



ANNUAL REPORT 2013



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Quick Read

The overall economy of the country suffered a setback in 2013 mainly due to the issuance of stricter and prudential norms on risk weight percentages advised by the Royal Monetary Authority of Bhutan in June 2013. While this was subsequently withdrawn in the third quarter of 2013 and more modest changes were implemented, banks in the interim were forced to restrict their lending particularly in the areas of mortgage and vehicle loans.

BoBL however, could maintain a reasonable profit growth of 1.94 % from that of 2012 amounting to Nu.672.96 million in 2013. 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.

The Bank also achieved a modest growth of 2.62% in its loans and advances from Nu. 17.45 billion in 2012 to 17.90 billion in 2013, but its deposits base saw an impressive growth of 7.23% from Nu. 23.69 billion in 2012 to 25.54 billion in the year 2013.

The past year operations was ing down of economic activity of Payment situation with India etary measures implemented challenges, the Bank of Bhutan better than the previous year after tax grew by 1.94 %, Return bonus shares to enhance capital for equity remained more or less the same.



certainly challenging due to the slow-brought on by the widening Balance resulting in some stringent mon-by the central bank. Despite these (BoB) managed to perform slightly in its financial achievements. Profit on assets declined due to issuance of future business growth, while return on

Despite its best efforts, BoB's Asset quality deteriorated slightly with the Gross NPA increasing to 6.88 % from 3.90 % of the previous year, and Net NPA increasing to 1.48 % from 1.36 % for the same period. The trend was industry wide brought on by the overall slow-down in the economy. To sustain growth, BoB continued to widen its reach through establishment of multiple channels such as branch office expansion, ATMs installations, and introduction of IT based delivery channels. Conscious of its social responsibility obligations, BoB also engaged in facilitating CSR activities such as blood donations and tree plantations. Also recognizing human resource to be one of the important elements in developing capabilities to adapt to future challenges, BOB has taken a number of measures geared towards developing and grooming future leaders by providing learning opportunities to the employees.

VISION STATEMENT

“To be the nation’s preferred financial institution.”

MISSION STATEMENTS

- Drive and continue to contribute to the nation’s economic growth through modernization and expansion of the financial sector
- Provide comprehensive banking services to the people of Bhutan
- Provide customer centric services and ensure customer satisfaction
- Provide efficient services through cutting edge technology, best in class processes, and highly motivated professionals

QUALITY POLICY

Our Quality Policy is to achieve and sustain a reputation for quality in our chosen markets by offering products and services that exceed the requirements of our customers. We strive to be the bank of first choice of our customers in all our products and services.

Towards this policy, our objectives are:

- Establishing and maintaining a quality management system in the bank, based on international quality standards.
- Continually reviewing our products and services based on feed back from external and internal customers to ensure that there is continual improvement.
- Offering our clients excellent service, innovative products and value-added banking while developing with them a mutually beneficial association.
- Encouraging, motivating and developing our human resources which are our most valuable assets.
- Working towards the successful implementation of government objectives applicable to us.
- Striving towards achieving a pre-eminent position in the banking community in our chosen markets.

CORE VALUES

BoB's conduct of business is guided by its core values expressed as 'CARES', which is further elaborated below:

Courage for Change

Through this value, BoB is always responsible and strives to encourage continuous Learning & Growth, to embrace diversity, to receive criticisms and suggestion from customers, and have a sense of competition to create innovation & creative change.

Accountability

BoB fosters to continuously develop ethical conduct through honesty & sincerity claiming ownership of every transaction to maintain integrity.

Relationship

BoB shall invest in building relationships based on mutual respect and trust within organizations, with clients and other stakeholders.

Social Responsibility:

BoB always aims to meet community needs through beneficial partnership to support community growth

Excellence in Service:

BoB always aspires to excel by sustaining the culture of customer friendly, diligent and courteous environment to achieve superior performance.



The Board of Directors

Chairman

DASHO KARMA W. PENJOR
 SECRETARY, DRATSHANG LHENTSHOG
 ROYAL GOVERNMENT OF BHUTAN



Director

MR. KINZANG TOBGAY
 DIRECTOR, DEPARTMENT OF
 FINANCE
 DRUK HOLDING &
 INVESTMENTS LTD



Director

DASHO PHUB W. DORJI
 INDEPENDENT DIRECTOR



Director

MR. SONAM TOBJEY
 CHIEF FINANCIAL OFFICER
 BHUTAN POWER CORPORATION
 LTD



Director

MR. GIRIDHARA KINI
 GM, RETAIL & SUBSIDIARIES
 INTERNAL BANKING GROUP,
 SBI - INDIA



Member Director

MR. PEMA N. NADIK
 CHIEF EXECUTIVE OFFICER
 BANK OF BHUTAN LTD

Management Team



Chief Executive Officer

Mr. Pema Nadik has a Bachelor 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 Director in Druk Air Corporation and Bhutan Ferro Alloys Ltd.

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 degree (Honours) in Commerce from Sherubtse College and was selected in the RCSC



Deputy Chief Executive Officer

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, the then Ministry of Trade and Industry 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 Director in State Trading Corporation of Bhutan Ltd. (STCBL).

Mr. Nipun Bhatia joined BoB on 15th April 2013 as the Chief Financial Officer. Prior to joining BoB, he was the Executive Director- Finance & COO for Mindstorm Solutions. He has a wide range of expertise and experience of working in key positions in Standard Chartered Bank, Bank of Bahrain & Kuwait, ABN AMRO Bank SSC, RR Donnelley- Office Tiger, Xchanging, India and Mindstrom Solutions. He brings to the BoBL family a rich and diverse experience over his 26 years of professional service ranging from treasury management, cash management, corporate and institutional banking service deliv-

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ery, offshore operations, financial management to strategic business planning at Executive level.

Mr. Damche Tenzin worked 13 years in the Royal Civil Service Commission prior to his resignation from



Chief Support Officer

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. From August 2013, he was appointed as the CSO. 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 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



Chief Operations Officer

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 for more than 15 years in RIM. 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 Rigpel Project. Has broad range of



Chief Information Officer

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 headed the Corporate Service Department. From August 2013, he was appointed as the Chief Information Officer of the new IT Department. Mr. Jurmi has Master’s degree in Information Technology (IT) from University of Canberra, Diploma in Information Management System from RIM and bachelor degree in Economics (Honors) from Sherubtse College.



Chief Credit Officer

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. Dorji Kadin has MBA from Asian Institute of Management in May 2008, Post Graduate Diploma in



Chief Research, Planning & Monitoring Officer

International Business from Flinders University of South Australia, Ausaid Scholarship (December 2002) and B. Com (Hons.) in May 1995 from

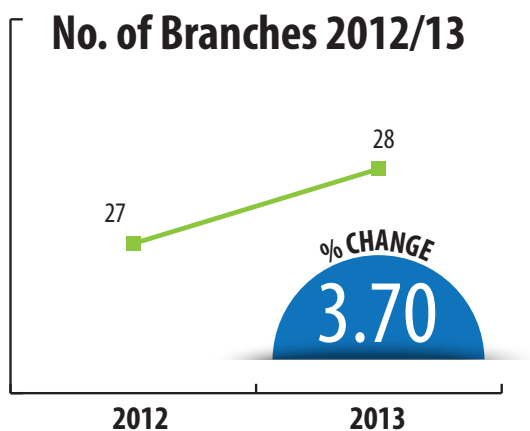
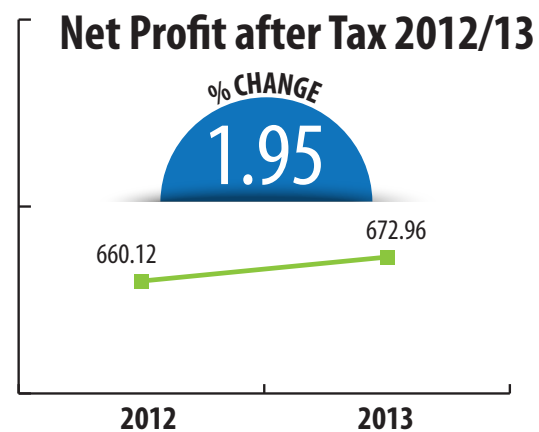
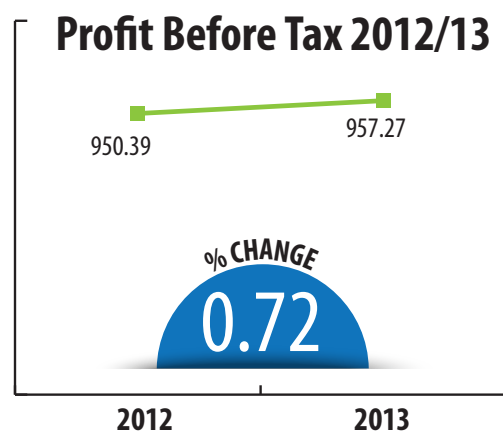
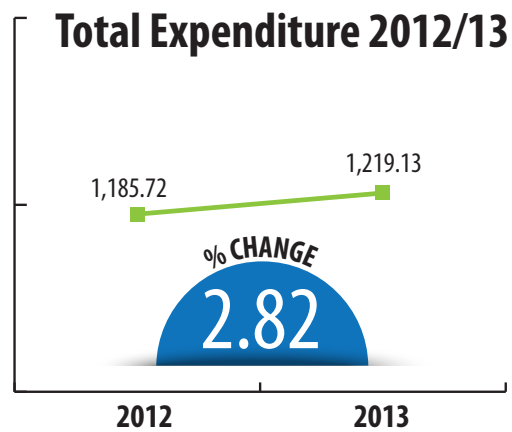
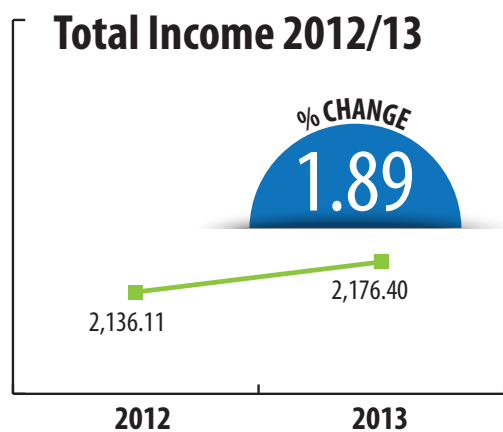
Sherubtse College, Kanglung. He worked for more than 17 years in various business functions of BT, after getting selected in the RCSC examinations (January 1996), and after completing 6 months course on Administrative Management Program from the Royal Institute of Management. He worked as General Manager of Personnel & Administration Division from November 2010 till November end 2012. He resigned in December 2012 from BT to contest for NC election and joined BoB from 1st October 2013.

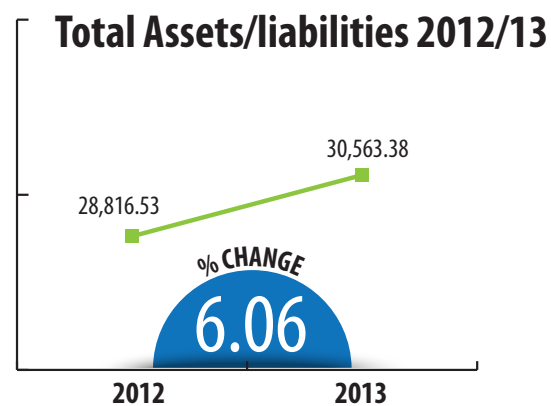
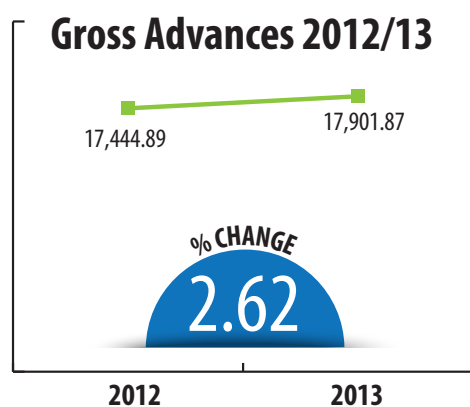
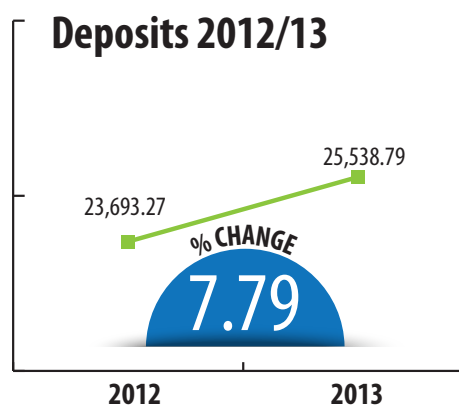
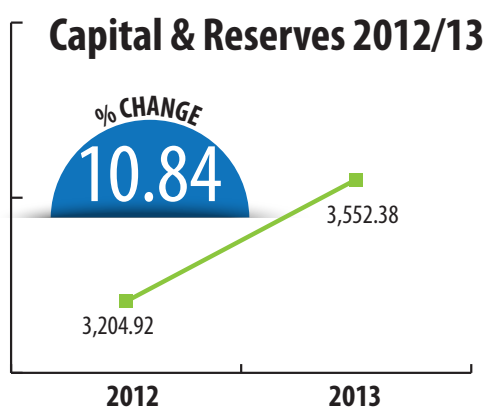
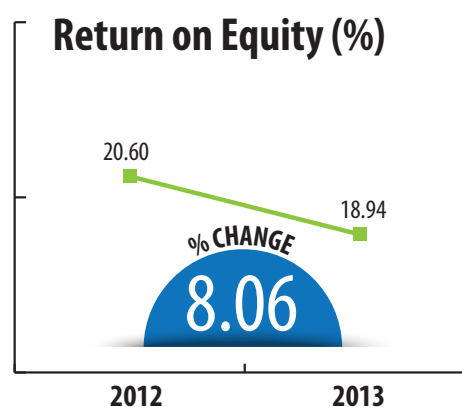
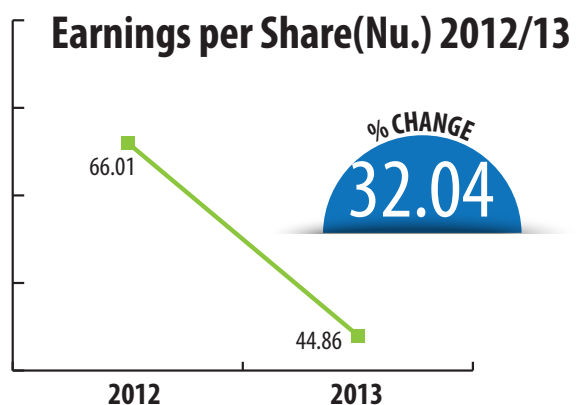
Financial Highlights

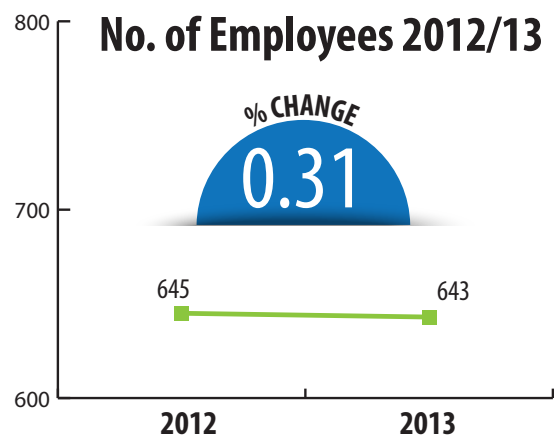
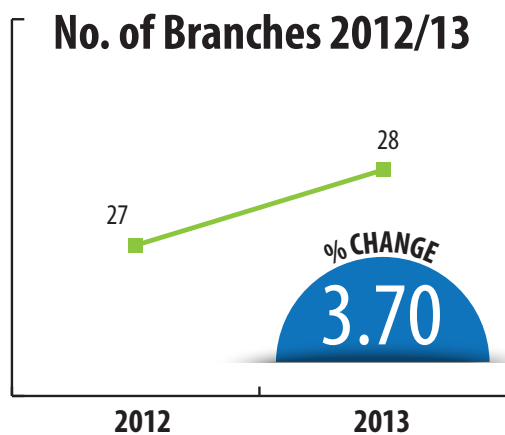
The Bank has performed comparatively well in terms of profitability and deposit growth during the year 2013 as is evident from the key performance highlights mentioned below.

PARTICULARS	2013	2012	% CHANGE
Total Income	2,176.40	2,136.11	1.89
Total Expenditure	1,219.13	1,185.72	2.82
Profit Before Tax	957.27	950.39	0.72
Net Profit after Tax	672.96	660.12	1.95
Earnings per Share (Nu.)	44.86	66.01	(32.04)
Return on Equity (%)	18.94	20.60	(8.06)
Capital & Reserves	3,552.38	3,204.92	10.84
Deposits	25,538.79	23,693.27	7.79
Gross Advances	17,901.87	17,444.89	2.62
Total Assets / Liabilities	30,563.38	28,816.53	6.06
No. of Branches	28	27	3.70
No. of Employees	643	645	(0.31)
Business Per Employee	67.56	63.78	5.93









Chairman's Report

The Board is pleased to present the 46th Annual Report of your Bank with the audited Balance Sheet, Profit & Loss Account, and the Report on Business and Operations, for the period January 1 - December 31, 2013 (FY13).

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 5.74% of the GDP in 2012-2013 (National Accounts Statistics, 2013, NSB, RGOB). The country's overall economy saw a very modest growth in 2012-2013 with its GDP growth at 4.60% relative to its GDP growth of 8.60% in 2011-2012.

Despite this, BoBL's deposit base saw an impressive growth of 7.23% from 2012, clearly indicating the people's confidence in the Bank, which ultimately resulted in a marginal revenue growth of 1.89% over 2012.

The overall economy of the country suffered a setback in 2013 mainly due to the issuance of stricter and prudential norms on risk weight percentages advised by the Royal Monetary Authority of Bhutan in June 2013. While this was subsequently withdrawn in the third quarter of 2013 and more modest changes were implemented, banks in the interim were forced to restrict their lending particularly in the areas of mortgage and vehicle loans.



BoBL however, could maintain a reasonable profit growth of 1.94% from that of 2012 amounting to Nu.672.96 million in 2013. 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.

The Bank also achieved a modest growth of 2.62% in its loans and advances from Nu. 17.45 billion in 2012 to 17.90 billion in 2013, but its deposits base saw an impressive growth of 7.23% from Nu. 23.69 billion in 2012 to 25.54 billion in the year 2013.

The overall growth of BoB has been very marginal and some notable reasons for this are:

- i. Changes in RMA regulations made the Bank suspend the loan products for almost three months;
- ii. Housing loan sector was saturated and the bank could not provide further loan for housing;
- iii. There has been a ban on import of any kind of vehicles.

However, the deposits figure saw an impressive growth due to the effort put in by the Bank for deposit mobilization.

2. FINANCIAL RESULTS

The fiscal year of 2013 had been a challenge for the Bank with a setback in the economy of the country, coupled with strict monetary control measures adopted by the Royal Monetary Authority of Bhutan. However, due to continued improvements in core banking operations and cost control measures, the Bank has been able to sustain and enhance the financial performance with very stable earnings.

In summary, the Bank registered a total income of Nu. 2,176.40 million and Net Profit of Nu.672.96 million in the financial year 2013 against Nu.2,123.11 million and Nu.660.38 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 2013 on the back of elevated inflation, economic slow-down due to INR-shortage and intensification of supply-side constraints and monetary policies. Despite all these unfavorable economic conditions, your bank achieved growth of 2.62% in loans & advances and 7.23% in deposits.

The Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) stood reasonably low at 6.88% and 1.48% 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 2013, the Board has approved a dividend of 50.52% for the year ended December 31, 2013 with total dividend amount of Nu 340.0million to its shareholders.

4. CAPITAL & RESERVES

The total capital and reserves increased by 10.84% during the year. It increased from Nu.3,204.92 million in 2012 to Nu.3,552.38 million in 2013.

5. OWNERSHIP

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

6. CORPORATE GOVERNANCE

The Bank of Bhutan Ltd. is in adherence to the Corporate Governance Regulations 2011 issued by the RMA, the Financial Ser-



vice Act 2011 and the Companies Act of the Kingdom of Bhutan 2000. Further, it has successfully implemented all the directives of the Board.

The Board Audit Committee, Board Credit Committee, Board Risk Committee and Board Governance Committee had held their own minimum meetings as required by their Rules of Procedures. Further, the internal service rules and regulations have been in line with the provisions of the Labour & Employment Act.

The rules have also been revised and keeping with the changing times and are being endorsed by the Ministry of Labour & Human Resources. Recruitment is carried out in the most transparent manner possible with pre-determined criteria.

All HR issues are addressed properly by the Management HR committee, Board Governance Committee and the Board as per the delegation of power. Grievance redressal rules and procedures have been put in place so that employees could express their views either against individual employees, supervisors or the Management.

The Management carries out weekly and monthly management meetings to monitor activities being executed well on time as per the annual compacts

of Departments and directives of the Management and the Board in the larger public interest and the Company. BoBL is in compliance with the requirements stipulated by the Registrar of Companies, Ministry of Economic Affairs.

7. CONSTITUTION OF BOARD & BOARD MEETINGS

7.1 Constitution of the Board:

As per the approval of the Annual General Meeting (AGM) for the financial year 2012 held on 26th February 2013, the following have been appointed as the Board of Directors for the Bank of Bhutan Limited:

7.2 Board Meetings:

To enhance the good governance and provide appropriate policy directives to the company, twelve Board meetings were held during the year. In all these meetings, quorum was maintained as required. The Annual

General Meeting for the year 2012 was held on 26th February 2013, thereby complying with the Companies Act, 2000. Besides these, numerous Sub Board Committee meetings were held regularly to decide on various aspects of the operations of the Bank.

8. CUSTOMER SERVICE

The annual Customer Satisfaction Survey of the bank, conducted by the Institute of Management Studies (IMS), an independent consultant, presents a composite Customer Service Index (CSI). For the period surveyed, the Bank of Bhutan's CSI rating improved from 3.65 in 2012 to 3.71 in 2013.

The 24x7 Contact Center with toll free number 1095 was made functional since July 2012. The main objectives of setting up of contact center was to receive calls related to general enquir-

No.	Name	Designation
1.	Dasho Karma W. Penjor	Chairman
2.	Dasho Phub W. Dorji	Director
3.	Mr. Giridhara Kini	Director
4.	Mr. Sonam Tobjey	Director
5.	Mr. Kinzang Tobgay	Director
6.	Mr. Pema N. Nadik	Member Director



ies, complaints on products and services, and general feedback.

In the initial start-up, the system could entertain calls from B-Mobile users in toll free.

T-cell users were made accessible to toll free number in February 2013.

The Bank also introduced a complaint/feedback mechanism and the form was made available online in its website to provide convenience to its customers.

9. MARKETING

Apart from the regular and planned marketing activities, the Bank took initiatives to organize marketing events during the year such as; Door-to-door Marketing where the marketing team visited various organizations and agencies to present and sell the products & services of the bank; Road Show covering three (3) colleges - College of Science & Technology (CST), Gaeddu College of Business (GCB), and Royal Thimphu College (RTC) to create more awareness of the bank's products & services for future potential customers; and Marketing and selling activity to the graduates during the National Graduate Orientation Program (NGOP).

These initiatives were very successful from the response we received from the audience

in terms of both new customer acquisition and cross-selling.

We also initiated to create more awareness of our products & services, branch and ATM locations through various media which created direct impact in terms of number of customer visits in those locations.

10. TECHNOLOGY

10.1. CBS

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 alternate banking channels like mobile banking, utility payment are being implemented in addition to resolution of system migration issues.

10.2 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 pay utility bills online;
- Bulk upload facility for organizations;

10.3 ATM Facility:

ATM network coverage in terms of the number of machines has increased from 42 in 2012 to 62 in 2013 including the mobile van. Maximum numbers of ATMs were installed in Thimphu and there is at-least one ATM in every Dzongkhag.

11. HUMAN RESOURCE DEVELOPMENT

Human resource development and its management is the key to the success of any organization. The Board and the Management of the bank, recognizing the vitality of human resource and management, has conceptualized and institutionalized numerous policies and practical interventions at all levels to enhance human resource capacity.

In 2013, the areas for professionalization and specialization have been prioritized and 8 employees had undergone Professional Masters in Banking and Finance (PMBF) at the Asian Institute of Technology (AIT). This is a course jointly offered by AIT and the University of Applied Sciences Northwestern, Switzerland. In addition, a total of 173 employees were trained in 2013 alone. We also conducted specialized training on finance and banking in collaboration with the IFBI, Kolkata, India.



The first batch has already completed the training; the second batch is yet to complete its two months programme. The third batch would be sent for the same training sometime in September 2014.

In order to ensure appropriate incentive and career development to enhance the overall performance of the employees as well as the organization, Performance Management System (PMS) has been developed for implementation.

The bank is also in the process of finalizing Employee Award Policy and the Training Manual. These key documents have been prepared for implementation in 2014. The Employee Grievance Redressal System has been put in place so that employees could freely express their views against individual employees and the Management.

This would provide an opportunity to address issues where required in the overall interest of employees and the Company.

In order for the employees to enhance their knowledge on the overall banking functions and mandates, the bank's promotion examination format would be reviewed and changed where necessary and design to make it a learning experience of cross departmental and divisional roles

and processes.

12. 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.

13. CORPORATE SOCIAL RESPONSIBILITY

The Bank celebrated the Social Forestry Day by organizing the tree plantation event in collaboration with Phuentsholing Middle Secondary and Higher Secondary Schools. The bank sponsored saplings, tree guards and refreshments, and volunteered in tree plantation. The theme for the event was "Plant a tree today with BoBL, a noble step today for a better tomorrow".

The Bank also organized 'Blood Donation Drive' on 14th June 2013, coinciding with the World Blood Donors Day at Clock Tower Square, Thimphu. Almost all employees of the bank in Thimphu participated in this drive, including the general public. The drive began at 11:00 am and collected 469 units of blood by the end of 17:30 hours.

The event saw a huge turnout of

700 plus donors who came voluntarily to donate blood of which only 469 could donate after the necessary checkups. BoBL served refreshments and awarded badges to all the donors.

14. NEW BUSINESS & INITIATIVES

The Bank opened a branch in the last remaining Dzongkhag, Gasa, thus reaching its branch network across all Dzongkhags. In order to further enhance the services, the Bank collaborated with some of the utility organizations in Bhutan and launched Utility Bill payment system using BOBNET banking.

With this system in place, customers are able to pay their bills for telephone, electricity, water, mobile, credit cards and loan repayments through Internet Banking. The bank also started Bulk Upload facility through Internet Banking for organizations to make payments like salary credit to their employees in their accounts, thus making the process more simple and less time consuming.

In addition, the Bank collaborated with Bhutan Telecom to provide the B-wallet facility to its customers. Through B-wallet, the customers can easily recharge their mobile voucher and do fund transfer. The Bank started its Corporate Banking services in Phuentsholing to ca-



ter to the high valued customers in the region.

The Bank also started with customer complaint handling and customer feedback mechanisms to understand the problems faced by the customers and take their feedback to make decisions based on their needs and wants.

15. AUDITORS

M/s. S.S.Kothari & Co. a Chartered Accountants firm from Kolkotta was appointed to audit books of accounts of BoBL and BoBSL for the financial year ended 2013 by RAA with further approval of the RMA.

16. 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.

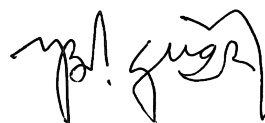
The Board also conveys their sincerest gratitude to the shareholders, clients, investors, and well-wishers for their continued goodwill, patronage, and support. Last and most importantly, the Board also conveys their earnest appreciation to the man-

agement of the Bank of Bhutan for their stellar leadership and all the employees for their relentless hard work and commitment.

The Board of Directors would like to take 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 stakeholders in the years ahead.

TashiDelek.

For and on behalf of the Board of Directors:



Karma W. Penjor
CHAIRMAN

Management's Report

1. INTRODUCTION

The past year operations was certainly challenging due to the slowing down of economic activity brought on by the widening Balance of Payment situation with India resulting in some stringent monetary measures implemented by the central bank. Despite these challenges, the Bank of Bhutan (BoB) managed to perform slightly better than the previous year in its financial achievements. Profit after tax grew by 1.94%, Return on assets declined due to issuance of bonus shares to enhance capital for future business growth, while return on equity remained more or less the same.

Despite its best efforts, BoB's Asset quality deteriorated slightly with the Gross NPA increasing to 6.88% from 3.90% of the previous year, and Net NPA increasing to 1.48% from 1.36% for the same period. The trend was industry wide brought on by the overall slow-down in the economy. To sustain growth, BoB continued to widen its reach through establishment of multiple channels such as branch office expansion, ATMs installations, and introduction of IT based delivery channels. Conscious of its social responsibility obligations, BoB also engaged in facilitating CSR activities such as blood donations and tree plantations. Also recognizing human resource to be one of the important



elements in developing capabilities to adapt to future challenges, BOB has taken a number of measures geared towards developing and grooming future leaders by providing learning opportunities to the employees.

2. FINANCIAL PERFORMANCE REVIEW FOR 2013

Balance Sheet

Bank's balance sheet size grew by 6.06% from Nu.28,816.53 million in 2012 to Nu.30,563.38 million in 2013.

Capital and reserves

In order to strengthen its core capital base, paid up capital was increased by 50% from Nu. 1 billion in 2012, to Nu. 1.5 billion in 2013 through issuance of bonus shares by capitalizing part of the reserve fund. The bank was well within the regulatory requirements of Capital Adequacy Ratio at 15.29% and Statutory Liquidity Ratio at 36.47% considering both

Tier I and Tier II capital during the period being reported.

Deposits

Total deposits grew by 7.23%, from Nu. 23.69 billion in 2012 to Nu. 25.54 billion in 2013. Of the total deposits, term deposits and savings deposits increased by 36.78% and 18.71% respectively, while current deposits decreased by 16.82%.

The share of interest free current deposits to total deposits decreased from 57.86% in 2012 to 45.95% 2013. Accordingly, the share of savings deposits to total deposits increased from 23.88% to 27.26%, and term deposits from 18.26% to 26.79% respectively.

Investments

On the asset side, BOB's investment portfolio grew substantially from Nu. 1.05 billion in 2012 to Nu. 2.46 billion in 2013 mainly

on account of increase in investment in Government Treasury bills which increased from Nu. 453 million in 2012 to 2.28 billion in 2013.

Advances:

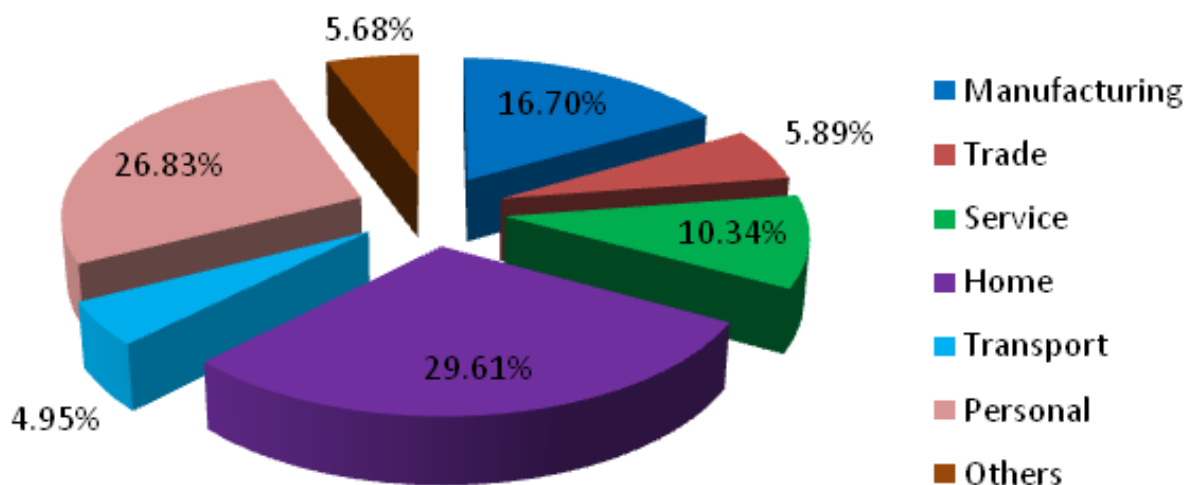
Loans and advances grew by 2.62%, from Nu 17.44 billion in 2012 to Nu 17.90 billion in 2013 despite increasingly competitive financial market and stringent regulatory interventions compounded by deceleration in economic activities due to Indian rupee shortage. The growth was mainly in service sector.

Bank's loan portfolio consists of 7 major sectors and the details of different sector's share are as indicated in CHART 1.

The Housing sector continues to dominate the loans portfolio of the bank at around 30% followed by Personal sector at around 27%
Cash and Bank Balances, and

	Particulars	2013	2012	Variation	
		Amount	Amount	Amount	%
	Current Deposits	11,592.60	13,479.58	-1,886.98	16.28%
	Other Accounts	142.44	229.40	-86.96	-61.05%
i	Total Current Deposits	11,735.04	13,708.98	-1,973.94	-16.82%
ii	Savings Deposits	6,961.20	5,658.77	1,302.43	18.71%
iii	Term Deposits	6,842.55	4,325.53	2,517.02	36.78%
	Total Deposits	25,538.79	23,693.27	1,845.52	7.23%
	% of Current to total deposits	45.95%	57.86%		
	% of SB to total deposits	27.26%	23.88%		
	% of term to total deposits	26.79%	18.26%		

Annexure I-A



The detail of major portfolio loan exposure is shown

Fixed Assets

Cash & Balances with RMA increased by 3.51% while balances with banks decreased by 7.62% due to prudent management of its funds by the bank. Fixed assets increased by Nu.82.95 million during the year due to capitalization of branch renovation works, capitalization of Trashigang branch building construction and acquisition of land in Semtokha. Contingent liabilities decreased by 22% due to decrease in guarantees issued and outstanding.

Foreign Exchange Business:

In 2013, bank handled external trade worth Nu.1.8 billion of which, Nu.669.41 million were for import business and Nu.1,141.25 million for export business. Net profit from foreign exchange transactions grew by

over 79 % from Nu.57.56 million in 2012 to Nu.103.45 million from in 2013. The FOREX assets and liabilities stood at Nu.1,853.66 million and Nu.542.40 million respectively as on 31.12.2013.

Income, Expenditure and Profit

Total income grew by 1.89% from Nu.2,136.11 million in 2012 to Nu. 2,188.40 million in the current year. Although Interest Income decreased marginally by Nu.4.81 million or 0.27% (from Nu. 1,810.71 million in 2012 to Nu.1,805.90 million in 2013), growth in **Non-Interest Income** of 13.86% from Nu. 325.40 million in 2012 to Nu. 370.50 million in 2013 compensated to result in overall growth in total income. The major reasons for the growth in non-interest income was the gain from foreign exchange transactions

which increased by Nu.45.89 million due to depreciation of the Ngultrum, and income from RGOB Treasury bills which increased by Nu.21.63 million.

Interest Expenses, which accounts for around 50% of overall expenses grew by 29.87%, from Nu.471.94 million in 2012 to Nu.612.92 million in 2013. This growth was due to revision of basis of interest calculation and growth in deposit base of both savings and fixed deposits. Interest expense on Savings deposit increased by Nu.59.99 million due to growth in Savings deposit base by 1,302.43 million in 2013. Fixed deposit base also grew by Nu.2,517.02 million with a corresponding increase in interest expense of Nu.101.11.

Operating expenses was well within the maximum 10% growth

limit prescribed by Druk Holdings and Investment Ltd. at 6.79%, increasing from Nu. 460.46 million in 2012 to Nu. 491.72 million in 2013.

Net Profit after tax grew by 1.94% from Nu. 660.12 million in 2012 to Nu. 672.96 million in 2013.

3. BUSINESS STRATEGY & RESTRUCTURING

In order to guide BOB's future business performance, a five-year Corporate Strategic Plan was developed based on the Balance Scorecard model. The management structure was also re-organized to enhance operational efficiency.

Corporate Office moved to Thimphu

Based on Board directives, the corporate office of the bank was moved to Thimphu from Phuentsholing in July 2013. With most stakeholders being located in Thimphu, the bank management was required to travel to Thimphu frequently to attend meetings and consultations. Being based in Thimphu would also allow the management to interact closely with decision makers, regulatory authorities and major clients.

4. TECHNOLOGY & COMPUTERIZATION

Since the adoption of the Core Banking Solutions (CBS), BOB has been facing teething problems which has been affecting the efficiency of the bank. Following discussions with the vendor; M/s Oracle Financial Services Software (OFSS), expert resources were deployed onsite by OFSS to analyze the problems. The main objective of the exercise was to look into the CBS issues and to analyze the root cause of the problems encountered by the bank and find a permanent solution. The consultants identified 20 issues varying in degree of criticality analyzed by two onsite consultants.

Following the exercise, some critical issues that had been plaguing the bank were solved while a couple are still pending and expected to be resolved soon. Time taken to conduct 'End of Day' operations were substantially reduced to 4-5 hours. The End of Year operations were completed without requiring the bank to close on 1-Jan-2014 as usually done.

5. HUMAN RESOURCE MANAGEMENT

Gearing towards building human capital capable of adapting to future challenges, and recognizing

and capitalizing on emerging opportunities, a number of employee development measures were instituted. In 2013, training in specific areas and scholarship programmes were undertaken with a view to enhance skills and personal capability of the employees to deliver improved services. Some initiatives are listed below:

<i>In-country training</i>	51
<i>Ex-country training</i>	15
<i>Training in India</i>	12
<i>Diploma in Banking - IFBI</i>	22
<i>Study Tour to Bangkok and India</i>	4
<i>Masters in Professional Banking and Finance</i>	8
<i>In country seminar/ workshop/conference</i>	53
<i>Ex-country seminar/ workshop/conference</i>	7
<i>Completed PGDNL from RIM</i>	1
Total	173

As compared to 175 employees trained in 2012, 173 employees were trained in 2013. Most importantly, the bank has entered into an arrangement with IFBI to conduct a tailor-made course for BoB.

Employees attending the course will be awarded a Diploma in banking certificate. While 22 employees underwent the course in 2013, it will continue and the bank is targeting a total of around 200 staff to undergo

the course over time.

Recruitment & Promotion:

During the year, BOB recruited 46 employees of whom 29 were officers, 16 were assistants and one in the support category. Bank also promoted 79 employees of which 33 were officers and 46 were assistants.

Employee Day:

The Bank celebrated its 45th foundation day as 'Employees' Day' for the second year running. It is an activity aimed at employee engagement and the day is dedicated to recognize the employees as the backbone of the bank.

Employees celebrate this day across the branch offices interacting with each other by organizing picnics and gatherings, while at the corporate office, the day was marked by a grand entertainment show where employees showcased their talents and prizes were awarded for the best performance. This encourages the employees to organize in groups and is meant to build team spirit and camaraderie.

Employees who have put in service of 25 years or more are recognized that day for their contributions to the bank.

6. CORPORATE SOCIAL RESPONSIBILITY

Continuing our commitment to social responsibility obligations, BOB engaged in facilitating and sponsoring social activities such as blood donations and tree plantations. A Need Based Scholarship Scheme which was introduced in 2009 to sponsor five female students every year from financially disadvantaged family backgrounds to pursue two-year higher secondary education was also continued. Since its introduction, 20 students were sponsored.

BOB organized a blood donation drive in June, 2013 coinciding with World Blood Donors day at clock tower square in collaboration with Jigme Dorji Wangchuck National Referral Hospital. The blood campaign saw more than a thousand volunteer donors but due to donor numbers exceeding the number of attending health staff, only 450 units of blood could be collected during the day.

All donors and volunteers were served with refreshments. The day ended at around 1730 hours followed by the health officials and BoB volunteers thoroughly cleaning the clock tower square in Thimphu.

On 2nd June, 2013 BOB partnered with Phuentsholing Middle Secondary School and Phuentsholing Thromde to observe the social forestry day with tree planta-

tion. It was an activity aimed at saving the future and raising awareness on the need to preserve our environment.

BoB sponsored 450 saplings, tree guards and refreshments to all the volunteers. The volunteers - Phuentsholing Middle Secondary School Teachers & Students, Thromde Officials, Phuentsholing Higher Secondary School Teachers & Students, and BoB employees - planted the trees in respective school surroundings, Phuentsholing Sports Association (PSA) ground, Archery ground, new Truck parking area, Rinchening Goenpa and the park adjacent to PSA ground. A few of the tree guards were also donated to the Bhutan Power Corporation Ltd. office in Phuentsholing.

BoB also supported the mass dog sterilization campaign organized by the Thimphu Thromde to combat the increasing population of stray dogs in Thimphu by donating Nu. 50,000 to Thimphu Thromde for the noble cause which will ultimately benefit the society at large.

7. CUSTOMER SERVICE

Institutionalization of systematic customer Feedback Process and improving the experiences of the customers was one of the main focuses of the Bank in 2013. Online complaint/feed-

back form was introduced in the Bank's website to provide easy access to customers in addition to the toll free contact center which was established in 2012. Branch Managers were given targets for getting feedback from customers.

BOB recruited Bank Hall Managers for the A and B category branches and trained them on Customer Service and Bank Hall Management.

The 2013 Customer Satisfaction Survey for BOB was conducted across all branches by IMS an independent consultant selected by DHI. The survey result indicated Customer Satisfaction Index of 3.71 on the scale of 1 to 5, an improvement of 0.6 points compared to CSI of 2012. Bank also saw improvements in all the Key Result Areas on customer service in 2013.

BoB Contact Center (1095)

In order to provide easy access to general information on our products and services, BOB launched the Contact Center in July 2012. For those clients who wish to access specific information and services on their accounts maintained with the bank, Contact Center Telebanking Services was introduced. Telebanking Services requires registration in order to protect the customer's personal account information being accessed by an un-authorized

third party.

There are around 1,220 customers registered for this service. Growing awareness of the services rendered by Contact Center is indicated by the number of calls received, which were more than 16,000 in 2013 and the resolution rate improved to 85% from 82% in 2012.

8. NEW INITIATIVES

New Branches and

ATM Coverage

To widen distribution network, BOB opened a branch in Gasa completing the Bank's presence in all 20 Dzongkhags and other major towns across the country. ATM coverage was also increased from 42 machines in 2012 to 62 in 2013, covering every Dzongkhag and major towns in the country.

BoB-Bhutan Telecom B-Wallet

BOB partnered with Bhutan Telecom and launched the B-Wallet project in May 2013 offering services such as mobile phone recharge (Top-Up) and account to account fund transfer. This service has gained popularity, and as of now there are 13,354 registered and active B-Wallet users.

Utility Bill Payment and Bulk Upload

BOB has successfully implemented online utility bills payment and bulk upload services through Internet Banking. The Bank has

signed Memorandum of Understanding with the following institutions. There are 22,522 registered Internet banking users as on 31st December 2013.

Marketing Activities

Apart from the regular and planned marketing activities, the Bank organized marketing events during the year such as; Door-to-door Marketing where the marketing team visited various organizations and agencies to present and sell the products & services of the bank; Road Show covering three (3) colleges - College of Science & Technology (CST), Gaeddu College of Business (GCB), and Royal Thimphu College (RTC) to create more awareness of the bank's products & services for future potential customers; and Marketing and selling activity to the graduates during the National Graduate Orientation Program (NGOP). These initiatives were considered a success judging by the result of new customer acquisition and cross-selling of products. We also aimed at creating more awareness of our products & services, branch and ATM locations through various media which had direct impact as indicated by the increase in customer visits in those locations.

9. FUTURE PROSPECTS AND PLANS

Partner Organization	Services
Bhutan Power Corporation Ltd (BPC)	Electricity Bill
National Pension and Provident Fund (NFFF)	House rent and Housing Loan EMI deposit
Bhutan Telecom Ltd (BTL))&TashiInfoComm Ltd.	Fixed line bill, Mobile Postpaid bill, Postpaid Broadband bill and Prepaid Broadband recharges
Thimphu Thromde	Water bill and Land tax
BoBL Credit Card	Bill payment

Realizing the need to enhance customer experience, BoB is planning to adopt ISO standards for service quality improvement and introduce shared services to enhance business processes and productivity.

In addition, it is also designing business continuity plan to ensure continuous service delivery to the customers in the event of some unforeseen events disrupting operations. Starting 2014, the bank has also implemented Performance Management System to assess the performance of individual employees by cascading the targets from the main CSP document.

The bank also conducted training needs analysis/assessment to bridge gaps between skills and actual responsibilities. To determine employee engagement, satisfaction and motivation, the bank has plans to conduct employee satisfaction surveys to feed into future plans.

Future plans for Human Resource Development:

1. Succession planning:

HRD plans to fill in the positions in departments and divisions where there is need for experienced and skilled staff through promotion 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.

2. Enterprise Resource Planning:

For generating accurate and faster staff report, implementation of Enterprise Resource Planning (ERP) will be undertaken in 2014.

3. Signing of Memorandum of Understanding (MoU):

BoB has signed the MoU with International Banking and Finance Insurance (IFBI) for long term and short term training requirements of the Bank. Based on the requirement of the Bank,

the HRD would explore and work on tying up with more Institutes for undertaking the required training and development programmes.



Pema Namgyel Nadik
CHIEF EXECUTIVE OFFICER

Calendar of events



22nd February, 2013
T-cell toll free call started



11th March, 2013
Utility bill payment
and bulk upload system



18th March - 22nd March, 2013
BoBL Road Show -
Marketing Event at CST,
GCBS, RTC



22-23rd November, 2013
Corporate Strategic Plan Retreat



3rd November, 2013
BoBL won the 2013 Open Departmental Basketball Tournament



28th September -
7th October, 2013
Marketing during NGOP



5th August, 2013
Meet with media houses

2013 (Year of Snake)



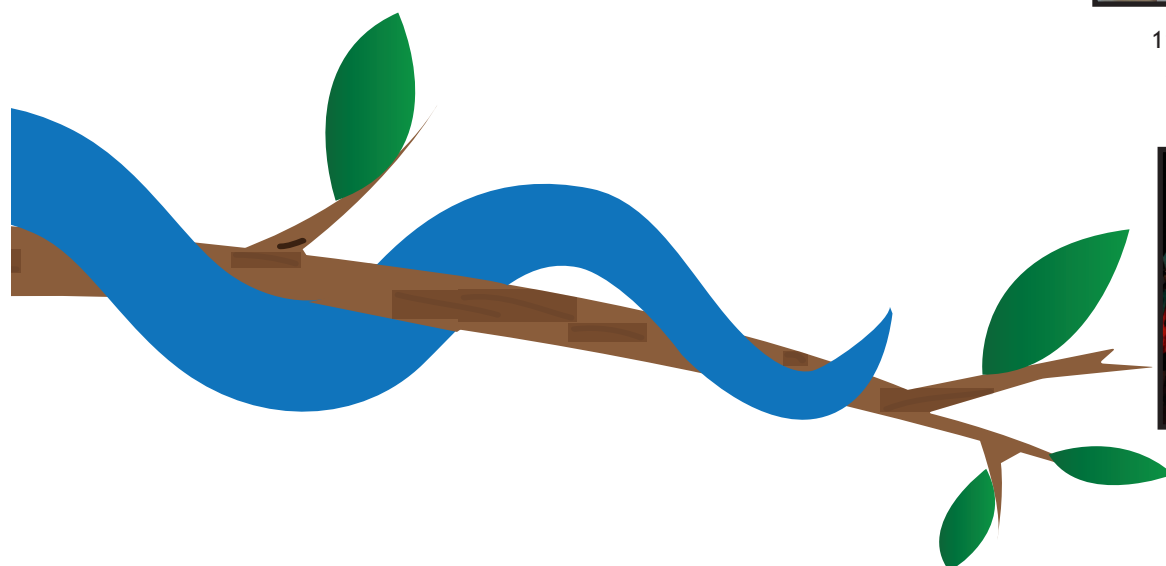
25th March 2013
New branch at Gasa



1st April, 2013
Mr. Pema N. Nadik
joins as CEO



11th April, 2013
250 for Youth



25th May, 2013
Celebrated 2nd
Employees day



1st July, 2013
Shifting of Corporate
Office to Thimphu



14th June, 2013
Blood Donation Drive -
CSR Event



2nd June, 2013
Social Forestry Day -
CSR Event

Bank's Organization

HEAD OFFICE

Chief Executive Officer	:	Mr. Pema Namgyel Nadik
Dy.CEO (Operations)	:	Mr. Karma Tshering
Chief Legal Advisor & Company Secretary	:	Mr. Damche Tenzin
Chief Operation Officer	:	Mr. Dorji Wangchuk
Chief Credit Officer	:	Ms. Karma Dema
Chief Research, Planning & Monitoring Officer	:	Mr. Nidup Peljor - Mr. Dorji Kadin
Chief Support Officer	:	Mr. Kuenga Jurmin
Chief Financial Officer	:	Mr. Nipun Bhatia
Head, Corporate & Private Banking	:	Mr. Dopu Dorji
Head, Risk & Compliance	:	Mr. Prem B. Moktan
Head, CAD	:	Mr. Tenzin Dorjee
Head, Internal Audit	:	Mr. Sithub Tshering
Head, Administration & Procurement	:	Mr. Sonam Gyeltshen
Head, Human Resources	:	Ms. Kunzang C. Tshering
Head, Real Estate	:	Mr. Pasang Dorji
Head, Information Technology	:	Mr. Sonam Kezang
Head, Credit Review	:	Ms. Tshering Om
Head, Credit Recovery	:	Mr. Tshering Duba
Offtg. Head, Performance Monitoring	:	Ms. Upahar Subedi
Head, Marketing & PR Media	:	Mr. Passang Norbu
Head, Delivery Channels	:	Ms. Chozang Lhamo
PRO-cum-Recovery Officer	:	Mr. Tshewang Dorji

BRANCH HEADS & SENIOR SUPPORT STAFF

Phuentsholing Main Branch	:	Mr. Damber Tamang (Branch Head)
	:	Mr. Wangdi Tshering, Manager, Cash & Deposits
	:	Mr. Dorji Wangchuk, Manager, Loans
Thimphu Main Branch	:	Mr. Sonam Tshering (Branch Head)
	:	Mr. Tendri Wangdi, Manager, Cash & Deposits
	:	Mrs. Tashi Yangzom, Manager, Loans
	:	Mr. Tashi Wangchuk, PRO
Samdrup Jongkhar Branch	:	Mrs. Jigme Wangmo
Gelephu Branch	:	Mr. Bhoj Raj Gurung
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. Jigme Chogyel
Wangdue Phodrang Branch	:	Mr. Tek Bahadur Gurung
Paro Branch	:	Mr. Ugyen Dorji
Trongsa Branch	:	Mr. Chador Wangdi
Haa Branch	:	Mr. Rajan Kujur
Gedu Branch	:	Mr. Jamtsho
Zhemgang Branch	:	Mr. D.B Chhetri
Lhunsi Branch	:	Mr. Sangay Dorji
Punakha Branch	:	Mr. Madan Rai
Pemagatshel Branch	:	Mr. Sonam Tashi
Sarpang Branch	:	Mr. Gopal Chhetri
Dagana Branch	:	Mr. Dradul
City Branch, Thimphu	:	Mrs. Sonam Choden
Deothang Branch	:	Mr. Sonam Gyeltshen
TashiYangtshi Branch	:	Mr. Pancha Bahadur Rai
Nganglam Branch	:	Mr. Yegay Tshering

BOB Milestone (1968 - 2013)

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 Gatsel 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)
55	T-Cell toll free call started	2013 (February 22)
56	Utility payment and bulk upload system	2013 (March 11)
57	BoBL Road Show (Marketing event)	2013 (March 18)
58	New branch at Gasa	2013 (March 25)
59	Mr. Pema N. Nadik joins as CEO	2013 (April 1)
60	250 for Youth	2013 (April 11)
61	2nd Employees day	2013 (May 25)
62	Social Forestry Day	2013 (June 2)
63	Blood Donation Drive	2013 (June 14)
64	Shifting of Corporate office	2013 (July 1)
65	Meet with Media Houses	2013 (August 5)
66	Marketing during NGOP	2013 (October 7)
67	BOBL won Open Departmental Basketball Tournament	2013 (November 3)
68	Corporate Strategic Plan Retreat	2013 (November 22-23)

Significant Corporate Social Responsibility activities in 2013

SOCIAL FORESTRY DAY - 2ND JUNE, 2013

The Bank of Bhutan Limited celebrated the Social Forestry Day by organizing an event in Phuentsholing to help and support environment. BoBL contributed by funding saplings and tree guards to Phuentsholing Middle Secondary School, Phuentsholing Higher Secondary School and Phuentsholing Thromde. The event was graced by Mr. Karma Tshering, Deputy CEO (Operations) in presence of representatives from Thromde, Phuentsholing High School, and Phuentsholing Middle School and BoBL volunteers. The theme for the event was “Plant a tree today with BoBL, a noble step today for a better tomorrow”. Volunteers from BoBL helped in planting trees and served refreshments to all the students, teachers and the volunteers who gathered and participated in the tree plantation.

BLOOD DONATION DRIVE - 14TH JUNE, 2013

Bank of Bhutan organized Blood Donation Drive on 14th June coinciding with World Blood Donors Day at Clock Tower Square, Thimphu. The campaign was graced by Dasho Nima Wangdi, Secretary, Ministry of Health, representative from World Health Organization, Management and staff from BoBL and MoH. The drive began at 11:00 am and collected 469 units of blood by the end of 17:30 hours. The event saw a huge turnout of 700 plus donors who came voluntarily to donate blood of which only 469 could donate after the necessary checkups. BoBL served refreshments and awarded badges to all the donors. The Management of BoBL thanked all the volunteers who participated in blood donation drive.



Marketing events in 2013

DOOR-TO-DOOR MARKETING

On August 29th, 2013 the research planning and monitoring team started the door-to-door marketing program. The team started at Bhutan Agro Industries limited and then to Wood Craft Centre in the evening. The marketing was on products and services rendered by BoBL with the objective of retaining old customers and attracting new clients.

BOBL ROAD SHOW (18TH MARCH- 22ND MARCH, 2013)

The BoBL road show started from 18th March till 23rd March, 2013 with the theme of bringing services closer to the customers. It was a huge success as people turning up was more than expected. The weeklong event started from College of Science and Technology on 18th march, then in Gaeddu College of Business Studies and on 22nd March at Royal Thimphu College. The Marketing team was able to make it a success only with the help of ITd for taking care of network issues, Phuentsholing main branch, Gedu branch and Thimphu main branch for providing the human resources, Administration for providing the logistics and mostly the Administration/ Management of the three Institutions for supporting the event.

NATIONAL GRADUATE ORIENTATION PROGRAM, 2013

The marketing team recognized another opportunity of hosting an event for the fresh graduates and the people involved. The marketing event took place in Youth Development Fund Complex and Swimming Pool Complex, Thimphu from 28th September till 7th October, 2013. The event was organized to attract new customers, reaching and educating our existing customer with our products and services, establishing the essence of savings amongst the youth and knowing our customers better.



Auditor's Report

TO THE MEMBERS OF BANK OF BHUTAN LIMITED

1. We have audited the attached Balance Sheet of Bank of Bhutan Limited (the Bank) as at 31st December, 2013 and the related Profit and Loss Account and the Cash Flow Statement of the Bank for the year ended on that date annexed thereto (in which are incorporated the general ledger balances of twenty one branches not visited 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 conducted our audit in accordance with the generally accepted auditing standards and in keeping with the 'General Terms of Reference and Minimum Audit Examination Reporting Requirements' issued by the Royal Audit Authority, as given in Schedule XIV of the Companies Act of the Kingdom of Bhutan, 2000. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidences 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 presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by Section 75 of the Companies Act of the Kingdom of Bhutan, 2000 read with Section II of Schedule XIV thereto (the Minimum Audit Examination and Reporting Requirements) we enclose in the Annexure - I a statement on the matters specified therein, to the extent applicable to the Bank.

4. Further to our comments in the Annexure - I referred to in paragraph 3 above, we report that:

a. Our examination was made in accordance with the generally accepted accounting standards and accordingly included such tests of accounting records and such other auditing procedures as we considered appropriate for the purposes of our audit.

b. 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.

c. 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 the books.



d. 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 that the financial statements are in agreement with the books of account.

e. Without intending to qualify we would invite your attention to the matters stated in Note No. 13 in Schedule 17 regarding adoption of Bhutan Accounting Standards (BASs) by the Bank.

f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with Significant Accounting Policies at Schedule 17 and Notes on Accounts at Schedule 18, give the information required by the Companies Act of the Kingdom of Bhutan, 2000 in the manner so required and subject to:

(i) Note No.1 of Schedule 18 regarding non-adjustments of Debit Nu. 259,599,830.63 and Credit Nu. 227,032,906.19 relating to unmatched entries in Branch Clearing General Account;

(ii) Note No 2 of Schedule 18 regarding non-adjustment of Debits Nu. 40,165,155.14 and Credits Nu. 95,939,905.84 relating to unmatched entries in the Accounts with State Bank of India including NOSTRO Accounts;

(iii) Note No. 3 of Schedule 18 regarding non-adjustment of Debits Nu. 74,305,075.01 and Credits Nu. 194,711,112.59 relating to unmatched entries in the Accounts with other Banks including NOSTRO Accounts;

(iv) Note No. 4 of Schedule 18 regarding non-adjustment of unmatched entries under Bills Payable relating to Cash Warrants Nu.21,900,011.63 of which the consequential impact on the Accounts for the year, in the opinion of the management, is considered to be insignificant, give a true and fair view:

- a) In the case of Balance Sheet, of the state of affairs of the Bank as at 31st December, 2013;
- b) In the case of Profit and Loss Account, of the Profit of the Bank for the year ended on that date, and
- c) In the case of the Cash Flow Statement, of the movement of cash of the Bank for the year ended on that date.

Dated, the 7th day of March, 2014
Kolkata

For S. S. KOTHARI & CO
Chartered Accountants
(FRN: 302034E)



(P. K. BHATTACHARYA)
Partner
Membership No.: 015899



ANNEXURE - I

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

(REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE)

1. The Bank has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. However, Fixed Assets Registers of certain Branches require appropriate updating. The Fixed Assets of the bank at all locations have been physically verified by the management during the year and the discrepancies noticed were not material. However, pending completion of reconciliation of physical balances with book balances, no adjustment has been carried out for the discrepancies.
2. None of the Fixed Assets have been revalued during the year.
3. The Bank has not taken or granted any loan from / to any company under the same management.
4. The Bank has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Bank as well as to ensure adherence to the rules/regulations and systems and procedures, except certain cases of negative withdrawals in savings and current accounts have been noticed. The matter, as explained to us, is under technical investigation and recovery.
5. The Bank has established a system of competitive bidding, commensurate with the size and nature of its business, for the purchases of services, stores, stationery, equipments and other assets.
6. As per information and explanations given to us, there is no transaction of purchase and sale of goods and services made in pursuance of contracts or arrangements entered into with the directors or any other party related to the directors or with company, or firm in which the directors are directly or indirectly interested.
7. As informed to us, there is no unserviceable stores, assets etc as at 31st December, 2013.



8. The Bank is regular in depositing rates and taxes, duties and other statutory dues with the appropriate authorities. The provident fund is administered by a separate Committee having independent books of account. The provisions for corporate tax is adequate and that necessary adjustments have been made to compute the amount of tax required under the Rules on the Income Tax Act of the Kingdom of Bhutan, 2001.
9. There is no undisputed amount payable in respect of rates, taxes, duties and other statutory dues outstanding at the year end.
10. According to the information and explanations given to us, and on the basis of our checking of the accounts and other books and records, to the best of our knowledge, no personal expenses have been debited to the Profit & Loss Account other than those payable under contractual obligations / service rules.
11. Quantitative reconciliation is carried out for all major items of inventory like stationery, security forms, etc.
12. Board approval has been obtained for all write offs of losses in the books.
13. The management of liquid resources by the Bank is adequate and excessive amounts are not lying idle in non-interest bearing accounts.
14. According to the information and explanations given to us, and on the basis of examination of books and records, in our opinion and to the best of our knowledge, the activities carried out by the Bank are lawful and intra vires to the Articles of Incorporation of the Bank.
15. On the basis of our verification and according to the information and explanations given to us, the Bank has a regular system of approval of the Board for all capital investment decisions. Investments in new projects are made after considering the technical and economic feasibility of such ventures.
16. The Bank has an adequate budgetary control system.
17. The details of remuneration and other payments to the Board of Directors including the Chief Executive Officer of the Bank are suitably disclosed in Note No. 11 of Schedule - 18.
18. According to the information and explanations given to us, the directives of the Board have been complied with.
19. On the basis of information received from the management and to the best of our knowledge, the officials of the Bank have not transmitted any price sensitive information which are not made publicly available, unauthorised to their relatives/friends/associates or close persons which would directly or indirectly benefit



themselves.

20. Adequate documents and records are maintained in respect of loans and advances granted by the Bank and appropriate agreements have been drawn up and timely entries have been made therein.

21. Reasonable records are maintained by the Bank for funds collected from depositors and for interest payments.

22. On the basis of our examinations and to the best of our information, we are of the opinion that no provision is required for permanent diminution in the values of shares in which investments have been made by the Bank.

23. To the best of our information and according to the explanations given to us, the Bank has complied with the requirements of the Financial Services Act, 2011 and other applicable laws, rules and regulations and guidelines concerning activities of the Bank issued by appropriate Authorities.

24. In our opinion and according to the information and explanations furnished to us, the requirements prescribed by the 'Royal Monetary Authority' relating to provisioning for the non-performing assets including loans and advances have been complied with.

25. Recognition of interest income in respect of non-performing assets has been deferred.

26. To the best of our information and according to the explanations obtained from the management, assets hypothecated against loans and advances have been physically verified by the Bank, properly valued and Mortgage Deeds executed, wherever required, and the Bank has ensured that the assets are free of any prior lien or charges.

27. To the best of our information and according to the explanations given to us, the Bank has a system of monitoring of the Projects for which loans have been provided to ensure that the loan amounts are used for the specified purposes and project activities are progressing satisfactorily.

28. To the best our information and according to the explanations given to us, the Bank has a system of calling for open/sealed bids for disposal of assets taken over for repayment defaults.

29. To the best of our information and according to the explanations given to us, the Bank has a system of carrying out proper analysis before rephrasing / rescheduling of loans are permitted and rephrasing is not permitted in respect of non-performing loans.

30. To the best of our information and explanations given to us, we are of the opinion that the Bank has a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.



COMPUTERISED ACCOUNTING ENVIRONMENT

1. As per the information and explanations furnished to us, the organisational and system development controls and other internal controls appear to be adequate relative to the size and nature of the computer installations.
2. As per information and explanations given to us, adequate safeguard measures and backup facilities exist.
3. The backup facilities and disaster recovery measures include keeping files in different and remote locations.
4. The operational controls in respect of certain areas, particularly interest calculations and savings deposits need to be adequately strengthened.
5. The measures to prevent unauthorised access over the computer installations and files are generally adequate.

GENERAL

1. Based on the net asset position reflected by the Bank's Balance Sheet as at 31st December, 2013 and audited by us in accordance with the generally accepted auditing standards and on the basis of such other tests as we considered necessary in this regard, we have no reason to believe that the Bank is not a going concern on the Balance Sheet date.
2. Ratio Analysis:
Significant ratios indicating the financial health and profitability of the Bank are given in Exhibit - A to this Annexure.

COMPLIANCE WITH THE COMPANIES ACT OF THE KINGDOM OF BHUTAN

According to the information and explanations given to us by the management and based on a Compliance Checklist compiled by the Bank Officials, the Bank has complied with all the provisions of the Companies Act of the Kingdom of Bhutan, 2000.

ADHERENCE TO THE LAWS, RULES AND REGULATIONS

1. The Bank has complied with the Prudential Regulations 2002 and other guidelines issued by the Royal Monetary Authority of Bhutan with regard to:



- a) Weighing of the Risk Weighted Assets as at 31st December, 2013, which is proper and correct;
- (b) Capital Adequacy Ratio of the Bank as at 31st December, 2013, 16.62% has been fairly assessed and such ratio is more than the prescribed limit by the RMA;
- (c) Cash Reserve Ratio of the Bank as at 31st December, 2013, which has been fairly assessed and such ratio is more than the prescribed limit by the RMA; and
- (d) Statutory Liquidity Ratio of the Bank as at 31st December, 2013, 35.06% is above the minimum limit prescribed by the RMA.

2. It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Bank, except the provisions contained in the Companies Act of the Kingdom of Bhutan, 2000 and Financial Services Act of Bhutan, 2011 as also the guidelines issued by the Royal Monetary Authority, as comprehensive Compliance Reporting and Recording System of the Bank in this regard is currently not in place. However, any non-compliance or departure from accepted practice and approved systems / procedures having effect on financial statements that came to our notice during the course of our audit have been indicated by the way of notes on accounts.

Dated, the 7th day of March, 2014
Kolkata

For S. S. KOTHARI & CO
Chartered Accountants
(FRN: 302034E)




(P. K. BHATTACHARYA)
Partner
Membership No.: 015899

BANK OF BHUTAN LIMITED
BALANCE SHEET AS AT 31st DECEMBER 2013

Amount in Ngultrum

CAPITAL AND LIABILITIES	Schedule No.	As at 31.12.2013	As at 31.12.2012
Capital	1	1,500,000,000.00	1,000,000,000.00
Reserves & Surplus	2	2,052,382,685.72	2,204,923,122.98
Deposits	3	25,538,787,077.49	23,693,273,656.26
Other liabilities & provisions	4	1,472,208,428.02	1,918,331,974.29
TOTAL		30,563,378,191.23	28,816,528,753.53
ASSETS			
Cash & Balance with RMA	5	8,108,770,097.66	7,834,078,232.91
Balances with Banks	6	2,429,694,035.83	2,630,165,196.51
Investments	7	2,462,127,210.45	1,053,940,301.23
Advances	8	16,927,540,001.42	16,668,637,227.52
Fixed Assets	9	361,832,956.49	278,885,623.59
Other Assets	10	273,413,889.38	350,822,171.77
TOTAL		30,563,378,191.23	28,816,528,753.53
Contingent liabilities	11	3,133,074,441.88	4,479,103,974.64
Bills for Collection	12	49,431,819.82	8,446,864.43
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 :
Dasho Karma W. Penjor

For S S Kothari & Co.

Directors :
Dasho Phub W. Dorji
Kinzang Tobgay
Sonam Tobjey
Giridhara Kini
Pema. N. Nadik

Pema. N. Nadik
Chief Executive Officer

Chartered Accountants
FRN. 302034E
P.K. Bhattacharya
Partner
M.No.015899
7 March, 2014

Date :
Place: Thimphu



BANK OF BHUTAN LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 2013

Amount in Ngultrum

	Schedule No.	For the year ended 31.12.2013	For the year ended 31.12.2012
INCOME			
Interest earned	13	1,805,904,796.98	1,810,708,457.52
Other Income	14	370,495,086.03	325,401,864.46
TOTAL		2,176,399,883.01	2,136,110,321.98
EXPENDITURE			
Interest Expended	15	612,923,668.13	471,944,835.56
Operating Expenses	16	491,722,703.06	460,456,638.20
Provision and Contingencies		114,485,682.94	253,316,273.63
TOTAL		1,219,132,054.13	1,185,717,747.39
Profit before Tax		957,267,828.88	950,392,574.59
Income Tax		284,050,016.00	290,011,687.00
Net profit after tax		673,217,812.88	660,380,887.59
Prior period adjustment		252,817.14	256,544.17
Net Profit for the year		672,964,995.74	660,124,343.42
Add : Excess proposed dividend for 2011 written back		-	48,000,000.00
Profit brought forward		-	-
TOTAL		672,964,995.74	708,124,343.42
APPROPRIATIONS			
Transfer to Reserve Fund		305,964,995.74	358,124,343.42
Exchange Fluctuation Reserve		27,000,000.00	20,000,000.00
Proposed Dividend		340,000,000.00	330,000,000.00
TOTAL		672,964,995.74	708,124,343.42
Significant Accounting Policies	17		
Notes to Accounts	18		

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

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

Chairman :
Dasho Karma W. Penjor

Directors :
Dasho Phub W. Dorji
Kinzang Tobgay
Sonam Tobjey
Giridhara Kini
Pema. N. Nadik

Pema. N. Nadik
Chief Executive Officer

Date :
Place: Thimphu

For S S Kothari & Co.

Chartered Accountants
FRN 302034E

P.K. Bhattacharya
Partner
M.No.015899

7 March, 2014



BANK OF BHUTAN LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

	For the year ended 31.12.2013	For the year ended 31.12.2012	Amount in Ngultrum
Net Cash Flow from Operating Activities (Note 1)			
Return on Investments and Servicing of Finance (Note 2)	(282,466,058.51)	(154,218,736.22)	1,316,988,806.02
Tax payment during the year	(295,526,886.18)	(303,224,719.18)	
Capital Expenditure (Note 3)	(131,379,669.17)	(54,541,152.69)	
Net Cash Inflow / (Outflow) from Investment Activities	(709,372,613.86)		(511,984,608.09)
Net Cash Inflow / (Outflow) before Financing	1,482,407,613.29		805,004,197.93
Financing			
Management of Liquid resources (Note 4)			
Net Cash Inflow / (Outflow) from Financing	(1,408,186,909.22)	44,917,909.22	44,917,909.22
Net Cash Inflow / (Outflow)	74,220,704.07		849,922,107.15
Increase / (Decrease) in Cash (Note 5)	74,220,704.07		849,922,107.15

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

Chairman :

Dasho Karma W. Penjor

Directors :

Dasho Phub W. Dorji

Kinzang Tobgay

Sonam Tobgye

Giridhara Kini

Pema. N. Nadik

Pema. N. Nadik

Chief Executive Officer

Date :

Place: Thimphu



For S S Kothari & Co.

Chartered Accountants

FRN. 302034E

[Signature]

P. K. Bhattacharya

Partner

M.No.015899



BANK OF BHUTAN LIMITED

NOTES FORMING PART OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013
Amount in Ngultrum

	For the year ended 31.12.2013	For the year ended 31.12.2012
1 Net Cash Flow from Operating Activities:		
Net Profit before tax	957,267,828.88	950,392,574.59
Add : Depreciation Charges	44,016,925.79	40,116,709.01
Add: Assets written off during the year	5,797,588.30	29.00
Add : Adjustment by way of Write back of excess depn charged in 2011 by Branch Bumthang & Lhuntse	-	25,657.98
Less: Prior period adjustment	(252,817.14)	(251,229.63)
Less: Differential amount in total depreciation of Deothang branch credited to P&L Miscellaneous Account	(9,153.03)	-
	1,006,820,372.80	990,283,740.95
Less: Income from Dividends	9,374,174.00	10,874,716.00
Interest Received on Investments and FDRs	38,159,767.49	66,906,547.78
Profit on Sale of Fixed Assets	1,373,024.79	55,902.59
Loss on Exchange Fluctuation Reserve adjusted with Reserve	0.00	0.00
	957,913,406.52	912,446,574.58
(Increase)/Decrease in Advances	(258,902,773.90)	(1,548,038,757.22)
(Increase)/Decrease in other Assets	82,923,481.57	4,221,457.08
Increase/(Decrease) in Deposits & other Accounts	1,845,513,421.23	1,390,312,120.97
Increase/(Decrease) in other Liabilities & Provisions	(435,667,308.28)	558,047,410.61
	2,191,780,227.15	1,316,988,806.02
2 Return on Investments and Servicing of Finance:		
Dividend Paid	(330,000,000.00)	(232,000,000.00)
Dividend Received	9,374,174.00	10,874,716.00
Interest Received on Investments and FDRs	38,159,767.49	66,906,547.78
Additional Equity (capital Injection)	-	-
Investment in other Assets	-	-
	(282,466,058.51)	(154,218,736.22)
3 Capital Expenditure:		
Payments to acquire tangible fixed assets	(150,548,675.06)	(45,938,518.47)
Receipts from sale of tangible fixed assets	8,851,794.55	62,922.00
(Increase)/Decrease in Capital Working In Progress	10,317,211.34	(8,665,556.22)
	(131,379,669.17)	(54,541,152.69)
4 Management of liquid resources:		
Sale/(Purchase) of RMA Discount Bills	(1,829,817,909.22)	44,917,909.22
Sale /(Purchase) of Druk Air Bond	421,631,000.00	-
	(1,408,186,909.22)	44,917,909.22
5 Increase/(Decrease) in cash(Includes cash in hand, balances with RMA and balances with other banks):		
Closing Balance	10,538,464,133.49	10,464,243,429.42
Less :Opening Balance	10,464,243,429.42	9,614,321,322.27
	74,220,704.07	849,922,107.15



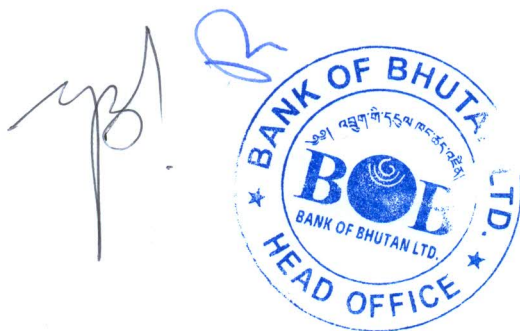
BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 1 - CAPITAL

	Amount in Ngultrum	
	As at 31.12.2013	As at 31.12.2012
AUTHORISED CAPITAL		
30,000,000 Shares of Nu.100 each	<u>3,000,000,000.00</u>	<u>3,000,000,000.00</u>
ISSUED AND PAID-UP CAPITAL		
Opening Balance	1,000,000,000.00	400,000,000.00
Add: Bonus Share Issued	500,000,000.00	600,000,000.00
CLOSING BALANCE (15,000,000 Shares) (Previous Year 10,000,000) of Nu 100 each*	<u>1,500,000,000.00</u>	<u>1,000,000,000.00</u>

* Out of the above, 12,000,000 shares of Nu.100 each were issued as fully paid Bonus shares (including 5,000,000 shares issued during 2013) by way of capitalization of

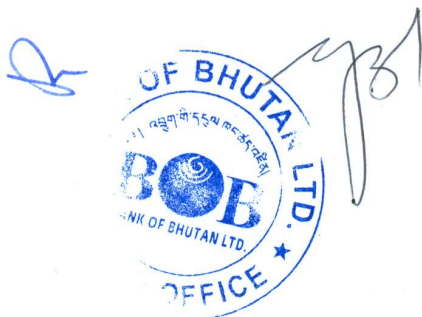




BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 2 - RESERVES & SURPLUS	Amount in Ngultrum	
	As at 31.12.2013	As at 31.12.2012
RESERVE FUND		
Opening Balance	1,989,756,122.98	2,231,631,779.56
Add: Transfer from Profit & Loss Account	305,964,995.74	358,124,343.42
Less : Capitalised by way of issue of Bonus share	500,000,000.00	600,000,000.00
Add: Retirement Benefits Past service	14,494,567.00	
	1,810,215,685.72	1,989,756,122.98
EXCHANGE FLUCTUATION RESERVE		
Opening Balance	120,000,000.00	100,000,000.00
Add: Transfer from Profit & Loss Account	27,000,000.00	20,000,000.00
	147,000,000.00	120,000,000.00
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	2,052,382,685.72	2,204,923,122.98



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 3 - DEPOSITS	Amount in Ngultrum	
	As at 31.12.2013	31.12.2012
DEMAND DEPOSITS		
i) Current Deposits	11,592,601,198.31	13,479,577,424.12
ii) Savings Bank Deposits	6,961,197,178.71	5,658,771,145.18
	<u>18,553,798,377.02</u>	<u>19,138,348,569.30</u>
TERM DEPOSITS	6,842,548,966.26	4,325,525,894.03
OTHER ACCOUNTS		
Balance of other Banks in Current Account	142,439,734.21	229,399,192.93
TOTAL	<u><u>25,538,787,077.49</u></u>	<u><u>23,693,273,656.26</u></u>



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 4 - OTHER LIABILITIES & PROVISIONS

Amount in Ngultrum

	As at 31.12.2013	As at 31.12.2012
PROVISION FOR GRATUITY AND OTHER RETIREMENT BENEFITS		
As per last account	105,359,773.00	75,562,053.00
Less: Payments made during the year	20,067,526.00	13,072,855.00
Less: Movement through Reserves	14,494,567.00	-
Add: P&L Charge for the year	21,708,410.00	42,870,575.00
	92,506,090.00	105,359,773.00
General Provision	224,542,464.02	246,498,388.07
Bills Payable	192,728,495.25	219,999,824.04
Interest Accrued	250,990,691.04	172,307,746.42
Inter Branch Adjustment (net)	(32,658,604.02)	307,101,931.63
Payables relating to Visa/Mastercard	44,782,547.25	181,524,828.13
Others (including provisions)	75,266,728.48	65,527,796.00
Proposed Dividend	340,000,000.00	330,000,000.00
Income Tax Payable	284,050,016.00	290,011,687.00
TOTAL	1,472,208,428.02	1,918,331,974.29



BANK OF BHUTAN LIMITED

Schedules forming part of the Balance Sheet as at 31st December 2013

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

	Amount in Ngultrum	
	As at 31.12.2013	As at 31.12.2012
CASH IN HAND		
Bhutanese Currency	445,790,862.69	450,699,227.78
Indian Currency	42,404,377.08	28,035,639.00
Foreign Currency	13,957,801.09	21,468,346.46
	<u>502,153,040.86</u>	<u>500,203,213.24</u>
CASH RESERVE WITH RMA	1,278,737,963.08	1,294,994,000.00
BALANCES WITH RMA	6,327,879,093.72	6,038,881,019.67
TOTAL	<u><u>8,108,770,097.66</u></u>	<u><u>7,834,078,232.91</u></u>

SCHEDULE 6 - BALANCES WITH OTHER BANKS

	As at 31.12.2013	As at 31.12.2012
BALANCES WITH BANKS IN BHUTAN		
On Current Accounts	17,109,155.81	-
On Deposit Accounts	300,000,000.00	1,100,000,000.00
	<u>317,109,155.81</u>	<u>1,100,000,000.00</u>
BALANCES WITH BANKS IN INDIA AND ABROAD		
On Current Accounts	1,367,024,880.02	1,420,325,196.51
On Deposit Accounts	745,560,000.00	109,840,000.00
	<u>2,112,584,880.02</u>	<u>1,530,165,196.51</u>
TOTAL	<u><u>2,429,694,035.83</u></u>	<u><u>2,630,165,196.51</u></u>



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 7 - INVESTMENTS

			Amount in Ngultrum	
	No.	Face Value	As at 31.12.2013	No. As at 31.12.2012
FULLY PAID UP SHARES IN				
Bhutan Board Products Limited	172,400	100	18,973,913.00	172,400 18,973,913.00
Bhutan Development Bank Ltd	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*	127,044	100	1,411,600.00	42,348 1,411,600.00
BOB Securities Limited	5,000	100	500,000.00	5,000 500,000.00
(Wholly owned Subsidiary)				
			73,717,710.45	73,717,710.45
* Increased due to bonus shares issued				
BONDS & BILLS				
Druk Air Bonds	105,372	1,000	105,372,000.00	527,003 527,003,000.00
RMA Treasury Bills	230,000	9,926.25	2,283,037,500.00	50,000 453,219,590.78
TOTAL			2,462,127,210.45	1,053,940,301.23



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 8 - ADVANCES	Amount in Ngultrum	
	As at 31.12.2013	As at 31.12.2012
NET LOANS, CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN) (Net of Provisions & Interest in Suspense)	16,887,029,006.96	16,656,785,810.41
BILLS DISCOUNTED AND PURCHASED		
Payable in Bhutan	-	-
Payable outside Bhutan	40,510,994.46	11,851,417.11
	40,510,994.46	11,851,417.11
TOTAL	16,927,540,001.42	16,668,637,227.52

PARTICULARS OF ADVANCES

i Debts considered good in respect of which Bank is fully secured	15,059,723,626.58	14,653,438,576.34
ii Debts considered good for which Bank holds no other security than the Debtor's personal security	18,264,107.55	115,953,372.66
iii Debts considered good, secured by the personal liability of one or more parties in addition to the personal security of the Debtors	2,823,881,834.21	2,675,495,869.37
iv Debts considered doubtful or bad, not provided for	-	-
TOTAL	17,901,869,568.34	17,444,887,818.37
v Debts due by directors or officers of Bank or any of them either severally or jointly with any other person	337,919,690.30	355,614,360.89
vi Debts due by companies, firms in which the directors of Bank are interested as directors, partners or members	213,311,279.70	240,193,776.75
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	337,919,674.62	376,224,155.84
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
ix Due from Banking companies	199,836,573.88	-



BANK OF BHUTAN LIMITED

Schedule forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 9 - FIXED ASSETS	Amount in Ngultrum	
	As at 31.12.2013	As at 31.12.2012
PREMISES (BUILDING & LAND)		
At cost as on 31.12.2012	133,737,488.30	129,804,002.64
Additions during the year	125,689,782.09	3,933,485.66
Deductions during the year	8,816,023.30	
	250,611,247.09	133,737,488.30
Less: Depreciation to date	24,498,019.08	25,115,926.15
	226,113,228.01	108,621,562.15
FURNITURE, FIXTURE, OFFICE EQUIPMENTS AND VEHICLES		
At cost as on 31.12.2012	317,042,314.94	275,708,346.56
Additions during the year	19,061,304.67	42,005,003.81
Deductions during the year	3,784,066.37	671,035.43
	332,319,553.24	317,042,314.94
Less Depreciation to date	201,668,328.76	162,163,968.84
	130,651,224.48	154,878,346.10
CAPITAL WORK IN PROGRESS	5,068,504.00	15,385,715.34
TOTAL	361,832,956.49	278,885,623.59



BANK OF BHUTAN LIMITED

Schedules forming part of the Balance Sheet as at 31st December 2013

SCHEDULE 10 - OTHER ASSETS

	Amount in Ngultrum	
	As at 31.12.2013	As at 31.12.2012
Accrued Interest	16,088,766.98	98,024,638.65
Stamps, Sundry Deposits and Amounts		
Recoverable	27,364,481.93	19,958,812.78
Stationery	18,619,918.60	19,237,716.84
Building Materials	299,880.72	316,690.72
Axis Bank Pre-paid Cards	1,649,851.87	5,534,304.76
Advance Tax including Tax Deducted at Source	145,690,009.06	140,174,809.88
Receivables relating to Visa/Mastercard	35,700,980.22	39,575,198.14
DHI Seed Fund	10,000,000.00	10,000,000.00
Contribution towards of FI Training Institute	18,000,000.00	18,000,000.00
TOTAL	273,413,889.38	350,822,171.77

	As at 31.12.2013	As at 31.12.2012
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SCHEDULE 11 - CONTINGENT LIABILITIES

Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	309,434,102.67	454,701,034.26
Guarantees Issued & Outstanding	2,823,640,339.21	4,024,402,940.38
TOTAL	3,133,074,441.88	4,479,103,974.64

SCHEDULE 12 - BILLS FOR COLLECTION

Payable in Bhutan	2,540,011.60	3,633,939.85
Payable outside Bhutan	46,891,808.22	4,812,924.58
TOTAL	49,431,819.82	8,446,864.43



BANK OF BHUTAN LIMITED

Schedules forming part of the Profit and Loss Account as at 31st December 2013

SCHEDULE 13 INTEREST EARNED

	Amount in Ngultrum	
	For the year ended 31.12.2013	For the year ended 31.12.2012
Interest on Loans	1,767,580,402.00	1,731,648,115.91
Interest on Bills Receivables	164,627.49	12,153,793.83
Interest on Investment	5,207,684.05	7,985,022.21
Interest on Fixed Deposits with Banks	32,952,083.44	58,921,525.57
TOTAL	1,805,904,796.98	1,810,708,457.52

SCHEDULE 14 OTHER INCOME

Commission, Exchange and Brokerage	126,723,977.61	152,622,742.53
Profit on conversion of Foreign Currency Balances	103,450,977.74	57,564,950.96
Income earned by way of Dividend	9,374,174.00	10,874,716.00
Rental Income	1,111,799.66	1,243,004.50
Others	128,461,132.23	103,040,547.88
Profit on sale of Assets	1,373,024.79	55,902.59
TOTAL	370,495,086.03	325,401,864.46

SCHEDULE 15 - INTEREST EXPENSES

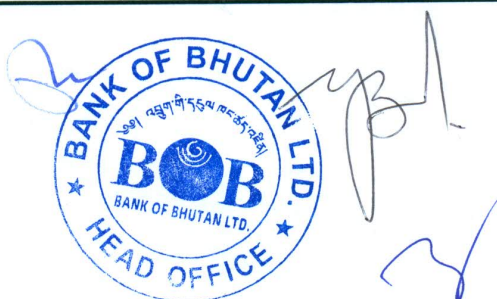
Interest paid on deposits	612,923,668.13	471,944,835.56
TOTAL	612,923,668.13	471,944,835.56



BANK OF BHUTAN LIMITED

Schedule forming part of the Profit and Loss Account as at 31st December 2013

SCHEDULE 16 - OPERATING EXPENSES	Amount in Ngultrum	
	For the year ended 31.12.2013	For the year ended 31.12.2012
Payment to and provision for employees	261,352,575.43	272,739,463.61
Rent, Taxes, Insurance, Lighting etc	19,145,116.91	17,300,344.16
Travelling Expenses	15,647,805.36	16,625,033.85
Directors Sitting Fees	1,048,000.00	1,176,000.00
Postage, Telegrams & Stamps	12,620,367.83	12,411,088.57
Audit Fees	250,000.00	324,450.00
Audit Expenses	750,000.00	609,000.00
Depreciation	44,016,925.79	40,116,709.01
Repairs to Banks Properties	11,933,882.73	18,780,351.51
Stationery, Printing, Advertisement etc	14,871,331.19	7,551,029.12
Charity and Donations	1,442,000.00	1,250,000.00
Fixed Assets Written Off	5,797,588.30	29.00
Other Expenditure	102,847,109.52	71,573,139.37
TOTAL	491,722,703.06	460,456,638.20





BANK OF BHUTAN LIMITED

Schedule – 17 SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The principal activities of Bank of Bhutan Limited (the “Company” or “Bank”) cover commercial banking. All significant operations take place within Bhutan. The ultimate parent is the Royal Government of Bhutan.

The Company is a limited liability company incorporated and domiciled in Bhutan. The address of its principal place of business is Babesa, Thimphu, Bhutan.

These financial statements relate to the year ended 31 December 2013.

2. Basis of preparation

The statements have been prepared under the accrual, historical cost and going concern conventions.

The functional currency of preparation is the Bhutanese Ngultrum.

3. Consolidation

The Company has control over and owns 100% of the shares in subsidiary company BoB Securities Ltd. Consolidated financial statements have not been prepared as the Company itself is a subsidiary of Druk Holdings and Investments Ltd. DHIL will prepare consolidated financial accounts which will include the results of the Company and BoB Securities Ltd.

4. Advances

- 4.1 Advances are stated at principal amount together with interest accrued thereon, net of provisions.
- 4.2 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 is credited to an Interest Suspense Account and not recognized in the Profit and Loss account until received.
- 4.3 Specific Provisions in respect of non-performing advances (including credit cards and bills purchased) 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.





5. Investments

Investments in shares and other securities are stated at cost.

6. Fixed Assets

- 6.1 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 the asset before it is put to use.
- 6.2 Depreciation is provided on a "Straight Line" basis 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 a pro-rata basis from the date of purchase.

7. Stock of Stationery

Stock of stationery is valued at weighted average cost method.

8. Foreign Currency Transactions

- 8.1 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.
- 8.2 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.

9. Revenue Recognition

- 9.1 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.
- 9.2 Interest income on term Deposits with other banks, Druk Air Bonds and income on RMA Treasury Bills are accounted for on an accrual basis.
- 9.3 Dividend income is recognised when the right to receive payment is established.
- 9.4 Commission and exchange on Letters of Credit, Guarantees, Cheques, Bills for Collection and Bills Purchased are accounted for on cash basis.



10. Staff Benefits

- 10.1 During the year, the Bank has made a change to its basis of providing for Gratuity, Separation benefits and leave encashment payable to employees on their retirement (Defined Benefit Plans). During the year, provision for such benefits is based on an actuarial valuation carried by an independent actuary.
- 10.2 The Bank maintains a separate Provident Fund for its employees, which is administered by the Trustees; contributions are made on a monthly basis and charged to Profit and Loss Account accordingly.

11. Taxation

The income tax liability of the Bank 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.

The income tax liability for the year is estimated based on the taxable income of the Bank.

12. 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

13. Bhutan Accounting Standards

The Accounting and Auditing Standards Board of Bhutan has issued 18 Accounting Standards (BAS) to be implemented by Banks and Corporate entities within a time frame of 2013-2015. The Management of the Bank has taken necessary steps to implement all the Accounting Standards applicable to the bank by 2015.

14. Change in Accounting Policy for Retirement Benefits

In anticipation of the Bhutan Accounting Standard 19 on Employee Benefits, which is in the second phase of adoption of Bhutanese Accounting Standards, the Bank has changed the basis for valuing the liability for employee retirement benefits on an actuarial basis by an independent actuary which better reflects the estimated liability at balance sheet date. The previous basis for providing for such benefits was a Management assessment of the liability. Please refer to schedule 18 - Note 16 for the financial impact of this change.

15. Comparative information

Where necessary certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.





BANK OF BHUTAN LIMITED

Schedule – 18

NOTES TO ACCOUNTS

1. Branch Clearing Adjustment Account has been reconciled up to 31st December 2013. Certain adjustments for entries passed after 31st December 2013, affecting the year end position, have been made to reflect the true position. After these adjustments, the Account has a net debit balance of Nu. 32,566,924.44 pertaining to unmatched inter-branch transactions, necessary adjustments for which are awaited.
2. The Accounts with State Bank of India have been reconciled up to 31st December 2013. Necessary adjustments for unmatched entries debit Nu.40,165,155.14 and credit Nu.95,939,905.84 including NOSTRO Accounts are awaited.
3. Accounts with other Banks include unmatched debits Nu.74,305,075.01 and credits Nu.194,711,112.59 including NOSTRO Accounts awaiting necessary adjustments.
4. Necessary adjustments are also awaited in respect of Cash Warrants Nu.21,900,011.63 included under Bills Payable.
5. During the year, the Bank has surrendered Nu.16,779,491.56 in Bank of Bhutan Resident Rupee Account and Nu.523,778.50 in Bank of Bhutan Reimbursement Account with SBI to RMA in mutual consent with SBI.
6. During the year, a sum of Nu.27,000,000 has been transferred to Exchange Fluctuation Reserve from profit after tax as per clause 11.3 of Section 11 of RMA Prudential Regulations 2002.
7. Balance in the deposit account in Schedule 6 includes USD 2 million (Nu. 124,260,000) (Previous Year Nu. 109,840,000) which is under lien with Standard Chartered Bank Singapore in respect of foreign Letters of Credit issued by the Bank.
8. Income Tax assessment of the Bank has been completed up to 31st December 2012 and the final assessment orders are awaited.
9. Other liabilities represent:

	For the year ended 31.12.2013	For the year ended 31.12.2012
	Nu.	Nu.
Sundry creditors	51,036,539.34	49,402,934.62
Unclaimed deposits	6,981,759.34	5,837,184.40
Matured Term Deposits	11,562,364.81	6,554,787.98
Security Deposits	2,327,914.54	3,732,889.00



RTGS/NEFT on SBI/Axis	3,358,150.45	-
Total	75,266,728.48	65,527,796.00

10. Other receipts represent:

	For the year ended 31.12.2013	For the year ended 31.12.2012
	Nu.	Nu.
PF Forfeited	535,314.26	429,884.00
Gain on RMA Treasury Bills	57,123,487.59	35,489,357.01
Interest on Druk Air Bonds	33,927,991.90	39,505,889.33
Receipts from ATM Cards	9,579,679.00	6,647,208.00
Postage, Telegrams & stamps	1,636,599.83	1,998,598.26
Receipts on Visa/Master Cards	19,967,740.68	15,911,304.28
Others	5,690,318.97	3,058,307.00
Total	128,461,132.23	103,040,547.88

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 31.12.2013	For the year ended 31.12.2012
	Nu. Ch.	Nu. Ch.
(a) Payment to and provision for employees represent:		
(i) Salary, Bonus, Gratuity, leave encashment etc.	248,664,309.43	260,883,573.61
(ii) Contribution to Provident Fund	12,688,266.00	11,855,890.00
Total	261,352,575.43	272,739,463.61
(b) Remuneration, Allowances, etc paid to Chief Executive Officer:		
(i) Salary, Allowances, bonus and Encashment of leave	1,435,224.00	1,332,912.00
(ii) Contribution to Provident Fund	87,801.00	93,528.00
(iii) Sitting fee	148,000.00	148,000.00
Total	1,671,025.00	1,574,440.00
(c) Sitting Fees paid to other Directors (Including invitees)	900,000.00	1,028,000.00
(d) Rent, Taxes, Insurance, Lighting etc represent:		
(i) Rent	14,307,102.26	11,300,966.80
(ii) Rates & Taxes	181,383.29	144,854.94
(iii) Insurance	2,346,874.02	3,660,563.50
(iv) Light & Fuel	2,309,757.34	2,193,958.92
	19,145,116.91	17,300,344.16
(e) Repairs to the Bank's Property represent:		





(i) Repair to Buildings	588,937.51	194,800.00
(ii) Other Repairs	11,344,945.22	18,585,551.51
	11,933,882.73	18,780,351.51

12. Claims on the Bank

12.1 In 2010, there were two sets of export bills for USD 14,000 and USD 18,604 which were presented late by the exporters; although these exports were backed by Letters of Credit, the export documents were sent on a collection basis for reimbursement. The L/C issuing Bank has refused to pay, citing discrepancies in the bills. The Bank does not estimate any liability to pay and has not shown any sum payable to the exporters.

12.2 In 2011, export documents worth USD 54,122 were verified by the Bank and the exporter was paid as per the terms of the Letter of Credit by debiting the account of the L/C Issuing Bank. However, the L/C Issuing Bank has cited discrepancies in the bills and claimed a refund of the amount paid to the exporter. The Bank does not expect a liability to pay and has not shown any sum as payable to the L/C Issuing bank.

13. Prior period adjustment reflects the entries pertaining to expenses of previous years paid during the current year. The head wise details are as follows:

<u>Particulars</u>	<u>Amount</u>
Tax for earlier years	Nu. 252,817.14

14. In the opinion of the Management, all items of assets and liabilities as appearing in the Balance Sheet as at 31.12.2013 have a value equal to the amount at which they are stated therein.

15. 12,000,000 shares of Nu.100 each are held by Druk Holding and Investments Limited (DHIL).

16. During the year, the Bank has carried out an actuarial valuation of its Defined Benefit Retirement Plans (covering Gratuity, Separation benefits and leave encashment payable to employees on their retirement) to validate the provisions for such plans. On the basis of the actuarial valuation carried out by an independent Actuary, the Bank's liability is adequately provided for. The Defined Benefit Retirement Plans have been accounted for on the basis of the liability as per the actuarial valuation. Schedule 4 of the Accounts details the movements in this regard. Accordingly

a) Incremental liability for the year Nu.21,708,410.00 has been charged to Profit & Loss Account and



- b) Excess liability provided in earlier years Nu.14,494,567.00 has been written back through Reserves.

The liability as at 31st December 2013 stands at Nu.92,506,090.00 which is confirmed by the independent actuary's valuation.

Due to this change in the basis, the pre-tax profit for the year stands increased by Nu.4,181,590.00 compared to the previous year.

17. During the year the Bank acquired land at Semtokha worth Nu.102.72 million; the transfer of land ownership is still in process.
18. The previous year figures have been regrouped/ rearranged wherever considered necessary.



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EXHIBIT - A TO ANNEXURE - I

RATIO ANALYSIS

RATIOS	2013	2012	REMARKS
A: Ratio for assessing financial health:			
Current Ratio (Current Assets / Current Liabilities)	1.03 : 1	1.07 : 1	Decrease in ratio is due to increase in Customer Deposits
B: Ratios for assessing profitability			
Return on Investments (PAT / Capital Employed X 100)	18.94 %	20.60 %	Decrease in ratio is due to increase in Capital through issue of Bonus Shares
Earnings per Share (PAT / No. of Shares issued)	Nu. 44.86	Nu. 66.01	Decrease in ratio is due to increase in Capital through issue of Bonus Shares
Net Profit Ratio (Net Profit / Turnover X 100)	30.92 %	30.90 %	No material change



COMPLIANCE CALENDAR

YEAR: 2012

Annual Return Checklist

- | | |
|---------------------------------------|----------------|
| 1. Form XII | Yes |
| 2. Due Date | 31 / 07 / 2013 |
| 3. Submission Date | 24 / 05 / 2013 |
| 4. Documents submitted | |
| Audited Balance Sheet | Yes |
| Audited Profit & Loss A/c | Yes |
| Audited Cash Flow Statement | Yes |
| Auditors' report | Yes |
| Board's report | Yes |
| 5. Signature of at least one director | Yes |
| 6. Signature of CEO | Yes |



ANNEXURE -II

COMPLIANCE CHECK LIST

SL	SEC		YES	NO	N.A.	REMARKS
		INCORPORATION OF COMPANY & MATTERS INCIDENTAL THERETO				
1.	7	Alteration of Articles			√	
2.	8	Changes of name			√	
3.	9	Increase or consolidation of share capital	√			
4.	10	Reduction of share capital			√	
		P-VII MANAGEMENT & ADMINISTRATION				
5.	54	Registered Office of Company	√			
6.	55	Publication of name by Company	√			
7.	56	Financial Year of Company	√			
8.	57	Annual Return	√			
9.	58	Annual General Meeting	√			
10.	59	Extra Ordinary General Meeting			√	
11.	60	Notice for calling general meeting	√			
12.	61	Chairman of meeting	√			
13.	63	Representation of corporation of meetings	√			
14.	64	Ordinary and special resolutions	√			
15.	65	Minutes of general meetings and of Board	√			
16.	66	Declaration and payment of dividend	√			
17.	67	Books of account to be kept by Company	√			
18.	68	Inspection of books of account	√			
19.	69	Annual Accounts and Balance Sheets	√			
20.	70	Filing of Balance Sheet etc. with the Registrar	√			
21.	71	Board's Report	√			
22.	72	Appointment and removal of Auditors	√			
23.	73	Resignation of Auditors from office			√	
24.	75	Auditing Standards	√			
25.	76	Number of Directors	√			
26.	77	Additional directors	√			
27.	78	Consent to act as directors	√			
28.	79	Certain persons not to be appointed as directors	√			
29.	80	Resignation by a director	√			
30.	81	Removal of directors			√	
31.	82	Board meetings	√			



32.	83	General powers of the Board	√			
33.	84	Restriction of powers of Board	√			
34.	85	Appointment of Chief Executive Officer	√			
35.	86	Appointment of selling or buying agents	√			
36.	87	No loans to directors	√			
37.	88	Inter-corporate loans and investments	√			
38.	89	Contracts in which directors are interested	√			
39.	90	Companies to have secretaries	√			
40.	91	Standards of care required by directors	√			
P-IX STATUTORY RECORD AND INSPECTION						
41.	97	Statutory record and inspection				
		a) Register of buy-back of shares			√	
		b) Register of transfers	√			
		c) Register of charges			√	
		d) Register of inter-corporate loans			√	
		e) Register of inter-corporate investments	√			
		f) Register of contracts in which directors are interested	√			
		g) Register of directors	√			
		h) Register of directors' share holding	√			



PART VII - MANAGEMENT & ADMINISTRATION

General Provisions

Section	Sub - Section	Clause	Yes	No	NA	Remarks
54		Registered office of Company:				
	1.	Does the Company have registered office in which all communications and notices are addressed?	√			
	2.	If any change in situation of Registered office, had the notice of change been intimated to the registrar within 30 days of approved of board of directors?			√	
55		Publication of name by company:				
	1.	Does the company have its name and address of its registered office affixed outside every office or place in which its business is carried on in a conspicuous place? The board should be written in legible Dzongkha and English language.	√			
	2.	Does the company have its name engraved on its seal?	√			
	3.	Does the company have its name and address of its registered office mentioned in all its business letters, bills, invoices, notices and other official publications?	√			
56		Financial year of the company:				
	1.	Does the company have a uniform financial year ending on 31 st December every year being the period to which its balance sheet and profit and loss account shall relate?	√			
	2.	Does the first financial year of the company relate to the period beginning from the date of incorporation of the company and ending on 31 st December. Thereafter does it exceed 15 months provided that it may exceed to 18 months where special permission has been granted in that behalf by the Ministry on payment of the fee			√	



		prescribed in Schedule IV? If extended to 18 months has permission been granted? Has fee prescribed in Schedule IV been paid?				
57		Annual Return:				
	1.	Has the company prepared and filed with the registrar the annual return for the period relating to the financial year ended on 31 st December containing the particulars specified in Schedule XII?	√			
	2.	If the company is listed, has the company filed the annual return with registrar on or before 31 st May; if it is unlisted company has it filed the annual return on or before 31 st July every year along with balance sheet and profit and loss account for the year ended 31 st December along with Auditor's report and Director's report duly authenticated by at least one director and the CEO.	√			
58		Annual General Meeting:				
	1.	Has the company held in addition to any other meeting a general meeting as its annual general? Has it been specified as such in the notice calling the general meeting?	√			
	2.	Is the annual general meeting convened on or before 30 th April if the company is listed ; is it convened on or before 30 th June if the company is unlisted.	√			
	3.	If the annual general meeting is not held within the time prescribed, is permission of the registrar being taken? In such case the meeting should not be postponed beyond 30 days. Is this being complied with?			√	
	4.	In case of a government company, the business to be transacted at an AGM may be done in a Board meeting within the time frame prescribed. However the notice calling the			√	



		meeting shall refer it as Board cum Annual General Meeting.				
59		Extraordinary General Meeting:				
	1.	The board of directors may convene an extra ordinary general meeting to transact any special business which may not wait till the annual general meeting is due to be held?			√	
	2.	On proceeding duly to call an extra ordinary general meeting of the company, has the board of directors made a requisition of 10% of shareholders?			√	
	3.	Does the requisition set out matters for the consideration of which the meeting is to be called and is it signed by the requisitionists and has it been deposited with the registered office of the company?			√	
	4.	If the board does not within 21 days from the date of receipt of valid requisition, proceed duly to call a meeting on a day not later than 45 days from the date of requisition, the requisitionists themselves at the registered office shall call the meeting. Is this being followed?			√	
	5.	Are all reasonable expense incurred by the requisitionist in calling and holding the meeting being repaid by the company?			√	
60		Notice calling the general meeting:				
	1.	A company may call a general meeting by giving a notice of not less than 21 days in writing. Is it being complied with?	√			
	2.	If the consent of at least 95% of the shareholders are taken, a meeting may be called by giving a shorter notice than in 60(1).	√			
	3.	Is the notice calling general meeting sent to all the shareholders, auditor(s) of the company?	√			
	4.	Accidental omission to give notice to, or the non-receipt of	√			



		notice by any shareholder shall not invalidate the proceedings of the meeting.				
61		Chairman of meeting:				
		Is the board of directors of the company appointing a director as Chairman of the Board of Directors. The Chairman of the Board of Directors shall also be the Chairman of the General meeting, failing him, in the general meeting, the shareholders can elect one amongst themselves as the chairman by show of hands.	√			
62		Saving provision				
		Nothing in section 60 and 61 shall apply to private company unless otherwise specified in its article in this behalf.			√	
63		Representation of corporation at meetings:				
		A body corporate if the shareholders may by resolution of its board of directors authorized a person as it thinks to act as representative at any meeting of the company.	√			
64		Ordinary and special resolution:				
	1.	A resolution shall be an ordinary resolution when at a general meeting the votes cast whether on show of hands or on a poll in favour of resolution by shareholders who vote in person or by proxy exceed the vote if any cast against the resolutions by shareholders so entitled and voting. Is this being followed from considering ordinary resolutions?	√			
	2.	A resolution shall be a special resolution when the intention to propose the resolution has been duly specified in the general meeting. The vote casts in favour of the resolution by shareholders being entitled to do so, vote in person or proxy, are not less than three times the number of votes if any cast against the resolution by	√			



		shareholders. Is this being followed for special resolutions?				
65		Minutes of general meeting and of board:				
	1.	Does the company cause minutes of all proceedings of every meeting of its board of directors or every committee of board to be	√			
	2.	a) Is each page of such book initialled or signed at last page of the minutes of each meeting? Is it dated and signed in case of minutes of board meeting or a committee thereof by the chairman of the same meeting or the chairman of the next succeeding meeting? b) And in case of general meeting by the Chairman of the same meeting within of the meeting?	√			
	3.	In case of meeting of board of directors or a committee of board does the minute contain the name directors present in the meeting and also the name directors dissenting from or not concurring in the resolution.	√			
	4.	Minutes of meeting kept under the section shall be evidence of proceedings recorded therein and unless the contrary is proved the meeting shall be deemed to be duly called and held.	√			
66		Declaration and payment of dividend:				
	1.	No dividend shall be paid by a company for any financial year, except out of the distributable profits of the company for that year arrived at after providing for depreciation or out of profits for any previous financial year or years.	√			
	2.	Distributable profits for this purpose shall mean accumulated realised profits so far as previously not utilized (by way of dividend or capitalization) less accumulated realized losses so far	√			



		as not previously written off.				
	3.	For the purpose of section 66, depreciation shall be as prescribed by the Department of Revenue & Customs, MoF.	√			
	4.	No dividend shall be paid except in cash, cheque or warrant. This subsection does not prohibit the capitalization of profits or reserve of a company for the purpose of issuing fully paid up bonus shares.	√			
	5.	Payment of dividend to the shareholders shall be made within 30 days from the date of its declaration in the AGM.	√			
	6.	Declared dividend not paid within 30 days shall bear interest 15% per annum. This will not apply if the address of the shareholders are uncertain.			√	
	7.	A public company shall not pay dividend if it reduced its net assets below the aggregate amount of its called-up share capital and undistributable reserves such as share premium account, capital redemption reserve, unrealised profits (less unrealised losses unless previously written off) and any other reserves which the company is prohibited from distributing by any statute or by its articles of incorporation.			√	
67		Books of Accounts to be kept by company:				
	1.	Every company shall keep at its registered office proper books of accounts with respect to: a) all sums of money received and expended by the company and the matters in respect which the receipt and expenditure take place b) all sales and purchases of goods by the company c) the assets and liabilities of the company.	√			
	2.	The above books may be kept at				



		<p>other place as the Board of Directors may decide and such decision shall be intimated to the Registrar within 7 days giving full address of such place.</p> <p>Where the company has a branch office, whether in or outside Bhutan, the company shall be deemed to have complied with the provision of subsection (1) if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarized returns, made up to dates at intervals of not more than three months, are sent by the branch office to the company at its registered office or the other place referred to in subsection (1).</p>	√			
	3.	<p>For the purpose of subsection (1) and (2), proper books of account shall be deemed to be kept with respect to the matters specified therein-</p> <p>a) if such books are not kept as necessary to give a true and fair view of the state of the affairs of the company or branch office as the case may be, and to explain its transactions and</p> <p>b) if such books are not kept on accrual basis and according to the double entry system of accounting.</p>	√			
	4.	<p>The books of account and other books and papers shall be open to inspection by any director during business hours.</p>	√			
	5.	<p>The books of account of every company relating to a period of not less than five years immediately preceding the current year together with the vouchers relevant to any entry in such books of account shall be preserved in good order.</p>	√			
68		<p>Inspection of books of accounts, etc. of companies:</p>				



	1.	The books of accounts and other books or the paper and statutory records of every company shall be open to inspection during business hours by (i) the Registrar or (ii) by any such officer of Government as may be authorised by the Government in this behalf.	√			
	2.	It shall be the duty of every director, other officer or employee of company to produce to the person making inspection under subsection (1) all such books of account and other books and papers of the company in his custody or control and to furnish him with any statement/information or explanation relating to the affairs of the company as the said person may require of him within such time and at such place as he may specify.	√			
	3.	If default is made in complying with the provision of the section, the Chief Executive Officer and every director of the company shall be punishable with imprisonment according to the law of the land and fine which shall be not less than Nu. 5000/-.			√	
69		Annual Account and balance sheet:				
		In every general meeting, does the board of directors lay before the meeting the balance sheet as at the financial year and profit and loss account and cash flow statement for the year ended 31 st December every year? Are all the above statement being prepared so as to give a true and fair view of the state of affairs of company as at the financial year and the formats as laid out in schedule XIII A and XIII B? Are the annual accounts of the company being authenticated by not less than one director and the	√			



		CEO on behalf of the board of Directors?				
70		Filing of Balance Sheet with the Registrar:				
	1.	After the balance sheet, profit and loss account and cash flow statements are duly audited and been laid before the annual general meeting a copy thereof as well as director's report shall be filed with registrar along with ten annual return under section 57.	√			
71		Board's report:				
	1.	Does the annual account laid before annual general meeting include (a) report of its board of directors with respect to the state of company's affairs (b) the amount if any which is proposed to transfer to any reserve (c) the amount if any recommended for payment of dividend and (d) the explanation or information on every reservation qualification for adverse remark contained in auditor's report.	√			
	2.	Is the board report being signed by chairman of board of directors and in absence being signed by director including the CEO, authorised in this behalf by board?	√			
72		Appointment and removal of Auditors:				
	1.	Has the company appointed auditor or joint auditor out of panel of auditors maintained by RAA to hold office from the conclusion of the meeting till next annual general meeting? The same auditor appointed for more than three consecutive financial years should be with the previous written approval of RAA.	√			
	2.	In case of Government or Government control company the Auditor General of Bhutan shall be the exofficio auditor.	√			
	3.	Where at an AGM no auditors are				



		appointed or re-appointed the company shall give notice of this fact to the Ministry within seven days of the meeting where upon the ministry in consultation with RAA shall appoint the auditor and fix his remuneration.			√	
	4.	Has the first auditor of the company been appointed on the panel of auditors maintained by RAA? And has remuneration been fixed by board of director until the first annual general meeting?			√	
	5.	Is an Auditor appointed under this section been removed before the expiry of his term only if in the general meeting by a special resolution with prior approval of appointing authority in which the company shall notify the registrar of the removal of auditors within 15 days of passing of resolution? Has the auditor proposed to be removed been given the right to receive a special notice of the annual general meeting at which resolution is to be put up to its shareholders regarding his removal?			√	
73		Resignation of Auditor from office:				
	1.	Has an auditor wishing to resign during his term of office given notice in writing and delivered it to the registered office?			√	
	2.	Is resignation considered to take effect from the date of deposit of his resignation letter to the company unless a later date is specified and is it accompanied by one or two statements leading to its resignation?			√	
	3.	In case of the former, has the auditors been given the right to request the company to convene an extraordinary meeting of 14 days notice to discuss the circumstance leading to its resignation?			√	



74		Powers and duties of auditor:				
	1.	Is every auditor of the company being given the right to access to books of accounts and records of company?	√			
	2.	Has the auditors stated whether he has obtained all the information and explanation to the best of his knowledge and belief where necessary for the purpose of his audit and the balance sheet, profit and loss account and cash flow statements are in agreement with books of accounts?	√			
75		Auditing Standard:				
	1.	Has the auditor been conducting audit in accordance with generally accepted auditing standard keeping in mind the general term of reference and minimum audit examination and requirement issued by RAA annexed here to schedule 14 which may be revised and circulated by the said authority time to time?	√			
DIRECTORS AND THEIR POWER						
76		Number of Directors:				
	1.	Minimum number of directors (1) Public Company - three; Private Company - two directors.	√			5 directors
	2.	Subscribers to the articles shall deem to be the directors of the company until the directors are duly appointed in AGM.	√			
	3.	1/3 rd of directors should retire by rotation, if not mentioned in the article for the retirement of all directors.		√		The resignation of one third of Board Directors was not done since it was getting increasingly difficult to get competent replacement of candidates following the



						RMA introducing stringent fit-and-proper requirements for directors on the boards of financial institutions. It may be submitted that from 2013 AGM onwards scheduled on 10 th March 2014, we will reintroduce earlier practice of retiring one third of the Directors and reappoint them to comply with the provisions of the Companies Act.
77		Additional Directors:				
		Within the limit fixed for the board by article, the board may appoint additional directors.			√	
78		Consent to act as director:				
79	A B C D E	<p>Every person, who has left the office of the company a notice signifying his candidature for the office of the director, shall sign and file his consent in writing to act as a director as set out in schedule II within 30 days of its appointment.</p> <p>Certain persons not to be appointed as director if: Is he/she is involved or declared as insolvent by the court; Has he/she ever convicted by the court of a criminal offence;</p>	√ √			



		Is he/she of unsound mind declared; Is there any outstanding call in respect of shares held by him/her; Is he/she a director of more than five companies.				
80		Resignation by a director:				
		Director may resign from his office by giving notice in writing to the company and such resignation shall be effective from the date of receipt thereof except that of executive officer/a salaried working director.	√			
81		Removal of directors:				
	1.	By ordinary resolution before the expiry of the period of his office			√	
	2.	By the shareholder at least before the general meeting.			√	
	3.	Hearing on the resolution on receipt of notice under subsection (2).			√	
82		Board Meeting:				
	1.	Is the meeting of the Board of directors conducted at least once in every three months and at least four such meeting in every year?	√			
	2.	Whether notice of meeting has been in writing or not?	√			
	3.	Quorum for board meeting shall be 1/3 rd of total strength or two directors whichever is higher otherwise the meeting shall stand adjourned.	√			
	4.	Whether the decisions are taken at the board meeting by majority of directors voting in favour of any resolution?	√			
83		General Powers of the Board:				
	1.	Whether the board of directors are exercising all powers and acts as the company and whether is authorised to exercise or not in general meeting?	√			
	2.	Whether the following powers by the directors by means of resolution has been exercised due to: The powers to make calls on	√			



		shareholders in respect of unpaid money The powers to issue debentures The powers to borrow money The powers to invest the funds of the company The powers to make loans.				
	3.	Whether the Board has delegated its powers to the committee of directors, the Chief Executive Officer or any principal officer of the company.	√			
84		Restriction on Powers of Board:				
	A B C	Whether the Board of Directors without the consent of the company has : Sold, lease or otherwise disposed of the whole or substantially the whole of the undertakings of the company? Remitted or given time for the repayment any debt due by the director to the company? Borrowed money which together with the company's borrowed money exceeds the aggregate of the paid up share capital and the free reserves of the company.	√			
85		Appointment of Chief Executive Officer:				
		Whether the CEO has been appointed for a term not exceeding five years and whether is CEO in any other company or not.	√			
86		Appointment of selling or buying agent:				
		Whether the company has appointed the selling/buying agent who is not a citizen of Bhutan or any foreign company or party or whether it has been with the approval of the Government on payment of fees prescribed in schedule IV or not			√	
87	A B C	Company made any loans to or any other person by: Any director of the lending company?			√	



		Any partnership firm on which such director or his relative is a partner? Any body corporate at the general meeting of which not less than 25 % of the total voting power is exercised or controlled by any such director or two or more directors.				
88		Inter-corporate loan and investments:				
	A B C	Has the public company (not being the holding company): Made any loan to any body corporate, given any guarantee, or provided any security, in connection with a loan made by any other person, or To any person, by any body corporate, Acquired by way of subscription, purchase or otherwise the shares or convertible debentures whether fully or partly of any body corporate.			√	
89		Contracts in which Directors are interested:				
	1.	Are the directors entering into contract without the consent of the Board of Directors for the sale or purchase of any goods, materials or services with a director or his relative or with a partnership firm in which such director is a partner?			√	
	2.	Has any director disclosed the nature of his concern interest to enter into a contract in the meeting to the Board of Directors?	√			
	3.	Has any director other than the private company taken part in any discussion or vote on any contract entered into by the company in which he is concerned? (his presence will not counted to form a quorum at any time of any such discussion/vote and if he does his vote will be void)		√		



90		Companies to have secretaries:				
		Has (the companies whose paid up capital is over Nu. 100 million and listed companies) the company appointed company secretary?	√			
91		Standard of care required of directors:				
		Are the directors of the company in the exercise of his powers and discharges of his duties under the provision or Articles acting honestly and in good faith in the best interest of the company or not?	√			



ANNEXURE - III

OBSERVATIONS ON MEMORANDUM OF INTERNAL CONTROL AND ACCOUNTING SYSTEM

1. Internal Control:

- 1.1 Unmatched entries have been noticed in Branch Clearing General Account Nu. 32,566,924 Debit, details of which is given hereunder:

Total debits: Nu. 259,599,830

Total credits: Nu. 227,032,906

It is suggested that effective action should be taken to clear all such unmatched entries at an early date.

Replies of the Management:

1. The suggestion is noted. The management is fully aware of the issues and is taking corrective action.
2. for the large value transaction above Nu. 1 Million, adjustment to the balance sheet has been carried out and the final balance sheet reflects the net figure of Nu. 32,566,924.44 Dr.
3. We have reviewed the outstanding entries and no material entries are outstanding which affect the P&L.

Further comments of the Auditors: Noted.

- 1.2 Balances with State Bank of India include certain unmatched entries for debit Nu. 40,165,155 and credit Nu. 95,939,906 account-wise details of which are as under:

<u>Account Particulars</u>	<u>Debit Nu.</u>	<u>Credit Nu.</u>
Hasimara CAD	---	44,408,705
Hasimara NOSTRO	20,708,910	32,315,998
Birpara CAD	1,208,600	2,059,518
Reimbursement A/c CAD	---	14,755,839
Reimbursement A/c NOSTRO	16,784,192	669,075
Calcutta CAD	250,000	---
Calcutta NOSTRO	<u>1,213,453</u>	<u>1,730,771</u>
TOTAL	<u>40,165,155</u>	<u>95,939,906</u>

We note that reconciliation of balances with State Bank of India is an ongoing process. However early adjustment of above pending entries would clean up the Balance Sheet of the Bank to a large extent. An age-wise analysis of unmatched entries still remaining unadjusted on date has also been given in Exhibit - A.

Replies of the Management:

The suggestion is noted. The management is fully aware of the issues and is taking corrective action.

Further Comments of the Auditors: Noted.



- 1.3 Balances with other Banks also include certain unmatched entries of Debit Nu. 74,305,075 and Credit Nu. 194,711,112, details of which are given hereunder:

<u>Bank Particulars</u>	<u>Debit Nu.</u>	<u>Credit Nu.</u>
Standard Chartered Bank, Calcutta CAD	886,080	1,364,340
Standard Chartered Bank Calcutta NOSTRO	2,100	6,808,036
HDFC CAD	---	2,003,330
HDFC NOSTRO	---	29,007,375
Axis Bank Siliguri CAD	54,926,659	95,590,452
Axis Bank Siliguri NOSTRO	---	54,651,755
Bank of India Master Card Mumbai Overseas	104,127	----
Bank of India Master Card MO NOSTRO	65	2,216,097
Bank of America - Visa Mumbai CAD	725,799	----
Bank of America - Visa Mumbai NOSTRO	17,660,244	3,069,727

We suggest that early action should be taken to match and adjust above.

Replies of the Management:

The suggestion is noted. The management is fully aware of the issues and is taking corrective action.

Further comments of the Auditors: Noted.

- 1.4 Bills Payable includes Cash Warrants remaining outstanding for more than 3 years, amounting to Nu. 21,900,012. We would suggest that effective steps should be taken to reconcile and adjust above balances at an early date.

Replies of the Management:

The suggestion is noted. The management is fully aware of the issues and is taking corrective action.

Further comments of the Auditors: Noted.

- 1.5 Bills Payable also includes BOB Draft Account Nu. 83,121,651, which remained unadjusted for considerable period. We would suggest that action should be taken to adjust the above.

Replies of the Management:

The suggestion is noted. The management is fully aware of the issues and is taking corrective action.

Further comments of the Auditors: Noted.

- 1.6 We have noticed overdrawn (debit) balances under Savings Deposit Accounts and Current Deposit Accounts to the tune of Nu. 941,253 and Nu. 440,867 respectively as on 31st December, 2013. Although the Bank does not have any scheme of allowing overdrawings against Savings and Current Accounts, we have been informed that such overdrawings had been allowed due to lack of effective control in the Computer installations (CBS). We have also been informed that management has taken steps to block such overdrawings and also to recover the money from the customers. It appears that extent of recoverability of the amount is not presently ascertainable.



This reveals serious loophole in the system of internal control through Computer installations.

Replies of the Management:

1. *The Dr balances have been fully provided for. However, the efforts to recover the outstandings continue.*
2. *We believe that the system fix which has been implemented recently, is working satisfactorily and no new accounts have been overdrawn in the last three months.*
3. *We have noted the suggestion and we will continue to monitor the situation*

Further comments of the Auditors: Noted.

- 1.7 A major fraud was discovered by the Management during the year at Punakha Branch, involving embezzlement and loss of fund to the tune of Nu. 6,924,521.71 details of which were as under:

Sl. No.	Observation category	No. Of observations	Amount (Nu.)
1	Embezzlement of funds by directly debiting Inter Branch Flexcube GL (IB GL)	21	3,680,472
2	Misappropriation of Cash Warrant Granted (CWG) Account	2	639,715
3	Embezzlement of fund from Deposit Call Account (DCA)	6	799,045
4	Misuse of fund from Recurring Deposit (RD) Account and RD Interest Account	1	25,000
5	Forgery and embezzlement from Customers' Savings Account	4	515,000
6	Suspicious transactions	4	1,265,289
	Total	38	6,924,521

We have been informed that above were committed by 4 employees of the Bank over a period of time. We have also been informed that the above occurred due to unauthorised access to the Computer applications. We note that the Bank has taken effective steps to prevent occurrence of such fraudulent activities through system applications in future. Also Bank has made adequate provision for the loss.

Replies of the Management:

1. *As soon as the bank detected the fraud and embezzlement of money by the employees, all appropriate measures of suspending of the accused as well as filing criminal charges was done. The case being fraud and embezzlement it happened to be under the purview of the ACC and accordingly the ACC has taken the case, sanitized our findings and forwarded the case to the OAG for prosecution. The case has been filed and the hearing/recovery suit/litigation is in full swing at the Punakha Dzongkhag Court.*
2. *Being prudent and taking on board the suggestions, we have made a provision of approximately Nu. 5.7 million. Of the amount shown above Nu. 500,000 under Sl. 5 has been recovered and some other amounts has also been adjusted.*
3. *The fraud was perpetrated by key staff of the branch who consciously violated the banks rules and procedures in collusion. The bank has since strengthened its internal controls and processes to ensure that such fraud do not recur in future.*



Further comments of the Auditors: Noted.

- 1.8 Certain other activities involving loss of cash / fund have also been noticed as under:

Nanglam Branch Wrong payment of RTGS Nu. 230,000

Thimphu Main Branch Signature forgery Nu. 90,000

We note that adequate provisions have been made for all the above cases.

Replies of the Management:

Nanglam Br.: Matter being followed up with beneficiary bank through Axis Bank..

Thimphu Br.: Culprit sentenced to 3 year prison by District Court, Thimphu. Recovery under process as per the court verdict. Erring officials penalized by withholding one increment each.

Further comments of the Auditors: Noted.

2. Other Liabilities and Provisions:

- 2.1 Other Liabilities and Provisions include following amounts relating to Visa / Master Card transactions which have remained unadjusted for considerable period:

Merchant Settlement Account	Nu. 273,850
Visa Debit POS Payable	Nu. 2,405,650
Visa Debit ATM Payable	Nu. 40,259,571
Visa Intl. Card POS Payable	Nu. 1,254,902
Visa Intl. Card ATM Payable	Nu. 588,574

We suggest that above should be adjusted at the earliest.

Replies of the Management:

Account Name	Outstanding as on 31/12/2013	Adjusted in Jan& Feb 2014
Merchant Settlement Account	273,850.25	71.49% adjusted, balance under investigation
Visa Debit POS Payable	2,405,650.16	Since fully adjusted
Visa Debit ATM Payable	40,259,570.92	73.56% adjusted, balance under investigation
Visa Intl. Card POS Payable	1,254,902.24	Since fully adjusted
Visa Intl. Card ATM Payable	588,573.68	Since fully adjusted

Investigation is ongoing to clear the balance outstanding entries and also a review of the process to ensure that such outstanding entries do not remain for long.

Further comments of the Auditors: Noted.

- 2.2 Other Liabilities and Provisions also include following amounts which remain unadjusted:



Unclaimed Balance	Nu. 1,861,187
Unclaimed Credit received from Axis Bank	Nu. 5,112,922. (since 2007-08)
Matured FDR	Nu. 11,562,365

It is suggested that action should be taken to liquidate the above.

Replies of the Management:

1. *Efforts are ongoing to clear the balance outstanding entries.*
2. *The unclaimed amount received from Axis bank represents transactions where the beneficiary details are unavailable despite our best efforts. Same will be paid out when there is any claim and after conducting due diligence.*
3. *The unclaimed matured FD represents FD's matured and not claimed by the beneficiary. Beneficiary details are unavailable. Same will be paid out when there is any claim and after conducting due diligence.*
4. *The unclaimed balance figure of Nu. 1,861,187.34 represents excess cash found over the years. The management will seek guidance from the Board on disposing off this amount.*

Further comments of the Auditors: Noted.

3. Overdrafts and Loans:

- 3.1 In course of our scrutiny and review of loans and overdrafts we have noticed certain common deficiencies in almost all the Branches visited by us with regard to documentations for the loans and overdrafts. We feel that such lacunae in documentation should be addressed immediately and the Branches should be asked to comply with all the procedures adopted by the Bank relating to loan appraisals and document the same adequately.

Replies of the Management:

Observation noted. Branches have been instructed to rectify

Further comments of the Auditors: Noted.

- 3.2 We have noticed that in certain Branches the balances of loan as per Statement generated by the Computer do not reconcile with the General Ledger balances, particularly in Thimphu Main, Paro and Wangdi Branches. We suggest that the issues should be taken up immediately.

Replies of the Management:

The observation is valid.

The bank has implemented several reporting mechanism viz. Internet Banking, Flexcube Host (Canned Reports), Desktop Intelligence (Fat Client), Business Objects Infoview (Thin Client-Web Based) initially. The bank is standardizing the report generation process so that such discrepancy does not occur.

Further comments of the Auditors: Noted.

- 3.3 We have noticed that as per Loan Statement if Borrowers generated by CBS, the interest applied and the interest paid as per EMI, in some cases, do not match resulting in negative balances of interest in the accounts of such Borrowers. At times negative balances of interest appear even though there is no outstanding principal amount. As a result of above mismatch in the CBS Loan Statement, the break up of outstanding Principal and Interest as per RMA Statement (generated for the purpose of provisioning) do not match with those as per CBS Statement. However, total



outstanding does tally. This should be immediately addressed and set right at the earliest.

Branches: Thimphu Main, Paro, Wangdi, Punakha, City.

Replies of the Management:

We acknowledge the observation. During implementation of the CBS, there was some issue with data migration due to which some accounts have a mismatch. Mismatch data is being taken up on a case by case basis.

Further comments of the Auditors: Noted.

- 3.4 We have noticed certain specific observation in respect of loans and overdrafts pertaining to the Branches visited by us, details of which are given in Exhibit – A.

Replies of the management:

Replies have been given under specific observations.

Further comments of the Auditors:

4. Fixed Assets:

- 4.1 We have observed that in most cases code numbers have been indicated on the individual assets but such code numbers have not been indicated in the Assets Register as a cross reference. We would suggest that cross reference of code numbers should be indicated in the Assets Register. This would facilitate reconciliation of assets.

Replies of the Management:

As pointed out, the code numbers are not reflected in the Assets Register as of now. However, the Management from now onwards shall stipulate code numbers in the Assets Register for the purpose of cross reference and record. Further, the same is being planned to cover in the Enterprise Resource Planning (ERP) as the same is in the process of adoption in the bank.

Further comments of the Auditors: Noted.

- 4.2 It has been noticed that in Paro Branch fixed assets include certain damaged / stolen items which have not been removed from Fixed Assets and depreciation on the same continue to be charged. We feel that depreciation on non-existent asset should not be charged. We have been informed that a list of such assets has been sent to Head Office for obtaining approval for disposal. We would suggest that such assets should be taken out of the Assets Register and a separate record maintained for the same.

Replies of the Management:

The Management was fully cognizant of the above issue prior to the observation made by the auditors. Therefore, in order to address this issue, the Head Office has already collected all the details of such items.

To ascertain the facts and figures, a thorough verification exercise on such assets was completed. Upon completion of the final review and verification by the Head Office, the proposal to this effect shall be submitted to the Board for write-off/disposal.

Further comments of the Auditors: Noted.



5. Cash:

- 5.1 We have conducted physical verification of cash at the Branches visited by us. In course of our physical verification of ATM cash we have noticed differences, details of which are given in Exhibit – B.

Replies of the Management:

1. Due to connectivity issue between the ATMs and the data centre sometimes account is Dr. but cash is not physically dispensed hence generation of excess cash cannot be ruled out. This is however monitored and the bank has a process to account for such instances.
2. For shortage of cash, we are examining the issue from the system and we are proposing to put in place a preventive system shortly.

Further comments of the Auditors: Noted.

- 5.2 In respect of following Branches, the Branches have exceeded Cash Retention limit on different dates during the year:

Bazar, Gomtu and Gedu.

Details of such cases have been indicated in Exhibit – C.

Replies of the Management:

We have noted and will shortly put a system of reporting, approval and insurance cover.

Further comments of the Auditors: Noted.

6. Stationery and Security Forms:

- 6.1 No Stationery Stock Register has been made available to us at the Punakha Branch. We suggest that immediate steps should be taken to maintain a Stationery Stock Register in order to exercise adequate control over stationery and security form items.

Replies of the Management:

Noted and register has since been introduced.

Further comments of the Auditors: Noted.

In conclusion, we would like to place on record our grateful appreciation for the courtesy and co-operation extended to us at levels of the Management of the Bank.



EXHIBIT - A

**BRANCH-WISE OBSERVATIONS ON APPRAISALS AND
DOCUMENTATIONS OF LOANS AND OVERDRAFTS**

Wangdi Branch:

- (i) Relevant Mortgage Deed in respect of House Loan of Nu. 2 million sanctioned to Lekimo on 3/9/2010 (Account No. 013 MORT 00101) was not made available to us. Present outstanding amount in this account is Nu. 1,524,574.09.

Replies of the Management:
Branch instructed to obtain and submit.

Further comments of the Auditors:
Final comment would be made on verification of Mortgage Deed.

- (ii) Home Loan of Nu. 4.5 million was originally sanctioned 7/10/2009 to Kinley Wangmo. The borrower requested to increase the loan on 3 occasions and the said loan was increased on 3 occasions to 5.4 million, 6.4 million and finally to Nu. 7.4 million on 4/11/2011. The value of security remains at Nu. 8.19 million, such increase of loan have resulted in reduction of margin of safety from original 40% to present 9.5%. Construction of the building was completed in November, 2011 and hence justification for increase of loan made in November, 2011 could not be ascertained. Repayment schedule for principal loan commenced from January 2012.

Replies of the management:
Observations noted. BOBL engineer has been deputed for revaluation.

Further comments by the Auditors:
Matter would be reviewed on obtaining revaluation of the Engineer.

Punakha Branch:

- (i) Overdraft of Nu. 2,500,919 in the name of Tenzin Dendrup (Account No. 40102077044030011) remain outstanding. Loan was sanctioned on 11/02/2011 for Nu. 2,500,000. Loan expired on 31/03/2013 and last reminder was posted on 25/4/2013. No legal action has so far been initiated.

Replies of the management:
The client has a legal issue with the Department of Revenue & Customs and therefore renewal of clients license is pending. Branch has been instructed to serve legal notice.

Further comments of the Auditors: Noted.



- (ii) Home Loan of Nu. 3 million was sanctioned in the name of Tshewang Pelden, secured against Land and 3-storied Building under construction. The construction had been completed but no insurance document was available on record for the above.

Replies of the management:

The insurance has expired and have requested the client to renew.

Further comments of the Auditors: Noted.

- (iii) Home Loan of Nu. 12.12 million was originally sanctioned on 03/06/2011 to Mr. Rinzin Wandue and Mrs. Pasang Wandue (Account No. 020HOMC000081) for construction of a 3-storied building. At the time of original sanction, estimated cost of construction of the building was Nu. 16.16 million, as certified by the Civil Engineer of BoB. The building was required to be completed within 1 year and a reminder was served on the borrowers on 21/11/2012 for non-completion of the building. Subsequently the borrowers submitted a revised estimate of construction cost for Nu. 29.43 million, and applied for additional loan of Nu. 10 million. On that basis the BoB sanctioned additional loan of Nu. 8 million. The building has not been completed up to 31/12/2013 and entire outstanding amount is considered as sub-standard. It appears that sanctioning of additional loan was not made on the basis of proper cost estimation, which escalated to about two times of original estimate within a span of 2 years.

Replies of the management:

The Borrower was unable to complete. The initial estimate by BOBL engineer was based on Bhutan Schedule of Rates (BSR) 2005. Now the new estimate of Nu. 29.42 million was arrived based on revised BSR 2013 and at the same time there was one additional floor. The estimate done by BOBL engineer is enclosed.

Further comments of the Auditors:

Estimation of additional floor should have been done separately instead of the entire building. As the building have been under construction and was to be completed with 2013, cost escalation should have been applied only to cost of additional floor.

- (iv) Following Mortgage Loans were sanction to Mr. Phurba:

A/c. No: 020MORT000342 - Sanctioned: Nu. 900,000

Outstanding: 991,451

A/c. No: 020MORT000343 - Sanctioned : Nu. 900,000

Outstanding: 881,341

A/c. No: 020MORT000344 - Sanctioned: Nu. 392,000

Outstanding: 431,224

A/c. No: 020MORT000345 - Sanctioned: Nu. 454,000

Outstanding: 499,912



Application for above loans were made on 17/01/2012 and sanctions accorded on 18/01/2012.

In respect of Loan No. 344, the signature of Mr Phurba as the mortgagee do not match with his signature as the borrower placed on record. In respect of other 3 Mortgage Deeds, guarantor's thumb impressions were taken but those were not supported by necessary declaration letters of the Witness.

Presently the Loans are considered as Loss Asset, but no reminder letter to the borrower was kept on record.

Replies of the management:

Observation noted.

1. Bank has since instituted control report for exercise of Delegation of power to avoid misuse;
2. Mortgage loan limits have been reduced to Nu. 5 million;
3. Disciplinary action has been taken against the concerned;

Further comments of the Auditors: Noted.



EXHIBIT - B

DIFFERENCES NOTICED ON PHYSICAL VERIFICATION OF ATM CASH

Branch	No. of ATM	General Ledger balance	Physical balance	Excess	Short
Thimphu Main	ICN00218	3,242,550	3,243,050	500	
	ICN00203	2,728,350	2,284,000	50	
	ICN00216	3,173,850	3,173,450		400
	ICN00210	2,171,600	2,171,800	200	
Paro	ICN01403	1,154,400	1,164,400	10,000	
	ICN01401	772,850	777,850	5,000	
Wangdi	ICN0131301	613,000	571,000		42,000
	ICN0131305	72,000	33,000		39,000
City	ICN000206	183,600	190,500	6,900	
Phuentsholing Main	ICN00102	1592500	1,596,100	3,600	
	ICN00101	2588050	2,650,800	62,750	
	ICN 00103	1662600	1,587,500		75,100
	ICN 00105	1787200	1,735,200		52,000
Bazar	ICN 00104	3,023,600	3,035,600	12,000	



EXHIBIT - C

CASH RETAINED IN EXCESS OF THE LIMITS

Sl.No	Branch Name	Cash Retention Limit set by H.O. Nu.	Date	Balance as per Cash Book Nu.	Excess Amount Nu.
1	Phuentsholing Bazaar	4,000,000	08/10/2013	4,433,415.21	433,415.21
			05/11/2013	4,427,331.24	427,331.24
			09/12/2013	4,128,204.17	128,204.17
			24/10/2013	4,201,849.00	201,849.00
			09/09/2013	4,033,673.80	33,673.80
2	Gomtu	20,000,000	26/11/2013	22,022,527.06	2,022,527.06
			27/11/2013	21,973,433.83	1,973,433.83
			28/11/2013	22,940,035.82	2,940,035.82
			29/11/2013	23,885,753.82	3,885,753.82
			30/11/2013	21,561,633.99	1,561,633.99
			16/09/2013	27,507,903.42	7,507,903.42
			17/09/2013	28,143,364.92	8,143,364.92
			18/09/2013	29,904,653.30	9,904,653.30
			19/09/2013	30,338,072.69	10,338,072.69
3	Gedu	20,000,000	02/04/2013	27,129,157.58	7,129,157.58
			03/04/2013	26,296,251.08	6,296,251.08
			04/04/2013	26,639,746.05	6,639,746.05
			05/04/2013	25,976,426.49	5,976,426.49
			06/04/2013	27,013,630.76	7,013,630.76
			08/04/2013	24,649,256.79	4,649,256.79
			09/04/2013	22,328,966.93	2,328,966.93
			10/04/2013	22,829,153.30	2,829,153.30
			11/04/2013	22,223,030.05	2,223,030.05
			12/04/2013	22,387,662.61	2,387,662.61
			13/04/2013	21,756,190.39	1,756,190.39
			15/04/2013	22,311,882.45	2,311,882.45
			16/04/2013	22,049,566.45	2,049,566.45
			17/04/2013	20,393,429.16	393,429.16
			18/04/2013	20,687,368.04	687,368.04
			19/04/2013	20,287,521.04	287,521.04
			06/08/2013	20,706,000.00	706,000.00
			07/08/2013	20,950,000.00	950,000.00
			08/08/2013	20,864,000.00	864,000.00
			12/08/2013	21,583,000.00	1,583,000.00
			13/08/2013	22,172,000.00	2,172,000.00
			14/08/2013	23,166,000.00	3,166,000.00
			05/09/2013	21,619,440.00	1,619,440.00
			06/09/2013	21,453,512.70	1,453,512.70
			07/09/2013	21,619,000.00	1,619,000.00
			09/09/2013	22,206,000.00	2,206,000.00



ANNEXURE - IV

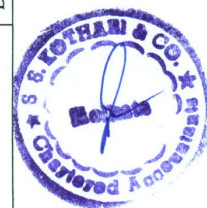
FOLLOW UP REPORT OF EARLIER YEAR'S AUDIT COMMENTS ON THE ACCOUNTS FOR THE YEAR 2012

Fully implemented - 8
 Partially implemented - 6
 Not implemented - 0
 Total Numbers - 14

Sl. No.	Para No.	Observations in brief	Management's response - current status	Status of Compliance
1	Qualification in Main Audit Report : Para i)	The outstanding entries in respect to Branch Clearing Adjustments / Inter Branch Flexcube have been reconciled up to 31.12.2012.	<ol style="list-style-type: none"> 1. Reconciled and the difference is static 2. Inter Branch Flexcube manual entries has been blocked 3. All old BCG has been adjusted, the outstanding pertains to current entries 	Partially implemented.
2	Qualification in Main Audit Report : Para i)	Balances with State Bank of India (SBI), other banks including NOSTRO Accounts, Bills Payable Accounts are reconciled up to 31.12.2012 subject however to some entries in Bank of Bhutan Resident Rupee Account & Bank of Bhutan Resident Account with SBI aggregating to credit balance of Nu. 16,859,561.86 (Previous year Nu. 17,313,270.06) and relating to the periods 1972 - 2000 which are pending reconciliation till date despite best efforts on the part o the bank. The Bank has decided to surrender to RMA subject to mutual consent of SBI.	Nu. 16.86 was already surrendered to RMA with mutual consent of SBI and Board's approval	Partially implemented



3	Qualification in Main Audit Report : Para ii)	Receivables / Payables in respect of VISA/MASTER CARD 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.	In 2013, we have made provision for unreconciled debits including older transactions where resolution appears difficult.	Implemented, in view of adequate provisioning.
1	Para 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.	Physical verification of all the branches is completed and Nu. 0.9 million write off is expected.	Partially implemented
2	Para 3	Physical verification reports of fixed assets of only 12 branches have been furnished to us.	All done	Implemented
3	Para 4	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 Savings account which have to be rectified manually. Further, few cases of negative withdrawals in savings account were also noticed. The same as explained to us is under technical investigation and recovery.	1. Interest accounts are verified 2. Negative withdrawal impact on P & L is less than 0.1 million on SB account 3. Provision is fully made for negative balances	Implemented, in view of provision made.
4	Para 7	In the case of Provident Fund, as explained to us, the same is deducted and deposited as on the date of payment of employees' salary in the separate savings account with Phuentsholing 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	1. Balance Sheet as at 30.06.2013 is prepared and certified by CFO. Balance Sheet for 31.1.2013 is under preparation 2. Under Bhutan's law, a structure of a trust is not recognised. We have created a quasi trust which oversees the management of the quasi trust.	Partially implemented.



		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, Savings 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.		
5	Para 10	The missing security forms (BOB Ltd Draft book) vide reference number series 464001 - 464050 could not be produced for verification.	1. Confirmed non-payment of the said security form from all the branches. 2. Stop payment notice against the said security serial numbers issued.	Implemented.
6	Loans and Investments : Para 3	In case of Overdraft Loan Account the Drawing Power Register was not found to have been updated in some cases and was subsequently updated.	Incorporated in the revised Credit Manual and made mandatory.	Implemented.
7	Operations at Branches: Para 1(a)	On physical verification of cash at Bumthang, excess cash of Nu. 175 was noticed.	The excess cash has been credited in the sundry account and strict monitoring done on cash balance during business closing.	implemented
8	Operations at Branches: Para 1(b)	On physical verification of cash at ATMs following excess cash balances compared to General Ledger balances were noticed: Bumthang: ATM ID-1CN01201 : Excess Nu. 450 Wangdi: ATM ID-1CN01301 : Excess Nu. 3,500 Punakha: ATM ID-1CN02001 : Excess Nu. 1,200 Above were on account of delay in updating of balances on BOBL server at the Head Office due to communication lines.	Paid to the customers respective accounts upon receiving claims from the customers.	Partially implemented.



9	Operations at Branches: Para 2	In case of reconciliation of inter-branch entries, the 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 remained un-reconciled since 2009.	Written off with approval from the Board.	Implemented
10	Management Control: Para 1	An endeavour should be made to cover the audit of all the branches and all divisions at Head Office in one financial year itself.	Covered as per annual audit plan approved by the Board Audit Committee.	Implemented
11	Computerised Accounting Environment: Para 4	It is recommended that Information Systems Audit need to be 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 savings deposits needs to be rechecked specifically. Similarly, command for application of service charges in savings deposits needs to be rechecked.	<ol style="list-style-type: none"> 1. System audit was conducted in 2012. 2. Review of interest payable & receivable is carried out periodically on all accounts and adjustments made accordingly. 3. Running of command on application of savings account service charges are monitored and recovered accordingly. 	Partially implemented.



S. S. KOTHARI & CO.

CHARTERED ACCOUNTANTS

S.S. KOTHARI
R.K. ROYCHOUDHURY
T.K. SENGUPTA
P.K. BHATTACHARYA

B.Com., C.T.A. (LOND), F.C.A.
B.Sc., B.Com., F.C.A.
B.Com., LL.B., F.C.A.
B.Com., F.C.A.

K.S. MEHTA
R.N. BARDHAN
A. DATTA
NAVEEN AGGARWAL

B.Com., A.C.I.S. (LOND), F.C.A.
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Phone : 2248-0279/2758 Res : 2289-1398
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AUDITORS' REPORT

TO THE MEMBERS OF BOB SECURITIES LIMITED

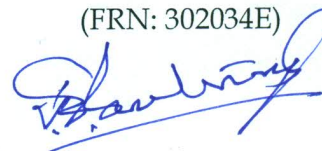
1. We have audited the attached Balance Sheet of BOB Securities Limited (the Company) as at 31st December, 2013 and the related Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date annexed thereto (in which are incorporated the general ledger balances of twenty one branches not visited by us). 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.
2. We conducted our audit in accordance with the generally accepted auditing standards and in keeping with the 'General Terms of Reference and Minimum Audit Examination Reporting Requirements' issued by the Royal Audit Authority, as given in Schedule XIV of the Companies Act of the Kingdom of Bhutan, 2000. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidences 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 presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by Section 75 of the Companies Act of the Kingdom of Bhutan, 2000 read with Section II of Schedule XIV thereto (the Minimum Audit Examination and Reporting Requirements) we enclose in the Annexure - I a statement on the matters specified therein, to the extent applicable to the Company.
4. Further to our comments in the Annexure - I referred to in paragraph 3 above, we report that:
 - a. Our examination was made in accordance with the generally accepted accounting standards and accordingly included such tests of accounting records and such other auditing procedures as we considered appropriate for the purposes of our audit.
 - b. 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.
 - c. In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of the books.
 - d. 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 that the financial statements are in agreement with the books of account.



- e. Without intending to qualify we would invite your attention to the matters stated in Note No. 1 in Schedule B regarding adoption of Accounting Standards (BASs) by the Company
- f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with Significant Accounting Policies at Schedule A and Notes on Accounts at Schedule B, give the information required by the Companies Act of the Kingdom of Bhutan, 2000 in the manner so required and
give a true and fair view:
 - a) In the case of Balance Sheet, of the state of affairs of the Company as at 31st December, 2013;
 - b) In the case of Profit and Loss Account, of the Loss of the Company for the year ended on that date, and
 - c) In the case of the Cash Flow Statement, of the movement of cash of the Company for the year ended on that date.

Dated, the 7th day of March, 2014
Kolkata

For S. S. KOTHARI & CO
Chartered Accountants
(FRN: 302034E)



(P. K. BHATTACHARYA)
Partner
Membership No: 015899

ANNEXURE - I

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

(REFERRED TO IN PARAGRAPH 3 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 at all locations have been physically verified by the management during the year and no discrepancy was noticed on such physical verification.
2. None of the Fixed Assets have been revalued during the year.
3. The Company has taken secured loan from the Holding Company, Bank of Bhutan Ltd., and the terms and conditions and rate of interest for the said loan are not prejudicial to the interest of the Company. Other than that, the Company has not taken / granted any loan from / to any company under the same management.
4. 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..
5. As per information and explanations given to us, there is no transaction of purchase and sale of goods and services made in pursuance of contracts or arrangements entered into with the directors or any other party related to the directors or with company, or firm in which the directors are directly or indirectly interested.
6. As informed to us, there is no unserviceable asset as at 31st December, 2013.
7. The Company is regular in depositing rates and taxes, duties and other statutory dues with the appropriate authorities.
8. There is no undisputed amount payable in respect of rates, taxes, duties and other statutory dues outstanding at the year end.
9. According to the information and explanations given to us, and on the basis of our checking of the accounts and other books and records, to the best of our knowledge, no personal expenses have been debited to the Profit & Loss Account other than those payable under contractual obligations / service rules.
10. Quantitative reconciliation is carried out for in respect of shares and bonds traded in by the Company.
11. The management of liquid resources by the Company is adequate and excessive amounts are not lying idle in non-interest bearing accounts.
12. According to the information and explanations given to us, and on the basis of examination of books and records, in our opinion and to the best of our knowledge, the activities carried out by the Company are lawful and intra vires to the Articles of Incorporation of the Company.



13. On the basis of our verification and according to the information and explanations given to us, the Company has a regular system of approval of the Board for all capital investment decisions. Investments in new projects are made after considering the technical and economic feasibility of such ventures.
14. The Company has not introduced budgetary control system.
15. According to the information and explanations given to us, the directives of the Board have been complied with.
16. On the basis of information received from the management and to the best of our knowledge, the officials of the Company have not transmitted any price sensitive information which are not made publicly available, unauthorised to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
17. On the basis of our examination and to the best of our information and according to the explanations given to us, proper records of transactions and contracts have been maintained and timely entries have been made therein in respect of dealing or trading in shares, securities and other investments made by the Company.
18. On the basis of our examinations and to the best of our information, we are of the opinion that no provision is required for permanent diminution in the values of shares in which investments have been made by the Company.

COMPUTERISED ACCOUNTING ENVIRONMENT

1. The Company has not established any Computerised Accounting Environment.

GENERAL

1. Based on the net asset position reflected by the Company's Balance Sheet as at 31st December, 2013 and audited by us in accordance with the generally accepted auditing standards and on the basis of such other tests as we considered necessary in this regard, we have no reason to believe that the Company is not a going concern on the Balance Sheet date.
2. Ratio Analysis:
Significant ratios indicating the financial health and profitability of the Company are given in Exhibit - A to this Annexure.

COMPLIANCE WITH THE COMPANIES ACT OF THE KINGDOM OF BHUTAN

According to the information and explanations given to us by the management the Company has complied with all the provisions of the Companies Act of the Kingdom of Bhutan, 2000.

ADHERENCE TO THE LAWS, RULES AND REGULATIONS

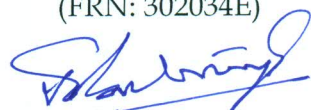
1. *It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Company, except the provisions contained in the Companies Act of the Kingdom of Bhutan, 2000, as comprehensive Compliance Reporting*



and Recording System of the Company in this regard is currently not in place. However, any non-compliance or departure from accepted practice and approved systems / procedures having effect on financial statements that came to our notice during the course of our audit have been indicated by the way of notes on accounts.

Dated, the 7th day of March, 2014.
Kolkata.

For S. S. KOTHARI & CO.
Chartered Accountants
(FRN: 302034E)



(P. K. BHATTACHARYA)

Partner

Membership No: 015899



[illegible]

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

Directors :

Danche Tenzin

FOR S.S. KOTHARI & CO.
CHARTERED ACCOUNTANTS
FRN No:302034E

Date: _____
Place: _____

2 March 2014
Karl



Nipun Bhatia
Sonam Tshering
Dophu Dorji
Chairman/Interim Chief Executive Officer

FRN No:302034E

[Signature]

(P. BHATTACHARYA)

(P.K. BHATTACHARYA)
PARTNER
M. NO:-015899

BOB SECURITIES LIMITED
Profit and Loss Account

Expenditure	Previous Year	Current Year	Income	Previous Year	Current Year
Salary	434,230.00	515,895.00	Brokerage & Commission	833,448.50	737,045.00
Allowance	234,020.00	341,533.25	Interest	136,245.78	162,333.97
Employer's Contribution to PF	47,764.00	56,753.00			
Printing & Stationery	-	19,500.00			
Annual Membership Fees	75,000.00	75,000.00			
Trading Fees	237,982.29	200,962.96			
Licence Fees	14,700.00	4,000.00			
Sitting FEE	19,000.00	-			
Training Fee	15,000.00	-			
Audit Fees	61,800.00	25,000.00			
Interest on Overdraft	-	26,998.03			
Advertisement	-	59,315.50			
Travelling Expenses	147,058.50	22,151.00			
Telephone	8,212.00	27,600.79			
Postage	-	7,460.00			
Newspaper & Magazines	155.00	2,275.00			
Repairs & Maintenance	-	28,481.50			
Miscellaneous Expenses	20,259.00	15,330.00			
Depreciation	15,909.36	28,542.71			
			Loss for the year carried down	361,395.87	557,419.77
	<u>1,331,090.15</u>	<u>1,456,798.74</u>		<u>1,331,090.15</u>	<u>1,456,798.74</u>
Loss for the year brought down		557,419.77			
			Balance brought forward from previous year	1,717,262.71	1,717,262.71
Balance carried to Balance Sheet		<u>1,159,842.94</u>			
		<u>1,717,262.71</u>			<u>1,717,262.71</u>

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

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

Directors :

Damche Tenzin

Nipun Bhatia

Date: 7 March, 2014
Place: Kolkata

Sonam Tshering

Dophu Dorji
Chairman/ Interim Chief Executive Officer

FOR S.S. KOTHARI & CO.
CHARTERED ACCOUNTANTS
FRN No:302034E

(P.K.BHATTACHARYA)
PARTNER
M. NO:-015899



BOB SECURITIES LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

	For the year ended 31-12-2013	For the year ended 31-12-2012
Net Cash Flow from Operating Activities (Note 1)	1,265,862.08	(498,067.87)
Return on Investments and Servicing of Finance (Note 2)	162,333.97	(63,754.22)
Taxation	-	-
	<u>162,333.97</u>	<u>(63,754.22)</u>
Capital Expenditure (Note 3)	-	(148,784.75)
Net Cash Inflow / (Outflow) from Investment Activities	-	<u>(148,784.75)</u>
Net Cash Inflow / (Outflow) before Financing	1,428,196.05	(710,606.84)
Financing	-	-
Management of Liquid resources	-	-
Net Cash Inflow / (Outflow) from Financing	<u>-</u>	<u>-</u>
Net Cash Inflow / (Outflow)	<u>1,428,196.05</u>	<u>(710,606.84)</u>
Increase / (Decrease) in Cash (Note 4)	<u>1,428,196.05</u>	<u>(710,606.84)</u>

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

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

Directors :

Damche Tenzin

Nipun Bhatia

Sonam Tshering

Dophu Dorji

Chairman/ Interim Chief Executive Officer

Date: 7 March, 2014
Place: Kolkata

FOR S.S. KOTHARI & CO.
CHARTERED ACCOUNTANTS
FRN No:302034E

(P.K.BHATTACHARYA)
PARTNER
M. NO:-015899

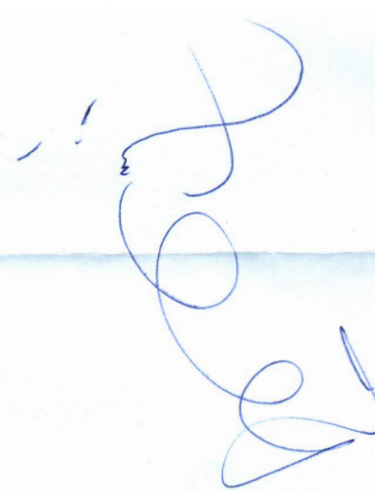


BOB SECURITIES LIMITED
NOTES FORMING PART OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31.12.2013

	For the year ended-		or the year ended	
	31-12-2013.	31-12-2012.		
	Nu.	Ch.	Nu.	Ch.
1 Net Cash Flow from Operating Activities:				
Net Profit before tax	(557,419.77)		(361,395.87)	
Add : Depreciation Charges	28,542.71		15,909.36	
	(528,877.06)		(345,486.51)	
Less: Interest on fixed deposits	(162,333.97)		(136,245.78)	
	(691,211.03)		(481,732.29)	
(Increase)/Decrease in current Asset	(178,068.75)		103,810.39	
Increase/(Decrease) in current Liabilities	2,135,141.86		(120,145.97)	
	1,265,862.08		(498,067.87)	
2 Return on Investments and Servicing of Finance:				
Investment in gurantee fund	-		(200,000.00)	
Interest Received	(162,333.97)		136,245.78	
	(162,333.97)		63,754.22	
3 Capital Expenditure				
Payment to acquire tangible fixed assets	-		(147,384.75)	
Payment to acquire Intangible fixed assets	-		(1,400.00)	
	-		(148,784.75)	
4 Increase/(Decrease) in cash and bank balances:				
Closing Balance	3,407,577.06		1,979,381.01	
Less :Opening Balance	1,979,381.01		2,689,987.85	
	1,428,196.05		(710,606.84)	







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 assets 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 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. All the Shares of the Company are held by the Holding Company, Bank of Bhutan Ltd.
2. Overdraft from Bank of Bhutan Ltd. is secured by pledge of Fixed Deposits Receipts.
3. Allowances include Nu. 97,962 paid as Overtime Allowance to the employees of the Holding Company.
4. No provision for tax is required in view of loss.
5. Previous year figures have been regrouped/ rearranged wherever considered necessary.



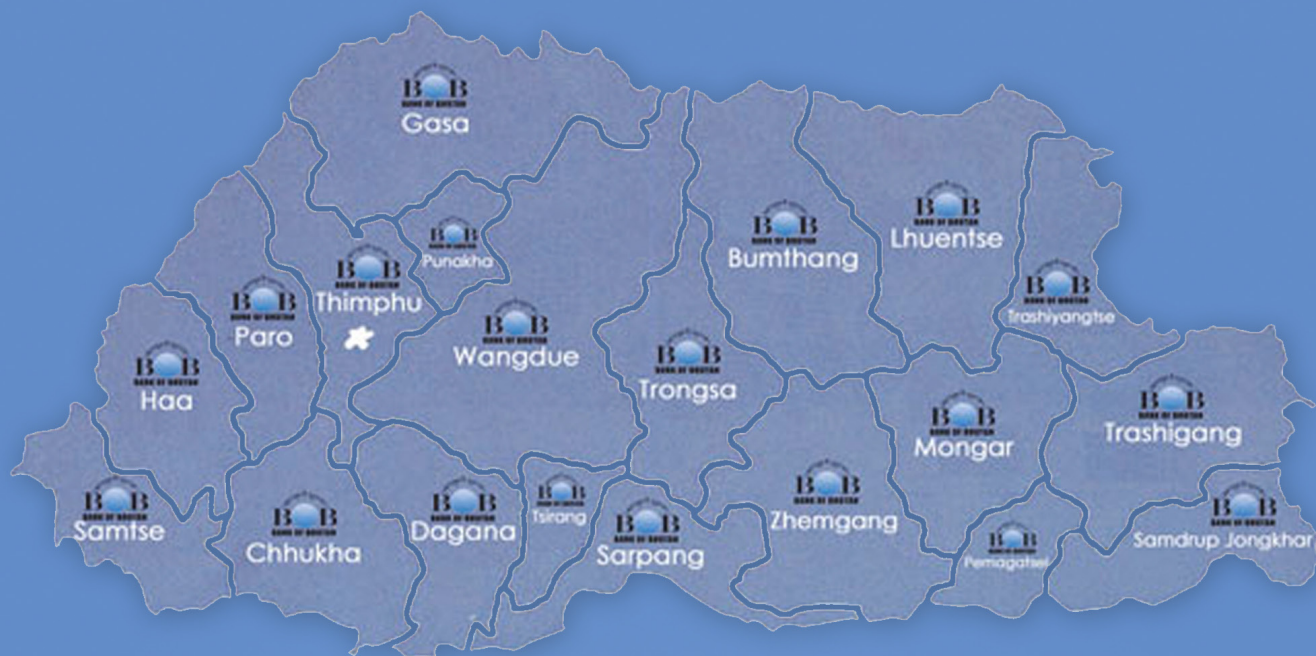
EXHIBIT - A

(Referred to in Annexure - I: Minimum Audit Examination And Reporting Requirements)

RATIO ANALYSIS

Ratio	2013	2012	Remarks
Current Ratio: Current Assets / Current Liabilities	2.17 : 1	11.5 : 1	Decrease in ratio is due to increase in Current Liabilities
Net Profit Ratio: Profit after tax / Sales	(62%)	(37%)	Lower ratio due to increase in loss for the year.





Dial contact center **1095** for queries

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