

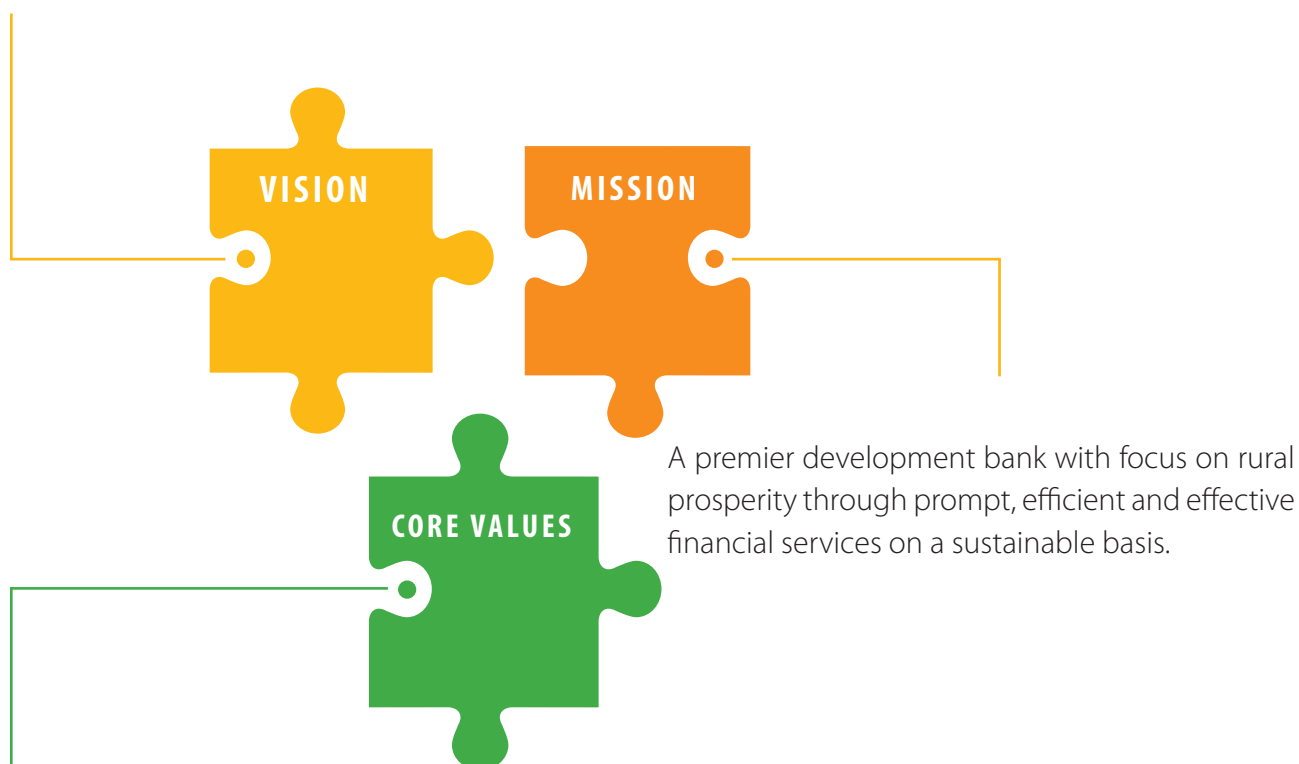
2015

ANNUAL REPORT



Bhutan Development Bank Limited

To be strong, dependable, customer focused bank that contributes towards achievement of GNH.



- | | | |
|-----------------|---|---|
| Professionalism | - | Give your Best |
| Excellence | - | Aim for higher ideals |
| Ownership | - | Own your Bank and care for your customers |
| Partnership | - | Work together for growth |
| Loyalty | - | Be true to oneself and stakeholders |
| Efficiency | - | Deliver prompt services |

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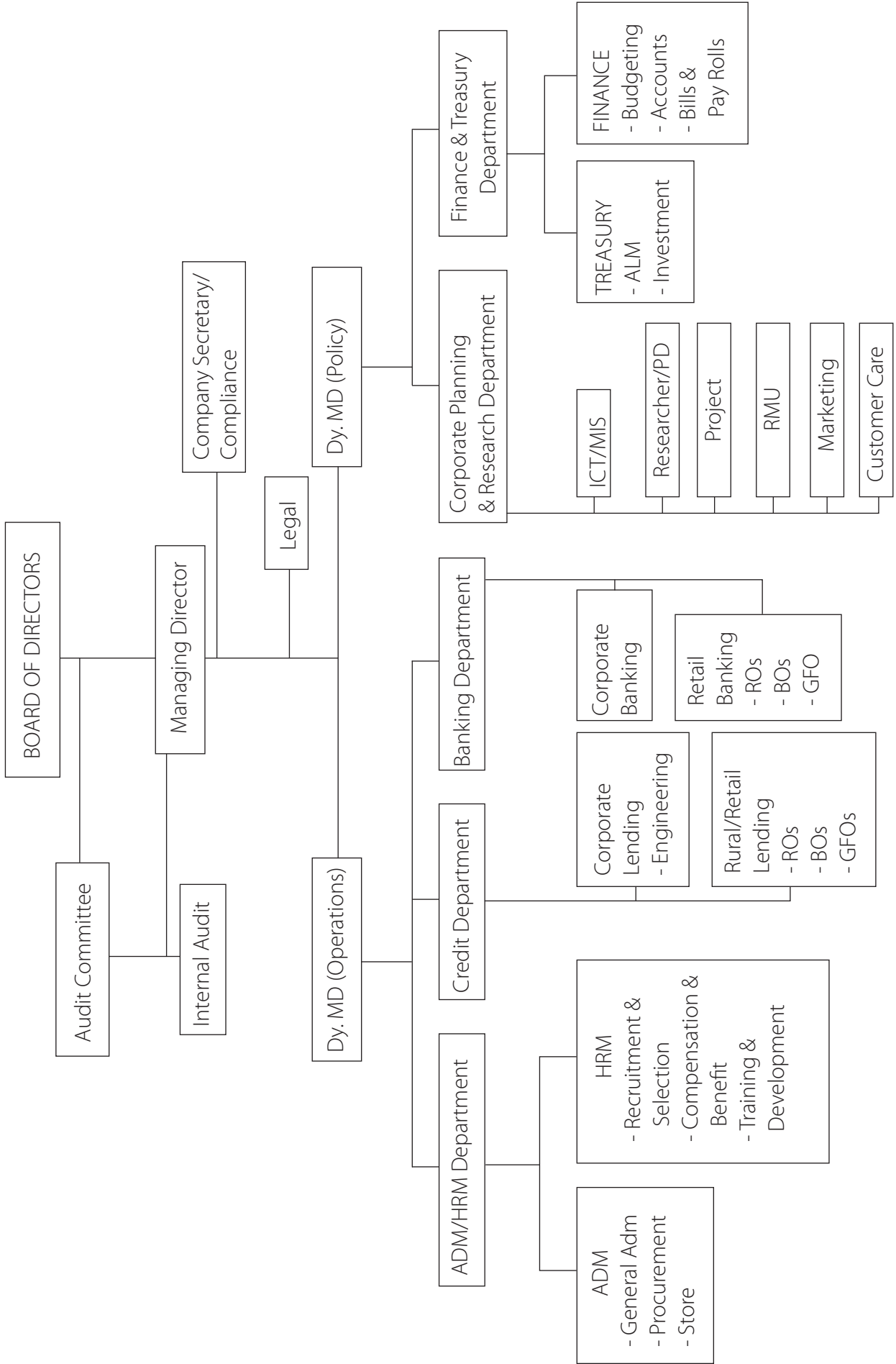
BHUTAN DEVELOPMENT BANK LIMITED

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ORGANISATIONAL STRUCTURE



BHUTAN DEVELOPMENT BANK LIMITED

HEAD OFFICE, THIMPHU | Post Box: 256, Norzin Lam
 Telephone PABX No: (00975-2) 322579 | 323425 | 324678 | 333865
 Fax 323428 | Toll free No. 142
 Email: info@bdb.bt

REGIONAL OFFICES

SI #	Regional Managers	Office Location	Telephone No.
1.	Mr. Pema Tashi (Western)	Paro	00975-08-272410
2.	Mr. Yeshey K. Tshering (Central)	Gelephu	00975-06-252137
3.	Mr. Tenzin Tashi (East)	Trashigang	00972-04-521243

BRANCH OFFICES

SI #	Branch Managers	Location	Phone No.	Fax No.
Western Region				
1.	Mr. Phub Dorji	Thimphu	02-326853	02-326853
2.	Mr. Chador Kelzang	Paro	08-271334	08-272341
3.	Mr. Sangay Wangdi	Haa	08-375459	08-375649
4.	Mr. Namgay Rinchen	Punakha	02-584102	02-584157
5.	Mr. Lobsang Choiphel	Gasa	16288121	02-688168
6.	Mr. Tenzin Wangdi	Wangdue	02-481261	02-481848
7.	Mr. Pema Tashi	Chukha	08-478243	08-478427
8.	Mr. Jhamba	Phuntsholing	05-252881	05-252868
9.	Mr. Thinley Wangchuk	Samtse	05-365469	05-365854
10.	Mr. Parasha Bhandari	Dorokha	05-342656	05-365854
11.	Mr. Karma Sherub	Sibsoo	05-382055	

Central Region

1.	Mr. B.B Tamang	Dagana	06-481106	06-481242
2.	Mr. Tashi	Bumthang	03-631111	03-631900
3.	Mr. Tshering Dorji	Trongsa	03-521147	03-521515
4.	Mr. Namgay Tenzin	Zhemgang	03-741127	03-741107
5.	Mr. Jamyang Tenzin	Panbang	03-742017	03-794036
6.	Mr. Yeshe Samdrup	Tsirang	06-471206	06-471197
7.	Mr. Penjor	Sarpang	06-365136	06-365290
8.	Mr. Yonten	Gelephu	06-252135	06-252136
9.	Mr. Lok Nath Katel	Lhamoi Zingkha	06-241422	06-241425
10.	Mr. Chhimi Dorji	Dagapela	06-483143	06-483151

Sl #	Branch Managers	Location	Phone No.	Fax No.
Eastern Region				
1.	Ms. Yangchen Tshomo	Lhuntse	04-545106	04-545145
2.	Mr. Tshewang	Mongar	04-641127	04-641177
3.	Mr. Jigme Sonam Tenzin	Pemagatshel	07-471126	07-471260
4.	Mr. Dhendup Namgyel	Samdrup Jongkhar	07-251118	07-251292
5.	Mr. Sonam Dhendup	Trashigang	04-521122	04-521386
6.	Mr. Cheda	Trashhi Yangtse	04-781105	04-781239
7.	Ms. Yezer Pelden	Wamrong	04-571148	04-571164
8.	Mr. Namgay Doenyan	Nganglam	07-481190	07-481183
9.	Mr. Gyem Tshering	Jomotshangkha	07-264023	
10.	Mr. Palden	Yadi	17246434	
11.	Mr. Tashi Tshewang	Samdrupcholing	1732556/17616732	
Thimphu Main Branch				
1.	Mr. Sangay Dorji	Main Branch, Thimphu	02-323852	02-323428

Board of Directors



CHAIRMAN
Mr. Nim Dorji
Jt. Secretary
Ministry of Finance



DIRECTOR
Dasho Tshewang Rinzin
Dzongdag
Dzongkhag Administration
Thimphu



DIRECTOR
Mr. Namgay Wangchuk
Director General
BAFRA, MoAF



DIRECTOR
Mr. Ugyen Penjor
Director, Dept. of CSI
Ministry of Economic Affairs



DIRECTOR
Mr. Phub Tshering
Secretary General
BCCI



DIRECTOR
Mr. Karma Tshering
Chief Executive
Officer, BOiC



MEMBER SECRETARY
Mr. Pema Tshering
Managing Director
Bhutan Development Bank
Limited

BDBL MANAGEMENT TEAM



Mr. Pema Tshering
Managing Director



Mr. Ugyen Dhendup
**Dy. Managing Director
(Policy)**



Mr. Sonam Rigyel
**Dy. Managing Director
(Operation)**



Mr. Karma Jigme
**Offtg. General
Manager, Credit Dept**



Mr. Tshering Dukpa
**General Manager
ADM/HRM Dept**



Mr. Nidup Tshering
**General Manager
Finance & Treasury Dept**



Mr. Pema Wangdi
**General Manager
Corporate Planning &
Research Dept**



Mr. Pema Choden
**Offtg. General Manager
Banking Dept**



Mr. Kuenzang Thinley
Company Secretary

Chairman's Report

On behalf of the Bhutan Development Bank Limited, I am pleased to present herewith the 27th Annual Report of the Bank for the year ended December 31, 2015.

The Bank performed well during the year despite slow economic growth across many sectors except in the tertiary sector and the continued challenge posed by the high cost of providing financial services to the communities living in the rural areas. Based on the need of providing strategic support and policy guidance to the Management, seven Board meetings were conducted in 2015. As a result, indeed it is my pleasure to inform the esteemed shareholders, stakeholders and the general public that the collective efforts of the Board and Management have witnessed a satisfying performance of the Bank during 2015 with Annual Performance rating of 93.5% as per the Annual Performance Compact signed with the Board.

In 2015 there was no change in the Board members and all the Directors have actively participated and contributed in the governance of the Bank. However, I would report that in January 2016, Dasho Lungten Dorji, Dzongda, Trashigang Dzongkhag retired after serving for four years as Board Director. The MOF has appointed Dasho Tsewang Rinzin, Dzongda Thimphu as the new Board Director and extended the term of the Chairperson. Mr. Pema Tshering, Managing Director submitted his resignation in December, 2015 on personal ground and the Board relived him from the post of Managing Director by the end of February 2016. Based on recommendation of the Board, the MOF has approved the appointment of Mr. Phub Dorji as the new Chief Executive Officer of the Bank. The New CEO joined the Bank from 31st March, 2016.

I would therefore like to take this opportunity to express my sincere appreciation and thank Dasho Lungten Dorji for his valuable contribution to the Bank during his tenure as the Director and Mr. Pema Tshering for his leadership in achieving the targets of the Bank during his tenure as a Managing Director. Looking forward, I would like to welcome Dasho Tshewang Rinzin, Dzongdag, Thimphu who has been appointed as the new Board Director by MOF and Mr. Phub Dorji, who has been appointed as the new CEO. It is my sincere hope and aspiration that the CEO and his team under the guidance of the Board will be able to maintain the growth trajectory of the Bank.

1. Financial Highlights

M/s S.K Mittal & Co. Chartered Accountants, New Delhi appointed as the Statutory Auditors of the Bank by the Royal Audit Authority (RAA) had audited the Bank from 1st to 19th February 2016 and submitted their report on 19th February 2016. I am pleased to inform that as reported by the Statutory Auditors, the Bank has complied and followed the Bhutan Accounting Standards (BAS) and discharged its responsibilities within the given regulatory requirements without any deviations. The Bank performed exceedingly well not just in financial terms but also on operational and customer satisfactions fronts.

1.1. Bank's Financial Position:

The Bank's total assets grew by 15% to Nu. 19.07 billion from the previous year of Nu. 16.56 billion. The growth can be attributed to increase of 29% in Loans and Advances, 100% in other assets and 29% in plants, property and equipment during the period.

The Bank's Liabilities increased by 14% from Nu. 14.09 billion to Nu. 16.01 billion due to increase in deposits by 17%. Similarly the Capital and Reserves (Total Equity) witnessed a growth of 24% from Nu. 2.46 billion to Nu. 3.06 billion. The growth in Equity was mainly due to injection of additional share capital of Nu.207 million by the shareholders.

1.2. Bank's Financial Performance:

The Bank has made a profit of Nu. 409 million compared to profit of Nu. 281 million for the same period last year which translated to profit growth of more than 45%. With the profit target of Nu. 300 million, the achievement is more than 36%. The profit increased mainly due to increase in total interest and similar income from operations, which grew by 33% from Nu. 1.34 billion to Nu. 1.78 billion. The fee and commission income recorded an overall increase of 44% from Nu. 20 million to Nu. 28 million during the year which was mainly contributed by Bank Guarantee fees.

However, the bank has also seen a similar increase in interest expense by 42% from Nu. 660 million to Nu. 936 million during the year. The interest expense increased due to increase in deposit growth by 17%. The Personnel Expenses increased by 20% from Nu. 158 million to Nu. 189 million while the other operating expenses increased by 8% from 84 million to Nu. 91 million.

The loan impairment charges increased by 7% from Nu.168 million to Nu. 180 million during the year and it is still the major contributor to the expenses.

Furthermore, as per the directives of Ministry of Finance, Royal Government of Bhutan, the operational expenditure of Community Centers for the year 2015 amounting to Nu. 16.66 million (net of income) has been borne by the Bank.

2. Operational Highlights:

The financial year 2015 ended with the total loan portfolio of Nu.14.17 billion recording a growth of 30% against the previous year loan portfolio of Nu.10.94billion. The deposit portfolio increased from Nu. 12.15 billion to Nu. 14.2 billion in 2015 with a growth of 17%.

2.1 Credit Distribution:

As the only development bank and in keeping with its mandates, the Bank continued to increase its rural coverage and provided them with banking services. It had a total client of 46,326 in 2014 and this has increased to 52,248 in 2015 representing a growth of 13%. Out of this, bank's total rural client/ account holder increased from 43,009 in the previous year to 48,518 in 2015 which represented a 13% growth in rural clientele.

In terms of the amount, the rural credit portfolio witnessed continual growth. The total amount of rural loan portfolio grew from Nu.6.23 billion in the previous year to Nu.8.67 billion in 2015 which translated to a growth rate of 39%. The over-all rural to urban loan amount ratio stood at 57:43 in the past year while it increased to 61:39 in 2015.

The loan portfolio distribution indicated that 27% of the total loan portfolio of the bank was in Agriculture sector in 2015 dominating the rest of the sectors continually for the last two years. In terms of the number of clientele distribution, agriculture constituted 48% of the total clients highlighting the Bank's emphasis in this sector.

2.2 Banking Activities:

The bank has been steadfast in its effort to provide banking services and deposit products both to urban and rural populace. As a result, the total deposits increased consistently over the years from Nu. 12.15 billion to Nu. 14.2 billion in 2015 which is an increase of 17%.

In terms of overall savers in bank, the number have increased from 107,365 to 133,366 in 2015 indicating a growth of 24%. As for the total numbers of rural saver, it has increased from 101,043 in the past year to 124,930 in 2015 which was an increase by 24%.

On the total rural deposit with the bank, the amount increased from Nu. 2.5 billion in 2014 to Nu. 3.6 billion with a growth rate of 44%. This was possible due to concerted effort of the bank through its wide network of branches and extension office across the country.

In an effort to provide deposit options to the rural farmers, the bank introduced Drinchen Ama savings scheme towards the end of 2014. In 2015, this scheme was further re-enforced with distribution of 5,000 more boxes through its branch offices. The accumulated deposit mobilization through this scheme amounted to Nu. 10.2 million with a total saver of 2,665 by the end of 2015.

2.3 Opening of new branches/Extension offices/field offices

In 2015 a total of 6 extension offices were opened with an objective to increase its coverage and outreach despite huge operational costs. The opening of new outlets is an attempt to take the banking services and credit assistance closer to the people. This is aimed at enhancing credit support and offering opportunity to the farmers to initiate more income generating enterprises and deploying necessary agricultural inputs to improve agriculture production which in turn will increase the income of the farmers and their living standards.

2.4 New branch office construction:

With the increase in business volume and to provide better working environment to the employees and the customers, the Bank had embarked on the construction of its own branch office at Punakha in 2014. The Bank completed the construction and shifted its branch office in the four storied building in the beginning of the current year.

3. Other Activities:

3.1 Business Opportunity and Information Centre (BOiC)

With the establishment of the Business Opportunity and Information Centre in 2014 to foster the growth of cottage and small business industries that will contribute to employment creation, export enhancement and import substitution, BDBL signed a contract with the BOiC to deliver the post credit sanction services.

In 2015, the Bank disbursed Nu. 165.06 million to 127 clients from RF-1 fund and Nu. 85.45 million to 951 clients from RF- 2 after the loans were approved by BOiC. In order to familiarize the branches with the BOiC fund delivery systems and procedures, two rounds of training were conducted in the month of April for 65 staff working as a focal person for the BOiC fund services in their respective branches.

3.2. The Community Centre Operation(CC)

In line with the directives of the RGOB, the management of the CC was transferred and handed over to the Bank. The bank took over the service from March,2015 and since then have been managing the CC to serve as "One Stop Shop" to provide G2C and other services to the community, especially in the far flung areas.

With the objective to improve the operational sustainability of the CC, the bank initiated and collaborated with Bhutan Telecom to sell e-LOAD and with Department of Revenue and Custom to sell revenue and judicial stamps. It also worked closely with village bazaar under Tsirang, Sarpang and Thimphu Dzongkhag to showcase the products initiated by the College of Science and Technology and Sherubtse College through ADB funding. The CC plans to collaborate with T-cell and NPPF in providing their services within this year.

In order to provide digital facility for the parliamentarians to connected with their constituencies and share information, the Virtual Zomdu (video conference) was launched within the CC facility.

In the current year, BDBL will come up with management information system (online transaction and operations record), standard operating manual and 5 years strategic business plan to help the Bank to strengthen the CC operations.

3.3 Gewog Banking Services (GBS)

As a part of the bank's social mandate to increase people's access to financial services and promote financial inclusion, the bank launched the first Gewog banking services (GBS) in December 2014 at Kabisa, Punakha. By the end of 2015 108 GBS have been established successfully.

In additional to the CC activities, the Community Centre operators have been entrusted with the responsibility to operate the GBS with the help of the Point of sale (POS) device. The POS device provides wide range of banking services on real times basis, such as cash deposits, withdrawals, loan repayment, account balance inquiry, fund transfers and enrollment of customers and printing of mini statement.

3.4 Core Banking Solution (CBS):

The Bank's current CBS was introduced in 2007 when it functioned as a non bank financial institution. With the change in bank's business BDBL decided to upgrade the CBS be able to respond to the needs of the clients and the bank. Towards this direction, the Board and the management completed the selection of the vendors through an open tender and the CBS migration work is under progress. The CBS roll out is scheduled to start by the beginning 2017.

4. Human Resources Management (HRM):

Human resources are the key asset in any organization and have a crucial role to play in the success of the organization. The personal and professional needs of the employees have to be managed effectively

In 2015 a total of 132 staff attended ex-country training/workshop and seminars while 106 attended in-country training/seminar/workshop. In additional to this, a total of 161 staff were given different trainings by the bank's trainers.

Further, as per the requirement of the bank, a total of 41 new staffs were recruited during the year increasing the staff strength to 416.

5. Challenges and Constraints:

While the bank has progressed over the years, it continues to face various challenges and constraints in fulfilling the social mandates. As the only development bank, with its presence in the remotest part of the country, the task of administering the credit and providing services to the rural household is costly given the country's topography with sparsely populated villages spread across the country. This often compromises the bank's asset quality.

Besides the normal banking services, the bank is also given the additional responsibility to manage the Community Centers operations and provide the post sanction credit service of the BOiC. Since these activities are additional responsibilities, provision of these services efficiently and effectively is becoming a challenge.

To promote financial inclusion, BDB has been mandated to establish branches in all the Gewogs. Accordingly, POS machines have been installed in each Gewog to start the banking services. However, sustainability of services is challenges as operation of the POS services are depended on the availability internet.

6. Tax Exemption and Dividend

The MOF in recognition of the Bank's social mandate has granted tax exemption for the year 2015 to plough back the profit for sustaining its future operation and carrying out its mandates. In view of this, the Board has not recommended the declaration of any dividend for the income year 2015

7. Way forward

The Bank has set a modest target of 5% growth in terms of profitability and 15% loan portfolio growth to be able to concentrate on reducing Portfolio at Risk (PAR) to 7% from 8.64% in 2015. 2016 has been declared as the year of consolidation to focus in improving the quality of its assets and reduce PAR.

Nonetheless, the Bank will continue to focus in the rural areas by increasing its outreach, improving deposit mobilization, providing support to the micro, small and medium enterprises and stimulate the growth of the rural economy by supporting the Agriculture sector. During the year, the Bank plans to open 97 Gewog Banking Services, install 16 additional ATMS, complete the implementation of the CBS and ready its roll out by the beginning of 2017.

8. Conclusion:

I take this opportunity to express my deep sense of gratitude to the RGoB, three minority Shareholders and development partners for their kind support and guidance. My thanks also goes to the Board Directors, Management and employees for the highest level of co-operation and assistance rendered to me in the conduct of the Board.

To our esteemed Shareholders and valued clients, I would like to convey our sincere appreciation for their continued support, patronage, confidence and faith reposed in us. The Board of Directors would also like to place on record their sincere appreciation for the commitment, dedication and hard work put in by the Management and staff to serve the interest of the customers, shareholders and other stakeholders.

My sincere prayers and hope for even more fruitful year for the bank in 2016 and beyond.



Nim Dorji
CHAIRMAN : BDB

Operational Highlights from 2011- 2015

SI #	Particulars	2011	2012	2013	2014	2015
I	Assets (Million)	5,211	7,694	10,425	16,563	19,073
II	Profits/(Loss) (Million)	205	238	279	282	409
III	Disbursement (Million)	1,934	3,281	4,235	5,379	6,321
	Main Branch	528	1,136	1,553	1,413	1,574
	Branch Office	1,406	2,145	2,682	3,967	4,747
IV	Loan Outstanding (Million)	4,542	6,247	8,500	10,819	13,920
	Main Branch	2,063	2,815	3,968	4,584	5,242
	Branch Office	2,479	3,432	4,532	6,235	8,678
V	On - Time Recovery Rates					
	Main Branch	95%	95%	96%	96%	96%
	Branch Office	94%	95%	95%	95%	95%
VI	Portfolio At Risk	8.27%	8.34%	7.21%	7.77%	8.59%
	Main Branch	8.74%	8.41%	6.90%	7.97%	9.32%
	Branch Office	7.87%	8.28%	7.50%	7.63%	8.12%
VII	Number of Active Clients	28,895	34,790	40,712	46,326	52,248
	Main Branch	2,535	2,841	3,143	3,317	3,730
	Branch Office	26,360	31,949	37,569	43,009	48,518
VIII	Number of New Accounts	13,206	15,637	16,613	19,763	21,376
	Main Branch	746	838	844	969	1,232
	Branch Office	12,460	14,799	15,769	18,794	20,144
IX	Cumulative Nos. of Beneficiary	126,095	141,732	158,345	178,108	199,484
	Main Branch	7,935	8,773	9,617	10,586	11,818
	Branch Office	118,160	132,959	148,728	167,522	187,666
X	Deposit Amount (Million)	2,302	4,323	6,824	12,162	14,216
	Main Branch	1,553	3,079	4,867	9,628	10,575
	Branch Office	749	1,244	1,957	2,534	3,641
XI	No.of Depositors	44,545	64,181	85,864	109,005	133,366
	Main Branch	1947	3235	4821	6,322	8,436
	Branch Office	42,598	60,946	81,043	102,683	124,930
XII	Number of Employees	290	321	357	385	416
	Head Office	92	103	110	125	117
	Main Branch	21	23	28	30	31
	Branch Office	177	195	219	230	268
XIII	Active Clients/Employee Ratio					
	Main Branch	121	124	112	111	120
	Branch Office	149	164	172	187	181
XIV	Loans /Employee Ratio	16	19	24	28	33
	Main Branch	98	122	142	153	169
	Branch Office	14	18	21	27	32

BHUTAN DEVELOPMENT BANK LIMITED

ANNUAL ACCOUNTS & AUDITORS' REPORT 2015

**S.K. Mittal & Co.
Chartered Accountants
New Delhi
India**

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of **Bhutan Development Bank Limited**, which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 International Standards on Auditing (ISA). 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 disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of BHUTAN DEVELOPMENT BANK LIMITED as at December 31, 2015, and (of) its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

Emphasis of Matter:

Without qualifying our opinion we draw attention to the following:

- a) Note no. 37 regarding a deficit of Nu. 16,666,393 borne by the Bank as directed by the Ministry of Finance vide their letter no. MoF/PED/19/2015/854 dated 29.09.2015 in respect of operation and management of Community Centers spread across the country taken over by the Bank in terms of a transfer agreement entered into with Bhutan Postal Corporation Limited on 06.05.2015.
- b) Note no.38 regarding current account with Royal Monetary Authority under reconciliation showing as on 31.12.2015 a debit balance of Nu.181,839,036 of which consequential impact, if any not ascertainable at this stage.
- c) Note no.40 regarding interest on non-performing loans amounting to Nu.55,575,374 recognized as income as per accounting policies revised on 01.01.2014 upon adoption of BAS/BFRS and IFRS and not suspended as provided under section 10.11.3 of Prudential Regulations 2002. However, such accrued interest has been taken into account while arriving at provision for impairment loss as per BAS/BFRS and IFRS.

Report on Other Legal and Regulatory Requirements

As required by Section 75 of the Companies Act of the Kingdom of Bhutan, 2000 read with Section II of Schedule XIV thereto (the Minimum Audit Examination and Reporting Requirements) we enclose in the Annexure a statement on the matters specified therein to the extent applicable.

As required by Section 74(3) 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 purposes of our audit.
- b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books.

- c) The statement of Financial Position, the statement of Comprehensive Income, the statement of Changes in Equity and the Statement of Cash Flows dealt with by this report have been prepared in accordance with accounting principles generally accepted and are in agreement with the books of accounts.
- d) In our opinion, the Statement of Financial Position, the statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows comply with the Bhutanese Accounting Standards and provisions of the Companies Act of the Kingdom of Bhutan, 2000.

Place: New Delhi

Dated: 06 APR 2016

**for S.K. Mittal & Co.
Chartered Accountants
FRN/001135N**

**S.K. Mittal
Partner
Membership No. 8506**



ANNEXURE
MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS
(Part-II of schedule XIV to The Companies Act of the Kingdom of Bhutan, 2000)

1. The Bank is maintaining records showing full particulars including quantitative details of fixed assets. Situation of fixed assets and descriptions thereof are maintained by Accounts department. Physical verification of fixed assets has been carried out by the Bank as on 31.12.2015 through internal audit department. Reconciliation of physical assets as per internal audit report with the book balance as per physical asset register has been done.
2. Fixed Assets have not been re-valued during the year and therefore, there is no profits/loss on revaluation.
3. Physical verification of various stores items were carried out by the internal audit as on 31.12.2015.
4. In our opinion, rate of interest and other terms and conditions of secured/unsecured loans availed by the Bank from banks, financial institutions or other parties are prima facie not prejudicial to the interest of the Bank.
5. The loans granted by the Bank are prima facie not prejudicial to its interest. According to the information and explanations given to us, no loan, secured or unsecured, has been granted to other companies, firms or other parties under the same management. The advances granted to officers/staffs are in keeping with the provisions of service rule and no excessive and frequent advances are given.
6. In our opinion, the bank has adequate internal controls to ensure completeness, accuracy and reliability of accounting records, in carrying out the business in orderly and efficient manner, to safeguard the assets of the Bank as well as to ensure adherence to the systems and procedures. However, internal controls in respect of credit management need to be strengthened.
7. There is a system of competitive bidding, commensurate with the size of the Bank and the nature of its business for the purchase of goods and services including stores, equipment and other assets. The Bank is not engaged in manufacturing or trading activities.
8. Fund based or non-fund based facilities provided to the directors or to companies or firms in which any director was directly or indirectly interested were under similar terms and conditions as are applied to other parties and were not prima facie prejudicial to the interest of the Bank.
9. Unserviceable or damaged stores have been determined on the basis of verification conducted at periodic intervals.



10. The Bank is maintaining reasonable records for sale and disposal of scrap.
11. According to the records, the Bank has been regular in depositing rates and taxes, duties etc. and other statutory dues with the appropriate authorities during the year 2015.
12. There are no undisputed amounts payable in respect of rates, taxes, duties, provident funds and other statutory deductions payable at the last day of the financial year 31.12.2015.
13. According to the information and explanations given to us, no personal expenses have been debited to the Profit and Loss Account other than those payable under contractual obligations/ service rules of the Bank.
14. The Bank has a reasonable system of recording receipts, issues and consumption of stores items commensurate with the nature and size of its business.
15. The Bank has a reasonable system for follow-up with various parties for recovery/adjustment of outstanding amounts.
16. Idle cash and bank balances are generally not held by the Bank.
17. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Bank are, in our opinion, lawful and intra-vires to the Articles of Incorporation of the Bank.
18. The Bank has a system of approval of the Board for all capital investment decision and investments in new projects and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.
19. The Bank has established an effective budgetary control system.
20. The details of remuneration to the Managing Director have been indicated in Note no. 41.
21. The directives of the Board have generally been complied with.
22. According to the information and explanations given to us, the officials of the Bank have not transmitted any price sensitive information, which is not made publicly available to their relatives/ friends/associates, or close persons, which would directly or indirectly benefit themselves.

In Case of Finance and Investment Bank

1. There have been some lapses on the documentation part of loans granted by the Bank and this area requires further improvement.



2. Proper records of the transactions and contracts have been maintained and timely entries have been made for the investments made.
3. The Bank has maintained reasonable records for funds collected from depositors and for interest payment.
4. Investments made by the Bank and outstanding in its books as on 31.12.2015 have not undergone any permanent diminution in value as per information and explanations given to us.
5. The Bank has complied with the requirements of the Financial Services Act of Bhutan 2011 and any other applicable laws, rules and regulations and guidelines issued by the appropriate authorities as explained by the management except otherwise mentioned elsewhere in the report or notes to the accounts.
6. Provisioning for non- performing assets including loans and advances has been carried out as per accounting policy of the Bank revised on 01.01.2014.
7. Accrued interest on non- performing loans has been recognised as interest income as per accounting policy of the Bank revised on 01.01.2014 and has not been deferred. However, accrued interest has been taken into account while arriving at provision for impairment loss.
8. As stated by the management, except for few cases, assets hypothecated against loans and advances have been physically verified and properly valued by management and mortgage deeds have been executed and it has been ensured that the assets are free of any prior lien or charges.
9. 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 project activities are progressing satisfactorily.
10. Taking over of assets for repayment defaults are made through open / sealed bids.
11. The Bank has complied with the guidelines for Prudential Regulations as issued by RMA for rephasing / rescheduling of loan accounts.
12. 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. Back up facilities and disaster recovery measures include keeping files in different and remote locations.
4. Operational controls are adequate to ensure correctness and validity of input data and output information.
5. There are adequate preventive measures to prevent unauthorized access over the computer installation and files.

General

1. Going Concern Problem

Based on the Bank's financial statements for the year ended 31st December, 2015 audited by us, the Bank has earned sufficient profit during the year under audit and we have no reason to believe that the Bank is not a going concern.

2. Ratio Analysis

Financial and operational ratio in respect of the Bank is given in the statement of Ratio Analysis.

RATIOS	2015	2014	Comments
A. Ratios for assessing Financial health			
Capital Turnover Ratio(As per BAS) (Income / Capital Employed)	60.28%	56.27%	Improvement in ratio due to increase in gross income
Current Ratio (As per BAS) (Current Assets / Current Liabilities)	120.43%	131.82%	Current ratio though within permissible norms but decline due to decrease in current assets.
Fixed Assets Turnover Ratio(As per BAS) (Income/Fixed Asset)	831.04%	469.56%	Improvement due to increase in gross income.
B. Ratios for assessing Profitability			
Profit on Capital Employed Ratio (As per BAS) (Profit after Tax / Capital Employed)	13.47%	11.54%	Improvement due to increase in net profits.
Profit Turnover Ratio(As per BAS) (Net Profit/Total Income) *100	22.34%	39.47%	Decrease in ratio due to increase in gross income.
Operating Ratio (As per BAS) (All Expenses – Finance Charges)/Total Income*100	16.68%	19.19%	Reduction due to increase in gross income.
Total Expenses to Total Income Ratio (As per BAS) (Total Expense/Total Income)*100	77.66%	60.53%	Increase in ratio due to increase in expenses.
Capital Adequacy Ratio (As per OLD GAAP)	18.08%	20.68%	Far higher than minimum requirement of 10% as PR 2002 (RMA).
Statutory Liquidity Reserve Ratio (As per OLD GAAP)	22.41%	36.14%	Higher than minimum requirement of 20% as PR 2002 (RMA)
Credit Deposit Ratio (As per OLD GAAP)	96.64%	87.37%	Increased due to increase in loans and advances

3. Compliance of the Companies Act of the Kingdom of Bhutan 2000:

The Bank has not complied with the following areas of the Companies Act of the Kingdom of Bhutan 2000:

- a) Articles of Incorporation of the Bank were altered in the annual general meeting of the shareholders held on 27.03.2015 to enhance authorized capital from existing Nu. 500 million to Nu. 1000 million. Approval of the Registrar is yet to be obtained u/s 7 of the Act for aforesaid increase in authorized share capital.
- b) Loans given to certain directors showing on the reporting date an outstanding balance of Nu. 8,157,792 (PY Nu. 6,963,852) are not in accordance with the provision of section 87(a) of the above Act which provides that no public company shall make any loan to any of its director. However, these loans are within acceptable limit of lending to directors provided under section 2.3 of the RMA Prudential Regulations 2002.
- c) Bank's wholly owned subsidiary namely BDB Securities Limited has been merged with it on 31.12.2015 as approved by the board of directors of the Bank in their 130th meeting held on 07.11.2015 and by the shareholders of the subsidiary company in their EGM held on 13.08.2015. Accordingly, all assets and liabilities of the subsidiary company as appearing in its audited Statement of Financial Position drawn on 31.12.2015 have been transferred to the Bank and are included in the Bank's Statement of Financial Position drawn on 31.12.2015. However, the Bank is yet to apply and obtain orders of the court to this merger in accordance with the applicable provisions of the Companies Act of the Kingdom of Bhutan 2000.

4. Adherence to Laws, Rules & Regulations

Audit of the Bank is governed by the Companies Act of the Kingdom of Bhutan 2000 and the scope of audit is limited to examination and review of the financial statements as produced to us by the management. In the course of audit, we have considered the compliance of provisions of the said Companies Act and its Article of Incorporation and we are unable to state that the Bank has been complying with the applicable laws (other than the Companies Act), rules and regulations, systems, procedures and practices.

Place: New Delhi

Dated: 06 APR 2016

For S.K. Mittal & Co.
Chartered Accountants
FRN: 001135N

S.K. Mittal
Partner
Membership No. 8506





BHUTAN DEVELOPMENT BANK LIMITED

FINANCIAL STATEMENTS

31st DECEMBER 2015

1. CORPORATE INFORMATION

Bhutan Development Bank Limited provides services to Small and Medium Enterprises (SME) and farmers' outreach in various parts of the Kingdom of Bhutan

Bhutan Development Bank Limited is a domestic development bank incorporated and domiciled in the Kingdom of Bhutan. Its registered office is at P.O. Box 256, Norzin Lam, Thimphu, Bhutan.

The financial statements for the year ended 31st December 2015 were authorised for issue in accordance with a resolution of the Directors on 26th March 2016.



Bhutan Development Bank Limited

NOTES TO THE FINANCIAL STATEMENTS

2.1 BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except for available –for sale investments. The financial statements are presented in Bhutan Ngultrum rounded (Nu.)

Statement of compliance

The financial statements of the Bank have been prepared in accordance with Bhutanese Accounting Standards /Bhutan Financial Reporting Standards (BAS/BFRS) and 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) and more than 12 months after the reporting date (non–current) is considered when preparing the statement of Financial Position.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Audited Financial Statements for 31.12.2015 are prepared in accordance with BAS 1 on presentation of financial statements in line with BAS/BFRS and IFRS.



Bhutan Development Bank Limited

NOTES TO THE FINANCIAL STATEMENTS

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the 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.

Judgements

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation of 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 parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Going concern

The Bank's management has made an assessment of its 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.

For the purpose of valuation of quoted equity the Bank considers dividend growth model. Wherever the growth cannot be estimated reasonably Bank assumes a positive correlation on growth at par with the sector/GDP growth.

Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS****Impairment losses on loans and advances**

The Bank reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on 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 account of data from the loan portfolio (such as levels of arrears, loan type, etc.) and judgement on the effect of economic and market conditions.

Impairment of available-for-sale investments

The Bank reviews its equity securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.



Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS****Grants**

Grants received by Bank are amortised to income over the period of a grant on straight line Basis and grants received during the period are assumed to be received by the end of the period for amortisation purpose.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.3.1 Foreign currency translation**

The financial statements are presented in Bhutan Ngultrum (Nu) which is the functional currency of the Bank

Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to other operating income in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

2.3.2 Financial instruments – initial recognition and subsequent measurement**(i) Date of recognition**

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their



Bhutan Development Bank Limited

NOTES TO THE FINANCIAL STATEMENTS

fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Financial assets or financial liabilities held for trading

Currently the Bank does not have any Financial Assets/Liabilities classified as held for trading.

(iv) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in Net gain or loss on financial assets and liabilities designated at fair value through profit or loss. Interest earned or incurred is accrued in Interest income or Interest expense, respectively, using the effective interest rate (EIR), while dividend income is recorded in other operating income when the right to the payment has been established.

Currently the Bank does not have any Financial Instruments designated as Fair Value through Profit or Loss.

(v) 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

(vi) Available-for-sale financial investments

Available-for-sale investments include equity securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the Available-for sale reserve.

When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in other operating income.

Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS**

Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the Available-for-sale reserve.

(vii) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate (EIR). The amortisation is included in Interest and similar income in the income statement. The losses arising from impairment of such investments are recognised in the income statement line Credit loss expense.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

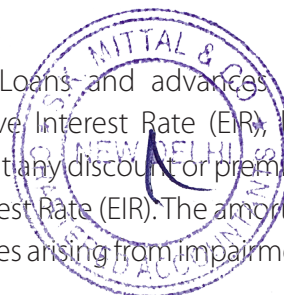
Currently the Bank does not have any Financial Instruments classified as Held to Maturity (HTM).

(viii) Due from banks and loans and advances to customers

Due from banks and Loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available-for-sale
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts due from banks and Loans and advances to customers are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortised 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 amortisation is included in Interest and similar income in the income statement. The losses arising from impairment are recognised in the income statement in Credit loss expense.



Bhutan Development Bank Limited

NOTES TO THE FINANCIAL STATEMENTS

(ix) Debt issued and other borrowed funds

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities under Debt issued and other borrowed funds, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR). Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate (EIR).

(x) Reclassification of financial assets

The Bank is permitted to reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

2.3.3 De-recognition of financial assets and financial liabilities

(i) Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a Bank of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- 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; and either:
- The Bank has the

Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS**

and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 modification 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 consideration paid is recognised in profit or loss.

2.3.4 Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

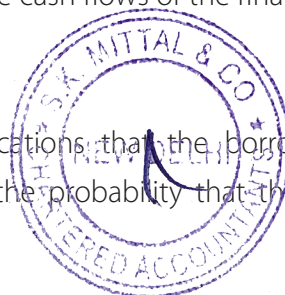
For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

An Active Market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis

2.3.5 Impairment of financial assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation;



Bhutan Development Bank Limited

NOTES TO THE FINANCIAL STATEMENTS

default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate (EIR). If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate (EIR) determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the product type.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.



Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS**

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

(iii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original Effective Interest Rate (EIR).

(iv) 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 as appropriate.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models.

(v) Collateral repossessed

The Bank's policy is to auction all repossessed collateral.



Bhutan Development Bank Limited

NOTES TO THE FINANCIAL STATEMENTS

2.3.6 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 recognised amounts and there is an intention to settle on a net basis, or to realise 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.

2.3.7 Leasing

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

Group as a lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

2.3.8 Recognition of income and expenses

Revenue is recognised 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 recognised.

(i) Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). Effective Interest Rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts 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 (for example, prepayment options) 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.



Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS****(ii) Fee and commission income**

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

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.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

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

(iv) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

2.3.9 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

2.3.10 Property, Plant and Equipment

Property, Plant and Equipment (including equipment under operating leases where the Bank is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.



Bhutan Development Bank Limited

NOTES TO THE FINANCIAL STATEMENTS

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Asset Type	Useful Life
Buildings	20-50 years
Furniture & Fitting	10 years
Office Equipment	5 years
Electrical Equipment	10 years
Network Equipment	5 years
Computer Hardware	5 years
Motor Vehicle	10 years
Security Equipment	5 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised.

2.3.11 Intangible assets

The Bank’s other intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 6-7 years

Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS****2.3.12 Impairment of non-financial assets**

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.3.13 Guarantees

In the ordinary course of business, the Bank gives guarantees, consisting of letters of credit/guarantees and acceptances.

2.3.14 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.3.15 Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant.

Grants received by agencies are amortised to income over the period of a grant on straight line Basis and grants received during the period are assumed to be received by the end of the period for amortisation purpose.



Bhutan Development Bank Limited**NOTES TO THE FINANCIAL STATEMENTS****2.3.16 Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.3.17 Equity reserves

The reserves recorded in equity (Other comprehensive income) on the Bank's statement of financial position include:

Available-for-sale reserve, which comprises changes in fair value of available-for-sale investments.

2.4.18 Standards issued but not yet effective

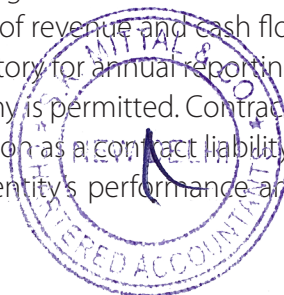
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

BFRS 9 Financial Instruments.

BFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to BFRS 9 Mandatory Effective Date of BFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2018. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of BFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of the Company's financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

BFRS 15 Revenue from Contracts with Customers

BFRS 15, as issued, reflects the first phase of IASB's initiative to replace IAS 18, the objective of which is to establish the principles that the company shall apply in reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2017 onwards. Earlier application by the company is permitted. Contracts with customers will be presented in the company's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment.



Bhutan Development Bank Limited
INCOME STATEMENT
As at 31st December

	Note	2015 Nu	2014 Nu
Interest & Similar Income	3	1,788,677,315	1,345,136,287
Interest & Similar Expense	4	(936,508,082)	(660,004,947)
Net interest income		<u>852,169,233</u>	<u>685,131,339</u>
Fee and commission income	5	28,787,845	20,057,247
Fee and commission expenses		-	-
Net fee and commission income		<u>28,787,845</u>	<u>20,057,247</u>
Other Operating Income	6	14,158,067	9,188,739
Total operating income		<u>895,115,145</u>	<u>714,377,325</u>
Personnel Expenses	7	(189,454,673)	(158,331,197)
Depreciation on Property Plant & Equipment/ Amortization of Intangible Assets		(24,283,215)	(20,764,215)
Other Operating Expenses	8	(91,844,177)	(84,678,430)
Impairment (charges)/reversal for loans and other losses		(180,337,978)	(168,644,927)
Total Operating Expenses		(485,920,042)	(432,418,769)
Profit Before Tax from Continuing Operations		<u>409,195,102</u>	<u>281,958,557</u>
"Less : Expenditure on Community Centers (net of Income Nu. 3,573,476)"		16,666,393	-
		<u>392,528,710</u>	<u>281,958,557</u>
Income Tax Expense	9	-	-
Profit For the Year		<u>392,528,710</u>	<u>281,958,557</u>
Note 1 to 45 form an integral part of Financial Statements		<u>-</u>	<u>-</u>

In terms of our attached report of even date.

For S.K. Mittal & Co.
Chartered Accountants
FRN : 001135N

S.K Mittal
Partner

Membership No. 8506

Dated: 02/12/15

Place : New Delhi



Managing Director

Chairman

Bhutan Development Bank Limited
STATEMENT OF OTHER COMPREHENSIVE INCOME
As at 31st December

	2015	2014
	Nu	Nu
Profit for the year	392,528,710	281,958,557
Gains /(losses) on re-measuring available for sale financial assets	(511,965)	-
Impairment during the year - Available for sale investments	-	-
Gain/(loss) on Actuarial valuation of defined benefit liability	(3,161,562)	2,081,544
Total other comprehensive income / (loss)	(3,673,527)	2,081,544
Total comprehensive income for the year, net of tax	388,855,182	284,040,101


Note 1 to 45 form an integral part of Financial Statements

In terms of our attached report of even date.

For S.K. Mittal & Co.

Chartered Accountants

FRN : 001135N


S.K Mittal
Partner



Membership No. 8506

Dated : 30/12/15

Place : New Delhi


Managing Director


Chairman

Bhutan Development Bank Limited

STATEMENT OF FINANCIAL POSITION

As at 31st December

	Note	2015 Nu	2014 Nu
Assets			
Cash & Cash Equivalent	10	1,262,040,618	762,506,289
Balances with Central Bank		1,589,128,878	3,489,776,768
Due from Banks	11	2,096,453,002	1,332,291,734
Loans & Advances to Customers	12	13,155,489,072	10,231,420,037
Financial Investments-Available for Sale	13	37,549,396	18,375,361
Financial Investments-Corporate Bonds	14	425,282,870	425,282,870
Other Assets	15	286,254,835	143,020,115
Property, Plant & Equipment	16	196,543,416	152,137,887
Intangible Assets	17	23,857,537	8,089,708
Total Assets		19,072,599,623	16,562,900,770
Liabilities			
Due to Banks	18	1,276,643,051	1,519,126,159
Due to Customers	19	14,639,226,114	12,499,704,998
Retirement benefit plans	20	51,071,615	38,750,878
Other Liabilities	21	41,889,850	41,501,874
Total Liabilities		16,008,830,632	14,099,083,908
Equity			
Stated Capital		507,317,000	300,000,000
Retained Earnings		1,473,924,734	1,217,948,789
Other Reserves		1,058,241,909	924,754,084
Grants	22	25,177,780	21,494,456
AFS Reserve		(892,432)	(380,467)
Total Equity		3,063,768,991	2,463,816,862
Total Liabilities and Equity		19,072,599,623	16,562,900,770

Note 1 to 45 form an integral part of Financial Statements

In terms of our attached report of even date.

For S.K. Mittal & Co.

Chartered Accountants

FRN : 001135N

S.K Mittal

Partner

Membership No. 8506

Dated :

Place : New Delhi



[Signature]
Managing Director

[Signature]
Chairman

Bhutan Development Bank Limited
STATEMENT OF CHANGES IN EQUITY
As at 31st December

	Stated Capital	"Retained Earnings"	General Reserves	Other Reserves	Government Grants	Available for Sale	Total Shareholders' Funds
				"IT Development Reserve(BS)	"Staff Development Fund"		
Balance as at January 1 2014	300,000,000	1,028,496,256	655,166,518	1 75,000,000	33,205,560	(380,467)	2,191,487,866
Adjustments	-	-	-	-	(11,711,104)	-	(11,711,104)
Acturial Gains/(Losses)	-	2,081,544	-	-	-	-	2,081,544
Net profit for the year	-	281,958,556	-	-	-	-	281,958,556
Transfers during the year	-	(94,587,567)	84,587,567	w/10,000,000	-	-	-
Balance as at 31 December 2014	300,000,000	1,217,948,789	739,754,084	175,000,000	21,494,456	(380,467)	2,463,816,862
Balance as at January 1 2015	300,000,000	1,217,948,789	739,754,084	175,000,000	21,494,456	(380,467)	2,463,816,862
Adjustments/Additional	207,317,000	25,367,411	-	(25,270,789)	3,683,324	(511,965)	210,584,981
Acturial Gains/(Losses)	-	(3,161,562)	-	-	-	-	(3,161,562)
Net profit for the year	-	392,528,710	-	-	-	-	392,528,710
Transfers during the year	-	(158,758,613)	117,758,613	21,000,000	20,000,000	-	-
Balance as at 31st December 2015	507,317,000	1,473,924,734	857,512,697	170,729,211	25,177,780	(892,432)	3,063,768,990

Note 1 to 45 form an integral part of Financial Statements

In terms of our attached report of even date.

For S.K. Mittal & Co.

Chartered Accountants

FRN : 001135N

S.K. Mittal

Partner

Membership No. 8506

Dated:

Place : New Delhi

2015.12.31



(Signature)
 Managing Director

(Signature)
 Chairman

Bhutan Development Bank Limited
STATEMENT OF CASH FLOWS
As at 31st December

	2015	2014
	Nu.	Nu.
Operating Activities		
Profit Before Tax from Continuing Operations	392,528,710	281,958,557
Adjustments for ;		
Dividend received	(527,550)	(442,900)
Depreciation of Property, plant and equipment	24,283,215	20,764,215
Movement in Impairment of Loans & Advances	180,337,978	168,644,927
Gain/loss on Disposal of PPE	(942,467)	19,974
Operating profit before changes in operating assets & liabilities	595,679,885	470,944,773
(Increase)/Decrease in operating assets		
Balance with Royal Monetary Authority	1,900,647,890	(3,071,640,778)
Loans & Advances to Customers	(3,104,407,013)	(2,345,418,052)
Funds advanced to banks	(764,161,268)	5,030,812
Financial Investments	(19,686,000)	(435,657,698)
Other assets	(143,234,720)	(85,342,055)
Increase/(Decrease) in operating liabilities		
Movement in gov't Grant	3,683,324	(11,711,104)
Movement in Share Capital	207,413,622	-
Retirement Benefit Plans	9,159,177	3,455,117
Other liabilities	387,976	20,996,585
Increase/(Decrease) due to banks	(242,483,108)	198,755,027
Increase/(Decrease) due to customers	2,139,521,117	5,580,760,345
Net cash flow from operating activities	(13,159,001)	(140,771,801)
Cash flow from investing activities		
Dividend received	527,550	442,900
Purchase of property & equipment	(83,514,105)	(31,729,083)
	(82,986,555)	(31,286,183)
Cash flow from financing activities		
	-	-
Net cash flow from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	499,534,329	298,886,788
Cash and cash equivalents at the beginning of the year	762,506,289	463,619,501
Cash and cash equivalents at the end of the year	1,262,040,618	762,506,289

Note 1 to 45 form an integral part of Financial Statements

In terms of our attached report of even date.

For S.K. Mittal & Co.

Chartered Accountants

FRN : 001135N

S.K Mittal

Partner

Membership No. 8506

Dated:

Place : New Delhi



Managing Director

Chairman

Bhutan Development Bank

NOTES TO THE FINANCIAL STATEMENTS

3 INTEREST AND SIMILAR INCOME

	2015	2014
	Nu	Nu
Loans & Advances to customers	1,668,824,408	1,264,380,163
Due from Banks	117,241,806	74,723,581
Notional Interest on Staff Loans	1,958,550	1,609,087
Other short term investments	652,550	4,423,456
	<u>1,788,677,315</u>	<u>1,345,136,287</u>

4 INTEREST & SIMILAR EXPENSE

	2015	2014
	Nu	Nu
Due to customers	862,836,420	584,379,727
Due to banks	73,671,661	75,625,220
	<u>936,508,082</u>	<u>660,004,947</u>

5 NET FEES & COMMISSION INCOME

	2015	2014
	Nu	Nu
Fees & Commission Income		
Commission on Guarantee	20,959,794	17,275,563
Other fees Received	7,828,051	2,781,684
Total fees and commission income	<u>28,787,845</u>	<u>20,057,247</u>
Fees & Commission Expense		
	-	-
Net Fees & Commission Income	<u>28,787,845</u>	<u>20,057,247</u>

6 OTHER OPERATING INCOME

	2015	2014
	Nu	Nu
Operating lease income	4,994,361	4,671,116
Profit on disposal of Property, Plant & Equipment(Net)	942,467	-
Amortization of the Government Grants (Credit Related)	3,449,481	2,565,837
Other	4,771,758	1,951,786
	<u>14,158,067</u>	<u>9,188,739</u>

7 PERSONNEL EXPENSES

	2015	2014
	Nu	Nu
Wages & Salaries	149,866,010	131,613,383
Training Expenses	30,513,892	19,757,624
Amortization of Pre-paid employment benefits	1,958,550	1,609,087
Current Period Service cost/Interest Expense	7,116,220	5,351,103
	<u>189,454,673</u>	<u>158,331,197</u>

8 OTHER OPERATING EXPENSES

	2015	2014
	Nu	Nu
Advertising and marketing	7,924,510	6,196,980
Administrative	57,981,284	56,816,139
Professional fees	2,229,366	4,540,297
Rental charges payable under operating leases	7,279,082	6,182,524
Bank levy	117,197	82,155
Other	16,312,739	10,860,334
	<u>91,844,177</u>	<u>84,678,430</u>



10 CASH & CASH EQUIVALENT

	2015	2014
	Nu	Nu
Cash on hand	1,262,040,618	762,506,289
	<u>1,262,040,618</u>	<u>762,506,289</u>

11 DUE FROM BANKS

	2015	2014
	Nu	Nu
Placements with other banks	2,096,453,002	1,332,291,734
	<u>2,096,453,002</u>	<u>1,332,291,734</u>

12 LOANS & ADVANCES TO CUSTOMERS

	2015	2014
	Nu	Nu
Agriculture Loans	3,652,927,890	2,534,787,703.15
Overdraft Loan	2,235,717,669	1,833,935,284
Employee Loan	1,528,947,984	1,218,986,061
Housing Loan	2,038,057,018	1,421,179,826
Service and Tourism Loan	998,473,189	888,049,113
Personal Loan	680,515,990	800,353,055
Industrial Loan	487,181,281	514,514,449
General Trade Loan	734,683,282	584,931,728
Inter Bank/FI's Lending	308,772,791	230,021,488
Transport Loan	613,868,240	250,257,295
Micro Enterprise Loan (BCCI Scheme)	114,834,524	138,444,561
Small Scale Industrial Loan	70,859,226	74,761,877
Construction Loan	40,341,525	38,991,296
Working Capital Loan	11,412,708	7,399,074
Add: Interest Receivable	403,513,859	274,485,883
	<u>13,920,107,176</u>	<u>10,819,370,292</u>
Less: Allowance for Impairment (Collective)	(764,618,104)	(587,950,255)
	<u>13,155,489,072</u>	<u>10,231,420,037</u>



Bhutan Development Bank
NOTES TO THE FINANCIAL STATEMENTS
12 LOANS & ADVANCES TO CUSTOMERS (Contd...)

Impairment Allowance for loans & advances to customers

A reconciliation of the allowance for impairment losses for loans & advances, by class, is as follows:

	Agriculture Loans (Nu'000)	Overdraft Loan (Nu'000)	Employee Loan (Nu'000)	Housing Loan (Nu'000)	Service and Tourism Loan (Nu'000)	Personal Loan (Nu'000)	Other (Nu'000)	Total (Nu'000)
At 1 January 2014	35,633,912	58,720,579	12,305,062	46,606,434	56,506,650	38,116,147	172,216,744	420,105,527
Charges for the year	126,900,341	28,632,877	5,320,035	19,672,107	7,072,038	37,624,350	(57,377,020)	167,844,728
At 31 December 2014	162,534,252	87,353,456	17,625,097	66,278,540	63,578,688	75,740,497	114,839,724	587,950,255
Individual Impairment	-	-	-	21,477,753	-	-	0	21,477,753
Collective Impairment	162,534,252	87,353,456	17,625,097	44,800,787	63,578,688	75,740,497	114,839,724	566,472,502
Total Impairment Provision	162,534,252	87,353,456	17,625,097	66,278,540	63,578,688	75,740,497	114,839,724	587,950,255
At 1 January 2015	162,534,252	87,353,456	17,625,097	66,278,540	63,578,688	75,740,497	114,839,724	587,950,255
Charges for the year	39,895,406	20,272,077	5,934,896	27,170,807	8,339,731	19,506,820	55,548,112	176,667,849
At 31 December 2015	202,429,658	107,625,532	23,559,993	93,449,347	71,918,420	95,247,317	170,387,837	764,618,104
Individual Impairment	-	1,825,478	-	-	-	-	-	1,825,478
Collective Impairment	202,429,658	71,115,970	23,559,993	93,449,347	46,321,954	75,689,955	218,366,539	698,443,639
Total Impairment Provision	202,429,658	89,370,751	23,559,993	93,449,347	59,120,187	85,468,636	170,387,837	764,618,104

13

FINANCIAL INVESTMENTS AVAILABLE FOR SALE

Quoted Investments

	2015 Nu	2014 Nu
Quoted Equities (14.1)	9,988,396	10,500,361
Unquoted Equities (14.2)	27,561,000	7,875,000
	37,549,396	18,375,361
(14.1) Quoted Equities		
Bhutan Carbide and Chemical Limited	67,452	119,533
Penden Cement Authority Limited	50,800	381,000
Bhutan National Bank Limited	4,870,143	4,999,828
GIC Bhutan Reinsurance Limited	5,000,000	5,000,000
	9,988,396	10,500,361
(14.2) Unquoted Equities		
Royal Securities Exchange of Bhutan	19,811,000	-
BDB Securities	-	500,000
Financial Institution Training Institute	6,000,000	6,000,000
Credit Information Bureau	1,750,000	1,375,000
	27,561,000	7,875,000



All unquoted available for sale investments are recorded at cost, since there is no market value for these investments and the bank cannot estimate the market value of the unquoted securities reliably. For the quoted securities the market values of the Royal Securities Exchange were not reflective of the fair values as there was no active market on the securities. Hence the fair values were determined using Dividend Growth Model as if shares were held for the purpose of obtaining dividend.

14 FINANCIAL INVESTMENTS CORPORATE BONDS

	2015	2014
	Nu	Nu
Investments in RICBL Bonds	109,130,556	109,130,556
Investments in DCCL Bonds	316,152,314	316,152,314
	<u>425,282,870</u>	<u>425,282,870</u>

Bank has invested 100,000 scripts of RICBL bond at Nu.1,000 each, and 311,272 scripts of DCCL bonds at Nu. 1,000 each respectively. Such investments are intended to be held to maturity in order to recover the contractual cash flows (Principal + Interest).

Although the bonds are listed in the Royal Securities Exchange it does not meet the definition of an Active Market. Hence bank has determined it's Financial Asset Classification as Loans & Recievables in Line with BAS 39 Financial Instrument Recognition & Measurement.

Bhutan Development Bank**NOTES TO THE FINANCIAL STATEMENTS****15 OTHER ASSETS**

	2015	2014
	Nu	Nu
Loans & Advances to Employees	132,552,358	63,842,676
Advances & Pre-payments	6,222,587	12,627,540
Pre-paid Employment Benefits	119,043,156	57,886,340
Stock of Stationeries and Spares	5,175,899	3,023,564
Accounts/Other receivables	17,888,277	1,048,995
Accounts receivable from BDB Securities	-	200,000
Pre-Paid Tax	4,763,770	4,256,351
Security Deposits	-	134,650
ATM - Receivable (Net)	608,789	-
	<u>286,254,835</u>	<u>143,020,115</u>



16 PROPERTY, PLANT AND EQUIPMENT

Cost:	Land	Buildings		Furniture and Fixtures		Electric Equipment		Arts & Art Effects		Office Equipments		Motor Vehicles		Security Equipments		Network Equipments		Computer Hardware		Other Office Equipments		"Capital WIP"		Total	
		Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu
At 1 January 2014	2,588,623	63,306,414	21,341,422	7,498,204	421,518	16,598,678	9,694,872	6,330,215	1,534,085	281,802,217	44,157,506	343,454	485,240	196,150,234											
Movement During the Period		4,169,654	4,620,419	504,980	349,170	6,330,215	-	6,227,000	622,700	4,016,124	6,232,721	(714)	3,142,039	29,987,305											
At 31 December 2014	<u>2,588,622</u>	<u>67,476,068</u>	<u>25,961,841</u>	<u>8,003,184</u>	<u>770,688</u>	<u>22,928,893</u>	<u>9,694,872</u>	<u>22,928,893</u>	<u>2,156,785</u>	<u>321,966,341</u>	<u>50,390,227</u>	<u>342,740</u>	<u>3,627,279</u>	<u>226,137,539</u>											
At 1 January 2015	2,588,622	67,476,068	25,961,841	8,003,184	770,688	22,928,893	9,694,872	1,768,742	2,156,785	321,966,341	50,390,227	342,740	3,627,279	226,137,539											
Movement During the Period	(0)	19,072,572	4,605,969	-	46,750	1,768,742	4,769,365	3,602,609	3,602,609	2,720,325	30,779,859	71,720	-	67,437,911											
At 31 December 2015	<u>2,588,622</u>	<u>86,548,640</u>	<u>30,566,260</u>	<u>8,003,184</u>	<u>817,438</u>	<u>23,232,101</u>	<u>13,267,787</u>	<u>5,759,394</u>	<u>5,759,394</u>	<u>34,916,666</u>	<u>78,207,523</u>	<u>414,460</u>	<u>1,957,560</u>	<u>286,279,634</u>											
Accumulated Depreciation																									
At 31 December 2013	-	7,786,231	4,738,727	1,887,918	-	5,491,434	2,323,263	918,421	918,421	17,452,772	14,628,998	-	-	55,227,764											
At 1 January 2014	-	7,786,231	4,738,727	1,887,918	-	5,491,434	2,323,263	918,421	918,421	17,452,772	14,628,998	-	-	55,227,764											
Depreciation charge for the year		1,370,488	1,866,433	1,439,820	-	2,240,306	726,299	321,273	321,273	5,871,005	4,936,264	-	-	18,771,888											
Depreciation Charge for the sales & Adjustment			30,398			3,911					39,941			74,250											
Amortization to the Grants																									
At 31 December 2014	-	9,156,719	6,605,160	3,327,738	-	7,731,740	3,049,562	3,039,070	1,239,694	23,323,777	19,565,262	-	-	73,999,652											
At 1 January 2015	-	9,156,719	6,605,160	3,327,738	-	7,731,740	3,049,562	3,039,070	1,239,694	23,323,777	19,565,262	-	-	73,999,652											
Depreciation charge for the year		2,277,118	1,709,851	1,446,457	-	3,039,070	1,845,977	622,816	622,816	2,887,668	7,078,109	-	-	20,907,066											
Assets Disposed			1,549			1,385,974	1,092,446				2,889,796			5,369,765											
Amortization to the Grants											(199,266)			(199,266)											
At 31st December 2015	-	11,433,838	8,313,463	4,774,195	-	9,384,836	3,803,092	1,862,511	1,862,511	26,211,445	23,952,841	-	-	89,362,219											
Net book value:																									
At 31 December 2014	2,588,622	58,319,348	19,356,680	4,675,446	770,688	15,197,153	6,645,311	13,847,265	917,091	8,872,564	30,824,965	342,740	3,627,279	22,137,887											
At 31 December 2015	2,588,622	75,114,802	22,252,797	3,228,989	817,438	13,847,265	9,464,695	3,896,883	3,896,883	8,705,221	54,254,682	414,460	1,957,560	196,543,415											



There were no capitalized borrowing costs related to the acquisition of property, plant & equipment during the year.

Bhutan Development Bank Limited
NOTES TO THE FINANCIAL STATEMENTS

17	INTANGIBLE ASSETS		
	Cost:		Softwares
	At 1 January 2014		30,654,673
	Movement During the Period		1,855,742
	At 31 December 2014		<u>32,510,415</u>
	At 1 January 2015		32,510,415
	Movement During the Period		19,143,977
	Disposals		
	At 31st December 2015		<u>51,654,392</u>
	Accumulated Amortization		
	At 1 January 2014		22,294,441
	Amortisation		2,126,266
	At 31 December 2014		<u>24,420,707</u>
	At 1 January 2015		24,420,707
	Disposals		
	Amortisation		3,376,149
	At 31st December 2015		<u>27,796,855</u>
	Net book value:		
	At 31 December 2014		8,089,708
	At 30th June 2015		23,857,537
18	DUE TO BANKS	2015	2014
		Nu	Nu
	Unsecured Loans	183,350,480	204,376,414
	Secured Loans	663,292,571	884,749,744
	Subordinated Term Debt	430,000,000	430,000,000
		<u>1,276,643,051</u>	<u>1,519,126,159</u>
19	DUE TO CUSTOMERS	2015	2014
		Nu	Nu
	Fixed Deposit	11,697,458,134	9,709,000,263
	Recurring Deposit	152,113,424	114,930,027
	Savings Deposits	2,281,404,884	1,769,712,425
	Current Deposit	508,249,672	906,062,283
		<u>14,639,226,114</u>	<u>12,499,704,998</u>
20	RETIREMENT BENEFIT PLANS	2015	2014
		Nu	Nu
	Defined benefit liability at the beginning of the period	38,750,878	37,377,304
	Current service cost	4,791,168	3,108,465
	Interest cost on benefit obligations	2,325,053	2,242,638
	Actuarial (Gains)/Losses recognized in the year	3,161,561	(2,081,544)
	Liability Settlement/Adjustment During the period	2,042,956	(1,895,986)
		<u>51,071,615</u>	<u>38,750,878</u>
21	OTHER LIABILITIES	2015	2014
		Nu	Nu
	Accounts payable & Sundry creditors	41,289,850	41,001,874
	Provisions	600,000	500,000
		<u>41,889,850</u>	<u>41,501,874</u>



**Bhutan Development Bank
NOTES TO THE FINANCIAL STATEMENTS**

22 GOVERNMENT GRANTS

	2015 Nu	2014 Nu
Bio Gas Credit	15,450,464	9,833,828
Grant Rudolph Fund (Credit)	1,556,373	1,982,048
UNCDF(Savings/Lending)	2,023,734	2,839,413
BIO Gas Subsidy	27,458	2,426,617
Grant Rudolph Fund (Subsidy)	2,576,550	821,206
Grant Rudolph Fund (Monitoring & Supervision)	248,302	105,913
Sengor Community Coll Fund	2,448,467	2,328,663
BCCI - SME Development Revolving Fund II	624,108	1,000,000
Cooperative Revolving Fund (DAMC)	138,855	61,082
UNDP HSF	83,470	95,688
	<u>25,177,781</u>	<u>21,494,457</u>

Movement of the on going Grants

	"Bio Gas Credit" Nu	Grant Rudolph Fund (Credit) Nu	UNCDF(Savings/Lending) Nu	BIO Gas Subsidy Nu	Grant Rudolph Fund (Subsidy) Nu	Grant Rudolph Fund (Monitoring & Supervision) Nu	Sengor Community Coll Fund Nu	BCCI - SME Dev. Rev. Fund RLP-II Nu	"Coop. Rev. (DAMC) Fund" Nu	UNDP HSF Nu	Total Nu
Balance as at 31.12.2014	9,833,828	1,982,048	2,839,413	2,426,617	821,206	105,913	2,328,663	1,000,000	61,082	95,688	21,494,457
Additions	8,075,093	925,366		6,059,941	1,755,344	150,000	11,980,345		77,773		17,163,321
Utilization		(360,017)	(815,678)	(8,459,099)	-	(7,611)		(375,892)		(12,218)	(10,030,516)
Amortization of Credit funds Based on Impairment of Loans & Advances	(2,458,457)	(991,024)									(3,449,481)
Balance as at 31.12.2015	<u>15,450,464</u>	<u>1,556,373</u>	<u>2,023,734</u>	<u>27,458</u>	<u>2,576,550</u>	<u>248,302</u>	<u>2,448,467</u>	<u>624,108</u>	<u>138,855</u>	<u>83,470</u>	<u>25,177,781</u>

23 COMMITMENT & CONTINGENCIES

To meet the financial needs of customers in the ordinary course of business, the Bank enters into various irrevocable commitments and incurs certain contingent liabilities. These consist of financial guarantees and other undrawn commitments to lend. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. No material losses are anticipated as a result of these commitments and contingencies.

Bank is contingently liable as on for Nu. 894,842,686 (PY Nu. 918,403,081) towards guarantees issued to its constituents of which aging analysis are given in Note No. 30



Bhutan Development Bank
NOTES TO THE FINANCIAL STATEMENTS**24 RELATED PARTY TRANSACTIONS**

The Bank carries out transactions in the ordinary course of business with the parties who are defined as related parties in the BAS 24 (Related Party Disclosures), the details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

24.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

24.2 Transactions with Key Managerial Personnel (KMPs)

According to BAS 24 (Related Party Disclosures) Key Managerial Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Such KMPs include the Board of Directors of the Bank (including both Executive and Non Executive Directors), key employees who are holding directorship in Subsidiary companies of the Bank,

Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs/ domestic partners and children of the KMPs/domestic partners and dependents of the KMPs/ domestic partners.



24.2.1 Transactions with Key Managerial Personnel (KMPs)

For the year ended

Pay and Allowances to Managing Director

Director's Sitting Fee

Reimbursement of Travelling Expenses

2015

Nu

1,950,899

559,000

756,465

3,266,364

2014

Nu

1,676,202

510,000

1,196,393

3,382,595

24.3 Transactions, Arrangements and Agreements Involving KMPs and their CFMs

2015

Nu

2014

Nu

24.3.1 Loans and Advances to KMPs and their CFMs are detailed below:

8,157,792

8,157,792

6,963,682

6,963,682

24.3.3 Deposits and Investments from KMPs and their CFMs are detailed below:

Deposits & investments

187,592

187,592

124,582

124,582

24.3.4 Transactions with Subsidiary

The Bank had the following financial dealings during the year with its Subsidiary companies.

Deposits

-

-

Loans & receivables

-

383,615

Investment in Equity

-

500,000

-

883,615



Bhutan Development Bank**NOTES TO THE FINANCIAL STATEMENTS****25 EVENTS AFTER THE REPORTING DATE**

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS**A. Determination of fair value hierarchy**

	2015			2014		
	Level I	Level II	Level III	Level I	Level II	Level III
Financial Assets						
Quoted Equities	-	-	9,988,396			10,500,361
Loans & Advances to Employees	-	-	132,552,358			63,842,676
	-	-	142,540,754	-	-	74,343,036

Set out below is a comparison, by class of the carrying amounts and fair values of the bank's financial instruments. This table does not include the fair value of non-financial assets & non financial liabilities.

	2015		2014	
	"Carrying Value" Nu	"Fair Value" Nu	"Carrying Value" Nu	"Fair Value" Nu
Financial Assets				
Cash and cash equivalents	1,262,040,61	1,262,040,618	762,597,882	762,597,882
Balances with Royal Monetary Authority of Bhutan	1,589,128,878	1,589,128,878	3,489,776,768	3,489,776,768
Placements with Banks	2,096,453,002	2,096,453,002	1,332,291,734	1,332,291,734
Loans & Advances to Customers	13,155,489,072	13,155,489,072	10,231,420,037	10,231,420,037
Other Financial Assets	462,832,265	462,832,265	443,858,230	443,858,230
	18,565,943,835	18,565,943,835	16,259,944,652	16,259,944,652
Financial Liabilities				
Due to banks	1,276,643,051	1,276,643,05	1,519,126,159	1,519,126,159
Due to other customers	14,639,226,114	14,639,226,114	12,499,704,998	12,499,704,998
Other Financial Liabilities	41,889,850	41,889,850	41,501,874	41,501,874
	15,957,759,015	15,957,759,015	14,060,333,030	14,060,333,030

The Fair Value and carrying value of Financial Assets and Liabilities have been assumed to be significantly similar.



27. RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to the Bank if a borrower or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank’s loans and advances to customers/other Banks and investments in debt securities. In addition to the credit risk from direct funding exposure, the bank would also be exposed to indirect liabilities such as Letters of Credit guarantees etc, which would carry similar credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management. Maximum Exposure to Credit Risk/Type of collateral or credit enhancement:

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including geography of counterparty, and sector . As part of its overall risk management, the bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

	2015			2014		
	Maximum Exposure to credit Risk	Properties	Net Exposure	Maximum Exposure to credit Risk	Properties	Net Exposure
	Nu	Nu	Nu	Nu	Nu	Nu
Financial Assets						
Placements with Banks	2,096,453,002	-	2,096,453,002	1,332,291,734	-	1,332,291,734
Loans & advances to customers	13,155,489,072	101,344,856,391	-	10,231,420,037	78,323,965,577	-
Financial investments Available for Sale	37,549,396	-	37,549,396	18,575,361	-	18,575,361
Other assets	151,049,424	-	151,049,424	65,226,321	-	65,226,321
	15,440,540,893	101,344,856,391	2,285,051,821	11,647,513,453	78,323,965,577	1,416,093,416



Bhutan Development Bank**NOTES TO THE FINANCIAL STATEMENTS****28 RISK MANAGEMENT (Contd...)****Credit Risk****Credit quality by class of financial asset**

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowance

2015	"Neither past due nor Individually impaired"	"Past due but not impaired"	Individually Impaired	Total
	Nu	Nu	Nu	Nu
	Cash & Cash Equivalent	1,262,040,618	-	-
Due from Banks	2,096,453,002	-	-	2,096,453,002
Loans & Advances to Customers	9,286,448,071	4,567,484,641	66,174,465	13,920,107,176
Financial Investments Available for Sale	37,549,396	-	-	37,549,396
	12,682,491,086	4,567,484,641	66,174,465	17,316,150,192

2014	"Neither past due nor Individually impaired"	"Past due but not impaired"	Individually Impaired	Total
	Nu	Nu	Nu	Nu
	Cash & Cash Equivalent	762,506,289	-	-
Due from Banks	1,332,291,734	-	-	1,332,291,734
Loans & Advances to Customers	7,633,213,232	3,164,679,307	21,477,753	10,819,370,292
Financial Investments Available for Sale	18,375,361	-	-	18,375,361
	9,746,386,616	3,164,679,307	21,477,753	12,932,543,676

29 RISK MANAGEMENT (Contd...)**Liquidity Risk & Funding management**

Contractual maturities & undiscounted cashflows of financial assets & liabilities

2015	"On Demand"	"Less than 3 months"	"3 to 12 months"	"1 to 5 years"	"More than 5 years"	Total
	Nu	Nu	Nu	Nu	Nu	Nu
Cash & Cash Equivalent	1,262,040,618	-	-	-	-	1,262,040,618
Balances with Central Bank	1,589,128,878	-	-	-	-	1,589,128,878
Due from Banks	2,096,453,002	-	-	-	-	2,096,453,002
Loans & Advances to Customers	291,937,631	387,993,547	2,253,613,910	8,898,570,848	2,087,991,241	13,920,107,176
Financial Investments Available for Sale	37,549,396	-	-	-	-	37,549,396
Total undiscounted Assets	5,277,109,524	387,993,547	2,253,613,910	8,898,570,848	2,087,991,241	18,905,279,070
Due to Banks	-	8,607,048	376,529,770	523,854,380	467,651,862	1,276,643,051
Due to Customers	2,825,654,861	1,520,426,124	4,593,537,858	4,670,256,705	608,932,350	14,218,807,898
Total Undiscounted Liabilities	2,825,654,861	1,529,033,164	4,870,067,628	5,194,111,085	1,076,584,212	15,495,450,949

Net Undiscounted Financial Assets/(Liabilities)

	2014	"On Demand"	"Less than 3 months"	"3 to 12 months"	"1 to 5 years"	"More than 5 years"	Total
	Nu	Nu	Nu	Nu	Nu	Nu	Nu
Cash & Cash Equivalent	762,506,289	-	-	-	-	-	762,506,289
Balances with Central Bank	3,489,776,768	-	-	-	-	-	3,489,776,768
Due from Banks	1,332,291,734	-	-	-	-	-	1,332,291,734
Loans & Advances to							
Customers	208,999,449	135,254,133	2,177,878,226	6,665,915,371	1,631,323,113	-	10,819,370,292
Financial Investments							
Available for Sale	18,375,361	-	-	-	-	-	18,375,361
Total undiscounted Assets	5,811,949,601	135,254,133	2,177,878,226	6,665,915,371	1,631,323,113	-	16,422,320,444
Due to Banks	-	10,104,385	100,358,738	460,666,300	947,996,736	-	1,519,126,159
Due to Customers	2,694,257,659	10,560,418	5,953,027,583	3,227,417,591	614,441,747	-	12,499,704,998
Total Undiscounted Liabilities	2,694,257,659	20,664,803	6,053,386,321	3,688,083,891	1,562,438,483	-	14,018,831,157

Net Undiscounted Financial Assets/(Liabilities)
Liquidity Risk & Funding management

The table shows the contractual expiry by maturity of banks contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn.

	31 December 2015	"On Demand"	"Less than 3 months"	"3 to 12 months"	"1 to 5 years"	"More than 5 years"	Total
	Nu	Nu	Nu	Nu	Nu	Nu	Nu
Financial Guarantees	-	85,682,605	791,685,252	17,474,829	-	-	894,842,686
	-	85,682,605	791,685,252	17,474,829	-	-	894,842,686
	31 December 2014	"On Demand"	"Less than 3 months"	"3 to 12 months"	"1 to 5 years"	"More than 5 years"	Total
	Nu	Nu	Nu	Nu	Nu	Nu	Nu
Financial Guarantees	-	343,588,800	527,423,143	47,371,838	-	19,300	918,403,081
	-	343,588,800	527,423,143	47,371,838	-	19,300	918,403,081



Bhutan Development Bank
NOTES TO THE FINANCIAL STATEMENTS

30 RISK MANAGEMENT (Contd...)

Geographical Risk

The geographical risk is the risk that an occurrence within a geographical locations have an adverse effect on the bank directly by impairing the value through an obligors ability to meet its obligation to the bank.

Financial Assets	2015					2014						
	Thimphu Main Branch	"ParoBranch"	"Wangdue Branch"	"Phuntsholing Branch"	Others	Total	Thimphu Main Branch	"ParoBranch"	"Wangdue Branch"	"Phuntsholing Branch"	Others	Total
Loans & Advances to Customers	5,493,800,239	744,616,189	571,343,852	429,431,440	6,680,915,456	13,920,107,176	4,695,863,206	547,957,024	410,168,261	358,957,797	4,806,424,003	10,819,370,292
	5,493,800,239	744,616,189	571,343,852	429,431,440	6,680,915,456	13,920,107,176	4,695,863,206	547,957,024	410,168,261	358,957,797	4,806,424,003	10,819,370,292



31. Articles of Incorporation of the Bank were altered in the annual general meeting of the shareholders held on 27.03.2015 to enhance authorized capital from existing Nu. 500 million to Nu. 1,000 million. Steps are being taken to obtain approval of the Registrar for aforesaid increase in authorized share capital in terms of the provision of section 7 of the Companies Act of the Kingdom of Bhutan 2000.
32. Bank's wholly owned subsidiary namely BDB Securities Limited has been merged with it on 31.12.2015 as approved by the directors of the company in the board meeting held on 07.11.2015 and by the shareholders of the subsidiary company in their EGM held on 13.08.2015. Accordingly, all assets and liabilities of the subsidiary company as appearing in its audited Statement of Financial Position drawn on 31.12.2015 have been transferred and included in the Bank's financials of 31.12.2015. Due steps are being taken by the company to apply and obtain orders of the court to this merger in accordance with the applicable provisions of the Companies Act of the Kingdom of Bhutan 2000.
33. In terms of tripartite agreement between Royal Government of Bhutan, Asian Development Bank / Kuwaiti Fund for Arab Economic Development / International Fund for Agriculture Development and Bhutan Development Bank Limited, exchange fluctuation in respect of foreign currency loans received by the Bank from ADB/KFAED/IFAD has been recognized in the books of the Bank through payment of interest to Ministry of Finance.
34. Confirmations from various parties are not available in respect of loans, advances, receivables, payable etc. and therefore, their consequential impact, if any, is not ascertainable.
35. There is a difference of Nu. 263,943 (PY Nu. 9,708) in the loans balancing between trial balance and system generated figures which is under reconciliation. However, the said amount has been fully provided for in the accounts.
36. Ministry of Finance has granted to the Bank exemption of corporate income tax for the years 2015 & 2016 vide its letter no. MoF/ PED/19/2015/9178 dated 03.06.2015. Accordingly, the Bank has not made provision for taxation in the accounts for the year 2015.
37. The bank has taken over effective 01.03.2015 from Bhutan Postal Corporation Limited the task of operation and management of community centers spread across the country in terms of a transfer agreement entered into with Bhutan Postal Corporation Limited on 06.05.2015. Pursuance to this agreement, the bank has released an aggregate sum of Nu. 26,609,203 to the Community Center Project during the year 2015 against which the Project's respective income/expenditure is of Nu. 3,573,476/Nu. 20,239,869; leaving a deficit of Nu. 16,666,393 which has been borne by the Bank as directed by the Ministry of Finance vide their letter no. MoF/PED/19/2015/854 dated 29.09.2015.
38. Current account with Royal Monetary Authority showing as on 31.12.2015 a debit balance of Nu. 181,839,036 (PY Nu. 2,877,501,490) is in process of reconciliation and therefore consequential adjustment if any required, shall be carried out during running year.



39. Provision for impairment loss on loans and advances shown in Note 12 of Nu. 764,618,104 (PY Nu. 587,950,255) has been made in accordance with accounting policies revised on 01.01.2014 upon adoption of BAS. This would have been Nu. 808,200,346 (PY Nu. 610,105,079) had the same been provided as per section 10.8 of Prudential Regulations 2002. Breakup of impairment charges for loans and other losses of Nu. 180,337,978 (P.Y 168,644,927), as shown in income statement is given below:

Particulars	2015 (Nu.)	2014 (Nu.)
Excess provision for impairment compared to last year as per Note 12	176,667,849	167,844,728
Write off of loans and advances during the year	3,104,437	152,884
Provision for doubtful receivables etc during the year	565,692	647,315
Total	180,337,978	168,644,927

40. Interest accrued on non performing loans amounting to Nu. 55,575,374 (PY Nu.38,830,034) has been recognized as income as per accounting policies revised on 01.01.2014 upon adoption of BAS/BFRS and IFRS and has not been suspended as provided under section 10.11.3 of Prudential Regulations 2002. However, such accrued interest has been taken into account while arriving at provision for impairment loss as per BAS/BFRS and IFRS.
41. Detail of remuneration and expenditure paid/reimbursed to the Managing Director and other directors is as under:

Managing Director

Sl. No.	Particulars	2015 (Nu.)	2014 (Nu.)
1	Pay & Allowances	1,509,000	1,227,250
2	Leave Travel Concession	15,000	15,000
3	Leave Encashment	70,000	70,000
4	Bonus	250,639	271,552
5	Travel Expense (In Country)	112,022	26,536
6	Travel Expense (Abroad)	644,443	1,169,857
7	Provident Fund	106,260	92,400
8	Board Sitting Fees	107,500	74,000
	Total	2,814,864	2,946,595

Other Directors

Particulars	2015 (Nu.)	2014 (Nu.)
Board Sitting Fees	451,500	436,000



42. Additional information pursuant to the provision of Part II of Schedule XIII A of the Companies Act of the Kingdom of Bhutan 2000:

S. No	Nature of expense	2015 (Nu.)	2014 (Nu.)
1.	Audit Fees	90,000	90,000
2.	Power and Water	1,383,715	1,118,047
3.	Rent	7,279,082	6,182,524
4.	Repairs & maintenance of buildings	111,745	765,407
5.	Repairs & maintenance of computer hardware	357,118	305,124
6.	Salaries and bonus	141,115,463	124,493,460
7.	Contribution to Provident Fund	8,750,547	7,119,923
8.	Insurance	888,960	528,232
9.	Rates & taxes excluding Income tax	76,210	45,936
10.	Other expenses exceeding 1% of total revenue:		
10.1.	Staff training	23,308,896.57	11,960,982
10.2.	Travel expenses	23,868,531	24,177,714

43. Pending capital commitments (net of advance) as on 31.12.2015 are of Nu. NIL (PY Nu. 11,764,437).

44. Chetrumts have been rounded to the nearest Ngultrum.

45. Previous year's figures have been rearranged / regrouped wherever necessary to make them comparable with the current year's figures.

For S.K. Mittal & Co.
Chartered Accountants
FRN: 001135N

S.K. Mittal
Partner

Membership No. 8506

Dated:

Place: New Delhi



[Signature]
Managing Director

[Signature]
Chairman

BDB SECURITIES LIMITED

ANNUAL ACCOUNTS & AUDITORS' REPORT 2015

**S.K. Mittal & Co.
Chartered Accountants
New Delhi
India**

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of **BDB Securities Limited**, which comprise the Statement of Financial Position as at December 31, 2015, and also the Income Statement and the Statement of Cash Flow annexed thereto for the period ended on that date. And a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 International Standards on Auditing (ISA). 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 disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of BDB Securities Limited as at December 31, 2015, and (of) its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).



Report on Other Legal and Regulatory Requirements

As required by Section 75 of the Companies Act of the Kingdom of Bhutan, 2000 read with Section II of Schedule XIV thereto (the Minimum Audit Examination and Reporting Requirements) we enclose in the Annexure a statement on the matters specified therein to the extent applicable.

As required by Section 74(3) 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 purposes of our audit.
- b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books.
- c) The statement of Financial Position, the Statement of Income and the Statement of Cash Flows dealt with by this report have been prepared in accordance with accounting principles generally accepted and are in agreement with the books of accounts.
- d) In our opinion, the Statement of Financial Position, the Statement of Income and the Statement of Cash Flows comply with the Bhutanese Accounting Standards and provisions of the Companies Act of the Kingdom of Bhutan, 2000.

Place: New Delhi

Dated: 06 APR 2016

for S.K. Mittal & Co.
Chartered Accountants
FRN: 001135N

S.K. Mittal
Partner
Membership No. 8506



(ANNEXURE A)**MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS (Part-II of Schedule XIV to the Companies Act of the Kingdom of Bhutan 2000)**

1. The Company is maintaining records showing full particulars including quantitative details of Property, Plant & Equipment (PP&E). Situation of PP&E and descriptions thereof are maintained by Accounts department. Physical verification of PP&E has been carried out by the Company as on 31.12.2015 through internal audit department of BDBL. Reconciliation of physical PP&E as per internal audit report with the book balance as per physical asset register has been done.
2. PP&E have not been re-valued during the year and therefore, there is no profit/loss on revaluation.
3. The Company has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in orderly and efficient manner, to safeguard the assets of the company as well as to ensure adherence to the rules/regulations and systems and procedures.
4. As per information and explanations provided to us, there are no transactions in respect of dealing or trading in shares, securities and other investments entered into by the Company wherein the Directors are directly or indirectly interested or are prejudicial to the interest of the other shareholders and the Company.
5. The directives of the Board have generally been complied with.
6. The Company has not introduced budgetary control system.
7. So far as we have been represented and our knowledge is concerned, the officials of the Company have not transmitted any price sensitive information which are not made publicly available, unauthorized to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
8. Personal expenses, except under contractual obligations, have not been charged to the Company's accounts.
9. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Company are, in our opinion, lawful and intra-vires to its Articles of Incorporation.
10. The management of liquid resources particularly cash/bank etc. are adequate and that excessive amount are not lying idle in non-interest bearing accounts.



Computerized Accounting Environment

1. The Company 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. Back up facilities and disaster recovery measures include keeping files in different and remote locations.
4. Operational controls are adequate to ensure correctness and validity of input data and output information.
5. There are adequate preventive measures to prevent unauthorized access over the computer installation and files.

GENERAL

1. Going concern

The Company has no going concern problem during the year 2015. It has been merged with its parent namely Bhutan Development Bank Limited (BDBL) at the close of 31.12.2015.

2. Ratio Analysis

Financial and operational ratios are given below:

Ratio	2015	2014	Comments
Current Ratio = Current Assets/ Current Liabilities	6.56:1	0.32:1	Improvement in ratio due to increase in receivables and reduction in current liabilities.
Profit on Turnover = Profit after Tax/ Turnover	44.09%	1.22%	Improvement in ratio due to increase in operating income
Return on Investment = Profit after Tax/ Capital Employed	17.05%	0.37%	Improvement in ratio due to increase in profit after tax.

3. Compliance of the Companies Act of the Kingdom of Bhutan 2000

- a. The company has been merged with its holding company namely Bhutan Development Bank Limited (BDBL) on 31.12.2015 as approved by its shareholders in their EGM held on 13.08.2015 and the board of directors of BDBL. Accordingly, all assets and liabilities of the company as appearing in its Statement of Financial Position drawn on 31.12.2015 have been transferred to BDBL. The company is yet to apply and obtain orders of the court to this merger in accordance with the applicable provisions of the Companies Act of the Kingdom of Bhutan 2000.



- b. Three meetings of the board of directors of the company were held during the year 2015 but no meeting was held in the fourth quarter and thus provision of section 82(1) of the above Act was not complied with according to which at least one board meeting is required to be held once in every three months and at least four such meetings every year.
- c. Annual return for the financial year ended on 31.12.2014 was due for filing with the Registrar on or before 31.07.2015 u/s 57 of the above Act. However, the company has not yet filed the same so far.
- d. The company has not yet filed its audited financials for the year ended 31.12.2014 with the Registrar and therefore the provision of section 70 has not been complied with according to which these are required to be filed with the Registrar along with annual return u/s 57.

4. Adherence to Laws, Rules & Regulations

Audit of the Company is governed by the Companies Act of the Kingdom of Bhutan 2000 and the scope of audit is limited to examination and review of the financial statements as produced to us by the management. In the course of audit, we have considered the compliance of provision of the said Companies Act and its Article of Incorporation and we are unable to state that the Company has been complying with the applicable laws (other than the Companies Act), rules and regulations, systems, procedures and practices.

Other clauses of the said Reporting Requirements are not applicable to the Company during the year under audit.

Place: New Delhi

Dated: 06 APR 2016

for S. K. Mittal & Co.
Chartered Accountants
FRN: 001138N

S. K. Mittal
Partner
Membership No. 8506



BDB Securities Limited
STATEMENT OF FINANCIAL POSITION
As at 31st December 2015

	Note	2015 Nu.	2014 Nu.
Assets			
Cash & Cash Equivalent	1	99,060	91,593
Trade and Other Receivables	2	537,744	37,744
Investments	3	-	700,000
Property, Plant & Equipment	4	56,888	69,189
Total Assets		693,691	898,526
Liabilities			
Current Liabilities	5	97,070	403,615
Total Liabilities		97,070	403,615
Equity			
Share Capital	6	500,000	500,000
Retained Earnings	7	96,622	(5,089)
Total Equity		596,622	494,911
Total Liabilities and Equity		693,691	898,526
Significant Accounting Policies	8		
Notes on Accounts	9		

The Notes referred to above form an integral part of the Statement of Financial Position.

In terms of our attached report of even date.

For S.K. Mittal & Co.

Chartered Accountants

FRN: 001135 N

S.K. Mittal
Partner

Membership No. 8506

Dated: 30/12/15

Place: New Delhi




Chief Executive Officer


Chairman

BDB Securities limited
INCOME STATEMENT
Year ended 31st December 2015

	Note	2015	2014
		Nu	Nu
Brokerage Income		188,135	149,723
Interest Income		42,548	-
Operating Incomes		<u>230,683</u>	<u>149,723</u>
Trading Fees		(5,972)	(27,252)
Annual Membership Fees		(75,000)	(75,000)
Trade License Fees		(500)	(5,720)
Bank Charges		(200)	(100)
Audit Fees		(15,000)	(15,000)
Board Sitting Fees		(18,000)	(12,000)
Processing & Transmission Cost		(2,000)	-
Depreciation		(12,302)	(12,821)
Total Expenses		<u>(128,973)</u>	<u>(147,893)</u>
Profit Before Tax from Continuing Operation		101,710	1,829

Significant Accounting Policies	8
Notes on Accounts	9

The Notes referred to above from an integral part of the Income Statement.

In terms of our attached report of even date.

For S.K. Mittal & Co.

Chartered Accountants

FRN: 001139-N

S.K. Mittal
Partner

Membership No. 8506

Dated:

Place: New Delhi



[Signature]
Chief Executive Officer

[Signature]
Chairman

BDB Securities limited
STATEMENT OF CASH FLOW
Year ended 31st December 2015

	Note	2015 Nu	2014 Nu
Operating Activities			
Profit Before Tax from Continuing Operations		101,710	1,829
Adjustments for ;			-
Depreciation of Property, plant and equipment		12,302	12,821
Provision for Audit Fees		15,000	15,000
Provision for Annual License Renewable Fees		-	5,000
Operating profit before changes in operating assets & liabilities		129,012	34,650
(Increase)/Decrease in operating assets			
Trade & Other Receivables		(500,000)	(37,744)
Increase/(Decrease) in operating liabilities			
Account Payable		(321,545)	355
Net cash flow from operating activities		(692,534)	(2,739)
Cash flow from investing activities			
Investments		700,000	-
Net cash flow from investing activities		700,000	-
Cash flow from financing activities			
Share Capital		-	-
Net cash flow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		7,466	(2,739)
Cash and cash equivalents at the beginning of the year		91,593	94,332
Cash and cash equivalents at the end of the year		99,059	91,593

For S.K. Mittal & Co.
Chartered Accountants
FRN: 001135 N

S.K. Mittal
Partner

Membership No. 8506

Dated:

Place: New Delhi



[Handwritten Signature]
Chief Executive Officer

[Handwritten Signature]
Chairman

BDB Securities Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31st December 2015

	2015	2014
	Nu	Nu
Note 1: Cash & Cash Equivalent		
Bank Balance with TMB (Client A/c)	-	-
Bank Balance with TMB (Commission A/c)	97,874	90,407
Bank Balance with BNBL (Settlement A/c)	1,186	1,186
	<u>99,060</u>	<u>91,593</u>

Note 2: Trade & Other Receivables		
Account Receivables (BDBL Bank)	500,000	-
Account Receivables (ex-employee)	37,744	37,744
	<u>537,744</u>	<u>37,744</u>

Note 3: Investments		
5,000 Equity Shares of Nu100 each		500,000
(Unquoted) with Royal Securities Exchange of Bhutan Ltd		<u>200,000</u>
Investment in Settlement Guarantee Fund	-	700,000

Note 4: Property, Plant & Equipment

	Computer Hardware	Furniture & Fittings	Total
	Nu	Nu	Nu
Cost			
At 1 January 2014	-	-	-
Additions	72,010	10,000	82,010
Disposals	-	-	-
At 31 December 2014	<u>72,010</u>	<u>10,000</u>	<u>82,010</u>
At 1 January 2015	72,010	10,000	82,010
Additions	-	-	-
Disposals	-	-	-
At 31 December 2015	<u>72,010</u>	<u>10,000</u>	<u>82,010</u>



Accumulated Depreciation

At 1 January 2014	-	-	-
Additions	-	-	-
Disposals	-	-	-
Depreciation charge for the year	11,888	933	12,821
At 31 December 2014	<u>11,888</u>	<u>933</u>	<u>12,821</u>
At 1 January 2015	11,888	933	12,821
Additions	-	-	-
Disposals	-	-	-
Depreciation charge for the year	10,802	1,500	12,302
At 31 December 2015	<u>22,690</u>	<u>2,433</u>	<u>25,123</u>

Net book value:

At 1 January 2015	60,122	9,067	69,189
At 31 December 2015	49,321	7,567	56,888

Note 5: Current Liabilities**Account Payable**

Settlement Guarantee Fund	-	200,000
Annual Membership Fees	-	75,000
Registration Fees	-	2,000
Trade License Charges	-	1,600
Advertisement Expenses	-	7,650
Trading fees	60	355
Audit Fees	-	15,000
BDBL for Fixed Assets	82,010	82,010
	<u>82,070</u>	<u>383,615</u>

Provisions

Provision for Audit Fees	15,000	15,000
Provision for Annual license Renewal Fees	-	5,000
	<u>15,000</u>	<u>20,000</u>
	<u>97,070</u>	<u>403,615</u>

Note 6: Share Capital**Authorized Share Capital**

5,000 Equity Shares of Nu.100 each 500,000 500,000

Issued, Subscribed and Fully Paid-Up

500,000 500,000
500,000 500,000

5,000 Equity Shares of Nu.100 each**Note 7: Retained Earnings**

General Reserves		
Opening Balance	(5,089)	(6,918)
Current Year Profit & Loss Account	101710	1,829
	<u>96,622</u>	<u>(5,089)</u>



BDB Securities Limited

Notes forming part of Statement of Financial Position and Income Statement

Note 8 - Significant Accounting Policies

8.1 Reporting Entity

BDB Securities Ltd, a wholly owned subsidiary of Bhutan Development Bank Limited, is incorporated in the Kingdom of Bhutan with effect from 31st July 2013 having its registered office at Norzin Lam, Post Box: 256, Thimphu, Bhutan. The Company licensed by Royal Monetary Authority (RMA) of Bhutan, is engaged in trading of shares in secondary market, participation in IPOs and bonds etc. within the country.

8.2 Basis of Preparation

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Bhutan Ngultrum rounded (Nu.)

8.2.1 Statement of compliance

The financial statements of the BDB Securities Limited have been prepared in accordance with the format prescribed by Bhutanese Accounting Standards (BAS).

8.2.1 Presentation of financial statements

The Company presents its statement of financial position in order of liquidity.

8.3 Revenue Recognition

Income and expenses are accounted for on accrual basis. However, the administrative expenses of the broker will be borne by the BDBL bank. The expenses directly related to security exchange and trading of shares will be accounted for in the financial statements.

8.4 Investments

Investments held by the company are of long tenure in nature and are stated at cost.

8.5 Property, Plant & Equipment

8.5.1 Property, Plant & Equipment are stated at original cost, net of accumulated depreciation.

8.5.2 Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Assets Type	Useful life
Furniture & Fitting	6-7 years
Computer Hardware	6-7 years

8.5.3 Property, Plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other operating income in the income statement in the year the asset is derecognized.

8.5.4 Property, Plant & Equipment are verified on an Annual basis and are entered in the Fixed Assets Register.

8.5.5 Impairment Loss on Property, Plant & Equipment are identified and treated in the accounts accordingly

Note 9 - NOTES ON ACCOUNTS

9.1 The company has been merged with its holding company namely Bhutan Development Bank Limited (BDBL) on 31.12.2015 as approved by its shareholders in their EGM held on 13.08.2015 and the board of directors of BDBL. Accordingly, all assets and liabilities of the company as appearing in its Statement of Financial Position drawn on 31.12.2015 have been transferred to BDBL. Due steps are being taken by the company to apply and obtain orders of the court to this merger in accordance with the applicable provisions of the Companies Act of the Kingdom of Bhutan 2000.

9.2 Chetrums have been rounded to the nearest Ngultrum.

For S.K. Mittal & Co.

Chartered Accountants

FRN: 001135N

S.K. Mittal
Partner

Membership No. 8506

Dated:

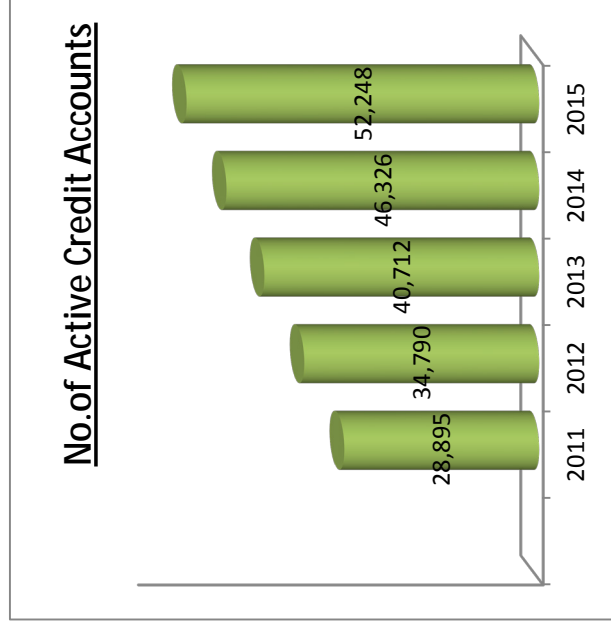
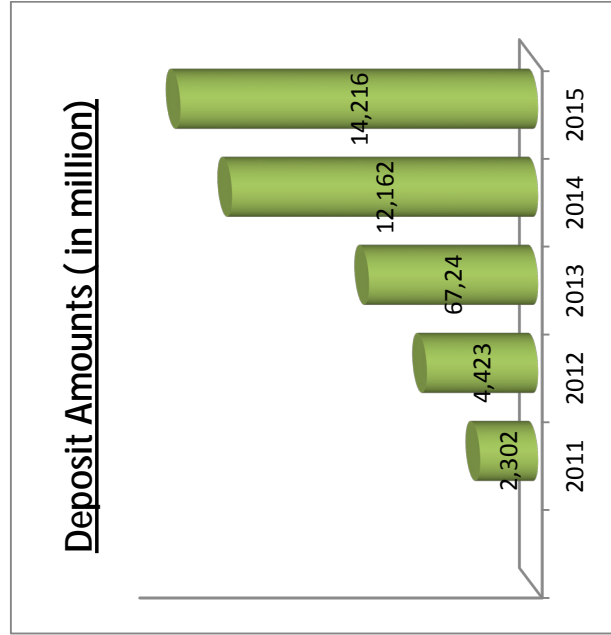
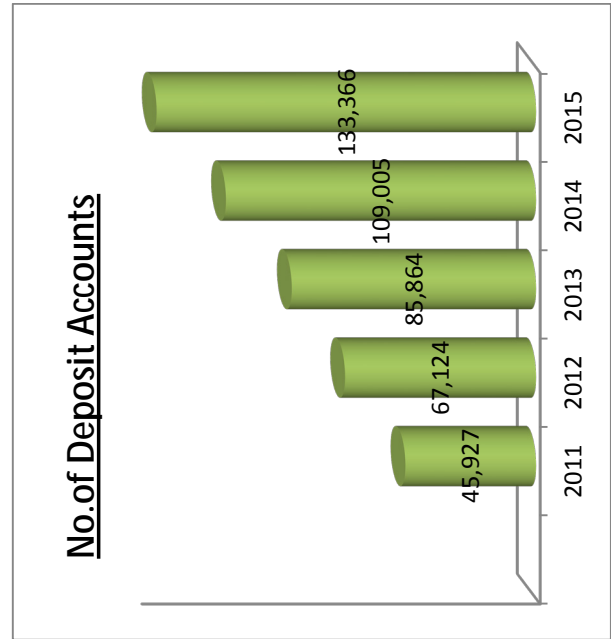
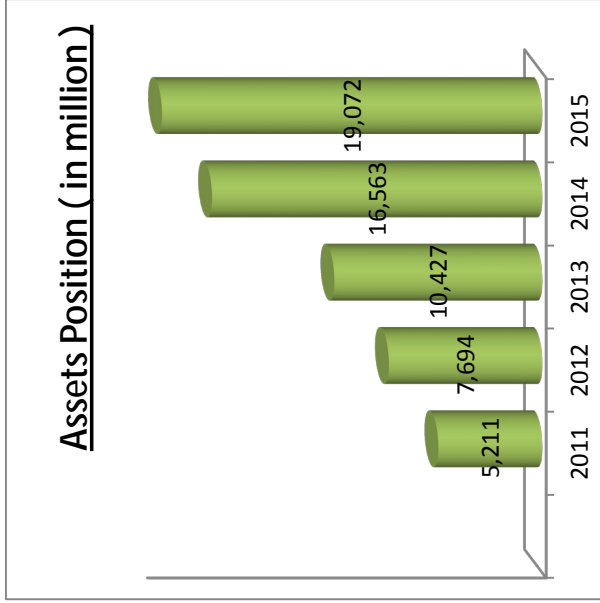
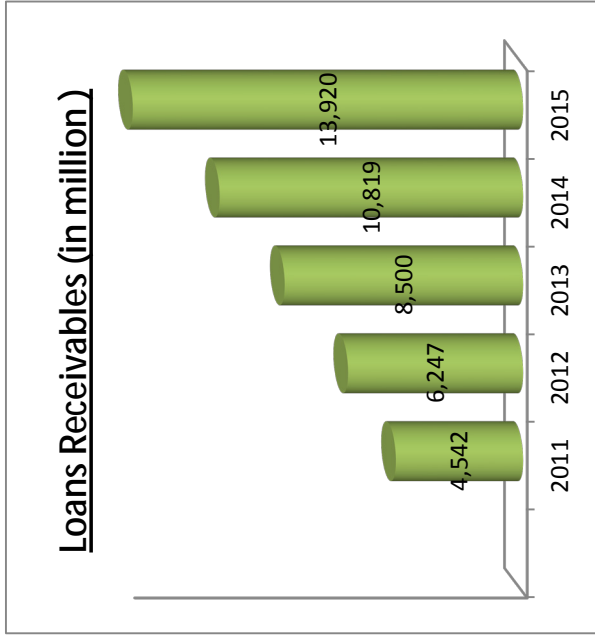
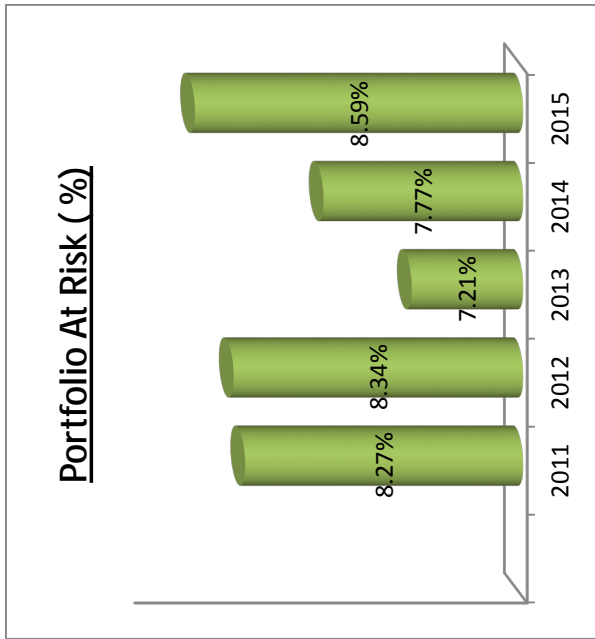
Place: New Delhi



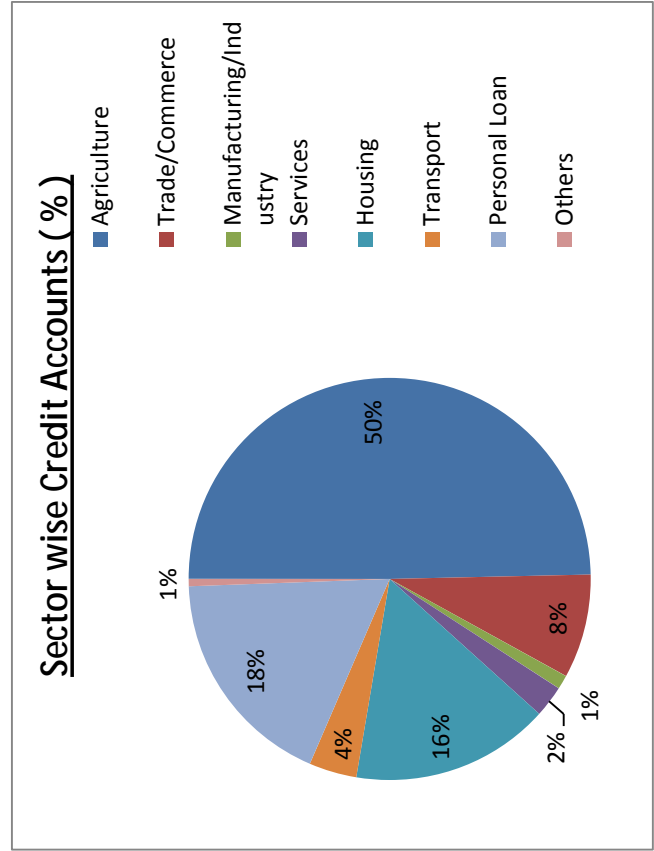
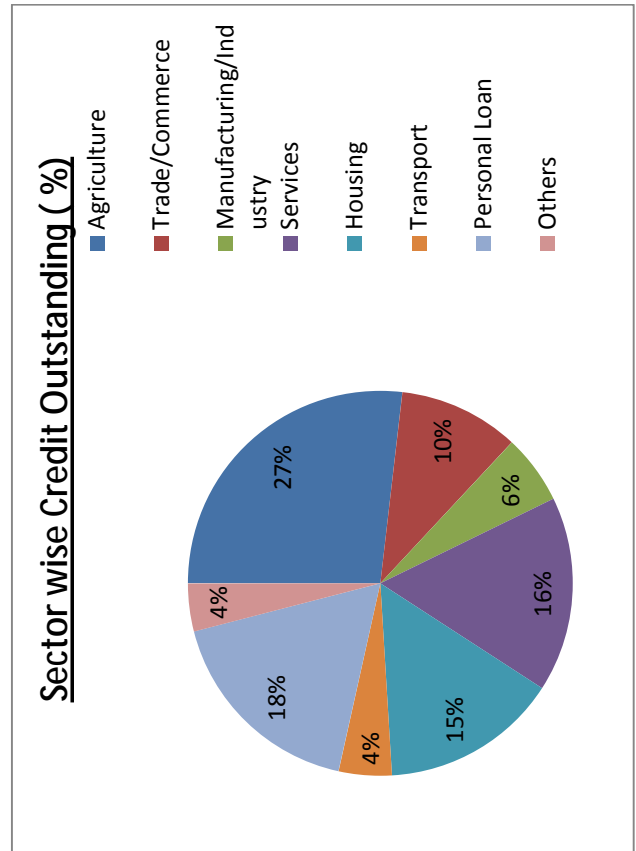
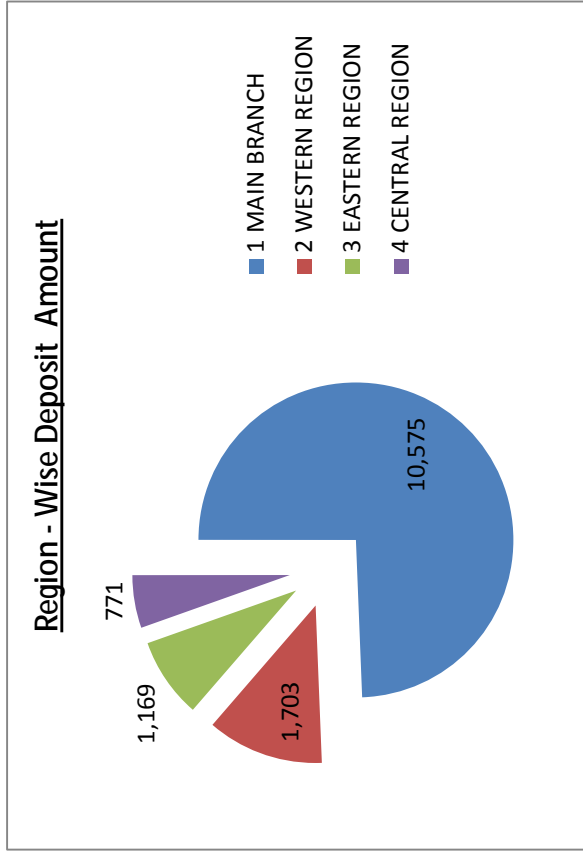
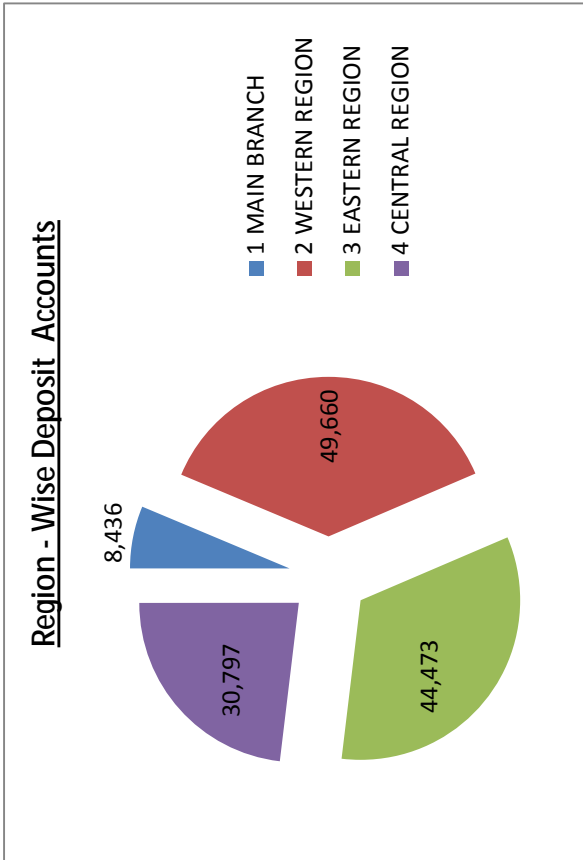
[Handwritten signature]
Chief Executive Officer

[Handwritten signature]
Chairman

CONSOLIDATED PERFORMANCE INDICATORS FOR THE YEAR 2015



CONSOLIDATED PERFORMANCE INDICATORS FOR THE YEAR 2015



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