



ANNUAL REPORT 2014

CONTENT



Quick read	1
Mission & Vision statement	2
Quality Policy	3
Core Values	4
Board Directors	5
Management's Team	6
Financial Highlights 2014	9
Board of Director's Report 2014	14
Management's Report 2014	23
Calendar of events 2014	40
Bank's Organization	42
BOB Milestone (1968 - 2014)	45
Auditors' Report	51
Balance Sheet	54
Profit and Loss account	56
Cash flow Statement	59

QUICK READ

The financial year of 2014 had been a challenge for the Bank with a slow down in the economy of the country. 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. 2,315.78 million and Net Profit of Nu. 750.33 million in the financial year 2014 against Nu. 2,196.48 million and Nu. 672.96 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 2014 on the back of elevated inflation, economic slow-down due to Indian rupee shortage and intensification of supply-side constraints and monetary policies. Despite all these un-favorable economic conditions, the bank achieved growth of 7.65 percent in loans & advances and 31.15 percent in deposits.

The total capital and reserves increased by 10.62 million in 2013 to Nu. 4,305.88 million in 2014. also engaged in facilitating Corporate Social and tree plantations. Also recognizing human developing capabilities to adapt to future geared towards developing and grooming the employees. As compared to 173 employees 2014. The bank continued the arrangement (IFBI) to conduct tailor-made course for BoBL awarded a Diploma certificate in banking. 45 continue with target of around 200 employees



percent during the year. It increased from Nu. 3,892.38. Conscious of its social responsibility obligations, BoB Responsibility activities such as blood donations resource to be one of the important elements in challenges, BOB has taken a number of measures future leaders by providing learning opportunities to trained in 2013, 382 employees were trained in with Institute of Finance, Banking and Insurance employees. Employees attending the course were employees underwent the course in 2014 that will to undergo the course.

In 2014, Human Resource Division initiated team building among the staffs. Few departments/divisions/ branches went out for picnic/ hiking as a team building exercise. A major team building exercise consisting of the top management and few employees was held at Tencholing, Wangduephodrang. The team building of three days with Tencholing army was not only fruitful, but was very refreshing and a different experience for all 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

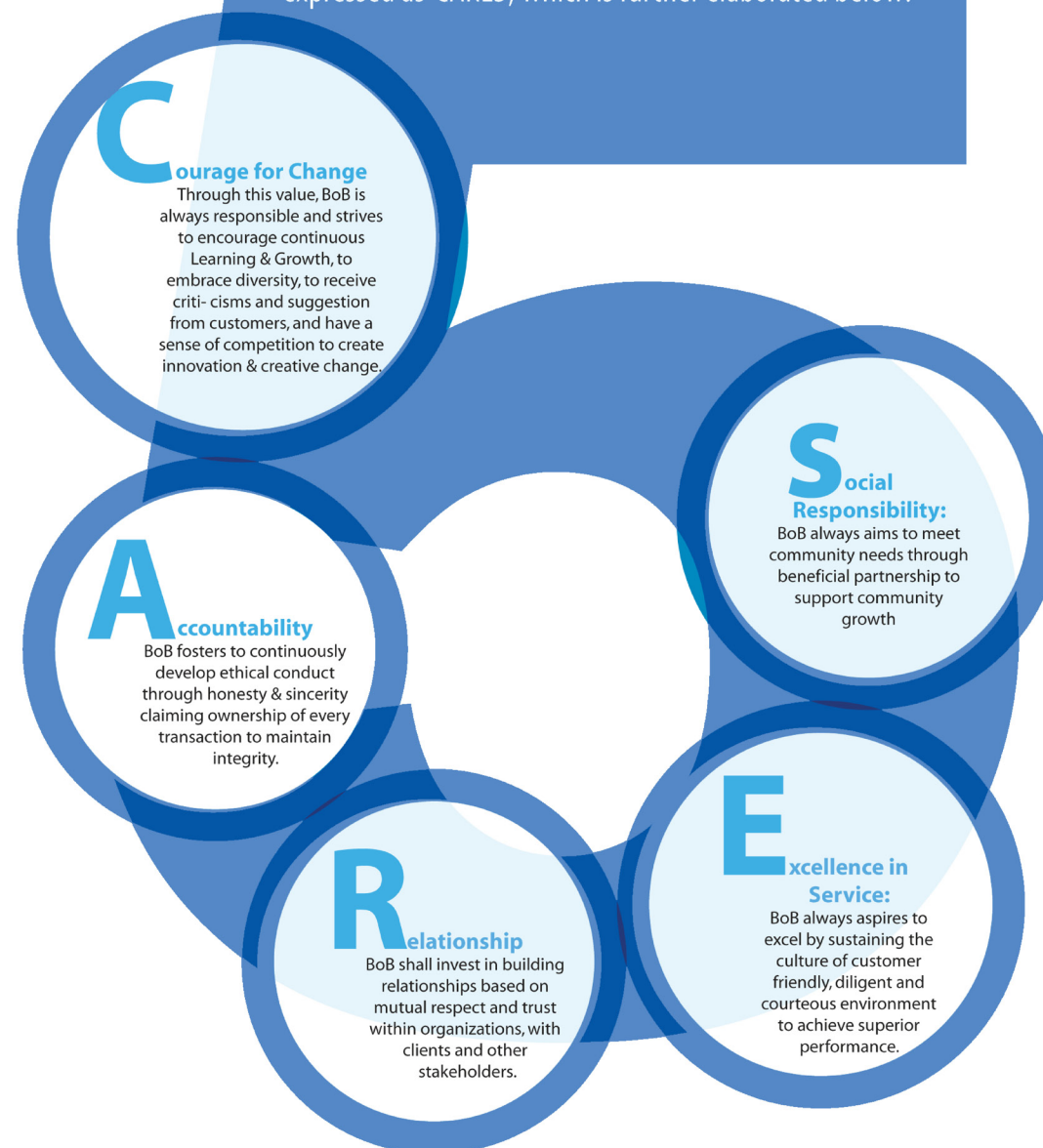
Our Quality Policy is to achieve and sustain a reputation for quality in our chosen markets by offering products and services that exceed the requirements of our customers. We strive to be the bank of first choice of our customers in all our products and services.

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:



THE BOARD OF DIRECTORS



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



MS. SONAM DEMA
INDEPENDENT DIRECTOR



MS. DEKI WANGMO
DY. CHIEF BUDGET OFFICER,
DEPT. OF BUDGET,
MINISTRY OF FINANCE



MR. PASSANG DORJI
DIRECTOR, DEPT. OF
INVESTMENT,
DRUK HOLDING AND
INVESTMENTS



MR. GIRIDHARA KINI
GENERAL MANAGER (RETAIL &
SUBSIDIARIES),
INTERNATIONAL BANKING
GROUP, STATE BANK OF INDIA



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

MANAGEMENT TEAM



CHIEF EXECUTIVE
OFFICER

Mr. Pema N. 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 served as the Board Director in Druk Air Corporation and Bhutan Ferro Alloys.

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



DIRECTOR, CORE
BANKING SOLUTION



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 good experience in Credit and banking operations. She worked as the Currency Chest Officer and served as Head, Credit Department before her appointment as Chief Credit Officer in 2011.



CHIEF FINANCIAL
OFFICER

Mr. Nipun Bhatia joined BoB on 15th April 2013 as the Chief Financial Officer. He has MBA from the Indian Institute of Management, Ahmedabad (IIM-A, 1985-1987) and also Chartered Accountant (FCA) since 1985. 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 Mindstorm Solutions. He brings to the BoB family, a rich and diverse experience over his 26 years of professional service ranging from treasury management, cash management, corporate and institutional banking service delivery, offshore operations, financial management to strategic business planning at Executive level.

Mr. Dorji Kadin has MBA from Asian Institute of Management in May 2008, Post Graduate Diploma in 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 Bhutan Telecom and joined BoB on 1st October 2013.



CHIEF,
STRATEGY OFFICER



CHIEF
CORPORATE &
PRIVATE BANKING

Mr. Dophu Dorji graduated from Sherubtse College, Kanglung in 1995 with a degree in Bachelors in Commerce (Hons) and with post-graduate degree from Curtin University of Technology, Australia. He joined the Royal Securities Exchange of Bhutan and served for more than 12 years and later joined Bank of Bhutan Limited on December 2009 as Head of Investment Division for a contract period of three years. Based on his good performance, he was then offered a dual responsibility of Zonal Manager, Western Zone in addition to being Head of Investment Division. After serving for about two years, the bank's management appointed him as the General Manager of Corporate Banking Affairs. The Board and bank's management renewed his contract for another term of three years from December 2012 till November 2015 as the General Manager, Corporate and Private Banking Department. Subsequently in July 2014, he was appointed as Chief, Corporate and Private Banking Department after the Division was upgraded to Department. Mr. Dophu Dorji is serving as the Interim Chief Executive Officer for BOB Securities, a fully owned subsidiary company of the bank since mid 2013.

Mr. Prasad Roy worked in Bank of Bhutan on deputation from State Bank of India (SBI) for four years from 1984 till 1988. With work experience of 36 years in State bank of India, as Credit Officer, System In-charge, Branch Manager, Region Manager, Zonal Manager, commercial banking, with special expertise on Project Financing, Corporate Finance, System Implementation, Forex and years of experience in Credit Card Industry, Mr. Roy returned back to BoB as cards specialist in September 2012. His qualification include professional from CAIIB (India) having attended Wharton Business School in USA, for Strategic Planning. He is an M.Sc (Mathematics), rank holder in Higher Secondary, Bsc, and Msc, National Scholar.



CHIEF BANKING
OFFICER



CHIEF
INFORMATION
& TECHNOLOGY
OFFICER

Mr. Vijaya Kumar joined Bank of Bhutan in 2014. He come, with a background of M.Sc in Physics from IIT, Chennai. He joined SBI as Probationary Officer in September 1975 and served in various parts of India and finally took Voluntary Retirement in March, 2000. At the time of retirement he was AGM (systems) at SBI Corporate Office, Mumbai. During his tenure with SBI, he was on deputation to Bank of Bhutan from Oct 1995 to Jan 1998. After SBI, he was with the software industry for about 2 years. In 2001 he took over as head of IT of Bharat Overseas Bank Ltd., Chennai and implemented Flexcube CBS. In 2013, he moved over to The Karur Vysya Bank Ltd. (another Flexcube using bank) as AGM of their Data Centre at Chennai.

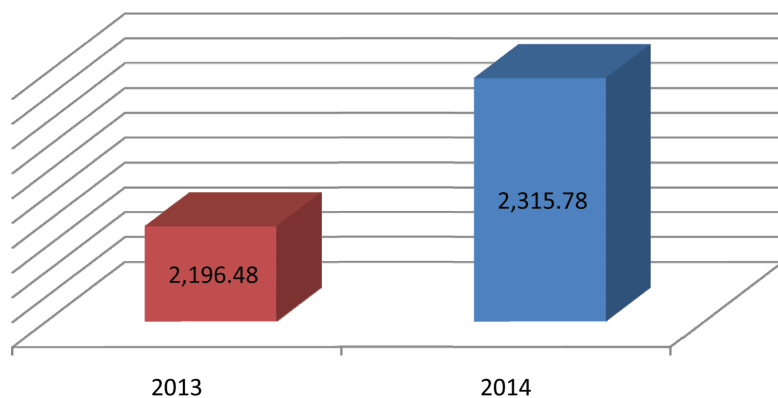
FINANCIAL HIGHLIGHTS

The Bank has performed comparatively well in terms of profitability and deposit growth during the year 2014 as is evident from the key performance highlights mentioned below.

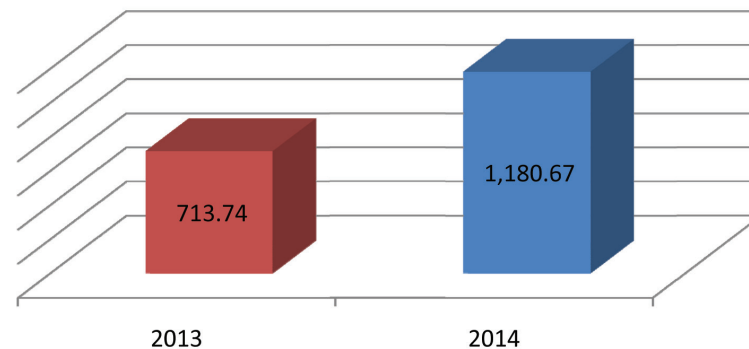
	2014	2013	% Change
Total Income	2,315.78	2,196.48	5.43
Total Expenditure	1,249.75	1,239.21	0.85
Profit Before Tax	1,180.67	713.74	65.42
Total Comprehensive Income	750.33	672.96	11.50
Basic & Diluted Earnings per Share(Nu.)	50.02	49.67	0.70
Return on Equity (%)	17.43%	17.46%	(0.17)
Capital & Reserves	4,305.88	3,892.38	10.62
Deposits	33,494.01	25,538.79	31.15
Advances	19,270.94	17,901.87	7.65
Total Asset/Liabilities	39,793.61	30,563.38	30.20
Number of Branches	29	28	3.57
Number of Employees	671	643	4.35
Business per Employee	78.64	67.56	16.40

FINANCIAL HIGHLIGHTS

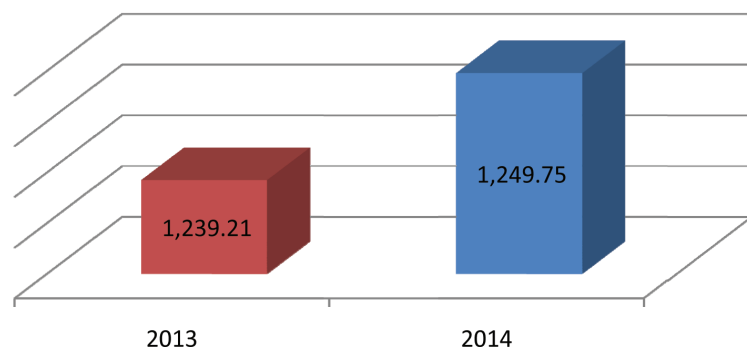
Total Income 2013/14



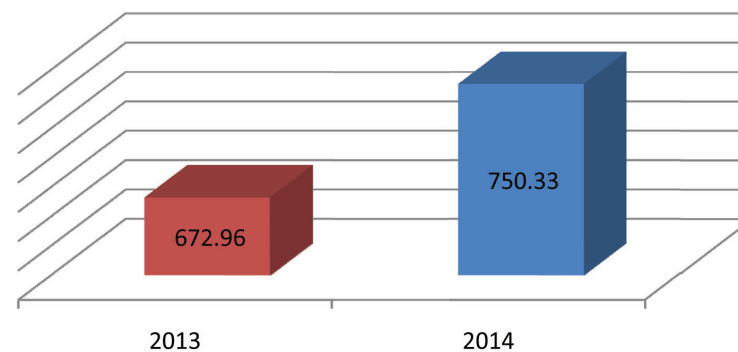
Profit Before Tax 2013/14

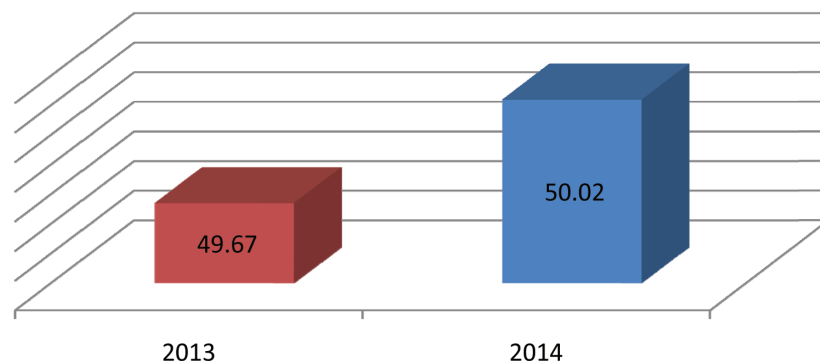
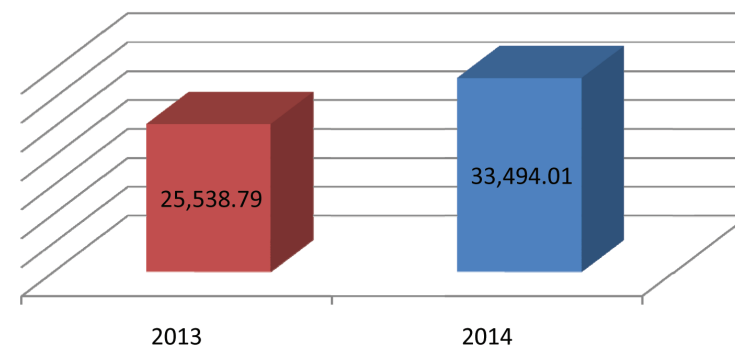
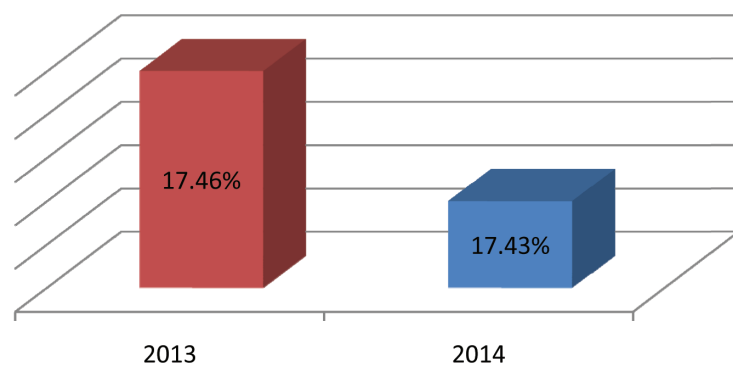
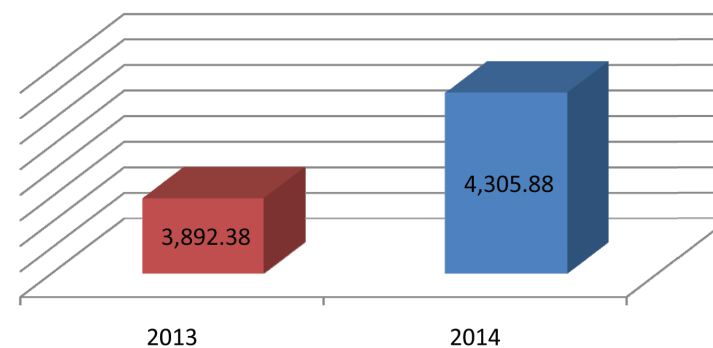


Total Expenditure 2013/14

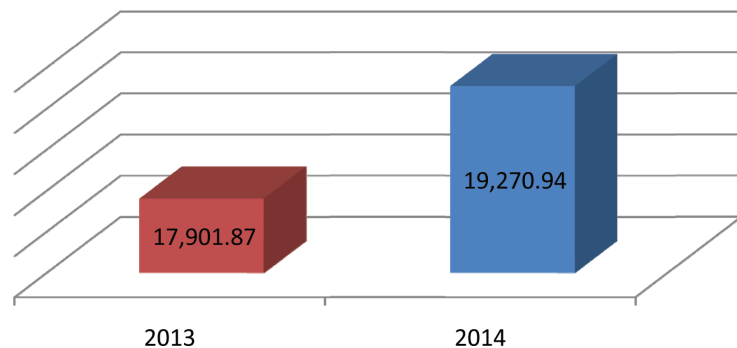


Total Comprehensive Income 2013/14

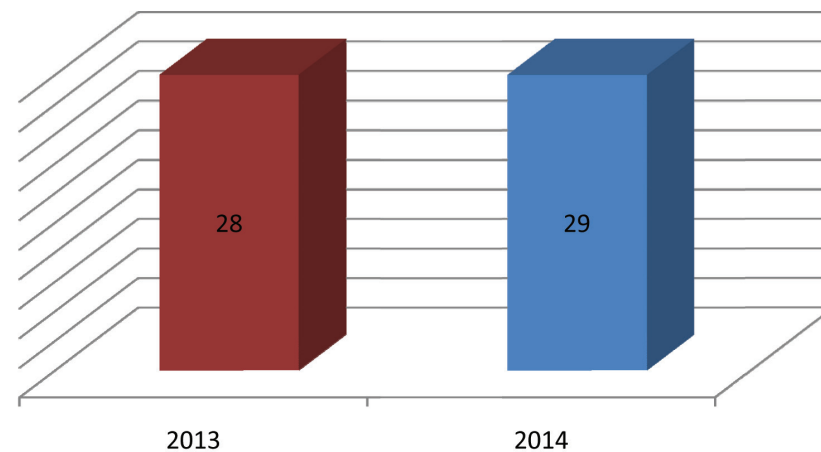


Basic & Diluted Earnings per Share(Nu.) 2013/14**Deposits 2013/14****Return on Equity (%) 2013/14****Capital & Reserves 2013/14**

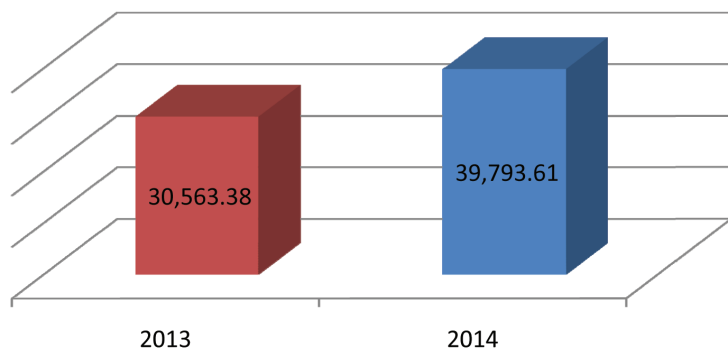
Advances 2013/14



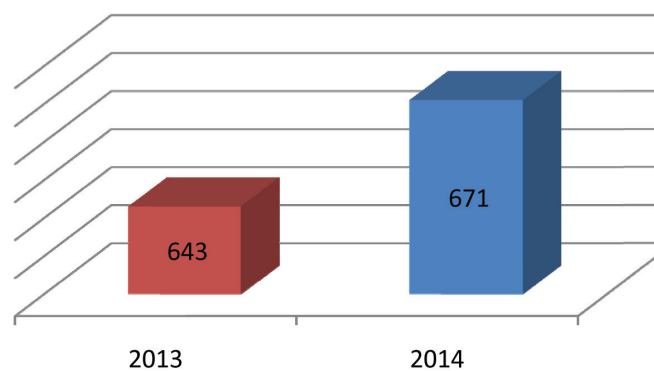
Number of Branch Offices 2013/14



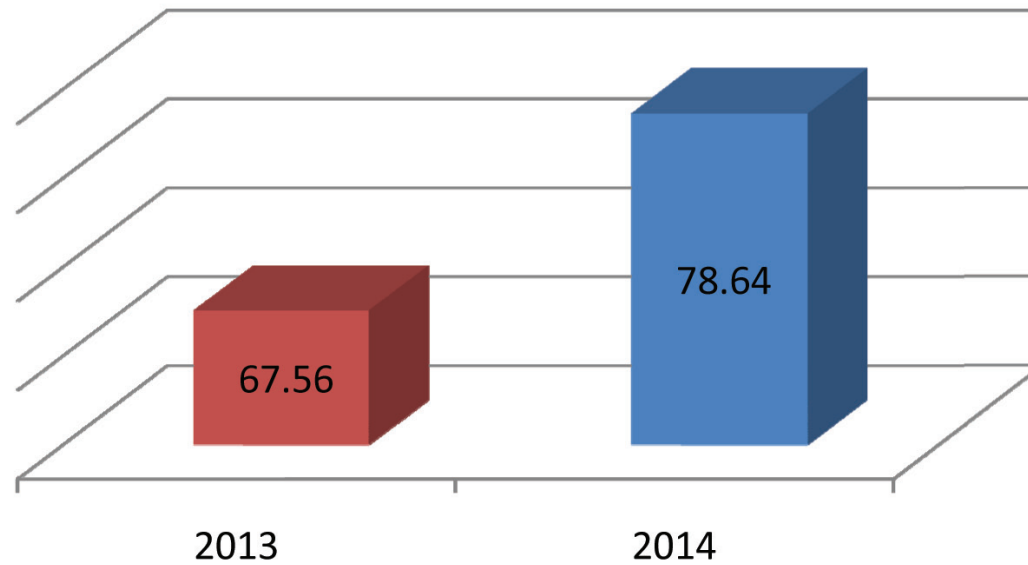
Total Asset/Liabilities 2013/14



Number of Employee 2013/14



Business per Employee 2013/14





BOARD OF DIRECTORS' REPORT 2014

The Board of Directors is pleased to present the 47th 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, 2014 (FY14).

INTRODUCTION



The financial sector increasingly constitutes an important pillar of the country's socio-economic development. The country's overall economy saw a very modest growth in 2013-2014 with its GDP growth at 2.05% relative to its GDP growth of 4.60% in 2012-2013.

FINANCIAL RESULT

The fiscal year of 2014 had been a challenge for the Bank with a slow-down in the overall growth in the economy of the country. However, due to continued improvements in banking operations and cost efficiency, 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. 2,315.78 million in the year 2014 against Nu. 2,196.48 million of 2013. This reflected an annual growth of 5.43 percent in total income. Consequently, its total comprehensive income or net profit grew at an impressive rate of 11.50 percent from Nu. 672.96 million in 2013 to Nu. 750.33 million in 2014.

The growth in total income and total comprehensive income are mainly triggered by a reasonable growth of 7.65 percent in loans & advances from Nu. 17,901.87 million in 2013 to Nu. 19,270.94 million in 2014. However, BoBL's deposit base saw an impressive growth of 31.15% from 2013, clearly indicating the people's confidence in the Bank. Customer deposits increased from Nu. 25,538.79 million in 2013 to Nu. 33,494.01 million in 2014.

Though BoBL saw a very good improvement in terms of its Gross Non-Performing Assets (GNPA) with reduction from 6.88% in 2013 to 4.96% in 2014; its Net Non-Performing Assets (NNPA) increased by twenty basis points from 1.48% in 2013 to 1.68% in 2014.

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 2014, the Board has approved a dividend of 50% of net profit after tax for the year ended December 31, 2014 the total dividend amount of Nu 375.165 million to its shareholders.

CAPITAL & RESERVES

The total capital and reserves increased by 10.62% during the year. It increased from Nu. 3,892.38 million in 2013 to Nu. 4,305.88 million in 2014.

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.



The bank celebrated its 46th Foundation Day by also observing the day as employee's day

CORPORATE GOVERNANCE

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

CONSTITUTION OF BOARD & BOARD MEETINGS

Constitution of the Board:

The following have been appointed as the Board of Directors for the Bank of Bhutan Limited:

No.	Name	Designation	Appointment Date
1.	Dasho Karma W. Penjor	Chairman	Renewed on 21st August, 2014
2.	Ms. Sonam Dema	Independent Director	30th January, 2014
3.	Mr. Giridhara Kini	Director	28th November, 2013
4.	Ms. Deki Wangmo	Director	21st August, 2014
5.	Mr. Passang Dorji	Director	21st August, 2014
6.	Mr. Pema N. Nadik	Member Director	1st April, 2013

Board Meetings

To enhance the good governance and provide appropriate policy directives to the company, eleven (11) Board meetings were convened during the year. In addition, two (2) Extraordinary General Meetings were also convened. In all these meetings, quorum was maintained as required. The Annual General Meeting for the year 2013 was held on 10th March, 2014, thereby complying with the Companies Act, 2000. Besides these, four (4) Board Audit Committee Meetings, three (3) Board Credit Committee meetings, two (2) Board Risk Committee Meetings, and four (4) Board Governance Committee meetings were convened in the year 2014 to decide on various aspects of the operations of the Bank.

CUSTOMER SERVICE

The annual Customer Satisfaction Survey of the bank, conducted by the AMJ, Business Research and Consultancy, an independent consulting firm, presents a composite Customer Service Index (CSI). For the period surveyed, the Bank of Bhutan's CSI rating improved from 3.71 in 2013 to 3.76 in 2014.

The Customer Service Day was celebrated on 18th October, 2014, where the bank's management team and employees presented its products and services, interacted with the top clients and got feedbacks and complaints on products and services.

The Bank also introduced the weekly management meeting to discuss on the complaints received through various media such as contact center, social media, and branch offices, since January 2014. The main objective of this meeting is to analyze the types of complaints received, find out the root cause of these complaints, and take corrective & preventive actions to avoid similar mistakes in future, thereby ultimately enhancing customer service. In order to improve customer service delivery by BoBL employees, Customer Service Standard Manual was developed, implemented and rolled out to BoB employees in 2014; 90 employees were trained in-country on Customer Service Excellence and way to deal with customers. The Service Standard training shall now form a part of the standard induction programme for all new employees.

MARKETING

The Bank organized marketing events during the year such as: Door-to-door marketing and selling to various organizations like Bhutan Chamber of Commerce & Industry (BCCI), Business Opportunity and Information Center (BOIC), World Wild Life Fund (WWF), Association of Bhutanese Tour Operators (ABTO), Druk Green Power Cooperation (DGPC), Gross National Happiness Commission (GNHC) and Bhutan Telecom. An awareness campaign was also carried out through mini road-show in Thimphu to introduce the two (2) new loan products - Festival and Establishment loans. Further, marketing and selling activities to the graduates during the National Graduates Orientation Program (NGOP) was done as planned. The bank also took part in two



Customer Service day celebration on 18th October 2014

major events, the KING's CUP and the Coronation Basketball. These initiatives were successful considering the result in terms of the number of customers acquired. The Bank also created awareness of its various products and services through audio-visual advertisements on products such as, Tele-Banking (1095), SMS & Internet Banking, and Extension branches.

TECHNOLOGY

In order to enhance convenience to our valued customers, BoBL added electricity bill payment feature under B-Wallet in collaboration with Bhutan Telecom Limited. BoBL also added two (2) additional features in all the ATMs – Mini Statement and Cheque Book Request – in the year 2014, to facilitate convenient banking to our valued customers.

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 2014, the areas for professionalization and specialization have been prioritized and 45 employees had undergone Postgraduate Diploma in Banking in collaboration with IFBI, Kolkata, India. Around 286 employees were trained in country in various fields of requirements and 3 employees were sent for Masters such as MBA Finance and Masters of Economics. 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 implemented. 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.

CORPORATE SOCIAL RESPONSIBILITY

We have continued our commitment towards social responsibility and engaged ourselves in social activities such as blood donations, helping the elderly citizens and helping in renovation of old lhakhangs. The activities are; The Bank of Bhutan Ltd. organized blood donation campaign coinciding with World Blood Donors Day on 14th June, 2014 at Thimphu Main Branch, PSA ground in Phuentsholing, BOC Hall at Gelephu and Mongar Hospital. The bank's initiative is in response to the increasing number of accidents on Bhutanese roads and construction sites, increasing demand for emergency blood supplies and the frequent shortage of stock in the blood bank. Demand for blood is greater today than ever before, and the blood bank needs constant replenishment.

The event started at 9:00 am in all the four dzongkhags, and was able to collect 210 units out of 283 registered donors from Thimphu alone, 48 units of blood from Phuentsholing, 44 units from Gelephu and 35 units from Mongar. BoBL served refreshment and snacks to all the donors and BoB T-shirts and caps were also distributed to all the donors. Donors expressed their happiness to be part of this noble social cause which underlines the bank's commitment to the society. The employees of BoBL and the volunteer donors enthusiastically participated in the blood donation campaign and praised the initiative. They also emphasized a sense of pride through their participation in the social cause which contributes in improving the suffering of many people awaiting a speedy recovery.

About 25 elderly people are residing at Beganna Lhakhang area. They have been occupying old temporary meditation huts once used by the monks of Beganna Lhakhang long ago. The Lhakhang itself is sustaining barely with no donors or support. Some of the elderly people are childless and some have been abandoned by their children. They have been sustaining on little food shared by the Lhakhang, sometimes from alms and few times from the donations received from the students and the locality. On 6th of December, 2014, bank initiated a program whereby we provided them with rice, cooking oil, blankets, jackets, Gho and Kira to the entire elderly citizen residing at Beganna Lhakhang. For the sustainability of the elderly citizen, the group of volunteers will be visiting the elderly citizen once a month.



Blood donation campaign held on 14th June, 2014 coinciding with WDD

NEW BUSINESS & INITIATIVES

The Bank opened four (4) new extension branch offices in Samdrupcholing - Samdrup Jongkhar, Doksum - Trashiyangtse, Panbang - Zhemgang and Lhamoizhingkha - Dagana, thus reaching our branch network across all Dzongkhags and communities. In order to further enhance the services, the Bank started its Sunday banking in B category branch offices (Bumthang, Gelephu, Gomtu, Mongar, Paro, SamdrupJongkhar, Samtse, Thimphu City, Trashigang, Wangdue) from 9th March, 2014. Further, to provide full banking services to our valued customers residing at Motithang and Changangkha area, BoBL upgraded the Motithang extension counter to a full-fledged branch. With establishment of Shared Services Division at old corporate office, processes for (a) Account Opening, (b) Appraisal and Sanctioning of Consumer Loans, (c) opening Bank Guarantees & Letters of Credit and (d) processing Inward and Outward SWIFT remittances (Funds Transfer) are all centralized. This has standardized processes and reduced errors in providing all these listed services. The centralization of LC and BG now effectively offers these services throughout all branches when earlier, LC in particular was limited to Thimphu, Phuentsholing and SamdrupJonkhar, thereby enhancing convenience to our customers.



BoB handed over 150 raincoats to the traffic police division on 25th June, 2014 as a contribution to help the traffic Policemen during monsoon

BoBL also piloted Business Correspondence Model in partnership with Bhutan Post in five (5) remote Community Centers; namely Chapcha, Gasetshogom, Hillay, Khaling, and Khoma since November 2014. This will be continued through the Mobile Banking channel from post offices. In order to focus on improving quality of services offered to its customers, BoBL also introduced Quality System throughout all Departments and Divisions. A team of eighteen (18) Young Officers sat for the ISO certification examinations, of which, 14 got through. The Quality Manual along with Manual of Instructions was rolled out throughout the departments/divisions/units since July 2014. Further, BoBL also implemented Tally based ERP, thereby centralizing payroll and accounting functions since early 2014. The 2nd phase of fixed assets automation is under way. The implementation of the ERP has improved efficiency in accounting with previous month's accounts being submitted by the 10th of the following month. The centralization of accounting and payroll has also strengthened the internal controls. BoB in partnership with BT and BPC, enabled Electricity bill payment feature as one of the features under B-Wallet service in addition to adding two (2) additional features in ATMs – Fund Transfer and Cheque Book Request. To prepare for any unknown future

incidents, BoB developed a detailed Business Continuity Plan (BCP). The document is ready to be tested soon. BoBL also compiled and developed the management manual consisting of all good governance practices followed by BoBL along with detailed Delegation of Authority. To cater to the needs and convenience of all agencies, the bank has launched Corporate Credit Cards on 9th of June, 2014.

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 2014 by RAA with further approval of the RMA.

ACKNOWLEDGEMENT

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

The Board of Directors 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.

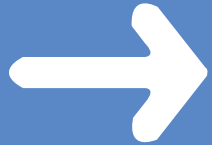
Tashi Delek.

For and on behalf of the Board of Directors:


(Karma W. Penjor)
CHAIRMAN,



Dasho Sangay Khandu, Chairman of Druk Holding and Investments Ltd. launched corporate credit cards on 9th June, 2014



MANAGEMENT REPORT: 2014

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 well than the previous year in its financial achievements. Profit after tax grew by 11.50 percent, 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.

With continuous efforts, BoB's Asset quality improved slightly with the Gross NPA decreasing to 4.96 percent from 6.88 percent of the previous year. However, its Net Non-Performing Assets (NNPA) increased by twenty basis points from 1.48% in 2013 to 1.68% in 2014. 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 Corporate Social Responsibility 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.



Financial Performance Review for 2014

Balance Sheet: Bank's balance sheet size grew by 30.2 percent from Nu. 30,563.38 million in 2013 to Nu. 39,793.61 million in 2014.

Capital and reserves: The bank was well within the regulatory requirements of Capital Adequacy Ratio at 15.57 percent and Statutory Liquidity Ratio at 47.24 percent considering both Tier I and Tier II capital during the period being reported.

Deposits: Total deposits grew by 31.15 percent, from Nu. 25.54 billion in 2013 to Nu. 33.49 billion in 2014. Of the total deposits, current deposits had the highest growth of 52.36 percent followed by term deposits with 16.42 percent and savings deposits by 9.88 percent. The share of interest free current deposits to total deposits increased from 45.95 percent in 2013 to 53.38 percent in 2014. While the share of savings deposits to total deposits decreased from 27.26 percent to 22.84 percent and term deposits from 26.79 percent to 23.78 percent respectively.

Particulars		2014	2013	Variation	
		Amount	Amount	Amount	%
	Current Deposits	17,740.69	11,592.60		
	Other Accounts	138.31	142.44		
I	Total Current Deposits	17,879.00	11,735.04	6,143.96	52.36%
II	Savings Deposits	7,649.08	6,961.20	687.88	9.88%
III	Term Deposits	7,965.94	6,842.55	1,123.39	16.42%
	Total Deposits	33,494.01	25,538.79	7,955.23	31.15%
	% of Current to total deposits	53.38%	45.95%		
	% of SB to total deposits	22.84%	27.26%		
	% of term to total deposits	23.78%	26.79%		

Investments: On the asset side, BOB's investment portfolio grew marginally from Nu. 2.46 billion in 2013 to Nu. 2.54 billion in 2014. Net increase in investment in bond was Nu. 369.78 million and this growth was offset by decrease in investment in Government Treasury bills, which decreased from Nu. 2.28 billion in 2013 to 1.99 billion in 2014.

Advances: Loans and advances grew by 7.6%, from Nu 17.90 billion in 2013 to Nu 19.20 billion in 2014 despite increasingly competitive financial market and stringent regulatory interventions compounded by deceleration in economic activities due to Indian rupee shortage.

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

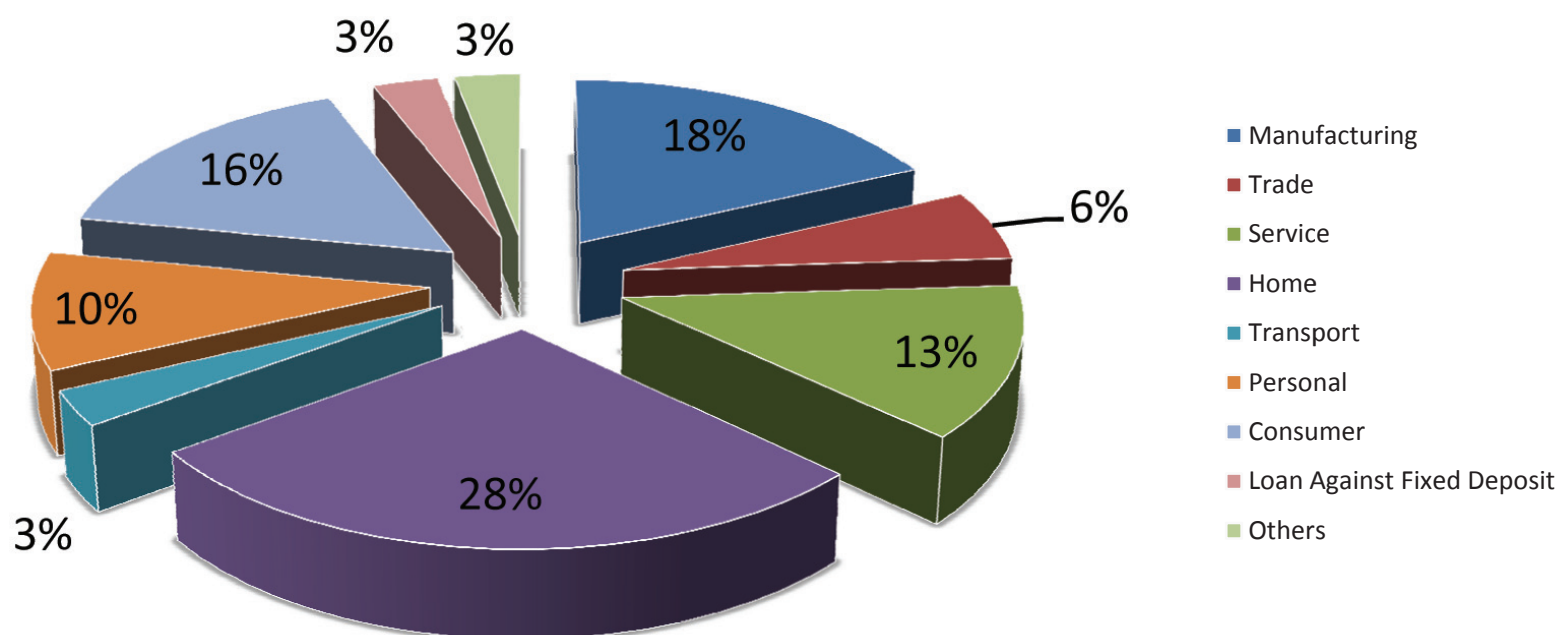
The Housing sector continues to dominate the loans portfolio of the bank at around 28 percent followed by Personal sector at around 27 percent.

- Sector wise – Manufacturing – 18 percent,
- Trade – 6 percent,
- Service – 13 percent,
- Home – 28 percent,
- Transport – 3 percent,
- Personal -10 percent (consisting of mortgage, education, festival, establishment and personal loans)
- Consumer loan – 16 percent.
- Loan against fixed deposits – 3 percent
- Others - 3 percent

Last year the consumer loan and loan against fixed deposits were clubbed with personal loan which is why the percentage was 26.83 in 2013.

NPA – Compared to previous year gross NPA decreased from 6.88 percent to 4.96 percent, which is the result of timely recovery of bad loans, and strong follow-ups by us.

Chart X



Cash and Bank Balances, and Fixed Assets: Cash & Balances with RMA increased significantly by 93.55 percent while balances with banks decreased by 2.7 percent. The huge increase in balance in RMA is mainly due to unprecedented increase in current deposits during 2014. Fixed assets increased by Nu. 13.88 million during the year due to capitalization of branch renovation works and capital purchase made during the year. Contingent liabilities increased by 24 percent due to increase in Letter of Credits issued.

Foreign Exchange Business: In 2014, bank handled external trade worth Nu. 2.1 billion of which, Nu. 129.25 million were for import business and Nu. 2,183.81 million for export business. Net profit from foreign exchange transactions decreased by over 84 percent from Nu. 102.56 million in 2013 to Nu. 16.16 million from in 2014. The FOREX assets and liabilities stood at Nu. 1,610.65 million and Nu. 676.30 million respectively as on 31.12.2014.

Income, Expenditure and Profit: Total income grew by 5.43% from Nu. 2,196.48 million in 2013 to Nu. 2,315.78 million in the current year. The growth can be attributed to increase in interest Income which grew by 14.22% from Nu. 1,896.96 million in 2013 to Nu. 2,166.67 million in 2014 and also increase in non-Interest Income from Nu. 55.99 mil–lion in 2013 to Nu. 263.75 mil–lion in 2014. However this growth was offset by other comprehensive loss in 2014 of Nu. 114.63 million against other comprehensive gain of Nu. 243.53 million in 2013. The major reasons for the growth in non-interest income was the gain realized from foreign exchange transactions of Nu. 34.46 million in 2014 against the loss of Nu. 120.85 million in 2013.

Interest Expenses, which accounts for around 60% of overall expenses, grew by 40.83 percent, from Nu. 612.92 million in 2013 to Nu. 863.19 million in 2014. This growth was due to growth in deposit base of both savings and fixed deposits. Interest expense on savings deposit increased by Nu. 56.20 million due to growth in savings deposit base by Nu. 687.88 million in 2014. Fixed deposit base also grew by Nu. 1,089.36 million with a corresponding increase in interest expense of Nu. 170.85 million.

Operating expenses was well within the maximum 10 percent growth limit prescribed by Druk Holdings and Investment Ltd. at 4.03 percent, increasing from Nu. 481.09 million in 2013 to Nu. 500.47 million in 2014. Net Profit after tax grew by 11.50 percent from Nu. 672.96 million in 2013 to of Nu. 750.33 million in 2014.

Technology & Computerization

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 utility payment is being implemented in addition to resolution of system migration issues.

HUMAN RESOURCE MANAGEMENT

Continuing 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 2014, number of in-country trainings increased to enhance skills and personal capability of the employees to deliver improved services. The list is as below:

In-country training	231
Ex-country training	13
Training in India	32
Diploma in Banking - IFBI	45
In country seminar/ workshop/conference	55
Ex-country seminar/ workshop/conference	6
Total	382

As compared to 173 employees trained in 2013, 382 employees were trained in 2014. The bank continued the arrangement with Institute of Finance, Banking and Insurance (IFBI) to conduct tailor-made course for BoB employees. Employees attending the course were awarded a Diploma in banking certificate. 45 employees underwent the course in 2014 that will continue with target of around 200 employees to undergo the course.



Leadership training by Mr. Sujeev Shakya from 10th - 12th June

Recruitment & Promotion: During the year 2014, BoB recruited 66 employees of whom 22 were officers, 42 were assistants and 2 in the support category. Bank also promoted 87 employees of which 53 were officers and 34 were assistants.

Team Building: In 2014, human resource division initiated team building among the staffs. Few department/divisions/ branches went out for picnic/ hiking as a team building exercise. A major team building exercise consisting of the top management and few employees were held at Tencholing, Wangduephodrang. The team building of three days with the Tencholing army was not only fruitful but was very refreshing and a different experience for all the employees.

Business Strategy & Restructuring

In order to guide BoBL'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.

Employee Day

The Bank celebrated its 46th 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 an office 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.

Corporate Social Responsibility

We have continued our commitment towards social responsibility and engaged ourselves in social activities such as blood donations, helping the elderly citizens and helping in renovation of old Lhakhangs. Even this year, bank was a part of Thimphu Thromde's initiative of achieving fewer stray dogs for safer community through mass sterilization and vaccination campaigns.



The BoB organized a blood donation campaign coinciding with World Blood Donors Day on 14th June, 2014 at Thimphu Main Branch, My mart, Thimphu, PSA ground in Phuentsholing, BOC Hall at Gelephu and Mongar Hospital. The bank's initiative is in response to the increasing number of accidents on Bhutanese roads and construction sites, increasing demand for emergency blood supplies and the frequent shortage of stock in the blood bank. Demand for blood is greater today than ever before, and the blood bank needs constant replenishment. The event started at 9:00 am in all the four dzongkhags, and was able to collect 210 units out of 283 registered donors from Thimphu alone, 48 units of blood from Phuentsholing, 44 units from Gelephu and 35 units from Mongar. BoB served refreshment and snacks to all the donors and T-shirts and caps were also provided to all the donors.

Donors expressed their happiness to be part of this noble social cause which underlines the bank's commitment to the society. The employees of BoB and the volunteer donors enthusiastically participated in the blood donation campaign and praised the initiative. They also emphasized a sense of pride through their participation in the social cause which contributes in improving the suffering of many people awaiting a speedy recovery.

About 25 elderly people are residing at Beganna Lhakhang area. They have been occupying old temporary meditation huts once used by the monks of Beganna Lhakhang long ago. The Lhakhang itself is sustaining barely with no donors or support. Some of the elderly people are childless and some have been abandoned by their children. They have been sustaining on little food shared by the Lhakhang, sometimes from alms and few times from the donation received from the students and the locality. On 6th of December, 2014, bank initiated a program whereby we provided them with rice, cooking oil, blankets, jackets, Gho and Kira to the entire elderly citizen residing at Beganna Lhakhang. For the sustainability of the elderly citizens, the group of volunteers will be visiting the elderly citizens once every month.



Helping the needy: an initiative of the Bank of Bhutan to be sustained by the staff of the bank. Overwhelming and emotional moments with the senior citizens.

Customer Service

Customers are the foundation of any business and accordingly, customer satisfaction is an important objective for the Bank. Our mission is to provide excellent service to our customers, attending to their needs promptly and efficiently. We strive to ensure that our customers are treated fairly and they are provided the services they need.

As part of our continuous efforts to improve our customer service we introduced the BoB Customer Service Standards 2014. The standards clearly reflect the Bank's commitment towards service excellence. The Customer Service Standards facilitates transparency and provides important information on the standards of service a customer can expect from the Bank. In addition, it also specifies the role of the employees in servicing our customers and what is expected from them in ensuring customer satisfaction with our services.

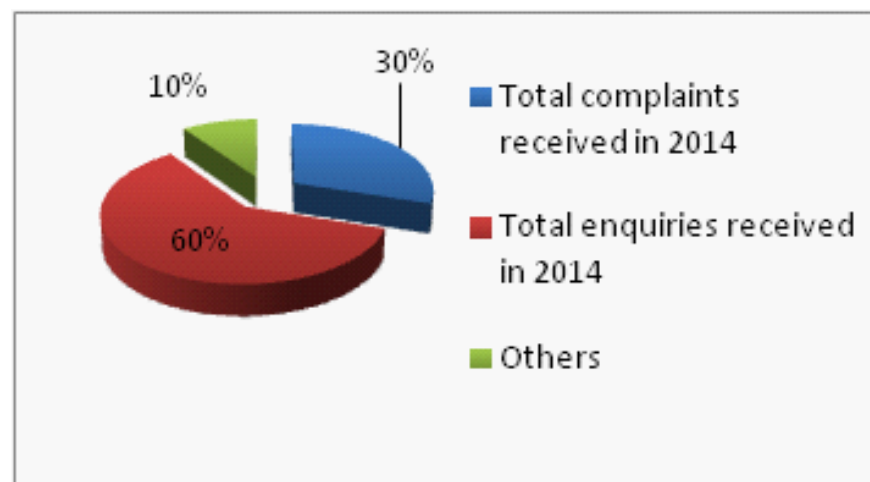
A Bank that responds differently

Working towards improving the grievances redressal mechanism, the "Complaint Handling Manual" was revised to "BoB Customer Complaint Redressal Policy 2014". This document lays down the general rules and procedures for handling customer complaints and grievances that are received at various levels in the organization. With the objective of resolving customer's issue promptly and efficiently, the incoming complaints are registered and handled in a structured manner as per standard laid down processes. BOB records and maintains a database of all the complaints registered for analysis to measure the effectiveness of BOB's customer complaint handling mechanism and process improvement. BOB has six numbers of channels for registering grievances, which are our Contact Center, Website, Branch offices, Corporate Banking Department, Corporate office and the Customer Service Division. A customer can contact us through telephonic calls, e-mails, written letters or personal visits. BoB is the only bank in the country operating a 24 x 7 Contact Center to attend to the customers' needs. The contact center handles complaints as well as enquiries. In 2014, we received a daily average around 33 complaints out of 110 contacts. Regular reports are generated using the data on complaints received via various sources to understand the most affected products, business line or other operational areas. These reports are discussed in the regular management meetings to decide on appropriate corrective and preventive measures to avoid the recurrence/complaints of such problems in the future. The goal of the analysis is to improve our operational procedure by learning from the experiences of our customers while using our services.

The complaints can be lodged with the Customer Care Officer at the respective branch offices, or our Contact Center at 1095 or emailed to "customer.care@bob.bt". BOB immediately registers all the complaints and sends a confirmation about the registration upon request, if the complaint is not personally delivered. BoB is also very active on social media like Facebook and Twitter, responding immediately to posts in them. In 2014, we received a total of 40,310 contacts, either for queries or for complaints through various channels like the Contact Center, branch offices, e-mails to the Customer Service Division's official e-mail address, direct e-mails to employees, social media, and direct conversations with the employees.

BoB Complaint/ Query comparison for 2014

Total complaints received in 2014	12,082
Total enquiries received in 2014	24,315
Others	3,913
Total contacts made with us in 2014	40,310



The table below illustrates the total complaints for particular products as a percentage of the volume of transaction of that product in 2014. Apparently, 12,082 complaints that we received in 2014 was just 0.072% of the total volume of transaction for all products in 2014. Nevertheless, we as a dynamic organization which would always try to reduce those percentages.

Complaints as a percentage of total volume of transaction for 2014

Products	Total Volume of transaction for 2014	Total Complaints count for 2014.	Complaints as a percentage of total volume of transactions
Debit Card	2,542,700	1,381	0.054%
Credit card	4,064	42	1.033%
ATM	4,681,374	5,060	0.108%
BFS	621,580	1,362	0.219%
B-Wallet	1,782,713	1,901	0.107%
Internet Banking	440,737	337	0.076%

POS	28,487	227	0.797%
SMS Banking & Alert	3,926,909	788	0.020%
Others	2,693,561	984	0.037%
Total	16,722,125	12,082	0.072%

The products included under “others” in the above table includes complaints on loans, drafts, cash warrants, fund transfer, foreign exchange, Tele Banking, various accounts, foreign cards and foreign ATM terminals.

Channels used for complaints

As indicated in the summary table below, out of the total 12,082 complaints received in 2014, 98% (11,881) used Contact Center while around 1% (119) used e-mail. There were 53 complaints lodged through other sources (social media and direct complaints) and 29 through branch offices.

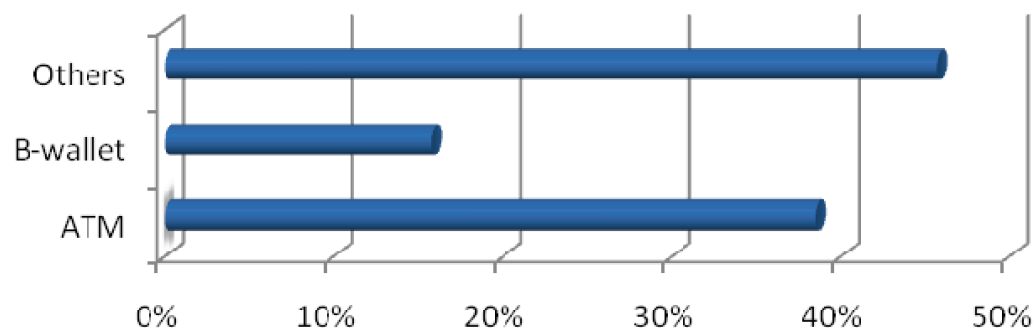
Complaint Resolution for 2014

Sl no.	Complaints	Resolved	Unresolved	Under Process	Received
1	Received at Contact Center	11,844	0	37	11,881
2	Received via emails to customer.care@bob.bt	112	3	4	119
3	Received via personal emails / other sources	53	0	0	53
4	Received at Branches	28	0	1	29
Total complaints		12,037	3	42	12,082

Services with most complaints in 2014

In 2014, 39 percent of the complaints were related to Automated Teller Machines while 16 percent were related to B-Wallet services which is provided in collaboration with Bhutan Telecom Limited. The remaining of the complaints were pertaining to Debit and Credit Cards, Internet Banking, SMS Banking, transactions through Bhutan Financial Switch, Fund transfers, Account transactions, etc.

However, we followed the “Corrective action and Preventive action” policy and rectified most of them. The customers’ concerns helped us to trace the loopholes and rectify them on time.



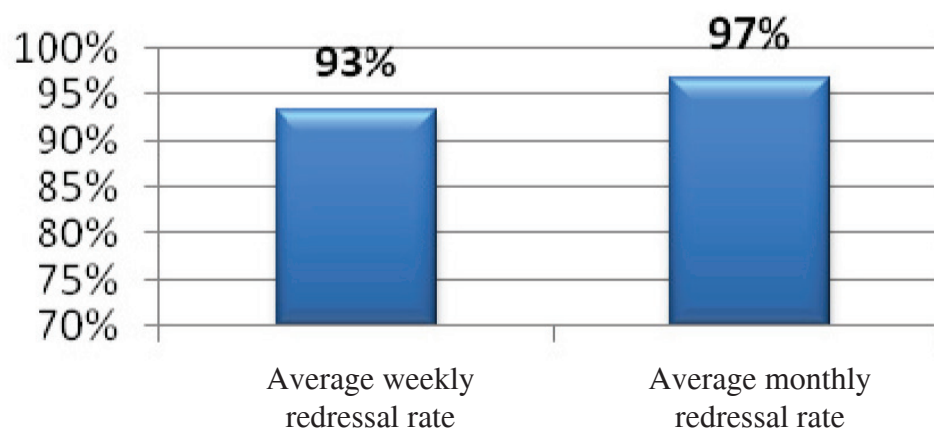
Percentage of total complaints

Complaints by location

In terms of location from where the complaints originate, the maximum complaints were from Thimphu residents (3200 plus). This could be mainly since Thimphu being the capital has the largest population requiring the largest concentration of facilities resulting in largest usage and hence higher probability of contacts. It could also be due to the awareness of the residents of the Contact Center in the capital. We are actively advertising our Contact Centre services in other locations to encourage our clients there to use it and provide feedback on our services.

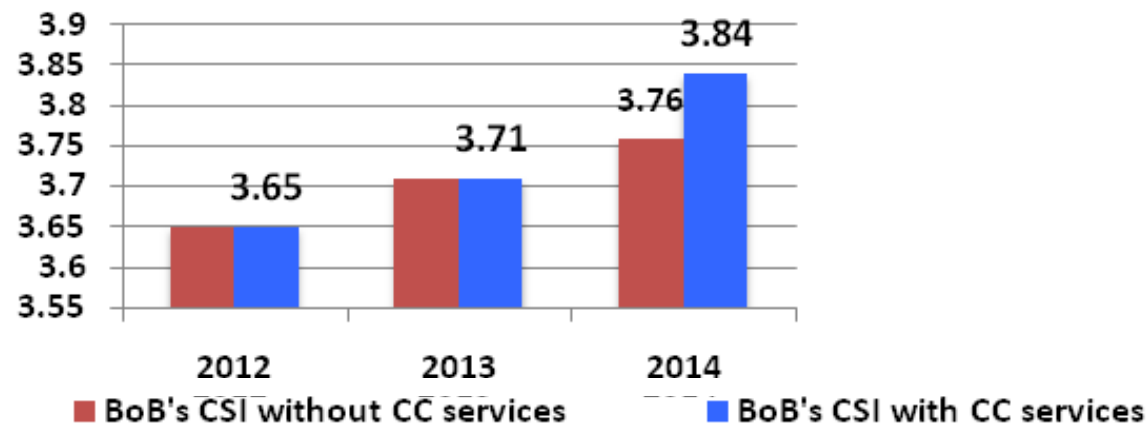
BoB Redressal rate for 2014

In 2014, we were able to resolve 93 percent of the complaints in a week's time. The resolution rate would be even better if those transactions that are not in our control are excluded. For instance, problems associated with international card transactions take up to 57 days to resolve and those associated with Bhutan Financial Switch (inter-bank transactions) takes more than a week to resolve. The employees of the bank work hard to achieve these results. In 2014, our monthly average complaint redressal rate was 97%.



BoB service quality is a reflection of how we value our customers

It is satisfying to note that the hard work put in by each and every employee of the Bank to deliver improved and efficient services to the customers is making a difference. The annual independent Customer Satisfaction survey results indicate that our customers perceived increased level of customer satisfaction with the Bank's services in 2014 as compared to the previous year. The overall Customer Satisfaction Index (CSI) improved from 3.71 in 2013 to 3.76 in 2014 in a scale of 5. The CSI inclusive of the Contact Center services is 3.84 for 2014 an impressive improvement of 0.13 as compared to 2013.



The statistics reflects the degree of customer confidence in the Bank, which is the result of the bank's focus on customer centricity.

To ensure that staffs are properly trained and nurtured to provide improved customer service, we conducted 8 days of Customer Service trainings for 4 groups covering up to 120 employees in total in 2014. The first one was on familiarization of the BoB Customer Service Standards 2014 and the latter one was on Service Excellence.

A Bank that cares about the needs of customers

We are the first and only Bank in the Kingdom so far who observes a special Customer Service Day every year. The day is marked by events in all the branch offices geared towards interacting with our customers and to convey our appreciation for their business while also taking feedback and suggestions on improving our service and introducing new products. In 2014, the Chairman and senior management of the bank interacted with our high value clients in a special session to spread awareness of our plans and solicit suggestions and feedbacks.

In order to address the difficulties faced by customers in identifying and approaching our staffs at the branch offices uniforms were introduced for the customer facing employees in June 2014.

The introduction of uniform was also based on the positive responses from bank employees on the “Employee Office Uniform Survey”. The initiative has been well received by our customers. Wherever we can, we try to provide even other related services such as the legal and revenue stamps, which can be purchased at the help desks of the branch offices. It is a demonstration of how deeply we care about the convenience of our customers. During the year, opening of new accounts outnumbered those closing by a huge margin.



Customer Services Day celebration on 18th October, 2014

New Initiatives

The Bank opened new extension branch offices in Samdrupcholing in Samdrup Jongkhar, Doksum in Trashiyangtse, Panbang in Zhemgang and Lhamoizhingkha in Dagana Dzongkhag, thus reaching our branch network across all Dzongkhags and communities. In order to further enhance the services, the Bank started its Sunday banking in B category branch offices from 9th March, 2014. Dasho Sangay Khandu, Chairman of Druk Holding and Investments launched Corporate Credit Cards on 9th of June, 2014 for the convenience of the organization.



The Motithang extension branch was upgraded to a full fledged branch on 20th October, 2014

Marketing Activities

The Bank organized marketing events during the year such as: Door-to-door marketing and selling to various organizations like Bhutan Chamber of Commerce & Industry (BCCI), Business Opportunity and Information Center (BOIC), World Wild Life Fund (WWF), Association of Bhutanese Tour Operators (ABTO), Druk Green Power Cooperation (DGPC), Gross National Happiness Commission (GNHC) and Bhutan Telecom to create; New loan products, the Festival loan and Establishment loan where also introduced and awareness on these products were created through week long Mini road-show event in Thimphu; Marketing and selling activities to the graduates during the National Graduates Orientation Program (NGOP); and took part in two major events, the KING's CUP and the Coronation Basketball. These initiatives were successful considering the result of customer acquired, awareness and cross-selling activities carried out. The Bank also created awareness of its various products and services through audio-visual advertisement on products such as, Tele-Banking (1095), SMS & Internet Banking, and Extension branches.



Pema Namgyel Nadik
CHIEF EXECUTIVE OFFICER

Marketing and selling our services during the NGOP programme, 2014 (August 13-21)



Bank's management, managers reiterate commitment to bank's anti-corruption drive

Year in Pictures

2014

March 9

Sunday Banking
at B Category
branches

March 11-15

CEO's first
Southern Tour

April 7-27

Sponsored
Coronation Cup

June 14

Blood Donation
drive

June 9

CCC and Uniform
Launch

May 23-29

CEO's
Central Tour

August 13

NGOP Marketing

October 18

Customer Service Day

October 20

Motithang extension
Branch up gradation



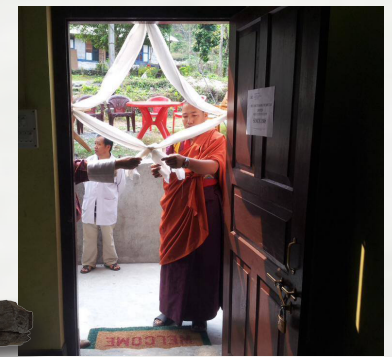
April 10

Opened branch office
at Samdrupcholing



April 12

Opened branch office
at Doksum



April 16

Opened branch office
at Panbang



May 24

46th Foundation Day/
Employees Day



May 8-11

Team Building Exercise
at Wangduephodrang



April 21

Opened branch office
at Lhamoizhingkha



October 23-
November 5

CEO's Eastern Tour



November 15 -
December 2

Sponsored Kings Cup





BANK'S ORGANIZATION

HEAD OFFICE

Chief Executive Officer	:	Mr. Pema Namgyel Nadik
Director, Core Banking Solution	:	Mr. Dorji Wangchuk
Chief Banking Officer	:	Mr. Prasad Roy
Chief Credit Officer	:	Ms. Karma Dema
Chief Research, Planning & Monitoring Officer	:	Mr. Dorji Kadin
Chief Financial Officer	:	Mr. Nipun Bhatia
Chief, Corporate & Private Banking	:	Mr. Dophu Dorji
Chief Information & Technology Officer	:	Mr. Vijaya Kumar
Dy. Chief Financial Officer	:	Mr. Tshewang Rinzin
Head, Financial Controller	:	Mr. Bikash Subba
Head, Risk Division	:	Mr. Prem B. Moktan
Head, Compliance	:	Mr. Damber Tamang
Head, Legal Division	:	Ms. Tashi Chenzom
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, Quality Assurance Division	:	Mr. Hem Kumar Gurung

Head, Shared Services Division	:	Mr. Hem Kumar Acharya
Head, Credit Recovery	:	Mr. Tshering Duba
Head, Performance Monitoring	:	Ms. Upahar Subedi
Head, Marketing & PR Media	:	Mr. Passang Norbu
Head, Delivery Channels	:	Mr. Tashi Dhendup
Head, Cards Division	:	Mr. Ngawang Namgyel
Manager, Customer Service Division	:	Ms. Kritika Pradhan
Treasury and Funds Management	:	Mr. Choney Dorji
PRO-cum-Recovery Officer	:	Mr. Tshewang Dorji

BRANCH HEADS & SENIOR SUPPORT STAFF

Phuentsholing Main Branch	:	Mr. Wangdi Tshering, (Branch Head)
	:	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	:	Mr. Jigme Wangmo
Gelephu Branch	:	Mr. Bhoj Raj Gurung
Tsimasham Branch	:	Mr. Chokeyla
Samtse Branch	:	Mr. Basant Rana
Trashigang Branch	:	Mr. Damber Kumar Chhetri

Damphu Branch	:	Mr. Ashok Rai
Bazar Branch, Phuentsholing	:	Ms. Choney Wangmo
Gomtu Branch	:	Ms. Tandin Tshewang
Mongar Branch	:	Mr. Tenzin Dorjee
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
Lhuntsi 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	:	Ms. Sonam Choden
Deothang Branch	:	Mr. Sonam Gyeltshen
TashiYangtshi Branch	:	Mr. Pancha Bahadur Rai
Nganglam Branch	:	Mr. Yegay Tshering
Gasa Branch	:	Mr. Nidup Dorji
Motithang Branch	:	Ms. Sangeeta Pradhan



BOB MILESTONE (1968 - 2014)

Events

Year (Date)

Phuntsholing Main Branch opened

1968 (May 28)

Thimphu Main Branch opened

1970 (October 1)

SamdrupJongkhar Branch opened

1972 (September 28)

Gelephu Branch opened

1972 (December 4)

Started to send employees for training to India (Human Resource development)

1973

Chimakothi Branch opened

1976 (June 19)

Samtse Branch opened

1977 (February 18)

Trashigang Branch opened

1977 (April 20)

Damphu Branch opened

1977 (July 2)

Bazar Branch opened

1979 (February 17)

Started to send employees for training overseas (Human Resource development)

1979

Gomtu Branch opened

1980 (December 17)

Wangdiphodrang Branch opened	1981 (March 13)
Paro Branch opened	1981 (July 17)
Mongar Branch opened	1981 (September 1)
Bumthang Branch opened	1981 (November 11)
Documentation of BOB's first service rule	1982
Dividend to shareholders distributed for the first time	1982
Trongsa Branch opened	1982 (December 24)
Haa Branch opened	1983 (August 19)
Gedu Branch opened	1983 (December 21)
Zhemgang Branch opened	1984 (March 9)
Lhuntse Branch opened	1985 (May 22)
Punakha Branch opened	1986 (January 4)
PemaGatshel Branch opened	1986 (July 17)
Sibsoo (discontinued in 1990s during the southern problem)	1988 (December 12)
Sarpang Branch opened	1988 (December 18)

Dagana Branch opened	1990 (April 24)
Marked 25 years of service to the Nation	1993 (May 28)
City Branch opened	1992 (June 25)
Deothang Branch opened	1993 (June 4)
Management of BOB was handed over to the Royal Government	1997
First Bhutanese Managing Director – Mr. TsheringDorji	1997
Trashiyangtse Branch opened	2001 (June 17)
Core Banking Solution rollout started - Wangdue Branch	2009 (February 2)
Launch of Internet & SMS banking	2009 (May 28)
Nganglam Branch opened	2010 (February 21)
Launch of Cards acquiring business through ATM & POS terminals	2010 (December 10)
Core Banking Solution rollout completed - Haa Branch	2011 (February 24)
Launch of VISA International & Domestic Debit Card	2012 (January 15)
Relocation of Thimphu Main branch	2012 (January 15)
E-branch opened in Langthel, Trongsa	2012 (May 30)

Blood Donation Campaign	2012 (June 29)
Launch of Contact Center	2012 (July 6)
E-branch opened in Ranjung, Tashigang	2012 (August 2)
Launch of VISA International & Domestic Credit Card	2012 (August 20)
E-branch opened in Wamrong ,Tashigang	2012 (August 29)
E-branch opened in Rinchentse, Chukha	2012 (September 12)
Start of Lunch Hour Banking in Phuentsholing&Thimphu Main	2012 (November24)
Organized Collection drive to help a social cause “Help shoe	2012 (December 17)
E-branch opened in Sibsoo, Samtse	2012 (December 29)
E-branch opened in Dagapela, Dagana	2012 (December 29)
E-branch opened in Motithang, Thimphu	2012 (December 29)
E-branch opened in Changbangdru, Thimphu	2012 (December 29)
T-Cell toll free call started	2013 (February 22)
Utility payment and bulk upload system	2013 (March 11)
BoBL Road Show (Marketing event)	2013 (March 18)

New branch at Gasa	2013 (March 25)
Mr. Pema N. Nadik joins as CEO	2013 (April 1)
250 for Youth	2013 (April 11)
2nd Employees day	2013 (May 25)
Social Forestry Day	2013 (June 2)
Blood Donation Drive	2013 (June 14)
Shifting of Corporate office	2013 (July 1)
Meet with Media Houses	2013 (August 5)
Marketing during NGOP	2013 (October 7)
BOBL won Open Departmental Basketball Tournament	2013 (November 3)
Corporate Strategic Plan Retreat	2013 (November 22-23)
Sunday Banking at B Category branches	2014 (March 9)
Marketing event, Sponsored Coronation Cup 2014	2014 (April 7-27)
Samdrupcholing Branch Opening	2014 (April 10)
Doksum Branch Opening	2014 (April 12)

Panbang Branch Opening	2014(April 16)
Lhamoizhingkha Branch Opening	2014 (April 21)
Team Building Exercise (Wangdue Phodrang, Tencholing)	2014 (May 8-11)
46th Foundation Day/ Employees Day	2014 (May 24)
CEO's first South Tour (Samtse, Gomtu, Pling, Gedu & Tsimasham)	2014 (March 11-15)
CEO's Central Tour (Dampchu, Dagana, Dagapela, Sarpang, Gelephu, Zhemgang, Panbang, Trongsa, Langthel)	2014 (May 23-29)
Blood Donation drive	2014 (June 14)
Corporate Credit Cards and Uniform Launch	2014 (June 9)
NGOP Marketing	2014 (August 13-23)
Customer Service Day	2014 (October 18)
Motithang extension Branch up gradation	2014 (October 20)
CEO's Eastern Tour (Bumthang, Mongar, Lhuentse, Trashiyangtse, Doksum, Trashigang, Wamrong, Samdrupcholing, Dewathang, S/Jongar, Lhamoizhingkha, Sipsu, Samtse, Pling)	2014 (October 23- November 5)
Marketing Event, Sponsored Kings Cup	2014 (November 15- December 2)

AUDITORS' REPORT

S. S. KOTHARI & CO.

CHARTERED ACCOUNTANTS

S.S. KOTHARI	B.Com., C.T.A. (LOND), F.C.A.	R.N. BARDHAN	B.Com., F.C.A.
R.K. ROYCHOUDHURY	B.Sc., B.Com., F.C.A.	A. DATTA	B.Com., F.C.A.
T.K. SENGUPTA	B.Com., LL.B., F.C.A.	P.K. BHATTACHARYA	B.Com., F.C.A.
S. CHAKRABORTY	B.Com., F.C.A., D.I.S.A. (I.C.A.I.)		

CENTRE POINT
 ROOM NO. 314
 21, OLD COURT HOUSE STREET
 KOLKATA - 700 001
 Phone : 2248-2758/0279 Res : 2289-1398
 e-mail : sskotharico@gmail.com

TO THE MEMBERS OF BANK OF BHUTAN LIMITED

1. Report on the Financial Statements

We have audited the attached financial statements of Bank of Bhutan Limited (the Bank), which comprise the Statement of Financial Position as at 31st December, 2014 and the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flow of the Bank for the year ended on that date and a summary of Significant Accounting Policies and other Notes annexed thereto.

2. Management's Responsibility for the Financial Statements

The Bank's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the extant Bhutanese Accounting Standards and the provisions of the Companies Act of the Kingdom of Bhutan, 2000 (the Act). This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

3. Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 and 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 involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Out of the 29 branches of the Bank, we have visited 9 branches and the general ledger balances of 20 branches not visited by us have been incorporated in these financial statement.

4. Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements, read with other notes thereon, give the information required by the Act in the manner so required and give a true and fair view in conformity with the Bhutanese Accounting Standards and provisions of the Companies Act of the Kingdom of Bhutan, 2000:

- i) in the case of Statement of Financial Position, the state of affairs of the Bank as at 31st December, 2014;
- ii) in the case of Statement of Comprehensive Income, of the profit of the Bank for the year ended on that date;
- iii) in case of Statement of Changes in Equity, of the changes in equity of the Bank for the year ended on that date; and
- iv) in the case of Statement of Cash Flow, of the movement of cash flows of the Bank for the year ended on that date.

5. Report on Other Legal and Regulatory Requirements

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.

As required by Section 74(3) of the Act, 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.

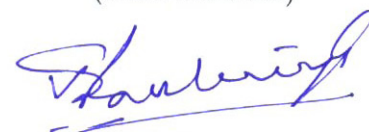
- d. The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flow dealt with in this report have been prepared on the basis of the extant Bhutanese Accounting Standards and that the financial statements are in agreement with the books of account.
- e. In our opinion, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flow comply with the Bhutanese Accounting Standards so far made mandatorily applicable by the Bhutanese Accounting Standards Board and to the extent applicable to the Bank.

6. Without intending to qualify, we invite your attention to the following:

- (i) Note No. 23 (b) regarding non-adjustment of old Debits Nu. 486,057,268 and old Credits Nu. 645,823,745 relating to unmatched entries .in the Accounts with State Bank of India including NOSTRO Accounts;
- (ii) Note No. 23 (c) regarding non-adjustment of old Debits Nu. 37,023,677 and old Credits Nu. 159,646,412 relating to unmatched entries in the Accounts with other Banks including NOSTRO Accounts;
- (iii) Note No. 23 (d) regarding non-adjustment of old unmatched entries under Bills Payable relating to Cash Warrants Nu.25,544,247.

Dated, the *24th* day of *February*, 2015
Kolkata

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


(P. K. BHATTACHARYA)

Partner
Membership No.: 015899



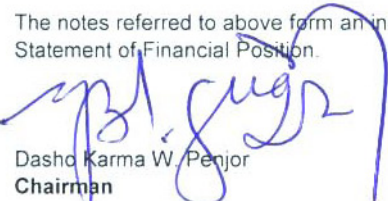
BANK OF BHUTAN LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER 2014


Amount in Ngultrum			
ASSETS	Note No.	As at 31.12.2014	As at 31.12.2013 (Restated)
Cash & Balance with RMA	1	15,694,659,647.71	8,108,770,097.66
Loans & Advances to Banks	2	2,364,022,117.97	2,429,694,035.83
Loans & Advances to Customers	3	18,474,291,001.65	16,927,540,001.42
Investment Securities	4-A	2,473,952,000.00	2,388,409,500.00
Investment in Associates & Subsidiaries	4-B	500,000.00	500,000.00
Investment in Portfolio Companies	4-C	73,217,710.45	73,217,710.45
Property, Plant & Equipment	5-A	326,843,092.70	347,209,320.84
Intangible Assets	5-B	10,954,266.29	9,555,131.65
Capital Work-in-Progress	5-C	5,074,766.00	5,068,504.00
Prepayments & Accrued Income	6	56,096,808.66	18,591,314.00
Current Tax Assets	7	143,081,814.91	145,690,009.06
Deferred Tax Assets	8	9,539,372.00	-
Other Assets	9	161,375,230.66	109,132,566.32
TOTAL ASSETS		39,793,607,829.00	30,563,378,191.23
LIABILITIES			
Deposits by Banks	10	140,658,275.77	144,681,032.47
Customer Deposits	11	33,353,354,699.00	25,394,106,045.02
Subordinated Liabilities & Other Borrowed Funds	12	500,000,000.00	-
Provision for Liabilities & Charges	13	18,562,925.47	16,239,243.68
Retirement Benefit Obligations	14	161,291,000.00	92,506,090.00
Accruals & Deferred Income	15	561,089,616.81	295,773,238.29
Current Tax Liabilities	16	323,297,614.00	284,050,016.00
Other liabilities	17	429,470,071.97	443,639,840.05
TOTAL LIABILITIES		35,487,724,203.02	26,670,995,505.51

EQUITY			
Share Capital	18	1,500,000,000.00	1,500,000,000.00
Retained Earnings	19	745,333,438.13	336,482,497.87
Reserve Fund	19	1,813,383,187.85	1,813,733,187.85
Other Reserves	19	247,167,000.00	242,167,000.00
TOTAL EQUITY		4,305,883,625.98	3,892,382,685.72
TOTAL LIABILITIES & EQUITY		39,793,607,829.00	30,563,378,191.23
Contingent liabilities	20	3,890,366,460.03	3,133,074,441.88
Bills for Collection	21	4,485,310.70	49,431,819.82
Significant Accounting Policies	22		
Notes to Accounts	23		

The notes referred to above form an integral part of the Statement of Financial Position.


 Dasho Karma W. Penjor
 Chairman


 Sonam Dema
 Board Director


 Pema N. Nadik
 Chief Executive Officer & Director


Date: 17th February 2015
 Place: Thimphu



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

For S S Kothari & Co.

Chartered Accountants
 FRN. 302034E


 P.K. Bhattacharya
 Partner
 M.No.015899



BANK OF BHUTAN LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2014

Particulars	Note No.	Amount in Ngultrum	
		For the year ended 31.12.2014	For the year ended 31.12.2013 (Restated)
Interest Income	24	2,166,668,584.99	1,896,956,276.47
Interest Expenses	25	(863,187,722.48)	(612,923,668.13)
NET INTEREST INCOME		1,303,480,862.51	1,284,032,608.34
Fees & Commission Income	26	163,314,945.18	149,236,132.78
Fees & Commission Expense	27	(41,923,229.94)	(30,716,425.29)
Net Trading & Exchange Income	28	65,972,320.04	(120,849,828.44)
Other Operating Income	29	34,457,903.53	27,607,753.15
NON INTEREST INCOME		221,821,938.81	25,277,632.20
OPERATING INCOME		1,525,302,801.32	1,309,310,240.54
Staff Costs	30	(276,995,417.69)	(285,629,098.43)
Premises Costs	31	(55,666,826.01)	(46,116,712.40)
General Administrative Expenses	32	(97,358,467.56)	(105,323,101.15)
Depreciation & Amortization	33	(70,444,556.55)	(44,016,925.79)
OPERATING EXPENSES		(500,465,267.81)	(481,085,837.77)
OPERATING PROFIT BEFORE IMPAIRMENT & TAXATION		1,024,837,533.51	828,224,402.77
Impairment Losses on Loans & other Credit Risk Provisions		174,392,400.24	(98,246,439.26)
Other Impairment Losses		(18,562,925.47)	(16,239,243.68)
PROFIT BEFORE TAXATION		1,180,667,008.28	713,738,719.83
Tax Expenses	34	(315,704,006.68)	(284,302,833.14)

NET PROFIT FOR THE YEAR		864,963,001.60	429,435,886.69
Other Comprehensive Income (Loss)			
Exchange Fluctuation Gain/(Loss)		(49,813,483.47)	223,449,549.05
Actuarial Gains/(Loss) on Retirement Benefits		(64,816,080.00)	20,079,560.00
TOTAL COMPREHENSIVE INCOME		750,333,438.13	672,964,995.74
Basic & Diluted Earnings Per Share	35	50.02	49.67

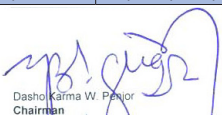
17/15 February 2015

BANK OF BHUTAN LIMITED

STATEMENT OF CHANGES TO EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2014

Amount in Ngultrum

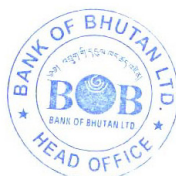
	Share Capital	Reserve Fund	Retained Earnings	Exchange Fluctuation Reserve	R&D Fund	Development Fund	Software Upgradation Fund	Training Fund	Total
As at January 2013	1,000,000,000.00	1,989,756,122.98	330,000,000.00	120,000,000.00	8,717,000.00	20,000,000.00	6,450,000.00	60,000,000.00	3,534,923,122.98
Profit for the year			672,964,995.74						672,964,995.74
Bonus Shares Issued	500,000,000.00	(500,000,000.00)							-
Transferred from Retirement Benefits Past service		14,494,567.00							14,494,567.00
Dividends Paid			(330,000,000.00)						(330,000,000.00)
Other Movements									
Transferred to Reserve Fund		309,482,497.87	(309,482,497.87)						-
Transferred to Exchange Fluctuation Reserve			(27,000,000.00)	27,000,000.00					-
As at 31 December 2013	1,500,000,000.00	1,813,733,187.85	336,482,497.87	147,000,000.00	8,717,000.00	20,000,000.00	6,450,000.00	60,000,000.00	3,892,382,685.72
Profit for the year			750,333,438.13						750,333,438.13
Bonus Shares Issued									-
Transferred from Retirement Benefits Past service									-
Dividends Paid			(336,482,497.87)						(336,482,497.87)
Other Movements		(350,000.00)							(350,000.00)
Transferred to Reserve Fund									-
Transferred to Exchange Fluctuation Reserve			(5,000,000.00)	5,000,000.00					-
As at 31st December 2014	1,500,000,000.00	1,813,383,187.85	745,333,438.13	152,000,000.00	8,717,000.00	20,000,000.00	6,450,000.00	60,000,000.00	4,305,883,625.98


Dasho Karma W. Pajor
Chairman

Sonam Dema
Board Director

Pema N. Nadik
Chief Executive Officer & Director

Date: 17th February 2015
Place: Thimphu



For S S Kothari & Co.

Chartered Accountants
FRN: 302034E


P. K. Bhattacharya
Partner
M No 015899



BANK OF BHUTAN LIMITED

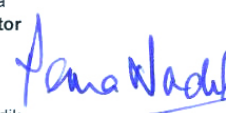
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2014

Amount in Ngultrum

	Notes to Cash Flow Statement	For the year ended 31.12.2014		For the year ended 31.12.2013 (Restated)	
Net Cash Flow from Operating Activities	1 of Cash Flow Statement		7,649,142,966.42		2,100,728,747.66
Return on Investments and Servicing of Finance	2 of Cash Flow Statement	290,154,007.31		(191,414,579.02)	
Tax payment during the year		(281,441,821.85)		(295,526,886.18)	
Capital Expenditure	3 of Cash Flow Statement	(52,095,019.69)		(131,379,669.17)	
Net Cash Inflow / (Outflow) from Investment Activities			(43,382,834.23)		(618,321,134.37)
Net Cash Inflow / (Outflow) before Financing			7,605,760,132.19		1,482,407,613.29
Financing				-	
Management of Liquid resources	4 of Cash Flow Statement	(85,542,500.00)		(1,408,186,909.22)	
Net Cash Inflow / (Outflow) from Financing			(85,542,500.00)		(1,408,186,909.22)
Net Cash Inflow / (Outflow)			7,520,217,632.19		74,220,704.07
Increase / (Decrease) in Cash	5 of Cash Flow Statement		7,520,217,632.19		74,220,704.07

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


 Dasho Karma W. Penjor
 Chairman


 Sonam Dema
 Board Director

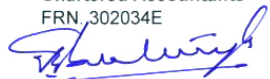

 Pema N. Nadik
 Chief Executive Officer & Director

Date: 17th February 2015
 Place: Thimphu



For S S Kothari & Co.

Chartered Accountants
 FRN 302034E


 P.K. Bhattacharya
 Partner
 M.No.015899



BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 1 - CASH AND BALANCES WITH ROYAL MONETARY AUTHORITY (RMA)		
	Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013
CASH IN HAND		
Bhutanese Currency	577,706,859.17	445,790,862.69
Indian Currency	10,532,050.00	42,404,377.08
Foreign Currency	24,388,485.12	13,957,801.09
	612,627,394.29	502,153,040.86
CASH RESERVE WITH RMA	1,728,771,467.52	1,278,737,963.08
BALANCES WITH RMA	13,353,260,785.90	6,327,879,093.72
TOTAL	15,694,659,647.71	8,108,770,097.66
NOTE 2 - LOANS & ADVANCES TO OTHER BANKS		
	As at 31.12.2014	As at 31.12.2013
BALANCES WITH BANKS IN BHUTAN		
On Current Accounts	200,000.00	17,109,155.81
On Deposit Accounts	300,000,000.00	300,000,000.00
	300,200,000.00	317,109,155.81
BALANCES WITH BANKS IN INDIA AND ABROAD		
On Current Accounts	1,300,502,117.97	1,367,024,880.02
On Deposit Accounts	763,320,000.00	745,560,000.00
	2,063,822,117.97	2,112,584,880.02
TOTAL	2,364,022,117.97	2,429,694,035.83

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 3 - LOANS & ADVANCES TO CUSTOMERS		
	Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013
GROSS LOANS,CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN)	19,269,319,745.82	17,861,358,573.88
Less: Specific Provision	659,727,556.09	809,377,108.65
: Interest in Suspense	136,925,607.58	164,952,458.27
NET LOANS, CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN) (Net of Provisions & Interest in Suspense)	18,472,666,582.15	16,887,029,006.96
BILLS DISCOUNTED AND PURCHASED		
Payable in Bhutan	-	-
Payable outside Bhutan	1,624,419.50	40,510,994.46
	1,624,419.50	40,510,994.46
TOTAL	18,474,291,001.65	16,927,540,001.42
PARTICULARS OF ADVANCES		
Debts considered good in respect of which Bank is fully secured	15,847,831,361.03	15,059,723,626.58
Debts considered good for which Bank holds no other security than the Debtor's personal security	253,713,896.64	18,264,107.55
Debts considered good, secured by the personal liability of one or more parties in addition to the personal security of the Debtors	3,169,398,907.65	2,823,881,834.21
Debts considered doubtful or bad, not provided for		-
TOTAL	19,270,944,165.32	17,901,869,568.34
Debts due by directors or officers of Bank or any of them either severally or jointly with any other person	347,904,188.09	337,919,690.30
Debts due by companies, firms in which the directors of Bank are interested as directors, partners or members	195,870,110.15	213,311,279.70
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	502,876.37	337,919,674.62
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	-	-
Due from Banking companies	99,831,039.07	199,836,573.88

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 4 A - INVESTMENT SECURITIES					
				Amount in Ngultrum	
	No. of Shares	Face Value	As at 31.12.2014	No. of Shares	As at 31.12.2013
BONDS & BILLS					
Druk Air Bonds				105,372	105,372,000.00
DCCL Bond	2,153,320	100	215,332,000.00	-	-
RICBL Bond	1,575,500	100	157,550,000.00	-	-
Tashi Air Bond	1,022,700	100	102,270,000.00	-	-
RMA Treasury Bills	230,000	9,926.25	1,998,800,000.00	230,000	2,283,037,500.00
TOTAL			2,473,952,000.00		2,388,409,500.00
NOTE 4 B - INVESTMENT IN ASSOCIATES & SUBSIDIARIES					
BOB Securities Limited	5,000	100	500,000.00	5,000	500,000.00
NOTE 4 C - INVESTMENT IN PORTFOLIO COMPANIES					
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	127,044	1,411,600.00
			73,217,710.45		73,217,710.45

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 5 A-PROPERTY, PLANT AND EQUIPMENT							Amount in Ngultrum
	Freehold Land	Buildings & Civil Structures	Furniture & Fixtures	Office Equip-ment	Vehicle	Computer & IT Equipment	Total
Total Cost							
Balance as at January 1, 2014	162,682,037.43	87,929,209.66	33,071,497.24	93,261,363.89	21,947,083.14	162,283,777.10	561,174,968.46
Additions	114,198.13	2,364,137.80	5,705,173.90	13,558,131.76	-	26,524,598.40	48,266,239.99
Deletions/Adjustments			(5,236,498.66)	(6,802,146.25)		(26,273,023.01)	(38,311,667.92)
Other Movement of assets (re-classification)				933,556.00		(1,471,556.00)	(538,000.00)
Closing Balance as at December 31, 2014	162,796,235.56	90,293,347.46	33,540,172.48	100,950,905.40	21,947,083.14	161,063,796.49	570,591,540.53
Accumulated Depreciation							
Balance as at January 1, 2014		(24,498,019.08)	(17,900,031.62)	(47,434,957.45)	(13,964,676.22)	(110,167,963.25)	(213,965,647.62)
Depreciation on deletions and adjustments			4,885,224.28	6,460,142.19		26,248,562.30	37,593,928.77
Other Movement of depreciation (reclassification)				(161,203.31)		252,737.01	91,533.70
Depreciation for the year		(4,210,864.68)	(4,079,695.77)	(12,348,316.74)	(1,005,800.48)	(45,823,585.01)	(67,468,262.68)
Balance as at December 31, 2014	-	(28,708,883.76)	(17,094,503.11)	(53,484,335.31)	(14,970,476.70)	(129,490,248.95)	(243,748,447.83)
Net Book Value as at December 31, 2014							
Net Book Value as at December 31, 2014	162,796,235.56	61,584,463.70	16,445,669.37	47,466,570.09	6,976,606.44	31,573,547.54	326,843,092.70
Net Book Value as at December 31, 2013							
Net Book Value as at December 31, 2013	162,682,037.43	63,431,190.58	15,171,465.62	45,826,406.44	7,982,406.92	52,115,813.85	347,209,320.84

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 5 B - INTANGIBLE ASSETS	Amount in Ngultrum
Software	
Total Cost	
Balance as at January 1, 2014	21,755,831.87
Additions	3,928,962.20
Deletions/Adjustments	
Other Movement of assets (reclassification)	538,000.00
Closing Balance as at December 31, 2014	26,222,794.07
Accumulated Depreciation	
Balance as at January 1, 2014	(12,200,700.22)
Depreciation on deletions and adjustments	
Other Movement of depreciation (reclassification)	(91,533.70)
Depreciation for the year	(2,976,293.86)
Balance as at December 31, 2014	(15,268,527.78)
Net Book Value as at December 31, 2014	10,954,266.29
Net Book Value as at December 31, 2013	9,555,131.65
NOTE 5 C- CAPITAL WORK IN PROGRESS	Amount in Ngultrum
Thimphu Corporate Office	
Balance as at January 1, 2014	5,068,504.00
Additions	6,262.00
Deletions/Adjustments	-
Balance as at December 31, 2014	5,074,766.00

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 6 - PREPAYMENTS & ACCRUED INCOME		
	Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013
Accrued Interest	52,773,404.56	16,088,766.98
Prepaid Expenses	3,323,404.10	2,502,547.02
	56,096,808.66	18,591,314.00
NOTE 7 - CURRENT TAX ASSETS		
	Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013
Advance Tax	142,025,008.00	145,005,845.00
Tax Deducted at Source	1,056,806.91	684,164.06
	143,081,814.91	145,690,009.06
NOTE 8 - DEFERRED TAX ASSETS		
	Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013
Deferred Tax Asset	9,539,372.00	-
	9,539,372.00	-
NOTE 9 - OTHER ASSETS		
	Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013
Stamps, Sundry Deposits and Amounts Recoverable	40,046,699.60	24,861,934.91
Stationery	14,563,768.26	18,619,918.60
Building Materials	299,880.72	299,880.72
Axis Bank Pre-paid Cards	1,238,512.49	1,649,851.87
Receivables relating to Visa/Mastercard	77,226,369.59	35,700,980.22
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
	161,375,230.66	109,132,566.32

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

Note 10 -DEPOSITS BY BANKS			Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013		
Current Deposits	138,306,238.22	142,439,734.21		
Term Deposits	2,352,037.55	2,241,298.26		
TOTAL DEPOSITS BY BANKS	140,658,275.77	144,681,032.47		
Note 11 - CUSTOMER DEPOSITS			Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013		
DEMAND DEPOSITS				
i) Current Deposits	17,740,694,888.62	11,592,601,198.31		
ii) Savings Bank Deposits	7,649,076,144.77	6,961,197,178.71		
	25,389,771,033.39	18,553,798,377.02		
TERM DEPOSITS	7,963,583,665.61	6,840,307,668.00		
TOTAL CUSTOMER DEPOSITS	33,353,354,699.00	25,394,106,045.02		
TOTAL DEPOSITS	33,494,012,974.77	25,538,787,077.49		
Note 12- SUBORDINATED LIABILITIES			Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013		
Subordinated Debt	500,000,000.00	-		
(At 6% per annum, repayable in 2024)				
	500,000,000.00	-		

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 13 - PROVISION FOR LIABILITIES & CHARGES		
Amount in Ngultrum		
	As at 31.12.2014	As at 31.12.2013
Provision for Fraud & unreconciled Accounts	18,562,925.47	16,239,243.68
TOTAL	18,562,925.47	16,239,243.68
NOTE 14 - RETIREMENT BENEFIT OBLIGATIONS		
Amount in Ngultrum		
	As at 31.12.2014	As at 31.12.2013
As per last account	92,506,090.00	105,359,773.00
Less: Payments made during the year	17,352,667.80	20,067,526.00
Less: Movement through Reserves	-	14,494,567.00
Add: Movement through Reserves	64,816,080.00	-
Add: Charge for the year	21,321,497.80	21,708,410.00
TOTAL	161,291,000.00	92,506,090.00
NOTE 15 -ACCRUALS & DEFERRED INCOME		
Amount in Ngultrum		
	As at 31.12.2014	As at 31.12.2013
Interest Accrued	497,965,065.64	250,990,691.04
Payables relating to Visa/Mastercard	51,517,820.68	44,782,547.25
Unearned Commission Income	11,606,730.49	-
TOTAL	561,089,616.81	295,773,238.29
NOTE 16 -CURRENT TAX LIABILITIES		
Amount in Ngultrum		
	As at 31.12.2014	As at 31.12.2013
Current Year Income Tax Payable	323,297,614.00	284,050,016.00
TOTAL	323,297,614.00	284,050,016.00

NOTE 17 -OTHER LIABILITIES			Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013		
General Provision	183,454,957.06	208,303,220.34		
Bills Payable	191,569,622.34	192,728,495.25		
Inter Branch Adjustment (net)	(18,744,617.87)	(32,658,604.02)		
Others (including provisions)	73,190,110.44	75,266,728.48		
TOTAL	429,470,071.97	443,639,840.05		
TOTAL PROVISIONS & OTHER LIABILITIES	1,493,711,228.25	1,132,208,428.02		
NOTE 18 - SHARE CAPITAL			Amount in Ngultrum	
	As at 31.12.2014	As at 31.12.2013		
AUTHORISED CAPITAL				
30,000,000 Shares of Nu. 100 each	3,000,000,000.00	3,000,000,000.00		
ISSUED AND PAID-UP CAPITAL				
Opening Balance	1,500,000,000.00	1,000,000,000.00		
Add: Bonus Share Issued		500,000,000.00		
CLOSING BALANCE (15,000,000 Shares) (Previous Year 10,000,000) of Nu 100 each*	1,500,000,000.00	1,500,000,000.00		
* Out of the above, 12,000,000 shares of Nu. 100 each were issued as fully paid Bonus shares by way of capitalization of Reserves.				

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

NOTE 19 - RESERVES & SURPLUS		Amount in Ngultrum		
	As at 31.12.2014		As at 31.12.2013	
RESERVE FUND				
Opening Balance	1,813,733,187.85		1,989,756,122.98	
Add: Transfer from Comprehensive Income			309,482,497.87	
Less : Other movements	(350,000.00)			
Less : Capitilised by way of issue of Bonus share			(500,000,000.00)	
Add: Retirement Benefits Past service			14,494,567.00	
		1,813,383,187.85		1,813,733,187.85
EXCHANGE FLUCTUATION RESERVE				
Opening Balance	147,000,000.00		120,000,000.00	
Add: Transfer from Comprehensive Income	5,000,000.00		27,000,000.00	
		152,000,000.00		147,000,000.00
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
RETAINED EARNINGS				
As per annexed account		745,333,438.13		336,482,497.87
TOTAL		2,805,883,625.98		2,392,382,685.72

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Financial Position as at 31st December 2014

Amount in Ngultrum		
	As at 31.12.2014	As at 31.12.2013
NOTE 20 - CONTINGENT LIABILITIES		
Constituents' Liabilities for Acceptances,		
Endorsements and Other Obligations	1,712,031,874.78	309,434,102.67
Guarantees Issued & Outstanding	2,178,334,585.25	2,823,640,339.21
TOTAL	3,890,366,460.03	3,133,074,441.88
NOTE 21 - BILLS FOR COLLECTION		
Payable in Bhutan	1,853,373.00	2,540,011.60
Payable outside Bhutan	2,631,937.70	46,891,808.22
TOTAL	4,485,310.70	49,431,819.82

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Comprehensive Income as at 31st December 2014

NOTE 24- INTEREST EARNED		
	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
Interest on Loans	2,053,768,570.81	1,767,580,402.00
Interest on Bills Receivables	307,199.00	164,627.49
Interest on Investment	63,352,065.88	91,051,479.49
Interest on Fixed Deposits with Banks	49,240,749.30	38,159,767.49
TOTAL	2,166,668,584.99	1,896,956,276.47
NOTE 25 - INTEREST EXPENSES		
	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
Interest paid on deposits	863,187,722.48	612,923,668.13
TOTAL	863,187,722.48	612,923,668.13
NOTE 26- FEES & COMMISSION INCOME		
	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
Commision	64,796,266.64	59,210,579.80
Exchange	61,168,268.59	67,513,397.81
Visa/Master POS Acquiring Commission	11,754,792.95	9,356,338.17
Visa Debit Card ATM Charges	18,344,061.00	8,361,713.00
BFS ATM Interchange Fee Income	4,245,914.00	4,722,624.00
ATM Access Fees	3,005,642.00	71,480.00
TOTAL	163,314,945.18	149,236,132.78

NOTE 27- FEES & COMMISSION EXPENSES		Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013	
Mastercard Registration Fee	24,731.52	231,299.04	
Visa Registration Fee	33,379,314.42	21,714,188.25	
BFS Interchange Fee Expenses	8,519,184.00	8,770,938.00	
	41,923,229.94	30,716,425.29	
NOTE 28- NET TRADING & EXCHANGE INCOME		Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013	
Profit on conversion of Foreign Currency Balances	65,972,320.04	(120,849,828.44)	
	65,972,320.04	(120,849,828.44)	
NOTE 29- OTHER OPERATING INCOME		Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013	
Income earned by way of Dividend	14,043,690.00	9,374,174.00	
Rental Income	2,129,375.33	1,111,799.66	
Others	18,238,756.68	15,748,754.70	
Profit on sale of Assets	46,081.52	1,373,024.79	
TOTAL	34,457,903.53	27,607,753.15	

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Comprehensive Income as at 31st December 2014

NOTE 30- STAFF COSTS		
	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
Employee Salaries	132,030,103.85	124,922,866.00
Employee Allowances	59,020,169.59	50,503,997.37
Employee Provident Fund	13,204,154.00	12,688,266.00
Encashment of Leave	6,083,608.80	5,246,060.00
Medical Expenditure	183,972.00	820,351.50
Employee Bonus	20,111,332.00	19,468,502.00
Employee Gratuity	13,227,780.00	44,250,050.00
LTC	9,062,584.00	9,284,658.00
Staff Amenities	190,747.84	444,391.65
Uniform Expenses	66,965.00	1,309,039.40
Training Expenses	20,270,251.69	20,202,093.51
Separation Cost	2,010,109.00	(7,708,140.00)
Staff Relocation Expenses	701,029.92	3,643,175.00
Sports & Recreational Expenses	832,610.00	353,788.00
Prizes & Awards	-	200,000.00
	276,995,417.69	285,629,098.43

NOTE 31- PREMISES COSTS		Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013	
Rent	17,121,513.43	14,307,102.26	
Insurance Building	202,367.44	36,658.75	
Insurance- Office Equipment	246,503.90	27,733.00	
Light & Fuel	2,587,651.13	2,309,757.34	
Rates & Taxes	131,715.88	181,383.29	
Water & Sewerage	165,771.95	184,338.80	
Repairs & Maintenance - Building	1,220,705.48	3,872,621.95	
Repairs & Maintenance - Vehicle	928,117.16	667,568.21	
Repairs & Maintenance - Furniture & Fixtures	36,845.00	150,711.59	
Repairs & Maintenance - Equipment & Machineries	924,156.00	598,612.00	
AMC- Equ and Machineries	10,731,272.90	6,293,981.16	
ATM Expenses	1,293,386.00	886,266.00	
House Keeping	1,350,475.00	1,094,535.00	
Fuel & Lubricants	1,933,324.87	1,780,623.05	
Security Expenses	16,793,019.87	13,724,820.00	
	55,666,826.01	46,116,712.40	

NOTE 32- GENERAL ADMINISTRATIVE EXPENSES		
	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
Travelling Expenses	5,976,175.90	15,647,805.36
Directors Sitting Fees	780,480.00	1,048,000.00
Postage, Telegrams & Stamps	20,317,809.73	12,620,367.83
Audit Fees	250,000.00	250,000.00
Audit Expenses	636,574.00	750,000.00
Repairs to Banks Properties	5,253,201.30	350,387.82
Stationery, Printing, Advertisement etc	10,406,865.15	14,871,331.19
Charity and Donations	6,892,724.00	1,442,000.00
Fixed Assets Written Off	657,376.16	5,797,588.30
Other Expenditure	46,187,261.32	52,545,620.65
TOTAL	97,358,467.56	105,323,101.15
NOTE 33- DEPRECIATION & AMORTIZATION		
	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
Depreciation on Vehicle	1,005,800.48	2,220,123.46
Depreciation on Furniture & Fixtures	4,079,695.78	3,713,852.54
Depreciation on Office Equipments	12,348,316.74	12,726,659.12
Depreciation on Computer & It's Peripherals	45,823,585.01	20,441,498.36
Depreciation on Buildings	4,210,864.68	2,401,754.95
Amortization on Software	2,976,293.86	2,513,037.36
	70,444,556.55	44,016,925.79

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Comprehensive Income as at 31st December 2014

NOTE 34- TAXATION		Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013	
Current Tax	323,297,614.00	284,050,016.00	
Prior Period Tax	1,945,764.68	252,817.14	
Deferred Tax Payable-Current	(9,539,372.00)	-	
Total Income Tax Expense Recognized	315,704,006.68	284,302,833.14	

BANK OF BHUTAN LIMITED

Note forming part of the Statement of Comprehensive Income as at 31st December 2014

NOTE 35- EARNING PER SHARE		
	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
Profit After Income Tax	864,963,001.60	429,435,886.69
Other comprehensive income for the year	(114,629,563.47)	243,529,109.05
Profit used to determine basic earnings per share	750,333,438.13	672,964,995.74
Weighted average number of Ordinary Shares in issue	15,000,000	13,547,945.21
Basic and Diluted Earnings per Ordinary Share	50.02	49.67

BANK OF BHUTAN LIMITED

Notes forming part of the Cash Flow for the Year ended 31st December 2014

	Amount in Ngultrum	
	For the year ended 31.12.2014	For the year ended 31.12.2013
1 Net Cash Flow from Operating Activities:		
Net Profit before tax	1,066,037,444.81	957,267,828.88
Add : Depreciation Charges	70,444,556.55	44,016,925.79
Add: Assets written off during the year	657,376.16	5,797,588.30
Less: Prior period adjustment	(1,945,764.68)	(252,817.14)
Less: Differential amount in total depreciation of Deoth- ang branch credited to P&L Miscellaneous Account		(9,153.03)
	1,135,193,612.84	1,006,820,372.80
Less: Income from Dividends	14,043,690.00	9,374,174.00
Interest Received on Investments and FDRs	112,592,815.18	129,211,246.98
Profit on Sale of Fixed Assets	46,081.52	1,373,024.79
Donation made through Reserve	350,000.00	0.00
	1,008,161,026.14	866,861,927.03
(Increase)/Decrease in Advances	(1,546,751,000.23)	(258,902,773.90)
(Increase)/Decrease in other Assets	(99,287,531.00)	82,923,481.57
Increase/(Decrease) in Deposits & other Accounts	7,955,225,897.28	1,845,513,421.23
Increase/(Decrease) in other Liabilities & Provisions	331,794,574.23	(435,667,308.28)
	7,649,142,966.42	2,100,728,747.66
2 Return on Investments and Servicing of Finance:		
Dividend Paid	(336,482,497.87)	(330,000,000.00)
Dividend Received	14,043,690.00	9,374,174.00

Interest Received on Investments and FDRs	112,592,815.18	129,211,246.98
Subordinated Debt	500,000,000.00	-
Investment in other Assets	-	
	290,154,007.31	(191,414,579.02)
3 Capital Expenditure:		
Payments to acquire tangible fixed assets	(52,852,578.35)	(150,548,675.06)
Receipts from sale of tangible fixed assets	763,820.66	8,851,794.55
(Increase)/Decrease in Capital Working In Progress	(6,262.00)	10,317,211.34
	(52,095,019.69)	(131,379,669.17)
4 Management of liquid resources:		
Sale/(Purchase) of RMA Discount Bills	284,237,500.00	(1,829,817,909.22)
Sale /(Purchase) of Druk Air Bond	105,372,000.00	421,631,000.00
Sale /(Purchase) of DCCL Bond	(215,332,000.00)	
Sale /(Purchase) of RICBL Bond	(157,550,000.00)	
Sale /(Purchase) of TASHI AIR Bond	(102,270,000.00)	
	(85,542,500.00)	(1,408,186,909.22)
5 Increase/(Decrease) in cash(Includes cash in hand, balances with RMA and balances with other banks):		
Closing Balance	18,058,681,765.68	10,538,464,133.49
Less :Opening Balance	10,538,464,133.49	10,464,243,429.42
	7,520,217,632.19	74,220,704.07

Note – 22 - Significant accounting policies appended to and forming part of the financial statements for the year ended December 31, 2014.

1. General Information

Bank of Bhutan Limited (the 'Bank') is a subsidiary of Druk Holding & Investments (a Royal Government of Bhutan undertaking). The Bank has been incorporated and registered under The Companies Act of the Kingdom of Bhutan, 2000 with limited liability. The registered office of the Bank is located at Thimphu, Bhutan.

The Bank is governed by Financial Services Act, 2011 and Royal Monetary Authority Act, 2010.

These financial statements relates to the year ended December 31, 2014.

2. Application of Bhutanese Accounting Standards (BAS)

Till financial year ended December 31, 2013, the Bank prepared its financial statements in accordance with generally accepted accounting principles (GAAP) and the provisions of the Companies Act of the Kingdom of Bhutan, 2000.

The Accounting and Auditing Standard Board of Bhutan (AASBB) decided to adopt IFRS in phases with minor changes. These standards are referred to as Bhutanese Accounting Standards (BAS).

The Financial Statements for the year ended December 31, 2014 have been prepared in line with first phase of the Bhutanese Accounting Standards (BAS) for the first year. The summarised impact of the introduction of BAS is:

- a) The Bank has presented Statements of Comprehensive Income and Changes in Equity as required by BAS phase I. These statements show information that was previously disclosed in the notes to the financial statements.
- b) Depreciation has been calculated using the useful life of fixed assets, rather than using rates applicable for Income Tax purposes.
- c) Income on letters of credit, guarantees and cards is now accounted for on the basis of accrual accounting; this was accounted for on a cash basis in the past.
- d) The Bank had adopted BAS 19 Employee Benefits. Employee retirement benefit plans are valued on an actuarial basis which better reflects the estimated liability at balance date.

3. Significant accounting policies appended to and forming part of the financial statements for the year ended December 31, 2014.

3.1. Basis of preparation

The financial statements of the Bank have been prepared in accordance with Bhutanese Accounting Standards. The statements have been prepared under the accrual, historical cost and going concern conventions.

The preparation of financial statements in conformity with BAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The functional currency of preparation of these financial statements is the Bhutanese Ngultrum.

3.2. Segment reporting

The Bank operates in one segment of commercial banking.

3.3. Consolidation

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

3.4. Foreign currency translation

- a) Foreign currency transactions that are completed within the accounting period are translated into Bhutan Ngultrum using the exchange rates prevailing at the date of settlement. Monetary assets and liabilities in foreign currencies at statement of financial position date are translated at the rates of exchange ruling at statement of financial position date.
- b) Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

3.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment, if any. Cost includes purchase price, taxes and duties, labour cost, direct financing costs, direct overheads for self constructed assets, borrowing costs, other direct costs incurred up to the date the asset is ready for its intended use including initial estimate of dismantling and site restoration cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Comprehensive Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset Category	Useful life (No. of years)
Buildings and civil structures (built on owned land only)	30
Plant and machinery and other equipment	7
Furniture and fixtures	7
Office equipment	7
Vehicles	10
Leasehold property improvements	Life of lease
Computer & IT Equipment:	
Desktops	5
Servers	5
Card embossing equipment	5
Laptops	3
Printers	3
Scanners	3
Routers, switches, modems, UPS	3

The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate, at the end of each year. As a policy, all assets are depreciated to Nu 1.00, unless the annual assessment shows a material change.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other Income' or 'Other expenses' as the case may be, in the income statement

3.6 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of seven years.

Costs associated with maintaining computer software programmes are recognised as an expense as and when incurred.

3.7 Research and Development costs

Research costs are recognised as an expense in the year in which they are incurred. Development costs are only capitalised if a potentially profitable product has been found and management has given approval to further develop the product.

If the Bank decides to proceed and market the product, development costs will be amortised over the expected profitable period of marketing the product, not exceeding 5 years. Other development costs are expensed.

3.8 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

3.9 Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'loans to customers', 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

3.11 Trade and other receivables

Trade and other receivables are initially recognised at the fair value of the amounts to be received. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Receivables are reviewed regularly for impairment.

3.12 Cash and cash equivalents

In the Statement of Cash Flows, "cash and cash equivalents" includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

3.13 Trade and other payable

Trade and other payable are initially recognised at the fair value of the amounts to be paid. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

3.14 Customer Deposits

Customer deposits include all customer accounts where the Bank owes money to customers (excluding balances owed to other banks, including central banks). Credit balances in card-holder accounts are also treated as customer deposits.

3.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in Other Comprehensive Income. In this case, the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the prevailing income tax rates in Bhutan.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using prevailing tax rates (and laws) and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.16 Employee benefits

a. Under defined contribution scheme

Where employees belong to a defined contribution benefit plan managed by a separate entity, the Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

b. Under Defined Benefit Scheme

The Bank makes retirement payments based on the final salary and years of service such as gratuity, separation costs and leave encashment at the time of retirement. The liability for such payments is accrued on the basis of an actuarial valuation.

- Changes in service cost and interest are charged to the Statement of Income
- Changes to actuarial valuation of the liability are charged to the Other Comprehensive Income.

The valuation of the actuarial obligation of the defined benefits plan was carried out by Towers Watson, India, registered actuaries.

i. Impact on Statement of Comprehensive Income

Particulars	Amount (Nu.)
Encashment of Leave Encashment	6,083,608.80
Employee Gratuity	13,227,780.00
Separation & Travel Allowance	2,010,109.00
Total (Recognized as cost in Statement of Comprehensive Income)	21,321,497.80

ii. Impact on Other Comprehensive Income (OCI)

Particulars	Amount (Nu.)
Actuarial (gain)/ loss due to liability experience	5,895,080.00
Actuarial (gain)/ loss due to liability assumption changes	58,921,000.00
Actuarial (gain)/ loss arising during period	64,816,080.00
Return on plan assets (greater)/ less than discount rate	-
Actuarial (gain)/ losses recognized in OCI	64,816,080.00
Adjustment for limit on net asset	-
Cumulative Actuarial (gain) or Loss Recognized via at Prior Period End	-
Cumulative Actuarial (gain) or Loss Recognized via at Current Period End	64,816,080.00

iii. Impact on Statement of Financial Position

Particulars	Amount
Defined benefit obligation (DBO)	(161,291,000.00)
Fair value of plan assets (FVA)	-
Fund status [surplus/ (deficit)]	(161,291,000.00)
Effect of Asset Ceiling	-
Net defined benefit asset (DBA)	(161,291,000.00)

iv. Movement in the Present Value of Defined Benefit Obligation

Particulars	Amount (Nu.)
Opening Defined Benefit Obligation	92,506,090.00
Current service cost	13,434,320.00
Interest cost	7,639,110.00
Actuarial (gain)/loss on experience adjust	5,895,080.00
Actuarial (gain)/loss on financial assumptions	58,921,000.00
Benefits paid directly by the company	(10,261,190.00)
Benefits paid from the Plan assets	(6,903,410.00)
Closing Fair Value of Plan Assets	161,291,170.00

v. Movements in the Fair Value of Plan Assets

Particulars	Amount (Nu.)
Opening Fair Value of plan assets	-
Acquisition adjustments	-
Income on assets on plan assets	-
Contribution by BOBL	6,903,410.00
Return on plan assets greater/ (lesser) than discount rate	-
Benefits paid	(6,903,410.00)
Closing Fair Value of plan Assets	-

vi. Year-end Expected Benefit Payments

Particulars	Amount (Nu.)
December 31, 2015 (Retirement Benefit Obligations – Current)	6,331,000.00
December 31, 2016	6,511,050.00
December 31, 2017	9,205,710.00
December 31, 2018	11,469,370.00
December 31, 2019	15,157,630.00
December 31, 2020 to December 2024	99,565,950.00

vii. Weighted Average Duration of Defined Benefit Obligation is 13 years

viii. Accrued Benefit Obligation at December 31, 2014 is Nu. 61,731,000.00

ix. Sensitivity Analysis

i) Discount Rate	
Discount Rate as at 31 December 2014	8.50%
Effect on DBO due to 1% increase in Discount Rate	(17,977,000.00)
Effect on DBO due to 1% decrease in Discount Rate	21,617,000.00
ii) Salary Escalation Rate	
Salary Escalation Rate as at 31 December 2014	12.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	11,307,000.00
Effect on DBO due to 1% decrease in Salary Escalation Rate	(10,471,000.00)

3.17 Contingent Liabilities

A contingent liability is only disclosed in the notes to the account if an outflow of resources embodying economic benefits is possible.

Contingent liabilities include existing contingent liabilities as on the date of the Statement Financial Position as under (Details are provided in note 20):

- Letters of Credit issued
- Guarantees issued
- Expired guarantees on which there are claims which have not expired

3.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and taxes. The Bank recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Bank.

3.19 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

3.20 Dividend income

Dividend income is recognised when the right to receive payment is established.

3.21 Other assets and Liabilities

Assets and liabilities that cannot be specifically categorised in the format for Statement of Financial Position are shown under 'Other assets' or 'Other liabilities'.

'Other liabilities' include outstanding payments due on remittance products such as cash warrants, drafts, etc.

Provisions for impairment on a portfolio basis (General Provisions) are shown under 'Other liabilities'.

3.22 Comparative information

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

2013 comparative information has been updated to comply with the introduction of Bhutanese Accounting Standards.

3.23 Earnings Per Share

Earnings per share are based on the weighted average number of equity shares outstanding during the period, based on the number of days in the year. For new/additional equity shares, the date of recording the increase in paid-up share capital is taken as the date, provided all monies to be received from shareholders, are received by the Bank.

3.24 Related Party Disclosures

A related party transaction is a transfer of resources, services and/or obligations between the Bank and a related party, regardless of whether a price is charged.

Related party transactions exclude lending and deposit-taking transactions by the Bank, which are completed in the normal course of business as 'providers of finance'.

Key management personnel of the Bank include the members of the Board of Directors and the Chief Executive Officer. Their compensation¹ in general, includes

- Salaries, allowances and bonuses, if any;
- Non-monetary benefits (such as medical care, housing, cars and free/subsidized goods & services), if any;

- Sitting fees, if any;
- Loans on non-commercial terms, if any;
- Post-employment benefits such as pensions, post-employment life insurance, post-employment medical care, etc., if any;
- Long-term service benefits, including deferred compensation, if any;
- Termination benefits, if any; and
- Share-based payments, if any.

Key Management Compensation and Remunerations:

	Particulars	For the year ended 31.12.2014	For the year ended 31.12.2013
(a)	Remuneration, Allowances, etc paid to Chief Executive Officer:		
(i)	Salary, Allowances, bonus and Encashment of leave	1,763,546.00	1,435,224.00
(ii)	Contribution to Provident Fund	100,488.00	87,801.00
(iii)	Sitting fee	140,000.00	148,000.00
	Total	2,004,034.00	1,671,025.00
(b)	Sitting Fees paid to other Directors	540,000.00	900,000.00

3.25 Reclassification Statement for the year 2013

- Capital – Nu. 1,500,000,000.00
Presented as Share Capital under Equity
- Reserve and Surplus – Nu. 2,052,382,685.72
Restated and reflected under Retained Earnings and General Reserve under Equity.
- Other Liabilities & Provisions – Nu. 1,472,208,428.02
Presented as Provision for Liabilities and Charges for Nu. 16,239,243.68, Retirement Benefit Obligations for Nu.92,506,090.00, Accruals and Deferred Income for Nu.295,773,238.29, and Other Liabilities for Nu. 1,067,689,856.05.
- Balances with Bank – Nu. 2,429,694,035.83
Presented as Loan and Advances to Banks.

e. Investments – Nu. 2,462,127,210.45

Restated and presented in three separate categories namely, Investment in Securities for Nu.2,388,409,500.00, Investment in Associates and Subsidiaries for Nu. 500,000.00 and Investment in Portfolio Companies for Nu. 73,217,710.45.

f. Advances – Nu. 16,927,540,000.00

Presented as Loan and Advances to Customers, net of specific provisions for impairment and interest suspended.

g. Fixed Assets (net of accumulated depreciation) – Nu. 361,832,956.49

Presented as Property, Plant and Equipment for Nu.352, 277,824.84 and Intangible Assets for Nu. 9,555,131.65.

h. Other Assets – Nu. 273,413,889.38

Restated and presented as Prepayment and Accrued Income for Nu. 18,591,314.00, Current Tax Assets for Nu.145,690,009.06 and Other Assets for Nu. 109,132,566.32.

23. Notes to accounts

- a) Branch Clearing Adjustment Account has been reconciled up to December 31, 2014, Certain adjustments for entries passed after December 31, 2014, 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. 18,530,535.76 pertaining to unmatched inter-branch transactions, necessary adjustments for which are awaited.
- b) The Accounts with State Bank of India have been reconciled up to December 31, 2014. Necessary adjustments for unmatched entries debit Nu.486,057,268 and credit Nu.645,823,745 NOSTRO Accounts are awaited.
- c) Accounts with other Banks include unmatched debits Nu.37,023,677 and credits Nu.159,646,412 including NOSTRO Accounts awaiting necessary adjustments.
- d) Necessary adjustments are also awaited in respect of Cash Warrants Nu.25,544,247 included under Bills Payable.
- e) During the year, a sum of Nu.5,000,000 has been transferred to Exchange Fluctuation Reserve from profit after tax as per clause 11.3 of Section 11 of RMA Prudential Regulations 2002.
- f) Balance in the deposit account with banks under Loans and Advances to Other Banks includes USD 2 million (Nu. 127,220,000) (Previous Year Nu. 124,260,000) which is under lien with Standard Chartered Bank Singapore in respect of foreign Letters of Credit issued by the Bank.

g) Income Tax assessment of the Bank has been completed up to December 31, 2012 and the final assessment orders are awaited.

h) The Statement of Financial Position under Assets and Liabilities represents :

a. ASSETS

PARTICULARS	For the year end 31.12.2014	For the Year ended 31.12.2013 (Restated)
Current Assets		
Cash & Balance with RMA	15,694,659,647.71	8,108,770,097.66
Loans & Advances to Banks	2,364,022,117.97	2,429,694,035.83
Loans & Advances to Customers	3,113,411,714.33	2,897,312,221.84
Prepayments & Accrued Income	56,096,808.66	18,591,314.00
Current Tax Assets	143,081,814.91	145,690,009.06
Deferred Tax Assets	9,539,372.00	-
Other Assets	161,375,230.66	109,132,566.32
Total Current Assets	1,542,186,706.24	13,709,190,244.71
Non-current Assets		
Loans & Advances to Customers	15,360,879,287.32	14,030,227,779.58
Investment Securities	2,473,952,000.00	2,388,409,500.00
Investment in Associates & Subsidiaries	500,000.00	500,000.00
Investment in Portfolio Companies	73,217,710.45	73,217,710.45
Property, Plant & Equipment	326,843,092.70	347,209,320.84
Intangible Assets	10,954,266.29	9,555,131.65
Capital Work-in-Progress	5,074,766.00	5,068,504.00
Total Non-current Assets	18,251,421,122.76	16,854,187,946.52
TOTAL ASSETS	39,793,607,829.00	30,563,378,191.23

b. LIABILITIES

PARTICULARS	For the year end 31.12.2014	For the Year ended 31.12.2013 (Restated)
Current Liabilities		
Deposits by Banks	140,658,275.77	144,681,032.47
Customer Deposits	29,334,450,530.25	22,716,453,921.79
Provision for Liabilities & Charges	18,562,925.47	16,239,243.68
Accruals & Deferred Income	561,089,616.81	295,773,238.29
Current Tax Liabilities	323,297,614.00	284,050,016.00
Other liabilities	429,470,071.97	443,639,840.05
Total Current Liabilities	30,807,529,034.27	23,900,837,292.27
Non-Current Liabilities		
Customer Deposits	4,018,904,168.75	2,677,652,123.23
Subordinated Liabilities & Other Borrowed Funds	500,000,000.00	-
Retirement Benefit Obligations	161,291,000.00	92,506,090.00
Total Non-Current Liabilities	4,680,195,168.75	2,770,158,213.23
TOTAL LIABILITIES	35,487,724,203.02	26,670,995,505.51

c. Others (including provisions) under other liabilities represent:

Particulars	For the year ended 31.12.2014	For the year ended 31.12.2013
Sundry Creditors	54,029,469.72	51,036,539.34
Unclaimed Balance Account	2,553,055.20	1,861,187.34
Unclaimed Balance Account BR	-	7,650.00
Unclaimed credit Received from Axis Bank	5,112,922.00	5,112,922.00
Matured FDR	8,030,357.53	11,562,364.81

Security Deposit Account	1,420,647.58	1,715,114.54
Security Deposit For Lockers	611,200.00	612,800.00
RTGS/NEFT on SBI/Axis	1,432,458.41	3,358,150.45
Total	73,190,110.44	75,266,728.48

d. Other receipts represent:

Particulars	For the year ended 31.12.2014	For the year ended 31.12.2013
CIB Recoveries	5,420,000.00	3,167,300.00
ATM Charges Recovery	945,040.00	4,785,575.00
Income From Telephone	11,491.00	53,920.00
Income From Postage	807,797.42	760,786.43
Income From Swift Charges	1,160,384.83	821,893.40
Employees PF Forfeited	1,549,961.36	535,314.26
Visa ATM Reimbursement Cr AC	1,227,985.03	1,086,869.69
Master card ATM Reimbursement	660,623.01	1,082,618.71
Master card POS Reimbursement CR AC	19,152.68	10,315.08
Visa Issuer Reimbursement account	1,053,208.29	921,143.16
Miscellaneous Income	4,884,343.06	2,523,018.97
Underwriting Charges	450,000.00	-
Legal & Revenue Stamp Recovery	48,770.00	-
Total	18,238,756.68	15,748,754.70

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

	Particulars	For the year ended 31.12.2014		For the year ended 31.12.2013	
		Nu.	Ch.	Nu.	Ch.
(a)	Payment to and provision for employees represent:				
(i)	Salary, Bonus, Gratuity, leave encashment etc.	327,073,703.77		248,664,309.43	
(ii)	Contribution to Provident Fund	13,204,154.00		12,688,266.00	
	Total	340,277,857.77		261,352,575.43	
(b)	Remuneration, Allowances, etc paid to Chief Executive Officer:				
(i)	Salary, Allowances, bonus and Encashment of leave	1,763,546.00		1,435,224.00	
(ii)	Contribution to Provident Fund	100,488.00		87,801.00	
(iii)	Sitting fee	140,000.00		148,000.00	
	Total	2,004,034.00		1,671,025.00	
(c)	Sitting Fees paid to other Directors (Including invitees)	780,480.00		900,000.00	
(d)	Rent, Taxes, Insurance, Lighting etc represent:				
(i)	Rent	17,121,513.43		14,307,102.26	
(ii)	Rates & Taxes	131,715.88		181,383.29	
(iii)	Insurance	3,340,780.08		2,346,874.02	
(iv)	Light & Fuel	2,587,651.13		2,309,757.34	
		23,181,660.52		19,145,116.91	
e)	Repairs to the Bank's Property represent:				
(i)	Repair to Buildings	1,220,705.48		588,937.51	
(ii)	Other Repairs	17,873,592.36		11,344,945.22	
		19,094,297.84		11,933,882.73	

f. Claims on the Bank

- a) 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 refused to pay, citing discrepancies in the bills. The matter has been resolved/ closed before December 31, 2014. The Bank does not have any liability to pay and has not shown any sum payable to the exporters.
- b) 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 cited discrepancies in the bills and claimed a refund of the amount paid to the exporter. The matter has been resolved/ closed before December 31, 2014. The Bank does not have a liability to pay and has not shown any sum as payable to the L/C Issuing bank.
- g. In the opinion of the Management, all items of assets and liabilities as appearing in the Balance Sheet as at 31.12.2014 have a value equal to the amount at which they are stated therein.
- h. 12,000,000 shares of Nu.100 each are held by Druk Holding and Investments Limited (DHIL).
- i. 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. Note 14 of the Accounts details the movements in this regard. Accordingly incremental liability for the year Nu.86,137,577.80 has been charged to Total Comprehensive Income.

The liability as at December 31, 2014 stands at Nu.161,291,000.00 which is confirmed by the independent actuary's valuation.

- j. The previous year's figures have been regrouped/ rearranged wherever considered necessary.



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 locations thereof, in a Spreadsheet format. However, for the purpose of ensuring better control over the fixed assets, the Bank has introduced maintenance of Fixed Assets in ERP and it is in the process of data transfer. The Fixed Assets of the bank at all locations have been physically verified by the management during the year and the discrepancies noticed on such verification, which were not material, have been adjusted in books.
2. None of the Fixed Assets have been revalued during the year.
3. During the year the Bank, with the approval of the RMA, had granted loan to a company under the same management (repaid within the year) and the rate of interest and other terms and conditions of the loan were not prejudicial to the interest of the Bank. Other than the above, 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, 2014.

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 accounts. 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 Para 3.24 of Note – 22.
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 Statement of Financial Position as at 31st December, 2014 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 date of the Statement of Financial Position.
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

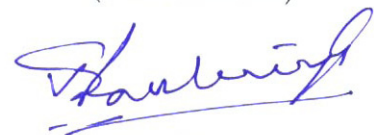
According to the information and explanations given to us by the management and based on a Compliance Checklist compiled by the Bank Officials, the Bank has complied with all the provisions of the Companies Act of the Kingdom of Bhutan, 2000.

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, 2014, which is proper and correct;
 - b. Capital Adequacy Ratio of the Bank as at 31st December, 2014, 15.57% 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, 2014, 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, 2014, 47.81% 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 24th day of February, 2015
Kolkata

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



(P. K. BHATTACHARYA)

Partner

Membership No.: 015899



Exhibit-A

(Referred to in Annexure-1: Minimum Audit Examination And Reporting Requirements)

Ratio	2014	2013	Remarks
Current Ratio: Current Assets/ Current Liabilities	1.05:1	1.04:1	Increase in ratio is due to increase in Customer Deposits
Return on Investments: Profit after Tax/ Capital Employed	17.43	17.29	Increase in ratio is due to increase in profit for the year
Net Profit Ratio: Profit after Tax/ Turnover	31.52	30.92	Higher ratio is due to increase in profit for the year
Capital Adequacy Ratio	15.57%	15.29%	
Statutory Liquidity Ratio	47.81%	36.47%	



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