



*Joenpalekso!*

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BANK OF BHUTAN

A dhi Company



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The Board of Directors is pleased to present the 49th Annual Report of your Bank with the audited Statement of Financial Position (Balance Sheet), Statement of Comprehensive Income (Profit & Loss Account), and the Report on Business and Operations, for the period January 1 - December 31, 2016 (FY16).

### ECONOMIC OVERVIEW

The Monkey Year (2016) saw the economy recover from an all-time low GDP growth of 2.05 percent in 2013-14 to 6.49 percent in 2014-15, with further projected growth of more than 6 percent in 2015-16. The economy experienced the overall credit growth of 15.41 percent from 2015.

### FINANCIAL PERFORMANCE

The fiscal year of 2016 saw improvement for your Bank with improvement in the economy of the country. With continued improvements in banking operations and cost efficiency, your Bank was able to sustain and enhance the financial performance with very stable earnings. In summary, your Bank registered a Total Comprehensive Income of Nu. 934 million in the year 2016, against Nu. 827 million in 2015. This reflected a growth of 13 percent in Total Comprehensive Income compared to 2015. The growth in Total Comprehensive Income is mainly triggered by increase in interest income from Nu. 2,397 million in 2015 to Nu. 2,737 million in 2016.

Deposits from customers continued to increase from Nu. 32.10 billion in 2015 to Nu. 36.49 billion in 2016. This confirms the people's continued confidence and trust in the Bank. This triggered an increase in interest expenses from Nu. 988 million in 2015 to Nu. 1,108 million in 2016.

We are also very proud to inform you that your Bank was the first bank in the country to implement the Minimum Lending Rate (MLR) in September 2016 and the only bank to declare the new lending rates on the deadline given by RMA. The bank's move triggered other banks to follow suit and lower their interest rates benefitting the economy at large.

### DIVIDEND

Your Bank adopted consistent dividend policy of balancing the twin objectives of appropriately rewarding shareholders and retaining capital to maintain a healthy capital adequacy ratio to support future growth. With this, and in recognition of the robust performance during 2016, the Board has approved a dividend of Nu. 10 per share for the year ended December 31, 2016 amounting to Nu. 300 million to its shareholders.

### CAPITAL AND RESERVES

The total capital and reserves of your Bank increased by 15.72 percent in 2016, an increase from Nu. 4,758.28 million in 2015 to Nu. 5,506.19 million in 2016.

### OWNERSHIP

The ownership of Bank of Bhutan Limited is vested with the Druk Holding and Investments Limited (DHI) and the State Bank of India (SBI) in the proportion of 80:20 equity holdings respectively.

### CORPORATE GOVERNANCE

Your bank is in adherence to the Corporate Governance Regulations 2011 issued by the Royal Monetary Authority, the Financial Services Act 2011, and the Companies Act of the Kingdom of Bhutan, 2000. Further, it has also fully implemented all the directives of the Board. The Board Audit Committee, Board Credit Committee, Board Risk Committee and Board Governance Committee held their own minimum meetings as required by their Rules of Procedures. Further, the internal service rules and regulations have also been in line with the provisions of the Labour & Employment Act. The service rules have also been revised keeping up with the changing times and all changes are being endorsed by the Ministry of Labour & Human Resources.

Recruitment is carried out in the most transparent manner with pre-determined criteria. The Management HR Committee, Board Governance Committee and the Board as per delegation of power, addressed all human resource issues properly. Grievance redressal rules and procedures have been put in place so that employees could express their views either against individual employees, supervisors or the

Management. The Management conducts regular management meetings to monitor activities being executed on time as per the annual compacts of Departments and directives of the Management and the Board. BoBL is in compliance with the requirements stipulated by the Registrar of Companies and Ministry of Economic Affairs.

### CONSTITUTION OF BOARD AND BOARD MEETINGS

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

Name	Position	Designation/Office	Appointment Date
Dasho Sangay Khandu	Chairman	Chairman, DHI	9th March 2016
Mr. Vijay Kumar Tyagi	Director	GM, Retail & Subsidiaries, IBG, SBI, India	22nd November 2016
Ms. TashiPem	Director	Director, RCSC	9th March 2016
Mr. Tara Nidhi Chimorya Sharma	Director	Budget Analyst, DNB, MoF	22nd January 2015
Mr. SangayWangdi	Director	CEO, BBPL	9th March 2016
Mr. Passang Dorji	Director	Director, Dept. of Investments, DHI	9th March 2016
Mr. Pema N. Nadik	CEO/Director	CEO, BoBL	Re-appointed on 5th April 2016

### BOARD MEETINGS

To enhance good governance and provide appropriate policy directives to the company, 11 Board meetings were convened during the year. In all these meetings, quorum was maintained as required. The Annual General Meeting for the year 2015 was held on 26th February, 2016, thereby complying with the Companies Act, 2000. Besides these, 7 Board Audit Committee Meetings, 4 Board Credit Committee meetings, 4 Board Risk Committee Meetings, 6 Board Governance Committee meetings, 1 Board Project Steering Committee for CBS Upgrade Project, and 1 Board Project Steering Committee for Thimphu Corporate Office Construction were convened in the year 2016 to discuss and decide on various aspects of the operations of the Bank.

### CUSTOMER SERVICE

The annual Customer Satisfaction Survey of your Bank, coordinated by DHI and conducted by Center for Business Research and Entrepreneurship Development and Gaeddu College of Business Studies presented a composite Customer Service Index (CSI). For the period surveyed, your Bank's CSI rating was 3.66 out of a total of 5 points.

Customer Service Day was celebrated on October 22. The day was marked by events in all the branch offices geared towards interacting with the customers and to convey appreciation for their business with the Bank while also taking feedbacks and suggestions on improving our services.

A full-fledged Help Desk was also established at the Thimphu Main Branch to cater to all enquiries



and complaints related to BoB products and services. Further, introduction of visitors' book for feedback was also implemented. The BoB Customer Service Charter was also introduced and implemented for the first time during the year.

### MARKETING

The Bank continued organizing regular marketing events such as marketing and selling activities to graduates at the National Graduates Orientation Program (NGOP) during the year 2016 and door-to-door marketing and selling to various organizations in and around Thimphu. Timely awareness campaigns on the Bank's products and services were also carried out through Bank's social media sites and also through mainstream print and audio-visual advertisements. The Bank also participated in the Royal Highlander's festival in Gasa, promoting the Bank in a place where there are no motorable roads. The Bank also opened counters for promoting its products and services during the events such as Green Exhibition, Construction Expo and the 13th Trade SAARC Fair. These initiatives were successful considering the result in terms of the number of customers acquired during the year.

### TECHNOLOGY

New age banking revolves around digital banking as people of all generations are increasingly using the Internet, social media and their smart phones to do their banking. As the largest bank in Bhutan, your Bank is integral to the personal lives of all citizens and businesses as the frontrunner in adopting technology in banking. Your Bank has kept pace with the changing needs of the customers by updating and introducing new technology.

In order to further improve the services, the Bank changed its Core Banking System (CBS) from Oracle FLEXCUBE to TCS BaNCS in partnership with Tata Consultancy Services (TCS), which was implemented on 1st April 2016. With change in CBS, the Bank will be able to introduce new and innovative products quickly reducing time-to-market while launching new products and services.

Modern banking is also about connecting people to their money more quickly, accurately and efficiently. To this end, your bank has improved and increased the functionalities in the Mobile Banking or m-BoB app, which has greatly enhanced convenience to the valued customers.

### HUMAN RESOURCE DEVELOPMENT

Human resource development and its management is the key to the success of any organization. The Board and the Management of your Bank, recognizing the importance of human resource and management, has conceptualized and institutionalized numerous policies and practical interventions at all levels to enhance human resource capacity. In the year 2016, 161 employees from different grades were trained in various fields of banking. Three employees from various verticals received the BoB Scholarship for pursuing their Master's Degree. The number of new appointments was 37, mostly at the Assistant level. A total of 214 employees were promoted in the year 2016.

### CORPORATE SOCIAL RESPONSIBILITY

Your Bank continued its commitment towards social responsibility and engaged in social activities that touched lives of many across all corners of the country. Following the CSR policy for all DHI Owned Companies, your Bank focused its activities in various sectors of education, health, environment, entrepreneur development, youth development, assistance to the poor and underprivileged, among others.

Highlights of the CSR events in 2016 were the Cleaning Campaign and Blood Donation Campaign. The cleaning campaign was done in partnership with Clean Bhutan with the theme "Advocating your Neighbours" with about 70 participants from Thimphu Head Office and branch offices led by the CEO. Coinciding with World Blood Donors Day, a blood donation campaign was organised at Thimphu Main Branch, the PSA ground in Phuentsholing, the BOC Hall at Gelephu and Mongar Hospital. The Bank's initiative is in response to the increasing

number of accidents on Bhutanese roads and construction sites, increasing demand for emergency blood supplies and the frequent shortage of stock in the blood bank.

#### AUDITORS

M/s. Aggarwal Subodh and Co., a firm from Kolkata was appointed to audit the books of accounts of your Bank and its subsidiary for the financial year ended 2016, by Royal Audit Authority with approval from the Royal Monetary Authority.

#### ACKNOWLEDGEMENT

The Directors of the Board of your Bank express their appreciation for the continued guidance and assistance rendered by the Royal Government, the RMA, DHI, SBI, the Royal Audit Authority, statutory auditors, and other regulatory

authorities, and correspondent banks. The Board also conveys its sincerest gratitude to the shareholders, clients, investors, and well-wishers for its continued goodwill, patronage, and support. Last and most importantly, the Board also conveys their sincere appreciation to the management of the Bank of Bhutan for the stellar leadership shown and all the employees for their dedicated hard work and commitment.

The Board of Directors would like to take this opportunity to pledge their commitment and dedication to the growth and development of the Bank. The Directors look forward to the continued support from all stakeholders in the years ahead.

Tashi Delek!

For and on behalf of the Board  
**(Dasho Sangay Khandu)**  
CHAIRMAN

For the Financial Year 2016, the economy recovered from the INR shortage and credit restrictions. The growth in economy also saw a healthy trend of 6.5 percent. The economy expanded to Nu. 132 billion, escorted by a historically significant INR reserve of about INR 30 billion. Inflation last year saw an all-time low figure of 3.22 percent.

One of the many reforms made during the year was the reform in the monetary policy where the Base Rate policy was replaced by Minimum Lending Rate. This change resulted in the reduction in lending rates across the financial institutions. BoB was the first to implement the MLR in September which triggered other financial institutions to follow suit.

Despite several challenges, the Total Comprehensive Income of the Bank grew from Nu. 827 million in 2015 to Nu. 934 million in 2016, indicating a growth of about 13 percent. The increase in interest income from Nu. 2,397 million in 2015 to Nu. 2,738 million in 2016 was the major factor contributing to the increase of the total comprehensive income of the Bank. Deposits from customers also saw an increase from Nu. 32.10 billion in 2015 to Nu. 36.49 billion in 2016.

With the establishment of multiple channels, such as conversion of two extension branch offices to a full branch office in Thimphu, opening of an extension branch in Gyelposhing, and with the addition of features in the Mobile Banking service, the Bank worked towards the fulfillment of its moral obligation of making banking services available to every Bhutanese. Further, to enhance the banking convenience of the valued clients, the Changbangdu branch in Thimphu was converted to a Sunday branch, providing banking services to customers during Sundays.

With the birth of the Gyalsey and the fourth Druk Gyalpo's 60th Birth Anniversary, the year 2016 witnessed numerous national jubilations. Likewise, the Bank realized its aspiration of participating and executing some major Corporate Social Responsibilities. Organizing

Blood Donation Campaign, sponsoring events by Youth Development Fund, volunteering in several noble causes of Health Walk, participating in cleaning campaign and promoting active lifestyle by supporting sports, mainly football, were some of the major CSR activities carried out by the Bank. With the hard work and dedication of the Management and staff of BoB, the FY 2016 witnessed many phenomenal achievements for the country's oldest and the most innovative bank.

## FINANCIAL PERFORMANCE\*

### Balance Sheet

Bank's balance sheet size increased significantly by 14.46% from Nu. 39,138.32 million in 2015 to Nu. 44,799.59 million in 2016.

### Capital and reserves

The Bank was well within the regulatory requirements of Capital Adequacy Ratio at 21.61% and Statutory Liquidity Ratio at 40.80% considering both Tier I and Tier II capital during the period being reported.

### Deposits

Total deposits increased by 13.60%, from Nu. 32.25 billion in 2015 to Nu. 36.64 billion in 2016. Of the total deposits, current deposits, saving deposits and term deposits increased by 4.05%, 25.63% and 18.41% respectively, from that of 2015. Due to this, the share of interest free current deposits to total deposits decreased from 46.93% in 2015 to 42.98% in 2016.

### Investments

On the asset side, BOB's investment portfolio fell from Nu. 7.78 billion in 2015 to Nu. 5.62 billion in 2016. The decrease is mainly attributed to investment in Government Treasury Bills which matured during the month of December worth Nu. 2.18 billion.

### Advances

Loans and advances saw an increase of 7.86% from Nu. 19.91 billion in 2015 to Nu. 21.48 billion in 2016. The growth was seen mainly in housing, personal and service sectors.

Bank's loan portfolio consists of 8 major sectors and the share of different sectors for the year 2016 is as presented in CHART 1.

The Housing sector dominated the loans portfolio of the Bank this year at 25.39%, followed by Personal sector at 21.19%.

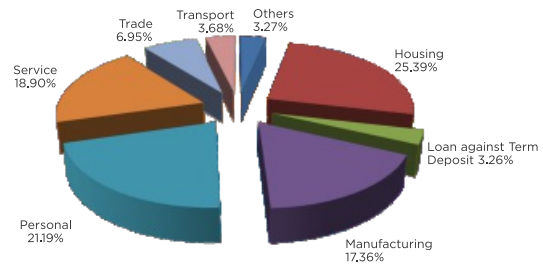


Chart 1: Loan Portfolio

### Cash and Bank Balances, and Fixed Assets

S. No	Particulars	2016 Amount	2015 Amount	Variation	
				Amount	%
I	Total Current Deposits	15,746.52	15,133.48	613.04	4.05%
II	Savings Deposits	10,808.92	8,603.96	2,204.96	25.63%
III	Term Deposits	10,079.73	8,512.65	1,567.08	18.41%
	<b>Total Deposits</b>	<b>36,635.17</b>	<b>32,250.09</b>	<b>4,385.08</b>	<b>13.60%</b>
	% of Current to total deposits	42.98%	46.93%		
	% of Savings to total deposits	29.50%	26.68%		
	% of Term to total deposits	27.51%	26.40%		

Cash & Balances with RMA increased significantly by 78.87%, while balances with banks decreased by 6.39%. The huge increase in balance in RMA is mainly due to increase in Cash Reserve with RMA. Net fixed assets increased by Nu. 61.33 million during the year mainly due to capital purchases related to CBS Upgrade.

### Foreign Exchange Business:

In 2016, Bank handled external trade worth Nu. 9.158 billion of which, Nu. 7,384 billion were for import business and Nu. 1.774 billion for export business. Net profit from foreign exchange transactions increased from Nu. 13.11 million in 2015 to Nu. 165.15 million in 2016. The FOREX assets and liabilities stood at Nu. 926.20 million and Nu. 875.92 million respectively as on 31st December 2016.

### Income, Expenditure and Profit

**Total income** grew by 18.36% from Nu. 2,673.41 million in 2015 to Nu. 3,164.30 million in the current year. The growth can be attributed to increase in interest income which grew by 14.21% from Nu. 2,397.40 million in 2015 to Nu. 2,737.97 million in 2016 though there was a reduction in loan interest rates since September 2016.

**Interest Expenses**, which account for a little more than 64% of overall expenses, grew by 12.20%, from Nu. 988.15 million in 2015 to Nu. 1,108.69 million in 2016. This growth was triggered by the growth in retail deposit base of both savings, recurring and fixed deposits. The savings deposit base increased by Nu. 2,204.96 million in 2016 and the fixed deposit base also grew by Nu. 1,566.64 million with a corresponding increase in interest expense of Nu. 120.54 million.

**Operating expenses increased** by 11.24% which was a little above the maximum 10% expected growth increasing from Nu. 545.49 million in 2015 to Nu. 606.83 million in 2016. Total Comprehensive Income grew by 12.87% from Nu. 827.57 million in 2015 to of Nu. 934.07 million in 2016.

### HUMAN RESOURCE MANAGEMENT

Some achievements in Human Resource worth mentioning are:

- For the first time, the Bank conducted employee promotion exam in collaboration with the IFBI (Institute of Finance, Banking and Insurance). The employees were promoted based on their past performance ratings, performance in the exam and personal

interview. This system will be followed henceforth to promote the deserving employees.

- 214 employees were promoted to higher grades.
- 347 man-days of in-country and 133 man-days of ex-country training for employees were conducted during the year.
- Branch Managers were sent for study tour to Asian Institute of Technology, Thailand.
- A number of employees also attended seminars and workshops in-country and outside.
- Recruited 37 new employees, mostly at the Assistant level.

#### CORPORATE SOCIAL RESPONSIBILITY

As the nation's oldest and largest bank, the Bank has always looked up at contributing towards sustainable development by delivering economic, social and environmental benefits for the country. This is basically to drive change towards sustainability by addressing its broad concepts such as corporate governance, health and safety, environmental effects, working conditions and contribution to economic development. The focus of the Bank's CSR developed from contributing to the community causes for the betterment of local and the global community. 2016 was the year of celebration of the Nation's gem, the birth of Gyalsey. To mark this joyous occasion, BoB joined the Nation in offering butter lamps and distributed sweets to all the branches for further distribution to our valued clients.

BoB organized a blood donation campaign coinciding with World Blood Donors Day at Thimphu Main Branch. BoB has been organizing this campaign every year since 2012 and would continue to do so. BoB also continues to support the Badum project initiated by YDF.

BoB believes in serving the communities by engaging its employees in different activities. Some major activities carried out by the Bank are as outlined below:

- BoB employees volunteered in Cleaning Campaign with the theme "KEEP THIMPHU CLEAN AND BEAUTIFUL" on 1st November 2016 coinciding with the Coronation Day of His Majesty the Fifth King.
- Contribution to the Draktsho Vocational Training Centre for Special Children and Youth every year.

Through such events, the Bank and its employees remain firmly committed to doing business in a socially responsible way. CSR is an important part of Bank of Bhutan's history and an equally important part of its future.

#### CUSTOMER SERVICE

One of the integral motives of the Bank is to continuously improve customer service through continuous improvements in systems, processes and people. The Bank supported three training programmes to the contact centre team related to Customer service during the year, one initiated by DHI on "Excellent Service Skills for Call Centre Staff" and the other organized by BoB on "Refresher Training on BoB's Products and Services". An additional training on "Bank on Me-Refresher course on Service Excellence" was also conducted for the employees of branches located in Thimphu. The main focus of these training programmes was on improvement of communication skills and excelling in service delivery, which indicates our dedication for ensuring better customer service. In addition, on 1st December 2016, a full-fledged helpdesk was initiated at Thimphu Main Branch in order to improve complaint handling and provide better customer service.

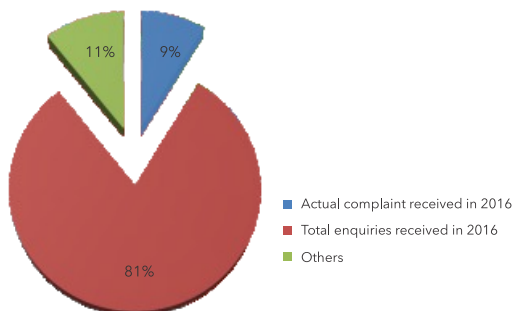
#### A Bank that Responds Differently

Our prime motive towards our customer queries or concerns is to handle and address it promptly and efficiently. The incoming complaints and grievances that are received at the various levels are registered and handled in a structured manner as per our standard processes. The Bank records and maintains a database of all the complaints registered and carries out periodical analysis to



measure the effectiveness of its complaint handling mechanism and process improvements. In this context, the Bank has provided seven channels for registering grievances; Contact Center, BoB website, Branch offices, Corporate Banking Department, BoB Corporate Office, Mobile and Agency Banking application and the Customer Service Division. A customer can contact through telephonic calls, emails, written letters or personal visits. BoB immediately registers all the complaints and sends a confirmation about the registration upon request, if the complaint is not personally delivered. In addition, the Bank is also very active on social media like Facebook and Twitter, responding immediately to the concerns raised by its clients.

**Daily Average complaints: 30**  
**Daily Average contacts: 350**



### BoB Complaint/ Query comparison for 2016

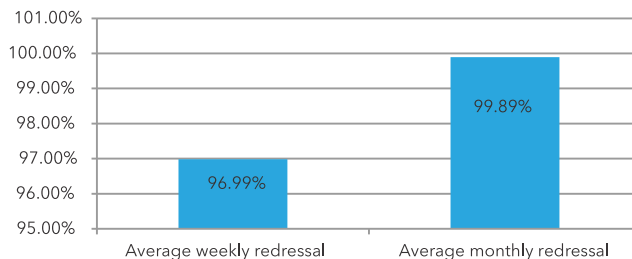
Apparently, 11,086 complaints that we received in 2016 comprised of only 0.04% of the total volume of transactions that the bank conducts in a year, which we believe is very reasonable. Nonetheless, as a dynamic bank, BoB would always strive towards improving on this performance indicator continuously.

Actual complaints received in 2016	11,086
Total enquiries received in 2016	103,268
Others	13,644
Total contacts made in 2016	127,998

### BoB Redressal Rate For 2016

The Bank's overall weekly complaint resolution rate for 2016 was 96.99%. The resolution rate is excluding issues that by default take more than a week-like the problems associated with international card transactions - which normally takes up to 57 days to resolve due to involvement of third party vendors, those associated with Bhutan Financial Switch (inter-bank transactions) and the transactions like bill payment and top-ups, that are sent to different agencies like Bhutan Telecom, Tashi-Cell and respective billers which takes more than a week to resolve. Since inception of this monitoring system, the Bank has seen a clear improvement in resolving and handling complaints as reflected by our redressal rates. For 2016, our monthly average complaint redressal rate is 99.89%.

Bank of Bhutan's Redressal rate for 2016



### BoB Service quality is a reflection of how we value our customers

It is always admirable to see that all the employees put in so much effort to help improve and achieve optimum customer satisfaction and also ensure that the customer concerns are being addressed promptly. The CSI over the years shows that BoB is working hard to satisfy our valued customers at every level. The statistics reflect the degree of customer confidence in the Bank, which is the result of the Bank's focus on customer centricity.

**CSI of BOBL**  
**for 2016 = 3.66**



### Bank of Bhutan's Customer Satisfaction Index comparison

Year	CSI without Contact Center services	CSI with Contact Center services
2010	3.55	N/A
2011	3.67	N/A
2012	3.65	3.65
2013	3.71	3.71
2014	3.76	3.84
2015	3.78	3.81
2016	3.66	3.77

### NEW INITIATIVES

The Bank converted two extension branch offices in Thimphu to a full Branch which provides all the banking services. An extension branch office was opened in Gyelposhing, Mongar. The Cangbangdu branch in Thimphu was made Sunday branch so that customers are able to avail banking services on Sundays in addition to the various other banking delivery channels such as ATMs, Mobile Banking and Internet Banking. The Bank also opened a Corporate Banking branch in Thimphu for its corporate customers.

The Bank also introduced the Cash Deposit Machines in Thimphu and Phuntsholing for the customers to make deposits and fund transfers during off-banking hours. A one-stop shop (Kiosk) was installed in Thimphu for the customers to avail ATM, Cash Deposit and internet banking facilities in one location.

The Bank introduced its own INR prepaid card to be used in India. In addition to the acceptance of

VISA and MasterCard in the BoB ATMs and POS terminals, the terminals now accept the JCB cards. To improve on the security of cards transactions, the Bank started issuing chip-based cards.

To further enhance the functionality of the Mobile Banking services, features such as cardless withdrawal, real-time electricity bill payment, real-time mobile top-ups were introduced during the year.

### MARKETING ACTIVITIES

The Bank had become more active on social media since 2015 and continued its activities in 2016 by using the social media to inform customers not only about its new or improved products and services, but also by making all critical and important information always available in both Facebook and Twitter. The Bank's social media pages receive an average of forty thousand (40,000) posts every week with about thirty-five hundred (3,500) users engaged every day. The Bank also has a YouTube account where clients can view all the audio-visual advertisements on Bank's products and services.

The Bank continued its timely marketing activities such as door-to-door presentations at various agencies and during the National Graduates Orientation Program (NGOP). The Bank also provided discounted loan products along with selling and promoting other products and services during the Green Exhibition, Construction Expo and Trade SAARC Fair held in Thimphu. The Bank also participated in the Royal Highlander's Festival in Gasa, providing banking services during the event.

Chief Executive Officer	:	<b>Mr. Pema Namgyel Nadik</b>
Director, Operations	:	<b>Ms. Karma Dema</b>
Director, Corporate Services	:	<b>Mr. Dorji Kadin</b>
Chief, Corporate & Private Banking	:	<b>Mr. Dophu Dorji</b>
Chief Information & Technology Officer	:	<b>Mr. A. Vijaya Kumar</b>
Chief, Credit Management	:	<b>Mr. Dorji Wangchuk</b>
Dy. Chief Financial Officer	:	<b>Mr. Tshewang Rinzin</b>
Head, Financial Controller	:	<b>Mr. A.K.S. Gautam</b>
Head, Risk & Compliance Division	:	<b>Mr. Prem B. Moktan</b>
Head, Legal & Recovery Division	:	<b>Ms. Tashi Chenzom</b>
Head, Internal Audit	:	<b>Mr. Devendra Rai</b>
Head, Administration & Procurement	:	<b>Mr. Sithub Tshering</b>
Head, Human Resources	:	<b>Mr. Jigme Dorji</b>
Head, Real Estate	:	<b>Mr. Pasang Dorji</b>
Head, Shared Services Division	:	<b>Ms. Kesang Wangmo</b>
Head, Planning & Monitoring	:	<b>Ms. Upahar Subedi</b>
Head, Retail Banking & Operations	:	<b>Ms. Lhakey Choden</b>
Head, Credit Operations	:	<b>Mr. Tashi Tenzin</b>
Head, PR Media	:	<b>Mr. Passang Norbu</b>
Head, IT	:	<b>Mr. Ugyen Dorji</b>
Head, Alternate Delivery Channels	:	<b>Mr. Tashi Dhendup</b>
Head, Cards Division	:	<b>Mr. Ngawang Namgyel</b>
Head, Mobile & Agency Banking	:	<b>Mr. D.K. Chhetri</b>
Head, Marketing & Customer Service Division	:	<b>Ms. Kritika Pradhan</b>
Treasury and Funds Management	:	<b>Mr. Choney Dorji</b>
PRO-cum-Recovery Officer	:	<b>Mr. Tshewang Dorji</b>

Phuentsholing Main Branch	:	<b>Mr. Wangdi Tshering, (Branch Head)</b>
	:	<b>Mr. Dorji Wangchuk, Manager, Loans</b>
Thimphu Main Branch	:	<b>Mr. Tenzin Dorjee (Branch Head)</b>
	:	<b>Ms. Pem Gyem, Manager, Cash &amp; Deposits</b>
	:	<b>Ms. Chozang Lhamo, Manager, Loans</b>
Samdrup Jongkhar Branch	:	<b>Mr. Chador Wangdi</b>
Gelephu Branch	:	<b>Mr. D.B. Chhetri</b>
Tsimasham Branch	:	<b>Mr. Chokeyla</b>
Samtse Branch	:	<b>Mr. Prakash Timshina</b>
Trashigang Branch	:	<b>Mr. Tashi Dhendup</b>
Damphu Branch	:	<b>Mr. Phurpa Lhamo</b>
Bazar Branch, Phuentsholing	:	<b>Ms. Choney Wangmo</b>
Gomtu Branch	:	<b>Ms. Tandin Tshewang</b>
Mongar Branch	:	<b>Mr. Sangay Dorji</b>
Bumthang Branch	:	<b>Mr. Lobzang Dhendup</b>
Wangdue Phodrang Branch	:	<b>Mr. Madan Rai</b>
Paro Branch	:	<b>Mr. Gopal Chhetri</b>
Trongsa Branch	:	<b>Mr. Kuenzang Chheda</b>
Haa Branch	:	<b>Mr. Rajan Kujur</b>
Gedu Branch	:	<b>Mr. Sonam Dekar</b>
Zhemgang Branch	:	<b>Mr. Sonam Gyeltshen</b>
Lhunsi Branch	:	<b>Mr. Nima Wangchuk</b>
Punakha Branch	:	<b>Mr. Tendri Wangdi</b>
Pemagatshel Branch	:	<b>Mr. Sonam Tashi</b>
Sarpang Branch	:	<b>Mr. Goma Devi Bhatarai</b>
Dagana Branch	:	<b>Mr. Ugyen</b>
City Branch, Thimphu	:	<b>Ms. Sonam Choden</b>
Deothang Branch	:	<b>Mr. Kelzang Tashi</b>
Tashi Yangtshi Branch	:	<b>Mr. Pancha Bahadur Rai</b>
Nganglam Branch	:	<b>Mr. Karma Choedup</b>
Gasa Branch	:	<b>Mr. Tenzin Norbu</b>
Motithang Branch	:	<b>Ms. Sangeeta Pradhan</b>
Changbangdru Branch	:	<b>Ms. Chhimi Wangmo</b>
Babesa Branch	:	<b>Ms. Choden Lepcha</b>



Thousand butter lamps lit across the country for the good health of Royal Family and Tshe-dhar in Phuentsholing - 6th February



Opening of Gyelposhing Extension Branch - 20th May



Foundation/Employees Day Celebration - 28th May



Launch of Cardless Withdrawal - 7th June



Blood Donation Campaign - 13th June



Opening of Haa Branch Office - 18th June



BPC Bill Payment Real Time - 1st August



Launch of JCB Card Acquiring - 26th September





Launch of Prepaid Card - 26th September



Branch Manager Study Tour in Bangkok - 10th -12th October



Participation in the Royal High Lander's Festival in Gasa - 16th - 18th October



Changbangdru made into a Sunday Branch and full branch - 26th October



Convert Babesa to full branch - 8th November



Installation of Kiosk at Clock Tower area (Thimphu) - 15th November



Opening of Corporate Branch Office in Thimphu - 6th December



Donated Karmi Kom (won during the DOC football league) to Kharbandi Goenpa

**TO THE MEMBERS OF  
BANK OF BHUTAN LIMITED,**

**Opinion**

We have audited accompanying financial statements of BANK OF BHUTAN LIMITED (“the Bank”) which comprises the Statement of Financial Position as at 31st December, 2016 and Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and the notes to the financial statements, including summary of Significant Accounting Policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31st December, 2016 and of financial performance and its cash flows for the year ended in accordance with Bhutanese Accounting Standards Phase I & II.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter**

We draw attention to the following matters in the Notes to the financial statements:

- i) Note No 4.4 (b) regarding non adjustments of Debits Nu. 67,839,109.92 and Credits Nu. 91,340,072.30 relating to unmatched entries in the Accounts with State Bank of India in the NOSTRO Accounts;

- ii) Note No 4.4 (c) regarding non adjustment of Debits Nu. 261,850.98 and Credits Nu. 151,117,300 relating to unmatched entries in the Accounts with other Banks in the NOSTRO Accounts;

Our opinion is not modified in respect of these matters.

**Other Matter**

Confirmation of outstanding balances of loans and advances given, deposits taken and other receivable/ payables were not available for our verification. However, the Bank contended that such confirmations are not feasible.

**Responsibilities of Management and those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Bhutanese Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

**Auditors’ Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in



accordance with ISAs will always detect material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. We enclose in **Annexure - II** our responsibilities for audit of financial statements.

### **Report on Other Legal and Regulatory Requirements**

As required by Section 255 of the Companies Act of the Kingdom of Bhutan, 2016 for the Minimum Audit Examination Requirements, as the same is not still issued by Royal Audit Authority, we enclose in the Annexure - I a statement on the matters as has been specified under the erstwhile Companies Act of the Kingdom of Bhutan, 2000, to the extent applicable to the Bank.

As required by the Section 264 of the Companies Act of the Kingdom of Bhutan, 2016, we report that in our opinion the financial statements present fairly in all material respects in accordance with the BAS I & II prescribed by the Accounting & Auditing Standards Board of Bhutan.

- a) The Financial position of the bank as at the end of 31st December, 2016;
- b) Its Financial performance; and
- c) Its Cash flow for the year then ended.

We further state as required by Section 265 of the Companies Act of Bhutan, 2016 that:

- a) 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;
- b) In our opinion, proper books of account have been kept by the bank so far as it appears from our examination of those books, proper returns adequate for the purposes of our audit and have been received from the twenty three branches not visited by us out of thirty two branches of the bank;
- c) The same are in agreement with the books of accounts and returns; and
- d) The bank has complied with other legal and regulatory requirements as applicable.

**For Agrawal Subodh & Co.**  
Chartered Accountants  
**F. R. No. 319260E**

**CA Subodh Kumar Agrawal**  
Partner  
**M No. 054670**

Place: Kolkata  
Date: 24th February 2017

## ANNEXURE - I

**MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS****(REFERRED TO IN PARAGRAPH 7 OF OUR REPORT OF EVEN DATE)**

1. The Bank has maintained proper records showing full particulars including quantitative details and locations thereof, in a Spreadsheet format. However, for the purpose of ensuring better control over the fixed assets, the Bank has introduced maintenance of Fixed Assets in Tally ERP and it is in the process of data transfer. The Fixed Assets of the bank at all locations have been physically verified by the management during the year and the discrepancies noticed on such verification, which were not material, have been adjusted in books (as has been informed to us).
2. None of the Fixed Assets have been revalued during the year.
3. During the year the Bank, with the approval of the RMA, has granted loan to a company under the same management and the rate of interest and other terms and conditions of the loan were not prejudicial to the interest of the Bank. Other than the above, the Bank has not taken or granted any loan from / to any company under the same management.
4. The Bank has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Bank as well as to ensure adherence to the rules/regulations and systems and procedures, except certain cases of negative withdrawals in savings and current accounts noticed in earlier years. The matter, as explained to us, is under technical investigation and recovery. We also observed that there was fraud in Thimphu branch of Nu. 6.3 million due to overriding of control which was investigated by ACC as well. The total loss has been provided during the year but it brings out the immediate need to further improve the internal control system.
5. The Bank has established a system of competitive bidding, commensurate with the size and nature of its business, for the purchases of services, stores, stationery, equipments and other assets.
6. As per information and explanations given to us, there are some transactions of purchase and sale of goods and services with parties in which one or more Directors of the Bank/company under the same management are interested. We have observed that the same was done at reasonable prices currently prevailing for such goods and services.
7. As informed to us, there is no unserviceable stores, assets etc., as at 31st December, 2016.
8. The Bank is regular in depositing rates and taxes, duties and other statutory dues with the appropriate authorities except tax deducted on salary of Nu. 931,699.30 which is pending since 2015. As per management, this amount should be returned to employees. The Provident Fund is administered by a separate Committee having independent books of accounts. The provisions for corporate tax is adequate and that necessary adjustments have been made to compute the amount of tax required under the Rules on the Income Tax Act of the Kingdom of Bhutan, 2001.
9. There is no undisputed amount payable in respect of rates, taxes, duties and other statutory dues outstanding at the year end. During the year the income tax assessment for the year 2013, 2014 and 2015 was completed and there was a total demand of Nu. 17,066,518.34. Out of this, the company paid Nu. 1,911,716.38 as undisputed demand and for the rest of the amount the company has filed an appeal before The Regional Director, Department of Revenue & Customs, Ministry of Finance, Thimphu.
10. According to the information and explanations given to us, and on the basis of our checking of the accounts and other books and records, to the best of our knowledge, no personal expenses have been debited to the Statement of Comprehensive Income other

- than those payable under contractual obligations / service rules.
11. Quantitative reconciliation is carried out for all major items of inventory like stationery, security forms, etc.
  12. Board approval has been obtained for all write offs of losses in the books, if any.
  13. The management of liquid resources by the Bank is adequate in general and excessive amounts are not lying idle in non-interest bearing accounts.
  14. According to the information and explanations given to us, and on the basis of examination of books and records, in our opinion and to the best of our knowledge, the activities carried out by the Bank are lawful and intra vires to the Articles of the Bank.
  15. On the basis of our verification and according to the information and explanations given to us, the Bank has a regular system of approval of the Board for all capital investment decisions. Investments in new projects are made after considering the technical and economic feasibility of such ventures.
  16. The Bank has an adequate budgetary control system.
  17. The details of remuneration and other payments to the Board of Directors including the Chief Executive Officer of the Bank are suitably disclosed in Note - 4.3. Related party Disclosures
  18. According to the information and explanations given to us, the directives of the Board have been complied with.
  19. On the basis of information received from the management and to the best of our knowledge, the officials of the Bank have not transmitted any price sensitive information which is not made publicly available, unauthorised to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
  20. Adequate documents and records are maintained in respect of loans and advances granted by the Bank and appropriate agreements have been drawn up and timely entries have been made therein.
  21. Reasonable records are maintained by the Bank for funds collected from depositors and for interest payments.
  22. On the basis of our examinations and to the best of our information, we are of the opinion that no provision is required for permanent diminution in the values of shares in which investments have been made by the Bank.
  23. To the best of our information and according to the explanations given to us, the Bank has complied with the requirements of the Financial Services Act, 2011, Prudential Regulations 2016, BAS & BFRS and other applicable laws, rules and regulations and guidelines concerning activities of the Bank issued by appropriate Authorities.
  24. In our opinion and according to the information and explanations furnished to us, the requirements prescribed by the 'Royal Monetary Authority' relating to provisioning for the non-performing assets including loans and advances have been complied with.
  25. Recognition of interest income in respect of non-performing assets has been deferred.
  26. To the best of our information and according to the explanations obtained from the management, assets hypothecated against loans and advances is generally physically verified by the Bank, valued and Mortgage Deeds executed, wherever required, and the Bank has ensured that the assets are free of any prior lien or charges. However, we feel that the valuation needs to be further strengthened as we have come across cases where in case of distress assets the same could not be sold or if sold fetched huge discount to what was valued. In some of the cases, the property mortgaged was neither saleable nor mortgagible. However, the management has requisitioned the alternate property.
  27. To the best of our information and according to the explanations given to us, the Bank has a system of monitoring of the Projects for which loans have been provided to ensure that the loan amounts are used for the specified purposes and project activities are progressing satisfactorily. However, in case of

loans were there is moratorium period for payment of interest and principal, the branch needs to keep a register to keep track of progress of project, timely disbursement request by customer, cost overrun, site inspection at regular intervals may be quarterly/half yearly or annual for individual projects.

28. To the best our information and according to the explanations given to us, the Bank has a system of calling for open/sealed bids for disposal of assets taken over for repayment defaults.
29. To the best of our information and according to the explanations given to us, the Bank has a system of carrying out proper analysis before rephrasing/rescheduling of loans are permitted and rephrasing is not permitted in respect of non-performing loans. In our opinion, the reschedulement should be rare as initially the project appraisal captures all the events including contingency.
30. To the best of our information and explanations given to us, we are of the opinion that the Bank has a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.

#### COMPUTERISED ACCOUNTING ENVIRONMENT

1. As per the information and explanations furnished to us, the organisational and system development controls and other internal controls appear to be adequate relative to the size and nature of the computer installations except at few instances which has been reported elsewhere.
2. The Bank has implemented the TCS Banks which is operating and any issues identified as being addressed. We have listed some of the improvements required in the software elsewhere in this report. However, in our opinion a detailed and thorough Information System Audit is required.
3. As per information and explanations given to us, adequate safeguard measures and backup facilities exist.
4. The backup facilities and disaster recovery measures include keeping files in different and remote locations but at present the same falls in same seismic zone, hence we recommend to keep backup data in different seismic zone.  
There is a disaster recovery site at Thimpu. It is being continuously synchronized with the data centre. We recommend regular switch over Disaster Recovery Site and test the operations.
5. The operational controls in respect of certain areas, particularly calculation of interest on loans and excess withdrawals in savings deposits noticed in earlier years is yet to be fully recovered. However, the same need to be further strengthened to ensure correctness and validity of input data and output information.
6. The measures to prevent unauthorised access over the computer installations and files are generally adequate.
7. There were errors in calculating interest amount, the same was taken care off and rectified by the IT.
8. Tracking of NPA is half manual and half system driven. It is advisable to make a module as per RMA prudential regulations norms so that the entire system of NPA tracking becomes system driven.
9. Right now transactions are done manually for NEFT and swift system for domestic and foreign transactions respectively. This lead to duplication of work and also may cause transcription errors. We, therefore recommend straight through processing of NEFT and SWIFT transaction through CBS.
10. Presently the system does not support multicurrency transaction bulk upload which is particularly very important for cards division. We suggest implementation of enhancement in this regard.
11. The system has applied the maintenance charges on saving a/c s twice on December 25th and 31st December, 2016. The problem



was identified on 1st January after the year end. All Accounts where the double debit had happened were identified and the extra charges which was debited was refunded back. The cause of the problem was identified with the help of TCS and fixed to prevent reoccurrence.

12. We observed that there is still requirement to further train the BOBL staff particularly in loan division so that there are least chances of errors in master data creation related to borrower accounts. We have been informed that management is taking care of the same.

### GENERAL

1. Based on the net asset position, reflected by the Bank's Statement of Financial Position as at 31st December, 2016 and audited by us in accordance with the International auditing standards and on the basis of such other tests as we considered necessary in this regard, we have no reason to believe that the Bank is not a going concern on the date of the Statement of Financial Position.

### 2. Ratio Analysis:

Significant ratios indicating the financial health and profitability of the Bank are given in Exhibit - A to this Annexure.

### COMPLIANCE WITH THE COMPANIES ACT OF THE KINGDOM OF BHUTAN

According to the information and explanations given to us by the management and based on a Compliance Checklist compiled by the Bank Officials, the Bank has complied with all the provisions of the Companies Act of the Kingdom of Bhutan, 2016.

### ADHERENCE TO THE LAWS, RULES AND REGULATIONS

1. The Bank has complied with the Prudential Regulations 2016 and other guidelines issued by the Royal Monetary Authority of Bhutan with regard to:

- (a) Weighing of the Risk Weighted Assets as at 31st December, 2016, which is proper and correct;
- (b) Capital Adequacy Ratio of the Bank as at 31st December, 2016, 21.61% has been fairly assessed and such ratio is more than the prescribed limit of 12.5% fixed by the RMA;
- (c) Cash Reserve Ratio of the Bank as at 31st December, 2016, which has been fairly assessed and such ratio is in line with the prescribed limit by the RMA; and
- (d) Statutory Liquidity Ratio of the Bank as at 31st December, 2016, 40.80% is above the minimum limit of 20% prescribed by the RMA.

2. It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Bank, except the provisions contained in the Companies Act of the Kingdom of Bhutan, 2016 and Financial Services Act of Bhutan, 2011 as also the guidelines issued by the Royal Monetary Authority, as comprehensive Compliance Reporting and Recording System of the Bank in this regard is currently not in place. However, any non-compliance or departure from accepted practice and approved systems / procedures having effect on financial statements that came to our notice during the course of our audit have been indicated by the way of notes on accounts.

Dated, the 15th day of February, 2017.  
For Agrawal Subodh & CO.  
Kolkata.

**Chartered Accountants**  
**(FRN: 319260E)**

**(CA Subodh Kr. Agrawal)**  
**Partner**  
**Membership No: 054670**

## ANNEXURE - II

**Responsibilities for Audit of Financial Statements.****(Audit Report of M/s Bank of Bhutan Ltd. For the year ended on 31st December, 2016)**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintained professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis

of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**For Agrawal Subodh & Co.**  
Chartered Accountants  
**F. R. No. 319260E**

**CA Subodh Kumar Agrawal**  
**Partner**  
**M No. 054670**

Dated, the 15th day of February, 2017.  
Date: 24th February 2017, Kolkata.



**STATEMENT OF FINANCIAL POSITION AS AT 30th DECEMBER 2016**

ASSETS	Note No.	Amount in Nguiltrum						
		As at 30.12.2016	As at 31.12.2015	Re-Statement as at 31.12.2015	Restated as at 31.12.2015	As at 31.12.2014	Re-Statement as at 31.12.2014	Restated as at 31.12.2014
Cash & Balance with RMA	2.1	14,078,764,442.75	7,884,814,775.80	-	7,884,814,775.80	15,694,659,647.71	-	15,694,659,647.71
Loans & Advances to Banks	2.2	3,297,561,164.06	3,524,513,849.10	-	3,524,513,849.10	2,364,022,117.97	-	2,364,022,117.97
Loans & Advances to Customers	2.3	20,725,407,844.74	19,151,455,548.87	-	19,151,455,548.87	18,474,291,001.65	(23,887,973.20)	18,450,403,028.45
Investment Securities	2.4A	5,502,626,800.00	7,686,869,500.00	-	7,686,869,500.00	2,473,952,000.00	-	2,473,952,000.00
Investment in Subsidiaries	2.4B	-	500,000.00	-	500,000.00	500,000.00	-	500,000.00
Investment in Associates	2.4C	37,811,000.00	19,811,000.00	-	19,811,000.00	-	-	-
Investment in Portfolio Companies	2.4D	80,193,710.45	78,443,710.45	-	78,443,710.45	73,217,710.45	-	73,217,710.45
Prepayments & Accrued Income	2.5	104,055,083.25	93,189,375.07	-	93,189,375.07	56,096,808.66	-	56,096,808.66
Deferred Tax Assets	2.6	49,259,265.00	27,471,651.00	-	27,471,651.00	9,539,372.00	7,166,391.96	16,705,763.96
Other Assets	2.7	303,621,892.46	147,484,416.17	50,083.80	147,534,499.97	304,457,045.57	-	304,457,045.57
Property, Plant & Equipment	2.8A	396,952,980.02	411,861,987.03	-	411,861,987.03	326,843,092.70	-	326,843,092.70
Intangible Assets	2.8B	117,161,990.36	40,929,626.08	-	40,929,626.08	10,954,266.29	-	10,954,266.29
Capital Work-in-Progress	2.8C	79,952,768.26	70,971,956.20	-	70,971,956.20	5,074,766.00	-	5,074,766.00
<b>TOTAL ASSETS</b>		<b>44,773,368,941.34</b>	<b>39,138,317,395.77</b>	<b>50,083.80</b>	<b>39,138,367,479.57</b>	<b>39,793,607,829.00</b>	<b>(16,721,581.24)</b>	<b>39,776,886,247.76</b>
<b>LIABILITIES</b>								
Deposits by Banks	2.9	139,956,391.63	147,244,280.69	-	147,244,280.69	140,658,275.77	-	140,658,275.77
Customer Deposits	2.10	36,492,874,675.65	32,102,843,331.15	7,999.97	32,102,851,331.12	33,353,354,699.00	-	33,353,354,699.00
Subordinated Liabilities & Other Borrowed Funds	2.11	500,000,000.00	500,000,000.00	-	500,000,000.00	500,000,000.00	-	500,000,000.00
Provision for Liabilities & Charges	2.12	26,735,506.19	20,435,506.19	-	20,435,506.19	18,562,925.47	-	18,562,925.47
Retirement Benefit Obligations	2.13	123,836,170.00	118,618,470.00	-	118,618,470.00	161,291,000.00	-	161,291,000.00
Accruals & Deferred Income	2.14	1,143,994,251.44	805,595,365.74	-	805,595,365.74	561,089,616.81	-	561,089,616.81
Current Tax Liabilities	2.15	230,388,901.84	208,932,368.88	-	208,932,368.88	323,297,614.00	-	323,297,614.00
Other liabilities	2.16	609,393,028.26	476,359,906.99	-	476,359,906.99	429,470,071.97	-	429,470,071.97
<b>TOTAL LIABILITIES</b>		<b>39,267,178,925.01</b>	<b>34,380,029,229.64</b>	<b>7,999.97</b>	<b>34,380,037,229.61</b>	<b>35,487,724,203.02</b>	<b>-</b>	<b>35,487,724,203.02</b>

**STATEMENT OF FINANCIAL POSITION AS AT 30th DECEMBER 2016**

ASSETS	Note No.	Amount in Ngultrum						
		As at 30.12.2016	As at 31.12.2015	Re-Statement as at 31.12.2015	Restated as at 31.12.2015	As at 31.12.2014	Re-Statement as at 31.12.2014	Restated as at 31.12.2014
<b>EQUITY</b>								
Share Capital	2.17 A&B	3,000,000,000.00	1,500,000,000.00	-	1,500,000,000.00	1,500,000,000.00	-	1,500,000,000.00
Retained Earnings	2.18	1,330,145,266.27	1,197,904,978.28	42,083.83	1,197,947,062.11	745,333,438.13	(16,721,581.24)	728,611,856.89
Reserve Fund	2.18	979,362,937.39	1,908,383,187.85	-	1,908,383,187.85	1,813,383,187.85	-	1,813,383,187.85
Other Reserves	2.18	196,681,812.67	152,000,000.00	-	152,000,000.00	247,167,000.00	-	247,167,000.00
<b>TOTAL EQUITY</b>		<b>5,506,190,016.33</b>	<b>4,758,288,166.13</b>	<b>42,083.83</b>	<b>4,758,330,249.96</b>	<b>4,305,883,625.98</b>	<b>(16,721,581.24)</b>	<b>4,289,162,044.74</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>44,773,368,941.34</b>	<b>39,138,317,395.77</b>	<b>50,083.80</b>	<b>39,138,367,479.57</b>	<b>39,793,607,829.00</b>	<b>(16,721,581.24)</b>	<b>39,776,886,247.76</b>
Contingent liabilities	2.19	3,722,326,614.33	5,363,506,613.36	-	5,363,506,613.36			
Bills for Collection	2.20	529,042.50	35,465,018.14	-	35,465,018.14			
Significant Accounting Policies	1							
Notes to Accounts	4							
Disclosure Related to Abandoned Property	5							
Macro Prudential Disclosures	6							

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2016**

Particulars	Note No.	Amount in Ngultrum						
		For the year ended 31.12.2016	For the year ended 1.12.2015	Re-statement For the year ended 31.12.2015	Re-stated For the year ended 31.12.2015	For the year ended 31.12.2014	Re-statement For the year ended 31.12.2014	Re-stated For the year ended 31.12.2014
Interest Income	3.1	2,737,970,482.79	2,397,400,222.70	-	2,397,400,222.70	2,166,668,584.99	(23,887,973.20)	2,142,780,611.79
Interest Expenses	3.2	(1,108,692,146.83)	(988,148,917.50)	(7,999.97)	(988,156,917.47)	(863,187,722.48)	-	(863,187,722.48)
<b>NET INTEREST INCOME</b>		<b>1,629,278,335.96</b>	<b>1,409,251,305.20</b>	<b>(7,999.97)</b>	<b>1,409,243,305.23</b>	<b>1,303,480,862.51</b>	<b>(23,887,973.20)</b>	<b>1,279,592,889.31</b>
Fees & Commission Income	3.3	220,385,311.62	224,145,798.87	-	224,145,798.87	163,314,945.18		163,314,945.18
Fees & Commission Expense	3.4	(55,769,507.52)	(49,176,131.10)	-	(49,176,131.10)	(41,923,229.94)		(41,923,229.94)
Net Trading & Exchange Income	3.5	165,619,529.40	13,107,721.29	-	13,107,721.29	65,972,320.04		65,972,320.04
Other Operating Income	3.6	40,324,144.87	40,283,213.30	50,083.80	40,333,297.10	34,457,903.53		34,457,903.53
<b>NON INTEREST INCOME</b>		<b>370,559,478.37</b>	<b>228,360,602.36</b>	<b>50,083.80</b>	<b>228,410,686.16</b>	<b>221,821,938.81</b>	<b>-</b>	<b>221,821,938.81</b>
<b>OPERATING INCOME</b>		<b>1,999,837,814.33</b>	<b>1,637,611,907.56</b>	<b>42,083.83</b>	<b>1,637,653,991.39</b>	<b>1,525,302,801.32</b>	<b>(23,887,973.20)</b>	<b>1,501,414,828.12</b>
Staff Costs	3.7	(342,067,027.79)	(310,153,043.78)	-	(310,153,043.78)	(276,995,417.69)		(276,995,417.69)
Premises Costs	3.8	(67,601,683.20)	(64,580,316.57)	-	(64,580,316.57)	(55,666,826.01)		(55,666,826.01)
General Administrative Expenses	3.9	(126,301,401.54)	(124,735,682.11)	-	(124,735,682.11)	(97,358,467.56)		(97,358,467.56)
Depreciation	3.10	(55,738,713.95)	(39,170,000.37)	-	(39,170,000.37)	(70,444,556.55)		(70,444,556.55)
Amortization	3.11	(15,120,926.18)	(6,850,898.19)	-	(6,850,898.19)	-		-
<b>OPERATING EXPENSES</b>		<b>(606,829,752.66)</b>	<b>(545,489,941.02)</b>	<b>-</b>	<b>(538,639,042.83)</b>	<b>(500,465,267.81)</b>	<b>-</b>	<b>(500,465,267.81)</b>
<b>OPERATING PROFIT BEFORE IMPAIRMENT &amp; TAXATION</b>		<b>1,393,008,061.67</b>	<b>1,092,121,966.54</b>	<b>42,083.83</b>	<b>1,099,014,948.56</b>	<b>1,024,837,533.51</b>	<b>(23,887,973.20)</b>	<b>1,000,949,560.31</b>
Impairment Losses on Loans & other Credit Risk Provisions		(45,907,834.01)	47,836,446.40	-	47,836,446.40	174,392,400.24		174,392,400.24
Other Impairment Losses		(6,300,000.00)	(1,872,580.72)	-	(1,872,580.72)	(18,562,925.47)		(18,562,925.47)
<b>PROFIT BEFORE TAXATION</b>		<b>1,340,800,227.66</b>	<b>1,138,085,832.22</b>	<b>42,083.83</b>	<b>1,144,978,814.24</b>	<b>1,180,667,008.28</b>	<b>(23,887,973.20)</b>	<b>1,156,779,035.08</b>
Tax Expenses	3.12	(402,240,068.00)	(341,411,242.00)	-	(341,411,242.00)	(315,704,006.68)	7,166,391.96	(308,537,614.72)
Tax Expenses For Earlier Years	3.13	(1,911,716.38)				-		-
<b>NET PROFIT FOR THE YEAR</b>		<b>936,648,443.28</b>	<b>796,674,590.22</b>	<b>42,083.83</b>	<b>803,567,572.24</b>	<b>864,963,001.60</b>	<b>(16,721,581.24)</b>	<b>848,241,420.36</b>

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2016**

Particulars	Note No.	Amount in Ngultrum					
		For the year ended 31.12.2016	For the year ended 1.12.2015	Re-statement For the year ended 31.12.2015	Re-stated For the year ended 31.12.2015	Re-statement For the year ended 31.12.2014	Re-stated For the year ended 31.12.2014
Other Comprehensive Income (Loss)							
Exchange Fluctuation Gain/(Loss)		-	-	-	-	(49,813,483.47)	(49,813,483.47)
Actuarial Gains/(Loss) on Retirement Benefits		(3,681,370.00)	44,138,100.00	-	44,138,100.00	(64,816,080.00)	(64,816,080.00)
Other Comprehensive Income Before Tax		(3,681,370.00)	44,138,100.00	-	44,138,100.00	(114,629,563.47)	(114,629,563.47)
Tax (Expenses)/Income relating to Comprehensive Income	3.14	1,104,411.00	(13,241,430.00)	-	(13,241,430.00)	-	-
Other Comprehensive Income, net of Tax		(2,576,959.00)	30,896,670.00	-	30,896,670.00	(114,629,563.47)	(114,629,563.47)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>934,071,484.28</b>	<b>827,571,260.22</b>	<b>42,083.83</b>	<b>834,464,242.24</b>	<b>750,333,438.13</b>	<b>733,611,856.89</b>
Basic & Diluted Earnings Per Share	3.15	31.14	55.17		55.17		
Restated Basic and Diluted Earnings per Ordinary Share due to Bonus		31.14	27.59		27.59		

## STATEMENT OF CHANGES TO EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2016

	Amount in Ngultrum							Total	
	Share Capital	Reserve Fund	Retained Earnings	Exchange Fluctuation Reserve	R&D Fund	Development Fund	Software Upgradation Fund		Training Fund
As at January 2015	1,500,000,000.00	1,813,383,187.85	745,333,438.13	152,000,000.00	8,717,000.00	20,000,000.00	6,450,000.00	60,000,000.00	4,305,883,625.98
Profit for the year	-	-	827,571,259.22	-	-	-	-	-	827,571,259.22
Bonus Shares Issued	-	-	-	-	-	-	-	-	-
Transferred from Retirement Benefits Past service	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	(375,166,719.07)	-	-	-	-	-	(375,166,719.07)
Other Movements	-	-	-	-	-	-	-	-	-
Transferred to Reserve Fund	-	95,000,000.00	(95,000,000.00)	-	-	-	-	-	-
Transferred to Exchange Fluctuation Reserve	-	-	95,167,000.00	-	(8,717,000.00)	(20,000,000.00)	(6,450,000.00)	(60,000,000.00)	-
As at 31 December 2015	1,500,000,000.00	1,908,383,187.85	1,197,904,978.28	152,000,000.00	(8,717,000.00)	(20,000,000.00)	(6,450,000.00)	(60,000,000.00)	4,758,288,166.13
Profit for the year	-	-	934,071,484.28	-	-	-	-	-	934,071,484.28
Bonus Shares Issued	1,500,000,000.00	(1,500,000,000.00)	-	-	-	-	-	-	-
Transferred from Retirement Benefits Past service	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	(163,800,000.00)	-	-	-	-	-	(163,800,000.00)
Other Movements (Restatement)	-	-	(23,887,973.23)	-	-	-	-	-	(23,887,973.23)
Transferred to Reserve Fund	-	570,482,149.54	(570,482,149.54)	-	-	-	-	-	-
Transfer from BOB SL	-	497,600.00	-	-	-	-	-	-	497,600.00
Transferred to Retained Earnings	-	-	1,020,739.15	-	-	-	-	-	1,020,739.15
Transferred to Exchange Fluctuation Reserve	-	-	(44,681,812.67)	44,681,812.67	-	-	-	-	0.00
As at 31st December 2016	3,000,000,000.00	979,362,937.39	1,330,145,266.27	196,681,812.67	-	-	-	-	5,506,190,016.33

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2016

Amount in Ngultrum

	For the year ended 31.12.2016	For the year ended 31.12.2015
<b>Cash flows from operating activities</b>		
Profit Before Taxation	1,197,183,666.20	1,136,558,823.82
Add: Depreciation	55,738,713.95	39,170,000.37
Add: Amortization	15,120,926.18	6,850,898.19
Gain/(Loss) on revaluation of foreign currency assets and liabilities	143,819,910.18	1,527,008.40
Actuarial Gains/(Loss) on Retirement Benefits	(3,681,370.00)	44,138,100.00
Less: Impairment charges for Loans and advances	(28,442,014.60)	(35,241,638.61)
Less: Donation made through Reserve		
<b>Adjustments to Cash Flows from Operating activities (Taken as Cash Flows from Investing Activities)</b>		
Loss/(Gain) on Sale of Property Plant and Equipment	(2,989,496.00)	-
Income from Dividends	(7,017,385.00)	(15,175,060.00)
Interest Received on Investments and FDRs	(427,971,865.82)	(203,843,682.23)
<b>Operating profit before changes in operating assets &amp; liabilities</b>	<b>941,761,085.09</b>	<b>973,984,449.94</b>
<b>(Increase)/Decrease in operating assets</b>		
Balance with RMA in CRR Account	(691,018,586.29)	(1,669,164,218.85)
Loans & Advances to customers	(1,602,394,310.47)	(641,922,908.61)
Deferred Tax Asset	(21,787,614.00)	(17,932,279.00)
Other Assets	(167,003,184.47)	(23,201,751.92)
<b>Sub-Total</b>	<b>(2,482,203,695.23)</b>	<b>(2,352,221,158.38)</b>
<b>Increase/(Decrease) in operating liabilities</b>		
Deposits from customers	4,382,743,455.44	(1,243,925,362.93)
Other Liabilities	486,798,139.97	258,988,541.67
<b>Sub-Total</b>	<b>4,869,541,595.41</b>	<b>(984,936,821.26)</b>
	<b>2,387,337,900.18</b>	<b>(3,337,157,979.64)</b>
<b>Net cash generated from/(used in) operating activities before income tax</b>	<b>3,329,098,985.27</b>	<b>(2,363,173,529.70)</b>
Income Tax paid	(383,527,557.04)	(334,329,010.21)
<b>Net cash generated from/(used in) operating activities</b>	<b>2,945,571,428.23</b>	<b>(2,697,502,539.91)</b>



## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2016

Amount in Ngultrum

	For the year ended 31.12.2016	For the year ended 31.12.2015
<b>Cash Inflows/(Outflows) from investing activities</b>		
Investment in Bonds	-	(1,746,530,000.00)
Investment in RMA Discount Bills	2,184,242,700.00	(3,466,387,500.00)
Investment in Share	(1,750,000.00)	(25,037,000.00)
Inter-Bank Lending	112,220,000.00	(1,034,800,000.00)
Maturity of Bond	-	-
Income from Dividends	7,017,385.00	15,175,060.00
Interest Received on Investments and FDRs	427,971,865.82	203,843,682.23
Purchase of property plant and equipment	(46,782,170.27)	(191,863,126.40)
Purchase of Intangible assets	(91,352,761.81)	(35,049,216.48)
<b>Net cash flows used in investing activities</b>	<b>2,591,567,018.74</b>	<b>(6,280,648,100.65)</b>
<b>Cash Inflows/(Outflows) from financing activities</b>		
Movement in Debt and other borrowed funds Dividend Paid	(163,800,000.00)	(375,166,719.07)
Prior Period adjustments	(1,911,716.38)	-
Prior Period adjustments	50,083.80	
Prior Period adjustments	16,721,581.24	
<b>Net cash flows generated from financing activities</b>	<b>(148,940,051.34)</b>	<b>(375,166,719.07)</b>
Net Cash generated/(used) during the year	5,388,198,395.62	(9,353,317,359.63)
Cash and cash equivalents at the beginning of the year	5,913,272,938.53	15,266,590,298.16
<b>Cash and cash equivalents at the end of the year</b>	<b>11,301,471,334.15</b>	<b>5,913,272,938.53</b>
Cash in Hand	744,021,387.03	683,542,660.91
Balance with Central Bank in Current Account	9,245,788,783.06	3,803,336,428.52
Balance with Other Banks in Current Account	1,311,661,164.06	1,426,393,849.10
<b>Total Cash &amp; cash equivalents at the end of the year</b>	<b>11,301,471,334.15</b>	<b>5,913,272,938.53</b>

**Note 1:** - Summary of Significant accounting policies appended to and forming part of the financial statements for the year ended December 31, 2016.

### 1.1. General Information

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

The Bank is governed by Financial Services Act, 2011 and the Companies Act of the Kingdom of Bhutan, 2016.

**These financial statements relate to the year ended December 31, 2016.**

### 1. 2. Application of Bhutanese Accounting Standards (BAS)

Till financial year ended December 31, 2013, the Bank prepared its financial statements in accordance with generally accepted accounting principles (GAAP) and the provisions of the Companies Act of the Kingdom of Bhutan, 2016.

The Accounting and Auditing Standard Board of Bhutan (AASBB) decided to adopt IFRS in phases with minor changes. These standards are referred to as Bhutanese Accounting Standards (BAS). The prescribed standard for Phase I was adopted with effect from 1st January 2014 and applicable standards for Phase II were adopted effective January 2016. The following applicable standards were adopted:

<b>BAS Phase I (with effect from 1st January 2014)</b>	<b>BAS Phase II (with effect from 1st January 2016)</b>
BAS 1 - Presentation of Financial Statements BAS 2 - Inventories BAS 7 - Statement of Cash Flows  BAS 8 - Accounting Policies, Changes in Accounting Estimates & Errors BAS 10 - Events after Reporting Period BAS 11 - Construction Contracts BAS 12 - Income Taxes BAS 18 - Revenue BAS 20 - Accounting for Government Grants and Disclosure of Government Assistance BAS 21 - The effects of Changes in Foreign Exchange Rates BAS 23 - Borrowing Costs BAS 24 - Related Party Disclosures BAS 27 - Separate Financial Statements BAS 33 - Earning Per Share BAS 34 - Interim Financial Statements BAS 37 - Provisions, Contingent Liabilities and Contingent Assets BFRS 8 - Operating Segments	BAS 17 - Leases BAS 19 - Employee Benefits (early adopted in Phase I) BAS 26 - Accounting and Reporting by Retirement Plans BAS 28 - Investment in Associates & Joint Ventures BAS 36 - Impairment of Assets BAS 38 - Intangible Assets BAS 40 - Investment Property BAS 41 - Agriculture

The Financial Statements for the year ended December 31, 2016 have been prepared in line with first and second phases of the Bhutanese Accounting Standards (BAS). From the year 2014, the Bank has complied with the BAS - Phase - I, and from 2016, the Bank has complied with BAS - Phase - II. BAS Phase - III becomes applicable with effect from January 1, 2018.

- a) The Bank has presented Statements of Comprehensive Income and Changes to Equity as required by BAS.
- b) Depreciation has been calculated using the management's estimated useful life of fixed assets.
- c) Employee retirement benefit plans are valued on an actuarial basis as required by BAS-19.

### 1.3. Basis of preparation

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

The preparation of financial statements in conformity with BAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The Management believes that the estimate used in preparation of the financial statements is prudent and reasonable. Future results could differ due to estimates and differences between the actual results and the estimates are recognised in the periods in which the results are known/materialised.

### 1.4. Operating Segments

An Operating Segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses. The operating results are regularly reviewed by the Bank's chief operating decision maker about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating Segments have been identified based on the information provided to the chief operating decision maker and are reported separately.

The Bank operates in one segment of commercial banking.

### 1.5. Foreign currency transactions

- a) Transactions in foreign currency are initially recorded in the functional currency by applying the exchange rate prevailing at the date of the transactions. Foreign currency transactions that are completed within the accounting period are translated into Bhutanese Ngultrum using the exchange rates prevailing at the date of settlement. Monetary assets and liabilities in foreign currencies at statement of financial position date are translated at the rates of exchange ruling at statement of financial position date and Non Monetary items are measured at historical cost.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

- b) Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates referred to as the "Functional Currency". The functional currency of the company is Bhutanese Ngultrum.

### 1.6. Property, plant and equipment

The cost of an item of property, plant and equipment is recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Bank and the cost can be measured reliably.

Property, plant and equipment are initially recognized at cost. The initial cost of property, plant and equipment comprises its net purchase price after deducting for any trade discount and rebates, including import duties and non-

refundable purchase taxes, and directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Subsequent expenditures relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the

statement of comprehensive Income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is computed using the straight-line method to their residual values over the estimated useful lives after deducting estimated residual value. The residual value in all cases has been taken as Nu. 1. Freehold land is not depreciated as it has an unlimited useful life whereas leasehold land is depreciated on straight-line method over the primary term of the lease.

The Bank has based on evaluation performed by the technical Department, and established the estimated range of useful lives of assets for depreciating its property, plant and equipment as follows:

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

The useful life, residual value and depreciation method are reviewed, and adjusted appropriately, at least at each Statement of Financial Position date to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits. Change in the estimated useful life, residual value and/or depreciation method, if any, is depreciated prospectively over the asset's remaining revised useful life.

The cost and the accumulated depreciation for property, plant and equipment sold, scrapped, retired or otherwise disposed-off are eliminated from the financial statements and the resulting gains and losses are included in the Statement of Comprehensive Income.

### 1.7. Intangible assets

Intangible asset is an identifiable non-monetary asset without physical substance. It includes computer software etc.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the income

statement when it is incurred.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of Comprehensive Income when the asset is derecognized.

#### **1.8. Non-current assets (or disposal groups) held for sale**

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

#### **1.9. Financial assets**

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

Loans and advances are stated at principal amount at historical cost together with interest accrued thereon. Advances are classified as standard, watch, sub-standard, doubtful, or loss assets and provisions for such advances are made as per the Prudential Regulations, 2016 issued by the Royal

Monetary Authority of Bhutan. Specified loss provisions in respect of non-performing advances are made as per the requirement prescribed in Prudential Regulations, 2016 issued by the Royal Monetary Authority of Bhutan; subject to managements own judgement in some cases. Amount of such provisions has been incorporated in this financial statement on the basis of certificates issued by the Onsite Inspection Team of the RMA.

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

Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amount due from other banks are carried at historical cost and interest accrued thereon is disclosed under other assets, till the adoption of BAS 39, Financial Instruments: Recognition and Measurement, in Phase III.

#### **1.10. Inventories**

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

#### **1.11. Impairment of Assets**

Asset is impaired when carrying amount of an asset or cash-generating unit (CGU) exceeds recoverable amount. The recoverable amount of an asset or CGU is higher of an asset's fair value less cost to sell or its value in use, (where carrying amount is an amount of an asset recognized after deducting any accumulated depreciation or amortization or accumulated impairment loss, if any).

At the end of each reporting date, the Bank assesses whether there is any indication externally or internally that the assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount.

For assets excluding goodwill, an assessment is



made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31st December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired. Similarly, Investments in subsidiaries, associates, and joint ventures carried at cost and assets carried at revalued amounts are also tested annually for impairment as at 31st December.

Goodwill is tested for impairment annually as at 31st December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized.

Impairment losses relating to goodwill are not reversed in future periods.

### 1.12. Investment in Associates & Joint Ventures

Investment in associates & joint ventures for consolidation are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Bank's investment in associates & joint ventures includes goodwill identified on acquisition.

The share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the share of losses in some associate & joint ventures equals or exceeds its interest in the associate & joint ventures, including

any other unsecured receivables, the Bank does not recognize further losses, unless it has legal or constructive obligations or made payments on behalf of the associate.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate & joint ventures is impaired. If this is the case, it calculates the amount of impairment as the difference between the recoverable amount of the associate & joint ventures and its carrying value and recognizes the amount in the Statement of Comprehensive Income.

Profits and losses resulting from upstream and downstream transactions between the Bank and its associate & joint ventures are recognized in the Bank's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Bank.

### 1.13. Investment Property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of comprehensive income in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for

subsequent accounting is the fair value at the date of change. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change.

#### 1.14. Cash and cash equivalents

In the Statement of Cash Flows, “cash and cash equivalents” includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and that are readily convertible to known amount of cash and cash equivalent which are subject to insignificant risk of changes in value.

#### 1.15. Trade and other payables

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

#### 1.16. Leases

A Lease is an agreement whereby the Lessor conveys to the Lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A Lease is classified either as Finance Lease or Operating Lease.

- a. Finance Lease - It is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. The Bank currently has no finance lease.
- b. Operating Lease - It is a lease that does not transfer substantially all the risks and rewards incidental to ownership.

The accounting treatment under operating lease for the bank shall be:

#### As a Lessor:

The Bank as the Lessor shall present assets subject to operating leases in their statements of financial position according to the nature of the asset (BAS 16). The depreciation policy for depreciable leased assets shall be consistent with the Lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with BAS 16 and BAS 38.

Lease income or the rental income shall be recognized as income in the income statement on a straight-line basis over a lease term, and the costs, including depreciation, incurred in earning the lease income are recognized as an expense in the income statement.

#### As a Lessee:

The Bank as the Lessee shall recognize the cost (rental expenses) as an expense in the period in which they are incurred in the income statement on a straight-line basis over a lease term. The lease (rent) payment shall be made as per the terms of the lease agreement. Any fixed cost incurred on the leased assets by the lessee be depreciated or amortized over an initial lease period.

#### 1.17. Customer Deposits

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

#### 1.18. Current and deferred income tax

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

### 1.19. Employee benefits

#### a. Under defined contribution scheme

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

#### b. Under Defined Benefit Scheme

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

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

### 1.20. Provisions, Contingent Liabilities and Contingent Assets

The Bank recognizes provisions only when it has a

present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made. Contingent Assets are not recognized in the financial statements.

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

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

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

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

### 1.21. Revenue recognition

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

- i) Items of Income and Expenditure are incomes and expenditures accounted for on accrual basis except commission of guarantee and Letter of Credit, which is accounted for on cash basis.
- ii) Interest, Rent, etc. are accounted at gross value before deduction of tax.



iii) Interest income on loans is recognized on accrual basis except for non-performing loans in respect of which the interest income, as per the guidelines issued by the Royal Monetary Authority of Bhutan is shown under the head "Interest Suspense Account" which is taken to profit and loss on actual realization only.

#### 1.22. Mandatory Cash Reserve with RMA

Mandatory Cash Reserve with RMA are carried at historical cost and represent mandatory reserve deposits with Royal Monetary Authority of Bhutan (RMA), which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalent for the purposes of the statement of cash flows.

#### 1.23. Earnings Per share

The Company presents the basic and diluted EPS data for its equity shares. Basic EPS is computed

by dividing the net profit for the year attributes to the equity shareholders of the company by the weighted average number of equity shares outstanding during the year.

#### 1.24. Dividend income

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

#### 1.25. Comparative information

Where necessary, certain comparative information has been reclassified in order to provide a more appropriate basis for comparison. 2016 comparative information has been updated to comply with the introduction of Bhutanese Accounting Standards. The previous year's figures have been regrouped/rearranged wherever considered necessary, to conform to this year's presentation.

### Note 2: Notes forming part of the Statement of Financial Position as at 31st December 2016

#### NOTE 2.1 - CASH AND BALANCES WITH ROYAL MONETARY AUTHORITY (RMA)

	Amount in Ngultrum	
	As at 31.12.2016	As at 31.12.2015
<b>CASH IN HAND</b>		
Bhutanese Currency	689,529,606.74	616,888,850.54
Indian Currency	-	35,629,179.00
Foreign Currency	54,491,780.29	31,024,631.37
	744,021,387.03	683,542,660.91
<b>CASH RESERVE WITH RMA</b>	4,088,954,272.66	3,397,935,686.37
<b>BALANCES WITH RMA</b>	9,245,788,783.06	3,803,336,428.52
<b>TOTAL</b>	<b>14,078,764,442.75</b>	<b>7,884,814,775.80</b>

## NOTE 2.2 - LOANS &amp; ADVANCES TO OTHER BANKS

Amount in Ngultrum

	As at 31.12.2016	As at 31.12.2015
<b>BALANCES WITH BANKS IN BHUTAN</b>		
On Current Accounts	14,268,055.55	200,000.00
On Deposit Accounts	1,850,000,000.00	1,300,000,000.00
	<b>1,864,268,055.55</b>	<b>1,300,200,000.00</b>
<b>BALANCES WITH BANKS IN INDIA AND ABROAD</b>		
On Current Accounts	1,297,393,108.51	1,426,193,849.10
On Deposit Accounts	135,900,000.00	798,120,000.00
	<b>1,433,293,108.51</b>	<b>2,224,313,849.10</b>
<b>TOTAL</b>	<b>3,297,561,164.06</b>	<b>3,524,513,849.10</b>

## NOTE 2.3 - LOANS &amp; ADVANCES TO CUSTOMERS

Amount in Ngultrum

	As at 31.12.2016	As at 31.12.2015
GROSS LOANS, CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN)	21,514,732,341.90	19,878,349,399.33
Less: Specific Provision	640,351,805.09	603,614,580.81
Interest in Suspense	149,501,734.57	157,796,944.25
<b>NET LOANS, CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN) (Net of Provisions &amp; Interest in Suspense)</b>	<b>20,724,878,802.24</b>	<b>19,116,937,874.27</b>
BILLS DISCOUNTED AND PURCHASED		
Payable in Bhutan	-	-
Payable outside Bhutan	529,042.50	34,517,674.60
<b>Sub-Total</b>	<b>529,042.50</b>	<b>34,517,674.60</b>
<b>TOTAL</b>	<b>20,725,407,844.74</b>	<b>19,151,455,548.87</b>
<b>Particulars of Advances</b>		
i) Debts considered good in respect of which Bank is fully secured	16,799,983,121.50	16,753,026,969.79
ii) Debts considered good for which Bank holds no other security than the Debtor's personal security	872,967,982.88	17,060,700.45
iii) Debts considered good, secured by the personal liability of one or more parties in addition to the personal security of the Debtors	3,805,228,056.03	3,142,779,403.69
iv) Debts considered doubtful or bad, not provided for	-	-
<b>TOTAL</b>	<b>21,478,179,160.41</b>	<b>19,912,867,073.93</b>
v) Debts due by directors or officers of Bank or any of them either severally or jointly with any other person	498,990,889.12	368,004,506.00
vi) Debts due by companies, firms in which the directors of Bank are interested as directors, partners or members	214,526,511.46	308,097,219.36
vii) Maximum amount of advances, including temporary advances made at any time during the year to directors, managers or officers of Bank or any of them either severally or jointly with any other person	4,000,000.00	500,000.00
viii) Maximum amount of advances, including temporary advances granted during the year to the companies or firms in which directors of Bank are interested as directors, partners or members	-	-
ix) Due from Banking companies	-	-

**NOTE 2.4 A - INVESTMENT SECURITIES (Value at Cost)**

	No. of Shares	Face Value	As at 31.12.2016	No. of Shares	As at 31.12.2015
<b>BONDS &amp; BILLS</b>					
DCCL Bond	1,414,917	1,000	1,414,917,000.00	1,414,917	1,414,917,000.00
RICBL Bond	157,550	1,000	157,550,000.00	157,550	157,550,000.00
Tashi Air Bond	102,270	1,000	102,270,000.00	102,270	102,270,000.00
Bhutan Telecom Bond	3,000,000	100	300,000,000.00	3,000,000	300,000,000.00
Zimdra Bond	2,469,450	100	246,945,000.00	2,469,450	246,945,000.00
RMA Treasury Bills			3,280,944,800.00		5,465,187,500.00
<b>TOTAL</b>			<b>5,502,626,800.00</b>		<b>7,686,869,500.00</b>

**NOTE 2.4 B - INVESTMENT IN SUBSIDIARIES (Value at Cost)**

	As at 31.12.2016	No. of Shares	As at 31.12.2015
<b>BOB Securities Limited</b>	-	5,000	500,000.00
	-		500,000.00

**NOTE 2.4 C - INVESTMENT IN ASSOCIATES (Value at Cost)**

	No. of Shares	Face Value	As at 31.12.2016	No. of Shares	As at 31.12.2015
Royal Securities Exchange of Bhutan Ltd	162,000	100	19,811,000.00	162,000	19,811,000.00
Financial Training Institution	1,800,000	10	18,000,000.00		
			<b>37,811,000.00</b>		<b>19,811,000.00</b>

**NOTE 2.4 D- INVESTMENT IN PORTFOLIO COMPANIES (Value at Cost)**

	No. of Shares	Face Value	As at 31.12.2016	No. of Shares	As at 31.12.2015
<b>FULLY PAID UP SHARES IN</b>					
Bhutan Board Products Limited	1,724,000	10	18,973,913.00	1,724,000	18,973,913.00
Bhutan Development Bank Ltd	12,726	1,000	12,726,000.00	12,726	12,726,000.00
Bhutan Carbide & Chemicals Ltd	1,584,500	10	16,260,297.45	1,584,500	16,260,297.45
Bhutan Ferro Alloys Limited	503,800	10	5,038,000.00	503,800	5,038,000.00
Penden Cement Authority Ltd	37,950	10	379,500.00	37,950	379,500.00
Druk Ferro Alloys Limited	1,182,720	10	23,654,400.00	1,182,720	23,654,400.00
State Trading Corpn. of Bhutan Ltd*	1,270,440	10	1,411,600.00	1,270,440	1,411,600.00
Credit Information Bureau	17,500	100	1,750,000.00		
			<b>80,193,710.45</b>		<b>78,443,710.45</b>

**NOTE 2.5 - PREPAYMENTS & ACCRUED INCOME**

	As at 31.12.2016	As at 31.12.2015
Accrued Interest	100,699,058.73	89,450,082.78
Prepaid Expenses	3,356,024.52	3,739,292.29
	<b>104,055,083.25</b>	<b>93,189,375.07</b>

**NOTE 2.6 - DEFERRED TAX ASSETS**

	As at 31.12.2016	As at 31.12.2015
Deferred Tax Asset	49,259,265.00	27,471,651.00
	<b>49,259,265.00</b>	<b>27,471,651.00</b>

## NOTE 2.7 - OTHER ASSETS

	As at 31.12.2016	As at 31.12.2015
Stamps, Sundry Deposits and Amounts Recoverable	38,790,083.00	32,422,945.00
Stationery	13,805,858.89	13,684,169.65
Building Materials	291,985.72	291,985.72
Axis Bank Pre-paid Cards	1,652,375.99	2,881,093.02
Receivables relating to Visa/Mastercard /BFS, Advances To Suppliers & Others	239,081,588.86	68,454,222.78
DHI Seed Fund	10,000,000.00	10,000,000.00
Contribution towards Financial Institutions Training Institute (FITI), Bhutan	-	18,000,000.00
Investment in CIB	-	1,750,000.00
<b>TOTAL</b>	<b>303,621,892.46</b>	<b>147,484,416.17</b>



## NOTE 2.8 A-PROPERTIES, PLANT AND EQUIPMENT

	Freehold Land	Buildings & Civil Structures	Furniture & Fixtures	Office Equipment & Machineries	Vehicle	Computer & IT Equipment	Total
<b>Total Cost</b>							
Balance as at January 1, 2016	162,796,235.56	93,368,388.27	36,158,096.31	137,075,897.48	27,728,244.43	237,653,573.18	694,780,435.23
Additions	-	10,443,171.67	921,232.65	16,064,730.13	5,968,954.82	7,392,766.94	40,790,856.21
Deletions /Adjustments	-	-	-	-	(5,171,150.70)	-	(5,171,150.70)
Other Movement of assets (reclassification)	-	-	-	-	-	-	-
Closing Balance as at December 31, 2016	162,796,235.56	103,811,559.94	37,141,666.96	153,160,127.61	28,526,048.55	245,270,723.51	730,706,362.13
Accumulated Depreciation	-	10,443,171.67	921,231.65	16,064,730.13	5,968,954.82	7,392,766.94	-
Balance as at January 1, 2016	-	(32,184,897.60)	(21,280,427.42)	(72,465,905.18)	(17,452,583.83)	(139,534,634.17)	(282,918,448.20)
Depreciation on deletions and adjustments	-	-	-	-	5,171,150.70	-	5,171,150.70
Other Movement of assets (reclassification)	-	-	-	-	-	-	-
Depreciation for the year	-	(3,124,858.01)	(4,268,009.97)	(18,743,696.05)	(1,719,287.20)	(27,882,863.72)	(55,738,714.94)
Balance as at December 31, 2016	-	(35,309,755.61)	(25,588,678.19)	(91,221,525.85)	(14,000,720.33)	(167,632,702.14)	(333,753,382.11)
Net Book Value as at December 31, 2016	162,796,235.56	68,501,804.33	11,552,988.77	61,938,601.76	14,525,328.22	77,638,021.37	396,952,980.02
Net Book Value as at December 31, 2015	162,796,235.56	61,183,490.67	14,877,668.89	64,609,992.30	10,275,660.60	98,118,939.01	411,861,987.03

**NOTE 2.8 B - INTANGIBLE ASSETS**

<b>Software</b>	
<b>Total Cost</b>	
Balance as at January 1, 2016	63,049,052.05
Additions	91,352,761.81
Deletions/Adjustments	
Other Movement of assets (reclassification)	
<b>Closing Balance as at December 31, 2016</b>	<b>154,403,213.86</b>
<b>Accumulated Amortization</b>	
<b>Balance as at January 1, 2016</b>	<b>(22,119,425.97)</b>
Amortization on deletions and adjustments	
Other Movement of assets (reclassification)	
Amortization for the year	(15,120,926.18)
<b>Balance as at December 31, 2016</b>	<b>(37,241,223.50)</b>
<b>Net Book Value as at December 31, 2016</b>	<b>117,161,990.36</b>
<b>Net Book Value as at December 31, 2015</b>	<b>40,929,626.08</b>

**NOTE 2.8 C- CAPITAL WORK IN PROGRESS**

<b>Thimphu Corporate Office &amp; Others</b>	
<b>Balance as at January 1, 2016</b>	<b>70,971,956.20</b>
Additions	8,980,812.06
Deletions/Adjustments	
<b>Balance as at December 31, 2016</b>	<b>79,952,768.26</b>

**NOTE 2.9 -DEPOSITS BY BANKS**

	<b>As at 31.12.2016</b>	<b>As at 31.12.2015</b>
Current Deposits	137,009,673.03	144,739,360.70
Term Deposits	2,946,718.60	2,504,919.99
<b>TOTAL DEPOSITS BY BANKS</b>	<b>139,956,391.63</b>	<b>147,244,280.69</b>

**NOTE 2.10 - CUSTOMER DEPOSITS**

	As at 31.12.2016	As at 31.12.2015
<b>DEMAND DEPOSITS</b>		
i) Current Deposits	15,608,867,272.31	14,988,736,249.74
ii) Savings Bank Deposits	10,808,920,368.95	8,603,961,888.48
	26,417,787,641.26	23,592,698,138.22
<b>TERM DEPOSITS</b>	10,075,087,034.39	8,510,145,192.93
<b>TOTAL CUSTOMER DEPOSITS</b>	<b>36,492,874,675.65</b>	<b>32,102,843,331.15</b>
<b>TOTAL DEPOSITS</b>	<b>36,632,831,067.28</b>	<b>32,250,087,611.84</b>

**NOTE 2.11- SUBORDINATED LIABILITIES**

	As at 31.12.2016	As at 31.12.2015
Subordinated Debt Issue to Government (At 6% per annum, repayable in 2024)	500,000,000.00	500,000,000.00
	<b>500,000,000.00</b>	<b>500,000,000.00</b>

**NOTE 2.12 - PROVISION FOR LIABILITIES & CHARGES**

	As at 31.12.2016	As at 31.12.2015
Provision For Loss Data	26,735,506.19	20,435,506.19
<b>TOTAL</b>	<b>26,735,506.19</b>	<b>20,435,506.19</b>

**NOTE 2.13 - RETIREMENT BENEFIT OBLIGATIONS**

	As at 31.12.2016	As at 31.12.2015
<b>Movements on Retirement Benefit Obligations</b>		
As per previous year's accounts	118,618,470.00	161,291,000.00
Less: Payments made during the year	(27,106,591.00)	(17,509,467.00)
Less: Movement through Reserves (Other Comprehensive Income)	3,681,370.00	
Add: Movement through Reserves (Other Comprehensive Income)		(44,138,100.00)
Add: Charge for the current year	28,642,921.00	18,975,037.00
<b>TOTAL</b>	<b>123,836,170.00</b>	<b>118,618,470.00</b>

**NOTE 2.14 -ACCRUALS & DEFERRED INCOME**

	<b>As at 31.12.2016</b>	<b>As at 31.12.2015</b>
Interest Accrued & Payable	1,019,694,048.69	693,136,467.97
Payables relating to Visa/MasterCard	62,523,629.04	65,589,362.69
Unearned Commission Income	61,776,573.71	46,869,535.08
<b>TOTAL</b>	<b>1,143,994,251.44</b>	<b>805,595,365.74</b>

**NOTE 2.15 -CURRENT TAX LIABILITIES**

	<b>As at 31.12.2016</b>	<b>As at 31.12.2015</b>
Current Year Income Tax Payable	422,916,370.00	372,584,952.00
Less: Advance Tax	(186,292,476.00)	(161,648,807.00)
Tax Deducted at Source (Asset)	(6,234,992.16)	(2,003,776.12)
<b>TOTAL</b>	<b>230,388,901.84</b>	<b>208,932,368.88</b>

**NOTE 2.15 -CURRENT TAX LIABILITIES**

	<b>As at 31.12.2016</b>	<b>As at 31.12.2015</b>
Current Year Income Tax Payable	422,916,370.00	372,584,952.00
Less: Advance Tax	(186,292,476.00)	(161,648,807.00)
Tax Deducted at Source (Asset)	(6,234,992.16)	(2,003,776.12)
<b>TOTAL</b>	<b>230,388,901.84</b>	<b>208,932,368.88</b>

**NOTE 2.16 -OTHER LIABILITIES**

	<b>As at 31.12.2016</b>	<b>As at 31.12.2015</b>
General Provisions for Doubtful Debts	200,276,373.07	191,234,067.03
Drafts & Cash Warrants issued & outstanding	309,379,031.12	207,167,019.35
Inter Branch Adjustment (net)	(87,679.08)	(136,153.68)
Others (including provisions for operating expenses)	99,825,303.15	78,094,974.30
<b>TOTAL</b>	<b>609,393,028.26</b>	<b>476,359,906.99</b>
<b>TOTAL PROVISIONS &amp; OTHER LIABILITIES</b>	<b>2,134,347,857.73</b>	<b>1,629,941,617.80</b>

**NOTE 2.17 A- SHARE CAPITAL**

	As at 31.12.2016	As at 31.12.2015
<b>AUTHORISED CAPITAL</b>		
100,000,000 Shares of Nu. 100 each	10,000,000,000.00	3,000,000,000.00
<b>ISSUED AND PAID-UP CAPITAL</b>		
Opening Balance	1,500,000,000.00	1,500,000,000.00
Add: Bonus Share Issued	1,500,000,000.00	-
<b>CLOSING BALANCE</b> (30,000,000 Shares) (Previous Year 15,000,000) of Nu 100 each*	<b>3,000,000,000.00</b>	<b>1,500,000,000.00</b>

\* Out of the above, 27,000,000 shares of Nu. 100 each were issued as fully paid Bonus shares by way of capitalization of Reserves.

**NOTE 2.17B - DETAILS OF SHARES HELD BY EACH SHAREHOLDER HOLDING MORE THAN 5% SHARES**

Name of equity shareholder	As at 31.12.2016		As at 31.12.2015	
	No. of Shares held	% holding in that class of shares	No. of Shares held	% holding in that class of shares
Druk Holding & Investment Limited, Bhutan	24,000,000.00	80.00%	12,000,000.00	80.00%
State Bank of India, India	6,000,000.00	20.00%	3,000,000.00	20.00%
<b>TOTAL</b>	<b>30,000,000.00</b>	<b>100.00%</b>	<b>15,000,000.00</b>	<b>100.00%</b>

**NOTE 2.18 - RESERVES & SURPLUS**

	As at 31.12.2016	As at 31.12.2015
<b>RESERVE FUND</b>		
Opening Balance	1,908,383,187.85	1,813,383,187.85
Add: Transfer from Comprehensive Income	570,482,149.54	95,000,000.00
Add: Reserve fund from BOBSL	497,600.00	
Less: Other Movements	(1,500,000,000.00)	
	<b>979,362,937.39</b>	<b>1,908,383,187.85</b>
<b>EXCHANGE FLUCTUATION RESERVE</b>		
Opening Balance	152,000,000.00	152,000,000.00
Add: Transfer from Comprehensive Income	44,681,812.67	
	<b>196,681,812.67</b>	<b>152,000,000.00</b>
<b>RESEARCH &amp; DEVELOPMENT FUND</b>		
Opening Balance	-	8,717,000.00
Less: Transfer to Retained Earnings		(8,717,000.00)
<b>DEVELOPMENT FUND</b>		
Opening Balance	-	20,000,000.00
Less: Transfer to Retained Earnings		(20,000,000.00)
<b>SOFTWARE UPGRADATION FUND</b>		
Opening Balance	-	6,450,000.00
Less: Transfer to Retained Earnings		(6,450,000.00)
<b>STAFF SCHOLARSHIP AND TRAINING FUND</b>		
Opening Balance	-	60,000,000.00
Less: Transfer to Retained Earnings		(60,000,000.00)
<b>RETAINED EARNINGS</b>		
Opening Balance	1,197,904,978.28	745,333,438.13
Less: Dividends Paid	(163,800,000.00)	(375,166,719.07)
Less: Transfer to Reserve Fund	(570,482,149.54)	(95,000,000.00)
Less: Transfer to Exchange Fluctuation Reserve	(44,681,812.67)	-
Less: Other Movement(Restatement)	(23,887,973.23)	
Add: Transfer from Research & Development Fund		8,717,000.00
Add: Transfer from Development Fund		20,000,000.00
Add: Transfer from Software Upgradation Fund		6,450,000.00
Add: Transfer from Staff Scholarship & Training Fund		60,000,000.00
Add: Transfer from BOBSL		1,020,739.15
Add: Current Year Profit	934,071,484.28	827,571,259.22
	<b>1,330,145,266.27</b>	<b>1,197,904,978.28</b>
<b>TOTAL</b>	<b>2,506,190,016.33</b>	<b>3,258,288,166.13</b>



**NOTE 2.19 - CONTINGENT LIABILITIES**

	As at 31.12.2016	As at 31.12.2015
Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	1,323,824,741.14	1,101,673,851.05
Guarantees Issued & Outstanding	2,398,501,873.19	4,261,832,762.31
Tax Obligation For Prior Years		
<b>TOTAL</b>	<b>3,722,326,614.33</b>	<b>5,363,506,613.36</b>

**NOTE 2.20 - BILLS FOR COLLECTION**

	As at 31.12.2016	As at 31.12.2015
Payable in Bhutan	-	644,106.00
Payable outside Bhutan	529,042.50	34,820,912.14
<b>TOTAL</b>	<b>529,042.50</b>	<b>35,465,018.14</b>

**NOTE 3: Notes forming part of the Statement of Comprehensive Income as at 31st December 2016****NOTE 3.1- INTEREST EARNED**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Interest on Customer Loans (Net of Interest Suspended)	2,285,942,179.37	2,185,648,332.87
Interest on Bills Receivables	24,056,437.60	7,908,207.60
Interest on Investments	11,326,417.38	36,281,433.01
Interest on Inter-Bank Loans	116,645,448.44	67,562,249.22
<b>TOTAL</b>	<b>2,737,970,482.79</b>	<b>2,397,400,222.70</b>

**NOTE 3.2- INTEREST EXPENSES**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Interest paid on Customer Deposits	1,078,524,867.75	957,991,651.87
Interest paid on Inter-Bank Deposits	167,279.08	157,265.63
Interest paid on Subordinate Debt	30,000,000.00	30,000,000.00
<b>TOTAL</b>	<b>1,108,692,146.83</b>	<b>988,148,917.50</b>

**NOTE 3.3- FEES & COMMISSION INCOME**

	<b>For the year ended 31.12.2016</b>	<b>For the year ended 31.12.2015</b>
Commission	52,562,294.50	57,522,464.62
SB Maintenance Fee	31,603,583.74	29,138,153.01
Exchange	65,535,432.08	63,343,626.19
Debit Card Issuance & Usage Fees	1,902,619.56	5,407,631.90
Visa/MasterCard POS Acquiring Commission	16,536,337.91	14,139,391.92
Visa Debit Card ATM Charges	17,062,779.00	36,048,739.00
BFS ATM Interchange Fee Income	4,762,548.00	4,322,108.00
International ATM Access Fees	3,710,380.00	3,346,027.00
Income From Visa Credit Cards	1,516,800.70	807,127.70
E-COM Merchant MGT Fee	11,000.00	-
Prepaid Card Issuance Fee	172,170.00	-
Prepaid card Load/Reload Fee	15,700.00	-
M-BoB Service Charge/Commission	2,976,793.38	-
Electronic Wallet Transaction Commission	3,323,431.00	2,377,740.00
E-Acquiring Commission	12,408,088.99	6,561,137.87
Airtime Top Up Commission-BT	4,895,451.44	1,131,651.66
B-Wallet Transaction Commission	1,389,901.32	-
<b>TOTAL</b>	<b>220,385,311.62</b>	<b>224,145,798.87</b>

**NOTE 3.4- FEES & COMMISSION EXPENSES**

	<b>For the year ended 31.12.2016</b>	<b>For the year ended 31.12.2015</b>
Visa & MasterCard Fee	40,172,868.91	38,794,734.10
BFS Interchange Fee Expenses	10,118,328.00	8,720,504.00
BT Share on BWallet Commission	2,329,277.70	1,660,893.00
Commission paid- ATOs & HBL	3,149,032.91	-
	<b>55,769,507.52</b>	<b>49,176,131.10</b>

**NOTE 3.5- NET TRADING & EXCHANGE INCOME**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Profit on conversion of Foreign Currency Balances	165,619,529.40	11,580,712.89
	<b>165,619,529.40</b>	<b>11,580,712.89</b>

**NOTE 3.6- OTHER OPERATING INCOME**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Dividend on Equity Investments	7,017,385.00	15,175,060.00
Rental Income	4,094,264.65	3,833,911.30
Other Income including recoveries for charges	26,222,998.22	21,274,242.00
Profit on sale of fixed assets	2,989,497.00	-
<b>TOTAL</b>	<b>40,324,144.87</b>	<b>40,283,213.30</b>

**NOTE 3.7- STAFF COST**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Employee Salaries	142,768,405.33	142,397,503.41
Employee Allowances	91,801,957.62	91,583,343.84
Bank's Contribution to Employee Provident Fund	14,558,125.00	14,567,770.00
Encashment of Leave	11,871,251.00	(3,052,135.00)
Medical Expenditure	2,586,428.78	193,951.00
Employee Bonus	25,855,023.00	23,342,202.00
Employee Gratuity	14,525,665.00	18,209,592.00
Leave Travel Concession	8,761,422.00	9,044,912.00
Staff Amenities	406,438.00	151,167.18
Uniform Expenses	94,000.00	318,752.50
Training Expenses	14,083,245.62	7,592,704.84
Separation Cost	2,245,998.00	3,804,955.00
Staff Relocation Expenses	1,367,097.00	1,415,270.00
Sports & Recreational Expenses	1,068,540.00	493,055.01
Prizes & Awards	279,999.96	90,000.00
BoB scholarship	9,793,431.48	-
	<b>342,067,027.79</b>	<b>310,153,043.78</b>

**NOTE 3.8- PREMISES COSTS**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Rent	20,623,404.50	19,276,347.91
Insurance- Building	201,325.24	197,217.40
Insurance- Office Equipment	367,958.87	252,299.84
Light & Fuel	3,992,824.49	3,248,239.36
Rates & Taxes	235,005.83	257,653.63
Water & Sewerage	161,444.26	134,610.16
Repairs & Maintenance - Building	795,819.57	1,222,192.40
Repairs & Maintenance - Vehicle	668,969.95	936,760.20
Repairs & Maintenance - Furniture & Fixtures	60,763.00	51,002.00
Repairs & Maintenance - Equipment & Machineries	458,719.00	988,256.20
AMC- Equipment and Machineries	14,866,764.60	11,075,750.54
ATM Expenses	2,713,580.00	3,330,708.67
Housekeeping	2,916,150.37	3,755,483.31
Fuel & Lubricants	1,390,505.32	1,976,637.38
Security Expenses	18,148,448.20	17,877,157.57
	<b>67,601,683.20</b>	<b>64,580,316.57</b>

**NOTE 3.9- GENERAL ADMINISTRATIVE EXPENSES**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Travelling Expenses	7,293,426.03	7,443,272.53
Directors' Sitting Fees	976,000.00	928,000.00
Postage & Stamps	30,277,331.49	23,791,928.36
Audit Fees	335,250.00	250,000.00
Audit Expenses	1,313,292.90	733,808.40
Repairs to Banks Properties	6,789,298.23	4,766,282.57
Stationery, Printing, Advertisement etc	18,942,940.54	12,696,727.16
Charity and Donations	245,600.00	683,880.00
Fixed Assets Written Off	1.00	-
Other Expenditure	60,128,261.35	73,441,783.09
<b>TOTAL</b>	<b>126,301,401.54</b>	<b>124,735,682.11</b>

**NOTE 3.10- DEPRECIATION**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Depreciation on Vehicle	1,719,286.20	2,482,158.57
Depreciation on Furniture & Fixtures	4,268,009.97	4,185,872.87
Depreciation on Office Equipments	18,743,696.05	18,981,569.87
Depreciation on Computer & It's Peripherals	27,882,863.72	10,044,385.22
Depreciation on Buildings	3,124,858.01	3,476,013.84
	<b>55,738,713.95</b>	<b>39,170,000.37</b>

**NOTE 3.11- AMORTIZATION**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Amortization on Software	15,120,926.18	6,850,898.19
	<b>15,120,926.18</b>	<b>6,850,898.19</b>

**NOTE 3.12- TAXATION**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Current Income Tax		
Current Year's Tax	451,492,432.00	368,882,893.00
Deferred Tax Payable-Current	(49,252,364.00)	(27,471,651.00)
<b>TOTAL</b>	<b>402,240,068.00</b>	<b>341,411,242.00</b>

**NOTE 3.13- TAXATION**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Tax Expense For Earlier Years	1,911,716.38	
	<b>1,911,716.38</b>	



**NOTE 3.14- TAXATION**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Tax on Other Comprehensive Income		
Tax on Exchange Fluctuation Gain/(Loss)	--	
Tax on Actuarial Gains/(Loss) on Retirement Benefits	(1,104,411.00)	13,241,430.00
<b>TOTAL</b>	<b>(1,104,411.00)</b>	<b>13,241,430.00</b>
<b>TOTAL TAX EXPENSE FOR THE FINANCIAL YEAR</b>	<b>401,135,657.00</b>	<b>354,652,672.00</b>

**NOTE 3.15- EARNING PER SHARE**

	For the year ended 31.12.2016	For the year ended 31.12.2015
Profit After Income Tax	936,648,443.28	796,674,590.22
Other comprehensive income for the year	(2,576,959.00)	30,896,670.00
Profit used to determine basic earnings per share	934,071,484.28	827,571,260.22
Weighted average number of Ordinary Shares in issue	30,000,000	15,000,000
<b>Basic and Diluted Earnings per Ordinary Share</b>	<b>31.14</b>	<b>55.17</b>
<b>Restated Basic and Diluted Earnings per Ordinary Share due to Bonus</b>	<b>31.14</b>	<b>27.59</b>

Note 4 - Other notes to accounts that forms part of the financial statements for the year ended December 31, 2016.

#### 4.1. Amalgamation of BOB Securities Ltd.

The business of BOB Securities Ltd., a 100% subsidiary of the Bank, has been amalgamated with the Bank with effect from 31.12.2016. The bank followed pooling of interest method of amalgamation that is allowed under the common control for business combination of entities. The amalgamation of BOB Securities Ltd., with the

Bank has been approved by the Royal Court of Justice, Bhutan and subsequently endorsed by the Registrar of the Companies, Ministry of Economic Affairs.

#### 4.2. Employee Benefits

The valuation of the actuarial obligation of the defined benefits plan was carried out by M/s Towers Watson, India, registered actuaries, and the statement prepared by this firm for the year 2016 is as produced below:

##### i. Impact on Statement of Comprehensive Income (Amount in Nu. )

Particulars	2016	2015
Encashment of Leave	11,871,251.00	(3,052,135.00)
Employee Gratuity	14,525,665.00	18,209,592.00
Separation & Travel Allowance	2,245,998.00	3,804,955.00
<b>Total (Recognized as cost in Statement of Comprehensive Income)</b>	<b>28,642,914.00</b>	<b>18,962,412.00</b>

##### ii. Impact on Other Comprehensive Income (OCI) (Amount in Nu. )

Particulars	2016	2015
Actuarial (gain)/ loss due to liability experience	8,467,650.00	7,841,500.00
Actuarial (gain)/ loss due to liability assumption changes	-	(69,922,110.00)
<b>Actuarial (gain)/ loss arising during period</b>	<b>8,467,650.00</b>	<b>(62,080,610.00)</b>
Return on plan assets (greater) /less than discount rate	-	-
Actuarial (gain)/ losses recognized in OCI	3,681,370.00	(44,138,100.00)
Adjustment for limit on net asset	-	-
Cumulative Actuarial (gain) or Loss Recognized via at Prior Period End	-	-
<b>Cumulative Actuarial (gain) or Loss Recognized via at Current Period End</b>	<b>3,681,370.00</b>	<b>(44,138,100.00)</b>

**iii. Impact on Statement of Financial Position (Amount in Nu. )**

Particulars	2016	2015
Defined benefit obligation (DBO)	(123,836,170.00)	(118,618,470.00)
Fair value of plan assets (FVA)	--	
Fund status [surplus/ (deficit)]	(123,836,170.00)	(118,618,470.00)
Effect of Asset Ceiling	-	-
<b>Net defined benefit asset (DBA)</b>	<b>(123,836,170.00)</b>	<b>(118,618,470.00)</b>

**iv. Movement in the Present Value of Defined Benefit Obligation (Amount in Nu. )**

Particulars	2016	2015
Opening Defined Benefit Obligation	118,618,470.00	161,291,000.00
Current service cost	14,103,080.00	23,620,000.00
Interest cost	9,753,590.00	13,296,590.00
Actuarial (gain)/loss on experience adjust	8,467,650.00	7,841,500.00
Actuarial (gain)/loss on financial assumptions	-	(69,922,110.00)
Benefits paid directly by the company	(27,106,620.00)	(17,508,510.00)
Benefits paid from the Plan assets	-	-
<b>Closing Fair Value of Plan Assets</b>	<b>123,836,170.00</b>	<b>118,618,470.00</b>

**v. Movements in the Fair Value of Plan Assets (Amount in Nu. )**

Particulars	2016	2015
Opening Fair Value of plan assets	-	-
Acquisition adjustments	-	-
Income on assets on plan assets	-	-
Contribution by BOBL	-	-
Return on plan assets greater/ (lesser) than discount rate	-	-
Benefits paid	-	-
Closing Fair Value of plan Assets	-	-

**vi. Year-end Expected Benefit Payments (Amount in Nu. )**

<b>Particulars</b>	
December 31, 2017 (Retirement Benefit Obligations – Current)	8,697,580.00
December 31, 2018	9,454,400.00
December 31, 2019	8,983,030.00
December 31, 2020	10,372,740.00
December 31, 2021	12,777,000.00
December 31, 2022 to December 2026	91,679,210.00

**Weighted Average Duration of Defined Benefit Obligation is 12 years**  
**Accrued Benefit Obligation at December 31, 2016 is Nu. 74,697,510.00**

**vii. Sensitivity Analysis**

<b>Particulars</b>	<b>2016</b>	<b>2015</b>
<b>i) Discount Rate</b>		
Discount Rate as at 31 December 2015	8.50%	8.50%
Effect on DBO due to 1% increase in Discount Rate	(11,137,170.00)	(10,840,260.00)
Effect on DBO due to 1% decrease in Discount Rate	13,078,100.00	12,727,600.00
<b>ii) Salary Escalation Rate</b>		
Salary Escalation Rate as at 31 December 2014	6.00%	6.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	10,924,860.00	10,754,160.00
Effect on DBO due to 1% decrease in Salary Escalation Rate	(10,529,140.00)	(10,252,290.00)

### 4.3. Related Party Disclosures

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

For 2016, of the 30,000,000 equity shares (Nu. 100 each) issued by the Bank as at December 31, 2016, 24,000,000 equity shares (or 80%) are held by M/s Druk Holding and Investments Limited (DHI). The entire share capital of DHI is held by the Ministry of Finance, Royal Government of Bhutan. DHI also has controlling interests in the following companies:

- i. Druk Green Power Corporation Ltd.
- ii. Bhutan Power Corporation Ltd.
- iii. Bhutan Telecom Ltd.
- iv. Natural Resources Development Corporation Ltd.
- v. DHI Infra Ltd.
- vi. Druk Air Corporation Ltd.
- vii. Dungsam Cement Corporation Ltd.
- viii. Thimphu TechPark Ltd.
- ix. Construction Development Corporation Ltd.
- x. Wood Craft Center Ltd.
- xi. State Mining Corporation Ltd.
- xii. State Trading Corporation Ltd.
- xiii. Dungsam Polymers Ltd.
- xiv. Bhutan Board Products Ltd.
- xv. Bhutan Board Export Ltd.
- xvi. Bhutan Hydropower Services Ltd.
- xvii. Dagachu Hydro Corporation Ltd.
- xviii. Tangsibji Hydro Energy Ltd.
- xix. Druk Holding and Investment Limited

All transactions between the Bank and these nineteen companies fall under "Related Party Transactions". However, all transactions in 2016 and have been carried out at an "arms-length" and no benefit has accrued to either party as a result of the relationship except Brand Management fee which has been paid as per Board decision Para 25 of BAS 24 exempts the Bank from detailed related party transactions reporting.

The nature of related party transactions with these parties includes:

- Providing financial services such as loans, overdrafts, deposits, issuing letters of credit/bank guarantees, funds remittances, investments, etc.
- Purchase of goods (example - furniture, equipment such as computers, printers, vehicles, etc.)
- Purchase of services (for example, brand management fee, maintenance services, electricity, telephony services, travel services, etc.)

The significant/major related party transactions include;

- Investment of Nu. 300,000,000.00 in the 7-year bond of M/s Bhutan Telecom Limited at 7% interest per annum.
- Lending of Nu. 1,100,000,000.00 as Commercial paper to M/s Druk Green Power Corporation Limited at 4.97% interest per annum.
- Payment of Nu. 10, 037,174.94 as brand management fees to M/s Druk Holding and Investments Limited for the year 2016.

Key management personnel of the Bank include the members of the Board of Directors and the Chief Executive Officer. Their compensation<sup>1</sup> in general, includes;

- Salaries, allowances and bonuses, if any;
- Non-monetary benefits (such as medical care, housing, cars and free/subsidized goods & services), if any;
- Sitting fees, if any;
- Loans on non-commercial terms, if any;
- Post-employment benefits such as pensions, post-employment life insurance, post-employment medical care, etc., if any;
- Long-term service benefits, including deferred compensation, if any;
- Termination benefits, if any; and
- Share-based payments, if any.

**Key Management Compensation and Remunerations:**

	For the year ended 31.12.2016	For the year ended 31.12.2015
<b>(a) Remuneration, Allowances,</b> etc paid to Chief Executive Officer:		
(i) Salary, Allowances, bonus and Encashment of leave	2,359,862.00	1,819,271.00
(ii) Contribution to Provident Fund	106,653.00	102,726.00
(iii) Sitting fee	156,000.00	164,000.00
<b>Total</b>	<b>2,466,515.00</b>	<b>2,085,997.00</b>
<b>(b) Sitting Fees paid to other Directors</b>	<b>820,000.00</b>	<b>764,000.00</b>

**4.4. Status of Reconciliation**

a. Branch Clearing Adjustment Account has been fully reconciled up to December 31, 2016 and shows nil balance.

b. The accounts with State Bank of India, India have been reconciled up to December 31, 2016. 87% of the debit balances of Nu. 514,895,382.59 and 83% of the credit balances of Nu. 543,241,744.62 as at the end of 2015, (Nu. 447,056,272.67 debit and Nu. 451,901,672.32 credit) has been resolved during the year, leaving unmatched entries of Nu. 67,839,109.92 debit and Nu. 91,340,072.30 credit only. The balances as at December 31, 2016 are as follows:

Debit entries	Nu. 95,349,511.07
Credit entries	Nu. 411,616,984.76

c. The accounts with other banks have been reconciled up to December 31, 2015. 99.9% of the debit balances of Nu. 406,512,235.19 and the credit balances of Nu. 319,289,345.04 credit as at the end of 2015, (Nu. 406,250,384.21 debit and Nu. 303,834,990.64 credit) has been resolved during the year, leaving unmatched entries of Nu. 261,850.98 debit and Nu. 151,117,300 credit only. The balances as at December 31, 2016 are as follows:

Debit entries	Nu. 96,005,605.88
Credit entries	Nu. 229,527,580.96

**4.5. Assets under Lien**

Balance in the deposit account with banks under Loans and Advances to 'Other Banks' includes USD 2 million (Nu. 135,900,000.00) (Previous Year Nu. 133,020,000.00) which is under lien with Standard Chartered Bank, Singapore with respect to Letters of Credit issued by the Bank of Bhutan and confirmed by Standard Chartered Bank.

**4.6. Income Tax**

Income Tax assessments for the Bank have been completed up to December 31, 2015. As per the last assessment the Revenue authority has raised a demand for Nu. 17,066,518.34 for the year 2013, 2014 & 2015 out of which the Bank has paid Nu. 1,911,716.38 as undisputed demand and rest of the amount of Nu. 15,154,801.96 has been disputed and an appeal has been filed with the Department of Revenue & Customs, Ministry of Finance, Thimphu.

**4.7. Consolidation of Accounts**

The consolidation of the accounts of associates has not been done by Bank as the holding company M/s DHI has agreed to consolidate the same. The investment in Associate is accounted for at cost in the financial statement of the Bank.



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#### 4.8. Capital Commitments

The capital commitments as at December 31, 2016 stood at Nu. 168,139,414.34 (Previous year Nu. 190,627,757.75). These were on account of contracts for the construction of the Bank's corporate office in Thimphu and branch office at Trashiyangtse.

#### 4.10. Notes to Accounts on Contingent Liabilities and Provisions

The contingent liabilities, provision and provisions relates to Letters of Credit & Bank Guarantee issued and the bills for collection that

#### 4.9. Demonetised Indian Currency Submitted to RMA

The Bank has submitted the demonetised Indian Currency Notes to RMA amounting to Rs. 1, 045,175,500.00. The Bank is yet to receive the confirmation from RMA for its final acceptance. However the Bank has not made any provision against the same as it is confident that the entire amount shall be accepted by the RMA.

forms the part of off balance sheet items as stated below:

Constituents' Liabilities for Acceptances, Endorsements and Other Obligations

Particulars	2016	2015
Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	1,323,824,741.14	1,101,673,851.05
Guarantees Issued & Outstanding	2,398,501,873.19	4,261,832,762.31
Bills for Collection- Payable in & outside Bhutan	529,042.50	35,465,018.14
<b>Total</b>	<b>3,722,855,656.83</b>	<b>5,398,971,631.50</b>

#### 4.11. Other assets and Liabilities

Assets and liabilities that cannot be specifically categorised in the format for Statement of Financial Position are shown under 'Other assets' or 'Other liabilities'. 'Other liabilities' include outstanding payments due on remittance products such as cash warrants, drafts, etc.

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

The status of current/non-current assets / liabilities in the Statement of Financial Position on the basis of residual maturity is as follows:

##### a. Assets

Particulars	As at 31-12-2016	As at 31-12-2015
<b>Current Assets</b>		
Cash & Balance with RMA	14,078,764,442.75	7,884,814,775.80
Loans & Advances to Banks	3,297,561,164.06	3,524,513,849.10
Loans & Advances to Customers	3,449,795,238.12	2,403,572,943.67
Investment Securities	3,280,944,800.00	5,465,187,500.00
Prepayments & Accrued Income	104,055,083.25	93,189,375.07
Deferred Tax Assets	49,259,265.00	27,471,651.00
Other Assets	303,621,892.46	147,484,416.17
<b>Total Current Assets</b>	<b>24,564,001,885.64</b>	<b>19,546,234,510.81</b>
<b>Non-current Assets</b>		
Loans & Advances to Customers	17,275,612,606.62	16,747,882,605.20
Investment Securities	2,221,682,000.00	2,221,682,000.00
Investment in Associates & Subsidiaries	3,781,100.00	20,311,000.00
Investment in Portfolio Companies	80,193,710.45	78,443,710.45
Property, Plant & Equipment	396,952,980.01	411,861,987.03
Intangible Assets	117,161,990.36	40,929,626.08
Capital Work-in-Progress	79,952,768.26	70,971,956.20
<b>Total Non-Current Assets</b>	<b>20,209,367,055.70</b>	<b>19,592,082,884.96</b>
<b>TOTAL ASSETS</b>	<b>44,773,368,941.34</b>	<b>39,138,317,395.77</b>

## b. Liabilities

Particulars	As at 31-12-2016	As at 31-12-2015
<b>Current Liabilities</b>		
Deposits by Banks	139,956,391.63	147,244,280.69
Customer Deposits	31,458,759,765.91	26,744,390,031.88
Provision for Liabilities & Charges	26,735,506.19	20,435,506.19
Accruals & Deferred Income	1,143,994,251.44	805,595,365.74
Current Tax Liabilities	230,388,901.84	208,932,368.88
Other liabilities	609,393,028.26	476,359,906.99
<b>Total Current Liabilities</b>	<b>33,609,227,845.27</b>	<b>28,402,957,460.37</b>
<b>Non-Current Liabilities</b>		
Customer Deposits	5,034,114,909.74	5,358,453,299.27
Subordinated Liabilities & Other Borrowed Funds	500,000,000.00	500,000,000.00
Retirement Benefit Obligations	123,836,170.00	118,618,470.00
<b>Total Non-Current Liabilities</b>	<b>5,657,951,079.74</b>	<b>5,977,071,769.27</b>
<b>TOTAL LIABILITIES</b>	<b>39,267,178,925.01</b>	<b>34,380,029,229.64</b>

## c. Other Liabilities (including provisions) under other liabilities represent

Particulars	As at 31-12-2016	As at 31-12-2015
Sundry Creditors	65,590,639.95	58,055,388.03
ATM cash Excess	1,437,472.00	1,245,872.00
Unclaimed Balance Account	4,069,445.83	2,570,654.20
Unclaimed credit received from other banks	5,112,922.00	5,112,922.00
Matured FDR	5,710,501.68	6,449,221.95
Security Deposit Account	6,330,522.92	1,895,892.32
Security Deposit for Lockers	570,000.00	560,000.00
RTGS/NEFT on SBI/Axis	-	1,109,857.23
Central Registry Charges	39,100.00	7,050.00
TDS on Customer Deposits	8,995.45	266,996.57
Tax Deducted at Source- from customers/staff	931,669.30	821,120.00
Consolidated Neft Clearing - Settlement	(72,000.00)	-
Escrow Account	182,830.46	-
MC E-Acquiring Merchant Payable Account	4043,570.34	-
Visa E-Acquiring Merchant Payable Account	1,339,524.36	-
Prepaid Card Load/Reload Account	4,244,888.86	-
BOBL BFS IMPS Payable Account	285,220.00	-
<b>Total</b>	<b>99,825,303.15</b>	<b>78,094,974.30</b>

**d. Other Income including recoveries for charges represent**

Particulars	As at 31-12-2016	As at 31-12-2015
CIB Recoveries	5,928,500.00	6,080,100.00
Recoveries from Telephone	362.00	2,964.00
Recoveries from Postage	864,797.00	825,919.80
Recoveries from Swift Charges	1,715,447.42	1,444,873.40
Employees PF Forfeited	594,981.00	932,794.28
Visa ATM Reimbursement Cr AC	1,491,798.61	3,301,084.42
Master card ATM Reimbursement	850,556.93	925,631.80
VISA POS Reimbursement CR AC	-	1,600.00
Master card POS Reimbursement CR AC	133,346.05	11,895.92
Visa Issuer Reimbursement account	2,324,902.65	1,444,764.17
Miscellaneous Income	9,404,114.95	3,860,710.64
Underwriting Charges	-	1,832,208.00
Legal & Revenue Stamp Recovery	32,795.00	81,135.00
Foreign Bank Charges Recovered	104,997.73	528,560.57
Audit Recovery	10,500.00	-
Loan Processing	96,000.00	-
Mark up fee on Credit Card Usage	982,239.54	-
Misc Charges Recovered	1,687,659.34	-
<b>Total</b>	<b>26,222,998.22</b>	<b>21,274,242.00</b>

Additional information pursuant to the provisions of part II of Schedule XIII A of The Companies Act of the Kingdom of Bhutan 2000 (but not notified any additional information as per the Companies Act of the Kingdom of Bhutan 2016).

Particulars	As at 31-12-2016	As at 31-12-2015
<b>Payment to and provision for employees represent:</b>		
Salary, Bonus, Gratuity, leave encashment etc.	252,697,900.21	250,864,118.77
Contribution to Provident Fund	14,558,125.00	14,567,770.00
<b>Total</b>	<b>267,256,025.21</b>	<b>265,431,888.77</b>
<b>Remuneration, Allowances, etc. paid to Chief Executive Officer:</b>		
Salary, Allowances, bonus and Encashment of leave	2,359,862.00	1,819,271.00
Contribution to Provident Fund	106,653.00	102,726.00
Sitting fee	156,000.00	164,000.00
<b>Total</b>	<b>2,466,515.00</b>	<b>2,085,997.00</b>
Sitting Fees paid to other Directors (Including invitees)	820,000.00	764,000.00
<b>Rent, Taxes, Insurance, Lighting etc represent:</b>		
Rent	20,623,404.50	19,276,347.91
Rates & Taxes	235,005.83	257,653.63
Insurance	3,736,041.13	2,953,746.58
Light & Fuel	3,992,824.49	3,248,239.36
<b>Total</b>	<b>28,605,275.95</b>	<b>25,735,987.48</b>
<b>Repairs to the Bank's Property represent:</b>		
Repair to Buildings	795,819.57	1,222,192.40
Other Repairs	22,844,514.78	17,818,051.51
<b>Total</b>	<b>23,640,334.35</b>	<b>19,040,243.91</b>

In the opinion of the Management, all items of assets and liabilities as appearing in the Statement of Financial Position as at December 31, 2016 have a value equal to the amount at which they are stated therein.

**Note 5.0 - DISCLOSURE RELATED TO ABANDONED PROPERTY**

As per Section 245 of the Financial Services Act of Bhutan, 2011, any money or article shall be deemed “abandoned property” if the owner fails to claim the money or the article within three years from the last date of transaction.

Accordingly, the Bank has identified such abandoned property as at December 31, 2016 with

detailed information on the amounts and beneficial owners of such monies/articles. The Bank continues to take action to contact the beneficial owners of such monies/articles.

As at December 31, 2016, the following amounts are “abandoned property” included in the statement of financial position of the Bank.

Category	2016	2015
Unclaimed Cash Warrants	1,699,381.04	4,073,692.42
Unclaimed Drafts	7,257,068.58	8,310,285.60
Unclaimed Term Deposits	102,031.00	102,031.00
Other Unclaimed Balances	457,087.37	457,087.37
<b>Total</b>	<b>9,515,567.99</b>	<b>12,943,096.39</b>



**Note 6.0 - MACRO PRUDENTIAL DISCLOSURES**
**a. Quantitative Disclosures:**

<b>Item 1: Tier 1 Capital and Its Sub-components</b>			
<b>S.No.</b>		<b>31.12.2016</b>	<b>31.12.2015</b>
<b>1.</b>	<b>Total Tier 1 Capital</b>	<b>5,309,508,203.66</b>	<b>3,778,716,906.91</b>
	a. Paid-Up Capital	3,000,000,000.00	1,500,000,000.00
	b. General Reserves	979,362,937.39	1,908,383,187.85
	c. Share Premium Account	-	-
	d. Retained Earnings	1,330,145,266.27	370,333,719.06
	Less:-		
	e. Losses for the Current Year	-	-

<b>Item 2: Tier 2 Capital and Its Sub-components</b>			
<b>S.No.</b>		<b>31.12.2016</b>	<b>31.12.2015</b>
1.	Tier II Capital	896,958,185.74	1,670,805,326.25
	a. Capital Reserve	-	-
	b. Fixed Asset Revaluation Reserve	-	-
	c. Exchange Fluctuation Reserve	196,681,812.67	152,000,000.00
	d. Investment Fluctuation Reserve	-	-
	e. Research & Development Reserve	-	-
	f. General Provision	200,276,373.07	191,234,067.03
	g. Capital Grants	-	-
	h. Subordinated Debt	500,000,000.00	500,000,000.00
	i. Profit for the Year	-	827,571,260.22

Item 3: Risk Weighted Exposure Table						
S. No.	Assets	Risk Weight %	31.03.2016		31.12.2015	
			Balance Sheet Amount	Risk Component	Balance Sheet Amount	Risk Component
1.	Zero-Risk Weighted Assets	0%	18,057,002,681.18	-	13,822,739,169.37	-
2.	20% Risk Weighted Assets	20%	4,920,259,711.48	984,051,942.30	5,746,195,849.10	1,149,239,169.82
3.	50% Risk Weighted Assets	50%	598,983,452.58	299,491,726.29	3,384,537,757.56	1,692,268,878.78
4.	100% Risk Weighted Assets	100%	24,725,821,670.95	24,725,821,670.95	11,246,663,846.94	11,246,663,846.94
5.	150% Risk Weighted Assets	150%	236,056,224.81	354,084,337.22	3,358,858,071.70	5,038,287,107.56
6.	200% Risk Weighted Assets	200%			5,138,965,860.40	10,277,931,720.79
7.	250% Risk Weighted Assets	250%				
8.	300% Risk Weighted Assets	300%			1,803,863,454.06	5,411,590,362.19
	<b>Grand Totals</b>		<b>48,538,123,741.00</b>	<b>26,363,449,676.75</b>	<b>44,501,824,009.13</b>	<b>34,815,981,086.08</b>

Item 4: Capital Adequacy Ratios			
S. No.		31.03.2016	31.12.2015
1.	Tier 1 Capital	5,309,508,203.66	3,778,716,906.91
a.	of which Counter-Cyclical Capital Buffer (CCyB) (If applicable)		
b.	of which Sectoral Capital Requirements (SCR) (If applicable)		
i.	Sector 1		
ii.	Sector 2		
iii.	Secotr 3		
2.	Tier 2 Capital	896,958,185.74	1,670,805,326.25
3.	Total qualifying Capital	6,206,466,389.40	5,449,522,233.16
4.	Core CAR	20.14%	10.85%
5.	BIA	2,362,431,957.68	
a.	of which CCyB (If applicable) expressed as % of RWA		
b.	of which SCR (If applicable) expressed as % of RWA		
i.	Sector 1		
ii.	Sector 2		
iii.	Secotr 3		
6.	CAR	21.61%	15.65%
7.	Leverage Ratio	10.94%	8.49%

Item 5: Loans and NPL by Sectoral Classification						
S. No.	Assets	31.03.2016		31.12.2015		
		Total Loans	NPL	Total Loans	NPL	
1	Agriculture	36,512,615.30	-	21,849,841.53	-	
2	Manufacturing/Industry	3,134,943,641.46	21,938,450.18	2,829,740,398.37	18,601,531.12	
3	Service & Tourism	4,061,622,343.70	220,292,337.69	2,933,768,917.60	67,240,677.76	
4	Trade & Commerce	1,414,517,007.74	51,702,189.97	1,634,229,871.24	147,620,111.33	
5	Housing	5,456,667,072.61	323,305,405.07	5,372,658,833.88	262,897,528.59	
6	Transport	790,439,485.53	90,674,339.97	586,185,859.66	77,350,196.72	
7	Loans to Purchase Securities	173,318,012.71	-	179,921,028.19	-	
8	Personal Loans	1,443,012,199.35	184,849,404.87	1,790,495,462.93	221,470,081.22	
9	Education Loan	67,994,508.02	6,633,162.63	46,505,775.76	9,288,939.66	
10	Loan against term deposits	102,444,107.38	3,545,116.04	92,762,653.81	-	
11	Loans to FI(s)	596,875,658.86	-	378,961,826.57	-	
12	Infrastructure Loans	-	-	-	-	
13	Staff Loans (incentives)	424,291,766.45	1,037,074.22	309,721,535.54	2,386,939.81	
14	Loans to govt. Owned Companies	697,394,844.19	-	645,713,506.85	-	
15	Consumer Loan	3,115,228,121.10	53,188,031.27	3,090,351,562.00	55,304,779.03	
	<b>Total</b>	<b>21,515,261,384.40</b>	<b>957,165,511.91</b>	<b>19,912,867,073.93</b>	<b>862,160,785.24</b>	

<b>Item 6: Loans (Overdrafts and term loans) by type of counter- party</b>			
<b>S.No.</b>	<b>Counter Party</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
1	Overdrafts	4,300,868,436.41	3,207,415,532.93
	a Government	-	-
	b Government Corporations	101,517,547.64	957,802.91
	c Public Companies	378,021,396.68	320,922,113.32
	d Private Companies	2,656,764,456.59	2,208,131,438.06
	e Individuals	567,689,376.64	298,442,352.07
	f Commercial Banks	-	-
	g Non-Bank Financial Institutions	596,875,658.86	378,961,826.57
2	Term Loans	17,207,976,679.43	16,665,011,800.47
	a Government	-	-
	b Government Corporations	595,877,296.55	644,755,703.94
	c Public Companies	216,633,659.81	182,756,308.76
	d Private Companies	3,998,219,520.65	3,977,645,122.84
	e Individuals	12,397,246,202.42	11,859,854,664.93
	f Commercial Banks	-	-
	g Non-Bank Financial Institutions	-	-
	<b>Total</b>	<b>21,508,845,115.84</b>	<b>19,872,427,333.40</b>
	Bills	529,042.50	34,517,674.60
	Credit Cards	5,887,226.06	5,922,065.93
	<b>Total Loan Outstanding</b>	<b>21,515,261,384.40</b>	<b>19,912,867,073.93</b>

Item 7: Assets (net of provisions) and Liabilities by Residual Maturity								
As of period ending 31.12.15	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	683,542,660.91	-	-	-	-	-	-	683,542,660.91
Government Securities	-	2,977,500,000.00	2,487,687,500.00	-	-	-	-	5,465,187,500.00
Investment securities	-	-	-	-	-	-	2,320,436,710.45	2,320,436,710.45
Loans & advances to banks	1,426,393,849.10	133,020,000.00	300,000,000.00	500,000,000.00	1,165,100,000.00	-	-	3,524,513,849.10
Loans & advances to customers	45,041.40	43,494,069.98	294,561,813.84	667,480,440.75	1,118,710,761.04	279,280,816.67	16,713,364,930.60	19,116,937,874.27
Other assets	-	7,235,789,789.49	268,145,442.24	-	-	-	523,763,569.31	8,027,698,801.04
<b>TOTAL ASSETS</b>	<b>2,109,981,551.41</b>	<b>10,389,803,859.47</b>	<b>3,350,394,756.08</b>	<b>1,167,480,440.75</b>	<b>2,283,810,761.04</b>	<b>279,280,816.67</b>	<b>19,557,565,210.36</b>	<b>39,138,317,395.77</b>
Amounts owed to other banks	715,599,025.65	-	-	-	-	-	-	715,599,025.65
Demand deposits	14,417,876,584.79	-	-	-	-	-	-	14,417,876,584.79
Savings deposits	8,603,961,888.48	-	-	-	-	-	-	8,603,961,888.48
Time deposits	2,000.00	127,795,089.82	484,438,914.39	472,109,924.38	1,551,649,128.99	1,086,556,501.03	4,790,098,554.31	8,512,650,112.92
Bonds & other negotiable instruments	-	-	-	-	-	-	500,000,000.00	500,000,000.00
Other liabilities	-	-	1,438,707,550.77	-	-	-	4,949,522,233.16	6,388,229,783.93
<b>TOTAL LIABILITIES</b>	<b>23,737,439,498.92</b>	<b>127,795,089.82</b>	<b>1,923,146,465.16</b>	<b>472,109,924.38</b>	<b>1,551,649,128.99</b>	<b>1,086,556,501.03</b>	<b>10,239,620,787.47</b>	<b>39,138,317,395.77</b>
Assets/Liabilities	0.09	81.30	1.74	2.47	1.47	0.26	1.91	1.00
Net Mismatch in each Time Interval	(21,627,457,947.51)	10,262,008,769.65	1,427,248,290.91	695,370,516.37	732,161,632.05	(807,275,684.36)	9,317,944,422.89	-
Cumulative Net Mismatch	(21,627,457,947.51)	10,262,008,769.65	11,689,257,060.56	12,384,627,576.92	13,116,789,208.97	12,309,513,524.61	21,627,457,947.51	21,627,457,947.51



Item 7: Assets (net of provisions) and Liabilities by Residual Maturity								
As of period ending 31.12.16	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	744,021,387.03							744,021,387.03
Gov't Securities		1,488,700,800.00	1,792,244,000.00				3,280,944,800.00	
Investment securities								
Loans & advances to banks	1,311,661,164.06		1,685,900,000.00	300,000,000.00				2,339,686,710.45
Loans & advances to customers	0.00	58,547,422.40	1,360,153,947.94	570,204,517.60	917,536,638.41	543,352,711.77	17,275,083,564.12	20,724,878,802.24
Other assets		13,335,272,098.22	456,936,240.71				594,067,738.63	14,386,276,077.56
<b>TOTAL ASSETS</b>	<b>2,055,682,551.09</b>	<b>14,882,520,320.62</b>	<b>5,295,234,188.64</b>	<b>870,204,517.60</b>	<b>917,536,638.41</b>	<b>543,352,711.77</b>	<b>20,208,838,013.20</b>	<b>44,773,368,941.34</b>
Amounts owed to other banks	477,794,543.81							477,794,543.81
Demand deposits	15,268,082,401.53							15,268,082,401.53
Savings deposits	10,808,920,368.95							10,808,920,368.95
Time deposits	4,650,729.17	217,174,577.30	642,633,944.34	1,077,746,772.04	1,013,960,618.55	2,087,752,201.85	5,034,114,909.74	10,078,033,752.99
Bonds & other negotiable instruments								
Other liabilities			1,934,071,484.66					1,934,071,484.66
<b>TOTAL LIABILITIES</b>	<b>26,559,448,043.46</b>	<b>217,174,577.30</b>	<b>2,576,705,429.00</b>	<b>1,077,746,772.04</b>	<b>1,013,960,618.55</b>	<b>2,087,752,201.85</b>	<b>11,240,581,299.14</b>	<b>44,773,368,941.34</b>
Assets/Liabilities	0.08	68.53	2.06	0.81	0.90	0.26	1.80	1.00
Net Mismatch in each Time Interval	(24,503,765,492.37)	14,665,345,743.32	2,718,528,759.64	(207,542,254.44)	(96,423,980.14)	(1,544,399,490.08)	8,968,256,714.07	(0.00)
Cumulative Net Mismatch	(24,503,765,492.37)	14,665,345,743.32	17,383,874,502.96	17,176,332,248.52	17,079,908,268.38	15,535,508,778.30	24,503,765,492.37	24,503,765,492.37

Item 8: Assets (net of provisions) and Liabilities by Original Maturity								
As of period ending 31.12.15	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	683,542,660.91	-	-	-	-	-	-	683,542,660.91
Government Securities	-	-	5,465,187,500.00	-	-	-	-	5,465,187,500.00
Investment securities	-	-	-	-	-	-	2,320,436,710.45	2,320,436,710.45
Loans & advances to banks	1,426,393,849.10	-	133,020,000.00	-	-	665,100,000.00	1,300,000,000.00	3,524,513,849.10
Loans & advances to customers	-	-	29,912,287.67	3,801,822.25	136,582,226.58	150,383,570.12	18,796,257,967.65	19,116,937,874.27
Other assets	-	7,235,789,789.49	268,145,442.24	-	-	-	523,763,569.31	8,027,698,801.04
<b>TOTAL ASSETS</b>	<b>2,109,936,510.01</b>	<b>7,235,789,789.49</b>	<b>5,896,265,229.91</b>	<b>3,801,822.25</b>	<b>136,582,226.58</b>	<b>815,483,570.12</b>	<b>22,940,458,247.41</b>	<b>39,138,317,395.77</b>
Amounts owed to other banks	715,599,025.65	-	-	-	-	-	-	715,599,025.65
Demand deposits	14,417,876,584.79	-	-	-	-	-	-	14,417,876,584.79
Savings deposits	8,603,961,888.48	-	-	-	-	-	-	8,603,961,888.48
Time deposits	-	-	-	11,146,301.37	102,899,100.00	253,326,867.03	8,145,277,844.52	8,512,650,112.92
Bonds & other negotiable instruments	-	-	-	-	-	-	500,000,000.00	500,000,000.00
Other liabilities	-	-	1,438,707,550.77	-	-	-	4,949,522,233.16	6,388,229,783.93
<b>TOTAL LIABILITIES</b>	<b>23,737,437,498.92</b>	<b>0.00</b>	<b>1,438,707,550.77</b>	<b>11,146,301.37</b>	<b>102,899,100.00</b>	<b>253,326,867.03</b>	<b>13,594,800,077.68</b>	<b>39,138,317,395.77</b>
Assets/Liabilities	0.09	-	4.10	0.34	1.33	3.22	1.69	1.00
Net Mismatch in each Time Interval	(21,627,500,988.91)	7,235,789,789.49	4,457,557,679.14	(7,344,479.12)	33,683,126.58	562,156,703.09	9,345,658,169.73	-0.00
Cumulative Net Mismatch	(21,627,500,988.91)	7,235,789,789.49	11,693,347,468.63	11,686,002,989.51	11,719,686,116.09	12,281,842,819.17	21,627,500,988.91	21,627,500,988.91

Item 8: Assets (net of provisions) and Liabilities by Original Maturity								
As of period ending 31.12.16	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	744,021,387.03							744,021,387.03
Government Securities					3,280,944,800.00			3,280,944,800.00
Investment securities							2,339,686,710.45	2,339,686,710.45
Loans & advances to banks	1,311,661,164.06	500,000,000.00	935,900,000.00	250,000,000.00	-	300,000,000.00		3,297,561,164.06
Loans & advances to customers	-	26,673,244.73	20,142,404.44	154,110,747.03	5,388,134.93	241,754,365.63	20,276,809,905.48	20,724,878,802.24
Other assets		13,335,272,098.22	456,936,240.71				594,067,738.63	14,386,276,077.56
<b>TOTAL ASSETS</b>	<b>2,055,682,551.09</b>	<b>13,861,945,342.95</b>	<b>4,693,923,445.14</b>	<b>404,110,747.03</b>	<b>5,388,134.93</b>	<b>541,754,365.63</b>	<b>23,210,564,354.56</b>	<b>44,773,368,941.34</b>
Amounts owed to other banks	477,794,543.81							477,794,543.81
Demand deposits	15,268,082,401.53							15,268,082,401.53
Savings deposits	10,808,920,368.95							10,808,920,368.95
Time deposits	-	5,987,729.17	11,410,978.81	36,475,965.85	51,807,997.17	3,029,305,552.51	6,943,045,529.48	10,078,033,752.99
Bonds & other negotiable instruments							500,000,000.00	500,000,000.00
Other liabilities			1,934,071,484.66				5,706,466,389.40	7,640,537,874.06
<b>TOTAL LIABILITIES</b>	<b>26,554,797,314.29</b>	<b>5,987,729.17</b>	<b>1,945,482,463.47</b>	<b>36,475,965.85</b>	<b>51,807,997.17</b>	<b>3,029,305,552.51</b>	<b>13,149,511,918.88</b>	<b>44,773,368,941.34</b>
Assets/Liabilities	0.08	2,315.06	2.41	11.08	0.10	0.18	1.77	1.00
Net Mismatch in each Time Interval	(24,499,114,763.20)	13,855,957,613.78	2,748,440,981.67	367,634,781.18	(46,419,862.24)	(2,487,551,186.88)	10,061,052,435.68	0.00
Cumulative Net Mismatch	(24,499,114,763.20)	13,855,957,613.78	16,604,398,595.46	16,972,033,376.64	16,925,613,514.40	14,438,062,327.52	24,499,114,763.20	24,499,114,763.20

Item 9: Assets and Liabilities by time-to-re-pricing						
As of period ending 31.12.2015	Time to re-pricing	Non-interest bearing				Total
		0-3 months	3-6 months	6-12 months	More than 12 months	
Assets						
Cash and Balances with Banks	433,020,000.00	500,000,000.00	1,165,100,000.00	-	9,311,208,624.90	11,409,328,624.90
Treasury Bills	5,465,187,500.00	-	-	-	-	5,465,187,500.00
Loans and Advances	338,100,925.21	667,480,440.75	1,397,991,577.71	16,713,364,930.60	-	19,116,937,874.27
Investment Securities	-	-	-	2,221,682,000.00	98,754,710.45	2,320,436,710.45
Other Assets	34,517,674.60	-	-	-	791,909,011.55	826,426,686.15
<b>Total financial assets</b>	<b>6,270,826,099.81</b>	<b>1,167,480,440.75</b>	<b>2,563,091,577.71</b>	<b>18,935,046,930.60</b>	<b>10,201,872,346.90</b>	<b>39,138,317,395.77</b>
Liabilities						
Deposits	612,236,004.21	472,109,924.38	2,638,205,630.02	4,790,098,554.31	23,737,437,498.92	32,250,087,611.84
Borrowings	-	-	-	500,000,000.00	-	500,000,000.00
Other Liabilities	-	-	-	-	6,388,229,783.93	6,388,229,783.93
<b>Total financial liabilities</b>	<b>612,236,004.21</b>	<b>472,109,924.38</b>	<b>2,638,205,630.02</b>	<b>5,290,098,554.31</b>	<b>30,125,667,282.85</b>	<b>39,138,317,395.77</b>
Total interest Re-pricing gap	5,658,590,095.60	695,370,516.37	(75,114,052.31)	13,644,948,376.29	(19,923,794,935.95)	

Item 9: Assets and Liabilities by time-to-re-pricing						
As of period ending 31.12.2015	Time to re-pricing	0-3 months	3-6 months	6-12 months	More than 12 months	Total
Assets		Non-interest bearing				
Cash and Balances with Banks	1,685,900,000.00	300,000,000.00	-	-	15,390,425,606.81	17,376,325,606.81
Treasury Bills	3,280,944,800.00	-	-	-	-	3,280,944,800.00
Loans and Advances	1,418,701,370.33	570,204,517.60	1,460,889,350.18	17,275,083,564.12	-	20,724,878,802.24
Investment Securities	-	-	-	2,221,682,000.00	-	2,339,686,710.45
Other Assets	529,042.50	-	-	-	1,051,003,979.34	1,051,533,021.84
<b>Total financial assets</b>	<b>6,386,075,212.83</b>	<b>870,204,517.60</b>	<b>1,460,889,350.18</b>	<b>19,496,765,564.12</b>	<b>16,559,434,296.60</b>	<b>44,773,368,941.34</b>
Liabilities						
Deposits	864,459,250.81	1,077,746,772.04	3,101,712,820.40	5,034,114,909.74	26,554,797,314.29	36,632,831,067.28
Borrowings	-	-	-	500,000,000.00	-	500,000,000.00
Other Liabilities	-	-	-	-	7,640,537,874.06	7,640,537,874.06
<b>Total financial liabilities</b>	<b>864,459,250.81</b>	<b>1,077,746,772.04</b>	<b>3,101,712,820.40</b>	<b>5,534,114,909.74</b>	<b>34,195,335,188.35</b>	<b>44,773,368,941.34</b>
<b>Total interest Re-pricing gap</b>	<b>5,521,615,962.02</b>	<b>(207,542,254.44)</b>	<b>(1,640,823,470.22)</b>	<b>13,962,650,654.38</b>	<b>(17,635,900,891.75)</b>	<b>(0.00)</b>

<b>Item 10: Nonperforming Loans and Provisions</b>			
<b>S.No.</b>	<b>Particulars</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>1</b>	<b>Amount of NPL's (Gross)</b>		
	a Substandard	273,436,959.42	131,049,713.21
	b Doubtful	105,681,116.05	244,524,677.33
	c Loss	578,047,436.44	486,586,394.70
<b>2</b>	<b>Specific Provisions</b>		
	a Substandard	63,858,549.94	29,256,313.81
	b Doubtful	53,633,542.83	115,265,966.75
	c Loss	445,735,890.38	358,944,646.61
<b>3</b>	<b>Interest in Suspense</b>		
	a Substandard	10,179,052.11	4,551,036.02
	b Doubtful	7,011,136.40	25,604,160.14
	c Loss	132,311,546.06	127,641,748.09
<b>4</b>	<b>Net NPLs</b>		
	a Substandard	199,399,357.37	97,242,363.38
	b Doubtfull	45,036,436.82	103,654,550.44
	c Loss	-	-
<b>5</b>	<b>Gross NPL's to Gross Loans</b>	<b>4.45%</b>	<b>4.33%</b>
<b>6</b>	<b>Net NPLs to net Loans</b>	<b>1.14%</b>	<b>1.01%</b>
<b>7</b>	<b>General Provisions</b>	<b>200,276,373.07</b>	<b>191,234,067.03</b>
	a Standard	193,932,850.15	172,099,545.34
	b Watch	6,343,522.92	19,134,521.69



<b>Item 11: Assets and Investments</b>			
<b>S.No.</b>	<b>Investment</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
1.	Marketable Securities (Interest Earning)		
	a. RMA Securities	3,280,944,800.00	5,465,187,500.00
	b. RGOB Bonds/Securities	-	-
	c. Corporate Bonds	2,221,682,000.00	2,221,682,000.00
	d. Others		
	Sub-Total	5,502,626,800.00	7,686,869,500.00
2.	Equity Investments		
	a. Public Companies	85,467,710.45	65,717,710.45
	b. Private Companies	-	-
	c. Commercial Banks	12,726,000.00	12,726,000.00
	d. Non-Bank Financial Institutions	19,811,000.0	20,311,000.00
	Less:		
	e. Specific Provisions	-	-
	Sub-Total	118,004,710.45	98,754,710.45
3.	Fixed Assets		
	a. Fixed Assets (Gross)	965,062,344.24	828,801,443.48
	Less:		
	b. Accumulated Depreciation	370,994,605.61	305,037,874.17
	c. Fixed Assets (Net Book Value)	594,067,738.63	523,763,569.31 a

Item 12: Foreign exchange assets and liabilities									
Currency	LIQUID FOREIGN CURRENCY HOLDINGS (Upto one week)			LONG TERM FOREIGN CURRENCY HOLDINGS (More than one week)			31.12.2016		
	Assets in Currency	Liabilities in Foreign Currency	Net Short Foreign Currency	Assets in Term Position	Liabilities in Foreign Currency	Long Term Foreign Currency	Overall Net Net Position	Overall Net Position / CoreCapital	Overall Net Position / CoreCapital
	1	2	3=1-2	4	5	6=4-5	7=3+6	8	
US Dollar	320,850,133.52	821,880,190.66	(501,030,057.14)	827,450,910.00	-	827,450,910.00	326,420,852.86	8.64	
Singaporean Dollar	8,871,180.59	-	8,871,180.59	-	-	-	8,871,180.59	0.23	
Euro	45,048,299.88	10,715,690.89	34,332,608.99	-	-	-	34,332,608.99	0.91	
Australian Dollar	122,906,734.40	-	122,906,734.40	-	-	-	122,906,734.40	3.25	
Canadian Dollar	3,875,863.52	-	3,875,863.52	-	-	-	3,875,863.52	0.10	
Hong Kong Dollar	469,138.50	-	469,138.50	-	-	-	469,138.50	0.01	
British Pound	15,676,916.73	-	15,676,916.73	-	-	-	15,676,916.73	0.41	
Swiss Franc	4,264,211.66	-	4,264,211.66	-	-	-	4,264,211.66	0.11	
Japanese Yen	12,663,334.12	-	12,663,334.12	-	-	-	12,663,334.12	0.34	
Danish Kroner	24,260,475.14	-	24,260,475.14	-	-	-	24,260,475.14	0.64	
Swedish Kroner	3,975.00	-	3,975.00	-	-	-	3,975.00	0.00	
Norwegian Kroner	35,626.00	-	35,626.00	-	-	-	35,626.00	0.00	
						Core Capital	3,778,716,906.91	-	

Item 12: Foreign exchange assets and liabilities									
Monthly /Year / Weekly CURRENCY	LIQUID FOREIGN CURRENCY HOLDINGS (Upto one week)			LONG TERM FOREIGN CURRENCY HOLDINGS (More than one week)			Nu. In millions	31.12.2016	OVERALL NET POSITION* / CORE CAPITAL
	Assets in Foreign Currency	Liabilities in Foreign Currency	NET SHORT TERM POSITION	Assets in Foreign Currency	Liabilities in Foreign Currency	LONG TERM NET POSITION			
	1	2	3 = 1 - 2	4	5	6=4-5	7 = 3+6	8	
USD	554,655,537.71	824,839,490.33	(270,183,952.62)	171,981,450.00	-	171,981,450.00	(98,202,502.62)	-2.21	
SGD	15,206,997.81	-	15,206,997.81	-	-	-	15,206,997.81	0.34	
EURO	13,486,705.15	32,191,676.12	(18,704,970.97)	-	-	-	(18,704,970.97)	-0.42	
AUD	87,423,764.81	-	87,423,764.81	-	-	-	87,423,764.81	1.97	
CAD	2,929,811.16	-	2,929,811.16	-	-	-	2,929,811.16	0.07	
HKD	725,240.40	-	725,240.40	-	-	-	725,240.40	0.02	
GBP	25,010,650.62	-	25,010,650.62	-	-	-	25,010,650.62	0.56	
CHF	7,131,593.73	-	7,131,593.73	-	-	-	7,131,593.73	0.16	
JPY	30,156,134.88	-	30,156,134.88	-	-	-	30,156,134.88	0.68	
DKK	16,131,015.95	-	16,131,015.95	-	-	-	16,131,015.95	0.36	
SEK	3,745.00	-	3,745.00	-	-	-	3,745.00	0.00	
NOK	40,239.00	-	40,239.00	-	-	-	40,239.00	0.00	
<b>TOTAL</b>	<b>752,901,436.22</b>	<b>857,031,166.45</b>	<b>-104,129,730.23</b>	<b>171,981,450.00</b>	<b>0.00</b>	<b>171,981,450.00</b>	<b>67,851,719.77</b>	<b>1.53</b>	

	Item 13: Geographical Distribution of Exposures					
	Domestic		India		Other	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Demand Deposits held with other banks	14,268,055.55	200,000.00	598,983,452.58	898,292,591.41	698,409,655.93	527,901,257.69
Time deposits held with other banks	1,850,000,000.00	1,300,000,000.00	-	-	135,900,000.00	798,120,000.00
Borrowings	500,000,000.00	500,000,000.00	-	-	-	-

Item: 14 Credit Risk Exposure by Collateral			
S.No.	Particulars	31.12.2016	31.12.2015
1	<b>Secured Loans</b>	<b>21,499,481,168.55</b>	<b>19,895,806,373.48</b>
	a Loans secured by physical /real estate collateral	16,799,983,121.50	15,359,885,604.09
	b Loans Secured by financial collateral	894,269,991.02	687,175,596.36
	c Loans secured by guarantees	3,805,228,056.03	3,848,745,173.03
2	<b>Unsecured Loans</b>	<b>15,780,215.85</b>	<b>17,060,700.45</b>
3	<b>Total Loans</b>	<b>21,515,261,384.40</b>	<b>19,912,867,073.93</b>

Item 15: Earnings Ratios		
S.No.	Ratio	31.12.2016
1	Interest Income as a percentage of Average Assets	6.53%
2	Non-interest income as a percentage of Average Assets	1.02%
3	Operating Profit as a percentage of Average Assets	3.49%
4	Return on Assets	2.37%
5	Business (Deposits plus Advances) per employee (Nu. In million)	81.73
6	Profit per employee (Nu. In million)	1.60

Item 16: Penalties imposed by RMA in the past period				
S.No.	31.12.2016		31.12.2015	
	Reason for Penalty Imposed	Penalty Imposed	Reason for Penalty Imposed	Penalty Imposed
	NIL	NIL		

Item 17: Customer Complaints			
S.No.	Particulars	31.12.2016	31.12.2015
1	No. of complaints pending at the beginning of the year	34	45
2	No. of complaints received during the year	1,1086	10,865
3	No. of complaints redressed during the year	1,1045	10,876
4	No. of complaints pending at the end of the year	75	34

Item 18: Provision Coverage Ratio							
Year	Gross NPL	Additional NPL	Additional Specific Provision	Additional Interest Suspense	Required PCR (60% of Add NPL)	Accretion to the buffer	Countercyclical provision buffer (Stock)
1	2	3	4	5	6=(60%*Col.3)	7=(6-5-4)	8
31.12.2016	957,165,511.91	95,004,726.67	59,761,055.97	(8,295,209.68)	57,002,836.00	5,536,989.71	
31.12.2015	862,160,785.24	(93,082,844.87)	9,212,682.51	20,871,336.67	(55,849,706.92)	(85,933,726.10)	

Item 19: Concentration of Credit and Deposits		
S.No.	Particulars	31.12.2016 31.12.2015
1	Total loans to 10 largest borrowers	5,697,943,726.59 5,097,157,105.31
2	As % of total loans	29.57% 26.45%
3	Total deposits of the 10 largest depositors	18,320,177,708.27 10,232,860,480.62
4	As % of total deposits	54.70% 30.55%

Item 20: Exposure to 5 Largest NPL accounts		
S.No.	Particulars	31.12.2016 31.12.2015
1	Five largest NPL accounts	360,038,881.64 354,908,184.48
2	% of Total NPLs	37.62% 41.24%

## b. Qualitative Disclosures

### i. Capital Component

Based on the prudential norms of the Royal Monetary Authority of Bhutan, (the Bank's principal regulator) capital funds are classified into Tier I and Tier II under the capital adequacy framework. Tier I capital includes paid-up equity capital, statutory reserves and retained earnings as per prescribed RMA Prudential Regulation guideline.

Elements of Tier II capital include exchange fluctuation reserves, general provisions on standard assets to the extent that they do not exceed 1.25% of the sum of total risk weighted assets, subordinated debt instruments to the extent that they do not exceed 50% of the Tier I capital and undistributed profits for the current period, if any. Total Tier II capital is included in the capital funds to the extent of 100% of the total Tier I capital.

### ii. Capital Planning

The Bank has a process for assessing and monitoring its Capital Adequacy Ratio in line with the Bank's risk appetite while maintaining its capital in line with the statutory requirements. The monitoring process provides an assurance that the Bank has adequate capital to support all risks inherent to its business and appropriate capital buffer based on its business profile. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through its governance and control practices, risk management and an elaborate process for capital calculation and planning, through its annual planning processes.

The Bank has a structured internal framework to assess its capital requirements which involves the identification and evaluation of all significant risks that the Bank faces, which may have a material impact on its financial position. The Bank also implemented a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that will guide the Bank in setting the process for assessment of the capital

adequacy to support its current and future business activities/risks and built a model on the capital projections/requirements for a period of up to 3 years.

### iii. Credit Risk Management

The Bank has an approved Credit risk policy document governing credit risk identification, assessment and monitoring. Credit scoring is key for assessing the credit risk arising from facilities. Credit scoring assesses the credit worthiness of borrowers and is indicative of expected losses by undertaking the loan. A rating model consists of a set of factors, which is used to assess the customers' ability to repay the loan based on their inherent credit risk.

#### Capital requirements

For credit risk capital requirements, ICAAP policy document covers the method to compute the regulatory capital requirements. The Bank however, bases the RMA Prudential regulation 2016 to maintain the minimum CAR of 12.5 percent along with Operation risk capital, based on BIA method.

#### Credit Risk stress testing

Credit risk stress testing is being conducted semi-annually to ascertain the resilience of bank under severe but plausible scenarios for the following variables:

- Capital adequacy;
- Liquidity risk;
- Profitability risk;
- Interest rate risk;
- Non-performing assets;
- Concentration risk;
- Sectoral risk etc.;

#### iv. Definition of Non-performing loans

Non-Performing loans are those loan accounts, where principal and interest remains unpaid for 90 days or more, wherein no income is yield unless regularized or repaid. The accounts are identified as Non-Performing Loans as per the existing RMA Prudential Regulations and Norms.

#### As per Prudential Regulations, 2016

As per Prudential Regulations 2016, a credit exposure shall be classified as non-performing when any of the following conditions exist:

- a) Term loan with pre-established repayment schedule – an instalment is due, but remains unpaid for more than 90 days from the first day of default.
- b) Overdrafts and working capital advances shall be classified as non-performing under following conditions:
  - i. The loan outstanding amount in the loan account exceeds the sanctioned limit continuously for 90 days or more;
  - ii. When the account has been dormant for 90 days or more, and the outstanding amount is in excess of the sanctioned limit;
  - iii. When the loan outstanding balance is less than the sanctioned limit, but there have been no payments in the account for 90 days or more, or the payments received are insufficient to cover the interest accrued during the period;
- iv. The term of the overdraft facility or working capital advance has expired.
- v. Bankers Acceptances, Trust Receipts, Bills of Exchange and other instruments of similar nature – when the instrument is due but remains unpaid for 90 days or more after the maturity date.
- vi. Credit Cards - when the cardholder fails to settle his minimum monthly repayment of 10% of the loan outstanding for 90 days or more, or when the payments received are insufficient to cover the interest accrued during the period.
- vii. Revolving credit facilities, lump-sum loans, leasing loans, hire-purchase loans and bullet loans - when principal or interest is due, but remains unpaid for 90 days or more from the first day of default.

#### v. Calculation of Specific and General Provisions

The Bank is required to review the adequacy of the general and specific provisions for all loans at all times to ensure that the provisions set aside are reflective of their potential losses.

General Provisions and Specific provisions for loan losses shall constitute an element of accounting expense and an adjustment for the book value of balance sheet assets.

General Provisions for Loan Losses shall be allocated against exposures classified as Standard (1% of Principal outstanding) and Watch (1.5% of Principal outstanding).

Specific Provisions shall be allocated against exposures classified as Substandard (15% of Principal outstanding and 30% of Principal outstanding for the highest exposed sector), Doubtful (50% of Principal outstanding and 60% of Principal outstanding for the highest exposed sector), and Loss/Expired (100% of Principal outstanding).

General and Specific Provisions for Loan Losses shall also be allocated to cover classifications of contingent liabilities recorded as off-balance-sheet items.

General Provisions and Specific Provisions for all loans and advances are being calculated on monthly basis.



#### vi. Methodology for valuation and Management of Collaterals

We take collaterals such as fixed assets, fixed capital, movable capital and machineries, stock and book debts, extension of charges on the securities already being charged to bank and against fixed deposits receipt.

- a. Valuation/Estimation of collateral security being offered (Estimated by Real Estate Division of the Bank in case of Housing Loans).
- b. Place of locations and its feasibility of Business.
- c. Verifications and valuations of available stock and book debt at the time of availing loan.
- d. Taking ownership certificates and mortgage deed of the collateral being offered against the loan applied and obtaining the comprehensive insurance policy in the joint name of bank and the party.
- e. Appraising and sanctioning the loan as per the RMA PR and within the prescribed banking norms, taking into consideration the available income source of the party (Margin of Safety, LTI, LTV, Balance Sheet, P&L account and cash flow statement, Stock value, margin of equity, gross block, net block).
- f. Follow up of loan EMI and Interest, after release of loan as per the recovery policy and procedures of the bank.

**Collateral management** is the method of verifying the status, evaluate the value of collateral in the market and maintain proper track record of collateral transactions, in order to reduce credit risk.

1. Taking into account the depreciated value of the collateral securities on a yearly basis during the periodical review of loans till the currency of loan account.
2. Securing and continue to have comprehensive insurance for the full value of collateral security, having adjusted the periodical depreciation.

#### vii. Risk Management Strategy

The main objective of risk management program in the Bank is to bring together, in an integrated and coherent manner three equally critical but potentially conflicting strategies as detailed below:

- a. Overall Corporate strategy;
- b. Risk Management strategy;
- c. Operational excellence.

Each of these demands has impact on the others. Resolving the creative tension between them is the core responsibility of the management committee and Board of Directors of the Bank. The Board of Directors and Senior Management of the Bank is well aware of principles of credit risk, operational risk and market risk and ensure that these risks are identified, assessed, monitored, controlled and mitigated. They also ensure that the bank's risk management framework is subject to effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff.

The Board and Management committee of the bank always strive to balance and harmonize the natural tension between growth and risk objectives that embodies in the corporate strategic plan and the ICAAP policy of the Bank. Ability to effectively fulfil this mandate rests, among other things, on its reputation as an organization of the highest integrity and professionalism.

### viii. Risk management governance

In line with clause 62 & 63 of Financial Services Act and clause 11(I) & (ii) of the RMA Corporate Governance regulation 2011, the Bank of Bhutan has instituted a Board Risk Management Committee (BRMC) at Board level and Risk Management Committee (RMC) at management level. While BRMC is chaired by one of the independent directors, Chief Executive Officer chairs the RMC. The Risk Management Division is an independent division which directly reports to the CEO. Its charter, Terms of Reference and Rules of Procedures approved by the Board, governs all committees. The Head, Risk management and Risk officers have their clear Term of References and job descriptions under which the division functions.

Risk management is integral to all aspects of the Bank's activities and is the responsibility of all employees. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and strengthen the three lines of defence and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risks in all business processes.

#### Coverage of risk management framework

The Bank's attitude towards its key strategic, financial, people and operational risks is as described below.

#### Strategic Risks

The Bank's Executives meet regularly to discuss the major initiatives and ensure these initiatives are prioritized appropriately and are managed and reported on a consistent basis. Our Strategy

Department is responsible for development of strategic plan for the bank for the next five years.

#### Operational Risks

The Bank's appetite for specific operational risks is detailed below. Risks are carefully analysed in all

the Bank's operational activities, including ensuring that the benefit of the risk control measures exceeds the costs of these measures. Operation risk basically covers; people risk, system risk, process risk and external risk:

#### Information Technology

Information Technology (IT) risks cover both daily operations and on-going enhancements to the Bank's IT systems. These include:

- **Processing - Prolonged outage of a CBS system**

The Bank has a very low appetite for risks to the availability of systems which support its critical business functions including those which relate to alternate delivery channels, banking operations and financial transactions and inter-bank settlements. System downtime is tracked monthly as KRI and the Bank ensures that it is within the tolerable threshold limit.

- **Security - Cyber-attack on CBS systems or networks**

The Bank has approved IT security policy. It has a very low appetite for threats to its assets arising from external malicious attacks. To address this risk, the Bank aims for strong internal control processes and the implementation of robust technology solutions.

#### Fraud and Corruption

The Bank has no appetite for any fraud or corruption perpetrated by its employees. The Bank takes all allegations of suspected fraud or corruption, misuse of public properties, abuse of power, very seriously and responds fully and fairly as set out in the Code of Conduct for its employees.

### Compliance

The Bank has a fully functional compliance division committed to a high level of compliance with relevant legislations, regulations, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. The Bank has no appetite for deliberate or purposeful violations of legislative or regulatory requirements. Composite rating by regulatory is tracked yearly as a KRI for the bank and any deterioration in the rating is taken seriously.

### Information Management

The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved and managed in accordance with legislative and business requirements. It has a very low appetite for the compromise of processes governing the use of information, its management and publication. The Bank has no appetite for the deliberate misuse of its information. Information transparency is critical for correct communication and bank upholds the principle transparency in terms of sharing the information to its employees, customers and stakeholders.

### People and Culture Risks

The Bank's significant people and culture-related risks include:

- **Calibre of People**

The Bank relies on motivated and high quality employees to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The Bank has a well-designed succession planning and retention policy to retain and motivate highly qualified employees and give them every opportunity to advance their

career in the bank. The appetite for losses to the value of the Bank's collective competencies, knowledge and skills is very low and attrition rate for key position holders is taken seriously.

- **Conduct of People**

The Bank expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve, and to promote and protect the public interest. The appetite for behaviours, which do not meet these standards, is very low. The Bank takes any breach of its Code of Conduct seriously.

- **Work Health & Safety (WHS)**

The Bank aims to create a safe working environment for its entire employees, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviours that lead to staff being harmed while at work. A grievance redressal system has been put in place for the employees to address their issues if any, and resolves it amicably with a minimum reputational damage to the bank and its employees.

**Bank's Risk Appetite & ICAAP policy**

The objectives of the Internal Capital Adequacy Assessment Process policy are:

- a. To ensure management of internal capital in accordance with the country's regulatory framework and Basel II Pillar I capital requirement guidelines;
- b. To describe the process for identification, assessment, measurement and aggregation of the risk inherent in the Bank's business and operations;

- c. To ensure that the available capital is commensurate with the Bank's risk profile;
- d. To ensure that there is a clear assignment of roles and responsibilities for facilitating the ICAAP;

Types of risks covered under ICAAP policy are:

The risks that are applicable to the Bank based on our business requirements and the status of the economy are classified below in terms of Basel II Pillar I and Pillar II.

Classification of Risks	Types of risks
<b>Pillar I Risks</b>	Credit Risk Operational Risk
<b>Risk not fully covered under Pillar I</b>	Residual Risk (arising out of credit risk Mitigation)
<b>Pillar II risks</b>	Credit Concentration Risk Interest Rate Risk in Banking Book Liquidity Risk Reputation Risk Compliance risk Economic and regulatory environment Stress testing

**Reporting & Monitoring**

The Bank has number of templates, models, matrices and other statistics calculation, for assisting and assessing whether outcomes are consistent with the Bank's risk appetite. Performance against these thresholds and tolerance is tracked and reported to the Risk

Management Committee on a regular basis. Reporting systems are maintained to provide assurance that the risk appetite is effectively incorporated into management decisions. Feedback on the implementation of the various policies and models are provided through the Risk Management Committee.

**Exhibit - A****(Referred to in Annexure-1: Minimum Audit Examination and Reporting Requirements)**

<b>RATIO</b>	<b>2016</b>	<b>2015</b>	<b>Remarks</b>
Current Ratio: Current Assets/ Current Liabilities	1.00	0.91	Increase in ratio is due to decrease in current assets
Return on Investments: Profit After Tax/ Capitl Employed	16.96	17.39	Decrease in ratio is due to increase in capital through current year profit
Net Profit Ratio: Profit after Tax/ Turnover	29.52%	30.94%	Decrease in ratio is due to higher proportion of increase in turnover than the increase in profit after tax for the year
Capital Adequacy Ratio	21.61%	15.65%	
Statutory Liquidity Ratio	40.83	32.21	





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