



# T BANK LIMITED

ANNUAL REPORT 2017



# TABLE OF CONTENTS

VISION & MISSION STATEMENT .....	4
BOARD OF DIRECTORS .....	5
MANAGEMENT TEAM .....	6
DIRECTOR'S REPORT 2017 .....	7
AUDITORS' REPORT .....	16
STATEMENT OF COMPREHENSIVE INCOME .....	23
STATEMENT OF FINANCIAL POSITION .....	24
STATEMENT OF CASH FLOWS .....	25
STATEMENT OF CHANGES IN EQUITY .....	26
NOTES TO FINANCIAL STATEMENT .....	27
LIST OF EVENTS .....	59
FOREIGN CORRESPONDENT BANKS .....	63
OUR BRANCHES .....	64



## OUR VISION

“To be a preferred bank providing personalized banking solutions with a passion for service excellence to all valued customers through use of smart technology by empowered employees.”



## OUR MISSION

“To provide quality banking services with excellent customer care, create value for all stakeholders and continue delivering personalized banking services by connecting opportunities to growth through use of smart technology.”

# BOARD OF DIRECTORS



Dasho Wangchuk Dorji  
CHAIRMAN



Ashi S. Dorji  
DIRECTOR



Mr. Lamkey Tshering  
INDEPENDENT DIRECTOR



Mr. Gyem Tshering  
INDEPENDENT DIRECTOR



Mr. Passang Dorji  
DIRECTOR



Mr. Pema Tshering  
MEMBER SECRETARY  
(Chief Executive Officer)

# MANAGEMENT TEAM

Sl.No	Name	Designation
01	Mr. Pema Tshering	Chief Executive Officer
02	Mr. Laxmi Prasad Giri	Chief, Banking Operations Department
03	Mr. Namgay Phuntsho	Chief, IT Department
04	Mr. Chencho Dorji	Head, ADM/HR & Company Secretary
05	Mr. Chencho	Head, Finance & Accounts Department
06	Mr. Tshering Dorji	Head, Internal Audit Department
07	Mr. Sonam Tobgay	Head, Credit Department
08	Mr. Kinley Tshering	Manager, Banking Operations Department
09	Mrs. Sushmita Ghaley	Offtg. Branch Manager, Thimphu
10	Mr. Jigme Chogyal	Branch Manager, Phuentsholing
11	Mr. Bikash Subba	Branch Manager, Gelephu
12	Mr. Namgay Dorji	Branch Manager, Wangdue
13	Mr. Sonam Gyeltshen	Branch Manager, Paro
14	Mr. Nobin Sinchuri	Branch Manager, Samdrup Jongkhar
15	Mr. Rinchen Tshewang	Branch Manager, Mongar
16	Ms. Choki Yangzom	In-Charge, Trongsa

It has been an extraordinary year for T Bank Ltd. with a statutory profit after tax of Nu. 120.03 million, growth by 139.50%. We have achieved this significant milestone with our strongest ever balance sheet and sound returns making the bank more sustainable which the shareholders can be proud of.

On behalf of the Board of Directors of T Bank Ltd., I have the privilege to present the bank's 8th Annual Report for the Financial Year 2017.

## A BRIEF BACKGROUND

T Bank Limited was established as a fourth commercial bank on 10<sup>th</sup> March 2010 with establishment of Corporate Office and Thimphu branch office on 12<sup>th</sup> March 2010. A branch office in Phuentsholing was opened in the same year followed by a branch office in Wangdue Phodrang in 2012, Gelephu in 2013, Paro in 2016 and Mongar, Samdrup Jongkhar and Trongsa in 2017. The Bank has successfully completed its eighth year of its operation with guidance and support from the Board, management, valued customers and the shareholders.

## GEARING TOWARDS OUR VISION

To bring to life our vision 'To be a preferred bank providing personalized banking solutions with a passion for service excellence to all valued customers through use of smart technology by empowered employees', our strategy has remained consistently focused on our vision.

The bank has established a branch in Mongar on 11<sup>th</sup> March 2017 and Samdrup Jongkhar on 7<sup>th</sup> April 2017 respectively with an extension office in Trongsa on 21<sup>st</sup> June 2017 to provide personalized banking solutions to our customers in the central and eastern parts of Bhutan.

Towards enhancing the service delivery through use of smart technology, the bank has launched BIPS (Bhutan Immediate Payment System) on 27<sup>th</sup> June 2017 and issued new ATM Debit cards from 1<sup>st</sup> July 2017 to enhance our services. On 21<sup>st</sup> October 2017, the bank launched T-Remit services in collaboration with Prabhu Money Transfer services under Prabhu Group Inc. based in USA to facilitate money remittance to Bhutan for bhutanese nationals living abroad in countries such as USA, Qatar, Kuwait, UAE, Malaysia and Japan. To keep pace with the technological advancement and innovation, we stepped up with new initiatives to successfully compete in the digital world. The bank also launched POS (Point Of Sale) on 26<sup>th</sup> December 2017 and distributed 38 POS machines to fuel stations, shops, restaurants and hotels to facilitate cashless transactions. The T Bank Fuel Card, NFC (Near Field Communication) Tags, QR Code, Internet Banking and T-Pay (mobile application) are in the pipeline to be launched by early 2018.

Further, the bank has also revised the interest rates based on the minimum lending rate prescribed by Royal Monetary Authority of Bhutan (RMA) to offer competitive interest rates to our customers.

## FINANCIAL PERFORMANCE

Our financial performance this year was sound with statutory profit after tax up by 139.50%. We have achieved a growth of 37.10% in loans and advances, 35.40% in deposits and 28.23% in asset size. The achievement of the bank during the financial year is because of the efforts put in by the employees closely guided by management team and proper direction and guidance from the Board. It is also worth mentioning that both domestic banking and international banking business of the Bank spurred the overall achievement of bank's business as well as its profitability during 2017.

With the establishment of additional international correspondent banking relationships with State Bank of India in New York, HDFC Bank and Axis Bank in Hong Kong, DBS Bank and international remittance arrangement with Prabhu Money Transfer, New York, the Bank had handled international banking business to the tune of Nu. 8,613 million during 2017 up from Nu. 5,380 million in 2016, registering a commendable growth of more than 60%.

Similar to the past year, we have prepared 2 sets of financial statements for 2017 as per local GAAP and BAS requirements.

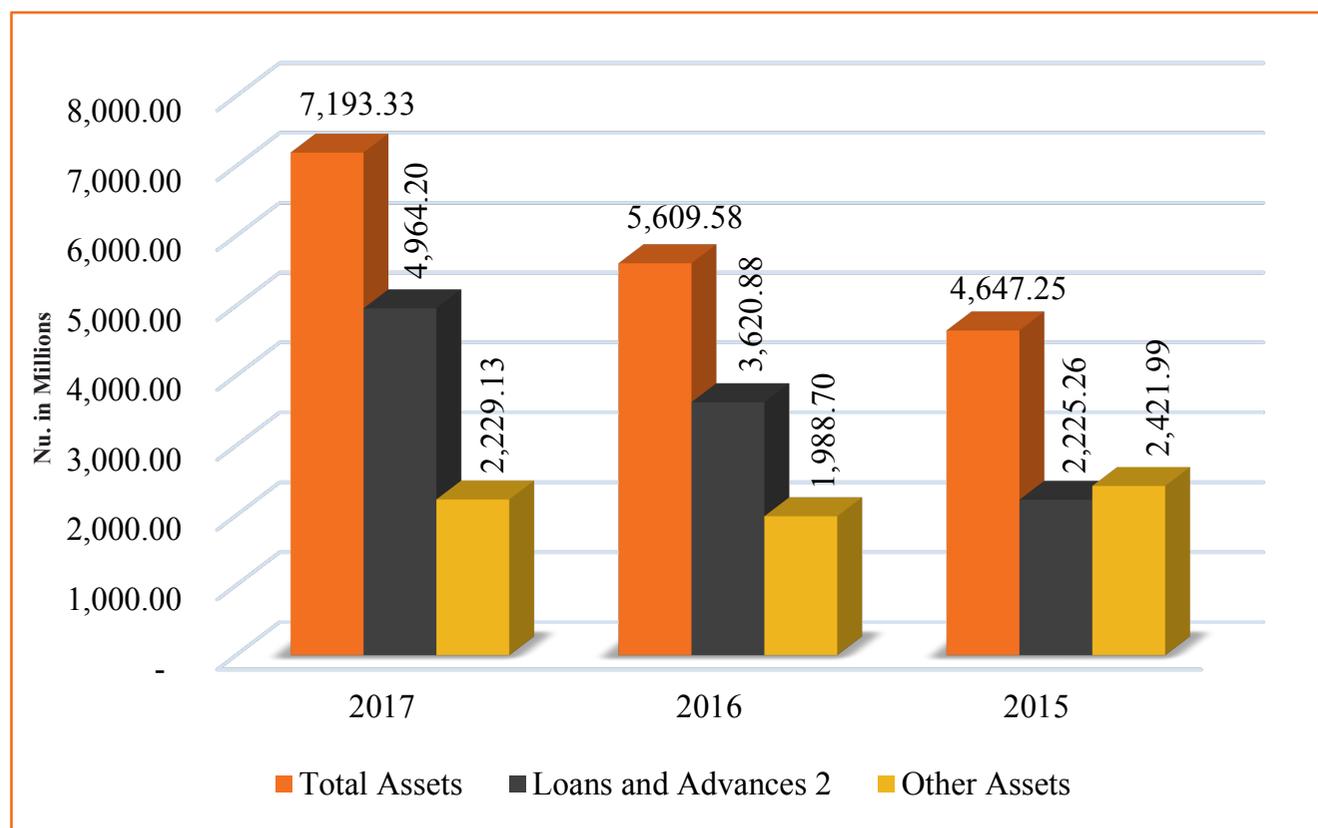
## Ownership

The share holding pattern of the bank as of 31<sup>st</sup> December 2017:

Ashi S. Dorji	-	20%
Dasho Wangchuk Dorji	-	20%
Dasho Topgyal Dorji	-	20%
General Public	-	40%

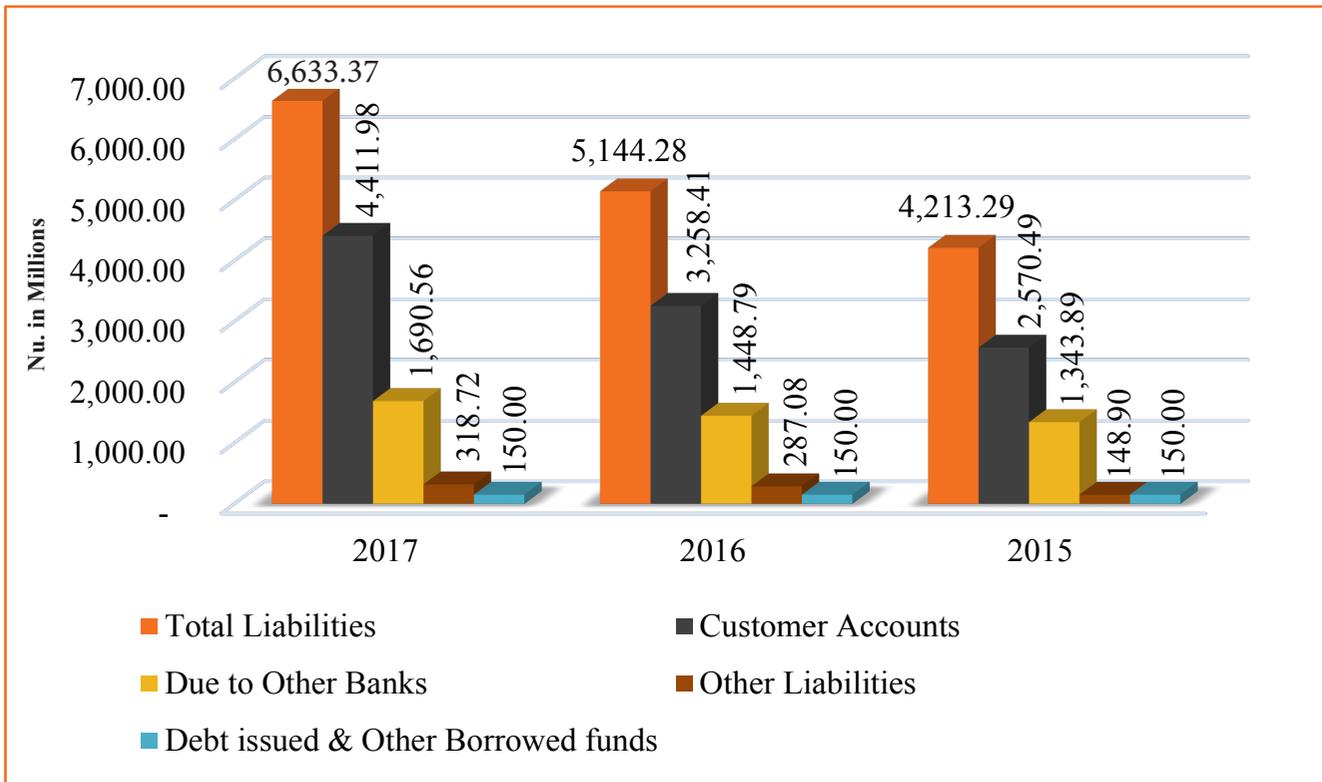
## Assets

The total assets of the bank increased from Nu. 5,609.58 million to Nu. 7,193.33 million as at 31<sup>st</sup> December 2017 recording a growth of 28.23%. The increase in asset size is primarily attributed by growth in loans and advances by 37.10% as compared to previous year. In addition, the growth in asset size is also attributed to growth in fixed and intangible assets from Nu.19.26 million and Nu.1.11 million in 2016 to Nu.29.59 million and Nu. 21.17 million in 2017.



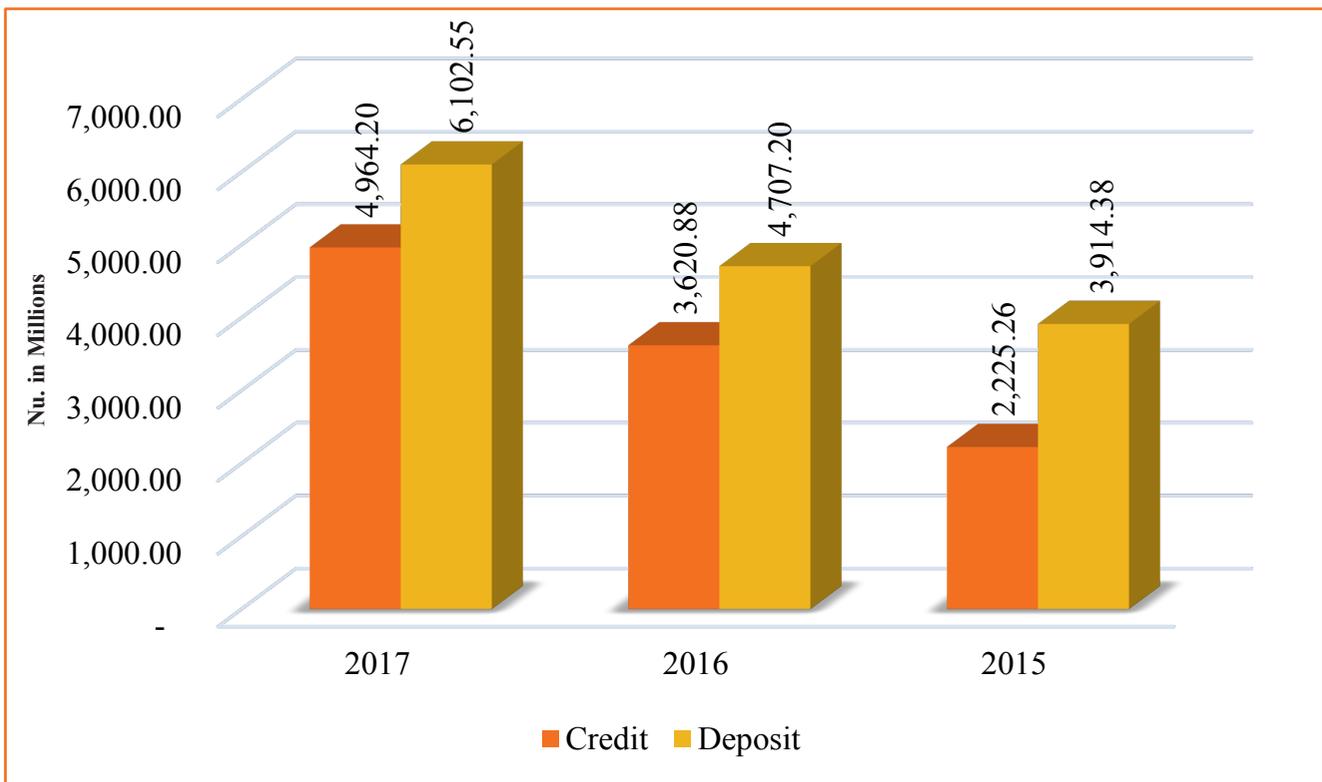
## Liabilities

The total liabilities of the bank increased from Nu. 5,144.28 million to Nu.6,633.37 million as at 31<sup>st</sup> December 2017 recording a growth of 28.95%. The increase in liabilities is attributed to growth in deposit portfolio by 35.40%. Similarly, the total equity also increased by 20.34% since profit after tax has been ploughed back to retained earnings to strengthen the bank's capital base.



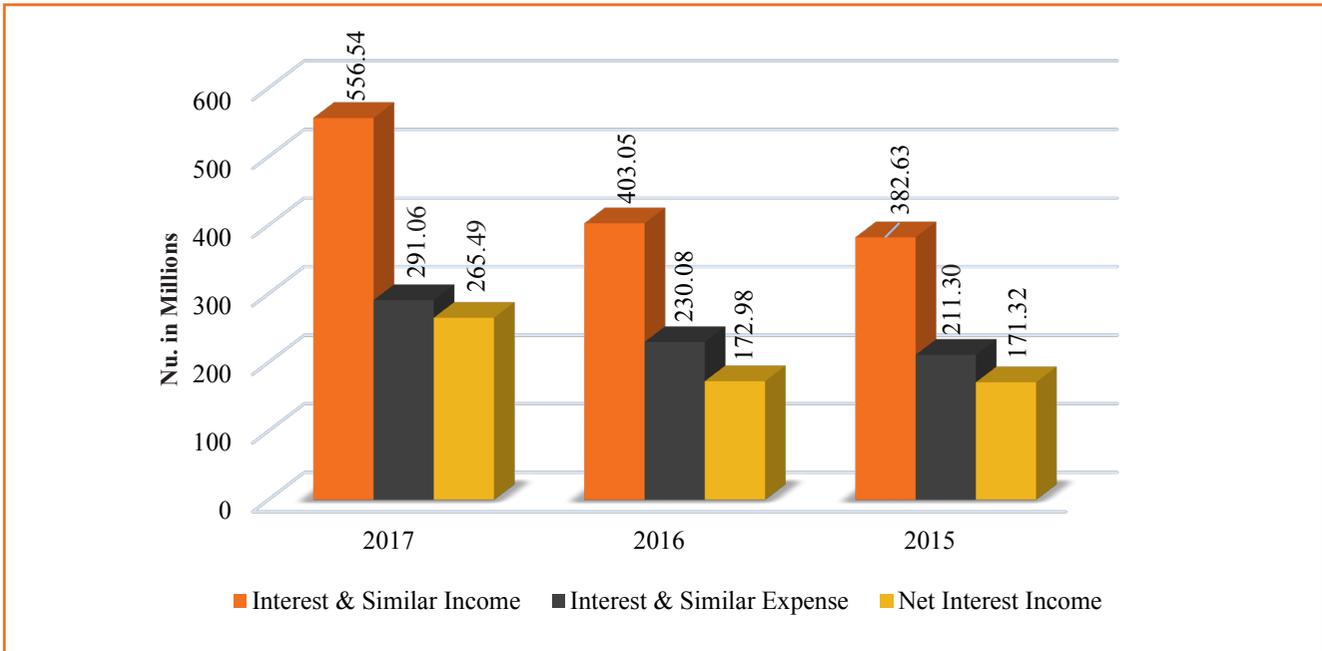
## Credit - Deposit

The total credit growth during the year registered at 37.10% while the deposits have grown by 35.40%. Therefore, Credit-Deposit Ratio also proportionately increased to 85.27% as compared to 82.50% in 2016.



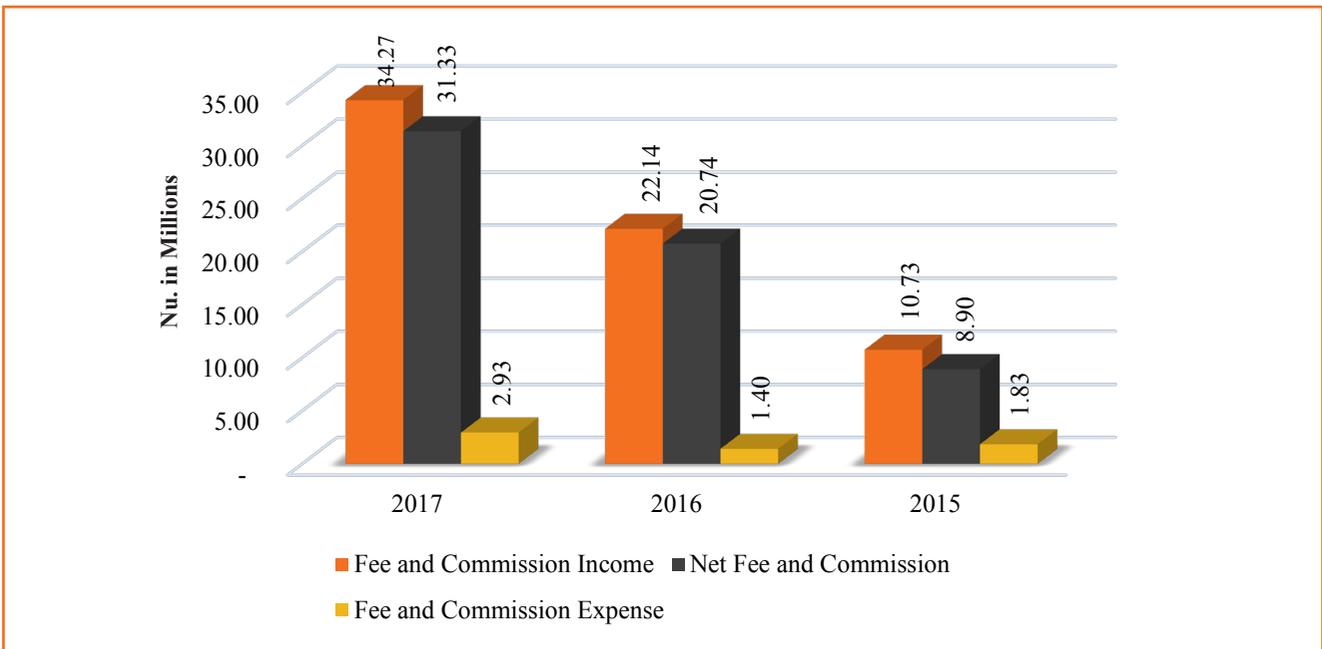
## Interest Income and Expenses

The total interest and similar income during the year 2017 increased from Nu.403.05 million in 2016 to Nu.556.54 million registering a growth of 38.08% despite the growth of loans and advances by 37.10% for the reason being change in regulations and downward revision of interest rates on loans and advances. The total interest and similar expenses also increased from Nu. 230.08 million in 2016 to Nu. 291.06 million in 2017. The increase in the expenses by 26.50% is due to increase in interest bearing deposits.



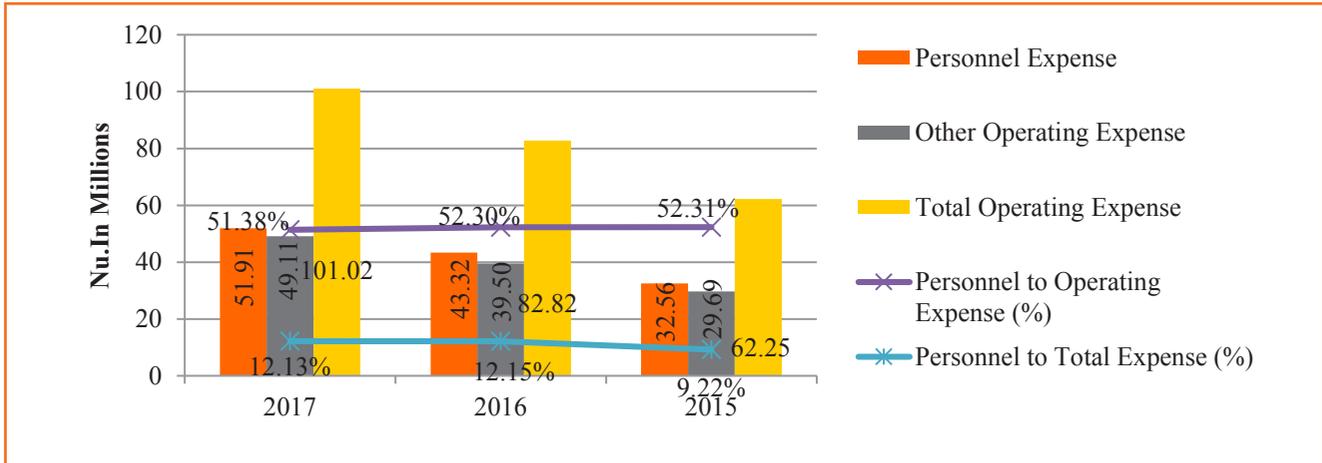
## Fee and Commission Income & Expense

The total fees and commission income increased from Nu. 22.14 million in 2016 to Nu. 34.27 million in 2017 registering a growth of 54.78% and similarly the net fees and commission expense during the year increased by 109.59%.



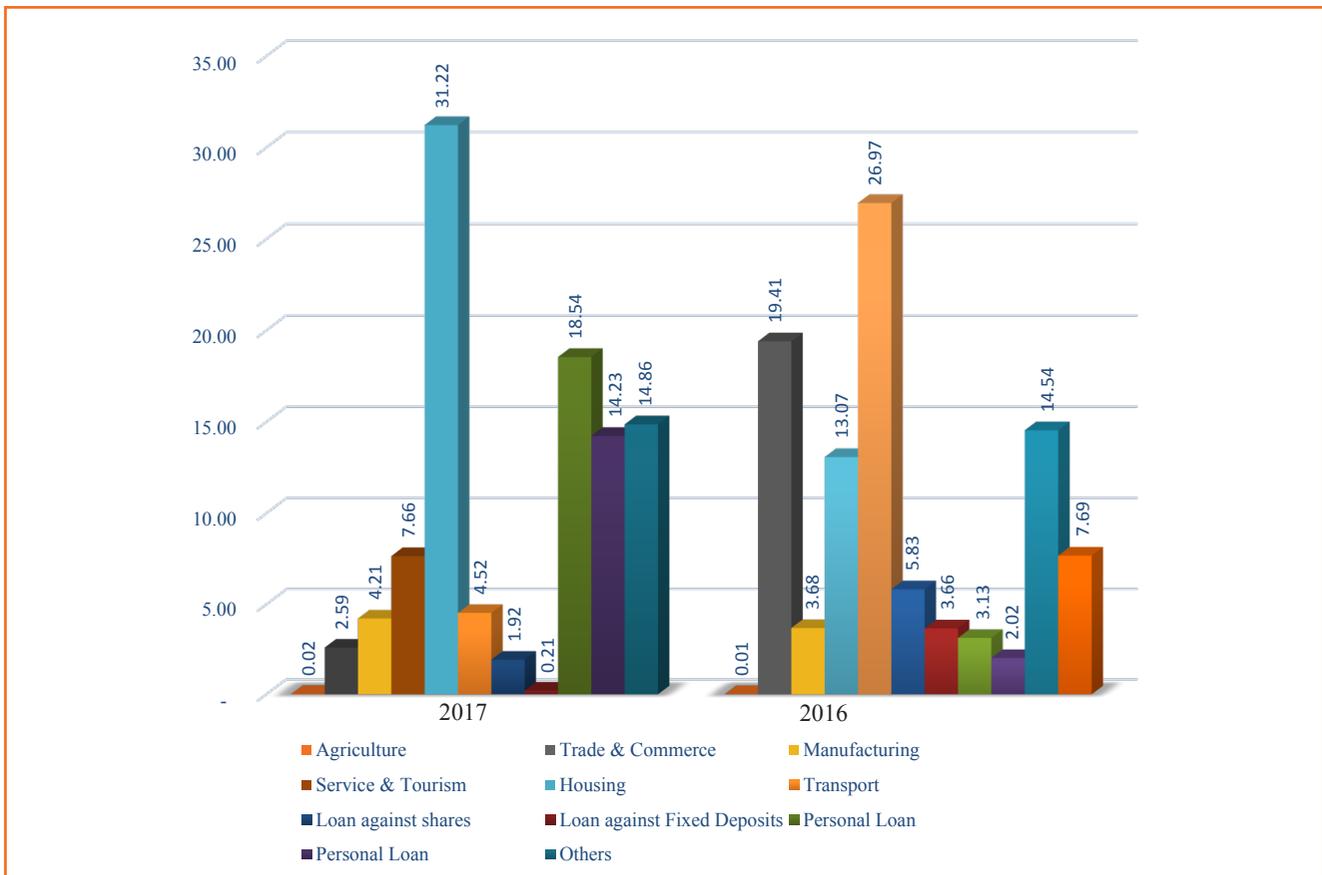
## Personnel Expense to Operating Expense/Total Expense

The total operating expense during the year was Nu.101.02 million and out of which Nu. 51.91 million was personnel cost. The operating cost and personnel cost increased by 21.98% and 19.82% respectively as against that of 2016. This increase was mainly due to new branches and new recruitment of employees for expansion of business. The personnel expense to total operating expense was 51.38% while personnel expense to total expense was 12.13%.



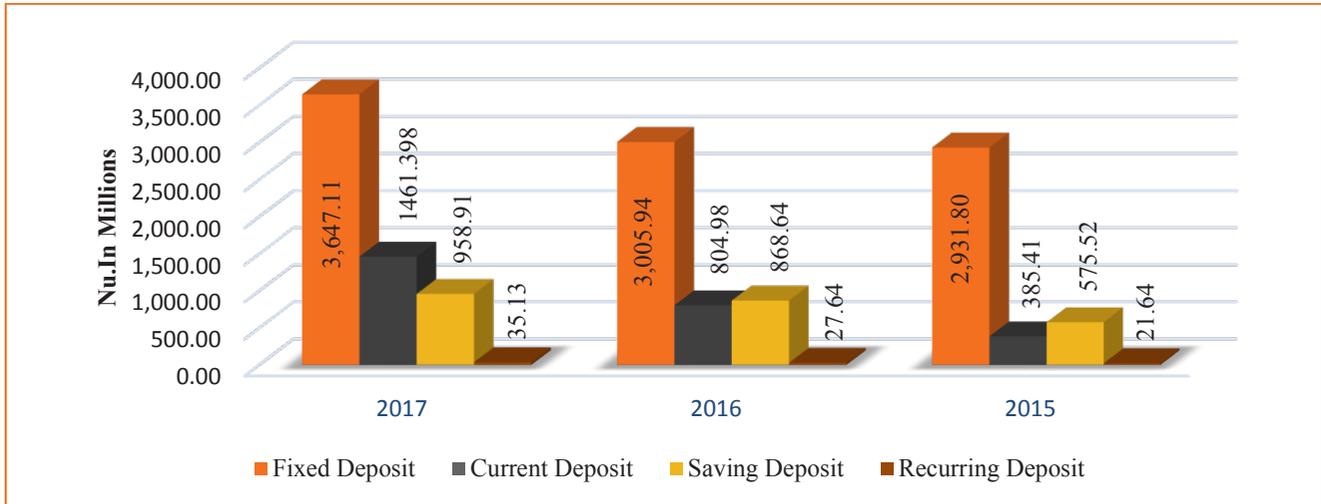
## Loans and Advances by Sectors

Like the previous years, the housing loan constitutes highest sector with 31.22% of gross loans and advances against 26.97% in 2016 followed by personal loan with 18.54% and consumer loan with 14.23%.



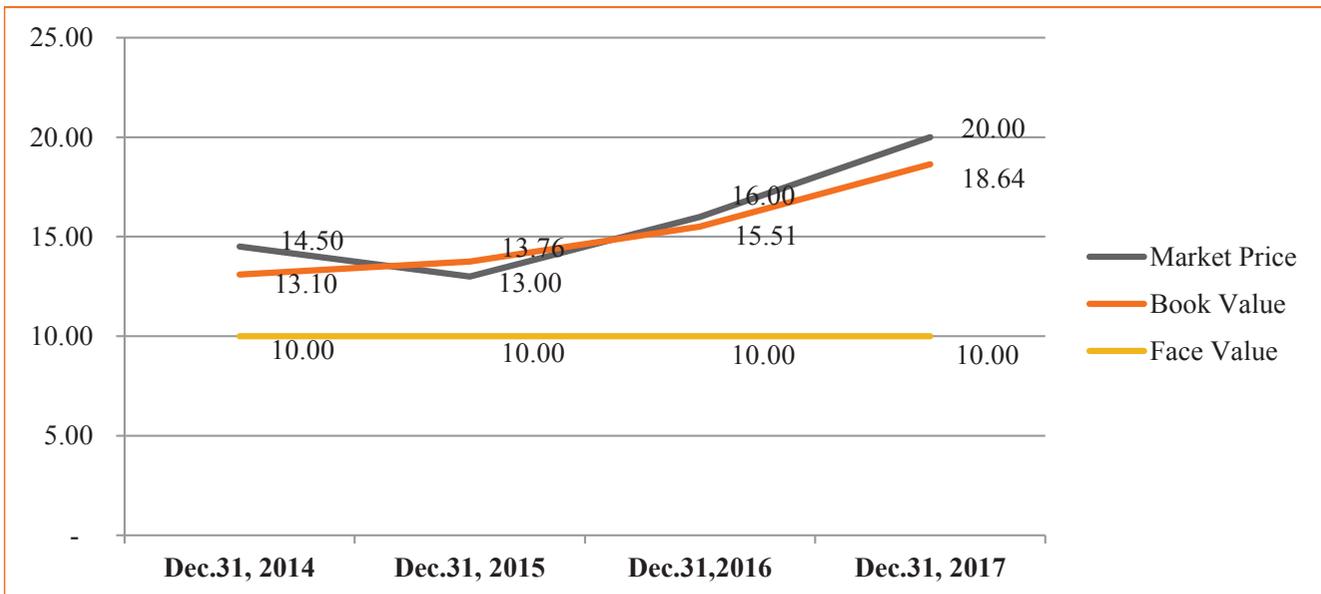
## Deposits by Products

The current deposit account increased by 81.54%, recurring deposits by 27.11%, saving deposits by 10.39% and fixed deposits by 21.33%.



## Market Price information

It is also worth mentioning that during the financial year 2017, the bank's shares has been actively traded in the secondary market with the market price increasing from Nu. 16 per share to Nu. 20 per share against the face value of Nu. 10/- per share. The book value as of 31st December 2017 stood at Nu. 18.64 against Nu. 15.51 in 2016.

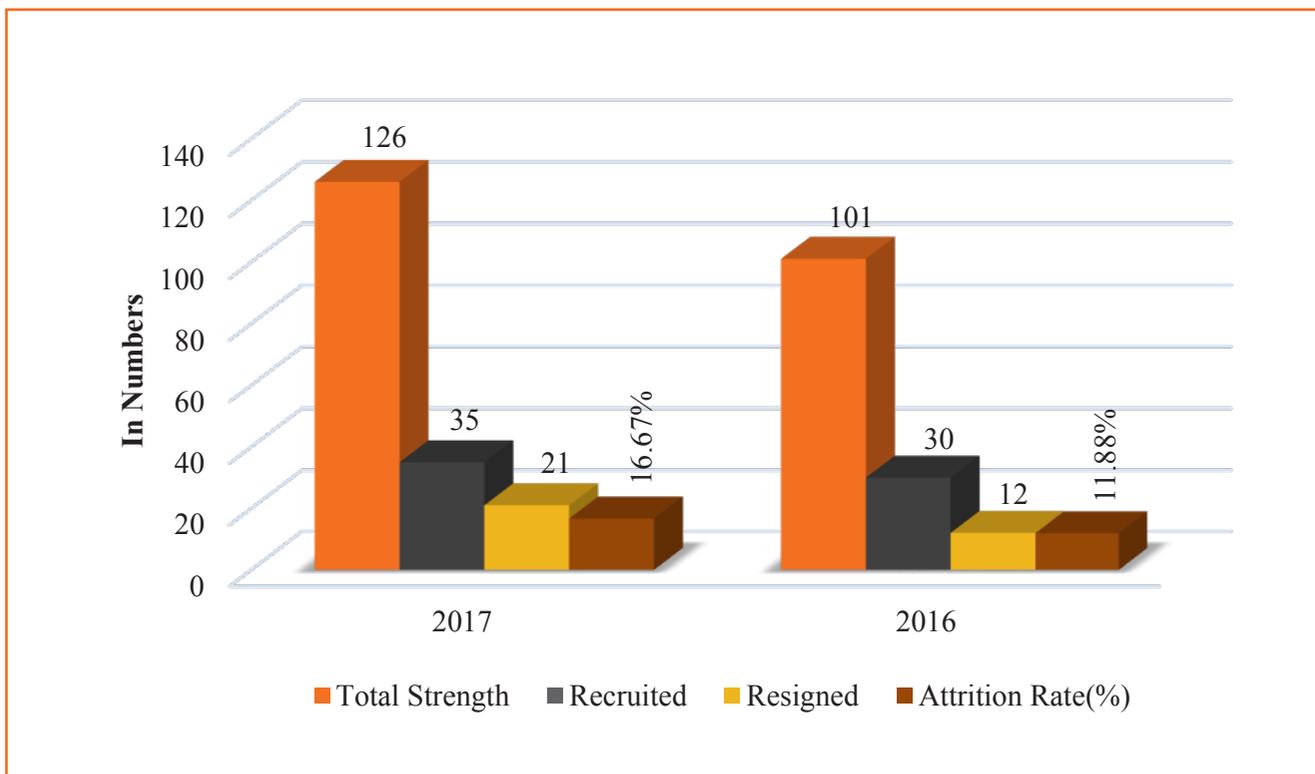


## HUMAN RESOURCES MANAGEMENT

### Recruitment and Separation

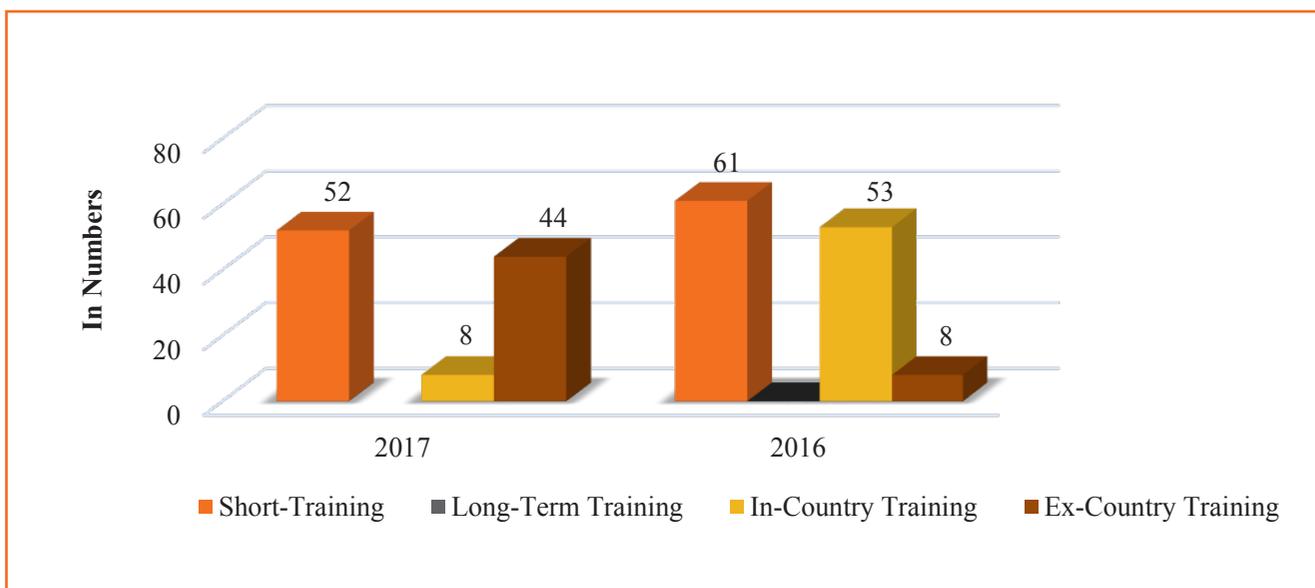
The bank recruited 35 employees following various levels of recruitment and selection processes to enhance the human resource capacity by hiring the best fits in the organization.

The recruitment of 35 employees during the year is for the purpose of business expansion and replacement of those resigned. Average attrition rate of the bank is 16.67%.



**Training and Development**

The bank was able to provide in-country training and development program to 52 employees of all categories including a separate training program organized for officials of bank and also sent 44 employees outside Bhutan for short term trainings. During the year none of the employees attended long-term training program.



**CORPORATE GOVERNANCE**

The bank considers corporate governance as an important component in complying with the regulatory and legal requirements. Hence, the bank is committed to achieving a high standard of corporate governance and has been implementing best practices in all areas of its banking operations.

During 2017, the Board held five meetings against the minimum requirements of four times as per the Companies Act of the Kingdom of Bhutan 2016 and RMA's Prudential Regulations 2002 and 2016. The quorums of these meetings were also duly maintained. The Board Audit Committee met five times to perform the internal auditing of the affairs of the bank in 2017.

In accordance with the Companies Act of the Kingdom of Bhutan 2016, all the documents have been duly maintained and the Bank has followed best practices of good corporate governance during the year 2017.

## Board of Directors

The directors have been providing effective leadership and guidance to the management on the day to day banking activities for the growth of the bank. The following are the present Board of Directors:

Dasho Wangchuk Dorji	- Chairman
Ashi S. Dorji	- Director
Mr. Lamkey Tshering	- Director
Mr. Passang Dorji	- Director
Mr. Gem Tshering	- Director
Mr. Pema Tshering	- Director/Chief Executive Officer (Member Secretary)
Mr. Chencho Dorji	- Company Secretary
Mr. Laxmi Prasad Giri	- Chief, Banking Operations - Observer

## Audit Committee

In accordance with Section 1, Schedule I of Prudential Regulation 2016, the Bank has established the Audit Committee during its 9<sup>th</sup> Board Meeting.

## COMPLIANCE

The bank has complied with the rules and regulations in line with the RMA Prudential Regulations 2016 and the Companies Act of the Kingdom of Bhutan 2016. All prudential requirements stipulated by the RMA were met in 2017. During the year, bank's Capital Adequacy Ratio (CAR) of minimum of 10 percent and Statutory Liquidity Ratio (SLR) of 20 percent of its total liabilities excluding capital fund was also complied with. As a part of the risk management system, the Bank will continue to improve its compliance requirements in line with the laws, by laws and other related rules and regulations.

## Key Ratios

Particulars	31.12.2017	31.12.2016
Credit to Deposit	85.27%	82.50%
Capital Adequacy Ratio	12.50%	14.30%
Statutory Liquidity Ratio	22.89%	25.75%
Single Largest Borrower	16.29%	17.77%
Ten Largest Borrower	11.44%	16.46%

Therefore, during the reporting year, there was no violation on any of the key ratios of the Bank as per RMA Regulations.

### OUTLOOK

The banking environment is increasingly becoming competitive and challenging. Withstanding all the challenges, we are pleased to report the success we have achieved and the momentum set by the bank towards continuous improvement in customer service and long-term sustainability. For this achievement, I would like to thank our people for the commitment and hard work they have put in.

The Board has confidence that the management team is well equipped to achieve our objective of 'becoming a preferred bank by providing personalized banking solutions' within a short span of time. We will continue to improve on our service delivery with extended focus on our service strategy.

Lastly, the bank would like to thank Royal Government of Bhutan, Ministry of Finance, Royal Monetary Authority of Bhutan, Royal Audit Authority, Company Registry Division, the Royal Security Exchange of Bhutan Limited, Board of Directors, Promoters and Shareholders, Auditors, valued Clients and all the Stakeholders for their tremendous continued support.

Tashi Delek.



**(Wangchuk Dorji)**  
**Chairman**



**SOUMYA DUTTA & ASSOCIATES**  
Chartered Accountants

13, Satyen Dutta Road, Kolkata-700 029  
Tel. : 2465 4900/01 Email : sd\_asso@vsnl.net

## INDEPENDENT AUDITORS' REPORT

**To the members of  
T BANK LIMITED**

### 1. Report on the Financial Statements

We have audited the financial statements of T Bank Limited ("the Bank"), which accompanies the Statement of Financial Position as at 31 December 2017, the Statement of Comprehensive Income for the year ended on that date, Statement of Other Comprehensive Income for the year ended on that date, the Statement of Changes in Equity for the year ended on that date and the Cash Flow Statement for the year ended on that date and a summary of significant accounting policies and other explanatory information.

### 2. Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation of these financial statements in accordance with the Bhutanese Accounting Standards (BAS), provisions of the Companies Act of Bhutan, 2016 ("the Act"), and RMA Prudential Regulations 2016 (from 01.09.2016) and the Financial Services Act of Bhutan 2011. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank and are free from material misstatement, whether due to fraud or error.

### 3. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## 4. Opinion

As required by section 265 of the Act, we report that:

- (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- (b) In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of the books and proper returns adequate for the purposes of our audit have been received from the branch not visited by us.
- (c) The financial statements dealt with in this report have been prepared in accordance with accounting principles generally accepted as well as Bhutanese Accounting Standards (BAS)
- (d) The financial statements dealt with in this report are in agreement with the books of account maintained and adjustments carried out by the Bank to comply with the accounting policies revised on 01.01.2016 upon adoption of Bhutanese Accounting Standards.
- (e) The bank has complied with other legal and regulatory requirements.
- (f) In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act, in the manner so required and give a true and fair view in conformity with the applied Bhutanese Accounting Standards and the provisions of the Act:
  - i) In the case of Statement of Financial Position, of the state of affairs of the Bank as at 31 December 2017;
  - ii) In the case of Statement of Comprehensive Income, of the profit of the Bank for the year ended on that date;
  - iii) In the case of Statement of Other Comprehensive Income, of the profit of the Bank for the year ended on that date;
  - iv) In the case of Statement of Changes in Equity, of the changes in equity of the Bank for the year ended on that date; and
  - v) In the case of Statement of Cash Flows, of the cash flows of the Bank for the year ended on that date.

## 5. Emphasis of Matter

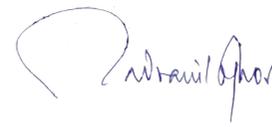
Unreconciled balance in Network Settlement Account as on 31.12.2017 is net debit Nu 5,084,192 (PY net debit Nu 9,012,200). This represents withdrawal by the customers using inter-bank ATM cards, settlement of which was pending with other banks through the Bhutanese Financial Switch (BFS) system.

## 6. Other Matter

Confirmation of outstanding balances of loans and advances given, deposits taken and other receivable/payable were not available for our verification. However, the Bank contended that such confirmations are not feasible. Our opinion is not qualified in respect of these matters.

7. As required by Section 266 of the Act, we enclose in the Annexure a statement on the matters specified in the Minimum Audit Reporting Requirements prescribed by Royal Audit Authority, to the extent applicable to the Bank.

*For Soumya Dutta & Associates*  
Chartered Accountants  
Firm Registration No.: 322220E


**Dated: 9<sup>th</sup> March, 2018**  
**Place: *Thimphu***

**Indranil Ghosh**  
*Partner*  
Membership No.: 056152

**T BANK LIMITED**

**ANNEXURE**

(REFERRED TO IN PARAGRAPH 7 OF OUR REPORT OF EVEN DATE)

## **MINIMUM AUDIT REPORTING REQUIREMENTS PRESCRIBED BY ROYAL AUDIT AUTHORITY**

As per the requirement of Minimum Audit Reporting Requirements prescribed by Royal Audit Authority under Section 266 of Companies Act of Bhutan 2016, to the extent applicable, and on the basis of such check as we considered appropriate and according to the information and explanation provided to us, we further report as follows:

1. The Bank is maintaining Fixed Assets Register showing full particulars including quantitative details and situation of fixed assets. As explained to us physical verification of fixed assets was conducted by the Management during the year and no material discrepancies were noticed.
2. None of the fixed assets have been revalued during the year.
3. Physical verification of stationery items was conducted by the management at reasonable intervals and no material discrepancies were noticed on such verifications.
4. The procedures of physical verification of stationery items followed by the management are reasonable and adequate in relation to the size of the bank and the nature of its business.
5. The bank has not availed any loans, secured or unsecured, from companies, firms or other parties and / or from the companies under the same management.
6. The bank has not granted any loans secured or unsecured, to companies, firms and other parties and / or to the companies under the same management except loan given in the normal course of banking business.
7. The parties to whom loans or advances have been given by the bank are generally repaying the principal amounts and interests as stipulated except in the cases of Non Performing Loans.
8. The bank has not granted any loans / advances to the officers / staff during the year other than those which are granted in course of normal banking business.
9. In our opinion and according to the information and explanation given to us during the course of the audit, the bank has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, to safeguard the assets of the bank as well as to ensure adherence to the rules / regulations and systems and procedures.
10. There is a system of competitive bidding, commensurate with the size of the bank and the nature of its business, for the purchases of services, stores, equipment and other assets.
11. As explained to us, the bank has entered into transactions for purchase of goods and sale of services with parties in which one or more directors of the bank are interested. Our examination has revealed that such purchase and sale transactions were made at prices which were reasonable having regard to the prevailing market prices for such goods and services or at prices at which the transactions for similar goods and services have been made with other parties. Details of such transactions and amounts thereof are adequately disclosed in Note No- 31 of Notes to Accounts.
12. In respect of transaction referred to in clause above, our examination has revealed that such transactions are not prejudicial to the interest of the other shareholders and the bank.

13. As per information and explanations given to us and also examined by us, there was no case of any item in inventory having become damaged or unserviceable during the year.
14. According to the records, the bank is regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authorities. Provision for corporate tax for the year is adequate and necessary adjustments have been made to compute the amount of tax required under the Rules of the Income Tax Act of the Kingdom of Bhutan 2001.
15. There are no disputed amounts payable in respect of rates, taxes, duties, royalties, provident funds and other statutory deductions on the last day of the financial year.
16. During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices, we have not come across any personal expenses other than contractual and / or as per customary business practices, which have been charged to the Statement of Comprehensive Income.
17. In our opinion, and on the basis of information and explanations given to us, the management of liquid resources, particularly cash / bank etc. are reasonably adequate and excessive amounts are not lying idle in noninterest bearing accounts.
18. According to the information and explanations given to us, and on the basis of available records and information, we are of the opinion that the financial activities carried out by the bank during the year are lawful and intra-vires to the Articles of Incorporation of the bank.
19. Capital investment decisions are made with prior approval of the Board and investments in new projects are made only after ascertaining the technical and economic feasibility of such new projects.
20. In our opinion, the bank has established an effective budgetary control system.
21. The details of remuneration paid to the Managing Director and sitting fees paid to other directors are disclosed in Note No. 31 of notes to Accounts. Our checking is restricted to Board Minutes and while checking the said board minutes, we have not come across any cases of disclosure of interest where payments have been made in cash or in kind to any of the directors and their relatives (including spouse(s) and child/children) by bank directly or indirectly.
22. As represented to us, the directives of the Board have been complied with.
23. As represented by the management, the officials of the bank have not transmitted any price sensitive information which is not made publicly, unauthorizedly to their relatives / friends / associates or close persons which would directly or indirectly benefit themselves.
24. The bank has generally maintained adequate documents and records where it has granted loans and advances for which agreements have been drawn up and timely entries have been made therein.
25. The bank has not dealt or traded in shares, securities and other investments during the year.
26. The bank has adequate records for fund collected from depositors and for interest payments.
27. Since the bank has no investment in shares, diminution in value does not arise.
28. The bank has generally complied with the requirements for Financial Services Act 2011 and other applicable regulations.
29. The bank has complied with the requirements relating to provisioning for the non-performing assets including loans and advances as per Bhutan Accounting Standard -39 (BAS 39).

30. Accrued interest on non-performing loans has been recognized as interest income as per accounting policy of the bank revised upon adoption of BAS and has not been deferred. However accrued interest has been taken into account while arriving at provision for impairment loss.
31. The assets hypothecated against loans and advances have generally been physically verified, properly valued, mortgage deed executed and ensured that the assets are free of any prior lien or charges.
32. The bank has a system of monitoring of projects for which loans have been provided to ensure that loan amounts are used for the specified purposes and projects activities are progressing satisfactorily.
33. The bank has disposed the assets taken over for repayment of defaults through open/sealed bids.
34. There is no re-phasing / rescheduling of loans during the year except in few cases where loans have been renewed and enhanced. Re-phasing / rescheduling in respect of non-performing loans are not permitted by the bank unless interest overdue is fully paid by the borrower.
35. There is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.

## COMPUTERIZED ACCOUNTING ENVIRONMENT

1. The Bank has a computerized accounting system and the internal control system seems to be adequate taking into account the size and nature of its computer installations.
2. Adequate safeguard measures and back up facilities exist.
3. As regards back up facilities and disaster recovery measures, the back-up files are kept in different locations.
4. Operational controls are adequate to ensure correctness and validity of input data and output information.
5. Adequate preventive measures have been taken by the bank to prevent unauthorized access over the computer installation and files.

## GENERAL

1. Going Concern Problems:

Based on the net asset position reflected by the Bank's Balance Sheet as at 31st December, 2017 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 Balance Sheet date.

## 2. Ratio Analysis:

Ratio Analysis on financial health and profitability of the Bank is given below:

Sl. No.	RATIOS	2017	2016	REMARKS
1	Interest Expense/ Deposits	4.77%	4.70%	Increase in Customer Accounts.
2	Interest Income/Loans	11.21%	8.21%	Increase in loans and advances to customers.
3	Loan/ Deposits	81.35%	76.92%	Increase in loans higher than increase in deposits.
4	Provision/ Credit Exposure	5.01%	5.16%	Increase in credit proportionately higher than increase in provision.
5	Capital Adequacy Ratio (CAR) – Based on GAAP	12.50%	14.54%	Substantial increase in loans
6	Statutory Liquidity Ratio (SLR)– Based on GAAP	22.89%	25.75%	Substantial increase in loan and decrease in cash & cash equivalent
7	Current Ratio	1.54:1	1.45:1	Increase in current assets proportionately higher than increase in current liabilities.
8	Return on Investment	21.37%	16.71%	Substantial increase in net profit.
9	Net Profit Ratio	28.71%	11.59%	Increase in net profit proportionately higher than increase in total income.
10	Earnings Per Share (EPS)	4.02	1.67	Substantial increase in net profit.
11	NPL/Total Loans & Advances	6.44%	6.24%	Substantial increase in loans and advances to customers.
12	Return on Assets (ROA)	2.40%	0.98%	Substantial increase in net profit
13	Book value of shares	18.64	15.51	Substantial increase in net profit and reserves.

## 3. Compliance with the Companies Act of Bhutan, 2016

The bank has complied with the provisions of the Companies Act of Bhutan, 2016, concerning conducting of meetings, filing requirements, and maintenance of records and issue of shares.

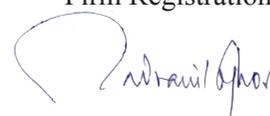
## 4. Adherence to laws, Rules and Regulations

The audit of the bank has been governed by the Companies Act of Bhutan, 2016, RMA Prudential Regulations 2016 (from 01.09.2016) and Financial Services Act, 2011. The scope of audit is limited to examination and review of the financial statement as produced to us by the management.

The bank has generally complied with the applicable laws, rules and regulations, system, procedures and practices.

All corporate governance policies have not yet been fully documented as per the provisions of the Section 63(a) of the Financial Services Act of Bhutan, 2011.

**For Soumya Dutta & Associates**  
 Chartered Accountants  
 Firm Registration No.: 322220E


**Indranil Ghosh**  
 Partner

Membership No.: 056152

**Dated: 9<sup>th</sup> March, 2018**

**Place: Thimphu**

# STATEMENT OF COMPREHENSIVE INCOME

## Statement of Comprehensive Income for the year ended 31<sup>st</sup> December 2017

<i>In Bhutanese Ngultrum</i>	Note	31.12.2017	31.12.2016
		Amount (Nu)	Amount (Nu)
Interest and Similar Income	19	556,542,237	403,054,291
Interest and Similar Expense	19	(291,057,183)	(230,077,113)
<b>Net Interest Income</b>		<b>265,485,054</b>	<b>172,977,177</b>
Fee and Commission Income	20	34,273,706	22,143,166
Fee and Commission Expense	20	(2,933,743)	(1,399,765)
<b>Net Fee and Commission Income</b>		<b>31,339,964</b>	<b>20,743,401</b>
Other Operating Income	21	9,460,681	7,174,421
Share of Profit/(Loss) from Associates		-	-
<b>Total Operating Income</b>		<b>306,285,698</b>	<b>200,895,000</b>
Operating Expenses	22	101,020,924	82,817,527
Depreciation	10	7,637,665	8,470,733
Ammortization	11	3,065,593	3,355,729
Provision & Contingencies	23	22,245,177	30,311,805
<b>Total Operating Expenses</b>		<b>133,969,359</b>	<b>124,955,794</b>
<b>Profit Before Tax from Continuing Operations</b>		<b>172,316,339</b>	<b>75,939,206</b>
Income Tax Expense	24	52,634,099	25,807,642
<b>Profit for the year</b>		<b>119,682,240</b>	<b>50,131,564</b>
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>			
Transfer to Exchange Fluctuation Reserve		530,413	603,644
Transfer to Other Comprehensive Income		119,151,827	49,527,920

## Statement of Other Comprehensive Income for the year ended 31.12.2017

<i>In Bhutanese Ngultrum</i>	Note	31.12.2017	31.12.2016
		Amount (Nu)	Amount (Nu)
Profit for the year after appropriation		119,151,827	49,527,920
Remeasurement Gain/(Loss) on Defined Benefit Plan		1,260,590	841,675
Other Comprehensive Income		-	-
<b>Total Comprehensive Income before Tax</b>		<b>120,412,417</b>	<b>50,369,595</b>
<b>Less: Tax Expenses</b>			
Current Tax			
Deferred Tax Liabilities		378,177	252,503
<b>Other Comprehensive Income After Tax</b>		<b>882,413</b>	<b>589,173</b>
<b>Total Comprehensive Income After Tax</b>		<b>120,034,240</b>	<b>50,117,092</b>
Basic Earning Per Share		4.02	1.69
Diluted Earning Per Share		4.02	1.69

For Soumya Dutta & Associates  
Chartered Accountants  
FRN: 322220E

Indranil Ghosh  
(Partner)  
Membership No. 056152  
Place: Thimphu  
Date: 9<sup>th</sup> March 2018



*[Signature]*  
Chairman

*[Signature]*  
Chief Executive Officer

*[Signature]*  
Director



# STATEMENT OF FINANCIAL POSITION

## Statement of Financial Position for the year ended 31<sup>st</sup> December 2017

<i>In Bhutanese Ngultrum</i>	Note	31.12.2017	31.12.2016
		Amount (Nu)	Amount (Nu)
<b>ASSETS</b>			
Cash and cash equivalents	3	490,918,718	403,108,390
Cash & Balances with Central Bank	4	1,032,492,998	803,589,048
Due from Other Banks	5	551,065,822	652,277,548
Instruments held till maturity	6	40,000,000	40,000,000
Loans and advances to customers	7	4,964,202,251	3,620,875,218
Investments in Associate	8	9,085,118	10,312,600
Other assets	9	54,806,377	59,047,997
Property, plant and equipment	10	29,592,009	19,257,798
Intangible Assets	11	21,171,087	1,113,294
<b>Total Assets</b>		<b>7,193,334,378</b>	<b>5,609,581,892</b>
<b>LIABILITIES</b>			
Due to Other Banks	12	1,690,566,356	1,448,792,610
Customer Accounts	13	4,411,981,530	3,258,410,124
Debts issued & Other borrowed funds	14	150,000,000	150,000,000
Other liabilities	15	318,718,509	251,588,457
Provisions	16	62,103,350	35,485,955
<b>Total Liabilities</b>		<b>6,633,369,745</b>	<b>5,144,277,146</b>
<b>EQUITY</b>			
Share Capital	17	300,000,000	300,000,000
Retained earnings	18	255,622,053	160,295,310
Translation reserve	18	3,007,463	2,477,050
Equity Investment Revaluation Reserve	18	1,335,118	2,532,386
<b>Net assets attributable to the Company's owners</b>		<b>559,964,633</b>	<b>465,304,746</b>
Non Controlling Interest	-	-	-
<b>Total Equity</b>		<b>559,964,633</b>	<b>465,304,746</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,193,334,378</b>	<b>5,609,581,892</b>

For Soumya Dutta & Associates  
Chartered Accountants  
FRN: 322220E

Indranil Ghosh  
(Partner)  
Membership No. 056152  
Place: Thimphu  
Date: 9<sup>th</sup> March 2018



  
Chairman

  
Chief Executive Officer

  
Director



# STATEMENT OF CASH FLOWS

## Statement of Cash Flows for the year ended 31<sup>st</sup> December 2017

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
	Amount (Nu)	Amount (Nu)
<b>Cash flows from operating activities</b>		
Profit before Taxation	172,316,339	75,939,206
Adjustments for:		
Interest Received from financial assets held to maturity	(70,876,003)	(91,965,737)
Proposed dividend		-
Depreciation and amortization	10,703,258	11,826,462
Net impairment loss on loans and advances	22,245,177	30,311,805
Remeasurements upon conversion from local GAAP to BAS	(24,644,175)	(18,283,495)
Tax expenses	(53,012,276)	(23,034,264)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>56,732,320</b>	<b>(15,206,023)</b>
<b>(Increase) /decrease in assets</b>		
Net change in mandatory cash balances with central banks	(228,903,950)	(311,354,484)
Net change in due from other banks	101,211,726	671,878,748
Net change in loans and advances to customers	(1,365,572,210)	(1,425,925,715)
Net change in other assets	4,241,621	3,414,165
<b>Increase /(decrease) in liabilities</b>		
Net change in due to other banks	241,773,746	104,902,069
Net change in customer accounts	1,153,571,406	687,922,876
Debts issued & Other borrowed funds		
Net change in other liabilities and provisions	93,747,446	134,888,760
<b>Net cash from operating activities</b>	<b>56,802,105</b>	<b>(149,479,604)</b>
<b>Cash flow from Investing Activities</b>		
Dividends Received		-
Investment Shares and Bonds	1,227,482	(743,047)
Interest Received from financial assets held to maturity	70,876,003	91,965,737
Acquisition of financial assets available for sale		
Acquisition of Property, plant, equipment and intangibles	(41,095,262)	(8,075,207)
Proceeds from disposal of property, plant, equipment and intangibles		-
<b>Net cash from investing activities</b>	<b>31,008,223</b>	<b>83,147,484</b>
<b>Cash flows from financing activities</b>		
Proceeds from Issue of debt securities		-
Proceeds from Issue of right shares		-
Proceeds from sub-ordinate term debt		-
Repayment of sub-ordinate term debt		-
Interest paid on subordinate term debt		-
Dividends Paid		-
<b>Net cash from financing activities</b>	<b>-</b>	<b>-</b>
Effect of exchange rate changes on cash and cash equivalents		
Net increase/(decrease) in cash and cash equivalents	87,810,329	(66,332,121)
Cash and cash equivalents at the beginning of period	403,108,390	469,440,511
<b>Cash and cash equivalents at the end of period</b>	<b>490,918,718</b>	<b>403,108,390</b>

For Soumya Dutta & Associates  
Chartered Accountants  
FRN: 322220E

Indranil Ghosh  
(Partner)  
Membership No. 056152  
Place: Thimphu  
Date: 9<sup>th</sup> March 2018



Chairman

Chief Executive Officer

Director



# STATEMENT OF CHANGES IN EQUITY

## Statement of Changes in Equity for the year ended 31<sup>st</sup> December 2017

<i>In Bhutanese Ngultrum</i>	Share Capital	Translation Reserve	Retained Earnings	Investment Revaluation Reserve	Total
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Balance as at 01.01.2017 (Local GAAP)</b>	<b>300,000,000</b>	<b>2,477,050</b>	<b>160,295,310</b>	<b>2,532,386</b>	<b>465,304,746</b>
Profit for the year			95,326,743	-	95,326,743
Proposed Dividend Written Back			-		
Dividend Declared and Distributed			-		
Transfer to Translation Reserve during the year		530,413			530,413
Investment Revaluation during the year				(1,197,268)	(1,197,268)
<b>Balance as at 31.12.2017</b>	<b>300,000,000</b>	<b>3,007,463</b>	<b>255,622,053</b>	<b>1,335,118</b>	<b>559,964,634</b>

## Statement of Changes in Equity for the year ended 31<sup>st</sup> December 2016

<i>In Bhutanese Ngultrum</i>	Share Capital	Translation Reserve	Retained Earnings	Investment Revaluation Reserve	Total
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Balance as at 01.01.2016 (Local GAAP)</b>	<b>300,000,000</b>	<b>1,873,406</b>	<b>110,781,863</b>	<b>-</b>	<b>412,655,269</b>
Profit for the year			49,513,448	-	49,513,448
Proposed Dividend Written Back			-		
Dividend Declared and Distributed			-		
Transfer to Translation Reserve during the year		603,644			603,644
Investment Revaluation during the year				2,532,386	2,532,386
<b>Balance as at 31.12.2016</b>	<b>300,000,000</b>	<b>2,477,050</b>	<b>160,295,310</b>	<b>2,532,386</b>	<b>465,304,746</b>

For Soumya Dutta & Associates  
Chartered Accountants  
FRN: 322220E

Indranil Ghosh  
(Partner)  
Membership No. 056152  
Place: Thimphu  
Date: 9<sup>th</sup> March 2018



*[Signature]*  
Chairman

*[Signature]*  
Chief Executive Officer

*[Signature]*  
Director



## 1. CORPORATE INFORMATION

T Bank Limited is a limited liability bank incorporated and domiciled in Bhutan. The address of its registered office is Post Box 631, TCC Complex Building, Samten Lam, Chubachu, Thimphu, Bhutan. The Bank provides commercial banking services to different parts of the country. The principal activities of the Bank comprise of three main segments: Corporate and Investment banking, retail banking and treasury operations within and outside the Kingdom of Bhutan.

## 2. BASIS OF PREPARATION

The financial statements have been prepared on historical cost basis, except Equity Investments. The financial statements are presented in Bhutanese Ngultrum rounded (Nu). The following fundamental assumptions are followed in preparation of these financial statements:

- a. Accrual
- b. Going Concern
- c. Consistency

### Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Bhutanese Accounting Standards (BAS) in line with International Financial Reporting Standards (IFRS).

### Presentation of Financial Statements

The Bank presents its Statement of Financial Position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) or more than 12 months after the reporting date (non-current) is presented in notes herewith.

### Change Impact

Financial Impact emanated out of the adoption of BAS is due to the following reasons:

- a) Adoption of Effective Interest Rate as stated in BAS-39.
- b) Adoption of Judgment based approach of Loan Impairment Calculation as stated in BAS-39.
- c) Valuation of Gratuity and Leave Encashment on the basis of Projected Unit Credit Method as stated in BAS-19.
- d) Valuation of Equity Investments on the basis of Level-III technique as stated in BFRS-13.
- e) Recognition of Deferred Tax Assets/Liabilities owing temporary timing differences as per BAS-12.

## 2.1 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

### Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

## Estimates and Assumptions

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

## Going Concern

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

## Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for discount rates, income earning potential, etc. The Bank has used Level-III technique as stated in BFRS-13 in valuation of Equity Investments.

## Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances at each Reporting Date to assess whether an Impairment Loss should be recorded in the Income Statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and Advances that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes into account of data from the loan portfolio (such as levels of arrears, loan type, etc.) and judgment on the effect of economic and market conditions. The impairment loss on loans and advances is disclosed in more detail in the notes attached herewith.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Foreign Currency Translation

Transactions in Foreign Currency are initially recorded in the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary Assets and Liabilities in Foreign currencies are translated into functional currency at the exchange rates prevailing at the end of the reporting period. Exchange gains and losses on foreign currency translation are dealt with in the Income Statement. Non-monetary items are measured at historical cost.

### Cash & Cash Equivalents

Cash and Cash Equivalents in the Statement of Financial Position comprise Cash at Bank and in hand that are readily convertible to known amount of Cash and which are subject to an insignificant risk of changes in value. All short term placements with other banks beyond overnight placement are included under Assets held till maturity.

## **Mandatory Cash Balances with Central Bank**

Mandatory cash balances with central bank is carried at historical cost and represent mandatory reserve deposits with the 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 Equivalents for the purposes of the Statement of Cash Flows.

## **Cash Flow Statement**

Cash Flows are reported using the indirect method, whereby profit/(loss) before extraordinary items and tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The Cash Flows from operating, investing & financing activities of the Bank are segregated based on the available information.

## **Loans & Advances to Customers**

After initial measurement, Loans & Advances to Customers are subsequently measured at amortized cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortized Cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate (EIR). The amortization is included in Interest and similar income in the Income Statement. The loss arising from impairment is recognized in the Income Statement in Credit Loss Exposure.

## **Due from Other Banks**

Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are recorded at historical cost and interest accrued thereon is disclosed under other assets.

## **Financial Instruments-Classifications**

The Bank has classified Financial Instruments in the following manner as specified in BAS-39 (in line with IAS-39).

### **Financial Assets**

- i) Fair Value through Profit or Loss
- ii) Loans & Advances
- iii) Held Till Maturity
- iv) Available for Sale

Presently the Bank is having assets in category (ii) (iii) and (iv).

### **Financial Liabilities**

- i) Fair Value through Profit or Loss
- ii) Other Liabilities

Presently the Bank is having liabilities in category (ii).

## De-recognition of Financial Assets & Liabilities

### i) Financial Assets

A financial asset is de-recognized in the following cases:

- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement.
- The Bank has transferred substantially all the risks and rewards of the asset.
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### ii) Financial Liabilities

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expired. Where 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 modifications is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the considerations paid is recognized in profit or loss.

## Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and is appropriate. The Bank uses active market data for valuing financial assets, held as collateral.

## Offsetting Financial Instruments

Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position if and only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

## Lease

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases that do not transfer to the Bank substantially all the risks and rewards incidental to the ownership of the leased items are operating leases. Operating lease payments are recognized as expenses in the Income Statement on a straight line basis over the lease term. Contingent Rental Payable is recognized as an expense in the period in which they are incurred.

## Recognition of Income & Expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

## Interest and similar Income and Expense

Interest and similar income and expense have been recognized using the effective interest rate. Effective Interest Rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial

instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

### Fee & Commission Income

The Bank earns fees and commission income from a diverse range of services it provides to customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

### Dividend Income

Revenue is recognized when the Bank’s right to receive the payment is established, which is generally when the shareholders approve the dividend.

### Property, Plant & Equipment

After recognition as an asset, an item of property, plant & equipment has been carried at cost less accumulated depreciation and any accumulated impairment losses. Management physically verified the assets and found them to be worthy of use till the absorption of full cost after charging depreciation on the basis of useful life as estimated by the management. Historical Cost includes expenditure directly attributable to the acquisition of items. Subsequent Costs are included in the asset’s carrying amount or recognized as separate assets 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. All other repairs and maintenance are charged to Income Statement in the financial period in which they are incurred. Depreciation has been calculated on straight line basis as per the useful life estimated by the management and calculated on pro-rata basis from the date of purchase. The useful life of assets and rates of depreciation are as follows:

Details of Assets	Useful Life(in years)	Rates (%)
Furniture	6.67	15
Office Equipment	6.67	15
Computer Equipment	6.67	15
Vehicle	6.67	15

### Intangible Assets

Intangible Assets are stated at cost less accumulated amortization and net of impairments, if any. An intangible asset is recognized if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank and its cost can be measured reliably. Intangible Assets having finite useful lives are amortized on straight line basis over their estimated useful lives. The useful life of the asset and rates of amortization is as follows:

Details of Asset	Useful Life(in years)	Rates (%)
Software	6.67	15

### Share Capital

Ordinary Shares are classified as “Share Capital” in Equity.

## Dividends

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

## Due to Other Banks

Amounts due to other banks are recorded when money has been transferred to the Bank by counter party banks. Interest accrued on amounts due to other banks has been calculated by using Effective Interest Rate.

## Customer Accounts

Customer Accounts are non-derivative liabilities to individual, state or corporate customers and are carried at amortized cost.

## Income Taxes

Income Taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by end of the reporting period. The Income Tax charge comprising current tax is recognized in the Statement of Comprehensive Income for the year. Current Tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for Income Tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

## Deferred Tax

The Bank calculates deferred taxation based on temporary timing differences that are the difference between the carrying amount of assets/liabilities and their tax base.

## Staff Costs and related contributions

The Bank measures the present value of the Gratuity obligation, which is a defined benefit plan with the advice of an independent professional actuary using the projected unit credit method.

## 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 higher of an asset's or Cash Generating Unit's fair value less costs to sell and its value in use. When the carrying amount of an asset or Cash Generating Unit's exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

## Provisions, Contingent Assets & Contingent Liabilities

The Bank recognizes provisions only when it has a present obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made. Contingent Liability is disclosed unless the possibility of an outflow of resources embodying economic is remote. Contingent Assets are not recognized in the financial statements.

## 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, whose operating results are regularly reviewed by the Chief Operating decision maker to make decisions 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.

# NOTE TO FINANCIAL STATEMENTS

## Reconciliation of Statement of Comprehensive Income for the year ended 31<sup>st</sup> December 2017

<i>In Bhutanese Ngultrum</i>	Note	Local GAAP	Remeasurement	BAS/IFRS
		Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>I. Income:</b>				
Interest earned	A	524,764,780	31,777,456	556,542,237
Fee and commission	B	34,273,706	-	34,273,706
Other revenue	C	9,460,681	-	9,460,681
<b>Total income</b>		<b>568,499,168</b>	<b>31,777,456</b>	<b>600,276,624</b>
<b>II. Expenditure:</b>				
Interest expenditure	A	297,309,410	(6,252,227)	291,057,183
Fee and commission expenditure	B	2,933,743	-	2,933,743
Operating Expenses	D	101,046,999	(26,074)	101,020,924
Provisions & Contingencies	E	45,572,666	(23,327,489)	22,245,177
Depreciation and amortization		10,703,258		10,703,258
<b>Total Expenditure</b>		<b>457,566,075</b>	<b>(29,605,790)</b>	<b>427,960,285</b>
<b>Profit before tax</b>		<b>110,933,092</b>	<b>61,383,247</b>	<b>172,316,339</b>
<b>Income tax expense</b>	F			
Current tax		26,644,957	17,427,115	44,072,072
Assessed Tax of earlier years paid		125,469	(125,469)	-
Deferred Tax Assets/Liabilities		-	8,562,027	8,562,027
<b>Total Tax Expenses</b>		<b>26,770,426</b>	<b>25,863,673</b>	<b>52,634,099</b>
<b>Profit after taxation</b>		<b>84,162,666</b>	<b>35,519,574</b>	<b>119,682,240</b>
<b>Earnings per share</b>				
Basic earnings per share (Nu)		2.81	0.29	3.99
Diluted earnings per share (Nu)		2.81	0.29	3.99
<b>Profit Available for Appropriations</b>			119,682,240	
Transfer to Foreign Exchange Fluctuation Reserve				530,413
Transfer to Other Comprehensive Income				119,151,827
<b>Statement of Other Comprehensive Income</b>				
Profit for the Year				119,151,827
Remeasurement Gains/Loss on Defined Benefit Plan				1,260,590
Deferred tax liabilities				378,177
<b>Total Comprehensive Income for the Year (Net of Taxes)</b>				<b>120,034,240</b>

## Reconciliation of Statement of Financial Position for the year ended 31<sup>st</sup> December 2017

<i>In Bhutanese Ngultrum</i>	Note	Local GAAP	Remeasurement	BAS/IFRS
		Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>ASSETS</b>				
Cash and cash equivalents		490,918,718	-	490,918,718
Cash & Balances with Central Bank		1,032,492,998	-	1,032,492,998
Assets held till maturity	A	551,065,822	-	551,065,822
Loans and advances to customers	B	5,203,712,232	(239,509,981)	4,964,202,251
Financial Investments available for sale		40,000,000	-	40,000,000
Equity Investments	C	7,750,000	1,335,118	9,085,118
Other assets	D	36,414,884	18,391,493	54,806,377
Property, plant and equipment		29,592,009	-	29,592,009
Intangible Assets		21,171,087	-	21,171,087
<b>TOTAL ASSETS</b>		<b>7,413,117,750</b>	<b>(219,783,371)</b>	<b>7,193,334,378</b>
<b>LIABILITIES</b>				
Due to Other Banks		1,690,566,356	-	1,690,566,356
Customer Accounts		4,411,981,530	-	4,411,981,530
Debts issued & Other borrowed funds		150,000,000	-	150,000,000
Other liabilities	E	601,779,278	(283,060,770)	318,718,509
Provisions	F	36,032,643	26,070,707	62,103,350
<b>TOTAL LIABILITIES</b>		<b>6,890,359,807</b>	<b>(256,990,063)</b>	<b>6,633,369,745</b>
<b>EQUITY</b>				
Share Capital		300,000,000	-	300,000,000
Retained earnings	G	219,750,479	35,871,574	255,622,053
Translation reserve		3,007,463	-	3,007,463
Equity Investment Revaluation Reserve		-	1,335,118	1,335,118
<b>Total Equities</b>		<b>522,757,941</b>	<b>37,206,692</b>	<b>559,964,633</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,413,117,750</b>	<b>(219,783,371)</b>	<b>7,193,334,378</b>

## Notes to Reconciliation of Statement of Comprehensive Income for the year ended 31<sup>st</sup> December 2017

### Note - A

Interest Income & Expenses	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Interest Income</b>			
Loans and advances to corporate customers	3,865,753.41	-	3,865,753
Loans and advances to individuals	453,888,777.72	-	453,888,778
Interest Suspense	-	31,777,456	31,777,456
Due from other banks	67,010,249	-	67,010,249
<b>Total Interest Income</b>	<b>524,764,780</b>	<b>31,777,456</b>	<b>556,542,237</b>
<b>Interest expense</b>			
Term deposits of legal entities	47,971,032	-	47,971,032
Term deposits of individuals	183,154,752	(7,243,233.35)	175,911,518
Current/settlement accounts	57,183,627	-	57,183,627
Interest Expense on Govt.Bonds	9,000,000	991,006.19	9,991,006
<b>Total Interest Expense</b>	<b>297,309,410</b>	<b>(6,252,227)</b>	<b>291,057,183</b>
<b>Net Interest Income</b>	<b>227,455,370</b>	<b>38,029,684</b>	<b>265,485,054</b>

### Note - B

Fees and Commission Income & Expenses	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Fees &amp; Commission Income</b>			
Commission on guarantees issued	2,274,725	-	2,274,725
Commission on cash and foreign currency exchange transactions	-	-	-
Other	31,998,982	-	31,998,982
	<b>34,273,706</b>	<b>-</b>	<b>34,273,706</b>
<b>Fees &amp; Commission Expenses</b>			
Indian/Other Bank Charges	2,933,743	-	2,933,743
	<b>2,933,743</b>	<b>-</b>	<b>2,933,743</b>
<b>Net Fee &amp; Commission Income</b>	<b>31,339,964</b>	<b>-</b>	<b>31,339,964</b>

### Note - C

Other Revenue	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Term Deals	-	-	-
Spot Deals	4,263,287	-	4,263,287
Foreign Exchange Translation Gains(Net)	2,121,652	-	2,121,652
<b>Total Gains less Losses arising from Foreign Currencies</b>	<b>6,384,939</b>	<b>-</b>	<b>6,384,939</b>
Other Income	3,075,742	-	3,075,742
<b>Total Other Revenue</b>	<b>9,460,681</b>	<b>-</b>	<b>9,460,681</b>

# NOTE TO FINANCIAL STATEMENTS

## Note - D

Operating Expenses	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Salaries, Wages and Bonus and Employee Benefits	52,205,609.59	(296,612)	51,908,998
Amortization of prepaid staff cost	-	270,538	270,538
Contribution to Provident and other Fund	2,276,001.60	-	2,276,002
Legal & Professional fees and Expenses	1,018,737.00	-	1,018,737
Travel and Conveyance	5,370,142.61	-	5,370,143
Insurance	985,398.50	-	985,399
Donation and Contributions	175,560.00	-	175,560
Board Sitting Fees	693,000.00	-	693,000
Board Meeting Expenses	168,644.00	-	168,644
Brokerage Expenses	-	-	-
Hotel Expenses	1,183,616.83	-	1,183,617
Training Expenses	4,983,555.91	-	4,983,556
Audit fees	175,000.00	-	175,000
Audit Expenses	266,241.00	-	266,241
Entertainment Expenses	333,444.00	-	333,444
Office Stationery	3,165,037.62	-	3,165,038
Miscellaneous Expenses	4,130,857.54	-	4,130,858
ATM Maintenance and Other Charges	316,934.00	-	316,934
POL and other vehicle Expenses	706,030.69	-	706,031
Bank Membership fees	810,000.00	-	810,000
Postage/Telephone/Fax	629,643.82	-	629,644
Internet Charges	2,178,011.05	-	2,178,011
Connectivity and Other Charges	730,896.64	-	730,897
Rent Paid	9,028,628.82	-	9,028,629
Annual Maintenance Charges / fees	2,895,206.86	-	2,895,207
Water & Electricity	817,641.63	-	817,642
Security	3,143,821.10	-	3,143,821
Advertising	2,208,716.75	-	2,208,717
Gifts & Giveaways	122,235.00	-	122,235
Newspaper and periodicals	15,030.00	-	15,030
Retail Loan Write-off Expense	313,356.80	-	313,357
	<b>101,046,999.36</b>	<b>(26,074)</b>	<b>101,020,924</b>

## Note - E

Provisions & Contingencies	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Provison for Loan Impairment	45,572,666	(23,327,489)	22,245,177
<b>Total Provisions and Contingencies</b>	<b>45,572,666</b>	<b>(23,327,489)</b>	<b>22,245,177</b>

## Note - F

Income Taxes	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Current Tax	26,644,957	17,427,115	44,072,072
Deferred Tax Assets	-	8,562,027	8,562,027
	<b>26,644,957</b>	<b>25,989,142</b>	<b>52,634,099</b>

# NOTE TO FINANCIAL STATEMENTS

## Notes to Reconciliation of Statement of Financial Position for the year ended 31<sup>st</sup> December 2017

### Note - A

Due from Other Banks	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Term Deposits with Other Banks	551,065,822	-	551,065,822
	<b>551,065,822</b>	<b>-</b>	<b>551,065,822</b>

### Note - B

Loans & Advances to Customers	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Loans & Advances to individuals	4,829,706,606	-	4,829,706,606
Interest Receivable	123,193,084	-	123,193,084
Loans to SMEs	1,935,534	-	1,935,534
Loans & Advances to Related Parties	222,038,248	-	222,038,248
Loans & Advances to Employees	26,838,760.14	-	26,838,760
<b>Total Gross Loans &amp; Advances</b>	<b>5,203,712,232</b>	<b>-</b>	<b>5,203,712,232</b>
Less: Provision for Loans / Impairment	(250,022,786)	29,566,275	(220,456,511)
Less: Unammortized Prepaid Staff Cost	-	(19,053,471)	(19,053,471)
<b>Loans &amp; Advances</b>	<b>5,203,712,232</b>	<b>10,512,804</b>	<b>4,964,202,251</b>

### Note - C

Investments with Associate	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Investments with CIB	1,750,000	1,100,481	2,850,481
Investments with FITI	6,000,000	234,637	6,234,637
	<b>7,750,000</b>	<b>1,335,118</b>	<b>9,085,118</b>

### Note - D

Other Assets	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Interest Receivable on Placement	14,840,666	(391,440)	14,449,226
Prepaid Staff Cost	-	18,782,933	18,782,933
Advances and Security Deposits	15,389,827	-	15,389,827
Advance Tax Paid	550,958	-	550,958
Stock of Stationery	2,109,169	-	2,109,169
Deferred Tax Assets	-	-	-
Prepaid Expenses	3,524,264	-	3,524,264
	<b>36,414,884</b>	<b>18,391,493</b>	<b>54,806,377</b>

# NOTE TO FINANCIAL STATEMENTS

## Note - E

Other Liabilities	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Interest accrued on Subordinate term debt	6,583,562	991,006	7,574,568
Interest accrued on Deposits	167,920,049	(7,243,233)	160,676,815
Interest Suspense on Loan	95,228,902	(95,228,902)	-
Other	332,046,766	(190,141,668)	141,905,099
Deferred tax Liabilities		8,562,027	8,562,027
	<b>601,779,278</b>	<b>(283,060,770)</b>	<b>318,718,509</b>

## Note - F

Provisions	Local GAAP	Remeasurement	BAS/IFRS
	Amount (Nu)	Amount (Nu)	Amount (Nu)
Provision for Employee benefits	9,387,686	(296,612)	9,091,074
Provision for taxation	26,644,957	26,367,319	53,012,276
Provision for Dividend	-	-	-
	<b>36,032,643</b>	<b>26,070,707</b>	<b>62,103,350</b>

## Note - G

Retained Earnings	Amount (Nu)
<b>Retained Earnings as per Local GAAP</b>	<b>219,750,479</b>
Add: Income transferred to Retained Earnings as per BAS/IFRS	120,034,240
Add: Proposed Dividend written back	-
	339,784,719
Less: Income Transferred to Retained Earnings as per GAAP	84,162,666
<b>Retained Earnings as per BAS/IFRS</b>	<b>255,622,053</b>

## Deferred Tax Calculation-2017

	GAAP	IFRS	Temporary Differences	Nature
Gratuity Obligation Remeasurement	9,328,517	4,847,450	4,481,067	Deferred Tax Liabilities
Leave Encashment	2,040,260	3,904,434	1,864,174	Deferred Tax Assets
Loan Impairment	45,572,666	22,245,177	23,327,489	Deferred Tax Assets
Revaluation of Equity Investments	7,750,000	9,085,118	1,335,118	Deferred Tax Liabilities
Remeasurement of Plan Assets	8,067,927	9,328,517	1,260,590	Deferred Tax Liabilities
Deferred Tax Assets	559,252			
Deferred Tax Liabilities	9,121,279			
Deferred Tax Liabilities	<b>(8,562,027)</b>			

### 3. Cash & Cash Equivalents

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Local Currency on hand	184,475,338	51,189,483
Foreign Currency on hand	5,518,451	3,797,711
<b>Correspondent &amp; settlement accounts with banks</b>		
Bhutan	62,267,477	69,765,965
Other Countries	238,657,452	278,355,231
<b>Total Cash &amp; Cash Equivalents</b>	<b>490,918,718</b>	<b>403,108,390</b>

The Credit quality of balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. After establishing a correspondent account, depending on the magnitude of the balance, management carries out regular monitoring of the financial position and performance of the counterparties. As at 31.12.2017 the ten largest aggregate balances on correspondent and settlement accounts with other banks and financial institutions amounted to Nu. 777.01 million (2016: Nu 559.33 million) or 94.37% (2016: 85.73%) of the correspondent and settlement accounts.

### 4. Balances with Central Bank of Bhutan (RMA)

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Balances with RMA	516,874,921	298,321,353
Cash Reserve with RMA(CRR)	515,618,077	496,817,695
RMA Currency Chest Account	-	8,450,000
<b>Total Balances with Central Bank of Bhutan(RMA)</b>	<b>1,032,492,998</b>	<b>803,589,048</b>

### 5. Due from other Banks

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Term Placements with other Banks	551,065,822	652,277,548
<b>Total Due from other Banks</b>	<b>551,065,822</b>	<b>652,277,548</b>

As at 31.12.2017 single largest aggregate balances due from other banks amounted to Nu. 300 (2016: Nu.202.28) or 54.40% (2016: 31.01%) of total due from other banks.

### 6. Instruments Held till Maturity

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Debt Investments held to maturity	40,000,000	40,000,000
<b>Total Instruments Held till Maturity</b>	<b>40,000,000</b>	<b>40,000,000</b>

## 7. Loans & Advances to Customers

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Current	Non Current	Current	Non Current
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
Loans & Advances to individuals	1,620,270,902	3,209,435,704	1,182,783,406	2,311,288,454
Interest Receivable	98,097,417	25,095,666	52,513,551	49,319,302
Loans to SMEs	155,977	1,779,557	155,977	3,121,515
Loans & Advances to Related Parties	169,417,020	52,621,228	135,687,374	72,351,809
Loans & Advances to Employees	-	26,838,760	-	30,427,061
<b>Total Gross Loans &amp; Advances</b>	<b>1,887,941,317</b>	<b>3,315,770,915</b>	<b>1,371,140,308</b>	<b>2,466,508,140</b>

### Details of Provision for Loan Impairment are as follows:

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Individual Impairment	179,136,328	35,339,695
Collective Impairment	41,320,183	162,871,638
<b>Total Provision for Loan Impairment</b>	<b>220,456,511</b>	<b>198,211,333</b>

Percentage of Provision for Loan Impairment is 4.30% (2016: 5.20%) of Total Loans & Advances.

### Details of Loan Balance subjected to Impairment:

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Individual Impairment (3.48 % of total Loans & Advances)	179,136,328	35,339,695
Collective Impairment (0.80% of total Loans & Advances)	41,320,183	162,871,638
<b>Loan Balance subjected to Loan Impairment (4.30% of total Loans &amp; Advances)</b>	<b>220,456,511</b>	<b>198,211,333</b>

### Total Loans & Advances:

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Gross Loans & Advances	5,203,712,232	3,837,648,448
Less: Provision for Loan Impairment	(220,456,511)	(198,211,333)
Less: Staff Loan Unamortized	(19,053,471)	(18,561,897)
<b>Total Loans &amp; Advances</b>	<b>4,964,202,251</b>	<b>3,620,875,218</b>

# NOTE TO FINANCIAL STATEMENTS

Economic sector risk concentrations within the gross loans & advances to customers are as follows:

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	%	31 <sup>st</sup> December 2016	%
	Amount (Nu)		Amount (Nu)	
Agriculture	1,160,185	0.02	423,859	0.01
Trade & Commerce	134,984,870	2.59	744,717,512	19.41
Manufacturing	219,136,493	4.21	141,198,640	3.68
Service & Tourism	398,618,470	7.66	501,721,993	13.07
Housing	1,624,857,765	31.22	1,034,831,420	26.97
Transport	235,139,715	4.52	223,911,679	5.83
Loan against shares	100,066,894	1.92	140,470,147	3.66
Loan against Fixed Deposits	10,833,776	0.21	120,065,798	3.13
Personal Loan	965,019,784	18.54	77,379,773	2.02
Consumer Loan	740,590,004	14.23	557,928,578	14.54
Others	773,304,275	14.86	294,999,048	7.69
<b>Total Gross Loans &amp; Advances to Customers</b>	<b>5,203,712,232</b>	<b>100.00</b>	<b>3,837,648,448</b>	<b>100.00</b>

As at 31.12.2017, single largest loan amounted to Nu. 95,477,412.36 or 17% (2016: Nu.103,768,234.86 or 17.70%) of capital fund. As at 31.12.2017, aggregate loans & advances to the ten largest borrowers amounted to Nu. 595,222,056.33 or 11.58% (2016: Nu.574,331,975 or 14.82%) of the gross loans & advances to customers.

## 8. Investments with Associates

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Equity Investment with CIB	2,850,481	3,585,440
Equity Investment with FITI	6,234,637	6,727,160
<b>Investments with Associate</b>	<b>9,085,118</b>	<b>10,312,600</b>

The Equity Investment has been valued as per the Level-III technique as stated in BFRS-13 (in line with IFRS-13). The details of valuation are as follows:

### Equity Investment with CIB

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Cost Price	1,750,000	1,750,000
Add: Revaluation during the year	1,100,481	1,835,440
<b>Total Revalued Amount</b>	<b>2,850,481</b>	<b>3,585,440</b>
<b>Equity Investment with FITI</b>		
Cost Price	6,000,000	6,000,000
Add: Revaluation during the year	234,637	727,160
<b>Total Revalued Amount</b>	<b>6,234,637</b>	<b>6,727,160</b>

## 9. Other Assets

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Current	Non Current	Current	Non Current
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
Interest Receivable on Placement	14,449,226	-	23,619,763	
Advances and Security Deposits	14,484,929	904,898	9,196,147	752,014
Prepaid Staff Cost	18,782,933	-	17,773,939	
Advance Tax Paid	550,958	-	6,258,464	
Deferred Tax Assets	-	-	-	
Stock of Stationery	2,109,169	-	1,447,670	
Prepaid expenses	3,524,264	-		
<b>Total Other Assets</b>	<b>53,901,479</b>	<b>904,898</b>	<b>58,295,983</b>	<b>752,014</b>

## 10. Property, Plant & Equipment

<i>In Bhutanese Ngultrum</i>	Office & Computer Equipment	Furniture & Fixture and Improvements	Vehicle	Total
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Cost</b>				
Cost as on 01.01.2017	54,023,228	10,804,245	9,485,420	74,312,893
Add: Addition during the year	10,323,709	6,747,953	870,000	17,941,662
Less: Disposals during the year	-	-	-944,552	-944,552
<b>Cost as on 31.12.2017</b>	<b>64,346,938</b>	<b>17,552,198</b>	<b>9,410,869</b>	<b>91,310,004</b>
<b>Depreciation</b>				
Accumulated Depreciation as on 01.01.2017	41,204,433	7,795,164	6,055,498	55,055,095
<b>Depreciation during the year</b>	<b>5,183,231</b>	<b>1,474,923</b>	<b>979,510</b>	<b>7,637,665</b>
Disposals during the year	-	-	(944,551)	(944,551)
Adjustments for 2016			(30,214)	(30,214)
<b>Accumulated Depreciation as on 31.12.2017</b>	<b>46,387,665</b>	<b>9,270,086</b>	<b>6,060,244</b>	<b>61,717,995</b>
<b>Book Value as on 31.12.2017</b>	<b>17,959,273</b>	<b>8,282,111</b>	<b>3,350,624</b>	<b>29,592,009</b>

## 11. Intangible Assets

<i>In Bhutanese Ngultrum</i>	Computer Software	Total
	Amount (Nu)	Amount (Nu)
<b>Cost</b>		
Cost as on 01.01.2017	22,406,954	22,406,954
Add: Addition during the year	23,123,386	23,123,386
Less: Disposals during the year	-	-
<b>Cost as on 31.12.2017</b>	<b>45,530,341</b>	<b>45,530,341</b>
<b>Amortization</b>		
Accumulated Amortization as on 01.01.2017	21,293,661	21,293,661
<b>Amortization during the year</b>	<b>3,065,593</b>	<b>3,065,593</b>
<b>Accumulated Depreciation as on 31.12.2016</b>	<b>24,359,254</b>	<b>24,359,254</b>
<b>Book Value as on 31.12.2017</b>	<b>21,171,087</b>	<b>21,171,087</b>

## 12. Due to Other Banks

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Current	Non Current	Current	Non Current
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
Term Deposits with:				
-Bank of Bhutan Limited	-	-	300,000,000	-
-Bhutan Development Bank Limited	240,566,356	-	348,792,610	-
-Bhutan National Bank Limited	1,000,000,000	-	700,000,000	-
-Druk PNB Limited	450,000,000	-	100,000,000	-
<b>Total Due to Other Banks</b>	<b>1,690,566,356</b>	<b>-</b>	<b>1,448,792,610</b>	<b>-</b>

## 13. Customer Accounts

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Current	Non Current	Current	Non Current
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Commercial Organizations</b>				
-Current/settlement Accounts		25,497,604		181,774,515
-Term Deposits	482,797,930	524,909,642	292,999,950	274,032,179
<b>Individuals</b>				
-Current/Demand Accounts		2,393,022,880		1,487,289,399
-Term Deposits	379,758,820	272,036,600	332,891,471	186,571,301
<b>State and Public Organizations</b>				
-Current/Settlement Accounts		1,787,189		4,564,042
-Term Deposits	26,670,865	305,500,000	148,287,268	350,000,000
<b>Total Customer Accounts</b>	<b>889,227,616</b>	<b>3,522,753,914</b>	<b>774,178,688</b>	<b>2,484,231,435</b>

Economic Sector risk concentrations within the deposits of customers are as follows:

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Amount (Nu)	%	Amount (Nu)	%
Trade & Commerce	282,899,742	4.64	329,648,989	7.00
Finance & Investment Companies	2,109,428,745	34.57	1,709,423,394	36.32
Real Estate	1,392,944	0.02	1,358,294	0.03
Power Generation	1,787,189	0.03	2,718,120	0.06
Ferrous Metallurgy	156,018,795	2.56	62,932,026	1.34
Food Industry	14,670,865	0.24	56,737,245	1.21
Construction	50,110,616	0.82	15,432,771	0.33
Non-Ferrous Metallurgy	1,000	0.00	-	-
Mass Media & Telecommunications	57,760	0.00	27,350,397	0.58
Machinery & Metal working	300,094	0.00	8,721	0.00
Aviation Transport	51,000,000	0.84	16,202,988	0.34
Agriculture	-	-	-	-
Chemical & Petro Chemical	33,664,614	0.55	48,872,567	1.04
Other	3,401,215,521	55.73	2,436,517,222	51.76
<b>Total Gross Deposit of Customers</b>	<b>6,102,547,886</b>	<b>100.00</b>	<b>4,707,202,733</b>	<b>100.00</b>

As at 31.12.2017 aggregate deposits of the ten largest customers amounted to Nu.3, 494,869,637 or 79.21% (2016: Nu.3,290,265,647.02 or 69.90%) of the total customer accounts.

#### 14. Debts Issued and Other Borrowed Funds

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Current	Non Current	Current	Non Current
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
Subordinate Loan from Royal Govt of Bhutan maturing on 2024 (face value of Nu 1,000 per unit)	-	150,000,000	-	150,000,000.00
<b>Total Debt Issued &amp; Other Borrowed Funds</b>	<b>-</b>	<b>150,000,000</b>	<b>-</b>	<b>150,000,000.00</b>

On 9<sup>th</sup> April 2014 the Bank received a subordinate loan from Royal Government in the amount of Nu 150 Million bearing a fixed interest rate of 6% per annum payable annually until maturity on 8<sup>th</sup> April 2024.

## 15. Other Liabilities

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Current	Non Current	Current	Non Current
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
Interest Accrued on subordinate Term Debt	7,574,568	-	6,608,205	-
Interest Accrued on Deposits	132,488,490	28,188,325	64,829,613	53,418,496
Others	150,467,126	-	126,732,143	-
<b>Total Other Liabilities</b>	<b>290,530,184</b>	<b>28,188,325</b>	<b>198,169,961</b>	<b>53,418,496</b>

## 16. Provisions & Contingencies

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Current	Non Current	Current	Non Current
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
Provision for Employee Benefits	2,293,224	6,797,850	2,092,066	7,081,242
Provision for Taxation	53,012,276	-	26,312,647	-
<b>Total Provision &amp; Contingencies</b>	<b>55,305,500</b>	<b>6,797,850</b>	<b>28,404,713</b>	<b>7,081,242</b>

### Defined Benefit Plan

A defined benefit plan/(gratuity) defines, an amount of benefit that an employee is entitled to receive on (a) retirement/resignation or (b) on superannuation or (c) on death or disablement due to accident or disease as per the terms and conditions specified in the service rule of the bank. The benefit is dependent on factors such as age, number of years served and salary. The maximum amount an employee is entitled to receive is Nu 0.9 Million in 2014 reporting period. A full actuarial valuation by a qualified independent actuary is carried out every year. As acquired under BAS-19, valuation of scheme benefits is done by using projected unit credit method. Under this method, only benefits accrued till the date of valuation (i.e., based on service till date of valuation) is to be considered for valuation. Present Value of Defined Benefit Obligation is calculated by projecting future salaries, exits due to death, resignation and other decrements(if any) and benefit payments made during each year till the time of retirement of each active member, using assumed rates of salary escalation, mortality and employee turnover rates. The expected benefit payments are then discounted back from the expected future date of payment to the date of valuation using the assumed discount rate.

### Details of Present Value of Defined Benefit Obligation as on 31.12.2017

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
Defined Benefit Obligation at the beginning of the period	6,416,749	5,588,765
Current Service Cost	1,201,074	1,317,910
Interest Cost	-	-
Past Service Cost	357,606	354,927
Benefits paid from plan assets	(2,616,173)	-
Benefits paid by employer	-	(1,036,765)
Actuarial (Gain)/Loss due to plan experience	(511,806)	191,912
<b>Defined Benefit Obligation at the end of the period</b>	<b>4,847,450</b>	<b>6,416,749</b>

## Details of Fair Value of Plan Assets as on 31.12.2017

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
Fair Value of Assets at the beginning of the Current Period	9,207,799	7,318,021
Contribution Paid into the Plan	2,317,976	-
Expected return on Plan Assets	634,109	512,261
Employer Contributions	-	-
Benefits Paid	(2,616,173)	-
Return on Plan Assets greater or less than discount rate	(215,194)	1,377,517
	<b>9,328,517</b>	<b>9,207,799</b>

## Expected Benefit Payments for the year ending

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
31st December 2015	-	-
31st December 2016	-	-
31st December 2017	-	2,482,339
31st December 2018	900,144	1,607,714
31st December 2019	1,117,548	1,411,060
31st December 2020	1,347,150	1,308,687
31st December 2021	1,589,483	1,510,225
31st December 2022	1,975,630	-
31st December 2022 to 31st December 2026		10,956,298
31st December 2023 to 31st December 2027	12,488,036	
Estimated term of liability(in years)	13	12

## Scheme Asset Allocation

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
Investment with BIL	7,960,590	7,541,675
Gratuity Payable Account	1,367,927	1,666,124
	<b>9,328,517</b>	<b>9,207,799</b>

## Sensitivity Analysis

<i>In Bhutanese Ngultrum</i>	Defined Benefit Obligation	Net Effect in DBO	Defined Benefit Obligation	Net Effect in DBO
	31.12.2017		31.12.2016	
<b>1) Discount Rate</b>				
Base Discount Rate of 7%	4,847,450		6,416,749	-
Discount Rate of 7.50% (+0.5%)	4,611,872	(235,578)	6,212,394	(204,355)
Discount Rate of 6.50% (-0.5%)	5,101,609	254,159	6,636,610	219,861
<b>2) Salary Escalation Rate</b>				
Base Salary Escalation Rate of 12%	4,847,450		6,416,749	-
Salary Escalation Rate of 13%(+1%)	5,032,395	184,945	6,586,981	170,232
Salary Escalation Rate of 11%(-1%)	4,655,706	(191,744)	6,241,839	(174,910)



3) Attrition Rate				
Base Attrition Rate of 8%	4,847,450		6,416,749	-
Attrition Rate of 9% (+1%)	4,761,123	(86,327)	6,317,379	(99,370)
Attrition Rate of 7% (-1%)	4,925,384	77,934	6,509,371	92,622

### Summary of Actuarial Assumptions

Items	31.12.2017	31.12.2016
Discount Rate (%)	7	7
Salary Escalation Rate (%)	12	12
Employee Turnover Rate (%)	8	8
Mortality Rates (%)	100	100

### 17. Issued Capital

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Share Capital	300,000,000	300,000,000
<b>Total Issued Share Capital</b>	<b>300,000,000</b>	<b>300,000,000</b>

### 18. Reserve & Surplus

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
<b>Retained Earnings</b>		
Balance as per Local GAAP	219,016,179	136,118,226
Less: Dividend Declared and Distributed during the year	-	-
Less: Profit during the year as per Local GAAP	(83,428,366)	(25,940,008)
Add: Profit during the year as per BAS/IFRS	120,034,240	50,117,092
Add: Proposed Dividend Written Back		-
<b>Balance as per BAS/IFRS</b>	<b>255,622,053</b>	<b>160,295,310</b>
<b>Translation Reserve</b>		
Opening Balance as on 01.01.17	2,477,050	1,873,406
Add: Addition	530,413	603,644
<b>Closing Balance as on 31.12.17</b>	<b>3,007,463</b>	<b>2,477,050</b>
<b>Investment Revaluation Reserve</b>		
Opening Balance as on 01.01.17	2,532,386	1,819,533
Add: Addition	(1,197,268)	712,853
<b>Closing Balance as on 31.12.17</b>	<b>1,335,118</b>	<b>2,532,386</b>

## 19. Interest Income & Expenses

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
<b>Interest Income</b>		
Loans & Advances to Corporate Customers	3,865,753	-
Loans & Advances to Individuals	485,666,234	315,024,665
Due from Other Banks	67,010,249	88,029,626
<b>Total Interest Income</b>	<b>556,542,237</b>	<b>403,054,291</b>
<b>Interest Expense</b>		
Term Deposits of Legal Entities	47,971,032	54,166,825
Term Deposits of Individuals	175,911,518	127,874,856
Current/Settlement Accounts	57,183,627	39,010,789
Interest Expense on Govt Bonds	9,991,006	9,024,643
<b>Total Interest Expense</b>	<b>291,057,183</b>	<b>230,077,113</b>
<b>Net Interest Income</b>	<b>265,485,054</b>	<b>172,977,177</b>

## 20. Fees & Commission Income and Expense

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
<b>Fee and Commission Income</b>		
Commission on Guarantees Issued	2,274,725	1,392,208
Commission on Cash and Foreign Currency Exchange transactions	-	-
Others	31,998,982	20,750,958
<b>Total Fee and Commission Income</b>	<b>34,273,706</b>	<b>22,143,166</b>
<b>Fee and Commission Expenses</b>		
Indian/Other Bank Charges	2,933,743	1,399,765
<b>Total Fee and Commission Expenses</b>	<b>2,933,743</b>	<b>1,399,765</b>
<b>Net Fee and Commission Income</b>	<b>31,339,964</b>	<b>20,743,401</b>

## 21. Other Revenue

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
<b>Term Deals</b>		
Spot Deals	4,263,287	2,395,682
Foreign Exchange Transaction Gains(Net)	2,121,652	2,414,577
<b>Total Gains less losses arising from foreign currencies</b>	<b>6,384,939</b>	<b>4,810,259</b>
Other Income	3,075,742	2,364,162
<b>Total Revenue</b>	<b>9,460,681</b>	<b>7,174,421</b>

## 22. Operating Expenses

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Salaries, Wages and Bonus and Employee Benefits	51,908,998	43,321,910
Amortization of prepaid staff cost	270,538	787,958
Contribution to Provident and other Fund	2,276,002	2,360,234
Legal & Professional fees and Expenses	1,018,737	1,600,534
Travel and Conveyance	5,370,143	2,721,750
Insurance	985,399	507,436
Donation and Contributions	175,560	190,840
Board Sitting Fees	693,000	777,000
Board Meeting Expenses	168,644	234,085
Hotel Expenses	1,183,617	985,706
Training Expenses	4,983,556	1,693,289
Audit fees	175,000	150,000
Audit Expenses	266,241	230,109
Entertainment Expenses	333,444	1,240
Office Stationery	3,165,038	1,349,525
Brokerage Expenses	-	185,000
Miscellaneous Expenses	4,130,858	3,316,446
ATM Maintenance and Other Charges	316,934	289,152
POL and other vehicle Expenses	706,031	332,847
Bank Membership fees	810,000	150,150
Postage/Telephone/Fax	629,644	592,823
Internet Charges	2,178,011	1,475,138
Connectivity and Other Charges	730,897	1,493,061
Rent Paid	9,028,629	6,373,995
Annual Maintenance Charges / fees	2,895,207	7,940,820
Water & Electricity	817,642	647,104
Security	3,143,821	1,876,287
Advertising	2,208,717	1,078,851
Gifts & Giveaways	122,235	66,220
Newspaper and periodicals	15,030	44,021
Retail Loan Write-off Expense	313,357	43,998
<b>Total Operating Expenses</b>	<b>101,020,924</b>	<b>82,817,527</b>

## 23. Provisions & Contingencies

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Provision for Loan Impairment	22,245,177	30,311,805
<b>Total Provision and Contingencies</b>	<b>22,245,177</b>	<b>30,311,805</b>

## 24. Income Taxes

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Current Tax	44,072,072	22,781,762
Deferred Tax Assets/Liabilities	8,562,027	3,278,383
Assessed Tax of Earlier Years Paid	-	-
<b>Total Income Tax Expense for the year</b>	<b>52,634,099</b>	<b>26,060,145</b>

The Statutory Income Tax rate applicable to the Bank's Income is 30%.

### Details of Deferred Tax Assets

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017	31 <sup>st</sup> December 2016
	Amount (Nu)	Amount (Nu)
Deferred Tax Assets	559,252	451,850
Deferred Tax Liabilities	9,121,279	3,730,233
<b>Deferred Tax Assets(Net)</b>	<b>(8,562,027)</b>	<b>(3,278,383)</b>

## 25. Segment Analysis

The Bank's reportable segments are strategic business units that offer following products and services.

**Corporate & Investment Banking:** It comprises of corporate lending, leasing, corporate deposit services, trade finance operations and structural corporate lending, securities trading, debt and equity capital markets services, derivative products, corporate finance advisory services and mergers and acquisition advice.

**Retail Banking:** It comprises retail demand and term deposit services, credit and debit card services, retail lending (include consumer loans and personal loans, car loans and mortgages), money transfers and private banking services.

**Treasury:** It comprises the Bank's wholesale funding, internal funding reallocation, liquidity and risk management activities through borrowings, issue of debt securities, use of derivatives and investing in liquid assets such as short term placements and corporate and government debt securities. These segments are managed separately because each of them requires formulating of different strategy and uses different operational platforms. The Bank evaluates segment performance on the basis of profit or loss before tax. Segment performance is regularly reviewed by the Bank's Chief Executive Officer. The Chief Executive Officer has been identified as the member of the Bank's Executive Board.

The Accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies.

# NOTE TO FINANCIAL STATEMENTS

Segment Information for the reportable segments of the group for the year ended 31.12.17 is set out below:

Particulars	Corporate & Investment Banking	Retail Banking	Treasury	Total
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Segment Revenues</b>				
External Revenue				
Interest Income	70,876,003	485,666,234	-	556,542,237
Fees & Commission Income	-	34,273,706	-	34,273,706
Other Operating Income	-	-	9,460,681	9,460,681
<b>Total Segment Revenues</b>	<b>70,876,003</b>	<b>519,939,940</b>	<b>9,460,681</b>	<b>600,276,624</b>
<b>Previous Year</b>	<b>88,029,626</b>	<b>337,167,831</b>	<b>7,174,421</b>	<b>432,371,878</b>
<b>Segment Expenses</b>				
Interest Expenses	57,962,038	233,095,145	-	291,057,183
Gain/Loss from Foreign Currencies	-	-	-	-
Provision for Loan Impairment	-	22,245,177	-	22,245,177
Fees & Commission Expenses	-	2,933,743	-	2,933,743
Operating Expenses	11,927,766	87,501,014	1,592,144	101,020,924
<b>Total Segment Expenses</b>	<b>69,889,804</b>	<b>345,775,079</b>	<b>1,592,144</b>	<b>417,257,027</b>
<b>Previous Year</b>	<b>80,052,870</b>	<b>263,179,135</b>	<b>1,374,206</b>	<b>344,606,211</b>
<b>Segment Profit/Loss</b>	<b>986,198</b>	<b>174,164,861</b>	<b>7,868,537</b>	<b>183,019,597</b>
Previous Year	7,976,756	73,988,696	5,800,216	87,765,668
<b>Segment Assets</b>	<b>551,065,822</b>	<b>6,642,268,557</b>	<b>-</b>	<b>7,193,334,378</b>
Previous Year	652,277,548	4,957,304,345	-	5,609,581,892
<b>Segment Liabilities</b>	<b>1,690,566,356</b>	<b>4,942,803,389</b>	<b>-</b>	<b>6,633,369,745</b>
Previous Year	1,448,792,610	3,695,484,536	-	5,144,277,146
<b>Segment Equity</b>	<b>(1,139,500,534)</b>	<b>1,698,730,868</b>	<b>-</b>	<b>559,230,334</b>
Previous Year	(796,515,062)	1,261,819,808	-	465,304,746

Statement showing details of Maturity Analysis for the year ending 31.12.2017

Liabilities	Demand less than 1 month	From 1 Month to 6 Months	From 6 Months to 12 Months	More than 1 Year	Total
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
Due to Other Banks	1,240,566,356	450,000,000	-	-	1,690,566,356
Customer Accounts-Individuals	33,855,216	172,982,194	172,921,410	2,666,846,669	3,046,605,489
Customer Accounts-Others	10,794,171.17	232,008,630.60	23,995,128.20	1,098,578,111	1,365,376,041
Subordinate Debt	-	-	-	150,000,000	150,000,000
Financial Gurantees	3,968,910	15,609,137	14,136,498	-	33,714,545
Import Letters of Credit	101,591,043	103,666,651	48,498,400	-	253,756,094
<b>Total Potential Future Payments for financial obligation</b>	<b>1,390,775,696</b>	<b>974,266,613</b>	<b>259,551,436</b>	<b>3,915,424,779</b>	<b>6,540,018,525</b>

## 26. Financial Risk Management

The Bank's approach to manage risks is composed of three key elements:

- (i) Risk Governance
- (ii) Risk Identification
- (iii) Risk Assessment, management & control

**Risk Governance:** The Board of Directors of the Bank has overall responsibility for setting and monitoring the risk management framework. The Audit Committee is responsible for reviewing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance. The Executive Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and assuring that the Bank operates within the established risk parameters. The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring and managing risks. Credit, Market and Liquidity risks at both portfolio and transaction level are managed and controlled through a system of credit committees and through the Treasury Department, Retail Risk Management Department and Asset and Liability Management Committee (ALCO). In order to facilitate efficient decision-making the Bank has established a hierarchy of credit committees depending on the type and amount of exposure. The Risk Management Department deals with Credit Risk for Corporate Clients, financial institutions, small & medium size enterprises, along with market risk and operational risk. The Credit review deals with all Loans & Advances and associated risks and the associated risks with it regarding non-recovery and other loan compliances.

**Risk Identification:** The Bank identifies both external & internal risk factors and managed throughout the Bank's organizational structure. The Bank gives particular attention to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures.

**Risk Assessment, management & control:** The Bank's risk assessment reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Bank's Management. Compliance with the Bank's standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business unit which they relate and presented to the Audit Committee and senior management of the Bank.

### Categories of Risk

In the Risk Management process, identification and categorization of risks are two important aspects. The Bank classifies the risk in the following manner:

**Operational Risk:** This is the possibility of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This is the risk of direct or indirect loss arising from a wide variety of causes associated with the process, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. The Bank assesses all foreseeable risk involved in its operation and they develop and implementation plans to control those identified operational risk. These action plans recommended by the team are to manage the operational risk in the following areas:

- (a) Requirements for having appropriate segregation of duties
- (b) Requirements for the reconciliation and monitoring of transactions
- (c) Compliance with regulatory and other legal requirements.
- (d) Documentation of Controls and Procedures
- (e) Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risk identified.

**Market Risk:** Market Risk associated with fluctuations of market affecting the customer base of the Bank. It is the risk of uncertainty in the future value of a portfolio, either an investment portfolio or a trading portfolio due to change in rates, movement of equity/commodity prices, etc., in values of the market risk factors such as interest rates, foreign exchange. The Bank has a system of monitoring the changes in market and framing the policies on the basis of such changes.

**Financial Risk:** Risk associated with finance decisions and environment in which business operates. This risk can further be classified in the following manner:

- (a) **Liquidity Risk:** Risk of not being able to honor its obligations when fall due in full or without resorting to high cost borrowings. The Bank is having a system of monitoring Cash & Cash Equivalents throughout the year and it is considered adequate.
- (b) **Interest Rate Risk:** The Bank is exposed to fixed interest bearing debt instruments.
- (c) **Foreign Exchange Risk:** This risk is associated with the fluctuations in Foreign Exchange Rates. The Bank has a robust system of monitoring the fluctuations in foreign Exchange Rates.
- (d) **Credit Risk:** The Bank takes an exposure to Credit Risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of Borrowers, and to industry sectors etc. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of Credit Risk by product, borrower and industry sectors. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to Credit Risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Bank defines its risk appetite by approving a lending policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities. The Bank has developed a Credit Review Unit and Recovery Cell to constantly monitor the Credit Qualities.

**Strategic Risks:** It refers to the strategic decisions/plans/objectives which may go wrong due to actions or inactions by the parties to strategic decision making process, adversely affecting the shareholder wealth of the Company e.g. incorrect decisions, inadequate information for decision making, delayed remedial actions etc.

**Compliance Risks:** Risk when an organization does not comply with legal, regulatory, contractual or internal compliance requirements.

**Reputation Risk:** It refers to the potential and complaints, negative/adversely publicity etc, which can arise from the Company's reputation being tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction.

## Determination of Fair Value and Fair Value Hierarchy

The Bank follows the methodology for fair valuation as specified by BFRS-13 which is in line with IFRS-13. BFRS-13 specifies the following techniques for fair valuation:

Level 1- Quoted Market Price (unadjusted): It is applicable for instruments with quoted prices and tradable in the active market.

Level 2- Valuation technique using observable inputs: It is applicable for instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.

Level 3- Valuation Technique with significant unobservable inputs: It is applicable for instruments valued using valuation techniques where one or more significant inputs are unobservable.

<i>In Bhutanese Ngultrum</i>	31 <sup>st</sup> December 2017		31 <sup>st</sup> December 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	Amount (Nu)	Amount (Nu)	Amount (Nu)	Amount (Nu)
<b>Financial Assets</b>				
Cash & Cash Equivalents	490,918,718	490,918,718	403,108,390	403,108,390
Balances with Central Bank	1,032,492,998	1,032,492,998	803,589,048	803,589,048
Due from Other Banks	551,065,822	551,065,822	652,277,548	652,277,548
Instruments held till maturity	40,000,000	40,000,000	40,000,000	40,000,000
Loans and advances to customers	5,203,712,232	4,964,202,251	3,633,198,329	3,620,875,218
Investments in Associate	7,750,000	9,085,118	7,750,000	10,312,600
Other Assets	36,414,884	54,806,377	41,536,239	59,047,997
<b>Financial Liabilities</b>				
Due to Other Banks	1,690,566,356	1,690,566,356	1,448,792,610	1,448,792,610
Customer Accounts	4,411,981,530	4,411,981,530	3,258,410,124	3,258,410,124
Debts issued & Other borrowed funds	150,000,000	150,000,000	150,000,000	150,000,000
Other liabilities	601,779,278	318,718,509	320,322,763	251,588,457

## 27. Management of Capital

The Bank's main objectives at the time of managing capital are:

(i) to comply with the Capital Requirements set by the Royal Monetary Authority and debt covenants, (ii) to safeguard the Bank's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a Capital Adequacy Ratio of the Bank based on Prudential Regulation 2016 issued by Royal Monetary Authority of Bhutan of at least 10%. Capital Adequacy Ratio is monitored daily for compliance with the requirements set by the Royal Monetary Authority and monthly for other objectives of Capital Management. The Bank's policy of Capital Management is designated to maintain the capital base sufficient to keep the confidence of stakeholders and to secure the future development of the Bank. The Royal Monetary Authority establishes and monitors capital adequacy limits for the Bank. The Bank performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Bank develops and implements measures to increase its capital base. To ensure compliance with the Capital adequacy ratios in the short run, the Bank monitors use of capital by business segments. The responsibility for approval procedures and monitoring of the Capital use is with the management of the Bank.



<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
	Amount (Nu)	Amount (Nu)
<b>Tier 1 Capital</b>		
Paid up Share Capital	300,000,000	300,000,000
Retained Earnings	255,622,053	160,295,310
Non-Controlling Interest	-	-
<b>Total Tier 1 Capital</b>	<b>555,622,053</b>	<b>460,295,310</b>
<b>Tier 2 Capital</b>		
Foreign Exchange Fluctuation Reserve	3,007,463	2,477,050
Investment Revaluation Reserve	1,335,118	2,532,386
General Reserve as per RMA Prudential Norms	49,411,168	36,768,297
Subordinate debt	150,000,000	150,000,000
<b>Total Tier 2 Capital</b>	<b>203,753,750</b>	<b>191,777,733</b>
<b>Total Capital</b>	<b>759,375,803</b>	<b>652,073,043</b>

Management of the Bank is of the opinion that the Bank complied with all the external adequacy requirements during 2017.

## 28. Contingencies and Commitments

Credit Related Commitments: The Primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial Guarantees and standby letter of credits, if any, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and Commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. In addition to credit related commitments, the Bank issues performance guarantees which are insurance contracts. Outstanding credit related commitments and performance guarantees were as follows:

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
	Amount (Nu)	Amount (Nu)
Financial Guarantees	33,714,545	24,574,819
Import Letters of Credit	253,756,094	125,369,543
Export Letters of Credit	-	-
<b>Total Credit Related Commitments</b>	<b>287,470,639</b>	<b>149,944,362</b>
Performance Guarantees	-	26,069,721
<b>Total Credit Related Commitments and Performance Guarantees</b>	<b>287,470,639</b>	<b>176,014,083</b>

**Assets pledged and restricted:** The Bank had the following assets pledged as collateral:

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
	Amount (Nu)	Amount (Nu)
Loans and advances to customers pledged to RMA	-	-
Loans and advances to customers pledged to the Government Deposit	-	-
Insurance Agency	-	-
Margin Call Deposits	51,000,799	28,644,820
Trading Securities classified as repurchase receivables	-	-
Restricted Cash	-	-
<b>Total</b>	<b>51,000,799</b>	<b>28,644,820</b>

Mandatory Cash Balances with Royal Monetary Authority termed as Cash Reserve Ratio in the amount of Nu. 515,618,076; (2016: Nu.496,817,695) represent mandatory reserve deposits, which are not available to finance the Bank's day to day operations.

29. Interest accrued on non-performing loans amounting to Nu.31,777,456 and (2016: Nu.26,614,908) has been recognized as income as per accounting policies revised on 01.01.2016 upon adoption of BAS/BFRS and has not been suspended as provided under section of Prudential Regulations 2016. However, such accrued interest has been taken into account while arriving at provision for impairment 4.10.5 loss as per BAS/BFRS.

### 30. Earnings per Share

<i>In Bhutanese Ngultrum</i>	31.12.2017	31.12.2016
	Amount (Nu)	Amount (Nu)
Earnings Before Tax	173,576,929	76,780,881
Less: Income Tax	52,634,099	25,807,642
Assessed Tax of Earlier Paid	-	-
Deferred Tax Assets/Liabilities	378,177	252,503
Total Earnings after tax	120,564,653	50,720,737
Basic EPS	4.02	1.69
Diluted EPS	4.02	1.69

### 31. Related Party Transactions

For the purpose of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by BAS-24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The outstanding balances as at the end of year and income and expense items as well as other transactions for the year with related parties were as follows:

# NOTE TO FINANCIAL STATEMENTS

Parties	Nature of Relationship	Nature of Expenses	31.12.2017	31.12.2016
			Amount (Nu)	Amount (Nu)
Bhutan International	Associate Companies	Payment of Annual Maintenance fees	234,000	111,000
Tashi Commercial Corporation	Associate Companies	Purchase of Assets	452,500	-
Tashi Commercial Corporation	Associate Companies	Rent Payment	5,190,728	4,301,898
Bhutan Brewery Pvt. Ltd	Associate Companies	Legal Fees	240,000	240,000
Bhutan Brewery Pvt. Ltd	Associate Companies	Other Expenses	-	-
Bhutan Hyundai Motors	Associate Companies	Purchase of Vehicle	-	3,306,726
Tashi Infocomm Ltd	Associate Companies	Telephone & Connectivity Charges	2,483,067	1,379,060
Hotel Druk	Associate Companies	Board Meeting Expenses	189,826	118,166
BCCL	Associate Companies	Term Loan	51,943,550	51,626,772
Bhutan Hyundai Motors	Associate Companies	Overdraft Facility	-	36,568,010
Dasho Topgyal Dorji	Director and Member	Overdraft Facility	-	27,406,707
Tashi Commercial Corporation	Associate Companies	Overdraft Facility	-	19,858,509
Tashi Spare Parts	Associate Companies	Overdraft Facility	-	1,776,802
RICBL	Associate Companies	Insurance	872,131	456,391
Bhutan Fruit Products	Associate Companies	Overdraft Facility	39,579,673	40,273,664
Tashi Phuentsholing Complex	Associate Companies	Term Loan	-	19,858,509
Dasho Wangchuk Dorji	Associate Companies	Term Loan	677,677	866,528
Druk Petroleum Corporation	Associate Companies	Overdraft Facility	4,033,495	213,707
Tashi Thuendrei Lerig	Associate Companies	Overdraft Facility	29,590,577	8,113,591
TICMATHA	Associate Companies	Overdraft Facility	-	980,531
Tashi Metals Private Limited	Associate Companies	Overdraft Facility	75,341,146	
TRTI	Associate Companies	Overdraft Facility	-	495,854
Tashi Air Pvt. Ltd	Associate Companies	Corporate Bond	20,000,000	20,000,000
			<b>230,828,369</b>	<b>237,952,425</b>

Key Management of the Bank represents members of the Board of Directors and the Executive Board of the Bank and the Board of Directors of the Bank. Key Management compensation are as follows:

### Key Management Compensation expense for the year

<i>In Bhutanese Ngultrum</i>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>Amount (Nu)</b>	<b>Amount (Nu)</b>
<b>Compensation paid to Chief Executive Officer:</b>		
Salary, Gratuity, Leave Encashment, LTC and Allowances	3,007,212	2,427,097
Contribution to Provident Fund	188,512	150,810
Bonus	359,880	-
Sitting Fee	70,000	70,000
<b>Compensation paid to Other Directors</b>		
Sitting Fees paid to other Directors	476,000	560,000
Sitting Fees paid to Audit Committee Members other than Directors	147,000	147,000
	<b>4,248,604</b>	<b>3,354,907</b>

# LIST OF EVENTS IN 2017

## 11<sup>th</sup> March 2017: Opened branch at Mongar



## LIST OF EVENTS IN 2017

24<sup>th</sup> March 2017 - Launched ATM terminal at Etho-Metho Plaza, Thimphu



7<sup>th</sup> April 2017 : Opened branch at Samdrup Jongkhar



## LIST OF EVENTS IN 2017

21<sup>st</sup> June 2017 : Opened Trongsa Extension Office



27<sup>st</sup> June 2017 : Launched BIPS



26<sup>th</sup> December 2017 : Launched POS



## State Bank of India, New York, USA

SWIFT Code:	SBINUS33
Account No.:	77608355520001
Swift Code:	SBINUS33
Currency:	USD
Payment Type:	All payment types

## Axis Bank Ltd, Siliguri Branch, West Bengal, India

IFSC Code:	UTIB0000035
SWIFT Code:	AXISINBB
Account No.:	910020017480903 of T Bank Ltd, Thimphu
Swift Code:	TBBTBTBT
Currency:	INR
Payment Type:	All payment types

## State Bank of India, Hasimara Branch, West Bengal, India

IFSC Code:	SBIN0001447
SWIFT Code:	SBININBB
Account No.:	31772947757 of T Bank Ltd, Thimphu
Swift Code:	TBBTBTBT
Currency:	INR
Payment Type:	All payment types

## HDFC Bank, Mumbai Branch, Mumbai, India

IFSC Code:	HDFC0000060
SWIFT Code:	HDFCINBB
Account No.:	00600390000657 of T Bank Ltd, Thimphu
Swift Code:	TBBTBTBT
Currency:	INR
Payment Type:	All payment types

## HDFC, Hongkong

SWIFT Code: HDFCHKHH

## Himalayan Bank Ltd, Main Branch Kathmandu, Nepal

SWIFT Code:	HIMANPKA
Account No.:	01004372360029 of T Bank Ltd, Thimphu
Currency:	NPR/INR
Payment Type:	All payment types

## Axis Bank, Hong Kong

For wiring the funds in USD from outside Hong Kong

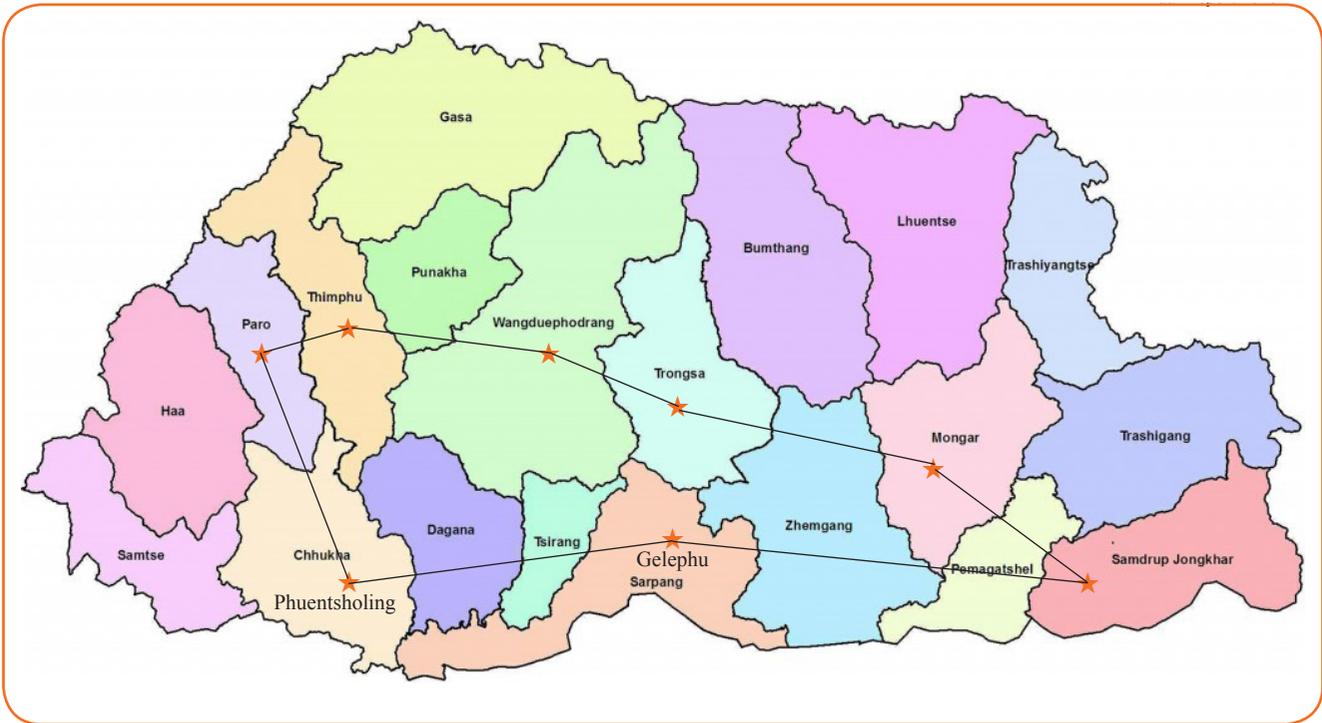
Pay Through:	JPMorgan Chase, New York
SWIFT Code:	CHASUS33
Pay to:	Axis Bank, Hong Kong
SWIFT Code:	AXISHKHH
Our Account number with JP Morgan:	400010917
Beneficiary Name:	T BANK LIMITED
Client ID:	911002965
Current account number:	911020200002820

For USD Transfer from another bank in Hong Kong

Our Bank Code:	261
Swift:	AXISHKHH
Pay to:	Axis Bank, Hong Kong
SWIFT Code:	AXISHKHH
Beneficiary Name:	T BANK LIMITED
Client ID:	911002965
Current account number:	911020200002820

## DSB Bank Limited, Mumbai, India

SWIFT Code: DBSSINBB



## THIMPHU BRANCH

TCC Complex Building, Opposite to Hotel Taj Tashi,  
Samten Lam, Thimphu, Bhutan  
Post Box No:631  
PABX.+975 77103077/ 77199199; +975 -2-337283  
Fax No:+975-2-336236  
Email Id : info@tbank.bt

## PHUENTSHOLING BRANCH

1st Floor, RICBL Office Building, Samdrup Lam,  
Phuentsholing, Bhutan  
Post Box No: 118  
PABX. +975 77190210 / 77190211; +975 -5-253156  
Fax No: +975-5-253157

## WANGDUEPHODRANG BRANCH

Opposite to Druk PNB and RICBL Office, Bajotown,  
Wangdue, Bhutan  
Post Box No: 1269  
PABX.+97577191215/+97577191216  
Fax No:+975-2-481733

## GELEPHU BRANCH

Opposite Tashi Infocomm Ltd. Office, Gaden Lam,  
Gelephu, Sarpang, Bhutan  
Post Box No: 212  
PABX. +975 77190088/77190099  
Fax No: +975-6-252274

## PARO BRANCH

Tshongdue Town, Paro, Bhutan  
Post Box No:1318  
PABX. +975-77192077/77192177  
Fax No: +975-8-272077

## MONGAR BRANCH

1st Floor, Tshering Yangzom Building, Below  
Trashigang -Mongar Highway, Mongar, Bhutan  
Post Box No: 149  
PABX.+975-77192031/+975-4-641256  
Fax No:+975-4-641255

## SAMDRUP JONGKHAR BRANCH

1st Floor, Namgayling House, Samdrup Jongkhar  
Thromdey, Bhutan  
Post Box No: 116  
PABX. +975-77192032/+975-7-251652  
Fax No: +975-7-251651

## TRONGSA EXTENSION OFFICE

Ground Floor, Sangay Tenzin Building, Trongsa  
Town, Trongsa, Bhutan  
Post Box No: 556  
PABX.+975-77192030  
Fax No: +975-3-521141