

AUDITORS' REPORT

TO THE MEMBERS OF BANK OF BHUTAN LIMITED

1. We have audited the attached Balance Sheet of Bank of Bhutan Limited as at 31st December 2011 and the relative Profit and Loss account and the Cash Flow Statement for the year ended on that date (in which are incorporated general ledger balances and transactions of seven branches not audited by us). 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 from material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the 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 under schedule XIV of section 75 of the Companies Act of the Kingdom of Bhutan, 2000 we enclose in the Annexure a statement on the matters specified therein to the extent applicable to the Bank.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that :
 - a.) 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.
 - b.) In our opinion proper books of account as required by law have been kept by the bank so far as appears from our examination of those books.
 - c.) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with in this report have been prepared on the basis of generally accepted accounting principles and are in agreement with the books of account.
 - d.) In our opinion and to the best of our information and according to the explanations given to us , the said accounts read together with Significant Accounting Policies at schedule 17 and Notes on Accounts at schedule 18 give the information required by the Companies Act of the Kingdom of Bhutan, 2000 in the manner so required and subject to :



- i) *Note No. 1 of Schedule 18 regarding unmatched entries in Branch Clearing General Account, Inter Branch Flexcube Account, State Bank of India, other banks including NOSTRO Accounts, Inter Branch Accounts and Bills Payable Accounts;*
- ii) *Note No. 5 of Schedule 18 regarding balance book for Cash Warrants Payable in respect of a branch under reconciliation;*
- iii) *Note No. 7 of Schedule 18 regarding reconciliation, balance confirmation and translation of accounts in foreign currency in local currency at year end exchange rate in respect of Accounts Receivables/ Payables relating to VISA/MASTERCARD;*


of which the consequential impact in the accounts for the year is considered insignificant by the management,
give a true and fair view:

- a) In the case of Balance Sheet, the state of affairs of the bank as at 31st December 2011
- b) In case of Profit and Loss Account of the profit of the bank for the year ended on that date and
- c) In case of Cash Flow Statement of the movement of cash of the Bank for the year ended on that date.

Date: 17 MAR 2012
Place: New Delhi



For S. K. Mittal & Co.
Chartered Accountants


Krishan Sarup
Partner
M. No.: 010633

REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

ANNEXURE

1. The bank has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. The Fixed Assets of the bank have been physically verified during the year and no material discrepancies were noticed on such verification as informed to us.
2. None of the Fixed Assets have been revalued during the year.
3. Physical verification of stores was conducted by the management at reasonable intervals and no material discrepancies were noticed on such verifications.
4. The procedures of physical verification of stores followed by the management are reasonable and adequate in relation to size of the Bank and the nature of its business.
5. The valuation of stores is fair and proper in accordance with normally accepted accounting principle and there is no change in the basis of valuation of stores followed in the preceding year.
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.
7. In our opinion and according to the information and explanations 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.
8. There is a system of competitive bidding, commensurate with the size of the Bank and the nature of the business, for the purchases of services, stores, equipment and other assets.
9. There are no unserviceable or damaged stores as informed to us.
10. According to the records, the Bank is generally regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authority. The provision for corporate tax is adequate and that necessary adjustments have been made to compute amount of tax required under the Rules on the Income Tax Act of Kingdom of Bhutan 2001.
11. There are no undisputed amounts payable in respect of rates, taxes, duties, provident fund and other statutory dues outstanding at the year-end.



12. No personal expenses 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.
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 Incorporation of the Bank.
14. The Bank has established an effective budgetary control system.
15. The details of remuneration and other payments made to the Board of Directors including the Chief Executive Officer of the Bank are suitably disclosed in Note No.15 of Notes to Accounts (Schedule-18). Our checking is restricted to Board minutes and while checking the said Board minutes, we have not come across any cases where payments have been made in cash or in kind to any of the directors and their relatives (including spouse(s) and child/children) by Bank directly or indirectly except those stated above.
16. As represented to us, the directives of the Board and Board Committees have been complied with.
17. 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 publicly available, unauthorisedly to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
18. 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.
19. The Bank has not dealt or traded in shares, securities and other investments during the year.
20. The Bank has adequate records for funds collected from depositors and for interest payments.
21. On the basis of examination of investment portfolio of the Bank in shares, we are of the opinion that no provision is required for permanent diminution in the value of shares.
22. In our opinion and on the basis of available records and information, the Bank has complied with the requirements of Financial Institutions Act, 1992 and any other applicable laws, rules and regulations and guidelines issued by the appropriate Authorities.
23. The requirements of RMA Prudential Regulations, 2002 relating to provisioning for the non-performing assets including loans and advances have been complied with.
24. Recognition of interest income in respect of non-performing assets has been deferred.



25. 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.
26. The Bank has a system of monitoring of projects for which loans have been provided to ensure that loan amounts are used for the specified purposes and project activities are progressing satisfactorily.
27. The disposal of assets taken over for repayment defaults etc. is made through open/sealed bids.
28. In our opinion and on the basis of available records and information, proper analysis is carried out before re-phasing/rescheduling of loans are permitted and that re-phasing is not permitted in respect of non-performing loans.
29. 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 in **Exhibit -1 to Annexure**.



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

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

In our opinion and on the basis of available records and information, the Bank has complied with the applicable laws, rules and regulations, systems, procedures and practices.

4.2 Weighting of the risk weighted assets as on 31st December 2011 is proper and correct.

4.3 Capital Adequacy Ratio of the Bank as on 31st December 2011 has been fairly assessed and such ratio is more than the prescribed limit by the RMA.

4.4 Cash Reserve Ratio of the Bank as on 31st December 2011 has been fairly assessed and such ratio is more than the prescribed limit by the RMA.

Other clauses of the said Reporting Requirements are not applicable to the Bank during the year under audit.



EXHIBIT -1 TO ANNEXURE

RATIO ANALYSIS

	RATIOS	2011	2010	REMARKS
A.	Ratios for assessing financial health			
	Current Ratio (Current Assets/Current Liabilities)	1.06 :1	1.05:1	Increase in ratio is due to comparative increase in current assets.
B.	Ratios for assessing profitability			
	Return on Investments (PAT/Capital Employed X 100)	22.80 %	22.40%	Marginal increase is on account of increase in PAT for the year
	Earnings per Share (PAT/No. of shares issued)	Nu 161.10	Nu.127.70	Increase in EPS is due to increased PAT for the year
	Net Profit Ratio (Net Profit/Turnover X 100)	36.66 %	34.81%	Improvement in ratio is due to increase in profit during the year compared to previous year



BANK OF BHUTAN LIMITED

BALANCE SHEET AS AT 31st DECEMBER 2011			Amount in Ngultrum
CAPITAL AND LIABILITIES	Schedule No.	As at 31.12.2011	As at 31.12.2010
Capital	1	400,000,000.00	400,000,000.00
Reserves & Surplus	2	2,426,798,779.56	1,886,434,883.48
Deposits	3	22,302,961,535.29	23,343,435,404.94
Other liabilities & provision	4	1,829,839,014.86	4,555,896,725.69
TOTAL		26,959,599,329.71	30,185,767,014.11
ASSETS			
Cash & Balance with RMA	5	7,371,891,901.07	15,412,148,362.80
Balances with Banks	6	2,242,429,421.20	2,577,569,206.40
Investments	7	1,116,858,210.45	600,720,710.45
Advances	8	15,653,233,646.48	11,140,851,897.81
Fixed Assets	9	264,436,278.84	257,822,398.04
Other Assets	10	310,749,871.67	196,654,438.61
TOTAL		26,959,599,329.71	30,185,767,014.11
Contingent liabilities	11	6,068,932,538.15	2,427,308,926.99
Bills for Collection	12	14,600,457.59	11,392,969.94
Significant Accounting Poli	17		
Notes to Accounts	18		

The schedules referred to above form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our report of even date.

For S.K.MITTAL & Co.
Chartered Accountants

Krishan Sarup
Partner
M.No.010633

Date:
Place: New Delhi

17 MAR 2012



Passang Tshering
Chief Executive Officer

Chairman : Karma W. Penjor

Directors : Kinga Tshering
Kinzang Tobgay
Sonam Tobjey
Dasho Phub W.Dorji
Vijay Jasuja

BANK OF BHUTAN LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2011

Amount in Ngultrum

	Schedule No.	For the year ended 31.12.2011	For the year ended 31.12.2010
INCOME			
Interest earned	13	1,413,714,623.62	1,147,321,209.73
Other Income	14	<u>343,980,693.86</u>	<u>319,986,357.31</u>
TOTAL		<u>1,757,695,317.48</u>	<u>1,467,307,567.04</u>
EXPENDITURE			
Interest Expended	15	343,272,494.90	360,498,633.41
Operating Expenses	16	449,330,633.35	329,977,461.52
Provision and Contingencies		<u>43,772,457.15</u>	<u>40,844,369.88</u>
TOTAL		<u>836,375,585.40</u>	<u>731,320,464.81</u>
PROFIT			
Profit before Tax		921,319,732.08	735,987,102.23
Provision for Income Tax		276,930,962.00	225,205,478.00
Net Profit for the year		644,388,770.08	510,781,624.23
Add : Prior period write backs		175,975,126.00	-
Less : Tax for earlier years		-	1,600,828.00
Profit brought forward		883.48	583.69
TOTAL		<u>820,364,779.56</u>	<u>509,181,379.92</u>
APPROPRIATIONS			
Transfer to Reserve Fund		483,334,779.56	199,955,000.00
Exchange Fluctuation Reserve		57,030,000.00	6,610,000.00
Proposed Dividend		280,000,000.00	300,000,000.00
BOB Scholarship Fund		-	2,615,496.44
Balance carried over to Balance Sheet		-	883.48
TOTAL		<u>820,364,779.56</u>	<u>509,181,379.92</u>
Significant Accounting Policies	17		
Notes to Accounts	18		

The schedules referred to above form an integral part of the Profit and Loss Account.

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

For S.K.MITTAL & CO.
Chartered Accountants

Krishan Sarup
Partner
M.No.010633

Date:
Place: New Delhi

17 MAR 2012



Passang Tshering
Chief Executive Officer

Chairman : Karma W. Penjor

Directors : Kinga Tshering
Kinzang Tobgay
Sonam Tobjey
Dasho Phub W. Dorji
Vijay Jasuja

BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 1 - CAPITAL

Amount in Ngultrum

	As at 31.12.2011	As at 31.12.2010
AUTHORISED CAPITAL 10,000,000 Shares of Nu.100 each	<u>1,000,000,000.00</u>	<u>1,000,000,000.00</u>
ISSUED AND PAID-UP CAPITAL 4,000,000 Shares (PY 4,000,000) of Nu.100 each	400,000,000.00	400,000,000.00
TOTAL	<u><u>400,000,000.00</u></u>	<u><u>400,000,000.00</u></u>



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BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 2 - RESERVES & SURPLUS	Amount in Ngultrum	
	<u>As at 31.12.2011</u>	<u>As at 31.12.2010</u>
RESERVE FUND		
Opening Balance	1,748,297,000.00	1,548,342,000.00
Add: Transfer from Profit & Loss Account	<u>483,334,779.56</u>	<u>199,955,000.00</u>
	2,231,631,779.56	1,748,297,000.00
EXCHANGE FLUCTUATION RESERVE		
Opening Balance	42,970,000.00	36,360,000.00
Add: Transfer from Profit & Loss Account	<u>57,030,000.00</u>	<u>6,610,000.00</u>
	100,000,000.00	42,970,000.00
RESEARCH & DEVELOPMENT FUND		
As per last account	8,717,000.00	8,717,000.00
DEVELOPMENT FUND		
As per last account	20,000,000.00	20,000,000.00
SOFTWARE UPGRADATION FUND		
As per last account	6,450,000.00	6,450,000.00
STAFF SCHOLARSHIP AND TRAINING FUND		
Opening Balance	60,000,000.00	60,000,000.00
Less : Utilised during the year	-	<u>2,615,496.44</u>
Add : Transfer from Profit & Loss Account	<u>-</u>	<u>2,615,496.44</u>
	60,000,000.00	60,000,000.00
Balance of Profit and Loss Account	-	883.48
As per annexed account		
TOTAL	<u><u>2,426,798,779.56</u></u>	<u><u>1,886,434,883.48</u></u>



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BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 3 - DEPOSITS

Amount in Ngultrum

	As at 31.12.2011	31.12.2010
DEMAND DEPOSITS		
i) Current Deposits	12,783,614,792.60	13,941,968,523.44
ii) Savings Bank Deposits	5,840,651,606.18	4,787,591,623.04
	<u>18,624,266,398.78</u>	<u>18,729,560,146.48</u>
TERM DEPOSITS	3,523,806,113.04	4,409,401,185.44
OTHER ACCOUNTS		
Balance of other Banks in Current Account	154,889,023.47	204,474,073.02
TOTAL	<u><u>22,302,961,535.29</u></u>	<u><u>23,343,435,404.94</u></u>



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BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 4 - OTHER LIABILITIES & PROVISIONS

Amount in Ngultrum

	As at 31.12.2011	As at 31.12.2010
GRATUITY FUND		
As per last account	72,238,520.00	72,491,695.00
Deductions during the ye:	<u>10,281,140.00</u>	<u>8,180,655.00</u>
	61,957,380.00	64,311,040.00
Additions during the year	<u>8,433,010.00</u>	<u>7,927,480.00</u>
	70,390,390.00	72,238,520.00
Bills Payable	225,774,927.43	227,742,487.04
Interest Accrued	152,268,122.70	163,909,725.23
Inter Office Adjustment (net)	2,503,248.61	2,825,692,001.00
Payables relating to Visa/Mastercard	10,204,008.42	-
Others (including provisions)	811,767,355.70	741,108,514.42
Proposed Dividend	280,000,000.00	300,000,000.00
Provision for Income Tax	276,930,962.00	225,205,478.00
TOTAL	<u><u>1,829,839,014.86</u></u>	<u><u>4,555,896,725.69</u></u>



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BANK OF BHUTAN LIMITED

Schedules forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 5 - CASH AND BALANCES WITH ROYAL MONETARY AUTHORITY (RMA)
 Amount in Ngultrum

	As at 31.12.2011	As at 31.12.2010
CASH IN HAND		
Bhutanese Currency	298,487,757.59	205,246,761.57
Indian Currency	29,936,546.25	22,595,044.00
Foreign Currency	16,011,816.02	15,770,529.21
	<u>344,436,119.86</u>	<u>243,612,334.78</u>
CASH RESERVE WITH RMA	4,123,952,000.00	4,266,688,000.00
BALANCES WITH RMA	2,903,503,781.21	10,901,848,028.02
TOTAL	<u><u>7,371,891,901.07</u></u>	<u><u>15,412,148,362.80</u></u>

SCHEDULE 6 - BALANCES WITH OTHER BANKS

**BALANCES WITH BANKS
 IN INDIA AND ABROAD**

On Current Accounts	928,869,421.20	568,629,206.40
On Deposit Accounts	213,560,000.00	208,940,000.00
	<u>1,142,429,421.20</u>	<u>777,569,206.40</u>
On Deposit Accounts in Bhutan	1,100,000,000.00	1,800,000,000.00
TOTAL	<u><u>2,242,429,421.20</u></u>	<u><u>2,577,569,206.40</u></u>



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BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 7 - INVESTMENTS

Amount in Ngultrum

	No.	Face Value	As at 31.12.2011	No.	As at 31.12.2010
FULLY PAID UP SHARES IN					
Bhutan Board Products Limited	172,400	100	18,973,913.00	172,400	18,973,913.00
Bhutan Development Finance Corpn.	7,500	1,000	7,500,000.00	7,500	7,500,000.00
Bhutan Carbide & Chemicals Ltd	158,450	100	16,260,297.45	158,450	16,260,297.45
Bhutan Ferro Alloys Limited	50,380	100	5,038,000.00	50,380	5,038,000.00
Penden Cement Authority Ltd	3,795	100	379,500.00	3,795	379,500.00
Druk Ferro Alloys Limited	118,272	100	23,654,400.00	118,272	23,654,400.00
State Trading Corpn.of Bhutan Ltd	14,116	100	1,411,600.00	14,116	1,411,600.00
BOB Securities Limited	5,000	100	500,000.00	5,000	500,000.00
(Wholly owned Subsidiary)					
			<u>73,717,710.45</u>		<u>73,717,710.45</u>
BONDS & BILLS					
Druk Air Bonds	527,003	1,000	527,003,000.00	527,003	527,003,000.00
RMA Discount Bills	50,000	10,000	498,137,500.00	-	-
Contribution towards Share Capital of FI Training Institute			18,000,000.00		-
TOTAL			<u><u>1,116,858,210.45</u></u>		<u><u>600,720,710.45</u></u>



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BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 8 - ADVANCES	Amount in Ngultrum	
	As at 31.12.2011	As at 31.12.2010
LOANS, CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN)	15,598,632,655.25	11,118,175,407.82
BILLS DISCOUNTED AND PURCHASED		
Payable in Bhutan	52,432.00	2,829,299.57
Payable outside Bhutan	54,548,559.23	19,847,190.42
	54,600,991.23	22,676,489.99
TOTAL	15,653,233,646.48	11,140,851,897.81

PARTICULARS OF ADVANCES

i Debts considered good in respect of which Bank is fully secured	12,895,697,651.31	7,950,260,170.65
ii Debts considered good for which Bank holds no other security than the Debtor's personal security	97,644,297.50	1,345,255,811.30
iii Debts considered good, secured by the personal liability of one or more parties in addition to the personal security of the Debtors	2,659,891,697.67	1,845,335,915.86
iv Debts considered doubtful or bad, not provided for	-	-
TOTAL	15,653,233,646.48	11,140,851,897.81
v Debts due by directors or officers of Bank or any of them either severally or jointly with any other person.	315,472,362.32	57,895,047.89
vi Debts due by companies, firms in which the directors of Bank are interested as directors, partners or members	252,315,153.62	-
vii Maximum amount of advances, including temporary advances made at any time during the year to directors, managers or officers of Bank or any of them either severally or jointly with any other person	341,170,291.62	115,947,740.73
viii Maximum amount of advances, including temporary advances granted during the year to the companies or firms in which directors of Bank are interested as directors, partners or memb	289,908,000.00	-
ix Due from Banking companies	-	-



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BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 9 - FIXED ASSETS

Amount in Ngultrum

	<u>As at 31.12.2011</u>	<u>As at 31.12.2010</u>	
PREMISES (BUILDING & LAND)			
At cost as on 31.12.2010	129,747,469.64	92,268,877.89	
Additions during the year	<u>56,533.00</u>	<u>37,478,591.75</u>	
	129,804,002.64	129,747,469.64	
Less: Depreciation to date	<u>22,951,683.98</u>	<u>20,860,551.74</u>	
	106,852,318.66	108,886,917.90	
FURNITURE, FIXTURE, OFFICE EQUIPMENTS AND VEHICLES			
At cost as on 31.12.2010	241,895,369.33	188,948,544.34	
Additions during the year	38,666,257.16	54,004,768.18	
Deductions during the year	<u>4,853,279.93</u>	<u>1,057,943.19</u>	
	275,708,346.56	241,895,369.33	
Less Depreciation to date	<u>124,844,545.50</u>	<u>94,733,205.47</u>	
	150,863,801.06	147,162,163.86	
CAPITAL WORK IN PROGRESS	6,720,159.12	1,773,316.28	
TOTAL	<u><u>264,436,278.84</u></u>	<u><u>257,822,398.04</u></u>	



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BANK OF BHUTAN LIMITED

Schedules forming part of the Balance Sheet as at 31st December 2011

SCHEDULE 10 - OTHER ASSETS

Amount in Ngultrum

	As at 31.12.2011	As at 31.12.2010
Accrued Interest	85,532,820.50	49,933,017.88
Stamps, Sundry Deposits and Amounts Recoverable	15,739,238.81	12,907,802.98
Stationery	15,676,124.06	15,714,674.53
Building Materials	921,981.70	921,981.70
Axis Bank Pre-paid Cards	3,530,510.56	9,650,011.00
Advance Tax including Tax Deducted at S	113,881,052.70	105,507,475.00
Receivables relating to Visa/Mastercard	75,468,143.34	2,019,475.52
TOTAL	310,749,871.67	196,654,438.61

	As at 31.12.2011	As at 31.12.2010
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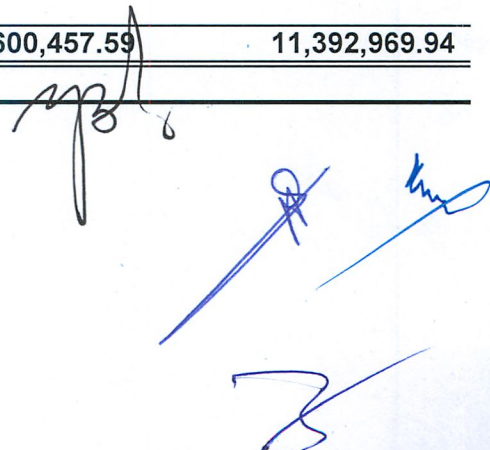
SCHEDULE 11 - CONTINGENT LIABILITIES

Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	1,526,214,319.77	402,553,223.00
Guarantees Issued & Outstanding	4,542,718,218.38	2,024,755,703.99
TOTAL	6,068,932,538.15	2,427,308,926.99

SCHEDULE 12 - BILLS FOR COLLECTION

Payable in Bhutan	3,635,711.80	10,261,860.77
Payable outside Bhutan	10,964,745.79	1,131,109.17
TOTAL	14,600,457.59	11,392,969.94





BANK OF BHUTAN LIMITED

Schedules forming part of the Profit and Loss Account as at 31st December 2011

SCHEDULE 13 INTEREST EARNED

Amount in Ngultrum

	For the year ended 31.12.2011	For the year ended 31.12.2010
Interest on Loans	1,312,296,780.30	1,013,884,024.89
Interest on Bills Receivables	6,157,142.28	2,367,636.08
Interest on Investment	21,311,385.98	72,035,302.18
Interest on Fixed Deposits with Banks	73,949,315.06	59,034,246.58
TOTAL	1,413,714,623.62	1,147,321,209.73

SCHEDULE 14 OTHER INCOME

Commission, Exchange and Brokerage	273,181,429.23	226,456,120.30
Profit on conversion of Foreign Currency Ba	-	26,425,321.73
Income earned by way of Dividend	12,616,024.00	5,766,820.00
Rental Income	1,157,931.50	1,074,483.00
Others	56,973,279.88	60,263,612.28
Profit on sale of Assets	52,029.25	-
TOTAL	343,980,693.86	319,986,357.31

SCHEDULE 15 - INTEREST EXPENSES

Interest paid on deposits	343,272,494.90	360,498,633.41
TOTAL	343,272,494.90	360,498,633.41



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BANK OF BHUTAN LIMITED

Schedule forming part of the Profit and Loss Account as at 31st December 2011

SCHEDULE 16 - OPERATING EXPENSES	Amount in Ngultrum	
	For the year ended 31.12.2011	For the year ended 31.12.2010
Payment to and provision for employees	198,219,593.85	202,250,488.19
Rent, Taxes, Insurance, Lighting etc	12,023,204.99	10,472,272.31
Travelling Expenses	25,839,976.56	18,001,413.31
Directors Sitting Fees	612,000.00	476,000.00
Postage, Telegrams & Stamps	9,572,570.40	8,468,853.61
Audit Fee	365,000.00	317,400.00
Auditors' out of pocket expenses	423,000.00	423,000.00
Depreciation	37,025,085.61	29,485,844.01
Repairs to Banks Properties	15,751,424.36	13,247,691.02
Stationery, Printing, Advertisement etc	9,963,280.67	10,293,241.31
Charity and Donations	1,138,333.00	540,000.00
Fixed Assets Written Off	27,596.14	7,891.00
Other Expenditure	47,039,200.87	35,993,366.76
Loss on conversion of Foreign Currency	91,330,366.90	-
TOTAL	449,330,633.35	329,977,461.52



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BANK OF BHUTAN LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2011

	Amount in Ngultrum	
	For the year ended 31.12.2011	For the year ended 31.12.2010
Net Cash Flow from Operating Activities (Note 1)	(7,506,617,572.81)	2,433,600,828.51
Return on Investments and Servicing of Finance (Note 2)	(50,123,274.96)	(30,818,031.24)
Taxation	(276,930,962.00)	(274,872,448.92)
Capital Expenditure (Note 3)	(43,586,937.16)	(85,691,789.72)
Net Cash Inflow / (Outflow) from Investment Activities	<u>(370,641,174.12)</u>	<u>(391,382,269.88)</u>
Net Cash Inflow / (Outflow) before Financing	(7,877,258,746.93)	2,042,218,558.63
Financing	0.00	0.00
Management of Liquid resources (Note 4)	(498,137,500.00)	1,987,362,000.00
Net Cash Inflow / (Outflow) from Financing	<u>(498,137,500.00)</u>	1,987,362,000.00
Net Cash Inflow / (Outflow)	<u>(8,375,396,246.93)</u>	<u>4,029,580,558.63</u>
Increase / (Decrease) in Cash (Note 5)	<u>(8,375,396,246.93)</u>	<u>4,029,580,558.63</u>

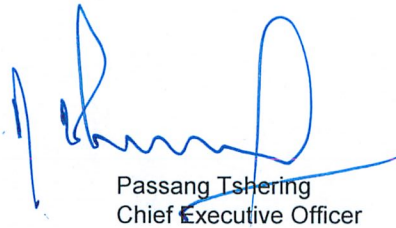
This is the Cash Flow Statement referred to in our report of even date.

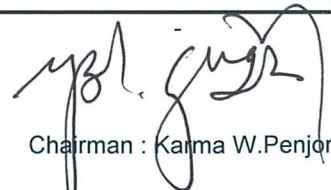
For S.K.MITTAL & Co.
Chartered Accountants

Krishan Sarup
Partner
M.No.010633
Date:
Place: New Delhi



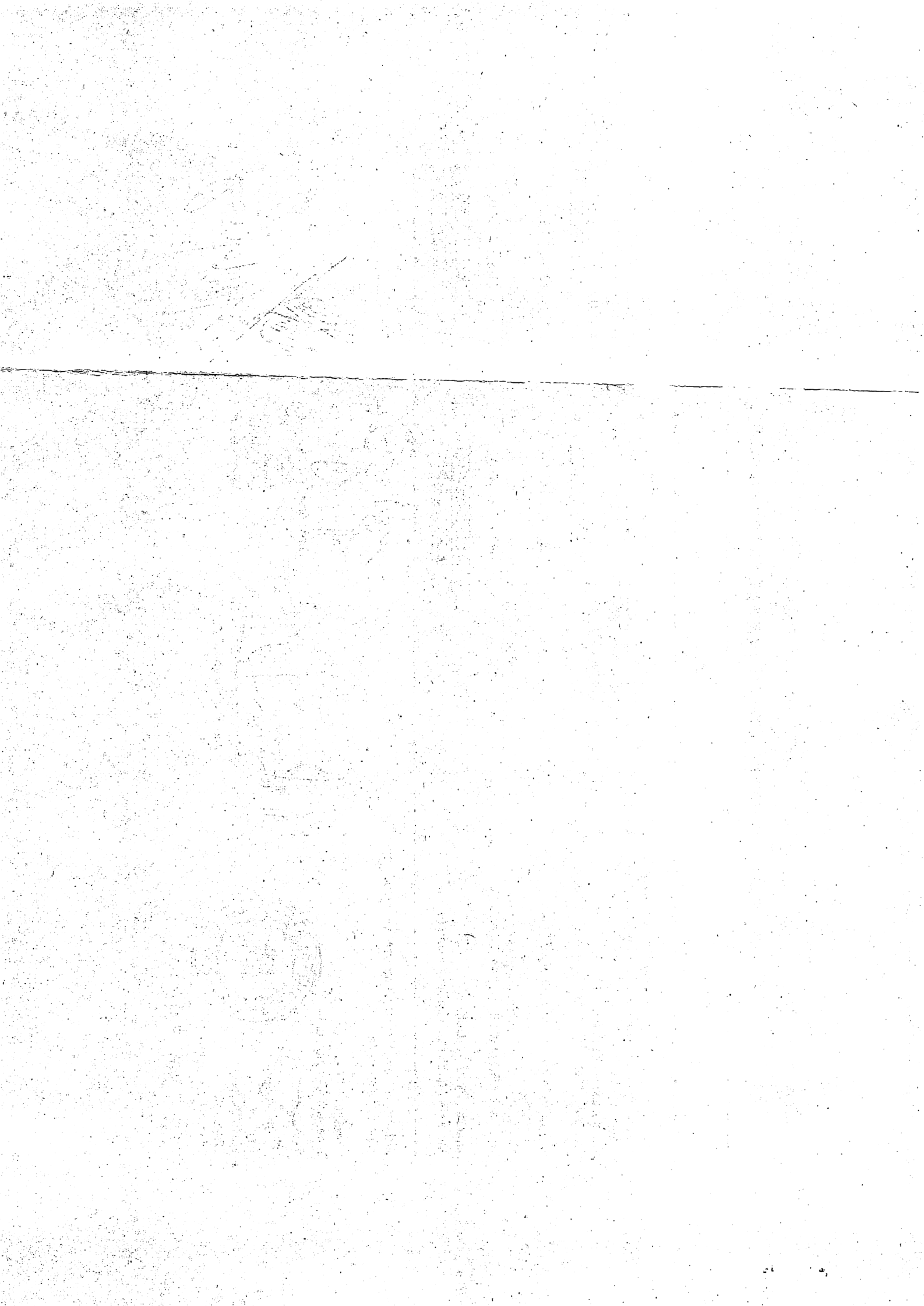
17 MAR 2012


Passang Tshering
Chief Executive Officer


Chairman : Karma W. Penjor

Directors : Kinga Tshering
Kinzang Tobgay
Sonam Tobjey
Dasho Phub W. Dorji
Vijay Jasuja





BANK OF BHUTAN LIMITED

NOTES FORMING PART OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2011

Amount in Ngultrum

	For the year ended 31.12.2011	For the year ended 31.12.2010
1 Net Cash Flow from Operating Activities:		
Net Profit before tax	921,319,732.08	735,987,102.23
Add : Depreciation Charges	37,025,085.61	29,485,844.01
	<u>958,344,817.69</u>	<u>765,472,946.24</u>
Less: Income from Dividends	12,616,024.00	5,766,820.00
Interest Received on Investments and FDRs	95,260,701.04	131,069,548.76
Profit on Sale of Fixed Assets	52,029.25	0.00
Loss on Exchange Fluctuation Reserve adjusted with Reserve	0.00	0.00
	<u>850,416,063.40</u>	<u>628,636,577.48</u>
(Increase)/Decrease in Advances	(4,512,381,748.67)	(1,696,005,710.27)
(Increase)/Decrease in other Assets	(114,095,433.06)	(53,534,038.70)
Increase/(Decrease) in Deposits & other Accounts	(1,040,473,869.65)	1,164,455,439.02
Increase/(Decrease) in other Liabilities & Provisions	(2,690,082,584.83)	2,390,048,560.98
	<u>(7,506,617,572.81)</u>	<u>2,433,600,828.51</u>
2 Return on Investments and Servicing of Finance:		
Dividend Paid	(140,000,000.00)	(144,000,000.00)
Dividend Received	12,616,024.00	5,766,820.00
Interest Received on Investments and FDRs	95,260,701.04	131,069,548.76
Additional Equity (capital Injection)	0.00	0.00
Investment in shares	(18,000,000.00)	(23,654,400.00)
	<u>(50,123,274.96)</u>	<u>(30,818,031.24)</u>
3 Capital Expenditure:		
Payments to acquire tangible fixed assets	(38,692,123.57)	(91,475,468.93)
Receipts from sale of tangible fixed assets	52,029.25	0.00
(Increase)/Decrease in Capital Working In Progress	(4,946,842.84)	5,783,679.21
	<u>(43,586,937.16)</u>	<u>(85,691,789.72)</u>
4 Management of liquid resources:		
Sale/(Purchase) of RMA Discount Bills	(498,137,500.00)	1,987,362,000.00
	<u>(498,137,500.00)</u>	<u>1,987,362,000.00</u>
5 Increase/(Decrease) in cash(Includes cash in hand, balances with RMA and balances with other banks):		
Closing Balance	9,614,321,322.27	17,989,717,569.20
Less :Opening Balance	17,989,717,569.20	13,960,137,010.57
	<u>(8,375,396,246.93)</u>	<u>4,029,580,558.63</u>



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BANK OF BHUTAN LIMITED

Schedule – 17 SIGNIFICANT ACCOUNTING POLICIES

1.0 Accounting Convention

The accompanying financial statements have been prepared on historical cost convention, on the accrual basis of accounting and conform to statutory provisions and practices prevailing in Bhutan except as otherwise stated.

2.0 Advances

2.1 Advances are stated at principal amount together with interest accrued thereon.

2.2 Advances are recognised as non-performing based on Prudential Regulations 2002 issued by Royal Monetary Authority of Bhutan. Interest on Non-Performing Advances are credited to an Interest Suspense Account and not recognised in the profit and loss account until received.

2.3 Specific Provisions in respect of non performing advances are made based on management's assessment of the degree of impairment of the advances, subject to the minimum provisioning level prescribed in Prudential Regulations 2002 issued by Royal Monetary Authority of Bhutan, at the following rates and for the loan under litigation against which 100% provision is made:

Credit Exposure	Provision on Outstanding Principal Amount	
	Sector with Highest Exposure	Others
Sub-standard	30 %	20%
Doubtful	60%	50%
Loss Assets	100%	100%
Term Expired	100%	100%

Further in terms of RMA Prudential Regulations 2002 a general provision is made on performing loans as follows:

Standard/Watch Assets

1.50 %

2.4 Advances appearing in the Balance Sheet are inclusive of provision for Bad and Doubtful Debts. Provisions are grouped in the Balance Sheet under the head "Other Liabilities and Provision".



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3.0 Investments

Investments in shares and other securities are stated at cost.

4.0 Fixed Assets

4.1 Premises and other fixed assets are stated at their historical cost less depreciation. Cost includes cost of purchase and all expenditure like site preparation, installation costs and professional fees incurred on asset before it is put to use.

4.2 Depreciation is provided on "Straight Line Method" as per the rates specified under Annexure II of the Rules on the Income Tax Act of the Kingdom of Bhutan 2001(effective from the Year 2002), published by the Ministry of Finance, Royal Government of Bhutan and calculated on Pro-rata basis from the date of purchase; however, in respect of hardware and software for CBS project, depreciation is calculated on pro-rata basis from the date of purchase or put to use as applicable.

5.0 Stock of Stationery

Stock of Stationery is valued at Weighted Average cost method.

6.0 Foreign Currency Transactions

6.1 Revenue and expenditure are translated at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities are translated at closing exchange rates notified by the Royal Monetary Authority of Bhutan at the balance sheet date.

6.2 Contingent Liabilities on account of guarantees, endorsements and other obligations are stated at the exchange rates notified by the Royal Monetary Authority of Bhutan at the balance sheet date.

7.0 Revenue Recognition

7.1 Interest income is recognised in the Profit and Loss Account as it accrues except in the case of non-performing assets where it is recognised upon realization as per the Prudential Regulations 2002 issued by Royal Monetary Authority of Bhutan. Income from late fee, however, is recognized on receipt of equated monthly installment.

7.2 Interest income on Term Deposits, Current Deposits, and Income on RMA Bills are accounted for on accrual basis.

7.3 Commission and Exchange on Letters of Credit, Guarantees, Cheques, Bills for Collection, Bills Purchased and Dividend Income are accounted for on cash basis.



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8.0 Staff Benefits

- 8.1 Provision for Gratuity and leave encashment payable to employees on their retirement is estimated by the management and provided for on accrual basis.
- 8.2 The Bank is maintaining separate provident fund for its employees, which is administered by the trustees, to which contributions are made on monthly basis and charged to Profit and Loss Account.

9.0 Taxation

Provision for taxation and advance tax paid are set off in the next financial year on the basis of self assessed annual tax return as per rule 3.2.3 on the Income Tax Act of the Kingdom of Bhutan, 2001.

10.0 Net Profit / Loss

The net profit /loss disclosed in the Profit And Loss Account is after:

- (a) Provision for Non- Performing Assets.
- (b) Provision for Bonus and other necessary contingencies.
- (c) Provision for Income Tax.



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BANK OF BHUTAN LIMITED

Schedule –18

NOTES TO ACCOUNTS

1. i) Initial matching of debit and credit outstanding entries in various heads of accounts included in Branch Clearing Adjustments/ Inter Branch Flexcube have been done up to 31.12.2011 for the purpose of reconciliation. The matching of unmatched entries is in progress of which no material effect is expected on the Balance Sheet and Profit & Loss Account of the current year.

ii) Balances with State Bank of India, other banks including NOSTRO Accounts, Bills Payable Accounts have been reconciled. However, there are large numbers of old unmatched entries of which impact is considered insignificant on the Balance Sheet and Profit & Loss Account of the current year.
2. RMA Prudential Regulations 2002 vide clause 11.3 of Section 11 require transfer to Exchange Fluctuation Reserve one-fourth of the total gains on an annual basis from the profit after tax only. Although, Bank has incurred loss on account of Foreign Exchange Fluctuation during the year 2011, the bank has transferred Nu.57,030,000.00 through appropriation to Exchange Fluctuation Reserve to meet the future contingencies.
3. Royal Monetary Authority of Bhutan stopped penalty of Nu 5,000 per day with effect from 08.04.2011 which they had imposed since 08.11.2010 on the ground of non divestment by the Bank of its equity capital and non listing of its shares at the stock exchange. This penal payment for the period 01.01.2011 to 07.04.2011 of Nu 485,000 (Previous Year Nu 270,000) is charged to revenue under head other expenditure in Schedule 16 of Operating Expenses. However, the Bank is pursuing for its refund.
4. Balance in the deposit account in Schedule 6 is with a bank abroad in foreign currencies equivalent to Nu. 213,560,000 (Previous Year Nu. 208,940,000) and is under its lien in respect of foreign letter of credits.
5. Balance Book in respect of cash warrants payable is under reconciliation for one branch of which no effect is expected on the Balance Sheet and Profit & Loss Account of the current year.
6. Interest on overdraft loans in respect of four branches up to their migration to CBS during 2011, has continued to be applied on principal outstanding only; while RMA Prudential Regulations, 2002 (Revised) require that overdraft



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loans be treated as a CASA product for interest computation i.e. interest to be applied on principal plus outstanding interest. The past practice has been continued owing to not to disturb the existing set up and software for the gestation period and considering that the impact is negligible compared to the volume of OD advances.

7. Receivables / Payables in respect of VISA/MASTERCARD transactions are under reconciliation, balance confirmation and translation in local currency at year end exchange rate in respect of accounts in foreign currency of which impact is considered insignificant on the Balance Sheet and Profit & Loss Account of the current year.
8. Addition to land and building during the year, include acquisition for Nu 56,533.00 (Previous Year Nu Nil) in satisfaction of a debt at a mutually agreed price which in opinion of the Board was considered reasonable and in the best interest of the Bank.
9. Prior period write backs of Nu 175,975,126 (Previous Year Nu Nil) are in respect of excess provision during 2010 for proposed dividend Nu 160,000,000 and bonus to staff Nu 15,975,126.
10. Income Tax assessment of the Bank has been completed up to 31st December 2009.
11. Other liabilities represent:

	For the year ended 31.12.2011		For the year ended 31.12.2010	
	Nu.	Ch.	Nu.	Ch.
Sundry creditors	34,206,875.03		41,522,519.50	
Unclaimed deposits	6,288,063.14		9,426,801.94	
Interest suspense	90,330,618.25		53,093,748.77	
Contingency Reserve	668,199,325.30		624,426,868.15	
Matured FDR	6,291,524.22		5,086,871.96	
Security Deposits	1,163,475.00		760,213.00	
Loan Repayment Suspense	115,811.76		374,693.10	
Provision for Leave	5,171,663.00		6,416,798.00	
Encashment				
Total	811,767,355.70		741,108,514.42	



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12. Other receipts represent:

	For the year ended 31.12.2011		For the year ended 31.12.2010	
	Nu.	Ch.	Nu.	Ch.
PF Forfeited		147,913.53		302,152.78
Gain on discounting of RMA Bills		3,018,049.45		13,370,804.96
Interest on Druk Air Bonds		39,525,225.00		39,525,225.28
Receipts from ATM Cards		745,989.00		174,369.62
Postage, Telegrams and stamps		2,885,308.52		5,142,063.54
Unclaimed balances no longer required written back		-		1,632,476.87
Receipts on Visa/ Master Cards		7,706,845.31		69,632.73
Others		2,943,949.07		46,886.50
Total		56,973,279.88		60,263,612.28

13. The repayment schedule of certain advances amounting to Nu.67,205,000.00 (Previous Year Nu. 76,451,967.22) after they became due for payment, fully or partly, was re-scheduled during the year as per the revival scheme approved by the Board of Directors and as permissible by Prudential Regulations 2002 issued by Royal Monetary Authority of Bhutan.

14. Capital Commitments (Net of Advance): Nu. 17,578,410.80 (Previous year Nu. 17,472,371.59).



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15. Additional information pursuant to the provisions of part II of Schedule XIII A of The Companies Act of the Kingdom of Bhutan 2000.

	For the year ended 31.12.2011		For the year ended 31.12.2010	
	Nu.	Ch.	Nu.	Ch.
(a) Payment to and provision for employees represent:				
(i) Salary, Bonus, Gratuity, leave encashment etc.	189,423,326.50		193,974,133.19	
(ii) Contribution to Provident Fund	8,796,267.35		8,276,355.00	
Total	198,219,593.85		202,250,488.19	
(b) Remuneration, Allowances, etc paid to Chief Executive Officer:				
(i) Salary, Allowances, bonus and Encashment of leave	1,380,540.00		1,515,085.00	
(ii) Contribution to Provident Fund	90,948.00		90,948.00	
(iii) Sitting fee	92,000.00		64,000.00	
Total	1,563,488.00		1,670,033.00	
(c) Sitting Fees paid to other Directors (Including invitees)	520,000.00		412,000.00	
(d) Rent, Taxes, Insurance, Lighting etc represent:				
(i) Rent	6,098,673.80		4,104,380.20	
(ii) Rates & Taxes	171,458.32		155,341.94	
(iii) Insurance	3,876,787.00		4,507,136.00	
(iv) Light & Fuel	1,876,285.87		1,705,414.17	
Total	12,023,204.99		10,472,272.31	
(e) Repairs to the Bank's Property represent:				
(i) Repair to Buildings	243,781.83		258,766.00	
(ii) Other Repairs	15,507,642.53		12,988,925.02	
Total	15,751,424.36		13,247,691.02	



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16. One Ngultrum/ Chetrum is equivalent to Indian one Rupee/Paisa.

17. The previous year figures have been regrouped/ rearranged wherever considered necessary.



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