

FINANCIAL INSTITUTIONS

4.38 Bhutan National Bank Ltd. (BNBL), Head Office, Thimphu.

The Royal Audit Authority during the year had issued 1 report pertaining to the Bhutan National Bank Ltd. (BNBL), Head Office, Thimphu. The total significant irregularities pointed out aggregated to Nu.7.487 million as summarized below:

Table 4.102 showing the summary of observations with category code and amount involved (Nu.in million)

Sl. No.	Observations in brief	Amount	Category code
1	Mismanagement of funds	-	3.1
2	Irregularities in recoveries	0.450	5.7
3	Shortfalls & uneconomical operations	7.037	5.12
Total		7.487	

As noted above major irregularities pertained to lapses in staff loan account, amount recoverable and double taxation on bank's earning from time deposit. The detailed reports of the significant irregularities are presented hereunder:

4.38.1 *Mismanagement of funds*

Three Staff Loan Accounts had Over Due (OD) range of 13 to 18 months and eleven Staff Loan Accounts had Over Due (OD) range of 1 to 3 months. Against staff loan of Nu.0.255 million sanctioned on 30.07.2004, the vehicle was purchased only in January 2004 and loan documents were prepared only in Nov. 2005. Thirty two Staff Loan had either incomplete documents or the loan amounts exceeded the insured value of vehicles.

Who is accountable?

Sonam Penjore, Credit Head, and Kipchu Tshering, Managing Director are held accountable.

4.38.2 *Irregularities in recoveries-Nu.0.450 million*

An amount of Nu.0.450 million was not recovered from M/s Himalayan Fruits Products since September 2001

Who is accountable?

Lhaki Wangmo, Dorji Dukpa and L.P. Giri, Banking Head are held accountable.

4.38.3 Shortfalls & uneconomical operations -Nu. 7.037 million

During the years 2001 to 2003 the bank had not recognized interest income aggregating to Nu.7.037 million representing of tax deducted at source by the banks in India apparently in absence of a Double Taxation Agreement between India and Bhutan.

Who is accountable?

Karma, Deputy Managing Director, and Kipchu Tshering, Managing Director are accountable.

4.39 Bhutan Development Finance Corporation Ltd. (BDFCL), Head Office, Thimphu.

The Royal Audit Authority during the year had issued 1 report pertaining to the Bhutan Development Finance Corporation Ltd. (BDFCL), Head Office, Thimphu. The total significant irregularities pointed out aggregated to Nu.71.94 million as summarized below:

Table 4.103 showing the shortfalls and uneconomical operations (Nu.in million)

Sl.No	Observation in brief	Amount	IR No. & Date	Who is accountable?
1	Non-Performing Term Loan	1.036	IR (05)/CFID/200 5/5453, 20/05/05	Ugyen Dhendup, General Manager, Credit Operations and Namgay Dorji, Manager, Legal Officer
2	Seventy six Frozen Loan Accounts	20.427		Ugyen Dhendup, General Manager, Credit Operations and Namgay Dorji, Manager, Legal
3	290 Non-Performing Loans (NPL)	33.983		Ngawang Gyetse, Managing Director and Ugyen Dhendup, General Manager for Credit Operations
4	Overdue/irregularities in sanctioning of Loan	16.494		Ugyen Dhendup, GM, Credit Operations; Binay Moktan, PE; Sonam Letho, PM; Sangay Dorji, PM; Tashi Penjor, GM, Branch Operations; Karma T. Dorji, PO; Nim Phetu, GM, Phuentsholing; Tshewang Norbu, WRM; Phub Dorji, DCO, Thimphu Branch; Tenzin Tashi, DCO, Paro; and Yeshey Jamtsho, DCA, Haa
Total		71.94		

The details of irregularities are discussed hereunder:

- ✚ A total loan of Nu.1.180 million including interest of Nu.0.380 million and penalty of Nu.0.030 million respectively was recoverable from one of the clients. The loan was initially sanctioned in 1992 under the Entrepreneurship Development Programme (EDP) Scheme. In spite of rescheduling loan twice, no repayments were received and the case is under sub-judice since May 2003. The loan status as of 28th February 2006 as per the latest report of the management was Nu.1.036 million;
- ✚ 29 loan accounts with total loan balance of Nu.2.957 million under Agriculture Lending Department (ALD) and 47 loan accounts with total loan balance of Nu.17.470 million under the Industrial Lending Department (ILD) were frozen as of 10 Sept. 2004. Some of these loans were sanctioned in 1993. Aging analysis of loan accounts under ALD could not be undertaken due to lack of adequate information. The management's latest response indicated that the total frozen loan accounts have been reduced to 57 through recoveries and write offs;
- ✚ As of 11 Sept. 2004, there were 290 NPL clients totaling to Nu.121.596 million. Against a total loan recoverable balance of Nu.701.30 million from 1,535 clients, NPL in terms of amount and clientele percentages were 17.34 % and 18.89% respectively. The management's latest response indicated that the total non-performing loans have been reduced to 150 out of 290 with a total NPL of Nu.33.983 million. 112 loan accounts were reported to be closed while 28 loan accounts were updated and regularized; and
- ✚ Cases of overdue loan accounts and sanctioning of loan in excess of sanctioning limit noted were as summarized below:

Table 4.104 showing over due/irregularities in sanctioning of loans(Nu.in million)

Sl. No	Nature of Irregularity	Amount	IR Para No	Remarks
1	Housing loans of Nu.3.800 million sanctioned in excess of sanctioning limit of Nu.2.500 million based on same project appraisal report to two different clients, Loan over due by 8 and 9 months and amount over due of Nu.0.677 million.	0.677	I(10)	Loan account of one of the clients reported to be up-to-date while the other account was reported to have been improved.
2	One client had Housing Loan of Nu.0.220 million over due against Nu.1.8 million sanctioned.	0.220	I(12)	The latest response of the management reported that the account has been updated.
3	Term loan of Nu.1.630 million sanctioned between May 2002 to May 2003 for a Piggery Farm at Phuentsholing. The project was in a very poor state with only four grown-up pigs and two piglets as noted during site visit on 31.08.2004.	0.046	IV(6)	The latest response of the management reported the closure of the project since 2004. The management further reported that strategies to resolve the case are being under taken.
3	Over due Term loan account. 5 installments over due. Two term loan accounts sanctioned in 2001 merged into one in 1996 with extended repayment period up to 31.12.2005.	0.145	IV(10)	The management submitted that the account has been closed.
4	Overdue Term Loan Accounts with 330 clients, valuing Nu.4.018 million at Phuentsholing Branch	4.018	IV(11)	49 accounts were Term Expired ,9 accounts were on OD for more than six installments and 32 accounts with 3-5 installments OD. 16 clients had not paid even a single installment and 5 of these were Term Expired Loan Accounts.
5	Overdue Term Loan Accounts with 311 clients, valuing Nu.2.555 million at Thimphu Branch	2.555	V(1)	OD loans ranging from 1-15 months Term Expired
6	Overdue Term Loan Accounts with 559 clients, valuing Nu.7.708 million at Paro Branch	7.708	VI(3)	Overdue ranged from 7-27 Quarters (Agriculture Purpose loan), 5-10 Quarters (Housing purpose loan), 2-8 years (Animal Husbandry and local trade purposes loan).
7	Overdue Term Loan Accounts with 90 clients, valuing Nu.1.125 million at Haa Branch	1.125	VII(2)	
Total		16.494		

4.40 Bank of Bhutan Ltd. (BOBL), Head Office, Phuentsholing

The Royal Audit Authority during the year had issued 2 reports pertaining to the Bank of Bhutan Ltd. (BOBL), Head Office, Phuentsholing. The total significant irregularities pointed out aggregated to Nu.15.075 million as summarized below:

Table 4.105 showing the summary of observations with category code and amount involved (Nu.in million)

Sl. No.	Observations in brief	Amount	Category code
1.	Shortfalls & uneconomical operations	14.679	5.12
2.	Misappropriation	0.396	2.1
Total		15.075	

As noted above major irregularities pertained to misappropriation and shortfalls and uneconomical operations of the bank. The detailed reports of the significant observations are presented hereunder:

4.40.1 Shortfalls & uneconomical operations - Nu. 14.679 million

The Bank of Bhutan Ltd. (BOBL), Head Office, Phuentsholing had instances of loans sanctioned to borrowers with defaulting records, term expired loan, excess liquidity, unclaimed deposit and under utilization of software as summarized in the table below:

Table 4.106 showing shortfalls & uneconomical operation (Nu. in million)

Sl.No	Observations in brief	Amount	IR No. &Date	Who are accountable?
1	Loans sanctioned to borrowers with defaulting records with other Financial Institutions	0.540	IR(02)/CFID/20 05/7460 27/10/05	Tenzin Dorji, Branch Manager, Mongar, H.B. Gurung, Branch Manager, Bazaar Branch, Phuentsholing and Ugyen Wangdi, Acting General Manager, Credit Department
2	Term Expired loan	10.847	IR(02)/CFID/20 05/7460 27/10/05	Ugyen Wangdi, AGM, Credit Department; G.P. Sharma, DMD, Credit Operation; Tendri Wangdi, BM, Paro Branch; and Kiran Gurung, DGM.
3	Excess liquidity	-	IR(02)/CFID/20 05/7460 27/10/05	G.P. Sharma, Dy. Managing Director and Tshering Dorji, Managing Director
4	Un-utilization of Software programme	-	IR(02)/CFID/20 05/7460 27/10/05	Pasang Tshering, Dy. Managing Director and Tshering Dorji, Managing Director
5	Unclaimed deposit	3.292	IR(02)/CFID/20 05/7460 27/10/05	Damber Tamang, Sr. Staff Officer and Pasang Tshering, Dy. Managing Director
Total		14.679		

The details of irregularities are as discussed hereunder:

- It was observed that the BOBL had sanctioned loans to borrowers having defaulting records with other Financial Institution. Three loans (two ML and one MO) with total amount of Nu.0.514 million were sanctioned to a defaulting client of RICBL in December 1999. No repayment was received. Case was referred to Court on 28 January 2004, thereafter Nu.0.056 million was received. Nu.0.540 million was outstanding. Against two ML, 34 installments were due and MO was term expired with balance amount of Nu.0.037 million. As per the court verdict the client was instructed to repay Nu.0.009 million per month w.e.f. June 2004.

The management submitted that the loan was sanctioned to a client with defaulting records with a view to support EDP graduates sponsored by EPC and to augment the Government policy to develop the private sector. Further, the response stated that the loan accounts are regularized and are being monitored strictly.

A Working Capital loan of Nu.0.200 million was sanctioned to a hotelier of Phuentsholing in March 2001 under the Miscellaneous Overdraft Scheme when he had loan outstanding with the RICBL. The loan had become term expired. The case was referred to the Phuentsholing Dungkhang Court in January 2005; and

- The bank had Term Expired Loans as summarized below:

Table 4.107 showing term expired loans (Nu.in million)

SL No	Nature of irregularity	Amount	IR Para No	Remarks
1	Term Expired loan with total outstanding of Nu.1.1 million (as of 30.09.2004) receivable from one client who had absconded.	1.100	1.4	Loan of Nu.0.240 million was sanctioned on 24 April 1990 with initial term till 24.04.1995.
2	Term Expired Loan of Nu.0.469 million as of 29.11.2004. BPCL did not route the running account bills of its contractor through the BOBL, Paro against undertaking issued by it.	0.469	1.6	Case forwarded to the Court.
3	Out of NPAs as of 30 Sept. 2004 of Nu.177.080 million NPA amounting to Nu.9.278 million were with 92 absconded borrowers.	9.278	1.8	The matter was referred to the Ministry of Finance by the management.
Total		10.847		

- Bank had excess liquidity during the last five years (1999 to 2003), to the extent that more than 70% of its total deposited monies were not invested. While only 17% of the total deposits were invested in the form of loans

and advances in 1999, this percentage had marginally increased to 21% in 2003.

The management submitted the following justifications.

“BOBL being a Government controlled bank is mandated to provide banking services to the general mass and inculcate saving habits in the country while operating within the norms of a commercial bank. This has put the BOBL at a cross road, the first mandate does not give us room to control deposit receipts nor plan our deposit mix for interest expenditure, while the commercial nature of our operation requires us to operate within the prudential norms set by the RMA.

As per the RMA Prudential Regulations 2002, for effective liquidity management the commercial banks are required to maintain a Cash Reserve Ratio (CRR) at the rate specified by the RMA from time to time (which at present stands at 13% of total deposits less the cash balance) and Statutory Liquidity Ratio (SLR) @ 20% of total liabilities, excluding capital funds and liabilities to the RMA.

This leaves the BOBL with term investment fund equal to 67% of its total deposit. In 2005, the bank in an average has invested 29.16% in loans and advances, 7.09 in Govt. securities and equity leaving an excess liquidity of 38.75%. With a large deposit base of Nu.12,351.681 million, 38.75% works out to Nu.7,786.276 million.

The BOBL with a view to diversify and expand its advances portfolio as suggested by the RAA, observing the limits set by the RMA on single largest borrower and ten largest borrowers exposure limit have enhances the delegation of power of branch heads effective from 01/01/2006. The deposit and advances budget have been drawn in consultation with the branch heads from the year 2005. We have also revised interest rates on some of our loan schemes from 01/07/2005 and introduced a fresh scheme called ‘Consumer loan’ from January 2006. With the given measures taken in the year 2005 and early 2006, the BOBL hope to have a larger and diversified loan investment portfolio. As regards to other in country investment avenues, in particular Government Securities and equity market we see very little opportunities forth coming.

The BOBL as the premier commercial bank with the above social mandates is making every effort to manage its treasury as effectively as possible. We request the RAA to review our investment plan in correlation to the low keyed investment & security market within the country”; and



The Bank had designed a Druk Banker Software Programme during 1995 to 1998 at a cost of Nu.2.275 million for complete computerization of the banking operations. Further, a provision of Nu.6.45 million was created in 2000 for soft-ware up-gradation.

Out of 26 branches, software was installed only in 4 Branches. Besides, the reliability of the software in these 4 branches was also questionable as the system-generated figures had to be backed up with manual calculations.

The management submitted that it has recently computerized two more branches and would be computerizing another two branches very shortly. It also stated that new computers and printers had been supplied to all the branches during the year 2005.

✚ The Bank had unclaimed deposits of Nu.3.292 million as of 31.12.2003 (increased to Nu.6.900 million as of 31.12.2004) lying in various accounts accumulated since as far back as 1989.

The management submitted that with the approval accorded in the 147th Board Meeting, the balances not claimed for more than three years are appropriated to the Profit & Loss Account.

4.40.2 Misappropriation - Nu.0.396 million

An amount of Nu.1.2 million was pending recovery through the Royal Court of Justice, Monggar on account of misappropriation of fund at BOBL, Monggar Branch. Subsequently, Nu.0.804 million was reported as recovered by the Bank leaving a balance of Nu.0.396 million.

Who is accountable?

Janga Rana, Administrative Officer and Pasang Tshering, Dy. Managing Director are held accountable.

4.41 Royal Insurance Corporation of Bhutan Ltd. (RICBL), Head Office, Phuentsholing

The Royal Audit Authority during the year had issued 1 report pertaining to the Royal Insurance Corporation of Bhutan Ltd. (RICBL), Head Office, Phuentsholing. The total significant irregularities pointed out aggregated to Nu.16.098 million as summarized below:

Table 4.108 showing shortfalls and uneconomical operations (Nu.in million)

Sl.No	Observations in brief	Amount	IR No. & Date	Who are accountable?
1	Sanctioning of additional loan to a defaulting client	0.850	RAA (IR-07)CFID/2005/7896, 2/12/05.	Dhendup Norbu, Manager, Kinzang Dorji, Manager, Sangay Dorji, Dy. Manager, Nado Gyeltshen, General Manager, Surajit Dutta, General Manager and Lamkey Tshering, Managing Director
2	Defaulted Loan	11.154		Dhendup Norbu, Manager, Kinzang Dorji, Manager, Sangay Dorji, Dy. Manager, Surajit Dutta, General Manager, Nado Gyeltshen, General Manager and Lamkey Tshering, Managing Director
3	Overdue Loan	4.094		Karma Phuntsho, Dy. Manager, Sangay Wangdi, Pema Yangchen, Surajit Dutta, General Manager and Lamkey Tshering, Managing Director
4	MOU for marketing of Integrated Insurance Management System (IIMS) - all in favor of TCS	-		Tshering Gyeltshen, General Manager and Lamkey Tshering, Managing Director
Total		16.098		

The details of irregularities are discussed hereunder:

- One of the clients at S/Jongkhar who was sanctioned an additional loan of Nu.0.850 million as a renovation loan had utilized the loan proceeds to regularize his irregular Card Loan account with OD amount of Nu.0.142 million. His Business Loan as of 28 Feb. 2005, was Term Expired with total loan outstanding of Nu.0.463 million;

✚ During the period 2000-2003 a total loan of Nu.11.154 million was sanctioned to one of the clients under eight different schemes. The borrower defaulted all these loan accounts and the overdue amount as on 28 Feb. 2005 stood at Nu.9.332 million and the loan balance was Nu.14.759 million. Out of these, four loan accounts were “*Term Expired*”. Machinery purchased for Nu.1.076 million as well as other vehicles pledged against the above loans were not hypothecated to the RICBL. The cases were forwarded to the Royal Court of Justice, Thimphu Dzongkhag in the year 2003;

✚ Total loan amounts aggregating to Nu.46.578 million were lying overdue against 829 loan accounts as on 31 Dec. 2004. The period of overdue ranged from one month to as high as 61 months. Fifty two (52) loan accounts out of 829 overdue loan accounts were Term Expired accounts aggregating to Nu.5.237 million (11.25% of total OD). As compared to total loan outstanding of Nu.1.328 million, the overdue balance of Nu.1.328 was kept within 3.51% which was appreciable.

The management’s latest response indicated that the recovery percentage as on 31/12/05 is 91.21 % (42.483 million) and balances are being constantly followed up with the clients; and

✚ RICBL had entered into an Agreement/Memorandum of Understanding (MOU) with M/s TATA Consultancy Services (TCS), India for marketing of IIMS, which was developed in-house at RICBL. However, terms of the Agreement/MOU especially in terms of sharing sale proceeds of the system was not found favorable for the RICBL. Further, it was observed that the RICBL had shared an Intellectual Property Rights (IPR) with the TCS, which was ultimately sold to the TCS at Nu.4.2 million without the consent of the Board. Further, TCS had revoked sale proceeds of Nu.0.727 million, which was already remitted to the RICBL on account of the product sold but not implemented by the buyer, M/s General Motors Acceptance Corporation (GMAC), USA though the MOU did not provide for the revocation of sale proceeds.