



Annual Report

2012

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BANK OF BHUTAN LTD

VISION

To be the preferred financial institution in the region, enabling the nation's economic growth by providing customer friendly, efficient and comprehensive financial services

MISSION

- *To drive the nation's economic growth through modernization and expansion of the nation's financial sector*
- *To provide services to the rural economy through the extensive branch network and appropriate schemes*
- *To provide customer centric services and ensure customer delight*
- *To provide efficient services through cutting edge technology, best in class processes and highly motivated professionals*
- *To enable the creation of a knowledge based economy by supporting growth of professionals and industries in information technology, law, economics and finance*

CORPORATE DATA

BANK OF BHUTAN LTD

Incorporated by Royal Charter, 1968

Now incorporated under Companies Act of Kingdom of Bhutan 2000 And the Financial Service Act of the Kingdom of Bhutan 2011

HEAD OFFICE

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09890-218 (From other countries)

Date of Establishment

May 28, 1968

Authorized Capital - Nu.3,000,000,000

Paid-up Capital- Nu.1,000,000,000

Number of Branches- 27

Extension Counters- 12

THE BOARD OF DIRECTORS



CHAIRMAN
DASHO KARMA PENJOR
SECRETARY, DRATSHANG
LHENTSHOG



DIRECTOR
MR. KINZANG TOBGYE
DHI



DIRECTOR
MR. VIJAY JASUJA
GENERAL MANAGER
STATE BANK OF INDIA
MUMBAI



DIRECTOR
MR. SONAM TOBJEY
CHIEF FINANCE OFFICER,
BPCL



DIRECTOR
DASHO PHUB W. DORJI
INDEPENDENT DIRECTOR



DIRECTOR
MR. KINGA TSHERING
DIRECTOR, DHI-INFRA



DIRECTOR
MR. PASSANG TSHERING
CEO, BOBL

BANK OF BHUTAN MANAGEMENT TEAM



Mr. Passang Tshering has been working in the bank since 1977 in various positions. Before his appointment as the Chief Executive Officer of Bank, he was the Dy.CEO (Corporate Services). Today he is one of the senior most officials who has contributed significantly to the bank's growth. Mr. Passang has a Bachelors Degree in Commerce from India. Mr. Passang is currently serving as the Board of Director in Bhutan Carbide & Chemicals Ltd (BCCL).



Mr. Karma Tshering is a recipient of a French government scholarship to study Diplome in Administration Publique at Ecole Nationale d'Administration (ENA) in Paris, France and graduated with distinction. He has a bachelor's degree (Honours) in Commerce from Sherubtse College and was selected in the RCSC Officers Selection Examination in 1996. He worked as the Program Officer in the Division of Power, , Department of Industry and as the Registrar of Companies, MTI before his resignation as the Chief Industries Officer, Industrial Infrastructure Development Division, Department of Industry, MOEA in 2007. He was the Executive Director of Lhaki Group of Companies and a corporate and business consultant prior to his appointment as the Dy. CEO. He is currently serving as the Board of Director in State Trading Corporation of Bhutan Ltd (STCBL).



Mr. PemaNadik has a Bachelor's Degree in Commerce from Sherubtse College, Kanglung. He has worked 17 years in Druk Air in various positions including Administration Officer (Finance), Assistant Finance Manager, Country Manager (Bangkok), Manager, Marketing and Sales, Manager, Administration and Personnel, and Manager, Ground Operations, in-flight Service and Airline Security before his resignation in 2007 to be self employed in Dolma Enterprise. He is currently serving as the Board of Director in Druk Air Corporation and Bhutan Ferro Alloys Ltd.



Mr. Damche Tenzin worked 13 years in the Royal Civil Service Commission and prior to his resignation from the Civil Service in August 2008, he was the Chief Legal Officer in the RCSC Secretariat. He carries rich experiences of the civil service administrative system and adjudication of civil service disciplinary cases with legal background. He joined the Bank of Bhutan in September 2008 as the Chief Legal Advisor and heads the Legal Department of the BoBL. In 2009, he was also appointed as the Company Secretary. Mr. Damche has an LL.M. Degree from California Western School of Law, San Diego, California, USA, an LL.B. Degree from the University of Delhi, Post Graduate Diploma in National Law (PGDNL) and Bachelor's Degree (Honours)

in English from Sherubtse College, Kanglung. He was awarded the meritorious promotion in the civil service in 2004 for his distinguished services.



Mr. Dorji Wangchuk joined Bank of Bhutan in 1984 and since then he has been working in the bank in various portfolios. From 2000-2008, he served as the branch manager and also headed the Central Accounts Division at the Head Office. Before his appointment as the Chief Operation Officer in November 2009, he was also the Zonal Manager, South Zone, the post which he still occupies today in addition to his duty as the Chief Operations Officer. He has a Bachelors Degree in Commerce from St. Joseph College, North Point, Darjeeling.



Mr. Kuenga Jurmi worked more than 15 years in a management-training institute and prior to his resignation from RIM in August 2011; he was a faculty member, head of department of ICT and Focal Person for eGovernance component under Chipen Riggel Project. Has broad range of skills, competencies and experiences in facilitating, coordinating, developing and directing training programmes. He is a recipient of an "Outstanding Individual" for the contribution and dedication to the Cisco Networking Academy in Bhutan from Cisco Systems, Asia Pacific for the year 2007. He joined the Bank of Bhutan Ltd. in August 2011 as the Chief Support Officer (CSO) and heads the Corporate Service Department. Mr. Jurmi has Master's degree in Information Technology

(IT) from University of Canberra, Diploma in Information Management System from RIM and bachelor's degree in Economics (Honors) from Sherubtse College.



Ms. Karma Dema has a Bachelor's Degree in Arts from Osmania University, Hyderabad. She joined Bank of Bhutan in 1988 and has experience in various banking operations. She worked as the Currency Chest Officer and served as Head, Credit Department before her appointment as Chief Credit Officer in 2011.



Mr. Nidup Peljor has MSc. in Geo-formation science and Earth Observation with specialization in Planning & coordination in Natural Resources Management, from the international institute for Aerospace Survey and Earth Science (ITC), The Netherland. He joined BoB as the RPMD Chief from 29th April, 2012. Prior to his appointment, he served as a Research Analyst at BOC (May 2010-March 2012) and as Deputy Chief of Policy and Planning Division (PPD) at Ministry of Agriculture and Forest (MoAF). He headed the Policy, Economic and Planning Division (1996 to 2012). He held many ex-officio positions and has two publications to his credit.



Mr. Pema Tshewang has Masters degree in Business Administration (Finance) from Asian Institute of Management, Manila, The Philippines, Post Graduate Certificate in Financial Management (PGCFM) from Royal Institute of Management, Simtokha, Thimphu and Bachelor's Degree in Commerce (Hons) from Sherubtse College. He joined Bank of Bhutan in 2005 and currently he is the officiating Chief Finance Officer.

FINANCIAL HIGHLIGHTS

The Bank has performed exceptionally well in terms of financial, credit growth and employee productivity during the year 2012 as is evident from the key performance highlights mentioned below:

PARTICULARS	2012	2011	% CHANGE
Total Income	2,136.11	1,757.69	21.53
Total Expenditure	1,185.72	836.37	41.77
Profit Before Tax	950.39	921.32	3.16
Net Profit after Tax	660.12	644.39	2.44
Earnings per Share (Nu.)	66.01	161.10	(59.03)
Return on Equity (%)	20.60	22.80	(2.2)
Capital & Reserves	3,204.92	2,826.80	13.38
Deposits	23,693.27	22,302.96	6.23
Advances	17,444.89	15,653.23	11.45
Total Assets / Liabilities	29,592.78	26,959.60	9.77
No. of Branches	27	27	-
No. of Employees	645	588	9.69
Business Per Employee	63.78	64.55	(1.19)
Net NPA (%)	1.36	0.42	223.81

DIRECTORS' REPORT

The Directors have the pleasure in presenting the 45th Annual Report of your Bank with the audited Balance Sheet, Profit & Loss Account and the Report on Business and Operations for the year ended December 31, 2012 (FY12).

1. INTRODUCTION

The financial sector increasingly constitutes an important pillar of the country's socio-economic development. The financial and insurance sector alone contributed to 5.88% of the GDP in 2011-2012 (National Accounts Statistics, 2012, NSB, RGOB). This is in addition to the benefits from financing the growth of other sectors and their contribution to the GDP. The bank has been the top corporate income tax payer among all financial institutions and the fourth highest among all corporate tax payers in the financial year, 2011-2012 (National Revenue Report, 2011-2012, DRC, MoF, RGOB). It continues to be the leading financial services provider in the country. The BoBL has been consistently leading in enabling investments in different economic sectors. In 2011, BOBL provided 32% of total investment in all economic sectors (Statistical Yearbook of Bhutan, 2012, NSB, RGOB, October, 2012).

The Bhutanese economy suffered a setback in 2012, mainly due to a swing in balance of payment with India which resulted in tighter restrictions on availability of INR and liquidity crunch within the financial sector. Amidst this difficult environment, the bank has been able to register yet another record-high profit in its forty-four years of banking service to the nation and displayed high level of resilience to market swings.

It is perhaps, one of the main reasons for the confidence and trust of most Bhutanese

individuals and agencies, enabling the bank to be the most preferred financial service provider in the country.

With appreciable increase in loans and advances (from Nu 15,653.23 m in 2011 to Nu 17,444.89 m in 2012) and deposits (Nu 22,302.96 m to Nu 23,693.27 m) in the same period, the Bank of Bhutan is set on sound footing for sustained growth. These achievements have been possible as a result of prudent lending policies coupled with innovative deposit mobilization strategies; strengthening the Bank's capital funds; mitigating overall risk exposure through qualitative loan appraisal methods and strong recovery measures; astute and preemptive interventions to attract and retain clientele base; adapting to evolving regulatory mechanisms and changing market conditions and finally due to our continuous efforts to meet the ever rising expectations of our clients.

2. FINANCIAL RESULTS

2012 was a year of robust performance on the business front coupled with unprecedented profitability performance. With the continued improvements in core banking operations and cost control measures, the Bank has been able to sustain and enhance the financial performance while maintaining a stronger bottom-line.

The Bank of Bhutan Limited registered a total income of Nu. 2,136.11 million recording the highest net profit of Nu. 660.12 million in the financial year 2012 against Nu. 1,757.69 million and Nu.644.39 million in total income and net profit respectively the previous year.

Credit growth of all commercial banks in Bhutan had been showing a decelerating trend in 2012 on the back of elevated inflation, economic slow-

down due to rupee-shortage and intensification of supply-side constraints. Despite all this unfavorable economic conditions, your bank achieved growth of 11.45% in loans & advances in 2012 and 6.23% in deposits. The Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) stood reasonably low at 3.90% and 1.36% respectively.

3. DIVIDEND

The Bank has adopted consistent dividend policy of balancing the twin objectives of appropriately rewarding shareholders and retaining capital to maintain a healthy capital adequacy ratio to support future growth. With this and in recognition of the robust performance during 2012, the Board has approved a dividend of 33% for the year ended December 31, 2012 with total dividend amount of Nu 330.0 million to its shareholders.

4. CAPITAL & RESERVES

The total capital and reserves increased by 13% during the year. It increased from Nu.2,826.80 million in 2011 to Nu.3,204.92 million in 2012.

5. OWNERSHIP

The ownership of the Bank of Bhutan Limited is vested with the Druk Holding and Investments (DHI) and the State Bank of India (SBI) in the proportion of equity holding of 80% and 20% respectively.

6. CORPORATE GOVERNANCE

The implementation of a number of good governance principles is underway at the Bank to achieve the organization's objective of becoming Bhutan's 'premier bank'. These governance measures are in keeping with the prudential guidelines of the RMA and industry best practices of transparency, efficiency,

and accountability. Specifically, measures to enhance the dissemination and awareness of such "good" corporate values throughout the organization include: 1) assigning Committee-level responsibilities as per prudential guidelines at both the Board and executive management levels; 2) employee skills enhancement programs through in-country and ex-country training in specialized fields of banking and finance for personnel at all levels of the organization; 3) establishing a credit rating systems in compliance with relevant laws and by-laws; and 4) Preparation for adoption of Bhutan Accounting Standard (BAS) as a way of aligning with the International Financial Reporting System (IFRS).

In addition, a number of critical areas for strengthening corporate governance efforts have been identified for future intervention. These include (but are not limited to):

- Compliance to non-interference in Board, Management, and day-to-day functions of the Bank of Bhutan Limited by the shareholders;
- Strengthening the capital base of the Bank (Paid up capital increased from Nu. 400 m in 2011 to Nu. 1000 m in 2012);
- Enhancing transparency, accountability, and disclosures;
- Strengthening the technical and financial capacities of the Board members;
- Improving risk management framework and procedures;
- Ensuring compliance with non-PR recommendations; and,

- Zero tolerance to corruption and fraud.

7. CONSTITUTION OF BOARD & BOARD MEETINGS

The Bank of Bhutan Limited remains committed to:

- Ensuring that the Bank's Board of Directors meet regularly, provide effective leadership, exercise control over management and monitor executive performance
- Establishing a framework of strategic control and continuously reviewing its efficacy
- Establishing clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting
- Providing free access to the Board to all relevant information, advices and resources as are necessary to enable it to carry out its role effectively
- Ensuring that the Chief Executive Officer & senior executives of the bank have responsibility for all aspects of executive management and is accountable to the Board for the ultimate performance of the bank and implementation of the policies laid down by the Board
- Ensuring that a senior executive is made responsible in respect of compliance issues with all applicable statutes, regulations and other procedures, policies as laid down by the RMA and other regulators and the Board, and report deviation, if any

7.1 Constitution of the Board:

As per the approval of the Annual General Meeting (AGM) for the financial year 2011 held on 7th March 2012, the following have been the Board of Directors for the Bank of Bhutan Limited:

No	Name	Designation
1.	Dasho Karma W. Penjor	Chairman
2.	Mr. Kinga Tshering	Director
3.	Dasho Phub W. Dorji	Director
4.	Mr. Sonam Tobjey	Director
5.	Mr. Kinzang Tobgay	Director
6.	Mr. Vijay Jasuja	Director
7.	Mr. Passang Tshering	Director

7.2 Board Meetings:

To enhance the good governance and provide appropriate policy directives to the company, ten Board meetings and two extraordinary meetings were held during the year. In all these, meetings quorum was maintained as required. The Annual General Meeting for the year 2011 was held on 7th March 2012, thereby complying with the Companies Act, 2000. Besides numerous Sub Board Committee meetings were held regularly to decide on various aspect of the operation of the Bank.

7.3 Customer Service:

The annual Customer Satisfaction Survey of the bank, conducted by the Institute of Management Studies' (IMS) presents a composite Customer Service Index (CSI). Although improvements have been seen in several indicators, the Bank of Bhutan's CSI ratings showed a slight decrease from 3.67 in 2011 to 3.65 in 2012. However, it remains the second best among DHI Companies in terms of CSI after the Bhutan Power Corporation. However, the final CSI (composite indicator) is only a reflection of perceptions

which have been averaged. It is descriptive of a state of affairs as perceived by the respondents and not inferential in nature. The focus and hence measureable key performance indicators should be based on factors that influence the CSI and the CSI itself.

To provide feedback and solutions for banking needs or problems of our clients, the bank launched a “24 x 7” contact center service.

No fees are levied on transfer of funds from BoB account in one branch to another bringing about overwhelming benefits to our clients in addition to the free ATM transactions.

7.4 Marketing:

The Bank initiated several marketing strategies to promote its financial products and services. The sponsorship included commercial advertisements of the Bank's services and products through the Yangphel Archery tournament in 9 locations across the country throughout the tournament; sponsorship of Chukha Dzongkhag led taekwondo tournament, and sponsor of local youth basketball in Paro. Such sponsorship programs are fast becoming significant marketing channels for not only Banks but also other business ventures in the market. The Bank of Bhutan Limited is continuing to use various other forms of media channels and outlets to enhance the public's awareness of the Bank's products and services including the SMS blasts through mobile, advertisement through the RBA magazine.

Targeted marketing events in 2012 included deposit promotion during a blood collection camp organized by the bank during which 200 numbers of pamphlets on new rates printed and distributed; account opening forms were made available at the venue of National Graduates Orientation Program as a result of which 30 new saving accounts were opened. Participation at the 3rd Bhutan International Trade Fair 2012 in

Thimphu provided an opportunity to provide mobile banking services to the population at the event through our mobile van. About 200 each of our Combo forms (account opening, SMS banking, Internet Banking, VISA Debit card form) contact center brochures, New rate brochures, credit cards brochures were distributed at the event.

Marketing of products and services were made integral part of CSR and PR events.

7.5 Technology:

7.5.1 Core Banking Solution:

Difficulty in communication between branches has become a thing of the past as branches all over the country communicate with each other on a real-time basis and provide instant service with stabilization of the Core Banking Solution (CBS) system. Continuous development and enhancement modules like mobile banking, utility modules are being implemented in addition to resolution of system migration issues.

7.5.2 Internet Banking:

The Bank has established a full-fledged transaction-enabled Internet Banking facility. This has been received well by the Bank's customers mainly on account of the:

- Online Money Transfer facility;
- Facility to file for and pay “Personal Income Taxes” online;
- Facility for electricity ‘bills payment’ to the Bhutan Power Corporation (BPC) that is available for clients of the Bank in Thimphu and Phuentsholing;

7.5.3 ATM Facility:

ATM network coverage in terms of the number of machines has increased from 34 in 2011 to 42 in 2012. In addition to the ATMs and eBranches, the Bank has introduced a Mobile Banking Van

to provide banking facilities to its customers at the outskirts of the capital who are unable to avail the banking services. The Mobile van an ATM and 2 counters, which can provide all the banking services to the customers.

7.6 Human Resource Development:

Human Resource and the development of skills is key to the success of any organization. The Board and the executive management of Bank of Bhutan Limited (BoBL), in view of this fact, has conceptualized and institutionalized numerous policies and practical interventions at all levels to enhance human resource capacity of the BoBL. In 2012, the areas for professionalization and specialization have been prioritized by increasing the number of employees for Masters Scholarship and Trainings.

In 2012, ten employees were sent on to Asian Institute of Technology (AIT) to pursue their “Professional Masters in Banking and Finance” (PMBF), a course jointly offered by AIT and the University of Applied Sciences Northwestern, Switzerland. Also, a total of 136 employees were sent for various trainings both in-country and ex-country.

The BoBL won the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) award for Human Resource Development, an award normally provided for a scheme or a program which a member institutionally implemented to enhance the professional capacities and career growth of its officers and staff or its clients. The BOBL Employee Scholarship, which comprises of providing merit based scholarship for Masters Program to its employees through the bank’s scholarship fund. A total of 13 employees have been awarded the scholarship till date based on merit.

In order to ensure appropriate incentives, career development and enhance the overall

performance of the employees as well as the organization, Performance Management System for the BOBL has been developed. Similarly, the BoBL’s Service Rules, 2009 is under review. These key documents have been prepared for implementation in 2013.

To enable the BOBL promotion exams becoming a learning experience of cross departmental and divisional roles and processes, the BoBL promotion exam process and formats have been changed.

8. STATUTORY REQUIREMENTS

The Bank of Bhutan Limited, as standard practice, remains compliant with the prudential regulations of the Royal Monetary Authority and continues to adhere to all other statutory stipulations as required by various laws and by-laws.

9. CORPORATE SOCIAL RESPONSIBILITY

The Bank of Bhutan Limited is not only a leader in banking services but also plays a lead role in various “Corporate Social Responsibility” activities with regards to important areas that seek to increase the general welfare of individuals, our community, and the society of Bhutan at large. In this regard, the “BOB Needs-based Scholarship” program continues to fund students (girls) studying at high school level in many private schools in Bhutan. In 2012, a total of thirteen underprivileged girls, selected by the Ministry of Education, have been funded through the program at a cost of Nu. 335,000. The Bank’s CSR initiatives are also focused towards:

- Youth development;
- Gender equality;
- Culture and religion; and,
- Financial inclusion (mainly to rural Bhutan).

Other CSR areas in line with the above focus areas and that the bank took up in 2012 include contributions to;

- Contribution to Sherig Century celebrations
- Wangdue Rabdey
- Wangdue Dzongkhag
- Thongdrol Embroidery project of Sherubtse students
- Religious book printing

The bank made a total CSR contribution of Nu. 1,250,000.00 in 2012.

The PR events of the bank in 2012 also focused on social and community themes. Therefore, bank organized a blood donation camp after which more than 100 units of blood was donated to Phuentsholing General Hospital. A Donation drive for “Help shoe Bhutan”, collected more than 1000 pairs of shoes and 128 cartons of toys, clothes, books etc were collected from Phuentsholing alone excluding the branches. These items were refurbished and distributed to needy individuals by the Bhutan Dragon Motorcycle group.

10. NEW BUSINESS & INITIATIVES

With multiple objectives of assisting the government’s initiative to boost tourism, promoting a cashless society and in order to bring convenience to travel agencies, tourists, importers, Government and Non Governmental Organizations and travelers, the BOBL launched VISA credit card, both domestic and international in August 2012. The three variants of BoBL VISA Gold International, BOBL VISA Gold Domestic and BOBL VISA Silver Domestic Credit Cards is an addition to the BOBL’s VISA International and BOBL VISA Domestic debit cards.

We are using ATOS, at Mumbai, a third party processor to process our credit card transactions. The Himalayan Bank Ltd., Kathmandu continue to route all our debit and credit card transactions to VISA and Master card.

With the RMA’s Bhutan Financial Switch going live on in July 2012 our existing POS terminals started accepting cards issued by other domestic banks as well as international bank. During the year 2012 we also doubled the installation of our POS machines.

As part of our proximity banking initiative, the bank has embarked upon opening of extension branches called eBranches. By end of 2012, the bank opened a total of nine e-branches across the country. The overall aim of the proximity banking approach of BoBL is to stimulate local economic activities and encourage saving habits among the population in addition to making financial services convenient. The e-branches are expected to achieve this by bringing banking services closer to the local communities and reducing time taken by the bank’s customers in availing the services.

Above all, the Board of Directors and the management commissioned a study by an independent consultant to review the existing strategies and readiness of BOB to venture into the Indian market. Hand in hand the company’s performance in the past five years has also been reviewed. This has enabled the bank to now prepare and launch a fresh Corporate Strategic Plan (CSP) for the next five years. The new CSP is expected to be in place in 2013.

11. AUDITORS

The Bank of Bhutan Limited’s books of accounts for the year ended 31st December 2012 has been audited by M/s N.C Mittal & Co., Chartered Accountants, New Delhi, who were appointed as auditors of the Bank with the approval of the Board; clearance from the regulatory authority

(the RMA); and, in consultation with the Audit Committee of the Bank of Bhutan Limited. There were no adverse observations.

12. ACKNOWLEDGEMENT

The Directors of the Board of the Bank of Bhutan Limited express their appreciation of the continued guidance and assistance rendered by the Royal Government, the RMA, DHI, the SBI, the Royal Audit Authority, statutory auditors, and other regulatory authorities, financial institutions, and correspondent banks. The Board also conveys their sincerest gratitude to the shareholders, clients, investors, and well-wishers for their continued goodwill, patronage, and support. Last and most importantly, the Board also conveys their earnest appreciation to the management of the Bank of Bhutan for their stellar leadership and all the employees for their relentless hard work and commitment.

The Board of Directors avails this opportunity to pledge their commitment and dedication to the growth and development of the bank. The directors look forward to the continued support from all corners in the years ahead.

TashiDelek.

For and on behalf of the Board of Directors:

(Karma W. Penjor)
CHAIRMAN

MANAGEMENT REPORT

1. Introduction

All commercial banks in Bhutan experienced decelerating trend in credit growth in 2012 mainly due to economic slow-down owing to rupee-crunch and intensification of supply-side constraints. Despite all this unfavorable economic conditions, Bank of Bhutan has achieved another milestone in its financial performance which is detailed as follows.

2. Business Strategy & Restructuring

The past year has seen unprecedented challenges in the banking sector. The Bank of Bhutan, being the largest bank in the country has been subjected to these challenges significantly. Further the banking sector has been experiencing increased competition in the market. The number of financial institutions and commercial banks have increased and there have been significant changes in the structure and profile of the Bhutanese market as well as beyond. The banking sector has been increasingly subjected to market swings and uncertainties. While loans and advances have continued to grow, the level of non-performing assets has increased. Rise in deposit interest rates has made funds more expensive and competitive. There has been a growth in deposits for new players while there has been a fall in deposits for established players signifying a shift in customer base to the new market players which are perceived to offer innovative products and better customer service.

Recognizing these challenges, the bank implemented responsive as well as proactive measures to cope up with the challenges and to strengthen resilience to potential challenges in the future.

The bank embarked on enhancing deposits

both through customer attraction and retention measures. We revised our deposit interest rates for both savings and fixed deposits. Fund transfers within BoB accounts were made free of charges. To enable cross selling of our products and services and to provide diverse and convenient service to our clients, we introduced VISA debit and credit card for domestic and international use. The introduction of services Point of Sale (POS) terminals have not only made cashless payment possible through use of both domestic and foreign bank issued cards. As part of BoB's proximity banking initiative and to bring about banking services closer to the local communities and help reduce time taken by the bank's customers in availing the services extension branches were introduced in strategic locations and communities. We have also increased the number of ATMs significantly. By way of compliance to the RMA's initiative and to reflect the actual cost of funds, operations and to set the right pricing of loan products the bank introduced, its Base Rate on all its loan products. This also enables our clients to choose products based on loan period or interest rate that suit their needs.

A corporate and private banking division has been set up in Thimphu, our largest branch, to provide corporate services and other services that meet the specific needs of our high net worth clients.

To further position the bank on a strategic growth path, an extensive review of its past performance and a strategic planning for a sustained future growth has been conducted in 2012.

3. BOBL Contact Center (1095)

With the Mission to provide 24X7 un-interrupted and dedicated assistance to our Customers, BOB

Contact Center was officially launched on 6th July 2012.

Since its launch in July till December 2012, the Contact Center received 3880 calls in total from customers across all 27 branches. The highest no. of calls was received in the month of July with 968 calls followed by the least no of calls in November with 424 calls. Coinciding with His Majesty's Birthday on 21st February 2013, BOB Contact Center is now integrated with T-Cell where the BOB customers using T-Cell can avail the Contact Center Services at Toll Free Number 1095. BMobile users however, have already been availing this service since the official launch of the Contact Center.

As per the reports, Contact Center service is availed mostly by the customers from Thimphu and Phuentsholing branch. In contrast to this, customers from Gomtu, Trongsa and Haa branches fall under the category that avail the Contact Center services less frequently.

BOB Contact Center provides general information on all our products and services. However in case of availing specific information and services on one's accounts maintained with the bank, the customer needs to register for the Contact Center Telebanking Services. This practice has been implemented to protect the customer's personal account information from being accessed by any un-authorized third party. For registration, the Contact Center Telebanking Forms are available at all our branches. Since July – December 2012, 742 registered customers have been availing Contact Center Services.

Year 2012 had 82% resolution rate for Contact Center where 3170 issues were resolved by the Contact Center. However 710 calls from customers with issues which was beyond the resolution capacity of the Contact Center were

forwarded to the respective branches and divisions for resolution. During the follow up by the Contact Center, these issues had been resolved from those branches and divisions.

BOB Contact Center also provides assistance to customers through email at customer.care@bob.bt.

4. Financial Performance Review for 2012

Income and Expenditure Analysis

Total income registered a substantial growth of 21.53% to Nu.2,136.11 million from Nu.1,757.69 million in 2011. Interest Income increased by 28.08% with overall increase to Nu.1,810.70 million from Nu.1,413.71 million in 2011.

Non-Interest dropped marginally to Nu.325.40 million in 2012 from Nu.343.98 million in 2011 by 5.40%. The major reason for such decrease was due to reduction of income from commission and exchange by Nu.120.56 though Bank gained a profit of Nu.57.56 million from foreign exchange transactions during the year.

Interest Expenses – Bank recorded a sharp rise by 37.48% with an overall increase to Nu.471.94 million from Nu.343.27 million in 2011. This increase was due to increase in interest expense on Savings Deposits by Nu.42.45 million, Fixed Deposits by Nu.56.24 million and Recurring deposits by Nu.29.98 million due to upward revision in interest rate during the year.

Operating expenses stood at Nu. 460.46 million in 2012 as compared to Nu.449.33 million in 2011 thereby showing a marginal growth of 2.48%.

Profitability

The Bank posted a **Net Profit** after tax of Nu.660.12 million in 2012 registering a increase in growth by Nu.15.74 million (2.44%) in 2012 compared to the previous year's net profit of Nu.644.39 million.

Balance Sheet Analysis

Total assets/liabilities registered a growth of 9.77% with overall increase to Nu.29,592.78 million in 2012 from Nu.26,959.60 million in 2011. The reasons for growth is attributed

to substantial increase in loans and advances by Nu.1,791.65 million. The cash & Bank balance increased by Nu.462.19 million and Nu.387.73 million respectively indicating comfortable liquidity position of the Bank. The fixed assets increased by Nu.14.45 million during the year due to capitalization of branch renovations works, purchase of cash vans, ATM machines and other furniture and fixtures for improvement of branch ambience.

Deposits

The total deposits registered a growth of 6.23% from Nu.22,302.96 million in 2011 to Nu.23,693.27 million in 2012 of which current deposits and term deposits increased by 5.95% and 22.75% respectively. However, the savings deposits decreased marginally by 3.11%.

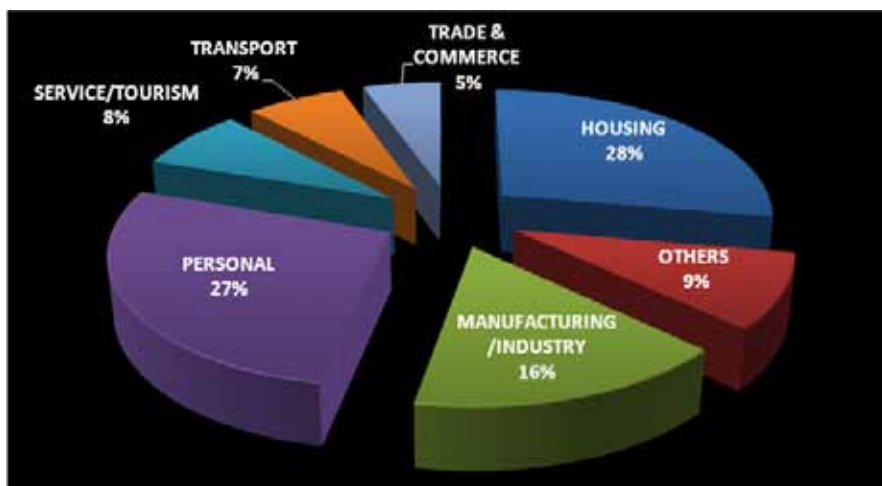
	Particulars	2011	2012	Variation	
		Amount	Amount	Amount	%
	Current Deposits	12,783.61	13,479.58		
	Other Accounts	154.89	229.40		
I	Total Current Deposits	12,938.50	13,708.98	770.47	5.95%
II	Savings Deposits	5,840.65	5,658.77	(181.88)	-3.11%
III	Term Deposits	3,523.81	4,325.53	801.72	22.75%
	Total Deposits	22,302.96	23,693.27	1,390.31	6.23%
	% of Current to total deposits	58%	58%		
	% of SB to total deposits	26%	24%		
	% of term to total deposits	16%	18%		

Advances

Despite turbulent economic conditions & frequent changes in the regulatory directives which compelled us to modify our existing lending norms time and again,

the Loans and Advances in 2012 increased by 11.45% from Nu 15,653.23 million in 2011 to Nu 17,444.89 million in 2012. This achievement is attributed to bank's prudent lending policies.

The bank's total loan portfolio has been distributed to 19 loan products under different sectors in order to avoid credit concentration in one sector or few areas for mitigation of losses. The detail of major portfolio loan exposure is shown below:



Foreign Exchange Business

A total of Nu.1,205.71 million worth of import business and Nu.480.38 million worth of export business were handled by the Bank. The FOREX assets and liabilities stood at Nu.779.73 million and Nu.662.39 million respectively as on 31.12.2012. As a result the bank earned a net profit of Nu. 57.56 million from foreign exchange transaction in 2012 against loss of Nu.91.33 million in 2011.

and enhancement modules like mobile banking, utility modules are being implemented.

- b. ebranches were commissioned in 2012 to provide better and prompt service to the customers. As on today, we have now opened 8 eBranch since 2012.

Contact Center

The Bank has implemented the contact center to provide better customer service.

5. Technology & Computerization

In this era of information technology and insistent competition, the bank has been placing immense importance on improving the reliability and efficiency of financial operations through timely advancement and development of information technology. To this end, the bank records the following achievements in the field of IT:

Core Banking Solutions:

- a. The CBS system adopted in 2009 has been fully implemented in all the branches and continuous development

ATM Coverage:

The BoBL ATM network coverage has been established in every part of the country. The number of ATM Machine has increased from 34 in 2011 to 42 in 2012. In addition to the ATMs and eBranch the Bank has introduced a Mobile Banking Van to provide the banking facilities to its customers who are unable to avail the banking services. The Mobile van has the facility of ATM service and 2 counters, which can provide all the banking service to the customers.

6. Customer Service

Institutionalization of systematic Complaint and Feedback/Suggestion Redressal Process was the main aim of Customer service Division in 2012. On 14th October 2012, a workshop was conducted with all the Branch Managers at Thimphu. The Branch Managers were trained to implement the Complaint Redressal System back at their respective branches. By end of October 2012, Complaint Redressal System was implemented in all the 27 branches.

A streamlined process to obtain, analyze and implement customer's feedbacks/suggestions was also implemented on trial basis during the 2012 Customer Service Day. On 20th October 2012, Customer Service Day was marked across all the 27 branches where the Customer Feedback/Suggestion Forms were made available to customers for feedback. However the Customer Feedback/Suggestion process shall be formally institutionalized in 2013 after incorporating the changes suggested during the trial implementation.

The foundation day of BOB on 28th May 2012, was marked as the BOB Employee Day. The event was preponed on 27th May on Sunday where the employees (Internal Customers) celebrated and marked the day with many activities across all branches and Head Office at Phuentsholing. During the event, 15 Employees completing 25 years of service were honored with mementos to cherish and acknowledge their dedication and service to BOB. In addition to this, the top 3 performing branches of 2011 were awarded with a Certificate and Cash Prize each.

The most significant achieve for Customer Service Division in 2012 has been the successful implementation of BOB Contact

Center Project in co-ordination with BOB IT Division, Bhutan Telecom Limited and DHI. With the official launch of the Contact Center Service on 6th July 2012, BOB has earned the reputation of being the first Financial Institution in the country to provide 24X7 uninterrupted Customer Service at Toll Free No. 1095.

Yet again, the 2012 Customer Satisfaction Survey for BOB was conducted during the month of September 2012 across all branches. The survey was conducted by IMS on behalf of BOB in co-ordination with DHI. The Customer Satisfaction Index of 3.65 on the scale of 5 was achieved. The CSI for 2012 projected a slight decline of 0.2 in comparison with the CSI of 3.67 for 2011.

7. Human Resource Management

With all the emphasis that has been put on providing satisfaction to external customers, the bank's focus on satisfying internal customer plays an equal significant role in enhancing business. Bank employees, as representatives of the bank and the providers of the service, are the key to service quality. In this light, the bank carried out various training, awarded scholarships and plans to further improve internal customer service.

Training: In 2012, 34 employees were provided in-country training, 31 employees went for Ex-country training, 58 employees for training in India and 38 employees went for Study Tour. The total staff strength sent for training is 161 and the total training days are 770 in 2012.

Recruitment & Promotion: During the year, the bank has recruited 85 employees, 45 officers, 12 assistants and one driver. The bank also promoted 64 employees, 22 officers and 42 assistants.

BoB Employee Scholarship: In 2012 ten staffs were awarded the BoB employee scholarship.

Future plans:

Succession planning: HRD plans to fill the positions in departments and divisions where there is need for experienced and skilled staff through promotions and open recruitment in-country and ex-country. HRD will also be mentoring current human resource to take over higher responsibilities in future through proper mentorship, training and development.

Enterprise Resource Planning:

For accurate report generation and faster delivery of services to internal customers, the implementation of Enterprise Resource Planning (ERP) is underway.

Signing of Memorandum of Understanding (MoU):

BoB will sign MoU with other training institutes and universities to work on the long term and short term training and development requirement.

8. Corporate Social Responsibility

Education

The Need Based Scholarship Scheme was approved in 2009, which aims to sponsor five female students, from financially disadvantaged family backgrounds, every year to pursue their two-year higher secondary education. Till date we have sponsored 20 candidates and spent Nu. 1,336,800.00 (one million three hundred thirty six thousand and eight hundred) as scholarship fees.

BOBL contributed a sum of Nu. 50,000.00 to support and sponsor the Sherig Century celebration a historic phase of the journey of Education to the Nation. The support helped enable Ministry of Education to initiate various educational and meaningful programmes in various schools of the country.

Culture and religion

Bhutan saw tragic loss on 24th June 2012 when fire broke out at the majestic Wangdue Dzong which collapsed in front of us. In order to reconstruct the Dzong the entire nation came together where BOBL also contributed Nu. 500,000.00 to Wangdue Rabday and Nu. 100,000.00 to Wangdue Dzongkhag.

BOBL also contributed Nu. 50,000.00 for the printing of an auspicious book which depicted the life history and achievements of all our Je-Khenpos. The book was printed for the wellbeing of the country, to preserve and promote the culture and exemplary religious figures of our entire Je Khenpos, who have guided the religion of our country. A donation of Nu. 30,000.00 was made to Sherubtse college to complete the embroidering of a 22x20 sq.ft. Thongdrel of Jampelyang which would be the college's contribution to the college Zangdopelri.

Humanity

The Bank's "Donate Blood – Save Life" initiative on 29th June 2012 (coinciding with the auspicious birth anniversary of Guru Rinpoche) was in response to the increasing number of accidents on Bhutanese roads and construction sites, increasing demand for emergency blood supplies and the frequent shortage of stock in the blood banks. The major event happened in Phuntsholing (Head Office) where 100 units of blood was collected and contributed to the Blood bank, while from other branches we received a list of willing donors details who could be contacted in terms of need by the Blood Bank.

BOBL organised a Collection drive (shoes, clothes, toys, books etc) on the 17th December 2012 across all the branches with a high profile event in Phuentsholing to help a social cause " Help shoe Bhutan" in collaboration with The Bhutan Dragons Motorcycle club and Shoevival. The collection drive in Phuentsholing saw over 200 individuals who contributed to the cause, more than 1000 pairs of shoes and 128 cartons full of toys, clothes, books etc were collected. For distribution of these collected items BOBL contributed Nu. 100,000.00 (Nu. 50,000.00 each to Shoevival and Bhutan Dragon Motorcycle) to repair the shoes and distribution to the needy. Contributions were made from other branches too which were later handed over to Help Shoe Bhutan.





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9. New Initiatives

Marketing Activities

The Bank for the year participated and initiated lots of marketing activities. The activities included advertisements in print media, visual ads, sponsorships, co-sponsorship, paid advertisements and few customized events. The Bank participated in the 16th Yangphel Archery Tournament, provided banking facilities during

the National Graduates Orientation Program, participated in 3rd Bhutan International Trade Fair 2012, commercial advertisement for Army Magazine and sponsored the Youth Tae-Kwando Tournament. The activities included advertisements on its products and services and also awareness. The Bank has diversified its marketing channels, now it's not only the print media and the AV media ads, the banks is active on social media like Facebook and Twitter.

Corporate & Private Banking

The Corporate Banking Division was formed in May 2012 and officially inaugurated as full fledged Division from August 2012. The core function of this Division is to cater to High Networth (HNW) clients, VIPs and VVIPs in terms of loan advisory services, loan appraisals and all other banking services to this group of clients. Each Customer Relationship Manager (CRM) in the Division is responsible for providing services to his/her respective HNW clients. Apart from the Banking services the Corporate Banking Division also is responsible for Investment Banking – Correspondence of BOB FDRs with other Financial Institutions and the Division also serves as CRM for Academic Project of HM's Secretariat.

Cards Business

The Bank of Bhutan launched Visa domestic and international Credit Cards on 20th August 2012. Since its inauguration by Hon'ble Prime Minister of Bhutan, 175 International and 72 Domestic Credit Cards were issued to the Public.

The Hon'ble Chairman launched our first Visa branded Debit Cards on 15th January 2012 at the Thimphu Main Branch. Since then, we have sourced 30,489 Visa domestic and 681 Visa International Debit cards.

The Bank of Bhutan also went live with GPRS POS terminals on July .The team has penetrated the market further with an additional 139 POS terminal installations throughout the country.

On 12th July 2012, The Bank of Bhutan became a member of the Bhutan Financial switch with the highest number of POS and ATMs in the country.



Employee Day

For the first time in history of the Bank, BOB observed 28th May the foundation day of the Bank as Employee day and henceforth shall be marked as Employee day and celebrated every year. It is a day to celebrate, congratulate and thank the employees who have been a part of the Bank since the day they joined. During the day Employees completing 25 years of service are awarded for dedication of their service to the Bank. This year Employees across the branches celebrated the day in various ways some branches went for picnics, some hosted lunch/dinner, some planted tree saplings in the neighbourhood and in Phuentsholing, employees competed in a cultural program.

10. Future Prospects and Plans

Rigorous strategy reviews continue to be conducted to evaluate the overall performance and raise the effectiveness of the bank. The Bank conducted a review of the past plans and programs and is now set to launch a new corporate strategic plan. The review assessed

present gaps and weaknesses of the bank and identified areas that require further attention and concerted efforts.

However, there are also opportunities offered by the increasing income of the people, diversified economic activities, technological advancements and continued growth of the overall economy. The review therefore, identified strategic areas of focus to enable sustained growth.

The revised corporate strategic plan will provide special focus on Customer Segments and Strategy, Innovation in Products and Services, Diversification and enhancement of delivery Channels, Robust Risk Management, Physical and technological Infra-structure, Organizational development and strengthening HR Competencies.

Passang Tshering
CHIEF EXECUTIVE OFFICER

CALENDAR OF EVENTS 2012

Date	Event	Remarks
15 th Jan	VISA Debit Cards	VISA Domestic & VISA International Cards
15 th Jan	Thimphu Main Branch	Relocation at Chubachhu
25 th Apr	Outstanding Development Project Awards	Association of Development Financing Institutions in Asia and the Pacific's
27 th May	Employee Day Celebration	Head Office & across branches
30 th May	Langthel, Trongsa	E-Branch Opening
1 st Jun	Revised Interest Rate	Savings Deposit
7 th Jun	Revised Interest Rate	Term Deposit
6 th July	Contact Center launch	To provide 24x7 uninterrupted service to the customers
29 th Jun	Blood Donation Campaign	The Bank's "Donate Blood – Save Life" initiative
2 nd Aug	Ranjung, Tashigang	E-Branch Opening
6 th - 8 th Aug	Paro Retreat	To review previous five years corporate strategies and plan for the next five years
20 th Aug	VISA Credit Cards launch	VISA Domestic Silver Credit Card, VISA Domestic Gold Credit Card & VISA International Gold Credit Card.
29 th Aug	Wamrong ,Tashigang	E-Branch Opening
12 th Sep	Rinchentse, Chukha	E-Branch Opening
20 th Oct	Customer Service Day celebration	Across branches
1 st - 4 th Nov	Procurement and Credit Retreat	Preparation of procurement manual and update on Credit manual
24 th Nov	Start of Lunch Hour Banking	Only in Thimphu and Phuentsholing Main Branch
8 th Dec	Revised Loan Rates	Inclusive of base rate, tenure premium and risk premium.
17 th Dec	Organized Collection drive	To help a social cause "Help shoe Bhutan" in collaboration with The Bhutan Dragons Motorcycle club and Shoevival.
29 th Dec	Sibsoo, Samtse	E-Branch Opening
29 th Dec	Dagapela, Dagana	E-Branch Opening
29 th Dec	Motithang, Thimphu	E-Branch Opening
29 th Dec	Changbangdru, Thimphu	E-Branch Opening

BOB MILESTONE (1968 - 2012)

No	Events	Year (Date)
1	Phuntsholing Main Branch opened	1968 (May 28)
2	Thimphu Main Branch opened	1970 (October 1)
3	Samdrup Jongkhar Branch opened	1972 (September 28)
4	Gelephu Branch opened	1972 (December 4)
5	Started to send employees for training to India (Human Resource development)	1973
6	Chimakothi Branch opened	1976 (June 19)
7	Samtse Branch opened	1977 (February 18)
8	Trashigang Branch opened	1977 (April 20)
9	Damphu Branch opened	1977 (July 2)
10	Bazar Branch opened	1979 (February 17)
11	Started to send employees for training overseas (Human Resource development)	1979
12	Gomtu Branch opened	1980 (December 17)
13	Wangdiphodrang Branch opened	1981 (March 13)
14	Paro Branch opened	1981 (July 17)
15	Mongar Branch opened	1981 (September 1)
16	Bumthang Branch opened	1981 (November 11)
17	Documentation of BOB's first service rule	1982
18	Dividend to shareholders distributed for the first time	1982
19	Trongsa Branch opened	1982 (December 24)
20	Haa Branch opened	1983 (August 19)
21	Gedu Branch opened	1983 (December 21)
22	Zhemgang Branch opened	1984 (March 9)
23	Lhuntse Branch opened	1985 (May 22)
24	Punakha Branch opened	1986 (January 4)
25	Pema Gatshel Branch opened	1986 (July 17)
26	Sibsoo (discontinued in 1990s during the southern problem)	1988 (December 12)
27	Sarpang Branch opened	1988 (December 18)

28	Dagana Branch opened	1990 (April 24)
29	Marked 25 years of service to the Nation	1993 (May 28)
30	City Branch opened	1992 (June 25)
31	Deothang Branch opened	1993 (June 4)
32	Management of BOB was handed over to the Royal Government of Bhutan	1997
33	First Bhutanese Managing Director – Mr. Tshering Dorji	1997
34	Trashiyangtse Branch opened	2001(June 17)
35	Core Banking Solution rollout started - Wangdue Branch	2009 (February 2)
36	Launch of Internet & SMS banking	2009 (May 28)
37	Nganglam Branch opened	2010 (February 21)
38	Launch of Cards acquiring business through ATM & POS terminals (MasterCard & VISA)	2010 (December 10)
39	Core Banking Solution rollout completed - Haa Branch	2011 (February 24)
40	Launch of VISA International & Domestic Debit Card	2012 (January 15)
41	Relocation of Thimphu Main branch	2012 (January 15)
42	E-branch opened in Langthel, Trongsa	2012 (May 30)
43	Blood Donation Campaign	2012 (June 29)
44	Launch of Contact Center	2012 (July 6)
45	E-branch opened in Ranjung, Tashigang	2012 (August 2)
46	Launch of VISA International & Domestic Credit Card	2012 (August 20)
47	E-branch opened in Wamrong ,Tashigang	2012 (August 29)
48	E-branch opened in Rinchentse, Chukha	2012 (September 12)
49	Start of Lunch Hour Banking in Phuentsholing & Thimphu Main Branch	2012 (November 24)
50	Organized Collection drive to help a social cause “Help shoe Bhutan” in collaboration with The Bhutan Dragons Motorcycle club and Shoevival.	2012 (December 17)
51	E-branch opened in Sibsoo, Samtse	2012 (December 29)
52	E-branch opened in Dagapela, Dagana	2012 (December 29)
53	E-branch opened in Motithang, Thimphu	2012 (December 29)
54	E-branch opened in Changbangdru, Thimphu	2012 (December 29)

KEY PERSONNEL

HEAD OFFICE

Chief Executive Officer	:	Mr. Passang Tshering
Dy.CEO (Operations)	:	Mr. Karma Tshering
Dy.CEO (Business Development)	:	Mr. Pema Namgyel Nadik
Chief Legal Advisor & CS	:	Mr. Damche Tenzin
Chief Operation Officer	:	Mr. Dorji Wangchuk
Chief Credit Officer	:	Ms. Karma Dema
Chief Research, Planning & Monitoring Officer	:	Mr. Nidup Peljor
Chief Support Officer	:	Mr. Kuenga Jurmin
Offtg. Chief Finance Officer	:	Mr. Pema Tshewang
Credit Specialist	:	Ms. Chitra Jagdish
Head, Corporate & Private Banking	:	Mr. Dophu Dorji
Compliance Officer	:	Mr. Damber Tamang
Head, CAD	:	Mr. Daniel Verghese
Head Audit Cell	:	Mr. Paras Mani Pradhan
Head, Administration & Procurement	:	Mr. Sonam Gyeltshen
Head, Real Estate	:	Mr. Pasang Dorji
Head, IT	:	Mr. Sonam Kezang
Head, Corporate Credit	:	Mr. H K Archarya
Head, Credit Review & Recovery	:	Mr. Tharpo Dukpa
Offtg. Head, Performance Monitoring	:	Ms. Upahar Subedi
General Manager (Accounts)	:	Mr. V.G Nair
PRO-cum-Recovery Officer	:	Mr. Tshewang Dorji

BRANCH HEADS & SENIOR SUPPORT STAFF

Phuentsholing Main Branch	: Mr. Tenzin Dorjee (Branch Head)
	: Mr. D.R Ghalley, Manager, Cash & Deposits
	: Mr. Ratu Tshering, Head, Forex
	: Mr. Madan Rai, Manager, Loans
Thimphu Main Branch	: Mr. Sonam Tshering (Branch Head)
	: Mr. Tendri Wangdi, Manager, Cash & Deposits
	: Mrs. Tshering Om, Manager, Loans
	: Mr. Tashi Wangchuk, PRO
Samdrup Jongkhar Branch	: Mr. Jigme Wangmo
Gelephu Branch	: Mrs. Pem Gyem
Tsimasham Branch	: Mr. Damber Kumar Chhetri
Samtse Branch	: Mr. Basant Rana
Trashigang Branch	: Mr. Tashi Dhendup
Damphu Branch	: Mr. Ashok Rai
Bazar Branch, Phuentsholing	: Ms. Choney Wangmo
Gomtu Branch	: Ms. Sangeeta Pradhan
Mongar Branch	: Mr. Sanjeet Kumar Kafley
Bumthang Branch	: Mr. Hem Kumar Gurung
Wangdue Phodrang Branch	: Mr. Tek Bahadur Gurung
Paro Branch	: Mr. Ugyen Dorji
Trongsa Branch	: Mr. Purna Kumar Chhetri
Haa Branch	: Mr. Rajan Kujur
Gedu Branch	: Mr. Bikash Subha
Zhemgang Branch	: Mr. D.B Chhetri
Lhuntsi Branch	: Mr. Sangay Dorji
Punakha Branch	: Mr. Wangdi
Pemagatshel Branch	: Mr. Devendra Rai
Sarpang Branch	: Mr. Gopal Chhetri
Dagana Branch	: Mr. Bishnu Gurung
City Branch, Thimphu	: Mr. Sonam Choden
Deothang Branch	: Mr. Sonam Gyeltshen
TashiYangtse Branch	: Mr. Pancha Bahadur Rai
Nganglam Branch	: Mr. Bhoj Raj Gurung

AUDITORS' REPORT

RE: THE MEMBERS OF BANK OF BHUTAN LIMITED:

1. We have audited the attached Balance Sheet of Bank of Bhutan Limited as at December 31, 2012 and the related 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 18 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

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Accounting Policies (Schedule 17) and Notes to Accounts (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 & 2 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 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 on annual accounts for the current year is considered to be insignificant,

gives a true and fair view;

- a) In the case of Balance Sheet, the state of affairs of the Bank as at December 31, 2012
- 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: 19 MAR 2013

Place: New Delhi

For N.C.Mittal & Co.

Chartered Accountants

(CA. N.C. Mittal)

B.Com, F.C.A.

19/3/2013

Partner

M.No. : 014213

REFERRED TO IN PARAGRAPH 3 OF OUR AUDIT REPORT OF EVEN DATE

Administration

1. *The fixed assets register maintained by Bank was inadequate in so far as the assets reference number and location of fixed assets have not been specified. However, no material discrepancies were noticed.*
2. There have been no revaluations in respect of the fixed assets during the year.
3. Physical verification reports of only 12 branches have been furnished to us. For the rest of the branches, certificates had been received from the respective branches that physical verification of the fixed assets had been conducted as at the end of the year and that the assets had been found to be in order.
4. In our opinion and as per information & explanation furnished to us, the Bank had established adequate system of internal control to insure 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 system in procedures as per Bank's manual of instructions/Guidelines *except that the CBS software (flex cube) implemented to the account for various transaction is performing inadequately, in so far as application of interest in the FDR and Saving account which have to be rectified manually. Further, few cases of negative withdrawal in saving account were also noticed. The same as explained to us is under technical investigation and recovery.*
5. There is the system of competitive bidding, commensurate with the size of the Bank and the nature of the business, for the purchases of the services, stores, equipment and other assets. Further, as certified to us and as per our audit, no such case of purchase of goods and services made in pursuance of contracts or arrangement entered into with the director(s) or other party (ies) related to the director(s) or with the company or firms in which director(s) are directly or indirectly interested have been made at prices, which are unreasonable having regard to the prevailing market prices for such goods or services or prices for similar goods and services.



6. As informed to us, there were no unserviceable or damaged stores, assets etc., as at December 31, 2012.
7. According to the records, the Bank is generally regular in depositing rates and taxes, duties, and other statutory dues with the appropriate authority. *In so far as the Provident Fund is concerned, the same as explained to us, is deducted and deposited as on the date of payment of employees' salary in the separate savings account with Pheuntsholing Main Branch of the Bank, from where it is managed in the form of FDRs etc from time to time to earn interest thereon. However, the same is not reflected in the Balance Sheet of the Bank although managed by the Bank itself. The same is also not a separate fund managed by any other legal entity. As on December 31, 2012, the total estimated amount in the form of FDRs, Saving Bank Balance & Accrued Interest thereon is Nu. 195,555,210.09. The same as explained to us, is also not subject to any audit nor a separate balance-sheet is being prepared for the same. The provision for corporate tax is adequate and that necessary adjustment have been made to compute the amount of tax required under the Rules on The Income Tax Act of the Kingdom of Bhutan, 2001.*
8. There are no undisputed amounts payable in respect of rates, taxes, duties, provident fund and other statutory dues outstanding at the year end.
9. No personal expenses of the 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.
10. *Subject to what stated above in clause 3 and the missing security forms (BOB Ltd Draft book) vide reference number series 464001 – 464050 and which could not be produced for verification, quantitative reconciliation is carried out in respect of all major items of inventories i.e. vehicle, furniture, computer, stationery, security forms etc.*
11. There has been no such material write off in respect of loss / discrepancies in physical / book balances of inventories including fixed assets, vehicles, stores and spares etc, and where ever so required the necessary approval had been obtained.



12. *Subject to what is stated above in clause 4*, there is an adequate system of internal control commensurate with the size of the Bank and the nature of its business. Also the system of authorization at proper level was also found to be reasonable.
13. In our opinion and on the basis of information and explanation furnished to us, the activities carried on by the Bank are lawful and intravires to the Articles of Incorporation of the Bank.
14. In our opinion and as per the information and explanations provided to us, all investment and activities are subject to the prior approval of the Board and the investments in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.
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.11 of Notes to Accounts (Schedule – 18).
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, unauthorized to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
18. The Bank has not dealt or traded in shares, securities and other investments during the year.
19. On the basis of examination and what had been explained to us, we are of the opinion that no provision is required for permanent diminution in the value of shares.
20. 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.

21. As per the information furnished to us there seem to be the effective system for reporting and handling frauds, when they occur.

Loans and Investments

1. The appraisal standards stipulated by the management, have been generally observed to be followed, while granting loans/advances and non-funded facilities such as Letters of Credit and guarantees to borrowers.
2. As per the information and explanation furnished to us and what was observed by us, loans and advances and other credit facilities have been granted by respective authorities as per the 'Delegation of Financial powers' approved by Board of the Bank and any exceptions in this regard have been reported and ratified by the appropriate authorities.
3. Generally, the documents and records with respect to loan cases are found to be adequate and the agreements have been drawn up and timely entries had been made therein except in case of Overdraft Loan Account where the Drawing Power Register was not found to have been updated in some cases and was subsequently updated.
4. In our opinion, reasonable records were maintained for payments received from borrowers and interest charged in their accounts.
5. In our opinion, the system for continuous follow-up with borrowers & other parties for recovery of outstanding amount is reasonable. The age-wise analysis of outstanding amounts is carried out for management information and follow-up action.
6. As per the information & explanation furnished to us and what was observed by us, the assets hypothecated against loan and advances have been physically verified, properly valued, mortgage deed executed and ensured that the assets are free of any prior lien or any charges.



7. 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 and activities are progressing satisfactorily.
8. The disposals of assets taken over on default were observed to have been made through open/sealed bids.
9. In our opinion and on the basis of information & explanation furnished, proper analysis had been carried out before re-phasing/ rescheduling of loans are permitted and that re-phasing is not permitted in respect of non-performing loans.
10. As explained to us and as per our audit, generally the approval from appropriate authorities had been obtained before writing off principal or interest amount pertaining to any borrower account.
11. As represented to us and as per our audit, there is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.
12. As per information furnished and verified by us, the loans have been classified as 'Performing' and 'Non-performing' as per the guidelines issued by the 'Royal Monetary Authority (*hereinafter referred to as "RMA"*)
13. Recognition of interest income in respect of non-performing assets has been deferred.
14. In our opinion and as per the information & explanation furnished to us, adequate provisions have been made for 'performing' and 'non-performing' loans (NPAs) at least to the extent required by the 'Royal Monetary Authority'.
15. In terms of information and explanation furnished to us, in our opinion, the rate of interest and other terms and conditions of loans granted, if any, secured or unsecured to



the companies, firms or other parties and/or to the companies under the same management, are prima facie not prejudicial to the interest of the Bank.

16. In our opinion and as per our audit, generally the parties to whom Loans & Advances given are paying the principal amount as stipulated and the payment of interest are also regular and wherever there has been default, the Bank had taken reasonable steps for the recovery of principal and the interest.
17. In our opinion, the loans and advances granted to officers/staff are in keeping with the provisions of service rules and no such grant of excessive / frequent advances and accumulation of large advances against particular individual came to our notices.

Operations at Branches

1. The cash balance for 9 branches visited by us (Pheuntsholing Main Branch, Bazar Branch, Gedu Branch, Thimphu Main Branch, Thimphu City Branch, Paro Branch, Punakha Branch, Wangdue Branch, Bumthang Branch) were checked at the close of business on the respective date of visit and they found to be tallying with the records *except in the following cases where excess/shortage were noticed. Further, in case of ATMs, certain differences between the physical cash balance versus the General Ledger balances were noticed. The details are as follows:*

(a) **Cash at Branches:**

- (i) *Bumthang (Date of visit: January 26, 2012, Time of verification: 1625 Hrs-1905 Hrs) – Physical Excess cash of Nu. 175 was noted which was assured to be taken in next working day as Sundry Creditors in terms of Manuals of Instructions.*

(b) **ATMs:**



- (i) Bumthang, ATM ID-1CN01201 (Date of visit: January 26, 2012, Time of verification: 1609 Hrs-1715)- Physical Excess over the General Ledger balance is Nu. 450/-
- (ii) Wangdi, ATM ID-1CN01301 (Date of visit: January 28, 2012, Time of verification: 1515Hrs- 1545Hrs.)- Physical Excess over the General Ledger balance is Nu. 3500/-
- (iii) Punakha, ATM ID-1CN02001 (Date of visit: January 28, 2012, Time of verification: 1535Hrs- 1605Hrs.)- Physical Excess over the General Ledger balance is Nu. 1200/-

The same as explained to us is on account of delay in updating of balances on BOBL server at the Head Office due communication lines.

2. *In our opinion, the system of reconciliation of inter branch entries was found to be proper and the same to be effectively complied with except in case of BCG Un-Reconciled Suspense Account appearing under other liabilities and provisions schedule-4 of Balance Sheet (Intra Office Adjustment) and having a debit balance of Nu. 41,608.00 which had remained un-reconciled since 2009, as explained to us.*
3. Payment of interest on deposit account and charging of interest on loan account and recovery of fees/commission on various services provided to customers are test checked and no such instance of excessive interest payment and lower charging of interest /fees /commission as the case may be, were there and wherever so, the same had been rectified.

Management Control

1. The Bank has adequate internal audit control system (including the adequacy and efficacy of the Internal Audit Department, Management and Financial Information Systems etc.) to ensure that the business is carried out as per the approved policies and procedures and failure if any are promptly reported. However, an endeavor should be made to cover the audit of all branches and all division at Head Office in one financial year itself.



2. Generally, the management of liquid resources particularly cash/Bank and short term deposits etc. were found to be adequate and no such case of excessive amount lying idle in non-interest bearing account came to our notice.
3. As per the information & explanation furnished to us, risk-management policy dealing with credit risk, market risk & operational risk have been formulated by management and approved by the board.
4. The risk policy as informed to us was under review and accordingly no comments offered. The credit rating for borrowal accounts had been taken where ever applicable.
5. In our opinion and as per the information furnished to us the Bank had maintained a reasonable system of costing to ascertain cost of its services / to enable it to make proper pricing decision for its services.
6. As per the information & explanation furnished to us, the Bank has established effective budgetary control system at the HO level.
7. As per information and explanation furnished to us, in our opinion the Bank has effective system of handling customers' complaints.
8. The foreign exchange transaction during the year 2012, had been valued using the RMA stipulated rates prevailing at the time of transaction.
9. As per the information & explanation furnished to us, the Pheuntsholing Main Branch intimates the position of foreign exchange to the top management through the weekly reports and excess over the RMA approved limit is transferred/ sold to RMA itself.
10. In our opinion and as the records produced to us, assets & liabilities held in foreign exchange as on December 31, 2012, had been revalued at the prevailing exchange rates as stipulated by the RMA. The corresponding profit and loss on account of foreign exchange fluctuation had also been dealt with in terms of guidelines provided by RMA.



11. As per the information & explanation furnished to us, there had been no suspense & sundry account entries at the branches and / or controlling offices.
12. As per the information & explanation furnished to us, the Bank had complied with the capital adequacy ratio requirements as stipulated by the RMA.
13. Same as clause 1 above.

Computerized Accounting Environment

1. As per the information and explanations furnished to us, the system development control and other internal control seems to be adequate relative to the size and nature of the computer installations.
2. As per information and explanations furnished to us, adequate safeguard measures and backup facilities exist.
3. Yes, the backup facilities and disaster recovery measures includes keeping files in the different and remote location.
4. As informed to us, last Information Systems Audit was performed in August – September 2011. It is recommended that the same needed to performed periodically to validate the operational controls in CBS so as to ensure completeness, correctness and the validity of output generated through system process. The operational control on the interest calculation on term deposits and saving deposits needs to be rechecked specifically. Similarly, command for application of service charges in saving deposits needs to be rechecked.
5. Generally the measures to prevent unauthorized access over the computer installations and files are adequate.

General

1. Going Concern Problems:

Based on the Net Assets & Net Profit Position reflected by the Bank's Balance Sheet as at December 31, 2012 & Profit & Loss Account for the year ending on that date, respectively, as audited by us in accordance with the generally accepted auditing standards and on the basis of such other test as we consider necessary in this regards, there are no reasons to believe that the Bank is not a going concern on the above 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-A to this Annexure.

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

As certified and as per the information and explanation given to us, we are of the opinion that the Bank had complied with all the relevant provisions of the Companies Act of the Kingdom of Bhutan, 2000 concerning the conduct of meetings, filing requirements, maintenance of records, issue of shares and all other matters specified in the said Act.

4. Adherence to the Laws, Rules & Regulations

- (a) The audit of the Bank is governed by the Companies Act of 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 Bank's management. In our opinion and on the basis of information & explanations furnished to us, the Bank had generally complied with the applicable laws, rules & regulations, systems, procedures & practices.
- (b) Weighing of the risk weighted assets as at December 31, 2012 is proper and correct.
- (c) Capital Adequacy Ratio of the Bank as at December 31, 2012 had been fairly assessed (i.e. 16%) and such ratio is above the minimum prescribed limit by RMA (i.e. 10%)
- (d) Cash Reserve Ratio of the Bank as at December 31, 2012 (i.e. 5%) is as per the prescribed limit by RMA
- (e) Statutory Liquidity Ratio (SLR) of the Bank as at December 31, 2012 (i.e. 28%) is above the minimum prescribed limit by RMA.

Date: 19 MAR 2013

Place: New Delhi

For N.C.Mittal & Co.

Chartered Accountants




(CA. N.C. Mittal)

B.Com, F.C.A. 18/3/2013

Partner

M.No. : 014213

RATIO ANALYSIS

	RATIOS	2012	2011	REMARKS
A.	Ratios for assessing financial health			
	Current Ratio (Current Assets/Current Liabilities)	1.07 :1	1.06:1	Increase in ratio is due to comparative increase in current assets.
B.	Ratios for assessing profitability			
	Return on Investments (PAT/Capital Employed X 100)	20.60 %	22.80%	Marginal decrease is on account of increase in capital & reserves
	Earnings per Share (PAT/No. of shares issued)	Nu 66.01	Nu.161.10	Decrease in EPS is due to increased Paid up capital
	Net Profit Ratio (Net Profit/Turnover X 100)	30.90 %	36.66%	Decrease in ratio is due to increase in total revenue during the year compared to previous year



BANK OF BHUTAN LIMITED

BALANCE SHEET AS AT 31st DECEMBER 2012		Amount in Ngultrum	
CAPITAL AND LIABILITIES	Schedule No.	As at 31.12.2012	As at 31.12.2011
Capital	1	1,000,000,000.00	400,000,000.00
Reserves & Surplus	2	2,204,923,122.98	2,426,798,779.56
Deposits	3	23,693,273,656.26	22,302,961,535.29
Other liabilities & provisions	4	2,694,582,565.14	1,829,839,014.86
TOTAL		29,592,779,344.38	26,959,599,329.71
ASSETS			
Cash & Balance with RMA	5	7,834,078,232.91	7,371,891,901.07
Balances with Banks	6	2,630,165,196.51	2,242,429,421.20
Investments	7	1,081,940,301.23	1,116,858,210.45
Advances	8	17,444,887,818.37	15,653,233,646.48
Fixed Assets	9	278,885,623.59	264,436,278.84
Other Assets	10	322,822,171.77	310,749,871.67
TOTAL		29,592,779,344.38	26,959,599,329.71
Contingent liabilities	11	4,479,103,974.64	6,068,932,538.15
Bills for Collection	12	8,446,864.43	14,600,457.59
Significant Accounting Policies	17		
Notes to Accounts	18		

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

Signed in terms of our Audit
Report of even date attached.

Chairman : Karma W. Penjor

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

Passang Tshering
Chief Executive Officer

Date : 79 MAR 2013
Place: New Delhi

For N.C.MITTAL & Co.
Chartered Accountants

CA. N.C.MITTAL
Partner
M.No.014213



18/3/2013

BANK OF BHUTAN LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2012

		Amount in Ngultrum	
	Schedule No.	For the year ended 31.12.2012	For the year ended 31.12.2011
INCOME			
Interest earned	13	1,810,708,457.52	1,413,714,623.62
Other Income	14	325,401,864.46	343,980,693.86
TOTAL		2,136,110,321.98	1,757,695,317.48
EXPENDITURE			
Interest Expended	15	471,944,835.56	343,272,494.90
Operating Expenses	16	460,456,638.20	449,330,633.35
Provision and Contingencies		253,316,273.63	43,772,457.15
TOTAL		1,185,717,747.39	836,375,585.40
Profit before Tax		950,392,574.59	921,319,732.08
Provision for Income Tax		290,011,687.00	276,930,962.00
Net profit after tax		660,380,887.59	644,388,770.08
Prior period adjustment		256,544.17	-
Net Profit for the year		660,124,343.42	644,388,770.08
Add : Excess proposed dividend for last year written back		48,000,000.00	175,975,126.00
Profit brought forward		-	883.48
TOTAL		708,124,343.42	820,364,779.56
APPROPRIATIONS			
Transfer to Reserve Fund		358,124,343.42	483,334,779.56
Exchange Fluctuation Reserve		20,000,000.00	57,030,000.00
Proposed Dividend		330,000,000.00	280,000,000.00
TOTAL		708,124,343.42	820,364,779.56
Significant Accounting Policies	17		
Notes to Accounts	18		

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

Signed in terms of our Audit Report of even date attached.

Chairman : Karma W. Penjor

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

Passang Tshering
Chief Executive Officer

Date:
Place: New Delhi

19 MAR 2013

For N.C.MITTAL & Co.
Chartered Accountants



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 1 - CAPITAL	Amount in Ngultrum	
	As at 31.12.2012	As at 31.12.2011
AUTHORISED CAPITAL		
30,000,000 Shares of Nu.100 each	<u>3,000,000,000.00</u>	<u>1,000,000,000.00</u>
ISSUED AND PAID-UP CAPITAL		
10,000,000 Shares (PY 4,000,000) of Nu.100 each	1,000,000,000.00	400,000,000.00
TOTAL	<u>1,000,000,000.00</u>	<u>400,000,000.00</u>



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 2 - RESERVES & SURPLUS

	Amount in Ngultrum	
	As at 31.12.2012	As at 31.12.2011
RESERVE FUND		
Opening Balance	2,231,631,779.56	1,748,297,000.00
Add: Transfer from Profit & Loss Account	358,124,343.42	483,334,779.56
Less : Capitalised by way of issue of Bonus share	600,000,000.00	-
	1,989,756,122.98	2,231,631,779.56
EXCHANGE FLUCTUATION RESERVE		
Opening Balance	100,000,000.00	42,970,000.00
Add: Transfer from Profit & Loss Account	20,000,000.00	57,030,000.00
	120,000,000.00	100,000,000.00
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		
As per last account	60,000,000.00	60,000,000.00
Balance of Profit and Loss Account		
As per annexed account	-	-
TOTAL	2,204,923,122.98	2,426,798,779.56



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 3 - DEPOSITS	As at 31.12.2012	Amount in Ngultrum 31.12.2011
DEMAND DEPOSITS		
i) Current Deposits	13,479,577,424.12	12,783,614,792.60
ii) Savings Bank Deposits	5,658,771,145.18	5,840,651,606.18
	19,138,348,569.30	18,624,266,398.78
TERM DEPOSITS	4,325,525,894.03	3,523,806,113.04
OTHER ACCOUNTS		
Balance of other Banks in Current Account	229,399,192.93	154,889,023.47
TOTAL	23,693,273,656.26	22,302,961,535.29




BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 4 - OTHER LIABILITIES & PROVISIONS

Amount in Ngultrum

	<u>As at 31.12.2012</u>	<u>As at 31.12.2011</u>
GRATUITY FUND		
As per last account	70,390,390.00	72,238,520.00
Deductions during the year	<u>5,776,810.00</u>	<u>10,281,140.00</u>
	64,613,580.00	61,957,380.00
Additions during the year	<u>33,865,955.00</u>	<u>8,433,010.00</u>
	98,479,535.00	70,390,390.00
 Bills Payable	 219,999,824.04	 225,774,927.43
Interest Accrued	172,307,746.42	152,268,122.70
Inter Office Adjustment (net)	307,101,931.63	2,503,248.61
Payables relating to Visa/Mastercard	181,524,828.13	10,204,008.42
Others (including provisions)	1,095,157,012.92	811,767,355.70
Proposed Dividend	330,000,000.00	280,000,000.00
Provision for Income Tax	290,011,687.00	276,930,962.00
 TOTAL	 <u>2,694,582,565.14</u>	 <u>1,829,839,014.86</u>



BANK OF BHUTAN LIMITED

Schedules forming part of the Balance Sheet as at 31st December 2012

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

	As at 31.12.2012	Amount in Ngultrum As at 31.12.2011
CASH IN HAND		
Bhutanese Currency	450,699,227.78	298,487,757.59
Indian Currency	28,035,639.00	29,936,546.25
Foreign Currency	21,468,346.46	16,011,816.02
	<u>500,203,213.24</u>	<u>344,436,119.86</u>
CASH RESERVE WITH RMA	1,294,994,000.00	4,123,952,000.00
BALANCES WITH RMA	6,038,881,019.67	2,903,503,781.21
TOTAL	<u><u>7,834,078,232.91</u></u>	<u><u>7,371,891,901.07</u></u>

SCHEDULE 6 - BALANCES WITH OTHER BANKS

	As at 31.12.2012	As at 31.12.2011
BALANCES WITH BANKS IN INDIA AND ABROAD		
On Current Accounts	1,420,325,196.51	928,869,421.20
On Deposit Accounts	109,840,000.00	213,560,000.00
	<u>1,530,165,196.51</u>	<u>1,142,429,421.20</u>
On Deposit Accounts in Bhutan	1,100,000,000.00	1,100,000,000.00
TOTAL	<u><u>2,630,165,196.51</u></u>	<u><u>2,242,429,421.20</u></u>



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 7 - INVESTMENTS

			Amount in Ngultrum	
	No.	Face Value	As at 31.12.2012	No. As at 31.12.2011
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	42,348	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	45,454	10,000	453,219,590.78	50,000 498,137,500.00
DHI Seed Fund			10,000,000.00	-
Contribution towards Share Capital of FI Training Institute			18,000,000.00	18,000,000.00
TOTAL			<u><u>1,081,940,301.23</u></u>	<u><u>1,116,858,210.45</u></u>



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 8 - ADVANCES		Amount in Ngultrum	
	As at 31.12.2012	As at 31.12.2011	
LOANS, CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN)	17,433,036,401.26	15,598,632,655.25	
BILLS DISCOUNTED AND PURCHASED			
Payable in Bhutan	-	52,432.00	
Payable outside Bhutan	11,851,417.11	54,548,559.23	
	11,851,417.11	54,600,991.23	
TOTAL	17,444,887,818.37	15,653,233,646.48	
PARTICULARS OF ADVANCES			
i Debts considered good in respect of which Bank is fully secured	14,653,438,576.34	12,895,697,651.31	
ii Debts considered good for which Bank holds no other security than the Debtor's personal security	115,953,372.66	97,644,297.50	
iii Debts considered good, secured by the personal liability of one or more parties in addition to the personal security of the Debtors	2,675,495,869.37	2,659,891,697.67	
iv Debts considered doubtful or bad, not provided for	-	-	
TOTAL	17,444,887,818.37	15,653,233,646.48	
v Debts due by directors or officers of Bank or any of them either severally or jointly with any other person.	355,614,360.89	315,472,362.32	
vi Debts due by companies, firms in which the directors of Bank are interested as directors, partners or members	240,193,776.75	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	376,224,155.84	341,170,291.62	
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 members	621,861,942.11	289,908,000.00	
ix Due from Banking companies	-	-	



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 9 - FIXED ASSETS	Amount in Ngultrum	
	As at 31.12.2012	As at 31.12.2011
PREMISES (BUILDING & LAND)		
At cost as on 31.12.2011	129,804,002.64	129,747,469.64
Additions during the year	<u>3,933,485.66</u>	<u>56,533.00</u>
	133,737,488.30	129,804,002.64
Less: Depreciation to date	<u>25,115,926.15</u>	<u>22,951,683.98</u>
	108,621,562.15	106,852,318.66
FURNITURE, FIXTURE, OFFICE EQUIPMENTS AND VEHICLES		
At cost as on 31.12.2011	275,708,346.56	241,895,369.33
Additions during the year	42,005,003.81	38,666,257.16
Deductions during the year	<u>671,035.43</u>	<u>4,853,279.93</u>
	317,042,314.94	275,708,346.56
Less Depreciation to date	<u>162,163,968.84</u>	<u>124,844,545.50</u>
	154,878,346.10	150,863,801.06
CAPITAL WORK IN PROGRESS	15,385,715.34	6,720,159.12
TOTAL	<u>278,885,623.59</u>	<u>264,436,278.84</u>




BANK OF BHUTAN LIMITED

Schedules forming part of the Balance Sheet as at 31st December 2012

SCHEDULE 10 - OTHER ASSETS		Amount in Ngultrum	
	As at 31.12.2012	As at 31.12.2011	
Accrued Interest	98,024,638.65	85,532,820.50	
Stamps, Sundry Deposits and Amounts Recoverable	19,958,812.78	15,739,238.81	
Stationery	19,237,716.84	15,676,124.06	
Building Materials	316,690.72	921,981.70	
Axis Bank Pre-paid Cards	5,534,304.76	3,530,510.56	
Advance Tax including Tax Deducted at Source	140,174,809.88	113,881,052.70	
Receivables relating to Visa/Mastercard	39,575,198.14	75,468,143.34	
TOTAL	322,822,171.77	310,749,871.67	

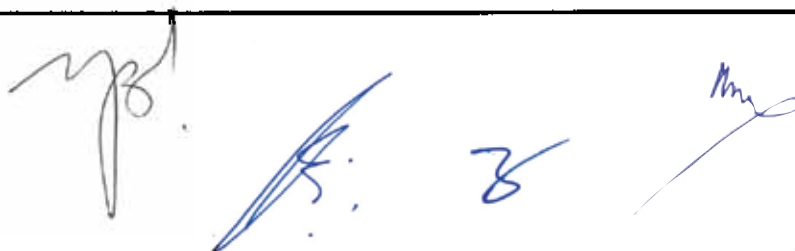
	As at 31.12.2012	As at 31.12.2011
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SCHEDULE 11 - CONTINGENT LIABILITIES

Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	454,701,034.26	1,526,214,319.77
Guarantees Issued & Outstanding	4,024,402,940.38	4,542,718,218.38
TOTAL	4,479,103,974.64	6,068,932,538.15

SCHEDULE 12 - BILLS FOR COLLECTION

Payable in Bhutan	3,633,939.85	3,635,711.80
Payable outside Bhutan	4,812,924.58	10,964,745.79
TOTAL	8,446,864.43	14,600,457.59





BANK OF BHUTAN LIMITED

Schedules forming part of the Profit and Loss Account as at 31st December 2012

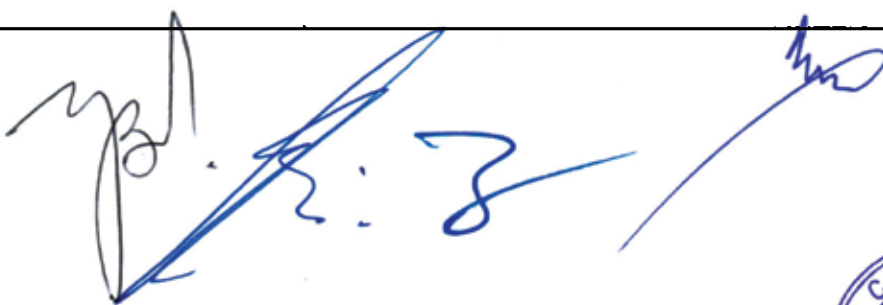
SCHEDULE 13 INTEREST EARNED	Amount in Ngultrum	
	For the year ended 31.12.2012	For the year ended 31.12.2011
Interest on Loans	1,731,648,115.91	1,312,296,780.30
Interest on Bills Receivables	12,153,793.83	6,157,142.28
Interest on Investment	7,985,022.21	21,311,385.98
Interest on Fixed Deposits with Banks	58,921,525.57	73,949,315.06
TOTAL	1,810,708,457.52	1,413,714,623.62
SCHEDULE 14 OTHER INCOME		
Commission, Exchange and Brokerage	152,622,742.53	273,181,429.23
Profit on conversion of Foreign Currency Balances	57,584,950.96	-
Income earned by way of Dividend	10,874,716.00	12,616,024.00
Rental Income	1,243,004.50	1,157,931.50
Others	103,040,547.88	56,973,279.88
Profit on sale of Assets	55,902.59	52,029.25
TOTAL	325,401,864.46	343,980,693.86
SCHEDULE 15 - INTEREST EXPENSES		
Interest paid on deposits	471,944,835.56	343,272,494.90
TOTAL	471,944,835.56	343,272,494.90



BANK OF BHUTAN LIMITED

Schedule forming part of the Profit and Loss Account as at 31st December 2012

SCHEDULE 16 - OPERATING EXPENSES	Amount in Ngultrum	
	For the year ended 31.12.2012	For the year ended 31.12.2011
Payment to and provision for employees	248,997,392.38	198,219,593.85
Rent, Taxes, Insurance, Lighting etc	17,300,344.16	12,023,204.99
Travelling Expenses	16,625,033.85	25,839,976.56
Directors Sitting Fees	1,176,000.00	612,000.00
Postage, Telegrams & Stamps	12,411,088.57	9,572,570.40
Audit Fee	324,450.00	365,000.00
Auditors' out of pocket expenses	609,000.00	423,000.00
Depreciation	40,116,709.01	37,025,085.61
Repairs to Banks Properties	18,780,351.51	15,751,424.36
Stationery, Printing, Advertisement etc	7,551,029.12	9,963,280.67
Charity and Donations	1,250,000.00	1,138,333.00
Fixed Assets Written Off	29.00	27,596.14
Other Expenditure	95,315,210.60	47,039,200.87
Loss on conversion of Foreign Currency Balances	-	91,330,366.90
TOTAL	460,456,638.20	449,330,633.35




BANK OF BHUTAN LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2012

	For the year ended 31.12.2012	For the year ended 31.12.2011	Amount in Ngultrum
Net Cash Flow from Operating Activities (Note 1)			
Return on Investments and Servicing of Finance (Note 2)	(164,218,736.22)	(50,123,274.96)	(7,506,617,572.81)
Taxation	(303,224,719.18)	(276,930,962.00)	
Capital Expenditure (Note 3)	(54,541,152.69)	(43,586,937.16)	
Net Cash Inflow / (Outflow) from Investment Activities		(521,984,608.09)	(370,641,174.12)
Net Cash Inflow / (Outflow) before Financing		805,004,197.93	(7,877,258,746.93)
Financing	0.00	0.00	
Management of Liquid resources (Note 4)	44,917,909.22	(498,137,500.00)	
Net Cash Inflow / (Outflow) from Financing		44,917,909.22	(498,137,500.00)
Net Cash Inflow / (Outflow)		849,922,107.15	(8,375,396,246.93)
Increase / (Decrease) in Cash (Note 5)		849,922,107.15	(8,375,396,246.93)

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

Chairman : Karma W. Penjor

Directors : Dasho Phub Wangdorji
Kinga Tshering
Kinzang Tobgay
Sonam Tobley
Vijay Jasuja

Passang Tshering
Chief Executive Officer

Date :

Place: New Delhi 9 MAR 2013

For N.C.MITTAL & Co.
Chartered Accountants

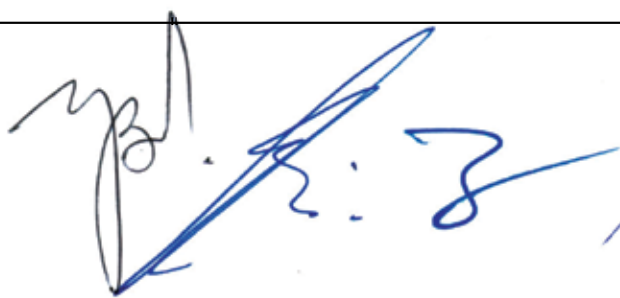
CA. N.C.MITTAL
Partner
M.No.014213



BANK OF BHUTAN LIMITED

NOTES FORMING PART OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2012

	Amount in Ngultrum	
	For the year ended 31.12.2012	For the year ended 31.12.2011
1 Net Cash Flow from Operating Activities:		
Net Profit before tax	950,392,574.59	921,319,732.08
Add : Depreciation Charges	40,116,709.01	37,025,085.61
Add: Assets written off during the year	29.00	
Add: Prior period adjustment	(251,229.63)	
Add : Adjustment by way of Write back of excess depn charged in 2011 by Branch Bumthang & Lhuntse	25,657.98	37,025,085.61
	990,283,740.95	958,344,817.69
Less: Income from Dividends	10,874,716.00	12,616,024.00
Interest Received on Investments and FDRs	66,906,547.78	95,260,701.04
Profit on Sale of Fixed Assets	55,902.59	52,029.25
Loss on Exchange Fluctuation Reserve adjusted with Reserve	0.00	0.00
	912,446,574.58	850,416,063.40
 (Increase)/Decrease in Advances	 (1,791,654,171.89)	 (4,512,381,748.67)
(Increase)/Decrease in other Assets	14,221,457.08	(114,095,433.06)
Increase/(Decrease) in Deposits & other Accounts	1,390,312,120.97	(1,040,473,869.65)
Increase/(Decrease) in other Liabilities & Provisions	801,662,825.28	(2,690,082,584.83)
	1,326,988,806.02	(7,506,617,572.81)
2 Return on Investments and Servicing of Finance:		
Dividend Paid	(232,000,000.00)	(140,000,000.00)
Dividend Received	10,874,716.00	12,616,024.00
Interest Received on Investments and FDRs	66,906,547.78	95,260,701.04
Additional Equity (capital Injection)	0.00	0.00
Investment in shares	(10,000,000.00)	(18,000,000.00)
	(164,218,736.22)	(50,123,274.96)
3 Capital Expenditure:		
Payments to acquire tangible fixed assets	(45,938,518.47)	(38,692,123.57)
Receipts from sale of tangible fixed assets	62,922.00	52,029.25
(Increase)/Decrease in Capital Working In Progress	(8,665,556.22)	(4,946,842.84)
	(54,541,152.69)	(43,586,937.16)
4 Management of liquid resources:		
Sale/(Purchase) of RMA Discount Bills	44,917,909.22	(498,137,500.00)
	44,917,909.22	(498,137,500.00)
5 Increase/(Decrease) in cash(Includes cash in hand, balances with RMA and balances with other banks):		
Closing Balance	10,464,243,429.42	9,614,321,322.27
Less :Opening Balance	9,614,321,322.27	17,989,717,569.20
	849,922,107.15	(8,375,396,246.93)




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 (hereinafter referred to as “RMA”). 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 (as revised vide letter no.RMA/FRSD/34/2012-2013/16666 dated November 9, 2012) and for the loan under litigation against which 100% provision is made. The corresponding rates for last year are also specified against each classification of advances.

Category	Existing	Revised
Standard	Overdue upto 30 days Provisioning – 1.5%	Overdue up to 30 days Provisioning – 1%
Watch	Overdue 31 – 90 days Provisioning – 1.5%	As it is
Sub Standard	Overdue 91 – 180 days Provisioning – 20% -30% highest Exposure	Overdue 91 – 180 days Provisioning – 15% -30% highest exposure
Doubtful	Overdue 181 – 365 days Provisioning – 50% -60% highest Exposure	Overdue 181 days – 18months Provisioning – 50% -60% highest Exposure
Loss	Overdue – more than 365 days Provisioning – 100%	Overdue – more than 18 months Provisioning – 100%



As per the further directives of RMA, the loan provisions have been worked out with existing as well as the revised rate. The difference of Nu.86,895,313.14 termed as dynamic provision has been added to the total provisions in the profit & loss account stated therein.

- 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".

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

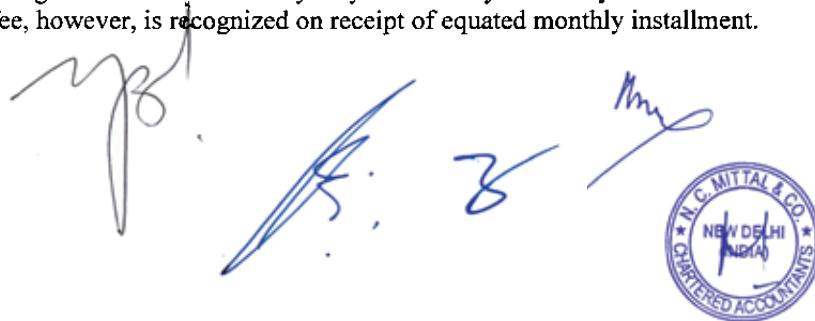
Stock of Stationery is valued at Weighted Average cost method.

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.

8.0 Staff Benefits

- 8.1 Provision for Gratuity and leave encashment payable to employees on their retirement is estimated by the management in line with Bank's Service Rule 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.



BANK OF BHUTAN LIMITED

Schedule -18

NOTES TO ACCOUNTS

1. The outstanding entries in respect to Branch Clearing Adjustments/ Inter Branch Flexcube have been reconciled up to 31.12.2012.
2. Balances with State Bank of India (SBI), other banks including NOSTRO Accounts, Bills Payable Accounts are reconciled upto 31.12.2012 subject however to some entries in Bank of Bhutan Resident Rupee Account & Bank of Bhutan Reimbursement Account with SBI aggregating to credit balance of Nu. 16,859,561.86 (Previous Year Nu.17,313,270.06) and relating to the period 1972- 2000 which are pending reconciliation till date despite best efforts on the part of the bank. The Bank has decided to surrender to RMA subject to mutual consent of SBI.
3. During the year, a sum of Nu.20,000,000.00 has been transferred to Exchange Fluctuation Reserve from profit after tax as per clause 11.3 of Section 11 of RMA Prudential Regulations 2002.
4. Balance in the deposit account in Schedule 6 is with a bank abroad in foreign currencies equivalent to Nu. 109,840,000 (Previous Year Nu. 213,560,000) and is under the lien with SCB New York in respect of foreign letter of credits.
5. 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.
6. Income Tax assessment of the Bank has been completed up to 31st December 2009.



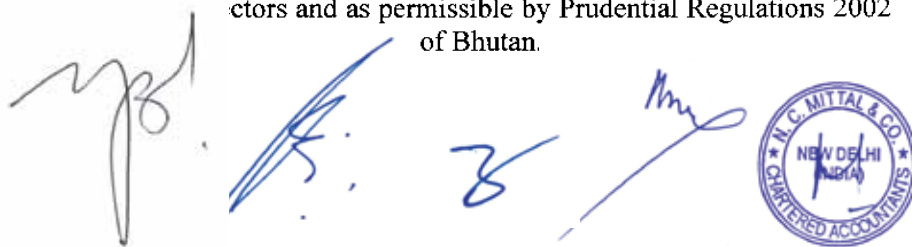
7. Other liabilities represent:

	For the year ended 31.12.2012		For the year ended 31.12.2011	
	Nu.	Ch.	Nu.	Ch.
Sundry creditors	49,402,934.62		34,206,875.03	
Unclaimed deposits	5,837,184.40		6,288,063.14	
Interest suspense	101,233,379.99		90,330,618.25	
Contingency Reserve	921,515,598.93		668,199,325.30	
Matured FDR	6,554,787.98		6,291,524.22	
Security Deposits	3,732,889.00		1,163,475.00	
Loan Repayment Suspense	-		115,811.76	
Provision for Leave	6,880,238.00		5,171,663.00	
Encashment				
Total	1,095,157,012.92		811,767,355.70	

8. Other receipts represent:

	For the year ended 31.12.2012		For the year ended 31.12.2011	
	Nu.	Ch.	Nu.	Ch.
PF Forfeited	429,884.00		147,913.53	
Gain on discounting of Govt. Treasury Bills	35,489,357.01		3,018,049.45	
Interest on Druk Air Bonds	39,505,889.33		39,525,225.00	
Receipts from ATM Cards	6,647,208.00		745,989.00	
Postage, Telegrams and stamps	1,998,598.26		2,885,308.52	
Receipts on Visa/ Master Cards	15,911,304.28		7,706,845.31	
Others	3,058,307.00		2,943,949.07	
Total	103,040,547.88		56,973,279.88	

9. The repayment schedule of certain advances amounting to Nu.9,853,000.00 (Previous Year Nu. 67,205,000) after they became due for payment, fully or partly, was re-scheduled during the year as per the revival scheme approved by the Bank of Bhutan and as permissible by Prudential Regulations 2002 of Bhutan.



10. Capital Commitments (Net of Advance): Nu.9,953,844.00 (Previous year Nu. 17,578,410.80).

11. 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 31.12.2012		For the year ended 31.12.2011	
	Nu.	Ch.	Nu.	Ch.
(a) Payment to and provision for employees represent:				
(i) Salary, Bonus, Gratuity, leave encashment etc.	237,141,502.38		189,423,326.50	
(ii) Contribution to Provident Fund	11,855,890.00		8,796,267.35	
Total	248,997,392.38		198,219,593.85	
(b) Remuneration, Allowances, etc paid to Chief Executive Officer:				
(i) Salary, Allowances, bonus and Encashment of leave	1,332,912.00		1,380,540.00	
(ii) Contribution to Provident Fund	93,528.00		90,948.00	
(iii) Sitting fee	148,000.00		92,000.00	
Total	1,574,440.00		1,563,488.00	
(c) Sitting Fees paid to other Directors (Including invitees)	1,028,000.00		520,000.00	
(d) Rent, Taxes, Insurance, Lighting etc represent:				
(i) Rent	11,300,966.80		6,098,673.80	
(ii) Rates & Taxes	144,854.94		171,458.32	
(iii) Insurance	3,660,563.50		3,876,787.00	
(iv) Light & Fuel	2,193,958.92		1,876,285.87	
	17,300,344.16		12,023,204.99	
(e) Repairs to the Bank's Property represent:				
(i) Repair to Buildings	194,800.00		243,781.83	
(ii) Other Repairs	18,585,551.51		15,507,642.53	
	18,780,351.51		15,751,424.36	



12. During the year, internet banking fraud to the tune of Nu. 2,453,330.96 has occurred. The High Court vide its verdict dated 28.12.2012 had ordered the Bank to pay the customer who has suffered the loss and the Bank to recover the same from the accused (proved guilty). Bank not being satisfied with the order to pay and recover had appealed before honorable Supreme Court against the same. Pending Supreme Court's decision, bank do not estimate any liability to pay and accordingly had not shown anything recoverable from the accused in the receivables.
13. Uncollected Savings maintenance charges @ Nu.150 p.a. per account aggregating to a sum of Nu. 6,143,550.00 has been recognized as income on accrual basis for revenue recognition, which is booked under P&L – commission Account. However, a sum of Nu. 3,301,800.00 pertaining to dormant savings account and doubtful of recovery had been reversed back to the same account.
14. Prior period adjustment reflects the entries pertaining to expenses of previous years paid during the current year. The head wise details are as follows:
- | Particulars | Amount |
|-----------------|----------------|
| a. Card Expense | Nu. 251,229.63 |
| b. Depreciation | Nu. 5,314.54 |
15. In the opinion of the management, various item of asset and liability as appearing in the Balance Sheet as at 31.12.2012 carries/ has value equal to the amount at which they are stated therein.
16. One Ngultrum/ Chetrum is equivalent to Indian one Rupee/Paisa
17. The previous year figures have been regrouped/ rearranged wherever considered necessary.



AUDITORS' REPORT

RE: THE MEMBERS OF BOB SECURITIES LIMITED

We have audited the attached Balance Sheet of M/s BOB Securities Limited as at December 31, 2012 and the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

1. 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 Company.
2. Further to our comments in the Annexure referred to in paragraph 1 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 the Companies Act of the Kingdom of Bhutan, 2000 have been kept by the Company so far as it appears from our examination of such books.
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement referred to 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 in conjunction with schedules A & B give the information required by the Companies Act of the Kingdom of Bhutan, 2000 and give a true and fair view:
 - (i) In the case of Balance Sheet, the state of affairs of the Company as at December 31, 2012;



- (ii) In case of Profit and Loss Account, of the profit of the Company for the year ended on that date; and
- (iii) In case of Cash Flow Statement, of the movement of cash of the Company for the year ended on that date.

Date: 19 MAR 2013
Place: New Delhi

For N.C. Mittal & Co.
Chartered Accountants

(CA Kapil Mittal)
B.Com (H), F.R.A., D.T.S.A. (ICAI), A.L.L.S.L.A.
PARTNER
M. No.: 503378

**ANNEXURE REFERRED TO IN PARAGRAPH 1 OF OUR REPORT
OF EVEN DATE**

1. The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. The Fixed Assets of the Company have been physically verified by the management during the year and no material discrepancies were noticed on such verification.
2. None of the Fixed Assets have been revalued during the year.
3. The Company 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 Company as well as to ensure adherence to the rules/regulations and systems and procedures.
4. As per information and explanations provided to us there are no transactions of purchases and sale of goods and services made in pursuance of contracts or arrangement entered into with the director(s) or any other party(ies) related to the director(s) or with company or firms in which the director(s) are directly or indirectly interested.
5. The management of liquid resources particularly cash/bank was found not satisfactory in view of the fact that unused funds were left idle in the current account and which could have earned the company some interest (e.g Account No.40900110005050102 and account No.20700220630510018 with Bank of Bhutan Ltd.
6. The activities carried out by the Company are lawful and intravires to the Articles of Incorporation of the Company.
7. The Company has not introduced budgetary control system.
8. The directives of the Board have been complied with.
9. So far as we have represented and our knowledge is concerned, the officials of the Company have not transmitted any price sensitive information which are not made publicly available, unauthorized to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.



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 back-up facilities exist.
3. The backup facilities and disaster recovery measures does not include keeping files in different locations.
4. The operational controls are adequate 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

In relation to going concern problems the Company is healthy 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 Company are given below:

Ratio	2012	2011	Remarks
Current Ratio = Current Assets ----- Current Liabilities	= 12% $\left\{ \frac{2025}{176} \right\}$	= 86% $\left\{ \frac{2839}{33} \right\}$	Current year's ratio has decreased compared to last year but is more than the standard (i.e.2) indicating sound financial health of the Company.
Profit on Turnover = Profit after tax ----- Sales	= (37%) $\left\{ \frac{(361)}{969} \right\}$	= 57% $\left\{ \frac{616}{1073} \right\}$	Ratio is lower than last year the Company has incurred loss.



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

During the year, the Company 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 and all other matters specified in the said Act.

4. Adherence to Laws, Rules and Regulations

The audit of the Company is governed by the Companies Act of the Kingdom of Bhutan, 2000 and the scope of audit is limited to examination and review of the financial statement as produced to us by the management. In the course of audit we have considered the compliance of provisions of the said Companies Act and its Articles of Incorporation and we are unable to state that the Company has been complying with the applicable laws (other than the Companies Act), rules and regulations, systems, procedures and practices.

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

Place: New Delhi

Date: 19 MAR 2013



For N.C. Mittal & Co.
Chartered Accountants

(CA. Kapil Mittal)

B.Com (H), F.C.A., D.S.A. (ICAI), ALLI.S.S.A

PARTNER

M. No.: 503378

BALANCE SHEET AS AT DECEMBER, 2012

LIABILITIES		CURRENT YEAR		PREVIOUS YEAR		ASSETS	
	Nu.	Nu.	Nu.	Nu.	Nu.	Nu.	Nu.
SHARE CAPITAL							
AUTHORISED CAPITAL			1,000,000 00				
10,000 shares of Nu. 100 each							
(Previous year - 10,000 shares of Nu. 100 each)							
ISSUED & PAID-UP CAPITAL							
5,000 Shares of Nu. 100 each	500,000 00		500,000 00				166,349 73
(Previous year - 5,000 Shares fully paid-up of Nu. 100 each) held by the promoter - Bank of Bhutan Ltd.)							
RESERVES & SURPLUS							
Capital Reserve (Profit prior to incorporation)	7,600 00	7,600 00					
Generals Reserve	490,000 00	490,000 00					
Profit & Loss Account (As per Annexed A/c)	2,018,658 58	1,717,262 71	2,214,662 71				
CURRENT LIABILITIES & PROVISIONS							
Liabilities for expenses	33,063 00		169,360 14				1,979,381 01
Provision for Taxation	264,054 61		7,611 50				46,103 61
Refundable deposits							
TOTAL	3,373,376 19		2,891,834 35			TOTAL	2,891,834 35

Significant Accounting Policies as per scheduled 'A'
Notes on accounts as per scheduled 'B'

Chairman
Pamela Nadik

Directors

Do not: Do not

Игорь В. Зинченко

Janga Rana
Chief Executive Officer

Date
Place

Signed in terms of our Audit Report of even date attached

For Virtual & Co
Chartered Accountants

CA & APIL MITTAL
CHARTERED ACCOUNTANTS
Partners
M No 503378

15 MAR 2013



PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 2012

Previous Year	Expenditure	Current Year	Previous Year	Income	Current Year
Nu.		Nu.	Nu.		Nu.
75,000.00	Annual Membership Fee	75,000.00	945,386.50	Brokerage & Commission	833,448.50
33,063.00	Auditors' Remuneration	61,800.00	128,213.71	Interest	136,245.78
14,895.51	Trading Fee	237,982.29			
	Training Fee	15,000.00			
6,069.66	Depreciation	15,909.36			
	Licence Fee	14,700.00			
25,500.00	Sitting Fee	19,000.00			
38,890.00	Miscellaneous	20,259.00			
	Salary	434,230.00			
	Allowance	234,020.00			
	Employer's Contribution of PF	47,764.00			
	Travelling Expenses	147,058.50			
	Newspaper and magazine	155.00			
	Telephone & postage	8,212.00			
264,054.61	Provision for taxation				
616,127.43	Profit/Loss for the year carried down	(361,395.87)			
1,073,600.21	TOTAL	969,694.28	1,073,600.21	TOTAL	969,694.28
			616,127.43	Profit for the year brought down	(361,395.87)
1,462,531.15	Balance transferred to Balance Sheet	1,717,262.71	1,285,260.80	Balance brought forward from the previous year	2,078,658.58
1,462,531.15		1,717,262.71	2,078,658.58		1,717,262.71

Significant Accounting Policies as per scheduled 'A'
Notes on accounts as per scheduled 'B'

Chairman : Pema N. Nadik

Directors : Damche Tenzin

Dophu Dorji

Dorji Wangchuk

Janga Rana
Chief Executive Officer

Date: 19/07/2012

Place: New Delhi



For N.C. Mittal & Co.
Chartered Accountants

CHAKRAVARTI MITTAL
B.Com (H), F.C.A. (K40), A.I.I.T.S.L.A.
Partner
M.No.503378






19 MAR 2013

Signed in terms of our Audit Report of even date attached.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2012

Signed in terms of our Audit Report of even date attached

report of even date.

Chairman :	 Pema N. Nadik
Directors :	 Damche Tenzin
	 Dophu Dorji
	 Dorji Wangchuk
	 Janga Rana Chief Executive Officer

For N C Mittal & Co
Chartered Accountant
C.A. KAPIL MITTA
B.Com (H), FCA (INDEPENDENT), ICAI
Partner
M No 503378

19 MAR 2013

Date: 19/03/2023
Place: New Delhi

BOB SECURITIES LIMITED

NOTES FORMING PART OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31.12.2012

	For the year ended 31-12-2012		For the year ended 31-12-2011	
	Nu.	Ch.	Nu.	Ch.
1 Net Cash Flow from Operating Activities:				
Net Profit before tax	(361,395.87)		880,182.04	
Add : Depreciation Charges	15,909.36		6,069.66	
	(345,486.51)		886,251.70	
Less: Interest on fixed deposits	(136,245.78)		(128,213.71)	
	(481,732.29)		758,037.99	
Increase/(Decrease) in current Asset	103,810.39		(40,240.00)	
Increase/(Decrease) in current Liabilities	(120,145.97)		192,394.60	
	<u>(498,067.87)</u>	(979,800.16)	<u>910,192.59</u>	
2 Return on Investments and Servicing of Finance:				
Investment in gurantee fund	(200,000.00)		-	
Interest Received	136,245.78		128,213.71	
	<u>63,754.22</u>		<u>128,213.71</u>	
3 Capital Expenditure				
Payment to acquire tangible fixed assets	(147,384.75)		(37,800.00)	
Payment to acquire Intangible fixed assets	(1,400.00)		-	
	<u>(148,784.75)</u>		<u>(37,800.00)</u>	
4 Increase/(Decrease) in cash and bank balances:				
Closing Balance	1,979,381.01		2,689,987.85	
Less :Opening Balance	2,689,987.85		1,953,436.16	
	<u>(710,606.84)</u>		<u>736,551.69</u>	

[Handwritten signatures and a circular stamp of R.C. MITTAL & CO. CHARTERED ACCOUNTANTS, NEW DELHI (INDIA)]

BOB SECURITIES LIMITED

Schedule – A

SIGNIFICANT ACCOUNTING POLICIES

1.0 Accounting Convention

The accounts have been prepared on historical cost basis and in conformity with the statutory provisions and practices prevailing in Bhutan.

2.0 Investments

Investments held by the Company are of long tenure in nature and are stated at cost.

3.0 Fixed Assets

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

3.2 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.

4.0 Revenue Recognition

Income and expenses are accounted for an accrual basis.

Schedule – B

NOTES TO ACCOUNTS

1. Previous year figures have been regrouped/ rearranged wherever considered necessary.



The image shows several handwritten signatures in blue ink. Below the signatures is a circular purple stamp that reads "N.C. MITTAL & CO. CHARTERED ACCOUNTANTS, NEW DELHI (INDIA)".