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BOARD OF DIRECTORS

| | | |
|---|---|------------------|
| 1 | H.E. Lyonpo Wangdi Norbu Hon'ble Minister, Ministry of Finance | Chairman |
| 2 | Dasho Bap Kesang, Secretary, RCSC | Director |
| 3 | Mr. Daw Tenzin, Managing Director, RMA | Director |
| 4 | Lt. Col. Penden Wangdi, RBA | Director |
| 5 | Mr. Pema Wangda, Director, MOLHR | Director |
| 6 | Mr. Bap Kinga, Secretary General, BCCI | Director |
| 7 | Mr. Dubthob Wangchug, Director, NPPF | Member Secretary |

TECHNICAL ADVISORY COMMITTEE (TAC)

| | | |
|---|--|------------------|
| 1 | Mr. Daw Tenzin, Managing Director, RMA | Chairman |
| 2 | Mr. Sonam Wangchuk, Director, DADM | Member |
| 3 | Mr. Tobgay S. Namgyal, Director, BTF | Member |
| 4 | Mr. Bachu Phub Dorji, Head, Policy and Planning, RCSC | Member |
| 5 | Mr. Kapil Sharma, Head, Public Enterprise, Ministry of Finance | Member |
| 6 | Mr. Dubthob Wangchug, Director, NPPF | Member Secretary |
| 7 | Ms. Sayden, Head, Investment and Credit Division, NPPF | Member |

ORGANIZATION STRUCTURE

HEAD OFFICE

Executives

Director
Head, Investment/Credit

Mr. Dubthob Wangchug
Ms. Sayden

Finance & Accounts
Financial Controller

Mr. Rajiv Mehra

Investment
Manager

Ms. Tenzin Lhaden

Credit
Manager

Ms. Tshoki Lhamo

Provident Fund
Manager

Ms. Meera Gurung

Pension
Manager (Civil)
Manager (Armed Forces)

Mr. Sonam Yeshey
Mr. Tshering Dorji

Real Estate
General Manager

Mr. Phuntsho Wangdi

Information Technology
Manager

Mr. Phub Dorji

Administration & HRD
Administrative Officer

Mr. Jigme Wangdi

PHUENTSHOLING
Program Assistant, Real Estate

Mr. Norbu Gyeltshen

SAMDRUP JONKHAR
Program Assistant, Real Estate

Mr. Penjor

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Bank of Bhutan
Bhutan National Bank

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National Pension and Provident Fund
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Email: npb@druknet.bt
Website: www.nppf.org.bt

EXECUTIVE SUMMARY

Since its inception, the role of the pension system in the nation has become significant as it has touched the lives of thousands of members. The National Pension and Provident Fund not only provide safety net in old age, but also play a critical role in the nation building by directing its investments to areas of socio-economic development. NPPF is already an important player in the financial sector as it is the third largest institution after the Bank of Bhutan and the Bhutan National Bank.

The year 2005-06 was yet another successful year for the National Pension and Provident Fund. The NPPF declared a return of 6.75 % to the members despite limited investment opportunities. The assets have significantly increased to Nu. 4.97 billion in 2006 compared to just over Nu. 2.39 billion in 2001. This shows that the organization's asset base has been growing at an average growth rate of 18% per annum.

As on 30th June 2006, the total number of members under the Civil and Armed Forces scheme was 36,414. Over the past four years the numbers of members have been growing at an average rate of 3% per annum. The number is expected to grow further based on the employment policy of the civil service and the corporate agencies contributing to further increase in the fund size of the organization. During the financial year 2005-06, the NPPF was catering to 1,088 beneficiaries representing an increase of 47% against 2005. The cumulative pension benefit payment worked out to Nu. 42.48 million recording an increase of 90.66% compared to 2005.

Two events that developed during the year will be of particular significance to the NPPF. The Census report was released and Kuensel covered news that the Armed Forces strength will be reduced significantly towards the end of 2007. With the release of the results of the Population and Housing Census of Bhutan, May 2005, the NPPF will be in a better position to make sound sustainability analysis based on the reliable statistical data. Information on demographics and socio-economics is vital for the NPPF to carry out research and studies on sustainability of the pension plan. Actuarial studies showed negligible financial implication on the sustainability of the pension scheme as a result of the reduction in strength of the Armed Forces.

Some of the new initiatives taken by the NPPF during the year included signing of the Memorandum of Understanding with the Bhutan Post. With the need to improve services, NPPF made arrangements with Bhutan Post to avail their service in disbursing the pension. Since the Bhutan Post has a larger network, their branches will be closer to the pensioners and will cut down travel cost and time for the pensioners.

NPPF also carried out an awareness campaign for all Finance personnel and HROs of the Government departments and the ministries as well as other stakeholders. The awareness campaign was mainly aimed at making them understand the problems in processing the retirement claims. The awareness campaign helped NPPF and the respective ministries and departments solve problems and understand the complexities associated in claim

processing. It also educated the stakeholders on the benefits and the services available at the NPPF.

The year was also marked by the change in the management of the NPPF. Mr. Ugen Chewang was appointed to one of the constitutional posts as the Auditor General. NPPF takes pride in knowing that Mr. Chewang now holds one of the key posts which has been bestowed with trust by His Majesty the King and the Government. Mr. Chewang had helped set up NPPF and had been a major driving force behind important decisions that implemented the retirement plans. Mr. Dubthob Wangchug was appointed as the new Director of the NPPF by the Royal Government. Mr. Wangchug brings with him valuable experience in the areas of social security and investments as he has been working with the NPPF in the capacity of the Second in Command since its inception in 2000.

Looking forward to the year 2006-07 and beyond, the NPPF continues to face challenges in three areas of its operation: ensuring long-term sustainability of the pension plan, enhancing returns on its investments and meeting the expectations of its members. We believe that the NPPF is well positioned to meet these challenges.

CHAPTER I

FINANCIAL PERFORMANCE DURING THE YEAR

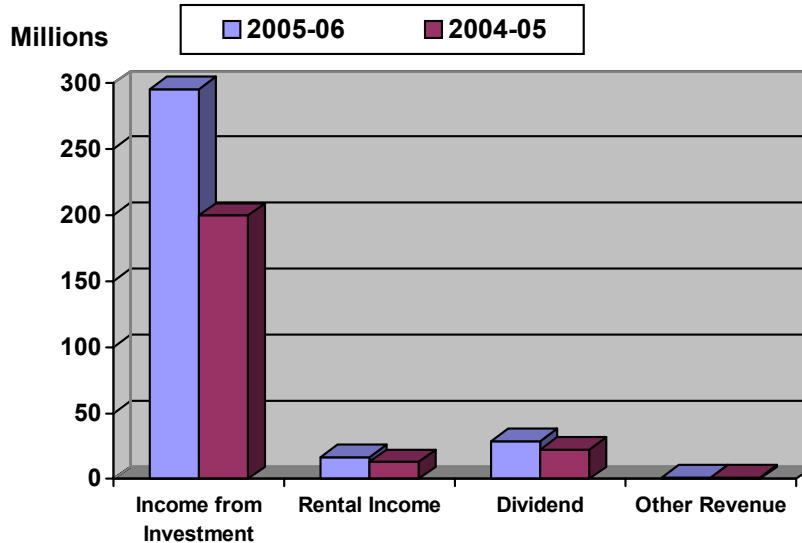
1.1 Revenue

It can be observed from Table 1.1 that the Operating Revenue has increased by nearly 44.66% as compared to the last year. This is the highest growth earned by the NPPF since its inception. As a result, the return on the fund size which was only 5.52% during 2004-05 has increased to 6.89% during the current year. This achievement reflects the prudent guidance and direction received from the Board as well as the hard work and commitment put in by the employees of the Fund.

Table1. 1 Financial Highlights

| Summary of Consolidated Financial Information for 5 years | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| figures in millions | | | | | |
| PARTICULARS | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 |
| REVENUE | | | | | |
| Income from Investment | 295.85 | 199.71 | 140.24 | 128.69 | 107.78 |
| Rental Income | 16.71 | 13.01 | 11.65 | 10.73 | 9.52 |
| Dividend | 28.46 | 22.60 | 16.54 | 12.62 | 10.92 |
| Other Revenue | 1.37 | 1.38 | 1.31 | 2.88 | 0.05 |
| TOTAL OPERATING REVENUE | 342.39 | 236.69 | 169.74 | 154.92 | 128.27 |
| % increase in Total Revenue | 44.66% | 39.44% | 9.57% | 20.77% | |
| % of return to fund size | 6.89% | 5.52% | 4.66% | 4.95% | 4.76% |
| EXPENSES | | | | | |
| Total Management Expenses | 25.08 | 25.14 | 20.78 | 19.87 | 53.28 |
| Depreciation | 7.36 | 5.47 | 4.71 | 4.06 | 3.98 |
| Provision for Std assets and NPL | 9.14 | 8.46 | 5.25 | | |
| TOTAL EXPENSES | 41.58 | 39.07 | 30.74 | 23.93 | 57.26 |
| % of expenses to Fund size | 0.84% | 0.91% | 0.84% | 0.76% | 2.12% |
| Surplus before extraordinary item | 300.82 | 197.62 | 139.00 | 130.99 | 71.01 |
| Extra ordinary Income | | 71.57 | | 10.11 | |
| Transfer from / (to) Reserve | (4.53) | (25.35) | 22.81 | | |
| Distributable surplus | 296.29 | 243.84 | 161.81 | 141.10 | 71.01 |
| Return to members | | 6.50% | 5.00% | 4.79% | 3.00% |
| FUND SIZE | 4,971.72 | 4,285.82 | 3,640.29 | 3,129.99 | 2,697.09 |
| % Increase in Fund Size | 16.00% | 17.73% | 16.30% | 16.05% | |

Figure 1. 1 Major components of revenue



The major reason for increase in income from investment can be attributed to several initiatives taken by the NPPF during the year. Most notably, the US investment was closed and liquidated and the fund was invested in RGOB aircraft financing at an interest rate of 5.50% p.a.

Education and Housing loans have also shown impressive growth with Education loan significantly increasing from Nu. 264.62 million in 2004-05 to Nu. 385.03 million in 2005-06. Loan to BFAL has also increased from Nu. 100 million in 2004-05 to Nu. 300 million in 2005-06. These investments are priced at an interest rate of 10% p.a and are helping NPPF in enhancing its average return on Investment.

Six new buildings in Thimphu had been completed and rented out during the current year increasing the rental income. The increase in dividend income was mainly due to increase in BNB's dividend from 50% to 70%. STCBL did not declare any dividend during 2005-06.

1.2 Expenses

Compared to the past years, the percentage of expenses to the fund size has declined this year. During 2003-04 and 2004-05 expenses showed an increasing trend. However, this year, expense ratio has been reduced to 0.84 % as compared to 0.91% last year.

The Management expenses in absolute term was also reduced from Nu. 25.14 million in 2004-05 to Nu. 25.08 million in 2005-06.

1.3 Returns

Commensurate with the good performance of the organization, the rate of return also improved during the year. During 2005-06, the NPPF was able to declare a rate of return of 6.75 % to its members from its operating income only. Comparatively, the return was only 5.38% during 2004-05. However, during last year the rate of 6.5% was still declared due to an extraordinary income of Nu.71.57 million from sale of land.

1.4 Balance Sheet

The fund size has grown by an impressive rate of 16% over the last year and has reached to Nu. 4,971.72 million. Table 1.2 shows the percentage increase in the fund size during 2005-06 as compared to 2004-05.

Table1. 2 Comparison of fund size: 2005-06 and 2004-05

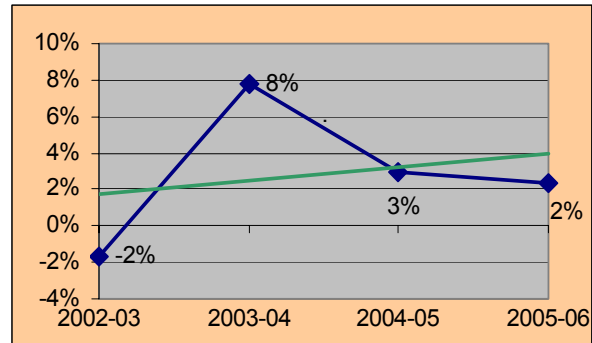
| PARTICULARS | figures in Mios | | |
|--|-----------------|-----------------|---------------|
| | 2005-06 | 2004-05 | % +/- |
| <u>LIABILITIES</u> | | | |
| Members & Employers Contribution to PF - Civil | 823.91 | 717.92 | 14.76% |
| Members & Employers Contribution to PF - Armed Forces | 490.54 | 445.29 | 10.16% |
| Interest credited to Members PF account - Civil | 392.41 | 331.22 | 18.47% |
| Interest credited to Members PF account - Armed Forces | 199.68 | 168.05 | 18.82% |
| Pension Fund - Civil | 1,923.84 | 1,627.62 | 18.20% |
| Pension Fund - Armed Force | 1,032.70 | 899.98 | 14.75% |
| Lapsed Fund - Civil | 1.23 | 1.05 | 16.31% |
| Lapsed Fund - Armed Force | 1.13 | 0.85 | 33.11% |
| General Reserve | 80.99 | 76.28 | 6.18% |
| Other Liabilities | 19.44 | 16.46 | 18.11% |
| Gratuity Liability | 3.36 | | |
| Interest In Suspenses | 2.49 | 1.09 | 127.63% |
| TOTAL | 4,971.72 | 4,285.82 | 16.00% |
| <u>ASSETS</u> | | | |
| Fixed Assets: | | | |
| Gross Block | 236.52 | 184.89 | 27.92% |
| Less: Accumulated Depreciation | 43.30 | 35.94 | 20.48% |
| Net Block | 193.22 | 148.95 | 29.72% |
| Capital Work in progress | 50.10 | 45.12 | 11.05% |
| Deffered Revenue Expenditure | 0.85 | | |
| Investment in Equity shares / Bonds | 784.72 | 1,730.82 | -54.66% |
| Other Investments | 3,803.73 | 2,305.62 | 64.98% |
| Advance & Other Deposits | 125.14 | 32.11 | 289.66% |
| Cash & Bank Balances | 11.20 | 23.19 | -51.71% |
| Gratuity Asset | 2.76 | | |
| TOTAL | 4,971.72 | 4,285.82 | 16.00% |

CHAPTER II NATIONAL PENSION AND PROVIDENT FUND

Currently, the NPPF is administering a two-tiered retirement system covering the Pension and Provident Fund schemes for the Civil servants and the Armed Forces. The Pension Plan provides monthly pension benefits upon member's retirement from service while the Provident Fund Plan provides lump sum benefit. In addition, the Pension Plan also provides survivors' and permanent disability pension benefits.

Total members of the National Pension and Provident Fund Plan and the Armed Forces Pension and Provident Fund Scheme reached 36,414 as on 30 June 2006. This represents a 2% increase in the membership from the previous year. For the past 4 years the total members grew at an average rate of 3% per annum as shown in Figure 2.1

Figure 2. 1 Growth rate of total members



The Civil Pension membership covers the Civil Service, Government Corporations and Joint Sector Companies. The Armed Forces membership covers the Royal Bhutan Army, the Royal Body Guard and the Royal Bhutan Police.

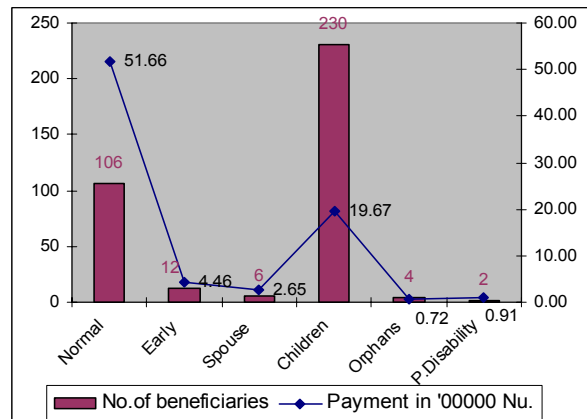
The RICB continues to manage the retirement plan of the private sector and the NGOs.

2.1 Civil Pension Plan Operations

2.1.1 Pension payment during the year

Pension payments continue to increase with growing number of pensioners every year. During the year, the NPPF paid benefits of Nu. 8.01 million, a 73% increase from the previous year. As of 30 June 2006, the accumulated pension payment made since the start of the scheme stood at Nu.16.40 million.

Figure 2.2 Pensioners and Pension payments by category



The number of beneficiaries as on 30 June 2006 was 360, 58% increase from the previous year. As Figure 2.2 shows, out of 360 beneficiaries, 106 were normal pensioners, while 12 beneficiaries received early pension. There were 2 disability pensioners, 6 surviving spouse, 230 children and 4 orphans. No pension was claimed for the dependent parent during the year.

2.1.2 Year wise pension payment

Over the last four years of operation, the pension benefit payment increased from Nu. 1.20 million to Nu. 8.01 million by the end of financial year 2005-2006.

The number of beneficiaries increased from 38 in 2002-03 to 360 in 2005-06 as shown in Figure 2.3.

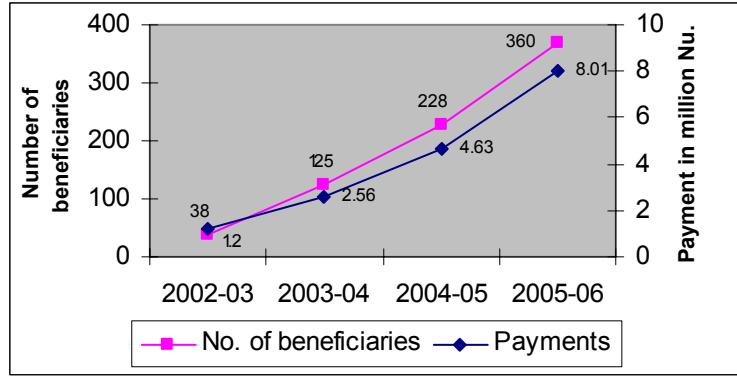
In view of the increasing number of beneficiaries, the NPPF continues to focus on its objective to deliver efficient and timely services to the members. During the

year, the NPPF made arrangement with Bhutan Post to help in delivering services to the pensioners. With this arrangement, the efficiency of the service should improve in view of Bhutan Post's wide network in the country.

Although, the NPPF has been making attempts to improve its services, NPPF still encounters difficulty due to exogenous factors. It faces problem with the processing of benefits due to lengthy procedures involved in submission of claim documents. As per the current procedure, retirees are required to provide several clearances while claiming retirement benefits. This includes the Financial Institution, the Royal Audit Authority and the Ministry of Finance clearances. Experience shows that it takes a long time for the retirees to get these clearances. The NPPF has therefore been coordinating with the concerned Departments to streamline and reduce the time involved in processing of claims.

Another challenge faced by the NPPF relates to the late and non-submission of Life/Non-remarriage certificates by the pensioners. Therefore, it is making continued effort in educating members on such problems through awareness campaigns.

Figure 2.3 Year wise pension payment and growth of beneficiaries



2.2 Armed Forces Pension Scheme Operations

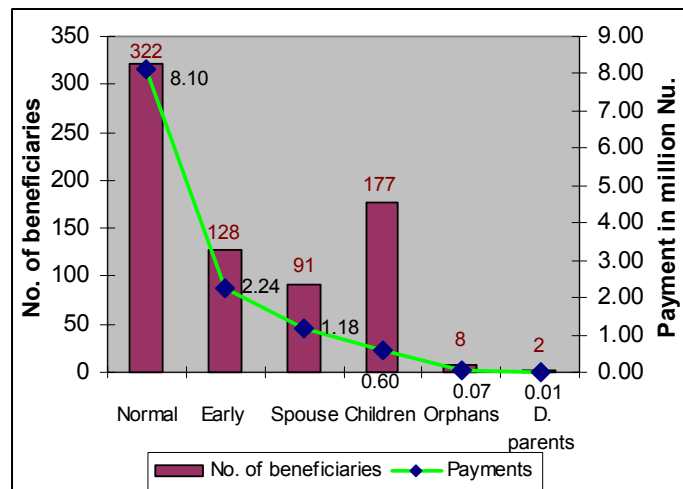
The number of beneficiaries continues to increase under the Armed Forces Pension and Provident Fund scheme. As on 30 June 2006, the Armed Forces Pension and Provident Fund Scheme catered to 728 beneficiaries of whom 322 were normal pensioners, 128 were early pensioners, 91 were spousal beneficiaries, 177 were children beneficiaries, 8 were orphans and 2 were dependent parents. For the last four years no disability benefit has been claimed.

2.2.1 Pension payment during the year

Total pension payment during the year jumped to Nu. 12.20 million from Nu. 8.17 million in the previous year. Figure 2.4 below shows the number of pensioners and beneficiaries and the payments during the year.

Figure 2. 4 Number of beneficiaries and payments

For the year 2005-06 a sum of Nu. 8.10 million was paid to the normal pensioners while Nu. 2.24 million was paid to the early pensioners. Nu. 1.18 million was paid to the spousal beneficiaries and Nu. 0.60 million was paid to the children beneficiaries. Orphans were paid Nu. 0.07 million and dependent parents were paid Nu. 0.01 million.

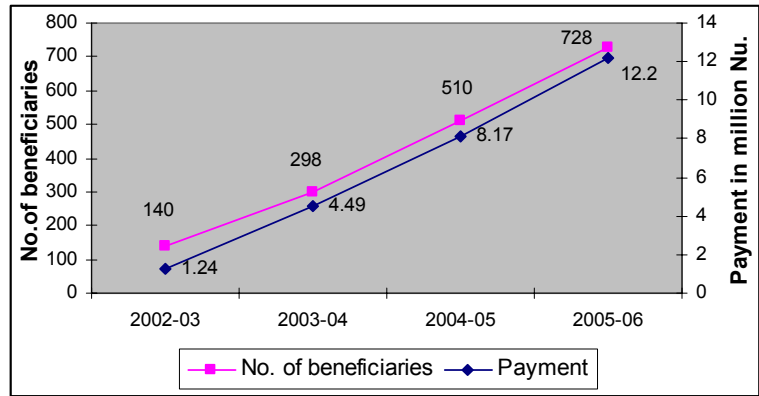


2.2.2 Year wise pension payment

The number of pensioners and beneficiaries are increasing each year. However, by the end of 2007, the number of contributors is expected to decrease as the Government has decided to reduce the Armed Forces' strength within one to two years. Figure 2.5 below shows the comparative payment of benefits each year since the inception of the scheme.

Figure 2.5 Year wise beneficiaries and payments in million Nu

As shown in the figure, the number of beneficiaries and the amount of payment increased drastically over the past four years of operation. The benefit disbursement shot up to Nu.12.20 million in 2005-06 from Nu. 1.24 million in 2002-03.



The Armed Forces Pension and Provident Fund Division continue to make efforts in improving its services to its members. With the launching of new AFPPFS Computer System, the service is expected to be more reliable by making the claim procedures and payment simple, prompt and efficient.

2.3 Future plans of the Civil and Armed Forces Pension Scheme

There are many challenges that the divisions face. The most arduous one is determining whether the beneficiaries claiming the spousal benefits are re-married and timely receipt of life certificates. In view of this, strategies to monitor payment to re-married spouses are underway. The reporting system or the system of vigilance needs to be developed and the divisions are studying the means to find the solution for these problems.

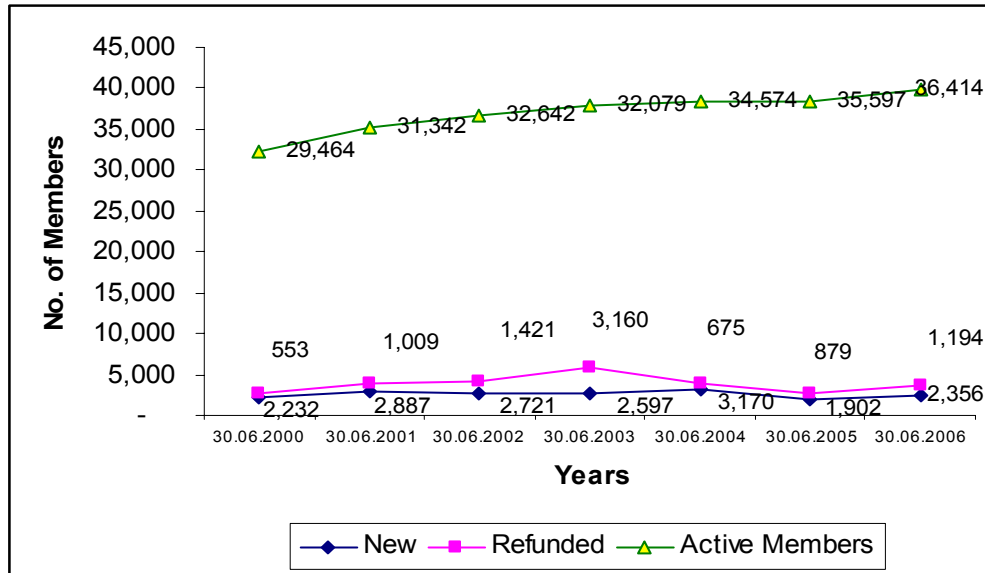
Besides, with the growing workload due to increasing number of members and beneficiaries, the NPPF needs to implement changes to ensure that the quality and efficiency of services is maintained. Some of the programs that are envisaged to be undertaken are as follows:

- Prepare master plan
- Prepare operational manual to improve the operation and control systemic risks
- Enhance computer system to integrate and update information.

2.4 Provident Fund Plan Operations

Provident Fund Plan covers expatriates as well as nationals unlike the pension plan. The new members who joined the plan and those who went out of the system since the establishment of the plan are given in Figure 2.6.

Figure 2.6 Year wise inflow and outflow of members from the system



The NPPF has been achieving almost 100 percent compliance rate in terms of timely receipt of contributions since it is a public Provident Fund scheme. Nevertheless, the Provident Fund Division faces difficulties as a few employers continue to remit the monthly contributions late. At the same time, most of the agencies still submit incomplete claim documents. As per the provisions of the NPPFP Rules, the Division has started charging 2% penalty to those agencies that had remitted contributions late. This action has been felt necessary to encourage the employers to remit contributions on time.

The Division continues to work on the updation of the PIS details of the members including spouse, children and marital status. For easier administration and systematic documentation, the Division has started opening individual files for all the NPPFP members. Once this task is completed, it will be easier for the NPPF to locate and cross check information of the members.

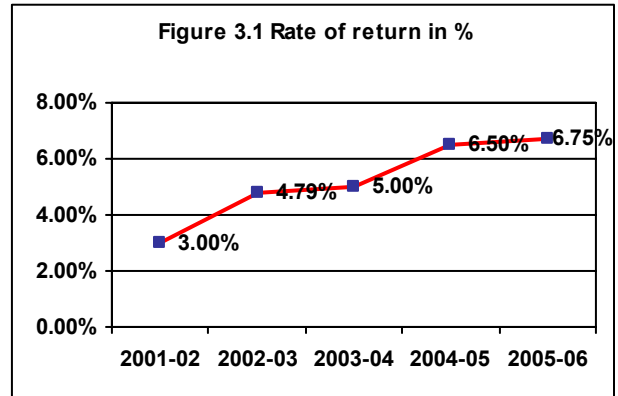
2.4.1 Future plans

The incorrect compilation of monthly contribution by the Agencies and submission of incomplete documents for the retirement claims are some of the persistent problems faced by the Division. To address these issues, the Division has plans to continue carrying out awareness campaigns.

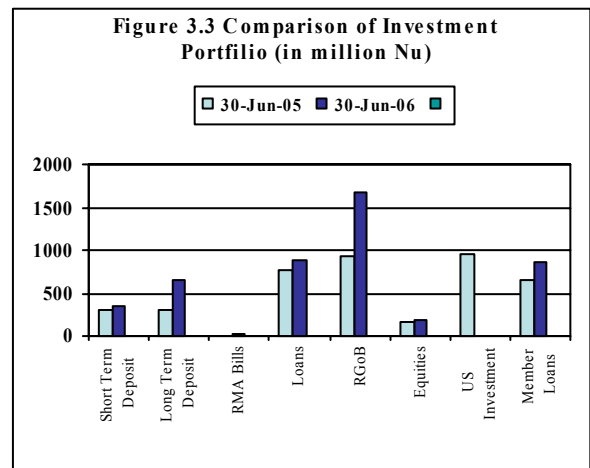
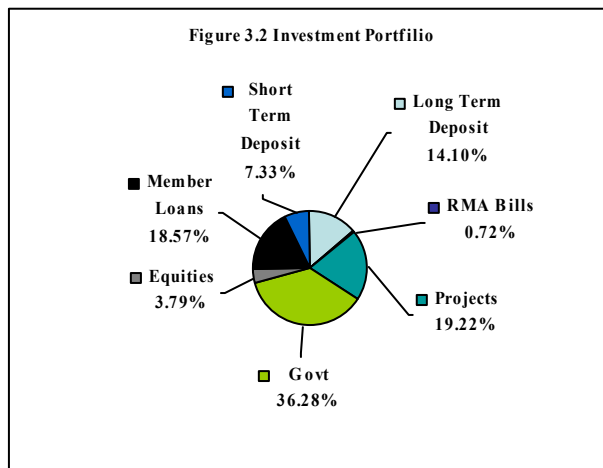
CHAPTER III INVESTMENT AND CREDIT OPERATIONS

3.1 Overall investment performance

This year, the fund performed well despite limited investment opportunities in the market. The NPPF generated a gross return of 6.89% on the fund size during the year recording an increase of 1.37% points from the previous year. This is a result of the Investment Department's commitment to explore new investment ventures to optimize returns.



As compared to the fiscal year 2004-2005, the investment portfolio, excluding the real estate, increased from Nu. 4,050.15 million to Nu. 4,611.30 million. The asset allocation of the fund as on 30th June, 2006 is given in Figure 3.2.



3.2 Developments during the year

3.2.1 Investment Operations

Starting from April 24, 2006, rates on short term deposits offered by the Bank of Bhutan declined from 3% to 2% per annum. Besides, the investment in the RGOB Treasury Bills of Nu.180 million at the coupon rate of 7% p.a was prematured. Both these events have adversely affected the performance of the overall Investment.

Several important investment activities were carried out during the year. They include liquidation of the foreign investment. The fund after the liquidation was invested in the term loan of Nu. 1.06 billion to the Royal Government. The loan was made for a period of 10 years at a coupon rate of 5.5% p.a for financing of the aircraft purchase by the Druk Air Corporation.

To match the duration of its asset with the long term liabilities, the NPPF further invested Nu. 350 million in BNB's long term fixed deposit for 12 years at an interest rate of 6% p.a.

The NPPF applied for 12,250 shares of Kuensel Corporation for Nu.3.68 million at a price of Nu. 300/- each. As the price of the share has been consequently reduced to Nu. 100 per share to encourage more investors, the NPPF will be allotted additional shares of 24,500. After the allotment, the NPPF will be holding 7.35% of the share capital of the Company.

The NPPF earned Nu. 21.37 million and Nu. 7.08 million being the dividend of 70% and 50% declared by Bhutan National Bank and Penden Cement Authority Ltd. respectively. The State Trading Corporation of Bhutan Ltd. however did not declare any dividend for the financial year.

3.2.2 Credit operations

(1) Project Loans

This year was dominated by the plan to set up several Ferro Alloys projects in the country. Currently, only Bhutan Ferro Alloys Ltd has been operating as a Ferro Alloys factory in Bhutan. However, as many as four Ferro Alloys projects are expected to be implemented in 2006:

1. Druk Ferro Alloys Ltd.
2. S.D Ferro Silicon Pvt. Ltd.
3. Ugen Ferro Alloys Pvt. Ltd.
4. Druk Wang Alloys Ltd

Amongst the proposals of the upcoming projects, the NPPF decided to participate in the Consortium loan of Nu. 140.18 million of the Druk Ferro Alloys Ltd. Out of the total consortium loan of Nu. 140.18 million, NPPF's share represents 20% amounting to Nu. 28.04 million.

On the other loans sanctioned, the NPPF is already financing the expansion project of BFAL. The expansion project commenced since March 2005 and is expected to be completed by the end of September 2006. In addition to the initial term loan of Nu.230 million, the NPPF sanctioned Nu.140 million to the Bhutan Ferro Alloys Ltd. during the year. As of June 30, 2006, Nu. 300 million has been disbursed out of the total loan of Nu. 370 million sanctioned for the project.

Further, the NPPF is financing the Multi Service operator (MSO) project of the BBS. It sanctioned a term loan of Nu. 9 million for the period of 3 years at 6.25% p.a .

(2) Member Loan Schemes

The NPPF currently provides loans for the members under two different schemes. They are the Member Housing Scheme and Member Education Scheme. Ever since its commencement, the Member Loans have been very popular with the members attributing to 18.57% of the total investment portfolio.

(2.1) Member Housing Scheme

The NPPF commenced providing Member Housing loan Scheme since July 1, 2003. The scheme, aimed at helping the members to acquire houses for old age has been successful and profitable. NPPF achieved a growth rate of 24.77% as compared to previous year's portfolio of Nu.377.17 million. As of June 30, 2006 the loan portfolio stood at Nu. 470.597 million with 341 clients.

(2.2) Member Education Scheme

The Member Education Scheme was introduced on March 1, 2004 with the aim to help the members finance their children's or their own education. There has been a significant growth in the number of borrowers contributing to increase in the loan portfolio. During the year, the loan portfolio stood at Nu.385.03 million with 5,532 borrowers.

Figure 3. 2 Growth in member loans in million Nu.

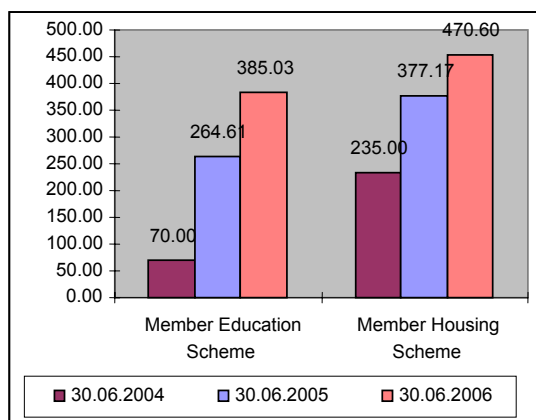
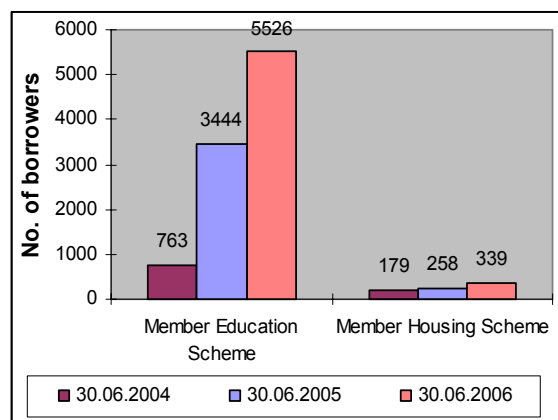


Figure 3. 3 Growth in borrowers



3.3 Non Performing Loans

With the increase in the loan portfolio, the NPPF made concerted effort to control risks related to NPL with stringent monitoring and recovery strategy and at the same time, it strengthened focus on asset quality management. As on 30 June, 2006 the total loan was Nu.1,742.62 million and NPL was 1.48% of the loan outstanding. Provisions for NPL have been made as per the RMA Prudential Regulations to ensure strict compliance.

3.4 Future plans

With the introduction of new projects and the expansion of the existing ones, investment opportunities for the fund are expected to increase.

The NPPF will carry out further publicity campaigns to draw maximum number of borrowers by promoting its loan schemes. The NPPF would also like to study the possibility of developing new products and services. Also it is looking at the options of investing in India in order to diversify its investment portfolio and achieve maximum returns.

Risks related to NPL will be maintained at the minimum level with strict monitoring and recovery strategy.

CHAPTER IV REAL ESTATE MANAGEMENT

The NPPF is one of the leading property developers in the Kingdom. Its objective is centered around the following parameters given its significant role in the real estate operation:

- To enhance investment returns
- Formulate and implement housing policies and programs to provide affordable quality residential quarters to its members
- Plan, develop and upgrade its housing colony to create a vibrant living environment of distinct identity
- Deliver property management and housing administration services that meet the needs of our tenants.
- Advance innovative and cost-effective building design and technology

The NPPF's role as a real estate developer has evolved over the years, but one of its key challenges remain in providing adequate residential housing to the members. In the year under review, several new projects covering construction of corporate office and residential buildings have been conceptualized under the Real Estate ventures.

4.1 Residential properties

As at June 30, 2006, there were 87 buildings with 612 flats under the NPPF management. These comprised 585 residential units, 15 commercial spaces and 12 office spaces.

One of the 14 unit class II buildings in Thimphu colony NPPF housing colony in Phuntsholing



4.2 New flats



Newly constructed NPPF Shopping complex

During the year, the NPPF completed the construction of six buildings comprising five residential buildings and a commercial complex. Out of the six buildings, one was converted into NPPF Head Office in Thimphu. The other five residential buildings comprising of the following units have been rented out from April 2006:

- (i) Thirty eight flats -Class-II Type
- (ii) Twenty single room apartments.
- (iii) Twelve shopping spaces and two office spaces.

4.3 Application for flats

The request for residential quarter requirement is on the rise as is evident from the number of applications received from the members. As on June 30, 2006, NPPF has registered 1800 applications in Thimphu, 452 for Phuntsholing, 35 for Samdrup Jongkhar and, 14 for Samtse respectively. Only 58 tenants could be allotted flats with the completion of 4 residential buildings in Thimphu. To meet the demand of the members, it has plans to develop more residential buildings in Phuentsholing and Samtse in the near future.

4.4 Projects under construction

The construction of shopping cum office building below Indo-Bhutan Friendship Hospital, Thimphu is under progress. As on June 30, 2006, about 50% of financial and physical progress has been achieved and the project is well within the time schedule. The payment released up to the year under review is Nu. 48.00 million out of total tendered cost of Nu. 87.70 million. The project will be completed in March 2008.



Construction work under progress

4.5 Financial review

As on 30 June 2006 the gross real estate assets at book value was worth Nu. 218.47 million representing around 4.39% of the total fund size. Compared to the previous financial year, there was an increase of 23.34% in real estate assets.

The rental income from real estate operations as on June 30, 2006 accounted to Nu. 16.71 million, which worked out to gross return of 7.65% on the asset block of Nu. 218.47 million.

| | (Nu. In millions) | | | | Rate of return | |
|---------------------------|--------------------------|------------------|------------------|------------------|-----------------------|------------------|
| | 2005-2006 | 2004-2005 | 2005-2006 | 2004-2005 | 2005-2006 | 2004-2005 |
| Rental Income | | | 16.711 | 13.006 | 7.65% | 7.34% |
| Less: Expenses: | | | | | | |
| (a). Management Expenses | 3.651 | 4.075 | | | | |
| (b). Maintenance Expenses | 2.988 | 2.172 | (6.639) | (6.247) | | |
| Gross rental income | | | 10.072 | 6.759 | 4.61% | 3.82% |
| Less: Depreciation | | | 5.963 | 4.374 | | |
| Net rental income | | | 4.109 | 2.385 | 1.88% | 1.35% |

The net return on real estate operations increased to 1.88 % compared to 1.35 % in the previous year. This increase in the rental income can be attributed mainly to the renting out of additional flats after the completion of the new buildings.

4.6 Future plans

The routine maintenance of the buildings will be taken up regularly based on the requirements. Face lifting of 8 buildings in Phuntsholing and two buildings in Samtse shall be taken up in the following financial year and designs have been approved by the concerned municipal authorities.

On the real estate development front, the department has already planned the program as follows:

- (i) Construction of a Corporate Office in Thimphu
- (ii) Three infilling buildings in Phuntsholing colony,
- (iii) Construction of health building,
- (iv) Construction of new buildings near Norgay Cinema Phuntsholing, Samtse and
- (v) Construction of new buildings after demolition of Class I buildings in Thimphu.

CHAPTER V INFORMATION & COMMUNICATION TECHNOLOGY

5.1 Developments as on 30 June, 2006

The ICT Division has been entrusted with the responsibility to tap the potential of IT for efficient administration and delivery of services. As of 30th June 2006, the ICT Division had substantially automated or computerized major operations of the NPPF. The table below lists down the major computer systems developed within a 5 year period.

| Sl. No | System | Users | Implementation Financial-Year |
|---------------|--|--|--------------------------------------|
| 1. | Civil Pension and Provident Fund System | Civil Pension and Provident Division | 2002-2003 |
| 2 | NPPF Accounting System | Accounts Division | 2002-2003 |
| 3 | NPPF Website | Members | 2003-2004 |
| 4 | Member Financing Scheme System | Credit Division | 2004-2005 |
| 5 | Armed Forces Pension and Provident Fund System | Armed Forces Pension & Provident Fund Division | 2005-2006 |

Apart from the major system development that were outsourced in the past, the ICT Division had also successfully developed and implemented several small software packages such as Inventory System, Payroll System, Real Estate Management System etc., using in-house expertise. The Local Area Network (LAN) in the NPPF office building was also upgraded to the speed of 1 Gbps from 10 Mbps in the past.

5.2 Future Plans

Within the coming year, the NPPF will be subscribing to a dedicated internet lease line and will have its own web-server which will enable ICT staff to update the contents of the NPPF website on a daily basis. This will greatly help avoid the problem due to website being hosted on a remote server.

During the next financial year, ICT Division will also take up major enhancement works on the Civil Pension and Provident Fund System and the Member Financing System by incorporating additional requirements of the users.

Gupta & Co.
Chartered Accountants

53A, Mirza Ghalib Street

Kolkata – 700 016

Cable: Vidimus

Phone: 2229-2638, 2229-6241, 2229-0871/72

Fax: (91) (033) 2229-1859

TO
THE BOARD OF DIRECTORS
NATIONAL PENSION & PROVIDENT FUND
THIMPHU: BHUTAN

1. We have audited the attached Balance Sheet of **NATIONAL PENSION AND PROVIDENT FUND (THE FUND)** as at 30th June 2006 and the related Revenue Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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.
3. As required by the Minimum Audit Examination and Reporting Requirements issued by the Royal Audit Authority and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, a separate report is submitted to the Board.
4. Further to our comments as referred to in paragraph (3) above, we report that:
 - 4.1 *Attention is drawn in respect of accounting of Rates and Taxes, Insurance Premium, Interest on delayed receipts of rent, Contribution and penal interest on delayed receipts of contribution, which are considered in the account on cash basis.*
 - 4.2 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.

4.3 In our opinion and to the best of our information and according to the explanations given to us, the annual accounts, which are in agreement with the books of account and compiled on the basis of generally accepted accounting principles, together with the notes thereon give the information required by National Pension and Provident Fund Rules and Regulations of the Kingdom of Bhutan 2002, in the manner so required and give a true and fair view in conformity with the generally accepted accounting principles subject to our remarks in paragraph 4.1 above:

- i) In the case of the Balance Sheet of the state of affairs of the Fund as at 30th June 2006,
- ii) In the case of the Revenue Account, of the operating income for the year ended on that date.
- iii) In case of the Cash Flow Statement, of the cash flow for the year ended on that date

For Gupta & Co.
Chartered Accountants

M.K. Gupta
Partner
Membership No. 6615

Place : Kolkata
Date :

NATIONAL PENSION AND PROVIDENT FUND (NPPF)

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT

As referred to in paragraph 3 of our report of even date addressed to Board of Directors of the National Pension and Provident Fund (NPPF), Thimphu issued through the Royal Audit Authority for the financial year ended 30th June 2006.

1.

STATUS OF NPPF

The Status of NPPF has been categorized as Autonomous Public Organisation and it is not a Profit Making Organisation of its own. Therefore, it cannot be treated as Manufacturing, Trading, Finance, Investment and other Service Sector Organisation. Therefore, clauses applicable to NPPF based on its activities have been commented upon.

2.

INTERNAL CONTROL

- 2.1 In our opinion, NPPF has established reasonable internal control to ensure completeness, accuracy and reliability of accounting records, carrying out the operation in an orderly and efficient manner, to safe guard the assets of the Fund as well as to ensure adherence to rules/regulations and systems and procedures. We are of the opinion that the internal control procedure requires further improvement.
- 2.2 In our opinion there is a system of competitive bidding for items for value Nu.50,000 and above for procurement and printing and Nu.100,000 and above in respect of works and services, commensurate with the size and the nature of its operation for purchase of goods and services including stationery, fixed assets, computers, equipments and other assets.
- 2.3 During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices, we have not come across any personal expenses (other than contractual) which have been charged to revenue account, nor have we been informed of any such case by the management.
- 2.4 In our opinion NPPF has a reasonable system of recording receipts and issues of printing materials commensurate with its size and the nature of its operations.
- 2.5 The NPPF nature of operation is such that the question of allocation of man-hours does not arise.
- 2.6 The NPPF has established an internal control system in various phases of its operation to ensure adherence to set rules and procedures for safeguarding its assets. It was observed that the present system needs strengthening mainly for observance of agreements with the Building Contractors and monitoring of Housing and Education Loans.
- 2.7 According to the information and explanation given to us and the records examined by us on test check basis, no personal expenses have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
- 2.8 During the year NPPF appointed an Internal Auditor who submitted 5 (five) reports. On the basis of his report, several corrective actions have been taken by the Fund.
- 2.9 *It was also observed that, as per rule no 10.1, allotment of flats should be made on first come first served basis. But in certain cases it was not observed.*

3.

LIQUID RESOURCES

- 3.1 In our opinion, the management of liquid resources particularly cash, bank and short term deposits etc. are adequate and that excessive amounts are not generally lying idle in non-interest bearing accounts.

4.

FIXED ASSETS

- 4.1 NPPF has maintained records in respect of its fixed assets showing quantitative details and situations. The management has carried out physical verification of all fixed assets and no discrepancy was noticed on such Physical Verification.
- 4.2 The fixed assets of NPPF have not been revalued during the year.
- 4.3 *Insurance cover has not been taken for fixed assets except buildings. Buildings capitalised during the year for which, no insurance cover was taken.*
5. **INVESTMENT**
- 5.1 Decisions regarding investments are made with prior approval of the Board of Directors or ratified by the Board subsequently
- 5.2 The NPPF has disbursed Housing Loan and Education Loan to the members so that surplus fund may be invested and some reasonable income can be generated.
- 5.3 i) As per RMA's norms, the NPPF made provision of Nu.17,118,887/- being 1.5% on the standard assets viz. Housing Loan, Education Loan and Loan given to Bhutan Beverage Company Limited and Bhutan Ferro Alloys Limited.
ii) As per RMA's norms, the NPPF made provision of Nu. 3,947,223/- being 20% on the sub standard assets under Housing and Education Loans and 50% on Nu.3,560,846 i.e. Nu.1,780,423/-which was outstanding more than 361 days.
6. **LOANS AND ADVANCES**
- 6.1 Advances are given to employees mainly against travelling expenses. It has been observed that such advances are given keeping with the provisions of Service Rules.
- 6.2 Advances given to Real Estate contractors are adjusted against their running bills.
7. **INTERESTED PARTIES**
- 7.1 There is no disclosure in the Board Minutes of any commercial, financial, agricultural, industrial or other business interest of any member of the Board. But it was noted that Housing Loan of Nu.6,080,000/- was sanctioned to Mr. Dubthob Wangchug ,Director, however, only Nu.1,497,840/- was disbursed during the year . Balance amounting as on 30th June' 2006 was Nu. 1,495,581/-
- 7.2 In view of our foregoing comments, the question of the transactions entered into by the NPPF wherein the Directors are directly or indirectly interested, prejudicial to the interest of the NPPF does not arise.
8. **STATUTORY DUES**
- 8.1 According to record of NPPF, Provident Fund, Health Contribution and GIS dues of the NPPF have been regularly deposited during the year with the appropriate authorities except following cases within 30th June' 2006:
- | | Nu. |
|-------------------------------|-------------|
| Tax deducted at source | 60,948.40 |
| Contribution to Gratuity Fund | 5,99,492.00 |
- However, it was observed that the aforesaid amount has been deposited in the subsequent year.
- 8.2 It was noted that Gratuity Fund was invested in Fixed deposits in the name of NPPF marking thereon as "Gratuity Fund". In our opinion a separate trust may be created for Gratuity Fund.
9. **RATES, TAXES AND OTHERS**
- 9.1 There were no amounts due in respect of undisputed rates and other statutory dues, which have not been deposited within the stipulated date with the appropriate authorities except as mentioned in Clause No. 8.1 above.
10. **MANAGEMENT**
- 10.1 According to the information and explanation given and the records examined by us, in our opinion, activities carried out by the NPPF are lawful and intra vires during the year.
- 10.2 *NPPF owns and lets out flats to its members and non-members. Fixation of rent does not*

consider market conditions.

- 10.3 No credit rating is required for the tenants but limited credit rating may be introduced for Housing and Education Loans.
- 10.4 NPPF has a proper system of sending intimation to the tenants and others to follow-up payments. Age-wise analysis of outstanding amounts is made for management information and follow-up action.
- 10.5 NPPF has an established and effective budgetary control system.
- 10.6 NPPF has generally maintained adequate documents and records for granting Loans and Advances.
- 10.7 There has been timely maintenance of records in case of transactions in the matter of trading in shares, securities and other investments.
- 10.8 Reasonable records are maintained for funds collected from members and for interest credit and payment.
- 10.9 There was no overall diminution in the value of investment than the aggregate market value of investment.
- 10.10 The details of remuneration and other payment made in cash or in kind to the Chief Executive Officer (Director) have been disclosed in schedule 15 of the accounts. We are informed that no such payments have been made during the year to any of his relatives.
- 10.11 In our opinion, the directives of the Board have been complied with during the year *except that the Board of Directors directed the Management that in consultation with TAC the NPPF should study and recommend a proposal to enhance the rent of the Flats occupied by Non members, at par with the market rent during its meeting held on 19th July 2004, but no action has been taken in this regard.*
- 10.12 We are not aware if the officials of NPPF have unauthorisedly transmitted to their relatives/friends/associates or close person, any price sensitive information that are not made publicly available, which could directly or indirectly benefit themselves, nor we have been informed of any such case by the management.
11. **COMPLIANCE WITH THE RULES AND REGULATIONS OF NPPF AND AFPPFS**
- 11.1 NPPF has generally complied with the Rules and Regulations of NPPFP and AFPPFS *except clause No. 16.1 of the National Pension and Provident Fund Housing Management Rules and Regulations 2004, which required that the Non-Members occupying the NPPF accommodations have to deposit an amount equivalent to two months rent as security deposit, although the rent has been increased w.e.f. September 2004, the Management of NPPF has not collected the balance amount of Security Deposit.*
12. **OTHER POINTS**
- 12.1 Ratio Analysis has not been made in view of reasons stated in Paragraph 1 above.
- 12.2 Compliance checklist/compliance calendar is not applicable to NPPF and as such we are not enclosing the same as the NPPF is not registered under the Companies Act of Bhutan.

For Gupta & Co.
Chartered Accountants

M.K. Gupta
Partner.
Membership No. 6615

Place : Kolkata,
Date :

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

BALANCE SHEET AS AT 30TH JUNE, 2006

LIABILITIES

| | SCHEDULE NO | AS AT 30.06.2006 | AS AT 30.06.2005 |
|---|----------------|----------------------|----------------------|
| | | Nu. | Nu. |
| Member's & Employer's Contribution to PF - Civil | 1 | 823,911,001 | 717,923,868 |
| Member's & Employer's Contribution to PF - Armed Forces | 1A | 490,543,742 | 445,286,704 |
| Interest credited to PF Account - Civil | 2 | 392,412,949 | 331,224,678 |
| Interest credited to PF Account - Armed Forces | 2A | 199,675,459 | 168,046,364 |
| Pension Fund - Civil | 3 | 1,923,838,401 | 1,627,624,778 |
| Pension Fund - Armed Forces | 3A | 1,032,700,449 | 899,976,642 |
| Lapsed Fund - Civil | 4 | 1,227,491 | 1,054,952 |
| Lapsed Fund - Armed Forces | 4A | 1,126,359 | 848,907 |
| General Reserve | 5 | 80,985,356 | 76,277,144 |
| Other Liabilities | 6 | 19,439,732 | 16,459,719 |
| Gratuity Liability | | 3,362,057 | - |
| Interest in Suspense | | 2,496,816 | 1,093,886 |
| | | 4,971,719,812 | 4,285,817,642 |

ASSETS

| | | | |
|-------------------------------------|----|----------------------|----------------------|
| Fixed Assets: | | | |
| Gross Block | | 236,519,937 | 184,892,888 |
| Less: Accumulated depreciation | | 43,303,255 | 35,939,532 |
| Net Block | 7 | 193,216,682 | 148,953,356 |
| Capital work in progress | 8 | 50,097,263 | 42,743,355 |
| Deferred Revenue Expenditure | | 850,992 | 1,186,488 |
| Investments in Equity Shares/ Bonds | 9 | 784,721,341 | 1,730,816,617 |
| Other Investments | 10 | 3,803,730,799 | 2,305,621,943 |
| Gratuity Investment | | 2,762,565 | |
| Advance and other Deposits | 11 | 125,139,159 | 32,114,820 |
| Cash and Bank Balances | 12 | 11,201,011 | 23,194,575 |
| | | 4,971,719,812 | 4,284,631,154 |
| Significant Accounting Policies | 16 | | |
| Notes forming part of Accounts | 17 | | |

The schedules as mentioned above form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our report of even date.
 For Gupta & Co.
 Chartered Accountants

M.K.Gupta. Partner. Membership No. 6615

Kolkata. Dated _____

DIRECTOR

CHAIRMAN

**NATIONAL PENSION & PROVIDENT FUND
 THIMPU : BHUTAN**

REVENUE ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2006

REVENUE

| | SCHEDULE NO. | FOR THE YEAR ENDED 30.06.2006 | FOR THE YEAR ENDED 30.06.2005 |
|------------------------|--------------|-------------------------------|-------------------------------|
| | | | Nu |
| Income from Investment | | 295,849,422 | 199,705,446 |
| Rental Income | | 16,711,240 | 13,006,410 |
| Dividend | | 28,462,860 | 22,599,900 |
| Other Revenue | 13 | 1,370,255 | 1,376,968 |
| | | 342,393,777 | 236,688,724 |

EXPENSES

| | | | |
|--|---------|--------------------|--------------------|
| Provident Fund Management Expenses | 14 & 15 | 10,231,379 | 10,308,665 |
| Pension Management Expenses | 14 & 15 | 14,847,273 | 14,827,165 |
| Depreciation | 7 | 7,363,722 | 5,474,134 |
| Provision on Standard Assets | 10 | 5,835,707 | 6,030,838 |
| Provision for Sub Standard Assets | 10 | 3,299,425 | 2,428,221 |
| Total Expenses | | 41,577,506 | 39,069,022 |
| Surplus before extra ordinary items | | 300,816,271 | 197,619,702 |
| Extra Ordinary Income | | - | 71,570,523 |
| Transferred from/(-) to General Reserve | | (4,534,982) | (25,352,647) |
| Total Distributable Surplus | | 296,281,289 | 243,837,578 |
| Distribution of Surplus | | | |
| Return on Member's and Employers contribution to PF (Civil) | | 73,511,507 | 61,033,290 |
| Return on Member's and Employers contribution to PF (Armed Forces) | | 42,665,170 | 35,702,073 |
| Return on Pension Fund (Civil) | | 116,271,870 | 94,668,605 |
| Return on Pension Fund (Armed Forces) | | 63,832,742 | 52,433,610 |
| | | 296,281,289 | 243,837,578 |

| | | | |
|---------------------------------|----|--|--|
| Significant Accounting Policies | 16 | | |
| Notes forming part of Accounts | 17 | | |

The schedules as mentioned above form an integral part of the Revenue Account

This is the Revenue Account referred to in our report of even date.
For Gupta & Co.
Chartered Accountants

M.K.Gupta. Partner. Membership No. 6615

Kolkata. Dated _____

DIRECTOR

CHAIRMAN

**NATIONAL PENSION AND PROVIDENT FUND
THIMPHU, BHUTAN**

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

| | YEAR ENDED 30 JUNE 2006 | YEAR ENDED 30 JUNE 2005 |
|---|------------------------------------|--|
| CASH FLOW FROM OPERATIONS | | |
| Receipts from: | | |
| Interest | 196,005,549 | 196,199,090 |
| Rents | 16,402,900 | 12,742,960 |
| Dividends and Other Income | 29,833,115 | 23,976,868 |
| Security Deposits from Tenants | 243,403 | 59,531 |
| | | |
| Payments for: | | |
| Expenses | -25,418,654 | -21,188,507 |
| Security Deposits to Suppliers | -74,805 | -57,510 |
| | | |
| NET RECEIPTS FROM OPERATIONS | 216,991,508 | 211,732,432 |
| | | |
| CASH FLOWS FOR INVESTING | | |
| Receipts from: | | |
| Repayments of Pension Loans | 312,372 | 254,134 |
| Sales of Fixed assets | | 64,743,531 |
| Sale USA Investment | 951,215,839 | |
| | | |
| Payments for: | | |
| Increase in Loans and Deposits | -1,293,715,311 | -241,066,578 |
| Shares and Bonds in USA | | -15,389,489 |
| Shares in Bhutan | -5,120,563 | |
| Member Housing Loans | -92,022,888 | -140,886,624 |
| Member Education Loans | -120,405,507 | -194,931,224 |
| Purchase of Fixed Assets (including Work in Progress) | -45,360,669 | -43,634,320 |
| Staff Advances | -316,141 | |
| | | |
| NET PAYMENTS FOR INVESTMENTS | -605,412,867 | -570,910,570 |
| | | |

| CASH FLOW FROM MEMBER TRANSACTIONS | | |
|---|--------------------|--------------------|
| Receipts from: | | |
| Contributions to the NPPFP | 295,345,602 | 285,819,824 |
| Contributions to the AFPPFS | 171,819,966 | 167,085,590 |
| | | |
| Payment of refunds and Pensions | | |
| NPPFP | -38,596,180 | -47,536,722 |
| AFPPFS | -52,141,593 | -39,921,005 |
| | | |
| NET RECEIPTS FROM MEMBERS | 376,427,795 | 365,447,687 |
| | | |
| NET MOVEMENT IN CASH AND BANK | -11,993,564 | 6,269,549 |
| | | |
| OPENING CASH AND BANK | 23,194,575 | 16,925,026 |
| | | |
| CLOSING CASH AND BANK | 11,201,011 | 23,194,575 |

RECONCILIATION BETWEEN OPERATING SURPLUS AND CASH FLOWS FROM OPERATIONS

| | | |
|-------------------------------------|-----------------------|--------------------|
| OPERATING SUPLUS | 300,816,271.03 | 197,530,203 |
| | | |
| NON CASH CHARGES | | |
| Depreciation | 7,363,721.16 | 5,474,134 |
| Amortisation of Software | 335,496.00 | 245,496 |
| Provision against Loans | 9,135,132.33 | 8,459,059 |
| | | |
| MOVEMENT IN ACCRUALS | | |
| Revenue Receivable | -100,152,213.07 | -3,769,807 |
| Accounts Payable | -1,274,988.96 | 3,622,394 |
| Gratuity Payable | 599,492.00 | |
| | | |
| LOSS ON ASSET SALES | | 168,932 |
| | | |
| SECURITY DEPOSITS | 168,598.00 | 2,021 |
| | | |
| NET RECEIPTS FROM OPERATIONS | 216,991,508 | 211,732,432 |

Note:

The Cash Flow Statement has been prepared using the Direct Method

This is the Cash Flow Statement referred to in our report of even date

For Gupta & Co.
Chartered Accountants

M.K.Gupta, Partner, Membership No. 6615
Kolkata, Dated.

DIRECTOR **CHAIRMAN**

Schedule - 1

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

MEMBER'S & EMPLOYER'S CONTRIBUTION TO PF - Civil

| | MEMBER'S CONTRIBUTION | EMPLOYER'S CONTRIBUTION | MEMBER'S CONTRIBUTION | EMPLOYER'S CONTRIBUTION |
|-----------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| | AS AT 30.06.2006 | AS AT 30.06.2006 | AS AT 30.06.2005 | AS AT 30.06.2005 |
| | Nu | Nu | Nu | Nu |
| Opening Balance | 656,736,509 | 656,683,278 | 598,811,473 | 598,755,685 |
| Add / (Less): Adjustments | 30,292 | 30,293 | 251,355 | 253,897 |
| Adjusted Opening Balance | 656,766,801 | 656,713,571 | 599,062,828 | 599,009,582 |
| Add: Contribution during the Year | 63,733,202 | 63,733,221 | 57,673,681 | 57,673,696 |
| Sub Total A | 720,500,003 | 720,446,792 | 656,736,509 | 656,683,278 |
| Less: Refunds as per last a/c | 297,773,214 | 297,722,705 | 286,181,781 | 286,131,423 |
| Refunds during the year | 10,770,007 | 10,769,868 | 11,591,433 | 11,591,282 |
| Sub Total B | 308,543,221 | 308,492,573 | 297,773,214 | 297,722,705 |
| Net Contribution A-B | 411,956,782 | 411,954,219 | 358,963,295 | 358,960,573 |
| Grand Total | 823,911,001 | | 717,923,868 | |

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

MEMBER'S & EMPLOYER'S CONTRIBUTION TO PF - Armed Forces

| | MEMBER'S CONTRIBUTION | EMPLOYER'S CONTRIBUTION | MEMBER'S CONTRIBUTION | EMPLOYER'S CONTRIBUTION |
|-----------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| | AS AT 30.06.2006 | AS AT 30.06.2006 | AS AT 30.06.2005 | AS AT 30.06.2005 |
| | Nu | Nu | Nu | Nu |
| Opening Balance | 241,170,289 | 241,170,292 | 206,298,239 | 206,298,241 |
| Add / (Less): Adjustments | (1) | - | (130,414) | (130,414) |
| Adjusted Opening Balance | 241,170,288 | 241,170,292 | 206,167,825 | 206,167,827 |
| Add: Contribution during the Year | 35,991,272 | 35,991,272 | 35,002,464 | 35,002,465 |
| Sub Total A | 277,161,560 | 277,161,564 | 241,170,289 | 241,170,292 |
| Less: Refunds as per last a/c | 18,526,939 | 18,526,938 | 10,358,587 | 10,358,586 |
| Refunds during the year | 13,362,752 | 13,362,753 | 8,168,352 | 8,168,352 |
| Sub Total B | 31,889,691 | 31,889,691 | 18,526,939 | 18,526,938 |
| Net Contribution A-B | 245,271,869 | 245,271,873 | 222,643,350 | 222,643,354 |
| Grand Total | 490,543,742 | | 445,286,704 | |

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

INTEREST ON MEMBER'S & EMPLOYER'S CONTRIBUTION

| | INTEREST ON MEMBER'S CONTRIBUTION | INTEREST ON EMPLOYER'S CONTRIBUTION | INTEREST ON MEMBER'S CONTRIBUTION | INTEREST ON EMPLOYER'S CONTRIBUTION |
|---|---|---|---|---|
| | AS AT 30.06.2006 | AS AT 30.06.2006 | AS AT 30.06.2005 | AS AT 30.06.2005 |
| | Nu | Nu | Nu | Nu |
| Opening Balance | 164,987,930 | 140,900,156 | 164,924,971 | 140,837,324 |
| Add / (Less): Adjustments | (37,045) | (32,778) | 62,959 | 62,832 |
| Adjusted Opening Balance | 164,950,885 | 140,867,378 | 164,987,930 | 140,900,156 |
| Add: Interest credit as per last a/c | 184,474,427 | 183,100,094 | 153,925,159 | 152,616,072 |
| Interest during the Year | 36,784,679 | 36,726,828 | 30,549,268 | 30,484,022 |
| Sub Total A | 386,209,991 | 360,694,300 | 349,462,357 | 324,000,250 |
| Less: Refunds of interest as per last a/c | 183,374,306 | 158,863,623 | 176,399,470 | 152,184,008 |
| Refunds of interest during the year | 6,225,368 | 6,028,045 | 6,974,836 | 6,679,615 |
| Sub Total B | 189,599,674 | 164,891,668 | 183,374,306 | 158,863,623 |
| Net Contribution A-B | 196,610,317 | 195,802,632 | 166,088,051 | 165,136,627 |
| Grand Total | 392,412,949 | | 331,224,678 | |

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

INTEREST ON MEMBER'S & EMPLOYER'S CONTRIBUTION TO PF - Armed Forces

| | INTEREST ON MEMBER'S CONTRIBUTION | INTEREST ON EMPLOYER'S CONTRIBUTION | INTEREST ON MEMBER'S CONTRIBUTION | INTEREST ON EMPLOYER'S CONTRIBUTION |
|---|---|---|---|---|
| | AS AT 30.06.2006 | AS AT 30.06.2006 | AS AT 30.06.2005 | AS AT 30.06.2005 |
| | Nu | Nu | Nu | Nu |
| Opening Balance | 53,950,663 | 52,746,578 | 54,004,890 | 52,800,804 |
| Add/ Less: Adjustments | | | (54,227) | (54,226) |
| Adjusted Opening Balance | 53,950,663 | 52,746,578 | 53,950,663 | 52,746,578 |
| Add: Interest credit as per last a/c | 39,610,115 | 39,441,763 | 21,741,431 | 21,635,883 |
| Interest during the Year | 21,363,690 | 21,301,480 | 17,882,457 | 17,819,616 |
| Sub Total A | 114,924,468 | 113,489,821 | 93,574,551 | 92,202,077 |
| Less: Refunds of interest as per last a/c | 9,065,839 | 8,664,425 | 5,478,562 | 5,206,238 |
| Refunds of interest during the year | 5,563,985 | 5,444,581 | 3,587,277 | 3,458,187 |
| Sub Total B | 14,629,824 | 14,109,006 | 9,065,839 | 8,664,425 |
| Net Contribution A-B | 100,294,644 | 99,380,815 | 84,508,712 | 83,537,652 |
| Grand Total | 199,675,459 | | 168,046,364 | |

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

PENSION FUND (CIVIL)

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|---|----------------------|----------------------|
| | Nu | Nu |
| Opening Balance | 1,653,299,952 | 1,389,076,447 |
| Add: Transfer / Adjustments | 789,371 | 316,047 |
| Adjusted Opening Balance | 1,654,089,323 | 1,389,392,494 |
| Add: Contribution received during the year | 194,654,808 | 169,238,853 |
| Interest during the year | 116,271,870 | 94,668,605 |
| Sub Total A | 1,965,016,001 | 1,653,299,952 |
| Less: Pension payment as per last account | 8,388,659 | 3,762,344 |
| Pension payment during the Year | 8,006,788 | 4,626,315 |
| Total Pension Payment | 16,395,447 | 8,388,659 |
| Less: Refund from Pension Fund as pr last account | 17,286,515 | 11,213,294 |
| Refund from Pension fund during the year | 7,495,638 | 6,073,221 |
| Total Pension Refund | 24,782,153 | 17,286,515 |
| Sub Total B | 41,177,600 | 25,675,174 |
| Grand Total A - B | 1,923,838,401 | 1,627,624,778 |

Schedule - 3A

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

PENSION FUND (ARMED FORCES)

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|---|----------------------|---------------------|
| | Nu | Nu |
| Opening Balance | 931,521,787 | 782,526,761 |
| Add: Transfer / Adjustments | 1 | (516,994) |
| Adjusted Opening Balance | 931,521,788 | 782,009,767 |
| Add: Contribution received during the year | 99,837,422 | 97,078,410 |
| Interest during the year | 63,832,742 | 52,433,610 |
| Sub Total A | 1,095,191,952 | 931,521,787 |
| Less: Pension payment as per last account | 13,885,113 | 5,734,830 |
| Pension payment during the Year | 12,194,622 | 8,150,283 |
| Total Pension Payment | 26,079,735 | 13,885,113 |
| Less: Refund from Pension Fund as pr last account | 17,660,032 | 9,271,478 |
| Refund from Pension fund during the year | 18,751,736 | 8,388,554 |
| Total Pension Refund | 36,411,768 | 17,660,032 |
| Sub Total B | 62,491,503 | 31,545,145 |
| Grand Total A - B | 1,032,700,449 | 899,976,642 |

Schedule - 4

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

LAPSED FUND (CIVIL)

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|--------------------------------------|------------------|------------------|
| | Nu | Nu |
| Opening Balance | 1,054,952 | 695,285 |
| Add: Transferred during the year | 172,539 | 359,667 |
| Sub Total | 1,227,491 | 1,054,952 |
| Less: Transferred to General Reserve | | |
| Total * | 1,227,491 | 1,054,952 |

* Lapsed fund consist of Employer's contribution of the members who have gone out of the scheme before contributing for twelve months or terminated from service

Schedule - 4A

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE 2006

LAPSED FUND (ARMED FORCES)

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|----------------------------------|------------------|------------------|
| | Nu | Nu |
| Opening Balance | 848,907 | 536,788 |
| Add: Transferred during the year | 277,452 | 312,119 |
| Total * | 1,126,359 | 848,907 |

* Lapsed fund consist of Employer's contribution of the members who have gone out of the scheme before contributing for twelve months or terminated from service.

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

GENERAL RESERVE

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|-----------------------------------|-------------------|-------------------|
| | Nu | Nu |
| | | |
| Opening Balance | 76,277,144 | 6,103,735 |
| Add: Transferred from lapsed fund | | 44,820,762 |
| Adjustment | 173,230 | |
| Transferred from revenue account | 4,534,982 | 25,352,647 |
| | | |
| Total | 80,985,356 | 76,277,144 |

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

OTHER LIABILITIES

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|--|-------------------|-------------------|
| | Nu | Nu |
| Stale Cheques | 494,681 | 387,817 |
| Earnest Money | 136,944 | 189,623 |
| Security Deposit (Contractor) | 6,280,289 | 7,087,911 |
| Deposit (PF) | - | 975,091 |
| Performance Gurantee | 78,775 | 13,382 |
| Security Deposit (Rent) | 484,871 | 401,831 |
| Unclaimed Refund Contribution | 80,607 | 80,607 |
| Unclaimed refund interest | 1,158 | 1,158 |
| Contribution received in advance | 376,629 | 314,640 |
| Outstanding liabilities for Expenses | 4,418,547 | 3,731,957 |
| Security Deposit - Power / Tenant (S/Jongkhar) | 36,680 | 28,150 |
| Security Deposit - Power / Tenant (P/Ling) | 128,380 | 128,380 |
| Security Deposit - Power / Tenant (Thimpu) | 176,965 | 90,525 |
| Health contribution payable / Recoveries | 399,790 | 4,986 |
| Salary Tax | | 22,948 |
| PF Payable | | 87,626 |
| Payable to contractor | 6,335,693 | 2,913,087 |
| Housing / Education Loan closed A/c - Credit Balance | 9,723 | - |
| Total | 19,439,732 | 16,459,719 |

NATIONAL PENSION & PROVIDENT FUND

THIMPHU : BHUTAN

Fixed Assets

| Particulars | Rate of Depreciation | Original Cost as on 01.07.2005 | Additions during the year | Sale/Discarded during the Year | Original cost as on 30.06.2006 | Accumulated Depreciation as on 30.06.2005 | Depreciation during the year | Adjustment of Depreciation during the period | Total Accumulated depreciation as on 30.06.2006 | Net Block as on 30.06.2006 | Net Block as on 30.06.2005 |
|--------------------------------|----------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---|------------------------------|--|---|----------------------------|----------------------------|
| R.E Land | | 29,064,422.81 | 4,288,124.46 | | 33,352,547.27 | - | - | | - | 33,352,547.27 | 29,064,422.81 |
| R.E Building | 3% | 139,011,920.80 | 34,465,098.64 | | 173,477,019.44 | 27,620,449.62 | 4,487,210.32 | | 32,107,659.94 | 141,369,359.51 | 111,391,471.18 |
| R.E Furniture & Fixtures | 15% | 169,287.00 | | | 169,287.00 | 110,237.36 | 25,393.00 | | 135,630.36 | 33,656.64 | 59,049.64 |
| R.E Electrical & Fitting | 15% | 8,765,639.04 | 2,588,289.20 | | 11,353,928.24 | 3,917,468.47 | 1,433,978.22 | | 5,351,446.69 | 6,002,481.55 | 4,848,170.57 |
| R.E Equipments | 15% | 115,229.90 | | | 115,229.90 | 53,153.00 | 17,284.00 | | 70,437.00 | 44,792.90 | 62,076.90 |
| Sub-Total (A) | | 177,126,499.55 | 41,341,512.30 | - | 218,468,011.85 | 31,701,308.45 | 5,963,865.53 | - | 37,665,173.98 | 180,802,837.86 | 145,425,191.10 |
| Office Building | 3% | | 7,261,846.21 | | 7,261,846.21 | - | 66,848.78 | | 66,848.78 | 7,194,997.43 | - |
| Office Electrical & Fitting | 15% | | 529,159.91 | | 529,159.91 | - | 24,355.85 | | 24,355.85 | 504,804.05 | - |
| Computer & Office Equipment | 15% | 4,897,785.50 | 1,807,043.33 | | 6,704,828.83 | 2,647,403.00 | 839,212.00 | | 3,486,615.00 | 3,218,213.83 | 2,250,382.50 |
| Office Furniture & Fitting | 15% | 1,175,684.59 | 600,546.26 | | 1,776,230.85 | 613,126.45 | 209,058.00 | | 822,184.45 | 954,046.40 | 562,558.14 |
| Telephone / EPABX / LAN | 15% | 448,716.00 | 31,350.00 | | 480,066.00 | 205,455.00 | 69,971.00 | | 275,426.00 | 204,640.00 | 243,261.00 |
| Motor Vehicles | 15% | 1,140,638.71 | | | 1,140,638.71 | 714,691.00 | 171,096.00 | | 885,787.00 | 254,851.71 | 425,947.71 |
| Carpet | 15% | 90,923.74 | 15,120.00 | | 106,043.74 | 47,834.00 | 13,975.00 | | 61,809.00 | 44,234.74 | 43,090.74 |
| Curtain / Upholstery | 15% | 12,640.00 | 40,471.00 | | 53,111.00 | 9,716.00 | 5,339.00 | | 15,055.00 | 38,056.00 | 2,924.00 |
| Sub-Total (B) | | 7,766,388.54 | 10,285,536.71 | - | 18,051,925.25 | 4,238,225.45 | 1,399,855.63 | - | 5,638,081.08 | 12,413,844.17 | 3,528,164.09 |
| GRAND TOTAL(A+B) | | 184,892,888.09 | 51,627,049.00 | - | 236,519,937.09 | 35,939,533.90 | 7,363,721.16 | - | 43,303,255.06 | 193,216,682.03 | 148,953,355.19 |
| Previous Financial Year | | 133,069,524.78 | 52,603,894.93 | 780,531.62 | 184,892,888.09 | 30,880,336.28 | 5,474,134.00 | 414,937.38 | 35,939,532.90 | 148,953,355.19 | 102,189,188.50 |

Schedule - 8

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

CAPITAL WORK IN PROGRESS

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|-------------------------|-------------------|---------------------|
| | Nu | Nu |
| IT Development | 254,284.00 | 200,755 |
| Lan | - | |
| Furnitures | 271,163.92 | |
| Real Estate Development | 49,571,815.21 | 43,729,088 |
| Total | 50,097,263 | 43,929,843 |

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

DETAILS OF INVESTMENTS IN EQUITY SHARES / BONDS

DOMESTIC & INTERNATIONAL (AT COST)

| | AS AT 30.06.2006 | AS AT 30.06.2005 |
|---|-----------------------|----------------------|
| | Nu | Nu |
| <u>QUOTED</u> | | |
| <u>PENDEN CEMENT AUTHORITY</u> | | |
| 143635 Equity Shares of Nu. 100/- each fully paid up including 4500 bonus shares of Nu. 100/- each. | 14,450,562.50 | 13,005,000 |
| <u>STATE TRADING CORPORATION OF BHUTAN LIMITED</u> | | |
| 9800 Equity shares of Nu. 100/- each fully paid up. | 980,000.00 | 980,000 |
| <u>BHUTAN NATIONAL BANK</u> | | |
| 305398 Equity shares of Nu. 100 each fully paid up. | 155,854,778.45 | 155,854,778 |
| <u>INTERNATIONAL SHARES / BONDS **</u> | - | 951,215,839 |
| Total Quoted | 171,285,340.95 | 1,121,055,617 |
| <u>UNQUOTED</u> | | |
| <u>KUENSEL CORPORATION LTD</u> | | |
| 36750 Equity shares of Nu. 100 each fully paid up | 3,675,000.00 | - |
| <u>DRUK AIR BOND</u> | 609,761,000.00 | 609,761,000 |
| Total unquoted | 613,436,000.00 | 609,761,000 |
| Total | 784,721,341 | 1,730,816,617 |

* Market value of quoted share/Bonds as on 30.06.2006 is Nu. 329,112,250/-
(Previous Year Nu. 1,208,266,538)

** Adjusted Cost

NATIONAL PENSION & PROVIDENT FUND

THIMPU : BHUTAN

Schedule - 10

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

| <u>OTHER INVESTMENTS</u> | - | |
|--|-------------------------|-------------------------|
| | AS AT 30.06.2006 Nu | AS AT 30.06.2005 Nu |
| <u>Deposits</u> | - | |
| Fixed Deposit - Bank of Bhutan | 8,500,000.00 | 112,000,000.00 |
| - Bhutan National Bank | 979,400,000.00 | 481,000,000.00 |
| RGOB Treasury Bill | - | 180,000,000.00 |
| RMA Bill | 33,035,129.49 | - |
| RGOB Budget Fund Account | 1,063,023,000.00 | - |
| Loan to RGOB | - | 138,565,000.00 |
| Sub Total | 2,083,958,129.49 | 911,565,000.00 |
| <u>Loans</u> | - | |
| <u>To Institutions / Companies</u> | - | |
| Unsecured Loan to RICB | 350,000,000.00 | 400,000,000.00 |
| Unsecured Loan to Bhutan Dev. Finance Corp. | 155,000,000.00 | 170,000,000.00 |
| Secured Loan to Bhutan Beverage Company * | 37,317,640.01 | 43,752,870.01 |
| Secured loan to Bhutan Telecom * (*Consortium loan through BNB) | 37,663,517.10 | 51,006,104.17 |
| Secured Loan to BFAL | 300,000,000.00 | 100,000,000.00 |
| Secured Loan to Bhutan Broadcasting Services | 6,100,000.00 | |
| Sub Total | 886,081,157.11 | 764,758,974.18 |
| <u>To Members</u> | | |
| Pension Loan | 906,635.68 | 1,219,007.39 |
| Housing Loan | 470,597,696.60 | 377,171,878.84 |
| Education Loan | 385,033,713.62 | 264,618,484.00 |
| Sub Total | 856,538,045.90 | 643,009,370.23 |
| TOTAL | 3,826,577,332.50 | 2,319,333,344.41 |
| Less: General Provision on Standard Assets (1.5%)** | 17,118,886.72 | 11,283,179.79 |
| Provision for NPL | 5,727,646.40 | 2,428,221.00 |
| Total | 3,803,730,799 | 2,305,621,943 |

Note:

* The loan is secured against mortgage of immovable properties and hypothecation of all movables ranking pari pasu with other Banks and financial institutions.

** General provision of 1.50% has been made on standard assets viz BBCL, BFAL, Housing and Education Loan.

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

Schedule - 11

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

ADVANCES AND OTHER DEPOSITS

| | AS AT 30.06.2006 Nu | AS AT 30.06.2005 Nu |
|---------------------------------|------------------------|------------------------|
| Security Deposit - Immigration | - | 2,000.00 |
| Security Deposit - Power / Rent | 322,005.00 | 245,200.00 |
| Security Deposit - Water meter | 63,000.00 | 63,000.00 |
| Rent Receivable | 1,210,140.00 | 901,800.00 |
| Interest accrued but not due | 120,921,588.92 | 21,077,715.00 |
| Other Receivable | 875,261.00 | 4,600.00 |
| Advance to Contractors | 1,431,024.00 | 9,818,816.33 |
| Staff Advance | 316,140.50 | |
| Deposit with BOD | - | 1,688.96 |
| Total | 125,139,159 | 32,114,820 |

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

Schedule - 12

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 30TH JUNE' 2006

CASH AND BANK BALANCES

| | AS AT 30.06.2006 Nu | AS AT 30.06.2005 Nu |
|---------------|------------------------|------------------------|
| Cash at Bank* | 11,196,216.75 | 23,192,924.47 |
| Petty Cash | 4,793.80 | 1,650.77 |
| Total | 11,201,011 | 23,194,575 |

* Includes last day collection of Nu. 10.39 millions (Previous Year 20.55 millions)

**NATIONAL PENSION & PROVIDENT FUND
THIMPU : BHUTAN**

Schedule - 13

SCHEDULES FORMING PART OF THE REVENUE ACCOUNT AS AT 30TH JUNE' 2006

OTHER INCOME

| | AS AT 30.06.2006 Nu | AS AT 30.06.2005 Nu |
|-------------------------|------------------------|------------------------|
| Interest on Lapsed Fund | 54,754.76 | 259,900.22 |
| Miscellaneous Income * | 1,315,500.53 | 1,117,067.83 |
| Total | 1,370,255 | 1,376,968 |

* Includes processing fees on Housing & Education Loan Nu. 0.661 mios (Previous year Nu. 0.847 mios)

NATIONAL PENSION & PROVIDENT FUND

THIMPHU: BHUTAN

**SIGNIFICANT ACCOUNTING POLICIES FOR THE
YEAR ENDED 30th JUNE 2006.**

1. The Accounts are prepared on accrual basis except for payment of Rates and Taxes, Insurance Premium, Interest on delayed receipts of rent, Contribution and Penal interest on delayed receipt of contribution, which are considered in the accounts on cash basis.
2. Employees and Employers Contributions to Pension and Provident Fund are accounted for on the basis of the amount deposited by the Agencies to the designated branches of Bank of Bhutan up to the end of the year. The deposits are transferred to individual member's account based on the recovery schedules along with the receipted copy of the deposit invoice received from the Agencies duly reconciled with the deposits received at the Bank, effective from the date of original deposit and/or clarification received.
3. Common expenses between Pension and Provident Fund are distributed on the basis of each fund size at the beginning of the year.
4. Final return on members' account is decided by the National Pension Board and credited to members' account based on approval of the Board.
5. a) Fixed Assets transferred from erstwhile managers of GEPF are disclosed at Original cost and corresponding accumulated depreciation. Land cost is inclusive of the expenses incurred for land development.
b) Other Fixed Assets are stated at the historical cost and/or at the cost of procurement/acquisition. The depreciation on Fixed Assets is provided in the Accounts on straight line method at the rates and manner as prescribed by the Department of Revenue & Customs, Royal Government of Bhutan, as per the Income Tax Act of the Kingdom of Bhutan 2001.
c) The cost of buildings is inclusive of land cost where the building is purchased with land.
6. Capital work in progress are shown at cost and on completion of the project, the amount is capitalized effective from the date of the completion as certified by the appropriate authority.
7. Short Term Fixed Deposits with Banks, Investment in Government Securities, Loan to others, Housing and Education Loan are disclosed as Other Investments.
8. Expenditure on ongoing revenue projects for system development is debited to Capital work-in-progress. On completion of the project, the amount is treated as deferred revenue expenditure, which is amortized over a period of five years.

9. Foreign Investments are stated at adjusted cost, whereas other investments are stated at cost. In case of investment in listed securities, market value is given as disclosure.
- 10 Capital Grant is set off against value of assets procured out of such Grant as per International Accounting Standard.
11. Gratuity liability to employees is provided on accrual basis as per estimates and is funded annually in earmarked account.

**NATIONAL PENSION & PROVIDENT FUND
THIMPHU: BHUTAN**

**NOTES FORMING PART OF ACCOUNTS FOR THE
YEAR ENDED 30TH JUNE, 2006**

1. Subsequent to the Executive Order No.MOF/Pension/4841 dated 30th March 2000 issued by Honourable Minister of Finance a communication No.COM/03/02/787 dated 8th April 2002 was issued by the Cabinet Secretary to inform that NPPF will be formally established through a Government Executive Order and will be governed by Rules and Regulations. An executive order was issued by the Chairman, Lhengye Zhungtshog vide order No.LZ/02/02/15 dated 1st July, 2002 containing various objectives of NPPF and working rules of NPPF.
2. The status of this organization has been categorised by the Royal Government of Bhutan as an autonomous public organization and is working as a non-profit making organization to serve its members.
3. Pending creation of Gratuity Trust and corresponding transfer of fund, Investment of Gratuity fund Nu. 2,762,565/- has been shown as Gratuity Investment and Nu. 3,362,057/- As Gratuity Liability as on 30th June' 2006.
4. Capital commitment in various projects as on 30 June 2006 is Nu. 40,875,204.58 net of advances. (Previous year Nu 84,887,667/-).
5. There is a contingent liability of Nu. 666,301.97 in respect of claim made by M/s. Druk Sherig Construction, which is not acknowledge as debt by NPPF. (Previous year – Nil).
6. Housing Loan of Nu. 6.80 million was sanctioned to Mr. Dupthob Wangchug, (Director), however only Nu. 1,497,840 was disbursed to him during the year. The balance outstanding as on 30th June' 2006 is Nu. 1,495,581.00
7. Return to the members @ 6.75% for the year has been decided by the National Pension Board during the 26th meeting held.
8. Previous year figures have been regrouped/rearranged wherever necessary.

Signature to Schedules 1 to 17

DIRECTOR

CHAIRMAN