

ANNUAL REPORT 2017

BANK OF BHUTAN



Registered Office

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P.O. Box. 102,
Thimphu, Bhutan.

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Annual Report 2017

The Year In Review

The year 2017 was a mixed year for the Bank in terms of financial performance. While on the one hand, the Bank achieved notable credit growth of 27.32 percent, on the other hand, it failed to achieve the corresponding growth in its interest income and net profit.

In summary, some major highlights of the Bank for 2017 are:

1. Efficient Management of Non-Performing Assets - the Bank managed to maintain an average of less than 5 percent GNPA throughout the year, and finally closed at 3.16 percent on 31st December 2017.
2. Credit Growth - The average credit growth of the Bank for the past five years was hovering around 7 percent. In 2017, it saw a remarkable growth of 27.32 percent mainly triggered by reduced lending rates and aggressive marketing. However, the reduced interest rates impacted the income and profit of the Bank significantly. Nonetheless, the Bank is happy since this move made a lot of difference to all our clients and the country's economy.
3. Business Expansion - The Bank could made massive progress in terms of increasing its reach across the country through the launch of BoBConnect (Agency Banking) in mid-February 2017. By year end, the Bank was able to acquire 207 BoBConnect Agents across the country. In addition, five of our extension branch offices were converted to fully functional branch offices providing all banking services thereby increasing the footprint of the Bank.

The Bank also established correspondent banking relations with Sumitomo Mitsui Banking Corporation, Japan.

4. New products - The Bank started a few new deposit products to encourage people to save in ways that suited their convenience. Among the new products, the Flexi Recurring Deposit is appreciated and availed by many of our customers since it allows any amount to be deposited every month unlike other recurring deposit products where a fixed amount needs to be deposited every month.
5. Security - With the increase in online transactions and dependency in technology, the Bank implemented Radware for load balancing and to control cyber security. Further, the Bank voluntarily conducted a third party Information Security Audit of all its systems. In addition, the RAA also conducted a separate Performance and Compliance Audits. All audit reports confirmed that the Bank's systems did not have any major issues and were secure and reliable.
6. Business Continuity - To address the business continuity concerns, the Bank completed two rounds of DR drills by running its systems from the data recovery site, the first time ever done in the Country by any bank or institution.

7. Additional Services and Improvements – The Bank continued to improve on the existing services such as improved User Interface (UI) of mBoB, one of the most used and popular services of the Bank. A number of features were also added to mBoB namely, Pay to contact – populating mobile number from contact list for recharge, applying for Loan, Re-load INR Prepaid Card, Credit Card Bill Payment, T-Cell real time bill payment, fund transfer to other Banks' accounts in Bhutan, USSD for T-Cell users and separate SMSC gateway for T-Cell. The Bank also launched its new improved website.
8. Employee Engagement – The Bank has been providing BoB Scholarship to the employees since 2011, and till date 26 employees have completed their Masters Degree and 4 employees are attending their Masters through this scholarship program. BoB Scholarship is awarded to three employees every year through a well designed screening process.

Further, the Bank also provides short-term training to its employees by allocating 5 percent of its total annual operating expenses as its training budget. In 2017, the Bank invested Nu.41.89 million in training its employees.

(Pema Namgyel Nadik)
Chief Executive Officer

Eventful 2017



24th February

Launch of BoBConnect (Agency Banking)

28th March
New Website and mBoB User Interface launch
Introduced Flexi and Simple Recurring Deposit
Products



31st March – 2nd April

Grand BoB Loan Festival

24th - 26th May
CEO participated as one of the panelist on Digital
Financial Services - BEFIT



15th June

Launch of Point of Sales (POS) terminals at fuel
stations and issue of Fuel Card to Govt. and Corporate
vehicles

Eventful 2017



22nd June

BoB debit and credit card services assessed and found in compliance with the requirements applicable as per quality management system conforming ISO 9001:2015. First bank to be certified by Bhutan Standard Bureau

25th June

Green Compensatory Tree Plantation at Sangaygang by bank employees in the capital today in partnership with NRDCL



6th July

Bank opened 80 minor saving accounts today for the Golden Youth with bank contributing Nu. 301 deposit in each account along with distribution of BoB T-Shirts and talk on saving habits to our Golden youth

9th September

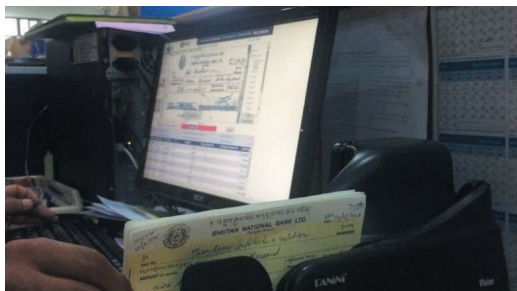
To facilitate government agencies to make online payments for important procurement services, Finance Ministry launched BoB Credit Cards for the government agencies



15th September

Introduction of QR (Quick Response) – scan to pay feature in mBoB

Eventful 2017

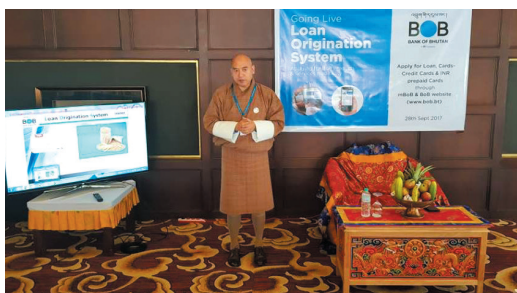


19th September

Implemented Cheque Truncation System

24th - 25th September

Annual Branch Managers' Meeting



28th September

Launch of online application for Loans, Cards, Credit cards and INR Prepaid card through mBoB and BoB website www.bob.bt

6th October

Opened extension office at Department of Revenue and Customs, Gelephu



8th - 11th October

Loan at Construction fair

BoB Loans for your needs

Transport Loan
Drive your Business on the Fast Track



Trade Loan
The Solution to Cash Flow problems



Manufacturing Loan
The Best way to expand business



Also for Mining & Quarrying & Contractors and Supplies - Retail/Wholesale/Business and Supply/Work Order.

Eventful 2017



CUSTOMER SERVICE DAY

21st October

Customer Service Day

6th November

USSD code for TashiCell mBoB made available

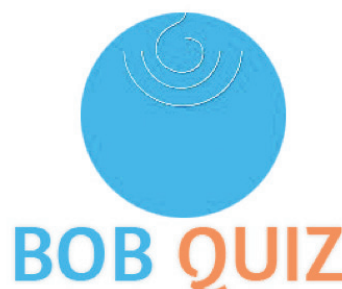


23rd November

The unveiling of the Golden Jubilee logo will launch a yearlong celebration through various activities themed “Celebrating 50 years of Embracing Happiness”

27th November

BoB started the BoB Quiz (a yearlong activity to celebrate its Golden Jubilee) on facebook



5th December

22. Donated water tank (Sintax 2000L) to Chari Monastic Center

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Company Profile

Vision

To be the nation's preferred financial institution

Missions

- Drive and continue to contribute to the nation's economic growth through modernization and expansion of the financial sector
- Provide comprehensive banking services to the people of Bhutan
- Provide customer centric services and ensure customer satisfaction
- Provide efficient services through cutting edge technology, best in class processes, and highly motivated professional

Values

BoB's conduct of business is guided by its core values expressed as "CARES", which is further elaborated as below:

Courage for Change – Through this value, BoB is always responsible and strives to encourage continuous learning and growth, to embrace diversity, to receive criticism and suggestions from customers, and have a sense of competition to create innovation and growth.

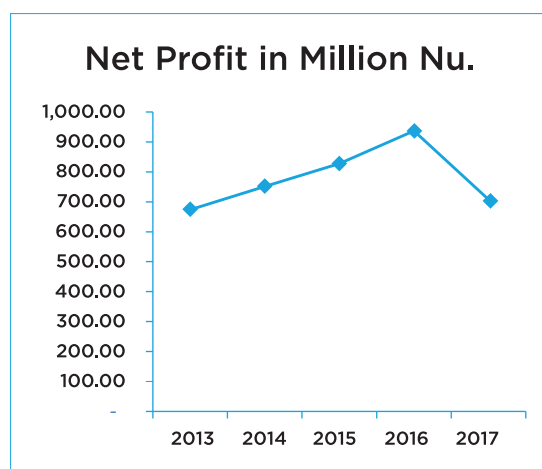
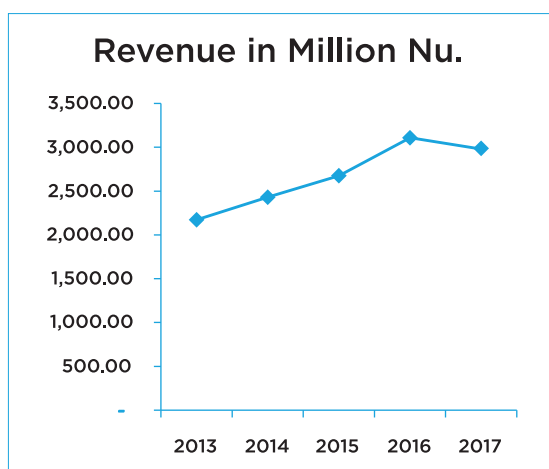
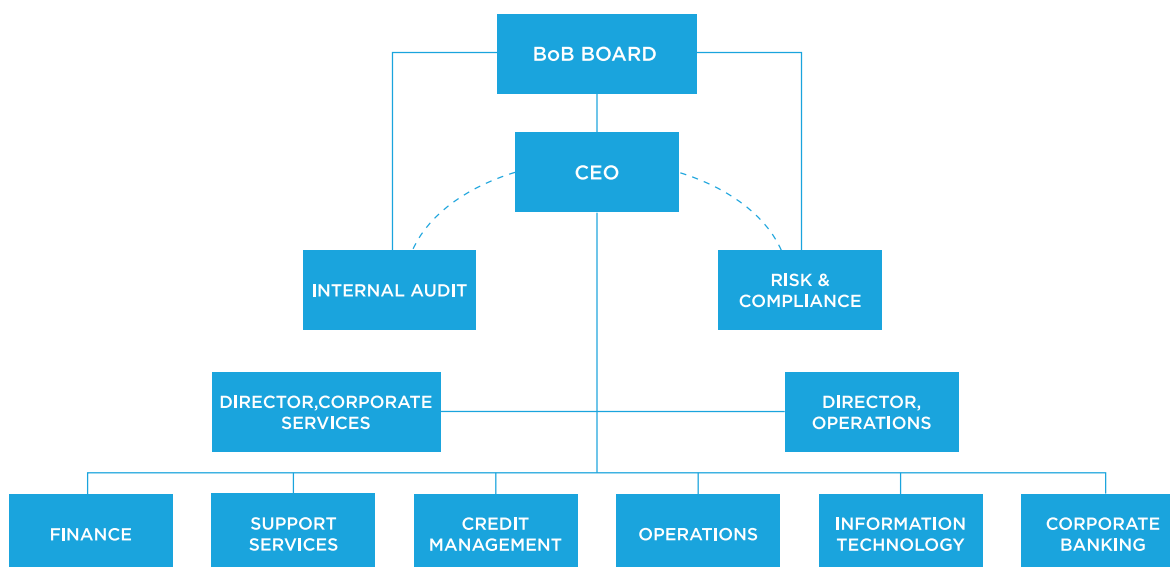
Accountability – BoB fosters to continuously develop ethical conduct through honesty and sincerity, claiming ownership of every transaction to maintain integrity.

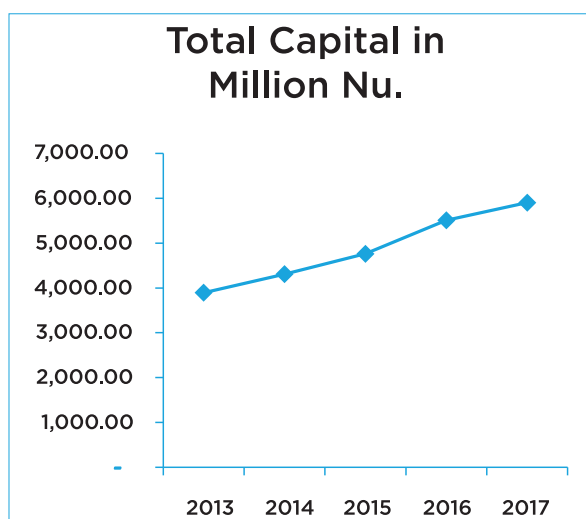
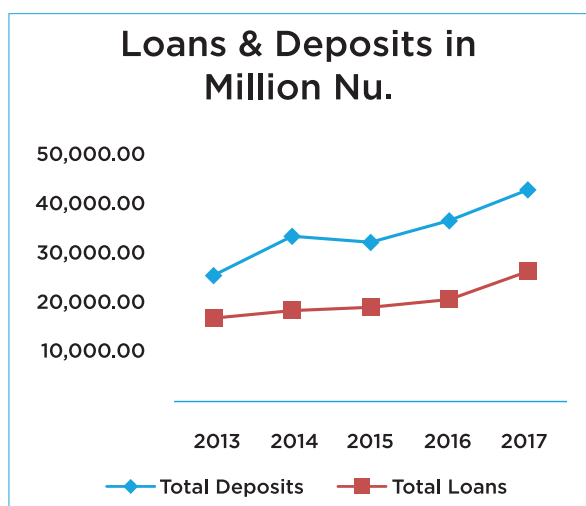
Relationship – BoB shall invest in building relationships based on mutual respect and trust within organization, with clients and other stakeholders.

Excellence in Service – BoB always spires to excel by sustaining the culture of customer friendly, diligent and courteous environment to achieve superior performance.

Social Responsibility – BoB always aims to meet community needs through beneficial partnership to support community growth.

Organization chart





Board Directors



Dasho Sangay Khandu (Chairman) brings more than forty-two years of experience with the Royal Government of Bhutan and the Corporate world. He was conferred red scarf by His Majesty the King in December 2009. He is the Chairman of Druk Holding and Investments and serves as a Non-Independent Executive Director on DHI Board.



Mr. Vijay Kumar Tyagi is the General Manager, (Retail & Subsidiaries) in International Banking Group, State Bank of India (SBI) with over thirty five years of work experience. He has a Bachelor degree in Commerce, a Diploma in Personal Management, Certified Associate of Indian Institute of Bankers and Certified Corporate Governance Professional of India Institute of Corporate Affairs (IICA), Ministry of Corporate Affairs, Government of India. He serves as the Chairman on the Board of Bank SBI Botswana Ltd., and as Non-Executive Director on the Board of Nepal SBI Bank Ltd. And SBI (Mauritius) Ltd. His area of work has mainly been on Corporate & Retail Banking, International Banking, Credit Administration & Management and Corporate.



Mr. Passang Dorji is the Director, Department of Investments at Druk Holding and Investments with over fifteen years of work experience. He has served on the Board of many prominent corporations across several sectors in Bhutan. He has a Bachelors in civil engineering from Thammasat University, Thailand and a MBA from Asian Institute of Management, Philippines. His area of work has been mainly in business development and investment analysis.



Mr. Sangay Wangdi is the Chief Executive Officer of Bhutan Board Products Limited with over thirty years of work experience. He has a Bachelors Degree in Economics from Punjab University. He has worked with Ministry of Trade & Industry now called Ministry of Economic Affairs, and served in various capacities including serving as the Managing Director of Wood Craft Centre Limited, Director of Department of Tourism, Director of Department of Industry, etc. He had also served on the Board of various corporations across several sectors in Bhutan.



Aum Tashi Pem is the Director at Royal Civil Service Commission of Bhutan with over twenty two years of work experience in the Civil Service. She worked in the Department of Revenue and Customs for more than sixteen years focusing mainly on fiscal policy, tax reforms, tax legislation and government revenue administration. She has served on the Board of STCBL and BDBL. She has a Bachelor in Commerce (Hons) from Sherubtse College, Delhi University and Masters in Economics from Kagawa National University, Japan. Her area of work has mainly been in fiscal policy and taxation, OD exercise in the government agencies and human resource management and development.



Mr. Tara Nidhi Chimorya Sharma is the Budget Specialist at the Department of Budget, Ministry of Finance with over twenty nine years of work experience. He served on the Board of Druk Seed Corporation and Wood Craft Centre Ltd. in Bhutan. He has a Diploma in Financial Accounting from ACCA, UK. His area of work has mainly been in Financial Management of public and private sector. He has served as a committee member in the formulation and revision of Public Service Entitlement rules (Civil Service Rules and Regulation, Foreign Service Entitlement Rules), High Level Rules Committee and Regulation and Macroeconomic Framework Coordination Technical Committee.



Mr. Pema N. Nadik graduated from Sherubtse College, Kanglung in 1988 with a Bachelors Degree in commerces. He worked for 17 years in Drukair in various positions including Administration Officer (Finance), Assistant Finance Manager, Country Manager (Bangkok), Manager, Marketing and Sales, Manager, Administration and Personnel, and Manager, Ground Operations, In-flight Service and Airline Security before resigning in 2007 to be self employed. He joined the Bank of Bhutan as Deputy CEO in October 2010 and was later appointed as the Chief Executive Officer in April 2013. He has served as a Board Director in Drukair Corporation, Bhutan Ferro Alloys, Credit Information Bureau, Financial Institutions Training Institute and the Royal Securities Exchange of Bhutan.

Management Team



Standing left to right - Mr. Prem Bdr. Moktan (Chief Financial Officer), **Mr. Tenzin Dorji** (Chief Banking Operations), **Mr. Dopphu Dorji** (Chief Corporate, Private and Relationship Banking), **Ms. Karma Dema** (Director Operations), **Mr. Pema N. Nadik** (Chief Executive Officer), **Mr. Dorji Kadin** (Director Corporate Services), **Mr. Ramesh Ramamurthy** (Chief Information Technology) **Mr. Namgay Wangchuk** (Chief Corporate Support Services)

Mr. Pema N. Nadik

Chief Executive Officer

Mr. Pema Nadik has a Bachelor Degree in Commerce from Sherubtse College, Kanglung. He has worked 17 years in Druk Air in various positions before his resignation in 2007 to be self employed in Dolma Enterprise. He served as Dy. CEO, Business Development from November 2010 until he was appointed as CEO of Bank of Bhutan in April 2013.

Ms. Karma Dema

Director, Operations

Ms. Karma Dema has a Bachelor's Degree in Arts from Osmania University, Hyderabad. She joined Bank of Bhutan in 1988 and has experience in various banking operations. She worked as the Head, Credit Department and served as Chief Credit Officer before her appointment as Director, Operations in December 2016.

Mr. Dorji Kadin

Director, Corporate Services

Mr. Dorji Kadin has MBA from Asian Institute of Management, Post Graduate Diploma in International Business from Flinders University of South Australia, and B. Com (Hons.) from Sherubtse College. He has worked 17 plus years in various business functions of Bhutan Telecom. He joined the Bank in 2013 and worked as Chief, Corporate Strategy Department until he was appointed as Director, Corporate Services.

Mr. Ramesh Ramamurthy

Chief Information Officer

Mr. Ramesh Ramamurthy is a senior Banking and Information Technology professional from India. He has Masters in Information Technology, Information Security certifications CISA and CISM from ISACA, USA. He has 34 plus years of experience which covers Banking Operations, Information Technology and Information Security. Prior to joining the Bank in May 2017, he was working as independent consultant for various global clients in IT and Information security space.

Mr. Prem Bdr. Moktan

Chief Financial Officer

Mr. Prem Bdr. Moktan has MBA (Banking & Finance) from University of Canberra, Australia and B. Com (Hons.) from Sherubtse College. He is Certified Trade Finance Professional (CTFP) certified by International Chamber of Commerce (ICC) Academy. He has worked 17 plus years in various business functions of Bank of Bhutan. He worked as Head, Compliance & Risk Management Division before he was appointed as Chief Financial Officer.

Mr. Dophu Dorji

Chief, Corporate, Private and Relationship Banking Department

Mr. Dophu Dorji has Post Graduate Diploma in Business (Accounting) from Curtin University of Technology, Perth, Western Australia and B. Com (Hons.) from Sherubtse College. He has worked for more than 13 years in Royal Securities Exchange of Bhutan Ltd. in various business functions before he joined the Bank in December 2009 as Head of Investment Banking Division and later as Zonal Manager, Western Zone, General Manager, Corporate Banking Affairs and as Chief of Corporate, Private & Relationship Banking Department for last five years.

Mr. Tenzin Dorji

Chief Banking Operations

Mr. Tenzin Dorji has B. Com (Hons.) from Sherubtse College, Kanglung. He joined Bank of Bhutan in January 1991. He has worked as Branch Manager in various Branch offices of the Bank and served as Head, Financial Control Division. He was serving as General Manager of Thimphu Main Branch before his appointment as Chief Banking Operations in 2017.

Mr. Namgay Wangchuk

Chief Support Services Officer

Mr. Namgay Wangchuk has a Master of Human Resource Management from Edith Cowen University, Western Australia, Post-graduate Certificate in Development Management from the Royal Institute of Management and B. Com (Hons.) from Sherubtse College. He started his career in the Civil Service in 2002 till 2016. He last served as the Chief Human Resource Officer in the Ministry of Health from where he resigned and joined the Bank of Bhutan in May 2017.

Director's Report

Introduction

To the Shareholders,

As the Chairman of the Board of Directors of Bank of Bhutan, I, on behalf of the board of directors and the management would like to present the directors' report for the year ending 2017.

Operational Highlights

The year 2017 was an eventful year for your Bank and stakeholders. The year began with the launch of Agency Banking with brand name 'BoBconnect' in February. By year end, your Bank registered 210 Agents across the country thereby increasing the reach as well as meeting the main objective of financial inclusion. Yet another milestone of your bank is the implementation of Loan Origination System (LOS) in September. With this system in place, processing loans have become lot easier, more reliable and faster, thereby increasing efficiency and productivity. In the same year, your Bank also changed the 'look and feel' and also simplified the processes of the most popular product-mBoB. This further helped in increasing the users and clients of the Bank, thereby, increasing revenue on one hand, and decreasing footfall in the branches.

In the same line, your bank also introduced Quick Response (QR) Code in September to make payments to merchants much easier and simpler through mBoB. Your Bank also revamped the website of the Bank in March to make navigation easier and information seeking simpler to all. To make cheque clearing more efficient and effective, your bank implemented Cheque Truncation System in September.

Considering IT security as the most critical factor in banking industry, your Bank carried out IS (Information System) audit of all systems to check and confirm if the systems are functioning as required as per international standards. In a similar note, your bank also conducted two (2) rounds of Data Recovery (DR) site testing to ensure that the bank is capable of providing normal banking services through DR should there be any problem with the Data Center (DC).

To attract more customers to bank with your Bank, the bank introduced few deposit products such as Recurring Deposit Plus, Flexi Recurring Deposit and Simple Recurring Deposit. And in order to increase international reach for better and cheaper financial service, your Bank added one more correspondent Bank in its list; the Sumitomo Mitsui Banking Corporation, in Japan. Your Bank also converted five (5) of its extension counters to full-fledge branch offices to capture more market base in the country.

In terms of customer service, the customer satisfaction index of your Bank has gone up from 3.66 to 3.77. The weekly complaint resolution rate was maintained at 96.72 percent at an average throughout the year.

Financial Position and Key Financial Performance Highlights

In terms of financial performance, the year 2017 was challenging for your bank due to introduction of Minimum Lending Rate (MLR) by the Royal Monetary Authority of Bhutan (RMA). Despite very good performance in terms of growth in loan portfolio relative to previous year, the profit of the bank reduced by 24.11 percent from the previous year.

In summary, your Bank registered a Total Comprehensive Income of Nu. 708 million in the year 2017, against Nu. 934 million in 2016. This reflected a decline of 24 percent in Total Comprehensive Income compared to 2016. The decline in Total Comprehensive Income is mainly triggered by impact of the implementation of MLR due to which interest income did not see any growth despite the increase in overall loan growth of 27.32 percent. Even with the decline in income for your bank, we are proud to inform that the decision of reducing interest rates has benefited 17,400 individuals/groups/agencies in various sectors. Further, your Bank brought down the Gross NPA to a commendable 3.16 percent.

Deposits from customers continued to increase from Nu. 36.49 billion in 2016 to Nu. 42.84 billion in 2017. This confirms the people's continued confidence and trust in the Bank. This triggered an increase in interest expenses from Nu. 1,108 million in 2016 to Nu. 1,228 million in 2017.

The total capital and reserves of your bank increased by 7.14 percent in 2017, an increase from Nu. 5,506.19 million in 2016 to Nu. 5,899.17 million in 2017.

Audit Issues

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 2017 by Royal Audit Authority with approval from the Royal Monetary Authority.

There were no major audit issues but some under emphasis of matter, viz. unmatched entries with SBI and other Banks unmatched entries of Nu. 37,678,864.71 debit and Nu. 62,814,027.45 credit and unmatched entries of Nu. Nil debit and Nu. 17,486,461.05 credit respectively.

Board's Recommendation on 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 2017, the Board has approved a dividend of Nu. 11.49 per share for the year ended December 31, 2017 amounting to Nu. 344,707,963.84 to its shareholders.

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, 2016. 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.

Recruitments were 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 re-dressal 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. BoB is in compliance with the requirements stipulated by the Registrar of Companies, Ministry of Economic Affairs.

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 culture, education, health, environment, entrepreneur development, youth development, assistance to the poor and underprivileged, among others.

Highlights of the CSR events in 2017 were blood donation campaign, tree plantation with NRDCL at Sangaygang (on the way to BBS tower), cleaning campaigns in various locations in Thimphu and financial support to offer Ku-Sung Thug Ghi Mendrel to His Holiness the Je Khenpo during Oral transmission of Kanjur at Kuenselphodrang.

Any other issue not covered elsewhere in the directors' report

It is worth mentioning about the training of employees your Bank has done this year, 5.20 percent of the operating expenses was spent on training.

Challenges and Way Forward

The major challenge your Bank had was maintaining the profit growth as expected with the reduction in lending rates due to MLR and with market growth at around 14 percent and the GDP growth at around 6 percent. This will continue to be a challenge for your Bank but your Bank has been working on new strategies including Tshogdrel Ngotshab (sales agents) who would play a key role in generating revenue in the coming year.

Acknowledgements

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 their sincerest gratitude to the shareholders, clients, investors, and well-wishers for their 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

Corporate Governance

Corporate Governance (CG) is a set of systems and procedures that enable and ensure companies are being managed in the most accountable, transparent, and fair manner while meeting the expectations of shareholders and other stakeholders. Sound CG practices are critical for effective use of company resources with the highest ethical standards.

Bank of Bhutan aims to achieve high standards of CG and ensures compliance with legislation, regulation and the CG codes to ensure the sustainability of the business.

BoB is compliant with the provisions of the RMA Corporate Governance Regulations 2011, the Corporate Governance Code and the Ownership Policy developed by Druk Holding and Investments Ltd., the Companies Act of Bhutan 2016, Financial Service Act of Bhutan 2011 and other statutory requirements for the FY 2017.

Board of Directors

The Board of Directors is entrusted with the ultimate responsibility for guiding the strategic direction and performance of BoB to achieve the targets. All appointments made was submitted to the BoB's Annual General Meetings for endorsement. The BoB Board consists of seven Directors, including the Chairman and the Chief Executive Officer. The management of BoB is headed by the Chief Executive Officer (CEO) for the management of day to day affairs of the Company.

Composition of the Board and attendance in 2017

Name of Director	Category	Address	Date of Appointment (Present Term)	Current Term of the Board Director	No. of BM attended in 2017	No. of Directorship on other DHI owned/ controlled companies
Total Number of Board meetings conducted in 2017					8	
Dasho Sangay Khandu	Chairman Non-Independent Non-Executive	Chairman, DHI	9 th March 2016	First Term	8	1. Druk Green Power Corporation Ltd. 2. Druk Air Corporation Ltd.
Mr. Passang Dorji	Board Director Non-Independent Non-Executive	Director, Department of Investment, DHI	9 th March 2016	Second Term	7	1. Druk Air
Ms. Tashi Pem	Board Director Non-Independent Non-Executive	Director, Royal Civil Service Commission	9 th March 2016	First Term	5	None

Name of Director	Category	Address	Date of Appointment (Present Term)	Current Term of the Board Director	No. of BM attended in 2017	No. of Directorship on other DHI owned/ controlled companies
Mr. Vijay Kumar Tyagi	Board Director Non-Independent Non-Executive	General Manager -Retail & Subsidiaries, International Banking Group, State Bank of India	22 nd November 2016	First Term	2	
Mr. Sangay Wangdi	Board Director Independent Non-Executive	Managing Director, Bhutan Board Products Ltd.	9 th March 2016	First Term	6	None
Mr. Tara Nidhi Chimorya Sharma	Board Director Independent Non-Executive	Specialist, Department of Budget, Ministry of Finance	22 nd January 2015	First Term	8	None
Mr. Pema N. Nadik	Board Director/CEO Executive Non-Independent	CEO, BoB	Re-appointed on 1 st April 2016	Second Term	8	None

Board Meetings

A total of eight Board Meetings were held in 2017. The meetings were held as frequently as required and the gap between any two meetings never exceeded three months as required by the Companies Act of Bhutan 2016. The details of the Board Attendance are as follows:

Board Meeting No.	Dates	Members Present	Leave of Absence
238 th	3 rd January 2017	1. Dasho Sangay Khandu 2. Mr. Sangay Wangdi 3. Ms. Tashi Pem 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Passang Dorji 6. Mr. Pema N. Nadik	1. Mr. Vijay Kumar Tyagi
239 th	15 th February 2017	1. Dasho Sangay Khandu 2. Mr. Vijay Kumar Tyagi 3. Mr. Tara Nidhi Chimorya Sharma 4. Mr. Passang Dorji 5. Mr. Pema N. Nadik	1. Mr. Sangay Wangdi 2. Ms. Tashi Pem

Board Meeting No.	Dates	Members Present	Leave of Absence
240 th	8 th May 2017	1. Dasho Sangay Khandu 2. Mr. Sangay Wangdi 3. Mr. Tara Nidhi Chimorya Sharma 4. Mr. Passang Dorji 5. Mr. Pema N. Nadik	1. Ms. Tashi Pem 2. Mr. Vijay Kumar Tyagi
241 st	12 th June 2017	1. Dasho Sangay Khandu 2. Mr. Sangay Wangdi 3. Ms. Tashi Pem 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Passang Dorji 6. Mr. Pema N. Nadik	1. Mr. Vijay Kumar Tyagi
242 nd	24 th July 2017	1. Dasho Sangay Khandu 2. Mr. Sangay Khandu 3. Ms. Tashi Pem 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Passang Dorji 6. Mr. Pema N. Nadik	1. Mr. Vijay Kumar Tyagi
243 rd	25 th August 2017	1. Dasho Sangay Khandu 2. Ms. Tashi Pem 3. Mr. Tara Nidhi Chimorya Sharma 4. Mr. Passang Dorji 5. Mr. Pema N. Nadik	1. Mr. Sangay Wangdi 2. Mr. Vijay Kumar Tyagi
244 th	24 th October 2017	1. Dasho Sangay Khandu 2. Mr. Vijay Kumar Tyagi 3. Mr. Sangay Wangdi 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Passang Dorji 6. Mr. Pema N. Nadik	1. Ms. Tashi Pem
245 th	18 th December 2017	1. Dasho Sangay Khandu 2. Mr. Sangay Wangdi 3. Ms. Tashi Pem 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Pema N. Nadik	1. Mr. Passang Dorji 2. Mr. Vijay Kumar Tyagi

Board Committee Meetings and Procedures

Board Governance Committee (BGC)

The Board Governance Committee was established to make decision on HR related issues which are beyond the authority of the management. A total of five Board Governance Committee meetings were held in 2017.

Details of the BGC held in 2017 are as follows:

Name of Director	Category	No. of BGC Attended
Mr. Sangay Wangdi	Chairperson (Independent)	4
Mr. Passang Dorji	Board Director	5
Ms. Tashi Pem	Board Director	3
Mr. Pema N. Nadik	Board Director/CEO	5

BGC No.	Dates	Members Present	Leave of Absence
27 th	7 th January 2017	1. Mr. Sangay Wangdi 2. Ms. Tashi Pem 3. Mr. Passang Dorji 4. Mr. Pema N. Nadik	
28 th	11 th February 2017	1. Mr. Sangay Wangdi 2. Mr. Passang Dorji 3. Mr. Pema N. Nadik	1. Ms. Tashi Pem
29 th	30 th March 2017	1. Mr. Sangay Wangdi 2. Mr. Passang Dorji 3. Ms. Tashi Pem 4. Mr. Pema N. Nadik	
30 th	25 th July 2017	1. Mr. Sangay Wangdi 2. Mr. Passang Dorji 3. Mr. Pema N. Nadik	1. Ms. Tashi Pem
31 st	11 th October 2017	1. Ms. Tashi Pem 2. Mr. Passang Dorji 3. Mr. Pema N. Nadik	1. Mr. Sangay Wangdi

Board Credit Committee (BCC)

The Board Credit Committee was established to make decision on Credit related issues which are beyond the authority of the management. A total of four Board Credit Committee meetings were held in 2017. Details of the BCC held in 2017 are as follows:

Name of Director	Category	No. of BCC attended
Mr. Passang Dorji	Chairperson	4
Mr. Tara Nidhi Chimorya Sharma	Board Director (Independent)	4
Mr. Pema N. Nadik	Board Director/CEO	4

BCC No.	Dates	Members Present	Leave of Absence
27 th	17 th April 2017	1. Mr. Passang Dorji 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	
28 th	1 st May 2017	1. Mr. Passang Dorji 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	-
29 th	6 th June 2017	1. Mr. Passang Dorji 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	-
30 th	9 th October 2017	1. Mr. Passang Dorji 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	-

Board Risk Management Committee (BRMC)

The Board Risk Management Committee was established to monitor the key risk indicators of the Bank besides making decision on risk related issues and activities. A total of three Board Risk Management Committee meetings were held in 2017. Details of the BRMC held in 2017 are as follows:

Name of Director	Category	No. of BRMC attended
Ms. Tashi Pem	Chairperson	3
Mr. Tara Nidhi Chimorya Sharma	Board Director (Independent)	3
Mr. Pema N. Nadik	Board Director/CEO	3

BRMC No.	Dates	Members Present	Leave of Absence
11 th	29 th April 2017	1. Ms. Tashi Pem 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	
12 th	7 th October 2017	1. Ms. Tashi Pem 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	
13 th	23 rd December 2017	1. Ms. Tashi Pem 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	

Board Audit Committee (BAC)

The Board Audit Committee was established to monitor the internal control systems and internal audit activities of the Bank. A total of three Board Audit Committee meetings were held in 2017. Details of the BAC held in 2017 are as follows:

Name of Director	Category	No. of BAC attended in 2017
Mr. Tara Nidhi Chimorya Sharma	Chairperson of BAC (Independent)	3
Mr. Sangay Wangdi	Board Director (Independent)	1

Name of Director	Category	No. of BAC attended in 2017
Ms. Tashi Pem	Board Director	3

BAC No.	Dates	Members Present	Leave of Absence
55 th	8 th April 2017	1. Mr. Tara Nidhi Chimorya Sharma 2. Mr. Sangay Wangdi 3. Ms. Tashi Pem	
56 th	22 nd July 2017	1. Mr. Tara Nidhi Chimorya Sharma 2. Ms. Tashi Pem	1. Mr. Sangay Wangdi
57 th	16 th December 2017	1. Mr. Tara Nidhi Chimorya Sharma 2. Ms. Tashi Pem	1. Mr. Sangay Wangdi

Board Project Steering Committee -Thimphu Corporate Office (Board PSC -TCO)

The Board Project Steering Committee- Thimphu Corporate Office was established to make decision and approve the works and procurement for the Construction of the Thimphu Corporate Office which are beyond the management's authority. A total of four Board Project Steering Committee meetings for Thimphu Corporate Office were held in 2017.

Details of the Board PSC-TCO held in 2017 are as follows:

Name of Director	Category	No. of Board PSC-TCO attended in 2017
Dasho Sangay Khandu	Chairman of PSC	4
Mr. Passang Dorji	Board Director	3
Mr. Pema N. Nadik	Board Director/ CEO	3
Mr. Dorji Kadin	Board Director/ Director Corporate Services (appointed on 3 rd April 2017)	3

Board PSC-TCO No.	Dates	Members Present	Leave of Absence
7 th	3 rd April 2017	1. Dasho Sangay Khandu 2. Mr. Passang Dorji 3. Mr. Pema N. Nadik	
8 th	4 th October 2017	1. Dasho Sangay Khandu 2. Mr. Passang Dorji 3. Mr. Pema N. Nadik 4. Mr. Dorji Kadin	
9 th	8 th November 2017	1. Dasho Sangay Khandu 2. Mr. Passang Dorji 3. Mr. Pema N. Nadik 4. Mr. Dorji Kadin	
10 th	25 th December 2017	1. Dasho Sangay Khandu 2. Mr. Dorji Kadin	1. Mr. Passang Dorji 2. Mr. Pema N. Nadik

Board Remuneration

The following table contains the details of the remuneration paid to the Chief Executive Officer and the Board Directors during the year 2017:

Sl.	Particulars	2017	2016
1.	Remuneration, Allowances, etc paid to Chief Executive Officer:		
	(i) Salary, Allowances, bonus and Encashment of Leave	2,400,892.87	2,359,862.00
	(ii) Contribution to Provident Fund	109,524.00	106,653.00
	(iii) Sitting fee	132,000.00	156,000.00
	Total	2,642,416.87	2,622,515.00
2	Sitting fee paid to the Directors	582,000.00	820,000.00

Annual General Meeting

The 50th Annual General Meeting was held on 16th March 2018 at the DHI Conference Hall and the AGM was attended by the Shareholder, Board Directors and the key members of the management team.

Risk Management Systems

The Risk Management Framework of BoB is an exposition of the Bank's approach to Risk Management and seeks to put in place a comprehensive monitoring, management and reporting framework that allows risks to be identified, managed and overseen in a timely and efficient manner. The framework also seeks to set up systems and procedures to actively mitigate associated risks and optimize resources not only to protect the Bank but also to provide a return commensurate with the risk profiles adopted.

The framework is administered by various risk management policies, activities and exercises, which are updated to the management and the board periodically.

Board and CEO Evaluation

DHI conducts an annual online questionnaire-based evaluation whereby feedback is collected from the Chairman and CEO on the performance of the individual board directors in the DHI Owned and Controlled Companies. The key issues covered include the board directors' dedication and preparedness for the meeting, professional and ethical attributes, team work and their contribution in the meeting.

The annual performance evaluation of the CEOs of DHI Owned Companies is based on two parts:

- 1) A questionnaire-based leadership assessment which accounts for 20% weight of the overall evaluation and
- 2) An annual compact performance which accounts for 80% weight.

The leadership assessment which is administered online by DHI is undertaken by all the directors. The combined score is used to pay out the CEO's performance linked incentives and is also considered during the renewal of contracts of the CEO.

Independent Auditors Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF BHUTAN LIMITED,

Opinion

We have audited the financial statements of BANK OF BHUTAN LIMITED ("the Bank"), which comprise the Statement of Financial Position as at 31st December, 2017, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a 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 on 31st December 2017 and its financial performance and its cash flows for the year then ended in accordance with the Bhutanese Accounting Standard (BAS/BFRS).

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 for 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 other 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 to the financial statements:-

- a) Note no. 4.4. (b) Regarding the accounts with State Bank of India, India has been reconciled up to December 31, 2017. 60.48% of the debit balances of Nu. 95,349,511.07 and 84.74% of the credit balances of Nu. 411,616,984.76 as at the end of 2016, (Nu. 57,670,646.36 debit and Nu. 348,802,339.31 credit) have been resolved during the year, leaving unmatched entries of Nu. 37,678,864.71 debit and Nu. 62,814,027.45 credit only. The balances as at December 31, 2017 are as follows:

Debit entries	Nu. 76,844,657.75
Credit entries	Nu. 258,711,985.57

- b) Note No. 4.4.(c) regarding the accounts with other banks have been reconciled up to December 31, 2016. 100% of the debit balances of Nu. 96,005,605.88 and the credit balances of Nu. 229,527,580.96 as at the end of 2016, (Nu. 96,005,605.88 debit and Nu. 212,041,119.91 credit) has been resolved during the year, leaving unmatched entries of Nu. Nil debit and Nu. 17,486,461.05 credit only. The balances as at December 31, 2017 are as follows:

Debit entries	Nu. 76,503,752.70
Credit entries	Nu. 246,014,460.04

- c) Note 1.13 .which describes restatement of the corresponding figures for the year ended on 31st December, 2016.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion there on, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a Key Audit Matter	How the matter was addressed in the audit
<p>1. Recognition of Revenue</p> <p>Refer to Significant Accounting Policies (Note .1.26)</p> <p>We focused on this area as a key audit matter due to the risk of incorrect timing of revenue recognition. Revenue is recognized when the risk and rewards of the underlying products or services have been transferred to the customer and also when the revenue accrues as per the terms and conditions, law, guidelines etc. Due to the multitude and variety of contractual terms, there is a risk that revenue may be misstated. The company focuses on revenue as one of the key performance measure.</p>	<p>Our audit procedures included amongst other:</p> <p>Comparing the company's accounting policies over revenue recognition with applicable Bhutanese Accounting Standards, Royal Monetary Authority's directions and relevant Regulations in this regard etc.</p> <p>Obtaining understanding of the revenue recognition processes and their consistent application and testing company's controls on revenue recognition.</p> <p>Assessing the correct period for the revenue recognized by testing cut-off with substantive analytical procedures supplemented with test of transactions either side of the balance sheet date.</p> <p>Utilising Information Technology (IT) to test the IT general and automated controls of the relevant charging environments, as well as to assess the relevant revenue reports utilised for audit purposes.</p> <p>We compared the company's disclosures over revenue recognition in note 1.26 with presentation requirements in applicable Bhutanese Accounting Standards, Royal Monetary Authority directions and relevant Regulations etc.</p>

2. Impairment and classification of loans and advances to customers

Impairment and classification of loans and advances to customers is crucial due to the substantial amount of loans and advances recognized in the balance sheet and requirements in applicable Bhutanese Accounting Standards, Royal Monetary Authority directions and relevant Regulations etc. and judgement applied, auditing loan impairment and classification is considered a key audit matter.

The company assesses the loans for impairment and classification on an individual basis.

The principles for determining the impairment charge and classifications are described in the various laws, Act directions of Royal Monetary Authority and Prudential Guidelines and Management has described the management of credit risks and the review for impairment in more detail in note 6.0.b (iii) and the section on credit risk in the risk management disclosures.

Based on our risk assessment, we have examined the impairment charges, classification of loans and advances and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.

Our audit focused to the following elements, where we also discussed with relevant credit team of Bank: Obtaining audit evidence in respect of key controls over the manual processes for impairment, classification, BAS provisions, Royal Monetary Authority directions, relevant Guidelines, management judgments; Challenging the methodologies applied by using our industry knowledge and experience, focusing on potential changes since last year; Performing a risk-based test of loans to ensure timely identification of impairment and classification of loans and for impaired loans to ensure appropriate impairment charge; Gaining an understanding of the impairment and classifying process and identifying and testing the key controls in place; Inspecting the minutes of the key governance meetings including Credit Committee and Board to ensure that there are governance controls in place.

We tested loans on sample basis (including loans that had not been identified by management as potentially impaired) to form our assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.

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 (BAS/BFRS) 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 a 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.

Auditor's 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements 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.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan, 2016 we enclose in the Annexure-I a Minimum Audit Examination and Reporting Requirements as specified under the erstwhile Companies Act of the Kingdom of Bhutan, 2000, to the extent applicable.

Further as required by Section 265 of the Companies Act of Bhutan, 2016, we report that:

- a. We have obtained all the information and explanations to the best of our knowledge and belief, were necessary, for the purposes of our audit;
- b. In our opinion, proper books of accounts 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 23 (twenty three) branches not visited by us out of 36 (thirty six) of the bank;
- c. The statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flow with by this report are in agreement with the books of accounts and returns; and
- d. The financial statements dealt with in this report have been prepared in accordance with Bhutanese Accounting Standards (BAS/ BFRS);

For Agrawal Subodh& Co.

Chartered Accountants

F.R.No. 319260E

CA Subodh Kumar Agrawal

Partner

M No. 054670

Place: Kolkata

Date: 26th April 2018

ANNEXURE – I

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

(REFERRED TO OUR AUDIT REPORT EVENT DATE OF BANK OF BHUTAN FOR THE FINANCIAL YEAR ENDED ON 31ST DECEMBER, 2017)

1. The Bank has maintained proper records showing full particulars including quantitative details and locations thereof, in a Spreadsheet format as well as in tally software which is still not fully implemented.

The Fixed Assets of the bank at all locations have been physically verified by the management during the year and the impact of physical verification of fixed assets (viz shortage, non usable etc) need to be taken into financial statement as well as the register need to be updated.

2. None of the Fixed Assets have been re-valued during the year.
3. The banks grants loan in normal course of business to related parties with due compliance of guidelines and the rate of interest and other terms and conditions of the loan were not prejudicial to the interest of the Bank. The above data is manually prepared and cannot be extracted from the system.
4. With regard to granting of Loans and advances, we further suggest to get the followings to be done:
 - a) Policy statement on credit concentration
 - b) Legal audit of all large advances by the branch
 - c) Credit audit to be improvised
 - d) The gestation period or moratorium period extended in few cases was beyond the limit allowed so restrict it to the limit prescribed
5. 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, the management is following up the matter and it has been further reduced.
6. 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, equipment and other assets.
7. 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.
8. As informed to us, there is no unserviceable stores, assets, etc. as at 31st December, 2017.

9. 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 and the same balance was there as on 31st December 2017 but the same has been refunded by the bank on 7th February 2018.
10. There is no undisputed amount payable in respect of rates, taxes, duties and other statutory dues outstanding at the year end except the disputed tax demand for the assessment year 2013, 2014 and 2015 on account of PBVA for which the DHI has filed appeal for Nu. 11,455,413.00 with DRC, Ministry of Finance. As informed by the BOB management the same is under process.
11. 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.
12. Quantitative reconciliation is carried out for all major items of inventory like stationery, security forms, etc.
13. Board approval has been obtained for all write offs of losses in the books, if any.
14. The management of liquid resources by the Bank is adequate in general and excessive amounts are not lying idle in non-interest bearing accounts.
15. 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, it seems the activities carried out by the Bank are lawful and intravires to the Articles of the Bank.
16. 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 major capital investment decisions. Investments in new projects are made after considering the technical and economic feasibility of such ventures.
17. The Bank has an adequate budgetary control system.
18. 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 - 4.2. Related party Disclosures
19. According to the information and explanations given to us, the directives of the Board have been complied with.
20. 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 are not made publicly available, unauthorised to their relatives/ friends/ associates or close persons which would directly or indirectly benefit themselves (The company is not a listed company).
21. 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.
22. Reasonable records are maintained by the Bank for funds collected from depositors and for interest payments.

23. 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.
24. 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, The Companies Act of Bhutan 2016 and other applicable laws, rules and regulations and guidelines concerning activities of the Bank issued by appropriate Authorities.
25. 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 generally.
26. Recognition of interest income in respect of non-performing assets has been deferred and not recognised in the income.
27. 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 need to be further strengthened as we have come across cases where in case of distress assets sale, the same could not be sold or if sold fetched huge discount to what was valued. In some of the cases, the property mortgaged were neither saleable nor mortgageable. However the management has requisitioned the alternate property. The valuation of mortgaged property need to be compulsorily valued after a period of 3-5 years where the loan sanction limit is say beyond a particular amount of 10 or 20 million. As informed by the management most of the above mentioned cases pertains to 2015 and before.
28. 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 where there is moratorium period for payment of principal and gestation for interest, the branch need to keep a register to keep track of progress of project, timely disbursement request by customer, cost overrun, site inspection at regular interval may be quarterly/ half yearly or annual for individual projects, when the loan or interest moratorium of gestation is ending.
29. 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.
30. 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. Rephrasing is not permitted in respect of non-performing loans. In our opinion, the re-schedulement should be rare as initially the project appraisal captures all the events including contingency.
31. 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. However, in some of the cases where the defaulted borrowers'

loan were taken over by new parties, and for same the new loan were sanctioned and the NPA accounts was upgraded to Standard account, (viz. SKW Metal Loan transferred to Tashi Group of Companies).

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, which we were told that is under process and report of the same is yet to be finalised.
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 (if possible).

There is a disaster recovery site at Thimphu. It is been 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. 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. As informed by the management, only additional provisioning is done manually and all other financial institutions are doing the same in Bhutan and also it requires approval from the RMA for the same.

Some instances are :

- a) There is no option to extract a report from system for which the Account was upgraded from NPA to Standard.
- b) Advance/Loan given to Group Account (different business houses viz Tashi, Singey, etc.) is not properly captured through system.
- c) The related party advance/ loan are not being properly captured through the system.
- d) There is no option to find out which account was restructured/ rescheduled and present status
- e) The master data captured in the RMA table is sometimes not correct viz. data of sanction/ date of maturity, etc.

8. 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. As informed by the management, the same is under progress.
9. 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. As informed by the management, the same is under progress.
10. 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, 2017 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, 2017, which is proper and correct;
 - b. Capital Adequacy Ratio of the Bank as at 31st December, 2017, 17.40% 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, 2017, 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, 2017, 35.08% is above the minimum limit of 20% prescribed by the RMA.

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.

For Agrawal Subodh & CO.

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, 2017)

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 evidences 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 on 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

BANK OF BHUTAN LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2017

ASSETS	Note No.	As at 31.12.2017	As at 31.12.2016	Re-statement as at 31.12.2016	Re-stated as at 31.12.2016
Cash & Balance with RMA	2.1	11,385,835,097.67	14,078,764,442.75		14,078,764,442.75
Loans & Advances to Banks	2.2	3,239,673,269.02	3,297,561,164.06		3,297,561,164.06
Loans & Advances to Customers	2.3	26,386,692,805.47	20,725,407,844.74	(20,904,282.14)	20,704,503,562.60
Investment Securities	2.4-A	8,990,938,616.44	5,502,626,800.00		5,502,626,800.00
Investment in Associates	2.4-B	37,811,000.00	37,811,000.00		37,811,000.00
Investment in Portfolio Companies	2.4-C	80,193,710.45	80,193,710.45		80,193,710.45
Prepayments & Accrued Income	2.5	109,846,304.06	104,055,083.25		104,055,083.25
Deferred Tax Assets	2.6	55,530,549.64	49,259,265.00	6,271,284.64	55,530,549.64
Other Assets	2.7	181,190,715.02	303,621,892.46		303,621,892.46
Property, Plant & Equipment	2.8-A	404,120,309.17	396,952,980.02		396,952,980.02
Intangible Assets	2.8-B	126,315,866.38	117,161,990.36		117,161,990.36
Capital Work-in-Progress	2.8-C	134,131,375.43	79,952,768.26		79,952,768.26
TOTAL ASSETS		51,132,279,618.74	44,773,368,941.34	(14,632,997.50)	44,758,735,943.84
LIABILITIES					
Deposits by Banks	2.9	58,726,219.18	139,956,391.63		139,956,391.63
Customer Deposits	2.10	42,838,187,176.70	36,492,874,675.65		36,492,874,675.65
Subordinated Liabilities & Other Borrowed Funds	2.11	-	500,000,000.00		500,000,000.00
Provision for Liabilities & Charges	2.12	13,514,114.03	26,735,506.19		26,735,506.19
Retirement Benefit Obligations	2.13	133,541,219.98	123,836,170.00		123,836,170.00
Accruals & Deferred Income	2.14	1,366,552,100.09	1,143,994,251.44		1,143,994,251.44
Current Tax Liabilities	2.15	69,908,079.68	230,388,901.84		230,388,901.84
Other liabilities	2.16	752,677,112.67	609,393,028.26		609,393,028.26
TOTAL LIABILITIES		45,233,106,022.33	39,267,178,925.01	-	39,267,178,925.01
EQUITY					
Share Capital	2.17 A	3,000,000,000.00	3,000,000,000.00		3,000,000,000.00
Retained Earnings	2.18	1,360,321,072.38	1,330,145,266.27	(14,632,997.50)	1,315,512,268.77
Reserve Fund	2.18	1,333,120,806.30	979,362,937.39		979,362,937.39
Other Reserves	2.18	205,731,717.74	196,681,812.67		196,681,812.67
TOTAL EQUITY		5,899,173,596.42	5,506,190,016.33	(14,632,997.50)	5,491,557,018.83
TOTAL LIABILITIES & EQUITY		51,132,279,618.75	44,773,368,941.34	(14,632,997.50)	44,758,735,943.84
Contingent liabilities	2.19	4,552,691,770.92	3,722,326,614.33		3,722,326,614.33
Bills for Collection	2.20	477,994.50	529,042.50		529,042.50
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 2017

Particulars	Note No.	For the year ended 31.12.2017	For the year ended 31.12.2016	Re-statement for the year ended 31.12.2016	Re-stated for the year ended 31.12.2016
Interest Income	3.1	2,678,381,766.83	2,737,970,482.79	(20,904,282.14)	2,717,066,200.65
Interest Expenses	3.2	(1,228,597,868.92)	(1,108,692,146.83)		(1,108,692,146.83)
NET INTEREST INCOME		1,449,783,897.91	1,629,278,335.96	(20,904,282.14)	1,608,374,053.82
Fees & Commission Income	3.3	295,065,649.30	220,385,311.62		220,385,311.62
Fees & Commission Expense	3.4	(65,560,994.29)	(55,769,507.52)		(55,769,507.52)
Net Trading & Exchange Income	3.5	36,199,620.28	165,619,529.40		165,619,529.40
Other Operating Income	3.6	35,629,986.99	40,324,144.87		40,324,144.87
NON INTEREST INCOME		301,334,262.28	370,559,478.37		370,559,478.37
OPERATING INCOME		1,751,118,160.19	1,999,837,814.33	(20,904,282.14)	1,978,933,532.19
Staff Costs	3.7	(366,565,996.33)	(342,067,027.79)		(342,067,027.79)
Premises Costs	3.8	(76,746,228.19)	(67,601,683.20)		(67,601,683.20)
General Administrative Expenses	3.9	(161,753,385.55)	(126,301,401.54)		(126,301,401.54)
Depreciation	3.10	(54,340,984.64)	(55,738,713.95)		(55,738,713.95)
Amortization	3.11	(21,786,499.34)	(15,120,926.18)		(15,120,926.18)
OPERATING EXPENSES		(681,193,094.05)	(606,829,752.66)		(606,829,752.66)
OPERATING PROFIT BEFORE IMPAIRMENT & TAXATION		1,069,925,066.14	1,393,008,061.67	(20,904,282.14)	1,372,103,779.53
General Provisions on Loans		(57,733,948.44)	(9,042,306.04)		(9,042,306.04)
Specific Provisions on Loans		7,283,344.13	(36,865,527.97)		(36,865,527.97)
Other Impairment Losses		-	(6,300,000.00)		(6,300,000.00)
PROFIT BEFORE TAXATION		1,019,474,461.83	1,340,800,227.66	(20,904,282.14)	1,319,895,945.52
Tax Expenses	3.12	(311,958,724.00)	(402,240,068.00)	6,271,284.64	(395,968,783.36)
Tax Expenses For Earlier Years	3.13	-	(1,911,716.38)		(1,911,716.38)
NET PROFIT FOR THE YEAR		*707,515,737.83	936,648,443.28	(14,632,997.50)	922,015,445.78
Other Comprehensive Income (Loss)					
Actuarial Gains/(Loss) on Retirement Benefits		1,964,740.02	(3,681,370.00)	-	(3,681,370.00)
Other Comprehensive Income Before Tax		1,964,740.02	(3,681,370.00)	-	(3,681,370.00)
Tax (Expenses)/Income relating to Comprehensive Income	3.14	(589,422.00)	1,104,411.00		1,104,411.00
Other Comprehensive Income, net of Tax		1,375,318.02	(2,576,959.00)	-	(2,576,959.00)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		708,891,055.85	934,071,484.28		919,438,486.78
*Net Profit is after appropriation of reserves towards General Reserve and Exchange Fluctuation Reserve					
Basic & Diluted Earnings Per Share	3.15	23.63	31.14		30.65

STATEMENT OF CHANGES TO EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2017

	Share Capital	Reserve Fund	Retained Earnings	Exchange Fluctuation Reserve	Total
As at January 2016	1,500,000,000.00	1,908,383,187.85	1,197,904,978.28	152,000,000.00	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	-	-	(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
Transfer to Retained Earnings	-	-	1,020,739.15	-	1,020,739.15
Transferred to Exchange Fluctuation Reserve	-	-	(44,681,812.67)	44,681,812.67	-
As at 31 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
Profit for the year	-	-	707,515,737.83	-	707,515,737.83
Bonus Shares Issued	-	-	-	-	-
Transferred from Retirement Benefits Past service	-	-	-	-	-
Dividends Paid	-	-	(300,000,000.00)	-	(300,000,000.00)
Other Movements(Restatement)	-	-	(14,532,157.74)	-	(14,532,157.74)
Transferred to Reserve Fund	-	353,757,868.91	(353,757,868.91)	-	-
Transferred to Retained Earnings	-	-	-	-	-
Transferred to Exchange Fluctuation Reserve	-	-	(9,049,905.07)	9,049,905.07	-
As at 31st December 2017	3,000,000,000.00	1,333,120,806.30	1,360,321,072.37	205,731,717.74	5,899,173,596.42

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2017

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Cash flows from operating activities		
Profit Before Taxation	1,017,509,721.81	1,197,183,666.20
Add: Depreciation	54,340,984.64	55,738,713.95
Add: Amortization	21,786,499.34	15,120,926.18
Gain/(Loss) on revaluation of foreign currency assets and liabilities	36,199,620.28	143,819,910.18
Actuarial Gains/(Loss) on Retirement Benefits	1,964,740.02	(3,681,370.00)
Less: Impairment charges for Loans and advances	(40,679,481.91)	(28,442,014.60)
Adjustments to Cash Flows from Operating activities (Taken as Cash Flows from Investing Activities)		
Loss/(Gain) on Sale of Property Plant and Equipment	(1,519,817.00)	(2,989,496.00)
Income from Dividends	(4,357,234.00)	(7,017,385.00)
Interest Received on Investments and FDRs	(401,960,419.67)	(427,971,865.82)
Movements in DBO	(2,843,310.00)	5,217,700.00
Operating profit before changes in operating assets & liabilities	680,441,303.51	941,761,085.09
(Increase)/Decrease in operating assets		
Balance with RMA in CRR Account	(37,991,330.70)	(691,018,586.29)
Loans & Advances to customers	(5,701,894,026.72)	(1,602,394,310.47)
Deferred Tax Asset	(5,992,875.75)	(21,787,614.00)
Other Assets	116,639,956.63	(167,003,184.47)
Sub-Total	(5,629,238,276.54)	(2,482,203,695.23)
Increase/(Decrease) in operating liabilities		
Deposits from customers	6,264,082,328.60	4,382,743,455.44
Deferred Tax Liabilities	18,799,691.00	-
Other Liabilities	321,155,764.88	486,798,139.97
Sub-Total	6,604,037,784.48	4,869,541,595.41
	974,799,507.94	2,387,337,900.18
Net cash generated from/(used in) operating activities before income tax	1,655,240,811.45	3,329,098,985.27
Income Tax paid	(431,859,142.17)	(383,527,557.04)
Net cash generated from/(used in) operating activities	1,223,381,669.28	2,945,571,428.23
Cash Inflows/(Outflows) from investing activities		
Investment in Commercial Papers	(98,235,616.44)	-
Investment in RMA Discount Bills	(3,390,076,200.00)	2,184,242,700.00
Investment in Share	-	(1,750,000.00)
Inter-Bank Lending	235,284,400.00	112,220,000.00
Maturity of Bond	-	-
Income from Dividends	4,357,234.00	7,017,385.00

	For the year ended 31.12.2017	For the year ended 31.12.2016
Interest Received on Investments and FDRs	401,960,419.67	427,971,865.82
Purchase of property plant and equipment	(114,167,106.98)	(46,782,170.27)
Purchase of Intangible assets	(30,940,375.36)	(91,352,761.81)
Net cash flows used in investing activities	(2,991,817,245.11)	2,591,567,018.74
Cash Inflows/(Outflows) from financing activities		
Movement in Debt and other borrowed funds	(500,000,000.00)	-
Dividend Paid	(300,000,000.00)	(163,800,000.00)
Prior Period adjustments	-	(1,911,716.38)
Prior Period adjustments	-	50,083.80
Prior Period adjustments	14,911,405.01	16,721,581.24
Net cash flows generated from financing activities	(785,088,594.99)	(148,940,051.34)
Net Cash generated/(used) during the year	(2,553,524,170.82)	5,388,198,395.62
Cash and cash equivalents at the beginning of the year	11,301,471,334.15	5,913,272,938.53
Cash and cash equivalents at the end of the year	8,747,947,163.33	11,301,471,334.15
Cash and cash equivalents at the end of the year		
Cash in Hand	768,699,868.86	744,021,387.03
Balance with Central Bank in Current Account	6,490,189,625.45	9,245,788,783.06
Balance with Other Banks in Current Account	1,489,057,669.02	1,311,661,164.06
Total Cash & cash equivalents at the end of the year	8,747,947,163.33	11,301,471,334.15

Note 1: – Summary of Significant accounting policies appended to and forming part of the financial statements for the year ended December 31, 2017.

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, 2017.

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 (GA AP) 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 was adopted effective January 2016.

The following applicable standards were adopted:

BAS Phase I (with effect from 1st January 2014)	BAS Phase II (with effect from 1st January 2016)
BAS 1 – Presentation of Financial Statements	BAS 17 – Leases
BAS 2 – Inventories	BAS 19 – Employee Benefits (early adopted in Phase I)
BAS 8 – Accounting Policies, Changes in Accounting Estimates & Errors	BAS 26 – Accounting and Reporting by Retirement Plans
BAS 10 – Events after Reporting Period	BAS 28 – Investment in Associates & Joint Ventures
BAS 11 – Construction Contracts	BAS 36 – Impairment of Assets
BAS 12 – Income Taxes	BAS 38 – Intangible Assets
BAS 16 – Property, Plant & Equipment	BAS 40 – Investment Property
BAS 18 – Revenue	BAS 41 – Agriculture
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	

The Financial Statements for the year ended December 31, 2017 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.

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria. Based on the nature of products and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current or non-current classification of assets and liabilities.

1.4. System of Accounting

The Company follows the mercantile system of accounting and recognises income and expenditure on an accrual basis except in case of significant uncertainties.

1.5. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's standalone financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosures of the contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

The preparation of the Bank's financial statements requires management judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The bank based on its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the bank. Such changes are reflected in the assumptions when they occur.

Going Concern

The bank's management has made an assessment of its liability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that cast significant doubt upon bank's ability to continue as a going concern. Therefore financial statements continue to be prepared on going concern basis.

1.6. 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.

1.7. Foreign currency transactions

- a) Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Bhutanese Ngultrum (Nu), which is Company's functional and presentation currency.
- b) On initial recognition, all foreign currency transactions are recorded at foreign exchange rate on the date of transaction.
- c) 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. The functional currency of the company is Bhutanese Ngultrum.

1.8. 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 costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Comprehensive Income Statement during the financial period in which they are incurred.

Land and buildings acquired/constructed, not intended to be used in the operations of the Company are categorised as investment property.

1.9. Depreciation and amortisation methods, estimated useful lives and residual value

(a) Leasehold land

Premium on leasehold land is amortised over the period of lease.

(b) On other tangible assets

- i. Depreciation is provided on a pro rata basis on the straight line method to allocate the cost, net of residual value over the estimated useful lives of the assets.
- ii. Where a significant component (in terms of cost) of an asset has an estimated economic useful life shorter than that of its corresponding asset, the component is depreciated over its shorter life.
- iii. Useful life of assets are determined by the Management by internal technical assessments by its Technical Department which is 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 7

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.

1.10. 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.

1.11. 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.

1.12. 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.

1.13. Changes in Accounting Policy (Accounting Policies, Changes in Accounting Estimates and Errors- BAS 8)

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect period(s), not presented, is adjusted against opening retained earnings of the earlier year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transactional provisions.

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should be disclosed to extent ascertainable. Where such an amount is not ascertainable, the fact should be indicated.

Requires retrospective application of changes in accounting policies by adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts for each period presented as if the new accounting policy had always been applied, unless transitional provisions of an accounting standard require otherwise.

Material prior period errors are corrected retrospectively by restating the comparative amounts for prior periods presented in which the error occurred or if the error occurred before the earliest period presented, by restating the opening statement of the financial position.

1.14. Inventories

Cost of inventories have been computed to include all costs of purchases (including materials), cost of conversion and other costs incurred, as the case may be, in bringing the inventories to their present location and condition.

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

1.15. 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 re valued 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.

1.16. 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.

Statement of Comprehensive Income 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.

1.17. 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.

1.18. 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 charges in value.

1.19. 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.

1.20. 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.

1.21. Government Grants

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to income are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate and presented within other income.

1.22. 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.

1.23. 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 basis of the tax laws enacted at the balance sheet date in the countries where the bank operates and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situation in which applicable tax regulation in subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 all deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

1.24. 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.

Recognition and measurement of defined contribution plans:

The Company recognizes contribution payable to a defined contribution plan as an expense in the Statement of Comprehensive Income when the employees render services to the Company during the reporting period. If the contributions payable for services received from employees before the reporting date exceed the contributions already paid, the deficit payable is recognized as a liability after deducting the contribution already paid. If the contribution already paid exceeds the contribution due for services received before the reporting date, the excess is recognized as an asset to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

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

Recognition and measurement of Defined Benefit plans:

The cost of providing defined benefits is determined using the Projected Unit Credit method with actuarial valuations being carried out at each reporting date. The defined benefit obligations recognized in the Statement of Financial Position represent the present value of the defined benefit obligations as reduced by the fair value of plan assets, if applicable. Any defined benefit asset (negative defined benefit obligations resulting from this calculation) is recognized representing the present value of available refunds and reductions in future contributions to the plan.

1.25. Provisions, Contingent Liabilities and Contingent Assets

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation such as product warranty costs. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

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 2.19 & 2.200):

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

1.26. 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

1.27. 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.

1.28. Earnings Per share

The Company presents the basic and diluted EPS data for its equity shares. Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Earnings considered in ascertaining the Company's earnings per share is the net profit for the period. The weighted average number of equity shares outstanding during the period and all periods presented is adjusted for events, such as bonus shares, other than the conversion of potential equity shares that have changed the number of equity shares outstanding, without a corresponding change in resources. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of share outstanding during the period is adjusted for the effects of all dilutive potential equity shares.

1.29. Dividend income

Dividend income is recognised when the right to receive payment is established. Dividends on ordinary shares are recognized as a liability and deducted from equity when it is approved by the Shareholders of the Bank. Interim Dividends are deducted from equity when they are declared. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

1.30. Comparative Information

Where necessary, certain comparative information has been reclassified in order to provide a more appropriate basis for comparison. 2017 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 2017**NOTE 2.1 - CASH AND BALANCES WITH ROYAL MONETARY AUTHORITY (RMA)**

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
CASH IN HAND		
Bhutanese Currency	733,221,581.69	689,529,606.74
Indian Currency	-	-
Foreign Currency	35,478,287.17	54,491,780.29
	768,699,868.86	744,021,387.03
CASH RESERVE WITH RMA	4,126,945,603.36	4,088,954,272.66
BALANCES WITH RMA	6,490,189,625.45	9,245,788,783.06
TOTAL	11,385,835,097.67	14,078,764,442.75

NOTE 2.2 - LOANS & ADVANCES TO OTHER BANKS

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
BALANCES WITH BANKS IN BHUTAN		
On Current Accounts	2,00,000.00	14,268,055.55
On Deposit Accounts	1,550,000,000.00	1,850,000,000.00
	1,550,200,000.00	1,864,268,055.55
BALANCES WITH BANKS IN INDIA AND ABROAD		
On Current Accounts	1,488,857,669.02	1,297,393,108.51
On Deposit Accounts	200,615,600.00	135,900,000.00
	1,689,473,269.02	1,433,293,108.51
TOTAL	3,239,673,269.02	3,297,561,164.06

NOTE 2.3 - LOANS & ADVANCES TO CUSTOMERS

Amount in Ngultrum

		As at 31.12.2017	As at 31.12.2016
	GROSS LOANS,CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN)	27,213,788,266.09	21,514,732,341.90
	Less: Specific Provision	644,566,544.64	640,351,805.09
	: Interest in Suspense	183,006,910.48	149,501,734.57
	NET LOANS, CASH CREDITS, OVERDRAFTS etc. (IN BHUTAN) (Net of Provisions & Interest in Suspense)	26,386,214,810.97	20,724,878,802.24
	BILLS DISCOUNTED AND PURCHASED		
	Payable in Bhutan	-	-
	Payable outside Bhutan	477,994.50	529,042.50
	Sub-Total	477,994.50	529,042.50
	TOTAL	26,386,692,805.47	20,725,407,844.74
	PARTICULARS OF ADVANCES		
i	Debts considered good in respect of which Bank is fully secured	22,189,493,439.04	16,799,983,121.50
ii	Debts considered good for which Bank holds no other security than the Debtor's personal security	16,258,210.35	872,967,982.88
iii	Debts considered good, secured by the personal liability of one or more parties in addition to the personal security of the Debtors	4,180,941,156.08	3,805,228,056.03
	TOTAL	26,386,692,805.47	21,478,179,160.41
v	Debts due by directors or officers of Bank or any of them either severally or jointly with any other person	634,027,415.31	498,990,889.12
vi	Debts due by companies, firms in which the directors of Bank are interested as directors, partners or members	979,428,260.02	214,526,511.46
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	4,000,000.00
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	587,000,000.00	-

NOTE 2.4 A - INVESTMENT SECURITIES (Value At Cost)

Amount in Ngultrum

	No. of Shares	Face alue	As at 31.12.2017	No. of Shares	As at 31.12.2016
BONDS & BILLS					
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			6,671,021,000.00		3,280,944,800.00
Commercial Papers			98,235,616.44		
TOTAL			8,990,938,616.44		5,502,626,800.00

NOTE 2.4 B - INVESTMENT SECURITIES (Value At Cost)

Amount in Ngultrum

	No. of Shares	Face alue	As at 31.12.2017	No. of Shares	As at 31.12.2016
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	1,800,000	18,000,000.00
			37,811,000.00		37,811,000.00

NOTE 2.4 C- INVESTMENT IN PORTFOLIO COMPANIES (Value At Cost)

Amount in Ngultrum

	No. of Shares	Face alue	As at 31.12.2017	No. of Shares	As at 31.12.2016
FULLY PAID UP SHARES IN					
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	17,500	1,750,000.00
			80,193,710.45		80,193,710.45

NOTE 2.5 - PREPAYMENTS & ACCRUED INCOME

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Accrued Interest	107,114,076.91	100,699,058.73
Prepaid Expenses	2,732,227.15	3,356,024.52
	109,846,304.06	104,055,083.25

NOTE 2.6 - DEFERRED TAX ASSETS

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Deferred Tax Asset	55,530,549.64	49,259,265.00
	55,530,549.64	49,259,265.00

NOTE 2.7 - OTHER ASSETS

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Stamps, Sundry Deposits and Amounts Recoverable	37,738,484.81	38,790,083.00
Stationery	17,802,928.52	13,805,858.89
Building Materials	291,985.72	291,985.72
Axis Bank Pre-paid Cards	390,567.39	1,652,375.99
Receivables relating to Visa/Mastercard/BFS, Advances To Suppliers & Others	114,966,748.58	239,081,588.86
DHI Seed Fund	10,000,000.00	10,000,000.00
TOTAL	181,190,715.02	303,621,892.46

NOTE 2.8 A-PROPERTY, PLANT AND EQUIPMENT

	Amount in Ngultrum						
	Freehold Land	Buildings & Civil Structures	Furniture & Fixtures	Office Equipment & Machinery	Vehicle	Computer & IT Equipment	Total
Total Cost							
Balance as at January 1, 2017	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
Additions	-	-	4,590,662.00	24,224,507.55	20,666,781.30	12,026,365.96	61,508,316.81
Deletions/Adjustments	-	-	-	-	(4,179,018.20)	-	(4,179,018.20)
Other Movement of assets (reclassification)	-	-	-	-	-	-	-
Closing Balance as at December 31, 2017	162,796,235.56	103,811,559.94	41,732,328.96	177,384,635.16	45,013,811.65	257,297,089.47	788,035,660.74
Accumulated Depreciation							
Balance as at January 1, 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)
Depreciation on deletions and adjustments	-	-	-	-	4,179,018.20	-	4,179,018.20
Other Movement of assets (reclassification)	-	-	-	-	-	-	-
Depreciation for the year	-	(4,056,719.34)	(3,963,621.56)	(17,385,210.33)	(1,777,789.12)	(27,157,647.31)	(54,340,987.66)
Balance as at December 31, 2017	-	(39,366,474.95)	(29,552,299.75)	(108,606,736.18)	(11,599,491.25)	(194,790,349.45)	(383,915,351.57)
Net Book Value as at December 31, 2017	162,796,235.56	64,445,084.99	12,180,029.21	68,777,898.98	33,414,320.40	62,506,740.02	404,120,309.17
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

NOTE 2.8 B - INTANGIBLE ASSETS

Amount in Ngultrum

Software	
Total Cost	
Balance as at January 1, 2017	154,403,213.86
Additions	30,940,375.36
Deletions/Adjustments	-
Other Movement of assets (reclassification)	-
Closing Balance as at December 31, 2017	185,343,589.22
Accumulated Amortization	-
Balance as at January 1, 2017	(37,241,223.50)
Amortization on deletions and adjustments	-
Other Movement of assets (reclassification)	-
Amortization for the year	(21,786,499.34)
Balance as at December 31, 2017	(59,027,722.84)
Net Book Value as at December 31, 2017	126,315,866.38
Net Book Value as at December 31, 2016	117,161,990.36

NOTE 2.8 C - CAPITAL WORK IN PROGRESS

Amount in Ngultrum

Thimphu Corporate Office & Others	
Balance as at January 1, 2017	79,952,768.26
Additions	54,178,607.17
Deletions/Adjustments	-
Balance as at December 31, 2017	134,131,375.43

NOTE 2.9 -DEPOSITS BY BANKS

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Current Deposits	58,726,219.18	137,009,673.03
Term Deposits	-	2,946,718.60
TOTAL DEPOSITS BY BANKS	58,726,219.18	139,956,391.63

NOTE 2.10 -CUSTOMER DEPOSITS

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
DEMAND DEPOSITS		
i) Current Deposits	18,663,015,013.94	15,608,867,272.31
li) Savings Bank Deposits	12,818,463,287.29	10,808,920,368.95
	31,481,478,301.23	26,417,787,641.26
TERM DEPOSITS	11,356,708,875.47	10,075,087,034.39
TOTAL CUSTOMER DEPOSITS	42,838,187,176.70	36,492,874,675.65
TOTAL DEPOSITS	42,896,913,395.88	36,632,831,067.28

NOTE 2.11 -SUBORDINATED LIABILITIES

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Subordinated Debt Issue to Government	-	500,000,000.00
(At 6% per annum, repayable in 2024)		
TOTAL	-	500,000,000.00

NOTE 2.12 - PROVISION FOR LIABILITIES & CHARGES

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Provision For Loss Data	13,514,114.03	26,735,506.19
TOTAL	13,514,114.03	26,735,506.19

NOTE 2.13 - RETIREMENT BENEFIT OBLIGATIONS

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Movements on Retirement Benefit Obligations		
As per previous year's accounts	123,836,170.00	118,618,470.00
Less: Payments made during the year	(16,297,238.25)	(27,106,591.00)
Less: Movement through Reserves (Other Comprehensive Income)	-	3,681,370.00
Add: Movement through Reserves (Other Comprehensive Income)	(1,964,740.02)	-
Add: Charge for the current year	27,967,028.25	28,642,921.00
TOTAL	133,541,219.98	123,836,170.00

NOTE 2.14 - ACCRUALS & DEFERRED INCOME

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Interest Accrued & Payable	1,248,360,118.69	1,019,694,048.69
Payables relating to Visa/Mastercard	61,173,718.66	62,523,629.04
Unearned Commission Income	57,018,262.74	61,776,573.71
TOTAL	1,366,552,100.09	1,143,994,251.44

NOTE 2.15 - CURRENT TAX LIABILITIES

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Current Year Income Tax Payable	293,159,033.01	422,916,370.00
Less: Advance Tax	(211,458,185.00)	(186,292,476.00)
Tax Deducted at Source (Asset)	(11,792,768.33)	(6,234,992.16)
TOTAL	69,908,079.68	230,388,901.84

NOTE 2.16 - OTHER LIABILITIES

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
General Provisions for Doubtful Debts	258,010,321.51	200,276,373.07
Drafts & Cash Warrants issued & outstanding	346,577,590.32	309,379,031.12
Inter Branch Adjustment (net)	(101,679.08)	(87,679.08)
Others (including provisions for operating expenses)	148,190,879.92	99,825,303.15
TOTAL	752,677,112.67	609,393,028.26
TOTAL PROVISIONS & OTHER LIABILITIES	2,336,192,626.45	2,134,347,857.73

NOTE 2.17 A- SHARE CAPITAL

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
AUTHORISED CAPITAL		
100,000,000 Shares of Nu.100 each	10,000,000,000.00	10,000,000,000.00
ISSUED AND PAID-UP CAPITAL		
Opening Balance	3,000,000,000.00	1,500,000,000.00
Add: Bonus Share Issued	-	1,500,000,000.00
CLOSING BALANCE (30,000,000 Shares) (Previous Year 15,000,000) of Nu 100 each*	3,000,000,000.00	3,000,000,000.00

* 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

Amount in Ngultrum

	As at 31.12.2017		As at 31.12.2016	
Name of equity shareholder	No. of Shares held	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%	24,000,000.00	80.00%
State Bank of India, India	6,000,000.00	20.00%	6,000,000.00	20.00%
Total	30,000,000.00	100.00%	30,000,000.00	100.00%

NOTE 2.18 - RESERVES & SURPLUS

Amount in Ngultrum

	As at 31.12.2017		As at 31.12.2016	
RESERVE FUND				
Opening Balance	979,362,937.39		1,908,383,187.85	
Add: Transfer from Comprehensive Income	353,757,868.91		570,482,149.54	
Add: Transfer from OCI				
Add: Reserve fund from BOBSL			497,600.00	
Less: Other Movements			(1,500,000,000.00)	
		1,333,120,806.30		979,362,937.39
EXCHANGE FLUCTUATION RESERVE				
Opening Balance	196,681,812.67		152,000,000.00	
Add: Transfer from Comprehensive Income	9,049,905.07		44,681,812.67	
		205,731,717.74		196,681,812.67
Retained Earnings				
Opening Balance	1,330,246,106.03		1,197,904,978.28	
Less: Dividends Paid	(300,000,000.00)		(163,800,000.00)	
Less: Transfer to Reserve Fund	(353,757,868.91)	-	(570,482,149.54)	
Less: Transfer to Reserve Fund-OCI				
Less: Transfer to Exchange Fluctuation Reserve	(9,049,905.07)		(44,681,812.67)	
Less: Other Movement(Restatement)	(14,632,997.50)		(23,887,973.23)	
Add: Transfer from BOBSL	-		1,020,739.15	
Add: Current Year Profit	707,515,737.83		934,071,484.28	
		1,360,321,072.38		1,330,145,266.27
TOTAL		2,899,173,596.42		2,506,190,016.33

NOTE 2.19 - CONTINGENT LIABILITIES

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Constituents' Liabilities for Acceptances,		
Endorsements and Other Obligations	1,467,228,138.45	1,323,824,741.14
Guarantees Issued & Outstanding	3,083,398,003.77	2,398,501,873.19
Liability for Litigation	2,065,628.70	-
TOTAL	4,552,691,770.92	3,722,326,614.33

NOTE 2.20 - BILLS FOR COLLECTION

Amount in Ngultrum

	As at 31.12.2017	As at 31.12.2016
Payable outside Bhutan	477,994.50	529,042.50
TOTAL	477,994.50	529,042.50

NOTE 3: Notes forming part of the Statement of Comprehensive Income as at 31st December 2017**NOTE 3.1- INTEREST EARNED**

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Interest on Customer Loans (Net of Interest Suspended)	2,270,847,931.05	2,285,942,179.37
Interest on Bills Receivables	5,573,416.11	24,056,437.60
Interest on Investments	287,414,315.87	311,326,417.38
Interest on Inter-Bank Loans	114,546,103.80	116,645,448.44
TOTAL	2,678,381,766.83	2,737,970,482.79

NOTE 3.2- INTEREST EXPENSES

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Interest paid on Customer Deposits	1,215,023,542.77	1,078,524,867.75
Interest paid on Inter-Bank Deposits	177,065.88	167,279.08
Interest paid on Subordinate Debt	13,397,260.27	30,000,000.00
TOTAL	1,228,597,868.92	1,108,692,146.83

NOTE 3.3- FEES & COMMISSION INCOME

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Commision	99,090,804.38	52,562,294.50
SB Maintenance Fee	32,997,406.88	31,603,583.74
Exchange	63,095,893.79	65,535,432.08
Debit Card Issuance & Usage Fees	6,880,854.77	1,902,619.56
Visa/MasterCard POS Acquiring Commission	19,486,898.36	16,536,337.91
Visa Debit Card ATM Charges	13,128,122.00	17,062,779.00
BFS ATM Interchange Fee Income	6,208,688.00	4,762,548.00
International ATM Access Fees	6,309,450.00	3,710,380.00
Income From Visa Credit Cards	1,324,533.20	1,516,800.70
E-COM Merchant MGT Fee	-	11,000.00
Prepaid Card Issuance Fee	575,770.00	172,170.00
Prepaid card Load/Reload Fee	707,090.00	15,700.00
M-BoB Service Charge/Commission	6,981,470.00	2,976,793.38
Electronic Wallet Transaction Commission	3,153,490.00	3,323,431.00
E-Acquiring Commission	14,706,260.61	12,408,088.99
Airtime Top Up Commission-BT	11,957,977.90	4,895,451.44
Airtime Top up Commission-T-Cell	8,098,104.41	1,389,901.32
Dishonored Internal Cheque Charges	84,850.00	-
Commission From Agency Banking	277,985.00	-
TOTAL	295,065,649.30	220,385,311.62

NOTE 3.4- FEES & COMMISSION INCOME

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Visa & MasterCard Fee	44,371,577.63	40,172,868.91
BFS Interchange Fee Expenses	11,746,020.00	10,118,328.00
BT Share on Bwallet Commission	2,307,303.00	2,329,277.70
Securities Trading Fee Expense	11,425.32	-
Agency Banking Comm. Payout	5,315,390.00	
Commission paid- ATOS & HBL	1,809,278.34	3,149,032.91
TOTAL	65,560,994.29	55,769,507.52

NOTE 3.5- NET TRADING & EXCHANGE INCOME

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Profit on conversion of Foreign Currency Balances	36,199,620.28	165,619,529.40
TOTAL	36,199,620.28	165,619,529.40

NOTE 3.6- OTHER OPERATING INCOME

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Dividend on Equity Investments	4,357,234.00	7,017,385.00
Rental Income	4,175,843.13	4,094,264.65
Other Income including recoveries for charges	25,577,092.86	26,222,998.22
Profit on sale of fixed assets	1,519,817.00	2,989,497.00
TOTAL	35,629,986.99	40,324,144.87

NOTE 3.7- STAFF COST

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Employee Salaries	44,324,884.32	142,768,405.33
Employee Allowances	94,284,969.34	91,801,957.62
Bank's Contribution to Employee Provident Fund	14,466,356.00	14,558,125.00
Encashment of Leave	10,619,020.00	11,871,251.00
Medical Expenditure	451,138.00	2,586,428.78

	For the year ended 31.12.2017	For the year ended 31.12.2016
Employee Bonus	21,296,821.81	25,855,023.00
Employee Gratuity	13,347,180.00	14,525,665.00
Leave Travel Concession	8,745,506.00	8,761,422.00
Staff Amenities	508,369.57	406,438.00
Uniform Expenses	2,162,903.00	94,000.00
Training Expenses	35,442,152.04	14,083,245.62
Separation Cost	2,036,089.00	2,245,998.00
Staff Relocation Expenses	1,164,737.68	1,367,097.00
Sports & Recreational Expenses	976,000.00	1,068,540.00
Prizes & Awards	35,000.00	279,999.96
BoB scholarship	16,704,869.57	9,793,431.48
TOTAL	366,565,996.33	342,067,027.79

NOTE 3.8- PREMISES COST

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Rent	22,214,517.45	20,623,404.50
Insurance- Building	170,324.58	201,325.24
Insurance- Office Equipment	359,923.09	367,958.87
Light & Fuel	4,234,652.92	3,992,824.49
Rates & Taxes	284,730.14	235,005.83
Water & Sewerage	159,698.35	161,444.26
Repairs & Maintenance - Building	2,485,025.12	795,819.57
Repairs & Maintenance - Vehicle	862,828.34	668,969.95
Repairs & Maintenance - Furniture & Fixtures	26,180.34	60,763.00
Repairs & Maintenance - Equipment & Machineries	855,140.18	458,719.00
AMC- Equipment and Machineries	16,194,545.10	14,866,764.60
ATM Expenses	4,777,697.80	2,713,580.00
Housekeeping	2,390,221.43	2,916,150.37
Fuel & Lubricants	1,388,548.35	1,390,505.32
Security Expenses	20,342,195.00	18,148,448.20
TOTAL	76,746,228.19	67,601,683.20

NOTE 3.9- GENERAL ADMINISTRATIVE EXPENSES

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Travelling Expenses	18,684,894.37	7,293,426.03
Directors' Sitting Fees	714,000.00	976,000.00
Postage & Stamps	25,641,743.22	30,277,331.49
Audit Fees	262,500.00	335,250.00
Audit Expenses	2,193,358.45	1,313,292.90
Repairs to Banks Properties	11,475,079.13	6,789,298.23
Stationery, Printing, Advertisement etc	28,585,032.06	18,942,940.54
Charity and Donations	910,000.00	245,600.00
Fixed Assets Written Off	-	1.00
Other Expenditure	73,286,778.32	60,128,261.35
TOTAL	161,753,385.55	126,301,401.54

NOTE 3.10- DEPRECIATION

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Depreciation on Vehicle	1,777,786.10	1,719,286.20
Depreciation on Furniture & Fixtures	3,963,621.56	4,268,009.97
Depreciation on Office Equipments	17,385,210.33	18,743,696.05
Depreciation on Computer & It's Peripherals	27,157,647.31	27,882,863.72
Depreciation on Buildings	4,056,719.34	3,124,858.01
TOTAL	54,340,984.64	55,738,713.95

NOTE 3.11- AMORTIZATION

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Amortization on Software	21,786,499.34	15,120,926.18
TOTAL	21,786,499.34	15,120,926.18

NOTE 3.12- TAXATION

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Current Income Tax		
Current Year's Tax	330,758,416.00	457,770,617.64
Deferred Tax Payable-Current	(18,799,692.00)	(55,530,549.64)
TOTAL	311,958,724.00	402,240,068.00

NOTE 3.13- TAXATION

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Tax Expense For Earlier Years	-	1,911,716.38
TOTAL	-	1,911,716.38

NOTE 3.14- TAXATION

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Tax on Other Comprehensive Income		
Tax on Exchange Fluctuation Gain/(Loss)	-	-
Tax on Actuarial Gains/(Loss) on Retirement Benefits	589,422.00	(1,104,411.00)
TOTAL	589,422.00	(1,104,411.00)
TOTAL TAX EXPENSE FOR THE FINANCIAL YEAR	312,548,146.00	401,135,657.00

NOTE 3.15- EARNING PER SHARE

Amount in Ngultrum

	For the year ended 31.12.2017	For the year ended 31.12.2016
Profit After Income Tax	707,515,737.83	936,648,443.28
Other comprehensive income for the year	1,375,318.02	(2,576,959.00)
Profit used to determine basic earnings per share	708,891,055.85	934,071,484.28
Weighted average number of Ordinary Shares in issue	30,000,000.00	30,000,000.00
Basic and Diluted Earnings per Ordinary Share	23.63	31.14

Note 4 – Other notes to accounts that forms part of the financial statements for the year ended December 31, 2017.

4.1. 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 2017 is as produced below:

i. Impact on Statement of Comprehensive Income

Amount in Ngultrum

Particulars	2017	2016
Encashment of Leave	10,619,020.00	11,871,251.00
Employee Gratuity	14,956,000.00	14,525,665.00
Separation & Travel Allowance	2,392,000.00	2,245,998.00
Total (Recognized as cost in Statement of Comprehensive Income)	27,967,020.00	28,642,914.00

ii. Impact on Other Comprehensive Income (OCI)

Amount in Ngultrum

Particulars	2017	2016
Actuarial (gain)/ loss due to liability experience	1,467,280.00	8,467,650.00
Actuarial (gain)/ loss due to liability assumption changes	-	-
Actuarial (gain)/ loss arising during period	1,467,280.00	8,467,650.00
Return on plan assets (greater)/less than discount rate		-
Actuarial (gain)/ losses recognized in OCI	(1,964,740.00)	3,681,370.00
Adjustment for limit on net asset		-
Cumulative Actuarial (gain) or Loss Recognized via at Prior Period End		-
Cumulative Actuarial (gain) or Loss Recognized via at Current Period End	(1,964,740.00)	3,681,370.00

iii. Impact on Statement of Financial Position

Amount in Ngultrum

Particulars	2017	2016
Defined benefit obligation (DBO)	(133,541,220.00)	(123,836,170.00)
Fair value of plan assets (FVA)	-	-
Fund status [surplus/ (deficit)]	(133,541,220.00)	(123,836,170.00)
Effect of Asset Ceiling		-
Net defined benefit asset (DBA)	(133,541,220.00)	(123,836,170.00)

iv. Movement in the Present Value of Defined Benefit Obligation

Amount in Ngultrum

Particulars	2017	2016
Opening Defined Benefit Obligation	(123,836,170.00)	(118,618,470.00)
Current service cost	(14,379,000.00)	(14,103,080.00)
Interest cost	(10,156,000.00)	(9,753,590.00)
Actuarial (gain)/loss on experience adjust	(1,467,280.00)	(8,467,650.00)
Actuarial (gain)/loss on financial assumptions	-	-
Benefits paid directly by the company	16,297,230.00	27,106,620.00
Benefits paid from the Plan assets	-	-
Closing Fair Value of Plan Assets	(133,541,220.00)	(123,836,170.00)

v. Movements in the Fair Value of Plan Assets

Amount in Ngultrum

Particulars	2017	2016
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 Ngultrum

Particulars	
December 31, 2018 (Retirement Benefit Obligations - Current)	7,878,660.00
December 31, 2019	9,007,360.00
December 31, 2020	10,644,770.00
December 31, 2021	13,129,990.00
December 31, 2022	14,894,610.00
December 31, 2023 to December 2027	106,657,720.00

Weighted Average Duration of Defined Benefit Obligation is 12 years

Accrued Benefit Obligation at December 31, 2017 is Nu. 76,092,070.00

vii. Sensitivity Analysis

Particulars	2017	2016
i) Discount Rate		
Discount Rate as at 31 December 2015	8.50%	8.50%
Effect on DBO due to 1% increase in Discount Rate	(11,858,510.00)	(11,137,170.00)
Effect on DBO due to 1% decrease in Discount Rate	13,892,790.00	13,078,100.00
ii) Salary Escalation Rate		
Salary Escalation Rate as at 31 December 2014	6.00%	6.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	13,976,190.00	10,924,860.00
Effect on DBO due to 1% decrease in Salary Escalation Rate	(12,150,410.00)	(10,529,140.00)

4.2. 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.

Of the 30,000,000 equity shares (Nu. 100 each) issued by the Bank as at December 31, 2017, 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. Druk Air Corporation Ltd.
- vi. Dungsam Cement Corporation Ltd.
- vii. Thimphu TechPark Ltd.
- viii. Construction Development Corporation Ltd.
- ix. Wood Craft Center Ltd.
- x. State Mining Corporation Ltd.
- xi. State Trading Corporation Ltd.
- xii. Dungsam Polymers Ltd.
- xiii. Bhutan Board Products Ltd.
- xiv. Bhutan Board Export Ltd.
- xv. Bhutan Hydropower Services Ltd.
- xvi. Dagachu Hydro Corporation Ltd.
- xvii. Tangsibji Hydro Energy Ltd.
- xviii. Druk Holding and Investment Limited
- xix. Koufuku International Pvt. Ltd.

All transactions between the Bank and these nineteen companies fall under "Related Party Transactions". However, all transactions in 2017 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 5-year bond of M/s Bhutan Telecom Limited at 7.5% interest per annum.
- Lending of Nu. 98, 235,616.44 as Commercial paper to M/s State Trading Corporation of Bhutan Limited at 3.50% interest per annum.
- Payment of Nu. 14,116,598.68 as brand management fees to M/s Druk Holding and Investments Limited for the year 2017.

Key management personnel of the Bank include the members of the Board of Directors and the Chief Executive Officer. Their compensation 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:

SI	Particulars	For the year ended 31.12.2017	For the year ended 31.12.2016
(a)	Remuneration, Allowances, etc paid to Chief Executive Officer:		
(i)	Salary, Allowances, bonus and Encashment of leave	2,400,892.87	2,359,862.00
(ii)	Contribution to Provident Fund	109,524.00	106,653.00
(iii)	Sitting fee	132,000.00	156,000.00
	Total	2,642,416.87	2,622,515.00
(b)	Sitting Fees paid to other Directors	582,000.00	820,000.00

4.3. Status of Reconciliation

- a. Branch Clearing Adjustment Account has been fully reconciled up to December 31, 2017 and shows nil balance.
- b. The accounts with State Bank of India, India have been reconciled up to December 31, 2017. 60.48% of the debit balances of Nu. 95,349,511.07 and 84.74% of the credit balances of Nu. 411,616,984.76 as at the end of 2016, (Nu. 57,670,646.36 debit and Nu. 348,802,339.31 credit) has been resolved during the year, leaving unmatched entries of Nu. 37,678,864.71 debit and Nu. 62,814,027.45 credit only. The balances as at December 31, 2017 are as follows:

Debit entries	Nu. 76,844,657.75
Credit entries	Nu. 258,711,985.57

- c. The accounts with other banks have been reconciled up to December 31, 2016. 100% of the debit balances of Nu.96,005,605.88 and the credit balances of Nu.229,527,580.96 credit as at the end of 2016, (Nu. 96,005,605.88 debit and Nu. 212,041,119.91 credit) has been resolved during the year, leaving unmatched entries of Nu. Nil debit and Nu. 17,486,461.05 credit only. The balances as at December 31, 2017 are as follows:

Debit entries	Nu. 76,503,752.70
Credit entries	Nu. 246,014,460.04

4.4. Assets under Lien

Balance in the deposit account with other banks includes USD 2.000million & USD 1.120 million (Nu. 200,615,600.00) (Previous Year Nu. 135,900,000.00) which is under lien with Standard Chartered Bank, Singapore and Commerzbank, Germany respectively with respect to Letters of Credit issued by the Bank of Bhutan and confirmed by Standard Chartered Bank and Commerzbank.

4.5. 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 (DRC), Ministry of Finance, Thimphu. During the year 2017, the disputed tax amount has

been reduced to Nu. 11,455,413.00 due to waiver of tax on brand management fees. On this said amount, the DHI (holding company) had filed an appeal with DRC, Ministry of Finance, Thimphu. The bank is of the opinion that the tax amount be relieved.

4.6. Errors & Omissions

During the financial year 2016, the statement of comprehensive income was overstated by Nu. 20,922,282.14 on account of Income from Bills Receivable. The error occurred by taking the entire balance receivable amount from the client as Income from Bills Receivable which led to overstatement of income by the same amount.

As required by the BAS 8, the overstated amount is now been re-stated with retrospective effect and the impact of the same has been taken in to the financial statements accordingly.

4.7. Consolidation of Accounts

The consolidation of the accounts of associates of the bank viz. Financial Institutions Training Institute (FITI) and Royal Securities Exchange of Bhutan Limited (RSEBL) has not been done by Bank as the holding company M/s DHI has agreed to consolidate the same which has been confirm in writing.

The investment in Associate is accounted for at cost in the financial statement of the Bank.

4.8. Capital Commitments

The capital commitments as at December 31, 2017 stood at Nu. 488,204,873.54 (Previous year Nu. 168,139,414.34). These were on account of contracts for the construction of the Bank's corporate office in Thimphu and branch office at Trashiyangtse.

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

Constituents' Liabilities for Acceptances, Endorsements and Other Obligations

Particulars	2017	2016
Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	1,467,228,138.45	1,323,824,741.14
Guarantees Issued & Outstanding	3,083,398,003.77	2,398,501,873.19
Bills for Collection- Payable in & outside Bhutan	477,994.50	529,042.50
Contingent Liability for Litigation	2,065,628.70	-
Total	4,553,169,765.42	3,722,855,656.83

4.10. 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 31-12-2017	As at 31-12-2016
Current Assets		
Cash & Balance with RMA	11,385,835,097.67	14,078,764,442.75
Loans & Advances to Banks	3,239,673,269.02	3,297,561,164.06
Loans & Advances to Customers	3,565,634,505.33	3,449,795,238.12
Investment Securities	6,769,256,616.44	3,280,944,800.00
Prepayments & Accrued Income	109,846,304.06	104,055,083.25
Deferred Tax Assets	55,530,549.64	49,259,265.00
Other Assets	181,190,715.02	303,621,892.46
Total Current Assets	25,306,967,057.18	24,564,001,885.63
Non Current Assets		
Loans & Advances to Customers	22,821,058,300.14	17,275,612,606.62
Investment Securities	2,221,682,000.00	2,221,682,000.00
Investment in Associates	37,811,000.00	37,811,000.00
Investment in Portfolio Companies	80,193,710.45	80,193,710.45
Property, Plant & Equipment	404,120,309.17	396,952,980.02
Intangible Assets	126,315,866.38	117,161,990.36
Capital Work-in-Progress	134,131,375.43	79,952,768.26
Total Non-Current Assets	25,825,312,561.57	20,209,367,055.71
TOTAL ASSETS	51,132,279,618.75	44,773,368,941.34

b. Liabilities

Particulars	As at 31-12-2017	As at 31-12-2016
Current Liabilities		
Deposits by Banks	58,726,219.18	139,956,391.63
Customer Deposits	35,034,691,072.95	31,461,427,505.70
Provision for Liabilities & Charges	13,514,114.03	26,735,506.19
Accruals & Deferred Income	1,366,552,100.09	1,143,994,251.44
Current Tax Liabilities	69,908,079.68	230,388,901.84
Other liabilities	752,677,112.67	609,393,028.26
Total Current Liabilities	37,296,068,698.60	33,611,895,585.06

Particulars	As at 31-12-2017	As at 31-12-2016
Non-Current Liabilities		
Customer Deposits	7,803,496,103.75	5,031,447,169.95
Subordinated Liabilities & Other Borrowed Funds	-	500,000,000.00
Retirement Benefit Obligations	133,541,219.98	123,836,170.00
Total Non-Current Liabilities	7,937,037,323.73	5,655,283,339.95
TOTAL LIABILITIES	45,232,106,022.33	39,267,178,925.01

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

Particulars	As at 31-12-2017	As at 31-12-2016
Sundry Creditors	6,385,838.31	65,590,639.95
Provision for Operating Expenses	24,100,485.67	-
ATM cash Excess	1,449,372.00	1,437,472.00
Unclaimed Balance Account	4,474,193.54	4,069,445.83
Unclaimed credit Received from Axis Bank	5,112,922.00	5,112,922.00
Unclaimed Matured FDR	5,576,039.89	5,710,501.68
Security Deposit Account	1,608,439.04	6,330,522.92
Security Deposit For Locker	631,200.00	570,000.00
Consolidated NEFT Clearing - Settlement	-	(72,000.00)
Central Registry Charges	29,400.00	39,100.00
TDS on Customer Deposits	15,781.70	8,995.45
Tax Deducted at Source- Salary	929,462.30	931,669.30
Escrow Account	278,380.46	182,830.46
MC E-Acquiring Merchant Payable Account	1,234,500.97	4,043,570.34
Visa E-Acquiring Merchant Payable Account	-	1,339,524.36
Prepaid Card Load/Reload Account	10,166,956.00	4,244,888.86
BOBL BFS IMPS Payable Account	18,841,572.45	285,220.00
Agency Banking Charges	10,315.00	-
SB-Fuel Card Dummy Account	474,699.18	-
BT M-BOB Revenue Collection Ac	400.00	-
TOTAL	81,319,958.51	99,825,303.15

Other Income including recoveries for charges represents

Particulars	As at 31.12.2017	As at 31.12.2016
CIB Recoveries	5,999,800.00	5,928,500.00
Income From Telephone	1,065.00	362.00
Income From Postage	2,609,973.00	864,797.00
Income From Swift Charges	1,740,095.71	1,715,447.42
Employees PF Forfeited	300,425.00	594,981.00
Audit Recovery	-	10,500.00

Particulars	As at 31.12.2017	As at 31.12.2016
Visa ATM Reimbursement Cr AC	1,149,113.22	1,491,798.61
Master card ATM Reimbursement	740,130.64	850,556.93
VISA POS Reimbursement CR AC	-	-
Master card POS Reimbursement CR AC	172,525.88	133,346.05
Visa Issuer Reimbursement account	3,856,497.99	2,324,902.65
JCB ATM Reimbursement Cr Ac	2,026.58	-
Mark-up Fee on Credit Card Usage	1,635,680.80	982,239.54
Miscellaneous Income	4,586,015.19	9,404,114.95
Loan Processing fees	289,700.00	96,000.00
Legal & Revenue Stamp Recovery	25,770.00	32,795.00
Foreign Bank Charges Recovered	1,875.48	104,997.73
Prior Period Adjustment Income	-	-
Miscellaneous Charges Recovered	2,466,398.37	1,687,659.34
Total	25,577,092.86	26,222,998.22

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	2017	2016
Payment to and provision for employees represent:		
Salary, Allowance, Bonus, Gratuity, leave encashment	281,471,982.00	252,697,900.21
Contribution to Provident Fund	14,446,356.00	14,558,125.00
Total	295,918,338.60	267,256,025.21
Remuneration, Allowances, etc. paid to Chief Executive Officer:		
Salary, Allowances, bonus and Encashment of leave	2,400,892.87	2,359,862.00
Contribution to Provident Fund	109,524.00	106,653.00
Sitting fee	1,32,000.00	156,000.00
Total	2,642,416.87	2,622,515.00
Sitting Fees paid to other Directors (Including invitees)	582,000.00	820,000.00
Rent, Taxes, Insurance, Lighting etc represent:		
Rent	22,214,517.45	20,623,404.50
Rates & Taxes	284,730.14	235,005.83
Insurance	3,861,716.13	3,736,041.13
Light & Fuel	4,243,652.92	3,992,824.49
Total	30,604,616.64	28,605,275.95
Repairs to the Bank's Property represent:		
Repair to Buildings	2,485,025.12	795,819.57
Other Repairs	29,413,773.09	22,844,514.78
Total	31,898,798.21	23,640,334.35

In the opinion of the Management, all items of assets and liabilities as appearing in the Statement of Financial Position as at December 31, 2017 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, 2017 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, 2017, the following amounts are “abandoned property” included in the statement of financial position of the Bank.

Category	2017	2016
Unclaimed Cash Warrants	4,897,464.41	1,699,381.04
Unclaimed Drafts	11,485.00	7,257,068.58
Unclaimed Term Deposits	1,814,363.38	102,031.00
Other Unclaimed Balances	567,714.84	457,087.37
Total	7,291,027.63	9,515,567.99

Note 6.0 - MACRO PRUDENTIAL DISCLOSURES

a. Quantitative Disclosures:

Item 1: Tier 1 Capital and Its Sub-components			
S.No.		31.12.2017	31.12.2016
1.	Total Tier 1 Capital	5,336,007,914.84	5,309,508,203.66
a.	Paid-Up Capital	3,000,000,000.00	3,000,000,000.00
b.	General Reserves	1,333,120,806.30	979,362,937.39
c.	Share Premium Account	-	-
d.	Retained Earnings	1,015,613,108.54	1,330,145,266.27
Less:-			
E.	Losses for the Current Year	-	-
f.	Buyback of FI's own shares	-	-
g.	Holdings of Tier 1 instruments issued by FIs	(12,726,000.00)	

Item 2: Tier 2 Capital and Its Sub-components			
S.No.		31.12.2017	31.12.2016
1.	Tier II Capital	808,450,003.09	896,958,185.74
a.	Capital Reserve	-	-
b.	Fixed Asset Revaluation Reserve	-	-
c.	Exchange Fluctuation Reserve	205,731,717.74	196,681,812.67
d.	Investment Fluctuation Reserve	-	-
e.	Research & Development Reserve	-	-
f.	General Provision	258,010,321.51	200,276,373.07
g.	Capital Grants	-	-
h.	Subordinated Debt	-	500,000,000.00
i.	Profit after Appropriation	344,707,963.84	-

Item 3: Risk Weighted Exposure Table

Sl.No.	Assets	Risk Weight %	31.12.2017		31.12.2016	
			Balance Sheet Amount	Risk Component	Balance Sheet Amount	Risk Component
1.	Zero-Risk Weighted Assets	0%	18,634,300,893.60	-	18,057,002,681.18	-
2.	20% Risk Weighted Assets	20%	5,163,575,851.77	1,032,715,170.35	4,920,259,711.48	984,051,942.30
3.	50% Risk Weighted Assets	50%	293,020,757.56	146,510,378.78	598,983,452.58	299,491,726.29
4.	100% Risk Weighted Assets	100%	31,511,159,817.18	31,511,159,817.18	24,725,821,670.95	24,725,821,670.95
5.	150% Risk Weighted Assets	150%	33,213,237.25	49,819,855.88	236,056,224.81	354,084,337.22
6.	200% Risk Weighted Assets	200%	-	-	-	-
7.	250% Risk Weighted Assets	250%	-	-	-	-
8.	300% Risk Weighted Assets	300%	-	-	-	-
	Grand Totals		55,635,270,557.36	32,740,205,222.19	48,538,123,741.00	26,363,449,676.76

Item 4: Capital Adequacy Ratios

Sl.No.		31.12.2017	31.12.2016
1.	Tier 1 Capital		5,336,007,914.84
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.	Sector 3		
2.	Tier 2 Capital	808,450,003.09	896,958,185.74
3.	Total qualifying Capital	6,144,457,917.93	6,206,466,389.40
4.	Core CAR	16.30%	20.14%
3.	BIA	2,580,612,757.40	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.	Sector 3		
5.	CAR	17.40%	21.61%
6.	Leverage Ratio	9.59%	10.94%

Item 5: Loans and NPL by Sectoral Classification

Sl.No.	Sector	31.12.2017		31.12.2016	
		Total Loans	NPL	Total Loans	NPL
1	Agriculture	58,844,642.65	-	36,512,615.30	-
2	Manufacturing/Industry	3,212,233,731.49	12,055,264.44	3,134,943,641.46	21,938,450.18
3	Service & Tourism	6,564,002,688.07	163,279,029.10	4,061,622,343.70	220,292,337.69
4	Trade & Commerce	1,690,977,704.64	51,400,085.88	1,414,517,007.74	51,702,189.97
5	Housing	6,723,056,769.41	367,733,388.53	5,456,667,072.61	323,305,405.07
6	Transport	1,205,149,275.38	65,322,731.32	790,439,485.53	90,674,339.97
7	Loans to Purchase Securities	250,253,021.06	3,029,898.74	173,318,012.71	-
8	Personal Loans	1,266,117,450.32	136,719,981.23	1,443,012,199.35	184,849,404.87
9	Education Loan	259,554,949.96	3,654,186.75	67,994,508.02	6,633,162.63
10	Loan against term deposits	63,248,137.57	226,871.10	102,444,107.38	3,545,116.04
11	Loans to Fls	380,457,125.80	-	596,875,658.86	-
12	Infrastructure Loans	-	-	-	-
13	Staff Loans (incentives)	542,002,017.50	58,273.77	424,291,766.45	1,037,074.22
14	Loans to Govt. Owned Companies	1,669,149,520.58	-	697,394,844.19	-
15	Consumer Loan	3,329,219,226.16	50,874,228.89	3,115,228,121.10	53,188,031.27
	Total	27,214,266,260.59	854,353,939.75	21,515,261,384.40	957,165,511.91

Item 6: Loans (Overdrafts and term loans) by type of counter- party

Sl. No.	Counter Party	31.12.2017	31.12.2016
1	Overdrafts	4,449,242,309.80	4,300,868,436.41
a	Government	-	-
b	Government Corporations	70,835,969.72	101,517,547.64
c	Public Companies	180,065,902.54	378,021,396.68
d	Private Companies	3,255,568,361.98	2,656,764,456.59
e	Individuals	562,314,949.76	567,689,376.64
f	Commercial Banks	-	-
g	Non-Bank Financial Institutions	380,457,125.80	596,875,658.86
2	Term Loans	22,753,999,171.73	17,207,976,679.43
a	Government	-	-
b	Government Corporations	1,598,313,550.86	595,877,296.55
c	Public Companies	140,471,573.40	216,633,659.81
d	Private Companies	6,733,485,923.32	3,998,219,520.65
e	Individuals	14,281,728,124.15	12,397,246,202.42
f	Commercial Banks	-	-
g	Non-Bank Financial Institutions	-	-
	Total	27,203,241,481.53	21,508,845,115.84
	Bills	477,994.50	529,042.50
	Credit Cards	10,546,784.56	5,887,226.06
	Total Loan Outstanding	27,214,266,260.59	21,515,261,384.40

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	6,561,889,600.00
Investment securities	-	-	-	-	-	-	2,339,686,710.45	2,339,686,710.45
Loans & advances to banks	1,311,661,164.06	-	1,685,900,000.00	300,000,000.00	-	-	-	3,297,561,164.06
Loans & advances to customers	-	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
TOTAL ASSETS	2,055,682,551.09	14,882,520,320.62	5,295,234,188.64	870,204,517.60	917,536,638.41	543,352,711.77	20,208,838,013.20	44,773,368,941.34
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	-	-	-	-	-	-	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
TOTAL LIABILITIES	26,559,448,043.46	217,174,577.30	2,576,705,429.00	1,077,746,772.04	1,013,960,618.55	2,087,752,201.85	11,240,581,299.14	44,773,368,941.34
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	-
Cumulative Net Mismatch	(24,503,765,492.37)	14,665,345,743.32	17,383,874,502.96	171,763,322,48.52	17,079,908,268.38	15,535,508,778.30	24,503,765,492.37	24,503,765,492.37

7: Assets (net of provisions) and Liabilities by Residual Maturity

As of period ending 31.12.17	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	768,699,868.86	-	-	-	-	-	-	768,699,868.86
Govt. Securities	-	-	6,671,021,000.00	-	-	-	-	6,671,021,000.00
Investment securities	-	-	98,235,616.44	-	-	-	2,339,686,710.45	2,437,922,326.89
Loans & advances to banks	-	-	300,000,000.00	-	700,615,600.00	750,000,000.00	-	1,750,615,600.00
Loans & advances to customers	-	127,925,717.07	922,437,226.51	903,278,522.86	983,317,285.48	628,675,753.42	22,820,580,305.64	26,386,214,810.97
Other assets	-	12,106,670,892.33	569,818,522.05	-	-	-	664,567,550.99	13,341,056,965.37
TOTAL ASSETS	768,699,868.86	12,234,596,609.40	8,561,512,365.00	903,278,522.86	1,683,932,885.48	1,378,675,753.42	25,824,834,567.08	51,355,530,572.09
Amounts owed to other banks	58,726,219.18	-	-	-	-	-	-	58,726,219.18
Demand deposits	18,663,015,013.94	-	-	-	-	-	-	18,663,015,013.94
Savings deposits	12,818,463,287.29	-	-	-	-	-	-	12,818,463,287.29
Time deposits	12,462.13	-	321,933,211.54	900,886,482.71	1,442,972,954.49	887,407,660.85	7,803,496,103.75	11,356,708,875.47
Bonds & other negotiable instruments	-	-	-	-	-	-	-	-
Other liabilities	-	-	2,301,433,258.46	-	-	-	6,157,183,917.75	8,458,617,176.21
TOTAL LIABILITIES	31,540,216,982.54	-	2,623,366,470.00	900,886,482.71	1,442,972,954.49	887,407,660.85	13,960,680,021.50	51,355,530,572.09
Assets/Liabilities	0.02	-	3.26	1.00	1.17	1.55	1.85	1.00
Net Mismatch in each Time Interval	(30,771,517,113.68)	12,234,596,609.40	5,938,145,895.00	2,392,040.15	240,959,930.99	491,268,092.57	11,864,154,545.58	-
Cumulative Net Mismatch	(30,771,517,113.68)	12,234,596,609.40	18,172,742,504.39	18,175,134,544.55	18,416,094,475.53	18,907,362,568.10	30,771,517,113.68	30,771,517,113.68

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
Govt. 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
TOTAL ASSETS	2,055,682,551.09	13,861,945,342.95	4,693,923,445.14	404,110,747.03	5,388,134.93	541,754,365.63	23,210,564,354.56	44,773,368,941.34
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
TOTAL LIABILITIES	26,554,797,314.29	5,987,729.17	1,945,482,463.47	36,475,965.85	51,807,997.17	3,029,305,552.51	13,149,511,918.88	44,773,368,941.34
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	-
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 8: Assets (net of provisions) and Liabilities by Original Maturity

As of period ending 31.12.17	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	768,699,868.86	-	-	-	-	-	-	768,699,868.86
Govt. Securities	-	-	-	6,671,021,000.00	-	-	-	6,671,021,000.00
Investment securities	-	-	-	-	98,235,616.44	-	2,339,686,710.45	2,437,922,326.89
Loans & advances to banks	-	-	-	-	-	1,678,790,000.00	71,825,600.00	1,750,615,600.00
Loans & advances to customers	-	-	10,996,229.02	213,940,205.87	100,737,572.67	155,073,346.21	25,905,467,457.21	26,386,214,810.97
Other assets	-	12,106,670,892.33	569,818,522.05	-	-	-	664,567,550.99	13,341,056,965.37
TOTAL ASSETS	768,699,868.86	12,106,670,892.33	580,814,751.07	6,884,961,205.87	198,973,189.11	1,833,863,346.21	28,981,547,318.65	51,355,530,572.09
Amounts owed to other banks	58,726,219.18	-	-	-	-	-	-	58,726,219.18
Demand deposits	18,663,015,013.94	-	-	-	-	-	-	18,663,015,013.94
Savings deposits	12,818,463,287.29	-	-	-	-	-	-	12,818,463,287.29
Time deposits	-	25,587,000.00	46,205,102.00	76,300,732.88	75,737,463.01	4,048,899,946.84	70,83,978,630.74	11,356,708,875.47
Bonds & other negotiable instruments	-	-	-	-	-	-	-	-
Other liabilities	-	-	2,301,433,258.46	-	-	-	6,157,183,917.75	8,458,617,176.21
TOTAL LIABILITIES	31,540,204,520.41	25,587,000.00	2,347,538,360.46	76,300,732.88	75,737,463.01	4,048,899,946.84	13,241,162,548.49	51,355,530,572.09
Assets/Liabilities	0.02	473.16	0.25	90.23	2.63	0.45	2.19	1.00
Net Mismatch in each Time Interval	(30,771,504,651.55)	12,081,083,892.33	(1,766,823,609.39)	6,808,660,472.99	123,235,726.10	(2,215,036,600.63)	15,740,384,770.16	-
Cumulative Net Mismatch	(30,771,504,651.55)	12,081,083,892.33	10,314,260,282.94	17,122,920,755.92	172,461,564,482.02	15,031,119,881.39	30,771,504,651.55	30,771,504,651.55

Item 9: Assets and Liabilities by time-to-re-pricing

As of period ending 31.12.2016	Time to re-pricing				Non-interest bearing	Total
	Assets	0-3 months	3-6 months	6-12 months	More than 12 months	
Cash and Balances with Banks		1,685,900,000.00	300,000,000.00	-	-	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	-	-	-	1,051,533,021.84
Total financial assets		6,386,075,212.83	870,204,517.60	1,460,889,350.18	19,496,765,564.12	44,773,368,941.34
Liabilities		-	-	-	-	-
Deposits		864,459,250.81	1,077,746,772.04	3,101,712,820.40	5,034,114,909.74	36,632,831,067.28
Borrowings		-	-	-	500,000,000.00	500,000,000.00
Other Liabilities		-	-	-	-	7,640,537,874.06
Total financial liabilities		864,459,250.81	1,077,746,772.04	3,101,712,820.40	5,534,114,909.74	44,773,368,941.34
Total interest Re-pricing gap		5,521,615,962.02	(207,542,254.44)	(1,640,823,470.22)	13,962,650,654.38	-

Item 9: Assets and Liabilities by time-to-re-pricing

As of period ending 31.12.17	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	768,699,868.86	-	-	-	12,106,192,897.83	12,874,892,766.69
Treasury Bills	6,671,021,000.00	-	-	-	-	6,671,021,000.00
Loans and Advances	1,350,362,943.58	903,278,522.86	3,062,608,638.89	22,820,580,305.64	-	28,136,830,410.97
Investment Securities	-	-	-	2,339,686,710.45	-	2,339,686,710.45
Other Assets	477,994.50	-	-	-	1,234,386,073.04	1,234,864,067.54
Total financial assets	8,790,561,806.94	903,278,522.86	3,062,608,638.89	25,160,267,016.09	13,340,578,970.87	51,257,294,955.65
Liabilities						
Deposits	321,945,673.67	900,886,482.71	2,330,380,615.34	7,803,496,103.75	31,540,204,520.41	42,896,913,395.88
Borrowings	-	-	-	-	-	-
Other Liabilities	-	-	-	-	8,458,617,176.21	8,458,617,176.21
Total financial liabilities	321,945,673.67	900,886,482.71	2,330,380,615.34	7,803,496,103.75	39,998,821,696.62	51,355,530,572.09
Total interest Re-pricing gap	8,468,616,133.27	2,392,040.15	732,228,023.55	17,356,770,912.34	(26,658,242,725.75)	(98,235,616.44)

Item 10: Nonperforming Loans and Provisions

Sl. No.	Particulars	31.12.17	31.12.2016
1	Amount of NPL's (Gross)	854,353,939.74	957,165,511.91
a	Substandard	101,101,009.44	273,436,959.42
b	Doubtful	64,985,869.50	105,681,116.05
c	Loss	688,267,060.80	578,047,436.44
2	Specific Provisions	568,375,206.63	563,227,983.15
a	Substandard	25,474,865.35	63,858,549.94
b	Doubtful	31,393,611.98	53,633,542.83
c	Loss	511,506,729.30	445,735,890.38
3	Interest in Suspense	182,845,947.57	149,501,734.57
a	Substandard	2,422,128.69	10,179,052.11
b	Doubtful	3,663,487.34	7,011,136.40
c	Loss	176,760,331.54	132,311,546.06
4	Net NPLs	102,654,544.44	244,435,794.19
a	Substandard	73,204,015.40	199,399,357.37
b	Doubtful	29,450,529.04	45,036,436.82
c	Loss	-	-
5	Gross NPL's to Gross Loans	3.16%	4.45%
6	Net NPLs to net Loans	0.39%	1.14%
7	General Provisions	258,018,189.34	200,276,373.07
a	Standard	248,989,255.30	193,932,850.15
b	Watch	9,091,934.04	6,343,522.92

Item 11: Assets and Investments

Sl. No.	Investment	31.12.2017	31.12.2016
1.	Marketable Securities (Interest Earning)		
a.	RMA Securities	6,671,021,000.00	3,280,944,800.00
b.	RGOB Bonds/Securities	-	-
c.	Corporate Bonds	2,319,917,616.44	2,221,682,000.00
d.	Others	-	-
	Sub-Total	8,990,938,616.44	5,502,626,800.00
2.	Equity Investments		
a.	Public Companies	85,467,710.45	85,467,710.45
b.	Private Companies	-	-
c.	Commercial Banks	12,726,000.00	12,726,000.00
d.	Non-Bank Financial Institutions	19,811,000.00	19,811,000.00
Less			
e.	Specific Provisions	-	-
	Sub-Total	118,004,710.45	118,004,710.45
3.	Fixed Assets		
a.	Fixed Assets (Gross)	1,107,510,625.38	965,062,344.24
Less:			
b.	Accumulated Depreciation	442,943,074.39	370,994,605.61
c.	Fixed Assets (Net Book Value)	664,567,550.99	594,067,738.63

Item 12: Foreign exchange assets and liabilities as at 31.12.2016

Currency	Liquid Foreign Currency Holdings (up to one Week)				Liquid Foreign Currency Holdings (up to one Week)				Nu. In Millions	
	Assets in Foreign Currency		Liabilities in Foreign Currency	Net Short Term Position	Assets in Foreign Currency		Liabilities in Foreign Currency	Long Term Net Position	Overall Net Position	Overall Net Position/ Core Capital
	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	-		
NOK	40,239.00	-	40,239.00	-	-	-	40,239.00	-		
TOTAL	752,901,436.22	857,031,166.45	(104,129,730.23)	171,981,450.00	-	171,981,450.00	67,851,719.77	1.53		

Item 12: Foreign exchange assets and liabilities as at 31.12.2017

Currency	Liquid Foreign Currency Holdings (up to one Week)			Liquid Foreign Currency Holdings (up to one Week)			Nu. In Millions	
	Assets in For- eign Currency	Liabilities in Foreign Cur- rency	Net Short Term Position	Assets in Foreign Cur- rency	Liabilities in Foreign Cur- rency	Long Term Net Position	Overall Net Position	Overall Net Position/ Core Capital
	1	2	3=1-2	4	5	6=4-5	7=3+6	8
USD	783,335,025.26	1,026,012,571.48	(242,677,546.22)	162,879,152.81	-	162,879,152.81	(79,798,393.41)	(1.60)
SGD	10,828,432.35	-	10,828,432.35	-	-	-	10,828,432.35	0.22
EURO	62,504,555.40	13,044,021.75	49,460,533.65	-	-	-	49,460,533.65	0.99
AUD	234,524,432.29	3,834.09	234,520,598.20	-	-	-	234,520,598.20	4.71
CAD	5,045,158.21	-	5,045,158.21	-	-	-	5,045,158.21	0.10
HKD	4,391,269.40	-	4,391,269.40	-	-	-	4,391,269.40	0.09
GBP	36,672,208.01	-	36,672,208.01	-	-	-	36,672,208.01	0.74
CHF	33,973,202.83	-	33,973,202.83	-	-	-	33,973,202.83	0.68
JPY	46,498,070.87	-	46,498,070.87	-	-	-	46,498,070.87	0.93
DKK	8,784,184.32	-	8,784,184.32	-	-	-	8,784,184.32	0.18
TOTAL	1,226,556,538.94	1,039,060,427.32	187,496,111.62	162,879,152.81	-	162,879,152.81	350,375,264.43	7.03
Core Capital							4,981,971,637.72	

Item 13: Geographical Distribution of Exposures

Particulars	Domestic		India		Other	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Demand Deposits held with other banks	200,000.00	14,268,055.55	293,020,757.56	598,983,452.58	1,195,836,911.46	698,409,655.93
Time deposits held with other banks	1,550,000,000.00	1,850,000,000.00	-	-	200,615,600.00	135,900,000.00
Borrowings	-	500,000,000.00	-	-	-	-

Item 14 Credit Risk Exposures by Collateral

Sl. No	Particular	31.12.2017	31.12.2016
1	Secured Loans	27,198,486,044.74	21,499,481,168.55
a	Loans secured by physical/real estate collateral	22,276,831,037.90	16,799,983,121.50
b	Loans Secured by financial collateral	740,713,850.76	894,269,991.02
c	Loans secured by guarantees	4,180,941,156.08	3,805,228,056.03
2	Unsecured Loans	15,780,215.85	15,780,215.85
3	Total Loans	27,214,266,260.59	21,515,261,384.40

Item 15: Earnings Ratios

Sl. No.	Ratio	31.12.2017
1	Interest Income as a percentage of Average Assets	5.59%
2	Non-interest income as a percentage of Average Assets	0.77%
3	Operating Profit as a percentage of Average Assets	2.13%
4	Return on Assets	1.38%
5	Business (Deposits plus Advances) per employee (Nu. In million)	97.31
6	Profit per employee (Nu. In million)	0.99

Item 16: Penalties imposed by RMA in the past period

Sl. No.	31.12.2017		31.12.2016	
	Reason for Penalty Imposed	Penalty Imposed	Reason for Penalty Imposed	Penalty Imposed
1	NIL			NIL

Item 17: Customer Complaints

Sl. No.	Particular	31.12.2017	31.12.2016
1	No. of complaints pending at the beginning of the year	75	34
2	No. of complaints received during the year	40,954	11,086
3	No. of complaints redressed during the year	40,397	11,045
4	No. of complaints pending at the end of the year	632	75

Item 18: Provision Coverage Ratio

Year	Gross NPL	Additional NPL	Additional Specific Prov.	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
31.12.2017	854,353,939.75	(102,811,572.16)	5,625,464.60	33,344,213.00	(61,686,943.30)	(100,656,620.90)	-
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	-

Item 19: Concentration of Credit and Deposits

Sl. No.	Particulars	31.12.2017	31.12.2016
1	Total loans to 10 largest borrowers	6,101,939,638.08	5,697,943,726.59
2	As % of total loans	22.42%	29.57%
3	Total deposits of the 10 largest depositors	10,020,054,381.85	18,320,177,708.27
4	As % of total deposits	23.36%	54.70%

Item 20: Exposure to 5 Largest NPL accounts

Sl. No	Particulars	31.12.2017	31.12.2016
1	Five largest NPL accounts	356,093,635.99	360,038,881.64
2	% of Total NPLs	41.74%	37.62%

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 1 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 1 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 90days 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
Pillar I Risks	Credit Risk Operational Risk
Risk not fully covered under Pillar I	Residual Risk (arising out of credit risk Mitigation)
Pillar II risks	Credit Concentration Risk Interest Rate Risk in Banking Book Liquidity Risk Reputation Risk Compliance risk Economic and regulatory environment Stress testing

Market risk is not covered in the ICAAP Policy as the Bank is not highly exposed to the market risk. However, for exchange fluctuation risk, the Bank provides 25% provision of Exchange Gain on annual basis as per Clause No. 8.3 of RMA Prudential Regulations, 2016.

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)

RATIO	2017	2016	Remarks
Current Ratio: Current Assets / Current Liabilities	0.92	1.00	Decrease in ratio is due to decrease in current assets
Return on Investments: Profit After Tax/ Capital Employed	12.02%	16.96%	Decrease in ratio is due to decrease in PAT
Net Profit Ratio: Profit after Tax/Turnover	23.28%	29.52%	Decrease in ratio is due to decrease in PAT
Capital Adequacy Ratio	17.40%	21.61%	
Statutory Liquidity Ratio	35.08%	40.83%	



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