



# NATIONAL PENSION AND PROVIDENT FUND

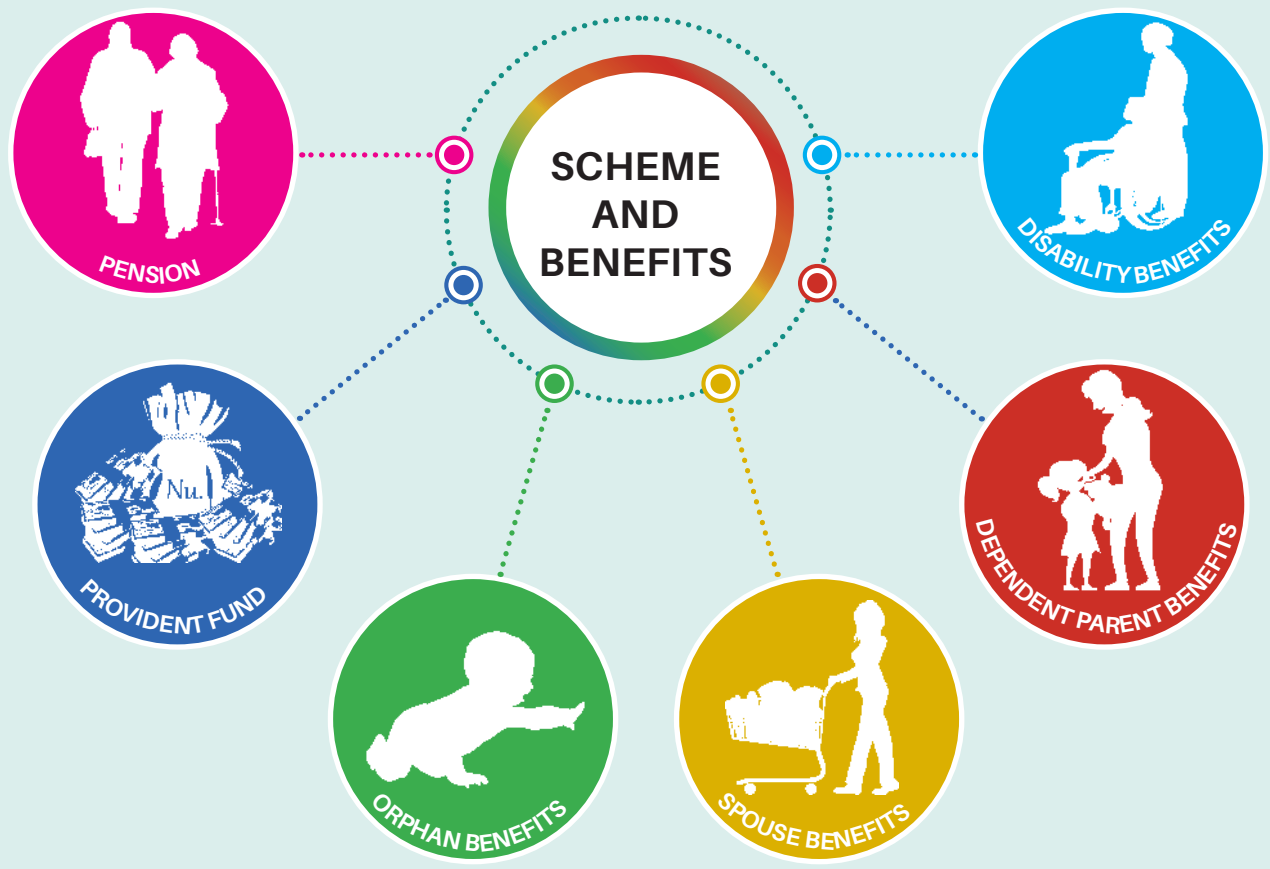


ANNUAL REPORT  
**2019-2020**



# NATIONAL PENSION AND PROVIDENT FUND

ANNUAL REPORT  
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# TABLE OF CONTENTS

<b>1</b>	<b>ABOUT NPPF</b>
<b>2</b>	<b>NPPF AT A GLANCE FOR FY 2019-2020</b>
<b>9</b>	<b>FINANCIAL HIGHLIGHTS</b>
<b>10</b>	<b>OPERATIONAL HIGHLIGHTS</b>
<b>13</b>	<b>CORPORATE SOCIAL RESPONSIBILITY</b>
<b>14</b>	<b>CORPORATE GOVERNANCE</b>
<b>41</b>	<b>AUDITED FINANCIAL STATEMENT</b>

A premier organization which secures the retirement lives of members through attractive income security.

## VISION



## MISSION

- Managing retirement schemes, which are inclusive, adequate, innovative and sustainable.
- Managing Funds through prudent investment to enhance sustainability of the scheme.

## CORE VALUES



- 1 **We take ownership and responsibility** - Accountability and integrity
- 2 **We move fast** - Fast service, move ahead with technology and innovation
- 3 **We are empathetic** - Courteous and proactive
- 4 **We listen to improve** - Open to ideas, feedbacks and communicate effectively.
- 5 **We take care of our customers and employees** - Happy employees lead to happy customers

# ABOUT NPPF

The National Pension & Provident Fund (NPPF) was established in March 2000 to manage and administer the National Pension and Provident Fund Plan schemes with the objective to provide income security to members upon retirement. The NPPF administers pension and provident fund schemes that were introduced as mandatory savings scheme. The members of NPPF are civil servants, employees of State-Owned Enterprises, Joint Sector Companies and the Armed Forces personnel.

The scheme comprises of a two-tiered system - Tier 1 and Tier II. Tier 1 covers the partially funded pay-as-you-go (PAYG) Defined Benefit Pension Scheme and Tier II, the Defined Contribution Provident Fund scheme. Under these schemes, members and employers contribute to the pension and provident fund schemes as per the framework in place.

The total contribution is split between the pension and provident fund accounts. For instance, a civil servant contributes 11% from his/her monthly basic salary on which the Royal Government of Bhutan as employer contributes 15% of the monthly basic salary. Out of the total 26% contribution received, 16% is accumulated in the pension account to be paid out as monthly pension upon retirement while the remaining 10% is accumulated in the provident fund account to be paid out as a lumpsum amount on retirement. For organizations where 11% each is contributed by the employees and the employers, 16% is transferred to Pension Fund

and the remaining 6% is transferred to Provident Fund Account of an individual member. In case of the Armed Forces (RBA and RBG), the employers and employees contribute 15% each of which 19% is accumulated in the pension account and the 11% in the provident fund account. For the Royal Bhutan Police, a matching contribution of 12% is made out of which 15% is accumulated in the pension account and 9% in the provident fund account.

Apart from administering the pension and provident fund schemes, NPPF is also entrusted with the fiduciary duty of making prudent investments and earning returns to be paid to the members. As one of the major non-banking financial institutions, NPPF is a major source of fund which has been contributing to the economic development of the country. NPPF has also been instrumental in providing affordable houses to its members in major towns like Thimphu, Phuentsholing, Samdrup Jongkhar, Gelephu and Samtse.

NPPF has been encouraging members to save and invest in home ownership in order to provide shelter while working and upon retirement by providing Member Home Loan with attractive and affordable interest rates. NPPF has also been providing value added services like planning, design, and advisory services at subsidized rates.

In short, NPPF aims to provide income security to the members during old age and invalidity.



# NPPF AT A GLANCE FOR FY 2019-2020



Total Membership as of  
30<sup>th</sup> June, 2020  
**65,414**



Total Beneficiaries  
Pensioners: **7,634**  
Other: **2,097**



Fund Size:  
**Nu. 40,822.08** million

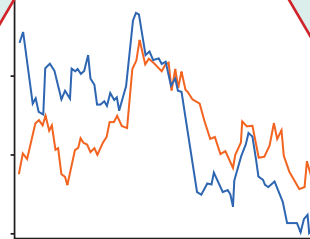
Rate of Return  
**7.12%**



Total Revenue for FY  
2019-2020  
**Nu. 2,461.80** million

Ratio of  
Management  
Expenses to  
revenue =

**3.94%**



NPL Rate: **0.84%**

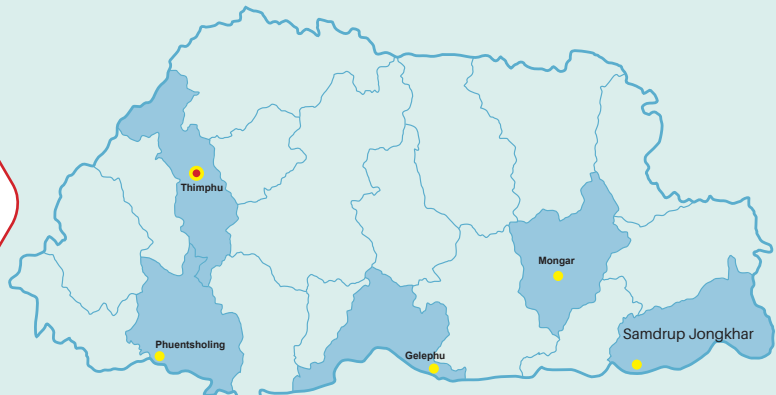
Total Investment  
Portfolio



**Nu. 40,396.84**  
million

## NPPF outreach

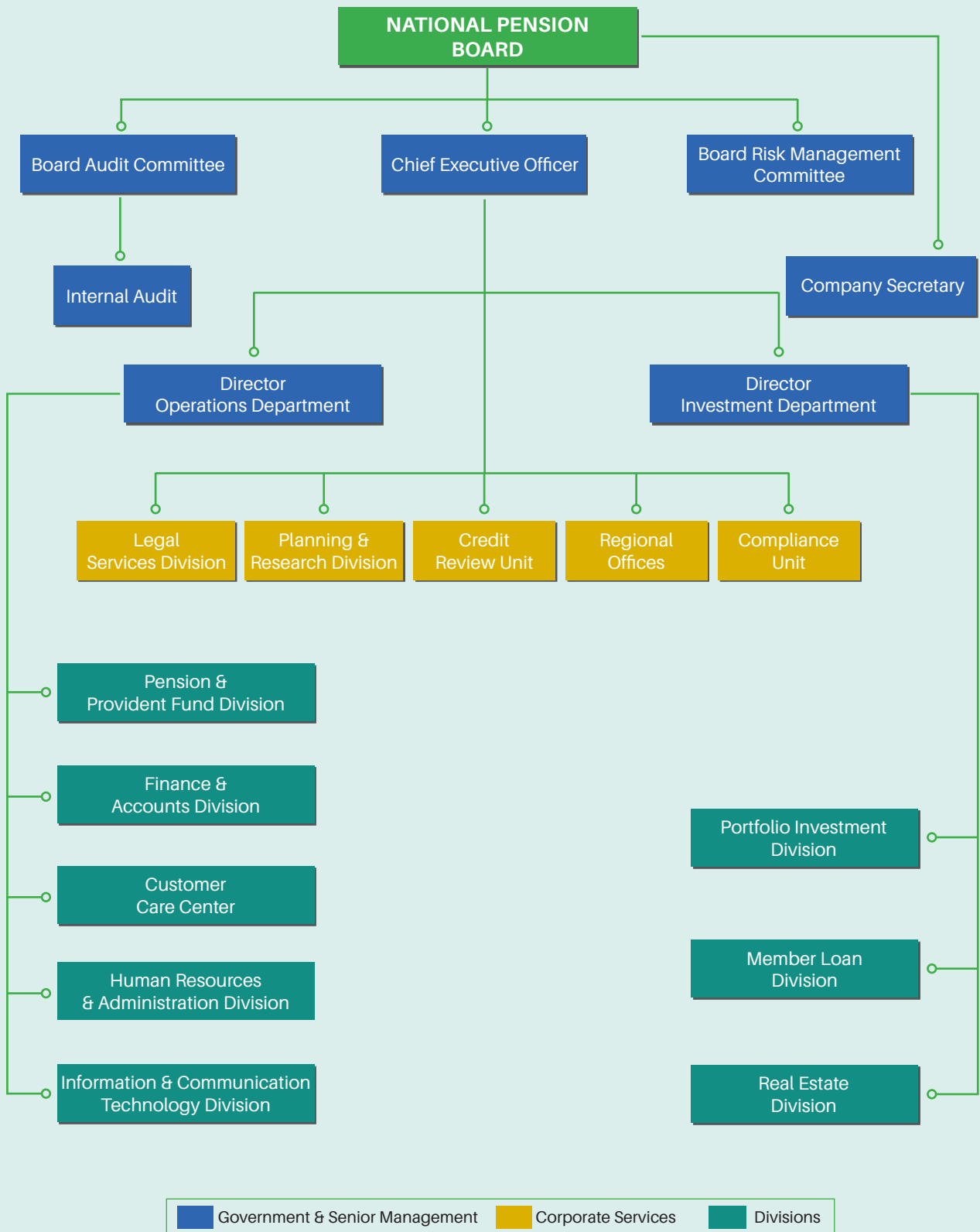
4 Regional Offices and  
Head quarter based  
in Thimphu.



# OTHER INITIATIVES AND ACTIVITIES



# ORGANOGRAM



# BOARD OF DIRECTORS



**DASHO SONAM WANGCHUK**  
Chairman  
Secretary, MoLHR



**COL. TSHERING NAMGYEL**  
Director  
Col, RBA, Headquarter



**YONTEN NAMGYEL**  
Director  
DG, Dol, MoEA



**UGYEN NAMGYAL**  
Director  
CEO, Tangsibji Hydro Energy Ltd.



**DUNGTU DRUKPA**  
Member Secretary  
Chief Executive Officer, NPPF



**PEMA R. RINCHEN**  
Zimpon Wom/Director  
HOPE Project, His Majesty's  
Secretariat



**DR. UGYEN TSHEWANG**  
Director  
Commissioner, RCSC

# MANAGEMENT STAFF



**DUNGTU DRUKPA**  
Chief Executive Officer, NPPF



**TSHEN NORBU**  
Director  
Operations Department



**LEKI WANGMO**  
Director  
Investment Department

# REGIONAL OFFICE



**MR. DAWA TSHERING**  
Head,  
Gelephu Region

**MR. SANGAY KARPO**  
Head,  
P/Ling Region

**MR. SANGAY THINLEY**  
Head,  
S/Jongkhar Region

**MR. CHENCHO**  
Head,  
Mongar Region



# SENIOR MANAGEMENT



**MR. TSHEWANG DORJI**  
Chief, Customer Care  
Division



**MR. PHUB DORJI**  
Chief, Finance &  
Accounts Division



**MR. TSHERING DORJI C**  
Chief, Pension & PF  
Division



**MR. KINZANG WANGDI**  
Chief, ICT Division



**MR. DECHEN DORJI**  
Chief, Real  
Estate Division



**MS. KARMA Y TSHERING**  
Acting Chief,  
Internal Audit Division



**MS. TSHERING OM**  
Acting Chief, Member  
Loan Division



**MR. TSHERING NAMGYAL**  
Acting Chief, HR &  
Admin Division



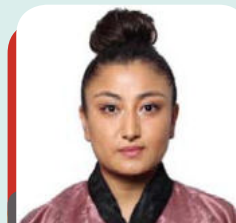
**MS. TSHOKI LHAMO**  
Acting Chief, Planning &  
Research Division



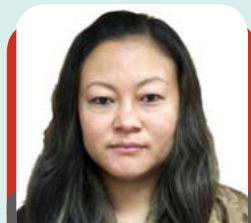
**MS. TSHERING LHAM**  
Acting Chief  
Portfolio Investment  
Division



**MS. NAMGAY CHODEN**  
Officiating Chief  
Legal Services Division



**MS. DEKI DRUKPA**  
Head CRU & Consumer  
Protection Unit



**MS. KINGA DEMA**  
Company Secretary



# BOARD OF DIRECTOR'S REPORT

The NPPF took several initiatives during the year. With fulfilment of all major targets outlined under the first Corporate Strategic Plan, NPPF embarked upon setting an ambitious new Corporate Strategic Plan for the period 2020 to 2025. A dedicated team comprising of management and senior officials formulated and outlined Vision, Mission and Objectives which NPPF should strive to focus and achieve. With the Corporate Strategic Plan endorsed by the Board, a series of action plans, activities and targets aligned to its vision and mission had been incorporated into annual compact, budgets and resource planning. The process of formulating the second version of the strategic plan has given us the opportunity to take stock of the past successes and failures.

Taking into consideration the economic development of the country, the changes in the demography, especially the increase in life expectancy of the people, studies to carry out parametric reform of the existing pension scheme were carried out. Key issues related to coverage, adequacy, and sustainability of pension schemes across the world were highlighted in the studies and appropriate policy measures and changes were proposed by the management team. Taking note of the issues and concerns, the Board has decided to carry out further studies with the help of experts.



**CHAIRMAN**  
National Pension Board

In order to broaden the investment mandate, thorough studies on delinking of member loan division were carried out. These initiatives would support NPPF to take advantage of the investment opportunities available and also provide concerted efforts in providing services which would benefit the members.

The Covid-19 pandemic affected the country's Gross Domestic Product (GDP) with projections plunging to negative two percent and CPI increasing to 4.54% for the year ended 30th June 2020. The increase in CPI had negative effect on NPPF as the yearly increment of the pension payout is indexed to inflation. Pensioner also felt the impact as the purchasing power of their money had declined due to inflation.



## FINANCIAL HIGHLIGHTS

Despite the Covid-19 pandemic, planned activities and the projects were executed within the budget and on time. However, NPPF had to forgo around Nu.180.16 million in revenue as part of the monetary measures initiated by the Government and the RMA (Royal Monetary Authority) to help revive the economy during the fourth quarter of the financial year (May to June 2020). Owing to pandemic, creating limited investment avenues and adverse economic conditions, NPPF was able to achieve a return of 7.12% against the targeted rate of 8%. The rate

was still higher than the saving account rates of the commercial banks.

During the year, the NPPF generated gross revenue of Nu. 2,884.84 million (excluding notional gains and losses) against the targeted revenue of Nu. 3,000 million.

NPPF recorded a growth of 12.94% in its fund size. NPPF saw the total fund grow from Nu. Nu. 36,146.22 to Nu. 40,822.08 million.

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## INVESTMENTS

During the year, NPPF sanctioned around Nu.6,800 million in loans to corporate entities in various sectors covering service and tourism, metallurgy, ferro silicon Industry, dairy, cement manufacturing, energy production, trading, and IT businesses. Of the total loan approved, Nu.5,300 million was disbursed. Major financing of Nu.2,692 million was carried out by NPPF as a key financing partner for Druk Air Corporation Ltd. in purchasing the new Aircraft Airbus Neo A320. NPPF also refinanced the Dungsam Cement Corporation Ltd. loan amounting to

Nu.1,560 million and invested Nu. 55 Million in T-Bank Bonds.

NPPF as one of the potential financial institutions in the country and to help those affected borrowers facing cash flow crunches approved Nu. 536 million as soft loans (to purchase raw materials, meet overhead costs and purchase of essential items etc) of which around Nu. 200 million had been disbursed. NPPF also financed STCBL to stock essential items during the pandemic.

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## CREDIT QUALITY

NPPF caters to a very limited clientele who are civil servants, corporate employees, and the members of the armed forces with regular and reliable income source. This has contributed hugely to maintaining the Non-Performing Loan (NPL) rate at 0.84% as against the maximum limit of 1.8%. This is considered as excellent achievement despite adverse economic conditions. NPPF's commitment to having a robust appraisal system, well planned recovery, and risk control mechanisms within the credit operations has also contributed to maintaining the NPL as low as possible.

# OPERATIONAL HIGHLIGHTS

## PENSION AND PROVIDENT FUND OPERATIONS

The salary revision for civil servants, corporate employees, and members of the armed forces with effect from July 2019 had major impact on the monthly contribution collection. With salary revision, civil servants and some of the corporate members contribute 11% while the employers provide 15%. NPPF members working in DHI companies contribute 15% with employers also contributing 15%.

Apart from some changes in the contribution framework amid the pay revision, the NPPF

recorded a total membership of 65,414 as of 30 June 2019 representing about 8.47% of the population.

It recorded a total of 7,634 pensioners against 7,038 pensioners the previous year, accounting for an increase of 8.4%. The ratio of pensioners to contributing members reached 11.5% during the year. The average age of the members was 42 years and that of pensioners was 60 year.

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## Contributions and Benefit Payment

During the year, a total of Nu. 4,033.47 million was received as monthly contribution toward the pension and provident fund, an increase of 49.25% against the previous year contribution of Nu. 2,702.51 million. Against the contributions, a total of Nu. 605.63 million was paid out as monthly pension payment. Nu. 891.22 million was paid as refund of provident fund contributions and other benefits against total payments of Nu. 1,381.97 million for the FY 2018-2019 registering an increase of 8.31%.

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## REAL ESTATE DEVELOPMENT

Real Estate is one of the strategic asset class that is being pursued for investment to match the long-term pension liability since the sector provides an opportunity for stable rate of return and an appreciation in the asset base through its inherent inflation hedging characteristics.

In line with the 10-year Real Estate Master Plan 2018-2027, NPPF initiated the construction of a seven-storied commercial building in Phuentsholing and eight residential buildings in Gelephu worth Nu. 412 million. The construction

in Gelephu and Phuentsholing are expected to complete in 2022 and 2023, respectively.

NPPF also completed the detailed design of four residential buildings for construction in the NPPF residential complex, Thimphu. These buildings will replace the existing four old buildings that were constructed in the early 1980s. The proposed buildings consist of mix of residential flats that would cater to members of different income level.

## HUMAN RESOURCES MANAGEMENT

The NPPF management carried out an in-house study to implement a 360-degree appraisal system in line with best national and international practices. The management also developed a 360-degree appraisal system guideline, Multi Source Assessment and Review System (MARS). MARS is an important multi- assessment tool to gather feedback through a survey questionnaire

regarding an employee's soft skills. It would enable the Human Resources Committee to make informed and holistic HR decisions with information from multiple sources and levels.

During the year NPPF also recruited 23 new employees.

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## INFORMATION AND TECHNOLOGY DIVISION

Recognizing the challenges resulting from evolution of NPPF as an institution with increasing members and changing business dynamics, NPPF initiated integration of the ICT system. During the year, phase II of the ICT system integration process was completed. The integrated ICT system is expected to go online from the next financial year. The completion of the integration process is expected to address shortcomings arising from the stand-alone systems and contribute towards prompt service delivery and enhanced customer experience.

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## CONSUMER PROTECTION

With increased financial inclusion drive and financial access, consumers face risks such as financial frauds, difficulty in accessing finance and financial options, fair market conduct and exploitations. Against myriad of issues and challenges, consumers need pertinent information and redressal platform to exercise their rights wherever necessary. In adherence to Royal Monetary Authority's Consumer Protection for Financial Services (CPFS) Rules and Regulations 2019, a fully functional Consumer Protection Unit has been institutionalized.

## ENTERPRISE RISK MANAGEMENT (ERM)

The ERM of NPPF is structured along the three-line defense model following the industry's best practices and as per regulatory requirements. The individual business units form the first line of defense while important regulatory functions like the Credit Review Unit, Compliance Unit and Risk Unit forms the second line of defense. The Internal Audit Division with full independence and reporting authority to the Board Audit Committee forms the third and final defense line. The comprehensive ERM system will help NPPF mitigate risk and institutionalize defense mechanism at various levels.



## AUDIT REPORTS

M/S Karma & Associates and M/S Tshechu & Associates based in Bhutan appointed by the Royal Audit Authority (RAA) conducted the audit of the NPPF. The National Pension Board is pleased to report that there were no major audit observations in the auditor's report on financial statements. NPPF has complied with all the critical observations made in the past years.

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## CUSTOMER SATISFACTION SURVEY AND ORGANIZATIONAL CLIMATE SURVEY

In order to determine the service quality of the NPPF staff and satisfaction level of our members and clients, NPPF carried out Customer Satisfaction Survey with the help of an independent firm for the year 2018 to 2020. Customer satisfaction level for the FY 2018-2020 was recorded as 3.97 on a scale of 5 or 79.4% satisfaction level. The rating was interpreted as "Good," meaning members and clients enjoyed "Good" service quality and satisfaction level.

Similarly, NPPF also carried out Organizational

Climate Survey (OCS) to determine the satisfaction level of its employees and to understand the issues and concerns of the employees. For the organization to be able to provide quality services and satisfaction, it should take care of its employees.

The survey found the employees satisfaction rate for the year 2018-2020 was 3.73 on the scale of 5 or 74.6% which indicates that the employees' were satisfied working in NPPF.

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## KEY ISSUES AND CHALLENGES

Since the establishment of the Government Employees Provident Fund (GEPF) in 1976 as one of the pillars of formal social security system in Bhutan, the popularity and significance of the scheme has reached great heights in promoting savings, investments, and providing retirement benefits to its members. The system was further strengthened in 2000 with the introduction of the second pillar, the defined benefit pension system and then the consolidation of both the pillars under the management of the NPPF.

Establishment of NPPF under the benevolence of His Majesty the Fourth Druk Gyalpo was a milestone in promoting and providing a dynamic, sustainable and fair retirement benefits in the

country. While NPPF is striving firmly towards achieving its objectives, governed by the existing rules and regulation, NPPF has several issues that need to be addressed.

### 1. Pension Scheme

The pension scheme poses a substantial amount of sustainability risk as NPPF has been founded on unfunded liability in 2002. Actuarial valuation of the pension fund scheme as of June 2019 shows an accrued liability of around Nu. 28.5 billion. In absence of a proper legal framework under which NPPF functions, there is no clarity on the state guarantee of the pension liability yet.

Also, factors like changing demography, especially the increasing life expectancy of the pensioners, the exclusivity or occupational design of the schemes and elements of cross subsidization are few of the critical factors affecting pension sustainability and require timely review of policies.

## 2. Fund Management

One of the key functions of NPPF is to manage the accumulated fund flowing in from the schemes. Exploring viable investment avenues to improve sustainability of pension and to provide decent returns to members' fund is a mounting task. In hindsight, generating a sustainable rate of return continues to remain challenging not only due to the NPPF's conservative mandate (which in turn is to protect the member's fund) but also because of the lack of investment avenues, nascency of the financial market and restrictive investment mandates.

## 3. Governance

NPPF was established on 1st July 2002 following the Executive Order issued by the then Lhengye Zhuntshog. The Executive order outlines its mandate, functions, powers and membership.

NPPF is regulated like a State-Owned Enterprises (SoEs) under the Ministry of Finance (MoF), with MoF taking the lead in governance matter. The RMA also plays a quasi-regulatory role as NPPF is categorized as a financial institution.

With no clarity on which NPPF functions and NPPF being regulated as a SoE poses the challenge of building organizational capacity in terms of human resources that needs to meet the complex and challenging function of pension scheme and fund management. Although treated like one of the financial institutions by RMA, the remuneration framework of NPPF is not at par with financial institutions, which poses challenge of retaining skilled human resources affecting organizational growth in the long term.

NPPF till now has successfully discharged its mandate and responsibility over the last 20 years by securing the retired life of a portion of our working population and preventing age old poverty through an institutionalized mechanism. While we have and continue to work towards achieving our vision need for thorough review taking stock of the past events has become pertinent.

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# CORPORATE SOCIAL RESPONSIBILITY

NPPF, in partnership with RICBL, initiated Lotedh Scheme as a corporate social responsibility to promote social values and culture with the primary objective to provide financial support (Semso) to immediate family members during demise of the Lotedh Scheme member to meet the funeral expenses. During the year, 44 family members of pensioners benefited from

the scheme. Currently, there are 1,487 Lotedh Scheme members. It is managed by Lotedh Scheme Trustees comprising of representatives from pensioners who worked as civil servants and in the armed forces. Currently Mr. Nima Wangdi, former Health Secretary is the Chairman of the Lotedh Scheme. NPPF provides secretarial services to Lotedh Scheme Trustees.



# CORPORATE GOVERNANCE

The NPPF in adherence to the Royal Monetary Authority's Corporate Governance Rules and Regulations, 2020, and MoF's Corporate Governance guidelines for State owned Enterprises (SoE), is in compliance with the provisions of the guidelines, rules, and regulations. The NPPF has fully implemented all the directives of the Board. The Board Human Resource Committee, Board Audit Committee, Board Tender and Procurement Committee and Board Risk Management Committee held meetings as and when required. The Board members of NPPF are appointed by the MoF (Ministry of Finance), comprising 7 board directors including the Chief Executive Officer with RMA doing the fit and proper test.

In order to ensure good governance, the functioning of the Board is supported by the following Committees as per the corporate governance requirements:

- Board Human Resource Committee
- Board Audit Committee
- Board Tender and Procurement Committee
- Board Risk Management Committee

## THE DETAILS OF BOARD SITTINGS

### 1. Board Meetings

Sl. No.	Name	Directorship Type/Title	Designation & Agency	Number Attended	Directorship in other companies	Total Remuneration (After TDS)
1	Mr. Sonam Wangchuk	Chairperson	Secretary, MoLHR	13	PHPA I & MHPA	101,920.00
2	Mr. Yonten Namgyel	Director	DG, DoI, MoEA	6	AWP & Dungsam Polymers Ltd.	62,720.00
3	Mr. Ugyen Namgyal	Independent Director	CEO, THyE	11	AASBB & THyE	86,240.00
4	Mr. Pema R Rinchen	Director	Zimpon Wom/Director, HOPE, HM's Secretariat, OGZ	11	NHDCL & KBCC	86,240.00
5	Col. Tshering Namgyel	Director	Royal Bhutan Army	12	---	94,080.00
6	Dr. Ugyen Tshewang	Director	Commissioner, RCSC	3		23,520.00
7	Mr. Dungtu Drukpa	Director	CEO, NPPF	12	NHDCL, DHPC, & AASBB	94,080.00

*Note: Director, Dr. Ugyen Tshewang joined the NPB from May 2020 while Director Col. Tshering Namgyel resigned from the Board from June 2020.*

## 2. Board Audit Committee Meetings

Sl. No.	Name	Directorship Type/Title	Designation & Agency	Number Attended	Directorship in other companies	Total Remuneration (After TDS)
1	Mr. Ugyen Namgyal	Chairperson	CEO, THyE	3	AASBB & THyE	14,700.00
2	Col. Tshering Namgyel	Member	Colonel, RBA	3	---	14,700.00
3	Ms. karma Y Tshering	Member Secretary	Acting Chief, IAD NPPF	3	---	14,700.00

Note: The 119<sup>th</sup> and 120<sup>th</sup> meeting of the NPB held on 12<sup>th</sup> June 2020 and 26<sup>th</sup> June 2020 had reconstituted the board committees. Director Dr. Ugyen Tshewang, Commissioner replaced Col. Tshering Namgyel as member from June 2020.

## 3. Board Human Resource Committee Meetings

Sl. No.	Name	Directorship Type/Title	Designation & Agency	Number Attended	Directorship in other companies	Total Remuneration (After TDS)
1	Mr. Yonten Namgyel	Chairperson	Director General, DoI, MoEA	2	AWP & Dungsam Polymers Ltd.	9,800.00
2	Tshering Namgyel	Member	Colonel, RBA	2	NA	9,800.00
3	Mr. Dungtu Drukpa	Member	CEO, NPPF	2	NHDCL, DHPC, & AASBB	9,800.00
4	Mr. Tshering Namgyel	Member Secretary, NPPF	Acting Chief, HRAD, NPPF	2		9,800.00

Note: The 119<sup>th</sup> and 120<sup>th</sup> meeting of the NPB held on 12<sup>th</sup> June 2020 and 26<sup>th</sup> June 2020 reconstituted the board committees with Dr. Ugyen Tshewang appointed as the Chairperson of BHRC with effect from June 2020.

## 4. Board Tender Committee Meetings

Sl. No.	Name	Directorship Type/Title	Designation & Agency	Number Attended	Directorship in other companies	Total Remuneration (After TDS)
1	Mr. Yonten Namgyel	Chairperson	Director General, DoI, MoEA	4	AWP & Dungsam Polymers Ltd.	19,600.00
2	Mr. Pema R. Rinchen	Member	Director, HOPE, HM's Secretariat	4	NHDCL	19,600.00
3	Mr. Dungtu Dukpa	Member	CEO, NPPF	4	NHDCL, DHPC, & AASBB	19,600.00
4	Mr. Sonam Yeshey	Member Secretary,	Operations Director, NPPF	3	FITI	19,600.00

Note: Director Operations Department, replaced the former Operations Director from June 2020 as the member secretary of BLTC.



## 5. Board Risk Management Committee Meetings

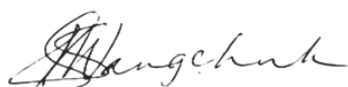
Sl No	Name	Directorship Type/Title	Designation & Agency	Number Attended	Directorship in other companies	Total Remuneration (After TDS)
1	Mr. Yonten Namgyel	Chairperson	Director General, DoI, MoEA	1	AWP & Dungsam Polymers Ltd.	4,900.00
2	Mr. Pema R. Rinchen	Chairperson	Director, HOPE, HM's Secretariat	1	NHDCL & KBCC	4,900.00
3	Mr. Tshering Namgyal	Member	Colonel, RMA	1	NA	4,900.00
4	Mr. Dungtu Dukpa	Member	CEO, NPPF	1	NHDCL, DHPC, & AASBB	4,900.00
5	Ms. Tshoki Lhamo	Member Secretary	Offgt. Chief, PRD	1		2450.00

Note: The 119<sup>th</sup> and 120<sup>th</sup> meeting of the National Pension Board held on 12<sup>th</sup> June 2020 and 26<sup>th</sup> June 2020 reconstituted the board committees wherein Director Pema R Rinchen was appointed the Chairperson, Independent Director Ugyen Namgyel as a member and the Senior Risk Officer (SRO), NPPF, as the member secretary. Prior to the SRO taking over as the member Secretary, Director Investments served as the member Secretary.

## ACKNOWLEDGEMENT

The National Pension Board acknowledges Ministry of Finance, Royal Monetary Authority, and all other stakeholders for their continued support.

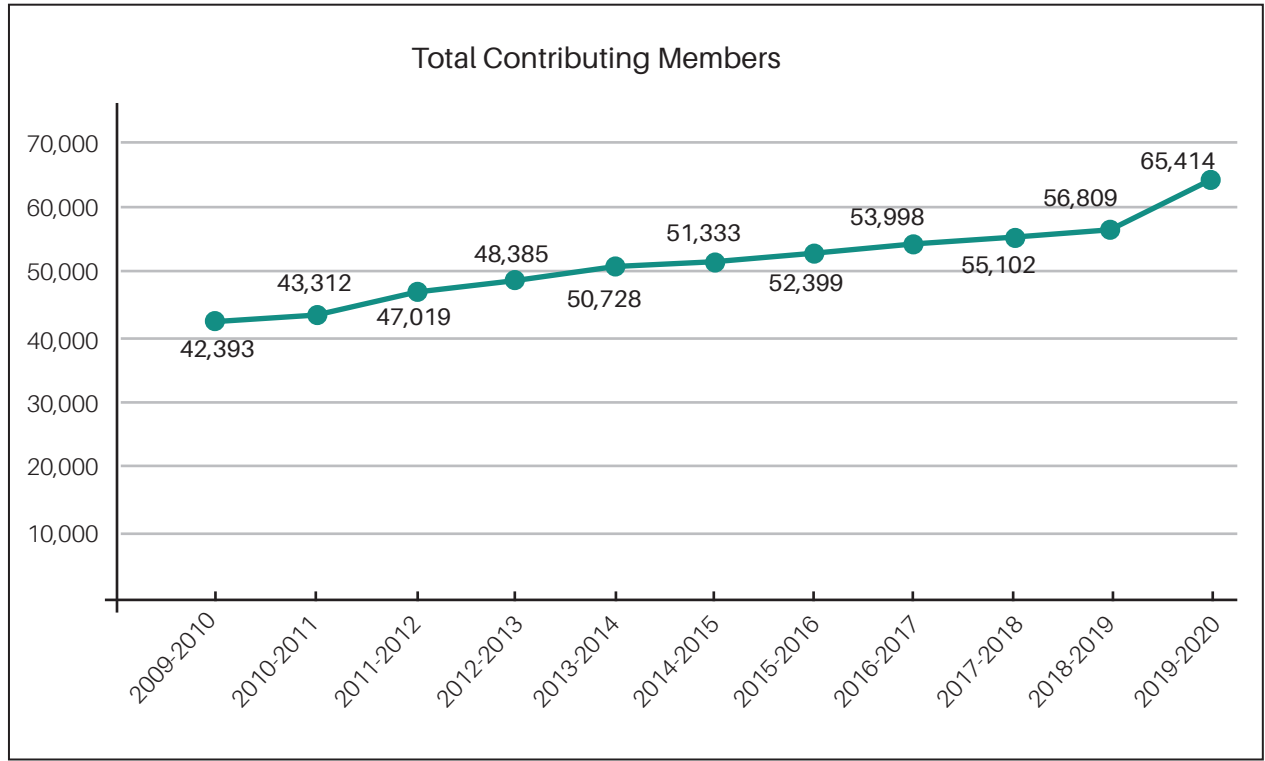
Also, on behalf of the Board of Directors and the management, I would like to express our gratitude and acknowledge the contributions made as a Board Director by Col. Tshering Namgyel, Royal Bhutan Army. His invaluable contributions enriched the wisdom of the National Pension Board immeasurably. With this, we would like to welcome Dr. Ugyen Tshewang, Commissioner, Royal Civil Service Commission as Board member. We hope to gain from his wide array of knowledge and experiences.



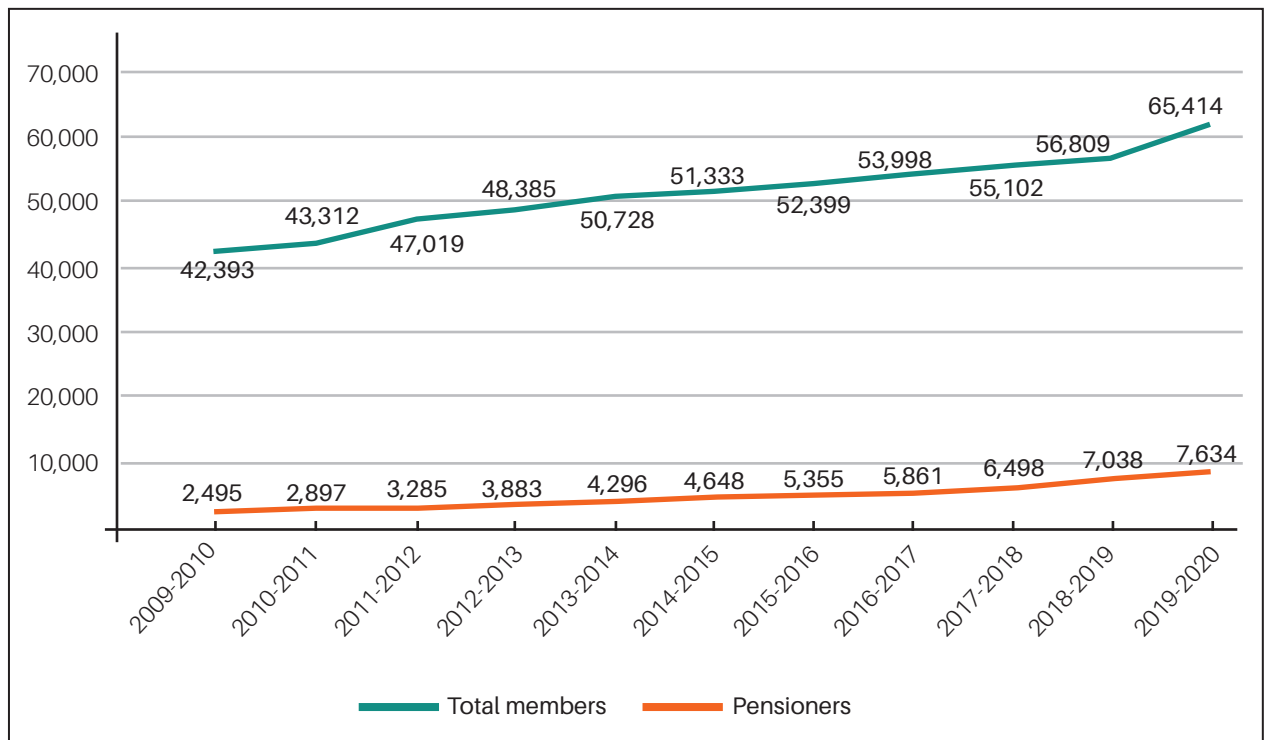
(Sonam Wangchuk)  
Chairperson  
National Pension Board

# NPPF TRENDS

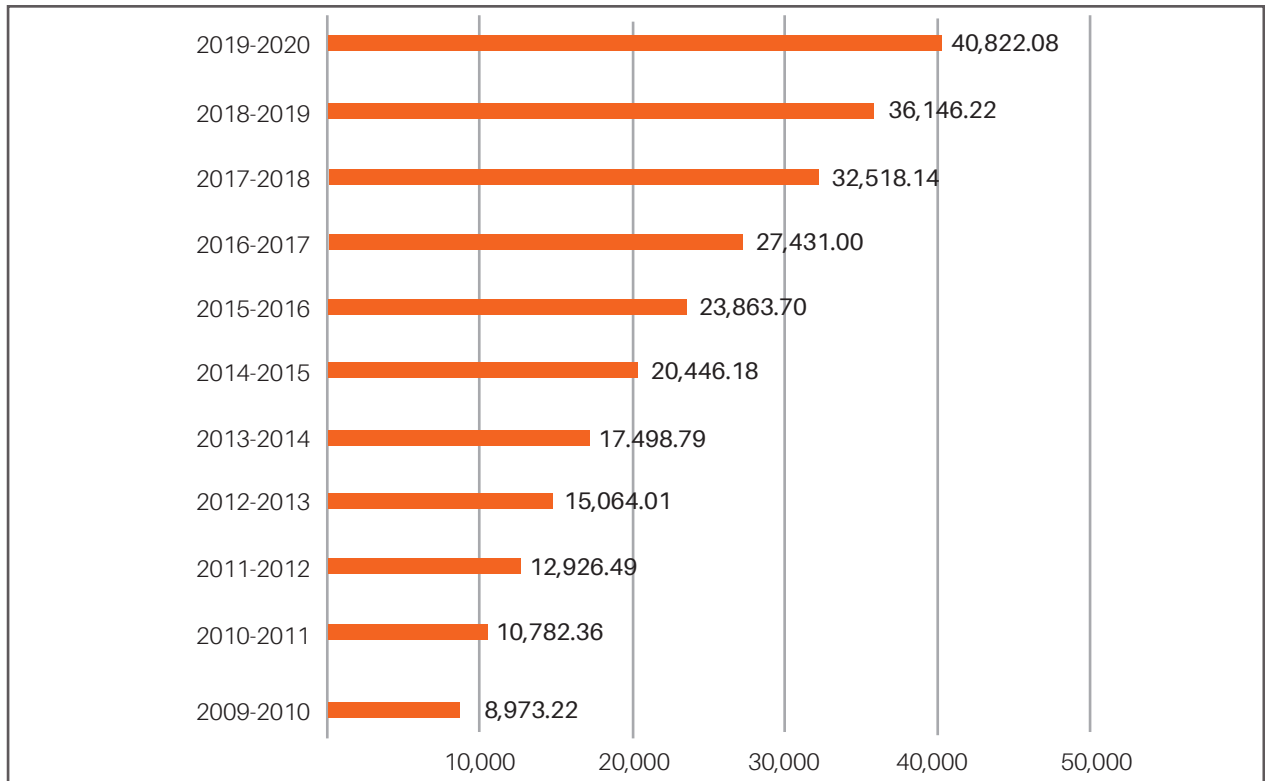
## 1. Contributing Members



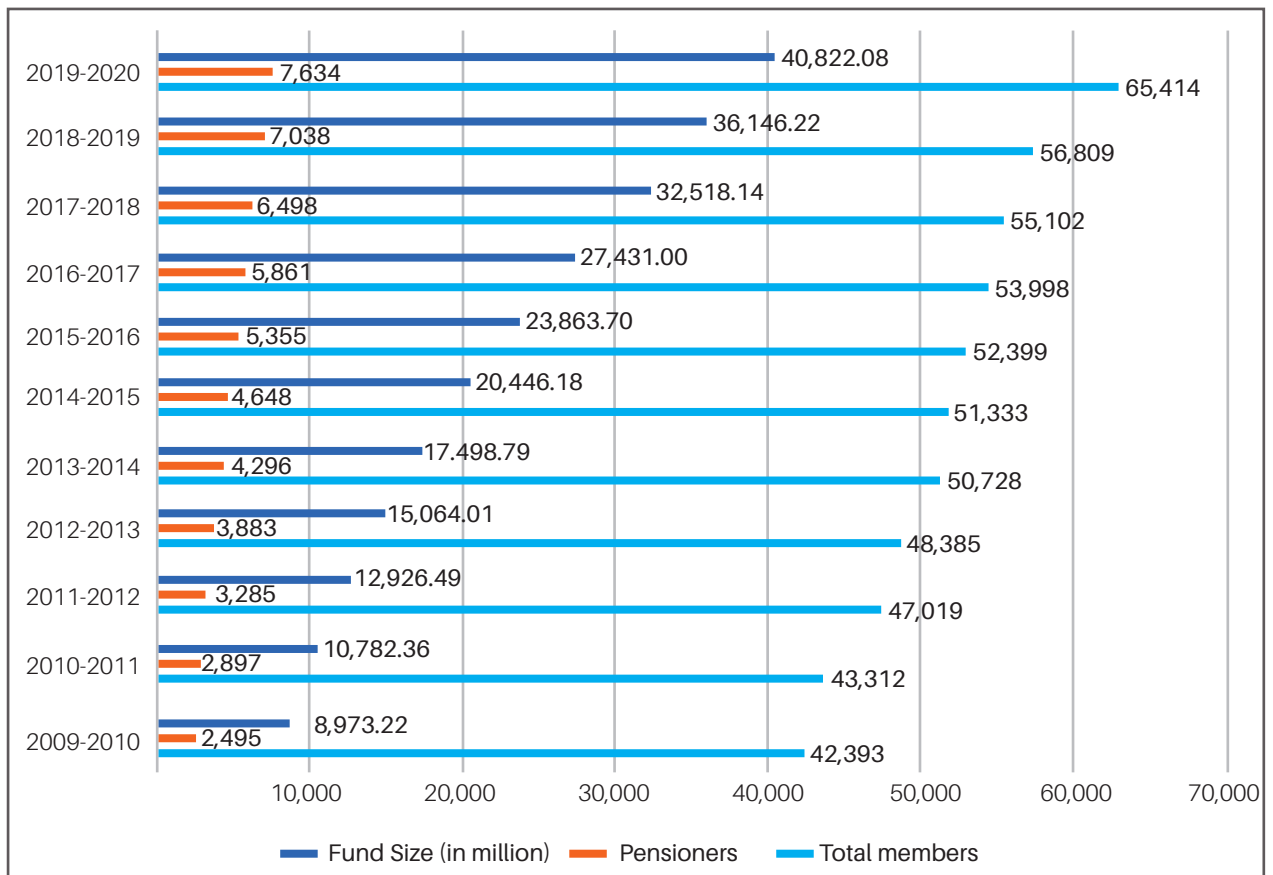
## 2. Pensioners against total contributing members



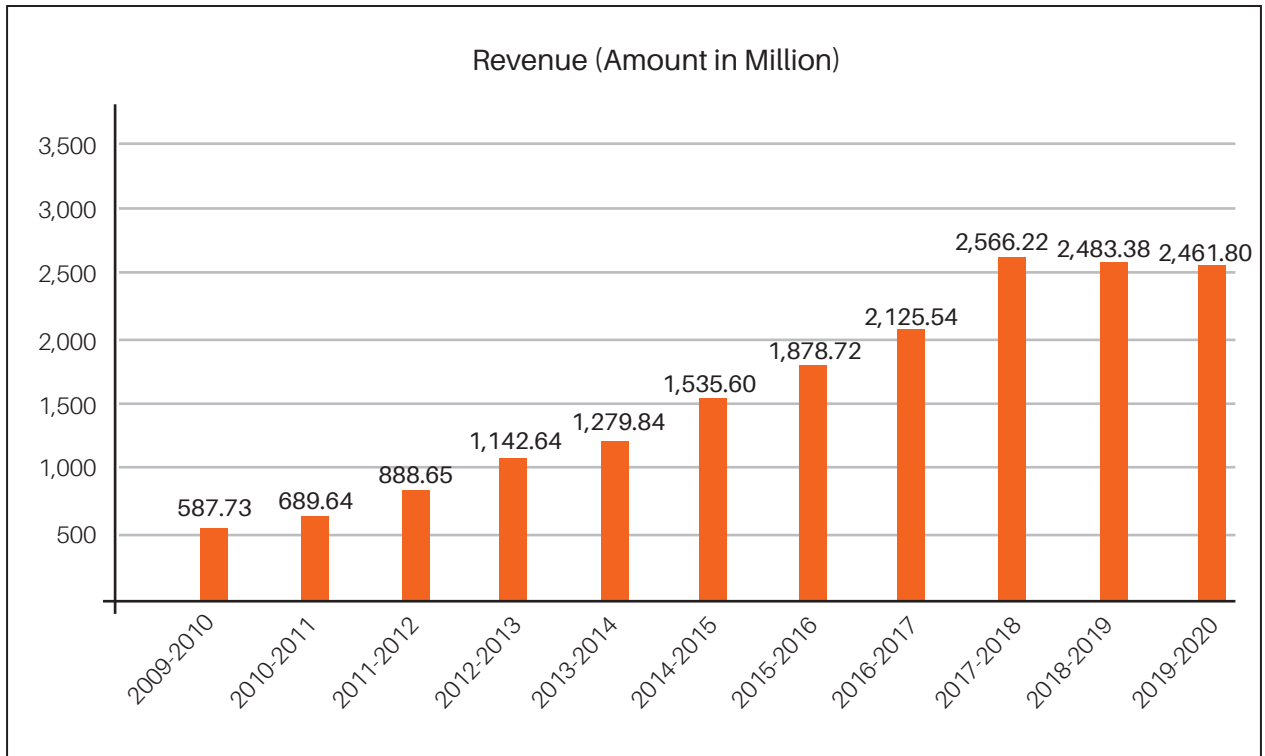
### 3. Fund Size



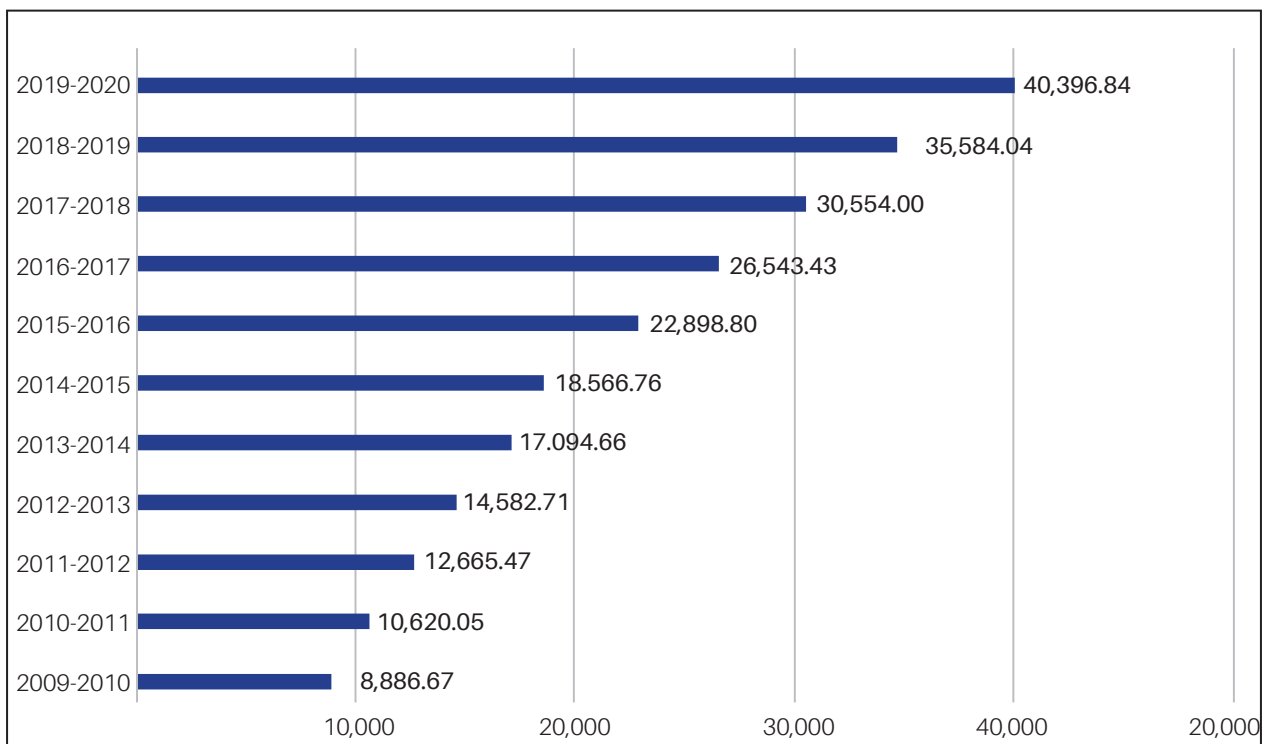
### 4. Total Contributing members, Pensioners and Fund Size



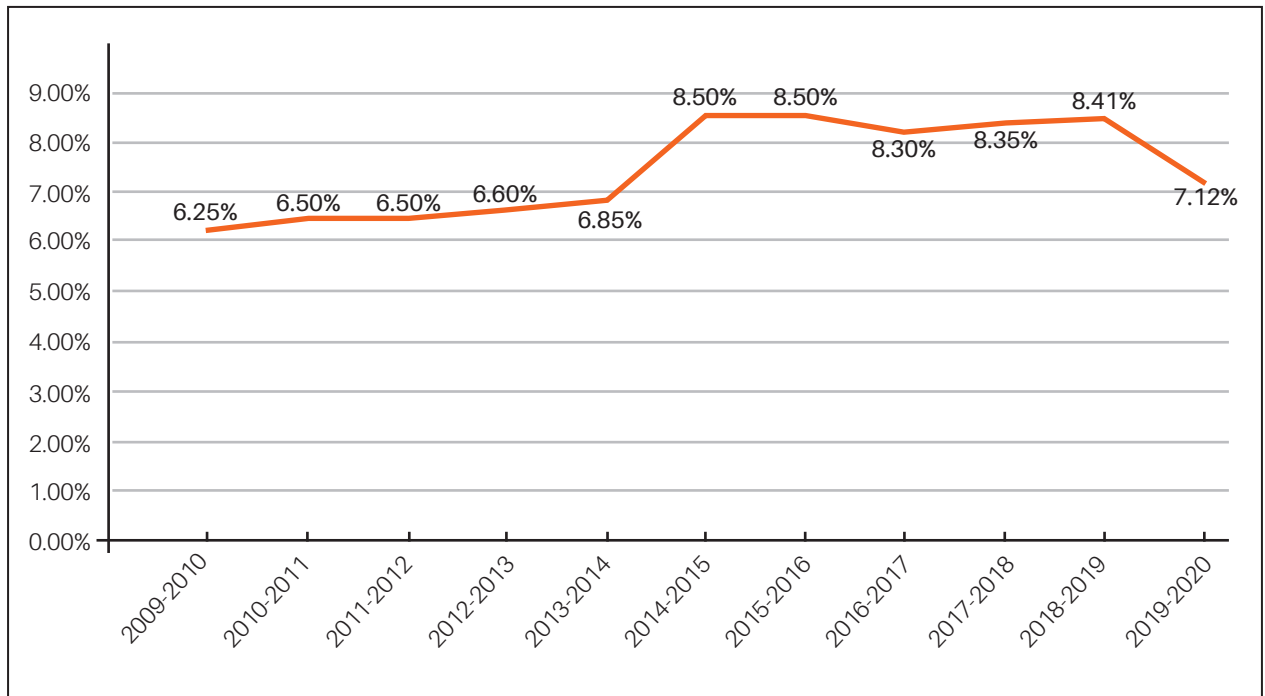
## 5. Total Revenue



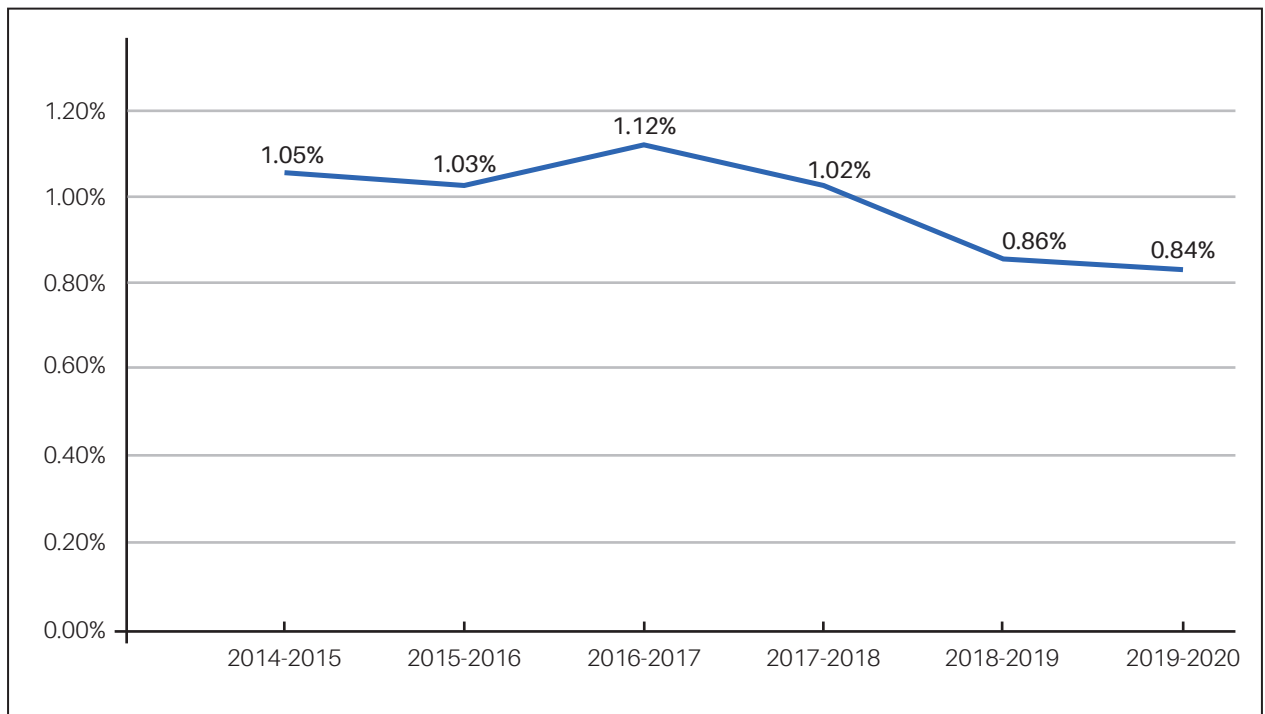
## 6. Total Investment Portfolio



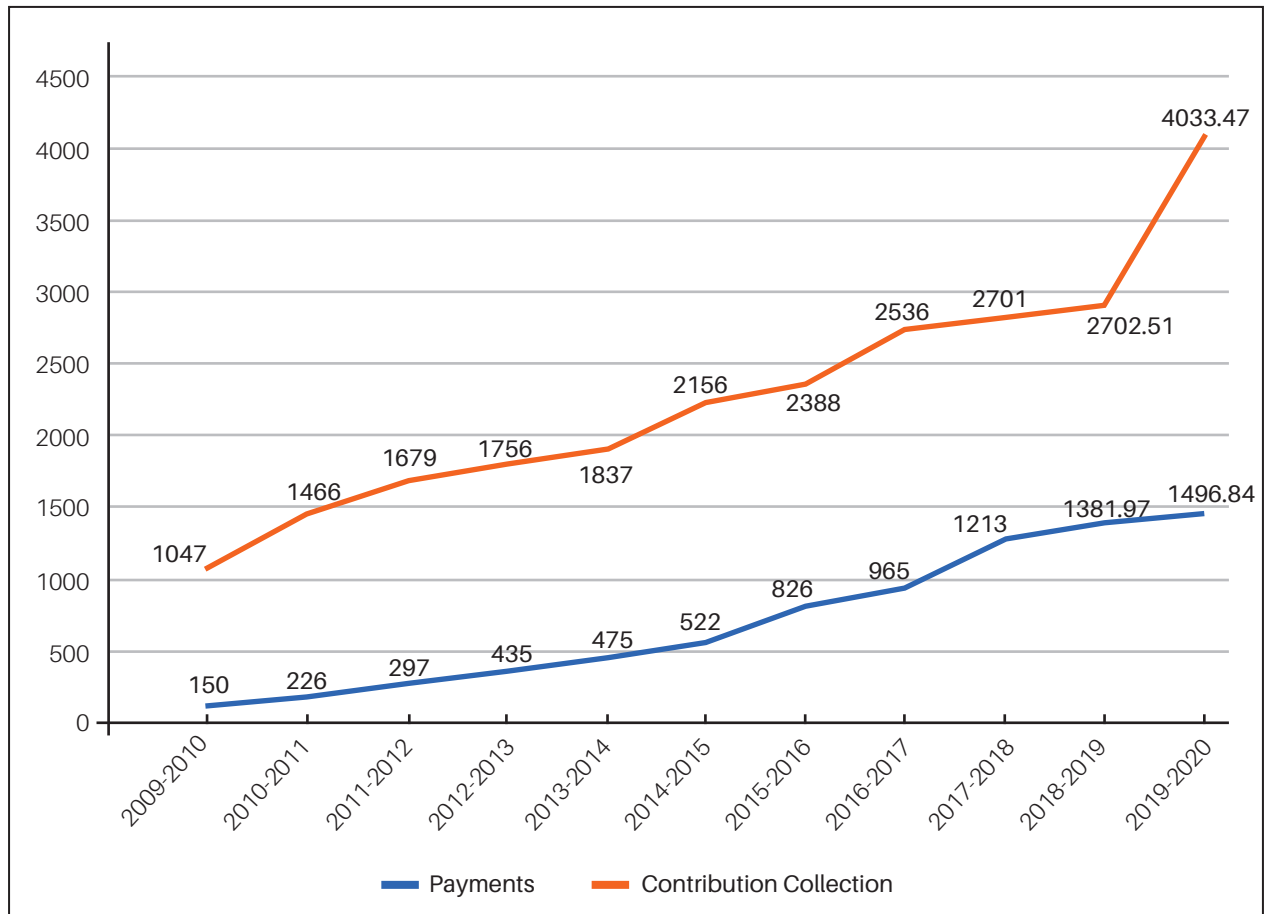
## 7. Rate of Return



## 8. NPL Rate

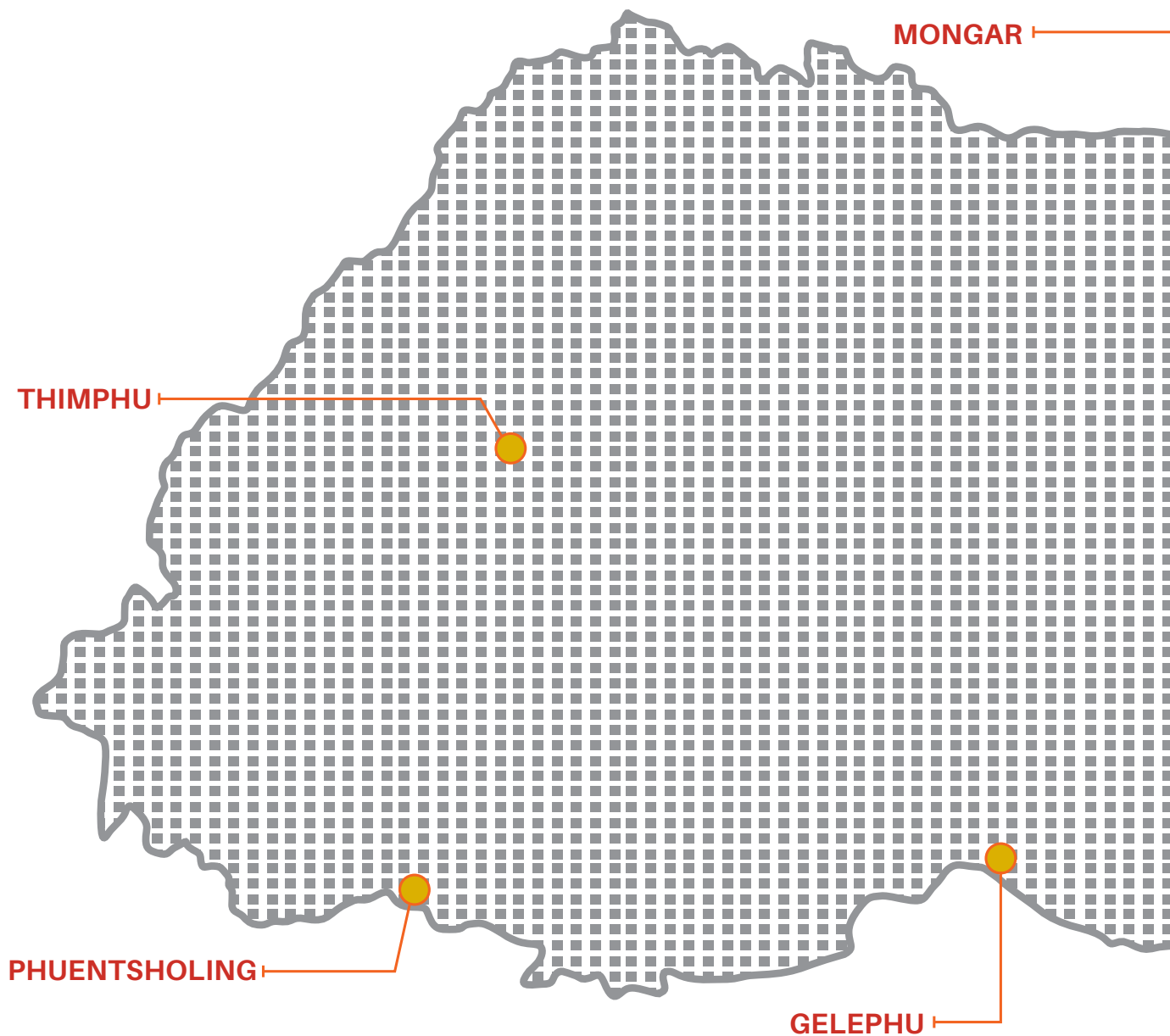


## 9. Contribution Collection and Payments



# NPPF AND THE WORLD

## NETWORKING BEYOND BORDERS





The World Bank



ISSA, Geneva



Social Security Office, Thailand



Government Pension Fund  
Bangkok, Thailand



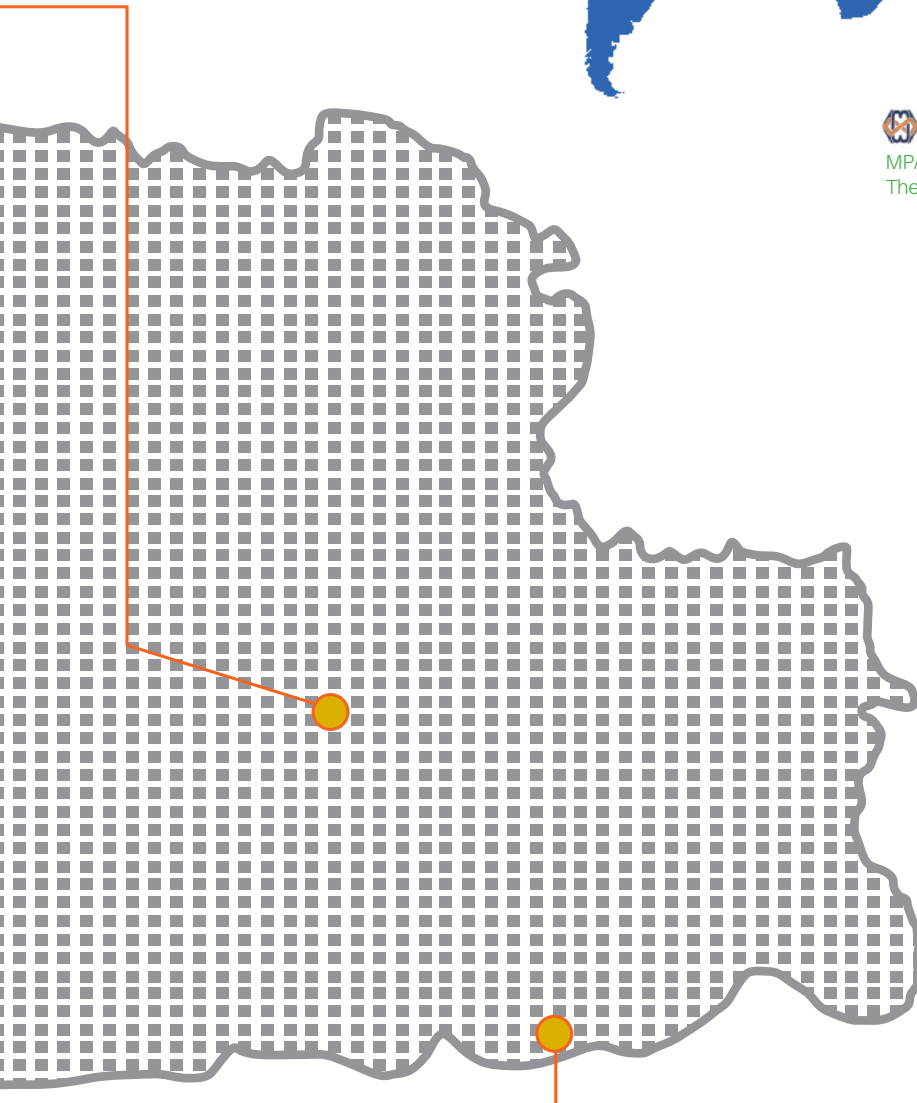
MPAO,  
The Maldives



ADB,  
The Philippines



ADFIAP,  
The Philippines



**SANDRUP JONGKHAR**





# **INDEPENDENT AUDITOR'S REPORT**



## Independent Auditor's Report

**To**  
**The Members of National Pension & Provident Fund (NPPF)**  
**Thimphu**

### Opinion

We have audited the financial statements of **NATIONAL PENSION AND PROVIDENT FUND ("the Fund")**, which comprise the Statement of Financial Position as at 30 June 2020, and the Statement of Comprehensive Income, Statement of Changes in Reserve, and Statement of Cash Flows for the period then ended, and Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 30 June 2020, and its financial performance and its cash flows for the period then ended in accordance with BAS.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bhutan and we have fulfilled our ethical requirements in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

### Emphasis of Matter

Attention is drawn to the following:

- 1) We were unable to obtain sufficient evidence that would not require the NPPF to comply with BAS 26, while preparing their financial statements; nor were we able to satisfy ourselves as to be an appropriate means to achieve fair presentation through disclosing non compliance of BAS 26 BAS in NPPF's accounting policies.



- 2) The allowances for impairment loss, measured as per Prudential Regulation of RMA, is carried at Nu.334,662,291 on the Statement of Financial Position as at June 30, 2020. *The amount of the loss is required to be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition), if there is objective evidence of incurred impairment loss on financial assets measured at amortised cost (BAS 39, para. 63).* We were unable to obtain sufficient appropriate audit evidence about the carrying amount of allowances for impairment loss measured as per incurred loss model of BAS 39 in NPPF as at June 30, 2020 since we were not provided with the financial information calculated as per BAS 39. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

The claims of 37 non-performing member loans were pursued through legal process as on the date of the audit (ending September 2020) involving Nu. 71,847,504.03. Of which Nu.69,748,861.95 pertaining to 32 loanees case was in favour of NPPF. However, the adjustment has not been affected in the carrying amount of Allowances for impairment in the Statement of Financial Position as at June 30, 2020.

- 3) The Sub-Section 5.4.2 - Statutory Liquidity Requirement Ratio, Section 5 - **"Regulations on Liquidity Management"** of the Prudential Regulations 2017, issued by the Royal Monetary Authority requires the Non-Bank Financial Institution, at all times, to maintain minimum liquidity in the form of quick assets, in a ratio of not less than 10 percent of total liabilities excluding capital fund and liabilities to the RMA.

Unlike other Non-bank financial institutions, as explained to us, the NPPF is specifically exempted to maintain the above mentioned required SLR only if they categorized their assets separately for Defined Benefit and Defined Contribution which is not being done and the policy for the said segregation is pending to be submitted with the Regulatory Authority.

- 4) The National Land Commission (NLC) upon assessment of Government land allotment granted in 1985 are not eligible for any registration of ownership as per their letter dated 2<sup>nd</sup> July 2019.

On the date of reporting, NPPF has 39.54 acres of land in different parts of the country. Based on the land certificate issued by National Land Commission, 25.40 acres of land held by NPPF is categorized as "Use Right Certificate/Land Use Certificate"

As of 30<sup>th</sup> June 2020, the cost of land including land development under Use Right Certificate/Land Use Certificate is Nu. 19.81 million (Fair value Nu. 2,368.79 million). The NPPF has landed property worth of Nu. 657.44 million in



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book value (fair value Nu. 1,056.71 million) including NPPF Corporate Office (Book value Nu.132 million) categorized under Property plant and equipment constructed on the Use Right Certificate/Land Use Certificate will be de-recognised from the Statement of Financial Position which will have serious and cascading effects on the strength of the Statement of Financial Position and many financial ratios (including funding ratio) and growth of the NPPF in the coming year(*Note 11*).

As explained by the Management, the NPPF is not contesting the above said NLC ruling and it has addressed their concern through Ministry of Finance (MoF), Royal Government of Bhutan as per MoF letter dated 5 August, 2019. The NLC is studying the concern raised by the MoF. No adjustment has been made in the books of accounts, pending final outcome.

Our opinion is not modified in respect of these matters.

### **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 BAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 audit 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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

- i. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions misrepresentations, or override of internal control;
- ii. 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 purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- iii. Evaluate the appropriateness of accounting policies used and the reasonableness of Accounting estimates and related disclosures made by management;
- iv. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit 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 report. However, future events or conditions may cause the Fund to cease to continue as a Going concern; and
- v. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should



not be communicated in our report because the adverse consequences of doing so would reasonably be expected to the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

We report that:


- a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b) In our opinion, proper books of account as required by law have been kept by the Fund insofar as it appears from our examination of the books;
- c) The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Reserve and the Statement of Cash Flows dealt with by this report have been prepared in accordance with BAS;
- d) We give in "Annexure A" the minimum audit examination and reporting requirement; and
- e) The Fund has complied with other legal and regulatory requirements to the extent applicable to the Fund.

*For Karma & Associates*

*For Tshechu & Associates*

  
Chimi Dorji ACCA  
Managing Partner  
Place: Thimphu  
Date: ....., 2020



  
Tshechu CPA (9798359)  
Managing Partner  
Place: Thimphu  
Date: 18/11./, 2020



**MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT****1. STATUS OF NPPF:**

The Status of NPPF has been categorized as Autonomous Public Organization and it is Non- profit organization of its own.

**2. INTERNAL CONTROL:**

- 2.1. In our opinion, NPPF requires to strengthen in certain divisions internal controls and to ensure maker checker concept is followed so as to further ensure completeness, accuracy and reliability of records, carrying out the operation in an orderly and efficient manner, to safeguard the assets of NPPF as well as to ensure adherence to rules/regulation and system procedures.
- 2.2. In our opinion there is a system of competitive bidding for items for value Nu. 100,000 and above for procurement of goods & services and Nu. 200,000 and above in respect of work and services, commensurate with size and the nature of its operation for purchase of goods and services including stationary, fixed assets, computers, equipment and other assets.
- 2.3. During the course of our examination of the books of account carried out in accordance with the International Standards on Auditing, we have not come across any personal expenses (other than contractual obligations) which have been charged to Statement of Comprehensive Income, nor have we been informed if any such case by the management.
- 2.4. In our opinion NPPF has reasonable system of recording receipts and issues of consumable stores commensurate with its size and the nature of its operations.
- 2.5. There is a separate Internal Audit Cell supervised by the Audit Committee of the Board. They function in line with the role and responsibilities as defined by the Internal Audit Charter. In our opinion the Internal Audit Cell needs to be strengthen and has to increase the scope of the audit and ensure that adherence of Standard and Operating Procedures and Policies approved by the Board of a particular division are followed. We also suggest that the Risk Level of the observations should be categorized into (i) High Risk (ii)



Medium Risk (iii) Low Risk as per the sensitivity of the rules, regulations and policies to be followed by NPPF.

### 3. LIQUID RESOURCES

In our opinion, the management of liquid resources particularly cash, bank and short term deposits etc. are adequate and that excessive amounts were not generally lying idle in non-interest bearing accounts except where in certain situations the Banks are having excess funds, they negotiate with the NPPF for the interest and period.

### 4. FIXED ASSETS

4.1. None of fixed assets have been revalued during the year.

4.2. As explained by the Management, the Insurance coverage is only taken up for the Buildings and vehicles.

4.3. As per the Accounting Policy, grant related to assets received are recognized as deferred income, which is credited in the Statement of Comprehensive Income over the expected useful life of the asset on a basis consistent with the depreciation policy.

4.4. The NPPF has lands in Bhutan, Samtse measuring 10.37 and 199.68 decimals, Gelephu lands measuring 25, 103, 16, and 88 decimals, National Land Commission had decided to issue Land Use Certificate/Use Right Certificate as these lands were allotted in 1985 together with lands in Thimphu and Phuentsholing, which were also issued LUC/URC certificates. For the 240 decimals land in Paro and 754 decimals land in Bumthang, due to some problems with the land holdings and precinct planning respectively, these lands are yet to be transacted.

4.5. Management has shared physical verification Report of Movable Assets and certain fixed assets only. We suggest that the NPPF should have the phase wise physical verification program to cover the entire fixed assets over a period to be decided by the Board.



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## 5. INVESTMENTS

5.1. Decisions regarding investments were made with the approval of the National Pension Board or on the basis of authority delegated by the Board.

5.2. During the year, there was an increase in NPPF's investment in equity shares by 601,953 bonus shares received from DPNB.

## 6. LOANS AND ADVANCES

Advance given for Nu.30.79 million during the year 2015 for the purchase of land for which ownership has not yet been transferred in favor of NPPF due to freezing of land transaction.

## 7. INTERESTED PARTIES

We observe that housing/education loans, remuneration and sitting fees are given to the members of the National Pension Board, other Committees and their relatives are at prevailing rate of Interest and reported in Note 37 of the Financial Statement.

## 8. STATUTORY DUES

8.1. According to records of NPPF, Provident Fund, Health Contribution, and GIS dues of the NPPF have regularly deposited during the year with the appropriate authorities.

8.2. The NPPF has investments in Fixed Deposits as at 30<sup>th</sup> June 2020 amounting to Nu. 26,605,483 (including interest accrued), which is currently allocated for Gratuity but can also be used for other purpose and the management has not considered in fair value of plan assets for Gratuity valuation from Actuarial.

8.3. Gratuity Liability of Nu. 25,281,563 as at 30<sup>th</sup> June 2020 (previous year Nu. 22,689,950) is currently less than the corresponding amount of Investment in fixed deposits of Nu. 26,605,483.

8.4. Tax deducted at sources from Salary, Pension and Contractors has been regularly deposited to the appropriate authority.



## 9. RATES, TAXES AND OTHERS

There were no amounts due in respect of undisputed rates and other statutory dues, which have not been deposited with the appropriate authorities within the stipulated date.

## 10. MANAGEMENT

- 10.1. According to the information and explanations given and the records examined by us, in our opinion, activities carried out by the NPPF during the year were lawful and within the Rules and Regulations of the Fund, however, certain matters such as maintenance of Statutory Liquidity Ratio (SLR) and certain issues on lands with National Land Commission (NLC) are in discussion with Royal Monetary Authority and Ministry of Finance.
- 10.2. NPPF owns and let-out flats to its members. The Management informed us that Housing Committee considers prevailing market rates for fixation of rents, in respect of Members.
- 10.3. NPPF has an established and effective budgetary control system. We suggest that the budget variance report should have remarks of the Division/Unit Head and reason for the variances shall be documented.
- 10.4. NPPF has maintained adequate documents and records for granting Loans and Advances. We suggest that the NPPF should have Central Registry for the documents and records.
- 10.5. NPPF has timely maintained records in case of transactions in the matter of trading in shares, securities and other investments.
- 10.6. NPPF has maintained reasonable records for funds collected from members and for returns credited and payments made to members. We suggest that the NPPF should further strengthen the internal controls in the Pension and Provident Fund division.
- 10.7. The details of remuneration and other payments made in cash or kind to the Chief Executive Officer have been disclosed in Key Management Personnel (KMP) in Note 37 of the notes to the financial statements.



10.8. As explained by the Management, in our opinion, mostly all the directives of the Board have been complied during the year except the followings which remain pending as at 30 June 2019:

- (i) Recognition of the backdated surplus – yet to be discussed in the Board.
- (ii) Information and Communication Technology Division - ICT Policies and Guidelines dated 22 January 2019 are stated to be under implementation process.

10.9. We are neither aware, if the officials of the Fund have transmitted any price sensitive information to their relatives/friends/associates or close persons which would directly or indirectly benefited themselves and prejudicial to the interest of the Fund nor we have been informed of any such case by the management.

## 11. COMPUTERISED ACCOUNTING ENVIRONMENTS.

11.1. NPPF has installed Ascend Banking System (ABS) in Finance and Accounts Division and Member Loan Division it is in full-fledged operation. In our opinion, the organization's system development controls and other internal controls need further strengthening taking into account the size and nature of NPPF operations. Mostly each division for their functions has an independent ERP also and post entries for accounting in ABS ERP.

All the functions of the Portfolio and Investment are done manually and No ERP is implemented in one of the critical division of NPPF. ABS were not set up to suit varying terms and condition of Corporate Loan agreements, particularly in respect of charging interest in terms of monthly rest, quarterly rest, half yearly rest and yearly rest etc. Even Interest on loans to Corporate and Commercial loans are computed manually.

11.2. We have been informed that NPPF transfers daily back up data at Data Centre at IT Park, Thimphu and Disaster Recovery at Phuentsholing.

11.3. Operational controls needs further strengthening to ensure correctness and validity of input data and output information. Specifically we suggest in Member Loan Division and Pension and Provident Fund Division.



11.4. There are adequate preventive measures against unauthorized access over computer installation and files. We suggest that system audit be introduced in the ICT Division.

11.5. In our opinion, the Management should take adequate steps to maintain the data security of the NPPF and ensure it by regular checks, as the NPPF data is very sensitive, private and confidential.

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# **FINANCIAL STATEMENTS**



Statement of Comprehensive Income for the year ended 30<sup>th</sup> June 2020

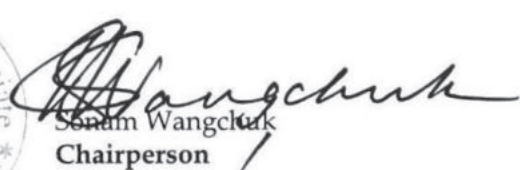
Particulars	Note	30-Jun-20	30-Jun-19
<b>Income</b>			
Income from term deposits	22	1,128,437,920	1,035,944,176
Income from loans	23	1,344,196,698	1,120,723,074
Income from bonds	24	303,677,433	396,599,444
Rental income	25	67,174,735	63,092,788
Dividend income	26	9,996,442	95,243,375
Other income	27	8,165,906	10,155,598
Gain/(loss) from changes in fair value of investment in equity instrument	27	(399,846,989)	(238,375,698)
<b>Total Income</b>		<b>2,461,802,145</b>	<b>2,483,382,757</b>
<b>Operating expenses</b>			
DC management expenses	28b	46,950,390	37,401,126
DB management expenses	28b	91,259,515	75,864,119
Depreciation	11&12	28,412,188	28,199,993
Amortization of intangible assets	13	5,303,585	2,358,288
Loss from waiving off 50% Interest for 3 months		180,168,365	-
Impairment loss (Provisions for loans as per the RMA PR)	29	86,125,346	24,927,805
<b>Total operating expenses</b>		<b>438,219,389</b>	<b>168,751,331</b>
<b>Surplus for the year</b>		<b>2,023,582,755</b>	<b>2,314,631,426</b>
<b>Other Comprehensive Income</b>			
Remeasurements of post-employment benefit obligations	30abc		
DC		454,554	(2,249,411)
DB		931,037	(4,607,345)
<b>Total Other Comprehensive Income</b>		<b>1,385,591</b>	<b>(6,856,756)</b>
<b>Total Comprehensive Income for the year</b>		<b>2,024,968,346</b>	<b>2,307,774,670</b>


For Statutory Auditors

For National Pension & Provident Fund


  
Chimmi Dorji ACCA  
Managing Partner  
Karma & Associates



  
Sonam Wangchuk  
Chairperson

  
Tshechu CPA  
(Membership No. 9798359)  
Managing Partner  
Tshechu & Associates

  
Duntu Drukpa  
Chief Executive Officer

  
Phub Dorji  
Chief,  
F&A Division



Statement of Financial Position as at 30<sup>th</sup> June 2020

Particulars	Note	30-Jun-20	30-Jun-19
<b>Assets</b>			
Cash and cash equivalents	4	142,329,530	356,234,889
Trade receivables	5	13,308,466	6,214,626
Term deposits	6	16,324,392,081	14,341,621,949
Investments in bonds and commercial papers	7	3,140,730,981	4,069,132,481
Loans	8	17,528,935,712	13,499,784,430
Investments in equity shares	9	2,668,538,774	3,068,385,762
Inventories	10	717,162	1,001,845
Investment property	11	734,241,124	605,119,674
Property plant and equipment	12	156,484,710	168,518,327
Intangible assets	13	39,697,824	7,644,817
Other receivables	5	1,371,130	1,352,110
Other assets	14	71,337,378	21,215,408
<b>Total Assets</b>		<b>40,822,084,871</b>	<b>36,146,226,318</b>
<b>Liabilities</b>			
Trade and other payables	15	231,012,510	121,812,491
Other liabilities	16	14,958	38,278
Employee benefit obligations	17	33,578,099	29,795,142
Grant liability		1,907,915	2,861,873
Lapsed fund	18	11,469,768	9,214,442
<b>Total Liabilities</b>		<b>277,983,250</b>	<b>163,722,226</b>
<b>Net Assets</b>		<b>40,544,101,621</b>	<b>35,982,504,092</b>
<b>Member Fund</b>			
Net Member's Defined Contribution(DC) plan	19	8,473,599,039	6,882,385,762
Net returns credited to Member's DC plan	20	5,037,424,655	4,426,432,694
Net Member's Defined Benefit (DB) plan	21	25,944,602,318	23,163,233,051
Reserve		1,088,475,610	1,510,452,585
<b>Total Member's Fund</b>		<b>40,544,101,621</b>	<b>35,982,504,092</b>

For Statutory Auditors

For National Pension & Provident Fund

Chimmi Dorji ACCA  
Managing Partner  
Karma & Associates



Sonam Wangchuk  
Chairperson

Tshechu CPA  
(Membership No. 9798359)  
Managing Partner  
Tshechu & Associates



Dungtu Drukpa  
Chief Executive Officer

Rhub Dorji  
Chief,  
F&A Division

Statement of Cash Flows for the year ended 30<sup>th</sup> June 2020

Particulars	30-Jun-20	30-Jun-19
<b><u>Cash Flow from Operating Activities</u></b>		
<b>Receipts from:</b>		
Interest from term deposits	1,023,654,358	779,621,258
Interest from loans	1,399,402,929	1,106,892,135
Income from bonds	320,735,582	388,556,421
Rental income	66,600,745	63,553,003
Dividend income	9,996,442	95,243,375
Other Income	9,551,497	5,651,238
<b>Payments for:</b>		
DC & DB management expenses	(303,424,722)	(118,816,339)
Security deposit (to)/from suppliers	416,551	1,005,929
Security deposit (to)/from tenants	1,882,051	1,636,983
<b>Net Receipts from Operating Activities</b>	<b>2,528,815,433</b>	<b>2,323,344,003</b>
<b><u>Cash Flow from Investing Activities</u></b>		
<b>Payments for:</b>		
(Increase)/decrease in deposits	(1,876,000,000)	(2,704,000,000)
(Increase)/decrease in loans to entities	(2,895,327,281)	(1,145,708,094)
(Increase)/decrease in equity shares	-	(90,663,282)
(Increase)/decrease in bonds and commercial papers	911,343,353	347,842,421
(Increase)/decrease in member loan scheme	(1,196,779,966)	(190,223,739)
(Increase)/decrease in purchase of fixed assets (Including Capital work in progress)	(226,130,777)	(51,772,934)
<b>Net Cash Flow from Investing Activities</b>	<b>(5,282,894,672)</b>	<b>(3,834,525,628)</b>

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Statement of Cash Flows for the year ended 30<sup>th</sup> June 2020

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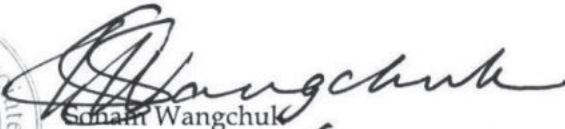
Particulars	30-Jun-20	30-Jun-19
<b>Cash Flow from Financing Activities (Member Transactions)</b>		
<b>Receipts from:</b>		
Contributions to the NPPFP - DC	1,592,419,023	715,274,774
- DB	1,681,733,104	1,424,789,320
Contributions to the AFPPFS - DC	309,603,225	228,636,370
- DB	453,264,401	386,791,318
<b>Payments of refunds and pensions:</b>		
NPPFP - DC	(452,425,457)	(409,689,665)
- DB	(748,634,200)	(713,435,161)
AFPPFS - DC	(95,768,144)	(128,586,372)
- DB	(200,018,071)	(183,271,743)
<b>Net Cash Flow from Financing Activities</b>	<b>2,540,173,881</b>	<b>1,320,508,840</b>
Net movement in cash and cash equivalents	<b>(213,905,358)</b>	<b>(190,672,784)</b>
Opening cash and cash equivalents	356,234,889	546,907,673
Closing cash and cash equivalents	142,329,530	356,234,889


For Statutory Auditors

For National Pension & Provident Fund

  
Chimmi Dorji ACCA  
Managing Partner  
Karma & Associates




  
Sonam Wangchuk  
Chairperson

  
Tshechu CPA  
(Membership No. 9798359)  
Managing Partner  
Tshechu & Associates

18/11/2020

  
Dunga Drukpa  
Chief Executive Officer

  
Rhub Dorji  
Chief,  
F&A Division




Statement of Changes in Reserve for the year ended 30<sup>th</sup> June 2020

Particulars	Lapsed Fund <sup>1</sup>	Reserve			Total
		Remeasurement of employee benefit gains/(loss)	Valuation reserve <sup>2</sup>	General reserve <sup>3</sup>	
<b>Balance as at 1st July 2019</b>	19,130,313	(872,670)	1,066,410,577	425,784,365	1,510,452,585
Transferred during the year (Note 32)	2,459,820		(425,822,385)	-	(423,362,565)
Adjustment during the year					
<i>Items of other comprehensive income</i>					
Remeasurements of post-employment benefit obligation (Note 32)	-	1,385,591			1,385,591
<b>Balance as at 30th June 2020</b>	21,590,133	512,921	640,588,192	425,784,365	1,088,475,610
<b>Balance as at 1st July 2018</b>	14,625,954	5,984,086	1,331,325,035	430,821,315	1,782,756,390
Transferred during the year (Note 32)	4,504,359	-	(269,951,408)	-	(265,447,049)
Adjustment during the year	-	-	5,036,950	(5,036,950)	-
<i>Items of other comprehensive income</i>					
Remeasurements of post-employment benefit obligation (Note 32)	-	(6,856,756)	-	-	(6,856,756)
<b>Balance as at 30th June 2019</b>	19,130,313	(872,670)	1,066,410,577	425,784,365	1,510,452,585

Note:

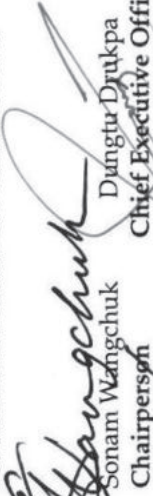
- Lapsed fund consist of employer's contribution of the members who have gone out of the scheme before contributing for twelve months or terminated from service. The amount is transferred to lapsed fund reserve after lapsed of three years reckoned from the date of transfer to the lapsed fund account.
- Valuation reserve consists of gains or loss on the fair valuation of equity investment and EIR value of other financial instruments.
- General reserve consists of surplus retained prior to 30<sup>th</sup> June 2019 for the purpose of smoothing the distribution of return to the members in the event of low performance. From the financial year 2018-19, the actual returns earned from the investment after adjusting the operation cost are distribution to the members without retaining any surplus into the general reserve.

For Statutory Auditors

  
Chimmi Dorji, ACCA  
Managing Partner  
Karma & Associates




For National Pension & Provident Fund

  
Sonam Wangchuk  
Chairperson

Dungtu Drukpa  
Chief Executive Officer

  
Phub Dorji  
Chief, F&A Division

  
Tshechu, CPA (9798359)  
Managing Partner  
Tshechu & Associates  
18/11/2020



## 1. General Information

The National Pension & Provident Fund (NPPF) was established in March 2000 to manage and administer the National Pension and Provident Fund Plan program (NPPFP). It was formed vide Executive Order No.MoF/Pension/4841 dated 30<sup>th</sup> March, 2000 issued by Hon'ble Minister of Finance, subsequent to which a communication No.COM/03/02/787 dated 8th April, 2002 was issued by the Cabinet Secretary, that the NPPF would be formally established through a Government Executive Order. The Executive Order was issued by the Chairman, Lhengye Zhungtshog vide order No.LZ/02/02/15 dated 1<sup>st</sup> July 2002 containing various objectives and working rules of NPPF.

The main function of the NPPF is to assure a minimum level of income to the civil servants, members of the Armed Forces and State-owned Enterprises who are aged, disabled as well as pay benefits to the surviving families. NPPF manages the partially funded Defined-Benefit Pay-As-You-Go Pension System and fully funded Defined Contribution (Provident Fund). Royal Government of Bhutan guaranteed the payment of pension to employees by virtue of adoption of National Pension and Provident Fund Plan Rules & Regulations of the Kingdom of Bhutan 2002 (as amended in 2010).

The employee of civil servants and some corporate sector contributes 11% and 15% contribution by the employer and some of the corporate sectors contribute 15% and matching contributions by the employer. Of the total contribution 16% is allocated towards Defined Benefit (DB) plan and the rest to Defined Contribution (DC) Plan. The changes in the contribution rate have been affected from the financial year 2019-20. The Armed Forces excluding Royal Bhutan Police (RBP) contribute 15% each by employee and employer. Of the 30%, 11% is allocated to DC plan and the 19% to the DB plan. The RBP contributes 12% each by employee with matching contribution by the employer. Of the 24%, 9% is allocated to DC plan and 15% to DB plan.

The NPPF provides retail credits to its members for housing, education and loan to new member. It also provides project loans to entities. NPPF participates in bonds and equity shares in the domestic market. Any excess fund is parked in term deposits with the commercial banks to earn returns.

NPPF is one of the biggest real estate developers in the country. It deals with the construction of residential buildings and rent out to its members. It has also commercial buildings, which are rented out for office and business premises.

NPPF is a non-profit making autonomous public organization and domiciled in Bhutan and is a tax-exempted organization.

The Head Office is located at Chubachu, Thimphu and has regional office in Phuentsholing, Samdrup Jongkhar, Gelephu and Mongar.

## 2. Basis of Preparation of Financial Statements

### i. Compliance with BAS/BFRS

These financial statements have been prepared in accordance with Bhutanese Accounting Standards (BAS)/Bhutanese Financial Reporting Standards (BFRS) wherever applicable, except for,

1. BAS 26 – Accounting and Reporting by Retirement Benefit Plans: NPPF has deferred the implementation of BAS 26 for want of clarifications from the Regulatory Authority.
2. BAS 39 – Financial Instruments: Recognition and Measurement: The NPPF has calculated the provision on the loans based on the RMA Prudential Regulation 2017 as per the directives issued by Royal Monetary Authority on the loan provisioning/impairment of loan dated 17<sup>th</sup> January 2019 instead of calculating the loan impairment as per BAS 39.

**ii. Historical Cost Convention and Going Concern Convention**

The financial statements are prepared under the going concern convention and historical cost basis except for the following-

- For those the financial assets and liabilities –measured at fair value
- Employee benefit plans – measured as per the actuarial valuation

**iii. Presentation of Financial Statements**

NPPF presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 31.

**iv. Accrual Basis**

The financial statements are prepared on accrual basis. Interest on delayed receipt of rent from tenants and penal interest on delayed receipt of contribution from agencies is recorded when it becomes probable that such payments are going to flow.

**v. Critical Estimates, Judgements and Errors**

The preparation of financial statements in conformity with BAS/BFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are:

- a) *Property, plant and equipment/Intangible assets:* Accounting estimates are used to determine the useful life of property, plant and equipment/intangible assets based on various factors such as the present condition of asset, technological advances, regulation, and the past experience of using similar assets.

The recoverable amount of property, plant and equipment is based on estimates and assumptions, in particular the expected market outlook and future cash flows associated with any changes in these assumptions may have a material impact on the measurement of the recoverable amount resulting in impairment.

- b) *Actuarial valuation of employee benefits:* Employee benefit obligations pertaining to gratuity, leave encashment and terminal benefits are measured on the basis of actuarial assumptions concerning future developments in discount rates, the rate of increase in salary and the inflation rate.



- c) *Apportionment of common expenses:* Accounting estimates have been used to apportion the common expenses incurred in the operation based on the members' fund (net members' DC plan, net members' DB plan and net returns credited to members' DC plan) at the beginning of the financial year. For the year ended June 2020, 67% of the expense incurred has been debited to DB plan and the remaining 33% has been debited to DC plan.
- d) *Fair valuation of equity shares:* The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. NPPF uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for discount rates, income earning potential, etc. Refer note 3(c).
- e) *Impairment of assets:* RMA prudential norms are used to determine whether provision should be made on financial assets (for detailed refer note 3(c)). For non-financial assets, cash flow projections based on forecasts and industry reports are used to test any impairment loss. Refer note 3(p).

### 3. Significant Accounting Policies

#### a. Foreign Currency Translation

##### i) *Functional and presentation currency*

These financial statements are presented in Bhutanese Ngultrum (BTN), which is NPPF's functional currency.

##### ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognized in statement of comprehensive income.

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

#### b. Defined Contribution Plan and Defined Benefit Plan

The employers' and employees' contribution to DC plan and DB plan are accounted from the date of deposit of the contribution to the designated NPPF bank accounts maintained with the commercial banks up to the last date of the financial year.



**c. Investment and other Financial Assets****i. Initial recognition**

At initial recognition, financial assets are measured at its fair value plus, in the case of a financial asset not at fair value through statement of comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through statement of comprehensive income are expensed in statement of comprehensive income.

**ii. Subsequent Measurement**

The subsequent measurement of financial asset depends on the classification of financial asset.

NPPF holds financial assets in the form of debt and equity instruments.

*Debt instruments-* Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

*Equity instruments-* Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

*Classification* - the financial assets are classified in the following categories:

- financial assets at fair value through profit or loss (FVPL), or
- financial assets at fair value through other comprehensive income (FVOCI), or
- amortized cost.

***Debt instruments***

Classification and subsequent measurement of debt instruments depend on:

- (a) business model for managing the asset; and
- (b) the cash flow characteristics of the asset.

Based on these factors, the debt instruments are classified into following measurement category:

*Amortized cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by incurred credit loss allowance recognized and measured as described in 'impairment of financial assets'. Interest income from these financial assets is included in 'interest income' using the Effective Interest Rate (EIR) method.

*Fair value through other comprehensive income (FVOCI):* Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through

OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in statement of comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to statement of comprehensive income. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

*Fair value through profit or loss:* Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in statement of comprehensive income and presented in the statement of comprehensive income. Interest income from these financial assets is included in 'interest income' using the EIR method.

*Business model:* The business model reflects how NPPF manages the assets in order to generate cash flows. That is, whether NPPF's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by NPPF in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

*SPPI:* Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, NPPF assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, NPPF considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through statement of comprehensive income.

The debt investments are reclassified when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

### *Equity instruments*

Equity investments are subsequently measured at fair value through statement of comprehensive income, except where the management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to statement of comprehensive income, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in statement of comprehensive income as other income when right to receive payments is established.



Gains and losses on equity investments at FVPL are included in the 'Other income/ (loss)' in the statement of comprehensive income.

### iii. Impairment of financial assets

Provisions on loans are recognized based on the classification and the rates as per the Prudential Regulations issued by the Royal Monetary Authority of Bhutan (RMA). The interest outstanding on non-performing loans is credited to interest suspense accounts.

#### *Reversal of impairment*

If, in a subsequent period, the amount of the impairment loss decreases as computed based on prudential norms, the reversal of the previously recognized impairment loss is recognized in statement of comprehensive income.

### iv. Modification of loans

NPPF sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, NPPF assesses whether or not the new terms are substantially different to the original terms.

If the terms are substantially different, the original financial asset is derecognized and recognizes a 'new' asset at fair value and recalculates a new EIR for the asset. Differences in the carrying amount are also recognized in statement of comprehensive income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the management recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in statement of comprehensive income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

### v. Derecognition of financial assets

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) NPPF transfers substantially all the risks and rewards of ownership, or (ii) NPPF neither transfers nor retains substantially all the risks and rewards of ownership and NPPF has not retained control.

### d. Financial Liabilities

i) *Initial and subsequent measurement*- All financial liabilities are measured initially at their fair value. Financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent periods, NPPF recognizes any expense incurred on the financial liability, when continuing involvement approach applies



- Financial guarantee contracts and loan commitments

i) *Derecognition*-Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, or expires).

**e. Offsetting Financial Instruments**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of NPPF or the counterparty.

**f. Property, Plant and Equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment are recognized from the date when the particular asset has been put to use or from the date on which the asset has been deemed completed its construction or development. Land cost is inclusive of the expenses incurred for land development.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NPPF and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to statement of comprehensive income during the reporting period in which they are incurred.

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition is recognized in the statement of comprehensive income in the year the asset is derecognized.

An item of property, plant and equipment is componentized and is depreciated using straight-line method on their depreciable amount over their estimated useful life as follows:

Asset Class	Useful life (Years)
1. Building (Permanent structure)	
a. Civil structure	50
b. Timber	12
c. CGI	20
d. Electrical wiring	20
e. Equipment	10
2. Building (Semi permanent structure)	
a. Civil structure	25
b. Timber	12
c. CGI	20

d. Electrical wiring	20
e. Equipment	10
3. Diesel generator (Electrical)	20
4. Road network	5
5. Retention wall	30
6. Computer and accessories	5
7. High end server	8
8. Other office equipment	5
9. Furniture	10
10. Communication equipment	7
11. Motor vehicle	10 years with 20% residual value
12. Carpet	5

The depreciation for the property, plant and equipment purchased/constructed during the year is pro-rated based on the calendar days from the date an asset has been put to use or from the date of its completion.

The residual values of property, plant and equipment are estimated at nil value except vehicles. The useful life has been estimated based on the expected usage of the assets and expected wear and tear. The assets residual values and useful lives are reviewed at the end of each reporting period.

Capital work in progress is stated at cost incurred including provision for outstanding bills up to the date of the statement of financial position.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in statement of comprehensive income.

The assets (except furniture) valuing up to Nu. 1,500 is considered as consumables and charged off to Statement of comprehensive income during the incurrence period.

#### g. Investment Property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by NPPF, is classified as investment property. Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs. Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to NPPF and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Capital work in progress is stated at cost incurred including provision for outstanding bills up to the date of the statement of financial position.

An item of investment property is depreciated using straight-line method on their depreciable amount over their estimated useful life as mentioned in note 3(f).

## h. Intangible Assets

Intangible assets consist of application software procured of the shelf and application designed and developed by the NPPF and other software. An intangible asset is recognized when it is probable that future economic benefit associated with the asset will flow to the NPPF and the cost of the asset can be measured reliably. Recognized intangible assets are measured at cost less accumulated amortization. The subsequent maintenance costs are expensed to the Statement of comprehensive income as and when incurred.

Intangible assets are written off when no future economic benefits are expected from their use. The loss on the write off of the intangible assets is recognized in the Statement of comprehensive income in the period the asset was derecognized.

Intangible assets are amortized using the straight-line method to write down the cost over their useful economic lives. The useful lives of intangible assets has been considered at from 3 to 5 years. The useful economic lives of the intangible assets are reviewed at least at each reporting date.

The IT development work in progress is stated at cost incurred including provision for outstanding bills up to the date of the statement of financial position. Amortization of the asset begins when development is complete, and the asset is available for use.

## i. Inventory

Inventories are valued at lower of cost or net realizable value. Cost includes purchase price and cost incurred in bringing the inventories to their present location and condition. First In First Out (FIFO) method as prescribed under BAS 2 is used to measure the cost of inventories.

## j. Government Grants

Grants are recognized at their fair value when there is reasonable assurance that the grant will be received and the NPPF will comply with the conditions attached with the grant.

### (i) Grants related to assets

Grants related to assets are recognized as deferred income, which is credited in the statement of comprehensive income over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

### (ii) Grants related to income

Grants related to income are deferred and recognized in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate and presented within other income.

## k. Employees Benefits

### (i) Short-term obligations



Liabilities for wages and salaries, provident fund contribution, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

**(ii) Other long-term employee benefit obligations**

The liabilities for earned leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. The benefits are discounted using the market yields at the end of the reporting period that have terms approximating to the terms of the related obligation. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognized in statement of comprehensive income.

The obligations are presented as current liabilities in the statement of financial position if the NPPF does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

**(iii) Post-employment obligations**

NPPF operates post-employment schemes, such as gratuity and terminal benefits for the employees of the NPPF.

**Gratuity obligations**

The liability or asset recognized in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows by reference to market yields at the end of the reporting period on government bonds that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of comprehensive income.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in reserve and in the statement of financial position.



Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in statement of comprehensive income as past service cost.

#### *Terminal benefit obligations*

NPPF also provides terminal benefits to its employee i.e. carriage allowance and transfer grant & travelling expense which can be availed at the time of termination of employment. It is considered as defined benefit obligation and is unfunded. The obligation is recognized as per the actuarial valuation report.

### **l. Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the NPPF.

#### *(i) Interest income*

Interest income is calculated by applying the EIR to the gross carrying amount of financial assets. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR.

#### *(ii) Other fee and income*

Income earned from the provision of services is recognized as revenue as the services are provided.

#### *(iii) Dividends*

Dividends are recognized in statement of comprehensive income only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to NPPF, and the amount of the dividend can be measured reliably.

### **m. Cash and Cash Equivalents**

Cash and cash equivalent include cash in hand, cash at current accounts maintained with the commercial banks and term deposit maturing within three months or less from the date of acquisition.

### **n. Provisions, Contingent Liabilities**

Provisions are recognized when NPPF has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.



Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of NPPF. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Contingent liabilities are disclosed on the basis of judgment of management/ independent experts. These are reviewed at each reporting date and are adjusted to reflect the current management estimate.

**o. Leases**

*As a lessee*

Leases in which a significant portion of the risks and rewards of ownership are not transferred to NPPF are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of comprehensive income on a straight-line basis over the period of the lease.

*As a lessor*

Leases in which significant portion of risks and rewards of ownership are not transferred from NPPF to the lessees are classified as operating leases. The income from operating leases where the NPPF is a lessor is recognized in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature and depreciated over their useful life.

**p. Impairment of Non-Financial Assets**

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**q. Return to Members'**

The actual surplus earned during the year is distributed to the Members' DC and DB account after adjusting notional gains/loss from financial assets.

**4 Cash and Cash Equivalents**

Particulars	30-Jun-20	30-Jun-19
Cash at bank	142,318,542	236,219,956
Cash in hand	10,989	14,933
Deposits with banks		120,000,000
<b>Total</b>	<b>142,329,530</b>	<b>356,234,889</b>

## 5 Trade and Other Receivables

Particulars	30-Jun-20	30-Jun-19
<b>Trade receivable</b>		
Rent receivable	3,887,553	3,313,563
Other receivable	9,420,913	2,901,063
	<b>13,308,466</b>	<b>6,214,626</b>
<b>Other receivables</b>		
Security deposit (power/rent)	1,308,130	1,289,110
Security deposit (water meter)	63,000	63,000
	<b>1,371,130</b>	<b>1,352,110</b>

## 6 Term Deposits

Particulars	30-Jun-20	30-Jun-19
<b>Term Deposits with</b>		
Bhutan National Bank Ltd.	7,858,283,464	7,860,200,796
TBank Ltd	600,000,000	400,000,000
Bhutan Development Bank Ltd.	2,334,440,899	3,164,405,371
Bank of Bhutan Ltd.	2,610,000,000	760,000,000
Druk PNB Ltd.	2,060,000,000	1,400,000,000
Interest accrued but not due on deposits	861,667,718	757,015,782
<b>Total</b>	<b>16,324,392,081</b>	<b>14,341,621,949</b>

Note: A Term deposit includes Nu. 26,605,482.59 as on 30<sup>th</sup> June 2020 (previous year Nu. 24,618,912) with various commercial banks to be used towards the payment of gratuity obligation of the NPPF employees and can be used for general operations pending the creation of gratuity trust fund. As such it is not considered as the plan assets for NPPF gratuity valuation Note 30a.



Note to Financial Statements

(All amount in BTN, unless otherwise stated)

7 Investments in Bonds and Commercial Papers

Particulars	Coupon rate	No. of Scrips	30-Jun-20	No. of Scrips	30-Jun-19
<b>Investment in Bonds</b>					
Druk Air Corporation Bond Series I	9.00%	98,754	98,755,082	123,443	123,443,735
Druk Air Corporation Bond Series II	9.00%	143,019	143,019,102	171,623	171,623,002
Druk Air Corporation Bond Series III	8.50%	815,254	815,253,798	978,304	978,304,598
Royal Insurance Corporation of Bhutan Ltd. Bond Series III	9.50%	500,000	500,000,000	500,000	500,000,000
Royal Insurance Corporation of Bhutan Ltd. Bond Series IV	9.50%	879,795	879,795,000	879,795	879,795,000
Dungsam Cement Corporation Ltd. Bond Series I	10.00%	-	-	500,000	500,000,000
Dungsam Cement Corporation Ltd. Bond Series II	9.00%	350,000	350,000,000	350,000	350,000,000
Tashi Air Pvt. Ltd. Bond Series I	9.00%	125,000	125,000,000	125,000	125,000,000
RSA Pvt. Ltd. Bond series I	9.35%	34,400	34,400,000	34,400	34,400,000
T Bank Ltd. (subordinated term debt)	9.00%	55,000	55,000,000	-	-
<b>Investment in Commercial papers</b>					
DGPC Commercial papers	3.50%	-	-	2,500	250,000,000
<b>Interest accrued but not due</b>					
On bonds and commercial papers			139,507,998	-	156,566,146
<b>Total</b>			<b>3,140,730,981</b>		<b>4,069,132,481</b>



## 8 Loans

Particulars	30-Jun-20	30-Jun-19
<b>Loan to manufacturing &amp; industries sector</b>		
Bhutan Ferro Alloys Ltd. <sup>1</sup>	220,967,323	219,843,185
Dagachu Hydro Power Corporation Ltd. <sup>2</sup>	253,949,555	655,138,542
Dungsam Cement Corporation Ltd. <sup>3</sup>	1,672,179,347	694,807,011
Dungsam Polymers Ltd. <sup>4</sup>	70,548,548	73,197,637
State Mining Corporation Ltd. <sup>5</sup>	59,435,999	75,337,771
Druk Metallurgy Ltd. <sup>6</sup>	632,374,531	326,683,001
Penden Cement Authority Ltd. <sup>22</sup>	128,714,635	-
Koufuku International Ltd. <sup>23</sup>	12,012,131	-
<b>Total</b>	<b>3,050,182,068</b>	<b>2,045,007,147</b>
<b>Loan to service &amp; tourism sector</b>		
Tashi Infocom Ltd. <sup>7</sup>	677,715,000	746,341,381
Kuensel Corporation Ltd. <sup>8</sup>	14,156,000	14,156,000
Druk Doethjung Resort <sup>9</sup>	53,322,544	52,651,966
Bhutan Power Corporation Ltd. <sup>10</sup>	2,116,070,769	2,299,180,794
Natural Resource Development Corporation Ltd. <sup>11</sup>	77,834,838	93,569,716
Bhutan Hydro Service Ltd. <sup>12</sup>	581,267,200	581,267,200
Legphel Hotel Pvt. Ltd. <sup>13</sup>	38,344,095	35,711,280
Bhutan Telecom Ltd. <sup>14</sup>	34,239,098	43,963,237
Druk Air Corporation Ltd. <sup>15</sup>	2,707,844,622	601,114,463
DGPC-Nikachu ATS <sup>16</sup>	450,450,987	332,279,784
Thimphu Tech Park Ltd. <sup>17</sup>	32,521,840	21,222,232
State Trading Corporation of Bhutan Ltd. <sup>18</sup>	81,202,913	50,000,000
<b>Total</b>	<b>6,864,969,907</b>	<b>4,871,458,053</b>
<b>Loan to institutions</b>		
Bhutan Development Bank Ltd. <sup>19</sup>	336,367,728	404,071,316
<b>Total</b>	<b>336,367,728</b>	<b>404,071,316</b>
<b>Loan to housing</b>		
Ministry of Health <sup>20</sup>	25,914,411	37,533,623
National Housing Development Corporation Ltd. <sup>21</sup>	852,921,517	869,299,007
<b>Total</b>	<b>878,835,928</b>	<b>906,832,630</b>
<b>Loan to members</b>		
Housing	1,905,272,772	1,932,339,527
Education	2,863,477,120	2,717,630,963
Student loan	78,880,769	84,296,763
Staff Incentive loan	78,462,974	82,017,572
Member loan	1,807,151,210	700,329,693
<b>Total</b>	<b>6,733,244,845</b>	<b>5,516,614,518</b>
<b>Total loans</b>	<b>17,863,600,477</b>	<b>13,743,983,664</b>
Provision as per the RMA PR-(Note 29 of the notes to Financial Statements)	(334,664,765)	(244,199,234)
<b>Loans after provision</b>	<b>17,528,935,712</b>	<b>13,499,784,430</b>

Continued

**Loans**

## Notes

- 1 The loan is secured by company assets
- 2 The loan is secured by company assets
- 3 The loan is secured by company assets
- 4 The loan secured by company assets
- 5 The loan is 100% guaranteed by Druk Holding and Investments (DHI)
- 6 The loan is secured by company assets including movable assets
- 7 The loan is secured by company assets, additional collateral of property (Land) and personal guarantee of the promoters
- 8 The loan is secured by office building and machineries
- 9 The loan is secured by company assets and additional collateral of property (Land and building)
- 10 The loan is secured by mortgage of the 220kV double circuit transmission lines and DHI Guarantee.
- 11 The loan is secured by Land and Building of the company and with DHI Guarantee.
- 12 The loan is secured by company assets
- 13 The loan is secured by company assets
- 14 The loan is secured by the company property plant and equipment
- 15 The loan is 100% guaranteed by DHI
- 16 The Loan is secured by Power house- Plant and Machinery- Runners of Chukha Hydro Power Plants
- 17 The loan is 100% guaranteed by DHI
- 18 The loan is secured by trade and accounts receivables
- 19 The current loan is 100% guaranteed by the Government and the earlier loan was fully repaid.
- 20 The loan is 100% guaranteed by the Government
- 21 The loan is 100% guaranteed by the Government
- 22 The loan is secured by project assets and inventory
- 23 The loan is 100% guaranteed by the DHI





## Note to Financial Statements

(All amount in BTN, unless otherwise stated)

### 9 Investment in Equity Shares

Particulars	30-Jun-20			30-Jun-19		
	No. of shares	Face value	Fair value	No. of shares	Face value	Fair value
<b>1. Quoted</b>						
Penden Cement Authority Ltd.	2,154,530	10	132,611,321	2,154,530	10	155,158,568
State Trading Corporation of Bhutan Ltd.	441,000	10	12,458,250	441,000	10	13,487,066
Bhutan National Bank Ltd.	92,352,348	10	1,640,177,701	92,352,348	10	1,894,885,699
Kuensel Corporation Ltd.	367,500	10	15,710,625	367,500	10	17,912,792
Druk PNB Ltd.	3,611,717	10	75,377,872	3,009,764	10	140,736,565
TBank Ltd.	10,345	10	115,967	10,345	10	141,554
Bhutan Insurance Ltd.	1,500,000	10	42,885,000	1,500,000	10	48,661,513
Dungsam Polymers Ltd.	591	10	8,995	591	10	12,485
<b>Total quoted</b>			<b>706,985,673</b>			<b>2,270,996,242</b>
<b>2. Unquoted</b>						
Dagachu Hydro Power Corporation Ltd.	619,800	1000	454,220,430	619,800	1,000	485,601,784
Credit Information Bureau	17,500	100	5,726,000	17,500	100	5,687,823
Financial Institutions Training Institute Ltd.	1,200,000	10	12,384,000	1,200,000	10	12,316,505
Dungsam Cement Corporation Ltd.	6,156,400	100	274,082,928	6,156,400	100	293,783,408
<b>Total unquoted</b>			<b>746,413,358</b>			<b>797,389,520</b>
<b>Total investments in equity share</b>			<b>1,956,172,673</b>			<b>3,068,385,762</b>

### 10 Inventories

Particulars	30-Jun-20	30-Jun-19
Consumables and spares	717,162	1,001,845
<b>Total</b>	<b>717,162</b>	<b>1,001,845</b>

Note to Financial Statements

(All amount in BTN, unless otherwise stated)

11 Investment Property

Particulars	Gross block			Accumulated depreciation			Net block		
	01-Jul-19	Additions during the year	Adjustments	30-Jun-20	01-Jul-19	Depreciation during the year	Adjustments	30-Jun-20	30-Jun-19
RE land	76,985,937	-	-	76,985,937	-	11,708,214	(139,831)	76,985,937	76,985,937
RE building	569,858,390	1,564,904	(157,945)	571,265,348	150,050,870	171,091	-	409,646,095	419,807,520
RE building (Semi-Permanent Structure)	3,227,124	894,480	-	4,121,604	622,650	604,064	-	3,327,863	2,604,474
Road network	9,430,289	1,167,307	-	10,597,596	8,271,062	123,650	-	1,722,470	1,159,227
Retention wall	3,705,986	-	-	3,705,986	429,444	-	-	3,152,882	3,276,542
Capital work in progress	101,285,974	140,921,297	(2,801,404)	239,405,867	159,374,026	-	-	239,405,867	101,285,974
<b>Total</b>	<b>764,493,700</b>	<b>144,547,988</b>	<b>(2,959,349)</b>	<b>906,082,338</b>	<b>159,374,026</b>	<b>12,507,019</b>	<b>(139,831)</b>	<b>734,241,124</b>	<b>605,119,674</b>

Note 1: The NPPF building property including semi-permanent structures are fully insured.

Note 2: On the date of reporting, NPPF has 39.54 acres of land in different parts of the country. Based on the land certificate issued by National Land Commission, 25.40 acres of land held by NPPF is categorized as "Use Right Certificate/Land Use Certificate" with following conditions.

1. Any land that is given under Use Land Certificate is prohibited for land transaction, lease or mortgage.
2. No compensation will be made for construction expenses incurred, after expiry or termination of Use Land Certificate.
3. A person holding Use Land Certificate, have to pay the same land tax as per the present land tax rate.
4. If any of the following points arises, the Government will forfeit the use land.
  - a. Land not used for three years, from the date of issuance of use land certificate.
  - b. Not fully utilized and kept carelessly.
  - c. Land not used as per the approval.
  - d. Not paid land tax for continues three years.
  - e. A person who have use land certificate expires.

As of 30<sup>th</sup> June 2020, the cost of land including land development under Use Right Certificate/Land Use Certificate is Nu. 19.81 million (Fair value Nu. 2,368.79 million). The NPPF has landed property worth of Nu. 657.44 million in book value (fair value Nu. 1,056.71 million) including NPPF Corporate Office (Book value Nu.132 million) categorized under Property plant and equipment constructed on the Use Right Certificate/Land Use Certificate. Based on the certificates, the recognition and the measurement of the investment property and depreciation will have impact in the coming year.

(i) Fair value of investment property carried at cost

Particulars	30-Jun-2020	30-Jun-2019
Fair value of investment property	3,610,484,000	3,513,915,000



## Note to Financial Statements

(All amount in BTN, unless otherwise stated)

### Estimation of fair value

NPPF obtains independent valuations for its investment properties on regular basis. Valuation has been done using the following approach;

- Market approach:* Estimate value based on instances of sales/quotes of similar assets in the market
- Cost approach:* Estimate values based on the replacement cost of an asset of equivalent utility and depreciation including obsolescence
- Income approach:* Estimate values based on expectation of present value of its projected future benefits.

### (ii) Amounts recognized in statement of comprehensive income for investment properties

Particulars	Nu.	
	30-Jun-2020	30-Jun-2019
Rental income	62,878,675	58,608,414
Direct operating expenses from property that generated rental income	(6,264,480)	(4,789,058)
	<b>56,614,195</b>	<b>53,819,356</b>

Note: The rental income in note 24 includes Nu. 4,296,060 earned from renting of NPPF corporate office space, which is being categorized as Property Plant and Equipment under note 12. The above rental income is excluding the rental income earned from NPPF corporate office.

### (iii) Leasing arrangements

Some of the investment properties are leased to tenants under operating leases with rentals payable monthly. All such leases are cancellable at the option of lessor or the lessee. The lease arrangements of residential investment properties are renewed after every 2 years.

Note to Financial Statements

(All amount in BTN, unless otherwise stated)

12 Property Plant and Equipment

Particulars	Gross block			Accumulated depreciation			Net block		
	01-Jul-19	Additions during the year	Adjustments	30-Jun-20	01-Jul-19	Depreciation during the year	Adjustments	30-Jun-20	30-Jun-19
						year			
Office building	182,420,173	306,983		182,727,156	44,505,182	7,740,120		130,481,854	137,914,991
Diesel Generator (Electrical)	3,310,518	-		3,310,518	1,049,736	156,344		2,104,438	2,260,782
Road network	677,255	-		677,255	662,807	11,544		2,904	14,448
Retention wall	1,465,060	-		1,465,060	268,347	48,925		1,147,788	1,196,713
Computer & accessories	23,767,463	894,380		24,661,843	16,751,591	3,278,683		4,631,569	7,015,872
High end server	1,304,165	-		1,304,165	1,181,972	16,500		105,693	122,193
Other office equipment	14,726,307	2,068,561		16,794,868	10,273,820	2,115,899		4,405,149	4,452,487
Furniture	10,003,679	417,020		10,420,699	4,682,007	758,789		4,979,903	5,321,672
Communication equipment	736,149	12,986		749,135	628,556	25,705		94,875	107,593
Motor vehicles	8,463,969	-		8,463,969	1,269,293	677,117		6,517,559	7,194,676
Carpet	311,723	71,622		383,345	256,695	21,586		105,064	55,028
<b>Sub total (A)</b>	<b>247,186,461</b>	<b>3,771,552</b>	<b>-</b>	<b>250,958,013</b>	<b>81,530,006</b>	<b>14,851,211</b>	<b>-</b>	<b>154,576,795</b>	<b>165,656,455</b>
Capital grant									
Integrated data center	7,631,660	-		7,631,660	4,769,788	953,958		1,907,914	2,861,872
<b>Sub total (B)</b>	<b>7,631,660</b>	<b>-</b>	<b>-</b>	<b>7,631,660</b>	<b>4,769,788</b>	<b>953,958</b>	<b>-</b>	<b>1,907,914</b>	<b>2,861,872</b>
<b>Total (A+B)</b>	<b>254,818,121</b>	<b>3,771,552</b>	<b>-</b>	<b>258,589,673</b>	<b>86,299,794</b>	<b>15,805,169</b>	<b>-</b>	<b>156,484,710</b>	<b>168,518,327</b>

Note: The NPPF office building and the motor vehicles are fully insured. Other assets are not insured since the net block of the uninsured assets are not material.



**13 Intangible Assets**

Particulars	Application software	Other software	Development in progress	Total
<b>Cost</b>				
Opening as at 1st July 2019	25,201,554	2,728,429	4,017,867	31,947,850
Additions		17,593,567	19,763,025	37,356,592
Adjustment	-	-	-	-
Capitalization of development in progress	-	-	-	-
<b>Closing as at 30th June 2020</b>	<b>25,201,554</b>	<b>20,321,996</b>	<b>23,780,892</b>	<b>69,304,442</b>
<b>Accumulated amortization</b>				
Opening as at 1st July 2019	22,081,149	2,221,884	-	24,303,033
Adjustment	-	-	-	-
Amortization for the year	1,615,302	3,688,283	-	5,303,585
<b>Closing as at 30th June 2020</b>	<b>23,696,451</b>	<b>5,910,167</b>	<b>-</b>	<b>29,606,618</b>
<b>Net carrying amount as at 30th June 2020</b>	<b>1,505,103</b>	<b>14,411,829</b>	<b>23,780,892</b>	<b>39,697,824</b>
<b>Cost</b>				
Opening as at 1st July 2018	24,685,873	2,052,314	28,126	26,766,313
Additions	515,681	676,115	3,989,741	5,181,537
Adjustment	-	-	-	-
Capitalization of development in progress	-	-	-	-
<b>Closing as at 30th June 2019</b>	<b>25,201,554</b>	<b>2,728,429</b>	<b>4,017,867</b>	<b>31,947,850</b>
<b>Accumulated amortization</b>				
Opening as at 1st July 2018	19,892,431	2,052,314	-	21,944,745
Adjustment	-	-	-	-
Amortization for the year	2,188,718	169,570	-	2,358,288
<b>Closing as at 30th June 2019</b>	<b>22,081,149</b>	<b>2,221,884</b>	<b>-</b>	<b>24,303,033</b>
<b>Net carrying amount as at 30th June 2019</b>	<b>3,120,405</b>	<b>506,545</b>	<b>4,017,867</b>	<b>7,644,817</b>

**14 Other Assets**

Particulars	30-Jun-20	30-Jun-19
Prepaid expenses	2,980,694	3,999,528
Unamortized employee cost	17,715,915	17,139,032
Advance	50,640,769	76,848
<b>Total</b>	<b>71,337,378</b>	<b>21,215,408</b>

**15 Trade and Other Payables**

Particulars	30-Jun-20	30-Jun-19
Stale cheque	1,690,688	1,571,216
Interest received in advance	25,089	2,206,605
Unidentified deposit	3,341,703	2,369,731
Earnest money	1,685,301	1,112,713
Security deposit (contractor)	9,793,007	5,540,515
Performance guarantee deposit	1,906,346	2,062,384
Security deposit (rent)	12,607,731	10,688,990
Excess member contribution	2,706,643	643,294
Security deposit - power / tenant	480,247	497,917
Housing / education loan closed A/c - credit balance	25,941,308	26,046,963
Unclaimed contribution	48,462,218	48,462,218
Other payables	122,372,227	20,609,945
<b>Total</b>	<b>231,012,510</b>	<b>121,812,491</b>

**16 Other Liabilities**

Particulars	30-Jun-20	30-Jun-19
Tax deducted at source (TDS) payable	14,958	38,278
<b>Total</b>	<b>14,958</b>	<b>38,278</b>

**17 Employee Benefit Obligations**

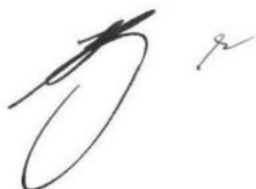
Particulars	30-Jun-20	30-Jun-19
Gratuity liability	25,281,563	22,689,950
Leave encashment	4,685,779	3,202,391
Terminal benefits	3,610,757	3,902,801
<b>Total</b>	<b>33,578,099</b>	<b>29,795,142</b>




**18 Lapsed Fund\***

Particulars	Civil	Armed Force	Total
As at 1st July 2019	3,967,855	5,246,587	9,214,442
Addition during the year	3,238,294	1,476,852	4,715,146
Transferred to other Income	(1,093,169)	(1,366,651)	(2,459,820)
<b>As at 30th June 2020</b>	<b>6,112,980</b>	<b>5,356,788</b>	<b>11,469,768</b>
As at 1st July 2018	6,194,078	3,426,164	9,620,242
Addition during the year	1,034,254	3,064,305	4,098,559
Transferred to other income	(3,260,477)	(1,243,882)	(4,504,359)
<b>As at 30th June 2019</b>	<b>3,967,855</b>	<b>5,246,587</b>	<b>9,214,442</b>

*\*Lapsed fund consist of employer's contribution of the members who have gone out of the scheme before contributing for twelve months or terminated from service.*



Note to Financial Statements

(All amount in BTN, unless otherwise stated)

19. Net Member's Defined Contribution (DC) plan

Particulars	Civil		Armed Forces		Total
	Member's Contribution	Employer's Contribution	Member's Contribution	Employer's Contribution	
<b>Accumulated contribution</b>					
As at 1st July 2019	3,581,211,494	3,581,384,776	1,186,238,274	1,186,479,128	9,535,313,672
Adjustment of scheme					
Adjusted opening balance	3,581,211,494	3,581,384,776	1,186,238,274	1,186,479,128	9,535,313,672
Contribution during the year	606,567,782	982,408,666	154,750,550	154,750,550	1,898,477,548
<b>As at 30th June 2020 (A)</b>	<b>4,187,779,277</b>	<b>4,563,793,442</b>	<b>1,340,988,823</b>	<b>1,341,229,678</b>	<b>11,433,791,221</b>
<b>Accumulated refund</b>					
As at 1st July 2019	1,040,562,475	1,040,664,469	285,808,392	285,892,573	2,652,927,909
Refunds during the year	127,202,944	131,050,589	24,505,370	24,505,370	307,264,273
<b>As at 30th June 2020 (B)</b>	<b>1,167,765,419</b>	<b>1,171,715,058</b>	<b>310,313,762</b>	<b>310,397,943</b>	<b>2,960,192,182</b>
<b>Net contribution as at 30th June 2020 (A-B)</b>	<b>3,020,013,858</b>	<b>3,392,078,384</b>	<b>1,030,675,061</b>	<b>1,030,831,735</b>	<b>8,473,599,039</b>
<b>Accumulated contribution</b>					
As at 1st July 2018	3,223,570,183	3,223,743,465	1,071,920,089	1,072,160,943	8,591,394,680
Adjustment of scheme	(5,024)	(5,024)	-	-	(10,048)
Adjusted opening balance	3,223,565,159	3,223,738,441	1,071,920,089	1,072,160,943	8,591,384,632
Contribution during the year	357,646,335	357,646,335	114,318,184	114,318,185	943,929,039
<b>As at 30th June 2019 (A)</b>	<b>3,581,211,494</b>	<b>3,581,384,776</b>	<b>1,186,238,273</b>	<b>1,186,479,128</b>	<b>9,535,313,671</b>
<b>Accumulated refund</b>					
As at 1st July 2018	913,767,426	913,869,654	251,744,952	251,829,133	2,331,211,165
Refunds during the year	126,795,049	126,794,815	34,063,440	34,063,440	321,716,744
<b>As at 30th June 2019 (B)</b>	<b>1,040,562,475</b>	<b>1,040,664,469</b>	<b>285,808,392</b>	<b>285,892,573</b>	<b>2,652,927,909</b>
<b>Net contribution as at 30th June 2019 (A-B)</b>	<b>2,540,649,019</b>	<b>2,540,720,307</b>	<b>900,429,881</b>	<b>900,586,555</b>	<b>6,882,385,762</b>

20. Net Returns Credited to Member's Defined Contribution (DC) Plan

Particulars	Civil		Armed Forces		Total
	Interest on member's contribution	Interest on employer's contribution	Interest on member's contribution	Interest on employer's contribution	
<b>Accumulated returns credited</b>					
As at 1st July 2019	2,212,943,368	2,187,545,395	841,542,570	840,249,587	6,082,280,920.00
Adjustment of scheme	-	-	-	-	-
Adjusted opening balance	2,212,943,368	2,187,545,395	841,542,570	840,249,587	6,082,280,919.60
Returns credited during the year	306,295,012	318,357,152	113,617,671	113,651,454	851,921,289.00
<b>Total accumulated returns credited as at 30th June 2020 (A)</b>	<b>2,519,238,380</b>	<b>2,505,902,547</b>	<b>955,160,241</b>	<b>953,901,041</b>	<b>6,934,202,208.60</b>
<b>Accumulated returns refund</b>					
As at 1st July 2019	646,791,117	621,228,280	194,718,553	193,110,276	1,655,848,226.00
Refund during the year	97,025,172	97,146,752	23,381,937	23,375,467	240,929,328.00
<b>Total accumulated returns refund as at 30th June 2020 (B)</b>	<b>743,816,289</b>	<b>718,375,032</b>	<b>218,100,490</b>	<b>216,485,743</b>	<b>1,896,777,554</b>
<b>Net returns credited as at 30th June 2020 (A-B)</b>	<b>1,775,422,091</b>	<b>1,787,527,515</b>	<b>737,059,751</b>	<b>737,415,298</b>	<b>5,037,424,655</b>
<b>Accumulated returns credited</b>					
As at 1st July 2018	1,901,786,518	1,876,370,219	723,429,438	722,100,796	5,223,686,971
Adjustment of scheme	(581)	(581)	-	-	(1,162)
Adjusted opening balance	1,901,785,937	1,876,369,638	723,429,438	722,100,796	5,223,685,809
Returns credited during the year	311,157,431	311,175,757	118,113,132	118,148,791	858,595,111
<b>Total accumulated returns credited as at 30th June 2019 (A)</b>	<b>2,212,943,368</b>	<b>2,187,545,395</b>	<b>841,542,570</b>	<b>840,249,587</b>	<b>6,082,280,920</b>
<b>Accumulated returns refund</b>					
As at 1st July 2018	568,740,610	543,178,986	164,476,070	162,893,267	1,439,288,933
Refund during the year	78,050,507	78,049,294	30,242,483	30,217,009	216,559,293
<b>Total accumulated returns refund as at 30th June 2019 (B)</b>	<b>646,791,117</b>	<b>621,228,280</b>	<b>194,718,553</b>	<b>193,110,276</b>	<b>1,655,848,226</b>
<b>Net returns credited as at 30th June 2019 (A-B)</b>	<b>1,566,152,251</b>	<b>1,566,317,115</b>	<b>646,824,017</b>	<b>647,139,311</b>	<b>4,426,432,694</b>



21. Net Member's Defined Benefit (DB) plan

Particulars	Civil	Armed Forces	Total
<b>Accumulated contributions and returns credited</b>			
As at 1st July 2019	21,202,531,643	6,473,331,100	27,675,862,743
Adjustment of scheme	-	-	-
Adjusted opening balance	21,202,531,643	6,473,331,100	27,675,862,743
Contribution during the year	1,681,733,104	453,264,400	2,134,997,504
Returns credited during the year	1,234,402,122	360,621,910	1,595,024,032
<b>As at 30th June 2020 (A)</b>	<b>24,118,666,869</b>	<b>7,287,217,411</b>	<b>31,405,884,279</b>
<b>Accumulated pension payments</b>			
As at 1st July 2019	1,787,719,660	950,107,737	2,737,827,397
Pension payment during the year	415,721,312	189,905,023	605,626,335
<b>As at 30th June 2020 (B)</b>	<b>2,203,440,972</b>	<b>1,140,012,760</b>	<b>3,343,453,732</b>
<b>Accumulated pension fund refund</b>			
As at 1st July 2019	1,503,174,924	271,627,370	1,774,802,294
Refund from pension fund during the year	332,912,888	10,113,048	343,025,936
<b>As at 30th June 2020 (C)</b>	<b>1,836,087,812</b>	<b>281,740,418</b>	<b>2,117,828,230</b>
<b>Net accumulated contributions and returns credited as at 30th June 2020 (A-B-C)</b>	<b>20,079,138,085</b>	<b>5,865,464,233</b>	<b>25,944,602,318</b>
<b>Accumulated contributions and returns credited</b>			
As at 1st July 2018	18,499,581,316	5,696,232,871	24,195,814,187
Adjustment of scheme	(19,373)	-	(19,373)
Adjusted opening balance	18,499,561,943	5,696,232,871	24,195,794,814
Contribution during the year	1,371,793,247	386,791,318	1,758,584,565
Returns credited during the year	1,331,176,453	390,306,911	1,721,483,364
<b>As at 30th June 2019 (A)</b>	<b>21,202,531,643</b>	<b>6,473,331,100</b>	<b>27,675,862,743</b>
<b>Accumulated pension payments</b>			
As at 1st July 2018	1,427,520,793	785,000,580	2,212,521,373
Pension payment during the year	360,198,867	165,107,157	525,306,024
<b>As at 30th June 2019 (B)</b>	<b>1,787,719,660</b>	<b>950,107,737</b>	<b>2,737,827,397</b>
<b>Accumulated pension fund refund</b>			
As at 1st July 2018	1,202,954,076	253,462,784	1,456,416,860
Refund from pension fund during the year	300,220,848	18,164,586	318,385,434
<b>As at 30th June 2019 (C)</b>	<b>1,503,174,924</b>	<b>271,627,370</b>	<b>1,774,802,294</b>
<b>Net accumulated contributions and returns credited as at 30th June 2019 (A-B-C)</b>	<b>17,911,637,058</b>	<b>5,251,595,993</b>	<b>23,163,233,051</b>

Note: Based on the actuarial valuation report as at 30<sup>th</sup> June 2019;

1. The past service liability on the date of valuation for Civil Pension Scheme was Nu. 38,576 million against the plan assets of Nu. 20,208 million leaving a funding deficit of Nu. 18,368 million.
2. The past service liability on the date of valuation for Armed Forces Pension Scheme was Nu. 16,124 million against the plan assets of Nu. 5,925 million leaving a funding deficit of Nu. 10,199 million.

**22. Income from Term Deposits**

Particulars	30-Jun-20	30-Jun-19
Bhutan National Bank Ltd.	636,046,886	573,247,554
TBank Ltd	42,500,029	34,000,000
Bhutan Development Bank Ltd.	215,439,460	277,638,009
Bank of Bhutan Ltd.	124,401,343	68,400,000
Druk PNB Ltd.	110,050,202	82,658,613
<b>Total</b>	<b>1,128,437,920</b>	<b>1,035,944,176</b>

**23. Income from Loans**

Particulars	30-Jun-20	30-Jun-19
<b>A. Interest income from loan to manufacturing &amp; industries sector</b>		
Bhutan Ferro Alloys Ltd.	17,189,320	19,279,312
Dagachu Hydro Power Corporation Ltd.	43,536,233	61,935,624
Dungsam Cement Corporation Ltd.	120,587,679	81,397,755
Dungsam Polymers Ltd.	7,193,542	10,061,430
State Mining Corporation Ltd.	4,759,444	5,047,372
Druk Metallurgy Ltd.	50,283,813	2,683,001
Penden Cement Authority Ltd.	866,874	-
<b>Total</b>	<b>244,416,903</b>	<b>180,404,494</b>
<b>B. Interest Income from loan to service &amp; tourism sector</b>		
Tashi Infocom Ltd.	64,110,975	40,540,558
Kuensel Corporation Ltd.	1,134,040	899,817
Druk Doethjung Resort	5,242,972	5,377,626
Bhutan Power Corporation Ltd.	179,446,424	184,471,418
Natural Resource Development Corporation Ltd.	6,023,162	5,311,637
Bhutan Telecom Ltd.	3,247,414	3,136,745
Bhutan Hydro Service Ltd.	48,311,628	34,608,083
Legphel Hotel Pvt. Ltd.	3,649,101	3,159,301
Druk Air Corporation Ltd.	91,823,254	15,597,328
DGPC-Nikachu ATS	27,382,566	13,299,784
Thimphu Tech Park Ltd.	2,055,572	222,232
State Trading Corporation of Bhutan Ltd.	4,381,331	4,113,699
Koufuku International Ltd.	12,131	-
<b>Total</b>	<b>436,820,570</b>	<b>310,738,228</b>
<b>C. Interest income from loan to institutions/RGOB</b>		
Bhutan Development Bank Ltd.	25,647,518	32,271,910
Royal Insurance Corporation of Bhutan Ltd.	-	15,932,399
Ministry of Health	2,554,488	3,360,439
National Housing Development Corporation Ltd.	62,457,504	63,937,032
<b>Total</b>	<b>90,659,510</b>	<b>115,501,780</b>
<b>D. Interest income from loan to members</b>		
Housing	180,184,888	203,667,080
Education	269,969,358	251,414,927
Student loan	7,387,424	6,637,329
Staff Incentive Loan	6,831,214	6,096,207
Member Loan	107,926,830	46,263,029
<b>Total</b>	<b>572,299,715</b>	<b>514,078,572</b>
<b>Total ( A+B+C+D)</b>	<b>1,344,196,698</b>	<b>1,120,723,074</b>

## 24. Income from Bonds and Commercial Papers

Particulars	30-Jun-20	30-Jun-19
Dungsam Cement Corporation Ltd.	50,883,562	81,500,000
Druk Air Corporation Ltd.	102,258,179	120,913,827
Tashi Air Ltd.	11,250,000	11,250,000
Royal Insurance Corporation of Bhutan Ltd.	131,080,525	131,080,525
Druk PNB Ltd.	-	1,153,972
Zimdra Foods Pvt. Ltd.	-	46,914,205
RSA Pvt. Ltd.	3,216,400	3,216,400
T Bank Ltd.	2,807,260	-
Commercial papers	2,181,507	570,515
<b>Total</b>	<b>303,677,433</b>	<b>396,599,444</b>

Note: Income from term deposits (note 22), income from loans (note 23) and income from bonds and commercial papers (note 24) are from financial assets measured at amortized cost.

## 25. Rental Income

Location	30-Jun-20	30-Jun-19
Thimphu	41,941,315	39,971,512
Phuentsholing	19,271,045	17,401,456
Samdrup Jongkhar	5,248,990	5,049,535
Samtse	713,385	670,285
<b>Total</b>	<b>67,174,735</b>	<b>63,092,788</b>

## 26. Dividend Income

Particulars	30-Jun-20	30-Jun-19
Penden Cement Authority Ltd.	-	12,927,180
State Trading Corporation Ltd.	661,500	926,100
Bhutan National Bank Ltd.	6,372,312	76,960,290
Kuensel Corporation Ltd.	551,250	441,000
Druk PNB Ltd.	-	3,638,805
TBank Ltd.	11,380	-
Bhutan Insurance Ltd.	2,400,000	350,000
<b>Total Income from dividend</b>	<b>9,996,442</b>	<b>95,243,375</b>

Note: Dividend incomes are from financial assets measured at fair value through Statement of Comprehensive Income.

## 27. Other Income/(Loss)

Particulars	30-Jun-20	30-Jun-19
<b>Other Income</b>		
Loan Processing fees	1,139,800	833,200
Transferred from lapsed Fund (3 years or more)	2,459,820	4,504,359
Miscellaneous income	4,566,286	4,818,039
	<b>8,165,906</b>	<b>10,155,598</b>
<b>Gain/(loss) from changes in fair value of investment in equity instrument</b>		
Gain/(loss) on financial assets measured at fair value through Statement of Comprehensive Income	(399,846,989)	(238,375,698)
	<b>(399,846,989)</b>	<b>(238,375,698)</b>




Note to Financial Statements

(All amount in BTN, unless otherwise stated)

28. DC and DB Management Expenses  
a. Apportionment of common expenses to DC and DB management expenses

Particulars	Sr. Mgt. expenses	Admin. Expenses	Finance expenses	Investment expenses	IT expenses	RE expenses	Grand Total	DB - 67%	DC - 33%
<b>Employee remuneration &amp; benefits</b>									
Salaries and wages	4,960,704	10,805,279	2,912,090	7,902,437	3,132,761	8,131,899	37,845,169	25,429,774	12,415,395
Defined contribution(PF)	430,555	1,002,063	313,892	864,689	323,776	767,149	3,702,125	2,487,614	1,214,510
Ex-gratia	-	24,559,813	-	-	-	-	24,559,813	16,502,780	8,057,033
Long term employee benefit(gratuity)	-	3,977,204	-	-	-	-	3,977,204	2,672,452	1,304,752
Terminal benefit	-	1,032,739	-	207,969	-	-	1,240,708	833,684	407,024
Medical expenses	15,300	417,680	19,050	57,750	16,200	53,100	579,080	389,108	189,972
Leave encashment	-	4,055,124	-	-	-	-	4,055,124	2,724,810	1,330,314
Leave travel concession	-	105,000	107,500	363,750	105,000	494,265	1,602,938	1,077,082	525,856
Other employee benefits	-	427,423	-	513,540	-	-	513,540	345,069	168,471
HRD expenses	-	1,864,743	-	-	-	-	1,864,743	1,253,000	611,743
<b>Sub total (A)</b>	<b>5,511,559</b>	<b>48,142,068</b>	<b>3,352,532</b>	<b>9,910,134</b>	<b>3,577,737</b>	<b>9,446,413</b>	<b>79,940,443</b>	<b>53,715,373</b>	<b>26,225,070</b>
<b>Other operating expenses</b>									
Communication/information charges	183,582	767,510	14,567	97,833	3,035,842	138,191	4,237,525	2,847,373	1,390,152
Books and periodicals	-	9,420	-	-	-	-	9,420	6,330	3,090
Travelling expenses	310,610	394,199	-	803,384	130,092	586,978	2,225,263	1,495,248	730,014
Office maintenance	-	1,509,769	-	-	-	344,007	1,853,776	1,245,630	608,145
RE routine maintenance	-	-	-	-	-	6,264,480	6,264,480	4,209,370	2,055,110
Office rent	-	254,760	-	-	-	-	254,760	171,184	83,576
IT expenses/AMC	-	686,929	-	-	5,807,491	-	6,494,420	4,363,876	2,130,544
Audit fees & expenses	-	-	778,400	-	-	-	778,400	523,040	255,360
Bank charges	-	-	184,199	-	-	-	184,199	123,771	60,428
Membership fees and subscription	5,558,242	613,645	-	100,000	-	78,188	6,350,076	4,266,885	2,083,191
Consultancy charges	9,613,264	(847,810)	40,000	-	-	-	8,805,454	5,916,758	2,888,696
Sitting fees and expenses	1,223,000	-	-	17,700	-	-	1,240,700	833,679	407,021
Hospitality expenses	197,097	680,049	17,552	55,228	43,228	186,324	1,179,477	792,541	386,936
Printing and stationery	270,890	454,986	82,580	256,829	176,223	153,448	1,394,956	937,330	457,626
Advertisement	825,370	666,098	-	(49,541)	-	117,153	1,559,080	1,047,612	511,468
Rates and taxes	-	45,496	-	-	-	3,134,888	3,180,384	2,137,035	1,043,349
Amortization of prepaid expenses	-	-	-	-	-	1,047,564	1,047,564	703,903	343,661
CIB report expenses	-	-	-	2,611,550	-	-	2,611,550	1,754,811	856,739
Miscellaneous expenses	1,000	-	2,271	-	-	-	3,271	2,198	1,073
Loss on sale of assets/derecognition	-	-	-	-	-	-	313,440	210,613	102,826
Write-off of loans	-	-	-	425,281	-	-	425,281	285,765	139,517
<b>Sub Total (B)</b>	<b>18,183,056</b>	<b>5,235,051</b>	<b>1,119,569</b>	<b>4,318,264</b>	<b>9,192,875</b>	<b>12,364,661</b>	<b>50,413,475</b>	<b>33,874,952</b>	<b>16,538,522</b>
<b>Total (A+B)</b>	<b>23,694,614</b>	<b>53,377,118</b>	<b>4,472,102</b>	<b>14,228,398</b>	<b>12,770,612</b>	<b>21,811,074</b>	<b>130,353,918</b>	<b>87,590,325</b>	<b>42,763,592</b>

**DC and DB Management Expenses**

b. DC and DB management expenses after allotment of common expenses

continued

Particulars	DC Management expenses 30-Jun-20				DB Management expenses 30-Jun-20				Total expenses	
	DC Mgt. expenses	33% of common expenses	For the year ended 30-Jun-2020	For the year ended 30-Jun-2019	DB Mgt. expenses	67% of common expenses	For the year ended 30-Jun-2020	For the year ended 30-Jun-2019	For the year ended 30-Jun-2020	For the year ended 30-Jun-2019
<b>Employee remuneration &amp; benefits</b>										
Salaries and wages	3,608,953	12,415,395	16,024,347	15,288,354	1,606,406	25,429,774	27,036,180	28,241,830	43,060,528	43,530,184
Defined contribution(PF)	385,455	1,214,510	1,599,965	1,225,142	111,194	2,487,614	2,598,808	2,250,877	4,198,773	3,476,019
Ex-gratia	-	8,057,033	8,057,033	3,046,463	-	16,502,780	16,502,780	6,225,681	24,559,813	9,272,144
Long term employee benefit(gratuity)	-	1,304,752	1,304,752	660,070	-	2,672,452	2,672,452	1,348,903	3,977,204	2,008,973
Terminal benefit	-	407,024	407,024	514,723	-	833,684	833,684	1,051,876	1,240,708	1,568,999
Medical expenses	27,600	189,972	217,572	198,415	8,100	389,108	397,208	360,551	614,780	558,966
Leave encashment	-	1,330,314	1,330,314	696,641	-	2,724,810	2,724,810	1,423,639	4,055,124	2,120,280
Leave travel concession	150,000	525,856	675,856	669,390	60,000	1,077,082	1,137,082	1,146,687	1,812,938	1,816,077
Other employee benefits	-	168,471	168,471	590,259	-	345,069	345,069	1,206,241	513,540	1,796,500
HRD expenses	-	611,743	611,743	3,451,351	-	1,253,000	1,253,000	7,053,103	1,864,743	10,504,454
<b>Sub total (A)</b>	<b>4,172,008</b>	<b>26,225,070</b>	<b>30,397,078</b>	<b>26,340,808</b>	<b>1,785,701</b>	<b>53,715,373</b>	<b>55,501,074</b>	<b>50,309,388</b>	<b>85,898,152</b>	<b>76,650,196</b>
<b>Other operating expenses</b>										
Communication/information charges	13,746	1,390,152	1,403,898	1,347,756	33,760	2,847,373	2,881,133	2,772,275	4,285,030	4,120,031
Books and periodicals	-	3,090	3,090	16,873	-	6,330	6,330	34,481	9,420	51,354
Travelling expenses	-	730,014	730,014	989,287	43,404	1,495,248	1,538,652	1,969,095	2,288,665	2,958,382
Office maintenance	-	608,145	608,145	919,856	-	1,245,630	1,245,630	1,879,796	1,853,775	2,799,652
RE routine maintenance	-	2,055,110	2,055,110	1,573,497	-	4,209,370	4,209,370	3,215,561	6,264,480	4,789,058
Office rent	-	83,576	83,576	82,403	-	171,184	171,184	168,397	254,760	250,800
IT expenses/AMC	-	2,130,544	2,130,544	1,207,044	-	4,363,876	4,363,876	2,466,687	6,494,420	3,673,731
Audit fees & expenses	-	255,360	255,360	162,840	-	523,040	523,040	332,776	778,400	495,616
Bank charges	-	60,428	60,428	8,711	-	123,771	623,771	1,017,802	684,199	1,026,513
Membership fees and subscription	-	2,083,191	2,083,191	166,214	-	4,266,885	4,266,885	339,671	6,350,076	505,885
Consultancy charges	-	2,888,696	2,888,696	943,176	-	5,916,758	6,806,614	3,564,824	9,695,309	4,508,000
Sitting fees and expenses	-	407,021	407,021	335,287	-	833,679	833,679	685,196	1,240,700	1,020,473
Hospitality expenses	565	386,936	387,501	537,972	50,449	792,541	842,990	1,138,849	1,230,491	1,676,821
Printing and stationery	480	457,626	458,106	667,819	366,020	937,330	1,303,350	1,674,583	1,761,456	2,342,402
Advertisement	-	511,468	511,468	458,931	-	1,047,612	1,047,612	937,862	1,559,081	1,396,793
Rates and taxes	-	1,043,349	1,043,349	837,115	-	2,137,035	2,137,035	1,710,709	3,180,384	2,547,824
Amortization of prepaid expenses	-	343,661	343,661	229,459	-	703,903	703,903	468,917	1,047,564	698,376
CIB report expenses	-	856,739	856,739	405,723	-	1,754,811	1,754,811	829,127	2,611,550	1,234,850
Miscellaneous expenses	-	1,073	1,073	18,495	-	2,198	2,198	37,795	3,271	56,290
Loss on sale of assets/derecognition	-	102,826	102,826	136,800	-	210,613	210,613	279,562	313,438	416,362
Write-off of loans	-	139,517	139,517	15,060	-	285,765	285,765	30,776	425,283	45,836
<b>Sub total (B)</b>	<b>14,791</b>	<b>16,538,521</b>	<b>16,553,312</b>	<b>11,060,318</b>	<b>1,883,488</b>	<b>33,874,953</b>	<b>35,758,441</b>	<b>25,554,731</b>	<b>52,311,753</b>	<b>36,615,049</b>
<b>Total (A+B)</b>	<b>4,186,799</b>	<b>42,763,591</b>	<b>46,950,390</b>	<b>37,401,126</b>	<b>3,669,189</b>	<b>87,590,326</b>	<b>91,259,515</b>	<b>75,864,119</b>	<b>138,209,905</b>	<b>113,265,245</b>

29. Provision for Loans as per RMA Prudential Regulations

Particulars	Provision charged to Loans	Provision charged to Statement of Comprehensive Income	Interest suspense charged to Interest Income from loans
<b>A. Provision on standard assets</b>			
Provision as at 1st July 2019	135,415,144		
Provision as at 30th June 2020	175,967,467		
Charged to Statement of Comprehensive Income		40,552,323	
<b>B. Provision on Non-Performing Loan</b>			
Provision as at 1st July 2019	97,505,524		
Provision as at 30th June 2020	142,954,221		
Charged to Statement of Comprehensive Income		45,573,023	
<b>C. Interest suspense</b>			
Interest suspense as at 1st July 2019	11,278,566		
Interest suspense as at 30th June 2020	15,743,077		
Charged to Interest Income			4,464,511
<b>Total as on 30th June 2020</b>	<b>334,664,765</b>	<b>86,125,346</b>	<b>4,464,511</b>
<b>A. Provision on standard assets</b>			
Provision as at 1st July 2018	122,224,265		
Provision as at 30th June 2019	135,415,144		
Charged to Statement of Comprehensive Income		13,190,879	
<b>B. Provision on Non-Performing Loan</b>			
Provision as at 1st July 2018	85,768,598		
Provision as at 30th June 2019	97,505,524		
Charged to Statement of Comprehensive Income		11,736,926	
<b>C. Interest suspense</b>			
Interest suspense as at 1st July 2018	14,689,536		
Interest suspense as at 30th June 2019	11,278,566		
Charged to Interest Income			(3,410,970)
<b>Total as on 30th June 2019</b>	<b>244,199,234</b>	<b>24,927,805</b>	<b>(3,410,970)</b>

h



**30. (a) Disclosure as per BAS 19: "Employee Benefit" as regards Defined Benefit Scheme (Gratuity)**

<b>A Movement in present value of Defined Benefit Obligation</b>	<b>30-06-2020</b>	<b>30-06-2019</b>
1 DBO at end of prior year	22,689,950	14,330,001
2 Current service cost	2,566,291	1,681,913
3 Past service cost	60,152	-
3 Interest cost	1,778,865	1,146,400
4 Benefits paid by the plan	-	-
4 Benefits paid directly by the employer	(908,263)	(819,340)
5 Actuarial (gain)/loss due to plan experience	(905,432)	6,350,976
6 Actuarial (gain)/loss - demographic assumptions	-	-
7 Actuarial (gain)/loss - financial assumptions	-	-
<b>DBO at end of the year</b>	<b>25,281,563</b>	<b>22,689,950</b>
<b>B Statement of Profit &amp; Loss</b>	<b>30-06-2020</b>	<b>30-06-2019</b>
1 Current service cost	2,566,291	1,681,913
2 Past service cost	60,152	-
2 Net interest cost on net defined benefit liability / (asset)	1,778,865	1,146,400
<b>Net Cost for the year recognized in P&amp;L</b>	<b>4,405,308</b>	<b>2,828,313</b>
<b>C Other Comprehensive Income ( OCI )</b>	<b>30-06-2020</b>	<b>30-06-2019</b>
1 Actuarial (gain)/loss due to liability experience	(905,432)	6,350,976
2 Actuarial (gain)/loss due to liability assumption changes	-	-
3 Return on plan assets (greater)/less than discount rate	-	-
<b>Remeasurement (Gain) or Loss Recognized in OCI at year end</b>	<b>(905,432)</b>	<b>6,350,976</b>
<b>D Development of Net Financial Position</b>	<b>30-06-2020</b>	<b>30-06-2019</b>
1 Defined Benefit Obligation (DBO)	(25,281,563)	(22,689,950)
2 Fair Value of Plan Assets (FVA)	-	-
2 Funded Status (Surplus/(Deficit))	(25,281,563)	(22,689,950)
<b>Net Defined Benefit Asset/(Liability)</b>	<b>(25,281,563)</b>	<b>(22,689,950)</b>
<b>E Reconciliation of Net Balance Sheet Position</b>	<b>30-06-2020</b>	<b>30-06-2019</b>
1 Net defined benefit asset/ (liability) at end of prior year	22,689,950	14,330,001
2 Amount recognized in Profit & Loss	4,405,308	2,828,313
3 Amount recognized in OCI	(905,432)	6,350,976
4 Contributions paid into the plan	-	-
4 Benefit paid by the employer	(908,263)	(819,340)
<b>Net defined benefit asset/ (liability) at end of the year</b>	<b>25,281,563</b>	<b>22,689,950</b>
<b>F Expected benefit payments for the year ending</b>	<b>30-06-2020</b>	<b>30-06-2019</b>
1 Less than a year	5,131,539	2,140,036
2 Between 1- 2 years	4,083,467	1,648,441
3 Between 2-5 years	9,155,746	8,957,497
4 Over 5 years	21,734,918	16,332,441

- i. Expected employer expense for the year ending 30 June 2021 is Nu. 4,486,038
- ii. Weighted average duration of defined benefit obligation is 13.57 years (30th June 2019- 10 years)



iii. Risk Exposure

Through its defined benefit plans, NPPF is exposed to a number of risks, the most significant of which are detailed below. The actuarial valuations are based on certain assumptions, which are dynamic in nature and vary over time. As such NPPF is exposed to various risks as follows;

- a) *Salary Increase*: Actual salary increase will increase NPPF's liability. Increase in salary increase rate assumption in future valuations will also increase the liability.
- b) *Discount Rate*: Reduction in discount rate in subsequent valuations can increase NPPF's liability
- c) *Mortality Rate*: Actual deaths & disability cases proving lower or higher than assumed in the valuation can impact the liabilities.

iv. Significant estimates: actuarial assumptions and sensitivity

	30-Jun-20	30-Jun-19
<b>a Discount Rate</b>		
<b>Discount Rate</b>	8.00%	8.00%
Effect on DBO due to 0.5% increase in discount rate	(1,054,417)	(930,953)
Effect on DBO due to 0.5% decrease in discount rate	1,136,662	1,001,698
<b>b Salary escalation rate</b>		
<b>Salary escalation rate</b>	7%	7%
Effect on DBO due to 0.5% increase in salary escalation rate	1,212,362	876,509
Effect on DBO due to 0.5% decrease in salary escalation rate	(1,133,877)	(862,258)
<b>c Attrition rate</b>		
<b>Attrition rate</b>	5%	5%
Effect on DBO due to 0.5% increase in attrition rate	(300,262)	876,509
Effect on DBO due to 0.5% decrease in attrition rate	319,756	(99,849)

30. (b) Disclosure as per BAS 19: "Employee Benefit" as regards Defined Benefit Scheme  
(Carriage Charges)

<b>A</b>	<b>Movement in present value of Defined Benefit Obligation</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	DBO at end of prior year	1,285,828	1,299,405
2	Current service cost	177,561	191,888
3	Past service cost		
3	Interest cost	95,985	120,667
4	Benefits paid by the plan	-	-
4	Benefits paid directly by the employer	(172,043)	(111,941)
5	Actuarial (gain)/loss due to plan experience	(140,372)	(214,191)
6	Actuarial (gain)/loss - demographic assumptions	-	-
7	Actuarial (gain)/loss - financial assumptions	-	-
	<b>DBO at end of the year</b>	<b>1,246,959</b>	<b>1,285,828</b>
<b>B</b>	<b>Statement of Profit &amp; Loss</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Current service cost	177,561	191,888
2	Past service cost	-	-
2	Net interest cost on net defined benefit liability / (asset)	95,985	120,667
	<b>Net Cost for the year recognized in P&amp;L</b>	<b>273,546</b>	<b>312,555</b>
<b>C</b>	<b>Other Comprehensive Income ( OCI )</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Actuarial (gain)/loss due to liability experience	(140,372)	(214,191)
2	Actuarial (gain)/loss due to liability assumption changes	-	-
4	Return on plan assets (greater)/less than discount rate		
	<b>Remeasurement (Gain) or Loss Recognized in OCI at year end</b>	<b>(140,372)</b>	<b>(214,191)</b>
<b>D</b>	<b>Development of Net Financial Position</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Defined Benefit Obligation (DBO)	(1,246,959)	(1,285,828)
2	Fair Value of Plan Assets (FVA)	-	-
2	Funded Status (Surplus/(Deficit))	(1,246,959)	(1,285,828)
	<b>Net Defined Benefit Asset/(Liability)</b>	<b>(1,246,959)</b>	<b>(1,285,828)</b>
<b>E</b>	<b>Reconciliation of Net Balance Sheet Position</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Net defined benefit asset/ (liability) at end of prior year	1,285,828	1,299,405
2	Amount recognized in Profit & Loss	273,546	312,555
3	Amount recognized in OCI	(140,372)	(214,191)
4	Contributions paid into the plan	-	-
4	Benefit paid by the employer	(172,043)	(111,941)
	<b>Net defined benefit asset/ (liability) at end of the year</b>	<b>1,246,959</b>	<b>1,285,828</b>
<b>F</b>	<b>Expected benefit payments for the year ending</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Less than a year	485,331	206,912
2	Between 1- 2 years	446,853	185,621
3	Between 2-5 years	920,547	729,735
4	Over 5 years	1,444,204	1,072,428

- i. Expected employer expense for the year ending 30 June 2021 is Nu. 259,684
- ii. Weighted average duration of defined benefit obligation is 9.49 years (30th June 2019- 10 years)

iii. Significant estimates: actuarial assumptions and sensitivity

	30-Jun-20	30-Jun-19
<b>a Discount Rate</b>		
<b>Discount Rate</b>	8.00%	8.00%
Effect on DBO due to 0.5% increase in discount rate	(38,743)	(37,302)
Effect on DBO due to 0.5% decrease in discount rate	41,465	39,661
	<b>30-Jun-20</b>	<b>30-Jun-19</b>
<b>b Carriage growth rate</b>		
<b>Carriage growth rate</b>	5%	5%
Effect on DBO due to 0.5% increase in carriage inflation rate	46,130	40,689
Effect on DBO due to 0.5% decrease in carriage inflation rate	(43,452)	(38,559)
	<b>30-Jun-20</b>	<b>30-Jun-19</b>
<b>c Attrition rate</b>		
<b>Attrition rate</b>	5%	5%
Effect on DBO due to 0.5% increase in attrition rate	8,887	40,689
Effect on DBO due to 0.5% decrease in attrition rate	(9,323)	(43,233)

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30. (c) Disclosure as per BAS 19: "Employee Benefit" as regards Defined Benefit Scheme  
(Transfer Grant and Travelling Expenses)

<b>A</b>	<b>Movement in present value of Defined Benefit Obligation</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	DBO at end of prior year	2,616,972	1,652,622
2	Current service cost	294,338	247,040
3	Interest cost	193,316	152,609
4	Benefits paid directly by the employer	(401,042)	(155,270)
5	Actuarial (gain)/loss due to plan experience	(339,787)	719,971
6	Actuarial (gain)/loss - demographic assumptions	-	-
7	Actuarial (gain)/loss - financial assumptions	-	-
	<b>DBO at end of the year</b>	<b>2,363,797</b>	<b>2,616,972</b>
<b>B</b>	<b>Statement of Profit &amp; Loss</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Current service cost	294,338	247,040
2	Past service cost		
2	Net interest cost on net defined benefit liability / (asset)	193,316	152,609
	<b>Net Cost for the year recognized in P&amp;L</b>	<b>487,654</b>	<b>399,649</b>
<b>C</b>	<b>Other Comprehensive Income ( OCI )</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Actuarial (gain)/loss due to liability experience	(339,787)	719,971
2	Actuarial (gain)/loss due to liability assumption changes	-	-
3	Return on plan assets (greater)/less than discount rate		
	<b>Remeasurement (Gain) or Loss Recognized in OCI at the year end</b>	<b>(339,787)</b>	<b>719,971</b>
<b>D</b>	<b>Development of Net Financial Position</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Defined Benefit Obligation (DBO)	(2,363,797)	(2,616,972)
2	Fair Value of Plan Assets (FVA)	-	-
2	Funded Status (Surplus/(Deficit))	(2,363,797)	(2,616,972)
	<b>Net Defined Benefit Asset/(Liability)</b>	<b>(2,363,797)</b>	<b>(2,616,972)</b>
<b>E</b>	<b>Reconciliation of Net Balance Sheet Position</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Net defined benefit asset/ (liability) at end of prior year	2,616,972	1,652,622
2	Amount recognized in Profit & Loss	487,654	399,649
3	Amount recognized in OCI	(339,787)	719,971
4	Contributions paid into the plan	-	-
4	Benefit paid by the employer	(401,042)	(155,270)
	<b>Net defined benefit asset/ (liability) at end of year</b>	<b>2,363,797</b>	<b>2,616,972</b>
<b>F</b>	<b>Expected benefit payments for the year ending</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
1	Less than a year	869,022	413,158
2	Between 1- 2 years	620,560	321,415
3	Between 2-5 years	1,383,171	1,414,754
4	Over 5 years	2,504,545	1,968,053

- i. Expected employer expense for the year ending 30 June 2021 is Nu. 449,364
- ii. Weighted average duration of defined benefit obligation is 10.56 years (30th June 2019- 10 years)



iii. Significant estimates: actuarial assumptions and sensitivity

	30-Jun-20	30-Jun-19
<b>a Discount Rate</b>		
<b>Discount Rate</b>	8.00%	8.00%
Effect on DBO due to 0.5% increase in discount rate	(78,359)	(81,701)
Effect on DBO due to 0.5% decrease in discount rate	84,054	87,253
	<b>30-Jun-20</b>	<b>30-Jun-19</b>
<b>b Salary escalation rate</b>		
<b>Salary escalation rate</b>	7%	7%
Effect on DBO due to 0.5% increase in salary escalation rate	91,358	87,823
Effect on DBO due to 0.5% decrease in salary escalation rate	(85,950)	(82,954)
	<b>30-Jun-20</b>	<b>30-Jun-19</b>
<b>c Attrition rate</b>		
<b>Attrition rate</b>	5%	5%
Effect on DBO due to 0.5% increase in attrition rate	3,327	87,823
Effect on DBO due to 0.5% decrease in attrition rate	(3,399)	(66,360)

31. Additional Information

The status of current/non-current assets/liabilities in the statement of financial position on the basis of residual maturity is as follows:

Assets	30-06-2020	30-06-2019
<b>Particulars</b>		
<b>Current Assets</b>		
Cash and cash equivalents	142,329,530	356,234,889
Trade receivables	13,308,466	6,214,626
Term deposits	997,999,930	2,740,948,643
Investments in bonds and commercial papers	355,851,351	622,909,499
Loans	1,262,951,932	1,653,343,231
Inventories	717,162	1,001,845
Other assets	55,508,029	2,669,078
<b>Total current assets</b>	<b>2,828,666,401</b>	<b>5,383,321,811</b>
<b>Non-current assets</b>		
Term deposits	15,326,392,151	11,600,673,306
Investments in bonds and commercial papers	2,784,879,630	3,446,222,982
Loans	16,265,983,779	11,846,441,199
Investments in equity shares	2,668,538,774	3,068,385,762
Investment property	734,241,124	605,119,674
Property plant and equipment	156,484,710	168,518,327
Intangible assets	39,697,824	7,644,817
Other receivables	1,371,130	1,352,110
Other assets	15,829,349	18,546,330
<b>Total current assets</b>	<b>37,993,418,470</b>	<b>30,762,904,507</b>
<b>Total assets</b>	<b>40,822,084,871</b>	<b>36,146,226,318</b>

**Liabilities**

Particulars	30-06-2019	30-06-2019
<b>Current Liabilities</b>		
Trade and other payables	231,012,510	121,812,491
Employee benefit obligations	1,886,566	2,760,106
Other liabilities	14,958	38,278
Net Member's Defined Contribution(DC) plan*	1,106,712,785	628,844,498
Net returns credited to Member's DC plan*	626,513,890	596,832,919
Net Member's Defined Benefit (DB) plan*	2,708,872,868	2,575,742,177
<b>Total current liabilities</b>	<b>4,675,013,576</b>	<b>3,926,030,469</b>
<b>Non- current liabilities</b>		
Employee benefit obligations	31,691,533	27,035,036
Grant liability	1,907,915	2,861,873
Lapsed fund	11,469,768	9,214,442
Net Member's Defined Contribution(DC) plan*	7,366,886,253	6,253,541,264
Net returns credited to Member's DC plan*	4,410,910,765	3,829,599,775
Net Member's Defined Benefit (DB) plan*	23,235,729,449	20,587,490,874
<b>Total non-current liabilities</b>	<b>35,058,595,684</b>	<b>30,709,743,264</b>
<b>Total liabilities</b>	<b>39,733,609,260</b>	<b>34,635,773,733</b>

\*The current portion (settled within 12 months) are calculated based on the average of two years contribution and payout since exact contribution and settlement within 12 months cannot be determined.

**32. Distribution of Surplus**

Particulars	30-Jun-20	30-Jun-19
Return on member's DC plan -Civil	624,652,164	622,333,188
Return on member's DC plan -Armed Forces	227,269,125	236,261,923
Return on member's DB plan -Civil	1,234,402,122	1,331,176,453
Return on member's DB plan -Armed Forces	360,621,910	390,306,911
Transferred to general reserve	-	-
Transferred to lapsed fund reserve	2,459,820	4,504,359
Transferred to fair valuation reserve	(425,822,385)	(269,951,408)
Transferred to actuarial gains/(loss) reserve on NPPF employee	1,385,591	(6,856,756)
<b>Total</b>	<b>2,024,968,346</b>	<b>2,307,774,670</b>







## Note to Financial Statements

(All amount in BTN, unless otherwise stated)

*Level 1:* Level 1 hierarchy includes financial instruments measured using quoted prices.

*Level 2:* The fair value of financial instruments that are not traded in an active market is determined using valuation techniques, which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

*Level 3:* If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3

### (ii) Valuation technique used to determine fair value

Specific valuation techniques used to value financial instruments include:

- The fair value of the financial instruments other than equity shares is determined using discounted cash flow analysis.
- The fair value of financial instruments in the form of investment in equity shares is determined using multiple valuation techniques by independent valuer.

### (iii) Financial assets and liabilities measured at fair value - recurring fair value measurements

Particulars	As at 30 June 2020			As at 30 June 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Investments in equity shares</b>						
Penden Cement Authority Ltd.	-	132,611,321	-	-	155,158,568	-
State Trading Corporation of Bhutan Ltd.	-	12,458,250	-	-	13,487,066	-
Bhutan National Bank Ltd.	-	1,640,177,701	-	-	1,894,885,699	-
Kuensel Corporation Ltd.	-	15,710,625	-	-	17,912,792	-
Druk PNB Ltd.	-	78,157,556	-	-	140,736,565	-
TBank Ltd.	-	115,967	-	-	141,554	-
Bhutan Insurance Ltd.	-	42,885,000	-	-	48,661,513	-
Dungsam Polymers Ltd.	-	8,995	-	-	12,485	-
Dagachu Hydro Power Corporation Ltd.	-	454,220,430	-	-	485,601,784	-
Credit Information Bureau	-	5,726,000	-	-	5,687,823	-
Financial Institutions Training Institute Ltd.	-	12,384,000	-	-	12,316,505	-
Dungsam Cement Corporation Ltd.	-	274,082,928	-	-	293,783,408	-
	-	<b>2,668,538,774</b>	-	-	<b>3,068,385,762</b>	-

*(iv) Fair value of financial assets and liabilities measured at amortized cost*

- a) Fair value of corporate loans, term deposit and investments is approximately equal to the carrying amount as the interest rate charged is approximately same as the market rate of interest at reporting date.
- b) NPPF cannot reliably determine the fair value of member loans hence it has not been disclosed. It is process of developing its system to incorporate the disclosure in future.
- c) The carrying amounts of all other financial assets and financial liabilities are considered to be the same as their fair values, due to their short-term nature.
- d) NPPF obtains independent valuations for its equity shares on regular basis. Valuation of equity shares in done on the following basis;
  - *Market approach-market price:* The best evidence of fair value is determined by considering the market price of the company based on movement of share prices on stock exchange where the company's share are most frequently traded.
  - *Market approach-comparable companies:* The value is determined based on market multiples of publicly traded comparable companies engaged in same or similar line of business as the subject companies
  - *Asset approach-net asset value:* Total value is based on the sum of net asset value as recorded on the statement of financial position.

The fair value of equity shares was on the basis of inputs used by a certified valuer and other financial instruments were calculated based on cash flows discounted using current market rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

*Significant estimates*

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. NPPF uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see 32(ii) above.

**34. Financial Risk management**

The NPPF's activities expose it to credit risk, liquidity risk and market risk. This note explains the sources of risk, which NPPF is exposed to, and how it manages the risk and the impact of it in the financial statements. The National Pension Board (NPB) oversees the governance structure, control and management system and risk mitigation measures. The NPPF identifies risks that it might be exposed to and has built risk mitigation procedures to minimize the risks

**(A) Credit risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. NPPF is exposed to credit risk from its operating activities including deposits with banks and financial institutions, loans to members and corporates and renting of properties to members.

**1) Loans (incl. loan commitments)**

The estimation of credit exposure for risk management purpose is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and passage of

time. The Investment Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. NPPF has different Division for catering to different categories of loan i.e. corporate loan and member loan (retail loan). It has system in place for post-lending monitoring and policy for credit approval.

Pre-lending evaluations is done by NPPF's Investment Department based on internal rating criteria and assessing the risks with respect to the loan. NPPF through its membership in Credit Information Bureau (CIB) assesses the credit worthiness of the applicant. Income level, credit history, and repayment ability of the applicant is also used for determining the loan to be given. Credit approvals are granted based on the NPPF's Delegation of Authority and also on the basis of credit report and rating of the customer. Any adverse events that may significantly affect a borrower's repayment ability are reported timely.

To mitigate risks, NPPF requires the customers to provide collateral and guarantees for the loan given. NPPF monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, it starts the recovery process according to recovery procedures.

Particulars	30-Jun-20	
	Loan outstanding at the end of reporting period	Collateral received for the loan sanctioned*
Loan to manufacturing & industries sector	3,050,182,068	33,744,246,000
Loan to service & tourism sector	6,864,969,907	14,447,536,000
Loan to institutions	336,367,728	521,300,000
Loan to housing (corporate)	878,835,928	965,060,000
Loan to members	6,733,244,845	8,604,474,797
<b>Net exposure of the loan</b>	<b>17,863,600,477</b>	<b>58,282,616,797</b>

Particulars	30-Jun-19	
	Loan outstanding at the end of reporting period	Collateral received for the loan sanctioned*
Loan to manufacturing & industries sector	2,045,007,147	30,438,936,000
Loan to service & tourism sector	4,871,458,053	14,299,047,000
Loan to institutions	404,071,316	521,300,000
Loan to housing (corporate)	906,832,630	965,060,000
Loan to members	5,516,614,518	9,075,746,553
<b>Net exposure of the loan</b>	<b>13,743,983,664</b>	<b>55,300,089,553</b>

\* Value as on the date of sanction



**Maximum credit risk exposure**

In respect of the financial assets recognized in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance. The maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement is in note 8. For exposure relating to off-balance sheet commitment refer note 36.a.

Loans to customers analyzed by sector concentrations is reflected in note 8. The loan is categorized in following categories;

- Corporate loan
  - a) Loan to manufacturing & industries sector
  - b) Loan to service & tourism sector
  - c) Loan to institutions
  - d) Loan to housing (Corporate)
- Retail loan
  - e) Loan to member

Particulars	30-Jun-20		30-Jun-19	
	Loan amount	Provision	Loan amount	Provision
Total corporate loan	11,130,355,632	110,632,596	8,227,369,146	81,702,002
Total member loan	6,733,244,845	208,289,093	5,516,614,518	151,218,666
Interest suspense		15,743,077		11,278,566
<b>Total</b>	<b>17,863,600,477</b>	<b>334,664,765</b>	<b>13,743,983,664</b>	<b>244,199,234</b>

**Aging analysis of loans**

The following aging analysis is carried by NPPF for regularly monitoring the loan recoveries.

Loan category	Not due	< 30 days	31 - 60 days	61 - 90 days	More than 90 days	Total as at 30 June 2020
Housing Loan	1,636,815,883	110,990,862	45,332,528	11,708,592	100,424,906	1,905,272,772
Education Loan	2,738,416,030	65,880,227	21,087,337	8,485,206	29,608,319	2,863,477,120
Members Loan	1,735,248,896	40,716,257	14,517,456	5,545,808	11,122,794	1,807,151,210
Staff Incentive loan	71,253,888	4,017,749	3,191,337	-	-	78,462,974
Student Loan Scheme	60,489,093	5,905,916	4,244,535	4,212,860	4,028,366	78,880,769
Manufacturing/Industry	3,050,182,068	-	-	-	-	3,050,182,068
Service & Tourism	6,864,969,907	-	-	-	-	6,864,969,907
Housing-Corporate	878,835,928	-	-	-	-	878,835,928
Institutional Loans	336,367,728	-	-	-	-	336,367,728
<b>Grand Total</b>	<b>17,372,579,421</b>	<b>227,511,011</b>	<b>88,373,193</b>	<b>29,952,466</b>	<b>145,184,385</b>	<b>17,863,600,477</b>

Loan category	Not due	< 30 days	31 - 60 days	61 - 90 days	More than 90 days	Total as at 30 June 2019
Housing Loan	1,542,169,028	172,104,023	64,884,063	96,930,427	56,251,986	1,932,339,527
Education Loan	2,588,209,017	55,885,844	20,288,593	6,966,111	46,281,398	2,717,630,963
Members Loan	675,533,693	10,895,025	4,964,312	2,258,701	6,677,962	700,329,693
Staff Incentive loan	72,484,918	7,514,436	2,018,218	-	-	82,017,572
Student Loan Scheme	57,541,249	11,356,291	7,520,138	2,819,644	5,059,440	84,296,762
Manufacturing/Industry	2,045,007,147					2,045,007,147
Service & Tourism	4,871,458,053					4,871,458,053
Housing-Corporate	906,832,630					906,832,630
Institutional Loans	404,071,316					404,071,316
<b>Grand Total</b>	<b>13,163,307,052</b>	<b>257,755,618</b>	<b>99,675,324</b>	<b>108,974,884</b>	<b>114,270,786</b>	<b>13,743,983,664</b>

### Impairment of loan

The overdue balances are considered for impairment. The overdue loans are categories into following categories-

- Standard - amount due up to 30 days
- Watch - amount not paid within 30 days and overdue till 90 days
- Non performing - amount overdue for more than 90 days

For impairment recognized as at the reporting period, please refer note 29.

### Concentration of credit risks

NPPF proactively adopted a series of measures to prevent large exposure concentration risk, including further tightening lending criteria, adjusting business structure, etc. controlling the credit granting.

Particulars	30-Jun-20		30-Jun-19	
	Amount	%	Amount	%
% of 10 largest loan exposure to fund size	10,290,731,242	25.21%	7,511,380,000	20.78%

### 2) Term deposits, bonds, cash and cash equivalents and other receivables

NPPF is required to invest the members' contribution as per the investment policy formed by the Board. As per the investment policy of NPPF, 30% of the investment can be in equity shares and 70% in fixed income investments. The investment policy framed by the Board is reviewed regularly.

Credit risk from balances with banks and financial institutions is managed by the NPPF's Portfolio Investment Department. Investments of member contributions are made only with approved counterparties in accordance with the NPPF's policy. The counterparties are accordingly governed by the regulatory authorities to mitigate financial loss during failure to make payment.

The NPPF evaluates the risk as low since majority of the investments in the form of term deposits, bonds and CPs are made in government-controlled banks and entities. Other receivables are considered to be of good quality and there is no significant credit risk.

**Industry Analysis**

	Manufacturing & industries sector	Service & tourism sector	Housing Corporate	Institutions/RGOB	Members
Bonds	384,400,000	1,237,027,983		1,379,795,000	
Commercial paper	-				
Loans (gross)	3,050,182,068	6,864,969,907	878,835,928	336,367,728	6,733,244,845
Investment in equity share	860,923,674	28,168,875		1,779,446,225	
Bank balances and term deposits				15,605,053,893	

**(B) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The consequence may be the failure to meet obligations to repay members and creditors.

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. The current ongoing obligations are met through contributions from members, rental income from investment property and interest income from funds invested in loans, deposit and bonds.

The National Pension and Provident Fund Plan is comprised of two funds: pension and provident fund.

A member of pension fund who has made a minimum of 120 monthly contributions shall be entitled to a monthly pension on his/her retirement, or on his/her permanent disability. On his/her death, a monthly benefit shall be payable to his/her surviving children and surviving spouse.

A member of provident fund shall be paid accumulated contributions credited to provident fund account along with returns credited thereon.

Management monitors rolling forecasts of NPPF's liquidity position and cash and cash equivalents on the basis of expected cash flows through preparation of "fund gap analysis" monthly. In addition, NPPF's liquidity management policy involves projecting cash flows on monthly basis and considering the level of liquid assets necessary to meet the creditors and obligations towards members.

Further payment of pension obligations to members are guaranteed by Royal Government of Bhutan.

(i) Maturities of financial liabilities

The tables below depict NPPF's financial liabilities into relevant maturity groupings based on their contractual maturities for all financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months are equal to their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities 30 June 2020	Less than 1 year	Total
Stale cheque	1,690,688	1,690,688
Interest received in advance	25,089	25,089
Unidentified deposit	3,341,703	3,341,703
Earnest money	1,685,301	1,685,301
Security deposit (contractor)	9,793,007	9,793,007
Performance guarantee deposit	1,906,346	1,906,346
Security deposit (rent)	12,607,731	12,607,731
Excess member contribution	2,706,643	2,706,643
Security deposit - power / tenant	480,247	480,247
Housing / education loan closed A/c - credit balance	25,941,308	25,941,308
Unclaimed contribution	48,462,218	48,462,218
Other payables	122,372,227	122,372,227
<b>Total financial liabilities</b>	<b>231,012,510</b>	<b>231,012,510</b>
<b>Off balance sheet commitment (loan)</b>	<b>246,188,306</b>	<b>246,188,306</b>

Contractual maturities of financial liabilities 30 June 2019	Less than 1 year	Total
Stale cheque	1,571,216	1,571,216
Interest received in advance	2,206,605	2,206,605
Unidentified deposit	2,369,731	2,369,731
Earnest money	1,112,713	1,112,713
Security deposit (contractor)	5,540,515	5,540,515
Performance guarantee deposit	2,062,384	2,062,384
Security deposit (rent)	10,688,990	10,688,990
Excess member contribution	643,294	643,294
Security deposit - power / tenant	497,917	497,917
Housing / education loan closed A/c - credit balance	26,046,963	26,046,963
Unclaimed contribution	48,462,218	48,462,218
Other payables	20,609,945	20,609,945
<b>Total financial liabilities</b>	<b>121,812,491</b>	<b>121,812,491</b>
<b>Off balance sheet commitment (loan)</b>	<b>2,202,224,836</b>	<b>2,202,224,836</b>

### (C) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates. NPPF gives loans at fixed interest rate and floating rate (reset after 5 years) hence, it is not exposed to interest rates risks on loans. Further other financial instruments invested in term deposits, bonds and CPs, are also at fixed rate of interest.

The NPPF's fixed rate financial assets are carried at amortized cost. They are therefore not subject to interest rate risk as defined in BFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.



**(D) Price risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The company's exposure to equity securities price risk arises from investments held by the company in equity securities and classified in the statement of financial position as at fair value through statement of comprehensive income. The table below summarizes the impact of increases/decreases of the prices of respective securities on company's equity and total other comprehensive income for the period. The analysis is based on the assumption that the market price of the respective securities had increased by 5% or decreased by 5%:

Particulars	Impact on total comprehensive income	
	30-Jun-20	30-Jun-19
Increase by 5%	133,426,939	153,419,288
Decrease by 5%	(133,426,939)	(153,419,288)

**(E) Foreign currency risk**

NPPF has foreign currency exposure only in INR, however the value of Ngultrum is constantly equal to Indian rupee (INR). Hence NPPF is not exposed to any foreign currency risk relating to receivable/payable in INR on the date of reporting.

**35. Capital Management**

NPPF's schemes were introduced as a mandatory retirement savings scheme for civil servants, employees of public corporations and the Armed Forces. NPPF is entrusted with the responsibility of administering the social security plan and fiduciary duty of managing funds in the form of portfolio investments, real estate investments and member (retail) loans. To manage these objectives of NPPF, it takes following risk management measures:

**Statutory Liquidity Ratio**

As provided by the Prudential Regulations, every non-banking financial institution shall, at all times, maintain minimum liquidity in the form of quick assets at 10% of total liabilities excluding capital fund and liabilities to the Royal Monetary Authority (RMA).

The RMA has considered waiver of SLR requirement on the condition that the institution segregate its assets and maintain sufficient fund to cover all payments it is obliged to make for both defined benefit and defined contribution schemes. The relaxation will continue till the time RMA comes up with Pension and Provident Fund Rules and Regulations.



**Limit on single largest and ten largest borrowers**

As required by Royal Monetary Authority, NPPF shall not extend its credit to a single borrower exceeding 30% of total loan portfolio and to ten largest borrowers exceeding 30% of the fund size.

**Restrictions on investment**

NPPF has formed an investment policy by virtue of which it is explicitly restricted from making investments not more than 15% with any one issuer.

**Asset Allocation**

NPPF has framed an asset allocation policy based on risk appetite of the fund and the available investment opportunities. The assets will broadly be allocated according to the most appropriate mix as determined by the Board of the NPPF from time to time. This allocation shall be subject to thorough review as and when necessary. Keeping in view of the present market conditions, the overall asset allocation by asset class aimed at 30:70 - equities vs. fixed income. NPPF invests the members' contribution as per the investment policy approved by the Board.

**36. Other Disclosure****a) Commitments**

Particulars	30-Jun-20	30-Jun-19
Capital expenditure for Real Estate development.	424,695,095	149,503,064
For acquisition of land for Home Ownership Scheme	1,240,000	1,240,000
Loan	246,188,306	2,202,224,836

**b) Operating leases-as lessee**

NPPF has taken property under cancellable operating leases expiring within two years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Rental expense relating to operating leases		
Particulars	30-Jun-20	30-Jun-19
Total rental expense relating to operating leases	254,760	250,800

**c) Operating lease-as lessor**

NPPF has given a portion of office building under cancellable operating leases expiring within five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

**Rental Income relating to operating leases**

Particulars	30-Jun-20	30-Jun-19
Total rental income relating to operating leases	4,296,060	4,484,374



**37. Related Party Disclosure**

Royal Government of Bhutan formed NPPF for administering the social security plans in Bhutan by managing funds in the form of portfolio investments, real estate investments and retail loans.

**Transactions with related parties**

The following transactions occurred with related parties:

Nature of transaction with related party	30-Jun-20	30-Jun-19
Loans to/from related parties and Loans to key management personnel		
Beginning of the year	12,844,635	9,402,770
Loans advanced	16,684,039	6,301,991
Loan repayment received	11,990,183	3,408,673
Interest charged	1,207,489	831,034
End of the year	<b>18,745,980</b>	<b>13,127,121</b>

**Terms and Conditions**

Loan given to related party are on same terms and conditions that are applied to other borrower. These loans are secured and repaid as per the contractual repayment schedule.

**Key Management Personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. As such Key management personnel of the company for the purpose of disclosure of compensation include NPB's executive and non-executive directors and their close family members.

Sl.No.	Particulars	30-Jun-20	30-Jun-19
a)	Short- term employee benefits	5,503,844	6,359,213
b)	Post- employment benefits (PEB)	529,619	553,862
c)	Other long- term benefits (OLTb)	279,478	299,038
	<b>Total</b>	<b>6,312,941</b>	<b>7,212,113</b>



### Significant Ratio

Sl. #	Ratios	2019-20		2018-19	
		GAAP	BAS	GAAP	BAS
		%	%	%	%
	<b>Funded ratio</b>				
		4.87	6.54	5.58	8.49
1	% of Equity investment to fund size	94.05	92.42	92.80	89.96
2	% of Fixed Income to fund size	4.93	-0.87	10.25	-3.40
3	% Growth in revenue	14.54	-99.27	12.50	11.16
4	% of increase in fund size	4.12	4.85	4.06	4.57
5	% of management expense to revenue	0.84		0.86	
6	% of non-performing loan	-4.50	-11.76	11.19	-2.94
7	% Growth in Surplus	6.90		8.45	
8	Rate of return achieved				
9	% of pension payment to annual DB Contribution	28.37	28.37	29.87	29.87
10	% increase in pension payout	15.29	15.29	18.04	18.04

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