



DRUK PNB BANK LTD

... your partner in growth!



ANNUAL REPORT 2013



Staff Members of Phuentsholing Branch



Staff Members of Wangdue Branch



Staff Members of Corporate Office & Thimphu Branch



Staff members of Gelephu Branch



Staff members of Paro Branch

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ABOUT DRUK PNB BANK LTD

Capital

Authorized Capital: 1000 Million

Paid Up Capital : 449.39 Million

Share holding Pattern

Punjab National Bank, India: 51%

Promoters in Bhutan: 19%

Public: 30%

CORPORATE OFFICE

Post Box No 502, Norzin Lam, Thimphu Bhutan
Tel. No +975-2--324497, 325936, 331291 Fax. No +975-2-327546, 333156
www.drukpnbbank.bt SWIFT Code: PUNBBTBT
Web site: www.drukpnbbank.bt



THIMPHU BRANCH

Post Box No 502, Norzin Lam,
Near Main Traffic,
Thimphu Bhutan
Tel. No +975-2--324497, 325936
Fax. No +975-2-327546, 333156



PHUENTSHOLING BRANCH

Post Box No 156,
Zhung Lam, Near RRCO,
Phuentsholing Bhutan
Tel. No +975-5-253660,
253661, 253662
Fax. No +975-5-253669



WANGDUE BRANCH

Post Box No 1305,
New Bajo Town,
Wangdue Phodrang Bhutan
Tel.No +975-2-481932, 481930
Fax No. +975-2-481931



Gelephu Branch

P.O. Box 156, Jangchub Lam,
Gelephu, Bhutan.
Tel No. +975-6-252246
Fax No. +975-6-252245



Paro Branch

Paro Town, Bhutan.
Tel No. +975-8-271036
Fax No. +975-8-271038

Board of Directors



Dasho Sangay Wangchuk
Chairman



Bidyut Prakash Ray
General Manager (PNB)



Parmod K. Sharma
General Manager (PNB)



Parveen Kumar Chhokra
Independent Director



Kesang Wangdi
Independent Director



Tandin Tshering
Public Shareholder Director



Mukesh Dave
Chief Executive Officer

Financial Highlights:

Financial Highlights:

Assets/Liabilities Position(In million Ngultrum)

Item	As of 31.12.2012	As of 31.12.2013
Total Assets	6037.71	6286.13
Capital Fund	713.71	750.92
Deposit Liabilities	5015.95	5145.63
Advances	3575.76	3733.75

Operating Results

Item	For the year 2012	For the year 2013
Income	451.40	528.46
Expenses	319.92	384.08
Net Profit (after tax)	85.98	97.10

Ratios

	2012	2013
Loan to Deposit		
Operating Efficiency	37%	42%
Net Interest Margin	6.15%	5.94%
Earning Base	0.59	0.59
Return on Assets(total)	1.42%	1.54%
Return on Capital	18%	15%
Profit Per Employee	0.91Mio	0.98Mio

Druk PNB Bank Ltd., Thimphu, Bhutan

Directors' Report: 2013

Dear Shareholders,

I extend a very warm welcome to all the shareholders who are present here for the 4th Annual General Meeting of your Bank. On behalf of the Board of Directors I present before you the Annual Report of your bank for the year ended 31st December' 2013. Your bank has completed 4 years of successful operations in 2013 registering a growth in total business from Nu. 8591.71 Mio in 2012 to Nu 8879.38 Mio, comprising of Nu 5145.63 Mio as Deposits and Nu 3733.75 Mio as Advances. In terms of customer base also, the bank has achieved encouraging results with number of accounts surpassing 65,000 mark as on 31st December 2013 an increase of over 30% over 2012. This satisfactory performance of your bank in a span of 4 years is indicative of the quality services offered to the public. Your bank has not only registered satisfactory business growth, but also has maintained the quality of assets and liabilities much better than the Industry average. The retail deposit base of the Bank, which is considered to be stable deposit, is above 83% of the total deposits and also the performing advances are 97.51% of total advances.

Net Profit:

In 2013 the bank earned total income of Nu 528.45 million against total expenditure of Nu 384.07 million (after making provisions) resulting in post-tax net profit of Nu 97.09 million, which is approx. 13% more than the net profit of Nu 85.97 million earned in 2012. Same was done with prudent management of cost of deposit and by maintaining asset quality in- spite of a difficult year for Bhutanese economy.

Dividend, Capital & Reserve:

The Board of Directors is pleased to recommend a dividend of 7% for the year 2013. This will result in profit distribution of Nu. 31.45 million out of total net profit of Nu. 97.09 million, thus plough back profit of Nu 64.17 million towards strengthening of capital fund of the bank. Out of the retained profit of Nu 64.17 million, an amount of Nu.47.81 million has been transferred to General reserve in terms of the RMA guidelines and balance Nu.16.36 million retained in P & L account after maintaining foreign exchange fluctuation reserve of Nu. 0.16 million.

Board of Directors:

As on 31st December 2013, there are 7 directors on the Board of the Bank, comprising the Chairman, the CEO, two PNB nominee directors and one public shareholder director and two Independent Directors. During the year 2013, following changes took place in the composition of the Board of Directors:

- Mr. Parveen Kumar Chhokra, Ex - GM – PNB and Mr. Kesang Wangdi were inducted as Independent Directors on 30th April 2013.
- Mr. Tandin Tshering was inducted as Public Shareholder Director on 30th April 2013 in place of Mr. Tandin Wangchuk who resigned from the Board of Directors.
- Mr. Mukesh Dave was inducted as CEO, upon repatriation of Mr. N K Arora to PNB-India, on completion of his tenure as CEO of the Bank.

The Board met four times during the year complying with the requirements of the Companies Act of the Kingdom of Bhutan, 2000 and RMA Prudential Regulations. The quorums of these meetings were duly maintained. The statutory records/documents have been duly maintained by the Bank as per the requirement of the Companies Act of the Kingdom of Bhutan, 2000.

Corporate Governance:

The bank is committed to best practices in Corporate Governance by adhering to high standard of transparency, accountability, ethical business practices, operational efficiencies and social responsiveness for maximizing interest of all the shareholders.

As a listed company, Bank is complying with various regulatory requirements. Bank has complied with the guidelines of the Royal Monetary Authority of Bhutan and the Royal Security Exchange of Bhutan on the matters relating to corporate governance, which has been examined by the Statutory Auditors.

Statutory Compliance:

The bank has complied with all regulatory norms in respect of classification of assets; provisioning on loans as per the quality, exposure limits to single largest borrower & ten largest borrowers; Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) at all times. The bank is in the process of further consolidation of its risk management techniques and establishment of an independent internal audit cell for improvement in compliance in future.

Business expansion:

In the year 2013, the bank received a permission from RMA for opening a branch at Trongsa, which we propose to open in Mid 2014. Similarly, in 2014 the bank is contemplating to open two more branches either in eastern or central Bhutan. To improve its alternate delivery channel, the bank installed 1 more ATM during the year, thus raising the total number of ATMs to 14.

Corporate Social Responsibility:

The bank has concern towards society in which it operates. As a part of its CSR and to promote sports in the society the Bank sponsored India House golf tournament during the year 2013.

Staff training and welfare:

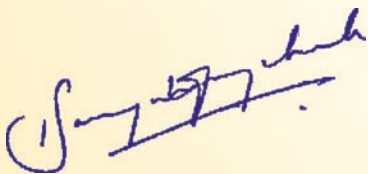
The bank gives top priority to the banking knowledge and skill development of its employees by providing them regular training to ensure efficiency in delivering service to its customers. During the year the bank provided training to 30 of its employees in various organizations in Bhutan and 22 of its employees in PNB's Central Staff College in New Delhi India/National Institute of Bank Management Pune, India.

Statutory Auditors:

M/s. M. P. Sureka and Co, Chartered Accountants, Kolkata have audited the bank's books of accounts for the year ended 31stDecember 2013.

Acknowledgement:

The Board expresses its sincere gratitude to the Royal Government of Bhutan, the Royal Monetary Authority of Bhutan, the Royal Securities Exchange of Bhutan and other regulators for their valuable guidance and support. The Board also thanks all the financial institutions in Bhutan and correspondent banks in India & third countries for their cooperation and patronage. The Board acknowledges the gratifying confidence of the customers and shareholders and wishes to place on record its appreciation for the dedicated services and contribution made by the employees of the bank towards its growth and achievement during the year.



(Dasho Sangay Wangchuk)

Chairman

For and on behalf of the Board of Directors.

CEO's Report:

First of all, I have to place on record my sincere thanks to the Board of Directors, shareholders and members of Druk PNB Bank family for providing me an opportunity to serve the Bank as CEO from this year.

The Year 2013 has been a year of tumultuous stress for the financial sector due to sluggish economic conditions in the country. However, depressed market conditions notwithstanding, your Bank has been able to record an increased level of net profit over last year. We are also pleased to share with stakeholders, and in particular our shareholders, that we could achieve targets set for 2013 in mobilization of funds, its channelization to the various productive economic sectors and payment services despite competition in the market from the existing veteran banks. All these achievements were made possible due to our understanding of customers' needs and providing them with appropriate customized banking solutions. Bank's high level of Customer Service ably backed by efficient technical support provided by the parent Bank- Punjab National Bank, which is a leading Public Sector Bank in India, has made remittances to India very fast and reliable, making lives of Bhutanese people, particularly those whose children are studying in India, easier and hassle free. Business community having financial dealings with India has also been the beneficiary of our smooth and efficient facility for transfer of funds, both inward and outward.

Financial Aspect

Some of the key parameters from which the bank's performance can be gauged, having regard to a very tough year for the economy in general and Banking sector in particular, are as under:-

- Total Business increased from Nu.8,591.71 Million in 2012 to Nu.8,879.37 Million in 2013.
- Total deposits increased from Nu.5,015,94 Million in 2012 to Nu.5,145,62 Million in 2013.
- Total Advances increased from Nu.3,575.76 Million in 2012 to Nu.3,733.75 Million in 2013.
- Net profit increased to Nu 97.09 Million in the 4th year of operation, from Nu 85 Million last year.
- Capital fund increased to Nu 750.92 Million
- Customer base as of 31/12/2013 reached 65,000+
- Earnings Base of 59%.
- Business per employee (excluding subordinate staff) recorded over Nu 90 million

Service Delivery Channel

The Bank is having Five branches in Thimphu, Phuentsholing, Wangdue, Gelephu and Paro as the prospective customers are mainly concentrated in these areas. In 2013, the bank has received permission to open a Branch at Trongsa, which is likely to be commissioned in second half of 2014. Further, the bank is contemplating opening of branches in the eastern and/or the Central region in the year 2014.

In four years' time, the bank installed 14 ATMs in centers where it opened branches for the convenience of customers to withdraw cash 24x7 and reduce footfall in the branches. In 2014, the bank plans to install some additional ATMs after studying the viability. Your Bank's ATM's have been acknowledged to provide uninterrupted efficient services to the customers with minimum down-time, which is redefining the way Banking is transacted in Bhutan.

Community Services

The bank not only focuses on its core business of providing banking services to the people, it values community services as well. As a part of its corporate social responsibility and as a gesture of sports promotion in Bhutan, your Bank has sponsored India House Golf Tournament during the year 2013.

Tashi Delek.

A handwritten signature in blue ink, which appears to be 'Mukesh', is written over a circular blue stamp. The stamp contains the text 'DRUK PNB BANK LIMITED' around the perimeter and 'CEO' in the center.

Mukesh Dave

Chief Executive Officer

Auditors' Report to the Members,

DRUK PNB BANK LTD

- 1 We have audited the attached Balance Sheet of Druk PNB Bank Limited as at 31st December, 2013, the Profit & Loss Account and the Cash Flow Statement for the year ended on that date, signed by us under reference to this report. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We have conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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.
 - 2.1 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.
 - 2.2 In our opinion, proper books of account, as required by law, have been maintained by the Bank so far as appears from our examination of those books.
 - 2.3 The financial statements dealt with by this report are in agreement with the books of account.
 - 2.4 In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements read together with the statements on significant accounting policies and notes to the accounts, the given information required by the Companies Act 2000 of the Kingdom of Bhutan, in the manner so required and also give a true and fair view:
 - a) In the case of the Balance Sheet, of the state of the affairs of the Bank as at December 31, 2013.
 - b) In the case of the Profit and Loss account, of the profit for the year ended on that date; and
 - c) In the case of Cash Flow Statement the movement of cash during the year ended as on that date.
- 3 As required by the minimum audit examination and reporting requirements under 2nd paragraph of Schedule XIV under section 75 of The Companies Act of the Kingdom of Bhutan 2000, read with Part II of Schedule XIV to the extent applicable, and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we further report that:
 - 3.1 The Bank has maintained proper records showing full particulars including quantitative details and situations of Fixed Assets. The codification of fixed asset has been done by the management in order to maintain a proper internal control. The physical verification of fixed assets has also been conducted during the year. *However we observe that the inter-branch transfer of fixed assets has not been properly accounted for, resulting in deviation of fixed assets as per physical verification and as per books of accounts.*

- 3.2 None of the Fixed Assets have been revalued during the year.
- 3.3 The company has not taken any loan secured or unsecured from Companies under the same management terms of which are prejudicial to the interest of the company.
- 3.4 The company has not granted any loan, secured or unsecured to other companies, firms or other parties and / or to companies under the same management terms of which are prejudicial to the interest of the company.
- 3.5 No excessive / frequent advances are generally granted and accumulation of large advances against particular individual is generally avoided.
- 3.6 The loans / advances granted to officers / staffs are in keeping with the provision of Service Rules and no excessive / frequent advances are granted and accumulation of large advances against particular individual is avoided.
- 3.7 In our opinion and according to the information and explanation given to us the Bank has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Bank as well as to ensure adherence to the rules, regulations and systems and procedures.
- 3.8 Fund based / Non-fund based facilities were provided to the Directors or any other parties related to the Directors or with company or firms in which the Directors are directly or indirectly interested under similar terms and conditions as are applied with other parties. Such *transactions have been adequately disclosed in the financial statements*. Such terms and conditions are not prejudicial to the interest of shareholders and other Directors of the Bank.
- 3.9 In our opinion, the transactions of purchase and sales of goods and services made in pursuance of contracts or arrangements entered into with the directors or their relatives, companies or firms in which the directors are directly or indirectly interested have been made at prices, at which the transactions for similar goods or services have been made with other parties. Such *transactions have been adequately disclosed in the financial statements*. Such terms and conditions are not prejudicial to the interest of shareholders and other Directors of the Bank.
- 3.10 According to the records, the Bank is regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authority.
- 3.11 There are no undisputed amounts payable in respect of rates, taxes, duties, provident fund and other statutory dues outstanding at the year-end.
- 3.12 No personal expenses of employees or directors have been charged to the Bank accounts other than that payable under contractual obligations or in accordance with generally accepted business practice.
- 3.13 In our opinion and on the basis of information and explanation given to us, the management of liquid resources, particularly cash / bank and short term deposits etc is reasonably adequate and excessive amounts are not lying idle in non interest-bearing accounts.

- 3.14 In our opinion and on the basis of available records and information, the activities carried out by the Bank are lawful and intravires to the Articles of the Incorporation of the Bank.
- 3.15 The details of remuneration and other payment made to the Chief Executive Officer of the Bank have been suitably disclosed in Notes No.15 (Schedule-18) on Accounts.
- 3.16 The bank has established an effective budgetary control system.
- 3.17 As represented to us, the directives of the Boards have been complied with.
- 3.18 So far as we have been represented and our knowledge is concerned, the officials of the Bank have not transmitted any price sensitive information's which are not made public, unauthorized to their relatives / friends / associates or close persons which would directly or indirectly benefit themselves.
- 3.19 The Bank has maintained the adequate documents and records where it has granted loans and advances for which agreements have been drawn up and timely entries have been made therein.
- 3.20 The Bank has not dealt or traded in shares, securities and other investment during the year.
- 3.21 The Bank has adequate records for funds collected from depositors and for interest payments.
- 3.22 The Bank has complied with the requirements of Financial Service Act of Bhutan, 2011 and any other applicable laws, rules and regulations and guidelines issued by the appropriate Authorities.
- 3.23 The requirements of RMA Prudential Regulations, 2002 relating to provisioning for the non-performing assets including loans and advances have been complied with. *However it is advisable to adopt generating system prompt NPAs especially in case of working capital advances.s*
- 3.24 Recognition of interest income in respect of non-performing assets has been complied with.
- 3.25 The assets hypothecated against loans and advances have been physically verified, properly valued, mortgage deed executed and ensured that the assets are free of any prior lien or charges.
- 3.26 Proper analysis is carried out before re-phasing / rescheduling of loans.
- 3.27 There is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.

Computerized Accounting Environment

1. The Organizational and system development controls and other internal controls are adequate relative to size and nature of computer installations.
2. There are adequate safeguard measures and backup facilities exist in relation to computer facilities.
3. The backup facilities and disaster recovery measures include keeping files in different locations.

4. The operational controls have been established with the implementation of the CBS to ensure correctness and validity of input data and output information.
5. The measures to prevent unauthorized access over the computer installation and files are adequate.

General

1. Going Concern Problems:

Based on the net asset position reflected by the Bank's Balance Sheet as at 31st December, 2013 audited by us in accordance with the Generally Accepted Auditing Standards and on the basis of such other tests as we considered necessary in this regards, we have no reason to believe that the Bank is not a going concern on the Balance Sheet date and is not likely to become sick in the near future.

2. Ratio Analysis:

The significant ratios indicating the financial health and profitability of the Bank are given below:

Ratio	Amount in Millions	2013	2012
Current ratio Current Assets/Current liabilities	3331.862/3046.320	1.09	1.05
Core capital Tier I capital/Total Risk weighted assets	638.596/5995.577	10.65%	10.98%
Capital Adequacy Tier I & Tier II capital/Total Risk weighted assets	795.888/5995.577	13.27%	14.33%
Statutory Liquidity Requirement Quick Assets/Total liabilities less Capital fund and liabilities to RMA	1808.004/4884.690	37.01%	40.11%

Particulars	2013	2012
Credit Deposit Ratio – Loans & Advances / Deposits	72.56%	71.29%
NPA Ratios – Total NPA / Loans & Advances	2.49%	1.79%
Interest Expense / Deposits	4.63%	3.11%
Interest Income / Loans	12.24%	10.44%
Deposit Growth	2.59%	21.06%
Advance Growth	4.42%	26.91%
Increase / (Decrease) in Provision	20.60%	92.73%
Increase / (Decrease) in Forex Income	1.26%	(38.87)%
Return on Investment (PAT / Capital employed x 100)	23.00%	18.02%
Earning per Share (PAT / No. of Shares issued)	Nu.21.61	Nu.19.15
Net Profit Ratio (PBT / Total Income x 100)	27.32%	29.13%

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

The Bank has complied with the various provisions of the Companies Act of the Kingdom of Bhutan, 2000 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares and all other matters specified in the said Act.

4. Adherence to Laws, Rules and Regulations

The audit of the Bank is governed by the Companies Act kingdom of Bhutan, 2000, RMA Prudential Regulations, 2002 and Financial Service Act of Bhutan 2011. The scope of audit is limited to examination and review of the financial statements as produced to us by the management.

The Bank has generally complied with the applicable laws, rules and regulations, systems, procedures and practices as informed and explained to us.

**For M. P. Sureka & Co
Chartered Accountants (FRN 322097E)**

Mazhar Bhati



**Mazhar Bhati (Membership No. 300367)
PARTNER**

Date: 26th February 2014

Place: New Delhi

DRUK PNB BANK LIMITED

Balance Sheet as at 31st December, 2013

LIABILITIES	Schedule No.	As at 31/12/2013		As at 31/12/2012	
		Nu.	Ch.	Nu.	Ch.
Share Capital	1	44,93,92,300.00		44,90,27,300.00	
Subordinated Term Debts		11,52,00,000.00		14,40,00,000.00	
Reserve & Surplus	2	18,63,38,160.33		12,06,99,013.92	
Deposits	3	5,14,56,26,117.48		5,01,59,46,969.70	
Other liabilities & provisions	4	38,95,77,048.22		30,80,39,595.85	
		<u>6,28,61,33,626.03</u>		<u>6,03,77,12,879.47</u>	

ASSETS

Cash & balance with RMA	5	1,41,29,86,099.84	1,33,93,79,730.08
Balance with Banks	6	82,18,49,967.97	91,06,61,193.14
Loans & Advances	7	3,73,37,50,978.58	3,57,57,61,302.20
Fixed Assets	8	5,50,27,903.39	6,68,49,102.77
Other Assets	9	26,25,18,676.25	14,50,61,551.28
		<u>6,28,61,33,626.03</u>	<u>6,03,77,12,879.47</u>

Contingent Liabilities	10	834780352.22	1108430053.34
Significant Accounting Policies	17		
Notes on Accounts	18		

The schedules referred to above form an integral part of the Balance Sheet
Signed in terms of our attached report of even date

  (CEO)

 Director

 (Chairman)


(Mazhar Bhati)
Partner
(Membership No. 300367)



For M. P. Sureka & Co.
Chartered Accountants




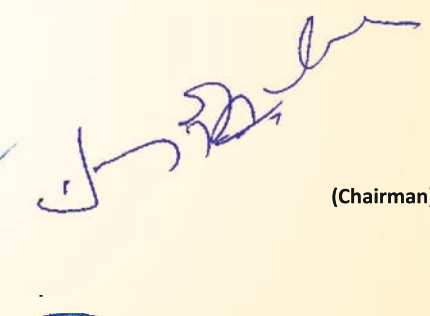
DRUK PNB BANK LIMITED

Profit and Loss Account for the year ended 31st December 2013

	Schedule No.	For the year ended 31/12/2013	For the year ended 31/12/2012
INCOME			
Interest earned	11	45,71,82,836.94	38,91,78,908.12
Other Income	12	7,12,72,402.83	6,22,24,616.45
		52,84,55,239.77	45,14,03,524.57
EXPENDITURE			
Interest Expended	13	23,80,86,881.46	16,66,92,287.96
Operating Expenses	14	12,30,47,622.29	10,66,54,849.06
Preliminary Expenses			33,07,991.08
Provisions & Contingencies	15	2,29,40,652.43	4,32,67,490.14
		38,40,75,156.18	31,99,22,618.24
Profit /Loss before tax		14,43,80,083.59	13,14,80,906.33
Provision for income tax	16	4,72,83,476.19	4,55,04,456.52
		9,70,96,607.40	8,59,76,449.81
Significant Accounting Policies	17		
Notes on Accounts	18		

The schedules referred to above form an integral part of the Profit & Loss Account
Signed in terms of our attached report of even date

  (CEO)

 Director  (Chairman)


(Mazhar Bhati)
Partner
(Membership No. 300367)



For M. P. Sureka & Co.
Chartered Accountants



DRUK PNB BANK LIMITED

Cash Flow Statement as on 31.12.2013


Particulars	Amounts(Nu.)	Amounts(Nu.)
A. Cash Flow From Operating Activity		
Profit/(loss)	14,43,80,083.59	-
Add: Depreciation	1,41,86,890.24	
Add: Preliminary expenses written off	-	
Add: loss of fixed assets	17,190.14	
	15,85,84,163.97	-
Increase/(Decrease) in other liabilities & provisions	4,62,10,238.20	
(Increase)/Decrease in other Assets	(11,74,57,124.97)	
	8,73,37,277.20	
Tax Paid	(4,34,13,723.01)	
Total of (A)		4,39,23,554.19
B. Cash Flow from Financing Activity		
Issue of share capital	3,65,000.00	
Deposits accepted	12,96,79,147.78	
Increase / (Decrease) in Subordinated Term Debts	(2,88,00,000.00)	
Loans & Advances given	(15,79,89,676.38)	
Total of (B)		(5,67,45,528.60)
C. Cash Flow from Investing Activity		
Fixed Asset Purchase	(23,82,881.00)	
Sale/adjustment of Fixed Asset	-	
Total of (C)		(23,82,881.00)
(A+B+C)		(1,52,04,855.41)
Change in Cash and cash equivalents	2,25,00,40,923.22	
Opening Cash and cash equivalents	2,23,48,36,067.81	
Closing Cash and cash equivalents		
Change in Cash and cash equivalents		(1,52,04,855.41)
SIGNIFICANT ACCOUNTING POLICIES	18	
NOTES TO ACCOUNTS	19	

The schedules referred to above form an integral part of the Cash Flow Statement

Signed in terms of our attached report of even date

  (CEO)

 Director

 (Chairman)


(Mazhar Bhati)
Partner
(Membership No. 300367)



For M. P. Sureka & Co.
Chartered Accountants

	As at 31/12/2013		As at 31/12/2012	
Schedule 1: Share Capital				
Tier I				
Authorised Capital 10,000,000 shares of Nu.100 each	1,00,00,00,000.00		1,00,00,00,000.00	
Issued and Paid Up 449,392,,300 shares of Nu. 100 each	44,93,92,300.00		44,90,27,300.00	
Tier II				
Subordinated term debts 80% of 144,000 unsecured Bonds of Nu.1000 each	11,52,00,000.00		14,40,00,000.00	

Schedule 2: Reserves & Surplus				
Share Premium	2,81,50,800.00	2,81,50,800.00	2,81,50,800.00	2,81,50,800.00
General Reserve	7,65,01,627.02		3,35,13,402.11	
Transferred from Profit & Loss account	4,78,18,197.99		4,29,88,224.91	
Closing Balance	12,43,19,825.01	12,43,19,825.01		7,65,01,627.02
Foreign Exchange Fluctuation Reserve	16,28,250.43	16,28,250.43	1,68,039.00	1,68,039.00
Profit & Loss Account	9,70,96,607.40		8,59,76,449.81	
Less: Transferred to General Reserve	4,78,18,197.99		4,29,88,224.91	
Proposed Dividend	3,14,57,461.00		2,69,41,638.00	
Closing Balance	1,63,60,736.99	3,22,39,284.89	1,58,78,547.90	1,58,78,547.90
Total		18,63,38,160.33		12,06,99,013.92

Schedule 3: Deposits				
Demand Deposits:	-			
Current Deposits	55,40,12,926.46		1,52,60,06,671.87	
Savings Bank Deposits	2,23,07,18,893.90	2,78,47,31,820.36	1,65,18,21,306.33	3,17,78,27,978.20
Term Deposits:				
Fixed Deposits	2,11,42,56,904.00		1,61,98,95,750.00	
Recurring Deposits	14,90,96,853.00	2,26,33,53,757.00	11,18,44,199.00	1,73,17,39,949.00
Other Accounts:				
Balance from other banks in Current Deposits	9,75,40,540.12	9,75,40,540.12	10,63,79,042.50	10,63,79,042.50
Total		5,14,56,26,117.48		5,01,59,46,969.70

Schedule 4: Other Liabilities & Provisions				
Bills payable	3,01,26,361.08		4,03,90,223.76	
Interest accrued on deposits	11,04,14,463.58		7,29,84,010.99	
Balance with other offices	24,10,887.32		26,71,643.40	
Provision - Gratuity	26,77,070.00		17,79,140.00	
Provision - Loans - General	3,82,60,211.28		3,55,45,675.14	
- Specific	6,50,39,688.35		2,85,01,561.04	
-Dynamic	22,03,967.14		1,85,15,978.17	
Provision for income tax	4,33,14,025.08		3,94,44,271.90	
Margin Money			1,98,28,706.00	
Suspended interest	69,33,836.07		33,78,621.59	
Dividend	3,14,57,461.00		2,69,41,638.00	
Others	5,67,39,077.32		1,80,58,125.86	
	38,95,77,048.22		30,80,39,595.85	

Schedule 5: Cash & Balances with RMA

Cash in hand:				
BTN	5,65,88,891.00		15,08,17,146.00	
INR	2,77,300.00		10,28,410.00	
FC	3,10,99,570.16	8,79,65,761.16	2,04,81,011.93	17,23,26,567.93
CRR with RMA	34,07,40,615.14		20,00,85,979.00	
Penalty Account with RMA	1,00,000.00		1,00,000.00	
Balance with RMA	98,41,79,723.54	1,32,50,20,338.68	96,68,67,183.15	1,16,70,53,162.15
Total		1,41,29,86,099.84		1,33,93,79,730.08

Schedule 6: Balance with other Banks

Balance with Banks in India & third countries				
Current Account	29,37,22,658.36		52,91,55,533.52	
Current Account in Bhutan	4,11,50,239.61		8,15,05,659.62	
Deposit Account in Bhutan	48,69,77,070.00		30,00,00,000.00	
	82,18,49,967.97		91,06,61,193.14	

Schedule 7: Loans & Advances

Demand loans	28,02,13,464.31		40,69,95,958.07	
Cash Credit	15,52,91,439.25		15,04,91,534.24	
Overdraft etc	75,39,40,990.74		64,10,69,236.52	
Term Loan	2,54,43,05,084.28		2,34,11,41,760.00	
Bills discounted & Purchased			-	
Interest Receivable			3,60,62,813.37	
	3,73,37,50,978.58		3,57,57,61,302.20	

Schedule 8: Fixed Assets

Leased Premises				
As on 31/12/2012	44,61,530.00		44,61,530.00	
Addition during the year	-		-	
Total Cost as on 31.12.2013	44,61,530.00		44,61,530.00	
Less Depreciation Reserve as on 31.12.2013	35,69,224.00		26,76,918.00	
	8,92,306.00	8,92,306.00	17,84,612.00	17,84,612.00
SFF & MCC				
At cost as on 31/12/2012	9,31,96,978.01		7,70,32,427.07	
Addition during the year	23,82,881.00		1,70,40,555.94	
	9,55,79,859.01		9,40,72,983.01	
Sold during the year	22,000.00		8,76,005.00	
	9,55,57,859.01		9,31,96,978.01	
Less: Depreciation Reserve	4,14,22,261.62		2,81,32,487.24	
	5,41,35,597.39	5,41,35,597.39	6,50,64,490.77	6,50,64,490.77
		5,50,27,903.39		6,68,49,102.77

Schedule 9: Other Assets

Interest accrued	2,78,045.49		16,042.00
Advances made recoverable/Adjustable	2,59,88,914.94		1,31,51,905.33
Advance I.Tax	1,97,80,446.00		75,33,284.00
Tax Deducted at Source	8,74,594.37		6,33,919.64
Remittance in transit	-		1,90,10,000.00
Contribution for Training Institute	1,20,00,000.00		1,20,00,000.00
Govt. T Bills	19,85,00,000.00		9,06,43,818.44
Stationery in hand	18,19,153.51		18,89,924.87
Prepaid expenses	32,77,521.94		-
Inward clearing cheques	-		1,82,657.00
	26,25,18,676.25		14,50,61,551.28

Schedule 10: Contingent Liabilities

Acceptance, endorsement & other obligations	83,47,80,352.22		1,10,84,30,053.34
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Schedule 11: Interest earned

Interest from Loans & Advances	41,63,44,372.78		37,33,69,532.47
Interest from Deposits with Banks in Bhutan	3,96,80,650.31		1,58,03,492.65
Other Interest Income	11,57,813.85		5,883.00
	45,71,82,836.94		38,91,78,908.12

Schedule 12: Other Income

Commission & Exchange	2,86,62,802.53		3,19,44,661.95
Exchange Profit	83,44,065.33		82,39,840.32
Locker Rent	1,18,000.00		60,875.00
Incidental charges deposits	54,09,759.81		37,06,815.98
Income from FC	11,51,811.00		14,61,895.65
ATM/Kiosk charges	1,60,15,145.14		1,03,27,718.07
Profit on Sale of Assets	-		34,434.80
Others	1,15,70,819.02		64,48,374.68
	7,12,72,402.83		6,22,24,616.45

Schedule 13: Interest Expenses

Interest paid on Deposits	22,72,86,881.46		15,58,92,287.96
Interest paid on Subordinated Term debts	1,08,00,000.00		1,08,00,000.00
	23,80,86,881.46		16,66,92,287.96

Schedule 14: Operating Expenses

Payment & Provision for employees	4,80,20,948.96		4,10,33,543.40
Travelling expenses	37,79,347.78		38,71,525.50
Audit fees & expenses	2,25,000.00		2,25,000.00
Directors' sitting fee	4,05,000.00		3,15,000.00
Repair to rental premises	10,57,840.00		3,84,203.00
Stationery, printing and advertisement	16,76,226.74		30,71,632.53
Depreciation on Fixed Assets	1,41,86,890.24		1,27,49,895.95
Outsourcing of Financial services	1,24,74,526.17		1,05,26,242.44
Other expenses	82,70,012.83		82,67,156.82
Communication and networking	1,60,30,825.57		1,29,67,906.80
Software	38,90,226.39		22,66,444.92
Rental (Premises)	1,00,78,632.00		88,17,271.00
AMC	29,52,145.61		21,59,026.70
	12,30,47,622.29		10,66,54,849.06

Schedule 15: Provisions and Contingencies

Provisions against loans			
General	27,14,536.14		77,30,755.41
Specific	3,65,38,127.32		1,70,20,756.56
Dynamic	(1,63,12,011.03)		1,85,15,978.17
Others	-		
	2,29,40,652.43		4,32,67,490.14

Schedule 16: Provisions for Income tax

Tax for the year	4,33,14,025.08		3,94,44,271.90
Tax for the earlier period	-		23,32,530.00
Miscellaneous tax paid	39,69,451.11		37,27,654.62
	4,72,83,476.19		4,55,04,456.52

SCHEDULE: 17**Significant Accounting Policies for the Year ended 31st December 2013.****1. Accounting Convention**

The financial statements have been prepared by following the going concern concept on historical cost basis and conform to generally accepted accounting policies and procedures prevailing in the country.

2. Revenue Recognition:

- i) Items of income and Expenditure are accounted for on accrual basis except commission of guarantee and Letter of credit, which is accounted for on cash basis.
- ii) Interest, Rent, etc. are accounted at gross value before deduction of tax.
- iii) 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 Authorities of Bhutan is shown under the head "suspended interest" which is taken to profit and loss account on actual realization only.

3. Fixed Assets:

- i) Fixed assets are stated at cost less depreciation
- ii) Depreciation is calculated at original cost of the asset and chargeable in the year of purchase on pro-rata basis from the date it is ready for use as per provisions of income tax act of the kingdom of Bhutan 2001 and is computed under straight line method. However, classification of fixed asset and the corresponding rate of depreciation are based on assessment made by the management.
- iii) Cost incurred in respect of construction, modification, alteration etc. in a leased property has been capitalized under a separate head entitled "Leasehold Development ". The amount so incurred is being amortized in five equal annual installments or over a period of the lease period whichever is less.
- iv) Impairment loss of fixed asset are identified and treated in the accounts accordingly.

4. Loans:

Loans are stated at principal amount plus interest accrued thereon.

5. Retirement /employee benefits:

- i) Contribution to provident fund and other funds are accounted for as when accrued except leave encashment and leave travel concession (on declaration basis) which is accounted for on cash basis.
- ii) Gratuity is provided on accrual basis in respect of national employees only as per the service rule 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.

6 Provision for non performing Loans:

Provision for non performing loans is made as per the guidelines issued by the Royal Monetary Authority of Bhutan at the following rate.

Category	Provision on outstanding principal amount (Existing)		Provision on outstanding principal amount (revised effective 31.12.2012)	
	Days	%	Days	%
1)standard	Upto 30	1.5%	Upto 30	1%
2)Watch	31-90	1.5%	31-90	1.5%
3)Substandard	91-180	20% (30% for sector with highest exposure)	91-180	15% (30% for sector with highest exposure)
4)Doubtful	181-365	50% (60% for sector with highest exposure)	181-18 months	50% (60% for sector with highest exposure)
5)Loss	> 365	100%	> 18 months	100%

Provision has been made as per the revised norms.

Foreign exchange fluctuations:

- i) 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.
- ii) Monetary assets and liabilities (denominated in foreign currencies) are converted at rates prevailing at the year end.

7 Contingent Liabilities:

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

8 Net Profit or Loss

The result declared in the Profit and Loss account is after considering:-

- i) Provision on non-performing loans.
- ii) Provision for depreciation on companies property, and
- iii) Other usual/ necessary provisions as required.

SCHEDULE 18

NOTES ON ACCOUNTS FOR THE YEAR ENDED 31st DECEMBER 2013

1. Druk PNB Bank Ltd. was formed by Punjab National Bank, a Commercial Bank registered in India and Bhutanese promoters, wherein Punjab National Bank participated in equity share capital to the extent of 51% as per the Joint Venture agreement.
2. The financial statements for the year have been drawn out in accordance with the Industry practice as well as prescribed formats of Royal Monetary Authority of Bhutan and the Companies Act of the Kingdom of Bhutan 2000, as far as practicable.
3. The following Extraordinary Issue of shares was made with special permission from the Royal Monetary Authority of Bhutan and Royal Securities Exchange of Bhutan Ltd –
 - (i) 3,650 No. of Shares to the Employees at par (Nu. 100 each).
4. As per MOU with RMA, the Bank has paid Nu. 12,000,000.00/- as their share for setting up Banking Training Institute which has been considered as a long term investment by the management. The allotment of necessary share certificates is expected immediately after formation of Company under Companies Act of The Royal Kingdom of Bhutan, 2000.
5. Interest income on loans of Nu. 416,344,372.78 is net of suspended interest of Nu.6,933,836.07 which conforms to the Prudential Regulation, 2002, issued by the Royal Monetary Authority of Bhutan.
6. Contingent liabilities as at the Balance Sheet date are as follows:

a) Letter of Credit:	Nu. 96,911,682.66
b) Other guarantees:	<u>Nu. 737,868,669.56</u>
	<u>Nu. 834,780,352.22</u>
7. Provision for bonus payable to employees has neither been ascertained nor been provided for in these accounts.
8. The Bank has the policy of charging software expenses as revenue expenses.
9. (a) Gratuity of Nu. 897,930.00 have been provided in these accounts on the assumption that all the employees cease to be employed with effect from 01/01/2014. The accumulated provision (as on 31/12/2013) Nu.2,677,070.00 has been deposited into a separate account with other financial institution as per the provisions of the Income Tax Act of the kingdom of Bhutan 2001.
(b) The gratuity liability in respect of employees on deputation from the parent bank (PNB) has not been provided in view of the fact that the same shall be borne by the parent Bank.
10. Difference of Depreciation as per rates assessed by the Bank Management and the rates prescribed in the income tax act of Bhutan has caused overstatement of Profit by Nu.886,868/- for the year (P. Y. 716,303). The cumulative effect of such understatement of depreciation amount to Nu.2,703,614/-.

11. Software expenses include CST / Service tax levied by Infosys amounting Nu. 595,895/- related to F. Y. 2012 but provided in the year 2013.

12. A sum of Nu. 3,969,451.11 relating to other taxes (like PIT of IBOs, BST on purchases etc.) borne by the Bank during the current year has been accounted for from after tax profits.

A) Particulars of the transactions with the Directors and their relatives as per provisions of the Companies Act of the kingdom of Bhutan 2000:

Sl. No	Name	Nature of Transactions	Total outstanding as at 31/12/2013
1	Director/Associates		
	Dasho Sangay Wangchuk	Peronal/manufacturing/ Transport	5,647,921.15
	Relative of the Director		
2	Ashi Chimi Yangzom Wangchuk	Personal	2,919,503.45
3	Dasho Kuenley Wangchu	Service & Transport / Manufacturing	41,340,206.77
		Bank guarantee	12,800,000.00
4	Aum Sangay Om	Personal/Manufacturing/ Hotel/Housing	75,735,201.79
5	Kesang Wangchuk	Personal	8,271,978.98
6	Yangchen Wangchuk	Personal	5,792,791.00
		Total	152,507,603.14

13. B) Particulars of the transactions with other Related Parties

Sl. No	Name	Nature of Transactions	Amount Paid
1	Punjab National Bank Ltd., India	Outsourcing Services	6,000,136.00

14. The adjustment of Nu. 22,000.00 in Fixed Asset during the year is due to damage of the inbuilt ATM camera.

15. Management expenses include:

a. Managerial remuneration paid or payable to the Managing Director (Chief Executive Officer):

Particulars	2013 (Amt. in Nu.)	2012 (Amt. in Nu.)
Remuneration	3,688,725.45	2,607,189.29
Directors sitting fees	75,000.00	60,000.00

	<u>2013</u>	<u>2012</u>
a. Audit fees and expenses:	Nu. 225,000.00	Nu. 225,000.00

16. In the opinion of the management, there is no impairment of fixed assets of the company, which may require any adjustment.

17. Bank has released Dynamic Provision of Nu. 16,312,011.03/- during the year as permitted by the norms prescribed by the Royal Monetary Authority of Bhutan.

18. Previous year figures have been re-grouped / re-arranged wherever necessary.

OUR CORRESPONDENT BANKS

Country Name	Correspondent Bank	Swift BIC
Bahrain	Standard Chartered Bank, Manama, Bahrain (All Offices)	SCBLBHBM
Bangla Desh	International Finance Investment and Commerce Bank Limited, (IFIC Bank Limited), Dhaka	IFICBDDH
China	Bank of China , Beijing, China Standard Chartered Bank(China) , Shanghai, China	BKCHCNBJ SCBLCNSX
Finland	Nordea Bank Finland Plc, Helsinki, Finland	NDEAFIHH
Germany	Standard Chartered Bank , Frankfurt am Main Germany Branch	SCBLDEFX
Hong Kong	Punjab National Bank, Hong Kong Axis Bank Limited, Hong Kong Bank Of America, N.A. Hong Kong	PUNBHKHH AXISHKHH BOFAHKHX
India	Standard Chartered Bank (Hong Kong), Limited,Hong Kong Punjab National Bank, Mumbai (All branches worldwide) Andhra Bank, Mumbai, India Axis Bank Limited, Mumbai, India HDFC Bank Limited, Mumbai, India ICICI Bank Limited, Mumbai, India Bank Of Maharashtra, Mumbai, India Oriental Bank Of Commerce, Mumbai, India Standard Chartered Bank, Mumbai (India) State Bank of Bikaner and Jaipur, Mumbai, India	SCBLHKHH PUNBINBB ANDBINBB AXISINBB HDFCINBB ICICINBB MAHBINBB ORBCINBB SCBLINBB SBBJINBB SCBLIDJX
Indonesia	Standard Chartered Bank , Jakarta, Indonesia	UNCRITMM
Italy	Unicredit S.P.A, Milano , Italy	MHCBJPJT
Japan	Mizuho Bank Ltd, Tokyo, Japan Standard Chartered Bank, Tokyo, Japan	SCBLJPJT
Malaysia	Standard Chartered Bank, Malaysia Berhad, Kuala Lumpur, (All Offices In Malaysia)	SCBLMYKX
Nepal	Everest Bank Ltd, Kathmandu, Nepal Bank of Asia Nepal Ltd, Kathmandu, Nepal Nepal Industrial &Commercial Bank Ltd, Kathmandu, Nepal Nepal Bangladesh Bank Ltd, Kathmandu, Nepal Standard Chartered Bank Nepal Limited, Kathmandu, Nepal	EVBLNPKA BOALNPKA NICENPKA NPBBNPKA SCBLNPKA
Oman	Standard Chartered Bank ,Muscat, Oman	SCBLOMRX
Pakistan	Standard Chartered Bank (Pakistan)Limited, Karachi, Pakistan	SCBLPKXX
Qatar	Standard Chartered Bank, Doha, Qatar	SCBLQAQX
Singapore	Standard Chartered Bank, Singapore Axis Bank Limited, Singapore Bank Of America, N.A. Singapore Standard Chartered Bank(Singapore) Ltd., Singapore	SCBLSGSG AXISSGSG BOFASG2X SCBLSG22
South Korea	Standard Chartered Bank, Seoul, South Korea	SCBLKRSE
Sri Lanka	Axis Bank Ltd, Colombo, Sri Lanka Standard Chartered Bank, Colombo, Sri Lanka	AXISLKLX SCBLLKLX
Taiwan	Standard Chartered Bank, Taipei, Taiwan	SCBLTWPT
Thailand	Standard Chartered Bank(Thai)Public Company Limited, Bangkok, Thailand	SCBLTHBX
UAE	Punjab National Bank, Dubai, UAE Axis Bank Limited, DIFC Branch, Dubai,UAE Habib Bank Ag zurich, Dubai City, UAE Standard Chartered Bank, Dubai, UAE	PUNBAEAD AXISAEAD HBZUAEAD SCBLAEAD
UK	Punjab National Bank(International) Ltd. London, UK Standard Chartered Bank(All U.K. Offices), London, UK	PUNBGB22 SCBLGB2L
USA	Standard Chartered Bank, New York, USA	SCBLUS33



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