



DRUK PNB BANK LTD

... your partner in growth!



ANNUAL REPORT 2011



Master Card Acquiring Facility:

All visiting officials/tourists/dignitaries to Bhutan carrying international Debit/Credit cards issued by any bank worldwide, bearing Master/Maestro/Cirrus logo can now withdraw cash from any of our ATMs in Bhutan

An advertisement for Druk PNB Bank Ltd. featuring a woman in traditional Bhutanese attire holding a red Maestro Debit Card. The text reads: "DRUK PNB BANK LTD. Announces Launch of Maestro Debit Card". Below the text are the MasterCard, Cirrus, and Maestro logos. At the bottom, it says "Please contact our nearest branch office for more information...".



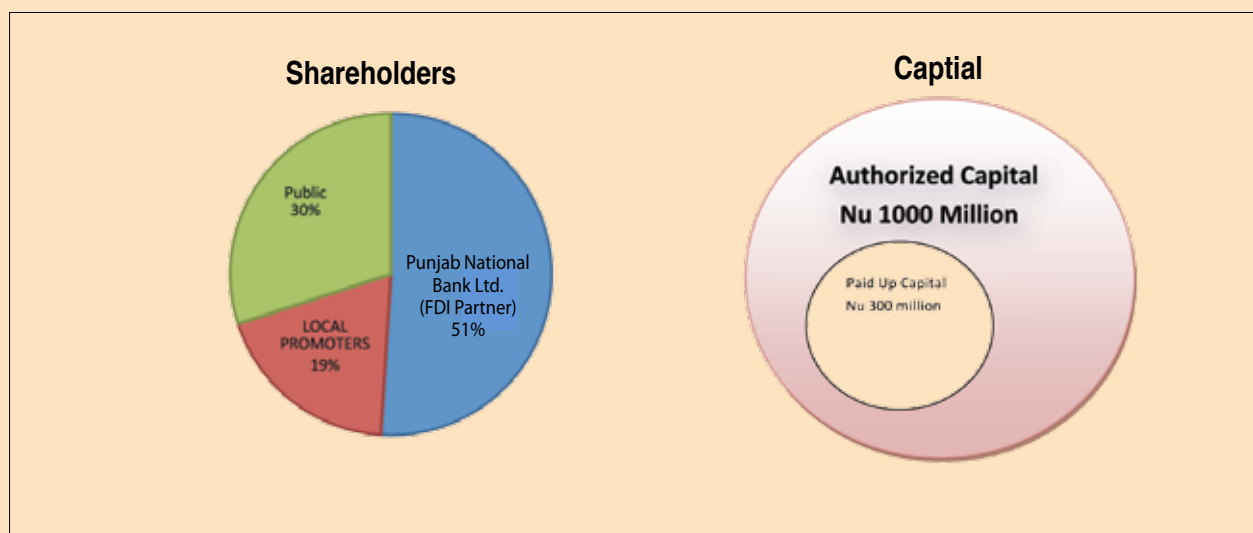
Launching of Maestro Card by His Excellency Lyonchen Jigme Y. Thinley

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ABOUT DRUK PNB BANK LTD.



Corporate Office

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Tel. No +975-2--324497, 325936, 331291. Fax. No +975-2-327546, 333156

www.drukpnbbank.bt



THIMPHU BRANCH

Post Box No 502, Norzin Lam,
Near Main Traffic,
Thimphu Bhutan
Tel. No +975-2--324497,
325936
Fax. No +975-2-327546, 333156



PHUENTSHOLING BRANCH

Post Box No 156, Zhung Lam,
Near RRCO,
Phuentsholing Bhutan
Tel. No +975-5-253660,
253661, 253662
Fax. No +975-5-253669



WANGDUE BRANCH

Post Box No 1305,
New Bajo Town,
Wangdue Phodrang Bhutan
Tel. No +975-2-481932, 481930
Fax No. +975-2-481931

BOARD OF DIRECTORS



Dasho Sangay Wangchuk
(Chairman)

Dasho Sangay Wangchuk belongs to reputed and well established business family in Bhutan. He started his career in civil service after pursuing MBA degree from Columbia University, USA. He is the main local promoter who spearheaded the establishment of Druk PNB Bank Ltd and holds maximum shares among local promoters.



G.S. Dubey
General Manager (PNB)

Mr Gulab Shanker Dubey, BE,MA, CAIIB-I is a PNB Nominee Director. He joined PNB in 1974 and has more than 38 years of banking experience. Besides working in field in various capacities, he has worked as Circle Head for more than five years in various parts of India. Presently he is General Manager Personnel Division in the Corporate Office of PNB in New Delhi India.



Parmod K. Sharma
General Manager (PNB)
w.e.f 7th June 2012

Mr. Parmod K Sharma, MA CAIIB MBA, having joined PNB as Management Trainee in 1977, is PNB Nominee Directors since 7th June, 2012. In his 34 years plus banking career, besides working in different assignments in field, he has worked for more than six years as Zonal Manager in different zones of India. He also worked for 3 years as DGM in Everest Bank Ltd. Nepal, another Joint Venture Bank of PNB. Presently he is Field General Manager PNB based in Kolkata supervising more than 540 branches in the states of West Bengal, Chhatisgarh, Orissa and all North Eastern States of India.



Tandin Wangchuk
Public Shareholder Representative

Tandin Wangchuk is a alumnus of Delhi University, India who pursued commerce degree. He started his career in corporate world and also served as an executive member in BCCI for 3 years. After having gained extensive experience in business with exposure in various economic activities he started his own business. He represents public shareholders in the board of Druk PNB bank Ltd.



Nand Kishore Arora
(Chief Executive)

Nand Kishore Arora, B.Sc., CAIIB, is the first Chief Executive Officer of the Bank. He is on deputation from Punjab National Bank (PNB), 51% stake holder in Druk PNB Bank Ltd. He joined PNB as Management Trainee in 1980 and in his 30 years plus banking career, he has experience in bank's IT Division, as Credit Head of Regional Office and having successfully managed Very Large/Exceptionally large branches of PNB in various parts of India. Presently, he is also on the board of Credit Information Bureau of Bhutan, Financial Institutions Training Institute of Bhutan and Board of Credit Guarantee Scheme in Bhutan.

FINANCIAL HIGHLIGHTS

Assets/Liabilities Position

(In million Ngultrum)

Item	As of 31.12.2010	As of 31.12.2011
Total Assets	4,389.28	4,814.41
Capital Fund	300.00	505.32
Deposit Liabilities	3,459.83	4,143.42
Advances	1,722.69	2,817.52

Operating Results

Item	For the year 2010	For the year 2011
Income	102.93	309.79
Expenses	114.72	250.13
Net Profit (after tax)	(11.78)	45.30

Ratios

Loan to Deposit	2010	2011
Operating Efficiency	104%	72%
Net Interest Margin	2.41%	5.39%
Earning Base	0.39	0.59
Return on Assets(total)	(0.26%)	1.00%
Return on Capital	(3.92%)	8.96%
Profit Per Employee	-	0.58 million

DIRECTORS REPORT



Dear Shareholders,

It is my privilege to welcome the shareholders present to the 2nd Annual General meeting of the bank and my pleasure to present before you the Annual Report of your bank for the year ended 31st December'2011 on behalf of the Board of Directors of the bank.

The financial performance of the bank though two years old operationally, has been encouraging and has made satisfactory entry in the in-country financial market. Your bank's products and quality services have been appreciated by the public at large. The bank as on 31/12/2011 has deposit and Loans & Advances base of Nu.4.143 billion and Nu.2.817 billion respectively with 36,125 numbers of accounts. The bank registered 34.57% growth in total business during the year from Nu.5.172 billion in 2010 to Nu.6.960 billion in 2011.

Net Profit

The bank registered net profit of Nu.45.302 million in 2011 as against the loss of Nu.11.788 million in 2010. This is a very positive result for a new entrant in the market. This was achieved primarily with growth of Nu.163.912 million (182.93%) from interest income and Nu.42.951 million (287.89%) from non-interest income followed by prudent management of cost of deposit and operating expenses.

Capital & Reserve

In order to develop the capital fund base of the bank so as to remain competitive in the market against the other well established commercial banks in the country as well as to maintain a fine Capital adequacy ratio, we have ploughed back the entire net profit of the bank, Nu.33.513 million (after writing off 2010 loss of Nu.11.788 million) to General Reserve during the year.

With this plough back of the profit to business the capital fund as at 31/12/2011 stand at Nu.505.32 million and Capital Adequacy ratio at 14.26%.

Corporate Governance

The bank is committed to achieving a high standard of corporate governance in terms of best banking practices, transparency and accountability. During the year under the guidance of the eminent members of the bank's Board following policies have been drawn and are under review for professional management of the bank:

- Investment policy
- Foreign Exchange Management policy
- Assets/Liability Management policy

The Board and the Audit Committee met 4 times during the year complying with the requirements of the Companies Act of the kingdom of Bhutan 2000 and RMA Prudential Regulations, 2002. The quorum of these meetings were duly maintained

Statutory Compliance

The bank has complied with all regulatory norms in respect of classification of assets, provisioning on loans, exposure limits to single largest borrower & ten largest borrowers, CRR and SLR at all times. The bank is in the process of further consolidation of its risk management techniques and establishment of an independent internal audit cell for improvement in compliance in future.

Constitution of the Board

During the year Mr. G. S. Dubey, General Manager, PNB Delhi was inducted to the DPNBL

Board as the new PNB Board Director and Mr. R. M. Diwan, General Manager, PNB Delhi, retired from the Board on his superannuation from the PNB service.

New Banking Products and services

Druk PNB Bank Ltd was the pioneer in launching the Maetsro Debit cards in the country during the year, this service has enabled the clients of the bank to move cash free outside the country.

Business expansion

In the year 2012 we plan to open two new branches one at Gelephu and another at Paro Dzongkhangs. This will enable us to increase our customer base and our business coverage.

Corporate Social Responsibility

During the year the bank in collaboration with Thimphu Thomde organized two cleaning campaigns in the Thimphu city on the occasion of Royal Wedding and a blood donation campaign in our corporate office premises with the support from Thimphu JDWR hospital to mark first anniversary of bank's operation. We are pleased to report that we donated 32 units of blood for the welfare of the needy patients in the hospital.

Statutory Auditors

M/s N. C. Mitra and Co, Chartered Accountants, Kolkata have audited the bank's books of accounts for the year ended 31st December'2011.

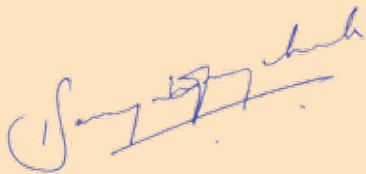
Acknowledgement

The Board expresses its sincere gratitude to the Royal Government of Bhutan, Royal Monetary Authority of Bhutan, Royal Securities

Exchange of Bhutan and other regulators for their valuable guidance and support.

The Board also thanks all the financial institutions in Bhutan and correspondent banks in India & third countries for their cooperation and patronage.

The Board acknowledges the gratifying confidence of the customers and shareholders and wishes to place on record its appreciation for the dedicated services and contribution made by the employees of the bank towards its growth and achievement during the year.



(Dasho Sangay Wangchuk)
CHAIRMAN

CHIEF EXECUTIVE'S REPORT

Year 2011, a second year of its operation, is the year to be cherished in the history of this bank as it has break even and started recording profit that too, after absorbing the loss incurred in the previous year. We are also pleased to share with stakeholders, in particular, our shareholders that we could achieve targets set for 2011 in mobilization of funds, its channelization to the various productive economic sectors and payment services despite competition in the market from the existing veteran banks and the new entrants like this bank. All these achievements were due to one and the only reason, understanding customers' needs and providing them with appropriate banking solutions. Particularly, this bank's entrant has made remittance to India very fast and reliable making lives of Bhutanese people whose children are studying in India very convenient to wire fund.

Financial Aspect

Some of the key parameters from which the bank's outstanding performance can be seen are highlighted below:-

- Net profit of Nu 45.30 million in its 2 nd year of operation
- Total Business grown by 34% from Nu 5182.52 million in 2010
- Total deposits were Nu 4,143 million, an increase of 20% over 2010
- Total advances touched Nu 2,817 million mark, which registered a growth of 63% over 2010

- Capital fund registered a growth of 68% to Nu 505.32 million
- Customer base as of 31/12/2011 reached 36,000+
- Earning base touched 59% of total assets as compared to 39% in 2010
- Business per employee (excluding subordinate staff) recorded over Nu 90 million

Branch Network

Since the day it started its operation, the bank opened 3 branches in Thimphu, Phuentsholing and Wangdue with the sole aim to book good business and build solid foundation of the bank as the prospective customers are mainly concentrated in these areas and thereafter gradually make its presence in other places where its service is needed most.

Alternate Delivery Channels

In two years time, the bank installed 10 ATMs in places where it opened branches for the convenience of customers to withdraw cash and reduce footfall in the branches.

Similarly, the bank also launched mobile phone banking to inform and update its customers on the banking transaction happened in their accounts on real time basis. Of all, the year saw the launching of MAESTRO Debit Card in December 2011 which made it convenient to the people who travel to India and other countries to withdraw cash.

Corporate Social Responsibility



The bank not only focuses on its core business of providing banking services to the people. It values community service as well. As a part of its corporate social responsibility, it organized Blood Donation Camp to mark its First Anniversary of banking operations in January 2011 during which its staff donated 32 unit of blood.

It also participated in cleaning campaign in support of Thimphu Thromdue's endeavour to keep Thimphu clean in the month of August 2011.



Staff Training

The bank always endeavours to update knowledge and skills of its employees, particularly on the core banking system which is core to the efficient service delivery to the customers. The first batch of the employees were given training on banking operations in finacle at PNB training institute, Lucknow before the bank went into operation. Similarly, people who joined the bank subsequently will be sent for training in batches to other PNB training centres in India.

Future Plans

In 2012, the bank plans to open branches in Gelephu and Paro with the aim to make its service available in five Dzongkhags. Similarly, the bank is contemplating opening branches in eastern region in year 2013. The bank is also contemplating installation of additional 10 or so ATMs in the immediate future after studying its viability.

(N.K.Arora)
Chief Executive Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

- 1 We have audited the attached Balance Sheet of Druk PNB Bank Limited as at 31st December, 2011 and Cash Flow Statement for the year ended on that date, signed by us under reference to this report. 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.
- 2 We have 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 misstatement. 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.
 - 2.1 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.
 - 2.2 In our opinion, proper books of account, as required by law, have been maintained by the Bank so far as appears from our examination of those books.
 - 2.3 The financial statements dealt with by this report are in agreement with the books of account.
 - 2.4 In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements read together with the statements on significant accounting policies and notes to the accounts, the given information required by the Companies Act 2000 of the Kingdom of Bhutan, in the manner so required and also give a true and fair view:
 - a) In the case of the Balance Sheet, of the state of the affairs of the Bank as at December 31, 2011.
 - b) In the case of the profit and loss account, of the profit for the year ended on that date; and
 - c) In the case of Cash Flow Statement the movement of the cash during the year ended as on that date.
- 3 As required by the minimum audit examination and reporting requirements under 2nd paragraph of Schedule XIV under section 75 of The Companies Act of the Kingdom of Bhutan 2000, read with Part II of Schedule XIV to the extent applicable, and on the basis of such

checks as we considered appropriate and according to the information and explanation given to us, we further report that:

- 3.1 The Bank has maintained proper records showing full particulars including quantitative details and situations of Fixed Assets but codification of fixed asset should be initiated by the management in order to maintain a proper internal control.
- 3.2 None of the Fixed Assets have been revalued during the year.
- 3.3 The company has not taken any loan from Companies under the same management terms of which are prejudicial to the interest of the company.
- 3.4 The company has not granted any loan, secured or unsecured to other companies, firms or other parties and/or to companies under the same management terms of which are prejudicial to the interest of the company.
- 3.5 No excessive/frequent advances are generally granted and accumulation of large advances against particular individual is generally avoided.
- 3.6 The loans/advances granted to officers/ staffs are in keeping with the provision of Service Rules and no excessive/ frequent advances are granted and accumulation of large advances against particular individual is avoided.
- 3.7 In our opinion and according to the information and explanation to given to us the Bank has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Bank as well as to ensure adherence to the rules, regulations and systems and procedures.

However, the present Internal Audit system needs to be strengthened by assigning the job to a group of qualified and experienced personnel who are independent of routine banking activities and shall submit comprehensive report to the Audit committee at regular periodicity (quarterly) highlighting observation on the significant segments of operation.

- 3.8 Fund based /Non-fund based facilities were provided to the Directors or any other parties related to the Directors or with company or firms in which the Directors are directly or indirectly interested under similar terms and conditions as are applied with other parties. Such terms and conditions are not prejudicial to the interest of shareholders and other Directors of the Bank.

- 3.9 According to the records, the Bank is regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authority.
- 3.10 There are no undisputed amounts payable in respect of rates, taxes, duties, provident fund and other statutory dues outstanding at the year-end.
- 3.11 No personal expense of employees or directors have been charged to the Bank accounts other than that payable under contractual obligations or in accordance with generally accepted business practice
- 3.12 In our opinion and on the basis of information and explanation given to us, the management of liquid resources, particularly cash /bank and short term deposits etc is reasonably adequate and excessive amounts are not lying idle in non interest-bearing accounts.
- 3.13 In our opinion and on the basis of available records and information, the activities carried out by the Bank are lawful and intravires to the Articles of the Incorporation of the Bank.
- 3.14 The details of remuneration and other payment made to the Managing Director of the Bank and suitably disclosed in Notes NO.6 (Schedule-17) is as below:
- | | | |
|----------------------------|---|------------------|
| a. CEO's remuneration | : | Nu. 1,581,289.00 |
| b. Directors' sitting fees | : | Nu. 60,000.00 |
| c. Audit fees & expenses | : | Nu. 200,000.00 |

The Bank has established an effective budgetary control system

- 3.15 As represented to us, the directives of the Boards have been complied with.
- 3.16 So far as we have been represented and our knowledge is concerned, the officials of the Bank have not transmitted any price sensitive information which are not made public, unauthorized to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
- 3.17 The Bank has maintained the adequate documents and records where it has granted loans and advances for which agreements have been drawn up and timely entries have been made therein.
- 3.18 The Bank has not dealt or traded in shares, securities and other investment during the year.

- 3.19 The Bank has adequate records for funds collected from depositors and for interest payments.
- 3.20 The Bank has complied with the requirements of Financial Service Act of Bhutan, 2011 and any other applicable laws, rules and regulations and guidelines issued by the appropriate Authorities.
- 3.21 The requirements of RMA Prudential Regulations, 2002 relating to provisioning for the non-performing assets including loans and advances have been complied with.
- 3.22 Recognition of interest income in respect of non-performing assets has been deferred.
- 3.23 The assets hypothecated against loans and advances have been periodically physically verified, properly valued, mortgage deed executed and ensured that the assets are free of any prior lien or charges.
- 3.24 Proper analysis is carried out before re-phasing/rescheduling of loans.
- 3.25 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 Organizational and system development controls and other internal controls are adequate relative to size and nature of computer installations.
2. There are adequate safeguard measures and backup facilities exist in relation to computer facilities.
3. The backup facilities and disaster recovery measures include keeping files in different locations.
4. The operational controls are being strengthened with the implementation of the CBS to ensure correctness and validity of input data and output information.
5. The measures to prevent unauthorized access over the computer installation and files are adequate.

General

1. Going Concern Problems:

Based on the net asset position reflected by the Bank's Balance Sheet as at 31st December, 2011 audited by us in accordance with the Generally Accepted Auditing

Standards and on the basis of such other tests as we considered necessary in this regards, we have no reason to believe that the Bank is not a going concern on the Balance Sheet date and is not likely to become sick in the near future.

2. Ratio Analysis:

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

Ratio	2011 (in %)	2010 (in %)
Current ratio Current Assets/Current liabilities	1.17	1.33
Core capital Tier I capital/Total Risk weighted assets	8.08	13.68
Capital Adequacy Tier I & Tier II capital/Total Risk weighted assets	13.59	14.08
Statutory Liquidity Requirement Quick Assets/Total liabilities less Tier I Capital and liabilities to RMA	41.95	62.80

3. Compliance with the Companies Act of the Kingdom of Bhutan, 2000.

The Bank has complied with the various provisions of the Companies Act of the Kingdom of Bhutan, 2000 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares and all other matters specified in the said Act.

4. Adherence to Laws, Rules and Regulations

The audit of the Bank is governed by the Companies Act kingdom of Bhutan, 2000, RMA Prudential Regulations, 2002 and Financial Service Act of Bhutan 2011. The scope of audit is limited to examination and review of the financial statements as produced to us by the management.

The Bank has generally complied with the applicable laws, rules and regulations, systems, procedures and practices as informed and explained to us.

For N. C. MITRA & CO
Chartered Accountants (FRN 306027E)

**U. K. Basu, Membership No. 52995
PARTNER**

Date: 28 February, 2012

Place: New Delhi

FINANCIAL STATEMENTS

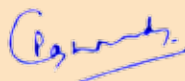
1. Balance Sheet as on 31st December, 2011

ASSETS	Schedule No	As at 31/12/2011		As at 31/12/2010	
		Nu.	Ch.	Nu.	Ch.
Share Capital	1	300,000,000.00		300,000,000.00	
Subordinated Term Debts		144,000,000.00			
Reserve & Surplus	2	33,513,402.11			
Deposits	3	4,143,421,487.40		3,459,826,204.71	
Other liabilities & provisions	4	193,472,365.99		629,450,557.76	
		4,814,407,255.50		4,389,276,762.47	
Cash & balance with RMA	5	1,707,454,254.72		1,846,751,911.87	
Balance with Banks	6	186,198,400.25		729,078,751.98	
Loans & Advances	7	2,817,518,874.07		1,722,695,772.80	
Fixed Assets	8	63,117,077.98		60,751,077.61	
Other Assets	9	36,810,657.40		8,286,704.95	
Debit balance in Profit & loss Account				11,788,570.01	
Preliminary expenses	10	3,307,991.08		9,923,973.25	
(to the extent not written off)					
		4,814,407,255.50		4,389,276,762.47	
Contingent Liabilities	11	836,499,703.83		325,003,807.87	
Significant Accounting Policies	16				
Notes on Accounts	17				

The schedules referred to above form an integral part of the Balance Sheet Signed in terms of our attached report of even date




 (CEO)


 (Director)


 (Chairman)




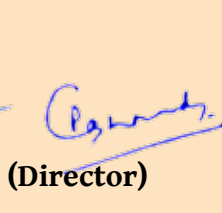
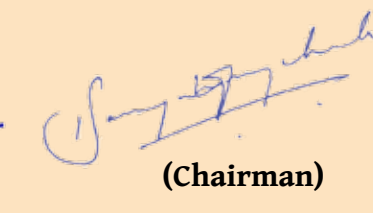
For N. C. Mitra & Co
Chartered Accountants


 (U. K. Basu) Partner
 Membership Number: 52995

2. Profit & Loss Account for the year ended 31 December, 2011

	Schedule No.	As at 31/12/2012	As at 31/12/2011
INCOME			
Interest earned	12	251,923,836.29	88,011,355.43
Other Income	13	57,870,028.12	14,919,021.28
		309,793,864.41	102,930,376.71
EXPENDITURE			
Interest Expended	14	129,481,453.11	46,345,486.04
Operating Expenses	15	83,640,682.04	58,929,137.82
Preliminary Expenses		6,615,982.17	
Provisions & Contingencies		30,390,888.35	9,444,322.86
		250,129,005.67	114,718,946.72
Profit /Loss before tax		59,664,858.74	(11,788,570.01)
Loss brought forward		(11,788,570.01)	
		47,876,288.73	
Provision for income tax		14,362,886.62	
Net profit for the year		33,513,402.11	
Significant Accounting Policies			
Notes on Accounts			

The schedules referred to above form an integral part of the Profit & Loss Account
Signed in terms of our attached report of even date




 (CEO) (Director) (Chairman)



For N. C. Mitra & Co
Chartered Accountants

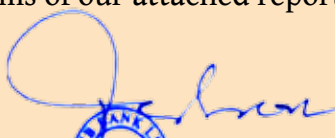





(U. K. Basu)
Partner
Membership Number: 52995

3. Cash Flow Statement as on 31 December, 2011


Particulars	Amounts(Nu.)	Amounts(Nu.)
A. Cash Flow From Operating Activity		
Profit/(loss)	59,664,858.74	-
Add: Depreciation	11,649,187.78	
Add: Preliminary expenses written off	6,615,982.17	-
	77,930,028.69	-
Increase/(Decrease) in other liabilities & provisions	(449,806,068.39)	
(Increase)/Decrease in other Assets	(28,523,952.45)	
Total of (A)		(400,399,992.15)
B. Cash Flow from Financing Activity		
Subordinated Term Deposit accepted	144,000,000.00	
Deposits accepted	683,595,282.69	
Loans & Advances given	(1,094,823,101.27)	
Total of (B)		(267,227,818.58)
C. Cash Flow from Investing Activity		
Fixed Asset Purchase	(14,015,188.15)	
Sale of Fixed Asset	-	
Preliminary expenses	-	
Total of (C)		(14,015,188.15)
Change in Cash and cash equivalents (A+B+C)		(682,178,008.88)
Opening Cash and cash equivalents	2,575,830,663.85	
Closing Cash and cash equivalents	1,893,652,654.97	
Change in Cash and cash equivalents		(682,178,008.88)
SIGNIFICANT ACCOUNTING POLICIES	16	
NOTES TO ACCOUNTS	17	

The schedules referred to above form an integral part of the Cash Flow Statement
Signed in terms of our attached report of even date


CEO 

Director

Chairman



For N. C. Mitra & Co
Chartered Accountants


(U. K. Basu)

Partner

Membership Number: 52995

Schedules forming part of Balance Sheet

	As at 31/12/2011	As at 31/12/2010
Schedule 1: Share Capital		
Tier I		
Authorised Capital	1,000,000,000.00	1,000,000,000.00
10,000,000 shares of Nu.100 each		
Issued and Paid Up		
3,000,000 shares of Nu. 100 each	300,000,000.00	300,000,000.00
	300,000,000.00	300,000,000.00
Tier II		
Subordinated term debts		
144,000 unsecured Bonds of Nu.1000 each	144,000,000.00	
Schedule 2: Reserves & Surplus		
Opening Balance	NIL	
Transferred from Profit & Loss account	33,513,402.11	
Schedule 3: Deposits		
Demand Deposits:		
Current Deposits	307,707,305.47	826,683,957.20
Savings Bank Deposits	1,741,591,663.97	863,829,842.82
	2,049,298,969.44	1,690,513,800.02
Term Deposits:		
Fixed Deposits	1,752,778,556.00	1,677,144,956.50
Recurring Deposits	64,640,194.00	22,389,400.00
	1,817,418,750.00	1,699,534,356.50
Other Accounts:		
Balance from other banks in Current Deposits	276,703,767.96	69,778,048.19
Total Deposits	4,143,421,487.40	3,459,826,204.71
Schedule 4: Other Liabilities & Provisions		
Bills payable	25,371,555.38	571,795,943.31
Interest accrued on deposits	50,679,164.89	-
Balance with other offices	945,557.82	-
Provision - Gratuity	1,028,380.00	493,370.00
provision - Loans - General	27,814,919.73	8,591,832.06
- Specific	11,480,804.48	852,490.80
Provision for income tax	14,362,886.62	
Others	61,789,097.07	47,716,921.59
	193,472,365.99	629,450,557.76

Schedule 5: Cash & Balances with RMA		
Cash in hand:		
BTN	22,750,344.00	144,358,642.00
INR	365,860.00	10,112,460.00
FC	13,110,236.53	735,460.00
	36,226,440.53	155,206,562.00
CRR with RMA	692,911,895.11	705,433,306.10
Penalty Account with RMA	100,000.00	100,000.00
Balance with RMA	978,215,919.08	986,012,043.77
	1,671,227,814.19	1,691,545,349.87
Total	1,707,454,254.72	1,846,751,911.87
Schedule 6: Balance with other Banks		
Balance with Banks in India & third countries		
Current Account	24,698,845.54	663,051,398.10
Current Account in Bhutan	61,499,554.71	66,027,353.88
Deposit Account in Bhutan	100,000,000.00	-
	186,198,400.25	729,078,751.98
Schedule 7: Loans & Advances		
Demand loans	298,982,700.64	169,627,556.00
Cash Credit	133,843,367.63	90,260,686.14
Overdraft etc	560,094,480.44	313,876,246.41
Term Loan	1,823,628,922.36	1,135,896,714.09
	2,816,549,471.07	1,709,661,202.64
Bills discounted & Purchased	969,403.00	3,813,953.16
Interest Receivable	-	9,220,617.00
	2,817,518,874.07	1,722,695,772.80
Schedule 8: Fixed Assets		
Leased Premises		
As on 31/12/2010	4,461,530.00	-
Addition during the year	-	4,461,530.00
	4,461,530.00	4,461,530.00
Less: Depreciation	1,784,612.00	223,076.50
	2,676,918.00	4,238,453.50
At cost as on 31/12/2010	63,017,238.92	8,300,078.00
Addition during the year	14,015,188.15	56,086,363.91
	77,032,427.07	64,386,441.91
Sold during the year	-	1,369,203.00
	77,032,427.07	63,017,238.91
Less: Depreciation Reserve	16,592,267.09	6,504,614.80
	60,440,159.98	56,512,624.11
	63,117,077.98	60,751,077.61

Schedule 9: Other Assets		
Interest accrued	26,362.00	27,642.00
Advances made recoverable	7,928,295.40	8,259,062.95
Remittance in transit	16,856,000.00	-
Contribution for Training Institute	12,000,000.00	-
	36,810,657.40	8,286,704.95
Schedule 10: Preliminary Expenses		
Advertisement	35,994.00	35,994.00
Staff training	2,485,352.00	2,485,352.00
Staff Emoluments	5,462,168.16	5,462,168.16
Postage	2,330.00	2,330.00
Stationery	16,833.00	16,833.00
Telephone	33,389.81	33,389.81
Conveyance	44,274.00	44,274.00
Rent	200,500.00	200,500.00
Board expenses	24,300.00	24,300.00
Electricity	8,516.00	8,516.00
News paper/Books /Magazines	1,662.00	1,662.00
Fees & Bank charges	67,293.25	67,293.25
Depreciation	298,455.65	298,455.65
Travel	572,834.50	572,834.50
Business entertainment	18,930.00	18,930.00
Audit Fees & Expenses	65,000.00	65,000.00
Miscellaneous	476,140.88	476,140.88
Logo design	10,000.00	10,000.00
License application fee-RMA	100,000.00	100,000.00
	9,923,973.25	9,923,973.25
Less : written off during the year	6,615,982.17	
	3,307,991.08	
Schedule 11: Contingent Liabilities		
Acceptance, endorsement & other obligations	836,499,703.83	325,003,807.87
Schedule 12: Interest earned		
Interest from Loans & Advances	247,107,435.20	87,337,605.43
Interest from Investments	1,405,958.90	673,750.00
Interest from Deposits with Banks in Bhutan	2,482,191.78	-
Other Interest Income	928,250.41	-
	251,923,836.29	88,011,355.43
Schedule 13: Other Income		
Commission & Exchange	35,675,046.17	11,167,706.76
Exchange Profit	13,479,682.51	513,737.56
Rental Income	61,000.00	20,250.00
Others	8,654,299.44	3,217,326.96

Schedule 14: Interest Expenses		
Interest paid on Deposits	129,481,453.11	46,345,486.04
Schedule 15: Operating Expenses		
Payment & Provision for employees	31,515,478.16	20,221,453.69
Travelling expenses	1,859,826.57	2,309,972.80
Directors' sitting fees	295,500.00	75,000.00
Postage, telephone, Swift & Networking	12,384,463.27	271,522.50
Audit fees & expenses	200,000.00	150,000.00
Depreciation on Fixed Assets	11,649,187.78	6,429,235.67
Repair to rental premises	817,156.46	20,805.00
Stationery, printing & Advertisement	3,188,843.54	3,912,184.14
Outsourcing of Financial services	7,577,346.64	5,865,205.00
Other expenses	14,152,879.62	19,673,759.02
	83,640,682.04	58,929,137.82

SCHEDULE 16 : Significant Accounting Policies for the Year ended 31st March 2011.

1. Accounting Convention

The financial statements have been prepared by following the going concern concept on historical cost basis and conform to generally accepted accounting policies and procedures prevailing in the country.

2. Revenue Recognition:

- a. Items of income and Expenditure are accounted for on accrual basis except commission of guarantee and Letter of credit, which is accounted for on cash basis.
- b. Interest, Rent, etc. are accounted at gross value before deduction of tax.
- c. 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 Authorities of Bhutan is shown under the head "suspended interest" which is taken to profit and loss account on actual realization only.

3. Fixed Assets:

- i. Fixed assets are stated at cost less depreciation
- ii. Depreciation is calculated at original cost of the asset and chargeable in the year of purchase on pro -rata basis from the date it is ready for use as per provisions

of income tax act of the kingdom of Bhutan 2001. However, classification of fixed asset and the correspondence rate of depreciation are based on assessment made by the management.

- iii. Cost incurred in respect of construction, modification, alteration etc. in a leased property shall be capitalized under a separate head entitled “Leasehold Development “. The amount so incurred shall be amortized in five equal annual installments or over a period of the lease period whichever is less.
- iv. Impairment loss of fixed asset are identified and treated in the accounts accordingly.

4. Loans:

Loans are stated at principal amount plus interest accrued thereon.

5. Retirement /employee benefits:

- i) Contribution to provident fund and other funds are accounted for as when accrued except leave encashment which is accounted for on cash basis.
- ii) Gratuity is provided on accrual basis only in respect of national employees only as per the service rule 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.

6 Provision for non performing Loans:

Provision for non performing loans is made as per the guidelines issued by the Royal Monetary Authority of Bhutan at the following rate.

Category	Provision on outstanding principal amount (%)
1) standard (upto 30 days)	1%
2) Watch (31-90 days)	1%
3) Substandard (91-180 days)	20% (30% for sector with highest exposure)
4) Doubtful (181-365 days)	50% (60% for sector with highest exposure)
5) Loss (> 365 days)	100%

7. Net Profit or Loss

The result declared in the Profit and Loss account is after considering:-

- 1. Provision on non-performing loans.
- 2. Provision for depreciation on companies property, and
- 3. Other usual/ necessary provisions as required.

SCHEDULE 17: NOTES ON ACCOUNTS FOR THE YEAR ENDED 31st DECEMBER 2011

1. Druk PNB Bank Ltd. was formed by Punjab National Bank, a Commercial Bank registered in India and Bhutanese promoters, wherein Punjab National Bank would participate in equity share capital to the extent of 51% as per the Joint Venture agreement.
2. The financial statements for the year have been drawn out in accordance with the Industry practice as well as prescribed formats of Royal Monetary Authority of Bhutan and the Companies Act of the Kingdom of Bhutan 2000, as far as practicable.
3. Contingent liabilities as at the Balance Sheet date are as follows:
 - a. Letter of Credit: Nu. 381,233,486.62
 - b. Other guarantees: Nu. 455,266,217.21
Nu. 836,499,703.83
4.
 - a. Interest income on loans of Nu. 247,107,435.20 is net of suspended interest of Nu.818,977.00 which conforms to the Prudential Regulation, 2002, issued by the Royal Monetary Authority of Bhutan.
 - b. Interest of Nu. 24,973,636.60 was not collected during the year but included in the above interest income.
 - c. Interest of Nu.818,977.00 has not been recognized as income and kept under “suspended interest” account.
5. Provision for bonus payable to employees has neither been ascertained nor been provided for in these accounts.
6.
 - (a) Gratuity of Nu. 535,010.00 have been provided in these accounts on the assumption that all the employees cease to be employed with effect from 01/01/2012. The accumulated provision as on 31/12/2011 Nu. 1,028,380.00 shall be deposited into a separate account with other financial institution as per the provisions of the Income Tax Act of the kingdom of Bhutan 2001.
 - (b) The gratuity liability in respect of employees on deputation from the parent bank (PNB) has not been provided in view of the fact that the same shall be borne by the parent Bank.
7. Particulars of the transactions with the Directors and their relatives as per provisions of the Companies Act of the kingdom of Bhutan 2000:

Sl. No	Name	Nature of Transactions	Total outstanding as at 31/12/2011
1	Dasho Sangay Wangchuk	Loans – Personal/manufacturing/Transport	12,713,922.00
		Bank Guarantee	1,186,309.00
		Total	13,900,231.00
2	Mr. Tandin Wangchuk	Loans- Overdraft & Transport	12,292,276.00
		Letters of Credit	19,953,878.00
		Bank Guarantee	1,186,309.00
		Total	33,432,463.00
3	Hotel Riverview	Loans - Overdraft	2,024,406.49
		Bank Guarantee	25,600,000.00
		Total	27,624,406.49
4	Aum Sangay Om	Loans - Overdraft	2,472,089.10

8. Preliminary Expenses- Expenses incurred prior to commencement of the business and directly related to such commencement of the commercial activities of the Bank have been charged to preliminary expenses 2/3rd of which amounting to Nu. 6,615,982.17 have been written off during the year in accordance with section 13.1 of the Income Tax Act of the kingdom of Bhutan 2001.


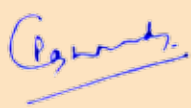
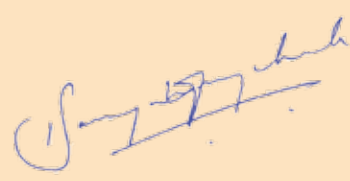


9. Management expenses include:

a. Managerial remuneration paid or payable to the Managing Director (Chief Executive Officers) during the year 2011.

	<u>2011</u>	<u>2010</u>
• Remuneration :	Nu. 1,581,289.00	Nu. 1,540,920.22
• Directors sitting fees :	Nu. 60,000.00	Nu. 75,000.00
• Audit fees and expenses :	Nu. 200,000.00	Nu. 150,000.00

10. In the opinion of the management, there is no impairment of fixed assets of the company, which may require any adjustment.

11. Previous year figures have been re-grouped /re-arranged wherever necessary.

Accolades

- **Chiphen Rigphel Project Coordination Committee, MoE**
Outstanding customer service
- **Dungsam Cement Corporation Ltd, 2010**
Financial closure
- **India House Golf Tournament, 2011**
Appreciation for sponsorship

OUR CORRESPONDENT BANKS

	NAME OF THE BANK	SWIFT CODE
1	Punjab National Bank	All Branches in India
2	PNB International Ltd,London,UK	PUNBGB22
3	Standard Chartered Bank Ltd, New York	SCBLUS33
4	Standard Chartered Bank Ltd, Singapore	SCBLSGSG
5	Standard Chartered Bank Ltd,Hongkong	SCBLHKHH
6	Standard Chartered Bank Ltd,Malaysia	SCBLMYKX
7	Standard Chartered Bank Ltd,India	SCBLINBB
8	Standard Chartered Bank Ltd,London	SCBLGB2L
9	Standard Chartered Bank Ltd,Taiwan	SCBLTWTP
10	Standard Chartered Bank Ltd,Japan	SCBLJPJT
11	Standard Chartered Bank Ltd,Sri Lanka	SCBLKXLX
12	Standard Chartered Bank Ltd,Thailand	SCBLTHBX
13	Standard Chartered Bank Ltd,Muscat	SCBLMRX
14	Standard Chartered Bank Ltd,Bahrain	SCBLBHBM
15	Standard Chartered Bank Ltd,Germany	SCBLDEFX
16	Standard Chartered Bank Ltd,Indonesia	SCBLIDJX
17	Standard Chartered Bank Ltd,Pakistan	SCBLPKKX
18	Standard Chartered Bank Ltd,Doha,Qatar	SCBLQAQX
19	Habib Bank AG Zurich, Dubai	HBZUAEAD
20	Bank of Asia Nepal Ltd,Kathmandu	BOALNPKA
21	Nepal Bangladesh Bank Ltd,Kathmandu	NPBBNPKA
22	Mizuho Corporate Bank Ltd, Japan	MHCBJPJT
23	Nordea Bank Finland PLC	NDEAFIHH



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