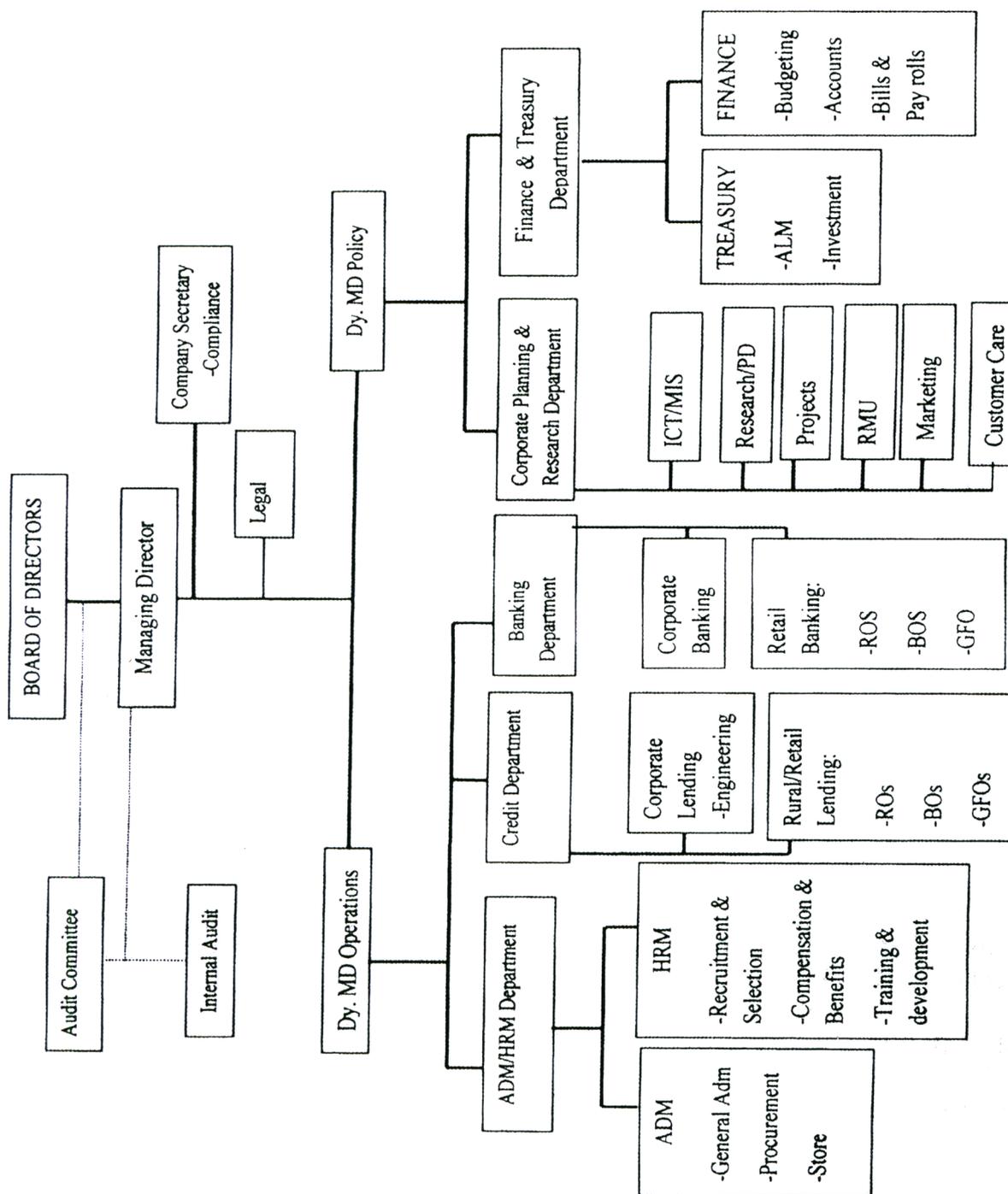


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**ORGANISATIONAL STRUCTURE**



**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](mailto:info@bdb.bt)****REGIONAL OFFICES**

Sl #	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**

Sl #	Branch Managers	Location	Phone No.	Fax No.
<b>Western Region</b>				
1.	Mr. Phub Dorji	Thimphu	02-326853	02-326855
2.	Mrs. Tshering Pelden	Paro	08-271334	08-272341
3.	Mr. Sangay Wangdi	Haa	08-375459	08-375649
4.	Mr. Chador Kelzang	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	
<b>Central Region</b>				
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	03-794009	03-794036
6.	Mr. Yeshe Samdrup	Tsirang	06-471206	06-471197
7.	Mr. Tshering Nidup	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	



Sl #	Branch Managers	Location	Phone No.	Fax No.
<b>Eastern Region</b>				
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. Namgay Rinchen	Trashigang	04-521122	04-521386
6.	Mr. Cheda	Trashi Yangtse	04-781105	04-781239
7.	Ms.Yezer Pelden	Wamrong	04-571148	04-571164
8.	Mr. Penjor	Nganglam	07-481190	07-481183
9.	Mr. Gyem Tshering	Jomotshangkha	07-671104	07-264023
10.	Mr. Tashi Tshewang	Yadi	17232556	
11.	Mr. Sonam Dhendup	Samdrupcholing	1728824/17701446	
<b>Thimphu Main Branch</b>				
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 Lungten Dorji  
Dzongdag  
Dzongkhag Administration  
Trashigang



**DIRECTOR**  
Mr. Namgay Wangchuk  
Director General  
CORRB, 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.**



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



**Mr. Dorji Wangdi**  
**Company Secretary**



# BHUTAN DEVELOPMENT BANK LIMITED

## Chairman's Report

On behalf of the Bhutan Development Bank Limited, I am pleased to present herewith the 26<sup>th</sup> Annual Report of the Bank for the year ended 2014.

The growth in most sectors was sluggish since 2011 with real GDP hitting an all time low of 2.1% in 2013 and the recovery process that is sustainable will be gradual given that corrections needed in the economy have to do with addressing our economic fundamentals –boosting domestic production and productivity, increasing exports and diversifications. The slow growth is due to decline in manufacturing, construction and general government sectors. Because of the restriction imposed by the RMA to curtail credit-financed consumption, the private sector credit growth moderated to 6.4% as of June 2014 against the average annual growth of 33% in the years leading to the 2012. In order to revive the economy, the RGoB as a policy measures injected capital in the economy as a part of an Economic Stimulus Plan Package, but the positive impact will accrue only in the near future as the funded projects will take time to start production and generate income. In addition to the slow over-all economic growth, the task of administering the credit and providing financial services to the rural households is costly and often herculean effort, given the country's rugged, mountainous terrain and villages that are spread out and sparsely populated. As a result, one of the major challenges confronting the bank is to improve its loan quality and reduce NPL. The Bank managed to make a profit of Nu. 282 million against the set target of Nu. 312 million in 2014 as compared to Nu. 279 million in the previous year. However, in keeping with the growing challenges and special demand from the public and the government, the BDBL Board and Management has embarked on its renewed strategic approach and shall continue to manage the Bank with clear vision, mission, core values and goals with appropriate strategic action plans.

During the year in question, Dr. Tashi Samdrup, CORRB, Mrs. Tashi Pem, DRC, Mr. G.P Sharma, Ex-DMD, BOBL have retired from as Directors from the Board and I would like to sincerely thank them for the contribution they have made for the growth and expansion of the Bank during their tenure as the Board of Directors. Looking forward, I would like to welcome Mr. Phub Tshering, General Secretary, BCCI, Mr. Karma Tshering, Chief Executive Officer, BOiC, Dasho Namgay Wangchuk, Director General, CORBB, Ministry of Agriculture and Forest who were appointed as the new Directors and Mr. Ugyen Penjore, Director, DCSI, Ministry of Economic Affairs for his reappointment as the Director. It is my sincere hope and wishes that that three new colleagues, other Board of Directors and I in close cooperation will be able to contribute consistently for the further growth and expansion of the Bank.

In 2014, seven numbers of Board meetings were conducted under my Chairmanship. The Board meetings were conducted as frequently as possible and also as and when required as timely conducting of the Board meeting is vital in providing strategic support and policy guidance to the Management to make the bank more efficient and dynamic.

In the light of the above, I am reporting herewith the performance of the Bank for the year ended 2014 in terms of its financial, operational and other achievements.

## 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) conducted the audit from 29<sup>th</sup> January 2015 to 18<sup>th</sup> February 2015 and submitted their report on 18<sup>th</sup> February 2015. I am pleased to inform that as reported by the Statutory Auditors, the Bank has complied with and followed the Bhutan Accounting Standards/Bhutan Financial Reporting Standards (BAS/BFRS) and International Financial Reporting Standards (IFRS) for the first time transitioning from Generally Accepted Accounting Practices 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 front and customer satisfactions.



## 1.1. Bank's Financial Position (Balance Sheet):

The Bank's assets rose to Nu. 16.56 billion from the previous year (2013) figure of Nu. 10.48 billion. The Bank's financial growth improved by 57.91% in its total Assets in 2014 compared to corresponding period last year (P.Y 35.24%). The growth can be attributed to substantial increase in Loans & Advances that recorded 27.03%, financial investments with 129.68% and other assets by 147.96% during the year.

With the increase in deposits by 80.66%, the Bank's Liabilities also grew considerably by Nu. 5.80 billion. In absolute terms, Nu. 5.58 billion was the net savings amount mobilized/collected during the year.

The Equity witnessed a growth of 12.43% from Nu. 2.19 billion to Nu. 2.46 billion. The growth in equity was mainly due to growth in Retained Earnings by 18.42% from Nu. 1.02 billion to Nu. 1.21 billion.

## 1.2. Bank's Financial Performance (Profit & Loss Account):

The Bank has made a profit of Nu. 281.95 million as compared to Nu. 278.18 million corresponding to last year period. The total Interest and similar Income from Operations grew by 34.05% from Nu. 1.00 billion to Nu. 1.35 billion. Similarly, the interest expense increased by 49.66% from Nu. 440.99 million to Nu. 660.00 million during the year. The interest expense had increased due to substantial increase in deposit growth by 80.66%. The fee and commission income recorded an overall increase of 48.10% from Nu. 13.54 million to Nu. 20.05 million during the year.

The Bank Guarantee commission was the major contributor to fee and Commission Income Account. The Personnel expenses increased by 23.37% from Nu. 128.33 million to Nu. 158.33 million while the other operating expenses increased by 26.75%.

The loan impairment charges are the main contributors to the expenses with the high growth rate by 74.61% of loan loss provision. The loan impairment charges increased to Nu. 168.64 million against corresponding period last year at Nu. 96.58 million. The loan impairment charges increased due to substantial increase in the non-performing loans with NPL of 7.77% during the year from 7.22% in 2013.

## 2. Operational Highlights:

The financial year 2014 ended with the total loan portfolio of Nu.10. 93 billion recording an increase of 29%percent from the previous year 2013 with loan portfolio of Nu.8.49 billion and deposit portfolio increased from Nu. 6.73 billion in 2013 to Nu. 12.15 billion in 2014 indicating a growth of 81% despite the slumps and low growth in some sectors of the economy.

### 2.1 Credit Distribution:

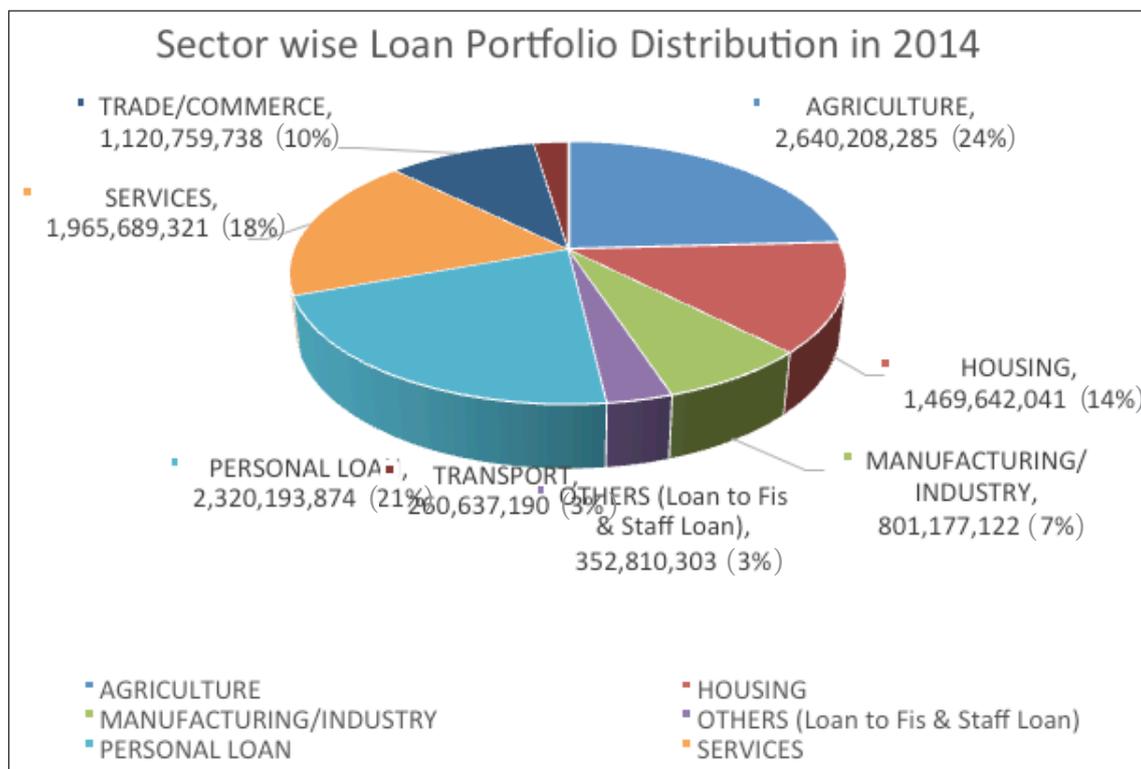
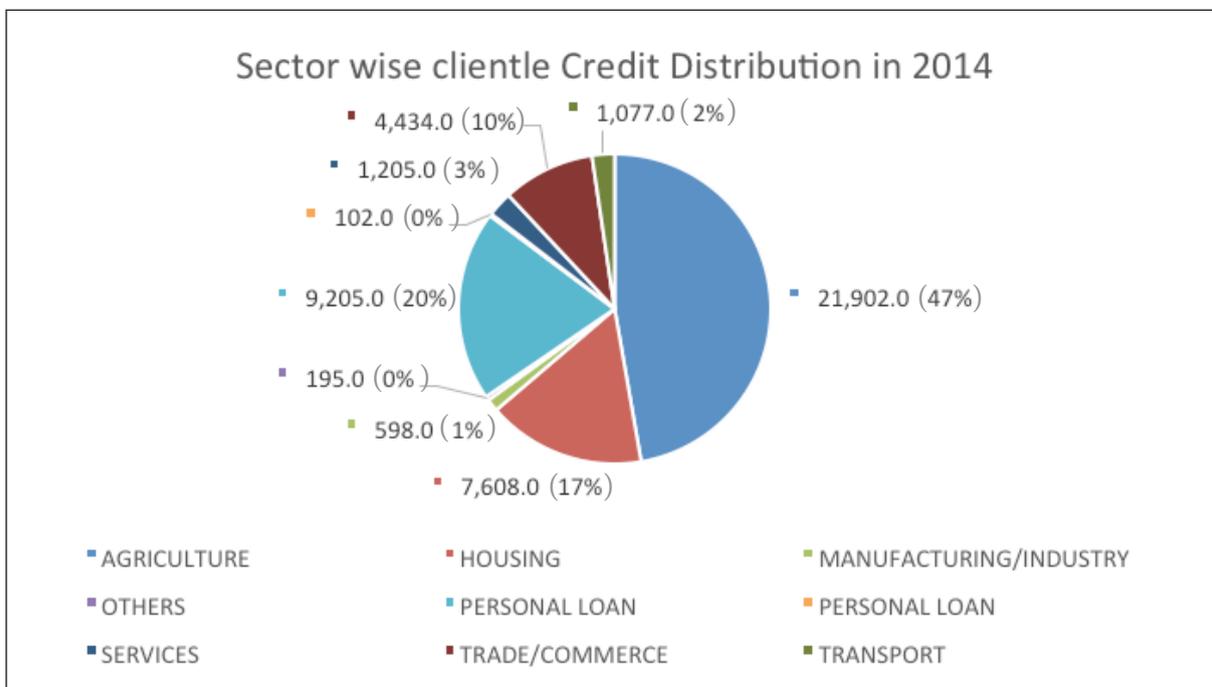
As the Development Bank with rural focus, BDBL has been putting in a consistent effort to increase its rural penetration ratio thereby reaching to the unreached and providing them with unwavering Banking service and credit support. The Bank has a total client of 40,712 in 2013 and this has increased to 46,326 in 2014 representing a growth of 14%.

The Bank's total rural client/account holder is 37,569 in 2013 and this has increased to 43, 009 in 2014 representing a rural clientele base growth of 14.5%.

This clearly demonstrates that being the only development bank and in keeping with the mandates, BDBL is serious and will continue to give more focus to the rural clients who are dependent on the bank for their diverse financial services and credit needs.

In terms of the amount as well, there is a continued rural credit portfolio growth. The total amount of rural loan portfolio is Nu.4.53 billion in 2013 and this has increased to 6.23 billion in 2014 indicating growth ratio of 38%.

The over-all ratio of the rural to urban loan amount is 53:47 in 2013 and the ratio is 57:43 in 2014. The lending in the Agriculture and livestock sector constitutes 24% of the total loan portfolio in 2014 which comparatively is higher than other sectors and this translates to 47% of the total clients which is also highest in terms of client distribution and signifies that BDBL is a development bank with focus on Agriculture sector.





## 2.2 Banking Activities:

The bank has been steadfast in its effort to provide banking services both to urban and rural folks with wide array of banking services and deposit products to suit the needs of the people of different walks of life. The Banking Department supported by the Marketing Division to market its products and through serious mobilization drive, the total deposit increased consistently over a period of time. The total deposits increased from Nu. 6.72 billion in 2013 to Nu. 12.15 billion in 2014 which translates to growth rate of 81% from the previous year.

In terms of distribution pattern, the increase had been achieved in all the products and the number of savers increased from 85,864 in 2013 to 98,257 in 2014 and this indicates a growth rate of 25.04% from the previous period. Most of the savers are from Dzongkhags and Dungkhangs indicating the fruition of Bank's serious effort of providing banking services to the rural populace.

## 3. Other Activities

### 3.1 Preparation of Financial Statements and Accounts as per the Bhutan Accounting Standards/Bhutan Financial Reporting Standards (BAS/BFRS) and International Financial Reporting Standards (IFRS)

The Bank as required under the Accounting and Auditing Standards Board of Bhutan (AASBB) and in line with The Companies Act of the Kingdom of Bhutan, 2000, the financial statements and the Accounts are prepared as per the BAS/BFRS and IFRS. The Bank hired the services of the Ernst and Young, Sri Lanka to transition the accounts and financial statements from the existing Generally Accepted Accounting Standards to the BAS/BFRS and IFRS. The Ernst and Young Consultants conducted the diagnostic test and re-casted the financial statements for the year 2012 and 2013 which is necessary for transitioning to BAS/BFRS and IFRS. Accordingly, the financial statements for periods ending 31<sup>st</sup> December 2014 which comply with BAS/BFRS and IFRS was prepared with assistance and in consultation with the Consultants, Ernst and Young, Sri Lanka which was verified and endorsed by the statutory auditors, M/s. S.K Mittal and Co., Chartered Accounts, New Delhi. The implementation of BAS/BFRS and IFRS would go a long way in ensuring the greater comparability and high level financial information and reporting, and also in building the confidence of the stakeholders and the investors.

### 3.2 Opening of new branches/Extension offices/field offices

In carrying out its development and social mandate of coverage and out-reach, the bank is continuously opening new branch/extension/field offices wherever convenient and feasible despite huge operational cost to the Bank.

The opening of new branch/extension/field offices is to take the banking services and credit assistance closer to the people, make it even more accessible, less costlier and to give opportunity to the rural populace in the area to take up more income generating enterprise and deploy improved agricultural inputs and methods to improve agricultural production which in turn will increase the income of the farmers and their living standards. The bank has opened 6 extension offices and 6 field offices in 2014 in addition to the provision of the services through increased branch network, the bank is continually providing the banking services through "Farmers' Outreach Banking"

### 3.3 New branch office construction/renovation:

In order to accommodate additional staff for providing increased banking services and credit support in response to the demand of the clients and also to project better physical outlook of the bank, the bank has carried out a major renovation work of Paro and Samdrup Jongkhar branch and has also affected major renovation works in the Head Office building in the reporting period.

The bank has also already started to construct its own branch office building in Punakha.



### 3.4 Gewog Banking Services

As a part of the bank's social mandate to increase people's access to financial services and promote financial inclusion, the bank has launched Gewog banking services in Kabesa in Punakha on December 10, 2014. His Excellency, the Prime Minister has graced the launching of the first Gewog Bank in Kabesa in Punakha on December 10, 2014.

Since the banking services in the Gewog is based on the Point of Sale (POS) device, the bank is in a position to provide a wide range of banking services on a real time basis like cash deposits, withdrawals, loan repayments, account balance inquiry, fund transfers and remittances, enrollment of customers (New/existing) mini statement of the last five transactions and utility bill payments.

The bank has started the banking services in six Gewogs namely, Lungnyi and Naja in Paro, Thethso in Wangdue, Mewang and Genekha in Thimphu and Kabesa in Punakha and gradually all the 205 gewogs in the country will be covered with Gewog based Banking Services.

### 3.5 Drinchen Ama Savings Scheme

The Bank as part of the financial inclusion policy, new deposit product titled "Drinchen Ama Savings (beloved mothers Saving)" was introduced by the Bank and officially launched on 10<sup>th</sup> December 2014 at Kabesa, Punakha by His Excellency, the Prime Minister who was accompanied by the Hon'ble Ministers, Ministry of Finance, Ministry of Economic Affairs and Ministry of Health. Under the scheme, each household is provided a Safe box with Nu. 50/-. The product's modality of providing Safe box is to encourage and inculcate savings habits and financial discipline amongst the households. Such facilities made available to the home makers is also expected to improve the financial conditions of the women in our society thereby, empowering the status of the women folk.

During the current year, the bank also started B-Wallet Services through which Mobile phone top ups, inter branch fund transfers and utility bill payment are facilitated.

### 3.6 Contract signed with BOiC

With the establishment of the Business Opportunity and Information Centre (BOiC) in August, 27, 2014 to foster the growth of cottage and small business industries that will contribute to the employment creation, export enhancement or import substitution, BDBL signed a contract with the BOiC to deliver the post fund sanction services.

As BOiC is operating with a very similar mandate, the partnership helps the general public to access BOiC fund through the banks wide network of branches across the Country.

### 3.7 Human Resources Management:

In order to enhance employees' performance the Bank has placed greater emphasis on the capacity development. Considering the mandate of the Bank, the need to manage the newly opened branches/extension/field offices and growth in business volume, the bank recruited 52 new staff in 2014 and with the new recruits the total manpower of the Bank is 385.

As the bank has kept sufficient budget for training including upgrading the knowledge and skills, a total of 93 employees have undergone different trainings/seminars/workshop/study tours outside the country, while 238 employees attended in-house training and 197 employees attended in- country training.

Funded through the UNCDF budget component, 32 farmers from all three Regional Offices were sent to Nepal as a exposure visit with an objective to expose the farmers to new techniques used by the farmers in other countries for similar production of crops or goods.



### 3.8 Customer satisfaction Survey:

With an objective to continue to assess the Bank's service and take a stock of its outcome, the bank has carried out its Customer Satisfaction Survey in 2014. The Customer Satisfaction survey rating for 2014 is 83.61% as compared to 78.67% in 2013 and 73% in 2012.

### 3.9 Bank's Annual Performance Compact:

The Bank signed Annual Performance Compact with the Board. The broad parameter are financial performance (40% weightage), Efficiency (20%), Regular activities (20%) and new initiatives (20%). Based on the above parameters, the Bank's overall performance rating is evaluated at 91.01% indicating the bank is still well on track in discharging its roles and responsibilities and look forward to take the bank to new heights.

In order to gauge the performance of the Bank for 2015, the Board has in consultation with the management finalized the Key Performance Indicators (KPI) and articulated it to the Management.

### 3.10 The Taking over of the CCs (Community Centres)

As desired by the RGoB, the Bank initiated the process of taking over the operation of the CCs from the Bhutan Post as agreed. The Bank will operate CCs concurrently with the Gewog Banking Services. The utilization of the CCs is expected to improve as people will avail the services of the CCs as and when they come for the Banking services. The multi-tasking of the Banking staff and CC operators will make the CC facility more reliable and efficient.

### 3.11 Core Banking Solution:

As a way forward, the Bank has earmarked a budget allocation of Nu. 175 million to introduce Core Banking Solution (CBS) software and this change in the technology is intended to upgrade the existing Banking software and make it compatible with other Banking software so that the Bank can incorporate the emerging credit and banking services features in the system by the end of the year 2016. The Bank to this effect will work on the recruitment of the specialized IT personnel call the IT firm's expression of interest to take up the work within this year.

## 4. Conclusion:

Lastly, I would like to take this opportunity to thank the Board Directors and the Management for the co-operation and assistance given to me in managing the affairs of the bank which requires the attention of the Board. On behalf of the Board of Directors, Management, Customers and Employees of the Bank, I would like to place on record our sincere gratitude to the RGoB, three minority Shareholders, Donor Agencies, especially ADB, UNDP, UNCDF, SNV, IFAD and other International bodies for their kind assistance, guidance, loyalty and faith in BDBL. To our esteemed Shareholders and valued clients, I would like to convey our sincere appreciation for their continued support and patronage. 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.

The Board of Directors would also like to express sincere appreciation for the hard work and dedicated service rendered by the Management and staff.

My sincere prayers and hope for even more fruitful year for the bank in 2015 and beyond.



Nim Dorji  
CHAIRMAN : BDBL



## Operational Highlights from 2009 - 2014

SI #	Particulars	2009	2010	2011	2012	2013	2014
I	Assets ( Million)	2,966	4,243	5,211	7,694	10,425	16,563
	Head Office & Main Branch	1,929	3,486	4,042	5,712	7,828	13,106
	Branch Office	1,037	757	1,169	1,982	2,597	3,457
II	Profits/(Loss)	150	177	205	238	279	282
	Head Office & Main Branch	113	130	129	97	98	82
	Branch Office	37	47	76	141	181	199
III	Disbursement ( Million)	1,000	2,059	1,934	3,281	4,235	5,379
	Main Branch	401	672	528	1,136	1,553	1,413
	Branch Office	599	1,387	1,406	2,145	2,682	3,967
IV	Loan Outstanding ( Million)	2,818	3,640	4,542	6,247	8,500	10,819
	Main Branch	1,806	1,782	2,063	2,815	3,968	4,584
	Branch Office	1,012	1,858	2,479	3,432	4,532	6,235
V	On - Time Recovery Rates						
	Main Branch	92%	94%	95%	95%	96%	96.10%
	Branch Office	91%	93%	94%	95%	95%	95.25%
VI	Portfolio At Risk	13.60%	11.33%	8.27%	8.34%	7.21%	7.77%
	Main Branch	15.03%	15.26%	8.74%	8.41%	6.90%	7.97%
	Branch Office	12.17%	7.40%	7.87%	8.28%	7.50%	7.63%
VII	Number of Active Clients	19,923	25,292	28,895	34,790	40,712	46,326
	Main Branch	2,608	2,578	2,535	2,841	3,143	3,317
	Branch Office	17,315	22,714	26,360	31,949	37,569	43,009
VIII	Number of New Accounts	8,588	13,280	13,206	15,637	16,613	19,763
	Main Branch	993	910	746	838	844	969
	Branch Office	7,595	12,370	12,460	14,799	15,769	18,794
IX	Cumulative Nos. of Beneficiary	99,609	112,889	26,095	41,732	58,345	178,108
	Main Branch	6,279	7,189	7,935	8,773	9,617	10,586
	Branch Office	93,330	105,700	118,160	132,959	148,728	167,522
X	Deposit Amount ( Million)	266	1,450	2,302	4,323	6,824	12,162
	Main Branch	11	1,009	1,553	3,079	4,867	9,628
	Branch Office	255	441	749	1,244	1,957	2,534
XI	No.of Depositors	15,879	32,978	44,545	64,181	85,864	109,005
	Main Branch	657	1396	1947	3235	4821	6,322
	Branch Office	15,222	31,582	42,598	60,946	81,043	102,683
XII	Number of Employess	221	271	290	321	357	385
	Head Office	66	74	92	103	110	125
	Main Branch	29	20	21	23	28	30
	Branch Office	126	177	177	195	219	230
XIII	Active Clients/Employee Ratio						
	Main Branch	90	129	121	124	112	111
	Branch Office	137	128	149	164	172	187
XIV	Loans /Employee Ratio	13	13	16	19	24	28
	Main Branch	62	89	98	122	142	153
	Branch Office	8	10	14	18	21	27





# **BHUTAN DEVELOPMENT BANK LIMITED**

## **ANNUAL ACCOUNTS & AUDITORS' REPORT 2014**

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



**S.K. MITTAL & CO.**  
**CHARTERED ACCOUNTANTS**  
**AUDITORS' REPORT TO THE MEMBERS OF**  
**BHUTAN DEVELOPMENT BANK LIMITED**  
**THIMPHU, BHUTAN**

We have audited the attached Consolidated Statement of Financial Position of Bhutan Development Bank Limited (the Group) as at 31st December 2014, the Consolidated Income Statement for the year ended on that date and the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto, in which are incorporated:

- a) Audited Accounts of Bhutan Development Bank Limited (the Bank) in which are incorporated returns of 11 branches audited by us and returns of 22 branches which have not been audited by us;
- b) Audited Accounts of BDB Securities Limited (a wholly owned subsidiary of the Bank), audited by us.

Preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Further, to our comments in the annexure as referred above, we report that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory.
2. In our opinion, proper books of account have been kept by the Group, so far as it appears from our examination of those books.
3. The Group has complied with the various provisions of the Financial Services Act 2011 and other applicable laws, rules & regulations, systems and practices except otherwise stated elsewhere in this report.
4. The Statement of Financial Position, Income Statement and Cash Flow Statement dealt with in this report are in agreement with the books of account and adjustments carried out to comply with the accounting policies revised on 01.01.2014 upon adoption of Bhutanese Accounting Standards/Bhutan Financial Reporting Standards (BAS/BFRS) and International Financial Reporting Standards (IFRS).
5. In our opinion, as shown by the books of the Bank, and to the best of our information and according to the explanations given to us, the said Statement of Financial Position and Income Statement and the Cash Flow Statement read with Note 1 to 45 and our comments in the Annexure – A attached herewith, give the information under The Companies Act of the Kingdom of Bhutan 2000, in the manner so required and exhibit a true and fair view:





- a. in the case of Statement of Financial Position, of the state of affairs of the Group as at 31st December 2014;
  - b. in the case of Income Statement, of the profit of the Group for the year ended on that date; and
  - c. in the case of Cash Flow Statement, of the cash flows for the year ended on that date.
6. We draw attention to the following without qualifying our opinion:
- a. The Bank has adopted BAS/BFRS and IFRS effective 01.01.2014 and simultaneously has revised its accounting policies so as to comply with the provisions of BAS/BFRS and IFRS. Consequently, figures for the previous year 2013 have also been regrouped, rearranged and recasted as per the revised accounting policies so as to make them comparable with figures of current year 2014. Reconciliation of Statement of Financial Position figures as at 31.12.2012 and 31.12.2013 and Income Statement for the year 2013 as per old GAAP and BAS/BFRS and IFRS is given in Note no. 3.
  - b. Note no.32 regarding increase in profit for the year 2014 by Nu. 79,166,716 which is as per revised accounting polices upon adoption of BAS/BFRS and IFRS compared to profit if to be calculated as per old GAAP.
  - c. Note no. 38 regarding provision for impairment loss on loans and advances of Nu. 587,950,255 as on 31.12.2014 being carried out as per revised accounting policies which hitherto had been done as per section 10.8 of Prudential Regulations 2002.
  - d. Note no. 39 regarding accrued interest on non- performing loans recognized as income as per revised accounting policy and not suspended as provided under section 10.11.3 of Prudential Regulations 2002. Such accrued interest however, has been taken into account while arriving at provision for impairment loss.

Place: New Delhi

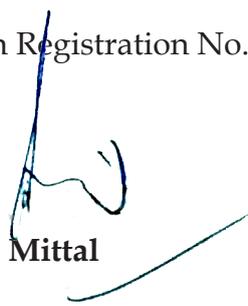
Date: 07 APR 2015



For **S. K. Mittal & Co.**

Chartered Accountants

Firm Registration No. 01135N

  
**S.K. Mittal**

Partner

Membership No. 8506



**S.K. MITTAL & CO.**  
**CHARTERED ACCOUNTANTS**  
**BHUTAN DEVELOPMENT BANK LIMITED**  
**THIMPHU, BHUTAN**

**(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 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 31.12.2014 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 31.12.2014.
4. During the year the Bank has availed an unsecured subordinated term debt of Nu. 430,000,000 from Ministry of Finance, RGoB. The terms and conditions of the said debt are prima facie not prejudicial to the interest of the Bank. The Bank has availed no loan secured or unsecured from companies, firms or other parties and/ or from the companies under the same management.
5. The loans granted by the Bank are prima facie not prejudicial to the interest of the Bank. 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. In the absence of any detailed records (including the statutory records required under section 97 of The Companies Act of The Kingdom of Bhutan, 2000) we are unable to comment whether any transactions have been entered into by the directors or any other party(ies) related to the directors or with Bank or firms in which the directors are directly or indirectly interested.
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 2014.





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 31.12.2014.
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 31.12.2014 have not undergone any permanent diminution in value as per information and explanations given to us.
5. There have been a few non-compliances of the Guidelines issued by The Companies Act of The Kingdom of Bhutan, 2000 and The Financial Services Act 2011. The Bank should ensure compliance of the applicable provisions of the Acts.
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 31<sup>st</sup> December, 2014 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	2014	2013
<b>A. Ratios for assessing Financial health</b>		
<b>Capital Turnover Ratio:</b> (Income / Capital Employed)	0.29	0.27
<b>Current Ratio</b> (Current Assets / Current Liabilities)	0.40	0.27
<b>Fixed Assets Turnover Ratio</b> (Income/Fixed Asset)	4.70	4.20
<b>B. Ratios for assessing Profitability</b>		
<b>Profit on Capital Employed Ratio</b> (Profit after Tax / Capital Employed)	11.54%	12.89%
<b>Profit Turnover Ratio</b> (Net Profit/Total Income) *100	39.47%	46.99%
<b>Operating Ratio</b> (All Expenses – Finance Charges)/Total Income*100	49.94%	40.76%
Total Expenses to Total Income Ratio (Total Expense/Total Income)*100	60.53%	53.01%
Capital Adequacy Ratio (As per old GAAP)	20.68%	19.71%
Statutory Liquidity Reserve Ratio (As per old GAAP)	36.14%	22.33%
Credit Deposit Ratio	86.56%	122.49%

## 3. Compliance of Companies Act of Kingdom of Bhutan:

a) The Bank has not complied with the following areas of The Companies Act of the Kingdom of Bhutan, 2000 and other statutory regulations:

i. *Section 97 on the maintenance of statutory records:*

*The Bank is not maintaining Register of Contracts in which directors are interested.*

b) The Corporate Governance Regulations, 2011, issued by Royal Monetary Authority of Bhutan in pursuant to Section 202 of the Financial Services Act of Bhutan, 2011 have not been complied with by the Bank with respect to the following areas:

i. *Directors are to be elected by the shareholders for a term of one year as per above Regulations; whereas three former directors have continued as director during the year 2014 for a term exceeding one year.*

ii. *Audit Committee is required to meet once every quarter as per above Regulations. Although four meetings of the Audit Committee were held during the year 2014 but no meeting was held during fourth quarter of the Financial Year 2014.*





#### 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

Date: 07 APR 2015



For **S.K. Mittal & Co.**

Chartered Accountants

Firm Registration No: 01135N

**S.K. Mittal**

Partner

Membership No: 8506



**BHUTAN DEVELOPMENT BANK LIMITED**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2014**



## 1. CORPORATE INFORMATION

Bhutan Development Bank Limited (the Bank) together with its subsidiary ('the Group'), provides services to Small and Medium Enterprises (SME) and farmers' outreach in various parts of the Kingdom of Bhutan. The principal activities of the Group are described in Note 3.

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 consolidated financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 21<sup>st</sup> March 2015.





## 2.1 BASIS OF PREPARATION

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

### Statement of compliance

The consolidated 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).

Also, this is the first time that the company is following BAS/BFRS and 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 reported in the consolidated 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 consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group

Audited Financial Statements for 31.12.2014 are prepared in accordance with BAS 1 on presentation of financial statements in line with IFRS.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary for the year ended 31 December 2014. The financial statements of the Bank's subsidiary are prepared for the same reporting year as the Bank.

All intra–group balances, transactions, income and expenses are eliminated in full.

Subsidiary is fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated 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 Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated 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 Group 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 Group. Such changes are reflected in the assumptions when they occur.

### Going concern

The Group'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 Group'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.

### Impairment losses on loans and advances

The Group 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 Group 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 Group 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 Group 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.

## Grants

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.

## 2.3. FIRST-TIME ADOPTION OF BAS/BFRS and IFRS

These financial statements, for the year ended 31 December 2014, are the first the Group has prepared in accordance with BAS/BFRS and IFRS. For periods up to and including the year ended 31 December 2013, the Group prepared its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Accordingly, the Group has prepared financial statements which comply with BAS/BFRS and IFRS applicable for periods ending on or after 31 December 2014, together with the comparative period data as at and for the year ended 31 December 2013. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2013, the Company's date of transition to BAS/BFRS and IFRS.

This note explains the principal adjustments made by the Company in restating its GAAP financial statements, including the statement of financial position as at 1 January 2013 and the financial statements as at for the year ended 31 December 2013. (Please refer BFRS 1 Reconciliation of converting the GAAP figures in note no 3.2)

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.3.1 Foreign currency translation

The consolidated financial statements are presented in Bhutan Ngultrum (Nu) which is the functional currency of the Bank and its Subsidiary.

#### (i) 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 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 Group 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 Group 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 Group 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 as other operating income. 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 Group 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 Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Currently the Group 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 Group 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 Group, upon initial recognition, designates as available-for-sale
- Those for which the Group 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.

### **(ix) Debt issued and other borrowed funds**

Financial instruments issued by the Group 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 Group 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 Group 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 group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group 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 Group has transferred substantially all the risks and rewards of the asset.
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group 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 Group 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 Group 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;



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 Group 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 Group 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 Group. 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. 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 Group 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 Group 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 Group 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 Group 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.

## **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 Group 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.

## (ii) Fee and commission income

The Group 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 Group'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 Group is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. 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:

<b><u>Asset Type</u></b>	<b><u>Useful Life</u></b>
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

### **2.3.12 Impairment of non-financial assets**

The Group 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 Group 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 Group gives guarantees, consisting of letters of credit guarantees and acceptances. Guarantees are initially recognised in the financial statements (within other liabilities') at fair





value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in Credit loss expense. The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

### 2.3.14 Provisions

Provisions are recognised when the Group 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 Group 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.

### 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 Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

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 Group's statement of financial position include:

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





### 2.3.18 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 Group's financial statements are disclosed below. The Group 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  
 CONSOLIDATED INCOME STATEMENT  
 Year ended 31 December 2014

	Note	Group 2014 Nu	2013 Nu	Bank 2014 Nu	2013 Nu
Interest & Similar Income	4	1,345,286,010	1,003,603,972	1,345,136,287	1,003,495,895
Interest & Similar Expense	5	(660,004,947)	(440,993,480)	(660,004,947)	(440,993,480)
<b>Net interest income</b>		<u>685,281,062</u>	<u>562,610,493</u>	<u>685,131,339</u>	<u>562,502,416</u>
Fee and commission income	6	20,057,247	13,542,945	20,057,247	13,542,945
Fee and commission expenses		-	-	-	-
<b>Net fee and commission income</b>		<u>20,057,247</u>	<u>13,542,945</u>	<u>20,057,247</u>	<u>13,542,945</u>
Other Operating Income	7	9,188,739	15,972,574	9,188,739	15,972,574
<b>Total operating income</b>		<u>714,527,048</u>	<u>592,126,012</u>	<u>714,377,325</u>	<u>592,017,935</u>
Personnel Expenses	8	(158,331,197)	(128,334,308)	(158,331,197)	(128,334,308)
Depreciation on Property Plant & Equipment/Amortiation of Intangible Assets		(20,777,036)	(22,104,289)	(20,764,215)	(22,104,289)
Other Operating Expenses	9	(84,813,502)	(66,924,839)	(84,678,430)	(66,809,844)
Impairment (charges)/reversal for loans and other losses		(168,644,927)	(96,581,199)	(168,644,927)	(96,581,199)
Total Operating Expenses		<u>(432,566,662)</u>	<u>(313,944,635)</u>	<u>(432,418,769)</u>	<u>(313,829,640)</u>
<b>Profit Before Tax from Continuing Operations</b>		<u>281,960,386</u>	<u>278,181,377</u>	<u>281,958,556</u>	<u>278,188,295</u>
Income Tax Expense	10	-	-	-	-
<b>Profit For the Year</b>		<u>281,960,386</u>	<u>278,181,377</u>	<u>281,958,556</u>	<u>278,188,295</u>

Note 1 to 45 form an integral part of Financial Statements

In terms of our attached report of even date.

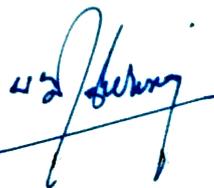
For S.K. Mittal & Co.

Chartered Accountants

Firm Registration No.01135N

  
 S.K Mittal  
 Partner



  
 Managing Director

  
 Chairman

Membership No. 8506

Date :

Place : New Delhi

07 APR 2015



## STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Group		Bank	
	2014 Nu	2013 Nu	2014 Nu	2013 Nu
<b>Profit for the year</b>	<b>281,960,386</b>	<b>278,181,377</b>	<b>281,958,556</b>	<b>278,188,295</b>
Gains /(losses) on re-measuring available for sale financial assets	-	124,677	-	124,677
Impairment during the year - Available for sale investments	-	-	-	-
Gain/(loss) on Actuarial valuation of defined benefit liability	2,081,544	6,599,659	2,081,544	6,599,659
Net loss on available for sale financial assets	2,081,544	6,724,335	2,081,544	6,724,335
Total other comprehensive income	2,081,544	6,724,335	2,081,544	6,724,335
Income tax income /(expense) relating to components of other comprehensive income	-	-	-	-
<b>Other comprehensive income for the year, net of tax</b>	<b>2,081,544</b>	<b>6,724,335</b>	<b>2,081,544</b>	<b>6,724,335</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>284,041,930</b>	<b>284,905,712</b>	<b>284,040,100</b>	<b>284,912,630</b>

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  
Firm Registration No.01135N

S.K Mittal  
Partner  
Membership No. 8506

Date :

Place : New Delhi

07 APR 2015



Managing Director

Chairman



STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	Group			Bank		
		2014 Nu	2013 Nu	2012 Nu	2014 Nu	2013 Nu	2012 Nu
<b>Assets</b>							
Cash & Cash Equivalent	11	762,597,882	463,713,833	-	762,506,289	463,619,501	199,829,902
Balances with Central Bank		3,489,776,768	418,135,990	-	3,489,776,768	418,135,990	234,525,187
Due from Banks	12	1,332,291,734	1,337,322,546	-	1,332,291,734	1,337,322,546	1,243,604,965
Loans & Advances to Customers	13	10,231,420,037	8,054,646,912	-	10,231,420,037	8,054,646,912	5,893,688,945
Financial Investments Available for Sale	14	18,575,361	8,200,533	-	18,375,361	8,000,533	7,375,856
Financial Investments Corporate Bonds	15	425,282,870	-	-	425,282,870	-	-
Other Assets	16	143,057,859	57,678,060	-	143,020,115	57,678,060	43,649,843
Property, Plant & Equipment	17	152,207,076	140,922,470	-	152,137,887	140,922,470	129,067,535
Intangible Assets	18	8,089,708	8,360,231	-	8,089,708	8,360,231	3,889,606
<b>Total Assets</b>		<b>16,563,299,296</b>	<b>10,488,980,575</b>	<b>-</b>	<b>16,562,900,770</b>	<b>10,488,686,243</b>	<b>7,755,631,842</b>
<b>Liabilities</b>							
Due to Banks	19	1,519,126,159	1,320,371,132	-	1,519,126,159	1,320,371,132	1,287,685,200
Due to Customers	20	12,499,704,998	6,918,944,653	-	12,499,704,998	6,918,944,653	4,510,944,493
Retirement benefit plans	21	38,750,878	37,377,304	-	38,750,878	37,377,304	37,755,371
Other Liabilities	22	41,905,489	20,806,539	-	41,501,874	20,505,289	23,319,439
<b>Total Liabilities</b>		<b>14,099,487,523</b>	<b>8,297,499,628</b>	<b>-</b>	<b>14,099,083,908</b>	<b>8,297,198,378</b>	<b>5,859,704,504</b>
<b>Equity</b>							
Stated Capital		300,000,000	300,000,000	-	300,000,000	300,000,000	300,000,000
Retained Earnings		1,217,943,700	1,028,489,338	-	1,217,948,789	1,028,496,256	1,002,164,791
Other Reserves		924,754,084	830,166,517	-	924,754,084	830,166,517	571,710,029
Grants	23	21,494,456	33,205,560	-	21,494,456	33,205,560	22,557,662
AFS Reserve		(380,467)	(380,467)	-	(380,467)	(380,467)	(505,144)
<b>Total Equity</b>		<b>2,463,811,774</b>	<b>2,191,480,947</b>	<b>-</b>	<b>2,463,816,863</b>	<b>2,191,487,865</b>	<b>1,895,927,338</b>
<b>Total Liabilities and Equity</b>		<b>16,563,299,297</b>	<b>10,488,980,575</b>	<b>-</b>	<b>16,562,900,771</b>	<b>10,488,686,243</b>	<b>7,755,631,842</b>

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  
Firm Registration No.01135N

S.K. Mittal  
Partner  
Membership No. 8506  
Date :  
Place : New Delhi



Managing Director

Chairman

07 APR 2015

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

Group	Stated Capital		Retained Earnings		General Reserves		Government Grants		IT Development Reserve (CBS)		Staff Development Fund		Available for Sale		Total Shareholders' Funds	
	Nu		Nu		Nu		Nu		Nu		Nu		Nu		Nu	
<b>Balance as at January 1, 2013</b>	300,000,000	-	1,002,164,791	-	571,710,029	-	22,557,662	-	175,000,000	-	-	-	(505,144)	-	1,895,927,338	-
Other comprehensive income net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments	-	-	6,599,659	-	10,647,898	-	-	-	-	-	-	-	-	-	10,772,575	-
Actuarial Gains/(losses)	-	-	278,181,377	-	-	-	-	-	-	-	-	-	-	-	6,599,659	-
Net profit for the year	-	-	(258,456,488)	-	83,456,488	-	-	-	-	-	-	-	-	-	278,181,377	-
Transfers during the year	-	-	1,028,489,338	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	300,000,000	-	1,028,489,338	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	(380,467)	-	2,191,480,997	-
<b>Balance as at January 1, 2014</b>	300,000,000	-	1,028,489,338	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	(380,467)	-	2,191,480,997	-
Adjustments	-	-	2,081,544	-	(11,711,104)	-	-	-	-	-	-	-	-	-	(11,711,104)	-
Actuarial Gains/(losses)	-	-	281,960,386	-	-	-	-	-	-	-	-	-	-	-	2,081,544	-
Net profit for the year	-	-	(94,587,567)	-	84,587,567	-	-	-	-	-	-	-	-	-	281,960,386	-
Transfers during the year	-	-	1,217,943,701	-	739,754,083	-	21,494,456	-	10,000,000	-	-	-	-	-	-	-
<b>Balance as at 31 December 2014</b>	300,000,000	-	1,028,496,256	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	(380,467)	-	2,463,811,774	-

Bank	Note	Stated Capital		Retained Earnings		General Reserves		Government Grants		IT Development Reserve (CBS)		Staff Development Fund		Available for Sale		Total Shareholders' Funds	
		Nu		Nu		Nu		Nu		Nu		Nu		Nu		Nu	
<b>Balance as at January 1, 2013</b>		300,000,000	-	1,002,164,791	-	571,710,029	-	22,557,662	-	175,000,000	-	-	-	(505,144)	-	1,895,927,338	-
Other comprehensive income net of tax		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments		-	-	6,599,659	-	10,647,898	-	-	-	-	-	-	-	-	10,772,575	-	
Actuarial Gains/(Losses)		-	-	278,188,295	-	-	-	-	-	-	-	-	-	-	6,599,659	-	
Net profit for the year		-	-	(258,456,488)	-	83,456,488	-	-	-	-	-	-	-	-	278,188,295	-	
Transfers during the year		-	-	1,028,496,256	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	-	-	-	
<b>Balance as at 31 December 2013</b>		300,000,000	-	1,028,496,256	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	(380,467)	-	2,191,487,866	-
<b>Balance as at January 1, 2014</b>		300,000,000	-	1,028,496,256	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	(380,467)	-	2,191,487,866	-
Adjustments		-	-	2,081,544	-	(11,711,104)	-	-	-	-	-	-	-	-	-	-	
Actuarial Gains/(Losses)		-	-	281,958,556	-	-	-	-	-	-	-	-	-	-	2,081,544	-	
Net profit for the year		-	-	(94,587,567)	-	84,587,567	-	-	-	-	-	-	-	-	270,247,452	-	
Transfers during the year		-	-	1,217,948,789	-	739,754,084	-	21,494,456	-	10,000,000	-	-	-	-	-	-	
<b>Balance as at 31 December 2014</b>		300,000,000	-	1,028,496,256	-	655,166,518	-	33,205,560	-	175,000,000	-	-	-	(380,467)	-	2,463,816,862	-

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

Firm Registration No. 01135N

S.K. Mittal  
Partner

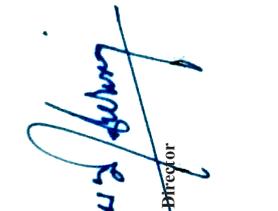
Membership No. 8506

Date :

Place : New Delhi



Chairman



Managing Director





**Bhutan Development Bank Limited**

**STATEMENT OF CASH FLOWS**

Year ended 31 December 2014

	Group		Bank	
	2014 Nu	2013 Nu	2014 Nu	2013 Nu
<b>Operating Activities</b>				
Profit Before Tax from Continuing Operations	281,960,386	278,181,377	281,958,556	278,188,295
Adjustments for :				
Dividend received	(442,900)	(443,500)	(442,900.00)	(443,500)
Depreciation of Property, plant and equipment	20,797,036	22,119,289	20,764,215.30	22,104,289
Movement in Impairment of Loans & Advances	168,644,927	96,581,199	168,644,927.34	96,581,199
Gain/loss on Disposal of PPE	19,974	(1,646,709)	19,974.26	(1,646,709)
<b>Operating profit before changes in operating assets &amp; liabilities</b>	<b>470,979,424</b>	<b>394,791,656</b>	<b>470,944,773</b>	<b>394,783,574</b>
<b>(Increase)/Decrease in operating assets</b>				
Balance with Royal Monetary Authority	(3,071,640,778)	(183,610,803)	(3,071,640,778)	(183,610,803)
Loans & Advances to Customers	(2,345,418,053)	(2,257,539,165)	(2,345,418,053)	(2,257,539,165)
Funds advanced to banks	5,030,812	(93,717,581)	5,030,812	(93,717,581)
Financial Investments	(435,657,698)	(500,000)	(435,657,698)	(500,000)
Other assets	(85,379,799)	(14,028,217)	(85,342,055)	(14,028,217)
<b>Increase/(Decrease) in operating liabilities</b>				
Movement in gov't Grant	(13,607,088)	10,647,898	(13,607,088)	10,647,898
Retirement Benefit Plans	5,351,103	6,221,591	5,351,103	6,221,591
Other liabilities	20,996,939	(2,527,899)	20,996,584	(2,814,149)
Increase/(Decrease) due to banks	198,755,027	32,685,932	198,755,027	32,685,932
Increase/(Decrease) due to customers	5,580,760,344	2,408,000,160	5,580,760,344	2,408,000,160
<b>Net cash flow from operating activities</b>	<b>(140,809,190)</b>	<b>(94,368,084)</b>	<b>(140,771,801)</b>	<b>(94,654,334)</b>
<b>Cash flow from investing activities</b>				
Dividend received	442,900.00	443,500	442,900.00	443,500
Purchase of property & equipment	(31,729,083.45)	(36,983,141)	(31,729,083.45)	(36,783,141)
	<b>(31,286,183)</b>	<b>(36,539,641)</b>	<b>(31,286,183)</b>	<b>(36,339,641)</b>
<b>Cash flow from financing activities</b>				
<b>Net cash flow from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>298,884,050</b>	<b>263,883,931</b>	<b>298,886,788</b>	<b>263,789,599</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>463,713,833</b>	<b>199,829,902</b>	<b>463,619,501</b>	<b>199,829,902</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>762,597,882</b>	<b>463,713,833</b>	<b>762,506,289</b>	<b>463,619,501</b>

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  
Firm Registration No.01135N

S.K. Mittal  
Partner  
Membership No. 8506  
Date :  
Place : New Delhi



Managing Director

Chairman

07 APR 2015



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

**3. FIRST- TIME ADOPTION OF BAS/BFRS and IFRS (Contd...)**

**3.1 Reconciliation of Balance Sheet as at 31 December 2012**

	Note	Bank		BAS/BFRS &
		GAAP	Re-measurement	IFRS
		Nu	Nu	Nu
<b>Assets</b>				
Cash & Cash Equivalent		199,829,902	-	199,829,902
Balances with Central Bank		234,525,187	-	234,525,187
Due from Banks		1,243,604,965	-	1,243,604,965
Loans & Advances to Customers	C	5,831,509,327	62,179,619	5,893,688,946
Financial Investments Available for Sale	E	7,381,000	(5,144)	7,375,856
Other Assets	D,I	48,605,618	(4,955,775)	43,649,843
Property, Plant & Equipment	A	117,695,829	11,371,708	129,067,537
Intangible Assets	B	11,029,605	(7,139,999)	3,889,606
<b>Total Assets</b>		<b>7,694,181,434</b>	<b>61,450,409</b>	<b>7,755,631,843</b>
<b>Liabilities</b>				
Due to Banks		1,287,685,200		1,287,685,200
Due to Customers	F	4,516,955,983	(6,011,490)	4,510,944,493
Retirement benefit plans	G	36,981,560	773,811	37,755,371
Other Liabilities		23,319,439		23,319,439
<b>Total Liabilities</b>		<b>5,864,942,182</b>	<b>(5,237,679)</b>	<b>5,859,704,504</b>
<b>Equity</b>				
Stated Capital		300,000,000		300,000,000
Retained Earnings		750,732,702	251,432,089	1,002,164,791
Other Reserves		571,710,029		571,710,029
Government Grants	H	206,796,519	(184,238,857)	22,557,662
AFS Reserve			(505,144)	(505,144)
<b>Total equity</b>		<b>1,829,239,250</b>	<b>66,688,088</b>	<b>1,895,927,338</b>
<b>Total liabilities and equity</b>		<b>7,694,181,434</b>	<b>61,450,409</b>	<b>7,755,631,843</b>





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

**3. FIRST- TIME ADOPTION OF BAS/BFRS and IFRS (Contd...)**

**3.1 Reconciliation of Balance Sheet as at 31 December 2013**

Assets	Note	Bank		
		GAAP	Re-measurement	BAS/BFRS & IFRS
		Nu	Nu	Nu
Cash & Cash Equivalent		463,619,501	-	463,619,501
Balances with Central Bank		418,135,990	-	418,135,990
Due from Banks		1,337,322,546	-	1,337,322,546
Loans & Advances to Customers	C	7,987,504,667	67,142,245	8,054,646,912
Financial Investments Available for Sale	E	7,381,000	619,533	8,000,533
Other Assets	D,I	65,948,760	(8,270,700)	57,678,060
Property, Plant & Equipment	A	130,103,449	10,819,020	140,922,469
Intangible Assets	B	16,631,564	(8,271,333)	8,360,231
<b>Total Assets</b>		<b>10,426,647,477</b>	<b>62,038,766</b>	<b>10,488,686,243</b>
<b>Liabilities</b>				
Due to Banks		1,320,371,132		1,320,371,132
Due to Customers	F	6,928,807,518	(9,862,864)	6,918,944,653
Retirement benefit plans	G	37,377,304		37,377,304
Other Liabilities		20,505,289		20,505,289
<b>Total Liabilities</b>		<b>8,307,061,242</b>	<b>(9,862,864)</b>	<b>8,297,198,378</b>
<b>Equity</b>				
Stated Capital		300,000,000		300,000,000
Retained Earnings		771,220,502	257,275,754	1,028,496,256
Other Reserves		830,490,515	(323,998)	830,166,517
Government Grants	H	217,875,218	(184,669,658)	33,205,560
Available For Sale ( AFS Reserve )			(380,467)	(380,467)
<b>Total equity</b>		<b>2,119,586,235</b>	<b>71,901,630</b>	<b>2,191,487,865</b>
<b>Total liabilities and equity</b>		<b>10,426,647,477</b>	<b>62,038,766</b>	<b>10,488,686,243</b>





Bhutan Development Bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FIRST-TIME ADOPTION OF BAS/BFRS and IFRS (Contd...)

3.1 Reconciliation of Income Statement for the year ended 31 December 2013

	Note	Bank		BAS/BFRS & IFRS
		GAAP	Re-measurement	
		Nu	Nu	Nu
Interest & Similar Income	K	992,687,271	10,808,624	1,003,495,895
Interest & Similar Expense	F	(444,844,854)	3,851,375	(440,993,480)
<b>Net interest income</b>		<u>547,842,417</u>	<u>14,659,999</u>	<u>562,502,416</u>
Fee and commission income		13,542,945		13,542,945
Fee and commission expenses				-
<b>Net fee and commission income</b>		<u>13,542,945</u>	<u>-</u>	<u>13,542,945</u>
Other Operating Income	J	15,041,774	930,801	15,972,574
<b>Total operating income</b>		<u>576,427,135</u>	<u>15,590,800</u>	<u>592,017,935</u>
				-
Personnel Expenses	D,G,I	(117,797,438)	(10,536,870)	(128,334,308)
Depreciation on Property Plant & Equipment	A,B	(20,420,268)	(1,684,021)	(22,104,289)
Other Operating Expenses		(66,809,844)		(66,809,844)
Impairment (charges)/reversal for loans and other losses	C	(92,131,298)	(4,449,900)	(96,581,199)
Total Operating Expenses		<u>(297,158,848)</u>	<u>(16,670,792)</u>	<u>(313,829,640)</u>
<b>Profit Before Tax from Continuing Operations</b>		<u>279,268,287</u>	<u>(1,079,992)</u>	<u>278,188,295</u>
Income Tax Expense				
<b>Profit For the Year</b>		<u>279,268,287</u>	<u>(1,079,992)</u>	<u>278,188,295</u>





## 3.2 FIRST- TIME ADOPTION OF BAS/BFRS & IFRS (Contd.)

3.2 Notes to the Reconciliation of Equity as at 1 January 2013 and 31 December 2013 and Total Comprehensive Income for the year ended 31 December 2013

### (A) Property, plant and equipment

According to BAS 16 depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Currently Group uses rate established by the tax authorities to calculate depreciation of each assets. Therefore revised the useful life of the assets to match with the requirement of BAS 16 and recalculated the depreciation.

BAS 16 requires significant component parts of an item of property, plant and equipment to be depreciated separately.

### (B) Intangible assets

BAS 38 recognises assets as intangible assets if it is identifiable non-monetary asset without physical substance. Further depreciable amount of an intangible assets should amortize over its use ful life time. Currently, the Group recognised intangible assets as property, plants & equipment. Therefore to comply with BAS 38 all the assets which meets the recognition criteria in BAS 38 recognised as intangible assets and amortized the depreciable amount over the use full life time.

### (C) Loans and receivables

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

### (D) FV of Staff Loans

The Loans given below market rate to employees have been fair valued using market interest rates of similar loans. The differences between the loan outstanding and the FV is treated as the pre-paid employee benefits

### (E) Available-for-sale financial assets

Currently, the Group measured investments in unquoted and quoted equity shares at cost. Under IFRS, investments in quoted and unquoted shares are classified as available-for-sale investments. BAS 39 requires available-for-sale investments to be measured at fair value. Fair valuation of the investment in quoted shares has been done using the Level 3 technique as per BFRS 13 fair valuation.

### (F) EIR adjustment on fixed deposits

Currently the group measures the interest expense on fixed deposit/recurring deposit on straight line basis. However in line with BAS 39 Financial Instrument Recognition & Measurement interest should be recognized on Effective Interest Rate (EIR) basis using compounding basis

### (G) Defined benefit obligation

Under GAAP, the Group recognised the contributions made to the pension plan as an expense. Pension





liability has been recognised based on projected unit credit method in BAS conversion.

### **(I) Deferred Training Expenses**

Training Expenses incurred should be recognized as an expense during the relevant period. Currently the group deferes the training expenses incurred inline with the tax regulations.

### **(J) Grants**

Group have grants received by various organizations for the purpose of extending rural credit in certain buisness segments.

As per the terms of the grant contract the grant shall be used to off-set the credit losses on the facilities declared using the grant offered.

### **(K) Interest in Suspense (IIS)**

In line with the requirements of BAS 39 Financial Instrument Recognition & Measurement IIS is no longer suspended, instead is recognized as interest income and included in the Impairment provision of Loans & Advances.





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

4. INTEREST AND SIMILAR INCOME	Group		Bank	
	2014 Nu	2013 Nu	2014 Nu	2013 Nu
Loans & Advances to customers	1,264,380,163	939,744,777	1,264,380,163	939,744,777
Due from Banks	74,723,581	60,436,738	74,723,581	60,436,738
Notional Interest on Staff Loans	1,609,087	1,396,098	1,609,087	1,396,098
Brokerage	149,723	108,077	-	-
Other short term investments	4,423,456	1,918,282	4,423,456	1,918,282
	<u>1,345,286,010</u>	<u>1,003,603,972</u>	<u>1,345,136,287</u>	<u>1,003,495,895</u>
<b>5. INTEREST &amp; SIMILAR EXPENSE</b>			<b>2014 Nu</b>	<b>2013 Nu</b>
Due to customers			584,379,727	368,488,971
Due to banks			75,625,220	72,504,509
			<u>660,004,947</u>	<u>440,993,480</u>
<b>6. NET FEES &amp; COMMISSION INCOME</b>			<b>2014 Nu</b>	<b>2013 Nu</b>
<b>Fees &amp; Commission Income</b>				
Commission on Guarantee			17,275,563	11,458,827
Other fees Received			2,781,684	2,084,117
<b>Total fees and commission income</b>			<u>20,057,247</u>	<u>13,542,945</u>
<b>Fees &amp; Commission Expense</b>			-	-
<b>Net Fees &amp; Commission Income</b>			<u>20,057,247</u>	<u>13,542,945</u>
<b>7. OTHER OPERATING INCOME</b>			<b>2014 Nu</b>	<b>2013 Nu</b>
Operating lease income			4,671,116	4,018,007
Profit on disposal of Property, Plant & Equipment(Net)			-	1,646,709
Amortization of the Government Grants (Credit Related)			2,565,837	930,801
Other			1,951,786	9,377,058
			<u>9,188,739</u>	<u>15,972,574</u>
<b>8. PERSONNEL EXPENSES</b>			<b>2014 Nu</b>	<b>2013 Nu</b>
Wages & Salaries			131,613,383	111,934,054
Training Expenses			19,757,624	8,782,565
Amortization of Pre-paid employment benefits			1,609,087	1,396,098
Current Period Service cost/Interest Expense			5,351,103	6,221,591
			<u>158,331,197</u>	<u>128,334,308</u>





Bhutan Development Bank  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. OTHER OPERATING EXPENSES

	Group		Bank	
	2014 Nu	2013 Nu	2014 Nu	2013 Nu
Advertising and marketing	6,196,980.30	10,417,725	6,196,980	10,417,725
Administrative	56,816,139.42	44,404,740	56,816,139	44,404,740
Professional fees	4,555,297.31	515,000	4,540,297	500,000
Rental charges payable under operating leases	6,182,523.60	4,714,127	6,182,524	4,714,127
Bank levy	82,255.47	111,319	82,155	111,269
Other	10,980,305.88	6,761,928	10,860,334	6,661,983
	<u>84,813,502</u>	<u>66,924,839</u>	<u>84,678,430</u>	<u>66,809,844</u>

11. CASH & CASH EQUIVALENT

	Group			Bank		
	2014 Nu	2013 Nu	2012 Nu	2014 Nu	2013 Nu	2012 Nu
Cash on hand	762,597,882	265,088,833	-	762,506,289	264,994,501	199,829,902
Investments in Treasury Bills	-	198,625,000	-	-	198,625,000	-
	<u>762,597,882</u>	<u>463,713,833</u>	<u>-</u>	<u>762,506,289</u>	<u>463,619,501</u>	<u>199,829,902</u>

Investments in T'bills made during previous year are for the period of less than 3 months. Hence it is classified as cash & cash equivalent.

12. DUE FROM BANKS

	Bank		
	2014 Nu	2013 Nu	2012 Nu
Placements with other banks	1,332,291,734	1,337,322,546	1,243,604,965
Other	-	-	-
	<u>1,332,291,734</u>	<u>1,337,322,546</u>	<u>1,243,604,965</u>

13. LOANS & ADVANCES TO CUSTOMERS

	2014 Nu	2013 Nu	2012 Nu
	Agriculture Loans	2,534,787,703	1,667,398,563
Overdraft Loan	1,833,935,284	1,268,040,628	786,241,005
Employee Loan	1,218,986,061	1,041,921,495	897,983,463
Housing Loan	1,421,179,826	979,347,094	651,348,995
Service and Tourism Loan	888,049,113	790,050,493	578,632,775
Personal Loan	800,353,055	758,339,718	632,638,967
Industrial Loan	514,514,449	512,573,591	467,402,197
General Trade Loan	584,931,728	486,600,885	312,944,084
Inter Bank/FIS Lending	230,021,488	279,770,194	-
Transport Loan	250,257,295	240,830,229	343,332,464
Micro Enterprise Loan (BCCI Scheme)	138,444,561	133,936,103	129,627,183
Small Scale Industrial Loan	74,761,877	68,677,554	50,830,901
Construction Loan	38,991,296	39,692,868	52,090,697
Working Capital Loan	7,399,074	8,488,973	9,419,732
Litigation Loan O/Due	8,271,599	8,271,599	15,351,027
Add: Interest Receivable	274,485,883	190,812,453	145,244,378
	<u>10,819,370,292</u>	<u>8,474,752,439</u>	<u>6,221,498,383</u>
Less: Allowance for Impairment (Collective)	<u>(587,950,255)</u>	<u>(420,105,527)</u>	<u>(327,809,438)</u>
	<u>10,231,420,037</u>	<u>8,054,646,912</u>	<u>5,893,688,945</u>



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

**13. 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 2013	78,885,018	49,371,226	11,122,411	40,370,539	49,258,153	27,136,254	71,665,837	327,809,438
Charges/(Reversals) for the year	(43,251,107)	9,349,353	1,182,651	6,235,894	7,248,497	10,979,893	100,550,907	92,296,090
At 31 December 2013	35,633,912	58,720,579	12,305,062	46,606,434	56,506,650	38,116,147	172,216,744	420,105,527
Individual Impairment	(80,949,026)	403,700	-	1,619,092	-	1,050,835	-	(77,875,400)
Collective Impairment	116,582,938	58,316,879	12,305,062	44,987,342	56,506,650	37,065,312	172,216,744	497,980,927
Total Impairment Provision	35,633,912	58,720,579	12,305,062	46,606,434	56,506,650	38,116,147	172,216,744	420,105,527
	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
	162,534,252	87,353,456	17,625,097	66,278,540	63,578,688	75,740,497	114,839,724	587,950,255

**14. FINANCIAL INVESTMENTS AVAILABLE FOR SALE**

**Quoted Investments**

Quoted Equities (14.1)  
Unquoted Equities (14.2)

(14.1) Quoted Equities  
Bhutan Carbide and Chemical Limited  
Penden Cement Authority Limited  
Bhutan National Bank Limited  
GIC Bhutan Reinsurance Limited

(14.2) Unquoted Equities  
BDB Securities  
Financial Institution Training Institute  
Credit Information Bureau  
Investment in Settlement Guarantee Fund

	2014 Nu	2013 Nu	2012 Nu	2014 Nu	2013 Nu	2012 Nu	2014 Nu	2013 Nu	2012 Nu
No. of Shares									
	25,000	119,533	119,533	119,533	119,533	130,452.9			
	178,100	381,000	381,000	381,000	381,000	245,403.1			
	500,000	4,999,828	4,999,828	4,999,828	4,999,828	-			
	10,500,361	119,533	119,533	119,533	119,533	130,452.9			
	8,075,000	7,700,000	7,700,000	7,700,000	7,700,000	7,000,000			
	18,575,361	8,200,533	8,200,533	18,575,361	8,000,533	7,375,856			
	10,500,361	500,533	500,533	10,500,361	500,533	375,856			
	500,000	6,000,000	6,000,000	500,000	6,000,000	500,000			
	137,500	1,375,000	1,375,000	1,375,000	1,000,000	6,000,000			
	20,000	200,000	200,000	200,000	200,000	500,000			
	8,075,000	7,700,000	7,700,000	8,075,000	7,500,000	7,000,000			

**15. FINANCIAL INVESTMENTS CORPORATE BONDS**

Investments in RICBL Bonds  
Investments in DCCCL Bonds

	2014 Nu	2013 Nu	2012 Nu	2014 Nu	2013 Nu	2012 Nu
	109,130,556	-	-	109,130,556	-	-
	316,152,314	-	-	316,152,314	-	-
	425,282,870	-	-	425,282,870	-	-

Bank has invested 10,000,000 scripts of RICBL bond at Nu.1,000 each, and 31,127,200 scripts of DCCCL bonds at Nu. 1,000 each respectively. Such investments are intended to be held to maturity in order to recover the contractual cashflows (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 & Receivables in Line with BAS 39 Financial Instrument Recognition & Measurement.







Bhutan Development Bank  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTANGIBLE ASSETS	Softwares					
<b>Cost:</b>						
At 1 January 2013			24,212,140			
Movement During the Period			6,442,533			
At 31 December 2013			<u>30,654,673</u>			
At 1 January 2013			30,654,673			
Movement During the Period			1,855,742			
At 31 December 2014			<u>32,510,415</u>			
<b>Accumulated Amortization</b>						
At 1 January 2013			20,322,534			
Movement During the Period						
Amortisation			1,971,907			
At 31 December 2013			<u>22,294,441</u>			
At 1 January 2013			22,294,441			
Movement During the Period						
Amortisation			2,126,266			
At 31 December 2014			<u>24,420,707</u>			
<b>Net book value:</b>						
At 1 January 2013			3,889,606			
At 31 December 2013			8,360,232			
At 31 December 2014			8,089,708			
<b>19 DUE TO BANKS</b>						
	<b>2014</b>	<b>2013</b>	<b>2012</b>			
	<b>Nu</b>	<b>Nu</b>	<b>Nu</b>			
Unsecured Loans	204,376,414	200,425,897	45,000,000			
Secured Loans	884,749,744	1,119,945,235	1,242,685,200			
Subordinated Term Debt	430,000,000					
	<u>1,519,126,159</u>	<u>1,320,371,132</u>	<u>1,287,685,200</u>			
<b>20 DUE TO CUSTOMERS</b>						
	<b>2014</b>	<b>2013</b>	<b>2012</b>			
	<b>Nu</b>	<b>Nu</b>	<b>Nu</b>			
Fixed Deposit	9,709,000,263	5,038,231,206	3,392,501,569			
Recurring Deposit	114,930,027	86,403,215	65,753,069			
Savings Deposits	1,769,712,425	1,286,321,179	899,406,591			
Current Deposit	906,062,283	507,989,053	153,283,264			
	<u>12,499,704,998</u>	<u>6,918,944,653</u>	<u>4,510,944,493</u>			
<b>21 RETIREMENT BENEFIT PLANS</b>						
	<b>2014</b>	<b>2013</b>	<b>2012</b>			
	<b>Nu</b>	<b>Nu</b>	<b>Nu</b>			
Defined benefit liability at the beginning of the period	37,377,304	37,755,371	33,841,522			
Current service cost	3,108,465	3,956,269	1,883,358			
Interest cost on benefit obligations	2,242,638	2,265,322	2,030,491			
Actuarial (Gains)/Losses recognized in the year	(2,081,544)	(6,599,659)	-			
Liability Settlement Adjustment During the period	(1,895,986)					
	<u>38,750,878</u>	<u>37,377,304</u>	<u>37,755,371</u>			
<b>22 OTHER LIABILITIES</b>						
	<b>2014</b>	<b>Group</b>	<b>2012</b>	<b>2014</b>	<b>Bank</b>	<b>2012</b>
	<b>Nu</b>	<b>2013</b>	<b>Nu</b>	<b>Nu</b>	<b>2013</b>	<b>Nu</b>
Accounts payable & Sundry creditors	41,405,489	20,291,539	-	41,001,874	20,005,289	23,019,439
Provisions	500,000	515,000	-	500,000	500,000	300,000
	<u>41,905,489</u>	<u>20,806,539</u>	-	<u>41,501,874</u>	<u>20,505,289</u>	<u>23,319,439</u>



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

**23 GOVERNMENT GRANTS**

	2014	2013	2012
	Nu	Nu	Nu
Bio Gas Credit	9,833,827	7,874,063	2,584,804
Grant Rudolph Fund (Credit)	1,982,048	2,973,072	-
UNCDF (Savings/Lending)	2,839,413	15,368,313	13,503,601
BIO Gas Subsidy	2,426,617	7,077	2,586,583
Grant Rudolph Fund (Subsidy)	821,206	4,459,608	-
Grant Rudolph Fund (Monitoring & Supervision)	105,913	129,968	-
ADB CSF Project	-	-	1,583,239
Sengor Community Coll Fund	2,328,663	2,276,394	2,160,994
BCCI - SME Development Revolving Fund II	1,000,000	-	-
Cooperative Revolving Fund (DAMC)	61,082	-	-
UNDP HSF	95,688	117,064	138,440
	<b>21,494,456</b>	<b>33,205,560</b>	<b>22,557,662</b>

**Movement of the on going Grants Grants**

	Bio Gas Credit	Grant Rudolph Fund (Credit)	UNCDF (Savings/Lending)	BIO Gas Subsidy	Grant Rudolph Fund (Subsidy)	Grant Rudolph Fund (Monitoring & Supervision)	ADB CSF Project	Sengor Community Coll Fund	BCCI - SME Dev. Rev. Fund RLP-II	Coop. Rev. (DAMC) Fund	UNDP HSF	Total
	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu
Opening Balance	843,150	-	13,503,601	2,586,583	-	-	1,583,239	2,160,994	-	-	196,884	20,874,452
Additions	1,862,104	-	-	-	-	-	-	-	-	-	-	1,862,104
Utilization	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of Credit funds Based on Impairment of Loans & Advances	(120,450)	-	-	-	-	-	-	-	-	-	(58,444)	(178,894)
Balance as at 31.12.2012	2,584,804	-	13,503,601	2,586,583	-	-	1,583,239	2,160,994	-	-	138,440	22,557,662
Additions	5,720,060	2,973,072	8,817,215	3,775,694	4,459,608	150,000	28,077,924	115,400	-	-	-	54,088,973
Utilization	-	-	(6,952,503)	(6,355,200)	-	(20,032)	(29,661,163)	-	-	-	-	(42,988,898)
Amortization of Credit funds Based on Impairment of Loans & Advances	(430,801)	-	-	-	-	-	-	-	-	-	(21,376)	(452,177)
Balance as at 31.12.2013	7,874,063	2,973,072	15,368,313	7,077	4,459,608	129,968	-	2,276,394	-	-	117,064	33,205,560
Additions	4,136,577	-	415,451	9,123,639	-	-	-	52,269	1,000,000	61,082	-	21,537,785
Utilization	(602,000)	-	(12,944,352)	(6,704,100)	(3,638,402)	(24,055)	-	-	-	-	-	(30,268,110)
Amortization of Credit funds Based on Impairment of Loans & Advances	(1,574,813)	(991,024)	-	-	-	-	-	-	-	-	(21,376)	(2,587,213)
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

**24. 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.





## Bhutan Development Bank

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 25. 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.

##### 25.1 Parent and Ultimate Controlling Party

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

##### 25.2 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.

##### 25.2.1 Transactions with Key Managerial Personnel (KMPs)

	2014 Nu	2013 Nu
For the year ended		
Pay and Allowances to Managing Director	1,676,202	1,436,204
Director's Sitting Fee	874,000	740,900
Reimbursement of Travelling Expenses	1,260,708	1,096,610
	<u>3,810,910</u>	<u>3,273,714</u>

##### 25.3 Transactions, Arrangements and Agreements Involving KMPs and their CFMs

##### 25.3.1 Loans and Advances to KMPs and their CFMs are detailed below:

	2014 Nu	2013 Nu
	<u>6,963,682</u>	<u>5,786,718</u>
	<u>6,963,682</u>	<u>5,786,718</u>

##### 25.3.3 Deposits and Investments from KMPs and their CFMs are detailed below:

Deposits & investments	124,582	1,476
	<u>124,582</u>	<u>1,476</u>

##### 25.3.4 Transactions with Subsidiary

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

	2014 Nu	2013 Nu
Deposits	-	-
Loans & receivables	383,615	286,250
Investment in Equity	500,000	500,000
	<u>883,615</u>	<u>786,250</u>





26. EVENTS AFTER THE REPORTING DATE

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

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

A. Determination of fair value hierarchy

31 December 2013	2014			2013		
	Level I	Level II	Level III	Level I	Level II	Level III
<b>Financial Assets</b>						
Quoted Equities	-	-	10,500,361	-	-	500,532.65
Loans & Advances to Employees	-	-	63,842,676	-	-	21,008,522.54
	<u>-</u>	<u>-</u>	<u>74,343,036</u>	<u>-</u>	<u>-</u>	<u>21,509,055</u>

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

	2014		2013		2012	
	Carrying Value Nu	Fair Value Nu	Carrying Value Nu	Fair Value Nu	Carrying Value Nu	Fair Value Nu
<b>Financial Assets</b>						
Cash and cash equivalents	762,597,882	762,597,882	463,713,833	463,713,833	199,829,902	199,829,902
Balances with Royal Monetary Authority of Bhutan	3,489,776,768	3,489,776,768	418,135,990	418,135,990	234,525,187	234,525,187
Placements with Banks	1,332,291,734	1,332,291,734	1,337,322,546	1,337,322,546	1,243,604,965	1,243,604,965
Loans & Advances to Customers	10,231,420,037	10,231,420,037	8,054,646,912	8,054,646,912	5,893,688,945	5,893,688,945
Other Financial Assets	443,858,230	443,858,230	8,200,533	8,200,533	7,375,856	7,375,856
	<u>16,259,944,652</u>	<u>16,259,944,652</u>	<u>10,282,019,813</u>	<u>10,282,019,813</u>	<u>7,579,024,855</u>	<u>7,579,024,855</u>
<b>Financial Liabilities</b>						
Due to banks	1,519,126,159	1,519,126,159	1,320,371,132	1,320,371,132	1,287,685,200	1,287,685,200
Due to other customers	12,499,704,998	12,499,704,998	6,918,944,653	6,918,944,653	4,510,944,493	4,510,944,493
Other Financial Liabilities	41,501,874	41,501,874	20,806,539	20,806,539	23,319,439	23,319,439
	<u>14,060,333,030</u>	<u>14,060,333,030</u>	<u>8,260,122,324</u>	<u>8,260,122,324</u>	<u>5,821,949,132</u>	<u>5,821,949,132</u>

The Fair Value and carrying value of Financial Assets and Liabilities have been assumed to be significantly similar, thus Fair Valuation of these instruments have been determined to the extent that system generated data is inadequate.

28. RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to the Bank if a borrower or counterparty 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.

	2014			2013		
	Maximum Exposure to credit Risk Nu	Properties Nu	Net Exposure Nu	Maximum Exposure to credit Risk Nu	Properties Nu	Net Exposure Nu
<b>Financial Assets</b>						
Placements with Banks	1,332,291,734	-	1,332,291,734	1,337,322,546	-	1,337,322,546
Loans & advances to customers	10,231,420,037	78,323,965,577	-	8,054,646,912	80,209,113,923	-
Financial investments Available for Sale	18,575,361	-	18,575,361	8,200,533	-	8,200,533
Other assets	65,226,321	-	65,226,321	40,913,912	-	40,913,912
	<u>11,647,513,453</u>	<u>78,323,965,577</u>	<u>1,416,093,416</u>	<u>9,441,083,902</u>	<u>80,209,113,923</u>	<u>1,386,436,991</u>





29. 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

	Neither past due nor Individually impaired Nu	Past due but not impaired Nu	Individually Impaired Nu	Total Nu
<b>31 December 2014</b>				
Cash & Cash Equivalent	762,506,289	-	-	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
	<u>9,746,386,616</u>	<u>3,164,679,307</u>	<u>21,477,753</u>	<u>12,932,543,676</u>
<b>31 December 2013</b>				
Cash & Cash Equivalent	463,619,501	-	-	463,619,501
Due from Banks	1,337,322,546	-	-	1,337,322,546
Loans & Advances to Customers	6,150,469,807	2,286,932,034	37,350,598	8,474,752,438
Financial Investments Available for Sale	8,000,533	-	-	8,000,533
	<u>7,959,412,386</u>	<u>2,286,932,034</u>	<u>37,350,598</u>	<u>10,283,695,018</u>





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

**30. RISK MANAGEMENT (Contd...)**

**Liquidity Risk & Funding management**

Contractual maturities & undiscounted cashflows of financial assets & liabilities

<b>31 December 2014</b>	<b>On Demand Nu</b>	<b>Less than 3 months Nu</b>	<b>3 to 12 months Nu</b>	<b>1 to 5 years Nu</b>	<b>More than 5 years Nu</b>	<b>Total Nu</b>
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
<b>Total undiscounted Assets</b>	<b>5,811,949,601</b>	<b>135,254,133</b>	<b>2,177,878,226</b>	<b>6,665,915,371</b>	<b>1,631,323,113</b>	<b>16,422,320,444</b>
Due to Banks	-	10,104,385	100,358,738	460,666,300	947,996,736	1,519,126,159
Due to Customers	2,694,257,655	10,560,418	5,953,027,583	3,227,417,591	614,441,747	12,499,704,998
<b>Total Undiscounted Liabilities</b>	<b>2,694,257,655</b>	<b>20,664,803</b>	<b>6,053,386,321</b>	<b>3,688,083,891</b>	<b>1,562,438,483</b>	<b>14,018,831,157</b>

**Net Undiscounted Financial Assets/(Liabilities)**

<b>31 December 2013</b>	<b>On Demand Nu</b>	<b>Less than 3 months Nu</b>	<b>3 to 12 months Nu</b>	<b>1 to 5 years Nu</b>	<b>More than 5 years Nu</b>	<b>Total Nu</b>
Cash & Cash Equivalent	463,619,501	-	-	-	-	463,619,501
Balances with Central Bank	418,135,990	-	-	-	-	418,135,990
Due from Banks	1,337,322,546	-	-	-	-	1,337,322,546
Loans & Advances to Customers	131,436,658	130,573,959	1,397,854,153	5,657,414,174	1,157,473,495	8,474,752,439
Financial Investments Available for Sale	8,000,533	-	-	-	-	8,000,533
<b>Total undiscounted Assets</b>	<b>2,358,515,227</b>	<b>130,573,959</b>	<b>1,397,854,153</b>	<b>5,657,414,174</b>	<b>1,157,473,495</b>	<b>10,701,831,009</b>
Due to Banks	-	11,657,602	198,613	978,868,335	329,646,582	1,320,371,132
Due to Customers	4,488,399,017	9,217,143	802,339,608	1,493,358,091	125,630,796	6,918,944,654
<b>Total Undiscounted Liabilities</b>	<b>4,488,399,017</b>	<b>20,874,745</b>	<b>802,538,221</b>	<b>2,472,226,426</b>	<b>455,277,378</b>	<b>8,239,315,786</b>

**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.

<b>31 December 2014</b>	<b>On Demand Nu</b>	<b>Less than 3 months Nu</b>	<b>3 to 12 months Nu</b>	<b>1 to 5 years Nu</b>	<b>More than 5 years Nu</b>	<b>Total Nu</b>
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
<b>31 December 2013</b>	<b>On Demand Nu</b>	<b>Less than 3 months Nu</b>	<b>3 to 12 months Nu</b>	<b>1 to 5 years Nu</b>	<b>More than 5 years Nu</b>	<b>Total Nu</b>
Financial Guarantees	-	135,708,670	268,051,297	13,128,564	274,300	417,162,831
	-	135,708,670	268,051,297	13,128,564	274,300	417,162,831



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31. 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	2014					Total
	Thimphu Main Branch	Paro Branch	Wangdue Branch	Phuntsholing Branch	Others	
Loans & Advances to Customers	4,695,863,206	547,957,024	410,168,261	358,957,797	4,806,424,003	10,819,370,292
	4,695,863,206	547,957,024	410,168,261	358,957,797	4,806,424,003	10,819,370,292

Financial Assets	2013					Total
	Thimphu Main Branch	Paro Branch	Wangdue Branch	Phuntsholing Branch	Others	
Loans & Advances to Customers	3,957,924,770	356,541,053	335,249,877	309,237,099	3,515,799,640	8,474,752,439
	3,957,924,770	356,541,053	335,249,877	309,237,099	3,515,799,640	8,474,752,439





32. The Bank has revised its accounting policies effective 01.01.2014 upon adoption of BAS/BFRS and IFRS. Consequently, profit for the year 2014 is higher by Nu. 79,166,716 compared to profit if to be calculated as per old accounting policies.
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. 9,708 (PY Nu. 46,756) 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 2013 & 2014 vide its letter no. MoF/ PED/19/2014/5976 dated 17.03.2014. Accordingly, the Bank has not made provision for taxation in the accounts for the year 2014.
37. Current account with Royal Monetary Authority showing a debit balance of Nu. 2,877,501,490 as on 31.12.2014 is in process of reconciliation and therefore consequential adjustment if any required, shall be carried out during running year.
38. Provision for impairment loss on loans and advances of Nu. 587,950,255 as on 31.12. 2014 has been carried out as per revised accounting policy effective 01.01.2014. This would have been Nu. 610,105,079 had the same been provided as per section 10.8 of Prudential Regulations 2002.
39. Interest accrued on non performing loans has been recognized as income as per revised accounting policy 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.
40. An amount of Nu. 38,750,878 (PY Nu. 37,377,304) has been ascertained as liability towards gratuity on the presumption that all employees cease to be employed with the bank as on 31.12.2014. This liability has been funded by way of separate investment Nu.42,680,083 (PY Nu. 39,887,928) as against the above stated total gratuity provision.
41. Remuneration and expenditure paid/reimbursed to the Managing Director in the year 2014 subject to Board's approval was as follows:

Sl. No.	Particulars	2014 (Nu.)	2013 (Nu.)
1	Pay & Allowances	1,227,250	1,215,000
2	Leave Travel Concession	15,000	15,000
3	Leave Encashment	70,000	-
4	Bonus	271,552	113,804
5	Travel Expense ( In Country )	26,536	147,517
6	Travel Expense ( Abroad )	1,169,857	816,746
7	Provident Fund	92,400	92,400
8	BDBL's Board Sitting Fees in 2013	74,000	56,000
	<b>Total</b>	<b>2,946,595</b>	<b>2,456,467</b>





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.	Particulars	2014 (Nu.)	2013 (Nu.)
<b>A</b>	<b>Salary &amp; Personnel Expenses includes :</b>	<b>128,535,285</b>	<b>110,347,652</b>
1	Manpower Expenses	91,260,522	74,888,150
2	Medical Expenses	442,819	204,658
3	GPF Contribution	7,119,923	6,171,137
4	Gratuity	5,351,103	6,221,591
5	Leave Travel Concession	3,914,660	3,645,831
6	Leave Encashment	4,584,470	4,434,911
7	Bonus to Staff	11,033,615	10,414,680
8	Staff Amenities	2,321,755	1,888,309
9	Cash Handling Allowance	1,659,800	1,269,610
10	Staff Transfer Expenses	846,618	1,208,775
<b>B</b>	<b>Repairs &amp; Maintenances</b>	<b>2,901,290</b>	<b>1,613,029</b>

43. Pending capital commitments (net of advance) as on 31.12.2014 are of Nu. 11,764,437 (PY Nu. NIL).

44. Chetrumts have been rounded off 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

Firm Registration No: 01135N

S.K. Mittal

Partner

Membership No: 8506

Date: 07 APR 2015

Place: New Delhi



Managing Director

Chairman





# **BDB SECURITIES LIMITED**

## **ANNUAL ACCOUNTS & AUDITORS' REPORT 2014**

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



**S.K. Mittal & Co.**  
Chartered Accountants  
**AUDITORS' REPORT TO THE MEMBERS OF**  
**BDB SECURITIES LIMITED**  
**THIMPHU, BHUTAN**

We have audited the attached Statement of Financial Position of BDB Securities Limited, as at 31st December 2014 and also the Income Statement and the Statement of Cash Flow annexed thereto for the period ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Further, to our comments in the annexure as referred above, we report that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory.
2. In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of those books.
3. The Company has complied with the various provisions of the Financial Services Act 2011 and other applicable laws, rules & regulations, systems and practices except otherwise stated elsewhere in this report.
4. The Statement of Financial Position, Income Statement and Statement of Cash Flow dealt with in this report are in agreement with the books of account and have been compiled on the basis of generally accepted accounting principles.
5. In our opinion, as shown by the books of the Company, and to the best of our information and according to the explanations given to us, the said Statement of Financial Position and Income Statement and the Statement of Cash Flow read with Notes 1 to 9 and our comments in the Annexure – A attached herewith, give the information under The Companies Act of the Kingdom of Bhutan 2000, in the manner so required and exhibit a true and fair view:
  - a) in the case of Statement of Financial Position, of the state of affairs of the Company as at 31st December 2014;
  - b) in the case of Income Statement, of the profit of the Company for the period ended on that date; and





c) in the case of Statement of Cash Flow, of the cash flows for the period ended on that date.

Place: New Delhi

Date: 07 APR 2015

**For S.K. Mittal & Co.**

Chartered Accountants

Firm's Registration No.01135N



**S. K. Mittal**

Partner

Membership No. 8506



**S.K. Mittal & Co.**

Chartered Accountants

**BDB SECURITIES LIMITED**

**THIMPHU, BHUTAN**

**(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 the company as on 31.12.2014 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 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 the Articles of Incorporation of the Company.
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**

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'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 Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### 2. Ratio Analysis

Financial and operational ratios are given below:

Ratio	2014	2013
Current Ratio = Current Assets/ Current Liabilities	0.32:1	0.31:1
Profit on Turnover = Profit after Tax/ Turnover	1.22%	(6.40%)
Return on Investment = Profit after Tax/ Capital Employed	0.37%	(1.40%)

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

The company has not complied with the following areas of the above Act and other statutory regulations:

- a) Term of appointment of Chief Executive Officer (CEO) is not defined and his appointment not made with the approval of the company in general meeting. This is inconsistent with the provision of section 85 of the Companies Act of the Kingdom of Bhutan 2000 according to which every company shall appoint a CEO for a term not exceeding five years at a time with the approval of the company in general meeting.
- b) The boards of directors of a regulated entity are required to establish an audit committee and a governance committee as per clause 8(i) of Corporate Governance Regulations, 2011. However, the company has no audit committee and governance committee during the year 2014.

### 4. Adherence of 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

Date: 07 APR 2015

**For S. K. Mittal & Co.**

Chartered Accountants

Firm's Registration No.01135N

  
**S. K. Mittal**

Partner

Membership No. 8506





**BDB Securities Limited**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31st December 2014**

	Note	2014 Nu	2013 Nu
<b>Assets</b>			
Cash & Cash Equivalent	1	91,593	94,332
Trade and Other Receivables	2	37,744	-
Investments	3	700,000	700,000
Property, Plant & Equipment	4	69,189	-
<b>Total Assets</b>		<b>898,526</b>	<b>794,332</b>
<b>Liabilities</b>			
Current Liabilities	5	403,615	301,250
<b>Total Liabilities</b>		<b>403,615</b>	<b>301,250</b>
<b>Equity</b>			
Share Capital	6	500,000	500,000
Retained Earnings	7	(5,089)	(6,918)
<b>Total Equity</b>		<b>494,911</b>	<b>493,082</b>
<b>Total Liabilities and Equity</b>		<b>898,526</b>	<b>794,332</b>
<b>Significant Accounting Policies</b>	8		
<b>Notes on Accounts</b>	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  
Firm Registration No.01135 N

S.K. Mittal  
Partner

Membership No. 8506  
Date: 07 APR 2015  
Place: New Delhi

  
Chief Executive Officer

  
Chairman





**BDB Securities Limited**  
**INCOME STATEMENT**  
**Year ended 31st December 2014**

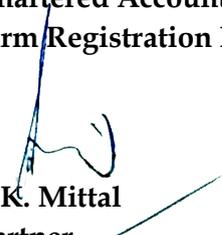
	Note	2014 Nu	2013 Nu
<b>Brokerage Income</b>		149,723	108,077
Trading Fees		(27,252)	(13,695)
Annual Membership Fees		(75,000)	(75,000)
Registration Fees		-	(2,000)
Trade License Fees		(5,720)	(1,600)
Advertisement Expenses		-	(7,650)
Bank Charges		(100)	(50)
Audit Fees		(15,000)	(15,000)
Board Sitting Fees		(12,000)	-
Depreciation on Property Plant & Equipment		(12,821)	-
Total Expenses		<u>(147,893)</u>	<u>(114,995)</u>
<b>Profit Before Tax from Continuing Operation</b>		<b>1,829</b>	<b>(6,918)</b>

<b>Significant Accounting Policies</b>	8
<b>Notes on Accounts</b>	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  
Firm Registration No.01135 N

  
S.K. Mittal  
Partner

Membership No. 8506  
Date: 07 APR 2015  
Place: New Delhi

  
Chief Executive Officer



  
Chairman



**BDB Securities Limited**  
**STATEMENT OF CASH FLOWS**  
**Year ended 31st December 2014**

	Note	2014 Nu	2013 Nu
<b>Operating Activities</b>			
Profit Before Tax from Continuing Operations		1,829	(6,918)
Adjustments for ;		-	-
Depreciation of Property, plant and equipment		12,821	-
Provision for Audit Fees		15,000	15,000
Provision for Annual License Renewable Fees		5,000	-
<b>Operating profit before changes in operating assets &amp; liabilities</b>		<b>34,650</b>	<b>8,082</b>
<b>(Increase)/Decrease in operating assets</b>			
Trade & Other Receivables		(37,744)	-
<b>Increase/(Decrease) in operating liabilities</b>			
Account Payable		355	286,250
<b>Net cash flow from operating activities</b>		<b>(2,739)</b>	<b>294,332</b>
<b>Cash flow from investing activities</b>			
Investments		-	(700,000)
<b>Net cash flow from investing activities</b>		<b>-</b>	<b>(700,000)</b>
<b>Cash flow from financing activities</b>			
Share Capital		-	500,000
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>500,000</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,739)</b>	<b>94,332</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>94,332</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>91,593</b>	<b>94,332</b>

For S.K. Mittal & Co.  
Chartered Accountants  
Firm Registration No.01135 N

S.K. Mittal  
Partner

Membership No. 8506  
Date: 07 APR 2015

Place: New Delhi

Chief Executive Officer



Chairman



**BDB Securities Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31st December 2014**

	2014 Nu	2013 Nu	
<b>Note 1: Cash &amp; Cash Equivalent</b>			
Bank Balance with TMB (Client A/c)	-	-	
Bank Balance with TMB (Commission A/c)	90,407	93,146	
Bank Balance with BNBL (Settlement A/c)	1,186	1,186	
	91,593	94,332	
<b>Note 2: Trade &amp; Other Receivables</b>			
Account Receivables	37,744	-	
	37,744	-	
<b>Note 3: Investments</b>			
5,000 Equity Shares of Nu.100 each (Unquoted) with Royal Securities Exchange of Bhutan Ltd	500,000	500,000	
Investment in Settlement Guarantee Fund	200,000	200,000	
	700,000	700,000	
<b>Note 4: Property, Plant &amp; Equipment</b>			
	<b>Computer Hardware Nu</b>	<b>Furniture &amp; Fittings Nu.</b>	<b>Total Nu</b>
<b>Cost</b>			
At 1 January 2014	-	-	-
Additions	72,010	10,000	82,010
Disposals	-	-	-
At 31 December 2014	72,010	10,000	82,010
<b>Accumulated Depreciation</b>			
At 1 January 2014	-	-	-
Additions	-	-	-
Disposals	-	-	-
Depreciation charge for the year	11,888	933	12,821
At 31 December 2014	11,888	933	12,821
<b>Net book value:</b>			
At 1 January 2014	-	-	-
At 31 December 2014	60,122	9,067	69,189



**Note 5: Current Liabilities****Account Payable**

Settlement Guarantee Fund	200,000	200,000
Annual Membership Fees	75,000	75,000
Registration Fees	2,000	2,000
Trade License Charges	1,600	1,600
Advertisement Expenses	7,650	7,650
Trading fees	355	-
Audit Fees	15,000	-
BDBL for Fixed Assets	82,010	-
	<u>383,615</u>	<u>286,250</u>

**Provisions**

Provision for Audit Fees	15,000	15,000
Provision for Annual license Renewal Fees	5,000	-
	<u>20,000</u>	<u>15,000</u>
	<u>403,615</u>	<u>301,250</u>

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

5,000 Equity Shares of Nu.100 each	500,000	500,000
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**Issued, Subscribed and Fully Paid-Up**

5,000 Equity Shares of Nu.100 each	500,000	500,000
	<u>500,000</u>	<u>500,000</u>

**Note 7: Retained Earnings****General Reserves**

Opening Balance	(6,918)	-
Current Year Profit & Loss Account	1,829	(6,918)
	<u>(5,089)</u>	<u>(6,918)</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/Bhutan Financial Reporting Standards (BAS/BFRS) and International Financial Reporting Standards (IFRS) as issued by the IASB.

##### 8.2.2 Presentation of financial statements

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

#### 8.3 First Time Adoption of BAS

These financial statements, for the year ended 31 December 2014, are the first the Company has prepared in accordance with the format issued by BAS together with the comparative period data as at and for the year ended 31 December 2013.

#### 8.4 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.

#### 8.5 Investments

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

#### 8.6 Property, Plant & Equipment

- 8.6.1 Property, Plant & Equipment are stated at original cost, net of accumulated depreciation.
- 8.6.2 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:

<u>Assets Type</u>	<u>Useful life</u>
Furniture & Fitting	6-7 years
Computer Hardware	6-7 years

- 8.6.3 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.





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

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

**Note 9 - NOTES ON ACCOUNTS**

9.1 The Company was incorporated on 31<sup>st</sup> July 2013 and therefore corresponding figures for previous period are only for a part of the year and not comparable with figures of current period of 12 months.

9.2 Investment in unquoted equity shares of the Royal Securities Exchange of Bhutan Limited of Nu. 500,000.00 is still pending for registration in the name of BDB Securities Ltd.

9.3 Chetrumts have been rounded off to the nearest Ngultrum.

**For S.K. Mittal & Co.**

**Chartered Accountants**

**Firm Registration No.01135N**

**S.K. Mittal**

**Partner**

**Chief Executive Officer**



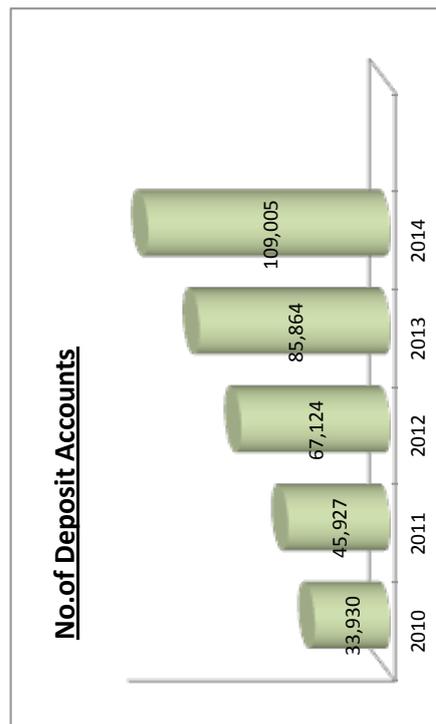
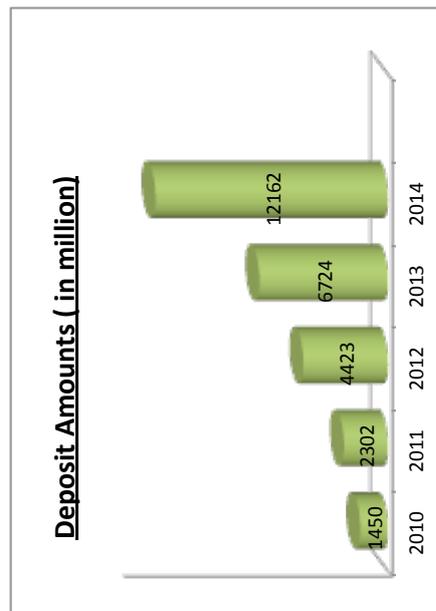
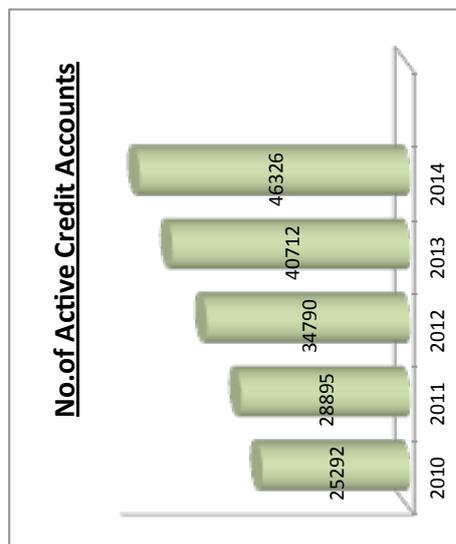
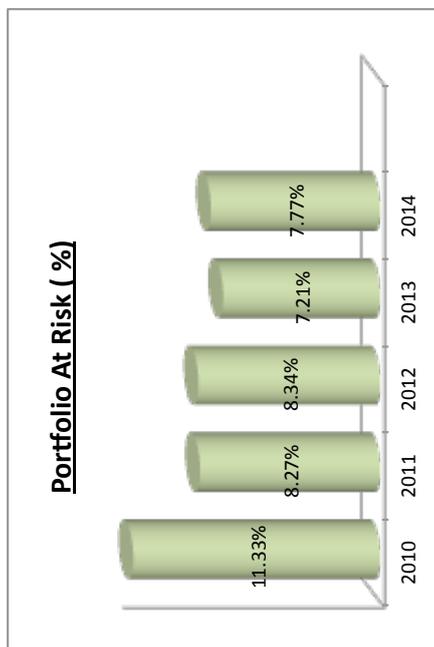
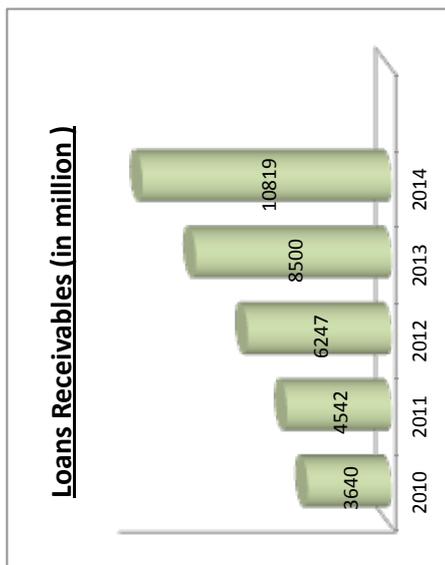
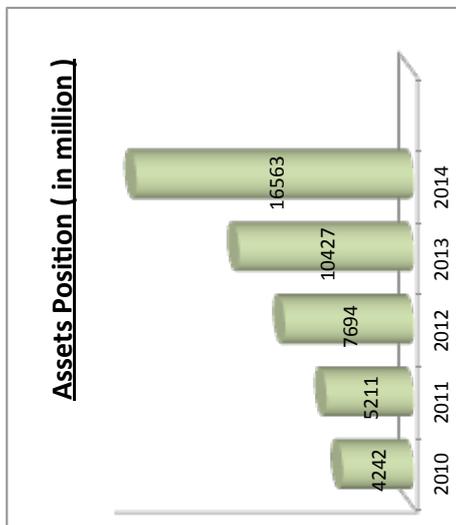
**Chairman**

**Membership No. 8506**

**Date: 07 APR 2015**

**Place: New Delhi**

## CONSOLIDATED PERFORMANCE INDICATORS



## CONSOLIDATED PERFORMANCE INDICATORS

