

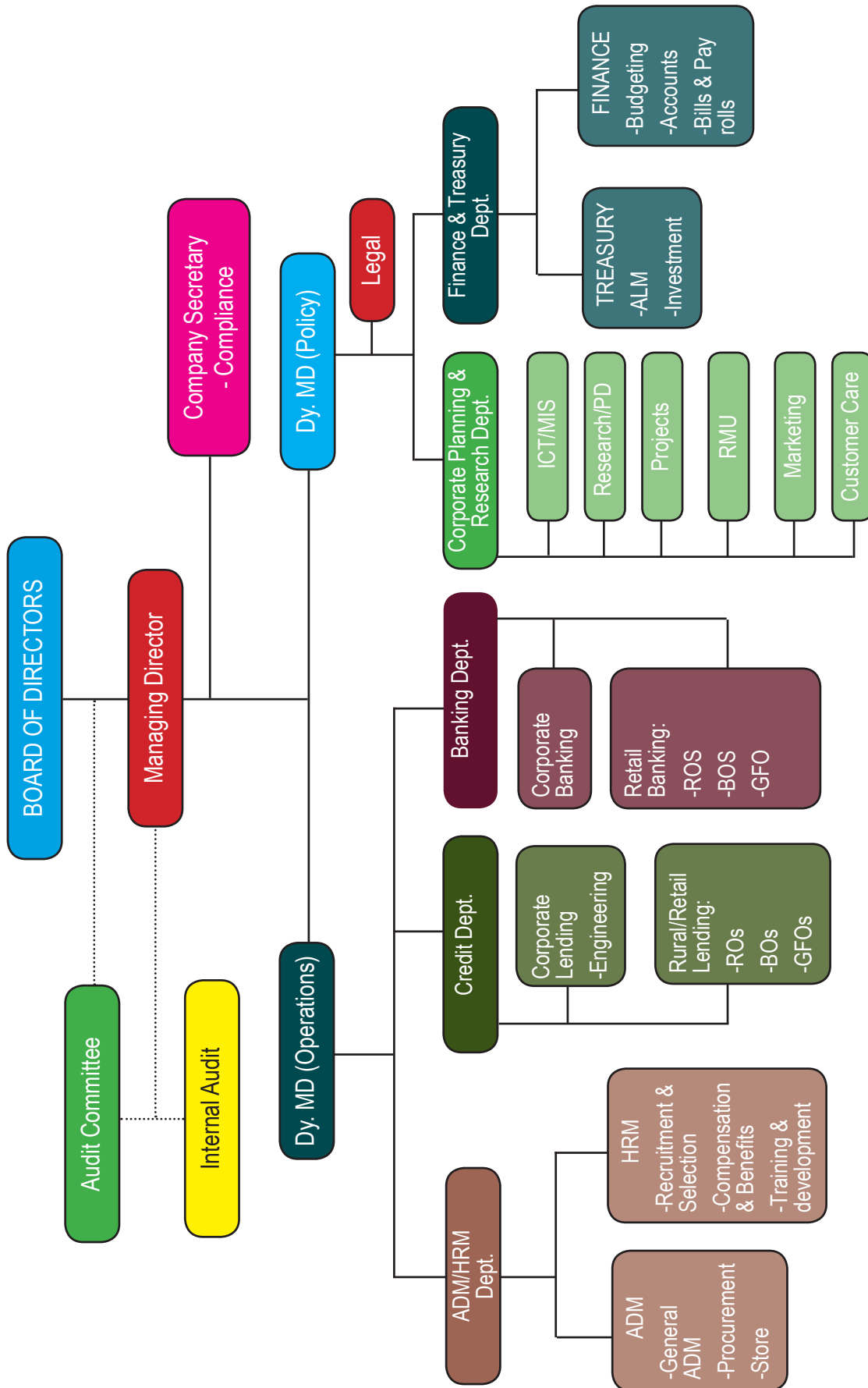


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BDBL Organisational Structure





BHUTAN DEVELOPMENT BANK LIMITED
HEAD OFFICE, THIMPHU

Post Box: 256, Norzin Lam
Telephone PABX No: (00975-2) 322579, 323425, 324678, 333865 Fax 323428
Email: info@bdb.bt

REGIONAL OFFICES

<i>Regional Managers</i>	<i>Office Location</i>	<i>Telephone No.</i>
1. Mr. Pema Tashi (Western)	Paro	00975-08-272410
2. Mr. Yeshey K. Tshering (Central)	Gelephu	00975-06-252137
3. Mr. Tenzin Tashi (East)	Trashigang	00972-04-521243

BRANCH OFFICES

<i>Branch Managers</i>	<i>Location</i>	<i>Phone No.</i>	<i>Fax No.</i>
Western Region			
1. Mrs. Sonam Pelden	Thimphu	02-326853	02-326855
2. Mrs. Tshering Pelden	Paro	08-271334	08-272341
3. Mr. Sangay Wangdi	Haa	08-375459	08-375649
4. Mr. Chador Kelzang	Punakha	02-584102	02-584157
5. Mr. Lobsang Choiphel	Gasa	16288121	
6. Mr. Tenzin Wangdi	Wangdue	02-481261	02-481848
7. Mr. Phub Dorji	Chukha	08-478243	08-478427
8. Mr. Jhamba	Phuntsholing	05-252881	05-252868
9. Mr. Thinley Wangchuk	Samtse	05-365469	05-365854
10. Mr. Yeshey Jamtsho	Dorokha	05-342656	05-365854
11. Mr. Karma Sherub	Sibsoo	05-382055	
Central Region			
1. Ms. Kumari Sharma	Dagana	06-481106	06-481242
2. Mr. Tashi	Bumthang	03-631111	03-631900
3. Mr. Tshering Dorji	Trongsa	03-521147	03-521515
4. Mr. Janga Bahadur	Zhemgang	03-741127	03-741107
5. Mr. Rinchen Phuntsho	Panbang	03-794009	03-794036
6. Mr. Yeshi Samdrup	Tsirang	06-471206	06-471197
7. Mr. Tshering Nidup	Sarpang	06-365136	06-481242



Central Region

8.	Mr. Yonten	Gelephu	06-252135	06-252136
9.	Mr. Tshewang Phuntsho	Lhamoizingkha	06-241422	06-241425
10.	Mr. Chhimi Dorji	Dagapela	06-483143	

Eastern Region

1.	Mr. Jigme Sonam Tenzin	Lhuntse	04-545106	04-545145
2.	Mrs. Yangchen Tshomo	Mongar	04-641127	04-641177
3.	Mr. Cheda	Pemagatshel	07-471126	07-471260
4.	Mr. Dhendup Namgyel	Samdrup Jongkhar	07-251118	07-251292
5.	Mr. Namgay Rinchen	Trashigang	04-521122	04-521386
6.	Mr. Tshewang	Trashigang	04-781105	04-781239
7.	Mr. Pema Tashi	Wamrong	04-571148	04-571164
8.	Mr. Penjor	Nganglam	07-481190	07-481183
9.	Mr. Jambay Tenzin	Jomotsangkha	07-671104	07-671110
10.	Mr. Tashi Tshewang	Yadi	07-671104	
11.	Mr. Sonam Dhendup	Samdrupcholing	07-671104	07-240607

Main Branch

12.	Mr. Karma Jigme	Main Branch, Thimphu	02-323852	02-323428
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BOARD OF DIRECTORS



CHAIRMAN
Mr. Nim Dorji
Jt. Secretary
Ministry of Finance



DIRECTOR
Dasho Lungten Dorji
Dzongdag
Dzongkhag Administration
Trashigang



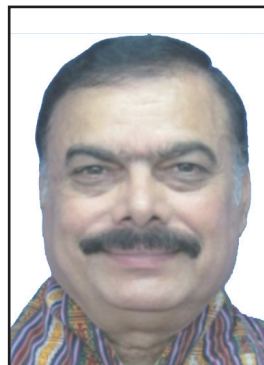
DIRECTOR
Dr. Tashi Samdup
Director, CORRB
Ministry of Agriculture and Forest



DIRECTOR
Mr. Ugyen Penjor
Dept of CSI
Ministry of Economic Affairs



DIRECTOR
Mrs. Tashi Pem
Jt. Commissioner
Department of Revenue and
Customs



DIRECTOR
Mr. G.P Sharma
Ex- Deputy Managing Director
Bank of Bhutan Ltd



MEMBER SECRETARY
Mr. Pema Tshering
Managing Director
Bhutan Development Bank
Limited



BDBL MANAGEMENT TEAM



Mr. Pema Tshering
Managing Director



Mr. Ugyen Dhendup
Dy. Managing Director
(Policy)



Mr. Sonam Rigyel
Dy. Managing Director
(Operation)



Ms. Karma Choden
General Manager
Credit Dept.



Mr. Yeshey Wangdi
General Manager
ADM/HRM Dept.



Mr. Nidup Tshering
General Manager
Finance & Treasury Dept.



Mr. Pema Wangdi
General Manager
Corporate Planning &
Research Dept.



Mr. Tshering Dukpa
General Manager
Banking Dept.



Mr. Dorji Wangdi
Company Secretary



Report of the Board of Directors for the year 2012

Introduction

On behalf of the Board of Directors of Bhutan Development Bank limited, I am pleased to present herewith the 24th Annual Report of the Bank for the financial year ended 2012.

On the outset, I would like to take this opportunity to express my sincere appreciation and thanks to the outgoing Chairman, Dasho Nima Wangdi, Secretary of Ministry of Health who had steered BDBL to new a height in terms of overall growth and sustainability of the Bank from 2009 and onwards until I took over as new Chairman in September, 2012. I would also like to express my gratitude to Dasho Lhundup Wangchu, Dzongda, Wangdue Phodrang who had also retired as a Board Director along with the outgoing Chairman for his valuable contribution to Bank as a Director for more than three years. Looking forward, may I welcome Dasho Lungten, Dzongda Trashigang who had been appointed as the new Board Director by the Ministry of Finance in the third quarter of financial year 2012. It is my sincere hope and wish that my new colleague and I, along with other Board of Directors would be able to maintain the growth trajectory of the bank and further contribute in achieving yearly targets and plans necessary for the growth and expansion of the bank.

During the year 2012, eight Board meetings were held, the last two being under my Chairmanship which was one of the highest in the recent times. These numbers of Board meeting was highly necessary and important as it was truly instrumental in providing strategic support and policy guidance to the management on a regular basis. The year 2012 had been a difficult year for the Bhutanese Financial Sector, unlike any past years. The Indian Rupee Crunch that surfaced and confronted the Bhutanese Economy in the beginning of 2012 and the subsequent emergence of liquidity challenges affected some sectors of economy and the Financial Institution in Bhutan. However, BDBL as the only development bank with rural focus have been able to move forward with minimum impact on its business front. In this light, I would like to report that BDBL in the past one year had steered through satisfactorily both in terms of financial aspects and its operational achievements.

1. Financial Highlights

M/S S.N. Mukherji & Co, Chartered Accountants, Kolkata appointed as the Statutory Auditors of the Bank for the year ended 31st December 2012 by the Royal Audit Authority conducted their audit from 5th February to 20th February 2013 and submitted their final report on 20th February 2013. It is a pleasure to inform that as per audit findings, the Bank complied with and followed all of the Generally Accepted Accounting Practices and conducted its operations within the given regulatory requirements without any deviations. This year's reports present an overall improvement not only in financial terms but also on all operational aspects of the bank.

2.1 Profitability Analysis

a) Profit Before Tax: The Bank during the year posted profit before tax of Nu.238.64 million in 2012 as compared to Nu. 205.12 million in 2011, registering a steady growth of 16.34%. The growth in profit in 2012 was achieved due to increase in net interest income, other non-interest income and decline in provision expense.

b) Gross Revenue: It registered a significant growth of 32.12% (P.Y. 31.66%) with overall growth of Nu.176.93 million from Nu. 548.56 million in 2011 to Nu. 724.79 million in 2012. The increase in revenue was mainly due to significant growth in loan portfolio, proper investment of liquid funds in profitable manner through investment with other Banks and RGoB treasury.



c) Interest Income from Loans and Advances: The income was increased by 27.79% (P.Y. 33.73%) with overall increase of Nu. 145.36 million from Nu. 523.04 million in 2011 to Nu. 668.40 million in 2012. The increase in income was possible due to growth in loan portfolio.

d) Interest Income from Investments: The income was significantly increased by 444.9% (P.Y. -9.4%) with overall increase by Nu. 26.47 million from Nu. 5.95 million in 2011 to Nu. 32.42 million in 2012. The increase in treasury income was possible due to proactive steps taken by the Bank towards optimum deployment of surplus resources in short-term deposits with other banks in profitable manner.

e) Non-Interest Income: The income was increased by 27% (P.Y. 5.37%) with overall increase by Nu.5.10 million from Nu. 18.87 million in 2011 to Nu. 23.97 million in 2012. The increase in income was mainly due to increase in commission income.

f) Financial Expense: The financial expense has increased by 89.74% (P.Y. 36.2%) with overall absolute amount increase by Nu.136.63 million from Nu.152.25 million in 2011 to Nu. 288.88 million in 2012. This increase in financial expense was mainly due to Bank's strategy to promote savings and deposits through higher interest rates, mobilization of substantial deposits during the year with upward revision in interest rates in line with the market conditions to attract customers and overcome liquidity constraints in the Bank, which was achieved. The overall deposit portfolio increased by about 92.3% (P.Y. 57.5%). However, the major impact in increase in expense was due to substantial increase in term deposits other than low cost demand deposits.

g) Net Interest Income: In spite of significant increase in financial expense, net interest income increased by 9.34% with overall increase by Nu. 35.20 million from Nu. 376.74 million in 2011 to Nu. 411.94 million in 2012. It was possible due to deployment of funds in profitable manner either in credit or in short-term investments.

h) Operating Expenditure: It was increased by 22.00%(P.Y.23.5%) with overall increase by Nu. 30.15 million from Nu. 137.04 million in 2011 to Nu. 167.19 million in 2012.The increase was mainly due to increase in employment cost, seminar/training, travelling, depreciation, etc. The increase in manpower expense was due to additional manpower to take care of increased operational activities.

i) Operating Profit: In spite of increase in financial and operating expenses, operating profit of the Bank was increased by 3.92% with overall increase by Nu. 10.15 million from Nu. 258.57 million in 2011 to Nu. 268.72 million in 2012.

j) Provisions against Loans: In spite of increase in loan portfolio during the year, the provision expense was declined compared to 2011 by 43.72%. This decline in provision was due to marginal decrease in percentage of non-performing loans and revised provisioning norms prescribed by the RMA.

2.2 Balance Sheet Analysis

The Bank's aggregate assets/liabilities increased by an impressive 47.64% (P.Y. 22.83%). The increase was possible due to substantial growth in deposits and corresponding growth in loan portfolio and in short-term investments with other Banks.

a) Capital Fund: Capital fund of the Bank increased by 26.38% (P.Y. 18.62%) due to fresh capital injection of Nu. 100 million by RGOB and increase in General Reserve and Retained Earnings. With the change in provisioning norm and guidelines on treatment of differential amount of provision based on previous and new norms of RMA, the bank was able to transfer Nu.54.02 million in the General Reserve. It will help the Bank strengthen the capital structure of the Bank.

b) Deposits: The Bank took very proactive steps to mobilize deposits in order to maintain comfortable liquidity



position throughout the year and simultaneous growth in loans. The deposits facilitate the Bank to maintain higher SLR requirements comfortably and to increase the loan portfolio for better revenue generation. The increase in deposits also reflected the customer confidence with the Bank.

The deposit increased by 92.3% (P.Y.57.5%) with overall increase by Nu. 2,122.05 million from Nu.2,298.38 million in 2011 to Nu. 4,420.43 million in 2012. The demand deposits constituted 23.81% (P.Y. 30.14%) of the total deposits. The decrease in percentage of demand deposits increased the cost of deposits.

c) Loans Receivables: Due to substantial increase in deposits, the Bank was able to increase the gross loan by 37.14% (P.Y. 25.38%) with overall increase by Nu.1,652.58 million from Nu.4,449.46 million in 2011 to Nu. 6,102.04 million in 2012.

d) Current Assets & Advances: The cash and bank balance, investments with other banks increased by 94.8% with overall increase by Nu. 810.73 million from Nu. 855.43 million in 2011 to Nu.1,666.16 million in 2012. The increased cash and bank balances improved liquidity position and revenue of the Bank during the year.

2.3 Performance Highlights

During the year the bank took a concerted effort to improve the liquidity position through mobilization of deposits. The deposits helped the Bank to increase in the credit portfolio and improve the liquidity position. The Bank was able to invest surplus fund with banks in Bhutan in a profitable manner thereby making interest income of Nu. 32.00 million. Some of the highlights of year, that needs to be mentioned are as follows:

a) Total Business: The Bank increased the total business by 58.16% with overall increase by Nu.3,779.42 million from Nu. 6,498.49 million in 2011 to Nu.10,277.91 million in 2012.

b) Credit-Deposit Ratio: Credit Deposit Ratio during the year significantly improved from 182.74% in 2011 to 132.51% in 2012 due to more growth in deposits than loans.

3. Operational Highlights

The financial year 2012 ended with the total business of Nu. 10,277.91 million, recording an increase by 58 percent from the previous year. The gross loan portfolio increased from Nu. 4,449.46 million in 2011 to Nu. 6,102.04 million in 2012 and deposit portfolio from Nu.2,298.38 million in 2011 to Nu.4,420.43 million in 2012. Despite severe Rupee Crunch that surfaced and confronted the Bhutanese Economy in beginning of 2012 and followed by emergence of Ngultrum liquidity challenges during the year, it is indeed gratifying to note that the Bank was able to overcome the economic constraint and have been fairly successful in expanding the business portfolio of the Bank.

3.1 Credit distribution

Being a Bank with a rural focus, BDBL takes its prides in penetrating into the nook and crannies of the country in an effort to reach the unreached and served them unwaveringly. This is evident from growing clientele base the bank serves every year. During the last financial year, the Bank's clientele base saw an incremental growth of 5,895 clients/accounts from the previous year. The total active credit client base has reached to 34,790.

The rural clients continue to dominate the total clientele base of the Bank. During the last financial year, the rural clientele base increased from 91 percent to 92 percent of the total active clients, where as the commercial clients reduced from 9 percent to the 8 percent. This demonstrate that being the only development Bank and in keeping with the mandate, BDBL continues to give more focus to the rural clients who are based in the Districts, Dungkhangs, geogs and villages of Bhutan and are in dire needs of financial services year on year.



In terms of the amount as well, there has gone big change in the pattern of loan distribution as every year, more and more loans are being diverted to the rural areas. The percentage of loans to Rural and Urban in the year before was 48 is to 52 percent respectively and in last financial year, the commercial loans disbursed through the Main Branch in Thimphu reduced to 42% of the total loan while the rural loan increased to 58% of the total loan.

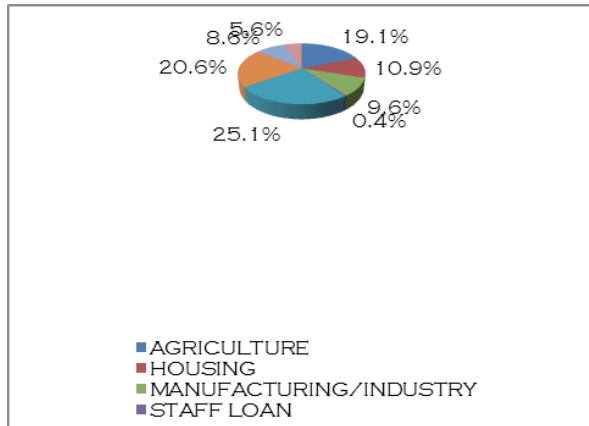


Figure 1. Sectoral Distribution of Loan Portfolio

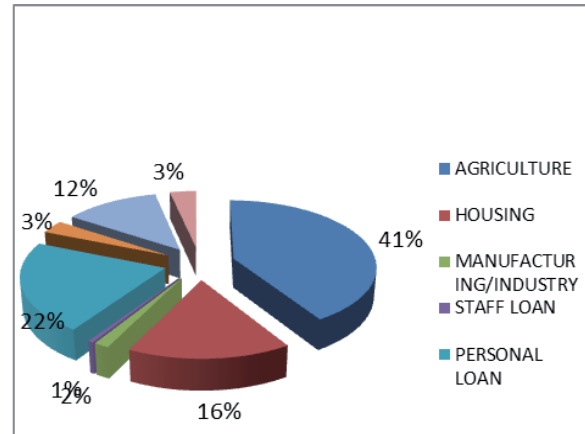


Figure 2. Sectoral Distribution of Clients

Sector wise, the agriculture sector formed about 25 percent of the total loan which is much higher than other sectors. The number of clients which was 41% of the total clients and highest also goes to show that BDBL is largely an Agriculture focus development bank.

3.2 Banking Activities

After receiving the banking license from the Central Bank and formally becoming the first development bank in Bhutan since 2010, BDBL has been steadfast in its efforts to provide satisfying banking services to the rural folks. BDBL introduced various deposit products other than the mainstream products such, pro-education savings, individual compulsory savings, steady income plan, senior citizen fixed deposit and many more that attract and suit the needs of people at all levels.

Despite all above plans, fund mobilization appeared as one of the top priorities in 2012 as revealed during the Corporate Retreat held early in the year at Lobesa in Punakha both in term of liquidity requirement and also to popularize the products and inculcate saving habits among our the general public. Based on this, the Management and staff engaged in vigorous drive to market the products and mobilize the savings throughout the year. As a result, the total deposit increased twofold from Nu. 2,298.38 million in 2011 to Nu.4,422.59 million in 2012.

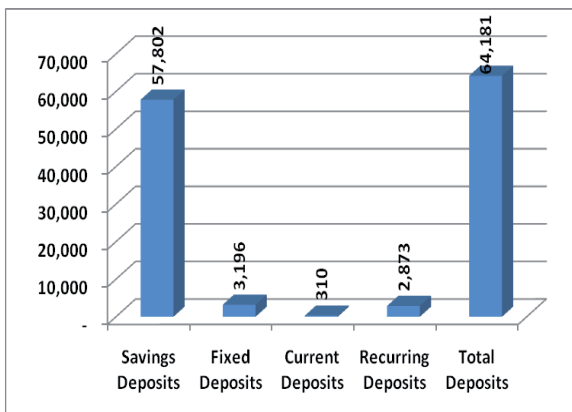


Figure 3. Number of savers per product

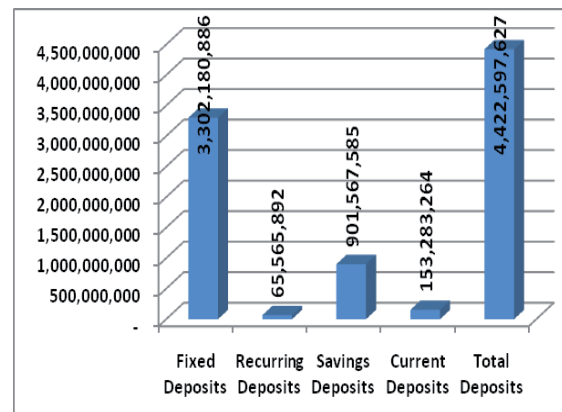


Figure 4. Amount of Savings per product



The increase had been achieved all across the products, although the maximum increase had been on the fixed deposit side which had largely helped the bank in adjusting with the liquidity requirement. The numbers of savers grew from 53,890 in 2011 to 64,181 which are mostly concentrated in the Dzonkhag and Dungkha offices.

3.3 Opening of New Branch Office

Considering the larger social mandate, the Bank committed to increase its branch network in the country by opening three new branches in Samdrupcholing under Samdrup Jongkhar, Yadhi under Mongar and Sibsoo under Samtse Dzongkhags and upgrade the Dagapela Geog Field Office to a full fledged Branch. It is with great pleasure the Management have been able to open all new branches well on time.

The opening of the new Branches in the place mentioned above have largely benefited the people at the Dungkha levels, where earlier, the people from these places had to avail the services from Dzongkhag Headquarters. Through expanding such financial service centre, BDBL took the facilities closer to the people, made it more accessible, less costlier and offered the opportunity to the rural populace in the area to enhance their income and living standard. With this new offices, the total number of Branch Offices of BDBL increased to from 29 in 2011 to 33, thus expanding the Bank's presence in the country.

Besides service provided through wide network of 33 Branches in the Country, the bank continues to improve and strengthen its Banking services at the geog level. A banking service provided in the geog centre earlier known as "Mobile banking" has been with the concurrence of the Board in its 107th meeting re-termed as "Farmers' Outreach Banking" and reaches the farmers in most of the geogs extensively bringing larger financial inclusion.

3.4 Bio Gas Project benefits rural community

Besides the mainstream activities, BDBL also collaborated with other Agencies in execution of various other community based activities. In the year 2010 Asian Development Bank visited Bhutan to conduct a pilot program to promote Bio Gas in Bhutan.



The Bio Gas project is implemented directly by the Project Management Unit under the Department of Livestock (DOL), Ministry of Agriculture & Forests. BDBL is an implementing partner to the DoL as the financial provider.

Under this mechanism, BDBL provided credit and subsidies for the establishment of bio gas plants for home use. Biogas energy is used mainly for cooking as complementary energy source for electricity since electricity is not used much for cooking purposes in the rural areas. The project has been implemented in four Dzongkhags of Chukha, Samtse, Tsirang and Sarpang based on

the findings of feasibility study of 2008 and market study of 2009 conducted by SNV. The bio gas project has a total budget of \$ 663,500 with two components, a credit and subsidy in ratio of 40:60 and has project target to cover and install about 1600 domestic biogas plants in Bhutan. As of 2012, BDBL has given credit to 231 households and subsidy to 419 households most of whom have already installed the bio gas plants and being used in place of imported gas or fire wood in their households for cooking purposes.



3.5 MSME development through Cost Sharing Fund Project (CSF)



BDBL also made significant contribution to the capacity development of the MSME entrepreneurs during the year from the Cost Sharing Fund received from ADB through the Ministry of Economic Affairs. CSF in Bhutan is a sub-component of the Micro Small and Medium size enterprise Support

Development Program and intended to assist Bhutanese MSMEs in upgrading their hard and soft skills which would help improve their business and the profitability.

BDBL seized the opportunity and utilized the fund to provide business development services and cost-sharing facilities for technical, knowledge and capacity building support to MSMEs.

In its implementation, BDBL collaborated with various Business Development Service (BDS) providers in the country such as BCCI, Tarayana, YDF, Druk Organic Farm, handicraft association with which the service were delivered. The project benefited a total of 1651 potential entrepreneurs from the above BDS providers in various skill development training from the total budget of Nu. 23,966,175 throughout the nation.

A total of Nu.12,861,050 was invested in 5 NGOs & 2 Associations for better skilled entrepreneur tomorrow. A total of 590 beneficiaries have undergone vigorous skill development in advance Tailoring, Weaving, micro finance, project management, etc. Similarly, 1011 individuals are benefited in various information Technology courses with total budget of Nu. 10,355,125. Moreover, Nu 750,000 budget are allocated to the Autonomous body benefiting 50 individuals in wood based skill.

Among three categorized BDS provider, private institution tops beneficiaries with 1011 individual followed by NGOs & Association with 590 beneficiaries and autonomous body with 50 beneficiaries.

4. Human Resource Management

Human Resources are the key valuable assets in any organization and have a robust role to play in organizational success. It is therefore, crucial that they are managed effectively and that their personal and work needs are satisfied if organizational objectives and goals are to be achieved. Acknowledging the importance of employees as the critical factor for growth and overall development of the organization, BDBL places greater emphasis on adopting new approaches such as HRM strategies, structures, organization culture, HRM practices and employment relationship.

4.1 Revised Organization structure

The Board and the Management felt that with the change in the business model of Bank after it switched over from the Corporation to the Development Bank, there was also a need to modify the Organization structure of the BDBL. The change was necessary to adjust and accommodate the changing needs of the Bank that would reflect stability, transparency and clear accountability in the Bank.

The Board therefore, deliberated and approved the new Organization Structure of the BDBL during its 105th Board meeting held on 31st March, 2012. As per the new OS, the overall activity has been divided into



“Operation” and Policy each headed by DMD which streamlined the operations and make it possible for the Managing Director to administer and manage the whole organization more effectively. The new OS have five Departments: Credit, Banking, Finance and Treasury, Administration and Human Resource Management and Corporate Planning and Research Department and each will be headed by the General Managers. While other departments have come with the change in business modules of the bank and expansion of activities, the Corporate planning and Research department was necessary to provide overall coordination and direction to the Bank as the bank prepares to face the challenge of growing competitive business environment.

4.2 Overview of staff strength

The total staff strength of the BDBL stood at 201 in 2008. This has increased to 318 as of 2012, recording a growth of almost 64 percent in the last four years. In 2011, the staff strength stood at 291 and during the last year, the Bank recruited 27 new staff to fill up various vacant posts, both at the Head Office and Branch level which brought the human resource strength to 318 by year of 2012, increasing it by 9 percent. This huge growth in manpower over a period of just 4 years for an organization like BDBL demonstrated that BDBL has expanded and that its business has grown. This increase in manpower could also be attributed to the opening of 4 new branch offices during the year and also reorganization of the business operations.

4.3 Distribution of employees by location:

Out of the total employee strength of 318, 125 (39%) of the total employees are placed in Head Office, Thimphu, 179(56%) in Branch offices throughout the country and 14 (5%) in the regional office (East, West and Centre).

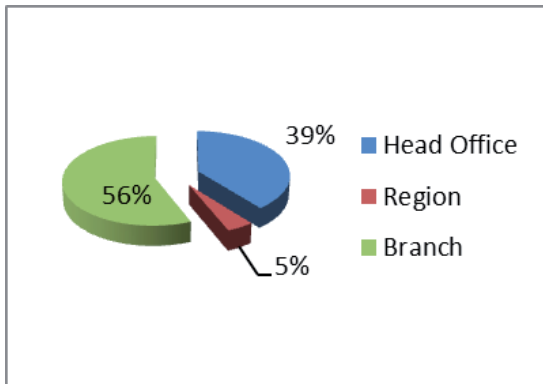


Figure 5. Distribution of Manpower in BDBL

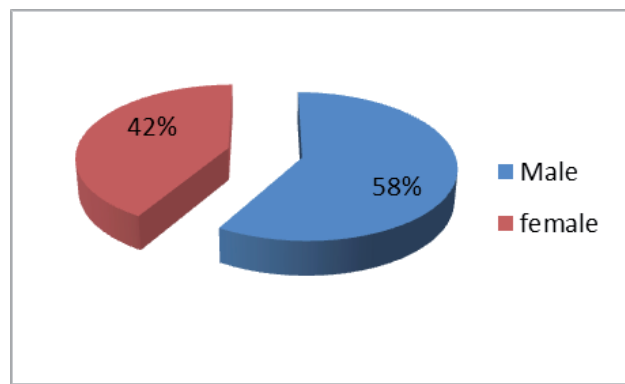


Figure 6: Male & female manpower in BDBL

In terms of gender, the ratio of male to female stands at 1:1.4; 186 (58%) are male and 132(42%) are female.

Recognizing the human capital in the organization as a crucial factor for taking the organization towards achieving its business objectives, the organization has placed greater emphasis in providing learning opportunities to the employees. Such opportunity has enhanced individual work competencies, empower individuals, motivate, recognize and reward performing employees and create a continuous learning environment.

Under the joint funding of the BDBL and the UNCDF Project in Bhutan, various Human Resource programs targeting Board of Directors, top management and employees across broad spectrum of the business operations were executed in countries like Thailand, Philippines, Singapore, Japan, Malaysia, Cambodia, Vietnam, Bangladesh, Nepal and India. This included ex - country training, exposure visit, study tour, in-country and in-house training. During the year, the Management has sent 71 officials for ex -country program and 385 for in-house and in-country program.



Institutional visits to relevant financial institutions and reputed training institutes in the Asian countries was undertaken by the management team and senior officials to promote and renew contacts points, share best practices and build institutional linkages for future capacity building. Further, rewarding, recognition and incentives for the performing employees is considered as one of the crucial factors towards the overall development of human resource management. As such, dynamic, timely and attractive incentives schemes are being incorporated in 2012 which is expected to further enhance the performance of employees.

The various training, exposure opportunities and reward and recognition provided to the employees are expected to boost the morale, enhance the competencies of the employees in carrying out their jobs. This will also enhance the motivation level, thereby leading to improved employee productivity and ultimately to the overall organizational performance.

5. Future plans and outlook for 2013

BDBL has emerged as the only Development Bank in the country after functioning as the NBF for more than two decades. Being the development Bank and keeping true to its nomenclature, BDBL will continue with its rural focus and extend its outreach to the greatest majority of the families living in the rural areas, play a lead role in mobilizing small savings, support micro, small and medium scale enterprise and help rural agriculture become commercially viable, thereby uplifting the rural economy. Towards this, BDBL among others, look forward to achieve the following in the coming year.

5.1 New credit and banking services

As part of the financial inclusion initiative of the Royal government and also to meet financial requirements of the wholesale borrowers, the bank will be introducing “the Cooperative Loan” and “the Drongsep Kuendruel Tshé Sog Ngensung” insurance scheme. The cooperative loan is a wholesale loan to the cooperatives and the distribution of the loan to the individual members is decided by the cooperative themselves.

The Drongsep Kuendruel Tshé Sog Ngensung is an insurance scheme developed in collaboration with the Royal Insurance Corporation of Bhutan. The benefit of the scheme is, in the event of death or permanent/partial disability of the loanee, the loan repayment to the bank and other up to the maximum of loan amount sanctioned is guaranteed by RICB.

5.2 Opening of field/branch offices.

To increase accessibility of bank’s financial services in rural areas and further deepen the outreach and coverage, the bank will open about 4 to 5 field/branch offices in all the feasible drungkhags and geog centres in the coming year. The bank at the moment has 33 branch offices and a field office spread across all the dzongkhags and with new additions, it will further expand its operations.

5.3 Real time banking services.

Of the total branch offices, the bank at the moment operate 27 branch offices on real time mode and 6 branch offices on off line mode. For a branch office to operate on real time mode, there has to be IPVPN services from Bhutan Telecom Ltd. By the end of 2013, with introduction of IPVPN services in Dagapela, Lhamoyzingkha and Sipsu, the branch offices of these three Drungkhags will operate on online mode and total number of branch offices doing business on real time basis will increase to 30.



5.4 ATM, SMS and Internet Banking Services.

To improve competitiveness of its services, meet growing needs of the customers and help them avail the required financial service with reasonable comfort, the bank will open 5 ATM services in 5 business hubs and extend SMS and internet banking services across the country.

5.5 Non fund based income

To minimize the credit risk and support the new activities, BDBL will diversify its sources of income by taking up other non fund based income generating activities such as remittances, fund transfers and other off balance sheet activities.

6. Conclusion

I would like to take this opportunity to thank the Board Directors and the Management for the co-operation and assistance given to me in the conduct of the Board. On behalf of the Board of Directors, I would like to place on record our sincere gratitude to the RGOB, Donor agencies, especially ADB, UNDP, UNCDF, IFAD for their continued assistance and guidance. To the shareholders and to our clients, I would like to convey our sincere appreciation for their continuous support and patronage.

The Board of Directors would also like to express our sincere appreciation for the hard work and dedicated service rendered by the Management, the officers, staff and all the employees of the BDBL.

Nim Dorji
Chairman

Bhutan Development Bank Limited



Operational Highlights from 2008 - 2012

Sl #	Particulars	2008	2009	2010	2011	2012
I.	Assets (million)	2,546	2,966	4,242	5,211	7,694
	Head Office & Main Branch	1,809	1,929	3,486	4,042	5,712
	Branch Operation	737	1,037	757	1,169	1,982
II.	Profits/(Loss) before Corporate Tax(m)	93	150	177	205	239
	Main Branch/Head Office	70	113	130	129	97
	Branch Operation	23	37	47	76	141
III.	Disbursements (million)	926	1,000	2,059	1,934	3,281
	Main Branch	466	401	672	528	1,136
	Branch Operation	460	599	1,387	1,406	2,145
IV.	Loan Outstanding (million)	2,499	2,818	3,640	4,542	6,247
	Main Branch	1,784	1,806	1,782	2,063	2,815
	Branch Operation	715	1,012	1,858	2,479	3,432
V.	On-Time Recovery Rates					
	Main Branch	93%	92%	94%	95%	95%
	Branch Operation	91%	91%	93%	94%	95%
VI.	Portfolio at Risk (>90 days)	18.22%	13.60%	11.33%	8.27%	8.34%
	Main Branch	17.02%	15.03%	15.26%	8.74%	8.41%
	Branch Operation	19.42%	12.17%	7.40%	7.87%	8.28%
VII.	Number of Active Clients	18,627	19,923	25,292	28,895	34,790
	Main Branch	2,112	2,608	2,578	2,535	2,841
	Branch Operation	16,515	17,315	22,714	26,360	31,949
VIII.	Number of New Accounts	7,833	8,588	13,280	13,206	15,637
	Main Branch	545	993	910	746	838
	Branch Operation	7,288	7,595	12,370	12,460	14,799
IX.	Cumulative Nos. of Beneficiary	91,021	99,609	112,889	126,095	141,732
	Main Branch	5,286	6,279	7,189	7,935	8,773
	Branch Operation	85,735	93,330	105,700	118,160	132,959



SI #	Particulars	2008	2009	2010	2011	2012
X.	Normal Deposit Amount (Million)	137	266	1,450	2,302	4,423
	Main Branch	5	11	1,009	1,553	3,079
	Branch Operation	132	255	441	749	1,344
XI.	No. of Normal Depositors	10,947	15,879	32,978	44,545	64,181
	Main Branch	293	657	1,396	1,947	3,235
	Branch Operation	10,654	15,222	31,582	42,598	60,946
XII.	Number of Emploess	128	155	271	290	321
	Head Office	81	66	74	92	103
	Main Branch	21	29	20	21	23
	Branch Operation	107	126	177	177	195
XIII.	Active Clients/Employee Ratio:	146	129	93	100	108
	Main Branch	101	90	129	121	124
	Branch Operation	154	137	128	149	164
XIV.	Loan/Employee Ratio(Million)	20	18	13	16	19
	Main Branch	85	62	89	98	122
	Branch Operation	7	8	10	14	18

BHUTAN DEVELOPMENT BANK LTD.

**ANNUAL ACCOUNTS
&
AUDITORS REPORT
2012**

**S. N. Mukherji & Co.
Chartered Accountants
1B, Old Post Office Street
Kolkata - 700 001
INDIA
Tel : 00 91 33 22481726
Fax : 00 91 33 22307281**



S. N. Mukherji & Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS OF
BHUTAN DEVELOPMENT BANK LIMITED
THIMPHU, BHUTAN

We have audited the attached Balance Sheet of **Bhutan Development Bank Limited** (the Bank), as at 31st December 2012 and also the Profit & Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date in which are incorporated returns of 10 branches audited by us and the returns of 23 branches which have not been audited by us. The returns received from these unaudited offices have been found to be adequate for the purpose of consolidation. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by section 75 of The Companies Act of the Kingdom of Bhutan, 2000 read with part II of Schedule XIV thereto (Minimum Audit Examination and Reporting requirements), we enclose in the annexure a statement on the matters specified therein to the extent applicable to the Bank.

Further, to our comments in the annexure as referred above, we report that:

1. 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 and have found them to be satisfactory.
2. In our opinion, proper books of account have been kept by the Bank, so far as it appears from our examination of those books.
3. The Bank has complied with the various provisions of the Financial Services Act 2011 and other applicable laws, rules & regulations, systems and practices except otherwise stated elsewhere in this report.
4. The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with in this report are in agreement with the books of account and have been compiled on the basis of generally accepted accounting principles.



S. N. MUKHERJI & CO.
Chartered Accountants

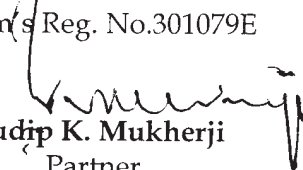
5. In our opinion, as shown by the books of the Bank, and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit & Loss Account and the Cash Flow Statement read with Schedules 1 to 18 and our comments in the Annexure - A attached herewith, give the information under The Companies Act of the Kingdom of Bhutan, 2000, in the manner so required and exhibit a true and fair view:
- in the case of Balance Sheet, of the state of affairs of the Bank as at 31st December 2012;
 - in the case of Profit & Loss Account, of the profit of the Bank for the year ended on that date; and
 - in the case of Cash Flow Statement, of the cash flows for the year ended on that date.
6. We draw attention to the following:

Without qualifying our opinion we would like to state that loan appraisal, processing, claim settlement, loan management and internal control requires improvement, specially in view of the fact that certain transactions have been entered without following the laid down norms of the Bank. Such transactions identified by us and other observations highlighted in the Risk Assessment Reports and Internal Audit Reports of Branches, have been elaborated in our separate report to the management. In view of the above, certain perpetrated irregularities may remain undetected in the books which are subject to review by the Bank.

Place : Kolkata
Date : 22nd March 2013

For S. N. Mukherji & Co.
Chartered Accountants
Firm's Reg. No.301079E




Sudip K. Mukherji
Partner
Membership No.13321



BHUTAN DEVELOPMENT BANK LIMITED
THIMPHU, BHUTAN

(ANNEXURE A)

**MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT (Part-II
of schedule XIV to The Companies Act of the Kingdom of Bhutan, 2000)**

1. The Bank is maintaining records showing full particulars including quantitative details of fixed assets. Situation of fixed assets and descriptions thereof are maintained by Accounts department. Physical verification of fixed assets has been carried out by the Bank as on 31.12.2012 through internal audit department. Reconciliation of physical assets as per internal audit report with the book balance as per physical asset register has been done.
2. No revaluation of Fixed Assets has been conducted during the year.
3. Physical verification of various stores items were carried out by the internal audit as on 31.12.2012.
4. During the year the Bank has availed fresh loan from Asian Development Bank. The terms and conditions of the said loan are prima facie not prejudicial to the interest of the Bank. The Bank has not taken any loan, secured or unsecured from companies, firms and other parties under the same management.
5. The loans granted by the Bank are prima facie not prejudicial to the interest of the Bank. According to the information and explanations given to us, no loan, secured or unsecured, has been granted to other companies, firms or other parties under the same management. The advances granted to officers/staffs are in keeping with the provisions of service rule and no excessive and frequent advances are given.
6. In our opinion, the internal control procedures of the Bank should be strengthened to ensure completeness, accuracy and reliability of accounting records, in carrying out the business in orderly and efficient manner, to safeguard the assets of the Bank as well as to ensure adherence to the systems and procedures. Internal Audit has not been conducted in the Thimphu Main Branch during the Financial Year 2012 which effectively means that 45% of the total Advance and 69% of the total Deposit Portfolio of the Bank has not been subjected to detailed Internal Audit.
7. There is a system of competitive bidding, commensurate with the size of the Bank and the nature of its business for the purchase of goods and services including stores, equipments and other assets. The Bank is not engaged in manufacturing or trading activities.
8. In the absence of any detailed records (including the statutory records required under section 97 of The Companies Act of The Kingdom of Bhutan, 2000) we are unable to comment whether any transactions have been entered into by the directors or any other party(ies) related to the directors or with Bank or firms in which the directors are directly or indirectly interested.





9. Unserviceable or damaged stores have been determined on the basis of verification conducted at periodic interval.
10. The Bank is maintaining reasonable records for sale and disposal of scrap.
11. According to the records, the Bank has been regular in depositing rates and taxes, duties etc. and other statutory dues with the appropriate authorities during the year 2012.
12. There are no undisputed amounts payable in respect of rates, taxes, duties, provident funds and other statutory deductions payable at the last day of the financial year 31.12.2012.
13. According to the information and explanations given to us, no personal expenses have been debited to the Profit and Loss Account other than those payable under contractual obligations/service rules of the Bank.
14. The Bank has a reasonable system of recording receipts, issues and consumption of stores items commensurate with the nature and size of its business.
15. The Bank has a reasonable system for follow-up with various parties for recovery/adjustment of outstanding amounts.
16. Idle cash and bank balances are generally not held by the Bank.
17. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Bank are, in our opinion, lawful and intravires to the Articles of Incorporation of the Bank.
18. The Bank has a system of approval of the Board for all capital investment decision and investments in new projects and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.
19. The Bank has established an effective budgetary control system.
20. The details of remuneration to the Managing Director have been indicated in the Notes to the Accounts (Note No.10. Schedule No.18).
21. The directives of the Board have generally been complied with.
22. According to the information and explanations given to us, the officials of the Bank have not transmitted any price sensitive information, which is not made publicly available to their relatives/ friends/associates, or close persons, which would directly or indirectly benefit themselves.





In Case of Finance and Investment Bank:

1. There have been some lapses on the documentation part of loans granted by the Bank and this area require further improvement.
2. Proper records of the transactions and contracts have been maintained and timely entries have been made for the investments made.
3. The Bank has maintained reasonable records for funds collected from depositors and for interest payment.
4. Investments made by the Bank and outstanding in its books as on 31.12.2012 have not undergone any permanent diminution in value.
5. There have been a few non-compliance of the Guidelines issued by both RMA as well as The Companies Act of The Kingdom of Bhutan, 2000. The Financial Services Act 2011 has come into effect and the Bank should ensure compliance of the applicable provisions of the Act as early as possible.
6. Requirements relating to provisioning for the non-performing assets including loans and advances have been complied with.
7. Recognition of interest income in respect of non-performing assets has been duly deferred.
8. As stated by the management, except for few cases, assets hypothecated against loans and advances have been physically verified and properly valued by management and mortgage deed have been executed and it has been ensured that the assets are free of any prior lien or charges.
9. The Bank has a system of monitoring of projects for which loans have been provided to ensure that loan amounts are used for the specified purposes and project activities are progressing satisfactorily.
10. Taking over of assets for repayment defaults are made through open / sealed bids.
11. The Bank has complied with the guidelines for Prudential Regulations as issued by RMA for rephasing / rescheduling of loan accounts.
12. There is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.

Computerized Accounting environment

1. The Bank has a Computerized accounting system and the internal control system seems to be adequate taking into account the size and nature of its computer installations.
2. Adequate safeguard measures and back up facilities exist.





S. N. MUKHERJI & CO.
Chartered Accountants

3. Back up facilities and disaster recovery measures do not include keeping files in different and remote locations.
4. Operational controls are adequate to ensure correctness and validity of input data and output information.
5. There are adequate preventive measures to prevent unauthorized access over the computer installation and files.

GENERAL

1. Going Concern Problem

Based on the Bank's financial statements for the year ended 31st December, 2012 audited by us, the Bank has earned sufficient profit during the year under audit and we have no reason to believe that the Bank is not a going concern.

2. Ratio Analysis

Financial and operational ratio in respect of the Bank is given in the statement of Ratio Analysis.

RATIOS	2012	2011
A. Ratios for assessing Financial health		
Capital Turnover Ratio: (Income / Capital Employed)	0.45	0.43
Current Ratio (Current Assets / Current Liabilities)	10.26	9.99
Fixed Assets Turnover Ratio (Income/Fixed Asset)	5.63	4.39
B. Ratios for assessing Profitability		
Profit on Capital Employed Ratio (Profit after Tax / Capital Employed)	14.71%	15.98%
Profit on Turnover Ratio (Net Profit/Total Income) *100	32.93%	37.39%
Operating Ratio (All Expenses - Finance Charges)/Total Income*100	27.22%	34.85%
Total Expenses to Total Income Ratio (Total Expense/Total Income)*100	67.07%	62.61%





3. Compliance of Companies Act of Kingdom of Bhutan:

The Bank has failed to comply with the following areas of The Companies Act of the Kingdom of Bhutan, 2000 and other statutory regulations:

- (a) *Section 97 on the maintenance of statutory records. The Bank is not maintaining up to date records for the following:*
- *Register of Contracts in which Directors are interested*
- (b) *As per Section 12 of the Income Tax Act of The Kingdom of Bhutan, 2001, amount of gratuity provision is required to be invested in a separate Gratuity Fund Account. The Bank invested only Nu.20.90 million as against the total gratuity provision of Nu.36.98 million as on 31.12.2012.*
- (c) *The Corporate Governance Regulations, 2011, issued by Royal Monetary Authority of Bhutan in pursuant to Section 202 of the Financial Services Act of Bhutan, 2011 has not been complied with by the Bank with respect to the following areas:*
- (i) *Governance Committee of the Board of Directors is yet to be formed;*
- (ii) *A Risk Management Committee has been formed comprising of nine members, none of whom are independent directors which is in non-compliance to the requirements of the said Regulations. The said Regulations also require the Risk Management Committee to hold meeting once every three months and extraordinarily when convened on any matters submitted to it by the board of directors or that it wishes to address. However in contravention to the said requirement, the Risk Management Committee has held only one meeting (as on 17.03.2012) during the Financial Year 2012.*

4. Adherence of Laws Rules & Regulations:

Audit of the Bank is governed by The Companies Act of the Kingdom of Bhutan, 2000 and the scope of audit is limited to examination and reviews of the financial statement as produced to us by the management. In the course of audit, we have considered the compliance of provision of the said Companies Act and its Article of Bank. The Bank does not have a comprehensive Compliance Reporting and Recording System as regards adherence to all laws, rules and regulations, systems, procedures and practices. Under the circumstances we are unable to comment on the compliance of the same by the Bank during the year 2012.

Place : Kolkata
Date : 22nd March 2013



For S. N. Mukherji & Co.
Chartered Accountants
Firm's Reg. No.301079E


Sudip K. Mukherji
Partner
Membership No.13321



BHUTAN DEVELOPMENT BANK LIMITED

BALANCE SHEET AS AT 31st December, 2012

		31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
SHAREHOLDERS' FUND & LIABILITIES			
Share Capital	1	300,000,000	200,000,000
Reserves & Surplus	2	1,322,442,732	1,083,801,503
Grants	3	206,796,519	210,385,710
Borrowings	4	1,278,677,650	1,330,518,011
Deposits	5	4,420,436,634	2,298,379,504
Current Liabilities & Provisions	6	165,827,899	88,232,171
		7,694,181,434	5,211,316,899
ASSETS			
Fixed Assets	7	128,725,434	125,012,283
Investments	8	7,381,000	4,381,000
Loans Recievable	9	5,857,475,341	4,200,107,074
Current Assets & Advances	10	1,700,599,658	881,816,542
		7,694,181,434	5,211,316,899
Significant Accounting Policies	17		
Notes on Accounts	18		

The Schedules referred to above form an integral part of the Balance sheet in terms of our attached report of even date.

For S.N Mukherji & Co.

Chartered Accountants

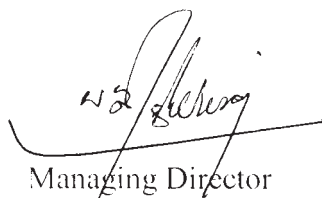
Firm's Registration No.301079E

Sudip K. Mukherji
Partner

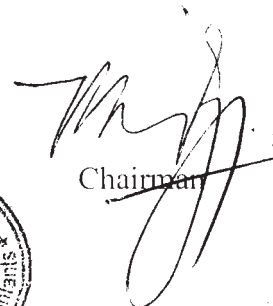
Membership No. 13321

Date : 22nd March 2013

Place : Kolkata


Managing Director




Chairman



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

		31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
INCOME FROM OPERATIONS			
Interest on Loans	11	668,403,770	523,044,738
Interest & Dividend on Deposits & Investments	12	32,417,441	5,945,485
Other Income	13	23,966,365	18,874,063
		724,787,576	547,864,287
LESS : EXPENSES			
Operating Expenses	14	167,189,423	137,041,567
Financial Expenses	15	288,876,229	152,251,632
Write-Off / Provisions	16	30,080,696	53,451,603
		486,146,348	342,744,803
PROFIT / (LOSS)		238,641,228	205,119,484
Appropriation			
1. General Reserve		125,615,501	61,535,845
2. Staff Training Fund		-	5,000,000
3. Retained Earning		113,025,728	138,583,639
		238,641,228	205,119,484
Significant Accounting Policies	17		
Notes on Accounts	18		

The Schedules referred to above form an integral part of the Balance sheet in terms of our attached report of even date.


For S.N Mukherji & Co.
Chartered Accountants
Firm's Registration No.301079E

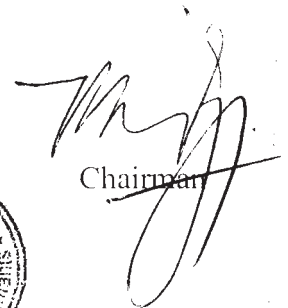
Sudip K. Mukherji
Partner

Membership No. 13321

Date : 22nd March 2013

Place : Kolkata


Managing Director


Chairman





Cash Flow Statement for the year ended 31.12.2012

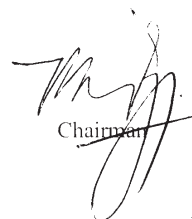
Cash Flow from Operating Activities (A):	2012
Profit before Tax	238,641,228.00
Adjustment for:	
Depreciation	17,334,761.00
(Profit)/Loss on Sale of Fixed Assets	2,973.00
Staff Training Fund	
Dividend Received	(406,000.00)
Interest on FDR	(32,011,441.00)
Change in provisions on Loans and Advances	36,833,418.00
Change in provisions on other current assets	(2,836,755.00)
Change in Loans & Advances	(1,694,201,683.00)
Change in Other Current Assets	(5,220,691.00)
Change in Deposits	2,122,057,130.00
Change in other liabilities & provisions	77,595,728.00
Change in deposits held for regulatory requirement	161,415,513.00
Income Tax Expense	-
Net Cash Flow from Operating Activities	919,204,181.00
Cash Flow from Investing Activities	
Dividend Received	406,000.00
Acquisition of Property, Equipments	(21,047,913.00)
Acquisition of investment securities	(3,000,000.00)
Interest on FDR	32,011,441.00
(Loss on Sale of Fixed Assets)	(2,973.00)
Net Cash Flow from Investing Activities	8,366,555.00
Cash Flows from Financing Activities	
Proceeds from issue of Share Capital	100,000,000.00
Changes in Borrowings	(51,840,361.00)
Proceeds from Govt. Grants and Assistance	(3,589,191.00)
Dividend Paid	-
Net Cash Flow from Financing Activities	44,570,448.00
Net Cash Flow from Operating Activities (A)	919,204,181.00
Net Cash Flow from Investing Activities	8,366,555.00
Net Cash Flow from Financing Activities	44,570,448.00
Net Increase/(Decrease) in cash and cash equivalents	972,141,184.00
Cash and Cash equivalents at beginning of period	477,902,809.00
Cash and Cash equivalents at end of period	1,450,043,993.00

For S.N Mukherji & Co.
Chartered Accountants
Firm's Registration No.301079E

Sudip K. Mukherji
Partner

Membership No. 13321
Date: 22nd March 2013
Place: Kolkata


Managing Director


Chairman





SCHEDULE

	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
SCHEDULE 1 : SHARE CAPITAL		
Authorized Share Capital 500000 Equity shares of Nu. 1000 each	<u>500,000,000</u>	<u>500,000,000</u>
Issued, Subscribed and Paid up: 300,000 Equity shares of Nu.1,000 each fully paid-up.	<u>300,000,000</u>	<u>200,000,000</u>
	<u>300,000,000</u>	<u>200,000,000</u>

NOTE - Of the above 75,000 shares valuing Nu. 75,000,000 have been issued to Royal Government of Bhutan against conversion of Grants.





		31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
SCHEDULE 2: RESERVES & SURPLUS			
GENERAL RESERVES			
Opening Balance	446,094,529		
Add : Transferred from Profit & Loss Account	125,615,501	571,710,029	446,094,529
STAFF TRAINING FUND			
Opening Balance	8,799,840		
Less : Transferred to Retained Earning	(8,799,840)	0	8,799,840
RETAINED EARNINGS			
Opening Balance	628,907,134		
Add : Transferred from Staff Training Fund	8,799,840		
Add : Transferred from Profit & Loss Account	113,025,728	750,732,702	628,907,134
TOTAL		1,322,442,732	1,083,801,503
SCHEDULE 3 : GRANTS			
(i) UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)		91,100,100	91,100,100
(ii) ASIAN DEVELOPMENT BANK (ADB)		12,087,955	12,087,955
(iii) UNCDF GRANTS (For Revolving Bike Fund)		1,352,400	1,352,400
(iv) SWISS DEVELOPMENT CORPORATION (SDC)		4,946,000	4,946,000
(v) HELVETAS		446,151	446,151
(vi) UNDP HSF LOAN FUND (Pilot micro finance to the rural community)		2,239,801	2,239,801
(vii) ROYAL GOVT. OF BHUTAN GRANT		68,101,000	68,101,000





		31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
(viii) UNDP HSF Project			
Opening Balance	196,884		
Less : Depreciation	(58,444)	138,440	196,884
(vix) UNCDF (Savings/Lending)			
Opening Balance	25,599,352		
Add : Received during the year	10,256,388		
Less: Depreciation	(225,304)		
Less : Utilized during the year	(22,126,835)	13,503,601	25,599,352
(x) UNCDF- Loan Fund (Fully Utilized)			
Opening Balance	610,000		
Add : Received during the year	3,235,000	3,845,000	610,000
(xi) BIO GAS - Credit (Fully Utilized)			
Opening Balance	843,150		
Add : Received during the year	1,862,104	2,705,254	843,150
(xii) BIO GAS - Subsidy			
Received in 2011	1,335,338		
Less : Advance to MoAF in 2011	617,209		
Opening on 01/01/2012	718,129		
Add : Received during the year	2,793,155		
Add : Advance refunded by MoAF	140,000		
Less : Utilization during the year	(1,064,701)	2,586,583	718,129
(xiii) ADB - CSF Project			
Opening Balance	-		
Add : Received during the year	3,022,212		
Less : Utilized during the year	(1,438,973)	1,583,239	-
(xiv) Sengor Community Collateral Fund			
	2,144,788		
Add : Interest accrued during the year	16,206	2,160,994	2,144,788
TOTAL		206,796,519	210,385,710





	Note	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
SCHEDULE 4: BORROWINGS			
a. Secured Loans			
Asian Development Bank- Line of Credit (Phase 1)	1	29,730,540	31,588,699
Asian Development Bank - Line of Credit (Phase 2)		59,443,832	71,332,598
Asian Development Bank -Line of Credit - A/C # 0088/008		243,868,335	161,775,962
Kuwait Fund for Arab Economy Development - Line of Credit	2	8,783,186	17,566,371
International Fund for Agricultural Development - Line of Credit(Second Eastern Zone Agricultural Programme)	3	38,572,111	39,974,735
International Fund for Agricultural Development (Agriculture Marketing & Enterprise Promotion Programme)	4	53,279,646	53,279,646
Borrowing from National Pension & Provident Fund - II	5	500,000,000	500,000,000
Borrowing from Bank of Bhutan Limited	6	300,000,000	400,000,000
	Sub Total	<u>1,233,677,650</u>	<u>1,275,518,011</u>
b. Unsecured Loans			
Borrowing from National Pension & Provident Fund - I		45,000,000	55,000,000
	Sub Total	<u>45,000,000</u>	<u>55,000,000</u>
TOTAL		<u>1,278,677,650</u>	<u>1,330,518,011</u>

Note :

- Borrowings from Asian Development Bank-line of credit is secured by guarantee of Royal Government of Bhutan. 1
- Borrowing Kuwait Fund for Arab Economy Development is secured by guarantee of Royal Government of Bhutan. 2
- Borrowing International Fund for Agricultural Development is secured by guarantee Royal Government of Bhutan guarantee. 3
- Borrowing International Fund for Agricultural Development is secured by guarantee Royal Government of Bhutan. 4
- Borrowings National Pension & Provident Fund is secured by pledge of FDR of Nu. 100 million with BNB and 40,000 sq.ft of land at Chubachu, Thimphu and guarantee by RGOB to the extent of Nu. 400 million 5
- Borrowings from Bank of Bhutan is secured by guarantee of Royal Government of Bhutan. 6





	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
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SCHEDULE 5: DEPOSITS

Fixed Deposit	3,302,180,886	1,554,629,916
Recurring Deposit	65,565,892	50,944,200
Savings Deposit	899,406,591	576,208,554
Current Deposit	153,283,264	116,596,834
TOTAL	<u>4,420,436,634</u>	<u>2,298,379,504</u>

SCHEDULE 6 : CURRENT LIABILITIES & PROVISIONS**A. Current Liabilities**

Accrued Interest on Deposits	96,519,350	15,754,536
Accrued Interest on Borrowing	9,007,549	6,939,411
Accounts Payable	9,393,624	11,242,696
Tender Refundable Deposit	81,589	63,979
Income Received in Advance	3,784,286	4,473,693
Security Deposits	-	76,263
Provision for Audit Fees & Expenses	300,000	300,000
Accrued Expenses	9,759,940	15,540,070
Sub Total	<u>128,846,339</u>	<u>54,390,649</u>

B. Provisions

Provision for Gratuity	36,981,560	33,841,522
Sub Total	<u>36,981,560</u>	<u>33,841,522</u>
Total	<u>165,827,899</u>	<u>88,232,171</u>





PARTICULARS	DE- PRECI- ATION RATE	GROSS BLOCK				DEPRECIATION				NET BLOCK		
		OPENING 01.01.2012 Nu.	SALES/ ADJUST- MENT Nu.	ADDITIONS Nu.	AS AT 31.12.2012 Nu.	OPENING 01.01.2012 Nu.	SALES/ ADJUST. Nu.	FOR THE YEAR Nu.	AS AT 31.12.2012 Nu.	AS AT 31.12.2012 Nu.	AS AT 31.12.2011 Nu	
LAND	0%	2,588,623	-	-	2,588,623	-	-	-	-	-	2,588,623	2,588,623
BUILDING	3%	59,735,498	-	2,071,977	61,807,475	3,310,668	-	1,822,498	5,133,166	56,674,309	56,674,309	56,424,830
FURNITURE & FIXTURES	15%	13,970,424	101,963.00	2,198,168	16,066,629	6,136,864	101,957	1,823,826	7,858,732	8,207,897	7,833,561	7,833,561
OFFICE EQUIPMENTS	15%	6,019,668	3,200.00	1,425,280	7,441,748	2,728,658	1,738	795,612	3,522,532	3,919,216	3,291,010	3,291,010
ELECTRICAL EQUIPMENTS	15%	6,499,837	-	278,258	6,778,095	2,272,671	-	955,957	3,228,628	3,549,467	4,227,166	4,227,166
NETWORK EQUIPMENTS	15%	22,613,868	-	601,520	23,215,388	6,367,090	-	3,405,244	9,772,334	13,443,054	16,246,778	16,246,778
COMPUTER HARDWARE	15%	26,405,410	12,047.42	9,004,582	35,397,944	11,541,274	14,178	748,610	12,275,706	23,122,238	14,864,135	14,864,135
COMPUTER SOFTWARE	15%	20,811,618	-	3,400,522	24,212,140	6,678,051	-	6,504,484.87	13,182,535	11,029,605	14,133,567	14,133,567
MOTOR VEHICLES	15%	8,691,995	-	1,891,522	10,583,517	4,692,364	-	974,643	5,667,006	4,916,511	3,999,632	3,999,632
OTHER EQUIPMENTS	100%	164,508	-	83,451	247,959	164,397	-	81,624	246,021	1,938	111	111
ART & ARTIFACTS	0%	240,440	600.00	92,570	332,410	-	-	-	-	332,410	240,440	240,440
SECURITY EQUIPMENTS	15%	1,534,085	-	-	1,534,085	371,656	-	222,262	593,919	940,166	1,162,429	1,162,429
TOTAL FIXED ASSETS		169,275,975	117,810	21,047,850	190,206,015	44,263,692	117,873	17,334,761	61,480,580	128,725,434	125,012,283	125,012,283
PREVIOUS YEAR		145,522,868	3,826,700	27,579,807	169,275,975	32,343,568	2,204,775	14,124,899	44,263,692	125,012,283	-	-

Notes : 1. No depreciation has been charged on Art & Artifacts as per the Income Tax Act of the Kingdom of Bhutan, 2001.

2. Depreciation for the year	Nu.	17,334,761
Less : Depreciation on assets acquired out of Grants		283,748
Charged to Operating expenses	Schedule 14	<u>17,051,014</u>





	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
SCHEDULE 8 : INVESTMENTS (At Cost)		
<u>Quoted</u>		
1) 2500 Equity Shares of Nu. 100 each of Bhutan Carbide and Chemicals Limited	500,000	500,000
3) 3810 Equity Shares of Nu. 100 each of Penden Cement Authority Limited	<u>381,000</u>	<u>381,000</u>
Sub Total	881,000	881,000
<u>Unquoted</u>		
1) 5000 Equity Shares of Nu. 100 each of Royal Securities Exchange of Bhutan Limited	500,000	500,000
2) Capital Contribution for Financial Institution Training Institute	<u>6,000,000</u>	<u>3,000,000</u>
Sub Total	6,500,000.00	3,500,000.00
TOTAL	<u>7,381,000.00</u>	<u>4,381,000.00</u>
Note : Market / Book value of Quoted Investments	5,793,300	5,869,500





	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
SCHEDULE 9 : LOANS (Receivable)		
Term Loan	5,280,593,267	3,864,721,903
Continuous Loan	795,660,738	560,125,392
Staff Loan	25,791,480	24,615,231
Principal Outstanding	6,102,045,486	4,449,462,527
Add : Interest Receivable on Loans	145,418,912	103,800,188
Total Outstanding	6,247,464,398	4,553,262,715
<u>Less : Provision For Loss</u>		
Specific Provisions	267,139,580	235,772,614
General Provisions	58,589,582	61,713,254
Suspended Interest/Penalty	64,259,895	55,669,772
Total Provision for loss	389,989,058	353,155,640
Loans Net of Provisions	5,857,475,341	4,200,107,074





	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
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SCHEDULE 10 - CURRENT ASSETS AND ADVANCES**A. Current Assets****Cash and Bank Balances**

(i) Cash in Hand	189,219,279	108,310,133
(ii) Cheques in Hand	191,000	977,830
(iii) Balance in Current Account	10,419,623	-
(iv) Balances with Commercial Banks	360,901,477	251,092,676
(v) CRR Deposit with Royal Monetary Authority	216,112,860	377,528,373
(vi) Balance with Royal Monetary Authority	18,412,327	2,522,169
Short Term deposit with Bhutan National Bank Ltd.	350,000,000	100,000,000
Short Term deposit with T-Bank Ltd -Gratuity Fund	20,900,288	15,000,000
Short Term deposit with T-Bank Ltd.	200,000,000	-
Short Term deposit with BOBL	200,000,000	-
Short Term deposit with DPNBL	100,000,000	-
Sub Total	1,666,156,853	855,431,183

B. Loans & Advances

Stock of Stationeries and Spares	2,200,630	1,827,512
Accounts/Other receivables	8,144,358	28,161,353
Asset Acquired on Settlement of Loans	15,000	15,000
Accrued Interest on short term deposits	11,803,201	1,755,436
Deffered Expenses (Staff Training)	4,955,775	
Pre-Paid Tax	877,641	5,000
Security Deposits	206,500	-
Advances & Prepayments	9,891,220	1,109,333
sub Total	38,094,324	32,873,633
Less: Provision For Loss		
Against Receivables	3,631,203	6,301,608
Against stock	5,316	171,666
Against Asset Acquired on Settlement of Loans	15,000	15,000
Sub Total	34,442,805	26,385,359
TOTAL	1,700,599,658	881,816,542

SCHEDULE 11 : INTEREST ON LOANS

Term Loan	580,010,557	461,949,008
Continuous Loan	86,877,126	59,758,383
Staff Loan	1,516,088	1,337,348
TOTAL	668,403,770	523,044,738





	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
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SCHEDULE 12 : INTEREST & DIVIDEND ON DEPOSITS & INVESTMENTS

Interest on FDR -with Commercial Banks	29,584,646	5,514,485
Income on Short Term Investment -Treasury Bill	2,426,795	0
Dividend on Shares	406,000	431,000
TOTAL	32,417,441	5,945,485

SCHEDULE 13 - OTHER INCOME

Legal Documentation Fee	1,674,884	1,426,149
Comission on Guarantee	14,608,271	11,355,926
Audit Recovery	306,078	254,558
Rental Income	3,451,064	3,417,156
Recovery From Written Off Loan	876,746	(708,190)
Charges on repayment of loan of other Branches	268,173	1,063,984
Profit/(Loss) on Asset Sold/Discarded	(2,973)	(36,370)
Charges on outstation withdrawal/deposit of deposits	226,754	205,933
Prior Period Income/(Expense)Net	(80,990)	23,977
Penalty & Other Income on Deposit Accounts	9,237	20,269
Income on Fractional Amount Raised on Account Closing	1,248	410
Miscellaneous	2,627,873	1,850,263
TOTAL	23,966,365	18,874,063





	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
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SCHEDULE 14 : OPERATING EXPENSES

Salary and Personnel Expenses	97,642,654	84,852,804
Workshop/Seminar	4,710,460	693,850
Training	2,477,888	-
Rent	2,534,750	1,779,346
Power and Water	755,878	624,768
Communications	5,301,176	5,088,197
Repairs and Maintenance	1,526,166	1,018,471
Annual Software Maintenance	2,836,866	2,389,907
Stationery and Supplies	4,789,328	4,618,931
Motor Vehicle Expenses	1,327,724	1,371,035
Subscriptions	1,308,811	834,954
Donation	387,000	65,000
Auditor's Fees and Expenses	314,737	366,074
Travel Expenses	17,099,826	13,622,669
Insurance	494,407	261,234
Transportation Charges	471,051	343,580
Entertainment/Business Promotion	1,679,317	1,130,777
Taxes	42,131	30,452
Advertisement and Publicity	1,732,096	937,392
Fees and Commission Expenses	70,289	99,425
Bank Charges	90,847	641,175
Depreciation	17,051,014	13,893,147
Consultancy Fees	-	742,568
Office Security Expense	1,001,000	956,000
Other Expenses	1,544,007	679,812
TOTAL	167,189,423	137,041,567





	31-Dec 2012 (Nu.)	31-Dec 2011 (Nu.)
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SCHEDULE 15: FINANCIAL EXPENSES

a. Interest on Deposits

Savings Deposits	36,928,721	19,587,033
Recurring Deposits	3,412,277	2,950,429
Fixed Deposits	176,560,152	50,828,387
Sub Total	<u>216,901,150</u>	<u>73,365,849</u>

b. Interest on Borrowings

In - Country	57,700,959	64,123,017
Third - Country Through Royal Government of Bhutan	14,274,120	14,762,766
Sub Total	<u>71,975,079</u>	<u>78,885,783</u>
TOTAL	<u>288,876,229</u>	<u>152,251,632</u>

SCHEDULE 16 :WRITE OFF / PROVISIONS

Provision against loss of Assets	1,690	171,666
Provision on Loans	30,079,006	53,259,938
TOTAL	<u>30,080,696</u>	<u>53,451,603</u>





BHUTAN DEVELOPMENT BANK LIMITED

Schedule forming part of the Accounts for the Year ended 31st December 2012

SCHEDULE 17 – SIGNIFICANT ACCOUNTING POLICIES:

1. SYSTEM OF ACCOUNTING

- 1.1 The financial statements have been prepared by following the going concern concept on historical cost basis and conform to the statutory provisions, various instructions, circulars and guidelines issued by the Royal Monetary Authority (RMA) of Bhutan from time to time and generally accepted accounting policies and procedures prevailing in the country unless otherwise stated.

2. REVENUE RECOGNITION

- 2.1 Interest income on loans is recognized on accrual basis except for non-performing loans with default over 90 days, in respect of which the interest income as per the guidelines issued by the Royal Monetary Authority of Bhutan, is shown under the head “Interest Suspense” which is taken to Profit & Loss Account on actual realization only.
- 2.2 Interest on investment is recognized on accrual basis.
- 2.3 Dividend income is recognized in the accounts in the year of dividend declaration by the investee companies.
- 2.4 Commission and exchange on Guarantee and letters of credit are recognized on pro rata basis over the period of their validity.

3. LOANS

- 3.1 Loans are stated at principal amount plus interest accrued thereon.
- 3.2 Assets acquired from defaulted borrowers are shown at the corresponding value of balances outstanding on the date of acquisition. Provision is made for possible shortfall, if any, as considered appropriate by management. Claims on such property by third party, if any, is disclosed as contingent liability.

4. INVESTMENTS

- 4.1 Investments are stated at cost.
- 4.2 Provisions are made for any shortfall in the market value of quoted investments in comparison to their carrying cost. In case of unquoted/unlisted investments provisions for diminution in value (as considered appropriate by the management) are made. Appreciation in the value of the investments is ignored.

5. FIXED ASSETS

- 5.1 Fixed assets are stated at original cost, net of accumulated depreciation.





5.2 Depreciation is provided at the rates specified in the Annexure II of Rules on the Income Tax Act of the Kingdom of Bhutan 2001 and is computed under straight-line method on pro-rata basis from the date of acquisition.

5.3 Fixed Assets are verified on as Annual basis and are entered in the Fixed Assets Register. Discrepancies if any are accounted for during the year.

5.4 Impairment loss on Fixed Assets are identified and treated in the accounts accordingly.

6. GRANTS

6.1 Grants received in kind/cash for acquisition of fixed assets are recognized in the account as capital reserve to be apportioned over the life of the related assets. Other grants related to revolving fund received from Royal Government of Bhutan and others for specific project are also recognized in the accounts as capital reserve.

7. INVENTORIES

7.1 Inventories are stated at lower of cost or net realizable value.

7.2 Obsolescence is recognized as and when required.

7.3 Small value items of assets cost of which are below Nu. 25,000 have been considered as stores purchased during the year and are fully charged against revenue in the year of purchase.

8. CURRENT LIABILITIES

8.1 Current liabilities are stated at their actual/estimated amount due on accrual basis.

8.2 Provision for bonus is considered in the accounts on the basis of board resolutions.

9. STAFF BENEFITS

9.1 Gratuity is provided on accrual basis, as per the corporation's service rules read with the guidelines framed by the Royal Civil Service Commission of Bhutan, presuming that all employees cease to work as of the year end.

9.2 Bonus is accounted for on accrual basis.

9.3 Leave encashment liability is provided on the basis of leave accrued to the employees as at the end of the year considering the last basic pay of each employee.

9.4 Leave travel concession (LTC) is accounted for on accrual basis.



**10. CLAIMS**

10.1 Claims if any are generally accounted for on settlement basis.

11. PROVISION FOR NON-PERFORMING LOANS

11.1 Provision for non-performing loans is made as per the guidelines issued by the Royal Monetary Authority of Bhutan at the following rate, except for loans under litigation against which 100% provision is made.

Credit Exposure	Provision on outstanding Principal amount. (%)
Standard	1.00
Watch	1.50
Substandard	15 (30 in case of Highest Exposure Sector)
Doubtful	50 (60 in case of Highest Exposure Sector)
Loss	100

12. CONTINGENT LIABILITY

12.1 Liabilities of contingent nature are disclosed in the notes on accounts.

13. BALANCE SHEET EVENTS

13.1 Material events occurring after the balance sheet date are taken into cognizance.

14. FOREIGN EXCHANGE FLUCTUATIONS

14.1 Foreign exchange transactions are converted into local currency by using exchange rates prevailing on the date of transaction as published by the Royal Monetary Authority of Bhutan.

14.2 Monetary assets & liabilities (denominated in foreign currencies) are converted at Rates prevailing at the year end.

14.3 Acceptances, endorsement and other obligations are reported at the exchange rate prevalent on the date of the commitment.

15. NET PROFIT OR LOSS

The result declared in the Profit & Loss Account is after considering:-

15.1 Provision on non-performing assets.

15.2 Provision for depreciation on corporation's property, and

15.3 Other usual/ necessary provisions as required.





BHUTAN DEVELOPMENT BANK LIMITED

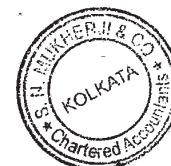
Schedule forming part of the Accounts for the year ended 31st December, 2012

SCHEDULE 18 – NOTES ON ACCOUNTS

- I. During the year, the Paid up Share Capital has been increased from Nu. 200 million to Nu. 300 million. Additional Capital of Nu. 100 million has been subscribed by RGOB. The shareholding pattern after the increase in paid up capital is as follows:

Sl #	Entity	Share from 01/07/2009 to 02/10/2012		Share from 03/10/2012 to date	
		Share Value (Nu.)	Share %	Share Value (Nu.)	Share %
1	RGOB	187,000,000.00	93.50%	287,000,000.00	95.67%
2	BOBL	7,500,000.00	3.75%	7,500,000.00	2.50%
3	RICBL	3,000,000.00	1.50%	3,000,000.00	1.00%
4	BNBL	2,500,000.00	1.25%	2,500,000.00	0.83%
	Total :-	200,000,000.00	100.00%	300,000,000.00	100.00%

- In terms of tripartite agreement between Royal Government of Bhutan, Asian Development Bank / Kuwaiti Fund for Arab Economic Development / International Fund for Agriculture Development and Bhutan Development Bank Limited, exchange fluctuation in respect of foreign currency loans received by the Bank from ADB/KFAED/IFAD has not been recognized in the books of the Bank.
- Confirmations from various parties are not available in respect of loans, advances, receivables, payable etc.
- Bhutan Development Bank Limited has been granted tax holiday upto December 31, 2012 by Ministry of Finance and accordingly no provision for tax liability has been made in the accounts in 2012.
- Provision amounting to Nu. 325,729,162 (Nu. 286,598,425.00 in 2011) against loans has been computed as per the revised provisioning norms of RMA vide letter # RMA/FRSD/34/2012-2013/1666 dated November 09, 2012. Consequent to changes in said provisioning norms, differential provision of Nu. 54,023,131.75 has been transferred to General Reserve.
- An amount of Nu. 36,981,560.00 (Previous Year. 33,841,522.00) has been ascertained as liability towards gratuity on the presumption that all employees cease to be employed with the bank as on 31.12.12. This liability has been funded by way of separate investment Nu.20,900,288 as against the total gratuity provision of Nu. 36,981,560.00 as at 31.12.12.
- Out of total Borrowings, principal amount due for repayment in 2012 is Nu. 133.93 million.



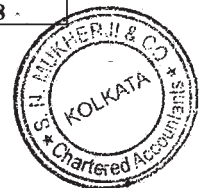


8. During the year under review Nu. 7,433,663 spent on training of staff outside the country, of which one third of the said amount being Nu. 2,477,888 is charged in the Profit & Loss Account. Balance amount of Nu. 4,955,775 is transferred to Deferred Assets (Staff Training) under Loans & Advances.
9. During the year the Bank has provided for final instalment of Nu. 3,000,000 towards Capital contribution for Financial Institution Training Institute, as directed by Royal Monetary Authority.
10. Remuneration and expenditure paid/reimbursed to the Managing Director in the year 2012 subject to Board's approval was as follows:

Sl. No.	Particulars	Amount in 2012	Amount in 2011
1	Pay & Allowances	1,182,468.00	922,460.00
2	Leave Travel Concession	-	15,000.00
3	leave Encashment	-	59,667.00
4	Bonus	-	113,092.00
5	Travel Expense (In Country)	46,102	60,450.00
6	Travel Expense (Abroad)	852,475.35	-
7	Provident Fund	91,406.00	70,641.00
8	BDBL's Board Sitting Fees in 2012	64,000.00	30,000.00
9	Early Retirement Benefit	-	480,825.00
	Total :-	2,236,451.35	1,752,135.00

11. Additional information pursuant to the provision of Part II of Schedule XIII A of the Companies Act of the Kingdom of Bhutan, 2000.

Sl.No.	Particulars	Amount in 2012	Amount in 2011
A	Salary & Personnel Expenses includes :	97,642,654	84,852,803.50
1	Manpower Expenses	68,891,824.00	59,684,377.18
2	Medical Expenses	3,689.00	49,154.00
3	GPF Contribution	5,891,642.00	4,737,973.00
4	Gratuity	4,336,984.00	3,610,567.00
5	Leave Travel Concession	3,273,746.00	2,636,116.00
6	Leave Encashment	3,855,964.00	3,056,941.45
7	Bonus to Staff	8,390,050.00	8,134,322.57
8	Staff Amenities	1,220,019.52	1,001,290.00
9	Cash Handling Allowance	909,700.00	805,920.00
10	Staff Transfer Expenses	869,035.00	985,142.30
11	Rent Expenses for personnel	0.00	151,000.00
12	Early Retirement Scheme	0.00	480,825.00
B	Repairs & Maintenances	1,526,166.48	1,081,591.48



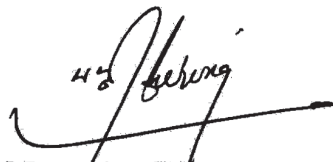


12. The following are the contingent liabilities as at 31.12. 2012.

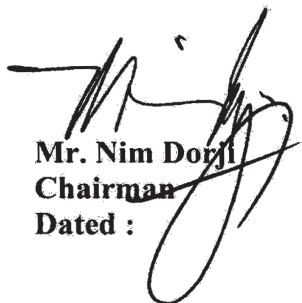
Sl #	Contingent Liabilities	31.12.2012 Nu.	31.12.2011 Nu.
a.	Performance Bonds	484,973,508.90	423.5m
b.	Other Guarantees	101,019,552.73	62.6m

13. Capital Commitment (net of advance) for ATM machine is Nu. 1,121,575 (Nu. 3,171,350 - 2,049,775). (P.Y nil in 2011)

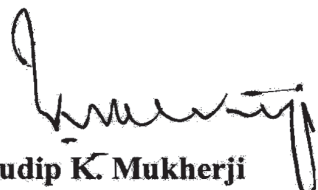
14. Previous year's figures have been rearranged / regrouped wherever necessary to make them comparable with the current year's figure.


Managing Director
 Dated :

for S.N Mukherji & Co.
Chartered Accountants


Mr. Nim Dorji
Chairman
 Dated :




Sudip K. Mukherji
Partner
 Dated : 22nd March 2013



CONSOLIDATED PERFORMANCE INDICATORS

