVESTMENTS

- 4.1 Investments are stated at cost.
- 4.2 Provisions are made for any shortfall in the market value of quoted investments in comparison to their carrying cost. In case of unquoted/unlisted investments provisions for diminution in value (as considered appropriate by the management) are made. Appreciation in the value of the investments is ignored.

5. FIXED ASSETS

- 5.1 Fixed assets are stated at original cost, net of accumulated depreciation.
- 5.2 Depreciation is provided at the rates specified in the Annexure II of Rules on the Income Tax Act of the Kingdom of Bhutan 2001 and is computed under straight-line method on pro-rata basis from the date of acquisition.
- 5.3 Fixed Assets are verified on as Annual basis and are entered in the Fixed Assets Register. Discrepancies if any are accounted for during the year
- 5.4 Impairment loss on Fixed Assets are identified and treated in the accounts accordingly.

6. GRANTS

- 6.1 Grants received in kind/cash for acquisition of fixed assets are recognized in the account as capital reserve to be apportioned over the life of the related assets. Other grants related to revolving fund received from Royal Government of Bhutan and others for specific project are also recognized in the accounts as capital reserve.

7. INVENTORIES

- 7.1 Inventories are stated at lower of cost or net realizable value.
- 7.2 Obsolescence is recognized as and when required.
- 7.3 Small value items of assets cost of which are below Nu. 25,000 have been considered as stores purchased during the year and are fully charged against revenue in the year of purchase.

8. CURRENT LIABILITIES

- 8.1 Current liabilities are stated at their actual/estimated amount due on accrual basis.
- 8.2 Provision for bonus is considered in the accounts on the basis of board resolutions.

9. STAFF BENEFITS

- 9.1 Gratuity is provided on accrual basis, as per the corporation's service rules read with the guidelines framed by the Royal Civil Service Commission of Bhutan, presuming that all employees cease to work as of the year end.

9.2 Bonus is accounted for on accrual basis.

9.3 Leave encashment liability is provided on the basis of leave accrued to the employees as at the end of the year considering the last basic pay of each employee.

9.4 Leave travel concession (LTC) is accounted for on accrual basis.

10. CLAIMS

10.1 Claims if any are generally accounted for on settlement basis.

11. PROVISION FOR NON-PERFORMING LOANS

11.1 Provision for non-performing loans is made as per the guidelines issued by the Royal Monetary Authority of Bhutan at the following rate, except for loans under litigation against which 100% provision is made.

Credit Exposure	Provision on outstanding Principal amount. (%)
Standard	1.50
Watch	1.50
Substandard	20 (30 in case of Highest Exposure Sector)
Doubtful	50 (60 in case of Highest Exposure Sector)
Loss	100

12. CONTINGENT LIABILITY

12.1 Liabilities of contingent nature are disclosed in the notes on accounts.

13. BALANCE SHEET EVENTS

13.1 Material events occurring after the balance sheet date are taken into cognizance

14. FOREIGN EXCHANGE FLUCTUATIONS

14.1 Foreign exchange transactions are converted into local currency by using exchange rates prevailing on the date of transaction as published by the Royal Monetary Authority of Bhutan.

14.2 Monetary assets & liabilities (denominated in foreign currencies) are converted at Rates prevailing at the year end.

14.3 Acceptances, endorsement and other obligations are reported at the exchange rate prevalent on the date of the commitment.

15. NET PROFIT OR LOSS

The result declared in the Profit & Loss Account is after considering:-

- 15.1 Provision on non-performing assets.
- 15.2 Provision for depreciation on corporation's property, and
- 15.3 Other usual/ necessary provisions as required.

SCHEDULE 18 – NOTES ON ACCOUNTS

1. During the year the Corporation has received a restricted Banking License from Royal Monetary Authority of Bhutan to act as a Specialized Deposit taking Bank to engage only in depository banking vide Certificate of License dated 2nd March, 2010.
2. In terms of tripartite agreement between Royal Government of Bhutan, Asian Development Bank / Kuwaiti Fund for Arab Economic Development / International Fund for Agriculture Development and Bhutan Development Finance Corporation Limited, exchange fluctuation in respect of foreign currency loans received by the Corporation from ADB/KFAED/IFAD has not been recognized in the books of the Corporation.
3. Confirmations from various parties are not available in respect of loans, advances, receivables, payable etc.
4. Bhutan Development Finance Corporation Limited has been granted tax holiday up to December, 2010 in accordance with Ministry of Finance letter MOF/PED/19/2010/345, dated 3rd August, 2010 and accordingly no provision for tax liability has been made in the accounts in 2010.
5. Provision amounting to Nu. 16,019,686.00 (Nu.10,732,478.00 for 2009) against Loans has been computed as per the RMA Prudential Guidelines
6. An amount of Nu.31,978,031.00 (Previous Year.28,813,860) has been ascertained as liability towards gratuity on the presumption that all employees cease to be employed with the corporation as on 31.12.10 .This liability has been funded by way of separate investment Nu.10,200,000 as against the total gratuity provision of Nu. 31,978,031.00 as at 31.12.10. Income from the above investment has been taken as income of the corporation instead of adding to gratuity fund account
7. Out of total Borrowings, principal amount due for repayment in 2011 is Nu. 133.933 million.
8. During the year under review Nu. 6,394,337.63 spend on training staff outside the country has been adjusted with the Staff Training Fund created for the purpose.
9. Remuneration and expenditure paid/reimbursed to the Managing Director subjected to Board's approval was as follows.

Sl.No	Particulars	Amount-2010	Amount 2009
1	Pay & Allowance	908,340	943,581
2	Leave Travel Concession	15,000	15,000
3	Leave Encashment	58,597	53,425
4	Bonus	112,022	88,510
5	Travel Expense (In-Country)	22,000	22,037
6	Travel Expense (Abroad)	573,763	297,081
7	Provident Fund	70,524	56,898
8	BDFCL's Board Sitting Fees in 2010	30,000	26,000
	TOTAL	1,790,246	1,502,532

10. Additional information pursuant to the provision of Part II of Schedule XIII A of The Companies Act of the Kingdom of Bhutan, 2000.

Sl.No.	Particulars	Amount in 2010	Amount in 2009
A	Salary & Personnel Expenses includes	70,541,721	66,435,912
1	Manpower Expenses	47,565,820	44,436,221
2	Medical Expenses	157,096	20,094
3	GPF Contribution	4,286,011	3,082,808
4	Gratuity	3,564,082	8,005,337
5	Leave Travel Concession	2,537,017	2,351,074
6	Leave Encashment	2,791,041	2,548,656
7	Bonus to Staff	6,872,091	3,771,899
8	Staff Amenities	914,515	932,649
9	Cash Handling Allowance	721,800	437,419
10	Staff Transfer Expenses	632,246	242,094
11	Rent Expenses for personnel	0	112,200
12	Early Retirement Scheme	-	-
13	Staff Incentives	500,000	500,000
B	Repairs & Maintenances - Machinery	612,646	512,912

11. The following are the contingent liabilities as at		31.12.2010	31.12.2009
		Nu.	Nu.
a.	Performance Bonds	318.04 m	274.71m
b.	Other Guarantees	113.40 m	6.12m
c.	Amount of capital commitments remaining to be executed (approx.)	4.039m	27.20m

12. Previous year's figures have been rearranged / regrouped wherever necessary to make them comparable with the current year's figure.

Nawang Gyetse
Managing Director
Dated :

for S.N Mukherji & Co.
Chartered Accountants

Sudip K. Mukherji
Partner
Dated

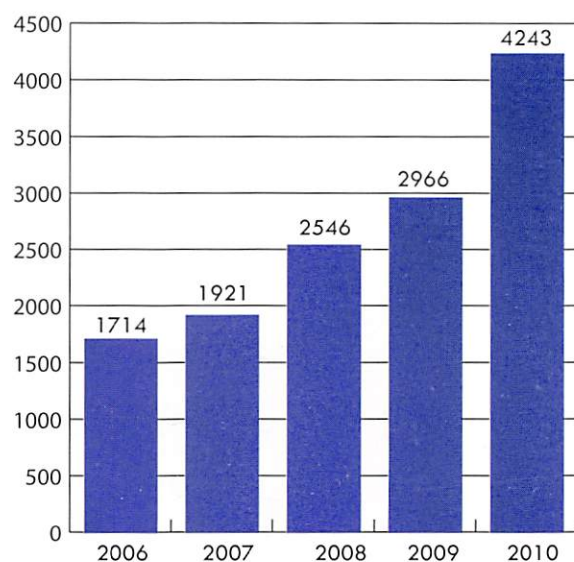
Mr. Nima Wangdi
Chairman
Dated :



CONSOLIDATED PERFORMANCE INDICATORS

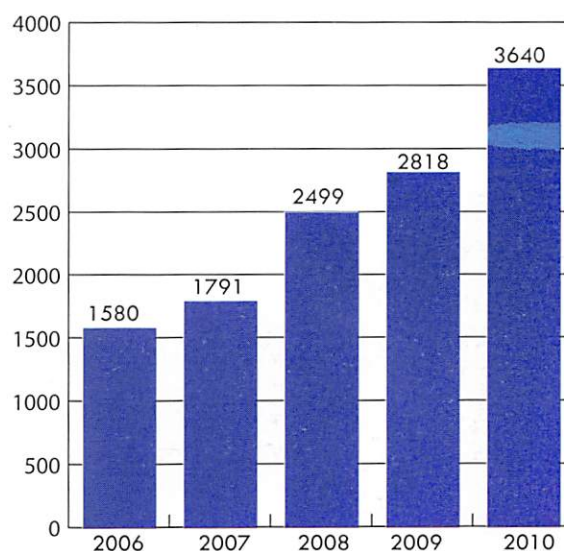
ASSET POSITION 2006-2010

Amount in million



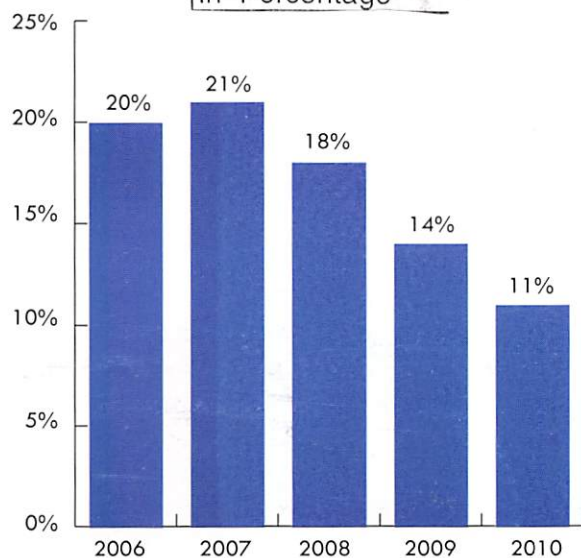
LOAN OUTSTANDING 2006-2010

Amount in million

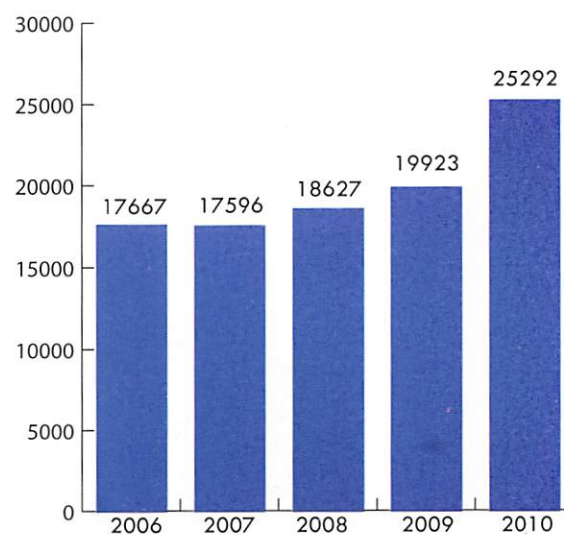


PORTFOLIO AT RISK 2006-2010

In Percentage



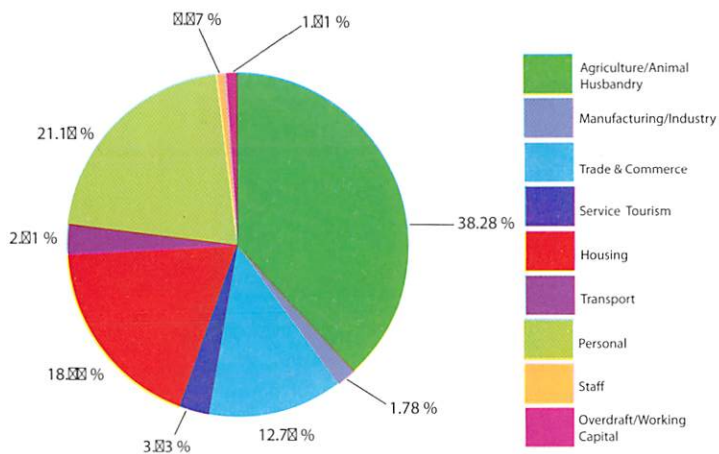
Nos. ACTIVE CLIENTS



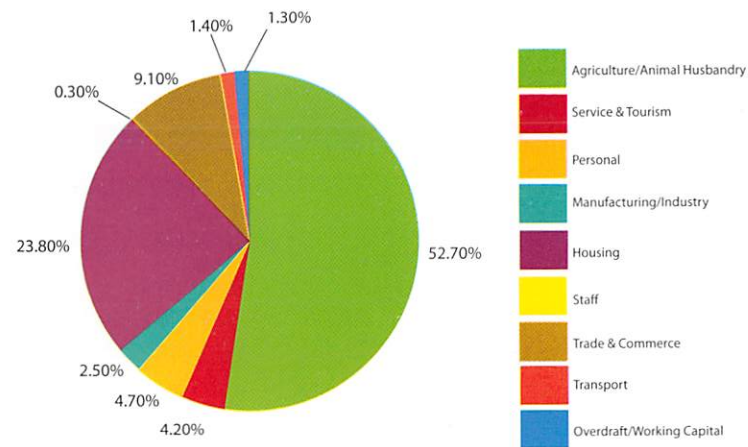


CONSOLIDATED PERFORMANCE INDICATORS

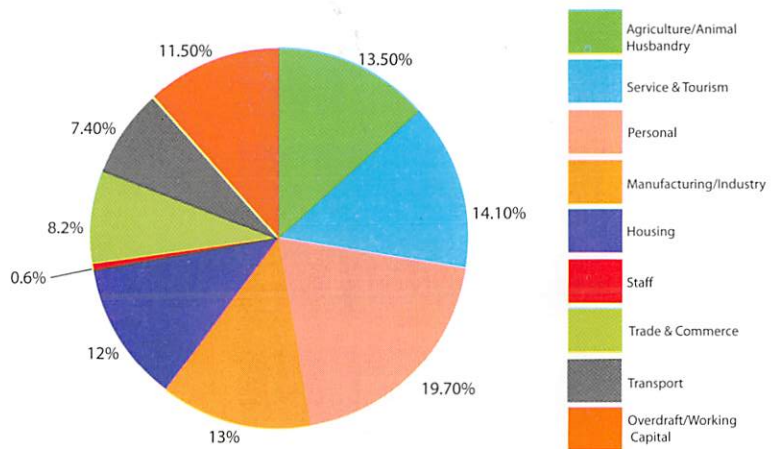
SECTOR-WISE DISTRIBUTION OF LOAN CUSTOMER



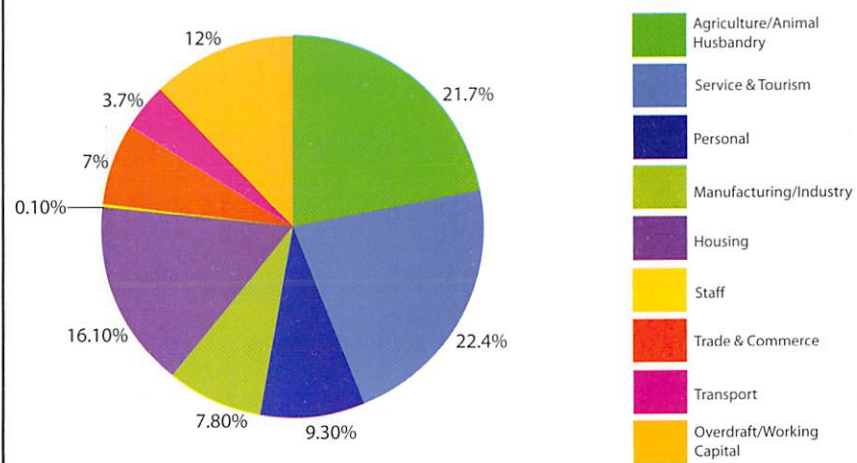
SECTOR-WISE DISTRIBUTION OF NPA LOAN CUSTOMER



SECTOR-WISE LOAN OUTSTANDING



SECTOR DISTRIBUTION OF NPA



BDBL BRANCH NETWORK - NATIONWIDE



VISION

To be the strong, dependable and customer focused Bank that provides much more than money, to ensure that businesses grow and succeed and our people enjoy a better tomorrow"



"The Bank that makes a difference, Lets grow together"
"Reaching the unreached and serving the Nation since 1988"

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