

ANNUAL REPORT | **2018**  
BANK OF BHUTAN





**Registered Office**

Bank of Bhutan Limited,  
P.O. Box. 102,  
Thimphu, Bhutan.

Fixed Line: +975-2-334333

Website: [www.bob.bt](http://www.bob.bt)

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## Annual Report 2018



# The Year In Review

The year 2018 being the fiftieth year of existence of the Bank, was a very special year for the Bank. The year was also special to the Bank in terms of financial performance as it crossed Nu.1.00 billion in Net Profit for the first time in its fifty years.

In summary, some major highlights of the Bank for 2018 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 2.87 percent on 31st December 2018.
2. Credit Growth - The average credit growth of the Bank for the past five years was hovering around 7 percent. In 2017, the growth was 27.32 percent, while in 2018, it saw a remarkable growth of 33.87 percent mainly triggered by reduced lending rates and aggressive marketing.
3. Business Expansion - The Bank could make massive progress in terms of increasing its reach across the country through opening of new branch offices in Pasakha, Jomotshangkha, Paro Airport and at CHPC colony in Chukha. By year end, the Bank network comprised of 51 branch offices, 101 ATM terminals and 255 BoBConnect agents.
4. New products - The Bank launched the first e-wallet “Chharo” services in the country. Chharo is designed to cater to the non-account holders of the Bank including the tourists visiting Bhutan. Chharo is a geo-fenced service and cannot be used outside of Bhutan.
5. Security - With the increase in number of users and transactions through mBoB the risk of forgery increased. Hence, the Bank implemented IMEI (International Mobile Equipment Identity) checks i.e. a mBoB account can be accessed from only one device and the device needs to be registered.
6. Additional Services and Improvements - The Bank continued to improve on the existing services such as implementation of Cheque deposit feature in BoBConnect. With this feature, customers can deposit cheques not only in the Bank branch offices but also at the BoBConnect agents'. A number of features were also added to the Bank's popular product mBoB namely, Pay to Contact, where mBoB users can transfer money through the contact list, linking Recurring and Fixed Deposit account to mBoB account to view balances, blocking debit cards if lost and enabling Standing order from the app.
7. Employee Engagement - The Bank has been providing BoB Scholarship to the employees since 2011, and till date 42 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.

**(Pema Namgyel Nadik)**  
Chief Executive Officer



## Events during the year 2018

### Golden Jubilee Initiatives



**22<sup>nd</sup> January**

Discounted notebooks for students in collaboration with Kuensel



**27<sup>th</sup> January**

Started Senior Citizen Priority Counter across BoB Branch Offices



**20<sup>th</sup> March**

Donation of five Sachu Bumter



**08<sup>th</sup> April**

Contributed to Bhutan Toilet for construction of Toilet at Wangsisina, Ground breaking ceremony



**10<sup>th</sup> May**

The NRDCL and BoB signed a Memorandum of Understanding whereby BoB agreed to adopt 2 hectares for plantation at Debsl



**28<sup>th</sup> May**

Golden Jubilee Celebration at Convention Centre (Royal Banquet hall)





**28<sup>th</sup> May**

Golden Jubilee Celebration with employees



**02<sup>nd</sup> June**

Volunteer for Tree Plantation at Debsi Thimphu along with NRDCL & Drukair



**11<sup>th</sup> - 14<sup>th</sup> June**

Initiated Empowering Entrepreneurs (E2) program in Thimphu



**16<sup>th</sup> June**

Constructed a butter lamp house at the Dorji Draktsen Neykhang behind Tashichhodzong, Thimphu and donated 1,000 butter lamps to the Lhakhang



**21<sup>st</sup> July**

Donation to Memorial Chorten on death anniversary of third king

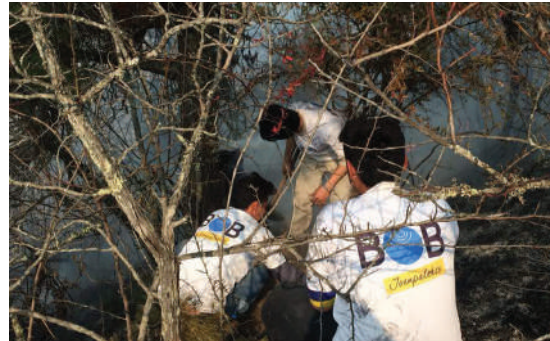


Other Events



**09<sup>th</sup> February**

Chharo (e-wallet) launched



**11<sup>th</sup> February**

Employees volunteered to extinguish forest fire in Paro



**15<sup>th</sup> February**

Jomotshangkha (Samdrup Jongkhar) Branch opened



**06<sup>th</sup> March**

Inauguration of new Trashiyangtse Branch Office



**19<sup>th</sup> - 20<sup>th</sup> February**

Annual Branch Manager's Meet



**31<sup>st</sup> March**

Employees volunteered for Dechenphu Lhakhang landscaping





**27<sup>th</sup> - 28<sup>th</sup> April**  
Grand Loan Festival



**28<sup>th</sup> April**  
Implemented Customer Feedback Terminals in Thimphu and Phuentsholing Main Branch to improve service delivery



**08<sup>th</sup> May**  
Tshongdrel Ngotshab Inauguration



**19<sup>th</sup> - 20<sup>th</sup> May**  
Loan Festival at Punakha

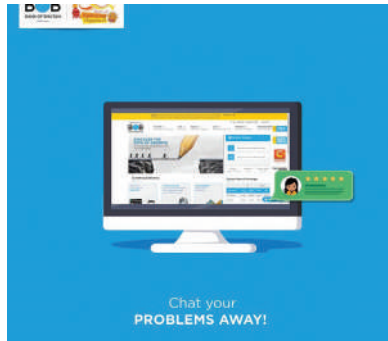


**19<sup>th</sup> - 20<sup>th</sup> May**  
Loan Festival at Phuentsholing



**20<sup>th</sup> May**  
Support for Menstrual Hygiene at Shechen Orgyen Chodzong Nunnery Wangsisina





11<sup>th</sup> June

Implemented BoB's Chatbot to help customer



14<sup>th</sup> June

Blood donation drive



15<sup>th</sup> June

Opened Pasakha (Chukha) Branch



25<sup>th</sup> June

Implemented Personalised Cheque



21<sup>st</sup> July

Opened extension branch at CHPC, Chukha



15<sup>th</sup> August

Launch of Tax Payment through mBoB and BOBConnect in collaboration with DRC, MoF





**27<sup>th</sup> - 29<sup>th</sup> September**

Loan Festival in Samtse



**03<sup>rd</sup> October**

Opened Paro Airport Branch



**03<sup>rd</sup> October**

Inaugurated Network Operations Center



**03<sup>rd</sup> October**

Started Banking on Wheels



**04<sup>th</sup> - 06<sup>th</sup> October**

Loan Festival at Gelephu



**24<sup>th</sup> - 26<sup>th</sup> October**

Royal Highland Festival at Laya



**26<sup>th</sup> - 28<sup>th</sup> October**

Loans Road Show in Mongar



**10<sup>th</sup> November**

Young Savers account relaunched



**08<sup>th</sup> - 10<sup>th</sup> December**

CSP Retreat in Phuentsholing





# EMBRACING 50 YEARS OF HAPPINESS



## Technology First

- Core Banking Solution
- mBoB (Mobile Banking)
- Internet Banking
- Chharo (e-wallet)

## Widest Network with

- Branch offices across all Dzongkhags
- More than 100 ATM terminals
- More than 250 BoBConnect Agents
- More than 100 Tshondrel Ngotshabs (Sales Agents)
- More than 650 POS terminals

Serving more than **350,000** customers

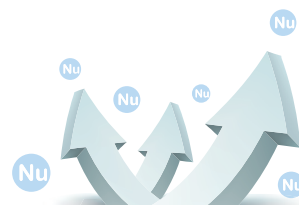
## CSR & Community Initiatives

- Priority Counters for Senior Citizens
- Blood Donation Drive
- Tree Plantation Initiative
- Start-up Programs for Entrepreneurs

*Joenpalekso!*

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# Company Profile

## Vision

Provide Efficient, Transparent, Comprehensive and Secure Financial Services through Continuous Innovation, Contributing to the Nation’s Economic Growth.

## Missions

The Nation’s Premier Financial Institution.

## Values

Bank of Bhutan’s core values can be abbreviated as CARES which signifies that the Bank cares for all its stakeholders, be its employees, customers, community, shareholders and the nation at large, along with the significance of each term explained below:

## C Courage for Change -

For continuous Learning & Growth, embrace diversity, suggestion from others, have a sense of competition to create innovation & creative change.

## A Accountability -

For ethical conduct through transparent, honest & sincere ownership of every transaction.

## R Relationship -

For building relationships based on mutual respect and trust within the organization, with clients, and other stakeholders.

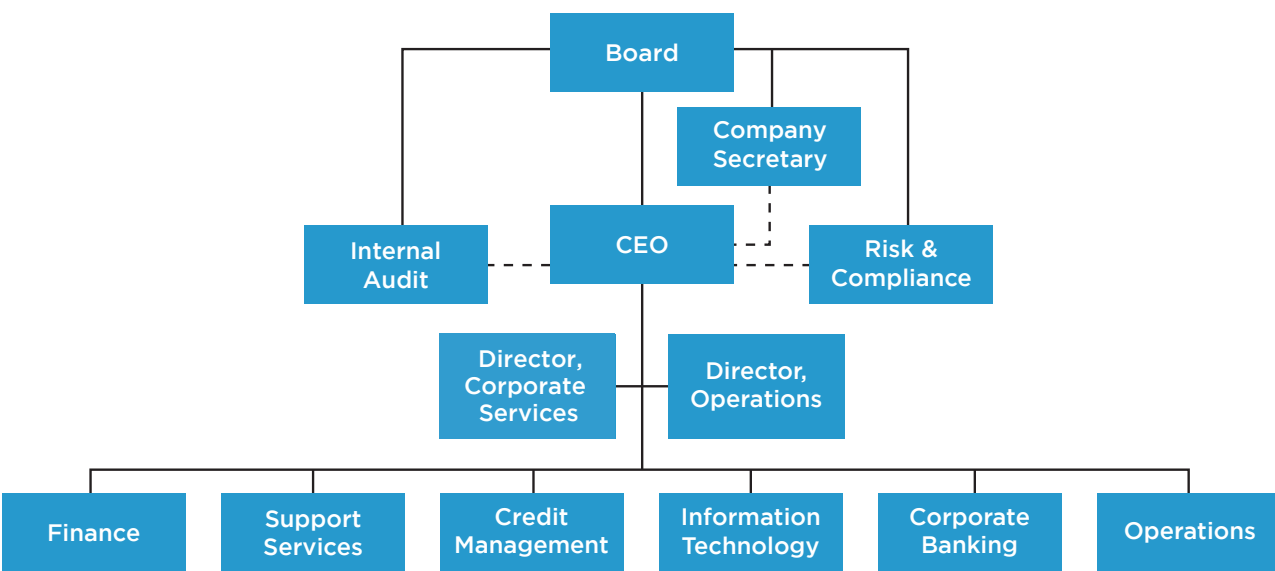
## E Excellence in Service -

For excellence in a customer friendly culture, diligent and courteous environment and superior performance.

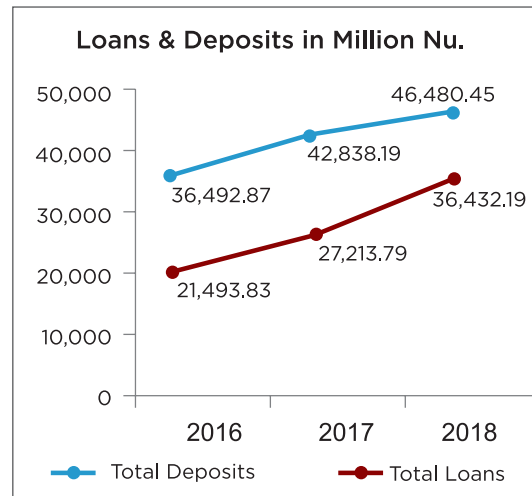
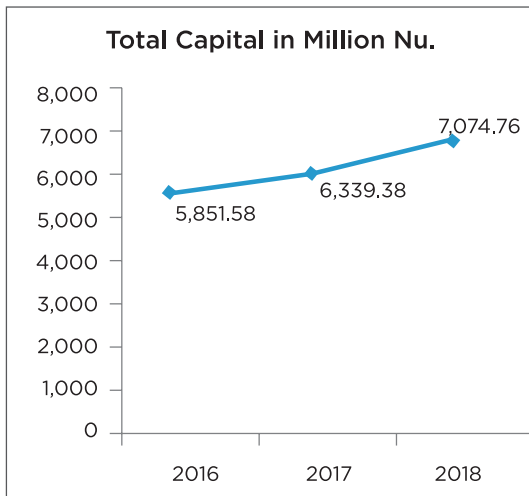
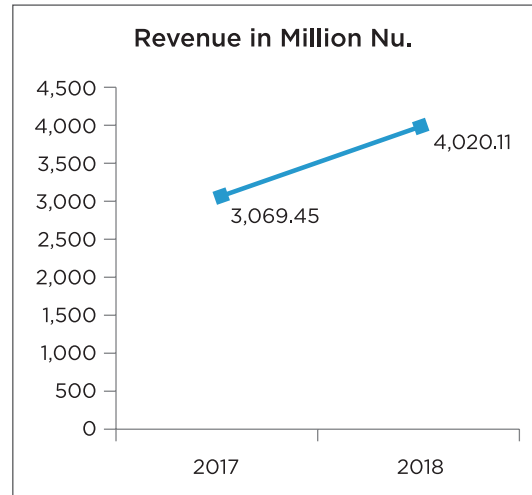
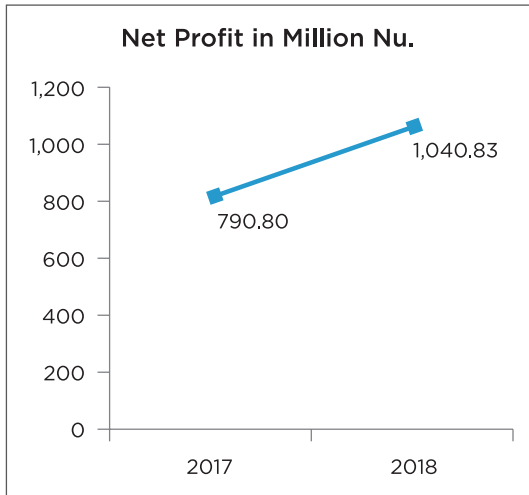
## S Social Responsibility -

For meeting community needs through beneficial partnership to support community growth.

## Organization chart







## Board Directors



**Dasho Ugen Chewang (Chairman)** brings more than forty years of experience with the Royal Government of Bhutan and the Corporate Sector. He was conferred red scarf by His Majesty the King during the 104th National Day celebration in December of 2011 and is the Chairman of Druk Holding and Investments Ltd. (DHI). He has a Master in Business Administration in Business Management and Accounting from Syracuse University, New York, USA, attended the Canadian Comprehensive Auditing Foundation (CCAF) International Fellowship Program in Comprehensive Accounting in Canada and a Bachelor degree in Commerce from Punjab University in India. Before his appointment as the Chairman of DHI, he served as an eminent member of the Royal Research and Advisory Council, the Auditor General of Royal Audit Authority and Chief Executive Officer of National Pension and Provident Fund (NPPF) besides serving as the Chairman on the Accounting & Auditing Standards Board of Bhutan (AASBB).



**Mr. Subbaramaiah Ramesh Rajapur** is the General Manager (Retail & Subsidiaries) in International Banking Group, State Bank of India (SBI) and has over thirty-three years of work experience. He has a Bachelor degree in Science and Certified Associate of Indian Institute of Bankers. 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., Commercial Indo Bank LLC (CIBL) Moscow and SBI (Mauritius) Ltd. His area of work has mainly been on formulation and execution of key business strategies in market analysis, product innovation, international banking, correspondent relationship & retail Banking and stressed asset resolution.



**Mr. Pemba Wangchuk** is the Director General of Road Safety and Transport Authority, Ministry of Information and Communication and has over twenty-eight years of experience in the civil service. He holds a Bachelor Degree in Economics from Sherubtse College and Masters in Health Management, Planning and Policy from University of Leeds, UK. He has served over eleven years in various capacities in the Ministry of Health before his appointment as the Dzongdag of Haa in 2006, Tsirang in 2009 and Chhukha from 2012 to 2017. He also served as a Militia Officer in the Royal Bhutan Army from 1991 to 1995.



**Ms. Tashi Lhamo** is the Director of Department of Finance at Druk Holding and Investments Ltd. and has over fifteen years of experience in Banking and Finance. She has served as the Head of Finance and Accounts Department of Bhutan National Bank for seven years and joined the erstwhile Business Opportunity and Information Center (BOiC) in 2013 as Director, Revolving Fund Management and Operations. She holds a Bachelor of Commerce (Honors) from Sherubtse College, Bachelor of Business (Major in Accounting) from University of South Australia; MBA (Advanced) from the Graduate School of Business, Curtin University, Perth, Western Australia; and CPA from CPA Australia. She also was a recipient of the Hubert H. Humphrey Fellowship to attend a Banking and Finance Program at the Boston University, MA, USA in 2007. She currently serves as the Vice-Chair in the Technical Working Committee at the Accounting and Auditing Standard Board of Bhutan (AASBB) and on the Board of Druk Green Power Corporation Limited (DGPC).



**Mr. Tara Nidhi Chimorya Sharma** is the Budget Specialist at the Department of Budget, Ministry of Finance and has over thirty years of work experience with the civil service. He has 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 and Foreign Service Entitlement Rules), High Level Rules Committee and Regulation and Macroeconomic Framework Coordination Technical Committee.



**Mr. Tshering Tenzin** is the Chief Executive Officer of Hiraka Ventures Pvt. Ltd. and has over twenty-four years of work experience with the civil service and the corporate sector. He holds a Bachelor of Commerce (Honors) from Sherubtse College, Bachelors of Business from South Australia and CPA from CPA Australia. His area of works is mainly in Finance and Accounting. He served as a Senior Program Coordinator for Department of Aid and Debt Management and Department of Public Accounts under the Ministry of Finance before joining Dungsam Cement Corporation Limited (DCCL) as the General Manager (Commercial). He left DCCL in 2016 to venture into the private sector.



**Mr. Pema N. Nadik** is the Chief Executive Officer of Bank of Bhutan with over twenty-five years of work experience in the corporate sector. He has a Bachelors Degree in Commerce from Sherubtse College and worked for seventeen 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- Business Development in October 2010 and was later appointed as the Chief Executive Officer on 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 - **Ms. Kritika Pradhan** (Chief, Credit Management and Research Department), **Mr. Namgay Wangchuk** (Chief, Corporate Support Services Department), **Mr. Tenzin Dorji** (Chief, Banking Operations Department), **Mr. Prem Bdr. Moktan** (Chief, Finance Department), **Ms. Kencho Pemo** (Chief, Corporate, Private and Relationship Banking Department)

Seated left to right - **Mr. Dorji Kadin** (Director, Corporate Services), **Mr. Pema N. Nadik** (Chief Executive Officer), **Ms. Karma Dema** (Director, Operations)

### **Mr. Pema N. Nadik, Chief Executive Officer**

Mr. Pema Nadik has a Bachelor Degree in Commerce from Sherubtse College. He has worked 17 years in Drukair 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 over 17 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 over 34 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 over 17 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. Tenzin Dorji, Chief Banking Operations**

Mr. Tenzin Dorji has B. Com (Hons.) from Sherubtse College. 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.

#### **Ms. Kritika Pradhan, Chief, Credit Management and Research Department**

Ms. Kritika Pradhan has a Professional Master's degree in Banking and Finance from Asian Institute of Technology, Thailand, Post Graduate Diploma in Financial Management from Maastricht School of Management, Netherlands and B.A in Economics from Sherubtse College. She started her career in 2002 and has worked for over 16 years in various functions of the Bank. She's worked as Head, Marketing and Customer Service Division before she was appointed as Chief Credit Officer.

#### **Ms. Kencho Pemo, Chief, Corporate, Private and Relationship Banking Department**

Ms. Kencho Pemo has a Master degree in Management from Queensland University of Technology, Brisbane, Australia. She started her career in 2005 and has worked in the Credit Department in the Bank of Bhutan Limited prior to joining as the Chief, Corporate, Private and Relationship Banking Department in September, 2018.



# Directors' 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 have the honour to present the directors' report for the year ending 2018.

## Operational Highlights

The year 2018 was an eventful year for your Bank and stakeholders. The year began with the launch of 'Senior Citizen Priority Counters' across all Bank branch offices in January which generated a lot of goodwill for the Bank from our clients. To provide more convenience and encourage financial inclusion, the Bank introduced the first e-wallet services in the country under the brand name "Chharo", in February. This service can also be used by visitors to the country to make purchases as well as top-up their mobile phones with both mobile service providers.

To increase reach across the country, your Bank opened three new branch offices at Jomotshangkha, Pasakha and Paro Airport and an extension counter at Chukha. Your Bank also started providing 'Banking-On-Wheels' services in Thimphu to cater to the growing population in the capital city providing banking services at the doorstep.

To improve the service reliability, your Bank introduced 'Network Operations Center' which is manned 24x7 to constantly monitor the systems stability and rectify issues as early as possible. This is yet another "first" in the country with no other bank having such facility.

In terms of customer service, the customer satisfaction index of your Bank has increased from 3.77 to 3.78. The weekly complaint resolution rate was maintained at 97.77 percent at an average throughout the year.

## Financial Position and Key Financial Performance Highlights

The financial statements for 2018 of the Bank has been prepared as per the Bhutan Accounting Standards (BAS) and therefore, the figures for previous years were restated as per BAS.

In terms of financial performance, the year 2018 was a very good year for your Bank with the Bank crossing Nu. 1.00 billion in profit and keeping the Gross NPA to an all-time low of 2.87 percent.

The performance in terms of growth in loan portfolio relative to previous year was even more aggressive with a year-on-year increase of 26.70 percent in 2017 to 33.87 percent in 2018.

In summary, the Bank registered a Net Profit of Nu. 1,040.83 million in the year 2018, against restated Net Profit of Nu. 790.79 million in 2017. This reflected an increase of 31.62 percent in Net Profit compared to 2017. This is the first time in its history that the Bank has crossed Nu.1 billion in Net Profit.

Deposits from customers continued to increase from Nu. 42.84 billion in 2017 to Nu. 46.48 billion in 2018. This confirms the people's continued confidence and trust in the Bank. This triggered an increase in interest expenses from Nu. 1,228 million in 2017 to Nu. 1,471 million in 2018.

The total capital and reserves of your bank increased by 11.60 percent in 2018, an increase from the restated figure of Nu. 6,339.97 million in 2017 to Nu. 7,075.35 million in 2018.

## Statutory Audit

M/s. S.P. Chopra and Co., a firm from Delhi was appointed to audit the books of accounts of your bank and its subsidiary for the financial year ended 2018 by Royal Audit Authority with approval from the Royal Monetary Authority.

There were no major audit issues other than few minor observations under 'emphasis of matter' as highlighted below:

**1. Note No. 7.11;** Re: Preparation of the financial statements with adoption of Bhutanese Accounting Standards (BAS) of Phase -III, as applicable to the Bank, and resultant impact thereof due to change in the accounting policies adopted as per BAS (Phase-III) as compared to those followed earlier under GAAP.

#### 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 2018, the Board has approved a dividend of Nu. 15.78 per share for the year ended December 31, 2018 amounting to Nu. 473,540,316.83 to its shareholders.

#### Corporate Governance

Your bank is in adherence to the Corporate Governance Rules and Regulations 2018 issued by the Royal Monetary Authority, the Financial Services Act 2011, the Companies Act of Bhutan 2016, and the DHI Corporate Governance Code. The Bank has 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. 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 redressal rules and procedures have been put in place so that employees could express their views either against individual employees, supervisors or the Management. The Management conducts regular management meetings to monitor activities being executed on time as per the annual compacts of Departments and directives of the Management and the Board. 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.

The Bank celebrated its 'Golden Jubilee' on May 28, 2018 to commemorate its fifty (50) years of existence and service to the Nation. Considering this, almost all CSR activities and events in 2018 were carried out to celebrate this important milestone of the Bank. Major highlights of the initiatives were:

- Donation of five numbers of Sachhu Bumter;
- Blood donation campaign;
- Tree plantation in collaboration with NRDCL at Debsi, Thimphu
- Construction of Butter lamp house at Dorji Draktsen Neykhang behind Tashichhodzong, Thimphu;
- Donation of 1,000 butter lamps to the Lhakhang;





- Seed money donation to Memorial Chorten on death anniversary of the Third Druk Gyalpo;
- Financial support to Jigme Singye Wangchuk School of Law; and
- Financing the purchase of 3G equipment for installation at Lauri Gewog to encourage adoption of technology in a remote gewog in collaboration with Bhutan Telecom.

### Challenges and Way Forward

The major challenge your Bank had was maintaining the growth in profit as expected despite the reduction in lending rates due to Minimum Leading Rate, compounded with market growth at around only 15 percent and the GDP growth at around 6 percent. This will continue to be a challenge for the Bank but the Bank has come up with a five years Corporate Strategic Plan inline with the DHI's 'Into the Next Decade' roadmap for DHI and its Group, which addresses these challenges and includes new strategies to grow further in the coming years.

### Acknowledgements

The Directors of the Board of your Bank express their appreciation for the continued guidance and assistance rendered by the Royal Government, the Royal Monetary Authority

of Bhutan, Druk Holding and Investments, State Bank of India, the Royal Audit Authority, Statutory Auditors, other Regulatory Authorities, Agencies, 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 Ugen Chewang)**

CHAIRMAN

## Report on 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 sustainability of the business.

BoB is compliant with the provisions of the RMA Corporate Governance Rules and Regulation 2018, the Corporate Governance Code and the Ownership Policy developed by the Druk

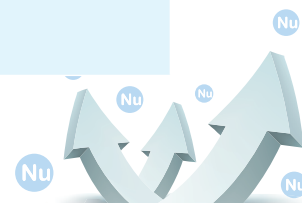
Holding and Investments Ltd., the Companies Act of Bhutan 2016, Financial Service Act of Bhutan 2011 and other statutory requirements for the Financial Year 2018.

### 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 Extra-ordinary General Meeting for endorsement. The BoB Board consists of seven Directors, including the Chairman and the Chief Executive Officer (CEO) for the management of day to day affairs of the Company.

### Composition of the Board and attendance in 2018

Name of Director	Category	Address	Date of Appointment (Present Term)	Current Term of the Board Director	No. of BM attended in 2018	No. of Directorship on other DHI owned/controlled companies
<b>Total Number of Board meetings (BM) conducted in 2018</b>					<b>8</b>	
Dasho Sangay Khandu	Chairman Non-Independent Non-Executive	Chairman, DHI	9 <sup>th</sup> March 2016	First Term	2	1. Druk Green Power Corporation Ltd. 2. Drukair Corporation Ltd.
Mr. Passang Dorji	Board Director Non-Independent Non-Executive	Director, Department of Investment, DHI	9 <sup>th</sup> March 2016	Second Term	2	1. Drukair Corporation Ltd.
Ms. Tashi Pem	Board Director Non-Independent Non-Executive	Director, Royal Civil Service Commission	9 <sup>th</sup> March 2016	First Term	Nil	None
Mr. Vijay Kumar Tyagi	Board Director Non-Independent Non-Executive	General Manager-Retail & Subsidiaries, International Banking Group, State Bank of India	22 <sup>nd</sup> November 2016	First Term	1	None

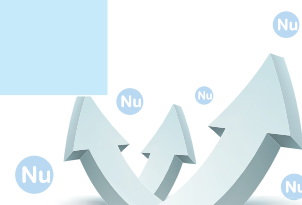


Name of Director	Category	Address	Date of Appointment (Present Term)	Current Term of the Board Director	No. of BM attended in 2018	No. of Directorship on other DHI owned/controlled companies
Mr. Sangay Wangdi	Board Director Independent Non-Executive	Managing Director, Bhutan Board Products Ltd.	9th March 2016	First Term	1	None
Mr. Tara Nidhi Chimorya Sharma	Board Director Independent Non-Executive	Specialist, Department of Budget, Ministry of Finance	Re-appointed on 13th July 2018	Second Term	7	None
Mr. Pema N. Nadik	Board Director/CEO Executive Non-Independent	CEO, Bank of Bhutan Ltd.	Re-appointed on 1st April 2016	Second Term	8	None
<b>New Board of Directors appointed from June, 2018 onwards</b>						
Dasho Ugen Chewang	Chairman Non-Independent Non-Executive	Chairman, DHI	19th June 2018	First Term	6	1. Bhutan Power Corporation
Mr. Pemba Wangchuk	Board Director Non-Independent Non-Executive	Director General, Road Safety and Transport Authority, Ministry of Information & Communication	19th June 2018	First Term	6	None
Ms. Tashi Lhamo	Board Director Non-Independent Non-Executive	Director, Department of Finance, DHI	19th June 2018	First Term	6	1. Druk Green Power Corporation
Mr. Subbaramaiah Ramesh Rajapur	Board Director Non-Independent Non-Executive	General Manager- Retail & Subsidiaries, International Banking Group, State Bank of India	19th June 2018	First Term	4	None
Mr. Tshering Tenzin	Board Director Independent Non-Executive	CEO, Hiraka Ventures Pvt. Ltd., Phuentsholing	13th July 2018	First Term	5	None

## Board Meetings

A total of eight Board Meetings (BM) were held in 2018. The details of the Board attendance are as follows

Board Meeting No.	Dates	Members Present	Leave of Absence
246 <sup>th</sup>	14th February 2018	1. Dasho Sangay Khandu 2. Mr. Vijay Kumar Tyagi 3. Mr. Passang Dorji 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Pema N. Nadik	1. Mr. Sangay Wangdi 2. Ms. Tashi Pem
247 <sup>th</sup>	26th February 2018	1. Dasho Sangay Khandu 2. Mr. Sangay Wangdi 3. Mr. Passang Dorji 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Pema N. Nadik	1. Mr. Vijay Kumar Tyagi 2. Ms. Tashi Pem
248 <sup>th</sup>	22nd June 2018	1. Dasho Ugen Chewang 2. Mr. Pemba Wangchuk 3. Mr. Subbaramaiah Ramesh Rajapur 4. Ms. Tashi Lhamo 5. Mr. Pema N. Nadik	None
249 <sup>th</sup>	06th August 2018	1. Dasho Ugen Chewang 2. Mr. Pemba Wangchuk 3. Ms. Tashi Lhamo 4. Mr. Subbaramaiah Ramesh Rajapur 5. Mr. Tara Nidhi Chimorya Sharma 6. Mr. Tshering Tenzin 7. Mr. Pema N. Nadik	None
250 <sup>th</sup>	24th August 2018	1. Dasho Ugen Chewang 2. Mr. Pemba Wangchuk 3. Ms. Tashi Lhamo 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Tshering Tenzin 6. Mr. Pema N. Nadik	1. Mr. Subbaramaiah Ramesh Rajapur
251 <sup>st</sup>	17th October 2018	1. Dasho Ugen Chewang 2. Mr. Pemba Wangchuk 3. Ms. Tashi Lhamo 4. Mr. Subbaramaiah Ramesh Rajapur 5. Mr. Tara Nidhi Chimorya Sharma 6. Mr. Tshering Tenzin 7. Mr. Pema N. Nadik	None
252 <sup>nd</sup>	09th November 2018	1. Dasho Ugen Chewang 2. Mr. Pemba Wangchuk 3. Ms. Tashi Lhamo 4. Mr. Tara Nidhi Chimorya Sharma 5. Mr. Tshering Tenzin 6. Mr. Pema N. Nadik	1. Mr. Subbaramaiah Ramesh Rajapur
253 <sup>rd</sup>	10th December 2018	1. Dasho Ugen Chewang 2. Mr. Pemba Wangchuk 3. Ms. Tashi Lhamo 4. Mr. Subbaramaiah Ramesh Rajapur 5. Mr. Tara Nidhi Chimorya Sharma 6. Mr. Tshering Tenzin 7. Mr. Pema N. Nadik	None





## 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 2018

Details of the BGC held in 2018 are as follows:

Name of Director	Category	No. of BGC Attended
Mr. Sangay Wangdi	Chairperson (Independent)	2
Mr. Passang Dorji	Board Director	2
Ms. Tashi Pem	Board Director	Nil
Mr. Pemba Wangchuk	Chairperson - appointed on 15th August 2018	3
Ms. Tashi Lhamo	Board Director	3
Mr. Tshering Tenzin	Board Director	3
Mr. Pema N. Nadik	Board Director/ CEO	4

BGC No.	Dates	Members Present	Leave of Absence
32 <sup>nd</sup>	05th February 2018	1. Mr. Sangay Wangdi 2. Ms. Tashi Pem 3. Mr. Pema N. Nadik	1. Mr. Passang Dorji
33 <sup>rd</sup>	07th February 2018	1. Mr. Sangay Wangdi 2. Mr. Tashi Pem 3. Mr. Pema N. Nadik	1. Mr. Passang Dorji
34 <sup>th</sup>	15th February 2018	1. Mr. Pemba Wangchuk 2. Ms. Tashi Lhamo 3. Mr. Tshering Tenzin 4. Mr. Pema N. Nadik	None
35 <sup>th</sup>	24th September 2018	1. Mr. Pemba Wangchuk 2. Ms. Tashi Lhamo 3. Mr. Tshering Tenzin 4. Mr. Pema N. Nadik	None
36 <sup>th</sup>	05th December 2018	1. Mr. Pemba Wangchuk 2. Ms. Tashi Lhamo 3. Mr. Tshering Tenzin	1. Mr. Pema N. Nadik

### 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 two Board Credit Committee meetings were held in 2018.

Details of the BCC held in 2018 are as follows:

Name of Director	Category	No. of BCC attended
Mr. Passang Dorji	Chairperson	1
Mr. Tara Nidhi Chimorya Sharma	Board Director (Independent)	2
Mr. Tshering Tenzin	Chairperson (Independent) - appointed on 17th August 2018	1
Ms. Tashi Lhamo	Board Director	1
Mr. Pema N. Nadik	Board Director/ CEO	2

BCC No.	Dates	Members Present	Leave of Absence
31 <sup>st</sup>	4th January 2018	1. Mr. Passang Dorji 2. Mr. Tara Nidhi Chimorya Sharmak	1. Mr. Pema N. Nadik
32 <sup>nd</sup>	17th August 2018	1. Mr. Tshering Tenzin 2. Ms. Tashi Lhamo 3. Mr. Tara Nidhi Chimorya Sharma 4. Mr. Pema N. Nadik	None

### 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 2018.

Details of the BRMC held in 2018 are as follows:

Name of Director	Category	No. of BRMC attended
Ms. Tashi Pem	Chairperson	1
Mr. Tara Nidhi Chimorya	Board Director (Independent)	3
Ms. Tashi Lhamo	Chairperson appointed on 16th August 2018	2
Mr. Pemba Wangchuk	Board Director	2
Mr. Pema N. Nadik	Board Director/CEO	3



BRMC No.	Dates	Members Present	Leave of Absence
14 <sup>th</sup>	03rd February 2018	1. Ms. Tashi Pem 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	None
15 <sup>th</sup>	16th August 2018	1. Ms. Tashi Lhamo 2. Mr. Pemba Wangchuk 3. Mr. Tara Nidhi Chimorya Sharma 4. Mr. Pema N. Nadik	None
16 <sup>th</sup>	08th October 2018	1. Ms. Tashi Lhamo 2. Mr. Tara Nidhi Chimorya Sharma 3. Mr. Pema N. Nadik	1. Mr. Pemba Wangchuk

### 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 2018.

Details of the BAC held in 2018 are as follows:

Name of Director	Category	No. of BAC attended in 2018
Mr. Tara Nidhi Chimorya Sharma	Chairperson (Independent)	3
Mr. Sangay Wangdi	Board Director	1
Ms. Tashi Pem	Board Director	1
Mr. Tshering Tenzin	Board Director (appointed 16th Aug, 2018)	2
Mr. Pemba Wangchuk	Board Director (appointed 16th Aug, 2018)	2

BAC No.	Dates	Members Present	Leave of Absence
58 <sup>th</sup>	3rd February 2018	1. Mr. Tara Nidhi Chimorya Sharma 2. Ms. Tashi Pem	1. Mr. Sangay Wangdi
59 <sup>th</sup>	16th August 2018	1. Mr. Tara Nidhi Chimorya Sharma 2. Mr. Pemba Wangchuk 3. Mr. Tshering Tenzin	None
60 <sup>th</sup>	12th October 2018	1. Mr. Tara Nidhi Chimorya Sharma 2. Mr. Pemba Wangchuk 3. Mr. Tshering Tenzin	None

### 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 two Board Project Steering Committee meetings for Thimphu Corporate Office were held in 2018.

Details of the Board PSC-TCO held in 2018 are as follows:

Name of Director	Category	No. of Board PSC-TCO attended in 2018
Dasho Sangay Khandu	Chairperson of Board PSC - TCO	2
Mr. Passang Dorji	Board Director	1
Dasho Ugen Chewang	Chairman of Board PSC - TCO Appointed on 19 <sup>th</sup> June 2018	Nil
Mr. Pemba Wangchuk	Board Director	Nil
Mr. Pema N. Nadik	Board Director/ CEO	2
Mr. Dorji Kadin	Board Director/ Director -Corporate Services	2

Board PSC-TCO No.	Dates	Members Present	Leave of Absence
11 <sup>th</sup>	16 <sup>th</sup> January 2018	1. Dasho Sangay Khandu 2. Mr. Passang Dorji 3. Mr. Pema N. Nadik 4. Mr. Dorji Kadin	None
12 <sup>th</sup>	16 <sup>th</sup> March 2018	1. Dasho Sangay Khandu 2. Mr. Pema N. Nadik 3. Mr. Dorji Kadin	None

### Board Remuneration

The following table contains the details of the remuneration paid to the Chief Executive Officer and the Board Directors during the year 2018:

Sl.	Particulars	For the year ended 31.12.2018	For the year ended 31.12.2017
<b>(a).</b>	<b>Remuneration, Allowances, etc paid to Chief Executive Officer:</b>		
	(i) Salary, Allowances, bonus and Encashment of Leave	2,587,260.73	2,400,892.87
	(ii) Contribution to Provident Fund	111,936.00	109,524.00
	(iii) Sitting fee	116,000.00	132,000.00
	<b>TOTAL</b>	<b>2,815,196.73</b>	<b>2,642,416.87</b>
<b>(b)</b>	<b>Sitting fee paid to the Directors</b>	<b>464,000.00</b>	<b>582,000.00</b>





### **Annual General Meeting:**

The 51st Annual General Meeting (AGM) was held on 12th March 2019 at the Conference Hall of Le Meridien Hotel in Thimphu and the AGM was attended by the shareholders, Board Directors and the key members of the management team

### **Extra-ordinary General Meeting:**

The 7th Extra-ordinary General Meeting (EGM) was held on 19th June 2019 at the BoB Conference Hall, City Office, NWAB Building, Thimphu and the EGM was attended by the shareholders and the CEO

### **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 risk 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 administrated by various risk management policies, activities and exercise, which are updated to the management and 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 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 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 December 31, 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 and of its financial performance and its cash flows for the year then ended, in accordance with Bhutanese Accounting Standards.

### 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 Company in accordance 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.

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 notes in the financial statements:

**a) Note No. 7.3.a;** Re: Non-reconciliation of the cover fund, draft cover and principal accounts maintained with the State Bank of India, India, resulting in non-accounting/ adjustment/ reversal of the entries of Nu. 239.77 million and Nu. 308.90 million lying debit and credit respectively in these accounts,

with consequential impact on the financial statements, if any.

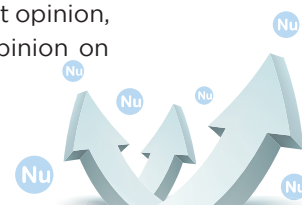
**b) Note No. 7.3.b;** Re: Non-reconciliation of the nostro accounts maintained with various foreign banks resulting in non-accounting / adjustment / reversal of the entries of Nu. 131.76 million and Nu. 190.42 million lying debit and credit respectively in these accounts, with consequential impact on the financial statements, if any.

**c) Note No. 7.11;** Re: Preparation of the financial statements with adoption of Bhutanese Accounting Standards (BAS) of Phase -III, as applicable to the Bank, and resultant impact thereof due to change in the accounting policies adopted as per BAS (Phase-III) as compared to those followed earlier under GAAP.

Our opinion is not qualified in respect of these matters.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether due to fraud or error) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarize below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.



Key Audit Matters	How our matter was addressed in the audit
<p><b><u>Impairment of Loans and Advances to Customers</u></b></p> <p>The assessment of impairment of loans and advances to customers involves significant judgement. The Bank adopts an individual impairment assessment approach for individually significant loans; and a collective impairment assessment approach for loans not individually significant or not individually impaired. Under the collective approach, assessment of future cash flows for loan portfolios is based on historical loss experience of loans with similar credit risk characteristics, with adjustments based on the impact from changes of and uncertainties in the macro-economic environment. The future cash flows of loans without collateral or guarantees, or loans that are not adequately collateralised, are subject to higher uncertainties.</p> <p>Since loan impairment assessment involves judgement and assumptions, and in view of the significance of the amount (as at December 31, 2018, loans and advances to customers amounted to Nu. 35,514 million, representing 64% of total asset), it is Key Audit Matter in our audit</p>	<p><b><u>Our Audit Procedure::</u></b></p> <p>We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including testing of relevant data quality and information systems.</p> <p>We adopted a risk-based sampling approach in our loan review procedures. We assessed the borrowers' repayment capacity and evaluated the Bank's loan classification, taking into consideration post-lending investigation reports, borrowers' financial information, collateral valuation reports and other available information.</p> <p>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.</p> <p><b><u>Our Results:</u></b></p> <p>The results of our audit process were found to be adequate and reliable considering the materiality of the transactions and the observations</p>

### **Fair Value measurement of Financial Instruments**

(Refer to Note 4.15 to the financial statements)

Fair value of financial assets and financial liabilities has been measured using valuation techniques including the Discounted Cash Flow (DCF) model etc. where the financial instruments are not quoted in active market. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility, which involve high degree of the estimation and judgement and could affect the reported fair value of financial instruments.

### **Our Audit Procedure:**

The Bank has involved an external valuation expert for Fair Value measurement of Financial Instruments, and the Bank has carried out the valuation of the Financial Instruments based on the report / working of the expert after applying their own judgment and estimates. We have conducted the verification of the data provided to the expert by the Bank with respect to its correctness and completeness, as compared to the financial accounts / records of the Bank, and has held closed interaction with the management and expert to understand their process and results and the implementation and usage of valuation models. This included the review of the controls over adjustments to mitigate model limitations and assumptions. We have particularly focused more on the loans and advances, by adopting audit programmes and process to ensure the coverage of each significant loan individually so as to ensure its correct stage wise classification as per prudential regulations issued by the Royal Monetary Authority of Bhutan (RMA), and then has reviewed the reasonableness of the assumption and technique model used by the expert for their fair valuation. \_

### **Our Results:**

The results of our testing were satisfactory and we considered the fair value of the financial instruments (assets and liabilities) recognised to be acceptable.





### **Reliability and Security of IT System**

The financial reporting process is highly dependent on information technology and the availability of complete and accurate electronic data due to the size and the complexity of the Bank. The inadequate / in correct data feeding or inappropriate granting of or ineffective monitoring of access rights to IT systems, or inadequate security of the IT system and electronic data, if any, therefore, could present a risk to the accuracy of financial reporting, and could have a material effect on the completeness and accuracy of the financial statements.

### **Our Audit Procedure:**

We obtained an understanding of the Bank's business IT related control environment. Furthermore, we conducted a risk assessment and identified IT applications, databases and operating systems that are relevant to our audit.

For relevant IT-dependent controls within the financial reporting process (so-called IT application controls) we identified supporting general IT controls and evaluated their design, implementation, and operating effectiveness. We tested key controls particularly in the area of access protection and linkage of such controls to the completeness and accuracy of financial reporting.

### **Our Results:**

Based on the results of our key controls testing and substantive audit procedures, we consider the IT access management in the financial reporting process, generally address the requirements for completeness and accuracy of financial reporting relevant data. In cases where we identified control deficiencies, we found that compensating controls were in place and tested other compensating evidence to address the risk of material misstatement over the financial statements

### **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 the Bhutanese Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, 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 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 the 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

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

As required by Section 266 of the Companies Act of Bhutan, 2016, we enclose in the **Annexure** - A hereto statement on the 'Minimum Audit Examination and Reporting Requirements' to the extent applicable to the Bank.

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

- i)** We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

- ii)** In our opinion, proper books of accounts have been kept by the Bank so far as appears from our examination of those books;

- iii)** The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows dealt with by this report are in agreement with the books of account.

- iv)** Based on the information, explanations and management representations received during the course of our audit, the Bank has complied with all the applicable and relevant legal and regulatory requirements.

**For S.P. CHOPRA & CO.**

Chartered Accountants

**ICAI Firm Regn. No. 000346N**

**Pawan K. Gupta**

**Partner**

**M. No. 092529**

## ANNEXURE - A

### TO AUDITOR'S REPORT TO THE MEMBERS OF BANK OF BHUTAN LIMITED FOR THE YEAR 2018

#### Report On 'Minimum Audit Examination and Reporting Requirements'

1. The Bank has maintained proper records of the property, plant & equipment in the assets register to show full particulars including quantitative details and situation of the assets. As explained to us, the property, plant & equipment have been physically verified by the management during the year in a phased/periodical manner which in our opinion is reasonable having regard to the size of Bank and nature of its assets. As informed, no material discrepancies were noted in the physical verification.

2. None of the property, plant & equipment have been revalued during the year.

3. The Bank has not availed any loans, secured or unsecured, therefore the clause regarding the rate of interest and the other terms and conditions of loans availed, and whether the same are prima facie not prejudicial to the interest of the Bank, is not applicable.

4. The Bank has not granted any loans to other companies, firms or other parties, except the loans given in the normal course of its business of banking, therefore the said clause is not applicable.

5. The loans and advances granted by the Bank to its officers/staff are as per the provisions of service rules or as per the business requirement. No instance of excessive / frequent advances or accumulation of large advance against particular individual has been noted during our test verification.

6. In our opinion and according to the information and explanations given to us there are 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 system and procedures. The Bank has adopted and is following the policies and system and procedures, as approved by the Board or the other higher authorities to ensure the existence of a prudent and sound financial management in managing the affairs of the Bank.

7. In our opinion and according to the information and explanations given to us there is adequate system of competitive biddings, commensurate with the size of the Bank and nature of its business, for the purchase of property, plant & equipment and other items such as stationery etc.

8. As per the information and explanations given to us, the transactions of advancing of the loans and for the purchase of the services etc. made in pursuance of contracts or arrangements entered into with the Director/s or any other party related to the Director/s or with companies or firms in which the Director/s are directly or indirectly interested have been made at prices, which are reasonable having regard to the prevailing market rates / prices for such loans or services or at rates / prices at which the transactions for similar loans or services have been made with other parties. However, as the Bank is owned by the Royal Government of Bhutan and there are some transactions with other Government Companies/Agencies, which were generally found to be as per the directives, sanctions, rules and regulations of the Government



**9.** According to the information and explanations given to us, and on the basis of our test verification of the accounts and other records etc., to the best of our knowledge, the expenses charged to the Bank's accounts represent legitimate business expenses and no personal expenses have been debited to the Statement of Comprehensive Income other than those payable under contractual obligations / service rules.

**10.** Based on test verification of the records and as per the information and explanations given to us, in our opinion, the Bank is regular in depositing rates, taxes, duties, royalties, provident funds, and other statutory dues with the appropriate authorities. Further, the corporation tax was found to be adequately computed and deposited timely in accordance with the current applicable Taxation laws, and has been appropriately disclosed in the financial statements.

**11.** Based on test verification of the records and as per the information and explanations given to us, there was no undisputed amount payable in respect of rates, taxes, duties, royalties, provident funds and other statutory deductions at the yearend other than tax deducted at source (TDS) which was later on paid within the stipulated time period.

**12.** According to the information and explanations given to us, and on the basis of our test verification of the accounts and other records etc., considering the requirements of the funds in the normal banking business, the management of the Bank's liquid resources particularly cash/bank and short term deposits

etc. are adequate and no excessive amount is lying idle in non-interest bearing accounts.

**13.** According to the information and explanations given to us, and on the basis of test examination of books and records, in our opinion and to the best of our knowledge, the activities carried out by the Bank are lawful and intra vires to the Articles of Incorporation of the Bank

**14.** On the basis of our test verification and according to the information and explanations given to us, the Bank has system and procedures for obtaining the approval of the Board/ delegated authority for all capital investment and also for the investment in bonds, treasury bills, commercial papers and equity etc. made in the normal banking business and the investments in new projects/ventures are made after considering the technical and economic feasibility of such projects as per the stipulated procedures. *Bank has total investment of Nu. 7,819 Million in bonds, treasury bills, commercial papers and equity etc. as December 31, 2018. Presently these investments are being made based on the recommendations/suggestions of the Treasury Department of the Bank, however, there are no written policies and procedures laid down whereby the key parameters such as Risk, Nature of Security and Percentage of Allocation are assessed before making an Investment decision. The policies and procedures be documented including strengthening of process of documentation of comparative statements, decisions / approvals prior to any new investment / re-investment / maturity.*



**15.** In our opinion, the Bank has established an effective budgetary control system.

**16.** In our opinion and according to the information and explanations given to us, other than the remunerations to the Chief Executive Officer, and sitting fees to other Directors, no other payments in cash or in kind, has been paid to them or any of their relatives, in the nature of remuneration or commission. The remunerations and sitting fees paid to the Chief Executive Officer, and the Directors, are disclosed in the Financial Statement.

**17.** As per the information and explanations given to us and based on our review of the transactions the directives of the Board have been found to be complied with by the Bank.

**18.** On the basis of information received from the management, and on the basis of our review of the records and documents, price sensitive information, to the best of our knowledge, have not been transmitted by any officer of the Bank, unauthorized to any other person with intent to benefit themselves.

**19.** On the basis of test examination of books and records, in our opinion and to the best of our knowledge, proper records are kept for inter unit/branch transactions and services.

**20.** On the basis of test examination of books and records, in our opinion and to the best of our knowledge, the Bank has generally maintained adequate documents and records for the loans and advances granted, and has also drawn up adequate agreements for the same.

**21.** On the basis of test examination of books and records, in our opinion and to the best of our knowledge, proper records of the transactions and contracts for dealing and trading in shares, securities and other investments have been

maintained and timely entries have been made therein.

**22.** On the basis of test examination of books and records, in our opinion and to the best of our knowledge, reasonable records have been maintained by the Bank for deposits of customers and interest payment thereof.

**23.** On the basis of test examination of books and records, in our opinion, the provisions towards permanent diminution, in the value of investments is made wherever, required and considered necessary.

**24.** To the best of our information and according to the information and explanations given to us, the Bank has complied with the requirements of Financial Services Act of Bhutan, 2011 and other applicable laws, rules and regulations and guidelines including prudential regulations issued by the Royal Monetary Authority of Bhutan (RMA).

**25.** In our opinion and according to the information and explanations given to us, the Bank has generally complied with the requirements relating to provisioning for the nonperforming assets including loans and advances



**26.** On the basis of our test verification and as per the information and explanations given to us, in our opinion, the 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, the system of post disbursement inspection of the hypothecated assets (primary and collateral securities) needs to be strengthened by regular and timely inspection and proper documentation of such inspection, as in most of the cases verified by us no report / documentation, in support of such inspection, if any, conducted were found on record. Further, in the case of working capital limits, the system of receipt of the stock/debtors statements needs to be further strengthened to ensure their regular and timely receipts and also the system of documentation of the review of these statements by the Bank' officials need to be introduced to have a robust control over such statements, to avoid the possibility of availment of excess drawing power.*

**27.** To the best of our information and according to the explanations given to us, the Bank has a system of monitoring of the Projects for which loans have been provided to ensure that the loan amounts are used for the specified purposes and project activities are progressing satisfactorily. *To ensure the timely and required disbursement and its utilization it is suggested that the progress of the project be monitored more closely and documented, and site inspection be conducted more frequently depending on the amount of loan, the risk involved and the moratorium period, for which a policy be formulated.*

**28.** To the best our information and according to the explanations given to us, the Bank has a system of calling for open/sealed bids for disposal of assets taken over for repayment defaults.

**29.** On the basis of our test verification, in our opinion and to the best of our knowledge,

the rescheduling of loans was carried out in accordance with the provisions of Prudential Regulations 2016 after a detailed study and analysis of the requirements of the borrowers, however, the said *system needs to be further strengthened as in some cases the rescheduling / re-phasing was permitted based on the letter of the party and study and analysis of the requirements and its viability, if any conducted was not found documented.*

**30.** On the basis of our test verification, in our opinion and to the best of our knowledge, the Bank has a system to ensure that additional loans are not granted to those who have defaulted payments of previous advance

**31.** According to the information and explanations given to us, the loans are written off after following the proper procedures and after receipt of the approval from the designated authorities. During the year loans of Nu. 0.25 million have been written off.

**32.** Computerized Accounting Environment:

- a) The organizational and system development controls and other internal controls were generally found to be adequate in relation to the size and the nature of computer installations.
- b) Adequate safeguard measures and backup facilities exist in the Bank.
- c) Adequate backup facilities and disaster recovery measures including keeping the files in different and remote locations is in place.
- d) The operational controls were generally found to be adequate to ensure correctness and validity of input data and output information.
- e) Adequate measures are in place to control unauthorized access over computer installations and files.

f) As informed, wherever there is data migration during change over to new system, it is managed effectively to ensure completeness and integrity of data as well as smooth operation of the system.

### 33. General :

a) Based on the net asset position reflected by the Statement of Financial Position as at December 31, 2018 and audited by us in accordance with the International Standards on Auditing 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 Statement of Financial Position date.

b) According to the information and explanations given to us and based on the Compliance Checklist compiled by the Bank, the Bank has complied with the provisions of The Companies Act of Bhutan, 2016, including the maintenance of the statutory records wherever required under said Act including as prescribed under Section 228.

c) *The audit of the Bank conducted by us is governed by The Companies Act of Bhutan, 2016, Financial Services Act of Bhutan, 2011 and other applicable laws, rules and regulations and guidelines including prudential regulations issued by the Royal Monetary Authority of Bhutan (RMA). Our scope of work is limited to the examination and review of the Financial Statements as provided to us by the management. In the course of audit we have considered the compliance of the provisions of these Acts. It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Bank, 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 is properly impacted / disclosed in the financial statements.*

d) According to the information and explanations given to us, the Bank has followed the Corporate Governance, which is in accordance and compliant of the provisions of the RMA Corporate Governance Regulations 2011, the Corporate Governance Code and the Ownership Policy developed by the Druk Holding and Investments Ltd., Financial Services Act of Bhutan, 2011, the Companies Act of Bhutan, 2016 and other statutory requirements, to the extent as applicable to the Bank.

e) Financial and Operational Resume of the Bank has been given in enclosed

Exhibit-I.

#### **For S.P. CHOPRA & CO.**

Chartered Accountants

ICAI Firm Regn. No. 000346N

#### **Pawan K. Gupta**

Partner

M. No. 092529



**STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2018**

<b>ASSETS</b>		<b>Note No.</b>	<b>As at 31.12.2018</b>	<b>As at 31.12.2017</b>	<b>As at 01.01.2017</b>
Cash and Cash Equivalents	5.1	2,684,074,343.83	2,257,757,537.88	2,055,682,551.09	
Balances with Central Bank	5.2	6,888,505,302.20	10,617,135,228.81	13,334,743,055.72	
Placements with other Banks	5.3	1,288,666,700.00	1,750,615,600.00	1,985,900,000.00	
Loans & Advances to Customers	5.4	35,513,876,731.44	26,453,361,217.50	20,710,654,821.80	
Financial Investments					
- Held to Maturity	5.5	7,708,343,550.00	8,997,203,891.44	5,508,171,613.00	
- Available for sale	5.6	339,453,419.52	291,755,647.56	295,191,293.88	
Investments in Associates	5.7	41,223,409.27	42,382,877.98	41,452,487.93	
Other Financial Assets	5.8	338,494,453.63	231,330,389.00	332,182,531.74	
Other Assets	5.9	249,945,003.95	49,808,309.16	65,582,123.05	
Property, Plant & Equipment	5.10	388,599,987.23	404,120,309.17	396,952,980.02	
Intangible Assets	5.11	121,485,491.55	126,315,866.38	117,161,990.36	
Capital Work-in-Progress	5.12	249,300,610.33	134,131,375.43	79,952,768.26	
<b>TOTAL ASSETS</b>		<b>55,811,969,002.95</b>	<b>51,355,918,250.31</b>	<b>44,923,628,216.85</b>	
<b>LIABILITIES</b>					
Due to Banks	5.13	49,906,617.31	58,726,219.18	139,956,391.63	
Due to Customers	5.14	46,480,451,966.31	42,838,187,176.70	36,492,874,675.65	
Subordinated Liabilities	5.15	-	-	500,000,000.00	
Current Tax Liabilities	5.16	262,681,527.47	70,497,499.62	230,388,901.84	
Other Financial Liabilities	5.17	1,364,622,126.98	1,366,552,100.09	1,143,994,251.44	
Provision for Liabilities & Charges	5.18	12,015,690.85	13,514,114.03	26,735,506.19	
Retirement Benefit Obligations	5.19	152,295,170.00	133,541,220.00	123,836,170.00	
Other Liabilities	5.20	365,372,360.74	494,768,470.24	409,204,333.28	
Deferred Tax Liabilities	5.21	49,860,487.11	40,752,652.92	5,061,183.94	
<b>TOTAL LIABILITIES</b>		<b>48,737,205,946.77</b>	<b>45,016,539,452.78</b>	<b>39,072,051,413.97</b>	
<b>EQUITY</b>					
Share Capital	5.22	3,000,000,000.00	3,000,000,000.00	3,000,000,000.00	
Reserve Fund	5.23	1,853,534,689.42	1,333,120,806.30	979,362,937.39	
Exchange Fluctuation Reserve	5.23	236,607,530.61	205,731,717.74	196,681,812.67	
Retained Earnings	5.23	2,034,660,069.84	1,889,829,963.43	1,761,841,905.29	
Other Comprehensive loss	5.23	(50,039,233.69)	(89,303,689.94)	(86,309,852.47)	
<b>TOTAL EQUITY</b>		<b>7,074,763,056.18</b>	<b>6,339,378,797.53</b>	<b>5,851,576,802.88</b>	
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>55,811,969,002.95</b>	<b>51,355,918,250.31</b>	<b>44,923,628,216.85</b>	
Contingent liabilities	5.24	3,791,935,061.82	4,552,691,770.92	3,722,326,614.33	
Bills for Collection	5.25	193,305.00	477,994.50	529,042.50	
Significant Accounting Policies	1-4				
Notes to Accounts	7				
Disclosures Related to Abandoned Property	7.12				
Macro Prudential Disclosures	7.13				

\*The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2018

Particulars	Note No.	For the year ended 31.12.2018	For the year ended 31.12.2017
Interest Income	6.1	3,464,847,469.47	2,691,054,590.62
Interest Expenses	6.2	(1,471,733,570.78)	(1,228,597,868.92)
<b>NET INTEREST INCOME</b>		<b>1,993,113,898.69</b>	<b>1,462,456,721.70</b>
Fees & Commission Income	6.3	323,524,701.59	295,065,649.30
Fees & Commission Expense	6.4	(72,338,595.44)	(65,560,994.29)
Net Gains from Trading of Foreign Exchange	6.5	123,503,251.47	36,199,620.28
Other Operating Income	6.6	108,229,797.59	47,128,070.67
<b>NET NON INTEREST INCOME</b>		<b>482,919,155.21</b>	<b>312,832,345.96</b>
<b>TOTAL OPERATING INCOME</b>		<b>2,476,033,053.90</b>	<b>1,775,289,067.66</b>
Staff Costs	6.7	(358,745,521.37)	(385,951,632.33)
Premises Costs	6.8	(88,036,049.49)	(76,746,228.19)
General Administrative Expenses	6.9	(221,154,817.80)	(161,753,385.55)
Depreciation on Property, plant & equipment	6.10	(56,116,134.61)	(54,340,984.64)
Amortization of Intangible Assets	6.11	(24,265,913.39)	(21,786,499.34)
Impairment (loss)/reversal on loans and advances	5.4	(250,369,937.30)	63,735,687.49
<b>TOTAL OPERATING EXPENSES</b>		<b>(998,688,373.96)</b>	<b>(636,843,042.56)</b>
<b>PROFIT BEFORE TAXATION</b>		<b>1,477,344,679.94</b>	<b>1,138,446,025.10</b>
Tax Expenses	6.12		
- Current tax		(433,511,548.19)	(330,758,416.00)
- Current tax - earlier year's		(12,697,221.34)	-
- Deferred tax		9,691,855.82	(16,891,776.98)
<b>NET PROFIT FOR THE YEAR</b>		<b>1,040,827,766.23</b>	<b>790,795,832.12</b>
<b>Other Comprehensive Income (Loss)</b>			
Actuarial (Loss)/Gain on Retirement Benefits		(10,391,210.00)	1,964,740.02
Net Gains/(Losses) from Financial Instruments designated at Fair Value through OCI		46,538,303.25	(2,505,256.27)
<b>Other Comprehensive Income (Loss) Before Tax</b>		<b>36,147,093.25</b>	<b>(540,516.25)</b>
Tax impact on Other Comprehensive Income	6.12	3,117,363.00	(589,422.00)
<b>Other Comprehensive Income, (Loss) net of Tax</b>		<b>39,264,456.25</b>	<b>(1,129,938.25)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,080,092,222.48</b>	<b>789,665,893.87</b>
<b>Basic &amp; Diluted Earnings Per Share</b>	<b>6.13</b>	<b>34.69</b>	<b>26.36</b>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.





**STATEMENT OF CHANGES TO EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2018**

	Share Capital	Reserve Fund	Exchange Fluctuation Reserve	Retained Earnings	Other Comprehensive Income / (Loss)	Total
<b>As at January 01, 2017</b>	<b>3,000,000,000.00</b>	<b>979,362,937.39</b>	<b>196,681,812.67</b>	<b>1,761,841,905.29</b>	<b>(86,309,852.47)</b>	<b>5,851,576,802.88</b>
Profit for the year	-	-	-	790,795,832.12	-	790,795,832.12
Dividends Paid	-	-	-	(300,000,000.00)	-	(300,000,000.00)
Transfer from Other Comprehensive Income	-	-	-	-	(1,129,938.25)	(1,129,938.25)
Other adjustments	-	-	-	-	(1,863,899.22)	(1,863,899.22)
Transfer to Reserve Fund	-	353,757,868.91	-	(353,757,868.91)	-	-
Transfer to Exchange Fluctuation Reserve	-	-	9,049,905.07	(9,049,905.07)	-	-
<b>As at December 31, 2017</b>	<b>3,000,000,000.00</b>	<b>1,333,120,806.30</b>	<b>205,731,717.74</b>	<b>1,889,829,963.43</b>	<b>(89,303,689.94)</b>	<b>6,339,378,797.53</b>
Profit for the year	-	-	-	1,040,827,766.23	-	1,040,827,766.23
Dividends Paid	-	-	-	(344,707,963.83)	-	(344,707,963.83)
Transfer from Other Comprehensive Income	-	-	-	-	39,264,456.25	39,264,456.25
Transfer to Reserve Fund	-	520,413,883.12	-	(520,413,883.12)	-	-
Transfer to Exchange Fluctuation Reserve	-	-	30,875,812.87	(30,875,812.87)	-	-
<b>As at December 31, 2018</b>	<b>3,000,000,000.00</b>	<b>1,853,534,689.42</b>	<b>236,607,530.61</b>	<b>2,034,660,069.84</b>	<b>(50,039,233.69)</b>	<b>7,074,763,056.18</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2018

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
<b>Cash flows from operating activities</b>		
Profit Before Taxation	<b>1,477,344,679.94</b>	<b>1,138,446,025.10</b>
Add: Depreciation on property, plant & equipment	56,116,134.61	54,340,984.64
Add: Amortization of Intangible Assets	24,265,913.39	21,786,499.34
Add: Impairment loss/(gain) on Loans and advances	250,369,937.30	(166,363,857.39)
Add: Gain on revaluation of foreign currency assets and liabilities	123,503,251.47	36,199,620.28
Less: Net (Gains)/losses from Financial Instruments designated at FVTOCI	(46,538,303.25)	2,505,256.27
<b>Adjustments to Cash Flows from Operating activities (Taken as Cash Flows from Investing Activities)</b>		
(Gain) on Sale of Property Plant and Equipment	-	(1,519,817.00)
Property Plant and Equipment written off	39,447.63	-
Income from Dividends	(20,486,600.00)	(4,357,234.00)
Interest Received on Investments and FDRs	(543,869,621.65)	(402,680,881.67)
<b>Operating profit before changes in operating assets &amp; liabilities</b>	<b>1,320,744,839.44</b>	<b>678,356,595.57</b>
<b>(Increase)/Decrease in operating assets</b>		
Balance with RMA in CRR Account	(835,228,876.59)	(37,991,330.70)
Loans & Advances to customers	(9,310,885,451.24)	(5,694,460,752.81)
Other Financial Assets	(248,150,340.09)	98,346,886.47
Other Assets	(200,139,694.79)	9,794,938.14
<b>Sub-Total</b>	<b>(10,594,404,362.71)</b>	<b>(5,624,310,258.90)</b>
<b>Increase/(Decrease) in operating liabilities</b>		
Due to Customers	3,642,264,789.61	6,345,312,501.05
Due to Banks	(8,819,601.87)	(81,230,172.45)
Other Financial Liabilities	(1,929,973.11)	222,557,848.65
Other Liabilities & Provisions	(57,193,799.19)	114,554,297.23
<b>Sub-Total</b>	<b>3,574,321,415.44</b>	<b>6,601,194,474.48</b>
	<b>(7,020,082,947.27)</b>	<b>976,884,215.58</b>
<b>Net cash (used in)/generated from operating activities before income tax</b>	(5,699,338,107.83)	1,655,240,811.15
Income Tax paid	(250,907,378.68)	(431,859,142.17)
<b>Net cash (used in) /generated from operating activities</b>	<b>(5,950,245,486.51)</b>	<b>1,223,381,668.98</b>



<b>Cash Inflows/(Outflows) from investing activities</b>		
Investment in Commercial Papers	98,235,616.44	(98,235,616.44)
Investment in RMA Discount Bills	1,191,438,800.00	(3,390,076,200.00)
Income from Dividends	20,486,600.00	4,357,234.00
Interest Received on Investments and FDRs	560,541,570.64	401,960,419.67
Purchase of property plant and equipment and capital work in progress	(155,804,495.12)	(114,167,106.98)
Purchase of Intangible assets	(19,435,538.56)	(30,940,375.36)
<b>Net cash generated from/(used in) investing activities</b>	<b>1,695,462,553.40</b>	<b>(3,227,101,645.11)</b>
<b>Cash Inflows/(Outflows) from financing activities</b>		
Movement in Debt and other borrowed funds	-	(500,000,000.00)
Dividend Paid	(344,707,963.84)	(300,000,000.00)
Prior Period adjustments	-	14,911,405.01
<b>Net cash used in financing activities</b>	<b>(344,707,963.84)</b>	<b>(785,088,594.99)</b>
Net Cash used during the year	(4,599,490,896.95)	(2,788,808,571.12)
Cash and cash equivalents at the beginning of the year	10,498,562,763.03	13,287,371,334.15
<b>Cash and cash equivalents at the end of the year</b>	<b>5,899,071,866.08</b>	<b>10,498,562,763.03</b>
<b>Cash and cash equivalents at the end of the year</b>		
Cash in Hand	866,748,643.45	768,699,868.56
Balance with Central Bank in Current Account	1,926,330,822.25	6,490,189,625.45
Placement with other Banks in Deposit Accounts	1,288,666,700.00	1,750,615,600.00
Balance with Other Banks in Current Account	1,817,325,700.38	1,489,057,669.02
<b>Total Cash &amp; cash equivalents at the end of the year</b>	<b>5,899,071,866.08</b>	<b>10,498,562,763.03</b>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

### 1. General Information

- a. 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 Bhutan, 2016 with limited liability. The registered office of the Bank is located at Thimphu, Bhutan.
- b. The Bank is governed by the Companies Act of Bhutan, 2016. Financial Services Act of Bhutan, 2011 and other applicable laws, rules and regulations and guidelines including prudential regulations issued by the Royal

Monetary Authority of Bhutan (RMA).

- c. The financial statements of the Bank for the year ended December 31, 2018 were authorized for issue in accordance with the resolution of the Board of Directors dated February 26, 2018.

### 2. Bhutanese Accounting Standards (BAS)

2.1. Ministry of Finance embarked on the process of developing Accounting Standards to promote high quality financial reporting which are consistent with international practices. Pursuant to this development, the Ministry of Economic Affairs of Royal Government of Bhutan had issued the Accounting Standard

Rules for Companies in Bhutan, 2012, notifying the Bhutanese Accounting Standards ('BAS') to be implemented by the Companies in Bhutan in three phases (I, II and III). Consequently, the Bank had adopted the BAS notified for phase I and phase II with effect from January 1, 2014 and January 1, 2016 respectively in preparing the financial statements from the year 2014 and 2016 onwards to the extent as applicable to the Bank, and the changes in accounting policies consequent on adoption of BAS (phase I and II) had been accounted for in accordance with the transition provisions of the respective BAS, retrospectively by restating the comparatives from the previous GAAP to BAS.

2.2. The Bank during the current year with effect from January 1, 2018, has adopted the BAS (Phase - III), as applicable to the Bank. Consequent upon first time adoption of these BAS, the accounting policies related to BAS (Phase - III) have been changed and accounted for in accordance with the transition provisions of the respective BAS, retrospectively by restating the comparatives for the year 2017 and the resultant impact of such changes in accounting policies up to the transition date has been adjusted in the retained earnings as of January 1, 2017. The reconciliation of the financial statements for the current period prepared under the Bhutanese Accounting Standards and General Accepted Accounting Principles (GAAP) are presented in Notes 7.11.

2.3 As detailed above, the financial statements of the Bank for the current year ended December 31, 2018 have been prepared in accordance with and are compliant with the Bhutanese Accounting Standards (BAS), to the extent as applicable, except as stated otherwise in the financial statements

### **3. Critical accounting estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Although the Bank regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the year in which they become known. Actual results may differ from management's estimates if these results differ from historical experience or other assumptions do not turn out to be substantially accurate, even if such assumptions were reasonable when made. The said estimates are based on the facts and events, that existed as at the date of statement of financial position, or that occurred after that date but provide additional evidence about conditions existing as at the statement of financial position date. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are discussed below.

#### **a. Fair Value measurement of Financial Instruments**

When the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model, etc. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.



#### **b. Impairment of Financial assets**

The impairment provisions of financial assets are based on the incurred loss model, under which the Bank uses judgement in making the relevant assumptions and selecting the inputs to the impairment calculation, based on Bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

#### **c. Impairment of non-Financial assets**

The Bank assesses at each reporting date whether there is an indication that an asset 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. An asset's recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, or other fair value indicators.

#### **d. Useful lives of Property Plant and Equipment**

The Property, Plant and Equipment are depreciated on a pro-rate basis on straight line method over their respective useful lives. Management estimates the useful lives of

these assets as detailed in Note 4.4 below. Changes in the expected level of usage, technological developments, level of wear and tear could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised and could have an impact on the profit in future years.

#### **e. Retirement benefit obligations**

The costs of retirement benefits and present value of the retirement benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, retirement benefit obligations are sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

#### **f. Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues



depending on the conditions prevailing in the respective domicile of the entities.

#### 4. Summary of Significant Accounting Policies

##### 4.1. Basis of preparation

- a. These financial statements are the general purpose financial statements that have been prepared in accordance with and to comply with the Bhutanese Accounting Standards (BAS), the Companies Act of Bhutan, 2016 including the Accounting Standard Rules for Companies in Bhutan, 2012, the Financial Services Act of Bhutan, 2011 and other applicable laws, rules and regulations and guidelines including prudential regulations issued by the Royal Monetary Authority of Bhutan (RMA). Further, as these financial statements have been prepared in accordance with and are compliant with the Bhutanese Accounting Standards (BAS), to the extent as applicable, as detailed in para-2 above, therefore though the loans and advances to the customers have been classified under non-performing assets i.e. sub-standard, doubtful or loss in accordance with the prudential regulations issued by the Royal Monetary Authority of Bhutan, however, the provisions / impairments loss thereon have been provided in accordance with 'BAS 39 – Financial Instruments: Recognition and Measurement' as detailed in para-4.15 (i) c below.
- b. The financial statements have been prepared on the accrual basis of accounting with the historical cost convention and going concern basis except as stated otherwise in the Financial Statements. The preparation of the Financial Statements requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in the process of applying the Bank's accounting policies and the reported amounts of revenue, expenses, assets and liabilities may differ from the estimates, the differences between the actual results and the estimates are

recognised in the period in which the results are known/ materialised. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 above.

- c. The assets and liabilities in the financial statements have been presented in decreasing order of liquidity to provide information, which are more relevant to the financial statements of the Bank, than the current/non-current presentation. The same is as per the exemption given to the financial institution in 'BAS 1: Presentation of Financial Statements'. However, the status of current/ non-current assets and liabilities on the basis of residual maturity is given in the Note 7.9 as disclosure

##### 4.2. Foreign currency translation

###### i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates, referred to as the "functional currency". The functional currency and presentation currency of the Bank is Bhutanese Ngultrum.

###### ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognized in the Statement of Comprehensive Income



### 4.3. 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 single segment of Commercial Banking.

### 4.4 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 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 Bank 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 Bank are categorised as investment property.

### 4.5. Depreciation and amortisation methods, estimated useful lives and residual value

#### Leasehold land

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

#### On other tangible assets

- i) Depreciation is provided on 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 based on the internal technical assessments by its Technical Department, as follows. 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

Asset	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	Over the lease term
Desktops, Servers, Card embossing machine	5
Laptops, printers, scanners, routers, switches, modems, UPS	3

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.

iv) 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.

#### 4.6. Intangible assets

Intangible assets include identifiable capitalized software costs and are recognized at cost of acquisition/implementation less accumulated amortisation and any other provision for impairment losses. Subsequent costs are included only when it is probable that the item associated with the cost will generate future economic benefits and the cost can be reliably measured.

Internally generated intangible assets are recognized only when the asset created can be identified and it is probable that the asset created will generate future economic benefits and the costs can be measured reliably. Otherwise, the expenditure is charged to the Statement of Comprehensive Income for the year of incurring the expenditure.

Amortisation is calculated and recognized using the straight-line basis over the estimated useful life as estimated by the management. The useful lives and the amortization methods are reviewed annually and are adjusted as appropriate at the end of each reporting year, with any changes recognized as a change in the accounting estimate.

An intangible asset is derecognized when disposed of or when no future benefits are expected to arise from the continued use of the asset. The gains and losses are determined by comparing the proceeds with the carrying amount and are recognized in the Statement of Comprehensive Income.

#### 4.7. 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.

#### 4.8. Leases

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

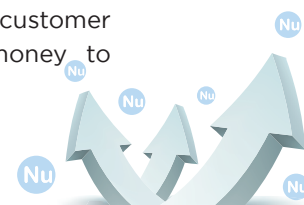
The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.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

Under Finance Lease, Lessee transfers substantially all the risks and rewards incidental to ownership of the asset, though the title may or may not eventually be transferred. The Bank currently has no finance lease arrangement either as Lessor or Lessee.

Under Operating Lease, the Lessee does not transfer substantially all the risks and rewards incidental to ownership. The Bank has taken certain assets on operating lease as Lessee. The Bank under operating lease, recognizes the cost (rental expenses) as an expense in the period in which they are incurred in the Comprehensive Income on a straight-line basis over the lease term. Any fixed cost incurred on the leased assets by the Bank is depreciated or amortized over the initial lease period.

#### 4.9. 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.

#### **4.10. Income Tax**

Current tax assets and liabilities for the current period are measured at the amount expected to be recoverable from or payable to the Income tax authority based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date by the Income Tax Authority.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities and assets are recognized for all taxable temporary differences except when the deferred income tax liability or asset 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 assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Bank intends to settle its current tax assets and liabilities on net basis. Management evaluates positions taken in income tax returns with respect to situations in which applicable income tax regulation is subject to interpretation.

The income tax liabilities are recognized when, despite the Bank's belief that its income tax

return positions are supportable, the Bank believes, it is more likely than not, based on the technical merits, that certain positions may not be fully sustained upon review by income tax authorities. Benefits from tax positions are measured at the single best estimate of the most likely outcome. At each Statement of Financial Position date, the tax positions are reviewed, and to the extent that new information becomes available which causes the Bank to change its judgment regarding the adequacy of existing income tax liabilities, such changes to income tax liabilities are duly recognized in income tax expense in the year in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax charge for the year in which the assessment is completed

#### **4.11. Employee benefits**

##### a) Short Term Employee Benefits

All Employee benefits payable within twelve months of rendering the services are classified as short term benefits. Such benefits include salaries and allowances, performance based incentive and performance based variable allowance, etc., and the same are in the Statement of Comprehensive Income in the period in which the employee renders the related services.

##### b) Other Long Term Benefit

The liability towards encashment of the employees' long term compensated absences, which are partly en-cashable during the service period and balance at the time of retirement / separation of the employees is a long term benefit and is provided for based on actuarial valuation as at the Statement of Financial Position date. The liability is discounted to present value applying the pre-tax rate of return on Government bonds of similar tenure and currency. Increase in the liability due to passage of time is recognized as interest expense. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited

to equity in Other Comprehensive Income in the year in which they arise

c) Defined contribution plan:

Contribution to Provident Fund administered by National Pension and Provident Fund is a defined contribution scheme and is recognized in the Statement of Comprehensive Income as and when they fall due.

d) Defined benefit plan:

The Bank's employees are entitled for post-retirement benefits of Gratuity, Travel Allowance and Separation Allowance. These liabilities are provided for based on actuarial valuation as at the Statement of Financial Position date. The liabilities are discounted to present value applying the pre-tax rate of return on Government bonds of similar tenure and currency. Increase in the liability due to passage of time is recognized as interest expense. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

#### 4.12 Provisions, Contingent Liabilities and Contingent Assets

- a. The Bank creates a provision when there is a present obligation arising as result of past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation, at the balances sheet date and are not discounted to its present value.
- b. A disclosure for a contingent liability is made when there is a present obligation arising as a result of past event that probably will not require an outflow of resources or where a reliable estimate of the obligation cannot be made.

#### 4.13 Revenue recognition

Revenue is recognized to the extent that it is probable that the associated economic benefits

will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

The following specific recognition criteria must also be met before revenue is recognized:

i. Interest income

Interest income on loans and advances is recognized on accrual basis except for non-performing loans and advances, in respect of which the interest income, as per the guidelines issued by the Royal Monetary Authority of Bhutan is deferred and shown under the head "Interest Suspense Account" in the liabilities and net off with gross loan, and is taken to the Statement of Comprehensive Income on actual realization only.

ii. Other Income

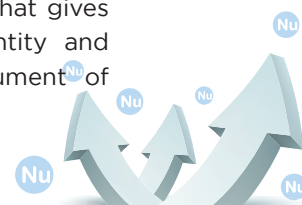
- a. Other items of incomes are accounted for on accrual basis except commission on guarantees and letters of credit, which are accounted for on cash basis.
- b. Dividend income on investments is recognized when the right to receive dividend is established.
- c. Interest income on investment is recognized on time proportion basis taking into account the amount outstanding and applicable interest rates

#### 4.14 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.

#### 4.15 Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.





## **(i) Financial Assets**

### **a. Initial recognition and measurement**

At initial recognition, all financial assets are recognized at its fair value plus, in the case of a financial asset not carried at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

### **b. Classification and subsequent measurement**

For the purpose of subsequent measurement, financial assets are classified in the following categories:

1. Financial assets measured at amortized cost;
2. Financial assets measured at fair value through other comprehensive income (FVTOCI); and
3. Financial assets measured at fair value through profit and loss (FVTPL)

Where financial assets are measured at fair value, gains and losses are either recognized entirely in the Statement of Profit and Loss (i.e. fair value through profit and loss), or recognized in other comprehensive income (i.e. fair value through Other Comprehensive Income).

The classification of financial assets depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

#### **(1) Financial assets measured at amortized cost:**

A financial asset is measured at amortized cost if both the following conditions are met:

- Business Model Test: The objective of the business model is to hold financial asset in order to collect contractual cash flows (rather than to sell the asset prior to its financial maturity to realize its fair value changes); and
- Cash Flow Characteristics Test: Contractual

terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of EIR. EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimates the expected cash flows by considering all the contractual terms of the financial instrument but does not consider the expected credit losses. The EIR amortization is included in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive Income. This category applies to deposits with banks, security deposits, cash and cash equivalents, investments in bonds and treasury bills, loans and advances to customers (including staff), and other advance etc.

#### **(2) Financial instruments measured at Fair Value Through Other Comprehensive Income (FVTOCI):**

A financial instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- Business Model Test: The objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and
- Cash Flow Characteristics Test: The Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on principal amount outstanding.

Financial instruments included within FVTOCI category are measured initially as well as at each reporting period at fair value. Fair value movements

are recognized in Other Comprehensive Income (OCI) except for the recognition of interest income, impairment gains and losses and foreign exchange gain and losses which are recognized in the Statement of Profit and Loss. This category generally applies to investments (other than in bonds and treasury bills) and other advances.

(3) Financial instruments measured at Fair Value Through Profit and Loss (FVTPL)

Fair Value through Profit and Loss is a residual category. Any financial instrument, which does not meet the criteria for categorization as at amortized cost or fair value through other comprehensive income is classified as FVTPL. Financial instruments included in FVTPL category are measured initially as well as at each reporting period at fair value. Fair value movements i.e. gain or loss and interest income are recorded in Statement of Comprehensive Income

#### **(c) Impairment of financial assets**

The Bank assesses impairment of financial assets, based on the incurred loss model as per 'BAS 39 – Financial Instruments: Recognition and Measurement'. Under the said model, the Bank assesses at the end of each reporting period, whether there is any objective evidence that a financial asset or group of financial assets is impaired, and in that case the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced through Allowance for Impairment Loss Account, and the amount of the loss is recognised in the Statement of Comprehensive Income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the Allowance for Impairment Loss Account, to the extent the impairment loss was

previously recognised on the respective asset. The amount of such reversal is recognised in the Statement of Comprehensive Income.

#### **(d) Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Bank's Statement of Financial Position) when:

- a. The rights to receive cash flows from the asset have been expired/transferred, or
- b. The Bank retains the contractual right to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients

Where the Bank has transferred an asset, it evaluates whether it has substantially transferred all risks and rewards of ownership of the financial asset. In such cases, the financial asset is derecognized. When the Bank has not transferred substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognized. Where the Bank has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of the financial asset, the financial asset is derecognized if the Bank has not retained control of the financial asset. When the entity retains control of the financial asset, the asset is continued to be recognized to the extent of continuing involvement in the financial asset.

#### **(ii) Financial Liabilities**

##### **Initial recognition and measurement**

All financial liabilities are recognized initially at fair value and, in the case of deposits and borrowings and payables, net of directly attributable transaction costs. The Bank's financial liabilities include deposits from customers including banks, borrowings, security deposits and other payables.

##### **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:



### **Financial Liabilities at Fair Value through Profit or Loss (FVTPL)**

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the Statement of Comprehensive Income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in BFRS 9 are satisfied. For liabilities designated as FVTPL, fair value gains/ losses attributable to changes in own credit risks are recognized in Other Comprehensive Income. These gains/ loss are not subsequently transferred to the Statement of Comprehensive Income. However, the Bank may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognized in the statement of comprehensive income. The Bank has not designated any financial liability as at fair value through the Statement of Comprehensive Income.

### **Borrowings, Deposits**

Any difference between the proceeds (net of transaction costs) and the repayment amount is recognized in profit or loss over the period of the liability and subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the Statement of Comprehensive Income when the liabilities are derecognized as well as through the EIR amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit and loss

### **Financial Guarantee Contract**

Financial guarantee contracts issued by the Bank are those contracts that require a payment to be made to reimburse the holder for loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of loss allowance determined as per impairment requirements of BAS 39 and the amount recognized less cumulative amortization.

### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the Statement of Comprehensive Income.

(iii) Off-setting of financial instruments:

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

### **4.16 Impairment of Non-Financial Assets**

The Bank assesses, at each reporting date, using external and internal sources, whether there is an indication that a non-financial asset may be impaired and also whether there is an indication of reversal of impairment loss recognised in the previous period/s. If any indication exists, or when annual impairment testing for an asset is required,

the Bank determines the recoverable amount and impairment loss is recognised when the carrying value of an asset exceeds its recoverable amount.

The recoverable amount is determined:

-In the case of an individual asset, at the higher of the asset's fair value less cost of sell and value in use; and

-In the case of cash generating unit (a group of assets that generates identified, independent cash flows) at the higher of the cash generating unit's fair value less cost to sell and value in use.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that effects current market assessments of the time value of money and the risks specific to that asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An impairment loss for an asset is reversed, if and only if, the reversal can be related objectively to an event occurring after the impairment loss was recognized, the carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss being

recognized for the asset in prior year/s

#### 4.17 Earnings Per share

The Bank presents the basic and diluted EPS data for its ordinary shares. Basic EPS is computed by dividing the Other Comprehensive Income for the year attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is computed by adjusting the Other Comprehensive Income for the year attributable to the ordinary shareholders and by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

#### 14.18 Dividend Distribution

Dividend on ordinary shares is recognized as a liability and deducted from equity when it is approved by the Shareholders of the Bank. Interim Dividend is deducted from equity when it is declared. Dividend for the year that is approved after the reporting date is disclosed as an event after the reporting date.

#### 14.19 Comparative information

The previous year's figures have been regrouped/rearranged wherever considered necessary, to conform to the current year's presentation.



Notes forming part of the Statement of Financial Position as at 31<sup>st</sup> December 2018

**NOTE 5.1 - CASH AND CASH EQUIVALENTS**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>CASH IN HAND</b>			
- Local Currency	818,759,818.61	733,221,581.69	689,529,606.74
- Foreign Currency	47,988,824.84	35,478,287.17	54,491,780.29
<b>Balances in Current Accounts</b>			
- Local Banks	200,000.00	200,000.00	14,268,055.55
- Foreign Banks	1,817,125,700.38	1,488,857,669.02	1,297,393,108.51
<b>TOTAL</b>	<b>2,684,074,343.83</b>	<b>2,257,757,537.88</b>	<b>2,055,682,551.09</b>

**NOTE 5.2 - BALANCES WITH CENTRAL BANK**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>Balances with Royal Monetary Authority (RMA)</b>			
- Cash Reserve	4,962,174,479.95	4,126,945,603.36	4,088,954,272.66
- Current Account	1,926,330,822.25	6,490,189,625.45	9,245,788,783.06
<b>TOTAL</b>	<b>6,888,505,302.20</b>	<b>10,617,135,228.81</b>	<b>13,334,743,055.72</b>

**NOTE 5.3 - PLACEMENTS WITH OTHER BANKS**

Amount in Ngultrum

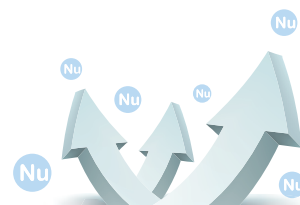
	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>On Deposit Accounts</b>			
- Local Banks	800,000,000.00	1,550,000,000.00	1,850,000,000.00
- Foreign Banks (Refer note 7.4)	488,666,700.00	200,615,600.00	135,900,000.00
<b>TOTAL</b>	<b>1,288,666,700.00</b>	<b>1,750,615,600.00</b>	<b>1,985,900,000.00</b>



## NOTE 5.4 - LOANS &amp; ADVANCES TO CUSTOMERS

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>Gross Loans &amp; Advances</b>	<b>36,432,194,226.47</b>	<b>27,213,788,266.09</b>	<b>21,493,828,059.76</b>
Less: Interest in Suspense	(122,390,214.50)	(183,006,910.48)	(149,501,734.57)
Less: Fair Value adjustment of Staff loans	(29,946,940.83)	(62,094,425.21)	(54,661,151.00)
<b>Gross Loans &amp; Advances after adjustment</b>	<b>36,279,857,071.14</b>	<b>26,968,686,930.40</b>	<b>21,289,665,174.19</b>
Less: Allowance for Impairment Loss			
- Individually assessed	33,302,588.20	12,879,699.76	2,397,019.13
- Collectively assessed	732,871,056.50	502,924,007.64	577,142,375.76
<b>Total Allowance for Impairment Loss</b>	<b>766,173,644.70</b>	<b>515,803,707.40</b>	<b>579,539,394.89</b>
<b>Net Loans &amp; Advances</b>	<b>35,513,683,426.44</b>	<b>26,452,883,223.00</b>	<b>20,710,125,779.30</b>
Bills discounted & purchased	193,305.00	477,994.50	529,042.50
<b>TOTAL</b>	<b>35,513,876,731.44</b>	<b>26,453,361,217.50</b>	<b>20,710,654,821.80</b>
<b>Current/Non-Current Portion</b>			
a. Current portion	5,130,026,069.86	3,565,634,505.33	3,450,324,280.62
b. Non-Current portion	30,383,850,661.58	22,887,726,712.17	17,260,330,541.18
<b>TOTAL</b>	<b>35,513,876,731.44</b>	<b>26,453,361,217.50</b>	<b>20,710,654,821.80</b>
<b>PARTICULARS OF ADVANCES</b>			
i Debts considered good in respect of which Bank is fully secured	31,292,454,866.78	22,276,831,037.90	16,799,983,121.50
ii Debts considered good for which Bank holds no other security than the Debtor's personal security	541,283,133.54	756,016,072.11	888,616,882.23
iii Debts considered good, secured by the personal liability of one or more parties in addition to the personal security of the Debtors	4,598,456,226.15	4,180,941,156.08	3,805,228,056.03
<b>TOTAL</b>	<b>36,432,194,226.47</b>	<b>27,213,788,266.09</b>	<b>21,493,828,059.76</b>



iv	Debts due by directors, managers or officers of Bank or any of them either severally or jointly with any other person	581,597,811.53	634,027,415.31	498,990,889.12
	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	649,963,415.31	638,027,415.31	502,990,889.12
v	Debts due by companies, firms in which the directors of Bank are interested as directors, partners or members	1,025,699,808.92	979,428,260.02	214,526,511.46
	Maximum amount of advances, including temporary advances outstanding during the year to the companies or firms in which directors of Bank are interested as directors, partners or members	1,025,699,808.92	979,428,260.02	214,526,511.46

**NOTE 5.5 - FINANCIAL INVESTMENTS - HELD TO MATURITY**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>Bonds, Commercial Papers &amp; Treasury Bills</b>			
1,414,917 Bonds of Dungsam Cement Corporation Limited of Face Value of Nu. 1000 each	1,414,917,000.00	1,414,917,000.00	1,414,917,000.00
157,550 Bonds of Royal Securities Exchange of Bhutan Ltd. of Face Value of Nu. 1000 each	157,550,000.00	157,550,000.00	157,550,000.00
102,270 Bonds of Tashi Air Limited of Face Value of Face Value of Nu. 1000 each	102,270,000.00	102,270,000.00	102,270,000.00
3,000,000 Bonds of Bhutan Telecom Limited of Face Value of Nu. 100 each	300,000,000.00	300,000,000.00	300,000,000.00
2,469,450 Bonds of Zimdra Limited of Face Value of Nu. 100 each	246,945,000.00	246,945,000.00	246,945,000.00
DHI Seed Fund	7,079,350.00	6,265,275.00	5,544,813.00
Royal Monetary Authority (RMA) Treasury Bills	5,479,582,200.00	6,671,021,000.00	3,280,944,800.00
Commercial Papers		98,235,616.44	
<b>TOTAL</b>	<b>7,708,343,550.00</b>	<b>8,997,203,891.44</b>	<b>5,508,171,613.00</b>

**NOTE 5.6 - FINANCIAL INVESTMENTS - AVAILABLE FOR SALE**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>Equity Shares - Fully Paid Up</b>			
1,724,000 Equity Shares of Bhutan Board Products Limited of Face Value of Nu. 10 each	19,739,800.00	17,240,000.00	17,240,000.00
12,726 Equity Shares of Bhutan Development Bank Limited of Face Value of Nu. 1,000 each	61,090,196.22	83,904,446.78	76,222,779.32
1,584,500 Equity Shares of Bhutan Carbide & Chemicals Limited of Face Value of Nu. 10 each	110,915,000.00	110,915,000.00	118,837,500.00
503,800 Equity Shares of Bhutan Ferro Alloys Limited of Face Value of Nu. 10 each	30,228,000.00	30,228,000.00	30,228,000.00
37,950 Equity Shares of Penden Cement Authority Limited of Face Value of Nu. 10 each	3,491,400.00	2,504,700.00	1,958,220.00
1,182,720 Equity Shares of Druk Ferro Alloys Limited of Face Value of Nu. 10 each	66,989,260.80	21,880,320.00	26,019,840.00
1,270,440 Equity Shares of State Trading Corpn. of Bhutan Limited of Face Value of Nu. 10 each	43,830,180.00	22,232,700.00	22,232,700.00
17,500 Equity Shares of Credit Information Bureau of Face Value of Nu. 100 each	3,169,582.50	2,850,480.78	2,452,254.56
<b>TOTAL</b>	<b>339,453,419.52</b>	<b>291,755,647.56</b>	<b>295,191,293.88</b>



**NOTE 5.7 - INVESTMENTS IN ASSOCIATES**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>Equity Shares - Fully Paid Up</b>			
162,000 Equity Shares of Royal Securities Exchange of Bhutan Ltd. of Face Value of Nu. 100 each	21,655,299.21	21,599,006.32	21,181,583.41
1,800,000 Equity Shares of Financial Training Institution of Face Value of Nu. 10 each.	19,568,110.06	20,783,871.66	20,270,904.52
<b>TOTAL</b>	<b>41,223,409.27</b>	<b>42,382,877.98</b>	<b>41,452,487.93</b>

**NOTE 5.8 - OTHER FINANCIAL ASSETS**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Accrued Interest	89,628,052.92	107,114,076.91	100,699,058.73
Receivables relating to Visa/Mastercard/BFS	201,028,368.93	80,566,763.10	186,099,575.83
Stamps, Sundry Deposits and Amounts Recoverable	47,838,031.78	43,649,548.99	45,383,897.18
<b>TOTAL</b>	<b>338,494,453.63</b>	<b>231,330,389.00</b>	<b>332,182,531.74</b>

**NOTE 5.9 - OTHER ASSETS**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Prepaid Expenses	14,968,297.29	2,732,227.15	3,356,024.52
Stationery	16,227,689.65	17,802,928.52	13,805,858.89
Building Materials	291,985.72	291,985.72	291,985.72
Inter Branch Adjustment (net)	-	101,679.08	87,679.08
Axis Bank Pre-paid Cards	-	390,567.39	1,652,375.99
Advances to Suppliers & Others	218,457,031.9	28,488,921.30	46,388,198.85
<b>TOTAL</b>	<b>249,945,003.95</b>	<b>49,808,309.16</b>	<b>65,582,123.05</b>

## NOTE 5.10 - PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2018

Gross Block	Amount in Ngultrum							
	Freehold Land	Buildings & Civil Structures	Furniture & Fixtures	Office Equipment & Machines	Vehicle	Computer & IT Equipment	Total	
Balance as at January 1, 2018	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	
Additions	3,385,174.22	9,769,102.27	890,172.13	12,797,282.05	-	13,793,529.63	40,635,260.30	
Deletions/Adjustments	-	-	-	-	-	(61,378.34)	(61,378.34)	
Closing Balance as at December 31, 2018	166,181,409.78	113,580,662.21	42,622,501.09	190,181,917.21	45,013,811.65	271,029,240.76	828,609,542.70	
Accumulated Depreciation								
Balance as at January 1, 2018	-	(39,366,474.95)	(29,552,299.75)	(108,606,736.18)	(11,599,491.25)	(194,790,349.45)	(383,915,351.57)	
Depreciation on deletions and adjustments	-	-	-	-	-	21,930.71	21,930.71	
Depreciation for the year	-	(3,744,389.29)	(3,793,969.48)	(15,297,754.97)	(3,983,745.38)	(29,296,275.49)	(56,116,134.61)	
Balance as at December 31, 2018	-	(43,110,864.24)	(33,346,269.23)	(123,904,491.15)	(15,583,236.63)	(224,064,694.23)	(440,009,555.47)	
Net Book Value as at December 31, 2018	166,181,409.78	70,469,797.97	9,276,231.86	66,277,426.06	29,430,575.02	46,964,546.53	388,599,987.23	



As at December 31, 2017 & January 01, 2017

Amount in Ngultrum

	Freehold Land	Buildings & Civil Structures	Furniture & Fixtures	Office Equipment & Machines	Vehicle	Computer & IT Equipment	Total
<b>Gross Block</b>							
<b>Balance as at January 01, 2017</b>	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)
<b>Closing Balance as at December 31, 2017</b>	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
<b>Accumulated Depreciation</b>							
<b>Balance as at January 01, 2017</b>	-	(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/adjustments	-	-	-	-	4,179,018.20	-	4,179,015.18
Depreciation for the year	-	(4,056,719.34)	(3,963,621.56)	(17,385,210.33)	(1,777,789.12)	(27,157,647.31)	(54,340,984.64)
<b>Balance as at December 31, 2017</b>	-	(39,366,474.95)	(29,552,299.75)	(108,606,736.18)	(11,599,491.25)	(194,790,349.45)	(383,915,351.57)
<b>Net Book Value as at December 31, 2017</b>	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
<b>Net Book Value as at January 01, 2017</b>	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 5.11 - INTANGIBLE ASSETS**

Amount in Ngultrum

	Software
<b>Gross Block</b>	
<b>Balance as at January 01, 2018</b>	<b>185,343,589.22</b>
Additions	19,435,538.56
<b>Closing Balance as at December 31, 2018</b>	<b>204,779,127.78</b>
<b>Accumulated Amortization</b>	
<b>Balance as at January 1, 2018</b>	<b>(59,027,722.84)</b>
Amortization for the year	(24,265,913.39)
<b>Balance as at December 31, 2018</b>	<b>(83,293,636.23)</b>
<b>Net Book Value as at December 31, 2018</b>	<b>121,485,491.55</b>
<b>Gross Block</b>	
<b>Balance as at January 01, 2017</b>	<b>154,403,213.86</b>
Additions	30,940,375.36
<b>Closing Balance as at December 31, 2017</b>	<b>185,343,589.22</b>
<b>Accumulated Amortization</b>	
<b>Balance as at January 1, 2017</b>	<b>(37,241,223.50)</b>
Amortization for the year	(21,786,499.34)
<b>Balance as at December 31, 2017</b>	<b>(59,027,722.84)</b>
<b>Net Book Value as at December 31, 2017</b>	<b>126,315,866.38</b>
<b>Net Book Value as at January 01, 2017</b>	<b>117,161,990.36</b>

**NOTE 5.12 - CAPITAL WORK IN PROGRESS**

Amount in Ngultrum

<b>Balance as at January 1, 2018</b>	<b>134,131,375.43</b>
Additions	121,414,853.91
Deletions/Adjustments/ Capitalization	(6,245,619.01)
<b>Balance as at December 31, 2018</b>	<b>249,300,610.33</b>
<b>Balance as at January 1, 2017</b>	<b>79,952,768.26</b>
Additions	54,178,607.17
Deletions/Adjustments / Capitalization	-
<b>Balance as at December 31, 2017</b>	<b>134,131,375.43</b>



**NOTE 5.13 - DUE TO BANKS**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Current Deposits	49,906,617.31	58,726,219.18	137,009,673.03
Term Deposits	-	-	2,946,718.60
<b>TOTAL DEPOSITS BY BANKS</b>	<b>49,906,617.31</b>	<b>58,726,219.18</b>	<b>139,956,391.63</b>

**NOTE 5.14 - DUE TO CUSTOMERS**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>i) DEMAND DEPOSITS</b>			
Current Accounts	20,307,918,179.25	18,663,015,013.94	15,608,867,272.31
Savings Bank Accounts	15,553,389,348.67	12,818,463,287.29	10,808,920,368.95
	<b>35,861,307,527.92</b>	<b>31,481,478,301.23</b>	<b>26,417,787,641.26</b>
<b>ii) TERM DEPOSITS</b>			
	10,619,144,438.39	11,356,708,875.47	10,075,087,034.39
<b>TOTAL</b>	<b>46,480,451,966.31</b>	<b>42,838,187,176.70</b>	<b>36,492,874,675.65</b>
<b>Current/Non-Current Portion</b>			
a. Current portion	39,903,648,728.13	35,034,691,072.95	31,461,427,505.70
b. Non-Current portion	6,576,803,238.18	7,803,496,103.75	5,031,447,169.95
<b>TOTAL</b>	<b>46,480,451,966.31</b>	<b>42,838,187,176.70</b>	<b>36,492,874,675.65</b>

**NOTE 5.15 - SUBORDINATED LIABILITIES**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Subordinated Debt Issue to Government	-	-	500,000,000.00
	-	-	<b>500,000,000.00</b>

**NOTE 5.16 - CURRENT TAX LIABILITIES**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Income Tax Payable	430,394,185.19	293,748,452.95	422,916,370.00
Less: Advance Tax	(146,874,226.97)	(211,458,185.00)	(186,292,476.00)
Tax Deducted at Source (TDS)	(20,838,430.75)	(11,792,768.33)	(6,234,992.16)
<b>TOTAL</b>	<b>262,681,527.47</b>	<b>70,497,499.62</b>	<b>230,388,901.84</b>

**NOTE 5.17 - OTHER FINANCIAL LIABILITIES**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Interest Accrued & Due	1,242,427,519.06	1,248,360,118.69	1,019,694,048.69
Payables relating to Visa/Mastercard	66,521,565.27	61,173,718.66	62,523,629.04
Unearned Commission Income	55,673,042.65	57,018,262.74	61,776,573.71
<b>TOTAL</b>	<b>1,364,622,126.98</b>	<b>1,366,552,100.09</b>	<b>1,143,994,251.44</b>

**NOTE 5.18 - PROVISION FOR LIABILITIES & CHARGES**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Provision towards frauds/thefts	12,015,690.85	13,514,114.03	26,735,506.19
<b>TOTAL</b>	<b>12,015,690.85</b>	<b>13,514,114.03</b>	<b>26,735,506.19</b>

**NOTE 5.19 - RETIREMENT BENEFIT OBLIGATIONS**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>Provisions for Employee Benefits</b>			
- Gratuity*	112,172,280.00	96,545,000.00	88,572,400.00
- Leave Encashment*	27,012,970.00	25,056,520.00	23,651,770.00
- Separation & Travel Allowance*	13,109,920.00	11,939,700.00	11,612,000.00
<b>TOTAL</b>	<b>152,295,170.00</b>	<b>133,541,220.00</b>	<b>123,836,170.00</b>
<b>Current/Non-Current Portion</b>			
a. Current portion	8,688,690.00	7,878,660.00	8,697,580.00
b. Non-Current portion	143,606,480.00	125,662,560.00	115,138,590.00
<b>TOTAL</b>	<b>152,295,170.00</b>	<b>133,541,220.00</b>	<b>123,836,170.00</b>

\*Refer note 7.1

**NOTE 5.20 - OTHER LIABILITIES**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Drafts & Cash Warrants issued & outstanding	238,691,588.46	346,577,590.32	309,379,031.12
Others (including provisions for operating expenses)	126,680,772.28	148,190,879.92	99,825,302.16
<b>TOTAL</b>	<b>365,372,360.74</b>	<b>494,768,470.24</b>	<b>409,204,333.28</b>

**NOTE 5.21 - DEFERRED TAX LIABILITIES**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Deferred Tax Liabilities (net)	49,860,487.11	40,752,652.92	5,061,183.94
<b>TOTAL</b>	<b>49,860,487.11</b>	<b>40,752,652.92</b>	<b>5,061,183.94</b>



**NOTE 5.22- SHARE CAPITAL**

Amount in Ngultrum

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>AUTHORISED CAPITAL</b>			
100,000,000 Shares of Nu. 100 each	10,000,000,000.00	10,000,000,000.00	10,000,000,000.00
<b>ISSUED AND PAID-UP CAPITAL</b>			
30,000,000 Shares of Nu. 100 each*	3,000,000,000.00	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.

**DETAILS OF SHARES HELD BY EACH SHAREHOLDER HOLDING MORE THAN 5% SHARES**

Amount in Ngultrum

Name of equity shareholder	As at 31.12.2018		As at 31.12.2017		As at 01.01.2017	
	No. of Shares held	% holding in that class of shares	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%	24,000,000.00	80.00%
State Bank of India, India	6,000,000.00	20.00%	6,000,000.00	20.00%	6,000,000.00	20.00%
<b>Total</b>	<b>30,000,000.00</b>	<b>100.00%</b>	<b>30,000,000.00</b>	<b>100.00%</b>	<b>30,000,000.00</b>	<b>100.00%</b>



### RECONCILIATION OF EQUITY SHARE OUTSTANDING

Name of equity shareholder	As at 31.12.2018		As at 31.12.2017		As at 01.01.2017	
	No. of Shares held	Amount	No. of Shares held	Amount	No. of Shares held	Amount
At the beginning of the year	30,000,000	3,000,000,000.00	30,000,000	3,000,000,000.00	30,000,000	3,000,000,000.00
<b>At the end of the year</b>	<b>30,000,000</b>	<b>3,000,000,000.00</b>	<b>30,000,000</b>	<b>3,000,000,000.00</b>	<b>30,000,000</b>	<b>3,000,000,000.00</b>

Amount in Ngultrum

### NOTE 5.23 - RESERVES & SURPLUS

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
<b>RESERVE FUND</b>			
Opening Balance	1,333,120,806.30	979,362,937.39	
Add: Transfer from Retained Earnings	520,413,883.12	353,757,868.91	
	<b>1,853,534,689.42</b>	<b>1,333,120,806.30</b>	<b>979,362,937.39</b>
<b>EXCHANGE FLUCTUATION RESERVE</b>			
Opening Balance	205,731,717.74	196,681,812.67	
Add: Transfer from Retained Earnings	30,875,812.87	9,049,905.07	
	<b>236,607,530.61</b>	<b>205,731,717.74</b>	<b>196,681,812.67</b>
<b>Retained Earnings</b>			
Opening Balance	1,889,829,963.43	1,761,841,905.29	
Less: Dividends Paid	(344,707,963.83)	(300,000,000.00)	
Less: Transfer to Reserve Fund	(520,413,883.12)	(353,757,868.91)	
Less: Transfer to Exchange Fluctuation Reserve	(30,875,812.87)	(9,049,905.07)	
Add: Profit for the year	1,040,827,766.23	790,795,832.12	
	<b>2,034,660,069.84</b>	<b>1,889,829,963.43</b>	<b>1,761,841,905.29</b>

Amount in Ngultrum



<b>Other Comprehensive Loss</b>			
Opening Balance	(89,303,689.94)	(86,309,852.47)	
Add: Transfer from Other Comprehensive Income/ (loss)	39,264,456.25	(1,129,938.25)	
Add: Other adjustments	-	(1,863,899.22)	
	<b>(50,039,233.69)</b>	<b>(89,303,689.94)</b>	<b>(86,309,852.47)</b>
<b>TOTAL</b>	<b>4,074,763,056.18</b>	<b>3,339,378,797.53</b>	<b>2,851,576,802.88</b>

#### NOTE 5.24 - CONTINGENT LIABILITIES

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	771,379,690.66	1,467,228,138.45	1,323,824,741.14
Guarantees Issued & Outstanding	3,020,555,371.16	3,083,398,003.77	2,398,501,873.19
Liability for Litigation	-	2,065,628.70	-
<b>TOTAL</b>	<b>3,791,935,061.82</b>	<b>4,552,691,770.92</b>	<b>3,722,326,614.33</b>

Amount in Ngultrum

#### NOTE 5.25 - BILLS FOR COLLECTION

	As at 31.12.2018	As at 31.12.2017	As at 01.01.2017
Payable outside Bhutan	193,305.00	477,994.50	529,042.50
<b>TOTAL</b>	<b>193,305.00</b>	<b>477,994.50</b>	<b>529,042.50</b>

Amount in Ngultrum

**Notes forming part of the Statement of Comprehensive Income as at 31<sup>st</sup> December 2018**
**NOTE 6.1 - INTEREST INCOME**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
On Customer Loans (Net of Interest Suspended)	2,919,886,302.82	2,282,800,292.84
On Bills Receivables	1,091,545.00	5,573,416.11
On Investments	426,434,825.88	288,134,777.87
On Inter-Bank Loans	117,434,795.77	114,546,103.80
<b>TOTAL</b>	<b>3,464,847,469.47</b>	<b>2,691,054,590.62</b>

**NOTE 6.2 - INTEREST EXPENSES**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
On Customer Deposits	1,470,289,658.19	1,215,023,542.77
On Inter-Bank Deposits	1,443,912.59	177,065.88
On Subordinated Debt	-	13,397,260.27
<b>TOTAL</b>	<b>1,471,733,570.78</b>	<b>1,228,597,868.92</b>

**NOTE 6.3 - FEES & COMMISSION INCOME**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Commission	90,298,344.50	99,090,804.38
SB Maintenance Fee	35,321,271.03	32,997,406.88
Exchange - Fund Transfer/Drafts	58,736,647.98	63,095,893.79
Debit Card Issuance & Usage Fees	11,065,184.92	6,880,854.77
Visa/Master Card POS Acquiring Commission	20,126,608.04	19,486,898.36
Visa Debit Card ATM Charges	12,002,354.00	13,128,122.00
BFS ATM Interchange Fee Income	4,041,062.00	6,208,688.00
International ATM Access Fees	8,681,380.00	6,309,450.00
Income From Visa Credit Cards	1,808,043.84	1,324,533.20
Prepaid card Load/Reload Fee	1,602,580.00	707,090.00
M-BoB Service Charge/Commission	10,586,335.00	6,981,470.00
Electronic Wallet Transaction Commission	2,696,660.00	3,153,490.00
E-Acquiring Commission	19,876,556.19	14,706,260.61
Airtime Top Up Commission-BT	32,145,866.36	11,957,977.90
Airtime Top Up Commission-T-Cell	11,676,345.77	8,098,104.41
Other miscellaneous income	2,859,461.96	938,605.00
<b>TOTAL</b>	<b>323,524,701.59</b>	<b>295,065,649.30</b>



**NOTE 6.4 - FEES & COMMISSION EXPENSES**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Visa & Master Card Fee	43,994,615.60	44,371,577.63
BFS Interchange Fee Expenses	13,179,316.00	11,746,020.00
BT Share on Bwallet Commission	1,905,641.44	2,307,303.00
Securities Trading Fee Expense	588,609.98	11,425.32
Agency Banking Comm. Payout	12,670,412.42	5,315,390.00
Commission paid- Atos & HBL	-	1,809,278.34
<b>TOTAL</b>	<b>72,338,595.44</b>	<b>65,560,994.29</b>

**NOTE 6.5 - NET GAINS FROM TRADING OF FOREIGN EXCHANGE**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Gains on trading of Foreign Currency (net)	123,503,251.47	36,199,620.28
<b>TOTAL</b>	<b>123,503,251.47</b>	<b>36,199,620.28</b>

**NOTE 6.6 - OTHER OPERATING INCOME**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Dividend on Equity Investments	20,486,600.00	4,357,234.00
Rental Income	4,844,058.25	4,175,843.13
Unwinding of discount on staff loans	21,114,126.00	-
Other Income including recoveries for charges	61,785,013.34	37,075,176.54
Profit on sale of property, plant & equipment	-	1,519,817.00
<b>TOTAL</b>	<b>108,229,797.59</b>	<b>47,128,070.67</b>

**NOTE 6.7 - STAFF COSTS**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Employee Salaries	153,580,675.26	163,710,520.32
Employee Allowances	91,683,334.98	94,284,969.34
Bank's Contribution to Employee Provident Fund	15,556,446.00	14,466,356.00
Encashment of Leave (Refer note 7.1)	12,310,548.00	10,619,020.00
Medical Expenditure	143,813.00	451,138.00
Employee Bonus	16,595,311.43	21,296,821.81
Employee Gratuity (Refer note 7.1)	17,168,000.03	13,347,180.00
Leave Travel Concession	9,572,222.00	8,745,506.00
Staff Amenities	512,177.99	508,369.57
Uniform Expenses	104,400.00	2,162,903.00
Training Expenses	20,854,269.78	35,442,152.04
Separation Cost (including Travel Allowance) (Refer note 7.1)	2,706,000.00	2,036,089.00
Staff Relocation Expenses	1,101,771.00	1,164,737.68
Sports & Recreational Expenses	1,950,200.00	976,000.00
Prizes & Awards	201,000.00	35,000.00
BoB scholarship	14,705,351.90	16,704,869.57
<b>TOTAL</b>	<b>358,745,521.37</b>	<b>385,951,632.33</b>

**NOTE 6.8 - PREMISES COSTS**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Rent	25,028,253.00	22,214,517.45
Insurance- Building	241,144.40	170,324.58
Insurance- Office Equipment	431,505.74	359,923.09
Light & Fuel	4,399,395.04	4,234,652.92
Rates & Taxes	529,677.12	284,730.14
Water & Sewerage	158,596.46	159,698.35
Repairs & Maintenance - Building	5,574,574.74	2,485,025.12
Repairs & Maintenance - Vehicle	1,364,816.93	862,828.34
Repairs & Maintenance - Furniture & Fixtures	573,019.91	26,180.34
Repairs & Maintenance - Equipment & Machineries	864,703.00	855,140.18
AMC- Equipment and Machineries	17,039,656.74	16,194,545.10
ATM Expenses	4,251,889.41	4,777,697.80
Housekeeping	2,568,470.72	2,390,221.43
Fuel & Lubricants	1,652,488.48	1,388,548.35
Security Expenses	23,357,857.80	20,342,195.00
<b>TOTAL</b>	<b>88,036,049.49</b>	<b>76,746,228.19</b>





**NOTE 6.9 - GENERAL ADMINISTRATIVE EXPENSES**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Travelling Expenses	14,310,922.57	18,684,894.37
Directors' Sitting Fees	664,908.00	714,000.00
Postage & Stamps	27,988,348.76	25,641,743.22
Audit Fees	275,625.00	262,500.00
Audit Expenses	808,604.00	2,193,358.45
Repairs to Banks Properties	17,980,781.57	11,475,079.13
Stationery, Printing, Advertisement etc	29,650,596.41	28,585,032.06
Charity and Donations	286,000.00	910,000.00
Property, plant & equipment written off	39,447.63	-
Golden Jubilee Celebration	47,268,384.71	-
Brand & management fees	10,956,019.46	14,116,598.68
Other Expenditure	70,925,179.69	59,170,179.64
<b>TOTAL</b>	<b>221,154,817.80</b>	<b>161,753,385.55</b>

**NOTE 6.10 - DEPRECIATION ON PROPERTY, PLANT AND EQUIPMENT**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
On Vehicles	3,983,745.38	1,777,786.10
On Furniture & Fixtures	3,793,969.48	3,963,621.56
On Office Equipments & Machineries	15,297,754.97	17,385,210.33
On Computer & IT Equipment	29,296,275.49	27,157,647.31
On Buildings & Civil structures	3,744,389.29	4,056,719.34
<b>TOTAL</b>	<b>56,116,134.61</b>	<b>54,340,984.64</b>

**NOTE 6.11 - AMORTIZATION OF INTANGIBLE ASSETS**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Amortization of Software	24,265,913.39	21,786,499.34
<b>TOTAL</b>	<b>24,265,913.39</b>	<b>21,786,499.34</b>

**NOTE 6.12 - TAX EXPENSES**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
<b>Current Income Tax</b>		
Current tax	433,511,548.19	330,758,416.00
Current tax - earlier year's (Refer note 7.8.b)	12,697,221.34	-
Deferred tax	(9,691,855.82)	16,891,776.98
<b>Tax on Other Comprehensive Income</b>		
Tax Impact on Other Comprehensive Income	(3,117,363.00)	589,422.00
<b>TOTAL</b>	<b>433,399,550.71</b>	<b>348,239,614.98</b>

**Notes forming part of the Statement of Comprehensive Income as at December 31, 2018**
**NOTE 6.13 - EARNINGS PER SHARE**

Amount in Ngultrum

	For the year ended 31.12.2018	For the year ended 31.12.2017
Profit after Tax	1,040,827,766.23	790,795,832.12
Weighted average number of Ordinary Shares in issue	30,000,000.00	30,000,000.00
<b>Basic and Diluted Earnings per Share</b>	<b>34.69</b>	<b>26.36</b>

**7. NOTES TO THE FINANCIAL STATEMENTS**
**7.1 Employee Benefits**

a. Disclosures as required under BAS 19 "Employee Benefits" are as under:

**i Change in present value of obligation:**

Amount in Ngultrum

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Present Value of obligation at the beginning of year	96,545,000	88,572,400	25,056,520	23,651,770
Interest cost	7,995,000	7,312,000	2,063,000	1,926,000
Current Service Cost	9,173,000	7,644,000	5,751,000	5,261,000
Benefit Paid	(10,588,870)	(5,374,580)	(10,403,360)	(9,214,270)
Net actuarial (Gain) / Loss on obligation	9,048,150	(1,608,820)	4,545,810	3,432,020
Present value of the defined benefit at the end of year	112,172,280	96,545,000	27,012,970	25,056,520
Current Liability	5,820,570	4,965,000	1,514,020	1,574,400
Non-current Liability	106,351,710	91,580,000	25,498,950	23,482,120



Particulars	Travel Allowance		Separation Allowance	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Present Value of obligation at the beginning of year	5,969,850	5,806,000	5,969,850	5,806,000
Interest cost	479,000	459,000	479,000	459,000
Current Service Cost	874,000	737,000	874,000	737,000
Benefit Paid	(1,439,420)	(854,190)	(1,439,420)	(854,190)
Net actuarial (Gain) / Loss on obligation	671,530	(177,960)	671,530	(177,960)
Present value of the defined benefit at the end of year	6,554,960	5,969,850	6,554,960	5,969,850
Current Liability	677,050	669,630	677,050	669,630
Non-current Liability	5,877,910	5,300,220	5,877,910	5,300,220

## ii Expense recognized in the Statement of Comprehensive Income

Amount in Ngultrum

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st Decem- ber, 2018	Year ended 31st December, 2017
Interest Cost	7,995,000	7,312,000	2,063,000	1,926,000
Current Service cost	9,173,000	7,644,000	5,751,000	5,261,000
Net actuarial (Gain) / Loss recognized in the year	9,048,150	(1,608,820)	4,545,810	3,432,020
Expenses recognized in Statement of Profit and Loss	17,168,000	13,347,180	12,310,548	10,619,020

Particulars	Travel Allowance		Separation Allowance	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Interest Cost	479,000	459,000	479,000	459,000
Current Service cost	874,000	737,000	874,000	737,000
Net actuarial (Gain) / Loss recognized in the year	671,530	(177,960)	671,530	(177,960)
Expenses recognized in Statement of Profit and Loss	1,353,000	1,018,044	1,353,000	1,018,044

### iii. Year-end Expected Benefit Payments

in Nu.

Particulars	
December 31, 2019 (Retirement Benefit Obligations - Current)	8,688,690
31-Dec-20	10,379,500
31-Dec-21	9,954,350
31-Dec-22	15,211,210
31-Dec-23	19,101,600
December 31, 2024 to December 2028	115,454,160

### v) Sensitivity Analysis

#### Gratuity

Particulars	31-Dec- 2018	31-Dec- 2017
<b>i) Discount Rate</b>		
Discount Rate as at Year end	8.00%	8.50%
Effect on DBO due to 1% increase in Discount Rate	(9,812,400)	(8,433,000)
Effect on DBO due to 1% decrease in Discount Rate	11,464,590	9,825,000
<b>ii) Salary Escalation Rate</b>		
Salary Escalation Rate as at Year end	6.00%	6.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	12,338,950	9,843,000
Effect on DBO due to 1% decrease in Salary Escalation Rate	(11,217,230)	(8,618,000)



### Leave Encashment

Particulars	31-Dec- 2018	31-Dec- 2017
<b>i) Discount Rate</b>		
Discount Rate as at Year end	8.00%	8.50%
Effect on DBO due to 1% increase in Discount Rate	(2,849,990)	(2,547,570)
Effect on DBO due to 1% decrease in Discount Rate	3,429,580	3,054,330
<b>ii) Salary Escalation Rate</b>		
Salary Escalation Rate as at Year end	6.00%	6.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	3,430,650	3,103,430
Effect on DBO due to 1% decrease in Salary Escalation Rate	(15,266,060.00)	(2,626,490)

### Travel allowance

Particulars	31-Dec- 2018	31-Dec- 2017
<b>i) Discount Rate</b>		
Discount Rate as at Year end	8.00%	8.50%
Effect on DBO due to 1% increase in Discount Rate	(486,960)	(438,970)
Effect on DBO due to 1% decrease in Discount Rate	563,320	506,730
<b>ii) Salary Escalation Rate</b>		
Salary Escalation Rate as at Year end	6.00%	6.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	570,280	514,880
Effect on DBO due to 1% decrease in Salary Escalation Rate	(498,180)	(452,960)

### Separation Cost

Particulars	31-Dec- 2018	31-Dec- 2017
<b>i) Discount Rate</b>		
Discount Rate as at Year end	8.00%	8.50%
Effect on DBO due to 1% increase in Discount Rate	(486,960)	(438,970)
Effect on DBO due to 1% decrease in Discount Rate	563,320	506,730

ii) Salary Escalation Rate		
Salary Escalation Rate as at Year end	6.00%	6.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	570,280	514,880
Effect on DBO due to 1% decrease in Salary Escalation Rate	(498,180)	(452,960)

## 7.2 Related Party Transactions

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, 2018, 24,000,000 equity shares (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. The Bank considers that for the purpose of BAS 24 the Royal Government of Bhutan is in a position of control over it, and therefore regards the Royal Government of Bhutan and its controlled companies/corporations as related parties for the purpose of the disclosures required by BAS 24

A summary of the Bank's transactions with the Royal Government of Bhutan and its related entities is included below:

Sl. No	Name of Primary Party	Relationship	Nature of Transaction with related Party	Amount Outstanding as of 31.12.2018 (Amount in Nu)	Transaction during the year (Amount in Nu.)
1	Royal Government of Bhutan	Ultimate Holding			No Transaction
2	Druk Holding And Investment Limited	Holding Company	Payment of Brand & Management Fee	Nil	10,956,019.46
3	Bhutan Board Products Ltd	Fellow Subsidiary Company	Industrial Loan	4,668,302.23	Total Debit 172,397,207.94 & Total Credit 167,357,179.62
			Issuance of Letter of Credit	4,349,643.85	Two Letter of Credit issued for 1,439,433.05 & 3,392,210.80 each against Margin money of 143,000 & 339,000 respectively.
4	Bhutan Telecom Limited	Fellow Subsidiary Company	Service Loan	354,840,688.69	Total Credit 107,551,424.00





5	DrukGreen Power Corporation Ltd	Fellow Subsidiary Company	Service Loan	629,293,266.76	Total Credit 1,486,476.94(Loan)
			Issuance of Letter of Credit	207.50	Letter of Credit Issued for 1,189,207.50 Against Margin Money of Nu. 1,189,000
6	Dungsam Cement Corporation	Fellow Subsidiary Company	Industrial Loan	482,265,756.48	Total Credit 111,280,405.28
7	Dungsam Polymers Ltd	Fellow Subsidiary Company	Industrial Loan	12,051,428.95	Total Debit 194,693,088.01 & Total Credit 195,864,206.18
			Issuance of Letter of Credit	19,227,450.00	Two Letter of Credit Issued for 11,550,000.00 & 7,677,450.00
8	State Mining Corporation	Fellow Subsidiary Company	Industrial Loan	42,202,049.98	Total Debit 293,247,819.99 & Total Credit 251,045,770.02
9	State Trading Corporation Of Bhutan Ltd	Fellow Subsidiary Company	Service loan	101,772,092.03	Total Credit 21,957,884.86
			Service loan	122,133,470.03	Total Debit 2,622,450,059.19 & Total Credit 2,513,656,112.32
			Service loan	4,634,450.13	Total Credit 609,400.00
			Issuance of Bank-Guarantee	820,736.40	Four Bank Guarantee Issued for 126,000.00, 315,556.40, 279,180.00 and Nu. 1,00,000.00
10	Thimphu Tech-park Pvt Ltd	Fellow Subsidiary Company	Service loan	18,691,610.32	Total Credit 5,819,232.78
11	Bhutan Power Corporation Ltd	Fellow Subsidiary Company	Issuance of Letter of Credit	92,895,121.42	Four Letter of Credit Issued for 38,685,844.35, 22,767,161.40, 16,272,673.05 & 15,169,442.62 against Margin Money of 173,392, 101,617, 82689, 77,090 respectively
12	Dasho Pemba Wangchuk	Key Management Personnel	Housing Loan	4,611,191.44	Disbursement of 4,500,000

All transactions between the Bank and above related companies fall under “Related Party Transactions”. However, all transactions in 2018 have been carried out at an “arms-length” and no benefit has accrued to either party as a result of the relationship except Brand and Management fee which has been paid as per Board decision.

#### Key management personnel (‘KMP’)

KMPs are those persons having authority and responsibility for planning, directing and

controlling the activities of the Bank directly or indirectly including any director whether executive or otherwise. Key management personnel of the Bank for the purpose of disclosure of compensation include the members of the Board of Directors and Chief Executive Officer as required by the Companies Act of Bhutan, 2016.

## Summary of the compensation paid to KMP's are given below

Amount in Ngultrum

Sl.No	Particulars	For the year ended 31.12.2018	For the year ended 31.12.2017
<b>(a)</b>	<b>Remuneration, Allowances, etc. paid to Chief Executive Officer</b>		
<b>i</b>	Salary, Allowances, bonus and Encashment of leave	2,587,260.73	2,400,892.87
<b>ii</b>	Contribution to Provident Fund	111,936.00	109,524.00
<b>iii</b>	Sitting fee	116,000.00	132,000.00
	<b>TOTAL</b>	<b>2,815,196.73</b>	<b>2,642,416.87</b>
<b>(b)</b>	<b>Sitting Fees paid to other Directors</b>	<b>548,908.00</b>	<b>582,000.00</b>

**7.3 Status of Reconciliation**

a) The accounts with State Bank of India, India have been reconciled up to December 31, 2017. 97.61% of the debit balances of Nu. 76,844,657.75 and 91.71% of the credit balances of Nu. 258,711,985.57 as at the end of 2017, (Nu. 75,006,575.56 debit and Nu. 237,273,693.20 credit) have been resolved during the year, leaving unmatched entries of Nu. 1,838,082.19 debit and Nu. 21,438,292.37 credit only. The un-reconciled balances as at December 31, 2018 are as follows:

Debit entries Nu. 239,772,746.69

Credit entries Nu. 308,898,882.46

b) The nostro accounts with other banks have been reconciled up to December 31, 2017. 100% of the debit balances of Nu. 76,503,752.70 and 95.68% of the credit balances of Nu. 246,014,460.04 as at the end of 2017, (Nu. 76,503,752.70 debit and Nu. 235,390,824.56 credit) has been resolved during the year, leaving unmatched entries of Nu. Nil debit and Nu. 10,623,635.48 credit only. The un-reconciled balances as at December 31, 2018 are as follows:

Debit entries Nu. 131,759,761.99

Credit entries Nu. 190,420,026.70



## 7.4 Assets under Lien

Balances in the “Placement with other banks” includes USD 6.970 million equivalent to Nu. 488,666,700 (Previous Year: USD 3.120 million equivalent to Nu. 200,615,600.00) which is under lien with Standard Chartered Bank, Singapore and Commerzbank, Germany with respect to Letters of Credit issued by the Bank of Bhutan and confirmed by Standard Chartered Bank and Commerzbank.

## 7.5 Fair value measurement of Equity investments

### (i) Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are (a) recognized and measured at fair value and (b) measured at amortized cost and for which fair values are disclosed in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the BAS.

Level 1: Level 1 hierarchy includes financial instruments measured using quoted prices.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities included in level 3

### (ii) Valuation technique used to determine fair value

The carrying amounts of other financial assets, due to customers and other financial liabilities are considered to be the same as their fair values, due to their short-term nature.

The fair values for financial instruments such as loans and advances including staff loans and investment in DHI seed fund were calculated based on cash flows discounted using current borrowing rate/respective interest rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

### Financial assets at fair value - recurring fair value measurements

Quoted Entities: The fair value measurements of investments quoted/listed are taken at current market price on the date of reporting from Royal Security Exchange of Bhutan Limited (RSEBL). The same are compared against the cost and the difference of purchase price and market price is passed to OCI.

Unquoted Entities: The bank has computed the fair value measurement for those investments which are not quoted in the active market using adjusted net asset method. The difference of fair value and book value is passed to OCI.

### Significant estimates

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Bank uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see (ii) above

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy

	Level I (in Nu.)	Level II (in Nu.)	Level III (in Nu.)
<b>As at 31st December 2018</b>			
Investments available for sale (Quoted shares)	275,193,640.80	-	-
Investments (Unquoted Shares)	-	-	105,483,187.99
<b>As at 31st December 2017</b>			
Investments available for sale (Quoted shares)	205,000,720.00	-	-
Investments (Unquoted Shares)	-	-	129,137,805.54
<b>As at 1st January 2017</b>			
Investments available for sale (Quoted shares)	216,516,260.00	-	-
Investments (Unquoted Shares)	-	-	120,127,521.81

## 7.6 Consolidation of Accounts

The consolidation of the accounts of associates of the Bank viz. Financial Training Institution (FITI) and Royal Securities Exchange of Bhutan Limited (RSEBL) with Bank has not been presented as the holding company i.e. Druk Holding & Investments Ltd. (DHI) has agreed to consolidate the same.

## 7.7 Capital Commitments

The Bank has capital commitments of Nu. 514,970,000 and Nu. 168,139,414 as at December 31, 2018 and December 31, 2017 respectively, on account of capital expenditures for the construction of the Bank's Corporate Office in Thimphu and Punakha Branch.

## 7.8 Contingent Liabilities

a. The contingent liabilities that forms the part of off balance sheet items are given below:

Particulars	31-Dec-2018	31-Dec-2017
Constituents' Liabilities for Acceptances, Endorsements and Other Obligations	771,379,690.66	1,467,228,138.45
Guarantees Issued & Outstanding	3,020,555,371.16	3,083,398,003.77
Bills for Collection- Payable in & outside Bhutan	193,305.00	477,994.50
Contingent Liability for Litigation	-	2,065,628.70
<b>Total</b>	<b>3,792,128,366.82</b>	<b>4,553,169,765.42</b>



## b. Income tax assessment

1. In the current year, the Tax Authority has carried out the Tax assessment of the Bank for the income tax assessment year 2016 and 2017. In assessing the Tax for these periods, the Tax Authority has assessed that the Bank is liable to pay additional tax of Nu. 5,746,123.08 and Nu. 975,293.44 for the assessment year 2016 and 2017 respectively being the disallowance of tax deductible expenses of Brand Management Fee paid to the Holding Company, Bonus, Donations and the Performance Based Variable Allowance (PBVA) paid to its employees. Bank has agreed on the demand raised on Bonus, PBVA and donations and paid the demand of Nu. 1,241,808.34 (net of adjustment of excess tax paid in 2017 of Nu. 4,531,314.41) raised for these expenses however has filed appeal for tax demand on Brand Management Fees. Based on the clarification sought by the

Holding Company from the Tax Authority, the Tax Authority has agreed to review the issue and conveyed to keep the assessed tax liability on hold till the Authority arrives at a decision on the issue.

Considering that demand against disallowance of brand management fees is at assessment level and the management is of the view that the same shall not be sustainable, no provision towards this demand is considered necessary.

2. For the pending appeal against demand raised for the assessment year 2013, 2014 & 2015, Bank has paid the additional demand during the year; however final assessment order is still not received by the Bank.

## 7.9 Current and Non-Current Classifications

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

Particulars	As at 31-12-2018	As at 31-12-2017
<b>Current Assets</b>		
Cash and Cash Equivalents	2,684,074,343.83	2,257,757,537.88
Balances with Central Bank	6,888,505,302.20	10,617,135,228.81
Placements with other Banks	1,288,666,700.00	1,750,615,600.00
Loans & Advances to Customers	5,130,026,069.86	3,565,634,505.33
Financial Investments-Held to Maturity	5,479,582,200.00	6,769,256,616.44
Other Financial Assets	338,494,453.63	231,330,389.00
Other Assets	249,945,003.95	49,808,309.16
<b>Total Current Assets</b>	<b>22,059,294,073.47</b>	<b>25,241,538,186.62</b>

Particulars	As at 31-12-2018	As at 31-12-2017
<b>Non Current Assets</b>		
Loans & Advances to Customers	30,383,850,661.58	22,887,726,712.17
Financial Investments-Held to Maturity	2,228,761,350.00	2,227,947,275.00
Financial Investments-Available for Sale	339,453,419.52	291,755,647.56
Investment in Associates	41,223,409.27	42,382,877.98
Property, Plant & Equipment	388,599,987.23	404,120,309.17
Intangible Assets	121,485,491.55	126,315,866.38
Capital Work-in-Progress	249,300,610.33	134,131,375.43
<b>Total Non-Current Assets</b>	<b>33,752,674,929.48</b>	<b>26,114,380,063.69</b>
<b>TOTAL ASSETS</b>	<b>55,811,969,002.95</b>	<b>51,355,918,250.31</b>

LIABILITIES	As at 31-12-2018	As at 31-12-2017
<b>Current Liabilities</b>		
Due to Banks	49,906,617.31	58,726,219.18
Due to Customers	39,903,648,728.13	35,034,691,072.95
Current Tax Liabilities	262,681,527.47	70,497,499.62
Other Financial Liabilities	1,364,622,126.98	1,366,552,100.09
Provision for Liabilities & Charges	12,015,690.85	13,514,114.03
Retirement Benefit Obligations	8,688,690.00	7,878,660.00
Other Liabilities	365,372,360.74	494,768,470.24
Deferred Tax Liabilities	49,860,487.11	40,752,652.92
<b>Total Current Liabilities</b>	<b>42,016,796,228.59</b>	<b>37,087,380,789.03</b>
<b>Non-Current Liabilities</b>		
Due to Customers	6,576,803,238.18	7,803,496,103.75
Retirement Benefit Obligations	143,606,480.00	125,662,560.00
<b>Total Non-Current Liabilities TOTAL</b>	<b>6,720,409,718.18</b>	<b>7,929,158,663.75</b>
<b>TOTAL LIABILITIES</b>	<b>48,737,205,946.77</b>	<b>45,016,539,452.78</b>
<b>EQUITY</b>		
Share Capital	3,000,000,000.00	3,000,000,000.00
Reserve Fund	1,853,534,689.42	1,333,120,806.30
Exchange Fluctuation Reserve	236,607,530.61	205,731,717.74
Retained Earnings	2,034,660,069.84	1,889,829,963.43
Other Comprehensive loss	(50,039,233.69)	(89,303,689.94)
<b>TOTAL EQUITY</b>	<b>7,074,763,056.18</b>	<b>6,339,378,797.53</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>55,811,969,002.95</b>	<b>51,355,918,250.31</b>





**7.10** In the opinion of the Management, all items of assets and liabilities as appearing in the Statement of Financial Position as at December 31, 2018 have a value equal to the amount at which they are stated therein.

#### **7.11 Implementation of BAS Phase-III**

The Bank during the current year with effect from January 1, 2018, has adopted the BAS of Phase- III, as applicable to the Bank.

The accounting policies set out in Note 4 have been applied in preparing the financial statements for the year ended December 31, 2018, the comparative information presented in these financial statements for the year ended December 31, 2017 and in the preparation of an opening BAS Phase - III compliant statement of financial position as at January 1, 2017 (date of transition for the standards applied in current year). In preparing its opening BAS Phase - III compliant statement of financial position, the Bank has adjusted the amounts reported previously in financial statements prepared in accordance with previous GAAP (for standards

adopted in current year), i.e., Bhutanese Accounting Standards (BAS) (Phase- III).

#### **A.1 Mandatory Exemptions**

##### **A.1.1 Estimates**

Estimates in accordance with BAS (Phase-I & II) at the date of transition to BAS (All phases applied)) shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

BAS estimates as at January 1, 2017 are consistent with the estimates as at the same date made in conformity with previous GAAP.

##### **A.1.2 Classification and measurement of financial assets**

BFRS 1 requires an entity to assess classification and measurement of financial assets on the basis of the fact and circumstances that exists at the date of transition to this BFRS

#### **B. Reconciliations between previous BAS (Phase- I & II) and BAS (after adoption of Phase-III)**

##### **Reconciliation of total equity as on January 1, 2017**

<b>Particulars</b>	<b>Notes</b>	<b>Amount</b>
<b>Balance of Equity as on January 1, 2017</b>		<b>5,491,557,018.83</b>
Changes in provision on loans and advances as per BAS 39	1	261,088,784.27
Present value of staff loans	2	(54,661,151.00)
Present value of DHI Seed fund	4	(4,455,187.00)
Fair value adjustment of Investments	3	218,639,071.36
<b>Balance of equity as per BAS before tax impact on adjustments</b>		<b>5,912,168,536.46</b>
Deferred tax liability (net)	1	60,591,733.58
<b>Balance of Equity as on January 01, 2017 under BAS - III phase</b>		<b>5,851,576,802.88</b>

**Reconciliation of total equity as on December 31, 2017**

Particulars	Notes	Amount
<b>Balance of Equity as on December 31, 2017 As at 01.01.2017</b>		<b>5,899,173,596.42</b>
Changes in provision on loans and advances as per BAS 39	1	261,088,784.27
Present value of staff loans	2	(54,661,151.00)
Present value of DHI Seed fund	4	(4,455,187.00)
Fair value adjustment of Investments	3	218,639,071.36
<b>As at 31.12.2017</b>		
Fair value adjustment of Investments	3	(2,505,256.27)
Changes in provision on loans and advances as per BAS 39	1	125,684,375.48
Interest income on financial instruments measured at amortized cost	4	720,462.00
Income recognition on Staff loans	2	11,952,361.79
Changes in Present value of staff loans	2	(19,385,636.00)
Other restatements		(589,420.96)
<b>Balance of equity as per BAS before tax impact on adjustments</b>		<b>6,435,662,000.09</b>
Deferred tax liability (net)	1	96,283,202.56
<b>Balance of Equity as on December 31, 2017 under BAS - III phase</b>		<b>6,339,378,797.53</b>

**Reconciliation of total comprehensive income for the year ended December 31, 2017**

Particulars	Notes	Amount
<b>Total comprehensive income as per previous GAAP</b>		<b>708,891,055.85</b>
Fair value adjustment of Investments	3	(2,505,256.27)
Changes in provision on loans and advances as per BAS 39	1	125,684,375.48
Interest income on financial instruments measured at amortised cost	4	720,462.00
Income recognition on Staff loans	2	11,952,361.79
Changes in Present value of staff loans	2	(19,385,636.00)
Tax effects of adjustments**	1	(35,691,468.98)
<b>Balance of total comprehensive income of 2017 under BAS</b>		<b>789,665,893.87</b>

\*\* Deferred Tax adjustment



## C. Notes to Implementation of BAS Phase-III

### Note 1: Loans and Advances

The provisions made by the Bank (Specific and General) under earlier GAAP was different from the BAS 39 requirement which requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Therefore, individual and collective impairment has been done in respect of loans and receivables in compliance with BAS 39.

### Note 2: Staff loan fair-valuation

Bank has provided loans to their employees at concessionary rate and as per BAS 39, the benefit that the employees are getting from the reduced interest rate has to be quantified and presented in financial statement. For this purpose, the staff loans have been fair valued using the market interest rate.

### Note 3: Fair valuation of investment

Under the previous BAS (Phase-I & II), investment in equity shares were carried at cost. After adoption of BAS 39, these investments are required to be measured at fair value. Accordingly, the Company has fair valued this investment at the date of initial recognition and each reporting period.

### Note 4: Valuation of investment held to maturity

Bank has a DHI Seed fund which was held at historical cost under previous GAAP and as

per BAS 39, the same has to be recognized at amortised cost. After adoption of BAS 39, fund has been recognized at amortised cost. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment.

### Note 5: Retained earnings

Retained earnings as at January 1, 2017 has been adjusted consequent to the above BAS transition adjustments.

### Note 6: Statement of cash flows

The transition from BAS (Phase- I & II) to BAS (Phase-III) has not had a material impact on the statement of cash flows.

## 7.12 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, 2018 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, 2018, the following amounts are “abandoned property” included in the statement of financial position of the Bank.

Category	2018	2017
Unclaimed Cash Warrants	3,943,140.98	4,897,464.41
Unclaimed Drafts	5,361,069.50	11,485.00
Unclaimed Term Deposits	3,521,243.38	1,814,363.38
Other Unclaimed Balances	-	567,714.84
<b>Total</b>	<b>12,825,453.86</b>	<b>7,291,027.63</b>

### 7.13 Macro Prudential Disclosure

#### a. Financial Risk management of the Bank (Qualitative)

##### i. 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.

##### ii. 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 2017 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.



### iii. Credit risk Provisions for Loans and Advances

For individual impairment any customer with total exposure exceeding Nu. 10 million and loan against cash collaterals at customer level is considered as individually significant. Definition of Total exposure = Outstanding amount (Principal + Interest) > 10 million Break up of computation of outstanding amount product wise: unsecured portion of the exposure is provided with loss allowances. If transactions of customer are not impaired in individual impairment measurement it is to move it to collective impairment.

Collective Impairment provision is calculated transaction wise based on the pool define as per sector wise classifications. The credit loss provisioning is done for those accounts under stage 2 and stage 3 as per the Incurred Loss Model as below

Classifications	31.12.2018	31.12.2017	01.01.2017
Stage 2	64,277,035.00	26,393,017.86	10,247,581.79
Stage 3	668,594,021.50	476,530,989.78	566,894,793.97
<b>Total</b>	<b>732,871,056.50</b>	<b>502,924,007.64</b>	<b>577,142,375.76</b>
Individual Impairment	33,302,588.20	12,879,699.76	2,397,019.13
<b>Total Provision</b>	<b>766,173,644.70</b>	<b>515,803,707.40</b>	<b>579,539,394.89</b>

### iv. 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.

- Valuation/Estimation of collateral security being offered (Estimated by Real Estate Division of the Bank in case of Housing Loans).
- Place of locations and its feasibility of Business.
- Verifications and valuations of available stock and book debt at the time of availing loan.
- 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.
- 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).

- Follow up of loan EMI and Interest, after release of loan as per the recovery policy and procedures of the bank.

### v. Collateral management

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.

- 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.
- Securing and continue to have comprehensive insurance for the full value of collateral security, having adjusted the periodical depreciation.

#### vi. 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.

#### vii. 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.

Classifications of Risk	Type of risk
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, 2017.

#### 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

## Disclosures required as per Macro-prudential rules and regulations

### Item 1: Tier 1 Capital and Its Sub-components (as per IFRS)

S. No		31.12.2018	31.12.2017
<b>1.</b>	<b>Total Tier 1 Capital</b>	<b>6,337,566,492.80</b>	<b>5,711,058,264.81</b>
a.	Paid-Up Capital	3,000,000,000.00	3,000,000,000.00
b.	General Reserves	1,853,534,689.42	1,333,120,806.30
c.	Share Premium Account	-	-
d.	Retained Earnings	1,545,121,999.60	1,461,841,905.29
	Less:-		
e.	Losses for the Current Year	-	-
f.	Buyback of FI's own shares	-	-
g.	Holdings of Tier 1 instruments issued by FIs	(61,090,196.22)	(83,904,446.78)

### Item 2: Tier 2 Capital and Its Sub-components (as per IFRS)

S. No		31.12.2018	31.12.2017
<b>1.</b>	<b>Tier II Capital</b>	<b>765,410,057.10</b>	<b>631,315,358.35</b>
a.	Capital Reserve	-	-
b.	Fixed Asset Revaluation Reserve	-	-
c.	Exchange Fluctuation Reserve	236,607,530.61	205,731,717.74
d.	Investment Fluctuation Reserve	-	-
e.	Research & Development Reserve	-	-
f.	General Provision	-	-
g.	Capital Grants	-	-
h.	Subordinated Debt	-	-
i.	Profit for the Year (Including OCI and net of appropriations)	528,802,526.49	425,583,640.61



Disclosures required as per Macro-prudential rules and regulations

Item 3: Risk Weighted Assets (As per IFRS)

Sl. No.	Assets	Risk Weight %	31.12.2018		31.12.2017	
			Balance Sheet Amount*	Risk Component	Balance Sheet Amount#	Risk Component
1.	Zero-Risk Weighted Assets	0%	13,362,517,024.06	-	18,634,300,893.60	-
2.	20% Risk Weighted Assets	20%	4,340,939,121.17	868,187,824.23	5,163,575,851.77	1,032,715,170.35
3.	50% Risk Weighted Assets	50%	644,599,629.20	322,299,814.60	293,020,757.56	146,510,378.78
4.	100% Risk Weighted Assets	100%	41,128,999,441.73	41,128,999,441.73	31,511,159,817.18	31,511,159,817.18
5.	150% Risk Weighted Assets	150%	126,848,848.62	190,273,272.92	33,213,237.25	49,819,855.88
6.	200% Risk Weighted Assets	200%	-	-	-	-
7.	250% Risk Weighted Assets	250%	-	-	-	-
8.	300% Risk Weighted Assets	300%	-	-	-	-
	<b>Grand Totals</b>		<b>59,603,904,064.77</b>	<b>42,509,760,353.48</b>	<b>55,635,270,557.36</b>	<b>32,740,205,222.19</b>

\* includes total assets of Nu. 55,811,969,002.95 and Contingent Liabilities of Nu. 3,791,935,061.82.

# includes total assets of Nu. 51,355,918,250.31 and Contingent Liabilities of Nu. 4,552,691,770.92.

**Item 4: Capital Adequacy Ratios (As per IFRS)**

Sl.No.		31.12.2018	31.12.2017
<b>1.</b>	<b>Tier 1 Capital</b>		
a.	Of which Counter-Cyclical Capital Buffer (CCyB) (If applicable)	6,337,566,492.80	5,336,007,914.84
b.	Of which Sectoral Capital Requirements (SCR) (If applicable)	-	-
i.	Sector 1	-	-
ii.	Sector 2	-	-
iii.	Secotr 3	-	-
2.	Tier 2 Capital	765,410,057.10	808,450,003.09
3.	Total qualifying Capital	7,102,976,549.90	6,144,457,917.93
4.	Core CAR	14.91%	16.30%
a.	Of which CCyB (If applicable) expressed as % of RWA	-	-
b.	Of which SCR (If applicable) expressed as % of Sectoral RWA	-	-
i.	Sector 1	-	-
ii.	Sector 2	-	-
iii.	Secotr 3	-	-
5.	BIA	2,693,516,356.74	2,580,612,757.40
6.	CAR	15.71%	17.40%
7.	Leverage Ratio	10.63%	9.59%





Disclosures required as per Macro-prudential rules and regulations

Item 5.1: Loans (Gross including Bills) and NPL by Sectoral Classification (As per RMA)

S.No	Sector	31.12.2018		31.12.2017	
		Total Loans*	NPL	Total Loans#	NPL
a.	Agriculture	153,757,485.64	523,004.77	58,844,642.65	-
b.	Manufacturing/Industry	3,616,611,647.02	14,148,911.89	3,212,233,731.49	12,055,264.44
c.	Service & Tourism	9,729,859,973.16	200,918,439.72	6,564,002,688.07	163,279,029.10
d.	Trade & Commerce	2,331,237,623.67	143,877,394.87	1,690,977,704.64	51,400,085.88
e.	Housing	10,331,651,406.41	369,625,305.41	6,723,056,769.41	367,733,388.53
f.	Transport	2,020,875,150.53	150,381,437.85	1,205,149,275.38	65,322,731.32
g.	Loans to Purchase Securities	381,552,540.70	-	250,253,021.06	3,029,898.74
h.	Personal Loan	1,022,440,353.43	121,351,972.55	1,266,117,450.32	136,719,981.23
i.	Education Loan	498,799,843.85	6,438,797.05	259,554,949.96	3,654,186.75
j.	Loan against Term Deposits	124,483,888.20	453,695.18	63,248,137.57	226,871.10
k.	Loans to FI (s)	-	-	380,457,125.80	-
l.	Infrastructure Loans	-	-	-	-
m.	Staff Loans (incentives)	459,778,658.41	-	542,002,017.50	58,273.77
n.	Loans to Govt Owned Corporation	1,693,342,045.36	-	1,669,149,520.58	-
o.	Consumer Loan (GE)	4,067,996,915.09	37,640,690.72	3,329,219,226.16	50,874,228.89
	<b>Total</b>	<b>36,432,387,531.47</b>	<b>1,045,359,650.01</b>	<b>27,214,266,260.59</b>	<b>854,353,939.75</b>

\* includes gross loans and advance of Nu. 36,432,194,226.47 and Bills discounted & purchased of Nu. 193,305.00.

# includes gross loans and advance of Nu. 27,213,788,266.09 and Bills discounted & purchased of Nu. 477,994.50.

**Item 5.2: Loans (Gross including Bills) and NPL by Sectoral Classification (As per IFRS)**

S.No	Sector	31.12.2018		31.12.2017	
		Total Loans*	NPL	Total Loans#	NPL
a.	Agriculture	153,757,485.64	4,363,814.45	58,844,642.65	
b.	Manufacturing/Industry	3,616,611,647.02	14,282,335.95	3,212,233,731.49	7,698,069.82
c.	Service & Tourism	9,729,859,973.16	238,467,813.56	6,564,002,688.07	104,960,326.69
d.	Trade & Commerce	2,331,237,623.67	296,732,314.67	1,690,977,704.64	11,371,439.77
e.	Housing	10,331,651,406.41	934,593,023.85	6,723,056,769.41	728,455,391.81
f.	Transport	2,020,875,150.53	478,131,254.43	1,205,149,275.38	159,436,507.43
g.	Loans to Purchase Securities	381,552,540.70	700,403.75	250,253,021.06	3,025,566.59
h.	Personal Loan	1,022,440,353.43	189,826,837.08	1,266,117,450.32	224,214,992.65
i.	Education Loan	498,799,843.85	42,699,930.78	259,554,949.96	11,268,744.26
j.	Loan against Term Deposits	124,483,888.20	11,750,733.84	63,248,137.57	
k.	Loans to FI (s)	-	-	380,457,125.80	
l.	Infrastructure Loans	-	-	-	
m.	Staff Loans (incentives)	459,778,658.41	15,748,286.08	542,002,017.50	4,811,516.77
n.	Loans to Govt Owned Corporation	1,693,342,045.36	-	1,669,149,520.58	
o.	Consumer Loan (GE)	4,067,996,915.09	100,947,208.73	3,329,219,226.16	87,594,463.91
	<b>Total</b>	<b>36,432,387,531.47</b>	<b>2,328,243,957.17</b>	<b>27,214,266,260.59</b>	<b>1,342,837,019.70</b>

\* includes gross loans and advance of Nu. 36,432,194,226.47 and Bills discounted & purchased of Nu. 193,305.00.

# includes gross loans and advance of Nu. 27,213,788,266.09 and Bills discounted & purchased of Nu. 477,994.50.



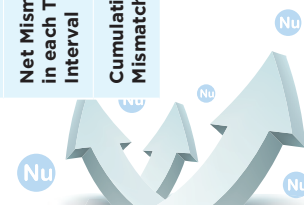
Disclosures required as per Macro-prudential rules and regulations

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

S. No	Counter Party	31.12.2018	31.12.2017
<b>1.</b>	<b>Overdrafts</b>	<b>5,530,615,333.46</b>	<b>4,449,242,309.80</b>
a.	Government	-	-
b.	Government Corporations	144,669,449.52	70,835,969.72
c.	Public Companies	391,767,611.41	180,065,902.54
d.	Private Companies	4,557,096,241.99	3,255,568,361.98
e.	Individuals	437,082,030.54	562,314,949.76
f.	Commercial Banks	-	-
g.	Non-Bank Financial Institutions	-	380,457,125.80
<b>2.</b>	<b>Term Loans</b>	<b>30,885,263,089.61</b>	<b>22,753,999,171.73</b>
a.	Government	-	-
b.	Government Corporations	1,548,672,595.84	1,598,313,550.86
c.	Public Companies	293,237,246.11	140,471,573.40
d.	Private Companies	9,713,266,152.81	6,733,485,923.32
e.	Individuals	19,330,087,094.85	14,281,728,124.15
f.	Commercial Banks	-	-
g.	Non-Bank Financial Institutions	-	-
	<b>Total</b>	<b>36,415,878,423.07</b>	<b>27,203,241,481.53</b>
	Credit Cards	16,315,803.40	10,546,784.56
	<b>Gross Loans and Advances</b>	<b>36,432,194,226.47</b>	<b>27,213,788,266.09</b>
	Bills	193,305.00	477,994.50
	<b>Total Loan Outstanding</b>	<b>36,432,387,531.47</b>	<b>27,214,266,260.59</b>

**Disclosures required as per Macro-prudential rules and regulations  
Item 7: Assets (net of provisions) and Liabilities by Residual Maturity**

As at 31.12.2018	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	866,748,643.45	-	-	-	-	-	-	866,748,643.45
Gov't Securities	-	5,479,582,200.00	-	-	-	-	-	5,479,582,200.00
Investment securities	-	-	-	-	-	-	2,609,438,178.79	2,609,438,178.79
Loans & advances to banks	-	800,000,000.00	-	-	-	488,666,700.00	-	1,288,666,700.00
Loans & advances to customers	-	204,752,792.61	1,556,657,272.97	1,030,719,825.12	1,533,938,575.92	811,518,369.61	30,376,289,895.22	35,513,876,731.44
Other assets	-	9,044,325,456.21	249,945,003.95	-	-	-	759,386,089.11	10,053,656,549.27
<b>TOTAL ASSETS</b>	<b>866,748,643.45</b>	<b>15,528,660,448.81</b>	<b>1,806,602,276.92</b>	<b>1,030,719,825.12</b>	<b>1,533,938,575.92</b>	<b>1,300,185,069.61</b>	<b>33,745,114,163.11</b>	<b>55,811,969,002.95</b>
Amounts owed to other banks	49,906,617.31	-	-	-	-	-	-	49,906,617.31
Demand deposits	20,307,918,179.25	-	-	-	-	-	-	20,307,918,179.25
Savings deposits	15,553,389,348.67	-	-	-	-	-	-	15,553,389,348.67
Time deposits	43,343,086.28	205,142,792.29	1,358,010,763.94	887,295,685.95	804,549,069.25	743,999,802.50	6,576,803,238.18	10,619,144,438.39
Bonds & other negotiable instruments	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	9,281,610,419.33	9,281,610,419.33
<b>TOTAL LIABILITIES</b>	<b>35,954,557,231.51</b>	<b>205,142,792.29</b>	<b>1,358,010,763.94</b>	<b>887,295,685.95</b>	<b>804,549,069.25</b>	<b>743,999,802.50</b>	<b>15,858,413,657.51</b>	<b>55,811,969,002.95</b>
<b>Assets/Liabilities</b>	<b>0.02</b>	<b>75.70</b>	<b>1.33</b>	<b>1.16</b>	<b>1.91</b>	<b>1.75</b>	<b>2.13</b>	<b>1.00</b>
<b>Net Mismatch in each Time Interval</b>	<b>(35,087,808,588.06)</b>	<b>15,323,517,656.52</b>	<b>448,591,512.98</b>	<b>143,424,139.17</b>	<b>729,389,506.67</b>	<b>556,185,267.11</b>	<b>17,886,700,505.61</b>	<b>(0.00)</b>
<b>Cumulative Net Mismatch</b>	<b>(35,087,808,588.06)</b>	<b>15,323,517,656.52</b>	<b>15,772,109,169.50</b>	<b>15,915,533,308.68</b>	<b>16,644,922,815.34</b>	<b>17,201,108,082.45</b>	<b>35,087,808,588.06</b>	<b>35,087,808,588.06</b>



**As at 31.12.2017**

As at 31.12.2017	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
Gov't Securities	-	-	6,671,021,000.00	-	-	-	-	6,671,021,000.00
Investment securities	-	-	98,235,616.44	-	-	-	2,562,085,800.53	2,660,321,416.97
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	22,887,726,712.17	26,453,361,217.50
Other assets	-	12,337,523,286.83	49,808,309.16	-	-	-	664,567,550.99	13,051,899,146.98
<b>TOTAL ASSETS</b>	<b>768,699,868.86</b>	<b>12,465,449,003.89</b>	<b>8,041,502,152.11</b>	<b>903,278,522.86</b>	<b>1,683,932,885.48</b>	<b>1,378,675,753.42</b>	<b>26,114,380,063.69</b>	<b>51,355,918,250.31</b>
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	-	-	-	-	-	-	8,459,004,854.43	8,459,004,854.43
<b>TOTAL LIABILITIES</b>	<b>31,540,216,982.54</b>	<b>-</b>	<b>321,933,211.54</b>	<b>900,886,482.71</b>	<b>1,442,972,954.49</b>	<b>887,407,660.85</b>	<b>16,262,500,958.18</b>	<b>51,355,918,250.31</b>
<b>Assets/Liabilities</b>	<b>0.02</b>	<b>-</b>	<b>24.98</b>	<b>1.00</b>	<b>117</b>	<b>1.55</b>	<b>1.61</b>	<b>1.00</b>
<b>Net Mismatch in each Time Interval</b>	<b>(30,771,517,113.68)</b>	<b>12,465,449,003.89</b>	<b>7,719,568,940.57</b>	<b>2,392,040.15</b>	<b>240,959,930.99</b>	<b>491,268,092.57</b>	<b>9,851,879,105.51</b>	<b>0.00</b>
<b>Cumulative Net Mismatch</b>	<b>(30,771,517,113.68)</b>	<b>12,465,449,003.89</b>	<b>20,185,017,944.46</b>	<b>20,187,409,984.62</b>	<b>20,428,369,915.60</b>	<b>20,919,638,008.17</b>	<b>30,771,517,113.68</b>	<b>30,771,517,113.68</b>

**Disclosures required as per Macro-prudential rules and regulations  
Item 8: Assets (net of provisions) and Liabilities by Original Maturity**

As of period ending 31.12.18	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	TOTAL
Cash in hand	866,748,643.45	-	-	-	-	-	-	866,748,643.45
Gov't Securities	-	5,479,582,200.00	-	-	-	-	-	5,479,582,200.00
Investment securities	-	-	-	-	-	-	2,609,438,178.79	2,609,438,178.79
Loans & advances to banks	-	800,000,000.00	-	-	-	488,666,700.00	-	1,288,666,700.00
Loans & advances to customers	-	15,412,963.01	5,636,633.24	128,144,492.60	61,188,322.33	481,715,965.74	34,821,778,354.52	35,513,876,731.44
Other assets	-	9,044,325,456.21	249,945,003.95	-	-	-	759,386,089.11	10,053,656,549.27
<b>TOTAL ASSETS</b>	<b>866,748,643.45</b>	<b>15,339,320,619.22</b>	<b>255,581,637.19</b>	<b>128,144,492.60</b>	<b>61,188,322.33</b>	<b>970,382,665.74</b>	<b>38,190,602,622.42</b>	<b>55,811,969,002.95</b>
Amounts owed to other banks	49,906,617.31	-	-	-	-	-	-	49,906,617.31
Demand deposits	20,307,918,179.25	-	-	-	-	-	-	20,307,918,179.25
Savings deposits	15,553,389,348.67	-	-	-	-	-	-	15,553,389,348.67
Time deposits	-	-	-	13,667,878.08	10,919,000.00	1,351,979,475.91	9,242,578,084.40	10,619,144,438.39
Bonds & other negotiable instruments	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	9,281,610,419.33	9,281,610,419.33
<b>TOTAL LIABILITIES</b>	<b>35,911,214,145.23</b>	-	-	<b>13,667,878.08</b>	<b>10,919,000.00</b>	<b>1,351,979,475.91</b>	<b>18,524,188,503.73</b>	<b>55,811,969,002.94</b>
<b>Assets/Liabilities</b>	<b>0.02</b>	-	-	<b>9.38</b>	<b>5.60</b>	<b>0.72</b>	<b>2.06</b>	<b>1.00</b>
<b>Net Mismatch in each Time Interval</b>	<b>(35,044,465,501.78)</b>	<b>15,339,320,619.22</b>	<b>255,581,637.19</b>	<b>114,476,614.52</b>	<b>50,269,322.33</b>	<b>(381,596,810.17)</b>	<b>19,666,414,118.70</b>	<b>0.00</b>
<b>Cumulative Net Mismatch</b>	<b>(35,044,465,501.78)</b>	<b>15,339,320,619.22</b>	<b>15,594,902,256.41</b>	<b>15,709,378,870.93</b>	<b>15,759,648,193.26</b>	<b>15,378,051,383.08</b>	<b>35,044,465,501.78</b>	<b>35,044,465,501.78</b>



As at 31.12.2017

As at 31.12.2017	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
Gov't Securities	-	-	-	6,671,021,000.00	-	-	-	6,671,021,000.00
Investment securities	-	-	-	-	98,235,616.44	-	2,562,085,800.53	2,660,321,416.97
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	25,972,613,863.74	26,453,361,217.50
Other assets	-	12,337,523,286.83	49,808,309.16	-	-	-	664,567,550.99	13,051,899,146.98
<b>TOTAL ASSETS</b>	<b>768,699,868.86</b>	<b>12,337,523,286.83</b>	<b>60,804,538.18</b>	<b>6,884,961,205.87</b>	<b>198,973,189.11</b>	<b>1,833,863,346.21</b>	<b>29,271,092,815.26</b>	<b>51,355,918,250.31</b>
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	7,083,978,630.74	11,356,708,875.47
Bonds & other negotiable instruments	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	8,459,004,854.43	8,459,004,854.43
<b>TOTAL LIABILITIES</b>	<b>31,540,204,520.41</b>	<b>25,587,000.00</b>	<b>46,205,102.00</b>	<b>76,300,732.88</b>	<b>75,737,463.01</b>	<b>4,048,899,946.84</b>	<b>15,542,983,485.17</b>	<b>51,355,918,250.31</b>
<b>Assets/Liabilities</b>	<b>0.02</b>	<b>482.18</b>	<b>1.32</b>	<b>90.23</b>	<b>2.63</b>	<b>0.45</b>	<b>1.88</b>	<b>1.00</b>
<b>Net Mismatch in each Time Interval</b>	<b>(30,771,504,651.55)</b>	<b>12,311,936,286.83</b>	<b>14,599,436.18</b>	<b>6,808,660,472.99</b>	<b>123,235,726.10</b>	<b>(2,215,036,600.63)</b>	<b>13,728,109,330.09</b>	<b>0.00</b>
<b>Cumulative Net Mismatch</b>	<b>(30,771,504,651.55)</b>	<b>12,311,936,286.83</b>	<b>12,326,535,723.01</b>	<b>19,135,196,195.99</b>	<b>19,258,431,922.09</b>	<b>17,043,395,321.46</b>	<b>30,771,504,651.55</b>	<b>30,771,504,651.55</b>



**Disclosures required as per Macro-prudential rules and regulations  
Item 9: Assets and Liabilities by time-to-re-pricing**

As of period ending 31.12.18	Time to re-ricing					Non-interest bearing	Total
	0-3 months	3-6 months	6-12 months	More than 12. months			
<b>Assets</b>							
Cash and Balances with Banks	866,748,643.45	-	-	-	8,705,831,002.58		9,572,579,646.03
Treasury Bills	5,479,582,200.00	-	-	-	-	-	5,479,582,200.00
Loans and Advances	2,061,410,065.58	1,030,719,825.12	3,334,123,645.53	30,376,289,895.30	-	-	56,802,543,431.53
Investment Securities	-	-	-	2,609,438,178.79	-	-	2,609,438,178.79
Other Assets	193,305.00	-	-	-	1,347,632,241.60	-	1,347,825,546.60
<b>Total financial assets</b>	<b>8,407,934,214.03</b>	<b>1,030,719,825.12</b>	<b>3,334,123,645.53</b>	<b>32,985,728,074.09</b>	<b>10,053,463,244.18</b>		<b>55,811,969,002.95</b>
<b>Liabilities</b>							
Deposits	1,606,496,642.51	887,295,685.95	1,548,548,871.75	6,576,803,238.18	35,911,214,145.23	-	46,530,358,583.62
Borrowings	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	9,281,610,419.33	-	9,281,610,419.33
<b>Total financial liabilities</b>	<b>1,606,496,642.51</b>	<b>887,295,685.95</b>	<b>1,548,548,871.75</b>	<b>6,576,803,238.18</b>	<b>45,192,824,564.56</b>		<b>55,811,969,002.95</b>
<b>Total Interest Re-ricing gap</b>	<b>6,801,437,571.52</b>	<b>143,424,139.17</b>	<b>1,785,574,773.78</b>	<b>26,408,924,835.91</b>	<b>(35,139,361,320.37)</b>		<b>(0.00)</b>



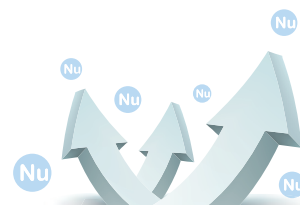
### Item 9: Assets and Liabilities by time-to-re-pricing

As of period ending 31.12.2017	Time to re-pricing					Non-interest bearing	Total
	0-3 months	3-6 months	6-12 months	More than 12. months			
<b>Assets</b>							
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	22,887,726,712.17	-	-	28,203,976,817.50
Investment Securities	-	-	98,235,616.44	2,562,085,800.53	-	-	2,660,321,416.97
Other Assets	47,994.50	-	-	-	945,228,254.65	-	945,706,249.15
<b>Total financial assets</b>	<b>8,790,561,806.94</b>	<b>903,278,522.86</b>	<b>3,160,844,255.33</b>	<b>25,449,812,512.70</b>	<b>13,051,421,152.48</b>		<b>51,355,918,250.31</b>
<b>Liabilities</b>							
Deposits	321,945,673.67	900,886,482.71	2,330,380,615.34	7,803,496,103.75	31,540,204,520.41	-	42,896,313,395.88
Borrowings	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	8,459,004,854.43	-	8,459,004,854.43
<b>Total financial liabilities</b>	<b>321,945,673.67</b>	<b>900,886,482.71</b>	<b>2,330,380,615.34</b>	<b>7,803,496,103.75</b>	<b>39,999,209,374.84</b>		<b>51,355,918,250.31</b>
<b>Total interest Re-pricing gap</b>	<b>8,468,616,133.27</b>	<b>2,392,040.15</b>	<b>830,463,639.99</b>	<b>17,646,316,408.95</b>	<b>(26,947,788,222.36)</b>		<b>(0.00)</b>

## Disclosures required as per Macro-prudential rules and regulations

## Item 10.1: Non performing Loans and Provisions (As per RMA)

S. No	Particulars	31.12.2018	31.12.2017
<b>1.</b>	<b>Amount of NPL's (Gross)</b>	<b>1,045,359,650.01</b>	<b>854,353,939.74</b>
a.	Substandard	111,837,616.45	101,101,009.44
b.	Doubtful	116,380,092.58	64,985,869.50
c.	Loss	817,141,940.98	688,267,060.80
<b>2.</b>	<b>Specific Provisions</b>	<b>688,922,588.40</b>	<b>568,375,206.60</b>
a.	Substandard	22,681,534.15	25,474,865.35
b.	Doubtful	57,874,440.33	31,393,611.98
c.	Loss	608,366,613.92	511,506,729.27
<b>3.</b>	<b>Interest in Suspense</b>	<b>237,148,979.35</b>	<b>182,845,947.57</b>
a.	Substandard	2,876,415.97	2,422,128.69
b.	Doubtful	5,199,008.12	3,663,487.34
c.	Loss	229,073,555.26	176,760,331.54
<b>4.</b>	<b>Net NPLs</b>	<b>139,586,310.46</b>	<b>102,654,544.44</b>
a.	Substandard	86,279,666.33	73,204,015.40
b.	Doubtfull	53,306,644.13	29,450,529.04
c.	Loss	-	-
<b>5.</b>	<b>Gross NPL's to Gross Loans</b>	<b>2.87%</b>	<b>3.16%</b>
<b>6.</b>	<b>Net NPLs to net Loans</b>	<b>0.39%</b>	<b>0.39%</b>
<b>7.</b>	<b>General Provisions</b>	<b>352,459,505.72</b>	<b>258,081,189.34</b>
a.	Standard	332,820,659.33	248,989,255.30
b.	Watch	19,638,846.40	9,091,934.04



### Item 10.2: Non performing Loans and Provisions (As per IFRS)

As at 31.12.2018					
Stage	Amount of NPL's (Gross)	Principal Impairment Provision	Interest Impairment Provision	Total Impairment Provision	Net NPL's
Stage 2	1,380,656,272.91	63,484,810.38	792,224.62	64,277,035.00	1,316,379,237.91
Stage 3	668,594,021.50	553,697,618.50	114,896,403.00	668,594,021.50	0.00
<b>Total Collective Impairment</b>	<b>2,049,250,294.41</b>	<b>617,182,428.88</b>	<b>115,688,627.62</b>	<b>732,871,056.50</b>	<b>1,316,379,237.91</b>
<b>Individual Impairment</b>	<b>278,993,662.76</b>	<b>33,302,588.20</b>	<b>-</b>	<b>33,302,588.20</b>	<b>245,691,074.56</b>
<b>Total Impairment (Collective+Individual)</b>	<b>2,328,243,957.17</b>			<b>766,173,644.70</b>	<b>1,562,070,312.47</b>
<b>Gross NPL's to Gross Loans</b>					<b>6.39%</b>
<b>Net NPLs to net Loans</b>					<b>4.40%</b>

As at 31.12.2017					
Stage	Amount of NPL's (Gross)	Principal Impairment Provision	Interest Impairment Provision	Total Impairment Provision	Net NPL's
Stage 2	583,421,322.95	26,393,017.86	-	26,393,017.86	557,028,305.09
Stage 3	476,530,989.78	476,530,989.78	-	476,530,989.78	0.00
<b>Total Collective Impairment</b>	<b>1,059,952,312.73</b>	<b>502,924,007.64</b>	<b>-</b>	<b>502,924,007.64</b>	<b>557,028,305.09</b>
<b>Individual Impairment</b>	<b>282,884,706.97</b>	<b>12,879,699.76</b>	<b>-</b>	<b>12,879,699.76</b>	<b>270,005,007.21</b>
<b>Total Impairment (Collective+Individual)</b>	<b>1,342,837,019.70</b>			<b>515,803,707.40</b>	<b>827,033,312.30</b>
<b>Gross NPL's to Gross Loans</b>					<b>4.93%</b>
<b>Net NPLs to net Loans</b>					<b>3.13%</b>

**Disclosures required as per Macro-prudential rules and regulations**
**Item 11: Assets and Investments**

S. No	Investment	31.12.2018	31.12.2017
<b>1.</b>	<b>Marketable Securities (Interest Earning)</b>		
a.	RMA Securities	5,479,582,200.0	6,671,021,000.00
b.	RGOB Bonds/Securities	-	-
c.	Corporate Bonds	2,228,761,350.0	2,326,182,891.44
d.	Others	-	-
	<b>Sub-Total</b>	<b>7,708,343,550.0</b>	<b>8,997,203,891.44</b>
<b>2.</b>	<b>Equity Investments</b>		
a.	Public Companies	297,931,333.36	85,467,710.45
b.	Private Companies	-	-
c.	Commercial Banks	61,090,196.22	83,904,446.78
d.	Non-Bank Financial Institutions	21,655,299.21	21,599,006.32
<b>Less</b>			
e.	Specific Provisions	-	-
	<b>Sub-Total</b>	<b>380,676,828.79</b>	<b>190,971,163.55</b>
<b>3.</b>	<b>Fixed Assets</b>		
a.	Fixed Assets (Gross)	1,282,689,280.81	1,107,510,625.38
<b>Less:</b>			
b.	Accumulated Depreciation	523,303,191.70	442,943,074.39
<b>c.</b>	<b>Fixed Assets (Net Book Value)</b>	<b>759,386,089.11</b>	<b>664,567,550.99</b>



Disclosures required as per Macro-prudential rules and regulations

Item 12: Foreign exchange assets and liabilities as at 31.12.2018

Currency	Liquid Foreign Currency Holdings (up to one Week)		Long Term Foreign Currency Holdings (More than 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	973,550,377.24	684,988,850.99	288,561,526.25	38,087,130.60	-	38,087,130.60	326,648,656.85	5.15
SGD	139,556,799.59	433,844.95	139,122,954.64	-	-	-	139,122,954.64	2.20
EURO	41,860,677.13	13,972,617.87	27,888,059.26	-	-	-	27,888,059.26	0.44
AUD	465,096,730.65	50,060,219.36	415,036,511.29	-	-	-	415,036,511.29	6.55
CAD	9,933,425.86	-	9,933,425.86	-	-	-	9,933,425.86	0.16
HKD	1,019,258.10	-	1,019,258.10	-	-	-	1,019,258.10	0.02
GBP	6,619,353.02	-	6,619,353.02	-	-	-	6,619,353.02	0.10
CHF	27,000,336.53	312,398.58	26,687,937.95	-	-	-	26,687,937.95	0.42
JPY	34,286,271.07	-	34,286,271.07	-	-	-	34,286,271.07	0.54
DKK	19,994,296.45	-	19,994,296.45	-	-	-	19,994,296.45	0.32
SEK	10,179.00	-	10,179.00	-	-	-	10,179.00	0.00
NOK	124,310.00	-	124,310.00	-	-	-	124,310.00	0.00
<b>TOTAL</b>	<b>1,719,052,014.64</b>	<b>749,767,931.75</b>	<b>969,284,082.89</b>	<b>38,087,130.60</b>	<b>-</b>	<b>38,087,130.60</b>	<b>1,007,371,213.49</b>	<b>15.90</b>

## Item 12: Foreign exchange assets and liabilities as at 31.12.2017

Currency	Liquid Foreign Currency Holdings (up to one Week)			Long Term Foreign Currency Holdings (More than one Week)			Nu. in Millions	
	1	2	3=1-2	4	5	6=4-5	7=3+6	8
	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
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
SEK	-	-	-	-	-	-	-	-
NOK	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>1,226,556,538.94</b>	<b>1,039,060,427.32</b>	<b>187,496,111.62</b>	<b>162,879,152.81</b>	<b>-</b>	<b>162,879,152.81</b>	<b>350,375,264.43</b>	<b>7.03</b>





**Disclosures required as per Macro-prudential rules and regulations**

**Item 13: Geographical Distribution of Exposures**

	Domestic		India		Other	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Demand Deposits held with other banks	200,000.00	200,000.00	644,599,629.21	293,020,757.56	1,172,526,071.17	1,195,836,911.46
Time deposits held with other banks	800,000,000.00	1,550,000,000.00	-	-	488,666,700.00	200,615,600.00
Borrowings	-	-	-	-	-	-

**Item: 14 Credit Risk Exposure by Collateral**

S. No	Particular	31.12.2018*	31.12.2017#
<b>1.</b>	<b>Secured Loans</b>	<b>36,417,107,315.62</b>	<b>27,198,486,044.74</b>
a.	Loans secured by physical/real estate collateral	31,292,454,866.78	22,276,831,037.90
b.	Loans Secured by financial collateral	526,196,222.69	740,713,850.76
c.	Loans secured by guarantees	4,598,456,226.15	4,180,941,156.08
<b>2.</b>	<b>Unsecured Loans</b>	<b>15,280,215.85</b>	<b>15,780,215.85</b>
	<b>Total Loans</b>	<b>36,432,387,531.47</b>	<b>27,214,266,260.59</b>

\* includes gross loans and advance of Nu. 36,432,194,226.47 and Bills discounted & purchased of Nu. 193,305.00.

# includes gross loans and advance of Nu. 27,213,788,266.09 and Bills discounted & purchased of Nu. 477,994.50.

### Disclosures required as per Macro-prudential rules and regulations

#### Item 15: Earnings Ratios

S. No	Ratio	31.12.2018
1.	Interest income as a percentage of Average Assets	6.46%
2.	Non-interest income as a percentage of Average Assets	1.04%
3.	Operating Profit as a percentage of Average Assets	2.76%
4.	Return on Assets	1.94%
5.	Business (Deposits plus Advances) per employee (Nu. In million)	106.97
6.	Profit per employee (Nu. In million)	1.36

#### Item 16: Penalties imposed by the RMA in the past period

Sl. No.	31.12.2018		31.12.2017	
	Reason for Penalty Imposed	Penalty Imposed	Reason for Penalty Imposed	Penalty Imposed
1	NIL	NIL	NIL	NIL

#### Item 17: Customer Complaints

S. No	Particular	31.12.2018	31.12.2017
1.	No. of complaints pending at the beginning of the year	632	75
2.	No. of complaints received during the year	53,716	40,954
3.	No. of complaints redressed during the year	53,958	40,397
4.	No. of complaints pending at the end of the year	390	632



**Item 18: Provision Coverage Ratio (PCR)**

Year	Gross NPL	Additional NPL	Additional Specific Provisions	Additional Interest in Suspense A/c	PCR
1	2	3	4	5	6 = (4/5)
31.12.2018	1,045,359,650.01	191,005,710.26	120,069,140.66	54,303,031.78	2.21
31.12.2017	854,353,939.75	(102,811,572.16)	5,625,464.60	33,344,213.00	0.17

**Item 19: Concentration of Credit and Deposits**

S. No	Particulars	31.12.2018	31.12.2017
1.	Total loans to 10 largest borrowers	6,268,325,202.32	6,101,939,638.08
2.	As % of total loans	17.21%	22.42%
3.	Total deposits of the 10 largest depositors	12,522,728,615.97	10,020,054,381.85
4.	As % of total deposits	26.91%	23.36%

**Item 20: Exposure to 5 Largest NPL accounts**

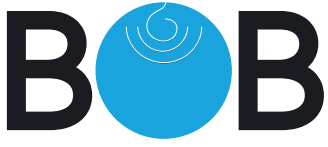
S. No	Particulars	31.12.2018	31.12.2017
1.	Five largest NPL accounts	436,597,123.45	356,093,635.99
2.	% of Total NPLs	41.77%	41.74%

## RATIO ANALYSIS

Ratios	2018	2017
Return on Equity (PAT/Shareholders Equity)	14.71%	11.99%
Capital Adequacy Ratio (Tier 1+ Tier 2 Capital)/(Risk Weighted Assets+Operation Risk)	15.71%	17.40%
Credit to Deposit Ratio (Total Loans/Total Deposits)	78.23%	63.53%
Statutory Liquidity Ratio (Quick assets/Total liabilities excluding capital fund and RMA liabilities)	21.32%	35.08%
Gross Non-Performing Assets (Non-performing Assets/Total Loans)	2.87%	3.16%
Earnings per share (PAT/No. of Shares)	34.69	26.36
Net interest margin (Total Interest Income-Interest Expenses)/Total earning assets (Total Loans to customer + Loans to banks)	5.29%	5.05%
Leverage Ratio (Tier 1 /total balance sheet Amount including off balance sheet item)	16.20%	9.59%
Debt to Equity Ratio (Total Liabilities/Shareholder's Equity)	6.89%	7.10%
Return on Assets (PAT/Total Assets)	1.94%	1.54%



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