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**BDB** | Bhutan Development  
Bank Limited  
BDB Newsletter 2022



Issue 47

## Blood Donation Campaign



**T**he blood donation camp was organized on 13th July 2022 at BDB Head Office in Thimphu. The management would like to extend appreciation to all the support extended by the employees in the form of donors and arrangements of logistics towards this noble cause.

Without the unconditional participation from our employees the event would not have been successful. The blood donated by each one of our employee will go on saving many lives. Collectively 53 units of blood were donated.

Thank You every one.





## “DONATE BLOOD SAVE LIFE”



Images of BDB staffs donating blood



## Handing Taking Ceremony



A small handing taking ceremony was held at BDB head office on 11th August 2022 whereby the outgoing CEO, Mr. Phub Dorji hand over the charges to the Interim CEO, Mr. Kuenzang Thinley(GM Banking Department).



# Greetings from the CEO's desk!

Dear BDB family members,

We are faced with significant challenges and it would be an understatement to say we are in a crisis and in a very rough period. Firstly, our lending services have been suspended due to high nonperforming loans (NPL) and we are under the prompt corrective actions (PCA) framework. Secondly, the Royal Monetary Authority (RMA) of Bhutan has issued the standard operating process (SOP) for the implementation of Monetary Measure IV by July 2022 which is going to be very difficult to execute without proper study and developing the required procedures. Thirdly, our daily business operations are being disrupted with the system breaking down on a daily basis.

During these trying times, we need to build solidarity to provide the courage, fortitude and the desire to overcome these challenges and rise up from the aftermath of the pandemic with renewed vigor and confidence. These challenges present an opportunity for us to change and improve ourselves, our system, work culture, ethos, and mindset in building a bank that is relevant to the changing times and needs.

Difficult times call for unity and team work. We need to support each other and piggyback on each other's strengthen, resilience, experience, skill and knowledge to build one strong cohesive team to find appropriate solutions to overcome the crisis. It is important to share information on each of the major challenges in simple and understandable lingo. These challenges cannot be solved overnight and everyone needs to practice patience. It is

time to support and cooperate. Our staffs need to understand what we are going through and deal with our valued clients in the most compromising manner to bolster their confidence and trust in us as a viable banking partner.

The following pages will contain descriptions of the challenges and the approaches we have adopted to improve our services. Although what is being written may sound repetitive, it has become important for us to understand the challenges through the same lens and make pledges and commitments to shoulder the responsibilities in overcoming them together.

## 1. Prompt Corrective Action (PCA) Framework:

There is tremendous emphasis on strengthening all the institutions within Bhutan to come out of the pandemic with a more robust, reliable and efficient system to support our endeavors in achieving high growth rate that provides the much-desired environment to pursue happiness and contentment. In line with the national restructuring movement, the RMA has found the operations of our bank lacking in many areas that have led to high NPLs posing severe risk to the overall economy. Our current project appraisal skills, method of monitoring our clients and loan recovery efforts have been cited as the major contributor of the high NPL. Owing to these shortcomings, our NPL shot up from 14.88% as of December 31, 2021 to 19.75% as of March 31, 2022. Based on this observation, RMA suspended our lending from May 12, 2022. On May 24, 2022 we received the PCA Framework which requires us to reduce our NPL to



under 7.5% and maintain the NPLs of the new loans below 3% or else lending will remain suspended indefinitely.

While the NPL reduction below 7.5% looks like a daunting task, the financial service providers (FSP) have been issued with three rules and regulations (1. Rules and Regulations for Loan Restructuring by Financial Service Provider(s) - 2022, 2. Guidelines on the Reclassification of Old Non-performing Loans - 2022 and 3. Rules and Regulations on Foreclosure and Write-off of Non-performing Loans – 2022) by RMA to help resolve the high NPLs. We have used these guidelines, formulated a NPL reduction plan and submitted a remedial plan to RMA to bring our NPL under 7.5% by July 31, 2022.

If we are able to achieve the target we will come out of the PCA framework and we can continue lending.

A snapshot of our plan is provided in the table:

We will get the biggest benefit in reducing our NPL by using the Rules and Regulations on Foreclosure and Write-off of Non-performing Loans – 2022 which allows NPL accounts that are under loss category for over 365 days to be transferred as off-balance sheet items. As of May 2022, Nu. 2,386,267,555 are eligible to be transferred. Along with this, if our officials at the Branch and Gewog Field Offices are able to recover 20% each under substandard, doubtful and loss (not eligible to be transferred to off-balance sheet) we will be able to bring our NPL percentage at 6.31% by the end of July 2022. This will hopefully help us to convince RMA Board to allow us to continue lending.

Further, the bank has set a target to reduce the NPL to 4.73% by the end of year. To achieve the target all the loans in the current classification need to improve and any deterioration in the classification would compromise our efforts. The biggest challenge we will face is if the loan repayment deferment is lifted and the existing

Loan (Asset) Classification	Amount as of May 2022	Recovery Target (from May to July)	Amount as of July 2022	Recovery Target (August to December)	Amount as of December 2022
Standard	17,376,419,048		17,704,675,439		17,024,598,504
Watch	1,787,880,784		1,787,880,784		1,787,880,784
Sub Standard	782,005,796	20%	625,604,637	41%	366,430,563
Doubtful	626,038,256	20%	500,830,604	20%	400,664,484
Loss	233,237,905	20%	186,590,324	10%	167,931,292
Loss (OBS)	2,386,267,555	100%	-		-
Total O/s Loan	23,191,849,343		20,805,581,789		19,747,505,626
<b>NPL Amount</b>	<b>4,027,549,511</b>		<b>1,313,025,565</b>		<b>935,026,338</b>
<b>NPL %</b>	<b>17.37%</b>		<b>6.31%</b>		<b>4.73%</b>

loan accounts start becoming NPLs after June 30, 2022. This will be further elaborated under SOP for MM IV further down.

The transfer of Nu. 2,386,267,555 to off balance sheet cannot be done immediately as there are other conditions to be followed, such as allowing the interest to accrue in the system but we cannot charge the interest to our revenue until we recover each account. Further, another complication that needs to be resolved is that the Tax Act requires all written off items to be liable for payment of taxes. In our case a CIT of 30% will be applied if we cannot justify to the Ministry of Finance that the transfer of the asset as off-balance sheet item is not actual write off but temporarily keeping aside the old NPL accounts to improve and clean the books of accounts.

We are hopeful this plan will be achieved with the support from our staffs who have been relentlessly following up with the clients. There is already a significant reduction in the NPL from 19.75% as of March 31, to 15.71% as of June 30, 2022. Please continue following up and working with the same vigor and enthusiasm. Also, be reminded that there is another condition of maintaining the NPL of all new loans below 3% throughout the year. To meet this condition, we need to change the way we appraise, monitor and recover the loans henceforth. Our old practices and culture of following up with the clients towards the end of the year needs to change. While appraising proposals, every client needs to be told their responsibilities to repay the loans in a timely manner.

To improve, change our mindset and the old cultural practice, we are in the process of reviewing and amending our Credit Manual. The three rules and regulations issued by RMA to resolve the NPL

will also form an integral part of the revised Credit Manual along with the credit scoring model (CSM) being developed. We all need to rethink the way we handle our clients. RMA will be imposing more stringent conditions which will force the Management to introduce strict internal control mechanism and also fixing accountability and penalties on erring staff henceforth.

## 2.SOP for Monetary Measure IV (MM IV)

We also received the standard operating procedure (SOP) to implement MM IV. Realizing that the implementation of the SOP requires a detailed plan of action, the Management met and formed a Task Force. The Task Force will segregate all the accounts into the three different risk categories, namely high, moderate and low. While the accounts under high and moderate risk categories are granted deferment, the low risks need to be implemented in July 2022 when the repayment deferment is lifted. Fearing a huge deterioration in our NPL status given that most of our loan accounts will fall under the low risk category, we have requested RMA to consider deferring the loan repayment for this category until we have segregated the accounts into the three risk categories, established a clear way forward to implement MM IV. The task force will develop a clear way forward, submit to the Board for approval and then roll out the plan.

Implementing the MM IV features need to be done after studying each category, and based on the risk they need to be restructured using eight (8) forms of restructuring measures as part of the targeted support. This task will be done by the staff at the Branch and Gewog Field Offices when the plan has been finalized and approved by the Board. How to

contact the clients, what information needs to be collected to determine their affordability to repay, etc. entails a lot of work which needs to be properly planned and executed.

There is a need to create a new account called Fixed Equated Instalment Facility (FEIF) where all the interest accrued over the deferment period needs to be parked and collected over a period not exceeding five years with no interest charged. This needs work on tweaking the Finacle CBS and ensuring that the procedure is correct and acceptable to the clients as well as the regulators.

Implementation MM IV is not only to relieve the borrowers who have no capacity to repay the loans due to the downturn in the economy but to ensure the banks play an active role in the recovery of the economy meaningfully. Our plan and implementation now will have a long-term impact on the sustainability of the bank. Therefore, it is imperative we spend a good deal of time in studying the implication and usefulness of this measure in minimizing our NPLs, collection of repayment to build sufficient liquidity to support the required credit growth, maintain a constant revenue stream to cover our operational costs while fulfilling our social mandate of helping our rural folks in improving their livelihood.

### 3.Stabilizing our Finacle - Core Banking System (CBS)

We are receiving complaints about the system issues on a daily basis from our staff. We fully understand that our staffs are under tremendous pressure from our clients in the field. During these stressful times we need to exercise patience and fortitude from our side. Take time to explain to our clients we are trying to fix the problem. If the problem could be fixed in the shortest possible time we will be

happy. Making our clients and staffs co-exist happily together is very important for the long-term existence of the bank. However, technological problems at the system's backend require highly skilled and competent professionals. Even after struggling on a daily basis to fix the problem by constantly following up with Infosys, L2 team, Mr. Bhushan, ADB consultant from Nepal and our ICT Department we have failed to stabilize the system.

We have been sending logs on a daily basis as and when the system fails to Infosys who have agreed to help us after numerous consultations. It took more than two weeks to send the required logs to them. After reviewing our logs, they have confirmed there are numerous issues between the different systems we are using. With the growth in our businesses, users, applications such as ePay, ATM, POS devices, ERP, we have not changed the configurations of the systems to connect with each other and work seamlessly and efficiently. As a result of this, we are now suffering the inefficiencies we are facing with the system. Infosys has informed us we need to procure a PT (performance tuning) service with commercials. The PT service will require about a month's work wherein all the experts and ICT colleagues will have to work in close coordination.

A month ago, we made plans to invite two professionals from the L2 team to visit our bank and help us resolve the many challenges we are facing. They have completed their five days quarantine and have joined office starting on June 28. Our plans are firstly to correct the system issue, and then prepare the system to accommodate all the features mentioned in the MM IV and facilitate the off-balance sheet transfers to satisfy the requirement of the regulators while keeping our clients happy.

#### 4. Other Activities to be undertaken:

The restructuring of the bank will not happen by changing only a few areas. A systemic change is imperative and we need to change every aspect of our business operations including mindset, manuals, SOPs, targets, incentives, manpower requirements, trainings methods, systems, furniture, stationeries, and infrastructure. There are many activities that are underway to review and overhaul the support systems. In this effort every voice counts and we encourage all our colleagues to provide constructive and productive inputs. Instead of whining, send in suggestions to improve. Among the many activities that are being undertaken we would like to highlight the major ones.

##### a. Risk Management Framework

Given that risk assessment is a relatively new concept in the bank, the risk division has approached the task by adopting and contextualizing the new risk management framework (RMF) into our business environment. To establish a robust and realistic procedure to prepare reports that can be meaningfully used by the Management and Board to manage and mitigate risks a team of officials from the head office are visiting Branch and Gewog Field Offices. They will establish baseline data and study how best the required reports can be prepared by the field staff through a pilot study. Once a realistic procedure is developed the preparation of the risk reports will be fully scaled up to include all the Branch Offices and Departments.

##### b. Business Plan preparation

We hired a local consultant to prepare our business plan for the next five years which is being overseen by the Research and Development Department. The business plan has gone through numerous

revisions with input from the Management and the consultants hired through the ADB project. The business plan will be finalized, presented to the Board for approval and thereafter the roll out will start. The business targets for the next five years will be indicated in the plan with the required resources, capital, manpower, system and infrastructure. The lending activities will focus on micro finance through group lending schemes and to the cottage and small industry (CSI) sectors. The bank will also participate in consortium lending when other lead banks offer the opportunities. The plan will also review and incorporate new products wherever feasible.

##### c. Introduction of Credit Scoring Model (CSM)

We have time and again been cautioned by regulators, Board and even shareholders on our weak credit appraisal system that has led to very high NPLs in the past. Given this situation, a CSM is being developed by the ABD consultants for use. The CSM will be used in conjunction with the revised Credit Manual to improve the loan appraisal process. Training in this will be rolled out once the manual and CSM is approved for implementation. The other important manuals are also being reviewed and amended by the respective departments and Research and Development Department. This will ensure we build a robust eco system to promote good credit culture and clients.

##### d. Compliance functions

The compliance functions are also being strengthened as we have been receiving many memos from the RMA onsite team. We have been slapped with monetary penalties and henceforth the compliance requirements are going to be stringent with monetary penalties and fixing accountability. RMA has cautioned us on our



failure to monitor related party loans, amount exceeding the personal loan ceiling, providing multiple personal loans to an individual and staff (concessional) loans becoming NPL. We have been asked to streamline and improve our line of reporting and monitoring. These have been listed as the main causes of the numerous memos and observations by the RMA onsite team. There is a need to establish a system that will track and monitor the vulnerable areas as mentioned in the onsite team's report, make corrective actions as and when they are committed to improve the management practices and image.

e. Risk Based auditing

The Internal Audit Department have been issued with a new manual that will help them conduct risk-based audit. They have been trained in this field to improve the overall performance of the bank and reduce the risks and lapses. The Department is also taking the lead role in introducing Internal Control and Compliance Framework to support our endeavor in promoting a professional culture and standards of our employees.

We are fortunate to have many experienced, knowledgeable and committed staff who will take the ownership of completing the tasks and work to improve the performance of the bank in line with the changes that are happening around us. It is time for our staff to unleash their talent and competence for the betterment of the society while also aspiring for their own personal advancements.

A note of caution, we are under the full force of the monsoons and our work entails travelling, therefore, I urge everyone to be careful. The forces of nature are unpredictable but we can always advert

or avoid calamities through proper planning. Plan your tours and visits carefully.

Finally, I would personally like to thank everyone for the support you have provided. #StaySafe # Takecare



Phub Dorji

## A KADRINCHAY Note

“Wish you all a very good kuzuzangpo and hope all are doing well as usual”.

I'm Dorji Wangchuk, also known as “Gasa Dorji”. I have worked for 8 years (2008 to 2016), as a Branch Assistant in Gasa Branch. Looking back, I feel some satisfaction in the way I provided our high-caliber services to the customers living there. However, recalling crying on the trip to Lunana for recovery still makes me feel childish but afraid inside, knowing that many boys perished in those days while traveling to Lunana for lake mitigation due to mountain sickness. It was officially ten days walk from Gasa to Lunana.

In 2016, I was transferred to Tsirang branch. Reaching down experiences was much easier then before However, convincing customers in southern dialect remained a significant challenge. Every time, i spoke with customers, my friends would silently giggled hearing the way i

talk to them. They say that my lhotshampa accent was bit funny by mixing of languages. Somehow, I managed to overcome all those primary tools required for communicating to our valued customers.

The key idea is that everyone should have a goal in life. My main objective has always been to upgrade my qualifications. Before I was selected in 2019, I have twice given my attempts to take a long-term study leave but failed due to my family obligations. One positive thing about me is I always stayed focused on my goal. In 2019, when there was vacancy announced for long term study program which was fully sponsored by bank, In no time, I submitted my documents to HR for selection. I Got selected among twenty two candidates, I went to Gedu College of Business Studies, and pursued my B.Com degree majoring in accounting. Going back to studies after fifteen years, especially at one of the most reputed universities in the country was bit difficult, but thanks to my devotion and hard work, I managed to complete and succeed.

I owe the organization and the management a huge debt of gratitude for funding staffs like us to upgrade our qualification. I've gained lots of knowledge that goes much beyond what I could have learnt just from books. Now, my motto is to exercise what I have learned and studied in my professional career to contribute more to the bank in the years to come. Now, I am working as a credit officer at the Yadi branch. As always, my primary priority is to serve the office with zeal and full dedication KADINCHEY LA.

Dorji Wangchuk,  
Credit Officer  
Yadi Branch

## CEO FAREWELL



Employees of the Bhutan Development Bank, with a heavy heart, bid an emotional farewell, on 11 August 2022, to our beloved CEO DASHO PHUB DORJI. We the BDB family would like to thank him for his service, hard-work and dedication to the Bank and also offer our utmost sincere prayers and well wishes for his future as he begins a new chapter and endeavor in his life. We would like to wish him much joy, happiness and success for the life ahead.

We are very fortunate to have worked under your leadership and we have learnt a lot from you.

Thank you and Kadrinche la.



# Roll Out of Risk Management Framework

**R**oyal Monetary Authority requires all Financial Institutions to self-assess the risk to achieve compliance with RMA's Risk Management Guidelines 2019.

Bhutan Development Bank too has recognized the importance of having an effective risk management process to work towards meeting the organizational goals and mitigating the overall risk of the Bank. This policy establishes the prudent risk management process to identify, measure, monitor and control all material risks arising from BDB's business activities and sets the bank's risk appetite and limits.

A comprehensive Risk Management Framework including policy and manual have been developed with assistance from external consultants (Management and Governance Consulting, India in partnership with JIGMI Audit & Financial Pvt. Ltd, Bhutan), and approved by the Board during its 172 Board Meeting convened on April 29, 2022.

As per management directives, Risk Division have formed a team to provide hand-holding support to the branch offices for the branch level assessments. Team comprises of officials from Credit Department, Banking Department and ToT units. The team have visited eight western branches for pilot hand-holding branch level assessment from 15th to 29th June, 2022. The Team have visited following branches:

1. Gasa Branch
2. Punakha Branch
3. Wangdue Branch
4. Gangtay Branch

5. Paro Branch
6. Haa Branch
7. Chhukha Branch and
8. Gedu Branch

Officials in the branches were sensitized and trained on new Risk Management Framework. Branch level self-assessment was carried out with the information and inputs from respective Chief Managers and Branch Managers. Suggestions and recommendations from the branches on respective Key Risk Indicator were noted and the same was presented to the consultant from India for further clarification and incorporation.

RMF team have further carried out branch level self-assessment virtually to all the branches under the central region.

The Bank is optimistic in deriving best out of Risk Management Framework in managing, mitigating risk of the Bank and to achieve compliance with RMA's Risk Management Guidelines 2019.



**Team visited Gangtay Monastery during branch visit**



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