RICB

"Your partner for growth and security"

Annual Report 2019

Royal Insurance Corporation of Bhutan Ltd.

ROYAL INSURANCE CORPORATION OF BHUTAN LIMITED

RICB

"Your partner for growth and security"

Annual Report 2019

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COMPANY PROFILE

For the last 45 years, the Royal Insurance Corporation of Bhutan Limited (RICB) has been fulfiling the insurance and financial needs of the people to improve their financial well-being and protect from the unpredictability of their lives.

Instituted under the Royal Charter of His Majesty the Fourth Druk Gyalpo Jigme Singye Wangchuck on the 7th of January 1975, RICB has positively impacted lives and contributed immensely to the overall socio-economic development of the country by generating domestic revenue through its diverse insurance, credit and investment avenues.

Taking a dynamic and empathetic approach towards the financial well-being of the Bhutanese people, RICB shall continue to strive towards the realisation of the national goal of Gross National Happiness.

VISION, MISSION & CORE VALUES

VISION

To be the premier financial service provider in the country and beyond, securing the ever-evolving aspiration of the society

CORE VALUES

- Transparency
- Accountability
- Commitment
- Team Work
- Integrity
- Creativity
- Specialization

MISSION

We offer premier insurance, credit and other social security services, delivering personalized services at affordable cost by professional employees through comprehensive network. We strive to enhance mutually beneficial relationship to satisfy our stakeholders.

BOARD OF DIRECTORS

CHARIMAN
DASHO WANGCHUK DORJI
BHUTAN AIRLINES & TASHI INFOCOMM

Dasho Wangchuk Dorji is the Vice Chairman of Tashi Group of Companies. The group is the largest private business in Bhutan. The conglomerate has diverse lines of business including airline, telecom, bank, ferro silicon, beverages, hotels, construction, and others. Dasho Wangchuk Dorji sits as the chairman in most of the business entities. Dasho has Degree in Business Finance, Economics, Financial Accounting & Administration from New Hampshire College, Manchester, USA.

DIRECTOR
DASHO KUNZANG WANGDI
ROYAL RESEARCH & ADVISORY COUNCIL

First and the Former Chief Election Commissioner (CEC) of Bhutan (ECB) Dasho Kunzang Wangdi is currently with the Royal Research and Advisory Council. Before becoming the first CEC, Dasho served with the RGoB under numerous capacities including, as the Auditor General of Bhutan, RAA, Director of RIM, Director of Ministry of Trade and Industry and as the Deputy Secretary of RCSC to name a few. Dasho Kunzang has an MPA from the Institute of Public Administration, Pennsylvania State University, USA. Dasho graduated with B. A. Hons. in English from St Stephen's College, University of Delhi, India in 1977.

DIRECTOR
DUBTHOB WANGCHUG
CONSULTANT

Former CEO of NPPF and RSEB, Dubthob Wangchug currently works as a Consultant. Dubthob also served as the Deputy CEO with the Bhutan National Bank. He began his career in the financial sector from the RMA as the Department Chief in 1984. Dubthob has a Master's Degree in Economics from Sydney University, Australia and B.A. in Economics from Punjab University in India.

DIRECTOR
UGYEN WANGDI
SENIOR ANALYST, DHI

Ugyen Wangdi is the Senior Analyst & Head, Performance Improvement Division under the Corporate Performance Department, DHI. Since joining the DHI in March 2008, Ugyen Wangdi has worked under an analyst capacity with DHI's arms like Planning & Monitoring and Performances Improvement Divisions. For education, Ugyen Wangdi has a Master of Business Administration from Australian National University, Canberra, Australia. He graduated with BSc Majoring in Maths from the Sherubtse College.

INDEPENDENT DIRECTOR
KARMA CHODEN
EXECUTIVE DIRECTOR

Karma Choden has been appointed as the Executive Director (ED) of Keshet Foundation registered under the Civil Society Organizations Authority of Bhutan in March, 2014. Keshet Foundation is a Public Benefit Organization. Until her appointment as the ED, Karma Choden served as a General Manager of Credit Operations at the Bhutan Development Bank Limited since 1991 to 15th of March 2014.

INDEPENDENT DIRECTOR
SANGAY TENZIN

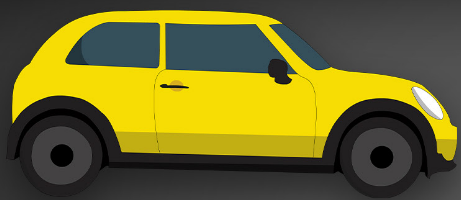
Sangay Tenzin is an Independent Director. Before venturing into the private sector, Sangay Tenzin served as the Senior Analyst in DHI and with the Ministry of Finance. He has also served under the Office of Gyalpoi Zimpon. Sangay Tenzin has a Master's Degree in Public Policy from NUS, Singapore. He graduated from Sherubtse College with B. Com Honours in 2001.

DIRECTOR
KARMA
CEO, RICB

Prior to joining RICB, Karma was the founding CEO of SAARC Development Fund and had worked with the International Finance Corporation (IFC), Banco National De Commercial De Timor Leste, Bhutan National Bank and Royal Monetary Authority of Bhutan. He has a Master's and Bachelor's Degree in Economics from New York University, USA.

MOTOR INSURANCE BENEFITS
(COMPREHENSIVE)

*Let's say you have **Motor Comprehensive Insurance** for your coveted Car, over the next 12 months, we'll help you:*



1 *Repair your car if you have an accident*

2 *Mend the other person's car you damage in an accident*

3 *Compensate for damage/ injury to another person's property/life*

4 *Pay for an injury to self & the passenger during an accident*

R I C B
"Your partner for growth and security"

We make you resilient to uncertainties

MANAGEMENT TEAM

KARMA
CHIEF EXECUTIVE OFFICER
RICB

Prior to joinining RICB, Karma was the founding CEO of SAARC Development Fund and had worked with the International Finance Corporation (IFC), Banco National De Commercial De Timor Leste, Bhutan National Bank and Royal Monetary Authority of Bhutan. He has a Master's and Bachelor's Degree in Economics from New York University, USA.

PARSURAM TIRWA
HEAD
CREDIT & INVESTMENT DEPARTMENT

Joined the RICB on March 01, 1996 as Development Officer in the Credit Department. Worked in the Credit Department of Regional and Corporate Offices in various capacities. Head of Credit Department at erstwhile Regional Office at Phuentsholing from March 2010 to December 2018. Head of Credit Department at Corporate Office, Thimphu in 2019 after major restructuring. Parsuram has a B.A. Honours in Political Science from the University of Delhi, India.

UGYEN TSHEWANG
GENERAL MANAGER
GENERAL INSURANCE DEPARTMENT

Ugyen Tshewang began his career with the National Pension & Provident Fund. He joined RICB in April 2013 and now heads the General Insurance Department. His expertise includes investment analyses & management, social security benefit design, financing & valuations; insurance pricing & valuations and other actuarial applications. Ugyen holds BSc in Statistics, MSc in Social Protection Financing and Master of Actuarial Statistics. He is the Fellow of the Insurance Institute of India (AIII).

LUNGTEN
HEAD
LIFE INSURANCE DEPARTMENT

Lungten is the Life Insurance Department (LID) Head. Before joining the LID, he headed the Information and Technology Department. Lungten has Master of Business Administration (MBA) from National Institute of Business Management, Chennai, India. He graduated from the Sherubtse College, Bhutan with BSc General.

KARMA SONAM TSHERING
GENERAL MANAGER
REINSURANCE DEPARTMENT

Karma Sonam Tshering graduated with a B.A. Eco/Maths Degree from Sherubtse College. He received a Fellow of Insurance Institute of India on Life Insurance from the Insurance Institute of India in Mumbai, India. He also served as Branch Manager in Mongar.

SONAM KESANG
HEAD
FINANCIAL SECURITY & SERVICES DEPARTMENT

Sonam Kesang joined RICB in October 2002. She has MBA in Marketing Communication from Naresuan University, Thailand. She is an alumni of Sherubtse College, Bhutan & RIGSS. She has experience in the field of General Insurance, Marketing & Customer Service. Prior to becoming the Head of the FSSD, she was the Head of Marketing and Customer Service Division.

ZARNA MOKTAN
HEAD
FINANCE & ACCOUNTS DEPARTMENT

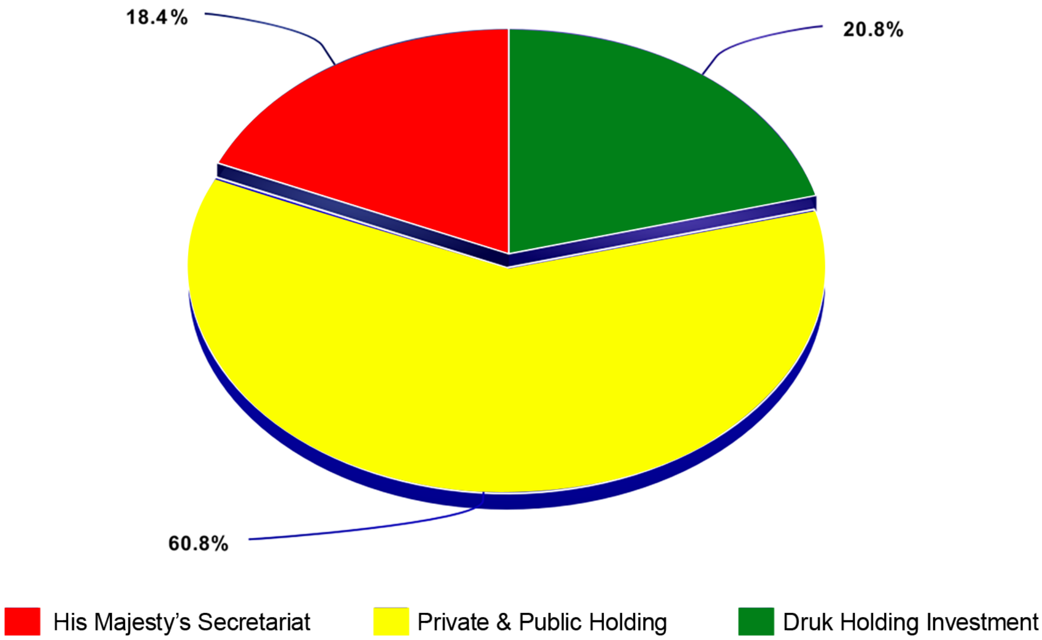
Zarna Moktan has MBA from Hague University of Applied Sciences, Netherlands. She graduated with Bachelors in Commerce from St. Joseph College, North Bengal University, India. With 15 years of service with the corporation, she has various experience in the fields of Finance, Accounting, Customer Service, Life Insurance and Auditing.

PHUB DORJI
HEAD
LEGAL DEPARTMENT

Phub Dorji is heading the Legal Department. In 2014, he joined RICB as the Company Secretary and Head of the then Legal Division. Phub Dorji served in the Judiciary for nine years. Before joining the RICBL, he was a Drangpon Rabjam in the Judiciary. He also served as the Personal Secretary to Her Royal Highness Princess Sonam Dechan Wangchuck, the President of Bhutan National Legal Institute (BNLI). Phub Dorji has a Master of Laws (LL.M) from the University of Canberra, Australia. He graduated with B.S.L. LL.B Degree from the Pune University, Maharashtra, India, in 2004.

JAMBAY WANGCHUK
HEAD
GAD & HRD

Jambay Wangchuk leads the GAD & HRD. Since joining RICB in 1998, he has headed the Credit Department as the second-in-command and was the Branch Manager of Paro Branch Office. Jambay Wangchuk has B.A. in Economics (Hons) from Sherubtse College, Kanglung, Bhutan.



SHARE HOLDING PATTERNS

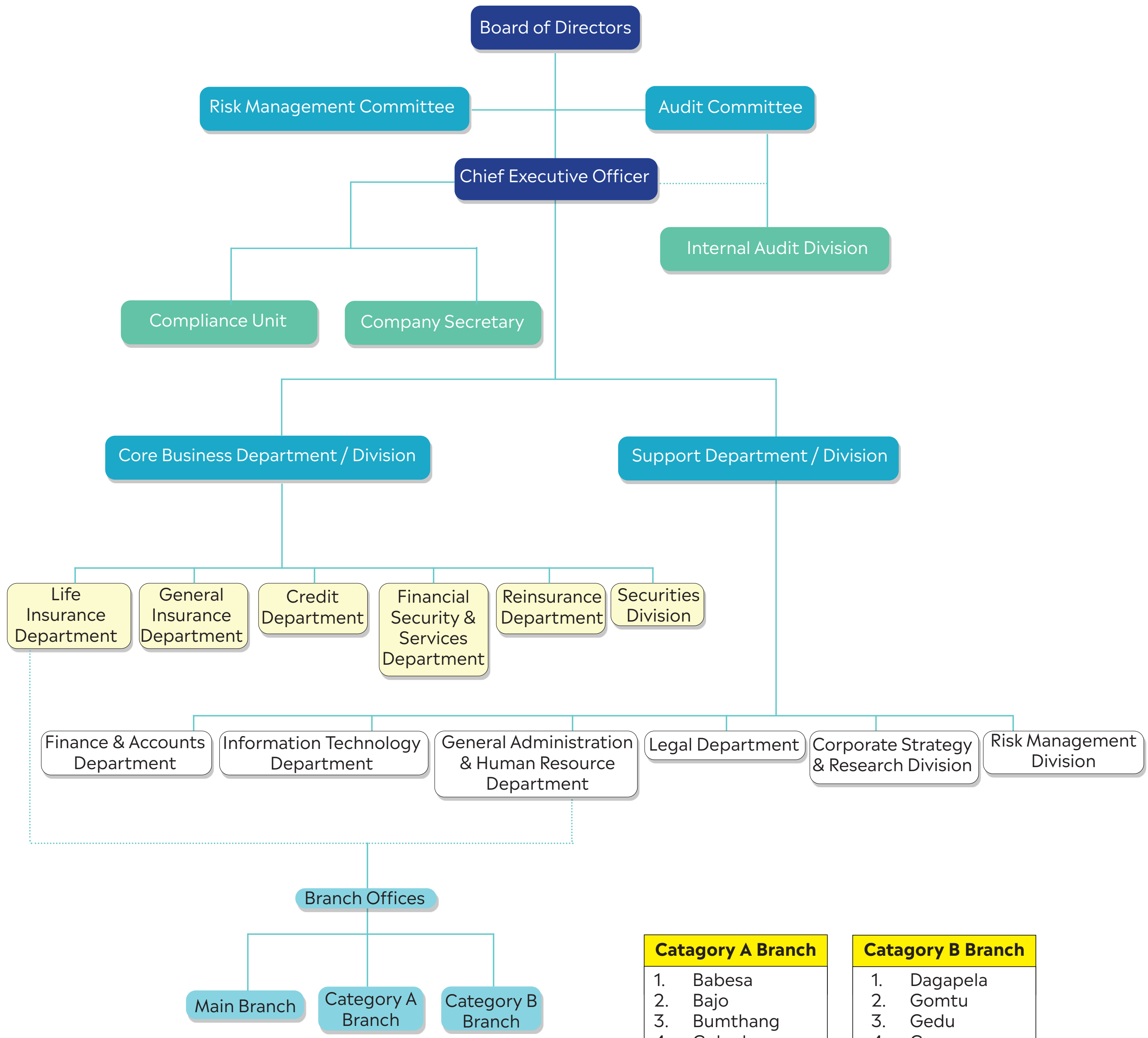
The shareholding patterns of RICB have undergone considerable change since its inception 45 years ago on the 7th of January 1975 under the Royal Charter of the Fourth Druk Gyalpo His Majesty Jigme Singye Wangchuck.

When the company was established then, with a paid up capital of Nu 1 million (M) against an authorised capital of Nu 2 M, the royal government of Bhutan invested 51 percent of the seed capital. Dasho Ugyen Dorji, a renowned businessman and reputed industrialist of Bhutan, and the general public, financed the remaining 49 percent.

A metamorphosis of sort took place on the 11th of October 1991, when RICBL was incorporated as a public limited company. Two years later, the company was listed on the securities exchange following the establishment of the Royal Securities Exchange of Bhutan in 1993. The government disinvested parts of its equity to the public so as to enable private sector growth, and thereby empower the private sector to play a pivotal role in the economic growth of the country.

Today 61 percent of the company is shared and owned by public and private organisations. The government holding, Druk Holding & Investments Ltd. owns 18 percent while the His Majesty's Welfare Fund holds the remaining 21 percent. RICB's both the authorised capital and the paid up capital rose to Nu 5,000 M and Nu 1,200 M respectively as of the 31st of December 2015.

ORGANOGRAM



Main Branch
1. Thimphu
2. Phuentsholing

Catagory A Branch
1. Babesa
2. Bajo
3. Bumthang
4. Gelephu
5. Khuruthang
6. Mongar
7. Paro
8. Samdrup Jongkhar
9. Samtse
10. Trashigang
11. Trongsa
12. Tsirang

Catagory B Branch
1. Dagapela
2. Gomtu
3. Gedu
4. Gasa
5. Gyelposhing
6. Haa
7. Lhuntse
8. Nganglam
9. Pemagatshel
10. Trashi Yangtse
11. Tashicholing
12. Wamrong
13. Zhemgang

PHO-MO JOINT LIFE

Secures your trust and relationship

Let's say a couple decided to buy PHO-MO JOINT LIFE for Sum Assured of Nu 100,000 when the husband was 30 & wife, 33 for a Term of 20 years.

Their Monthly Premium

Nu 515

Premium for 1 Year

Nu 515 X 12 = 6,180

Total Premium for 20 Years

Nu 6,180 x 20 = Nu 123,600

Benefits at the End of Term

- Nu 100,000 + bonus
- Plus risk coverage for both husband & wife (Nu 100,000)
- And 50% tax waiver worth Nu 61,800
- A premium waiver in case of the death of a spouse

Visit our website @www.ricb.bt
or Call us @1818 for more information

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Directors' Report for the Year 2019

To the Shareholders

On behalf of the Board of Directors and on my own behalf, I present the 45th Annual Report, together with the Audited Financial Statements of the Company for the year ended 31st of December 2019.

Corporate Governance

As an effective corporate governance is critical to the long-term success of RICBL the Board and management are committed to having in place a strong corporate governance framework that underpins RICB's vision to be a premier financial service provider. The Board regularly monitors the Company's corporate governance practices in full compliance with the requirements of the Companies Act of Bhutan 2016, Rules Governing Official Listing of Shares and Corporate Governance Rules and Regulations 2018. Towards this, the Board is also supported in its endeavour by the Board Risk Management Committee and Board Audit Committee.

The Year 2019 has seen changes in the governance of the company with the appointment of three new Directors and appointment of Dasho Wangchuk Dorji as the Chairman of the Board. During the Financial Year, the management focused on enhancing the operational efficiency of the company and improving processes and procedures. To enhance corporate governance and instill a culture of responsibility and accountability different policies, guidelines and terms of references were framed. To help the company overcome the past lapses and meet the emerging challenges effectively new heads of departments experienced and qualified are appointed. To meet the regulatory requirements and strengthen the company's capital, Nu. 200,001,800 was raised through the issue of rights shares. The overwhelming public response during the auction of unsubscribed rights issue bidding at Nu.70 per share shows the public confidence and trust in the company. The share price of the company has continued to remain above Nu. 70 per share throughout the financial year.

As on 31st of December 2019, the Board of Directors consisted of 7 members with a wide range of knowledge and experience. Two of the Directors are Independent Directors to ensure that the interest of the minority shareholders is protected and to provide balanced views during Board's deliberations. During the year the Board convened 7 meetings. The names of the Directors and the details of their attendance at the Board Meeting are set out as below:

Name of the Member	No. of Board Meetings attended
Dasho Wangchuk Dorji	5 of 5
Dasho Kunzang Wangdi	5 of 7
Mr. Dupthob Wangchug	3 of 5
Mrs. Karma Choden	7 of 7
Mr. Ugyen Wangdi	7 of 7
Mr. Sangay Tenzin	5 of 5
Mr. Karma	7 of 7

Operational & Performance Highlights

The company commenced its Financial Year 2019 with the biggest challenge of having to turn around the financial performance of the company. With a loss of Nu. 1,233.74 million during the year 2018 mainly caused with the increased impairment against loans and advances, the management focused to resolve the Non-performing loan accounts. Different approaches and strategies were implemented during the year to improve the asset quality of the company. The NPL ratio of the company could not be reduced to an acceptable limit owing to the economic conditions and deteriorating financial conditions of the borrowers. Nevertheless, the growth in the NPL has been curtailed to a level where the company could generate modest profit during the financial year. The company continues to pursue the policy of minimizing reliance on external borrowings. During the year external borrowings amounting to Nu. 751.20 million was repaid reducing the interest expenses to Nu. 43.22 million as compared to Nu. 108.02 million paid during the previous year on bank borrowings.

This year, RICB's financial performance recorded after tax profit of Nu. 263.49 million compared to after tax loss of Nu. 1,233.74 million during the previous year. The profit came mainly from insurance business whereas the credit business continues to incur loss owing to increased impairment on loans. The total gross business posted Nu. 6,096.45 million from the previous year's Nu. 5,484.82 million, resulting in increase of 11.15%.

Significant Financial Indicator

Indicators	2019	2018 (Re-stated)
Profit Before Tax (PBT)	380.35	(1,174.66)
Total Turn over	6,096.45	5,954.58
Return on Core Equity	18.82	(71.63)
Earnings per share	1.88	(7.16)
Book Value per Share	25.59	26.26
Net-worth	3,582.21	3,150.89
Paid up Capital	1,400.00	1,200.00
Cash/Bank Balance	2,691.91	2,962.03
Balance Sheet	21,925.49	21,547.34

The gross interest earned during the year, including the interest from fixed deposits, amounts to Nu 2,559.74 million compared to Nu. 2,276.91 million during the previous year recording a growth of 12.42%. However, the increase in the impairment of loans by Nu. 747.75 million during the year resulted in loss from the Credit Department. The NPL ratio calculated as per the Prudential Rules and Regulation increased from 27.65% during the previous year to 31.10% for the current year.

The year witnessed a significant growth in the insurance business compared to the previous year, mainly due to aggressive marketing and retaining of the existing clients despite the competition in the insurance market. The net revenue from the general insurance underwriting was Nu 486.34 million, as compared to Nu 389.60 million during 2018, which is transferred to the Income Statement of the Company. The net premium, after affecting the re-insurance premiums, fetched Nu 553.18 million. Correspondingly, the net claims after considering reinsurance recoveries posted Nu 299.36 million. The overall net claim ratio during the financial year 2019 stands at 54.12% as against 57.83% in the previous year.

The reinsurance business also contributed significant amount to the Profit of the company recorded at Nu. 39.34 million. The Profit contribution is through release of reserves on expiry of the underlining risk and adjustment of premium and loss reserves.

It is significant to note that life insurance has also recorded growth with the premium income of Nu.1,242.53 million, followed by inward reinsurance premium of Nu. 876.68 million. The contribution for Annuity business recorded at Nu. 87.37 million and Nu. 461.40 million from Private Provident Fund business.

Business Income for the Period ended 31.12.2019

Department	2019	2018
Interest Income (CID)	2,207,108,907	2,276,913,306
Commission, Dividend & Others (CID)	59,129,146	76,633,944
General Insurance Premium	1,050,135,582	1,095,310,119
Life Insurance Premium	1,242,535,271	1,190,487,107
Group Insurance Premium	80,947,440	74,649,030
Reinsurance Premium	881,845,607	449,280,477
Annuity Contribution during the year	87,378,600	372,412,456
PPF Contribution during the year	461,406,180	405,394,973
Rent & Others	15,645,054	13,503,556
Broker Commission	10,318,862	-
TOTAL	**6,096,450,649**	**5,954,584,968**

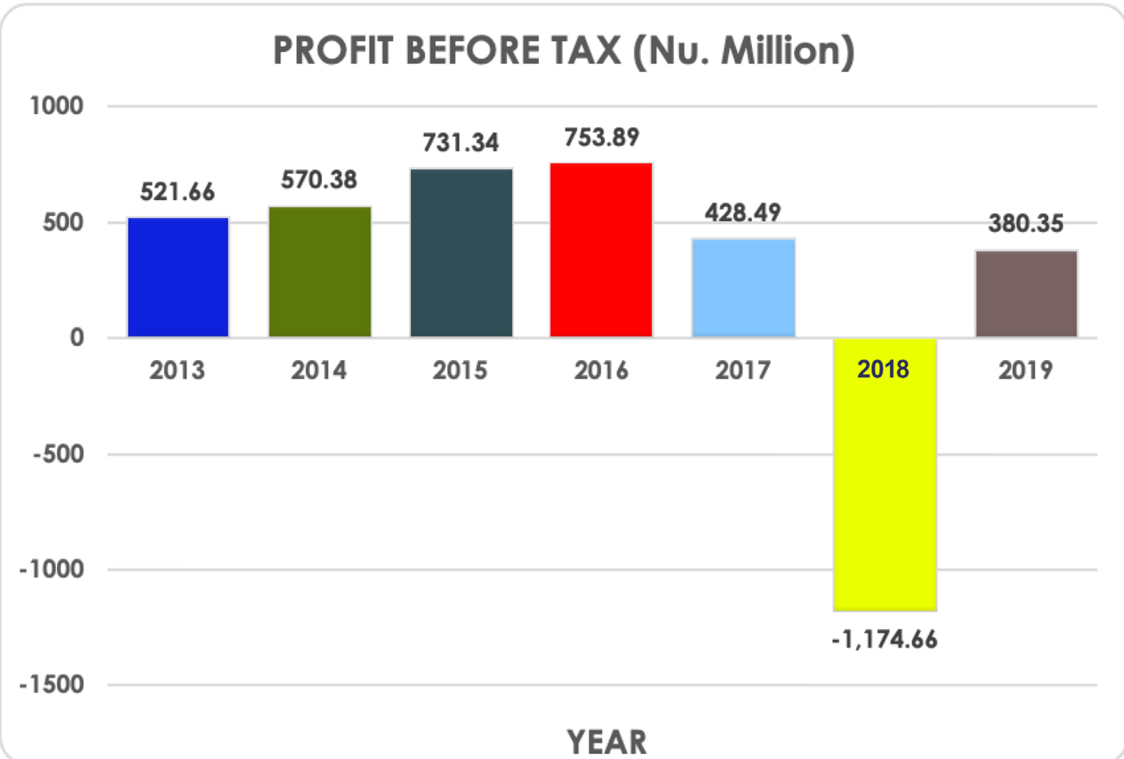
Financial Performance for the year 2019

Particulars	2019 (Nu in millions)	2018 (Re-stated) (Nu in millions)	Variance '19 &'18 %
Income			
Net Premium Earned	2,579.29	2,204.30	17.01
Net Fee & Commission Income	162.73	152.72	6.55
Net Interest Income	1,209.25	835.16	44.79
Other Operating Income	32.78	26.25	24.88
Total Revenue (I)	**3,984.05**	**3,218.44**	**23.79**
Expenses			
Net Claims	2,323.42	2,159.60	7.59
Other Operating Expenses (Net)	1,280.28	2,233.50	(42.68)
Total Expenses (II)	**3,603.71**	**4,393.10**	**(17.97)**
Profit Before Tax (I) – (II)	**380.35**	**(1,174.66)**	**132.38**
Tax Expense	**(116.86)**	**315.12**	**(137.08)**
Profit After Tax	**263.48**	**(859.54)**	**130.65**
Earnings Per Share	**1.88**	**(7.16)**	**126.26**
Book Value Per Share	**25.59**	**26.26**	**(2.55)**
Net-worth of the Company	**3,582.21**	**3,150.89**	**13.69**
Return on Core Equity (%)	**18.82**	**(71.63)**	**126.27**

The earnings per share of the Company during the year improved to Nu 1.88 vis-a-vis Nu (7.16) during the last financial year. The improvement in EPS is due to improvement in the Financial Performance during the financial year. The net worth of the company as on 31.12.2019, was valued at Nu 3,582.21 million, compared to Nu 3,150.89 million in the last financial year, and the book value per share recorded at Nu 25.59, due to increase in reserves after transfer of profit. Considering the financial performance for the year the return to core equity recorded at 18.81% compared to negative figure of 71.63% during the last financial year.

Performance Highlights (Gross Profit) from 2010-2019

	Year	Nu in Million	%
GAAP	2010	300.19	14.90
	2011	450.94	50.22
	2012	501.07	11.12
	2013	521.66	4.11
BFRS	2014	570.38	6.04
	2015	731.34	28.22
	2016	753.89	3.09
	2017	428.49	(43.16)
	2018	(1,174.66)	(374.13)
	2019	380.35	131.95



The company recorded consistent growth in insurance business, accounting for 12.49% growth in premium income over the previous year. The interest income also increased by around 24.91% compared to the previous financial year. However, the desired profitability could not be achieved owing to increase in the impairment loss on loans and advances.

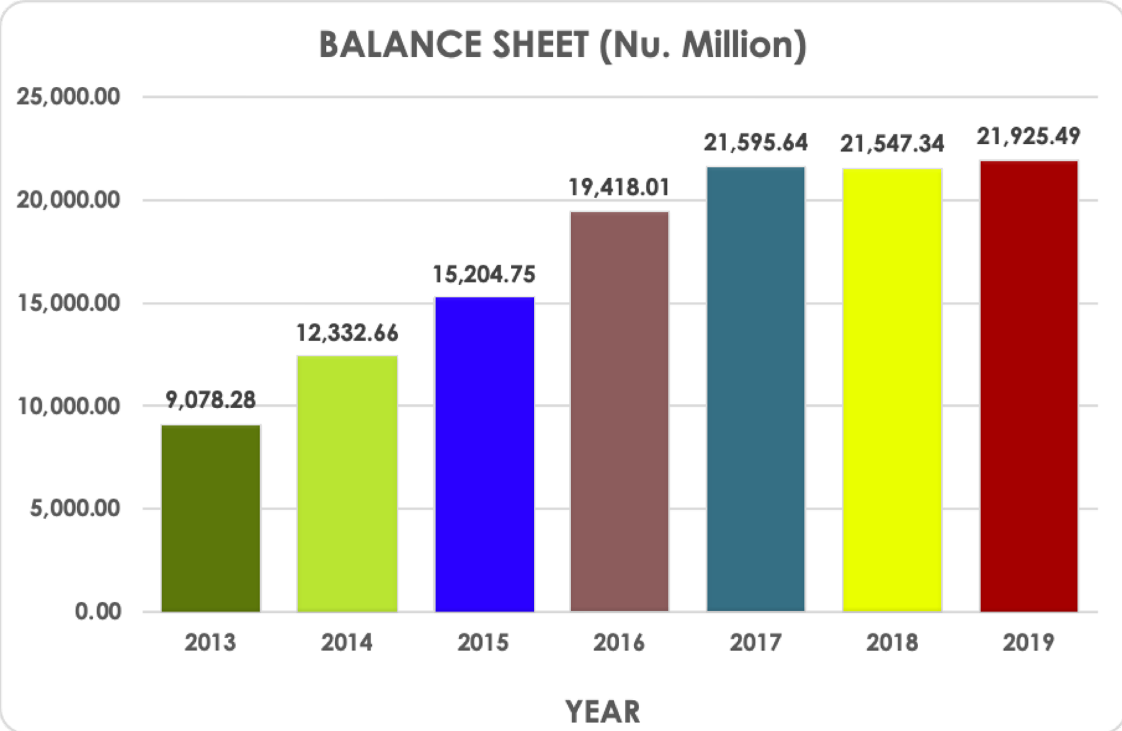
Financial Position of the Company

The total asset of the company has increased by 1.76% amounting to Nu 21.92 billion during the year, from Nu 21.54 billion in the previous financial year. The increase in the asset is caused by the revaluation of Fixed Assets and increase in loans and advances. RICB's net worth recorded at Nu 3.58 billion, an increase of 13.65% from the previous year's Nu 3.15 billion. The total capital fund is improved through transfer of profit and revaluation reserves during the financial year.

The net insurance fund balance has slightly decreased to Nu 10.24 billion from Nu 10.26 billion in the previous year. The corporation will not be paying any Corporate Income Tax for the financial year 2019 considering the carry forward of loss incurred during the previous year.

Growth in Statement of Financial Position

	Year	Nu in Million	%
GAAP	2010	5,835.39	63.57
	2011	6,773.40	16.07
	2012	7,747.29	14.38
	2013	9,078.28	17.18
BFRS	2014	12,332.66	35.85
	2015	15,204.75	23.29
	2016	19,418.01	27.71
	2017	21,595.64	11.28
	2018	21,547.34	(0.22)
	2019	21,925.49	4.22



Dividend and Transfer to Reserves

Section 9.4.1 of the Prudential Regulations requires the company to have a minimum Capital Adequacy Ratio of 12.50% and Core Capital Ratio of 7.50% (including Capital Conversation Buffer) for preceding two completed years and accounting year in which the dividend is proposed to be declared. If the Capital Adequacy ratio of 12.50% and Core Capital Adequacy Ratio of 7.50% is met only during the financial year and the net NPL is less than 5%, dividend up to 15% of the Profit After Tax is allowed to be declared. Since the Capital Adequacy Ratio during the financial year is 9.18% and the Net NPL at 13.07%, the company is not able to declare any dividend during the year.

Further the company is not required to pay any corporate tax with the carry forward of losses and therefore, Profit After Tax of Nu. 263.48 million as per BAS accounts and Profit After Tax of Nu. 253.00 million as per GAAP accounts will be transferred to Retained Earnings and General Reserves respectively.

Statutory Compliances

Royal Monetary Authority

All the provisions of the Prudential Regulations of RMA have been complied with during the financial year except for the compliance to the minimum Capital Adequacy Requirement and Loan Exposure to Employees.

Royal Audit Authority

The Royal Audit Authority has inspected and audited the operations and performance of the company up to financial year 2018.

Statutory Auditors

M/s S.Jaykishan, Chartered Accountants (Firm registration number 309005E) was appointed as the Statutory Auditors of RICB for the financial year 2019 during the 44th Annual General Meeting held on 30th of April 2019.

Company Registrar

The Company Registrar has inspected the company's compliance to the Companies Act of the Kingdom of Bhutan 2016 up to the financial year 2011, and no adverse comments have been noted.

Challenges

RICB had to start 2019 with a daunting task of having to reduce the NPL and improve the quality of loan assets. Management's diligent efforts throughout 2019 ran into a weak and slow economic growth during the year. The company faced issues meeting the minimum Capital Adequacy Ratio with the carry forward loss. With the highest lending rate among the Financial Institutions, attracting and retaining creditworthy borrowers was challenging.

Future Outlook

Considering the dynamic nature of business environments, challenges confronting the company and the unprecedented economy slow down, the foremost priority for the company in the years to come will be to reduce the Non-performing loans. It is also of paramount importance for the company to improve the Financial Performance as well as to improve the quality of assets in our Balance Sheet. Having achieved standard level of business processes and procedures through the organizational restructuring carried out in 2019, the management will now focus on achieving further business growth and liability management.

To achieve the expectations of the shareholders and to strengthen the financial position of the company, the management will focus on Five major themes:

i. Ambitious innovative growth with quality;
ii. Positive customer experience;
iii. Leveraging on information technology and process automation;
iv. Data analytics;
v. Learning and development; and
vi. Strengthen risk and capital management.

The Board and the management commit to improve RICB's performance and wellbeing.

Acknowledgement

On behalf of the Board of Directors, and on my own behalf, I thank all our business partners and valued clients, whose enduring confidence and faith reposed in the Company has made the company to transform amidst challenges. The Board also places on record its deep appreciation to the Royal Government and its various agencies for continued support and cooperation provided to the Royal Insurance Corporation of Bhutan Limited (RICBL). In particular, I would like to thank the Royal Monetary Authority of Bhutan, the Royal Audit Authority of Bhutan, the Registrar of Companies, Royal Securities Exchange of Bhutan and the Department of Revenue and Customs for their continued support. The Board also would like to extend our appreciation to the outgoing Chairman Dasho Topgyal Dorji for his guidance as the Board member for 17 years and as Chairman for the last Eight years.

The Directors are also pleased to convey their sincere appreciation to all our agents who are our 'feet on the street' and reinsurance partners and surveyors in India.

I congratulate the CEO, management and staff of RICB for their hard work and dedicated service rendered during the year against all odds. I extend my good wishes for the success of the corporation in the years ahead.

Tashi Delek

(Wangchuk Dorji)
Chairman on behalf of Directors

Millennium Education Scheme

If you insure your child at the age of 1

Till 1 - 18 Years

You pay a premium of Nu 509/month (Nu 6,108/year) i.e. just Nu 16.96/day

18th Year Onwards

Your child gets Nu 20,000 annually for 5 years (Nu 100,000)

On 23rd Year

Your child receives Nu 102,000 as a Bonus (Nu 6,000 X 17 Years = Nu 102,000)

Total Benefit Received

- The child gets Nu 202,000 for paying Nu 103,768
- Plus a Tax Waiver worth Nu 51,884 for 17 years

RICB

"Your partner for growth and security"

Sum assured available in case of untimely demise of the assured.
Other terms & conditions apply.

S JAYKISHAN
CHARTERED ACCOUNTANTS

2nd Floor, Suite # 2D, E & F
12, Ho-chi-minh Sarani, Kolkata - 700 071
Phone : (+91)(33) 4003-5801
E-mail : info@sjaykishan.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ROYAL INSURANCE CORPORATION OF BHUTAN LIMITED

Qualified Opinion

We have audited the financial statements of **Royal Insurance Corporation of Bhutan Limited** (referred to as "the Corporation"), which comprise the statement of financial position as on December 31, 2019, Income statement and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. The accounts or returns of un-audited twenty six Branches not visited by us have also been incorporated in the financial statements.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the corporation of its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS/BFRS).

Basis for Qualified Opinion

(a) Note no. 45(d) to the financial statement, regarding non- reconciliation of Claims payable amounting to Nu. 219,635,129 and Reserves for Accepted amounting to Nu. 5,539,951 in respect of reinsurance business is pending reconciliation with the reinsurance partners, against which eventual adjustment are not ascertainable at this stage, therefore, impact on the financial statements, if any, cannot be commented upon.

(b) Note no. 47 to the financial statements, regarding difference of Nu. 9,459,372 (previous Year NIL) has been observed between the accounting and underwriting records for Annuity contributions which requires reconciliation and further adjustments, therefore, impact on the financial statements, if any, cannot be commented upon.

(c) Note no. 45(a) to the financial statements, regarding pending confirmation of balances receivable and payable from/to re-insurers in respect of Re-insurance business aggregating to Nu.468,878,334 (Previous Year Nu.373,407,333) and Nu.221,173,649 (Previous Year Nu. 200,858,704) respectively.

(d) Note no. 46 of financial statements, regarding certain debit/ credit balances included in Trade Payables, Short/ Long Term Loan and Advances, Other Current Assets and Current Liabilities being pending for confirmations and consequential reconciliation. In the absence of the relevant details, the impact on the financial statement cannot be commented upon.

We conducted our audit in accordance with Bhutanese Accounting Standards (BAS/BFRS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation within the meaning of IESBA Code and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a Key Audit Matter	How the matter was addresses in the audit
1. **Valuation of technical provisions** The estimation of liabilities arising from insurance contracts such as unearned premium reserve, deferred commission reserve, incurred but not reported reserve, deferred acquisition cost reserve as disclosed in the financial statements, involves a significant degree of judgement. These liabilities are based on the pattern of risk distributions over coverage period, the best-estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and persistency (including consideration of policyholder behavior). Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities was significant to our audit.	**We assessed management's calculations of the technical reserves by performing the following procedures:** • Using our specialist team members, we applied our industry knowledge and experience and we compared the methodology, data, models and assumptions used against recognised actuarial practices; • Understood and tested the governance process in place to determine the insurance contract liabilities, including testing the associated financial reporting control framework; and • We also evaluated the methodology and assumptions or performed a diagnostic check to identify and follow up any anomalies.
2. **Recoverability of insurance receivables from policy holders, insurance companies and reinsurance companies** The Corporation in its normal course of business is exposed to risks of non - recoverability from policyholders, insurance companies and reinsurance companies due to disputes / litigations or due to deterioration of financial conditions of the counter party. Management's related provision is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.	• We reviewed the past trend of actual amounts written off and the credit ratings of the counter parties (where available) to assess the provision held as at year-end. We also discussed with management and reviewed correspondence, to identify any disputes and assessed whether such matters had been considered in the bad debt provision.
3. **Impairment of loans and advances to customers and other parties** The allowance of loan losses are significant as they represent a substantial amount of impairment recognized in Balance Sheet. The same is considered as a KAM since it	• We evaluated and tested the design and operating effectiveness of the relevant controls over the impairment assessments and impairment allowance computations for loans and advances to customers and other parties, including review and approval of results of credit reviews on impaired loans,

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	relates to an accounting estimate which implies a high level of judgement on part of the management and are requirements in applicable BAS/BFRS, Royal Monetary Authority Directions and other relevant regulations. Impairment of loans and advances to customers and others are either calculated on individual basis or a collective basis. The Corporation had established a policy to perform an assessment, at the end of reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Models were used for this purpose, considering the similarity of credit risks and applying key assumptions such as, historical loss experience, loss identification period for incurred but unidentified impairment losses, macroeconomic factors, and special considerations for high risk products and geographical locations in the calculation methodology. Management assessed these key assumptions on a periodic basis and made adjustments.	the periodic revaluations of collateral, the estimation of future cash flows for impaired loans, and the collective impairment computations (including the selection and changes of models, data inputs and key assumptions and changes thereof used in the computations). • We performed independent credit reviews of selected samples, considering the credit profiles of the related borrowers, guarantors and the collateral, as well as external evidence and factors, to ascertain whether management's identification of impaired loans was appropriate. • For those loans and advances to customers and other parties which were assessed by management on a collective basis for impairment losses, we conducted independent testing on the appropriateness of the design and logic of the models employed by management. We tested the migration model for corporate loans and the roll rate models for personal loans, respectively, including completeness of the source data, appropriateness of the key assumptions, and mathematical accuracy of the calculations.
4.	**Future performance of the Corporation** The extent to which the COVID-19 pandemic will impact the Corporation's financial performance and position will depend on future developments, which are highly uncertain.	Our audit procedures considered the guidance laid down by the 'ICAI Accounting & Auditing Advisory March 2020 - Impact of Corona virus on Financial Reporting and the Auditors Consideration' highlighting few important areas which require particular attention in respect of the audit of the financial statements for the year 2019 including: • Impairment of Non-financial Assets; • Impairment Losses (ECL, Bad debts etc.); • Going Concern Assessment; • Post Balance Sheet Events; • Presentation of Financial Statements; • Changes in Internal Controls; • External Confirmations; and • Audit evidences through electronic mode. We considered the above guidance and appropriately applied to our response to modification of our audit procedures to obtain sufficient appropriate audit evidence on the significant audit areas and reached appropriate conclusions thereon.
5.	**Impact of COVID 19 on Audit** Due to outbreak of pandemic COVID 19 we could not carry out normal audit procedures and a major part of audit was carried out using "Work From Home" approach. This is considered as	Due to "work from home" approach adopted, we followed following audit procedures: • Installation of Virtual Private Network on laptop of team members • Various data and confirmation were received either electronically through email.

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Key Audit Matter, since alternate audit procedures were performed for carrying out audit.	or through data sharing on drive. • For various audit procedures, reliance was placed on scanned copies of original document shared with electronically. • Interview/ discussion with client via video conferencing/ call conferencing and other verbal communications.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BAS/BFRS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our additional responsibilities are provided in **Annexure I**.

OTHER MATTERS

Corporation has 27 branches, out of which 26 branches were not visited by us, accounts of 26 branches as prepared by the management have been incorporated in the financial statements.

Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan, 2016 (the Minimum Audit Examination and Reporting Requirements), we give in the **Annexure II**, a statement on the matters specified therein to the extent applicable.

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

a) We have obtained, except for matters described in the Basis for Qualified Opinion section, all the information and explanation, which to the best of our knowledge and beliefs were necessary for the purposes of our audit.

b) Except for the effects of matter described in the 'Basis for Qualified Opinion' paragraph above, in our opinion, proper books of account as required by law have been kept by the Corporation so far as appear from our examination of the books, proper returns adequate for purpose of our audit have been received,

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

d) Except for the effects of the matter described in the 'Basis of Qualified Opinion' paragraph above, in our opinion, the financial statements dealt with the report have been prepared in accordance with Bhutanese Accounting Standards (BAS/ BFRS) and according to the provision of the *Companies Act of Bhutan, 2016*.

For S. Jaykishan
Firm Registration Number: 309005E
Chartered Accountants

S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

Ritesh Agarwal

Ritesh Agarwal
Partner
Membership No. 062410

Place: Kolkata
Date: 23/10/2020
UDIN: 20062410AAAADG5141

ANNEXURE I TO AUDITOR'S REPORT

Responsibilities for Audit of Financial Statements

(Audit Report of Royal Insurance Corporation of Bhutan Limited for the year ended on 31st December, 2019)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintained professional skepticism throughout the audit. We also:

Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain evidences that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For S. Jaykishan
Firm Registration Number: 309005E
Chartered Accountants

S. JAYKISHAN KOLKATA CHARTERED ACCOUNTANTS

Ritesh Agarwal

Ritesh Agarwal
Partner
Membership No. 062410

Place: Kolkata
Date: 23th October, 2020
UDIN: 20062410AAAADG5141

ANNEXURE II TO AUDITOR'S REPORT
MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS
[Referred to our Auditor's Report of even date to the Members of Royal Insurance Corporation of Bhutan Limited on the financial statements for the year ended on 31st December' 2019]

GENERAL:

a. The Corporation adhere to the corporate Governance Guidelines and Regulations as applicable to them.

b. As observed during the course of audit, the Corporation pursue a prudent and sound financial management practice in managing the affairs of the Corporation.

c. The financial statements are prepared in accordance with the Bhutanese Accounting Standards issued by the Accounting and Auditing Standards Board of Bhutan (AASBB).

d. The proper books of accounts have been maintained and financial statements are in agreement with the underlying accounting records.

e. The adequate records as specified under Section 228 of the Companies Act of Bhutan, 2016 have been maintained.

f. The mandatory obligations social or otherwise, if any, entrusted are being fulfilled.

g. The amount of tax is computed correctly and reflected in the financial statements.

TO THE EXTENT APPLICABLE IN THE CASE OF FINANCE AND INVESTMENT COMPANY

1. The Corporation has maintained Property, Plant & Equipment (PPE) Register showing full particulars including quantitative details and situation of PPE. As explained to us, the fixed assets have been physically verified by the management during the year in a phased/periodical manner, in all branches and head office, which in our opinion is reasonable having regard to size of Corporation and nature of its assets. In some cases, the impact of discrepancies noted in the physical verification has not been given in the accounts as the same, as informed, are under reconciliation, however, considering the nature of discrepancies, as explained to us, there will be no material impact on the accounts.

2. The Corporation has revalued land and building of the Property, Plant & Equipment (PPE) refer Note no. 18 & 24 (ii) of the financial statement.

3. The Corporation has borrowed money from various organizations and the terms and conditions of such loans are, prima facie, not prejudicial to the interest of the Corporation. According to information and explanations provided to us, there is no Company under the same management.

4. The Corporation, in normal course of its operations, has granted loan to other companies, firms or other parties wherein the rate of interest and the other terms and conditions of loans availed are not, prima facie, prejudicial to the interest of the Corporation. According to the information and explanations provided to us, the Corporation has granted loans to companies under the same management, but the same are not prejudicial to the interest of the Corporation.

5. The parties to whom the loans or advances have been given by the Corporation are generally repaying the principal amounts, as stipulated and are also generally regular in payment of interest, except for certain parties in which cases, the outstanding loan balances comprising of principal and interests, are considered as non-performing assets as per Prudential Regulations 2017 of the 'Royal Monetary Authority of Bhutan' and for

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which accrued interest as recognized have been reversed and provisioning for impaired loan or advances have been done in accordance with BFRS-9. *The Corporation has provided Nu. 3,022,677,112 (P.Y Nu. 2,274,654,630) towards provision of Impaired Loans or advances in accordance with BFRS-9, as against Nu. 4,274,261,380 (P.Y3,417,067,381) provided as per RMA Prudential Norms excluding Interest in Suspense of Nu. 998,906,892 (P.Y Nu. 646,274,636). As explained to us implementation of BFRS-9 was conducted by the Corporation*. Further, we cannot comment on the compliances of other conditions mention in prudential norms related with identification of non-performing assets due to the worsened debtor's financial position and declining trend in borrower's conditions due to non-availability of information with the Corporation.

6. The advances to officers/staff are generally granted in keeping with the applicable provisions of service rules and no excessive/frequent advances are generally granted and accumulation of large advances against any particular individual is generally avoided.

7. In our opinion and according to the information and explanations given to us in course of the audit, the Corporation has generally established reasonably adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, to carry out the business in an orderly and efficient manner, to safeguard the assets of the Corporation as well as to ensure adherence to the applicable rules / regulations and systems and procedures. However, loan appraisal, processing, claim settlement, bank reconciliation and internal control requires periodical review and improvement especially in view of the fact that fraud/ embezzlement of funds have taken place as disclosed in the note no. 41 to the financial statement.

   The following is required as per Prudential Regulation 2017 w.e.f. Jan'18, which are not done:

   a. Internal Audit department shall keep a track of compliance level being followed by the management of the institution specially relating to policies, resolutions and rules approved by the Board of Directors of RICB.

   b. Internal audit shall also ensure that the institute abide by the relevant laws, regulations and notifications issued by RMA from time to time.

   c. Transfer of unpaid dividend for more than 10 years to RMA under Abandoned Property Rules and Regulations.

8. In our opinion and according to the information and explanations given to us, having regard to the exception that some of the items purchased are of special nature and suitable alternative sources do not exist for obtaining comparable quotations thereof, there is an adequate system of competitive bidding, commensurate with the size of the Corporation and the nature of its business, for the purchase of goods and services including plant and machinery, equipment and other assets. Since, the Corporation is in insurance business and financial services, it is not engaged in the purchase of stores and raw materials and sale of goods.

9. The transactions entered into by the Corporation wherein director(s) are directly or indirectly interested are not prejudicial to the interest of the shareholder and Corporation. Further, records under Section 228 of the Companies Act of Bhutan, 2016 are updated by the Corporation.

10. As informed to us, the Corporation, in general, has a system of ascertaining and identifying unserviceable or damaged stores and loss, if any, on the sale of the same, which are duly accounted /charged in these accounts.

11. The Corporation is maintaining reasonable records for sale and disposal of realizable scrap.

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

13. According to the information and explanations provided to us and so far it appears from the examination of the books, there were no disputed amounts payable in respect of rates and taxes, provident fund, and other statutory dues as on the last day of Financial Year 2019.

14. During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices, we have neither come across any personal expenses (other than contractual and/or as per customary business practices), which have been charged to the Income Statement nor have we been informed about such cases by the management.

15. According to information and explanation given to us, in our opinion, the credit policy of the Corporation is reasonable and proper credit rating is carried out for its customers.

16. The Corporation is engaged in insurance business and its system of screening commission agents is generally adequate, although the Corporation is yet to formulate a structured documented procedure to this effect. The agency commission structure is in keeping with the industry norms/ market conditions, as we have been given to understand by the management. As informed to us, the Corporation has, in general, a system of evaluating performance of each agent on a periodic basis.

17. There has been, in general, a reasonable system for continuous follow-up of receivables for recovery of its outstanding amounts but the same offers further scope for improvement. Also, age-wise analysis of outstanding amounts is generally not been carried out for management information and follow-up actions.

18. On the basis of examination of the books of account and according to the information and explanations provided to us, the management of liquid resources particularly cash/ bank and short term deposits, etc., are prima-facie appears to be adequate and as such no excessive amounts are lying idle in non-interest bearing accounts. Withdrawals of loan amounts are made after assessing the requirements of funds from time to time and no excess amount is withdrawn leading to avoidable interest burden on the Corporation.

19. Based on the information and explanations / representations given to us and on the basis of the examination of the books of accounts in accordance with the generally accepted auditing practices, the activities carried out by the Corporation are lawful and intra-vires to its Articles of Incorporation.

20. The Corporation has a system of approval of the board for all capital investment decisions and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.

21. According to the information and explanation given to us, there has been an effective budgetary control system for the Corporation, as a whole.

22. In our opinion and to the extent revealed by our examination, the details of remuneration, commission and other payments made in cash or in kind to the Board of Directors including the Managing Director or to any of their relatives by the Corporation, directly or indirectly, are disclosed. The details of remuneration of the directors of the Corporation are disclosed in the Note no. 40.3.3 to the financial statements.

S. JAYKISHAN
KOLKATA
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23. In our opinion and on the basis of examination of books and records, generally the directives of the Board issued have been complied with.

24. According to the information and explanations given to us, the officials of the corporation have not transmitted any price sensitive information, which are not made publicly available, unauthorized to their relatives/ friends/ associates or close persons which directly or indirectly benefit themselves. We have, however, relied on the management assertion on the same and cannot independently verify the same.

IN THE CASE OF FINANCE AND INVESTMENT COMPANY

1. The minimum audit examination and reporting requirements considered clause no. 1-2, 12-15, 17-20, 23-25, 29-35, 37-41 from the manufacturing, mining or processing company requirement, as found relevant and applicable to finance and investment company is disclosed above.

2. In our opinion and on the basis of examination of books and records, adequate documents and records are generally maintained in respect of loans and advances and those agreements have been drawn up and timely entries have been made therein.

3. In our opinion and on the basis of examination of books and records, proper records of the transactions have been maintained by the Corporation which have been timely updated for investments made in equity shares of the companies, both quoted and unquoted.

4. In our opinion and on the basis of examination of books and records, reasonable records are generally maintained for funds collected from depositors and for interest payment.

5. In our opinion and on the basis of examination of books and records, the Corporation follows the accounting policy of making provisions for diminution, other than temporary, if any, in the value of investment in shares.

6. In our opinion and on the basis of examination of books and records, the Corporation has generally complied with the requirements of Financial Services Act, 2011, Prudential Regulations 2017, BAS & BFRS, The Companies Act of Bhutan 2016 and other applicable laws, rules and regulations and guidelines issued by the appropriate authorities. In our opinion and according to the information and explanations furnished to us, the requirements prescribed by the 'Royal Monetary Authority' relating to provisioning for the non-performing assets including loans and advances have been complied with generally except in respect of the loan restructured/rescheduled during the year which were beyond the Prudential Regulations requirements were reviewed by Royal Monetary Authority and exceptions given for the same.

7. On the basis of examination of books and records, recognition of interest income in respect of non-performing assets has been deferred in terms of Prudential Regulations 2017.

8. According to the information and explanations provided to us, assets hypothecated against loans and advances, the Corporation, in general has a system of performing physical verification, proper valuation and execution of mortgage deeds at disbursement stage and the corporation also insures that at that stage such assets are free of any prior lien or charges. However, there is scope for improvement with regard to the same.

9. According to the information and explanations given to us, the Corporation has, in general, 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. However, in case of loans where there is moratorium period for payment of principal and gestation of interest, the branch need to keep a register to keep track of progress of project, timely disbursement request by customer, cost overrun, site inspection at regular interval may be quarterly/ half yearly or annual for individual projects, when the loan or interest moratorium of gestation is ending.

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10. According to the information and explanations given to us, the Corporation, in general, has a system of disposing assets taken over through open auction/sealed bids.

11. The Corporation, in general, has the system for carrying out proper analysis before permitting re-phasing/rescheduling of loans (including non-performance loans). On the basis of examination carried out in accordance with the generally accepted auditing procedures and based on the information and explanations provided by the management to us, re-phasing has generally not been permitted in respect of non-performing loans except in respect of the loan restructured/rescheduled during the year which were beyond the Prudential Regulations requirements were reviewed by Royal Monetary Authority and exceptions given for the same.

12. On the basis of examination carried out in accordance with the generally accepted auditing procedures and based on the information and explanations provided by the management to us, the Corporation, in general, has the system to ensure that additional loans are not granted to those who have defaulted in repayment of previous advances.

13. According to the information and explanations given to us, the corporation has not written off any loan during the year.

IN CASE OF OTHER SERVICE SECTOR COMPANIES

1. According to the information and explanations given to us, the Corporation maintains a reasonable system of costing to ascertain the cost of its services and enable it to make proper pricing decisions for its services.

2. In our opinion and based on the examination of books and records, proper records are kept for inter unit transactions/ services and arrangement for services made with other agencies engaged in similar activities.

3. According to explanation and information provided to us, the corporation has not acquired any machinery/equipment on lease or leased out to others.

COMPUTERISED ACCOUNTING ENVIRONMENT

1. According to the information and explanations provided to us, the organizational and system development controls and other internal controls are generally adequate commensurate with size and nature of computer installations except at few instances which has been reported elsewhere.

2. According to information and explanations provided to us, back-up is stored at third party location. The back-up, restoration process and other safeguard measures appear to be adequate.

3. The Corporation has a Disaster Recovery Plan (DRP) in place commensurate with the size and nature of business of the Corporation.

4. The operational controls in the Corporation are generally adequate to ensure correctness and validity of input data and output information.

5. According to the information and explanations given to us, measures to prevent unauthorized access to the computer installation and files are adequate.

6. Tracking of NPA is half manually and half system driven. It is advisable to make a module as per RMA prudential norms so that the entire system of NPA tracking becomes system driven. As informed by the management, only additional provisioning is done manually and

S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

all other financial institutions are doing the same in Bhutan and also it requires approval from the RMA for the same.

OTHER REQUIREMENTS:

1. **Going Concern:**
   On the basis of the attached Financial Statements as at 31st December, 2019 and according to the information and explanations given to us, the financial position of the corporation is healthy and we have no reason to believe that the Company is likely to become sick in the near future.

2. **Ratio Analysis:**
   Financial and Operational Results of the Corporation has been given in **Exhibit - A** to this report.

3. **Compliances with the Companies Act of Bhutan, 2016**
   According to the information and explanations given to us by the management and based on a Compliance Checklist completed by the Corporation Officials, the Corporation has generally complied with the provisions of the Companies Act of Bhutan, 2016. Details are given in Exhibit - B to this report.

4. **Adherence to Laws, Rules and Regulations**
   Audit of the Corporation is governed by "The Companies Act of Bhutan, 2016" and the scope of audit is limited to examination and reviews of the financial statement as produced to us by the management. In the course of audit, we have considered the compliance of provision of the said Companies Act. The Corporation does not have a comprehensive Compliance Reporting and Recording System as regards adherence to all laws, rules and regulations, systems, procedures and practices. Under the circumstances, we are unable to comment on the compliance of the same by the Corporation during the year 2019.

For S. Jaykishan
Firm Registration Number: 309005E
Chartered Accountants

S. JAYKISHAN KOLKATA CHARTERED ACCOUNTANTS

Ritesh Agarwal

Ritesh Agarwal
Partner
Membership No. 062410

Place: Kolkata
Date: 23th October, 2020

UDIN: 20062410 AAAA DG5141

REFERRED TO IN THE RATIO ANALYSIS OF OUR OBSERVATIONS UNDER MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT (Part-II of schedule XIV to The Companies Act of the Kingdom of Bhutan, 2000) FOR THE YEAR ENDED 31ST DECEMBER, 2019 OF ROYAL INSURANCE CORPORATION OF BHUTAN LIMITED

STATEMENT OF SIGNIFICANT RATIOS

	FINANCIAL RATIOS:		**2019**	**2018***
A	**STABILITY RATIOS:**			
1	Capital Adequacy Ratio	(%)	16.05	10.85
2	Net Worth to Total Liabilities	(%)	16.34	14.62
3	Equity Investments to (Net Worth + Insurance Fund)	(%)	3.05	3.63
B	**PROFITABILITY RATIOS:**			
1	Operating Income to Net worth -Net	(%)	111.22	102.14
2	Operating Income to Total Assets	(%)	18.17	14.94
3	Net Profit (After Tax) to Net Worth	(%)	7.36	(27.28)
4	Net Profit (After Tax) to Total Assets	(%)	1.20	(3.99)
5	Return on Core Equity (Profit After Tax)	(%)	18.82	(71.63)
C	**STRUCTURAL RATIOS :**			
1	Debt/Core Equity Ratio		2.50	3.55
2	Long Term Debt to Net Worth		0.77	0.87
3	Net Fixed Assets to Long Term Debt		0.44	0.42
4	Net Fixed Assets to Net Worth		0.34	0.37

Financial Data		**2019**	**2018***
Face Value of share	(Nu.)	10.00	10.00
Earning per Share	(Nu.)	1.88	(7.16)
Book Value per Share	(Nu.)	25.59	26.26
Market price per Share	(Nu.)	74.91	71.00
Dividend per share	(Nu.)	-	-
No. of Shareholders		1,832	1,549
Shareholding pattern: No of shares		140,000,180	120,000,000
National Kidu Fund	(%)	22.25	20.83
Druk Holding & Investment	(%)	18.41	18.41
Private & Public Holders	(%)	59.34	60.76

S. JAYKISHAN * KOLKATA * CHARTERED ACCOUNTANTS

Compliance Checklist : (Extracts from the Companies Act of the Kingdom of Bhutan 2016) Exhibit- B

INCORPORATION OF COMPANY & MATTERS INCIDENTAL THERETO

No.	Ss.		YES	NO	NA	REMARKS
1	28	Changes to Articles/Approval		No.		
2	47	Change of name/Approval			N.A.	
3	123	Increase or consolidation of share capital	Yes			
4	124	Reduction of share capital			N.A.	
5	82	License Copy and Share Certificate filing			N.A.	
6	107	Public offer of shares & Debentures-ROC Approval			N.A.	
		MANAGEMENT & ADMINISTRATION				
7	217	Registered Office of Company	Yes			
8	221	Publication of name by Company	Yes			
9	241	Financial Year of Companies as of 31st Dec.	Yes			
10	245	Financial Statements to follow BAS	Yes			
11	267	Annual Return Submission	Yes			
12	177	Annual General Meeting (Minutes)	Yes			
13	180	Extraordinary General Meeting (Minutes)	Yes			
14	185	Notice for calling general meeting	Yes			
16	190	Chairman of meeting	Yes			
17	192	Representation of corporations at meetings	Yes			
18	193	Ordinary and special resolutions (Minutes)	Yes			
19	195	Minutes of Annual General Meeting and Board Meetings (maintained ss.195-198)	Yes			
20	199	Declaration and payment of dividend(199-209)	Yes			
21	232	Books of account to be kept by company	Yes			
22	238	Inspection of Books of account	Yes			
23	244	Annual Accounts & Balance Sheets	Yes			
24	247	Filing of Balance Sheets etc. with the Registrar	Yes			
25	249	Board's report (signed by Chairman) (249 & 250)	Yes			
26	252	Appointment and removal of Auditors	Yes			
27	260	Resignation of Auditors from office (Annual Resignation)	Yes			
28	266	Auditing standards (Audit using Auditing Standards issued by AASBB)	Yes			
29	133	Number of directors	Yes			
30	134	One third of all Public Companies shall be independent	Yes			
31	138	(Minimum No. & retirement on rotation)	Yes			
32	139	Additional directors			N.A.	
33	140	Consent to act as directors	Yes			
34	141	Certain persons not to be appointed as Directors	Yes			
35	142	Resignation by a director	Yes			
36	143	Removal of directors			N.A.	
37	146	Board meetings	Yes			
38	152	General powers of the board	Yes			
39	156	Restriction on powers of Board	Yes			
40	210	Appointment of Chief Executive Officer			N.A.	
41	213	Company Secretary required in all Public Companies	Yes			
42	414	Appointment of selling or buying agents	Yes			
43	157	No loans to directors (only for Public Co.)	Yes			
44	53	Inter-corporate investments	Yes			
45	161	Standard of care rquired by directors	Yes			

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Compliance Checklist : (Extracts from the Companies Act of the Kingdom of Bhutan 2016) Exhibit- B

STATUTORY RECORD AND INSPECTION

46	228	Statutory record and inspection	Yes			
	(a)	Register of buy-back of shares			N.A.	
	(b)	Register of transfers	Yes			
	(c)	Register of charges	Yes			
	(d)	Register of inter-corporate loans	Yes			
	(e)	Register of inter-corporate investments	Yes			
	(f)	Register of contracts in which directors are interested	Yes			
	(g)	Register of directors	Yes			
	(h)	Register of directors' shareholding	Yes			

		OTHERS				
47	229	Inspection of Statutory Registers	Yes			
48	85	Register of Shareholders/Members	Yes			

For S. Jaykishan

Firm Registration Number: 309005E

Chartered Accountants

S. JAYKISHAN KOLKATA CHARTERED ACCOUNTANTS

Ritesh Agarwal

Partner

Membership No. 062410

NOTES TO THE FINANCIAL STATEMENTS AS PER BFRS

For the year ended 31 December 2019

1. Corporate information

1.1 General

Royal Insurance Corporation of Bhutan Limited ('the Company') is a public limited company incorporated and domiciled in the Kingdom of Bhutan and listed on the Royal Securities Exchange of Bhutan. The registered office of the Company is at P.O. Box 315, Thimphu, Bhutan. The Company and its associates collectively referred as 'the Group'.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the group comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flow, Statement of Changes in Equity, Notes to the Financial Statements and Significant Accounting Policies for the year ended 31st December each year.

1.3 Principal Activities and nature of operations

The principle activities of the Company continued to be carrying on insurance business (life, non-life and reinsurance), Private Provident Fund, Annuity business, Group Insurance, brokerage services and lending business.

2. Accounting policies

2.1 Basis of preparation

The consolidated financial statements of the company have been prepared in accordance with Bhutanese Financial Reporting Standards (BFRS), as issued by the Accounting and Auditing Standard Board of Bhutan (AASBB)

2.2 Basis of measurement

The consolidated financial statements have been prepared on an historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

As permitted by IFRS 4 Insurance Contracts, the Company continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by the standard effective subsequent to adoption for its insurance contracts and investment contracts with a discretionary participation feature (DPF).

2.3 Functional and Presentation currency

The consolidated financial statements values are presented in Bhutan Ngultrum rounded (Nu.) unless otherwise indicated.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the respective notes.

2.4 Materiality and Aggregation

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and liabilities simultaneously.

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year.

2.6 Significant accounting judgements, estimates and assumptions

The preparation of the Company'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. In the process of applying the Company's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying

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amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Company's control and are reflected in the assumptions if and when they occur. The reliance upon estimates and assumptions used in the accompanying financial statements are based on management evaluation of the relevant facts and circumstances as on the date of financial statement. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements. Difference between actual and estimates are recognised in the period in which actual results materialise or are known. Any revision to accounting estimates is recognised prospectively in current and 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 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 management of the Group 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.

Defined benefit plans

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the actual returns earned from the gratuity fund. The mortality rate is based on publicly available mortality tables. Mortality - Indian Assured Lives Mortality (IALM-2006-2008). Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Group.

Useful life time of the Property, Plant and Equipment

The Group review the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.7 Summary of significant accounting policies

(a) Product classification

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without **Discretionary participation features** (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- Likely to be a significant portion of the total contractual benefits;
- The amount or timing of which is contractually at the discretion of the issuer;
- That are contractually based on;
- The performance of a specified pool of contracts or a specified type of contract;
- Realised and or unrealised investment returns on a specified pool of assets held by the issuer;
- The profit or loss of the company, fund or other entity that issues the contract.

(b) Intangible assets

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 accumulated impairment losses, if any.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The estimated useful lives of Intangible Assets are as follows:
Computer Software - 10 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(c) 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 such indication exists, or when annual impairment testing for an asset is required, the Group should estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.
Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.
For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is

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recognised in the income statement unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase.

(d) Deferred expenses

Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts and/or investment contracts with DPF, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC for life insurance and investment contracts with DPF are amortised over the expected life of the contracts as a constant percentage of expected premiums. DAC for general insurance and health products are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are either settled or disposed of.

Deferred expenses-Reinsurance commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight-line basis over the term of the expected premiums payable.

(e) Property and equipment

Freehold and leasehold land and buildings are carried in the balance sheet on the basis of fair value method. All other Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit and loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

The gross carrying amount of the asset and accumulated depreciation at the revaluation date is adjusted proportionately and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred directly to retained earnings

Depreciation is provided on a straight-line basis over the useful lives of the following classes of assets:

Asset Type	Useful Life
Buildings	50 years
Furniture & Fitting	6-7 years
Office Equipment	6-7 years
Computer Equipment	6-7 years
Motor Vehicle	7 years

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The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the income statement as an expense.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. 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 included in the income statement in the year the asset is de-recognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate

(f) Investment properties

Investment properties are carried in the balance sheet on the basis of the fair value method. Fair value represents the amount at which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction at the date of valuation.

Investment properties are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued investment properties does not differ materially from its fair value. A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit and loss, except to the extent that it offsets an existing
surplus on the same asset recognised in the asset revaluation reserve.

The gross carrying amount of the investment properties and accumulated depreciation at the revaluation date is adjusted proportionately and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred directly to retained earnings.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

(g) Investment in associate

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence, and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The share of profit

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The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring its accounting policies in line with the Group's.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associates. The Group determines at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss.

(h) BFRS 9 and BFRS 7 implemented effective from 1 January 2018 interpretations

In these financial statements, the Company has applied BFRS 9 and BFRS 7, effective for annual periods beginning on or after 1 January 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective. The Company have restated comparative information for 2017 for financial instruments in the scope of BFRS 9.

Changes to classification and measurement

To determine their classification and measurement category, BFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The BAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost.
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under BAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Changes to the impairment calculation

The adoption of BFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing BAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. BFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

To reflect the differences between BFRS 9 and BAS 39, BFRS 7 Financial Instruments: Disclosures was updated, and the Company has adopted it, together with BFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 36, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 38.

Recognition of interest income:

Under both BFRS 9 and BAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under BFRS 9, similarly to interest bearing financial assets

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classified as available-for-sale or held to maturity under BAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate method:
The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

Interest and similar income:
The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.
Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/(losses) on financial assets at fair value through profit or loss, respectively.

(i) Financial assets

Date of recognition
Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Company 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 marketplace. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Company recognises balances due to customers when funds are transferred to the Company.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities
From 1 January 2018, the company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI

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- FVPL

The Company classifies and measures its derivative and trading portfolio at FVPL. The Company may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. Before 1 January 2018, the Company classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Due from banks, Loans and advances to customers, Financial investments at amortised cost

Before 1 January 2018, Due from bank and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the company intended to sell immediately or in the near term;
- That the company, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the company may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale;
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than the minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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Financial assets or financial liabilities held for trading
The company classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.
Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

Debt instruments at FVOCI
The Company applies the new category under BFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available for- sale under BAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI
Upon initial recognition, the company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under BAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Debt issued and other borrowed funds
After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

The company has issued financial instruments with equity conversion rights, write-down and call options. When establishing the accounting treatment for these non-derivative instruments, the company first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with BAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as a call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion option), is included in the liability component. Once the Company has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for.

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Financial assets and financial liabilities at fair value through profit or loss
Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under BFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

Or

- The liabilities (and assets until 1 January 2018 under BAS 39) are part of a group of financial liabilities (or financial assets, or both under BAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Or

- The liabilities (and assets until 1 January 2018 under BAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Company's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate, Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Financial guarantees, letters of credit and undrawn loan commitments
The Company issues financial guarantees, letters of credit and loan commitments. Financial guarantees are obligation that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a customer fails to fulfil his or her obligations.
Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under BAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under BFRS 9. 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.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under BAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

(j) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions
The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors:

- Change in currency of the loan

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- Introduction of an equity feature
- Change in counterpart

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

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 financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset if, and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The company cannot sell or pledge the original asset other than as security to the eventual recipients
- The company has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

►The Company has transferred substantially all the risks and rewards of the asset Or

►The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company 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 Company has retained.

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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 the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, 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 derecognition 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.

(k) Impairment of financial assets

Overview of the ECL principles
As described above, the adoption of BFRS 9 has fundamentally changed the Company's loan loss impairment method by replacing BAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under BFRS 9.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Company's policy for grouping financial assets measured on a collective basis is explained below.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

►Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

►Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

►Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

►POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. The company does not have any POCI assets as of the reporting date.

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For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The company calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

►PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio.

►EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, either scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

►LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Company considers three scenarios base case, best case, and worst case. Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

►Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

►Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

►Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

►POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Company only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR. The Company does not have any POCI assets as of the reporting date.

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► Financial Guarantee contracts: For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

Debt instruments measured at fair value through OCI
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Purchased or originated credit impaired financial assets (POCI)
For POCI financial assets, the company only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Forward looking information
In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Inflation rate
- Interest Rates
- Exchange Rate US$:Nu
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Therefore Company also considers the following qualitative factors

► Average LTV
► Government Policies
► Status of the Industry Business
► Regulatory impact

Collateral valuation
To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Company's accounting policy for collateral assigned to it through its lending arrangements under BFRS 9 is the same is it was under BAS 39.

Collateral repossessed
The Company's accounting policy under BFRS 9 remains the same as it was under BAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the company's policy.

In its normal course of business, the company does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

Write-offs
The Company's accounting policy under BFRS 9 remains the same as it was under BAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the

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amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans:
The company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The company considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance 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 EIR as calculated before the modification of terms. It is the company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the company also reassesses whether there has been a significant increase in credit risk. The company also considers whether the assets should be classified as Stage 3.

Impairment losses on financial assets:
The measurement of impairment losses both under BFRS 9 and BAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.
The company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The company's criteria for assessing if there has been a significant increase in credit risk and so allowances for
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
  Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive

(l) Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 assets and settle the liabilities simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

(m) Fair value of financial instruments
The financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

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For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(n) Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business non-life insurance contracts. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.
Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

(o) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the de-recognition criteria for financial assets, as described in clause – 'h' above, have been met.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at Company and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position. For the purpose of the consolidated cash

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flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding Company overdrafts.

(q) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

Deferred tax

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(r) Foreign currency translation

The Group's consolidated financial statements are presented in Ngultrum which is also the parent Company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

All differences are taken to the income statement with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax changes and credits attributable to exchange differences on these items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items other than fixed assets, which are recognised at fair value or other similar valuation are reported using exchange rate at the date when such value was determined.

Exchange differences either on settlement or on translation are recognised in the Revenue Account or Profit and Loss Account, as the case may be.

(s) Insurance contract liabilities

Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case, a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company. Adjustments to the liabilities at each reporting date are recorded in the income statement in 'Gross change in contract liabilities. Profits originated from margins of adverse deviations on run-off contracts are recognised in the income statement over the life of the contract, whereas losses are fully recognised in the income statement during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of related PVIF and DAC, by using an existing liability adequacy test in accordance with IFRS. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied. Aggregation levels and the level of prudence applied in the test are consistent with IFRS requirements. Any inadequacy is

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recorded in the income statement, initially by impairing PVIF and DAC and, subsequently, by establishing an additional insurance liability for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation.

Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists, as allowed under IFRS.

Non-life insurance (which comprises general insurance and healthcare) contract liabilities
Non-life insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed in accordance with IFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the income statement by setting up a provision for premium deficiency.

(t) Investment contract liabilities (Annuity Contracts)
Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition investment, contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium in the consolidated income statement.

Fair value adjustments are performed at each reporting date and are recognised in the income statement in "gross change in contract liabilities". Fair value is determined through the use of prospective discounted cash flow techniques.

Non-unitised contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modelling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled.

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Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position as described above.

For deferred annuities, actuarial liability has been taken as actuarial present value of all future payments less present value of future premiums net of commissions subject to a minimum surrender value.

For immediate annuity with return of purchase price the benefit has been valued as composed of life annuity and whole life assurance.

The liability for each immediate fixed term annuity policy is the actuarial present value of all future payments discounted at the valuation rate of interest.

For employee annuity, actuarial liability has been taken as actuarial present value of accumulated value of all premiums paid as of the valuation date.

The cover for rider death benefit has been valued as present value of future benefits less present value of future premium net of commissions subject to a minimum zero value.

(u) Discretionary participation features (DPF)

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio whose amount or timing is contractually at the discretion of the Company. Under the terms of the contracts, surpluses in the DPF funds can be distributed to policyholders and shareholders on a 90/10 basis. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

(v) Financial liabilities – initial recognition and subsequent measurement

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, minus directly attributable transaction costs. The Group's financial liabilities include investment contracts without DPF, trade and other payables, borrowings, insurance payables (see clause – 'u' below).

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as follows:

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(w) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

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De-recognition insurance payables
Insurance payables are de-recognised when the obligation under the liability is settled, cancelled or expired.

(x) Classification of financial instruments between debt and equity

A financial instrument is classified as debt if it has a contractual obligation to:

- Deliver cash or another financial asset to another entity

Or

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

(y) Deferred revenue
Initial and other front-end fees received for rendering future investment management services relating to investment contracts without DPF, are deferred and recognised as revenue when the related services are rendered.

(z) Provisions, Contingent Liability and Contingent Assets.

General
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. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Contingent Assets are recorded in the financial statements when it is virtually certain that future economic benefit will flow to the entity in respect of such contingencies.

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The Group does not recognize a contingent liability but discloses its existence in the consolidated financial statements.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(aa) Segment Reporting
Operating Segment are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

(bb) Earnings per share
The basic earnings per share is computed by dividing the net profit attributable to the Company's owners for the year by the weighted average number of equity shares outstanding during the year adjusted for treasury shares held. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share, and the weighted average number of equity shares which could be issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date.

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S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

(cc) Equity movements

Ordinary share capital

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

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

(dd) Revenue recognition

Gross premiums

Gross recurring premiums on life, investment contracts with DPF and group insurance are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective.

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written. Premium has been recognised in the statement of income on pro-rate basis (1/24th method) under IFRS 4 requirement.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on pro-rate basis (1/24th method) under IFRS 4 requirement. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

In general insurance, Liability adequacy test has been performed to allocate insurance provision for each year for Incurred But Not Report (IBNR) and for impairment of insurance receivables which is outstanding more than 365 days.

Reinsurance premiums

Gross reinsurance premiums on life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts on pro-rate basis (1/24th method) under IFRS 4 requirement.

In reinsurance, Liability adequacy test has been performed to allocate insurance provision for each year for Incurred But Not Report (IBNR) and for impairment of insurance receivables which is outstanding more than 365 days.

Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods

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Investment income (The effective interest rate method)
Under both BFRS 9 and BAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under BFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under BAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

Interest and similar income
The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/(losses) on financial assets at fair value through profit or loss, respectively.

Realised gains and losses
Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets and investment properties. Gains and losses also include the ineffective portion of hedge transactions. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(ee) Benefits, claims and expenses recognition

Gross benefits and claims
Gross benefits and claims for life insurance contracts and for investment contracts with DPF include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Changes in the gross valuation of insurance and investment contract liabilities with DPF are also included. Death claims and surrenders are recorded on the basis of notifications received. Annuity payments are recorded when due and claims by maturity are accounted on the policy maturity date.

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims
Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Royal Insurance Corporation of Bhutan Thimphu

S. JAYKISHAN KOLKATA CHARTERED ACCOUNTANTS

Finance cost

Interest paid is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest-bearing financial liability.

(ff) Liability for life policies (Policy liabilities)

The actuarial liability of all the life insurance policies has been calculated by the Appointed Actuary in accordance with the Financial Service Act, Rules & Regulations for Insurance & Reinsurance Companies in Bhutan and guidelines issued from time to time by Royal Monetary Authority of Bhutan.

S. JAYKISHAN
KOLKATA
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Royal Insurance Corporation of Bhutan
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INCOME STATEMENT

For the year ended 31 December 2019

	Notes	Group 2019 Nu	Group 2018 Nu	Company 2019 Nu	Company 2018 Nu
Revenues					
Gross written premiums	4	3,250,799,728	2,889,757,753	3,250,799,728	2,889,757,753
Less: Premiums ceded to reinsurers	4.1	(538,687,724)	(674,784,015)	(538,687,724)	(674,784,015)
Net written premiums		2,712,112,004	2,214,973,738	2,712,112,004	2,214,973,738
Less: Net change in unearned premium provision		(132,820,588)	(10,673,153)	(132,820,588)	(10,673,153)
Net earned premium		2,579,291,416	2,204,300,585	2,579,291,416	2,204,300,585
Finance Income	5	139,716,758	133,230,518	139,716,758	133,230,518
Fee and commission income	6	172,529,801	179,775,531	172,529,801	179,775,531
Less: Fee and commission expense	7	(149,508,432)	(160,280,957)	(149,508,432)	(160,280,957)
Net fee and commission income		162,738,127	152,725,092	162,738,127	152,725,092
Interest income on financial services	8	2,099,711,751	1,680,963,452	2,099,711,751	1,680,963,452
Less : Interest expense on financial services	9	(890,454,892)	(845,801,352)	(890,454,892)	(845,801,352)
Net interest income		1,209,256,859	835,162,100	1,209,256,859	835,162,100
Total revenue		**3,951,286,401**	**3,192,187,777**	**3,951,286,401**	**3,192,187,777**
Other operating income	10	32,781,958	26,255,239	32,781,958	26,255,239
Total operating income		**3,984,068,359**	**3,218,443,016**	**3,984,068,359**	**3,218,443,016**
Gross benefits and claims paid	11(a)	(2,814,143,505)	(1,177,654,344)	(2,814,143,505)	(1,177,654,344)
Claims ceded to reinsurers	11(b)	427,968,638	8,475,175	427,968,638	8,475,175
Change in contract liabilities	11(c)	62,746,935	(990,425,750)	62,746,935	(990,425,750)
Net benefits and claims		**(2,323,427,932)**	**(2,159,604,919)**	**(2,323,427,932)**	**(2,159,604,919)**
Expenses relating to private provident fund		(134,378,249)	(113,986,132)	(134,378,249)	(113,986,132)
Other operating and administrative expenses	12	(395,708,908)	(367,781,010)	(395,708,908)	(367,781,010)
Impairment gain / (loss)	13	(750,199,400)	(1,751,733,710)	(750,199,400)	(1,751,733,710)
Share of profit of an associate	21	-	2,640,120	-	-
10% Share of Life Fund Surplus		-	-	-	-
Net income before income taxes		**380,353,871**	**(1,172,022,635)**	**380,353,871**	**(1,174,662,755)**
Income tax (expense) / benefit	14	(116,867,600)	315,118,624	(116,867,600)	315,118,624
Net income after taxes		263,486,270	(856,904,012)	263,486,270	(859,544,132)
Attributable to non-controlling interest					
Profit attributable to equity holders of the parent		**263,486,270**	**(856,904,012)**	**263,486,270**	**(859,544,132)**
Earnings per share					
Basic profit for the year attributable to ordinary equity holders of the parent	15	1.88	(7.14)	1.88	(7.16)

The accounting policies and notes forms an integral part of the Financial Statements.

For S JAYKISHAN
Chartered Accountants
Firm Registration No. - 309005E

Ritesh Agarwal

S. JAYKISHAN KOLKATA CHARTERED ACCOUNTANTS

(Ritesh Agarwal)
Partner
Membership No. - 062410

Chief Executive Officer | **Director** | **Chairman**

Place: Kolkata
Date: 23th October, 2020

Royal Insurance Corporation of Bhutan Thimphu

Royal Insurance Corporation of Bhutan Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Group		Company	
		2019 Nu	2018 Nu	2019 Nu	2018 Nu
Comprehensive income for the period		263,486,270	(856,904,012)	263,486,270	(859,544,132)
Other comprehensive income / (expenses)					
Net gain /loss on available for sale assets		(65,224,700)	51,154,709	(65,224,700)	51,154,709
Income tax effect on available for sale assets		19,567,410	(15,346,413)	19,567,410	(15,346,413)
Increase/Decrease on fair value of PPE & IP		-	128,735,316	-	128,735,316
Income tax effect on fair value of PPE & IP		-	(4,103,845)	-	(4,103,845)
Gains (losses) on defined benefit plans		10,370,462	(20,198,174)	10,370,462	(20,198,174)
Income tax effect on defined benefit plans		3,111,139	(5,098,547)	3,111,139	(5,098,547)
Total other comprehensive income		**(32,175,689)**	**135,143,047**	**(32,175,689)**	**135,143,047**
Total comprehensive income for the year net of tax		**231,310,581**	**(721,760,965)**	**231,310,581**	**(724,401,085)**

The accounting policies and notes forms an integral part of the Financial Statements.

For S JAYKISHAN
Chartered Accountants
Firm Registration No. - 309005E

S. JAYKISHAN KOLKATA CHARTERED ACCOUNTANTS

Ritesh Agarwal

(Ritesh Agarwal) **Chief Executive Officer** **Director** **Chairman**
Partner
Membership No. - 062410

Place: Kolkata
Date: 23th October, 2020

Royal Insurance Corporation of Bhutan ★ Thimphu ★

Royal Insurance Corporation of Bhutan Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	Group 31st December, 2019 Nu	Group 31st December, 2018 Nu	Group 1st January, 2018 Nu	Company 31st December, 2019 Nu	Company 31st December, 2018 Nu	Company 1st January, 2018 Nu
Assets							
Cash and cash equivalents	16	2,691,914,318	2,962,039,678	3,068,764,745	2,691,914,318	2,962,039,678	3,066,918,485
Equity instrument measured at fair value through OCI	17	421,514,327	486,739,027	435,584,318	421,514,327	486,739,027	435,084,318
Investment property	18	584,091,794	568,740,881	443,838,077	584,091,794	568,740,882	443,838,077
Loans and receivables	19	16,588,789,655	16,048,386,119	16,674,645,181	16,588,789,655	16,048,386,119	16,674,645,181
Investment in subsidiary	20	-	-	-	-	-	500,000
Investment in associate	21	37,459,056	37,459,056	34,818,936	24,311,650	24,311,650	24,311,650
Insurance receivables	22	484,217,101	378,829,062	646,250,405	484,217,101	378,829,062	646,250,405
Deferred tax asset	31	159,478,502	253,667,553	-	159,478,502	253,667,553	-
Other assets	23	341,453,369	243,209,593	264,431,380	341,453,369	243,209,593	263,977,570
Property and equipment	24	567,264,337	545,630,840	510,581,453	567,260,165	545,626,668	510,577,281
Capital work-in-progress		50,265,851	17,910,559	27,545,548	50,265,851	17,910,559	27,545,548
Other intangible assets	25	12,195,947	17,880,772	20,559,719	12,195,947	17,880,772	20,559,719
Total Assets		**21,938,644,255**	**21,560,493,139**	**22,127,019,762**	**21,925,492,679**	**21,547,341,563**	**22,114,208,235**
Liabilities							
Investment contract liabilities	26	4,795,013,167	4,769,154,272	4,375,112,454	4,795,013,167	4,769,154,272	4,375,112,454
Contribution received by private provident fund		2,141,971,623	1,901,336,483	1,247,785,407	2,141,971,623	1,901,336,483	1,247,785,407
Insurance contract liabilities	27	5,451,108,682	5,499,402,842	4,459,139,798	5,451,108,682	5,499,402,842	4,459,139,798
Reinsurance contract liabilities		13,281,019	8,047,529	-	13,281,019	8,047,529	-
Insurance payable	28	557,129,755	598,394,896	431,936,549	557,129,755	598,394,896	431,936,549
Debt issued and other borrowed funds	29	3,504,655,357	4,259,242,978	5,529,420,207	3,504,655,357	4,259,242,978	5,531,500,917
Employee benefit obligation	30	21,712,942	34,609,660	17,614,505	21,712,942	34,609,660	17,614,505
Deferred tax Liability	31	-	-	81,385,706	-	-	81,385,706
Tax payable		-	-	158,253,872	-	-	158,232,683
Trade and other payables	32	1,858,409,279	1,326,254,431	1,813,191,232	1,858,409,279	1,326,254,431	1,812,876,330
Total liabilities		**18,343,281,824**	**18,396,443,090**	**18,113,839,730**	**18,343,281,824**	**18,396,443,090**	**18,115,584,349**
Equity							
Share capital	33	1,400,001,800	1,200,000,000	1,200,000,000	1,400,001,800	1,200,000,000	1,200,000,000
Net unrealized gains/(losses) on available-for-sale investments		94,948,460	140,605,750	104,797,454	94,948,460	140,605,750	104,797,454
Revaluation reserve		887,479,298	887,479,298	762,847,828	887,479,298	887,479,298	762,847,828
Retained earnings		984,999,141	708,031,270	1,717,601,019	971,847,566	694,879,695	1,703,044,875
Other reserves		227,933,729	227,933,729	227,933,729	227,933,729	227,933,729	227,933,729
Shareholder's equity		**3,595,362,429**	**3,164,050,048**	**4,013,180,030**	**3,582,210,854**	**3,150,898,473**	**3,998,623,886**
Non-controlling interests		-	-	-			
Total equity		**3,595,362,429**	**3,164,050,048**	**4,013,180,030**	**3,582,210,854**	**3,150,898,473**	**3,998,623,886**
Total liabilities and equity		**21,938,644,255**	**21,560,493,139**	**22,127,019,762**	**21,925,492,679**	**21,547,341,563**	**22,114,208,235**

The accounting policies and notes forms an integral part of the Financial Statements.

For S JAYKISHAN
Chartered Accountants
Firm Registration No. - 309005E

Ritesh Agarwal

(Ritesh Agarwal) **Chief Executive Officer** **Director** **Chairman**
Partner
Membership No. - 062410

Place: Kolkata
Date: 23th October, 2020

Royal Insurance Corporation of Bhutan
Thimphu

Royal Insurance Corporation of Bhutan Limited

CASH FLOW & RECONCILIATION STATEMENT

For the year ended 31 December 2019

For the year ended 31st December	Note	Group 2019 Nu	Group 2018 Nu	Company 2019 Nu	Company 2018 Nu
Cash flows from operating activities					
Profit Before Tax		380,353,871	(1,190,401,212)	380,353,871	(1,193,041,332)
Adjustment for:					
Depreciation of property and equipment	24	19,283,846	20,306,618	19,283,846	20,306,618
Depreciation of investment property	18	660,908	1,935,802	660,908	1,935,802
Amortization of intangible assets	25	3,548,600	4,664,111	3,548,600	4,664,111
Other operating and administrative expenses	12	4,942,904	-	4,942,904	-
Gratuity		20,715,235	-	20,715,235	-
Share of profit of an associate	21	-	(2,640,120)	-	-
Impairment of loans and advances	13	1,102,831,655	1,751,733,710	1,102,831,655	1,751,733,710
Operating profit before changes in operating assets & liabilities		**1,532,337,019**	**585,598,909**	**1,532,337,019**	**585,598,909**
(Increase)/Decrease in operating assets					
Loans and advance to customers	19	(1,640,790,741)	(1,123,119,976)	(1,640,790,741)	(1,123,119,976)
Insurance receivables	22	(107,738,848)	265,134,614	(107,738,848)	265,134,614
Other assets	23	(98,243,776)	30,856,776	(98,243,776)	30,402,966
Increase/(Decrease) in operating liabilities					
Insurance contracts liabilities	27	(48,294,160)	1,040,263,044	(48,294,160)	1,040,263,044
Reinsurance contract liabilities		5,233,490	5,773,649	5,233,490	9,818,338
Investment contract liabilities	26	25,858,895	394,041,818	25,858,895	394,041,818
Insurance payable	28	(41,265,142)	166,458,347	(41,265,142)	166,458,347
Contribution received by private provident fund		240,635,140	653,551,076	240,635,140	653,551,076
Trade and other payables	32	532,131,901	(486,936,801)	532,131,901	(486,621,899)
Net cash flow from operating activities before income tax		(1,132,473,239)	946,022,546	(1,132,473,239)	949,928,327
Gratuity paid	15	(23,241,491)	(3,203,019)	(23,241,491)	(3,203,019)
Income tax paid		-	(158,253,872)	-	(158,232,683)
Net cash flow from operating activities		(23,241,491)	(161,456,891)	(23,241,491)	(161,435,702)
Cash flow from Investing activities					
Available for sale investments	17	-	-	-	-
Purchase of property & equipment		(37,099,630)	(16,561,528)	(37,099,630)	(16,561,528)
Purchase of intangible assets		(7,870,854)	(1,985,164)	(7,870,854)	(1,985,164)
Purchase of investment property		(15,009,942)	(36,897,768)	(15,009,942)	(36,897,768)
Expenses incurred for Capital WIP		(32,355,292)	-	(32,355,292)	-
Net cash flow from investing activities		(92,335,719)	(55,444,460)	(92,335,719)	(55,444,460)
Cash flow from financing activities					
Borrowings during the year	31	(754,587,621)	(1,270,177,230)	(754,587,621)	(1,272,257,940)
Dividends paid		-	(151,200,000)	-	(151,200,000)
Issue of Shares		200,001,800	-	200,001,800	-
Net cash flow from financing activities		(554,585,821)	(1,421,377,230)	(554,585,821)	(1,423,457,940)
Net increase/(decrease) in cash and cash equivalents		(270,299,251)	(106,657,124)	(270,299,251)	(104,810,864)
Cash and cash equivalents at the beginning of the year	16	2,962,307,211	3,068,964,336	2,962,307,211	3,067,118,075
Cash and cash equivalents at the end of the year		**2,692,007,961**	**2,962,307,211**	**2,692,007,961**	**2,962,307,211**
Balance as per Statement of Financial Position		2,692,007,961	2,962,307,211	2,692,007,961	2,962,307,211

The accounting policies and notes forms an integral part of the Financial Statements.

For S JAYKISHAN
Chartered Accountants
Firm Registration No. - 309005E

Ritesh Agarwal

(Ritesh Agarwal) **Chief Executive Officer** **Director** **Chairman**
Partner
Membership No. - 062410

Place: Kolkata
Date: 23th October, 2020

Royal Insurance Corporation of Bhutan ★ Thimphu ★

Royal Insurance Corporation of Bhutan Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Group — In Nus

	Note	Share capital	Net unrealized gains/(losses) on available-for-sale investments	Revaluation reserve	Retained earnings	Other reserves	Total Shareholders' Funds
Balance as at 1st January 2017		**1,200,000,000**	**131,800,715**	-	**1,793,016,490**	**210,933,729**	**3,335,750,934**
Net profit for the year		-	-	-	608,564,457	-	608,564,457
Adjustment for previous year		-	-	-	31,880,229	-	31,880,229
Catastrophe fund		-	-	-	(5,000,000)	5,000,000	-
Technical reserve		-	-	-	(12,000,000)	12,000,000	-
Other comprehensive income		-	(27,003,262)	-	(2,884,792)	-	(29,888,054)
Dividend paid		-	-	-	(300,000,000)	-	(300,000,000)
Increase in reinsurance reserve		-	-	-	69,868,714	-	69,868,714
Balance as at 31st December 2017	**26**	**1,200,000,000**	**104,797,453**	-	**2,183,445,099**	**227,933,729**	**3,716,176,281**
Adjustment for previous year **		-	-	762,847,828	(465,844,079)	-	297,003,748
Adjusted opening retained earning 1st January 2018		1,200,000,000	104,797,453	762,847,828	1,717,601,019	227,933,729	4,013,180,030
Net profit for the year *		-	-	-	(856,904,012)	-	**(856,904,012)**
Adjustment for previous year		-	-	-	32,164,358	-	**32,164,358**
Other comprehensive income		-	35,808,296	124,631,471	(25,296,721)	-	**135,143,047**
Dividend paid		-	-	-	(151,200,000)	-	**(151,200,000)**
Increase in reinsurance reserve				-	(8,047,528)		**(8,047,528)**
Securities reserve				-	(285,847)		**(285,847)**
Balance as at 31st December 2018		**1,200,000,000**	**140,605,749**	**887,479,298**	**708,031,270**	**227,933,729**	**3,164,050,048**
Net profit for the year		-	-	-	263,486,270	-	263,486,270
Rights share issue adjustment		200,001,800	-	-	-	-	200,001,800
Other comprehensive income		-	(45,657,290)	-	13,481,601	-	(32,175,689)
Balance as at 31st December 2019		**1,400,001,800**	**94,948,459**	**887,479,298**	**984,999,141**	**227,933,729**	**3,595,362,429**

S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

Royal Insurance Corporation of Bhutan ★ Thimphu ★

Royal Insurance Corporation of Bhutan Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Company

In Nu

	Note	Share capital	Net unrealized gains/(losses) on available-for-sale investments	Revaluation reserve	Retained earnings	Other reserves	Total Shareholders' Funds
Balance as at 1st January 2017		**1,200,000,000**	**131,800,715**	-	**1,776,882,081**	**210,933,729**	**3,319,616,525**
Net profit for the year		-	-	-	610,142,722	-	610,142,722
Adjustment for previous year		-	-	-	31,880,229	-	31,880,229
Catastrophe fund		-	-	-	(5,000,000)	5,000,000	-
Technical reserve		-	-	-	(12,000,000)	12,000,000	-
Other comprehensive income		-	(27,003,262)	-	(2,884,792)	-	(29,888,054)
Dividend paid		-	-	-	(300,000,000)	-	(300,000,000)
Increase in reinsurance reserve		-	-	-	69,868,714	-	69,868,714
Balance as at 31st December 2017		**1,200,000,000**	**104,797,454**	-	**2,168,888,955**	**227,933,729**	**3,701,620,138**
Adjustment for previous year **		-	-	762,847,828	(465,844,079)	-	297,003,748
Adjusted opening retained earnings 1st January 2018		1,200,000,000	104,797,454	762,847,828	1,703,044,875	227,933,729	3,998,623,886
Net profit for the year *		-	-	-	(859,544,132)	-	**(859,544,132)**
Adjustment for previous year		-	-	-	32,164,358	-	**32,164,358**
Other comprehensive income		-	35,808,296	124,631,471	(25,296,721)	-	**135,143,046**
Dividend paid		-	-	-	(151,200,000)	-	**(151,200,000)**
Increase in reinsurance reserve				-	(8,047,528)		**(8,047,528)**
Securities reserve		-	-	-	3,758,842	-	**3,758,842**
Balance as at 31st December 2018		**1,200,000,000**	**140,605,750**	**887,479,298**	**694,879,695**	**227,933,729**	**3,150,898,474**
Net profit for the year		-	-	-	263,486,270	-	263,486,270
Other comprehensive income		-	(45,657,290)	-	13,481,601	-	(32,175,689)
Other adjustment							
Rights share issue adjustment		200,001,800	-	-	-	-	200,001,800
Balance as at 31st December 2019		**1,400,001,800**	**94,948,460**	**887,479,298**	**971,847,566**	**227,933,729**	**3,582,210,854**

* Adjustment of Premium & Claims previously recorded as Protfolio loss entry was restrosectively adjusted during the Year 2018 refer note 38.

S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

Royal Insurance Corporation of Bhutan ★ Thimphu ★

Royal Insurance Corporation of Bhutan Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

(3) Operating segment Information
Operating segment Income statement for the year ended 31 December 2019

	Non Life Insurance	Life Insurance	Group Life Insurance	Annuity Insurance	Re insurance	PPF	Credit & Investment	GAD	Securities	Adjustments	Company	Subsidiary/ Associate	Group
Gross written premiums	1,050,135,582	1,242,535,271	80,947,440	492,143	876,689,292	-	-	-		-	3,250,799,728	-	3,250,799,728
Premiums ceded to reinsurers	(431,555,504)	(1,413,897)	-	-	(105,718,323)	-	-	-		-	(538,687,724)	-	(538,687,724)
Net written premiums	618,580,078	1,241,121,374	80,947,440	492,143	770,970,969	-	-	-		-	2,712,112,004	-	2,712,112,004
Net change in reserve for unearned premium	(65,393,415)	-	-	-	(67,427,173)	-	-	-		-	(132,820,588)	-	(132,820,588)
Net earned premium	**553,186,663**	**1,241,121,374**	**80,947,440**	**492,143**	**703,543,796**	-	-	-		-	**2,579,291,416**	-	**2,579,291,416**
Finance Income	201,297,407	400,518,421	134,577,975	352,709,261	19,653,029	151,928,533	139,716,758	-	323,759	(1,261,008,386)	139,716,758	-	139,716,758
Fee and commission income - External	132,799,890	-	-	-	529,911	-	28,881,138	-	10,318,862	-	172,529,801	-	172,529,801
Fee and commission expense - External	(13,748,846)	(51,870,755)	-	(3,301,279)	(80,587,552)	-	-	-		-	(149,508,432)	-	(149,508,432)
Net fee & commission income	**320,348,451**	**348,647,666**	**134,577,975**	**349,407,982**	**(60,404,612)**	**151,928,533**	**168,597,895**	-	**10,642,621**	**(1,261,008,386)**	**162,738,127**	-	**162,738,127**
Interest Income - External	-	-	-	-	-	-	2,099,711,751	-	-	-	2,099,711,751	-	2,099,711,751
Less : Interest expense - External	-	(209,809,954)	(130,060,999)	(269,661,601)	-	-	(1,541,930,724)	-	-	1,261,008,386	(890,454,892)	-	(890,454,892)
Net interest income	-	**(209,809,954)**	**(130,060,999)**	**(269,661,601)**	-	-	**557,781,028**	-	-	**1,261,008,386**	**1,209,256,859**	-	**1,209,256,859**
Total revenue	**873,535,114**	**1,379,959,086**	**85,464,416**	**80,238,524**	**643,139,184**	**151,928,533**	**726,378,923**	-	**10,642,621**	-	**3,951,286,402**	-	**3,951,286,402**
Other operating income	905,654	4,174,580	515,221	2,264,781	3,881,498	4,045	5,387,341	15,645,054	3,785	-	32,781,958	-	32,781,958
Total operating income	**874,440,768**	**1,384,133,666**	**85,979,636**	**82,503,304**	**647,020,682**	**151,932,578**	**731,766,264**	**15,645,054**	**10,646,407**	-	**3,984,068,360**	-	**3,984,068,360**
													-
Gross benefits and claims paid	(699,629,009)	(1,457,181,581)	(49,600,000)	-	(607,732,916)	-	-	-	-	-	(2,814,143,505)	-	(2,814,143,505)
Claims ceded to reinsurers	400,268,344	-	-	-	27,700,294	-	-	-	-	-	427,968,638	-	427,968,638
Gross change in contract liabilities	-	137,259,434	(1,153,366)	(77,763,282)	4,404,149	-	-	-	-	-	62,746,935	-	62,746,935
Net benefits and claims	**(299,360,664)**	**(1,319,922,147)**	**(50,753,366)**	**(77,763,282)**	**(575,628,473)**	-	-	-	-	-	**(2,323,427,932)**	-	**(2,323,427,932)**
													-
Expenses relating to private provident fund	-	-	-	-	-	(134,378,249)	-	-	-	-	(134,378,249)	-	(134,378,249)
Other operating and administrative expenses	(86,535,537)	(64,211,520)	(35,226,271)	(4,740,023)	(31,898,315)	(8,023,326)	(88,663,038)	(36,485,755)	(4,149,028)	(35,776,097)	(395,708,909)	-	(395,708,909)
Impairment gain / (loss) on loans and advances	(2,201,427)	-	-	-	(149,381)	-	(747,848,592)	-	-	-	(750,199,400)	-	(750,199,400)
Share of profit of an associate						-	-	-	-	-	-	-	-
		-								-	-		-
Profit before tax	**486,343,140**	-	-	**(0)**	**39,344,513**	**9,531,003**	**(104,745,366)**	**(20,840,701)**	**6,497,378**	**(35,776,097)**	**380,353,871**	-	**380,353,871**
Income tax expense		-	-	-	-	-	-	-	-	(116,867,600)	(116,867,600)	-	(116,867,600)
Profit for the year	**486,343,140**	-	-	**(0)**	**39,344,513**	**9,531,003**	**(104,745,366)**	**(20,840,701)**	**6,497,378**	**(152,643,697)**	**263,486,270**	-	**263,486,270**
Other comprehensive income / (expenses)													
Net gain /loss on available for sale assets						-	(65,224,700)	-	-	-	(65,224,700)	-	(65,224,700)
Income tax effect						-	19,567,410	-	-	-	19,567,410	-	19,567,410
Re-measurement gains (losses) on defined benefir plans						-		-	-	10,370,462	10,370,462	-	10,370,462
Income tax effect						-		-	-	3,111,139	3,111,139	-	3,111,139
Total other comprehensive income	-	-	-	-	-	-	(45,657,290)	-	-	13,481,601	(32,175,689)	-	(32,175,689)
Income tax(charge) / credit relating to components of other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income net of tax	-	-	-	-	-	-	(45,657,290)	-	-	13,481,601	(32,175,689)	-	(32,175,689)
Total comprehensive income for the year net of tax	**486,343,140**	-	-	**(0)**	**39,344,513**	**9,531,003**	**(150,402,656)**	**(20,840,701)**	**6,497,378**	**(139,162,096)**	**231,310,581**	-	**231,310,581**

S. JAYKISHAN * KOLKATA * CHARTERED ACCOUNTANTS *

Royal Insurance Corporation of Bhutan * Thimphu *

Royal Insurance Corporation of Bhutan Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

(3) Operating segment Information

Operating segment Income statement for the year ended 31 December 2018

	Non Life Insurance	Life Insurance	Group Life Insurance	Annuity Insurance	Re insurance	PPF	Credit & Investment	GAD	Securties	Adjustments	Company	Subsidiary/ Associate	Group
Gross written premiums	1,095,310,119	1,190,970,127	76,520,760	543,233	1,129,905,234	-	-	-		(603,491,720)	2,889,757,753	-	2,889,757,753
Premiums ceded to reinsurers	(603,491,720)	(1,756,464)	-	-	(673,027,551)	-	-	-		603,491,720	(674,784,015)	-	(674,784,015)
Net written premiums	491,818,399	1,189,213,663	76,520,760	543,233	456,877,683	-	-	-		-	2,214,973,738	-	2,214,973,738
Net change in Reserve for unearned premium	(38,599,199)	-	-	-	27,926,046	-	-	-		-	(10,673,153)		(10,673,153)
Net Earned premium	**453,219,200**	**1,189,213,663**	**76,520,760**	**543,233**	**484,803,729**	-	-	-		-	**2,204,300,585**	-	**2,204,300,585**
Finance Income	166,399,205	359,742,531	118,562,665	370,598,453	16,811,133	128,357,452	133,230,518	-	91,517	(1,160,562,956)	133,230,518	-	133,230,518
Fee and commission income -External	134,633,605	-	-	-	145,470,486	-	44,604,444	-	1,652,618	(146,585,622)	179,775,531	-	179,775,531
Fee and commission expense - External	(15,590,432)	(52,710,472)	-	(4,067,238)	(234,498,438)	-	-	-		146,585,622	(160,280,957)	-	(160,280,957)
Net fee & commission income	**285,442,378**	**307,032,060**	**118,562,665**	**366,531,215**	**(72,216,819)**	**128,357,452**	**177,834,963**	-	**1,744,135**	**(1,160,562,956)**	**152,725,092**	-	**152,725,092**
Interest Income - External	-	-	-	-	-	-	1,680,963,452	-	-	-	1,680,963,452	-	1,680,963,452
Less : Interest expense - External	-	(95,690,187)	(112,695,605)	(291,894,743)	-	-	(1,506,083,773)	-	-	1,160,562,956	(845,801,352)	-	(845,801,352)
Net interest income	-	**(95,690,187)**	**(112,695,605)**	**(291,894,743)**	-	-	**174,879,679**	-	-	**1,160,562,956**	**835,162,100**	-	**835,162,100**
Total revenue	**738,661,577**	**1,400,555,536**	**82,387,820**	**75,179,705**	**412,586,911**	**128,357,452**	**352,714,642**	-	**1,744,135**	-	**3,192,187,778**	-	**3,192,187,778**
Other operating income	1,976,050	991,638	1,027,632	1,869,482	-	11,240	6,795,245	13,503,557	80,396	-	26,255,239	-	26,255,239
Total operating income	**740,637,627**	**1,401,547,173**	**83,415,452**	**77,049,187**	**412,586,911**	**128,368,691**	**359,509,887**	**13,503,557**	**1,824,531**	-	**3,218,443,017**	-	**3,218,443,017**
Gross benefits and claims paid	(230,705,417)	(448,953,025)	(33,400,000)	-	(433,185,231)	-	-	-	-	(31,410,671)	(1,177,654,344)	-	(1,177,654,344)
Claims ceded to reinsurers	(31,410,671)	-	-	-	8,475,175	-	-	-	-	31,410,671	8,475,175	-	8,475,175
Gross change in contract liabilities	-	(890,497,670)	(16,071,073)	(72,117,026)	(11,739,981)	-	-	-	-	-	(990,425,750)	-	(990,425,750)
Net benefits and claims	**(262,116,088)**	**(1,339,450,695)**	**(49,471,073)**	**(72,117,026)**	**(436,450,037)**	-	-	-	-	-	**(2,159,604,919)**	-	**(2,159,604,919)**
Expenses relating to private provident fund	-	-	-	-	-	(113,986,132)	-	-	-	-	(113,986,132)	-	(113,986,132)
Other operating and administrative expenses	(86,858,617)	(62,096,478)	(33,944,380)	(4,932,160)	(12,485,723)	(7,513,059)	(86,547,249)	(45,977,390)	(519,423)	(26,906,532)	(367,781,010)	-	(367,781,010)
Impairment gain / (loss) on loans and advances	(2,061,536)	-	-	-	(225,193)	-	(1,749,446,981)	-	-	-	(1,751,733,710)	-	(1,751,733,710)
Share of profit of an associate						-	-	-	-	-	-	2,640,120	2,640,120
10% Surplus of Life Insurance		-								-	-		-
Profit before tax	**389,601,387**	-	-	**(0)**	**(36,574,042)**	**6,869,500**	**(1,476,484,343)**	**(32,473,833)**	**1,305,108**	**(26,906,532)**	**(1,174,662,755)**	**2,640,120**	**(1,172,022,635)**
Income tax expense		-	-	-	-	-	-	-	-	315,118,624	315,118,624	-	315,118,624
Profit for the year	**389,601,387**	-	-	**(0)**	**(36,574,042)**	**6,869,500**	**(1,476,484,343)**	**(32,473,833)**	**1,305,108**	**(70,249,602)**	**(859,544,131)**	**2,640,120**	**(856,904,011)**
Other comprehensive income / (expenses)													
Net gain /loss on available for sale assets						-	51,154,709	-	-	-	51,154,709	-	51,154,709
Income tax effect						-	(15,346,413)	-	-	-	(15,346,413)	-	(15,346,413)
Increase/Decrease on fair value of PPE & IP						-	-	-	-	128,735,316	128,735,316	-	128,735,316
Income tax effect										(4,103,845)	(4,103,845)	-	(4,103,845)
Re-measurement gains (losses) on defined benefir plans						-		-	-	(20,198,174)	(20,198,174)	-	(20,198,174)
Income tax effect						-		-	-	(5,098,547)	(5,098,547)	-	(5,098,547)
Total other comprehensive income	-	-	-	-	-	-	35,808,296	-	-	(25,296,721)	135,143,047	-	135,143,047
Income tax(charge) / credit relating to components of other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income net of tax	-	-	-	-	-	-	35,808,296	-	-	(25,296,721)	135,143,046	-	135,143,046
Total comprehensive income for the year net of tax	**389,601,387**	-	-	**(0)**	**(36,574,042)**	**6,869,500**	**(1,440,676,047)**	**(32,473,833)**	**1,305,108**	**(95,546,322)**	**(724,401,085)**	**2,640,120**	**(721,760,965)**

Royal Insurance Corporation of Bhutan Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

(3) Operating segment Information
Operating segment statement of financial position as at 31 December 2019

	Non Life Insurance	Life Insurance	Group Life Insurance	Annuity Insurance	Re insurance	PPF	Credit & Investment	GAD	Securities	Adjustments	Company	Adjustments	Group
Assets													
Cash and Cash Equivalents	124,966,232	17,229,872	7,002,298	5,230,580	96,332,903	6,379,009	2,423,350,557	459,438	11,057,071	(93,643)	2,691,914,318	-	2,691,914,318
Equity instrument measured at fair value through OCI	-	-	-	-	-	-	421,514,327	-	-	-	421,514,327	-	421,514,327
Investment properties	-	-	-	-	-	-	-	-	-	584,091,794	584,091,794	-	584,091,794
Loans and receivables	-	1,080,794	-	-	-	-	16,587,708,861	-	-	-	16,588,789,655	-	16,588,789,655
Investment in associate							24,311,650	-	-	-	24,311,650	13,147,406	37,459,056
Insurance Receivables	245,420,852	20,305,421	575,640	-	217,915,188	-	-	-	-	-	484,217,101	-	484,217,101
Net defined benefit assets	-	-	-	-		-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-	159,478,502	159,478,502	-	159,478,502
Other Assets	7,426,150	325,235	-	-	18,823,150	-	189,141,442	125,737,392	-	-	341,453,369	-	341,453,369
Property and equipment	-	-	-	-	-	-	-	-	-	567,260,165	567,260,165	4,170	567,264,335
Capital work-in-progress	-	-	-	-	-	-	-	50,265,851	-	-	50,265,851	-	50,265,851
Intangible assets	-	-	-	-	-	-	-	-	-	12,195,947	12,195,947	-	12,195,947
Total Assets	**377,813,235**	**38,941,322**	**7,577,938**	**5,230,580**	**333,071,241**	**6,379,009**	**19,646,026,837**	**176,462,681**	**11,057,071**	**1,322,932,765**	**21,925,492,679**	**13,151,576**	**21,938,644,255**
Liabilities													
Investment contract liabilities	-	-	1,819,746,830	2,975,266,337	-	-	-	-	-	-	4,795,013,167	-	4,795,013,167
Contribution received by private provident fund						2,141,971,623	-	-	-	-	2,141,971,623	-	2,141,971,623
Insurance contract liabilities	332,280,542	4,604,656,242	87,806,192	205,876,857	220,488,849	-	-	-	-	-	5,451,108,682	-	5,451,108,682
Reinsurance contract liabilities		-	-	-	13,281,019	-	-	-	-	-	13,281,019	-	13,281,019
Insurance Payable	245,943,924	20,275,172	804,215	-	290,106,443	-	-	-	-	-	557,129,755	-	557,129,755
Debt issued and other borrowed funds	-	-	-	-	-	-	17,233,480,768	260,972,603	-	(13,989,798,014)	3,504,655,357	-	3,504,655,357
Employee benefit obligation	-	-	-	-	-	-	-	-	-	21,712,942	21,712,942	-	21,712,942
Trade and other payables	201,575,979	1,395,286,331	1,674,659	1,643,825	19,275,164	18,415,188	1,390,643,844	89,180,501	1,749,306	(1,261,035,517)	1,858,409,280	-	1,858,409,280
Total Liabilities	**779,800,445**	**6,020,217,745**	**1,910,031,897**	**3,182,787,020**	**543,151,475**	**2,160,386,811**	**18,624,124,611**	**350,153,104**	**1,749,306**	**(15,229,120,589)**	**18,343,281,826**	**-**	**18,343,281,825**
Equity & Liabilities													
Capital & Reserves													
Share Capital	-	-	-	-	-	-	-	1,400,001,800	-	-	1,400,001,800	-	1,400,001,800
Available For Sale reserve			-	-	-	-	94,948,459	-		-	94,948,459		94,948,459
Revaluation Reserve	-	-	-	-	-	-	-	-	-	887,479,298	887,479,298	-	887,479,298
Retained earnings	-	-	-	-	-	-	-	-		971,847,566	971,847,566	13,151,576	984,999,143
Other reserves	-	-	-	-	-	-	-	-		227,933,729	227,933,729	-	227,933,729
Total equity	-	-	-	-	-	-	**94,948,459**	**1,400,001,800**	-	**2,087,260,594**	**3,582,210,854**	**13,151,576**	**3,595,362,429**
Shareholders' Equity & Liabilities	**779,800,445**	**6,020,217,745**	**1,910,031,897**	**3,182,787,020**	**543,151,475**	**2,160,386,811**	**18,719,073,070**	**1,750,154,904**	**1,749,306**	**(13,141,859,996)**	**21,925,492,679**	**13,151,576**	**21,938,644,255**

S. JAYKISHAN ★ CHARTERED ACCOUNTANTS ★ KOLKATA

Royal Insurance Corporation of Bhutan ★ Thimphu ★

(3) Operating segment Information

Operating segment statement of financial position as at 31 December 2018

	Non Life Insurance	Life Insurance	Group Life Insurance	Annuity Insurance	Re insurance	PPF	Credit & Investment	GAD	Securities	Adjustments	Company	Adjustments	Group
Assets													
Cash and Cash Equivalents	153,416,816	5,341,853	4,391,267	5,777,431	257,060,553	7,668,104	2,519,833,909	5,229,911	3,587,367	(267,533)	2,962,039,678	-	2,962,039,678
Equity instrument measured at fair value through OCI	-	-	-	-	-	-	486,739,027	-	-	-	486,739,027	-	486,739,027
Investment properties	-	-	-	-	-	-	-	-	-	568,740,882	568,740,882	-	568,740,882
Loans and receivables	-	934,574	-	-	-	-	16,047,451,545	-	-	-	16,048,386,119	-	16,048,386,119
Investment in subsidiary companies	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment in associate							24,311,650	-	-	-	24,311,650	13,147,406	37,459,056
Insurance Receivables	200,052,071	6,318,640	2,211,000	83,575	170,163,776	-	-	-	-	-	378,829,062	-	378,829,062
Net defined benefit assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-	253,667,553	253,667,553	-	253,667,553
Other Assets	3,258,905	564,040	-	-	-	-	111,855,084	126,354,181	1,177,384	-	243,209,593	-	243,209,593
Property and equipment	-	-	-	-	-	-	-	-	-	545,626,668	545,626,668	4,170	545,630,838
Capital work-in-progress	-	-	-	-	-	-	-	17,910,559	-	-	17,910,559	-	17,910,559
Intangible assets	-	-	-	-	-	-	-	-	-	17,880,772	17,880,772	-	17,880,772
Total Assets	**356,727,792**	**13,159,107**	**6,602,267**	**5,861,006**	**427,224,329**	**7,668,104**	**19,190,191,215**	**149,494,650**	**4,764,750**	**1,385,648,342**	**21,547,341,563**	**13,151,576**	**21,560,493,139**
Liabilities													
Investment contract liabilities	-	-	1,580,163,155	3,188,991,117	-	-	-	-	-	-	4,769,154,272	-	4,769,154,272
Contribution received by private provident fund						1,901,336,483	-	-	-	-	1,901,336,483	-	1,901,336,483
Insurance contract liabilities	344,930,794	4,748,234,316	88,863,826	128,197,151	189,176,755	-	-	-	-	-	5,499,402,842	-	5,499,402,842
Reinsurance contract liabilities		-	-	-	8,047,529	-	-	-	-	-	8,047,529	-	8,047,529
Insurance Payable	235,631,189	33,247,305	804,215	-	328,712,186	-	-	-	-	-	598,394,896	-	598,394,896
Debt issued and other borrowed funds	-	-	-	-	-	-	16,874,695,474	260,972,603	-	(12,876,425,099)	4,259,242,978	-	4,259,242,978
Employee benefit obligation	-	-	-	-	-	-	-	-	-	34,609,660	34,609,660	-	34,609,660
Trade and other payables	195,596,970	979,461,510	1,245,466	289,474	403,651	10,275,628	1,274,649,559	23,962,768	959,485	(1,160,590,080)	1,326,254,431	-	1,326,254,431
Total Liabilities	**776,158,953**	**5,760,943,131**	**1,671,076,663**	**3,317,477,742**	**526,340,122**	**1,911,612,110**	**18,149,345,033**	**284,935,371**	**959,485**	**(14,002,405,519)**	**18,396,443,092**	**-**	**18,396,443,090**
Equity & Liabilities													
Capital & Reserves													
Share Capital	-	-	-	-	-	-	-	1,200,000,000	-	-	1,200,000,000	-	1,200,000,000
Retained earnings	-	-	-	-	-	-	-	-		694,879,695	694,879,695	13,151,576	708,031,271
Revaluation Reserve	-	-	-	-	-	-	-	-	-	887,479,298	887,479,298		887,479,298
Other reserves	-	-	-	-	-	-	-	-		227,933,729	227,933,729	-	227,933,729
Available For Sale reserve			-	-	-	-	140,605,750	-		-	140,605,750		140,605,750
Total equity	-	-	-	-	-	-	**140,605,750**	**1,200,000,000**	-	**1,810,292,723**	**3,150,898,472**	**13,151,576**	**3,164,050,049**
Shareholders' Equity & Liabilities	**776,158,953**	**5,760,943,131**	**1,671,076,663**	**3,317,477,742**	**526,340,122**	**1,911,612,110**	**18,289,950,783**	**1,484,935,371**	**959,485**	**(12,789,824,969)**	**21,547,341,563**	**13,151,576**	**21,560,493,139**

S. JAYKISHAN * CHARTERED ACCOUNTANTS * KOLKATA

Royal Insurance Corporation of Bhutan * Thimphu *

		Note	Group		Company	
			Nu 2019	Nu 2018	Nu 2019	Nu 2018
4	**GROSS WRITTEN PREMIUM**					
	Non life insurance		1,050,135,582	1,095,310,119	1,050,135,582	1,095,310,119
	Life insurance		1,242,535,271	1,190,970,127	1,242,535,271	1,190,970,127
	Group life insurance		80,947,440	76,520,760	80,947,440	76,520,760
	Annuity insurance		492,143	543,233	492,143	543,233
	Re insurance		876,689,292	526,413,515	876,689,292	526,413,515
	Total gross written premium		**3,250,799,728**	**2,889,757,753**	**3,250,799,728**	**2,889,757,753**
4.1	**Premiums ceded to reinsurance**					
	Non-life Insurance		(431,555,504)	-	(431,555,504)	-
	Life insurance		(1,413,897)	(1,756,464)	(1,413,897)	(1,756,464)
	Re insurance		(105,718,323)	(673,027,551)	(105,718,323)	(673,027,551)
	Total premium ceded to reinsurance		(538,687,724)	(674,784,015)	(538,687,724)	(674,784,015)
	Total net premium		**2,712,112,004**	**2,214,973,738**	**2,712,112,004**	**2,214,973,738**
5	**FINANCE INCOME**					
	Income from investment securities		139,716,758	133,230,518	139,716,758	133,230,518
			139,716,758	**133,230,518**	**139,716,758**	**133,230,518**
6	**FEES AND COMMISSION INCOME**					
	Agent commission		132,799,890	134,633,605	132,799,890	134,633,605
	Reinsurance commission		529,911	(1,115,136)	529,911	(1,115,136)
	Guarantee fee		26,809,546	42,887,025	26,809,546	42,887,025
	Credit related fees and commissions		1,039,200	1,276,400	1,039,200	1,276,400
	Broking Fees and Commision		10,318,862	1,652,618	10,318,862	1,652,618
	Other		1,032,392	441,019	1,032,392	441,019
	Total fees and commission income		**172,529,801**	**179,775,531**	**172,529,801**	**179,775,531**
7	**FEES AND COMMISSION EXPENSE**					
	Commission expense on Re insurance accepted		(80,587,552)	(87,912,816)	(80,587,552)	(87,912,816)
	Agent commission		(68,920,880)	(72,368,142)	(68,920,880)	(72,368,142)
	Total fees and commission expense		**(149,508,432)**	**(160,280,957)**	**(149,508,432)**	**(160,280,957)**

S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

Royal Insurance Corporation of Bhutan ★ Thimphu ★

		Note	Group		Company	
			Nu 2019	Nu 2018	Nu 2019	Nu 2018
8	**INTEREST INCOME ON FINANCIAL SERVICES**					
	Loans & receivables from customers		2,099,711,751	1,680,963,452	2,099,711,751	1,680,963,452
	Interest income received from impaired loans		-	-	-	-
	Total interest income		**2,099,711,751**	**1,680,963,452**	**2,099,711,751**	**1,680,963,452**
9	**INTEREST EXPENSE ON FINANCIAL SERVICES**					
	Interest on group life insurance		(130,060,999)	(112,695,605)	(130,060,999)	(112,695,605)
	Interest on annuity contribution		(269,661,601)	(291,894,743)	(269,661,601)	(291,894,743)
	Interest on bank borrowings		(43,422,337)	(108,020,817)	(43,422,337)	(108,020,817)
	Debt issued and borrowed funds		(237,500,000)	(237,500,000)	(237,500,000)	(237,500,000)
	Interest on TMN policies (Life Insuarnce)		(209,809,954)	(95,690,187)	(209,809,954)	(95,690,187)
	Total interest expense		**(890,454,892)**	**(845,801,352)**	**(890,454,892)**	**(845,801,352)**
10	**OTHER OPERATING INCOME**					
	Rental income		10,944,544	10,305,331	10,944,544	10,305,331
	Interest income on plan assets		-	-	-	-
	Securities business		3,785	80,396	3,785	80,396
	Other		21,833,629	15,869,512	21,833,629	15,869,512
	Total other operating income		**32,781,958**	**26,255,239**	**32,781,958**	**26,255,239**
11	**NET BENEFITS AND CLAIMS**					
11(a)	**Gross benefits and claims paid**					
	Non Life Insurance		(699,629,009)	(230,705,417)	(699,629,009)	(230,705,417)
	Life Insurance		(1,457,181,581)	(448,953,025)	(1,457,181,581)	(448,953,025)
	Group Life Insurance		(49,600,000)	(33,400,000)	(49,600,000)	(33,400,000)
	Re insurance		(607,732,916)	(464,595,902)	(607,732,916)	(464,595,902)
	Total gross benefit and claims paid		**(2,814,143,505)**	**(1,177,654,344)**	**(2,814,143,505)**	**(1,177,654,344)**
11(b)	**Claims ceded to reinsurers**					
	Non Life Insurance		400,268,344	(31,410,671)	400,268,344	(31,410,671)
	Re insurance		27,700,294	39,885,846	27,700,294	39,885,846
	Total claims to reinsurers		**427,968,638**	**8,475,175**	**427,968,638**	**8,475,175**
11(c)	**Change in contract liabilities**					
	Life Insurance		137,259,434	(890,497,670)	137,259,434	(890,497,670)
	Group Life Insurance		(1,153,366)	(16,071,073)	(1,153,366)	(16,071,073)
	Annuity Insurance		(77,763,282)	(72,117,026)	(77,763,282)	(72,117,026)
	Re insurance		4,404,149	(11,739,981)	4,404,149	(11,739,981)
	Total change in contract liabilities ceded to reinsurers		**62,746,935**	**(990,425,750)**	**62,746,935**	**(990,425,750)**
	Net benefit claims and paid		**(2,323,427,932)**	**(2,159,604,919)**	**(2,323,427,932)**	**(2,159,604,919)**

S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

Royal Insurance Corporation of Bhutan ★ Thimphu ★

		Note	Group		Company	
			Nu 2019	Nu 2018	Nu 2019	Nu 2018
12	**OTHER OPERATING AND ADMINISTRATIVE EXPENSES**					
	Amortization of intangible assets		(3,548,600)	(4,664,111)	(3,548,600)	(4,664,111)
	Depreciation on property and equipment		(19,283,846)	(20,306,618)	(19,283,846)	(20,306,618)
	Depreciation on investment property		(660,908)	(1,935,802)	(660,908)	(1,935,802)
	Professional & legal expenses		(527,500)	-	(527,500)	-
	Bank Charges		(1,004,674)	(820,365)	(1,004,674)	(820,365)
	Management expenses		(85,072,362)	(132,119,000)	(85,072,362)	(132,119,000)
	Employee benefits expense	12.1	(220,745,023)	(172,198,551)	(220,745,023)	(172,198,551)
	Provision for Embezzlement of Funds		(18,823,150)	-	(18,823,150)	-
	Bad Debts		-	-	-	-
	Securities business		(2,844,141)	-	(2,844,141)	-
	Loss on sale of Assets		-	-	-	-
	Other		(43,198,705)	(35,736,563)	(43,198,705)	(35,736,563)
	Total other operating and administrative expenses		**(395,708,908)**	**(367,781,010)**	**(395,708,908)**	**(367,781,010)**
12.1	**Employee benefits expense**					
	Salaries and bonus		(166,404,260)	(140,040,916)	(166,404,260)	(140,040,916)
	Staff welfare and expenses		(1,888,368)	(2,702,404)	(1,888,368)	(2,702,404)
	Leave travel concession		(6,062,922)	(5,734,550)	(6,062,922)	(5,734,550)
	Defined benefit costs		(20,715,235)	-	(20,715,235)	-
	Leave encashment		(13,647,565)	(12,886,800)	(13,647,565)	(12,886,800)
	Pre-paid employee benefit		-	-	-	-
	Contribution to private provident fund		(12,026,672)	(10,833,881)	(12,026,672)	(10,833,881)
	Total employee benefit expense		(220,745,023)	(172,198,551)	(220,745,023)	(172,198,551)
13	**IMPAIREMENT GAIN /(LOSS)**					
	Impairment loss on reinsurance receivables		(2,350,808)	(2,286,729)	(2,350,808)	(2,286,729)
	Impairment loss on loans and receivables		(747,754,949)	(1,749,179,448)	(747,754,949)	(1,749,179,448)
	Impairment loss on cash and cash equivalent		(93,643)	(267,533)	(93,643)	(267,533)
	Total impairment gain /loss on loans and advances		**(750,199,400)**	**(1,751,733,710)**	**(750,199,400)**	**(1,751,733,710)**
14	**INCOME TAX EXPENSES**					
(a)	Current tax charge					
	Current income tax		-	-	-	-
	Adjustment in respect of current income tax of prior years		-	(44,483,440)	-	(44,483,440)
	Deferred tax		-	-	-	-
	Relating to origination and reversal of temporary differences		(116,867,600)	359,602,064	(116,867,600)	359,602,064
	Total income tax expense		**(116,867,600)**	**315,118,624**	**(116,867,600)**	**315,118,624**
(b)	**Tax recorded in other comprehensive income (see note 32)**					
	Current tax		-	-	-	-
	Deferred tax		22,678,549	(20,444,959)	22,678,549	(20,444,959)
	Total tax charge to the other comprehensive income		**22,678,549**	**(20,444,959)**	**22,678,549**	**(20,444,959)**

15 EARNING PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary shareholders of the parent.

	Group 2019	Group 2018	Company 2019	Company 2018
Profits attributable to the equity holders of the parent	263,486,270	(856,904,012)	263,486,270	(859,544,132)
Nominal Value of Equity Shares	10	10	10	10
Number of Shares	140,000,180	120,000,000	140,000,180	120,000,000
	1.88	**(7.14)**	**1.88**	**(7.16)**

The primary EPS and diluted EPS will be same as the company did not issue any convertible securities

S. JAYKISHAN KOLKATA CHARTERED ACCOUNTANTS

Royal Insurance Corporation of Bhutan Thimphu

Royal Insurance Corporation of Bhutan Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

Note		Group Nu 31st December, 2019	Group Nu 31st December, 2018	Group Nu 1st January, 2018	Company Nu 31st December, 2019	Company Nu 31st December, 2018	Company Nu 1st January, 2018
16	**CASH AND CASH EQUIVALENTS**						
	Local currency in hand	33,564,296	124,023,913	12,861,827	33,564,296	124,023,913	12,861,827
	Balances with local banks	885,872,860	1,194,215,220	1,424,938,502	885,872,860	1,194,215,220	1,423,092,242
	Balances with foreign banks	66,975,188	141,500,031	144,967,995	66,975,188	141,500,031	144,967,995
	Fixed Deposits with banks	1,705,595,616	1,502,568,048	1,486,196,012	1,705,595,616	1,502,568,048	1,486,196,012
	Allowance for expected credit loss	(93,643)	(267,533)	(199,590)	(93,643)	(267,533)	(199,590)
		2,691,914,318	2,962,039,678	3,068,764,745	2,691,914,318	2,962,039,678	3,066,918,485
17	**Investments**						
	Quoted investments						
	Equity investment	297,453,305	362,678,005	311,023,296	297,453,305	362,678,005	311,023,296
	Unquoted investments						
	Equity investment	124,061,022	124,061,022	124,061,022	124,061,022	124,061,022	124,061,022
	Statutory investment	-	-	500,000	-	-	-
	Total investments	421,514,327	486,739,027	435,584,318	421,514,327	486,739,027	435,084,318

17.1	Quoted equity securities	31st December, 2019 No of Ordinary Shares	31st December, 2019 Cost of Investment	31st December, 2019 Fair Value	31st December, 2018 No of Ordinary Shares	31st December, 2018 Cost of Investment	31st December, 2018 Fair Value	1st January,2018 No of Ordinary Shares	1st January,2018 Cost of Investment	1st January,2018 Fair Value
	Bhutan Ferro Alloys Ltd.	800,000	8,100,000	120,770,683	800,000	8,100,000	88,453,851	800,000	8,100,000	47,999,840
	Penden Cement Authority Ltd.	183,150	3,169,400	10,969,736	183,150	3,169,400	12,849,257	183,150	3,169,400	6,929,637
	Bhutan National Bank Ltd	9,960,000	103,523,000	100,038,092	8,300,000	103,523,000	220,052,920	8,300,000	103,523,000	223,816,140
	State Trading Corporation of Bhutan Ltd.	882,000	980,000	18,656,440	882,000	980,000	17,966,902	882,000	980,000	7,405,505
	Bhutan Board Products Ltd.	118,300	1,229,250	1,899,429	118,300	1,229,250	(894,348)	118,300	1,229,250	447,174
	GIC Bhutan Re Ltd	2,500,000	25,000,000	28,418,926	2,500,000	25,000,000	7,549,423	2,500,000	25,000,000	8,225,000
	Royal Securities Exchange of Bhutan Limited	162,000	19,811,000	16,700,000	162,000	19,811,000	16,700,000	162,000	19,311,000	16,200,000
	Total	14,605,450	161,812,650	297,453,306	12,945,450	161,812,650	362,678,005	12,945,450	161,312,650	311,023,296

Quoted equity securities do not have active market as defined in BFRS 9. Hence, fair value were arrived by using valuation model based on data available upto 31st December 2019.
During the year 2019 bonus share has been issued by Bhutan National Bank Ltd.

17.2	Un-quoted equity securities	31st December, 2019 No of Ordinary Shares	31st December, 2019 Cost of Investment	31st December, 2019 Fair Value	31st December, 2018 No of Ordinary Shares	31st December, 2018 Cost of Investment	31st December, 2018 Fair Value	1st January,2018 No of Ordinary Shares	1st January,2018 Cost of Investment	1st January,2018 Fair Value
	Bhutan Development Finance Corporation.	5,091	5,091,000	-	5,091	5,091,000	-	5,091	5,091,000	-
	Zimdra Foods Private Limited	200,000	20,000,000	-	200,000	20,000,000	-	200,000	20,000,000	-
	Financial Institution Training Institute	-	12,000,000	-	-	12,000,000	-	-	12,000,000	-
	Tara Dolma	-	6,950,000	-	-	6,950,000	-	-	6,950,000	-
	Less: Provison for diminishing in value of shares	-	(6,950,000)	-	-	(6,950,000)	-	-	-	-
	CIB	-	1,750,000	-	-	1,750,000	-	-	1,750,000	-
	Karuna Private Limited	3,000,000	30,000,000	-	3,000,000	30,000,000	-	3,000,000	30,000,000	-
	Neethsel Private Limited	213,729	25,220,022	-	213,729	25,220,022	-	213,729	25,220,022	-
	Sherub Reldri HSS	300,000	30,000,000	-	300,000	30,000,000	-	300,000	30,000,000	-
	Total	3,718,820	124,061,022	-	3,718,820	124,061,022	-	3,718,820	131,011,022	-

Royal Insurance Corporation of Bhutan ★ Thimphu ★

S. JAYKISHAN ★ KOLKATA ★ CHARTERED ACCOUNTANTS

Note		Group			Company		
		Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018	Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018
18	**INVESTMENT PROPERTY (Stated at Cost)**						
	Cost						
	At 1 January	584,662,045	455,466,929	363,570,389	584,662,045	455,466,929	363,570,389
	Additions	15,009,942	36,897,768	-	15,009,942	36,897,768	-
	Disposals/Adjustment	-	-	-	-	-	-
	Revaluation	-	92,297,347	91,896,540	-	92,297,347	91,896,540
		599,671,987	584,662,045	455,466,929	599,671,987	584,662,045	455,466,929
	Accumulated depreciation						
	At 1 January	15,921,163	11,628,851	7,737,347	15,921,163	11,628,851	7,737,347
	For the year	660,908	1,935,802	1,935,802	660,908	1,935,802	1,935,802
	Adjustments	(1,001,878)	-	-	(1,001,878)	-	-
	Revaluation	-	2,356,509	1,955,702		2,356,509	1,955,702
		15,580,193	15,921,163	11,628,851	15,580,193	15,921,163	11,628,851
	At 31 December	**584,091,794**	**568,740,881**	**443,838,077**	**584,091,794**	**568,740,882**	**443,838,077**

The fair value of the investment property are based on valuation performed by an accredited independent valuer as on 31/12/2018. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value measurement is categorised in Level 3 of fair value hierarchy. The Corporation in its previous years has not taken effect of the fair value measurement based on its accounting policies, the resultant impact of such has been adjusted through revaluation reserve during the year. The management also performed impairment and market price analysis as on the date of the financials and found that there were no significant changes in the value of investment property

Note		Group			Company		
19	**LOANS AND RECEIVABLES**						
	Loans and receivable from customers	20,615,761,000	18,976,110,630	17,199,920,773	20,615,761,000	18,976,110,630	17,199,920,773
	Less: Fair value of employee loans	(5,387,341)	(6,795,245)	-	(5,387,341)	(6,795,245)	-
	Less: Interest suspense	(998,906,892)	(646,274,636)	-	(998,906,892)	(646,274,636)	-
	Less: Provision for impairment losses	(3,022,677,112)	(2,274,654,630)	(525,275,591)	(3,022,677,112)	(2,274,654,630)	(525,275,591)
		16,588,789,655	**16,048,386,119**	**16,674,645,181**	**16,588,789,655**	**16,048,386,119**	**16,674,645,181**

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Impairment Allowance for loans & advances to customers

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

	Overdraft	Card Loan	Housing	Transport	Service,T&C,P&M	Personal	Others	Guarantees	Total
At 1st January 2018	220,078,454	125,840,403	15,548,676	1,894,688	144,489,713	14,247,089	2,660,704	515,864	**525,275,591**
Charges/Reversal for the year	1,036,121,478	62,566,484	86,863,359	12,980,861	518,940,590	23,724,029	8,296,269	(114,030)	**1,749,379,040**
Recoveries	-	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-	-	-
At 31st December 2018	**1,256,199,932**	**188,406,887**	**102,412,035**	**14,875,549**	**663,430,303**	**37,971,118**	**10,956,973**	**401,834**	**2,274,654,630**
Individual impairment	-	-	-	-	-	-	-	-	-
Collective impairment	1,256,199,932	188,406,887	102,412,035	14,875,549	663,430,303	37,971,118	10,956,973	401,834	**2,274,654,631**
At 1st January 2019	1,256,199,932	188,406,887	102,412,035	14,875,549	663,430,303	37,971,118	10,956,973	401,834	**2,274,654,631**
Charges/Reversal for the year	40,862,165	(91,331,638)	299,330,211	15,032,624	371,267,737	2,996,342	109,640,449	224,591	**748,022,482**
Recoveries	-	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-	-	-
At 31st December 2019	**1,297,062,097**	**97,075,249**	**401,742,246**	**29,908,173**	**1,034,698,040**	**40,967,460**	**120,597,422**	**626,425**	**3,022,677,112**
Individual impairment	-	-	-	-	-	-	-	-	-
Collective impairment	1,297,062,097	97,075,249	401,742,246	29,908,173	1,034,698,040	40,967,460	120,597,422	626,425	**3,022,677,112**

Note		Group			Company		
		Nu	Nu	Nu	Nu	Nu	Nu
		31st December, 2019	31st December, 2018	1st January, 2018	31st December, 2019	31st December, 2018	1st January, 2018
20	**INVESTMENT IN SUBSIDIARY**	-	-	-	-	-	500,000
		-	-	-	-	-	**500,000**
21	**INVESTMENT IN ASSOCIATE**						
	(1,813,700 No. of Shares having Face Value of Nu. 10/- of Bhutan Carbide & Chemicals Ltd.)						
	Opening balance	37,459,056	34,818,936	36,450,811	24,311,650	24,311,650	24,311,650
	For the year profit	-	2,640,120	(1,631,875)	-	-	-
	Dividend received	-	-	-	-	-	-
		37,459,056	**37,459,056**	**34,818,936**	**24,311,650**	**24,311,650**	**24,311,650**

Note: The financial statements for the year 2019 of the associate company is available, so no effect has been considered during the year.

Note		Group			Company		
		Nu	Nu	Nu	Nu	Nu	Nu
		31st December, 2019	31st December, 2018	1st January, 2018	31st December, 2019	31st December, 2018	1st January, 2018
22	**INSURANCE RECEIVABLES**						
	Due from policyholders	20,881,061	8,613,215	69,138	20,881,061	8,613,215	69,138
	Due from reinsurers	468,878,334	373,407,333	647,086,023	468,878,334	373,407,333	647,086,023
	Rural claim and subsidy	-	-	-	-	-	-
	Employee short fund	-	-	-	-	-	-
	Impairment of insurance receivables	(5,542,294)	(3,191,486)	(904,756)	(5,542,294)	(3,191,486)	(904,756)
		484,217,101	**378,829,062**	**646,250,405**	**484,217,101**	**378,829,062**	**646,250,405**
	Total insurance receivables						
23	**OTHER ASSETS**						
	Advances, Deposits & Prepayments	127,289,215	128,573,004	151,052,162	127,289,215	128,573,004	151,052,162
	Interest, Rent and Other Receivables	184,885,564	106,343,801	98,092,834	184,885,564	106,343,801	97,639,024
	Other	29,278,590	8,292,788	15,286,383	29,278,590	8,292,788	15,286,383
		341,453,369	**243,209,593**	**264,431,380**	**341,453,369**	**243,209,593**	**263,977,570**

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Royal Insurance Corporation of Bhutan * Thimphu *

24.i PROPERTY AND EQUIPMENT

Group

In Nus

	Land	Buildings	Furniture and Fixtures	Office Equipment	Motor Vehicles	Computer Equipments	Total
Cost/ Revalued Amount:							
At 31st December 2017	270,687,539	186,697,640	24,124,481	31,119,292	12,298,721	62,388,895	587,316,568
Previous year adjustment on account of Revaluation	27,606,848	13,571,411	-	-	-	-	41,178,260
Adjusted balance as at 1 January 2018	298,294,387	200,269,052	24,124,481	31,119,292	12,298,721	62,388,895	628,494,828
Additions	-	1,433,859	1,756,628	10,135,721	-	3,235,320	16,561,528
Disposals	-	-	-	-	-	-	-
Revaluation	27,606,848	13,571,411	-	-	-	-	41,178,260
At 31 December 2018	325,901,235	215,274,322	25,881,109	41,255,013	12,298,721	65,624,215	686,234,615
At 1 January 2019	325,901,235	215,274,322	25,881,109	41,255,013	12,298,721	65,624,215	686,234,615
Additions	-	13,694,249	7,836,630	9,958,418	2,533,210	3,077,123	37,099,630
Disposals/Adjustments	-	-	(5,775,381)	(1,512,997)	(3,766,039)	(16,099,808)	(27,154,225)
Revaluation	-	-	-	-	-	-	-
At 31 December 2019	**325,901,235**	**228,968,572**	**27,942,358**	**49,700,434**	**11,065,892**	**52,601,530**	**696,180,021**
Depreciation and impairment:							
At 31st December 2017	-	32,792,938	14,356,638	16,439,750	4,202,685	47,737,582	115,529,593
Previous year adjustment on account of Revaluation	-	2,383,782	-	-	-	-	2,383,782
Adjusted balance as at 1 January 2018	-	35,176,720	14,356,638	16,439,750	4,202,685	47,737,582	117,913,375
Disposals	-	-	-	-	-	-	-
Depreciation charge for the year	-	6,079,814	3,251,488	4,356,351	1,372,160	5,246,805	20,306,618
Revaluation adjustment	-	2,383,782	-	-	-	-	2,383,782
At 31 December 2018	-	43,640,316	17,608,126	20,796,101	5,574,845	52,984,387	140,603,775
At 1 January 2019	-	43,640,316	17,608,126	20,796,101	5,574,845	52,984,387	140,603,775
Disposals/adjustments	-	1,001,878	(6,101,925)	(5,409,604)	(2,906,336)	(17,555,950)	(30,971,937)
Depreciation charge for the year	-	4,318,331	3,094,702	6,312,398	1,393,376	4,165,039	19,283,846
At 31 December 2019	-	**48,960,524**	**14,600,903**	**21,698,895**	**4,061,885**	**39,593,476**	**128,915,684**
Net book value:							
At 1 January 2018	298,294,387	165,092,332	9,767,843	14,679,542	8,096,037	14,651,312	**510,581,453**
At 31 December 2018	325,901,235	171,634,007	8,272,983	20,458,912	6,723,876	12,639,827	**545,630,840**
At 31 December 2019	325,901,235	180,008,047	13,341,455	28,001,539	7,004,007	13,008,053	**567,264,337**

Company

In Nus

Cost/ Revalued Amount:	Land	Buildings	Furniture and Fixtures	Office Equipment	Motor Vehicles	Computer Equipments	Total
At 31st December 2017	270,687,539	186,697,640	24,124,481	31,115,122	12,298,721	62,358,188	587,281,691
Previous year adjustment on account of Revaluation	27,606,848	13,571,411	-	-	-	-	41,178,260
Adjusted balance as at 1 January 2018	298,294,387	200,269,052	24,124,481	31,115,122	12,298,721	62,358,188	628,459,951
Additions	-	1,433,859	1,756,628	10,135,721		3,235,320	16,561,528
Disposals	-	-	-	-	-	-	-
Revaluation	27,606,848	13,571,411	-	-	-	-	41,178,260
At 31 December 2018	325,901,235	215,274,322	25,881,109	41,250,843	12,298,721	65,593,508	686,199,738
At 1 January 2019	325,901,235	215,274,322	25,881,109	41,250,843	12,298,721	65,593,508	686,199,738
Additions	-	13,694,249	7,836,630	9,958,418	2,533,210	3,077,123	37,099,630
Disposals/Adjustment	-	-	(5,775,381)	(1,512,997)	(3,766,039)	(16,099,808)	(27,154,225)
Revaluation	-	-	-	-	-	-	-
At 31 December 2019	**325,901,235**	**228,968,572**	**27,942,358**	**49,696,264**	**11,065,892**	**52,570,823**	**696,145,144**
Depreciation and impairment:							
At 31st December 2017	-	32,792,938	14,356,638	16,439,750	4,202,685	47,706,877	115,498,888
Previous year adjustment on account of Revaluation	-	2,383,782	-	-	-	-	2,383,782
Adjusted balance as at 1 January 2018	-	35,176,720	14,356,638	16,439,750	4,202,685	47,706,877	117,882,670
Disposals	-	-	-	-	-	-	-
Depreciation charge for the year	-	6,079,814	3,251,488	4,356,351	1,372,160	5,246,805	20,306,618
Revaluation adjustment	-	2,383,782	-	-	-	-	2,383,782
At 31 December 2018	-	43,640,316	17,608,126	20,796,101	5,574,845	52,953,682	140,573,070
At 1 January 2019	-	43,640,316	17,608,126	20,796,101	5,574,845	52,953,682	140,573,070
Disposals/Adjustments	-	1,001,878	(6,101,925)	(5,409,604)	(2,906,336)	(17,555,950)	(30,971,937)
Depreciation charge for the year	-	4,318,331	3,094,702	6,312,398	1,393,376	4,165,039	19,283,846
At 31 December 2019	-	**48,960,524**	**14,600,903**	**21,698,895**	**4,061,885**	**39,562,771**	**128,884,979**
Net book value:							
At 1 January 2018	298,294,387	165,092,332	9,767,843	14,675,372	8,096,037	14,651,310	**510,577,281**
At 31 December 2018	325,901,235	171,634,007	8,272,983	20,454,742	6,723,876	12,639,825	**545,626,668**
At 31 December 2019	325,901,235	180,008,047	13,341,455	27,997,369	7,004,007	13,008,051	**567,260,165**

24.ii The fair value of the property and equipment are based on valuation performed by an accredited independent valuer as on 31/12/2018. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value measurement is categorised in Level 3 of fair value hierarchy. The Corporation in its previous years has not taken effect of the fair value measurement based on its accounting policies, the resultant impact of such has been adjusted through revaluation reserve during the year. The management also performed impairment and market price analysis as on the date of the financials and found that there were no significant changes in the value of property.

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25 OTHER INTANGIBLE ASSETS

	Group	Company
Cost:	**Nu**	**Nu**
At 1 January 2018	51,167,450	51,167,450
Additions	1,985,164	1,985,164
Disposals	-	-
At 31 December 2018	53,152,614	53,152,614
At 1 January 2019	53,152,614	53,152,614
Additions	7,870,854	7,870,854
Disposals/adjustments	(10,685,553)	(10,685,553)
At 31 December 2019	**50,337,915**	**50,337,915**
Amortization and impairment:		
At 1 January 2018	30,607,731	30,607,731
Disposals	-	-
Amortization	4,664,111	4,664,111
At 31 December 2018	35,271,842	35,271,842
At 1 January 2019	35,271,842	35,271,842
Disposals/Adjustments	(678,474)	(678,474)
Amortization	3,548,600	3,548,600
At 31 December 2019	**38,141,968**	**38,141,968**
Net book value:		
At 1 January 2018	20,559,719	20,559,719
At 31 December 2018	17,880,772	17,880,772
At 31 December 2019	12,195,947	12,195,947

26 INVESTMENT CONTRACT LIABILITIES

	Group			Company		
	Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018	Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018
Life insurance	-	-	-	-	-	-
Group life insurance	1,819,746,830	1,580,163,155	1,364,791,282	1,819,746,830	1,580,163,155	1,364,791,282
Annuity insurance	2,975,266,337	3,188,991,117	3,010,321,172	2,975,266,337	3,188,991,117	3,010,321,172
	4,795,013,167	4,769,154,272	4,375,112,454	4,795,013,167	4,769,154,272	4,375,112,454

Investment contract liabilities with a DPF and without DPF are represent above, i.e- Ten-Tsai Mangul Ngenchoel Policy II which has the features of an investment contract have been classified accordingly.

As permitted by IFRS 7, the Group has not disclosed fair values for investment contract liabilities with a DPF as estimated. There is no active market for these course of business

	Note	Group			Company		
		Nu			Nu		
		31st December, 2019			31st December, 2019		
27 INSURANCE CONTRACT LIABILITIES		Insurance contract liabilities	Reinsurance contract liabilities	Net	Insurance contract liabilities	Reinsurance contract liabilities	Net
Non life insurance	27.1	318,187,196	14,093,346	332,280,542	318,187,196	14,093,346	332,280,542
Re insurance	27.2	220,488,849	-	220,488,849	220,488,849	-	220,488,849
Life insurance		4,604,656,242	-	4,604,656,242	4,604,656,242	-	4,604,656,242
Group life insurance		87,806,192	-	87,806,192	87,806,192	-	87,806,192
Annuity insurance		205,876,857	-	205,876,857	205,876,857	-	205,876,857
		5,437,015,336	14,093,346	5,451,108,682	5,437,015,336	14,093,346	5,451,108,682

27.1 Insurance contract liabilities - Non Life Insurance

	Insurance contract liabilities	Reinsurance contract liabilities	Net	Insurance contract liabilities	Reinsurance contract liabilities	Net
Provision for reported claims by policyholders	-	14,093,346	14,093,346	-	14,093,346	14,093,346
Reinsurance share of claims	-	-	-	-	-	-
IBNR	72,030,066	-	72,030,066	72,030,066	-	72,030,066
Provision for unearned premiums	252,401,583	-	252,401,583	252,401,583	-	252,401,583
Deferred acquisition cost	(6,244,453)	-	(6,244,453)	(6,244,453)	-	(6,244,453)
	318,187,196	14,093,346	332,280,542	318,187,196	14,093,346	332,280,542

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Non - Life insurance contract liability was carried out by Mr. G .N. Agarwal, Consulting Actuary as at 31st December 2019 as required by IFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the actuary's report, the company adequately satisfies the LAT as at 31st December 2019. No additional provision was required against the LAT as at 31st December 2019.

27.2 Insurance contract liabilities - Re Insurance

	Insurance contract liabilities	Reinsurance contract liabilities	Net	Insurance contract liabilities	Reinsurance contract liabilities	Net
Provision for reported claims by policyholders	-	-	-	-	-	-
IBNR	32,512,446	-	32,512,446	32,512,446	-	32,512,446
Provision for unearned premiums	258,897,808	-	258,897,808	258,897,808	-	258,897,808
Deferred commission	(70,921,405)	-	(70,921,405)	(70,921,405)	-	(70,921,405)
	220,488,849	-	220,488,849	220,488,849	-	220,488,849

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Re insurance contract liability was carried out by Mr. G .N. Agarwal, Consulting Actuary as at 31st December 2019 as required by IFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the actuary's report, the company adequately satisfies the LAT as at 31st December 2019. No additional provision was required against the LAT as at 31st December 2019.

27.3 Insurance contract liabilities - Life insurance

Long duration contract liabilities included in the Life insurance fund, result primarily from traditional participating and nonparticipating Life insurance products. The actuarial reserves have been established based upon the following.

Interest rates which vary by product
Mortality rates based on published mortality tables adjusted for actual experience
Surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31 December 2019 was made by Mr. G .N. Agarwal, Consulting Actuary.

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Life insurance contract liability was carried out by Mr. G .N. Agarwal, Consulting Actuary as at 31st December 2019 as required by IFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compares this amount with the carrying value of the liability. According to the actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2019. No additional provision was required against the LAT as at 31st December 2019.

27.4 Insurance contract liabilities - Group Life Insurance

Liability adequacy testing (LAT)

A Liability Adequacy Test ("LAT") for Group Life Insurance contract liability was carried out by Mr. G .N. Agarwal, Consulting Actuary as at 31st December 2019 as required by IFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compares this amount with the carrying value of the liability. According to the actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2019. No additional provision was required against the LAT as at 31st December 2019.

27.5 Insurance contract liabilities - Annuity Insurance

Liability adequacy testing (LAT)

A Liability Adequacy Test ("LAT") for Annuity Insurance contract liability was carried out by Mr. G .N. Agarwal, Consulting Actuary as at 31st December 2019 as required by IFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compares this amount with the carrying value of the liability. According to the actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2019. No additional provision was required against the LAT as at 31st December 2019.

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		Note	Group			Company		
			Nu			Nu		
			31st December, 2018			31st December, 2018		
27	INSURANCE CONTRACT LIABILITIES		Insurance contract liabilities	Reinsurance contract liabilities	Net	Insurance contract liabilities	Reinsurance contract liabilities	Net
	Non life insurance	27.1	256,749,370	88,181,424	344,930,794	256,749,370	88,181,424	344,930,794
	Re insurance	27.2	189,176,755	-	189,176,755	189,176,755	-	189,176,755
	Life Insurance		4,748,234,316	-	4,748,234,316	4,748,234,316	-	4,748,234,316
	Group life insurance		88,863,826	-	88,863,826	88,863,826	-	88,863,826
	Annuity insurance		128,197,151	-	128,197,151	128,197,151	-	128,197,151
			5,411,221,418	88,181,424	5,499,402,842	5,411,221,418	88,181,424	5,499,402,842

Insurance contract liabilities - Life insurance

Long duration contract liabilities included in the Life insurance fund, result primarily from traditional participating and nonparticipating Life insurance products. The actuarial reserves have been established based upon the following.

Interest rates which vary by product
Mortality rates based on published mortality tables adjusted for actual experience
Surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31 December 2018 was made by Mr. G .N. Agarwal, Consulting Actuary.

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Life insurance contract liability was carried out by Mr. G .N. Agarwal, Consulting Actuary as at 31st December 2018 as required by IFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compares this amount with the carrying value of the liability. According to the actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2018. No additional provision was required against the LAT as at 31st December 2018.

27.1 Insurance contract liabilities - Non Life Insurance

	Insurance contract liabilities	Reinsurance contract liabilities	Net	Insurance contract liabilities	Reinsurance contract liabilities	Net
Provision for reported claims by policyholders	-	88,181,424	88,181,424	-	88,181,424	88,181,424
Reinsurance share of claims	-	-	-	-	-	-
IBNR	76,529,180	-	76,529,180	76,529,180	-	76,529,180
Provision for unearned premiums	187,008,167	-	187,008,167	187,008,167	-	187,008,167
Deferred acquisition cost	(6,787,977)	-	(6,787,977)	(6,787,977)	-	(6,787,977)
	256,749,370	88,181,424	344,930,794	256,749,370	88,181,424	344,930,794

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Non - Life insurance contract liability was carried out by Mr. G .N. Agarwal as at 31st December 2018 as required by IFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the actuary's report, the company adequately satisfies the LAT as at 31st December 2018. No additional provision was required against the LAT as at 31st December 2018.

27.2 Insurance contract liabilities - Re Insurance

Provision for reported claims by policyholders	-	-	-	-	-	-
IBNR	36,916,595	-	36,916,595	36,916,595	-	36,916,595
Provision for unearned premiums	191,470,635	-	191,470,635	191,470,635	-	191,470,635
Deferred commission	(39,210,475)	-	(39,210,475)	(39,210,475)	-	(39,210,475)
	189,176,755	-	189,176,755	189,176,755	-	189,176,755

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for reinsurance contract liability was carried out by Mr. G .N. Agarwal as at 31st December 2018 as required by IFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the actuary's report, the company adequately satisfies the LAT as at 31st December 2018. No additional provision was required against the LAT as at 31st December 2018.

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		Note	Group			Company		
			Nu 1st January,2018			Nu 1st January,2018		
27	**INSURANCE CONTRACT LIABILITIES**		Insurance contract liabilities	Reinsurance contract liabilities	Net	Insurance contract liabilities	Reinsurance contract liabilities	Net
	Non life insurance	27.1	202,330,003	76,229,407	278,559,410	202,330,003	76,229,407	278,559,410
	Re insurance	27.2	202,151,979	-	202,151,979	202,151,979	-	202,151,979
	Life insurance		3,851,215,183	-	3,851,215,183	3,851,215,183	-	3,851,215,183
	Group life insurance		71,169,933	-	71,169,933	71,169,933	-	71,169,933
	Annuity insurance		56,043,293	-	56,043,293	56,043,293	-	56,043,293
			4,382,910,391	**76,229,407**	**4,459,139,798**	**4,382,910,391**	**76,229,407**	**4,459,139,798**

Insurance contract liabilities - Life insurance

Long duration contract liabilities included in the Life insurance fund, result primarily from traditional participating and nonparticipating Life insurance products. The actuarial reserves have been established based upon the following.

Interest rates which vary by product
Mortality rates based on published mortality tables adjusted for actual experience
Surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31 December 2017 was made by Mr. Ugyen Tshewang an inhouse actuary.

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Life insurance contract liability was carried out by Mr. Ugyen Tshewang an inhouse actuary as at 31st December 2017 as required by IFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compares this amount with the carrying value of the liability. According to the actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2017. No additional provision was required against the LAT as at 31st December 2017.

27.1 Insurance contract liabilities - Non Life Insurance

	Insurance contract liabilities	Reinsurance contract liabilities	Net	Insurance contract liabilities	Reinsurance contract liabilities	Net
Provision for reported claims by policyholders	-	(5,067,301)	(5,067,301)	-	76,229,407	76,229,407
Reinsurance share of claims	-	-	-	-	-	-
IBNR	8,645,388	-	8,645,388	61,481,736	-	61,481,736
Provision for unearned premiums	281,019,234	-	281,019,234	148,408,968	-	148,408,968
Deferred acquisition cost	(7,560,701)	-	(7,560,701)	(7,560,701)	-	(7,560,701)
	282,103,921	(5,067,301)	277,036,620	202,330,003	76,229,407	278,559,410

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Non - Life insurance contract liability was carried out by Mr. Ugyen Tshewang as at 31st December 2017 as required by IFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the actuary's report, the company adequately satisfies the LAT as at 31st December 2017. No additional provision was required against the LAT as at 31st December 2017.

27.2 Insurance contract liabilities - Re Insurance

Provision for reported claims by policyholders	-	-	-	-	-	-
IBNR	7,081,767	-	7,081,767	25,176,614	-	7,081,767
Provision for unearned premiums	183,781,389	-	183,781,389	219,396,681	-	219,396,681
Deferred commission	23,308,392	-	23,308,392	(42,421,316)	-	23,308,392
	214,171,548	-	214,171,548	202,151,979	-	249,786,840

Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for reinsurance contract liability was carried out by Mr. Ugyen Tshewang as at 31st December 2017 as required by IFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the actuary's report, the company adequately satisfies the LAT as at 31st December 2017. No additional provision was required against the LAT as at 31st December 2017.

Note		Group			Company		
		Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018	Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018
28	**INSURANCE PAYABLE**						
	Non life insurance	245,943,924	235,631,189	151,135,305	245,943,924	235,631,189	151,135,305
	Life insurance	20,275,172	33,247,305	34,010,969	20,275,172	33,247,305	34,010,969
	Group life insurance	804,215	804,215	885,484	804,215	804,215	885,484
	Re insurance	290,106,443	328,712,186	245,904,792	290,106,443	328,712,186	245,904,792
		557,129,755	598,394,896	431,936,549	557,129,755	598,394,896	431,936,549

The carrying amounts disclosed above approximate fair value at the reporting date.

Note		Group			Company		
29	**DEBT ISSUED AND OTHER BORROWED FUNDS**						
	Long term bond	2,926,602,579	2,926,602,579	2,926,602,579	2,926,602,579	2,926,602,579	2,926,602,579
	Term borrowings	578,052,778	1,332,640,399	2,602,817,629	578,052,778	1,332,640,399	2,604,898,338
	Total debt issued and other borrowed funds	3,504,655,357	4,259,242,978	5,529,420,207	3,504,655,357	4,259,242,978	5,531,500,917

Terms and Conditions

Security guarantee	The loan shall be secured by the book debts of RICB
Failure to pay principal & interest	Failure to pay two consecutive quarters, at any point of time, the lender shall have right to take appropriate action as deem fit as per law of the Kingdom
Jurisdiction	If any dispute arise between RICBL and lender during the period of the loan, the Thimphu Dzongkhag Court shall have sole jurisdiction.

Particulars	Outstanding Balance	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Long Term Bonds							
Bond Series III & IV @ 9.50% p.a.	2,500,000,000	-	-	-	2,500,000,000	-	2,500,000,000
Interest on Series III & IV	165,629,976	-	-	165,629,976	-	-	165,629,976
Subordinate Debt @ 6% p.a.	250,000,000	-	-	-	250,000,000	-	250,000,000
Interest on Subordinate Debt	10,972,603	-	-	10,972,603	-	-	10,972,603
	2,926,602,579	-	-	176,602,579	2,750,000,000	-	2,926,602,579
Term borrowings							
Bhutan Development Bank Limited	-	-	-	-	-	-	-
Druk PNB Bank Limited	99,663,161	-	-	99,663,161	-	-	99,663,161
GIC Bhutan Re Limited	121,500,000	121,500,000	-	-	-	-	121,500,000
Bhutan National Bank Limited	206,230,812	-	-	206,230,812	-	-	206,230,812
T Bank Ltd.	150,000,000	-	-	150,000,000	-	-	150,000,000
Interest on above loans	658,805	-	658,805	-	-	-	658,805
	578,052,778	121,500,000	658,805	455,893,973	-	-	578,052,778

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	Note	Group			Company		
		Nu	Nu	Nu	Nu	Nu	Nu
		31st December, 2019	31st December, 2018	1st January, 2018	31st December, 2019	31st December, 2018	1st January, 2018
EMPLOYEE BENEFITS OBLIGATION	30						
Net defined benefit assets/(liabilities)		(7,029,760)	(23,241,491)	(3,203,019)	(7,029,760)	(23,241,491)	(3,203,019)
Leave encashment liability		10,806,818	11,368,169	14,411,486	10,806,818	11,368,169	14,411,486
Travel benefits		3,876,364	-		3,876,364	-	
		21,712,942	34,609,660	17,614,505	21,712,942	34,609,660	17,614,505

30.1 Defined benefit Plan

A defined benefit plan defines, an amount of benefit that an employee is entitled to receive as per the terms and conditions specified in the service rule. The benefit is dependent on factors such as age, number of years served and salary. In case of gratuity the maximum amount an employee is entitled to receive is 2 million in 2019 reporting period. A full actuarial valuation by a qualified independent actuary is carried out every year in case of defined benefits.

As required under BAS 19, valuation of scheme benefits is done using projected Unit Credit Method. Under this method, only benefits accrued till the date of valuation (i.e. based on service till date of valuation) is to be considered for valuation. Present value of Defined Benefit Obligation is calculated by projecting future salaries, exits due to death, resignation and other decrements (if any) and benefit payments made during each year till the time of retirement of each active member, using assumed rates of salary escalation, mortality and employee turnover rates. The expected benefit payments are then discounted back from the expected future date of payment to the date of valuation using the assumed discount rate.

30.2 Net defined benefit assets

	Group 31st December, 2019	Group 31st December, 2018	Group 1st January, 2018	Company 31st December, 2019	Company 31st December, 2018	Company 1st January, 2018
The amounts recognised in the statement of profit and loss:						
Current service cost	(8,345,722)	(9,034,114)	(4,487,906)	(8,345,722)	(9,034,114)	(4,487,906)
Interest cost on behalf obligation (net)	338,779	(112,105)	(130,792)	338,779	(112,105)	(130,792)
Net acturial loss recognised in the year	977,183	(14,095,274)	(1,196,220)	977,183	(14,095,274)	(1,196,220)
Total amount recognized in PL	**(7,029,760)**	**(23,241,493)**	**(5,814,918)**	**(7,029,760)**	**(23,241,491)**	**(5,814,918)**
The amounts recognised in other comprehensive income:						
Acturial (gain)/losse recognized for the period						
- due to financial assumption	-	(8,693,972)	-	-	(8,693,972)	
- due to experience	(2,950,216)	23,407,027	-	(2,950,216)	23,407,027	
Asset limit effect	-	-	-	-	-	-
Return on plan asset excluding net interest	1,973,033	(617,781)	-	1,973,033	(617,781)	
Unrecognized acturial (gain)/losse from previos period	-	-	-	-	-	-
Total acturial (gain)/losse recognized in OCI	**(977,183)**	**14,095,274**	**-**	**(977,183)**	**14,095,274**	**-**
Movement in the net defined benefit obligation:						
Opening balance	68,946,722	49,621,978	42,396,598	68,946,722	49,621,978	42,396,598
Interest cost on benefit obligation	4,992,810	3,206,525	2,914,241	4,992,810	3,206,525	2,914,241
Current service cost	8,345,722	9,034,114	4,487,906	8,345,722	9,034,114	4,487,906
Past service cost	-	-	-	-	-	-
Payments made during the year	(2,107,737)	(7,628,950)	(1,529,180)	(2,107,737)	(7,628,950)	(1,529,180)
Net actuarial loss recognized in the year	(2,950,216)	14,713,055	1,352,411	(2,950,216)	14,713,055	1,352,411
Acturial (gains)/losses due to change in demographic assumptions	-	-	-	-	-	-
Closing balance	**77,227,301**	**68,946,722**	**49,621,976**	**77,227,301**	**68,946,722**	**49,621,978**
Movement in the fair value of plan assets:						
Opening balance	45,705,229	46,418,959	43,635,510	45,705,229	46,418,959	43,635,510
Opening adjustments	23,241,493	-	-	23,241,493	-	-
Interest income	5,331,589	3,094,420	2,783,449	5,331,589	3,094,420	2,783,449
Return on plan assets excluding interest income	(1,973,033)	617,781	-	(1,973,033)	617,781	
Contributions by employer	-	3,203,019	-	-	3,203,019	
Benefits paid	(2,107,737)	(7,628,950)	-	(2,107,737)	(7,628,950)	
Closing balance	**70,197,541**	**45,705,229**	**46,418,959**	**70,197,541**	**45,705,229**	**46,418,959**
The amounts recognised in the statement of financial position at the reporting date:						
Present value of the defined benefit obligation	(77,227,301)	(68,946,722)	(49,621,976)	(77,227,301)	(68,946,722)	(49,621,978)
Fair value of plan assets	70,197,541	45,705,229	46,418,959	70,197,541	45,705,229	46,418,959
Net defined benefit obligation	**(7,029,760)**	**(23,241,493)**	**(3,203,017)**	**(7,029,760)**	**(23,241,493)**	**(3,203,019)**
Total net defined benefit obligation	**(7,029,760)**	**(23,241,493)**	**(3,203,017)**	**(7,029,760)**	**(23,241,493)**	**(3,203,021)**
Funded Status	**(7,029,760)**	**(23,241,493)**	**(3,203,017)**	**(7,029,760)**	**(23,241,493)**	**(3,203,021)**

<u>Sensitivity analysis</u>	
Discount rate as at 31 December 2019	7.50%
Effect on DBO due to 1% increase in discount	71,522,075
Effect on DBO due to 1% decrease in discount	83,829,456
Salary escalation rate as at 31 December 2019	6.00%
Effect on DBO due to 1% increase in escalation	82,970,084
Effect on DBO due to 1% decrease in escalation	71,958,475

<u>Expected pay out</u>	
First year	7,267,442
Second year	6,700,790
Third year	7,240,664
Fourth year	9,099,692
Fifth year	6,860,434
Six to ten years	35,236,571

Gratuity measured using actuarial valuation of projected unit credit method as certified by Mr. G .N. Agarwal, Consulting Actuary
The principle assumption used in determining the gratuity obligation was
Salary escalation rate - 6%, (2018: 6%)
Discount rate - 7.50%, (2018: 7.50%)
Attrition Rate - 6%, (2018: 6%)
Normal Retirement age - 60 years for the Executives and 58 years for the rest
Mortality - Indian Assured Lives Mortality IALM-2012-2014 (2018: IALM-2006-2008).

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30.3 Leave encashment liability

Change in defined benefit obligation (DBO)						
DBO at the beginning of the current period	11,368,169	14,411,486	12,018,565	11,368,169	14,411,486	12,018,565
Current service cost	11,670,401	14,249,833	2,392,921	11,670,401	14,249,833	2,392,921
Past service cost	-	-	-	-	-	-
Interest cost	811,871	748,447	839,684	811,871	748,447	839,684
Benefits paid by the plan	-	-	-			
Benefits paid by the employer	(186,657)	(7,438,759)	(46,149)	(186,657)	(7,438,759)	(46,149)
Actuarial (gains)/losses due to plan experience	(12,856,966)	(10,602,838)	(793,535)	(12,856,966)	(10,602,838)	(793,535)
Actuarial (gains)/losses due to change in demographic assumptions	-	-	-			-
Actuarial (gains)/losses due to change in financial assumptions	-	-	-	-	-	-
DBO at the end of the current period	**10,806,818**	**11,368,169**	**14,411,486**	**10,806,818**	**11,368,169**	**14,411,486**
Change in fair value of plan assets						
Fair Value of Assets at the beginning of current period	-	-	-	-	-	-
Contributions paid into the plan	-	-	-		-	-
Expected return on the plan assets	-	-	-	-	-	-
Benefits paid by the plan	-	-	-			
Return on plan assets greater or (less) than discount rate	-	-	-	-	-	-
Fair Value of assets at the end of the current period	-	-	-	-	-	-
	-	-				
Income statement	**2,019**	**2,018**	**2,017**	**2,019**	**2,018**	**2,017**
Current service cost	11,670,401	14,249,833	2,392,921	11,670,401	14,249,833	2,392,921
Past service cost	-	-	-	-	-	-
Net interest cost on net DB liability/(asset)	811,871	748,447	839,684	811,871	748,447	839,684
Remeasurement (gains)/losses	(12,856,966)	(10,602,838)	(793,535)	(12,856,966)	(10,602,838)	(793,535)
Net cost for the year recognised in income statement	**(374,694)**	**4,395,442**	**2,439,070**	**(374,694)**	**4,395,442**	**2,439,070**
	-	-				
Development of net financial position						
Defined benefit obligation	(10,806,818)	(11,368,169)	(14,411,486)	(10,806,818)	(11,368,169)	(14,411,486)
Fair value of plan assets	-	-	-	-	-	-
Funded status - (deficit)/surplus	(10,806,818)	(11,368,169)	(14,411,486)	(10,806,818)	(11,368,169)	(14,411,486)
Net defined benefit asset/(liability)	**(10,806,818)**	**(11,368,169)**	**(14,411,486)**	**(10,806,818)**	**(11,368,169)**	**(14,411,486)**
	-	-				
Reconciliation of net financial position						
Net defined benefit liability/(asset) at the beginning of current period	11,368,169	14,411,486	12,018,565	11,368,169	14,411,486	12,018,565
Amount recognized in the income statement	(374,694)	4,395,442	2,439,070	(374,694)	4,395,442	2,439,070
Contributions paid into the plan	-	-	-	-	-	-
Benefits paid by employer	(186,657)	(7,438,759)	(46,149)	(186,657)	(7,438,759)	(46,149)
Net defined benefit liability/(asset) at the end of current period	**10,806,818**	**11,368,169**	**14,411,486**	**10,806,818**	**11,368,169**	**14,411,486**

Leave Encashment measured using actuarial valuation of projected unit credit method as certified by Mr. G .N. Agarwal, Consulting Actuary
The principle assumption used in determining the gratuity obligation was
Salary escalation rate - 6%, (2018: 6%)
Discount rate - 7.50%, (2018: 7.50%)
Attrition Rate - 6%, (2018: 6%)
Normal Retirement age - 60 years for the Executives and 58 years for the rest
Mortality - Indian Assured Lives Mortality (IALM-2012-2014).

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		Note	Group			Company		
			Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018	Nu 31st December, 2019	Nu 31st December, 2018	Nu 1st January, 2018
30.4	**Travel benefit liability**							
	The amounts recognised in the statement of profit and loss:							
	Current service cost		412,677	-	-	412,677	-	-
	Net interest		-	-	-	-	-	-
	Past service cost		-	-	-	-	-	-
	Total amount recognized in PL		**412,677**	-	-	**412,677**	-	-
	The amounts recognised in other comprehensive income:							
	Acturial (gain)/losse recognized for the period							
	- due to financial assumption		-	-	-	-	-	-
	- due to experience		3,463,687	-	-	3,463,687	-	-
	Asset limit effect		-	-	-	-	-	-
	Return on plan asset excluding net interest		-	-	-	-	-	-
	Unrecognized acturial (gain)/losse from previos period		-	-	-	-	-	-
	Total acturial (gain)/losse recognized in OCI		**3,463,687**	-	-	**3,463,687**	-	-
	Movement in the net defined benefit obligation:							
	Opening balance		-	-	-	-	-	-
	Interest cost		-	-	-	-	-	-
	Current service cost		412,677	-	-	412,677	-	-
	Past service cost		-	-	-	-	-	-
	Benefits paid by the plan		-	-	-	-	-	-
	Benefits paid by the employer		-	-	-	-	-	-
	Actuarial (gains)/losses due to plan experience		3,463,687	-	-	3,463,687	-	-
	Actuarial (gains)/losses due to change in demographic assumptions		-	-	-			
	Actuarial (gains)/losses due to change in financial assumptions		-	-	-	-	-	-
	Closing balance		**3,876,364**	-	-	**3,876,364**	-	-
	Movement in the fair value of plan assets:							
	Opening balance		-	-	-	-	-	-
	Contributions paid into the plan		-	-	-	-	-	-
	Expected return on the plan assets		-	-	-	-	-	-
	Benefits paid by the plan		-	-	-	-	-	-
	Return on plan assets greater or (less) than discount rate		-	-	-	-	-	-
	Closing balance		-	-	-		-	-
	Development of net financial position							
	Defined benefit obligation		(3,876,363)	-	-	(3,876,363)	-	-
	Fair value of plan assets		-	-	-	-	-	-
	Funded status - (deficit)/surplus		(3,876,363)	-	-	(3,876,363)	-	-
	Net defined benefit asset/(liability)		**(3,876,363)**	-	-	**(3,876,363)**	-	-
	Liability							
	Current		452,390	-	-	452,390	-	-
	Non-current		3,423,973	-	-	3,423,973	-	-
	Sensitivity analysis							
	Discount rate as at 31 December 2019		7.50%					
	Effect on DBO due to 1% increase in discount		3,639,180					
	Effect on DBO due to 1% decrease in discount		4,147,005					
	Salary escalation rate as at 31 December 2019		6.00%					
	Effect on DBO due to 1% increase in escalation		4,155,213					
	Effect on DBO due to 1% decrease in escalation		3,628,336					
	Expected pay out							
	First year		452,390					
	Second year		465,264					
	Third year		452,669					
	Fourth year		533,826					
	Fifth year		409,107					
	Six to ten years		1,694,523					

Travel benefit measured using actuarial valuation of projected unit credit method as certified by Mr. G .N. Agarwal, Consulting Actuary
The principle assumption used in determining the gratuity obligation was
Rate of increase in Frieght - 5.00%
Discount rate - 7.50%
Attrition Rate - 6%
Mortality - Indian Assured Lives Mortality (IALM-2012-2014).

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	Note	Consolidated statement of financial position			Consolidated income statement	
		31st December, 2019	31st December, 2018	1st January, 2018	31st December, 2019	31st December, 2018
31 DEFERRED TAX LIABILITY (NET)		Nu	Nu	Nu	Nu	Nu
Deferred tax assets						
Carry forward of losses		241,751,250	361,121,494	-	(119,370,244)	361,121,494
		241,751,250	**361,121,494**	**-**	**(119,370,244)**	**361,121,494**
Deferred tax liability						
Property and equipment		23,333,238	25,272,239	30,885,110	1,939,002	8,969,159
Investment property		11,733,432	11,539,197	303,051	(194,235)	(10,488,590)
Net defined benefit assets		6,513,883	10,382,898	5,284,352	757,877	-
Available for sale assets		40,692,197	60,259,607	44,913,194		
		82,272,749	107,453,941	81,385,706		
Deferred income tax charge/(reversal)					**(116,867,600)**	**359,602,064**
Deferred income tax charge/(reversal) - OCI						
Net defined benefit assets					3,111,139	(5,098,547)
Available for sale assets					19,567,410	(15,346,413)
Property and equipment					-	(3,356,289)
Investment property					-	(747,556)
					22,678,549	**(24,548,804)**
Net deferred tax liability or assets		**159,478,502**	**253,667,553**	**(81,385,706)**		

	Note	Group			Company		
		Nu	Nu	Nu	Nu	Nu	Nu
		31st December, 2019	31st December, 2018	1st January, 2018	31st December, 2019	31st December, 2018	-
32 TRADE AND OTHER PAYABLES							
Policyholders payment in advance		936,552,395	535,052,326	480,205,415	936,552,395	438,943,871	480,205,415
Agency commission payable		28,423,437	46,310,679	40,158,370	28,423,437	46,310,679	40,158,370
Interest credited to employees' account		-	-	294,561,304		-	294,561,304
Bonus payables		456,060,549	410,433,031	354,329,322	456,060,549	410,433,031	354,329,322
Government levy payable		-	1,472,000	1,472,000		1,472,000	1,472,000
Deposits		26,333,709	178,229,360	16,834,666	26,333,709	18,870,372	16,834,666
Provision for loss		127,342,335	-	-	127,342,335	-	-
Other		283,696,854	154,757,035	625,630,155	283,696,854	410,224,478	625,315,253
Total trade and other payables		**1,858,409,279**	**1,326,254,431**	**1,813,191,232**	**1,858,409,279**	**1,326,254,431**	**1,812,876,330**
33 SHARE CAPITAL							
Authorized and issued share capital							
Authorized share capital							
Equity shares of Nu.10 (Previous year 10 each)		5,000,000,000	5,000,000,000	5,000,000,000	5,000,000,000	5,000,000,000	5,000,000,000
Equity shares issued and fully paid							
At beginning of the year		1,200,000,000	1,200,000,000	1,200,000,000	1,200,000,000	1,200,000,000	1,200,000,000
Rights share issued*		200,001,800	-	-	200,001,800	-	-
Bonus share issued during the year		-	-	-	-	-	-
At end of the year		**1,400,001,800**	**1,200,000,000**	**1,200,000,000**	**1,400,001,800**	**1,200,000,000**	**1,200,000,000**

All Equity shares issued are fully paid.
* Rights shares in the ratio of 6:1 (one share for every six shares hled) at face value of Nu. 10 per share was issued duirng the year

34 CONTINGENCIES AND COMMITMENTS

The Group operates in the insurance industry and is subject to legal proceeding in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position.

As at	31st December, 2019	31st December, 2018	1st January, 2018	31st December, 2019	31st December, 2018	0
Contingent Liabilities						
Guarantees	1,460,855,995	1,389,853,404	2,820,823,721	1,460,855,995	1,389,853,404	2,820,823,721
	1,460,855,995	**1,389,853,404**	**2,820,823,721**	**1,460,855,995**	**1,389,853,404**	**2,820,823,721**

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35 FINANCIAL RISK MANAGEMENT

Insurance and financial risk

35 (a) Insurance risk

The principal insurance risk the Group faces is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements.

The Group considered insurance risk to be a combination of the following components of risks:

* Product design risk;
* Underwriting and expense overrun risk;
* Claims risk

Life Insurance contracts

Product design risk

Life insurance contracts offered by the Group include term assurance, endowment plans, annuity plans and group plans. Endowment and term assurance are conventional regular or single premium products where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Endowment products acquire a surrender value upon completion of three years.

The main risks that the Company is exposed to under product design risk are as follows:

Mortality risk	risk of loss arising due to policyholders' death experience being different from expected
Morbidity risk	risk of loss arising due to policyholders' health experience being different from expected
Investment return risk	risk of loss arising from actual returns being different from expected
Expense risk	risk of loss arising from the expense experience being different from expected
Policyholder decision risk	risk of loss arising due to policyholder's experiences (lapses and surrenders) being different from expected

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

Underwriting and expense overrun risk

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and the level of insured benefits.

Thus is largely achieved through prudent underwriting, the use of medical screening in order to ensure that pricing takes account of current health conditions as well as detailed claims handling procedures.

Underwriting limits are in place to enforce appropriate risk selection criteria.

The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, wider spread changes in lifestyle and natural disasters, resulting in earlier or more than expected.

Some of the specific actions by the Group to mitigate the underwriting risk are shown below.

Life Underwriting Risk Management

An in-house Actuary is in place to review the Life Insurance business more closely and guide the management to take more informed pricing decisions.

Claims risk

Risk arises due to the possibility that the frequency of claims arising from life insurance contracts exceeds the expected level when pricing the products.

Some of the specific actions by the Company to mitigate the underwriting risks are shown below.

Life Claims Risk Management

An in-house Actuary is in place to review the Life Insurance business more closely and guide the management to take more informed pricing decisions. The company have also appointed an external consultant actuary Mr. G. N. Agarawal to review the LAT of the business.

Claims are reserved immediately at intimation on the availability of information of the death or injury of insured.

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35 FINANCIAL RISK MANAGEMENT (Contd..)

Key assumptions for valuation of liabilities in Life Insurance

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data used by the Consulting Acatuary.

Assumptions and prudent estimated are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality and morbidity rates

Assumptions are based on standard mortality tables which are used by the industry.

Longevity

Longevity is not applicable for the Group as the products offered are for a limited term.

Lapse and surrender rates

Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders after acquiring surrender value.
An increase in lapse rates early in the life of the policy would tend to reduce profit for shareholders, but later increments are broadly neutral in effect.

Discount Rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash flows.
A decrease in the discount rate will increase the value of the insurance liabilities and therefore reduces profits for the shareholders.

Non- Life Insurance Contracts

Product design risk;
The Company principally issues the following main types of Non- Life Insurance contracts.
*Motor
*Fire
*Miscellaneous

The significant risk arising under the Non- Life Insurance portfolio emanates from changes in the climate leading to natural disasters, behavioural trends of people due to change in life styles and the steady escalation of costs in respect of spare parts in the auto industry.

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

Furthermore, a strict claim review process to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are put in place to reduce the risk exposure of the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as using reinsurance arrangements in order to limit exposure to catastrophic events (landslides, earthquakes, floods etc.)

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes.
The Company uses its own risk management framework to a risk that the assumptions and techniques used in these assessments could fail or that claims arising from an unassessed event is greater than those arising from an assessed event.

Some of the specific actions by the Company to mitigate Non-Life Insurance Risks are shown below.

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35 FINANCIAL RISK MANAGEMENT (Contd..)

Reinsurance Risk

The Company purchases reinsurance as a part of its risks mitigation programme. Reinsurance ceded is placed on both proportional and non-proportional basis. Proportional reinsurance arrangement includes both Quota Share and Facultative Treaty programmes which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance programmes, which are primarily excess-of-loss reinsurance arrangements, are designed to mitigate the Company's net exposure to large single and catastrophic losses. Retention limits on the excess-of-loss reinsurance programmes vary by product line.

Premium ceded to the reinsurers is in accordance with the terms on the programmes already agreed based on the risks written by the Company. Recoveries from reinsurers on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from policy holders rests with the Company.

Default of reinsurers does not negate this obligation and in that respect the Company carries a credit risk up to the extent ceded to each reinsurer. The Company's placement of reinsurance is arranged in a manner (particularly in Non-Life Insurance as the exposure is very high) that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract.

Some of the specific actions by the Company to mitigate Reinsurance Risk are shown below.
* Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time
* Every close and professional relationship is maintained with all reinsurers
* No cover is issued without a confirmed reinsurance in place
* Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poor's or AM Best is used

The following table show the credit ratings of the reinsurance companies with whom the Company has arrangements.

Reinsurer	Rating	Rating Agency
General Insurance Corporation of India Limited	A-	AM Best
National Insurance Company Limited	B++	AM Best
Oriental Insurance Company Limited	B++	AM Best
United India Insurance Company Limited	B++	AM Best
New India Assurance Company Limited	A-	AM Best
Asian Reinsurance Corporation Limited	B+	AM Best
Munich Re	A+	AM Best
Hannover Re	A+	AM Best
Asian Capital Reinsurance Group	A-	S & P
Swiss Re	A+	AM Best
XL CATLIN syndicate	A	S & P
ARIG (Arab Reinsurance Group) RE	A-	AM Best
Trust Re	A-	AM Best
RSA Insurance Company	A	S & P
Cathedral Syndicate	A	AM Best
Canopius Syndicate	A	AM Best
AIG Europe Ltd	A	AM Best
Ironshore Europe Ltd	A	AM Best
Kiln Syndicate	A	AM Best
Meacok Syndicate	A	AM Best
AIG Asia Pacific Insurance Pte. Ltd.	A	AM Best
HDI Global SE	A	AM Best
Kuwait Re	A-	AM Best
Blenheim Syndicate	A	AM Best
Inter Hannover XIS	A+	AM Best
AMTRUST Syndicate	A	AM Best
Skuld Syndicate	A	AM Best
Korean Reinsurance Company	A	AM Best
Allianz Global corporate & specialty	A+	AM Best
Eurasia Insurance Company JSC	B++	AM Best
SOGAZ	B++	AM Best
Misr Insurance Company	B++	AM Best
Zep Re	B++	AM Best

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35 FINANCIAL RISK MANAGEMENT (Contd..)

35 (b) Financial Risk Management

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is mainly exposed to;

- Credit Risk
- Liquidity risk
- Market risk
- Operational risk
- Interest Rate Risk

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has delegated its authority to Management Committee (MC) which is responsible for developing and monitoring Group's risk management policies. The Committee comprises of Chief Executive Officer and all Departmental General Managers . Meetings of MC are held regularly, and the Board of Directors are duly updated of its activities. The managemnet has also established Risk Management Divison. The key risk indicators are identified and reported to the Board Risk Management Committeee on regular basis.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Integrated Risk Management Unit

The Business units (i.e. Credit Departments, Branches & Regional Offices etc.) have primary responsibility for Risk Management. The Integrated Risk Management Unit, which has no responsibility for profit or volume targets, acts as the second line of defense and reports to the Group Risk Officer.(GRO) who, in turn, directly reports to the Board Risk Management Committee.(BRMC).

ALCO Committee

ALCO is Chaired by the Chief Executive Officer and all the General Managers from business departments. The Committee meets regularly to monitor and manage the overall liquidity position to keep the Group's liquidity at healthy levels, whilst satisfying regulatory requirements.

Risk Measurement & Reporting

The Group's Risks are measured using appropriate techniques based on the type of risk, and industry best practices.

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept (Risk Appetite).

Risk Mitigation

As part of its overall risk management, the Group 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 Group 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.

Credit risk

Credit risk is the risk of financial loss to the Group if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers.

The Group 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.

LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence the Group may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Royal Insurance Corporation of Bhutan Limited maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flow.

The Group also has committed lines of credit that could be utilized to meet liquidity needs. Further, the Group maintains a statutory deposit with the various banks in Bhutan. In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specific to the Group. The most important of these is to maintain the required ratio of liquid assets to liabilities, to meet the regulatory requirement. Liquid assets consist of cash, short–term Group deposits and liquid debt securities available for immediate sale.

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35 FINANCIAL RISK MANAGEMENT (Contd..)

35 (c) Fair value of Financial Instruments
A. Determination of fair value hierarchy

	Group				Company			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
31 December 2019								
Financial Investments Available for sale								
Quoted Equities	-	-	297,453,306	**297,453,306**	-	-	297,453,305	**297,453,305**
Loans & Receivables								
Loans & Advances to Employees	-	318,758,223	-	**318,758,223**	-	318,758,223	-	**318,758,223**
31 December 2018								
Financial Investments Available for sale								
Quoted Equities	-	-	362,678,005	**362,678,005**	-	-	362,678,005	**362,678,005**
Loans & Receivables								
Loans & Advances to Employees	-	375,533,053	-	**375,533,053**	-	375,533,053	-	**375,533,053**

A. Determination of fair value hierarchy (contd,)
Set out below is a comparison, by class of the carrying amounts and fair values of the company'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.

	Group						Company					
	2019		2018		2017		2019		2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets												
Financial Investments available for sale	285,873,672	421,514,327	285,873,672	486,739,027	292,323,672	435,084,318	285,873,672	421,514,327	285,873,672	486,739,027	292,323,672	435,084,318
Loans and advances to customers	20,615,761,000	16,588,789,655	18,976,110,630	16,048,386,119	17,390,325,304	16,674,645,181	20,615,761,000	16,588,789,655	18,976,110,630	16,048,386,119	17,390,325,304	16,674,645,181
Statutory investment	-	-	-	-			-	-	-	-		
Insurance Receivables	489,759,395	484,217,101	382,020,548	378,829,062	647,155,161	646,250,405	489,759,395	484,217,101	382,020,548	378,829,062	647,155,161	646,250,405
Other Assets	341,453,369	341,453,369	243,209,593	243,209,593	263,977,570	263,977,570	341,453,369	341,453,369	243,209,593	243,209,593	263,977,570	263,977,570
Cash and Cash Equivalents	2,692,007,961	2,691,914,318	2,962,307,211	2,962,039,678	3,068,964,336	3,068,764,746	2,692,007,961	2,691,914,318	2,962,307,211	2,962,039,678	3,068,964,336	3,068,764,746
	24,424,855,397	20,527,888,770	22,849,521,654	20,119,203,479	21,662,746,043	21,088,722,220	24,424,855,397	20,527,888,770	22,849,521,654	20,119,203,479	21,662,746,043	21,088,722,220
Financial Liabilities												
Insurance contract liabilities	5,451,108,682	5,451,108,682	5,499,402,842	5,499,402,842	4,459,139,798	4,459,139,798	5,451,108,682	5,451,108,682	5,499,402,842	5,499,402,842	4,459,139,798	4,459,139,798
Reinsurance contract liabilities	13,281,019	13,281,019	8,047,529	8,047,529	-	-	13,281,019	13,281,019	8,047,529	8,047,529	-	-
Investment contract liabilities	4,795,013,167	4,795,013,167	4,769,154,272	4,769,154,272	4,375,112,454	4,375,112,454	4,795,013,167	4,795,013,167	4,769,154,272	4,769,154,272	4,375,112,454	4,375,112,454
Insurance Payable	557,129,755	557,129,755	598,394,896	598,394,896	431,936,549	431,936,549	557,129,755	557,129,755	598,394,896	598,394,896	431,936,549	431,936,549
Debt issued and other borrowed funds	3,504,655,357	3,504,655,357	4,259,242,978	4,259,242,978	5,529,420,207	5,529,420,207	3,504,655,357	3,504,655,357	4,259,242,978	4,259,242,978	5,529,420,207	5,529,420,207
Trade and other payables	1,858,409,279	1,858,409,279	1,326,254,431	1,326,254,431	1,813,191,232	1,813,191,232	1,858,409,279	1,858,409,279	1,326,254,431	1,326,254,431	1,813,191,232	1,813,191,232
	16,179,597,259	16,179,597,259	16,460,496,948	16,460,496,948	16,608,800,240	16,608,800,240	16,179,597,259	16,179,597,259	16,460,496,948	16,460,496,948	16,608,800,240	16,608,800,240

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35 FINANCIAL RISK MANAGEMENT (Contd..)

35 (d) Credit Risk

Maximum Exposure to Credit Risk/Type of collateral or credit enhancement

31st December 2019	Maximum Exposure to credit Risk (Nu)	Fair value of Collateral or credit enhancement held: Cash	Fair value of Collateral or credit enhancement held: Properties	Net Collateral	Net Exposure
Financial Assets					
Due from banks	-	-	-	-	-
Loans & advances to customers	20,615,761,000	-	299,966,733,528	299,966,733,528	(279,350,972,528)
Financial Liabilities					
Long term bond	2,926,602,579	-	-	-	2,926,602,579
Term borrowings	578,052,778	-	-	-	578,052,778

31st December 2018	Maximum Exposure to credit Risk (Nu)	Fair value of Collateral or credit enhancement held: Cash	Fair value of Collateral or credit enhancement held: Properties	Net Collateral	Net Exposure
Financial Assets					
Due from banks	-	-	-	-	-
Loans & advances to customers	18,976,110,630	-	295,985,353,276	295,985,353,276	(277,009,242,645)
Financial Liabilities					
Long term bond	2,926,602,579	-	-	-	2,926,602,579
Term borrowings	1,332,640,399	-	-	-	1,332,640,399

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

	Group				Company			
31st December 2019	Neither past due nor Individually impaired	Past due but not impaired individually	Individually Impaired	Total	Neither past due nor Individually impaired	Past due but not impaired	Individually Impaired	Total
Due from Banks	-	-	-	-	-	-	-	-
Loans & Advances to Customers	-	-	20,614,680,206	**20,614,680,206**	-	-	20,614,680,206	**20,614,680,206**

	Group				Company			
31st December 2018	Neither past due nor Individually impaired	Past due but not impaired individually	Individually Impaired	Total	Neither past due nor Individually impaired	Past due but not impaired	Individually Impaired	Total
Due from Banks	-	-	-	-	-	-	-	-
Loans & Advances to Customers	-	-	18,975,176,060	**18,975,176,060**	-	-	18,975,176,060	**18,975,176,060**

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35 FINANCIAL RISK MANAGEMENT (Contd..)

Liquidity Risk & Funding management
Maturity analysis (Contractual undiscounted cash flow basis)

31st December 2019	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Due from Banks	-	-	-	-	-	-
Loans & Advances to Customers	2,352,059,717	966,056,137	4,280,370,349	1,631,402,590	11,384,791,413	20,614,680,206
Financial Investments Available for Sale	421,514,327	-	-	-	-	421,514,327
Total undiscounted Assets	2,773,574,045	966,056,137	4,280,370,349	1,631,402,590	11,384,791,413	21,036,194,534
Debts Issued & Other Borrowed Funds	121,500,000	658,805	632,496,552	2,750,000,000	-	3,504,655,357
Total Undiscounted Liabilities	121,500,000	658,805	632,496,552	2,750,000,000	-	3,504,655,357
Net Undiscounted Financial Assets/(Liabilities)	2,652,074,045	965,397,332	3,647,873,797	(1,118,597,410)	11,384,791,413	17,531,539,177

31st December 2018	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Due from Banks	-	-	-	-	-	-
Loans & Advances to Customers	1,984,292,886	570,313,750	4,639,874,075	3,824,883,811	7,955,811,540	18,975,176,060
Financial Investments Available for Sale	498,911,323	-	-	-	-	498,911,323
Total undiscounted Assets	2,483,204,209	570,313,750	4,639,874,075	3,824,883,811	7,955,811,540	19,474,087,383
Debts Issued & Other Borrowed Funds	302,145,922	-	1,207,097,056	-	2,750,000,000	4,259,242,977
Total Undiscounted Liabilities	302,145,922	-	1,207,097,056	-	2,750,000,000	4,259,242,977
Net Undiscounted Financial Assets/(Liabilities)	2,181,058,287	570,313,750	3,432,777,019	3,824,883,811	5,205,811,540	15,214,844,406

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.

31st December 2019	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial Guarantees	-	17,179,590	1,024,573,043	416,555,174	2,548,189	1,460,855,996
	-	17,179,590	1,024,573,043	416,555,174	2,548,189	1,460,855,996

31st December 2018	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial Guarantees	-	920,194,609	410,316,771	59,312,025	30,000	1,389,853,404
	-	920,194,609	410,316,771	59,312,025	30,000	1,389,853,404

MARKET RISK
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non–trading portfolios and manages each of those portfolios separately.

MARKET RISK – NON-TRADING

INTEREST RATE RISK
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group's policy is to continuously monitor positions on a daily basis to ensure positions are maintained within prudential levels.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement and equity.

Interest rate sensitivity - interest rate risk analysis of assets and liabilities
The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flow.

Comments on Guarantees
To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities.
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 Group.
The table below shows the Group's maximum credit risk exposure for commitments and guarantees.
The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment.

In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position. Commitments & Contingencies according to the remaining matures as 31 December 2019 has summarized below.

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35 FINANCIAL RISK MANAGEMENT (Contd..)

Market Risk - Interest Rate Risk
31 December 2019

Currency of Borrowing/Advance	Increase/(decrease) in basis points	Sensitivity of Profit/(Loss)	Sensitivity of Equity
Nu	+10%	238,063,409	238,063,409
	-10%	(238,063,409)	(238,063,409)

31 December 2018

Currency of Borrowing/Advance	Increase/(decrease) in basis points	Sensitivity of Profit/(Loss)	Sensitivity of Equity
Nu	+10%	202,819,194	202,819,194
	-10%	(202,819,194)	(202,819,194)

Market Risk - Interest Rate Risk (Contd,)
The below table analyses the company interest rate risk exposure on non-trading financial assets and liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

31st December 2019	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-Interest Bearing	Total
Due from Banks	-	-	-	-	-	-	-
Loans & Advances to Customers	2,352,059,717	966,056,137	4,280,370,349	1,631,402,590	11,384,791,413	-	20,614,680,206
Financial Investments Available for Sale	421,514,327	-	-	-	-	-	421,514,327
Total Assets	**2,773,574,045**	**966,056,137**	**4,280,370,349**	**1,631,402,590**	**11,384,791,413**	-	**21,036,194,534**
Debts Issued & Other Borrowed Funds	121,500,000	658,805	632,496,552	2,750,000,000	-	-	3,504,655,357
Total Liabilities	**121,500,000**	**658,805**	**632,496,552**	**2,750,000,000**	-	-	**3,504,655,357**

31st December 2018	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-Interest Bearing	Total
Due from Banks	-	-	-	-	-	-	-
Loans & Advances to Customers	1,984,292,886	570,313,750	4,639,874,075	3,824,883,811	7,955,811,540	-	18,975,176,060
Financial Investments Available for Sale	487,588,984	-	-	-	-	-	487,588,984
Total Assets	**2,471,881,870**	**570,313,750**	**4,639,874,075**	**3,824,883,811**	**7,955,811,540**	-	**19,462,765,045**
Debts Issued & Other Borrowed Funds	302,145,922	-	1,207,097,056	-	2,750,000,000	-	4,259,242,977
Total Liabilities	**302,145,922**	-	**1,207,097,056**	-	**2,750,000,000**	-	**4,259,242,977**

CURRENCY RISK
Currency risk arises as a result of fluctuations in the value of a financial instruments due to changes in foreign exchange rates. The Company's Board has set limits on positions by currency. In accordance with the Company's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The analysis calculates the effect of a reasonably possible movement of the currency rate against the Nu., with all other variables held constant, on the income statement (due to the fair value of currency sensitive non–trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges).
A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against Nu. would have resulted in an equivalent but opposite impact.

EQUITY PRICE RISK
Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. Investment Committee reviews and approves all equity investment decisions.

OPERATIONAL RISK
Operational risk is the risk of losses arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Strategic and Reputational Risks are not covered in Operational Risk.

Operational Risks of the Company are mitigated and managed through a control framework which consists of monitoring and responding to potential risks such as segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, Business Continuity Planning etc. Operational Risk Management Unit reports to Group Chief Risk Officer, and the Board Risk Management Committee maintains a high level overall supervision of managing Operational Risks of the Company.

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35 FINANCIAL 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.

	2019					
Financial Assets	**Thimphu**	**Chukha**	**Punakha**	**Samdrup Jongkhar**	**Others**	**Total**
Loans & Advances to Customers	11,394,545,022	2,740,407,723	361,697,028	188,133,302	5,929,897,131	**20,614,680,206**
	11,394,545,022	**2,740,407,723**	**361,697,028**	**188,133,302**	**5,929,897,131**	**20,614,680,206**

	2018					
Financial Assets	**Thimphu**	**Chukha**	**Punakha**	**Samdrup Jongkhar**	**Others**	**Total**
Loans & Advances to Customers	10,225,364,395	2,677,387,843	409,376,331	302,619,054	5,360,428,437	**18,975,176,060**
	10,225,364,395	**2,677,387,843**	**409,376,331**	**302,619,054**	**5,360,428,437**	**18,975,176,060**

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36. LOANS AND ADVANCES TO CUSTOMERS

	2019	2018
Card Loan	1,054,139,587	1,160,000,861
Overdraft	6,421,550,339	7,976,938,173
Housing	2,808,042,708	2,673,550,477
Personal	478,754,295	398,732,821
Service,T&C,P&M	8,097,527,712	5,419,325,300
Transport	641,037,038	739,563,526
Others	776,278,285	237,116,933
Employee Loans	337,350,243	369,976,017
At 31 December	**20,614,680,206**	**18,975,204,108**
Less: Interest Suspense	998,906,892	646,274,636
Less: Allowance for ECL/impairment losses (Individual & Collective)	**3,022,677,112**	**2,274,654,630**
	16,593,096,202	16,054,274,841

36 (a) Impairment allowance for loans and advances to customers
Housing

The table below shows the credit quality and the maximum exposure to credit risk based on the company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the company's internal grading system are explained in Note 38.4 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.5.

	2019				2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 **Ind/Coll**	**Total**	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	**Total**
Current	1,425,769,914			1,425,769,914	1,129,950,251			1,129,950,251
1-30 Days Passed Due	385,254,004			385,254,004	502,615,357			502,615,357
31-60 Days Passed Due		106,167,987		106,167,987		325,773,925		325,773,925
61-90 Days Passed Due		303,085,332		303,085,332		172,309,105		172,309,105
90 Days & Above			587,765,471	587,765,471			542,901,839	542,901,839
Individually impaired				-				-
Total	**1,811,023,918**	**409,253,319**	**587,765,471**	**2,808,042,708**	**1,632,565,609**	**498,083,029**	**542,901,839**	**2,673,550,477**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

	Stage 1 Individual	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**1,632,565,609**	**498,083,029**	**542,901,839**	**2,673,550,477**
New assets originated	276,855,708	3,194,056	11,886,577	291,936,341
Assets derecognised or repaid	(26,670,497)	8,308,500	(139,082,114)	(157,444,110)
Transfers from Stage 1	(267,200,076)	207,285,409	59,914,667	-
Transfers from Stage 2	195,473,174	(307,617,675)	112,144,501	-
Transfers from Stage 3	-	-	-	-
At 31 December 2019	**1,811,023,918**	**409,253,319**	**587,765,471**	**2,808,042,708**

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36 (b) Impairment allowance for loans and advances to customers
Personal

The table below shows the credit quality and the maximum exposure to credit risk based on the company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the company's internal grading system are explained in Note 38.4 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.5.

	2019				2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 **Ind/Coll**	**Total**	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	**Total**
Current	278,144,034			278,144,034	166,600,771			166,600,771
1-30 Days Passed Due	49,785,891			49,785,891	56,444,139			56,444,139
31-60 Days Passed Due		28,546,578		28,546,578		32,047,767		32,047,767
61-90 Days Passed Due		9,669,108		9,669,108		10,326,464		10,326,464
90 Days & Above			112,608,683	112,608,683			133,313,680	133,313,680
Individually impaired								-
Total	**327,929,925**	**38,215,687**	**112,608,683**	**478,754,295**	**223,044,910**	**42,374,231**	**133,313,680**	**398,732,821**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

	Stage 1 Individual	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**223,044,910**	**42,374,231**	**133,313,680**	**398,732,821**
New assets originated	157,817,230	5,351,203	879,194	164,047,627
Assets derecognised or repaid	(28,536,594)	(5,475,653)	(50,013,905)	(84,026,153)
Transfers from Stage 1	(39,997,335)	25,666,037	14,331,298	-
Transfers from Stage 2	15,682,753	(29,700,131)	14,017,378	-
Transfers from Stage 3	-		-	-
At 31 December 2019	**328,010,964**	**38,215,687**	**112,527,644**	**478,754,295**

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36 (c) Impairment allowance for loans and advances to customers
Service,T&C,P&M

The table below shows the credit quality and the maximum exposure to credit risk based on the company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the company's internal grading system are explained in Note 38.4 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.5.

	2019				2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total
Current	4,213,827,634			4,213,827,634	2,474,452,617			2,474,452,617
1-30 Days Passed Due	1,023,971,990			1,023,971,990	517,132,714			517,132,714
31-60 Days Passed Due		555,417,881		555,417,881		843,726,709		843,726,709
61-90 Days Passed Due		833,664,025		833,664,025		259,114,373		259,114,373
90 Days & Above			1,470,646,183	1,470,646,183			1.324,898,887	1,324,898,887
Individually impaired	-	-	-	-	-	-	-	-
Total	**5,237,799,624**	**1,389,081,905**	**1,470,646,183**	**8,097,527,712**	**2,991,585,331**	**1,102,841,081**	**1.324,898,887**	**5,419,325,300**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

	Stage 1 Individual	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**2,991,585,331**	**1,102,841,081**	**1,324,898,887**	**5,419,325,300**
New assets originated	2,852,210,147	535,549,148	481,786,555	3,869,545,850
Assets derecognised or repaid	(410,914,312)	(32,968,457)	(747,460,669)	(1,191,343,438)
Transfers from Stage 1	(565,669,160)	307,985,885	257,683,275	-
Transfers from Stage 2	370,587,617	(524,325,752)	153,738,135	-
Transfers from Stage 3	-		-	-
At 31 December 2019	5,237,799,624	1,389,081,905	1,470,646,183	8,097,527,712

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36 (d) Impairment allowance for loans and advances to customers
Transport

The table below shows the credit quality and the maximum exposure to credit risk based on the company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the company's internal grading system are explained in Note 38.4 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.5.

	2019				2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total
Current	255,964,881			255,964,881	271,563,250			271,563,250
1-30 Days Passed Due	84,696,347			84,696,347	136,262,126			136,262,126
31-60 Days Passed Due		105,480,133		105,480,133		128,197,959		128,197,959
61-90 Days Passed Due		76,059,680		76,059,680		57,937,158		57,937,158
90 Days & Above			118,835,997	118,835,997			145,603,033	145,603,033
Individually impaired	-	-	-	-	-	-	-	-
Total	**340,661,228**	**181,539,813**	**118,835,997**	**641,037,038**	**407,825,376**	**186,135,117**	**145,603,033**	**739,563,526**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2019	**407,825,376**	**186,135,117**	**145,603,033**	**739,563,526**
New assets originated	71,740,769	52,066,109	396,808	124,203,687
Assets derecognised or repaid	(115,099,791)	(24,804,489)	(82,825,895)	(222,730,175)
Transfers from Stage 1	(100,340,640)	71,218,436	29,122,203	-
Transfers from Stage 2	76,535,513	(103,075,360)	26,539,847	-
Transfers from Stage 3	-	-	-	-
At 31 December 2019	**340,661,228**	**181,539,813**	**118,835,997**	**641,037,038**

36 (e) Impairment allowance for loans and advances to customers
Overdraft

	2019				2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	**Stage 3 Ind/Coll**	**Total**	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	**Total**
Current	253,835,065			253,835,065	959,961,941			959,961,941
1-30 Days Passed Due	1,613,940,069			1,613,940,069	1,295,731,924			1,295,731,924
31-60 Days Passed Due		893,494,821		893,494,821		1,454,844,313		1,454,844,313
61-90 Days Passed Due		376,414,891		376,414,891		895,664,499		895,664,499
90 Days & Above			3,283,865,493	3,283,865,493			3,370,735,496	3,370,735,496
Individually impaired	-	-	-	-	-	-	-	-
Total	**1,867,775,134**	**1,269,909,712**	**3,283,865,493**	**6,421,550,339**	**2,255,693,866**	**2,350.508,812**	**3,370,735,496**	**7,976,938,173**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

	Stage 1 Individual	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**2,255,693,866**	**2,350,508,812**	**3,370,735,496**	**7,976,938,173**
New assets originated	464,953,253	167,915,442	256,337,049	889,205,744
Assets derecognised or repaid	(526,330,859)	(541,115,586)	(1,377,147,133)	(2,444,593,578)
Transfers from Stage 1	(1,068,191,414)	408,688,389	659,503,024	-
Transfers from Stage 2	741,650,288	(1,116,087,345)	374,437,057	-
Transfers from Stage 3	-		-	-
At 31 December 2019	**1,867,775,134**	**1,269,909,712**	**3,283,865,493**	**6,421,550,339**

Royal Insurance Corporation of Bhutan Limited
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For the year ended 31 December 2019

36 (f) Impairment allowance for loans and advances to customers
Card Loan

The table below shows the credit quality and the maximum exposure to credit risk based on the company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the company's internal grading system are explained in Note 12.3.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 12.3.3.6

	2019				2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total
Current	51,822,723			51,822,723	82,433,831			82,433,831
1-30 Days Passed Due	480,278,780			480,278,780	370,249,257			370,249,257
31-60 Days Passed Due		142,670,323		142,670,323		221,297,976		221,297,976
61-90 Days Passed Due		95,675,267		95,675,267		174,423,293		174,423,293
90 Days & Above			283,692,495	283,692,495			311,596,503	311,596,503
Individually impaired				-				-
Total	**532,101,502**	**238,345,589**	**283,692,495**	**1,054,139,587**	**452,683,088**	**395,721,269**	**311,596,503**	**1,160,000,861**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2019	**452,683,088**	**395,721,269**	**311,596,503**	**1,160,000,861**
New assets originated	2,887,294	-	-	2,887,294
Assets derecognised or repaid	14,317,420	(25,682,945)	(97,383,043)	(108,748,568)
Transfers from Stage 1	(120,983,348)	81,251,119	39,732,229	-
Transfers from Stage 2	183,197,048	(212,943,854)	29,746,806	-
Transfers from Stage 3	-		-	-
At 31 December 2019	**532,101,502**	**238,345,589**	**283,692,495**	**1,054,139,587**

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NOTES TO THE FINANCIAL STATEMENTS

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36 (g) Impairment allowance as at 31 December 2019

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to 31 December 2019 is, as follows:

2019	Overdraft	Card Loan	Housing	Transport	STP	Personal	Others	Guarantees	Total
In NU. million									
At 1 January 2019	**1,256,199,932**	**188,406,887**	**102,412,034**	**14,875,549**	**663,430,303**	**37,971,118**	**10,956,973**	**401,834**	**2,274,654,630**
Charge/ Reversal for the year	40,862,165	(91,331,638)	299,330,211	15,032,624	371,267,737	2,995,342	109,640,449	224,591	748,022,482
At 31 December 2019	**1,297,062,097**	**97,075,250**	**401,742,245**	**29,908,173**	**1,034,698,040**	**40,967,461**	**120,597,422**	**626,425**	**3,022,677,112**
Made up of:									
Individual impairment	-	-		-	-	-			-
Collective impairment:	1,297,062,097	97,075,250	401,742,245	29,908,173	1,034,698,040	40,967,461	120,597,422	626,425	3,022,677,112
	1,297,062,097	**97,075,250**	**401,742,245**	**29,908,173**	**1,034,698,040**	**40,967,461**	**120,597,422**	**626,425**	**3,022,677,112**
Gross amount of loans individually determined to be impaired	-	-	-	-	-	-	-	-	-

Royal Insurance Corporation of Bhutan Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

37 (h) Contingent liabilities, commitments

To meet the financial needs of customers, the company enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the company.

Letters of credit and guarantees (including standby letters of credit) commit the company 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. The nominal values of such commitments are listed below:

In Nu. million	2019	2018
Financial guarantees	1,460,855,996	1,303,950,323
Other undrawn commitments	-	2,585,594,209
Total	1,460,855,996	3,889,544,532

11.1. Impairment losses on guarantees and other commitments
An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:
11.1.1. Financial guarantees

The table below shows the credit quality and the maximum exposure to credit risk based on the customer passed due days Details of the company's internal credit risk management policies and policies on whether ECLs are calculated on an individual or collective basis.

Outstanding exposure In Nu. million	2019				2018
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total	Total
Current					
1-30 Days Passed Due					
31-60 Days Passed Due					
61-90 Days Passed Due		1,460,855,996		1,460,855,996	1,303,950,323
90 Days & Above					
Total	-	1,460,855,996	-	1,460,855,996	1,303,950,323

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows: 156,905,672

In Nu. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Outstanding exposure as at 1 January 2019		1,303,950,323	-	**1,303,950,323**
New exposures		156,905,672	-	156,905,672
Exposure derecognised or matured/lapsed (excluding			-	-
write offs)			-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2019	-	1,460,855,996	-	1,460,855,996

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37.1 Risk Management continued
37.2 Credit risk continued
37.3 Impairment assessment (Policy applicable from 1 January 2018) continued
37.4 The company's internal rating process continued

Treasury, trading and interbank relationships

The RICB's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Risk Management Division analyses publicly available information such as financial information and other external data, e.g., the rating of Good Rating Agency and assigns the internal rating as shown in the table below.

Sector classification of loans

The loan classification of the bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank (Royal Monetary Authority of Bhutan). Of the total of 13 sector classification, this report categories them in top major sectors, in accordance to the size of the portfolios. The highest sector under this classification as per the RICB's closing books, 2019 is the Service, Trade & Commerce, Production and Manufacturing followed by Housing Loans, Transport loan and Personal loans.

Sector wise portfolios
1. Service, T & C , P&M: Service, Trade & Commerce, P&M carries the highest sectorial loan concentration with 39.28% as of December 31, 2018. Housing Loan consists of Home loan and Commercial loans.
2. Trade and Commerce: Loans provided for business purposes; retail, wholesale and others. This has 2nd highest credit concentration.
3. Services: Loans against Hotel and tourism, schools, ICT, Health services and loans to service sectors fall under this category.
4. Production and Manufacturing: The top four in the credit exposure is occupied by this sector. Any production and manufacturing industries fall under this sector. E.g. Hydropower, mining, manufacturing industries, handicrafts, wood based products, etc.
5. Transport Loan. Loans provided for transportation be it public or private are classified under this sector with concentration of 3.11 % of the total portfolio.

Project loans (Services, Manufacturing and Industry loans)

For project loans, the apprisal process is different from other loans. The credit risk assessment is based on the behaviour of the customer and the RMA classification based on the past due status. Further, the RICB considers following aspects while assessing the risk of a customer :

• Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

• Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information bureau, Central Registry System, National Land Commission and other competent entities. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision making processes.

• Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Consumer lending and retail loans

Consumer lending comprises PPF Loan, Personal Loan, Education loans and Transport Loans (private cars). These products along with retail mortgages and some of the less complex small business lending are assessed primarily driven by days past due (Credit Information Bureau reports). Other key inputs into the models are:

• Consumer lending products: use of limits and volatility thereof, economic condition, changes in personal income/salary levels based on records of repayment capacity, repayment sources, personal indebtedness and expected interest repricing.

• Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

The RICB's Delinquency status

Delinquency status	Description
Stage 1	
Regular	**Performing**
1 - 30 days	**Performing**
Stage 2	
31-60 days	**Under Performing**
61-90 days	**Under Performing**
Stage 3	
Above 90 days	**Non- performing**

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37.1 Risk Management continued
37.2 Credit risk continued
37.3 Impairment assessment (Policy applicable from 1 January 2018) continued
37.4 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the RICB assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and Purchased Originated Credit Impairment (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The RICB determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The BFRS 9 PDs are then assigned to each economic scenario based on the outcome of Company's models.

37.2.1

For all type of loans LGD values are assessed at least every months by Asst. credit officers in consultation with Credit Officers and reviewed and approved by the Credit Head/Branch Managers. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The RICB segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

The RICB segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

37.2.2 Significant increase in credit risk

The RICB continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or LTECL, the RICB assesses whether there has been a significant increase in credit risk since initial recognition. Bank determines significantly increase credit risk when customers exceed 30days past due.

The RICB also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne.

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37.1 Risk Management continued

37.2 Credit risk continued

37.3 Impairment assessment (Policy applicable from 1 January 2018) continued

37.4 Grouping financial assets measured on a collective basis

As explained in Note 2.7 (refer ECL, section 2.7 (k)) dependant on the factors below, the RICB calculates ECLs either on a collective or an individual basis.

Asset classes where the RICB calculates ECL on an individual basis includes all customers above the individually significant threshold of 25% of the total exposure

Asset classes where the RICB calculates ECL on a collective basis include:

- Customers below the Individually Significant threshhold of 25%

The RICB groups these exposures into smaller homogeneous portfolios as described below:

- Product Type
- Collateral Type
- Sectors classification
- Loan Amount

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37.1 Risk Management continued
37.2 Credit risk continued
37.5 Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

An overview of the approach to estimating ECLs is set out in Note 2.7 Summary of significant accounting policies and in Note 2.7 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Company obtains the data used from third party sources (RMA Published data, IMF & World Bank.) and a team of economists within its CSR verifies the accuracy of inputs to the Company's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios for each of the four geographical segments, as at 31 December 2018 and 2019.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

31-Dec-19

Key drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent years
		%	%	%	%	%	%	%
GDP growth %								
	Base Case	30	2.97	2.97	2.97	2.97	2.97	2.97
	Best Case	30	2.97	3.08	3.17	3.27	3.37	3.37
	Worse Case	40	2.97	2.82	2.78	2.75	2.71	2.71
Inflation Rates %								
	Base Case	30	2.72	2.72	2.72	2.72	2.72	2.72
	Best Case	30	2.72	2.59	2.56	2.53	2.50	2.50
	Worse Case	40	2.72	2.81	2.89	2.97	3.05	3.05
Interest Rate %								
	Base Case	30	11.09	11.09	11.09	11.09	11.09	11.09
	Best Case	30	11.09	10.73	10.64	10.56	10.47	10.47
	Worse Case	40	11.09	11.34	11.56	11.78	12.01	12.01
Exchange rates (USD $ to Ngultrum BTN)								
	Base Case	30	74.94	77.51	80.17	82.92	85.76	85.76
	Best Case	30	74.94	75.05	75.17	75.28	75.39	75.39
	Worse Case	40	74.94	81.27	88.14	95.58	100.00	100.00
Unemployment rates %								
	Base Case	30	3.41	3.41	3.41	3.41	3.41	3.41
	Best Case	30	3.41	3.37	3.36	3.35	3.34	3.34
	Worse Case	40	3.41	3.44	3.46	3.49	3.51	3.51

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37.1 Risk Management continued
37.2 Credit risk continued
37.5 Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

1-Jan-19

Key drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent years
		%	%	%	%	%	%	%
GDP growth %								
	Base Case	30	4.60	4.60	4.60	4.60	4.60	4.60
	Best Case	30	4.74	4.86	4.99	5.12	5.17	5.17
	Worse Case	40	4.40	4.35	4.31	4.26	4.15	4.15
Inflation Rates %								
	Base Case	30	2.60	2.60	2.60	2.60	2.60	2.60
	Best Case	30	2.43	2.39	2.35	2.31	2.22	2.22
	Worse Case	40	2.72	2.83	2.95	3.06	3.12	3.12
Interest Rate %								
	Base Case	30	11.50	11.50	11.50	11.50	11.50	11.50
	Best Case	30	11.25	11.12	10.90	10.60	10.31	10.31
	Worse Case	40	12.17	12.53	12.81	12.98	13.03	13.03
Exchange rates (USD $ to Ngultrum BTN)								
	Base Case	30	70.93	73.36	75.87	78.48	81.16	83.95
	Best Case	30	69.04	69.50	69.97	70.44	70.91	71.38
	Worse Case	40	72.92	77.53	82.43	87.65	93.19	99.09
Unemployment rates %								
	Base Case	30	2.53	2.53	2.53	2.53	2.53	2.53
	Best Case	30	2.52	2.52	2.51	2.50	2.40	2.49
	Worse Case	40	2.55	2.56	2.57	2.57	2.57	2.57

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38 Following errors have been corrected during the year:-

38.1 Fair valuation of Property and equipment and investment property

Property and equipment (immovable properties) and investment property are fair valued based on valuations performed by valuation specialists at appropriate intervals. The corporation observed that the effect of market value of property and equipment and investment property were not appropriately recorded in the previous financial years which resulted in an understatement of carrying value of property and equipment and investment property and a corresponding understatement in retained earnings. The same has been corrected by restating the affected heads.

38.2 Portfolio loss entry under re insurance contract liabilities

Due to computational error in the year 2018 and its previous years, while calculating portfolio loss entry under reinsurance contract liability, gross written premium were understated and an overstatement was made in case of gross benefit with a corresponding overstatement of reinsurance contract liabilities. The same has been corrected by restating the affected heads.

38.3 Tax payable

The Corporation has identified a computational error under tax payable in 2018, which resulted in overstatement of tax payable for the year and a corresponding understatement of retained earnings. The same has been corrected by restating the affected heads.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:-

	Group					
STATEMENT OF FINANCIAL POSITION - EXTRACT	**31st December, 2018**	**Increase/(Decrease)**	**31st December, 2018(Restated)**	**1st January, 2018**	**Increase/(Decrease)**	**1st January, 2018(Restated)**
Property and equipment	468,041,885	77,588,955	**545,630,840**	471,786,975	38,794,478	**510,581,453**
Investment property	388,859,205	179,881,676	**568,740,881**	353,897,239	89,940,838	**443,838,077**
Reinsurance contract liabilities	(94,621,516)	86,573,987	**(8,047,529)**	-	-	-
Deferred tax liability	(268,958,728)	522,626,282	**253,667,554**	(249,654,138)	168,268,433	**(81,385,705)**
Tax payable	(44,483,440)	44,483,440	-	-	-	-
Net Asset	**448,837,406**	**911,154,340**	**1,359,991,746**	**576,030,076**	**297,003,748**	**873,033,824**
Revaluation reserve	-	884,819,498	**884,819,498**	-	762,847,828	**762,847,828**
Retained earnings	684,356,229	26,334,842	**710,691,071**	2,183,445,098	(465,844,079)	**1,717,601,019**
Total equity	**684,356,229**	**911,154,340**	**1,595,510,569**	**2,183,445,098**	**297,003,748**	**2,480,448,846**

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	Group		
INCOME STATEMENT - EXTRACT	**31st December, 2018**	**Increase/(Decrease)**	**31st December, 2018(Restated)**
Gross written premiums	2,882,160,547	7,597,206	**2,889,757,753**
Gross benefits and claims paid	(1,188,435,715)	10,781,371	**(1,177,654,344)**
Tax expenses	(43,343,070)	361,121,494	**317,778,424**
Net Income	1,650,381,762	379,500,071	2,029,881,833

			Company			
STATEMENT OF FINANCIAL POSITION - EXTRACT	**31st December, 2018**	**Increase/(Decrease)**	**31st December, 2018(Restated)**	**1st January, 2018**	**Increase/(Decrease)**	**1st January, 2018(Restated)**
Property and equipment	468,037,713	77,588,955	**545,626,668**	471,782,803	38,794,478	**510,577,281**
Investment property	388,859,205	179,881,676	**568,740,881**	353,897,239	89,940,838	**443,838,077**
Reinsurance contract liabilities	(94,621,516)	86,573,987	**(8,047,529)**	-	-	-
Deferred tax liability	(268,958,728)	522,626,282	**253,667,554**	(249,654,138)	168,268,433	**(81,385,705)**
Tax payable	(44,483,440)	44,483,440	-	-	-	-
Net Asset	448,833,234	911,154,340	1,359,987,574	576,025,904	297,003,748	873,029,652
Revaluation reserve	-	884,819,498	**884,819,498**	-	762,847,828	**762,847,828**
Retained earnings	671,204,653	26,334,842	**697,539,495**	2,168,888,954	(465,844,079)	**1,703,044,875**
Total equity	671,204,653	911,154,340	1,582,358,993	2,168,888,954	297,003,748	2,465,892,702

	Company		
INCOME STATEMENT - EXTRACT	**31st December, 2018**	**Increase/(Decrease)**	**31st December, 2018(Restated)**
Gross written premiums	2,882,160,547	7,597,206	**2,889,757,753**
Gross benefits and claims paid	(1,188,435,715)	10,781,371	**(1,177,654,344)**
Tax expenses	(43,343,070)	361,121,494	**317,778,424**
Net Income	1,650,381,762	379,500,071	2,029,881,833

39 The 'severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)', generally known as COVID-19, which was declared as a global pandemic by World Health Organisation on 11 March 2020, continues to spread across globe. Globally countries and businesses are under lockdown. In terms of the COVID-19 Monetary Measures of the Royal Monetary Authority of Bhutan, vide guidelines dated April 14, 2020 and May 01, 2020, and in accordance with the Scheme approved by the Corporation's Board of Directors ("Board"), the Corporation has granted to all eligible borrowers, moratorium of three months along with waiver of interest on the payment of all loan instalments falling due between April, 2020 to June, 2020. The extent to which COVID-19 pandemic will impact the Corporation provision on assets is dependent on the future developments. However, the Corporation is of the view that there will be no major impact on the Corporation given the support of the Government, the impact of the global health pandemic may be different from that estimated at the date of approval of these financial statements and the Corporation will continue to closely monitor any material changes to future economic conditions.

40 Related Party Transactions

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

40.1 Parent and Ultimate Controlling Party

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

40.2 Transactions with Key Managerial Personnel (KMPs)

According to International Accounting Standard - IAS 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 Company (including both Executive and Non Executive Directors), key employees who are holding directorship in Subsidiary companies of the Company.

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 partner and children of the KMPs domestic partner and dependants of the KMPs and the KMPs domestic partner.

Name of Board of Directors:-

1 Dasho Wangchuk Dorji
2 Dasho Kunzang Wangdi
3 Mr. Dubthob Wangchug
4 Mrs. Karma Choden
5 Mr. Ugyen Wangdi
6 Mr. Sangay Tenzin
7 Mr. Karma

Name of the Companies where Directors/KMP are interested :-

1 Tashi Air Pvt. Ltd.
2 Bhutan Silicon Metal (P) Ltd.
3 M/s Tashi commercial corporation
4 M/s Tashi Thuendel Lerig Pvt. Ltd.

40.3 Transactions, Arrangements and Agreements Involving KMPs and Their CFMs

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

		O/s as on 31.12.19	O/s as on 31.12.18
1	Tashi Air Pvt. Ltd.	-	-
2	Bhutan Silicon Metal (P) Ltd.	464,608,588	436,325,424
3	M/s Tashi commercial corporation	3,453,344	4,179,949
3	M/s Bhutan International Compnay	5,394,341	5,304,120
4	M/s Tashi Thuendel Lerig Pvt. Ltd.	3,676,440	3,719,620
		477,132,713	449,529,114

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40.3.2 Insurance Policies on KMPs and their CFMs are detailed below:

	2019	2018
General Insurance:-		
Dasho Wangchuk Dorji	679,849	-
Director Ugyen Wangdi	34,488	15,348
Director Karma	24,231	28,571
	738,568	43,919

40.3.3 Remuneration of KMP

Key Management Personnel Expenses Include

	2019	2018
Mr. Karma:-		
Remuneration	4,155,075	2,714,400
Other Benefits	165,000	135,000
Directors Sitting Fee	1,230,000	2,292,500
	5,550,075	5,141,900

41 Embezzlement of Funds

a) In 2009, a fraud amount of Nu. 11,263,659 have been reported at Thimphu Regional Bank Account No. 292. The matter is lying before appropriate Court of Law. Necessary provisions have been made in the accounts in this respect. An amount of Nu. 529,608.95 was recovered during the year 2015 and Nu. 260,000.00 during the year 2017 against the embezzled amount and adjustments made in the accounts.

b) In 2009, there was a burglary case at Paro Branch office and the office safe has been stolen containing cash of Nu. 299,795, blank cheque books and a digital camera. The case is still pending with the Royal Bhutan Police as no one could be held responsible. Accordingly, in reference to this case amount aggregated to the extent of Nu. 299,795 had been already provided in the accounts.

c) In 2011, a fraud amounting to Nu. 1,472,000 has been reported at Head Office Thimphu, in the General Insurance Department. During the year the defendant deposited Nu. 50,000 against the embezzled amount and the same is accordingly adjusted. The matter is lying before appropriate Court of Law. Necessary provisions have been made in the accounts in this respect.

d) In 2014, a fraud amounting to Nu.865,058 have been reported at Dagana Branch, in the General Insurance Department and Credit and Investment Department. The Court decreed the defendant to pay Nu. 789,989.10 to RICB. Therefore, the amount of Nu. 98,523.94 was written off during the year as per court verdict. He paid Nu. 300,000 during the year and remaining amount to be paid overtime.

e) In 2015, misappropriation of Nu. 98,000 have been reported at Pema Gatshel Branch, in the Credit and Investment Department. During the year an amount of Nu. 62,089.81 was recovered and all accounting adjustments made accordingly. The remaining amount is due to be recovered

f) In 2015, misappropriation of Nu. 3,993,791 have been reported in the Head Office, Thimphu. The matter is pending with the Court of law. The mentioned amount has been adjusted in the accounts and provision of Nu. 1,985,651 were provided during the year 2015. Further provision of Nu. 292,379.30 are provided during the year 2016. During the financial year 2017 additional provision of Nu. 1,715,760 was provided

g) In 2015, misappropriation of Nu. 93,249,102 have been reported in the Paro branch, in the Credit and Investment Department. The matter is pending with the district court, Paro. Accordingly, provision of Nu. 60,000,000 have been created in the year 2015. Further, remaining provision of Nu. 33,249,102 have been provided during the financial year 2016.

h) During Financial Year, a cyber fraud was reported in reinsurance business amounting to Nu.18,823,150.00. The act was committed through phishing email whereby the fund was transferred to the fraudster's bank account. The case has been registered with the Royal Bhutan Police and also with the Financial Crimes Enforcement Network (FinCEN). The case is also being pursued by the Royal Monetary Authority of Bhutan through Financial Intelligence Department. Necessary provisions have been made in the accounts in this respect.

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42 Certain loan assets are restructured/re-scheduled during the year and the total amount of which have not been specified in the accounts. The loan restructured/rescheduled during the year which were beyond the Prudential Regulations were reviewed by Royal Monetary Authority and exceptions given for the same.

43 Unadjusted deposits in respect of Life Insurance policies aggregating to Nu. 24,203,103 (Previous Year Nu.17,614,572) have been reported in the accounts; the total amount in the underwriting accounts at Nu.24,648,818.The difference amount of Nu. 445,714 remain to be reconciled during the current year.

44 Considering the financial performance of the company provision against corporate tax have not been provided during the year (Previous Year Nu. Nil). Advance Income Tax paid during the year is Nu. Nil (Previous year Nu. 98,044,993) owing to the loss carried forward from the previous year.

45 **Reinsurance Payables and Receivables in Non-Life Policies**

a) The balances outstanding, both receivable and payable, as at the Balance Sheet date from/to various re-insurers aggregating to Nu. 468,878,334 (Previous Year Nu. 373,407,333) and Nu. 221,173,649 (Previous Year Nu. 200,858,704) respectively are pending final reconciliation process/confirmation and acceptance of the re-insurers.Any further adjustments thereof are not ascertainable at this stage.

b) The balance due from and to the re-insurers have not been netted-off in the books of accounts.

c) The balances from and to the reinsurers and the brokers, where the transactions are being carried out in foreign currency (except INR), are re-instated based on the exchange rate as on the reporting date.

d) Claims payable amounting to Nu. 219,635,129.87 and Reserves for Accepted amounting to Nu. 5,539,951.85 in respect of Reinsurance business is pending reconciliation with the reinsurance partners.

46 Certain debit/ credit balances included in Trade Receivable, Trade Payables, Short/Long Term Loan and Advances, Other Current Assets and Current Liabilities are pending for confirmations and consequential reconciliation.

47 Difference of Nu. 9,459,371.99 has been observed between the accounting and underwriting records for Annuity contributions. The same is pending reconciliation.

48 **Events after the reporting Date**

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

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KOLKATA
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PROVIDENT FUND

PF = Employee Contribution + Employer's Contribution

If your Basic Salary is Nu 10,000/month, the Minimum Monthly PF Deduction = 5% of Basic Salary

Your Monthly PF Contribution = Nu 500 (employee) + Nu 500 (employer's contribution) = Nu 1,000/month

This is how your PF will work out if you're leaving the organisation after 15 years of service:

PF Contribution for 1 Year

Nu 1,000 X 12 = Nu 12,000

Total PF Contribution for 15 Years

Nu 12,000 X15 = Nu 180,000

Total Benefits for 15 Years

Nu 180,000 + Annual Interest for 15 years
Plus, a 100 % Tax Exemption worth Nu 180,000 for 15 years

Benefits Paid During

1. Retirement/Resignation
2. Disability/Death
3. Closure of the Company

- Your PF contribution will increase with yearly increment.
- You could also choose higher than 5 % PF Deduction.

Standard Fire Policy

Fire resistance? Take Fire Insurance

Standard Fire Insurance compensates your losses if your property is damaged by:

- **Fire**
- **Lightning**

You can also pay an additional premium to cover other disasters like:

Flood, inundation, landslide, earthquake, storm, explosion, spontaneous combustion, strike, riot, malicious damage, terrorism & deletion of electric clause

Photo: NCHM, Google.

R I C B

"Your partner for growth and security"

"We make you resilient to uncertainties"