



4th Annual Report
2012



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Directors' REPORT

VISION

To become the insurer of choice by providing quality service that exceed customer expectations and by constantly finding ways for improvement.

MISSION

Our mission begins and ends with our clients for whom we exist to serve to the best of our ability. With dedicated service to our clients we aspire to contribute to the social and economic objectives of the nation, providing security to its growing assets through reliable insurance services and increasing retention of finance within the country.



BOARD OF DIRECTORS

Left to right:-

Mr. Karma Dorjee (Director), Dasho Ugen Tsechup Dorji (Director), Mr Ugyen Rinzin (Chairman), Mr. Tshering Gyaltsen (CEO/Member Secretary), Mr. Karma Lotey (Director)

Dear Shareholders,

A very warm welcome to the 4th AGM of Bhutan Insurance Ltd.

The year 2012 was the third full operational year of our company. This short journey has enriched us with substantial experience and exposure in the field of non-life insurance segments.

The company has gained maturity to withstand the series of challenges which posed problems in smooth functioning of various segments in the year 2012. The pace of general economic activities in the country lost its momentum early in the year and consequently, overall growth has slowed significantly.

However, appropriate use of available resources with the strong patronage from the SHAREHOLDERS, REGULATORS and GENERAL PUBLIC has brought forth excellent achievement for the company in terms of volume of business and profitability despite all the adversities.

1. Functional Achievement of Insurance department & FID are highlighted below:

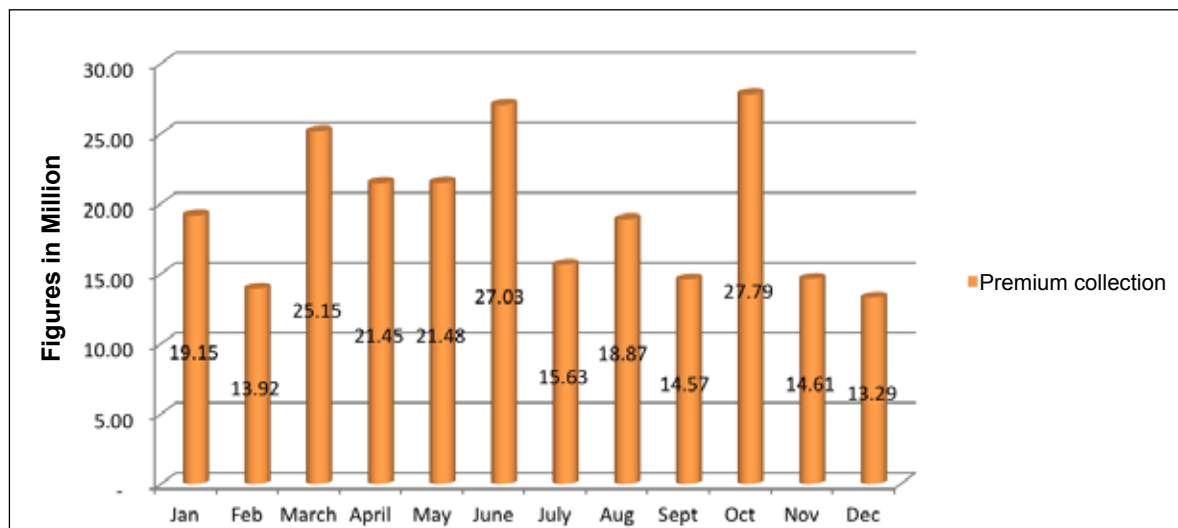
A. Insurance Department

Statement showing Insurance Premium & Claims Incurred

| Segments | Premium Collection | | | Claims Incurred | | |
|---------------|--------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| | Gross Premium | Re-insurance | Net Premium | Gross Claim | Re-insurance | Net Claim |
| Fire | 61,316,597 | 45,724,314 | 15,592,283 | 13,344,207 | 13,187,342 | 156,865 |
| Marine | 4,148,474 | 2,431,921 | 1,716,553 | 1,698,669 | 346,045 | 1,352,624 |
| Miscellaneous | 194,922,640 | 68,671,949 | 126,250,691 | 135,448,477 | 33,305,729 | 102,142,748 |
| TOTAL | 260,387,711 | 116,828,184 | 143,559,528 | 150,491,353 | 46,839,116 | 103,652,238 |

Net premium after deducting the reinsurance premium is Nu.143.560 million; correspondingly, the gross claim amount is Nu.150.491 million and net claim comes to Nu 103.652 million. The overall net claim ratio is 72.2%.

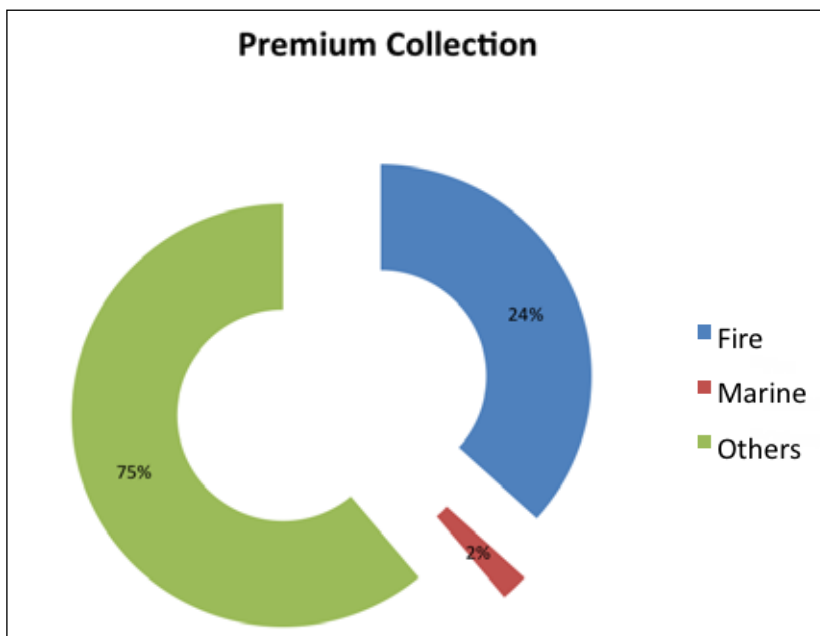
The premium collection till 31st December is depicted in the diagram given below:



Business Performance

In the year 2012, our company has written a gross premium of Nu.260.39 million, in which Fire Insurance constitutes 23.55%, while the miscellaneous category, where major portfolio is Motor Insurance accounted for 74.86% of the total, and the Marine portfolio comprising a total of 1.59% of the overall premium collection.

The company has earned a pre-tax profit of Nu.59.65 million for the year and profit available for appropriation is Nu.40.17 million.



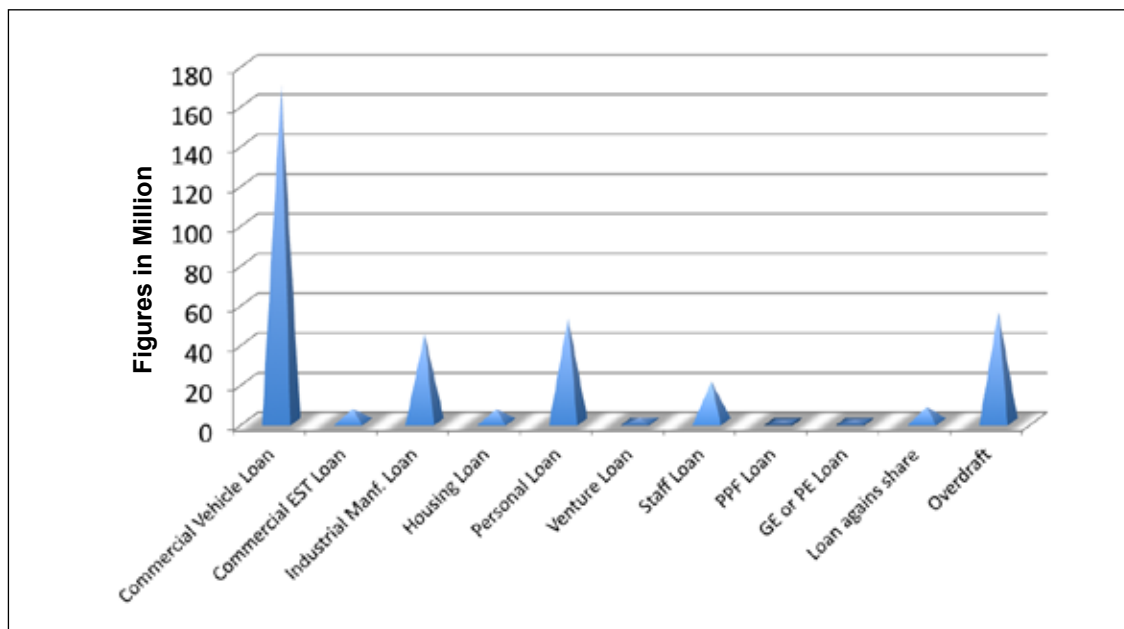
B. Financing & Investment Department

Statement Showing position of Investment Portfolios

| Types of Loans | Amount Outstanding |
|----------------------------------|--------------------|
| 1. Commercial Vehicle Loan | 168,643,449 |
| 2. Commercial Establishment Loan | 6,580,708 |
| 3. Industrial Manufacturing Loan | 44,154,057 |
| 4. Housing Loan | 6,415,691 |
| 5. Personal Loan | 52,424,341 |
| 6. Venture Loan | 1,892,260 |
| 7. Staff Loan | 20,221,463 |
| 8. PPF Loan | 524,525 |
| 9. GE/PE Loan | 1,019,470 |
| 10. Loan against Shares | 7,596,739 |
| 11. Overdraft Loan | 55,461,752 |
| Total:- | 364,956,628 |

With the commencement of our Financing and Investment Department (FID) in 2010, our loan portfolio has been growing to the tune of Nu. 364.96 million with 522 loan clients as on 31st December 2012. Currently, the source of fund for the FID is primarily from the Insurance and PPF.

The net operating income earned by FID is Nu. 12.10 million and the growth percentage compared to 2011 is 23.9%.



The company has earned Nu. 59.645 million as profit (before tax) during third full year of operation. Specific analysis of profit is given hereunder:

| Particulars | Nu. | Nu. |
|--------------------------------------|---------------------------|--------------------------|
| Gross Income: | | |
| Insurance- | 260,387,711 | |
| Investment(Interest & others) | <u>54,661,633</u> | |
| | <u>315,049,344</u> | |
| Operating Profit: | | |
| Insurance – | 47,547,309 | |
| Investment – | <u>12,097,765</u> | |
| Net Profit Before Tax: | <u>59,645,073</u> | |
| Profit Available for Appropriations: | | <u>40,167,053</u> |
| Proposed Dividend (9.5%): | | 19,000,000 |
| Transfer to Nat/Cat Reserve: | | 1,083,526 |
| Transfer to General Reserve: | | 20,083,527 |
| Earnings per Share | | 20.08 |

2. Financial & Operational Review:

A. Financial Results

SUMMARISED FINANCIAL RESULTS AS ON 31ST DECEMBER, 2012

| Figures in Million (Nu.) | | | | | |
|--|----|---------|--------|----------|----------|
| Particulars | | Fire | Marine | Misc | Total |
| Gross Direct Premium Income | CY | 61.32 | 4.15 | 194.92 | 260.39 |
| | PY | 54.56 | 3.96 | 171.87 | 230.38 |
| (% Growth) | CY | 12.39% | 4.80% | 13.41% | 13.03% |
| Net Premium | CY | 15.59 | 1.72 | 126.25 | 143.56 |
| | PY | 10.04 | 1.23 | 151.09 | 162.36 |
| (% Growth) | CY | 55.28% | 39.84% | (16.44)% | (11.58)% |
| (% to Gross Premium) | CY | 25.42% | 41.45% | 64.77% | 55.13% |
| | PY | 18.40% | 31.06% | 87.91% | 70.47% |
| Addition/Reduction in Un-expired Risk Reserve | CY | 3.05 | 0.27 | (13.66) | (10.34) |
| | PY | 0.86 | 0.21 | 38.21 | 39.29 |
| (% to Net Premium) | CY | 19.56% | 15.70% | (10.82)% | (7.20)% |
| Earned Premium* | CY | 12.54 | 1.45 | 139.91 | 153.90 |
| | PY | 9.18 | 1.01 | 112.88 | 123.07 |
| Incurred Claims Net | CY | 0.16 | 1.35 | 102.14 | 103.65 |
| | PY | (2.78) | (1.09) | 88.23 | 84.37 |
| (% to Earned Premium) | CY | 1.28% | 93.10% | 73.00% | 67.35% |
| Commission Net | CY | 12.79 | 0.72 | 3.46 | 16.97 |
| | PY | 10.70 | 0.55 | (1.91) | 9.33 |
| Expenses of Management | CY | 8.23 | 0.56 | 26.17 | 34.96 |
| | PY | 7.98 | 0.57 | 19.95 | 28.50 |
| (% to Earned Premium) | CY | 65.63% | 38.62% | 18.70% | 22.72% |
| Other Income (-)/ Outgo (+) for Insurance | CY | - | - | - | 2.77 |
| | PY | - | - | - | 3.05 |
| Underwriting Results | CY | 16.95 | 0.26 | 17.06 | 34.26 |
| | PY | 14.65 | 2.07 | 7.50 | 24.23 |
| (% to Earned Premium) | CY | 135.17% | 17.93% | 12.19% | 22.26% |
| Total Investment Income (Gross) | CY | - | - | - | 40.56 |
| | PY | - | - | - | 25.50 |
| Provision for Doubtful Debts | CY | - | - | - | 5.81 |
| | PY | - | - | - | 4.56 |

| | | | | | |
|-----------------------------|----|---|---|---|-------|
| Other Income for Investment | CY | - | - | - | 14.10 |
| | PY | - | - | - | 11.96 |

CONSOLIDATED PROFITABILITY :

| | | | | | |
|---|----|---|---|---|-------|
| Profit Before Tax | CY | - | - | - | 59.65 |
| | PY | - | - | - | 42.57 |
| Provision for Tax | CY | - | - | - | 17.89 |
| | PY | - | - | - | 12.77 |
| Profit After Tax | CY | - | - | - | 41.75 |
| | PY | - | - | - | 29.80 |
| Proposed Dividend | CY | - | - | - | 19.00 |
| | PY | - | - | - | 15.00 |
| Transfer to General Reserve/Contingency Reserve | CY | - | - | - | 21.17 |
| | PY | - | - | - | 14.8 |

*Net Premium less Unexpired Reserve

CY : Current Year

PY: Previous Year

CAPITAL & FUNDS

| | <u>2012</u> | <u>2011</u> |
|--|---------------|---------------|
| <u>Shareholders' Fund :</u> | | |
| Paid-up Share Capital | 200.00 | 100.00 |
| General Reserve | 45.08 | 23.91 |
| TOTAL | 245.08 | 123.91 |
| <u>Policyholders' Fund :</u> | | |
| Reserve for Unexpired Risks | 78.96 | 89.30 |
| Add: Estimated liability for outstanding Claims at the end of the year. | 37.74 | 37.17 |
| TOTAL | 116.7 | 126.47 |
| TOTAL FUND : SHAREHOLDERS' PLUS POLICYHOLDERS' | 361.78 | 250.38 |

- The accretion in total funds in 2012 has been Nu.111.4 Million.
- The total assets of the Company amounted to Nu. 519.15 million as against Nu.439.84 million in the year 2011.

B. Significant Operational Highlights

| | 2012 | 2011 |
|---|------|------|
| 1 No. of Policies | | |
| a.Motor | 9230 | 8955 |
| b.Fire | 1879 | 1698 |
| c.Marine | 211 | 248 |
| d.Misc. | 133 | 208 |
| e.Aviation | 1 | 0 |
| 2 No. of Claims | | |
| a.Motor | 1362 | 770 |
| b.Fire | 138 | 129 |
| c.Marine | 21 | 13 |
| d.Misc. | 99 | 46 |
| 3 Average days for settlement | 2:3 | 2:3 |
| 4 No. of claims outstanding | | |
| a.Motor | 264 | 232 |
| b.Fire | 4 | 60 |
| c.Marine | 4 | 2 |
| d.Misc. | 11 | 11 |
| 5 No. of Loan Accounts | 502 | 408 |
| 6 No. of Provident Fund Accounts | 904 | 643 |

1. Branch/Extension Offices

Bhutan Insurance Limited has now ten offices in ten Dzongkhags. In addition to the existing eight offices, new extension office was opened in Tashigang and Tsirang in 2012 to enhance our service delivery. In the near future, to facilitate our clients with better service and also with the expansion of the business, we may open few offices in different Dzongkhags.

2. Human Resources

The company in its three and half years of operation has grown significantly and in order to meet the business demand, more staff was recruited in 2012.

Since, Human resources plays an important role in growth of the business, the board and the management of BIL emphasized in enriching the efficiency and knowledge of the employees through training, seminars and workshops. A good number of employees were trained in their specific field through ADB fund in the last

two years and the same trend was followed even after the ADB fund was exhausted depending upon the availability of fund.

ACKNOWLEDGEMENTS

On behalf of the distinguished board members of BIL and on my own behalf, I would like to place on record the appreciation and express our sincere gratitude to all our valued shareholders, the Royal Government and its various Ministries and Departments, and also to the notable individuals in organizations such as the RMA and RSEBL for their continuous assistance, co-operation and guidance extended to the Company.

To our reinsurance partners and surveyors in India, we would like to thank them for the profound technical support and friendship that they provide. We look forward to their continued support in the future.

With my very best wishes,

A handwritten signature in blue ink, appearing to read 'Ugyen Rinzin', with a long horizontal flourish extending to the right.

(Ugyen Rinzin)

Chairman

What's precious to us can also be our source of despair!



WE REACH WHERE WE ARE NEEDED!

Our Motor Insurance is your safest bet!

Company Profile

BIL provides various non-life insurance products for individuals, corporate bodies, and small & medium size enterprise throughout Bhutan. The Company started operations on 20th August 2009, and today has a countrywide network connected through the latest technology for quick communication and response in over ten dzongkhags.

We have expanded our service network progressively with our Head Office in Thimphu, Branch Offices in Phuentsholing, Paro, Wangduephodrang, Gelephu, & Samdrupjongkhar, and Extension Offices in Trashigang, Tsirang, Bumthang, Mongar, Trongsa and Gelephu, and all these were only made possible through the continued support of our clients and employees throughout the years. The Company today employs more than 80 people.

BIL was incorporated in 2009 under the Companies Act of the Kingdom of Bhutan – 2000, and is licensed to engage in the business of General Insurance by the Royal Monetary Authority of Bhutan in pursuant to part II of the Financial Institutions Act of Bhutan – 1992, and is also listed with the Royal Securities Exchange of Bhutan Limited (RSEBL) since 2009.

BIL enjoys the patronage of both large corporate clients and individual clients to whom, we provide the same quality service that they can trust on delivery of quality and value services.

BIL is also authorized by the RMA to provide Financing & Investment services and manage Private Provident Fund (PPF).

BIL Milestones

- 24.12.2008: Got in-principle approval from the RMA to establish the company
- 24.07.2009: Got incorporated under the Companies Act of the Kingdom of Bhutan 2000
- 14.08.2009: RMA granted license to engage in business of General Insurance
- 20.08.2009: Started business operations in Thimphu
- 20.08.2009: Initial Public Offer (IPO) of 60% of the companies share.
- 19.04.2010: RMA granted approval to operate Financing and Investment Department
- 24.05.2010: Introduction of Private Provident Fund Scheme

Branch Establishments:

- 01.10. 2009: Extension office at Bumthang
- 18. 10.2009: Branch Office at Phuntsholing
- 01.11.2009: Branch Office at Wangduephodrang
- 05.11.2009: Branch Office at Paro
- 06.01.2010: Branch Office at Gelephu
- 10.06. 2010: Branch Office at Samdrup Jongkhar
- 12.07. 2010: Extension office at Mongar
- 09.04. 2012: Extension Office at Tsirang
- 03.05. 2012: Extension office at Tashigang
- 01.01.2013: Extension office at Trongsa
- 15.05.2013: Extension office at Olakha & Taba

Re-Insurance

In order to enhance our underwriting capacity and have global spread of local risk, our office have strong reinsurance backup from well established companies like:

- ▶ National Insurance Company, India
- ▶ Oriental Insurance Company, India
- ▶ Asian Re- Thailand
- ▶ PTA Re
- ▶ Kenya Re

Services offered

(A) BIL offers all type of Non-Life Insurance services such as:

- ▶ Personal Insurance
 - I. Personal Accident Insurance
 - II. Auto Insurance Policy
 - III. Money Insurance Policy
 - IV. Fire Insurance
- ▶ Commercial Insurance
 - I. Marine Cargo Policy
 - II. Fidelity Guarantee policy
 - III. Aviation Policy
- ▶ Industrial Insurance
 - I. Fire Policy
 - II. Burglary Policy
 - III. Machinery Breakdown Policy
 - IV. Contractors Plant and Machinery Policy
 - V. Construction Project Insurance
 - VI. Fire Loss of Profit Policy
- ▶ Liability Insurance
 - I. Motor Vehicle Third Party
 - II. Workmen Compensation Policy
- ▶ Loan Protection Insurance (LPI)
- ▶ Enhanced Rural Fire Policy

(B) In addition to Non-Life Insurance services, we also offer the following services:

- ▶ Vehicle loans
- ▶ Venture loans
- ▶ Housing loan
- ▶ Secured Overdraft
- ▶ Industrial loan
- ▶ Personal loan
- ▶ Loan against Private Provident Fund

(C) And other services provided includes issuing of Bank Guarantees and management of Private Provident Fund (PPF)

Company Information

BOARD OF DIRECTORS

- I. **Mr. Ugyen Rinzin (Chairman)**
Yangphel Private Limited, Thimphu
Phone No: 02-232393
Email: ugyen@zhiwaling.com
urinzin@bhutaninsurance.com.bt
- II. **Dasho Ugen Tsechup Dorji (Director)**
Singye Group of Co.Pvt.Ltd., Thimphu
Phone No: 02-322183
Email: ugentsechup@gmail.com
Fax No#02-324152
- III. **Mr. Karma Dorjee (Director)**
Karma Group of Companies Private Limited
P.O. Box 177, Thimphu
Phone No: 02-324163/05254725
Email: karma@druknet.bt
Fax No: 02-322229/05252391
- IV. **Mr. Karma Lotey (Director)**
Yangphel Private Limited
P.O. Box 236, Thimphu
Phone No: 02-323293/323294
Email: md@-yangphel.com
Fax No: 02-322897
- V. **Mr. Tshering Gyaltshen**
(CEO/Member Secretary)
Bhutan Insurance Limited
P.O. Box 779, Thimphu
Phone No: 02-339893/339894
Fax: 02-339895
Email: tgyaltshen@bhutaninsurance.com.bt

AUDITORS

Nag & Associates

Chowringhee Approach, 1st floor
Kolkata – 700 072
Phone No.0091-033-2212-5217
Fax No.0091-033-2212-7008
Email:nagandassociates@gmail.com

AUDIT COMMITTEE MEMBERS

- I. **Mr. Karma Lotey (Director)**
Yangphel Enterprise
P.O. Box 236, Thimphu
Phone No: 323293/323294
Email: md@yangphel.com
Fax No: 322897
- II. **Mr. Kinley Rabgay**
Internal Auditor & Asset Declaration
Administrator
Bhutan Insurance Limited
P.O.Box 779, Thimphu
Phone No.02-339893/339894/17635946
Email: keanleyrabgay@hotmail.com
Fax No.02-339895

Distribution Channel

- Door to Door Service
- Bancassurance
- Referrals
- Direct underwriting
- Social Media (Facebook and website)

PRINCIPAL BANKERS

1. Bhutan National Bank Limited
2. Druk PNB Bank Limited

Capital Structure

- Issued and paid up capital –Nu. 200 million

Shareholding

It is very hearting to mention that multifarious segments of Bhutanese economy have come forward to participate in the Bhutan Insurance limited’s initial Public offer (IPO) of Shares. The company has shareholders from all the Dzongkhags except Gasa.

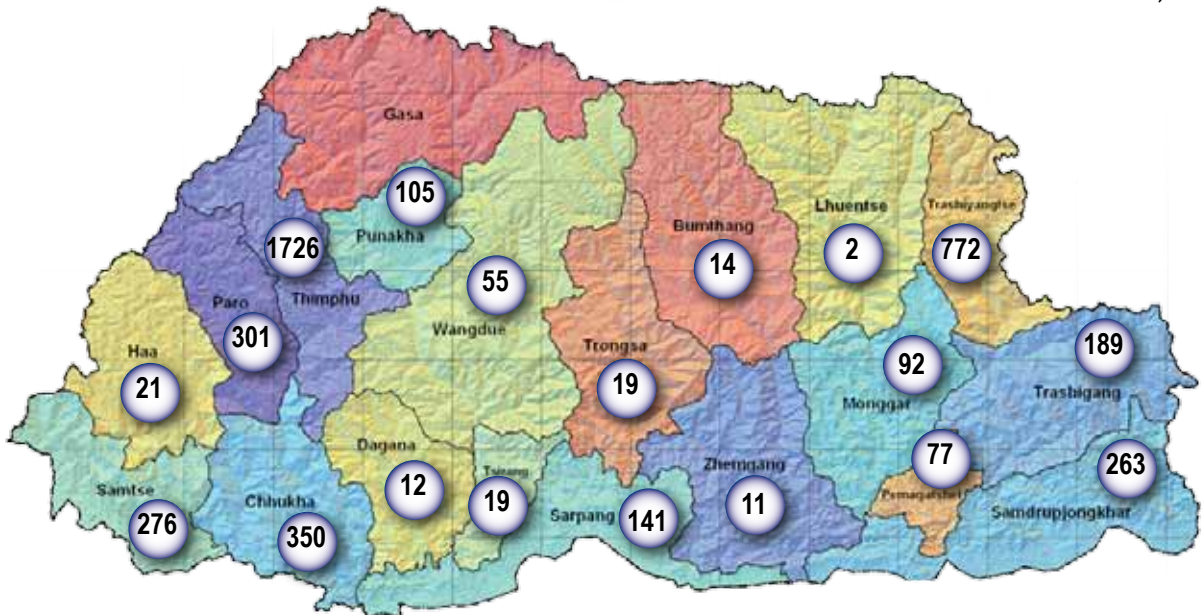
- Total numbers of shareholders - 4,445
- Promoters holding - 32 %
- Public holding: - 68 %
 - Individual - 63 %
 - NGOs and FIs - 5 %

Promoters

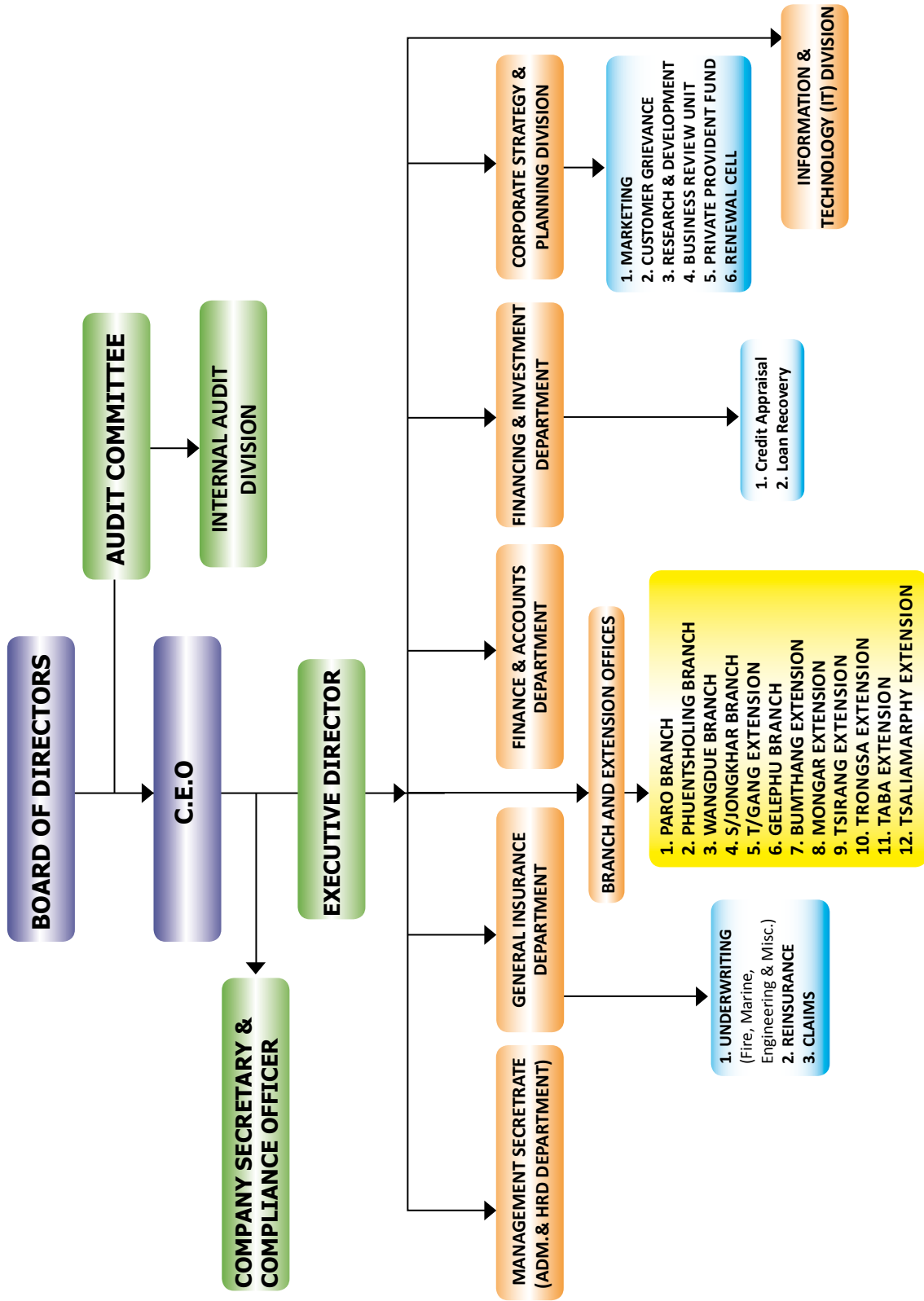
- Mr.Ugyen Rinzin - 16 % (Nu. 16 million)
- Mr.Tshering Gyaltshen - 16 % (Nu. 16 million)

DZONGKHAG WISE SHARE HOLDING

Total No. of Shareholders 4,445



ORGANOGRAM



 **འབྲུག་ཉེན་བཅོལ་ཚོང་འཁུར་གཞི**
Bhutan Insurance Limited
Providing Security, Building Confidence
Post Box# 779, Chorten lam, Thimphu.
Toll free # 201 www.bhutaninsurance.com.bt PABX 339892/93/94 Fax# 339895

Your insurer of
CHOICE

Loan protection insurance is designed to ease your loan repayments at the time of crisis such as:

- **Unemployment**
- **Death**
- **Disability**



What's Covered?

- a) Loans against post retirement benefits

This policy is available to all Financial Institutes & Individuals at a very affordable cost

APPLY NOW

“INSURANCE ON WHEELS”

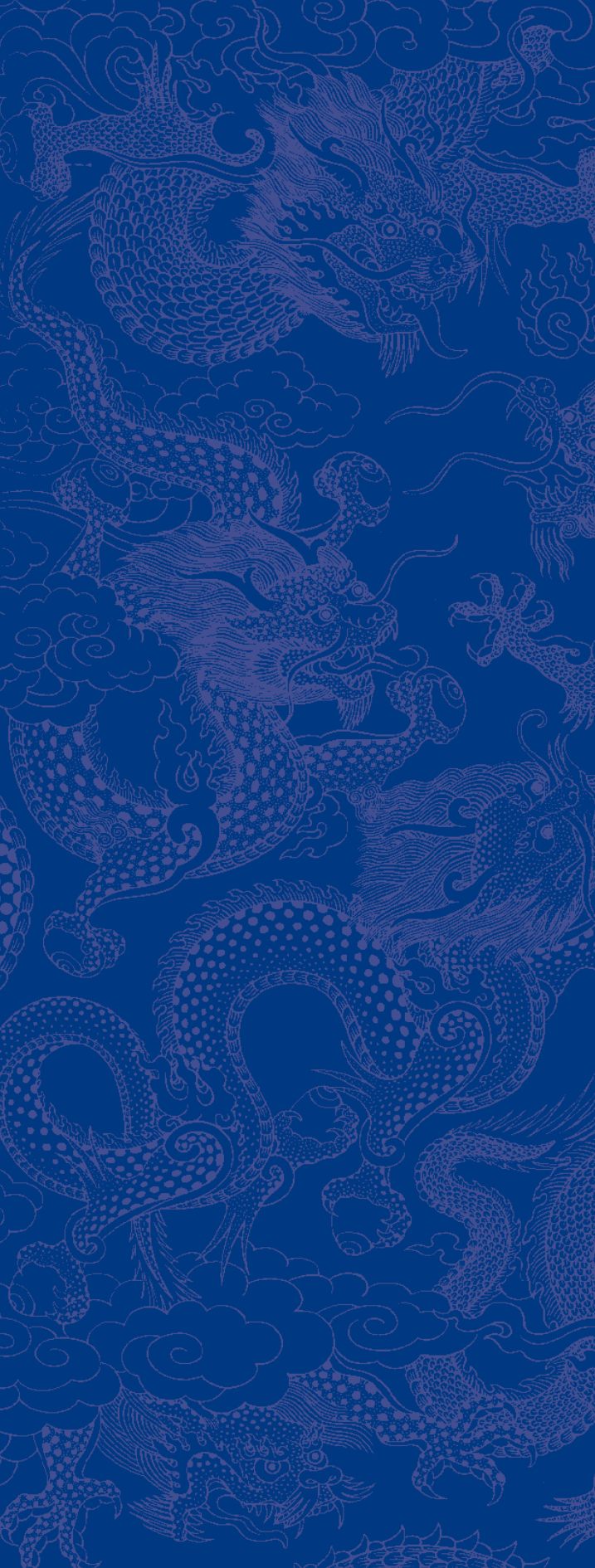
to meet your insurance needs

The
FIRST of its kind
SERVICE in Bhutan by **BIL**



This initiative is our **EARNEST EFFORT** to take our **SERVICE** to the
unreached and serve our **CLIENTS**





Auditors'
Report
&
Financial
Statement

Nag & Associates
Chartered Accountants

Office: 2, Chowringhee Approach
Kolkata: 700072
Phone: 0091-33-22125217
E.Mail:nagandassociates@gmail.com

Auditors' Report to the Members,

Bhutan Insurance Limited

1. We have audited the attached Balance Sheet of Bhutan Insurance Limited as at 31st December, 2012 and the related Profit & Loss Account and 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 Company'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. Those 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.
3. In our opinion and to the best of our information and according to the explanations give to us, the aforesaid financial statements read with the Statement on Significant Accounting Policies and Notes to the Accounts, give the information required by the Companies Act, 2000 of the Kingdom of Bhutan, (the Act) in the manner so required and give true and fair view:
 - a) in the case of the Balance Sheet, of the state of the affairs of the Company as at December 31, 2012;
 - 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 the Cash during the period ended as on that date.
- 3.1. 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.



- 3.2. In our opinion, proper books of account, as required by law, have been maintained by the Company so far as appears from our examination of those books.
- 3.3. The financial statements dealt with by this report are in agreement with the books of account.
- 3.4. In our opinion, the aforesaid financial statements comply in all material aspects with the applicable Accounting Standards.
- 3.5. Subject to our observations indicated in paragraph 4 below, in our opinion and to the best of our information and according to the explanations given to us and on the basis of such checks, on test basis, as we considered necessary and appropriate to carry out in accordance with generally accepted auditing practices, we state that-
- i. The funds and properties of the company have generally been used economically, efficiently, effectively and in the best interest of the Company; and
 - ii. We have been confirmed by the management that
 - No excessive/ extravagant expenditure incurred,
 - No irregular expenditure was permitted,
 - No embezzlement of fund occurred,
 - No misuse of funds, inventories and properties of the Company were permitted during the year.
4. As required by the Minimum Audit Examination and Reporting Requirements under II paragraph of Schedule XIV under section 75 of The Companies Act of the Kingdom Of Bhutan 2000, read with Part II of Schedule XIV, and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that:
- 4.1. The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets but codification of fixed asset should be initiated by the management in order to maintain a proper internal control. . No physical verification of fixed assets was conducted during the year.
 - 4.2. None of the fixed assets have been revalued during the year.
 - 4.3. The company has not taken any loan from Companies under the same management terms of which are prejudicial to the interest of the Company.



- 4.4. 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.
- 4.5. The Company has not given any Loans other than Staff Advance in normal course of business, recovery whereof are made per stipulation.
- 4.6. No excessive/frequent advances are generally granted and accumulation of large advances against particular individual is generally avoided.
- 4.7. In our opinion and according to the information and explanations given to us during the course of the audit, the Company has established an adequate system of internal control to ensure completeness, accuracy and reliability of accounting records, to carry out the business in an orderly and efficient manner especially in case of branches, to safeguard the assets of the Company as well as to ensure adherence to the applicable rules/regulations and systems and procedures.
- 4.8(a) As explained to us transactions in pursuance of contracts or arrangement entered into with company or Firm in which director(s) are directly or indirectly interested have been made as per similar terms & conditions applied for transactions with other parties.
- 4.8(b) The terms & conditions attached to the transactions with the related parties as disclosed in note No.29 are not prejudicial to the interest of the other shareholders & the company.
- 4.9. According to the records, the Company in general is regular in depositing its provident fund, salary tax and health tax, Bhutan sales Tax and other statutory dues with the appropriate authorities.
- 4.10. No undisputed amounts payable in respect of rates, taxes, duties, provident funds and other statutory dues were outstanding at the year end.
- 4.11. During the course of our examination of books of account carried out in accordance with the generally accepted auditing practices, we have not come across any personal expenses (other than those payable under contractual obligation/service rules) which have been charged to the Profit and Loss Account nor we have been informed about such cases by the Management.
- 4.12. The company is having authorized policy distribution / commission agents, and as informed by the management they are screened to fit the specific criteria before being recruited.
- 4.13. In our opinion, and on the basis of information and explanations given to us, the management of liquid resources, particularly cash/bank and short terms deposit etc are reasonably adequate and excessive amounts are not lying idle in non interest-bearing accounts.
- 4.14. According to the information and explanations given to us, and on the basis of examination of books



and records on test check basis, we are of the opinion that the financial activities carried out by the Company during the year are prima facie lawful and intra-vires to the Articles of Incorporation of the Company.

- 4.15. Capital investment decisions are made with prior approval of the Board and investments in new projects are made only after ascertaining the techno-economic feasibility of such new ventures.
- 4.16. The Company has established effective budgetary control system.
- 4.17. The details of remuneration paid and payable to the Chief Executive Officer and honorarium and sitting fees paid to other directors are disclosed in Note No. 24. As there is no separate register being maintained for recording disclosure of interest of Director, our checking is restricted to Board minutes and Management representations while checking the said document(s), we have not come across any cases of disclosure of interest where payments have been made in cash or in kind to any of the director's relatives (including spouse(s) and child/children) by the Company directly or indirectly.
- 4.18. According to the information and explanations given to us, the directives of the Board have generally been complied with.
- 4.19. We are given to understand by the management that the officials of the Company are refrained from transmitting any price sensitive information which are not publicly available and unauthorized, to their relatives/friends/associates or close persons which will directly or indirectly benefit themselves.
- 4.20. The company is in the process of maintaining adequate documents and records where it has granted loans and advances for which agreement have been drawn up and timely entries have been made therein.
- 4.21. The company has generally adhered to the requirements of Financial Services Act, 2011 and other applicable laws, rules, regulations and guidelines issued by the appropriate authorities , except for the following:-
- a) Section 63(a) of the Financial Services Act of Bhutan, 2011 requires submission of corporate Governance policy to Royal Monetary Authority. Presently BIL does not maintain well laid policy on Corporate Governance.
 - b) Section 92(b) of the Financial Service Act of Bhutan, 2011 provides for maintenance of adequate & appropriate Disaster Recovery & Business continuity plan indicating the procedures to ensure the resumption of its record & provide for the continuance of its operation in emergency circumstances.



- 4.22. The requirements relating to provisioning for the non performing assets including loan and advances had been complied with.
- 4.23. Recognition of interest income in respect of non-performing asset has been complied with.
- 4.24. Except for few cases assets hypothecated against loan and advances have been physically verified, properly valued and mortgage deed executed and ensured that the assets are free of any prior lien or charges.
- 4.25. The company 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.
- 4.26. Additional loan are not granted to those who have defaulted payment of previous advances.

4.27. **Non-Compliance of Laws**

The company has complied with the requirements of companies act of Kingdom of Bhutan 2000 subject to following violation-

The company has not introduced register of charges and register of contracts in which directors are interested with as required U/S 97 of companies act of Kingdom of Bhutan 2000.

4.28 **COMPUTERISED ACCOUNTING ENVIRONMENT**

- a. The company is in the process of developing a customized software system by software developer for maintenance of accounts.
- b. The company needs to provide further adequate safeguard measures and backup facilities.
- c. As per the information and explanations given to us, the Company needs to improve its backup facilities and disaster recovery measures.
- d. The operational controls are found adequate to ensure correctness and validity of input data and out put information.
- e. As explained to us, the measures taken by the company to prevent unauthorized access over the computer installation and files are being upgraded to be considered adequate.



4.29. **GENERAL****A. GOING CONCERN CONCEPT:**

The company's present operational and financial data indicate that the company is healthy and the accounts are prepared on the assumption that the company is a going concern.

The company, in our opinion is in a position to carry on its business and is not likely to become a sick in the foreseeable near future.

B. RATIO ANALYSIS:

Significant ratios indicating the financial health and profitability of the company is as follows:-

| Sl. No. | PERFORMANCE RATIO | RATIO/PERCENTAGE FORMULA | 2012 | 2011 |
|---------|---|--|-------------|-------------|
| 1 | CAPITAL ADEQUACY | Tier1+ Tier2 Capital/ Total risk weighted assets | 43.89% | 32.52% |
| 2 | CORE CAPITAL | Tier1 Capital/ Total risk weighted assets | 36.08% | 24.44% |
| 3 | STATUTORY LIQUIDITY RATIO | Quick Assets/ total liabilities excluding capital fund and RMA liabilities | 28.52% | 21.71% |
| 4 | ANNULIZED GROSS PREMIUM TO SHAREHOLDERS' FUND | Gross premium/average capital employed | 1.444 | 2.028 |
| 5 | NET RETENTION | Net Premium/Gross Premium | 0.551 | 0.705 |
| 6 | COMMISSION TO NET PREMIUM | Commission net of Re-insurance/Net Premium | 3.32% | 4.17% |
| 7 | MANAGEMENT EXPENSE TO GROSS PREMIUM | Management Expense/Gross Premium | 13.42% | 12.37% |
| 8 | COMBINED RATIO | (Gross Claim + Operating Expenses) *100/ Gross Premium | 71.22% | 71.55% |
| 9 | TECHNICAL RESERVE* TO NET PREMIUM | Technical Reserve/Net Premium | 0.849 | 0.801 |
| 10 | OPERATING PROFIT | (Underwriting profit + Investment Income)/Net Premium | 41.55% | 26.22% |
| 11 | NET EARNING RATIO | PAT/Net Premium*100 | 27.98% | 18.35% |
| 12 | ANNUALIZED RETURN ON NET WORTH | PAT/Net worth | 16.71% | 24.78% |
| 13 | BOOK VALUE PER SHARE | (Share Capital + Free Reserve)/ No. of Shares | 120.17 | 120.25 |
| 14 | EARNING PER SHARE | PAT/No. of Shares | 20.08 | 29.80 |
| 15 | NET WORTH OF THE COMPANY | Paid-up Capital + Free Reserve | 240,337,483 | 120,253,956 |
| 16 | RETURN ON CORE CAPITAL | PAT/Share Capital | 20.08% | 29.80% |
| 17 | NET WORTH TO TOTAL LIABILITIES | Net Worth/Total Liabilities | 46.29% | 27.34% |
| 18 | NPL RATIO | Total NPL Principal balance/Total Loan Principal balance | 4.03% | 1.68% |
| 19 | SOLVENCY RATIO | (PAT + Depreciation)/Total Liabilities | 7.93% | 6.99% |
| 20 | UNDERWRITING BALANCE RATIO | Underwriting profit/Net Premium | | |
| | | FIRE | 11.80% | 9.03% |
| | | MARINE | 0.18% | 1.28% |
| | | OTHERS | 11.88% | 4.62% |



4.30. **ADHERENCE TO LAWS, RULES AND REGULATIONS:**

Audit of the Company is governed by the Companies Act of Kingdom of Bhutan, 2000 and the scope of the audit is limited to examination and review of the financial statements as produced to us by the management.

In the course of audit, we have considered the compliance of provisions of the said Companies Act and its Articles of Incorporation and we are unable to state that the company has been complying with other applicable laws (other than Companies Act of Kingdom of Bhutan, 2000 and Financial Institutions Act of Bhutan.1992) rules and regulations, system procedures and practices.



**for Nag & Associates
Chartered Accountants**

(Indranath Nag)
Partner

Place: Thimphu, Bhutan

Dated:

M.No.050531

FRN: 312063E

BHUTAN INSURANCE LIMITED
THIMPHU : BHUTAN
Consolidated Statement of Financial Position as of 31st December 2012

| Particulars | Schedule | 2012 Nu. | 2011 Nu. |
|---|----------|-------------|-------------|
| LIABILITIES | | | |
| Share Capital: | | | |
| Authorised Capital | | 500,000,000 | 500,000,000 |
| Issued, Subscribed and Paid-up Capital | 5 | 200,000,000 | 100,000,000 |
| Reserve & Surplus | 6 | 45,079,789 | 23,912,736 |
| Current Liabilities | | | |
| Borrowings & Funds | 7 | 71,266,619 | 146,604,013 |
| Other Current Liabilities | 8 | 75,972,652 | 47,090,825 |
| Provisions | 9 | 126,830,167 | 122,234,813 |
| | | 519,149,227 | 439,842,385 |
| ASSETS | | | |
| Loans & Overdraft | 10 | 364,956,628 | 303,566,929 |
| Property, Plant & Equipment (Net Block) | 19 | 6,406,052 | 5,079,819 |
| Current Assets | | | |
| Cash & Cash Equivalents | 11 | 72,694,793 | 64,803,857 |
| Advance & Other Assets | 12 | 75,091,754 | 66,391,780 |
| Preliminary Expenses net of written off | 13 | - | - |
| | | 519,149,227 | 439,842,385 |

Note:-

| | | |
|--|------------|-------------|
| Contingent Liabilities (Off balance sheet) | 87,298,642 | 154,683,302 |
|--|------------|-------------|

SIGNIFICANT ACCOUNTING POLICIES 20

NOTES TO ACCOUNTS 21

For Nag & Associates

Chartered Accountants

FRN 312063E

IN NAG

Partner

Membership Number: 050531

Place: Kolkata

Date:



On Behalf of The Board of Directors

CEO

Director

Chairman

The schedule referred to above form and integral part of this Balance sheet.
This is the Consolidated Balance sheet referred to in our report of even date.

**BHUTAN INSURANCE LIMITED
GENERAL INSURANCE DEPARTMENT
Statement of Financial Position as of 31st December 2012**

| Particulars | Schedule | 2012 Nu. | 2011 Nu. |
|---|----------|--------------------|--------------------|
| LIABILITIES | | | |
| Share Capital | 5 | 200,000,000 | 100,000,000 |
| Reserve & Surplus | 6A | 69,875,546 | 39,271,505 |
| Current Liabilities | | | |
| Current Liabilities | 8A | 73,423,990 | 45,510,222 |
| Provision | 9A | 78,957,740 | 89,295,347 |
| | | 422,257,276 | 274,077,073 |
| ASSETS | | | |
| Property, Plant & Equipment (Net Block) | 19 | 6,406,052 | 5,079,819 |
| Current Assets | | | |
| Cash & Cash Equivalent | 11A | 38,878,447 | 58,812,899 |
| Advance & Other Assets | 12A | 376,972,777 | 210,184,355 |
| Preliminary Expenses net of written off | 13 | - | - |
| | | 422,257,276 | 274,077,073 |

SIGNIFICANT ACCOUNTING POLICIES 20
NOTES TO ACCOUNTS 21

For Nag & Associates
Chartered Accountants
FRN: 312063E



IN NAG
Partner
Membership Number: 050531
Place: Kolkata
Date:??/?

On Behalf of The Board of Directors

CEO Director Chairman

The schedule referred to above form and integral part of this Balance sheet.
This is the General Insurance Balance sheet referred to in our report of even date.

BHUTAN INSURANCE LIMITED
FINANCING & INVESTMENT DEPARTMENT
Statement of Financial Position as of 31st December 2012

| Particulars | Schedule | 2012 Nu. | 2011 Nu. |
|---------------------------|----------|-------------|-------------|
| <u>LIABILITIES</u> | | | |
| Reserve & Surplus | 6B | 24,508,773 | 12,411,008 |
| Current Liabilities | | | |
| Funds | 7A | 348,040,892 | 282,722,833 |
| Current Liabilities | 8B | 15,285,090 | 9,254,357 |
| Provision | 9B | 10,978,905 | 5,169,688 |
| | | 398,813,659 | 309,557,886 |
| <u>ASSETS</u> | | | |
| Loans & Overdraft | 10 | 364,956,628 | 303,566,929 |
| Current Assets | | | |
| Cash & Cash Equivalent | 11B | 33,816,347 | 5,990,958 |
| Other Assets | 17 | 40,685 | - |
| | | 398,813,659 | 309,557,886 |

SIGNIFICANT ACCOUNTING POLICIES 20
NOTES TO ACCOUNTS 21

For Nag &
Associates
Chartered
Accountants
FRN: 312063E



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IN NAG
Partner
Membership
Number: 050531
Place: Kolkata
Date: ?/?/?

[Handwritten signature]
[Handwritten signature]
On Behalf of The Board of Directors

[Handwritten signature]

CEO

[Handwritten signature]

Director

[Handwritten signature]

Chairman

The schedule referred to above form and integral part of this Balance sheet.
This is the Financing and Investment Balance sheet referred to in our report of even date.

BHUTAN INSURANCE LIMITED
THIMPHU : BHUTAN
Consolidated Statement of Comprehensive Income as of 31st December 2012

| Particulars | Schedule | 2012 Nu. | 2011 Nu. |
|--|----------|-------------|-------------|
| Profit transferred from Respective Revenue A/c. | | | |
| General Insurance Department | R. A/c. | 47,547,309 | 32,801,609 |
| Financing & Investment Department | R. A/c. | 12,097,765 | 9,764,316 |
| Total :- | | 59,645,073 | 42,565,925 |
| | | | |
| Profit Before Taxation | | 59,645,073 | 42,565,925 |
| Less: Provision for taxation | 9(iii) | 17,893,522 | 12,769,778 |
| Profit after taxation | | 41,751,551 | 29,796,148 |
| Less: Prior period Adjustment | 18 | 1,584,498 | - |
| Profit available for Appropriation | | 40,167,053 | 29,796,148 |
| APPROPRIATION | | | |
| Proposed Dividend | 9(iv) | 19,000,000 | 15,000,000 |
| Transfer to Catastrophe Reserve | 6(ii) | 1,083,526 | 1,500,000 |
| Transfer to General Reserve | 6(i) | 20,083,527 | 13,296,148 |
| TOTAL APPROPRIATION | | 40,167,053 | 29,796,148 |

For Nag & Associates
 Chartered Accountants
 FRN: 312063E



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 On Behalf of The Board of Directors

CEO

Director

Chairman

IN NAG
 Partner
 Membership Number: 050531
 Place: Kolkata
 Date:

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The schedule referred to above form and integral part of this Profit/Loss A/c.
 This is the Consolidated Profit/Loss A/c referred to in our report of even date.

BHUTAN INSURANCE LIMITED
GENERAL INSURANCE DEPARTMENT
Revenue Account as of 31st December 2012

| Particulars | Schedule | 2012 Nu. | 2011 Nu. |
|--|------------------|-------------------|-------------------|
| OPERATING INCOME | | | |
| Surplus transferred from:- | | | |
| Fire Insurance | Sub Revenue A/c. | 16,946,095 | 14,654,980 |
| Marine Insurance | do | 255,217 | 2,071,939 |
| Miscellaneous Insurance | do | 17,056,301 | 7,502,258 |
| TOTAL INCOME (A) | | 34,257,614 | 24,229,177 |
| OTHER INCOME | | | |
| Interest & Other income | 14A | 13,289,695 | 9,010,496 |
| TOTAL INCOME (B) | | 13,289,695 | 9,010,496 |
| TOTAL (A+B) = (C) | | 47,547,309 | 33,239,673 |
| OPERATING EXPENSES | | | |
| Less: Preliminary expenses | 13 | - | 438,064 |
| TOTAL EXPENSES (D) | | - | 438,064 |
| Profit before taxation / Transfer to Consolidated Profit & Loss A/c. (C - D) | | 47,547,309 | 32,801,609 |
| Less: prior period adjustment | 18 | 1,584,498 | - |
| Net Balance transferred to Reserve | | 45,962,810 | 32,801,609 |

For Nag & Associates
Chartered Accountants
FRN: 312063E



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IN NAG
Partner
Membership Number: 050531
Place: Kolkata
Date:

[Handwritten signature]
On Behalf of The Board of Directors

[Handwritten signature]

CEO

[Handwritten signature]

Director

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Chairman

The schedule referred to above form and integral part of this Revenue A/c.
This is the General Insurance Revenue A/c referred to in our report of even date.

**BHUTAN INSURANCE LIMITED
FINANCING & INVESTMENT DEPARTMENT
Revenue Account as of 31st December 2012**

| Particulars | Schedule | 2012 Nu. | 2011 Nu. |
|---|----------|-------------------|-------------------|
| INTEREST INCOME | | | |
| Interest on Loan | 14B(i) | 40,561,357 | 25,503,494 |
| Total (A) | | 40,561,357 | 25,503,494 |
| Less: INTEREST EXPENSES | | | |
| Interest Expenses on borrowing & internal Funds | 15 | 20,742,524 | 11,541,776 |
| Total (B) | | 20,742,524 | 11,541,776 |
| Net Interest Differential (A-B) = (C) | | 19,818,833 | 13,961,718 |
| Add: OTHER INCOME | | | |
| Misc. Income | 14B(ii) | 810,581 | 2,949,232 |
| Total (D) | | 810,581 | 2,949,232 |
| Gross Operating Income (C + D) = (E) | | 20,629,414 | 16,910,949 |
| Less: OPERATING EXPENSES | | | |
| Management Expenses | 16 | 2,722,432 | 2,589,847 |
| Provision against Loans | 9C | 5,809,217 | 4,556,785 |
| Gross Operating Expenses (F) | | 8,531,649 | 7,146,633 |
| Profit before taxation / Transfer to consolidated P&L A/c. (E - F) = (G) | | 12,097,765 | 9,764,316 |

For Nag & Associates
Chartered Accountants
FRN: 312063E
IN NAG
Partner



[Signature]

Membership Number: 050531
Place: Kolkata
Date:

On Behalf of The Board of Directors

[Signature]
CEO Director

[Signature]

[Signature]
Chairman

The schedule referred to above form and integral part of this Revenue A/c.
This is the Financing and Investment Revenue A/c referred to in our report of even date.

BHUTAN INSURANCE LIMITED
GENERAL INSURANCE DEPARTMENT
Sub Revenue Account as of 31st December 2012

| PARTICULARS | Schedule | FIRE INSURANCE | | MARINE INSURANCE | | MISCELLANEOUS INSURANCE | | TOTAL | |
|--|----------|-------------------|-------------------|------------------|------------------|-------------------------|--------------------|--------------------|--------------------|
| | | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Premium Earned (Net) | 1 | 12,540,309 | 9,180,438 | 1,447,014 | 1,012,040 | 139,909,811 | 112,875,933 | 153,897,135 | 123,068,411 |
| Commission (Net) | 3 | 12,794,896 | 10,695,318 | 716,635 | 546,254 | 3,458,751 | (1,912,088) | 16,970,283 | 9,329,484 |
| Profit on sale/redemption of investment(net) | | - | - | - | - | 1,998,889 | 4,779,899 | 1,998,889 | 4,779,899 |
| Exchange gain | | - | - | - | - | - | - | - | - |
| Total (A) | | 25,335,206 | 19,875,756 | 2,163,649 | 1,558,294 | 145,367,451 | 115,743,744 | 172,866,306 | 137,177,794 |
| Claims incurred (Net) | 2 | 156,865 | (2,781,889) | 1,352,624 | (1,085,264) | 102,142,748 | 88,234,821 | 103,652,238 | 84,367,668 |
| Operating Expenses | 4 | 8,232,245 | 7,979,635 | 555,808 | 569,974 | 26,168,402 | 19,949,088 | 34,956,455 | 28,498,697 |
| Exchange Loss | | - | 23,030 | - | 1,645 | - | 57,576 | - | 82,251 |
| Total (B) | | 8,389,111 | 5,220,776 | 1,908,432 | (513,645) | 128,311,150 | 108,241,485 | 138,608,693 | 112,948,617 |
| Operating Profit (A - B) | | 16,946,095 | 14,654,980 | 255,217 | 2,071,939 | 17,056,301 | 7,502,258 | 34,257,614 | 24,229,177 |

The schedule referred to above form and integral part of this Sub-Revenue A/c.
This is the General Insurance Sub-Revenue A/c referred to in our report of even date.

BHUTAN INSURANCE LIMITED
THIMPHU : BHUTAN
Statement of Cash Flow as of 31st December 2012

| | | 2012 | 2011 |
|--|--------------|------------------|---------------------|
| 1. Cash flow from Operating Activities | | | |
| Profit before tax | | 59,645,073 | 42,565,925 |
| Add: Depreciation | 1,019,989 | | |
| Add: Amortisation | - | 1,019,989 | 1,391,674 |
| Add/Less: Increase/(Decrease) in Current Liabilities | | 28,881,827 | 4,138,571 |
| Add/Less: Increase/(Decrease) in Provision | | (4,528,390) | 43,843,550 |
| Add/Less: Decrease/(Increase) in Current Assets | | (8,699,974) | (23,838,058) |
| Less: Tax & Dividend Paid for last year profit | | (27,769,778) | (13,224,689) |
| Less: Prior period taxes, penalties paid & others | | (1,584,498) | - |
| | | (A) | 46,964,249 |
| 2. Cash flow from Investing Activities | | | |
| Less: Purchase of Fixed Assets | | (B) | (2,346,222) |
| 3. Cash flow from Financing Activities | | | |
| Add: Right issue share amount | 100,000,000 | | |
| Add/Less: Increase/(Decrease) in borrowings | (75,337,394) | | |
| Add/Less: Decrease/(Increase) in Loans | (61,389,699) | (C) | (36,727,092) |
| | | (A+B+C) | 7,890,935 |
| | | | (42,086,981) |
| Change in Cash & Cash Equivalents | | | |
| Closing Cash & Cash equivalent | | 72,694,793 | 64,803,858 |
| Less: Opening Cash & Cash equivalent | | 64,803,858 | 106,890,839 |
| Net changes in Cash & cash equivalent | | 7,890,935 | (42,086,981) |

SIGNIFICANT ACCOUNTING POLICIES 20
 NOTES TO ACCOUNTS 21

For Nag & Associates
 Chartered Accountants
 FRN: 312063E



[Signature]
 IN NAG
 Partner
 Membership Number: 050531
 Place: Kolkata
 Date:

[Signature] *[Signature]*

On Behalf of The Board of Directors

[Signature] *[Signature]* *[Signature]*

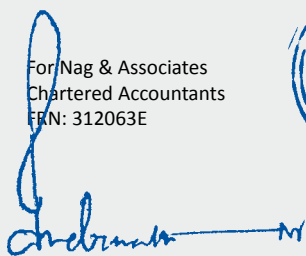
CEO Director Chairman

The schedule referred to above form and integral part of this Cash Flow Statement.
 This is the Cash Flow Statement referred to in our report of even date.

Statement of Changes in Equity as of 31st December 2012

| Item | Share Capital | Reserve & Contingency | Proposed Cash Dividend | Profit & Loss Appropriation A/c. | Total |
|---|---------------|-----------------------|------------------------|----------------------------------|--------------|
| Opening Balance as on 1st January 2012 | 100,000,000 | 23,912,736 | 15,000,000 | - | 138,912,736 |
| Cash Dividend Distributed during the year | - | - | (15,000,000) | - | (15,000,000) |
| Right Issue Share | 100,000,000 | - | - | - | 100,000,000 |
| Profit After Taxation | - | - | - | 40,167,053 | 40,167,053 |
| Appropriation made during the year | - | 21,167,053 | 19,000,000 | (40,167,053) | - |
| Closing Balance as on 31st December 2012 | 200,000,000 | 45,079,789 | 19,000,000 | - | 264,079,789 |
| Closing Balance as on 31st December 2011 | 100,000,000 | 23,912,736 | 15,000,000 | - | 138,912,736 |

For Nag & Associates
Chartered Accountants
FIRN: 312063E




IN NAG
Partner
Membership Number: 050531
Place: Kolkata
Date:



On Behalf of The Board of Directors

Graulster

CEO



Director



Chairman

The schedule referred to above form and integral part of this Statement of Changes in Equity.
This is the Statement of Changes in Equity referred to in our report of even date.

BHUTAN INSURANCE LIMITED
 Schedules attached to and forming part of the Accounts as of 31st December 2012

| | FIRE INSURANCE | | MARINE INSURANCE | | MISC. INSURANCE | | TOTAL | |
|---|-------------------|-------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| 1 PREMIUM EARNED(NET) | | | | | | | | |
| Premium from direct business written | 61,316,597 | 54,555,224 | 4,148,474 | 3,959,779 | 194,922,640 | 171,865,707 | 260,387,711 | 230,380,710 |
| Add: Premium on Reinsurance accepted | - | - | - | - | - | - | - | - |
| Less: Premium on Reinsurance ceded | 45,724,314 | 44,511,984 | 2,431,921 | 2,733,298 | 68,671,949 | 20,780,252 | 116,828,184 | 68,025,534 |
| Net Premium | 15,592,283 | 10,043,240 | 1,716,553 | 1,226,481 | 126,250,691 | 151,085,455 | 143,559,528 | 162,355,176 |
| Less: Adjustment for change in reserve for unexpired Risk | 3,051,974 | 862,802 | 269,539 | 214,441 | (13,659,120) | 38,209,522 | (10,337,607) | 39,286,765 |
| Total Premium earned | 12,540,309 | 9,180,438 | 1,447,014 | 1,012,040 | 139,909,811 | 112,875,933 | 153,897,135 | 123,068,411 |

| | FIRE INSURANCE | | MARINE INSURANCE | | MISC. INSURANCE | | TOTAL | |
|--|-------------------|--------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| 2 CLAIMS INCURRED(NET) | | | | | | | | |
| Claims Paid Direct (Including advance) | 16,560,980 | 21,475,177 | 444,169 | 620,092 | 132,913,511 | 115,518,417 | 149,918,660 | 137,613,686 |
| Add: Claims Outstanding at the year end (Net of advance) | 778,628 | 3,995,401 | 1,494,900 | 240,400 | 35,470,083 | 32,935,117 | 37,743,611 | 37,170,918 |
| Less: Claims Outstanding at the beginning of the year | 3,995,401 | 15,044,759 | 240,400 | 1,450,000 | 32,935,117 | 21,961,668 | 37,170,918 | 38,456,427 |
| Gross claims | 13,344,207 | 10,425,818 | 1,698,669 | (589,508) | 135,448,477 | 126,491,866 | 150,491,353 | 136,328,176 |
| Add: Reinsurance accepted | - | - | - | - | - | - | - | - |
| Less: Reinsurance ceded | 13,187,342 | 13,207,707 | 346,045 | 495,756 | 33,305,729 | 38,257,045 | 46,839,116 | 51,960,508 |
| Total Net Claims Paid | 156,865 | (2,781,889) | 1,352,624 | (1,085,264) | 102,142,748 | 88,234,821 | 103,652,238 | 84,367,668 |

| | FIRE INSURANCE | | MARINE INSURANCE | | MISC. INSURANCE | | TOTAL | |
|--|-------------------|-------------------|------------------|----------------|------------------|--------------------|-------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| 3 COMMISSION(NET) | | | | | | | | |
| Commission on Reinsurance Ceded | 13,915,817 | 12,589,705 | 792,315 | 681,567 | 7,021,897 | 2,823,879 | 21,730,028 | 16,095,151 |
| Less: Commission on Reinsurance accepted | - | - | - | - | - | - | - | - |
| Less: Referral fees | 1,120,920 | 1,894,387 | 75,680 | 135,313 | 3,563,146 | 4,735,967 | 4,759,746 | 6,765,667 |
| Net Commission | 12,794,896 | 10,695,318 | 716,635 | 546,254 | 3,458,751 | (1,912,088) | 16,970,283 | 9,329,484 |

| | 2012 | 2011 |
|--|--------------------|--------------------|
| 4 OPERATING EXPENSES (Gen. Insurance Dept.) | | |
| Employees remuneration and welfare benefit | 20,568,106 | 15,655,602 |
| Travel, Conveyance and vehicle running expenses | 3,669,729 | 1,848,423 |
| Training expenses | 2,531,610 | 1,375,434 |
| Rental charges | 1,430,842 | 920,184 |
| Repairs & Maintenance | 227,827 | 478,878 |
| Printing and stationary | 947,296 | 1,378,284 |
| Communication | 658,941 | 1,043,723 |
| Legal and Professional Charges | 1,259,208 | 924,768 |
| Advertisement and publicity | 1,198,381 | 1,809,809 |
| Interest and bank charges | 49,855 | 63,665 |
| Other Misc. expenses | 247,842 | 72,599 |
| Gratuity fund contribution | 1,146,829 | 986,859 |
| Staff performance Incentive | - | 986,859 |
| Depreciation | 1,019,989 | 953,610 |
| Total:- | 34,956,455 | 28,498,698 |
| Expenses Allocation: | | |
| Fire Insurance | 8,232,245 | 7,979,635 |
| Marine Insurance | 555,808 | 569,974 |
| Miscellaneous Insurance | 26,168,402 | 19,949,088 |
| Total Expenses allocation | 34,956,455 | 28,498,698 |
| 5 CAPITAL FUND | | |
| Authorised capital | 500,000,000 | 500,000,000 |
| (5,000,000 Equity share of Nu.100/- each) | 500,000,000 | 500,000,000 |
| Issued, Subscribed and Paid-up (1,000,000 Equity share at Nu.100/- each) | 100,000,000 | 100,000,000 |
| Right Share issue (1,000,000 Equity share at Nu.100/- each) | 100,000,000 | - |
| Total:- | 200,000,000 | 100,000,000 |
| 6 RESERVES & SURPLUS | | |
| i) General Reserves balance as per last Account | 20,253,956 | 6,957,808 |
| Add: Transferred from Profit/Loss Account | 20,083,527 | 13,296,148 |
| Total (A):- | 40,337,483 | 20,253,956 |
| ii) CAT Reserves as per last Account | 3,658,780 | 2,158,780 |
| Add: Transferred from Profit/Loss Account | 1,083,526 | 1,500,000 |
| Total (B):- | 4,742,306 | 3,658,780 |
| Total Reserve & Surplus (A+B) | 45,079,789 | 23,912,736 |

| | 2012 | 2011 |
|---|--------------------|--------------------|
| 6A. General Insurance Dept. | | |
| As per last Account | 23,912,736 | 6,469,896 |
| Add: Transferred from current year Account | 45,962,810 | 32,801,609 |
| Total:- | 69,875,546 | 39,271,505 |
| 6B. Financing & Investment Dept. | | |
| As per last year Accounts | 12,411,008 | 2,646,692 |
| Add: Transfer from current year Account | 12,097,765 | 9,764,316 |
| Total:- | 24,508,773 | 12,411,008 |
| 7 BORROWINGS & FUNDS | | |
| Borrowings from Druk PNB | 35,000,000 | 85,000,000 |
| Borrowings from NPPF | - | 40,000,000 |
| Funds from PPF Division | 34,215,563 | 21,404,013 |
| Funds from SWF | 455,227 | 200,000 |
| Funds from Staff Gratuity A/c. | 1,595,829 | - |
| Total:- | 71,266,619 | 146,604,013 |
| 7A. Financing & Investment Dept. | | |
| Borrowings from Druk PNB | 35,000,000 | 85,000,000 |
| Borrowings from NPPF | - | 40,000,000 |
| Funds from General Insurance Dept. | 276,774,273 | 136,118,820 |
| Funds from PPF Division | 34,215,563 | 21,404,013 |
| Funds from SWF | 455,227 | 200,000 |
| Funds from Staff Gratuity A/c. | 1,595,829 | - |
| Total:- | 348,040,892 | 282,722,833 |
| 8 CURRENT LIABILITIES | | |
| Outstanding expenses | 253,330 | 721,686 |
| Outstanding claim | 37,743,611 | 37,170,918 |
| Referral fees Payable | 3,241,984 | 3,396,543 |
| Stale Cheques | 310,776 | 129,720 |
| Gratuity fund Payable | 1,146,829 | 1,706,237 |
| Staff performance Incentive payable | - | 986,859 |
| Advance received of insurance premium for 4 years | 219,323 | - |
| Excess Premium Refundable | 122,721 | - |
| RI Ceded for aviation payable | 28,070,937 | - |
| Excess Right issue amount Refundable to RICB broker | 1,000 | - |
| Audit fees & expenses payable | 200,000 | 200,000 |
| Unclaim dividend | 2,126,807 | 1,198,259 |
| Interest payable for external borrowing (PNB) | 200,651 | 420,411 |
| Interest payable for PPF fund | 1,684,494 | 983,498 |

| | 2012 | 2011 |
|---|--------------------|--------------------|
| Interest payable to SWF | 21,758 | 5,227 |
| CIB Charges payable to RMA | 600 | 5,700 |
| Interest payable to Staff Gratuity Fund | 57,217 | - |
| Interest in suspenses A/c. | 554,467 | 165,767 |
| Late fees income in suspense A/c. | 16,147 | - |
| Total:- | 75,972,652 | 47,090,825 |
| 8A. General Insurance Dept. | | |
| Outstanding expenses | 253,330 | 721,686 |
| Outstanding claim | 37,743,611 | 37,170,918 |
| Referral fees payable | 3,241,984 | 3,396,543 |
| Stale cheques | 297,448 | 129,720 |
| Gratuity fund payable | 1,146,829 | 1,706,237 |
| Staff performance Incentive payable | - | 986,859 |
| Advance received of insurance premium for 4 years | 219,323 | - |
| Excess Premium Refundable | 122,721 | - |
| RI Ceded for aviation payable | 28,070,937 | - |
| Excess Right issue amount Refundable RICB broker | 1,000 | - |
| Audit fees & expenses payable | 200,000 | 200,000 |
| Unclaim dividend | 2,126,807 | 1,198,259 |
| Total:- | 73,423,990 | 45,510,222 |
| 8B. Finaning & Investment Dept | | |
| Interest payable to Druk PNB | 200,651 | 420,411 |
| Interest payable to General Insurance Dept. | 10,514,941 | 5,957,510 |
| Interest payable to PPF Division | 1,684,494 | 983,498 |
| Interest payable to SWF | 21,758 | 5,227 |
| CIB Charges payable to RMA | 600 | 5,700 |
| Mgt. Expenses payable to Gen. Insurance | 2,221,486 | 1,716,243 |
| Interest in suspense A/c. | 554,467 | 165,767 |
| Late fees income in suspense A/c. | 16,147 | - |
| Interest payable to Staff Gratuity A/c. | 57,217 | - |
| Stale cheque | 13,328 | - |
| Total:- | 15,285,090 | 9,254,357 |
| 9 PROVISIONS | | |
| i) Provision for un expired risk | 78,957,740 | 89,295,347 |
| ii) Provision for Loan | 10,978,905 | 5,169,688 |
| iii) Provision for taxation | 17,893,522 | 12,769,778 |
| iv) Provision for dividend | 19,000,000 | 15,000,000 |
| Total (i + ii + iii + iv):- | 126,830,167 | 122,234,813 |

| | 2012 | 2011 |
|--|--------------------|--------------------|
| 9A. General Insurance Dept. | | |
| Provision for unexpired risk as per last Account | 89,295,347 | 50,008,582 |
| Add: Provision for unexpired risk current year | (10,337,607) | 39,286,765 |
| Total:- | 78,957,740 | 89,295,347 |
| 9B. Financing & Investment Dept. | | |
| i) Provision for standard Loan as per last year A/c. | 2,053,430 | 612,903 |
| Add:- Additional Provision for current year | 647,026 | 1,440,527 |
| Total:- | 2,700,456 | 2,053,430 |
| ii) Provision for Watch Loan as per last year A/c. | 1,373,835 | - |
| Add:- Additional Provision for current year | (218,049) | 1,373,835 |
| Total:- | 1,155,786 | 1,373,835 |
| iii) Provision for Non performing Loan as per last year A/c. | 1,742,423 | - |
| Add:- Additional Provision for current year | 3,939,593 | 1,742,423 |
| Total:- | 5,682,016 | 1,742,423 |
| iv) Dynamic Provision as per last year A/c. | - | - |
| Add:- Additional Provision for current year | 1,440,647 | - |
| | 1,440,647 | - |
| Total (i + ii + iii+iv):- | 10,978,905 | 5,169,688 |
| 9C. Financing & Investment Dept. | | |
| i) Standard provision for current year | 647,026 | 1,440,527 |
| ii) Watch Loan provision for current year | (218,049) | 1,373,835 |
| iii) Non performing loan for current year | 3,939,593 | 1,742,423 |
| iv) Dynamic provision for current year | 1,440,647 | - |
| | 5,809,217 | 4,556,785 |
| 10 LOANS & OVERDRAFT | | |
| Commercial Vehicle Loan | 168,643,449 | 169,328,227 |
| Commercial Establishment Loan | 6,580,708 | 7,042,009 |
| Industrial Manufacturing Loan | 44,154,057 | 34,067,104 |
| Housing Loan | 6,415,691 | 3,685,308 |
| Personal Loan | 52,424,341 | 10,352,280 |
| Venture Loan | 1,892,260 | 2,166,798 |
| Staff Loan | 20,221,463 | 19,535,030 |
| PPF Loan | 524,525 | 530,817 |
| GE/PE Loan | 1,019,470 | 1,145,738 |
| Loan against Shares | 7,596,739 | 7,809,617 |
| Overdraft Loan | 55,461,752 | 47,896,532 |
| Late fees outstanding | 22,172 | 7,470 |
| Total:- | 364,956,628 | 303,566,929 |

| | 2012 | 2011 |
|--|-------------------|-------------------|
| 11 CASH & CASH EQUIVALENTS | | |
| Cash & Bank Balance | 32,694,793 | 24,803,857 |
| Fixed Deposit (Maturing < or = 3 months) | 10,000,000 | - |
| Fixed Deposit (Maturing >3 months but < or = 1 year) | 30,000,000 | 40,000,000 |
| Total:- | 72,694,793 | 64,803,857 |
| 11A. General Insurance Dept. | | |
| Cash & Bank Balance | 8,878,447 | 18,812,899 |
| Fixed Deposit (Maturing < or = 3 months) | - | - |
| Fixed Deposit (Maturing >3 months but < or = 1 year) | 30,000,000 | 40,000,000 |
| Total:- | 38,878,447 | 58,812,899 |
| 11B. Financing & Investment Dept. | | |
| Cash & Bank Balance | 23,816,347 | 5,990,958 |
| Fixed Deposit (Maturing < or = 3 months) | 10,000,000 | - |
| Total:- | 33,816,347 | 5,990,958 |
| 12 ADVANCE & OTHER ASSETS | | |
| RMA Reserve A/c | 30,000 | 30,000 |
| Security deposit for office space | 105,000 | 41,000 |
| Interest on Fixed Deposit receivable | 483,699 | 6,675,371 |
| Aviation insurance premium receivable | 28,099,340 | - |
| Pre paid insuranse | 8,760 | 22,557 |
| Advance CIT & TDS Paid | 4,489,037 | 3,829,713 |
| RMA Penalty Deposit A/c. | 100,000 | 100,000 |
| Software advance Paid for FID | - | 440,000 |
| Software advance Paid for General Insurance | 2,671,920 | - |
| Re-Insurer (receivable) | 30,915,455 | 46,906,963 |
| HR promotion fund Receivable from RMA | - | 2,050,211 |
| Other advance | 688,542 | 125,965 |
| Vechile purchase advance | 4,500,000 | - |
| Capital contribution for FI training Institute | 3,000,000 | 3,000,000 |
| Sale of Salvages Receivable | - | 3,170,000 |
| Total:- | 75,091,754 | 66,391,780 |
| 12A. General Insurance Dept. | | |
| RMA Reserve A/c. | 30,000 | 30,000 |
| Security deposit for office space | 105,000 | 41,000 |
| Interest on Fixed Deposit receivable | 443,014 | 6,675,371 |
| Interest on Investment fund Receivable (FID) | 10,514,941 | 5,957,510 |
| Aviation insurance premium receivable | 28,099,340 | - |
| Pre paid insuranse | 8,760 | 22,557 |
| Advance CIT & TDS Paid | 4,489,037 | 3,829,713 |
| RMA Penalty Deposit A/c. | 100,000 | 100,000 |

| | 2012 | 2011 |
|---|--------------------|--------------------|
| Software advance for FID | - | 440,000 |
| Software advance for General Insurance Dept. | 2,671,920 | - |
| Re-Insurer (receivable) | 30,915,455 | 46,906,963 |
| HR promotion fund Receivable from RMA | - | 2,050,211 |
| FID Expenses receivable | 2,221,486 | 1,716,243 |
| Investment Fund with FID | 276,774,273 | 136,118,820 |
| Other advance | 688,542 | 125,965 |
| Vehicle purchase advance | 4,500,000 | - |
| Capital contribution for FI training Institute | 3,000,000 | 3,000,000 |
| Counter entry of FID last year Reserve | 12,411,008 | - |
| Sale of salvages receivable | - | 3,170,000 |
| Total:- | 376,972,777 | 210,184,355 |
| 13 PRELIMINARY EXPENSES | | |
| Preiliminary and pre-orporation expenses | - | 438,064 |
| Less: Expenses Written off | - | 438,064 |
| Total:- | - | - |
| 14 INTEREST & OTHER INCOME | | |
| 14A. General Insurance Dept. | | |
| Fixed Deposit | 2,769,529 | 3,052,986 |
| Interst Received from FID (Gen. Insurance Fund) | 10,514,941 | 5,957,510 |
| Misc. Income | 5,225 | - |
| Total:- | 13,289,695 | 9,010,496 |
| 14B. Financing & Investment Dept. | | |
| i) Interest Received (Net of Suspense) | | |
| Commercial vehicle Loan | 20,758,440 | 16,472,067 |
| Commercial Establishment Loan | 678,613 | 723,670 |
| Industrial Manufacturing Loan | 4,144,902 | 2,938,051 |
| Housing Loan | 645,107 | 917,506 |
| Personal Loan | 4,242,299 | 387,018 |
| Staff Loan | 1,475,774 | 1,251,213 |
| Venture Loan | 250,827 | 852,007 |
| PPF Loan | 63,626 | 57,786 |
| GE/PE Loan | 135,783 | 43,688 |
| Loan against shares | 928,514 | 12,817 |
| Overdraft | 7,237,472 | 1,847,673 |
| Total:- | 40,561,357 | 25,503,494 |

| | 2012 | 2011 |
|--|-------------------|-------------------|
| ii) Misc. Income | | |
| Gurantee Commission | 458,367 | 2,823,792 |
| Administration & other Charges | 65,300 | 117,970 |
| Interest on Fixed Deposit | 40,685 | - |
| Late fees Income (Net of suspense) | 246,229 | 7,470 |
| Total:- | 810,581 | 2,949,232 |
| 15 INTEREST EXPENSES | | |
| Interest on borrowing Funds (PNB) | 5,067,174 | 3,889,788 |
| Interest on borrowing Funds (NPPF) | 3,385,131 | 705,753 |
| Interest on General Insurance Fund | 10,514,941 | 5,957,510 |
| Interest on PPF Fund | 1,696,302 | 983,498 |
| Interest on SWF | 21,758 | 5,227 |
| Interest on Staff Gratuity A/c. | 57,217 | - |
| Total :- | 20,742,524 | 11,541,776 |
| 16 OPERATING EXPENSES (Financing & Inv. Dept) | | |
| Salary,wages,allowance & PF | 1,030,447 | 716,337 |
| Leave Encashment benefit | 52,890 | 87,062 |
| LTC | 55,297 | 98,415 |
| Travelling Expenses | 25,166 | 97,396 |
| Printing & Stationary expenses | 218,614 | 322,409 |
| Training Expenses | 632,902 | 170,715 |
| Postage & Telegram expenses | 17,748 | 10,447 |
| Legal Charges | 7,434 | 9,392 |
| Telephone & Fax expenses | 142,931 | 176,521 |
| Canteen Expenses | 38,057 | 27,549 |
| CIB Operating expenses refunded to RMA | - | 361,524 |
| CIB annual Membership fees | 500,000 | 500,000 |
| Bank charges | 945 | 12,080 |
| Total:- | 2,722,432 | 2,589,847 |
| 17 OTHER ASSETS (FID) | | |
| Interest on Fixed Deposit receivable | 40,685 | - |
| Total:- | 40,685 | - |
| 18 PRIOR PERIOD ADJUSTMENT | | |
| Adjustment of additional taxation for earlier year | 830,195 | - |
| Fines & Penalties payment to RRCO | 112,882 | - |
| Short provision of staff incentive in previous year | 641,421 | - |
| Total:- | 1,584,498 | - |

BHUTAN INSURANCE LIMITED
 19. Property, Plant and Equipment as on 31st December 2012

| Particular | GROSS BLOCK - AT COST | | | | DEPRECIATION | | | NET BLOCK | |
|--------------|-----------------------|--------------------------------|---------------|---------------------|---------------------|------------------|--------------|---------------------|---------------------|
| | As at 01/01/2012 | Addition during the year | Sales Adj. | As at 31/12/2012 | As at 01/01/2012 | For the year | Adj. Dep. | As at 31/12/2012 | As at 31/12/2011 |
| Equipment | 859,512 | 404,806 | - | 1,264,318 | 177,796 | 119,821 | - | 966,701 | 681,716 |
| Furniture | 1,220,162 | 346,616 | - | 1,566,778 | 302,003 | 150,619 | - | 1,114,156 | 918,159 |
| Computer | 3,160,301 | 1,094,800 | - | 4,255,101 | 780,378 | 444,691 | - | 3,030,032 | 2,379,923 |
| Vehicle | 1,689,492 | - | - | 1,689,492 | 589,471 | 253,424 | - | 846,597 | 1,100,021 |
| Software | - | 500,000 | - | 500,000 | - | 51,434 | - | 448,566 | - |
| Total | 6,929,467 | 2,346,222 | - | 9,275,689 | 1,849,648 | 1,019,989 | - | 6,406,052 | 5,079,819 |

SCHEDULE 20**SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31st DECEMBER, 2012.****1. Accounting Convention**

The Balance Sheet, Profit & loss Account and Revenue Account are prepared under the historical cost convention, on the accrual basis of accounting and in accordance with Generally Accepted Accounting Principles, to the extent applicable and conform to the statutory provisions and practices prevailing in the General Insurance and various inspections, circulars and guidelines issued by the Royal Monetary Authority (RMA) of Bhutan from time to time unless otherwise stated.

2. Revenue Recognition

- i) Items of income and expenditure are accounted for on accrual basis, except for Guarantee commission which is considered on cash basis.
- ii) Premiums are recognized as income, as and when due on assumption of risk.
- iii) Reinsurance premium ceded is accounted at the time of recognition of premium income in accordance with the treaty or in-principle arrangement with the re-insurers.
- iv) Interest on fixed deposits is accounted for on accrual basis.
- v) Interest, Rent etc., are accounted at gross value before deduction of tax.
- vi) 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. "Interest Suspense" which is taken to Profit & Loss Account on actual realization only.

3. Benefits Paid (including claims)

- i) Benefits paid/claims' costs consist of the policy benefit amounts and claim settlement costs, where ever applicable.
- ii) Cancellation and other claims are recognized when intimated. Provision for outstanding claims is made for those policies where the intimation has been received up to 31st December. Additional provisions are also made for benefit(s)/claim(s) incurred, wherever necessary.
- iii) Salvage recoveries are accounted for on realization basis.
- iv) Reinsurance recoveries, when applicable, are accounted in the same period.

4. Fixed Assets

- i) Fixed Assets are stated at cost less depreciation.

- ii) Depreciation is calculated as per the applicable provisions of Income Tax Act of Bhutan 2001, as amended to –date on straight-line basis at the prevailing rates and in the manner as prescribed.
- iii) Impairment loss on Fixed Assets are identified and treated in the accounts accordingly.

5. Loans

- i) Loans are stated at Principal amount plus interest accrued thereon.

6. Retirement/Employee Benefits

- i) Contribution to Provident fund and other funds are accounted for, as and when accrued.
- ii) Gratuity is provided on accrual basis, as per the Company's 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.

7. Risk Reserves

- i) Reserves for unexpired risks are created in Revenue Account in respect of General Insurance Business at 55% of net premium income for the year.
- ii) Re-insurance Reserves are created on the basis of existing treaty arrangement.

8. General

- i) Management expenses and interest earned from investment related to General Insurance business are apportioned among the various types of business on the basis of respective gross premium.
- ii) Transfer to Catastrophes Fund and General Reserves are made as per the amount decided by the management from time to time.

9. Use of Estimates

The preparation of the financial statements in conformity with generally accepted principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Examples of the estimates include future obligation under employee benefits plans, useful lives of fixed assets as well as provision for unexpired risk, etc. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as on the date of the financial statements. Actual results could differ from those estimates. Any revisions to accounting estimates are recognized accordingly in current and future periods.

10. Preliminary/preoperative Expenditure

Preliminary/Preoperative Expenditures are amortized over a period of three accounting years as per the applicable provisions of Income Tax Act of Bhutan 2001, as amended to –date.

11. 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 w.e.f. 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% and 30% for highest exposure | 91-180 | 15% and 30% for highest exposure |
| 4. Doubtful | 181-365 | 50% and 60% for highest exposure | 181-18 months | 50% and 60% for highest exposure |
| 5. Loss | >365 | 100 | >18 months | 100 |

Provision has been made as per the revised norms and excess amount of provision over the revised norms has been charged as 'Dynamic Provision'.

12. Net PROFIT OR LOSS

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

1. Provision on non- Performing loans
2. Provision for depreciation on Company's Property, and
3. Other usual/necessary provisions as required.

SCHEDULE 21

NOTES ON ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2012

1. Bhutan Insurance Limited (BIL) is registered on 24th July, 2009 under The Companies Act of the Kingdom of Bhutan, 2000.
2. The financial statements for the year have been drawn up 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. Resources of Insurance Department, Provident Fund and Fund obtained through borrowing are Centrally managed through Finance & Investment Department.
4. The company issued right shares at par in the ratio of 1:1 after obtaining previous approval from RMA and guidelines issued by RSEB in this regard. As against the total size of right issue of 1,000,000 shares of Nu.100 each 703,049 shares were subscribed by public.

The unsubscribed shares of 296,951 were allotted to the employees under the ESOP as per the resolution passed in the extra ordinary general meeting and necessary instructions contained in the letter RSEB/LIS/DPNB/2012/1183 dt.23.10.2012 were complied with.

5. During the year the company repaid the short term loan of Nu.70 million to NPPF and Nu.50 million to DPNB from the proceeds of right issue made during the year.
6. Contingent liabilities as at the Balance Sheet date (as certified by the management)
 - i) Guarantee issued by the company amounting to Nu.87,298,642.00 remain unexpired as on 31st December,2012
 - ii) Un executed amount of capital commitment remaining to be executed as on 31st December,2012 is Nu.6,000,000.00
7. Interest income on loans of Nu.40,561,357.00 is net of suspended interest of Nu.404,847.00 which conforms to the Prudential Regulation, 2002 by Royal Monetary Authority of Bhutan.
8. Interest of Nu.570,614.00 has not been recognized as income & kept under Interest in suspense account.
9. Interest of nu.2,305,846.00 was not collected but included in total loan outstanding as on 31.12.2012.
10. Provision against non-performing loans of Nu.5,682,016.00 has been computed as per the RMA Prudential Guidelines. Additional non specific provision of Nu.5,296,889.00 has been created to consider probable loss which may arise out of potential non performing loans.
11. Due to revision in the Asset Classification and Loan Provisioning norms by Royal Monetary Authority effective from 31.12.2012, the amount of provision based on the revised norms worked out to Nu.9,538,258 as against Nu.10,978,904 as per old norms. This has resulted a difference (excess) of Nu.1,440,646 which has been provided as “ Dynamic Provision”.
12. Current liabilities include aggregate provident Fund contribution received from various organization for which BIL has been acting as ‘Manager to Provident Fund’ amounting to Nu.34,215,563.00 (previous year Nu.21,404,013.00) & Nu.1,684,494.00 (previous year Nu.983,498.00) as interest thereon.
13. Reserves for un-expired risks amounting to Nu.78,957,740.00 (previous year Nu.89,295,347.00) created in the Revenue Accounts in respect of General Insurance Business at 55% of the net premium income during the year which have been duly reflected as General Insurance Funds in the Balance Sheet.
14. No actuarial valuation has been adopted by the Company for the purpose of determining the amount of gratuity liability. However, an amount of Nu.1,146,829.00 have been provided in the accounts towards gratuity on the presumption that all employees ceases to be employed with the Company as on 31.12.2012. This liability has not yet been funded by way of separate investment. For accumulated balance upto 31.12.2012 in Gratuity fund amounting to Nu.1,595,829.00 the company is acting as a fund manager.

15. Provision for bonus payable to employees has neither been not ascertained nor been provided for in these accounts.
16. The assets of the Company in Bhutan are free from all encumbrances.
17. Premium in respect of policies on General Insurance extended for more than one year is recognized as income in the year of service being rendered.
18. Re-insurance:
- I. The balances outstanding, both debits and credits, as at the Balance Sheet date to re-insurers are pending final reconciliation process/ confirmation and acceptance of the re-insurance and consequently any further adjustments thereof are not ascertainable at this stage, are netted off at Nu.30,915,455.00 in Schedule 12.
 - II. Reinsurance premium payable to reinsurer for aviation insurance is Nu.28,070,937.00 which has not included in the above amount and shown separately in schedule 8.
19. Management expenses include-
- a) Managerial Remuneration paid/payable to the Chief Executive Officer :-

| | <u>2012</u> | <u>2013</u> |
|------------------|------------------------|------------------------|
| -Remuneration: | Nu. 1,384,335.00 | Nu.1,152,840.00 |
| -Other Benefits: | Nu. 154,882.00 | Nu.183,220.00 |
| Total: | Nu.1,539,217.00 | Nu.1,336,060.00 |
 - b) Directors sitting fees:

| | | |
|--|----------------|---------------|
| | Nu. 290,000.00 | Nu.215,000.00 |
|--|----------------|---------------|
20. The Audit Fees and Expenses
- a) Audit fee:

| | | |
|--|---------------|--------------|
| | Nu. 75,000.00 | Nu.75,000.00 |
|--|---------------|--------------|
 - b) Audit expenses:

| | | |
|--|----------------|---------------|
| | Nu. 125,000.00 | Nu.125,000.00 |
|--|----------------|---------------|
21. Premium Deficiency has not been credited since, in the opinion of the management, the expected claim costs along with the related expenses and maintenance cost of the insurance products in force would not exceed the related reserve for unexpired risk.
22. In the opinion of management, there is no impairment of fixed assets of the corporation, which may require any adjustment to be made.
23. Particulars of the transactions with the Directors and their relatives and companies in which Directors are interested, as per provisions of the Companies Act of the Kingdom of Bhutan,2000 :

| Sl. NO. | Name of the party | Nature of transaction | Outstanding amount as on 31.12.2012 (Nu.) | Outstanding amount as on 31.12.2011 (Nu.) |
|---------|-------------------------------|---|---|---|
| 1. | Dasho Ugyen Rinzin | Commercial Establishment Loan | 1,744,046.39 | 1,846,261.59 |
| 2. | Dasho Ugen Tshechup Dorji | Commercial Establishment Loan | 1,815,200.09 | 1,887,418.92 |
| 3. | Mr. Karma Lotey | Commercial Establishment/Housing Loan | 4,723,132.99 | 1,846,385.97 |
| 4. | Mr. Karma Dorjee | Commercial Establishment/Overdraft Loan | 9,004,119.03 | 1,461,942.46 |
| 5. | Mr. Tshering Gyaltshen | Commercial Establishment/Housing Loan | 3,524,585.47 | 3,763,607.33 |
| 6. | Singye Construction Pvt. Ltd. | Term Loan and Bank Guarantee | 45,794,159.84 | 45,916,245.18 |

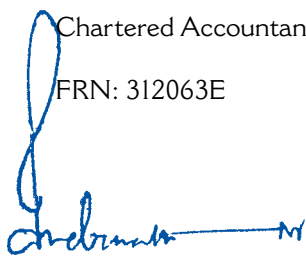
24. Based on the audit/ field assessment of the company for the year 2009, 2010 & 2011, the taxation authorities levied an additional CIT of Nu.830,195.02 due to some inadmissible expenditure.
25. Other Current liabilities (Schedule 8) includes unclaimed dividend of Nu.2,126,807.00 (previous year Nu.1,198,259.00).
26. Other advance (schedule 12) includes amount of misappropriation Nu.227,109.27 by an employee who has been directed to deposit Nu.10473.00 per month as per District Court judgment. The concerned employee has since been terminated from the service of the company.
27. Previous year's figures have been adjusted/rearranged/ regrouped wherever necessary to make them comparable with the current year's figure.

On behalf of The Board of Directors

For Nag & Associates

Chartered Accountants

FRN: 312063E



IN NAG

PARTNER

Membership No.050531

Place: Kolkata

Date:



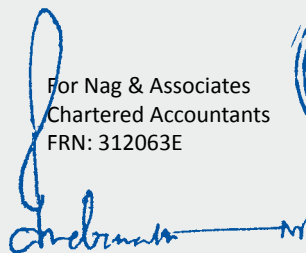

CEO


Directors


Chairman

BHUTAN INSURANCE LIMITED
PRIVATE PROVIDENT FUND
Statement of Financial Position as on 31/12/2012

| Particulars | Schedule | Nu. |
|--|----------|------------|
| LIABILITIES | | |
| Employees' & Employers' Contribution (Net) | 1 | 33,320,886 |
| Interest Credited to Members' Accounts (Net) | 2 | 2,579,169 |
| | | 35,900,055 |
| ASSETS | | |
| Fund Deposited with BIL | 3 | 34,215,563 |
| Other Assets | 4 | 1,684,494 |
| | | 35,900,055 |


 For Nag & Associates
 Chartered Accountants
 FRN: 312063E



IN NAG
 Partner
 Membership Number: 050531
 Place: Kolkata
 Date:




On Behalf of The Board of Directors


 CEO

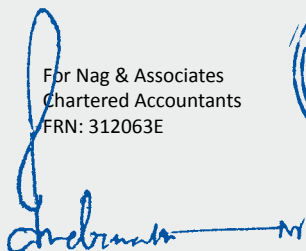

 Director


 Chairman

The schedule referred to above form and integral part of this Balance Sheet.
 This is the Private Provident Fund Balance Sheet referred to in our report of even date.

BHUTAN INSURANCE LIMITED
PRIVATE PROVIDENT FUND
Statement of Comprehensive Income as on 31/12/2012

| Particulars | Schedule | Nu. |
|-----------------------------------|----------|------------------|
| INCOME | | |
| Return on deposit with BIL | | 1,684,494 |
| Total (A):- | | 1,684,494 |
| EXPENSES | | |
| Return on employees' contribution | | 842,247 |
| Return on employers' contribution | | 842,247 |
| Total(B) :- | | 1,684,494 |



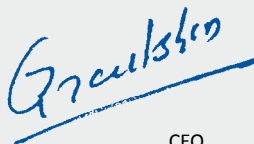
For Nag & Associates
Chartered Accountants
FRN: 312063E



IN NAG
Partner
Membership Number: 050531
Place: Kolkata
Date:



On Behalf of The Board of Directors



CEO



Director



Chairman

The schedule referred to above form and integral part of this Profit or Loss A/c.
This is the Private Provident Fund Profit or Loss A/c referred to in our report of even date.

BHUTAN INSURANCE LIMITED
PRIVATE PROVIDENT DIVISION
Schedules attached to and forming part of the Accounts as on 31/12/2012

1 Employees' & Employers' Contribution

| Particular | Employees' Contribution 2012 | Employers' Contribution 2012 | Total Contribution 2012 |
|---|------------------------------|------------------------------|-------------------------|
| As per last Account (Net of refund) | 10,661,536 | 10,661,536 | 21,323,072 |
| Add:- Difference amount of earlier year | 13,830 | 13,842 | 27,672 |
| Add:- contribution during the year | 7,267,388 | 7,276,179 | 14,543,566 |
| | 17,942,754 | 17,951,556 | 35,894,310 |
| Less: Refund during the year | 1,282,830 | 1,290,595 | 2,573,424 |
| Total:- | 16,659,924 | 16,660,962 | 33,320,886 |

2 Interest on Employees' & Employers' Contribution

| Particular | Employees' Contribution Interest 2012 | Employers' Contribution Interest 2012 | Total Interest 2012 |
|-------------------------------------|---------------------------------------|---------------------------------------|---------------------|
| As per last Account (Net of refund) | 532,220 | 532,220 | 1,064,439 |
| Add:- contribution during the year | 842,030 | 842,463 | 1,684,494 |
| | 1,374,250 | 1,374,683 | 2,748,933 |
| Less: Refund during the year | 84,686 | 85,078 | 169,764 |
| Total:- | 1,289,564 | 1,289,605 | 2,579,169 |

3 Investment with BIL

| | |
|---------------------------------|-------------------|
| As per last Account | 21,404,013 |
| Add:- Deposited during the year | 12,811,550 |
| Total:- | 34,215,563 |

4 Other Assets

| | |
|--|-----------|
| Receivable from BIL (Interest Accrued) | 1,684,494 |
|--|-----------|

