ROYAL MONETARY AUTHORITY OF BHUTAN

Macro-Prudential

Rules and Regulations

2018

Contents

Rationale

Macro-prudential rules and regulation aims to contain systemic risk. The IMF describes systemic risk as the "risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences on the real economy". Macro-prudential rules and regulations are concerned with reducing the possibility of such an event occurring and therefore take a system-wide perspective. Such rules and regulations can be complementary to micro-prudential supervision.

To promote financial stability and reduce systemic risk, macro-prudential rules and regulations aims to strengthen the resilience of the financial system so that it can withstand adverse macroeconomic shocks. Macro-prudential policies also seek to reduce the potential for significant destabilising vulnerabilities to accumulate, which could lead to systematic financial distress. Therefore a secondary aim of macro-prudential rules and regulations is the stabilisation of the credit cycle.

During a period of general financial stress, interconnectedness among institutions can amplify the impact of any shock to the financial sector. If financial sector are not sufficiently resilient, problems in one institution or sector can lead to problems on a system-wide basis, resulting in a systemic crises. Strong macro-financial linkages within an economy imply that systemic crises can entail significant economic costs for society as normal lending and other intermediation activities are disrupted. Economic activity is subsequently reduced leading to a further deepening in the financial crisis, as the financial condition of borrowers deteriorates.

Macro-prudential powers

Given its financial stability mandate, the Royal Monetary Authority (RMA) has an important role in macro-prudential policy in Bhutan. The Royal Monetary Authority is authorized to issue this rules and regulations under Section 9 (h) of the RMA Act 2010 in pursuance of the objectives stated in Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

Macro-prudential instruments

The Royal Monetary Authority will use a range of instruments to address systemic risk in the financial sector. There are two broad types of instruments, those that can be used to increase the resilience of financial sector (e.g., capital, liquidity-based tools, large exposure limits) and those that affect the credit terms offered to borrowers for collateralised lending (e.g., asset-based tools). The different instruments have different purposes addressing different types of risk. Since some of the tools (like leverage ratio, restriction on distribution, provisioning requirement) are already covered in the Prudential Regulation (PR) 2017, the following macro-prudential tools are only covered under this rules and regulations;

Regulation 1. Countercyclical capital buffer

Introduction

1.1 Short title

1.1.1. Countercyclical capital buffer

1.2 Authorization

1.2.1. The Royal Monetary Authority is authorized to issue this rule and regulation under Section 9 (h) of the RMA Act 2010 in pursuance of the objectives stated in Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

1.3 Application

1.3.1. This rule and regulation is applicable to all Banks and Other Financial Institutions (collectively referred to as "Financial Institutions" or "FIs") which are licensed by RMA to perform lending operations in Bhutan.

1.4 Definitions

1.4.1. Terms used within this rule and regulation are as defined below, or as reasonably implied by contextual usage:

i. **Tier 1 or Core Capital** refers to the sum of the following components (as defined under the Prudential Regulations):
- Paid-up capital (+)
- General Reserves (Statutory Reserves) (+)
- Share Premium Account (+)
- Retained Earnings (Free Reserves) (+)
- Loss for the current year (-)

ii. **Capital Adequacy Ratio (CAR)** refers to the ratio of the financial institutions total capital fund to its risk-weighted assets plus risk weighted off balance sheet exposures as defined in the Prudential Regulations.

iii. **Core Capital Adequacy Ratio** refers to the ratio of the financial institution's Tier 1 capital to its risk-weighted assets and risk weighted off-balance sheet exposures as defined in the Prudential Regulations.

iv. **Capital adequacy requirements** are the minimum requirements on the Capital Adequacy Ratio and the Core capital adequacy ratio, as set by RMA under the Prudential Regulations.

v. **Non-government sector credit** refers to credit given to Private Sector and Public Sector Undertakings.

Statement of policy

1.5 Purpose

1.5.1. This rule and regulation intends to safeguard the financial sector from any adverse effects of credit cycle by way of building a buffer during upward phase of the cycle. This rule and regulation shall ensure that financial institutions have adequate capital to maintain the credit flow in the economy even during the downward phase while maintaining its solvency and minimum capital adequacy requirements.

1.6 Scope

1.6.1. The rule and regulation shall cover all risk weighted assets (on and off balance sheet) of the financial institutions.

1.7 Responsibility

1.7.1. It is the responsibility of the Board of Directors of the financial institution to ensure compliance with the provisions of this rule and regulation or any directive with reference to this rule and regulation that the RMA issues from time to time.

Implementation and specific requirements

1.8 Limits and requirements

1.8.1. Operationalization of the Counter-Cyclical Capital Buffer (CCyB) shall be based on RMA's assessment of risks emanating from excessive credit growth. RMA shall consider the following to decide the size and the timing of the CCyB:

a. The CCyB shall be initiated when the upward phase of the credit cycle is identified. The gap between Credit-to-GDP ratio from its trend value (henceforth, the 'Gap') shall be used to identify the upward phase of the credit cycle. Here, credit refers to aggregate non-government sector credit in the economy. In the event when this gap exceeds 500 basis points, the RMA may consider implementing the CCyB requirements. Based on the RMA's assessment, the credit-to-GDP gap may also vary from time to time.

b. In addition to Credit-GDP ratio, RMA shall review other macro-financial indicators/information to strengthen the decision-making process.

1.8.2. The size of the CCyB shall lie between zero and 2.5% of a financial institution's risk-weighted assets. The maximum CCyB size of 2.5% shall be prescribed when the gap exceeds 10 percentage points or more. The size of the CCyB may also vary with the change in the credit-to-GDP gap as determined by the RMA from time to time.

1.8.3. The buffer size at various levels of the gap shall be as follows:

Table 1: Gap and CCyB size

Gap (Credit/GDP $_{t}$ - Credit/GDP $_{trend}$) measured in basis points	**Size of the buffer (as % of risk weighted assets)**
500 bps and above but below 600 bps	0.5
600 bps and above but below 700 bps	1
700 bps and above but below 800 bps	1.5
800 bps and above but below 900 bps	2
900 bps and above but below 1000 bps	2.25
1000 bps and above	2.5
Buffer maintenance period- If the Gap is higher than zero but below 500, there shall be no further contribution to the buffer and the buffer accumulated shall be maintained.	
Buffer release period- As soon as the Gap is zero or less, the buffer shall be released	

1.8.4. RMA shall communicate to financial institutions the rationale for operationalizing CCyB along with the relevant directive.

1.8.5. Financial institutions shall meet the additional capital requirement on account of the imposition of the CCyB, within the time-frame provided by the relevant RMA directive. The maximum time period allowed for compliance shall be 12 months from the date of issue of the directive.

1.8.6. Financial institutions shall meet the additional capital requirement on account of the CCyB, with Tier 1 capital.

1.8.7. The additional Tier 1 capital maintained on account of this regulation shall be over and above (a) any existing minimum prudential capital requirements (b) any additional requirement due to other macro-prudential regulations.

1.8.8. Once RMA directs the financial institutions to release the buffer, the financial institutions shall utilize the buffer in a manner it deems appropriate while complying with Prudential Regulations.

1.8.9. Financial institutions shall maintain the CCyB requirement on a quarterly basis.

1.9 General

1.9.1. The RMA shall review the provisions of this rule and regulation depending upon macro-economic and financial sector developments and other qualitative information.

1.10 Reporting requirements

1.10.1. Financial institutions shall report its CCyB every quarter in the manner prescribed by the RMA.

Effective date

1.11 Effective date

1.11.1. The RMA shall issue directive regarding the implementation of this rule and regulation.

Regulation 2. Sectoral capital requirements

Introduction

2.1 Short title

2.1.1. Sectoral Capital Requirements

2.2 Authorization

2.2.1. The Royal Monetary Authority is authorized to issue this rule and regulation under Section 9 (h) of the RMA Act 2010 in pursuance of the objectives stated in Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

2.3 Application

2.3.1. This rule and regulation is applicable to all Banks and Other Financial Institutions (collectively referred to as 'Financial Institutions' or 'FIs') which are licensed by RMA to perform lending operations in Bhutan.

2.4 Definitions

2.4.1. Terms used within this rule and regulation are as defined below, or as reasonably implied by contextual usage:

i. **Tier 1 or Core Capital** refers to the sum of the following components (as defined under the Prudential Regulations):

- Paid-up capital (+)
- General Reserves (Statutory Reserves) (+)
- Share Premium Account (+)
- Retained Earnings (Free Reserves) (+)
- Loss for the current year (-)

ii. **Tier 2 or Secondary or Supplementary Capital** refers to the sum of the following components (as defined by the Prudential Regulations):

- Capital Reserve (+)
- Fixed Assets Revaluation Reserve (+)
- Exchange Fluctuation Reserves (+)
- Investment Fluctuation Reserve (+)
- Research and Development Fund (+)
- General provisions to the extent that they do not exceed more than 1.25% of the sum of risk-weighted assets (+)

- Subordinated term debts with a minimum original maturity of at least 5 years (+)
- Profit for the current year (+)

iii. **Capital fund** refers to sum of Tier 1 capital and Tier 2 capital (only to the extent of 100% of the Tier 1 capital), as defined in the Prudential Regulations.

iv. **Capital Adequacy Ratio (CAR)** refers to the ratio of the financial institutions total capital fund to its risk-weighted assets plus risk weighted off balance sheet exposures as defined in the Prudential Regulations.

v. **Core capital adequacy ratio** refers to the ratio of the financial institution's Tier 1 capital to its risk-weighted assets and risk weighted off-balance sheet exposures as defined in the Prudential Regulations.

vi. **Capital adequacy requirements** are the minimum requirements on the Capital Adequacy Ratio and the Core capital adequacy ratio, as set by RMA under the Prudential Regulations.

vii. **Outstanding credit of the economy** refers to credit given to Private Sector and Public Sector Undertakings.

viii. **Sector specific exposures** refer to a financial institution's assets in a particular sector.

Statement of policy

2.5 Purpose

2.5.1. This rule and regulation intends to ensure that financial institutions have adequate capital to cover unexpected losses against their sector-specific exposures.

2.6 Scope

2.6.1. This rule and regulation shall be applicable to all loans and advances of financial institutions to sector(s)/sub-sector(s) that are judged by the RMA as contributing to build up of systemic risk.

2.7 Responsibility

2.7.1. It is the responsibility of the Board of financial institution to ensure compliance with the provisions of this rule and regulation or any directive with reference to this regulation that the RMA issues from time to time.

2.8 Limits and requirements

2.8.1. Operationalization of the Sectoral Capital Requirement (SCR) shall be based on RMA's assessment of sector specific risks arising due to macro-economic and financial sector developments. A targeted increase in capital requirements can be applied to any category of loans for which strong growth gives cause for concern. The RMA shall notify all financial institutions of the sector(s)/sub-sector(s) thus identified, through a directive.

2.8.2. The sector(s)/sub-sector(s) shall be subject to sectoral capital requirements if the sector in the last 12 quarters:

a. has an average share of more than certain percentage as set by the RMA in the aggregate outstanding credit of the economy. This shall be calculated by taking the share of a sector in the total outstanding credit at the end of quarter and averaging the same over the last 12 quarters i.e., $\frac{\sum_{j=1}^{12} Sij}{12}$, where S_{ij} is the share of the i^{th} sector in aggregate credit j^{th} quarter.

b. exhibits a higher growth of certain basis points as determined by the RMA over the growth rate of outstanding credit in the economy. This shall be calculated as follows:

i. calculate the Year-On-Year (Y-O-Y) growth rate of outstanding credit of the economy and of the sector at the end of each quarter for past 12 quarters;

ii. Take the average of the Y-O-Y growth rate of the outstanding credit of the economy (X) and the sector (Y);

iii. Take the difference of Y and X

2.8.3. Exemptions:

a. RMA shall exempt those sectors from the provisions of this regulation where the sectors are deemed to be of critical importance to the social and economic development of Bhutan.

b. RMA shall apply its discretion in allowing exemptions to any other sector.

2.8.4. The sectoral capital requirements imposed on any sector shall be expressed as a percentage of the risk-weighted assets in that sector. The RMA shall prescribe different level of capital requirement based on its assessment with maximum additional capital requirements of 2.5% of the financial institution's total risk-weighted assets.

2.8.5. Financial institutions shall meet the additional capital requirement on account of the imposition of the SCR, within the time-frame provided by the relevant RMA directive. The maximum time period allowed for compliance shall be 12 months from the date of issue of the directive.

2.8.6. Financial Institutions shall meet the sectoral capital requirements with Tier 1 capital.

2.8.7. The additional Tier 1 capital maintained on account of this regulation shall be over and above (a) any existing minimum prudential capital requirements (b) any additional requirement due to other macro-prudential regulations.

2.8.8. RMA shall communicate the effective date from which contribution to SCR could cease.

2.8.9. In addition, RMA may also prescribe the additional risk weights and direct credit cap to be adopted for specific sectors, if RMA perceives that credit risk may escalate in future due to macro-financial developments.

2.9 General

2.9.1. The RMA shall review the regulation for sectoral capital requirements depending upon macro-economic and financial sector developments.

2.10 Reporting requirements

2.10.1. Financial institutions shall report its SCR buffer every quarter in the manner as prescribed by the RMA.

Effective date

2.11 Effective date

2.11.1. The RMA shall issue directive regarding the implementation of this rule and regulation.

Regulation 3. Loan to value and loan to income restrictions

Introduction

3.1 Short title

3.1.1. Loan to value and loan to income restrictions

3.2 Authorization

3.2.1. The Royal Monetary Authority is authorized to issue this rule and regulation under Section 9 (h) of the RMA Act 2010 in pursuance of the objectives stated in Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

3.3 Application

3.3.1. This rule and regulation is applicable to all Banks and Other Financial Institutions (collectively referred to as "Financial Institutions" or "FIs") which are licensed by RMA to perform lending operations in Bhutan.

3.4 Definitions

3.4.1. Terms used within this rule and regulation are as defined below, or as reasonably implied by contextual usage:

i. **Down payment** refers to the payment which is made by the borrower/customer to cover the difference between the value of the approved loans and value of the asset to be acquired through loans;

ii. **Total Monthly debt obligation** means the sum of the monthly repayment of the principal and interest amount on all outstanding loans.

iii. **Fixed income** means income that is received on a regular and periodic basis and does not vary materially from month to month.

iv. **Variable** income means income that is irregular and non-periodic and the amount is not fixed ex-ante.

v. **Loan to Value (LTV) ratio** is defined as the ratio of loan amount to the appraised value of the asset which is being purchased/ constructed with the help of credit facility from the financial institution.

vi. **Loan to Income (LTI)** is defined as ratio of total monthly debt obligation to that of monthly disposable income from all sources, expressed in per cent.

vii. **Disposable Income** means gross income minus taxes that is net income.

Statement of policy

3.5 Purpose

3.5.1. In Bhutan, loan to value ratio has been used by financial institutions as a “micro-prudential measure” as part of their credit risk management policies. Any risk emanating from individual institutions (micro-risk), if not contained, can lead to systemic risks. Hence, RMA is introducing LTV ratio as a “macro-prudential measure” to mitigate the risks of default due to fall in the value of the underlying collateral and also to prevent any speculation in the housing market which may exacerbate the systemic risks.

3.5.2. Similarly, loan to income ratio criteria is being followed by financial institutions as “micro-prudential measure” to assess the repayment capability of the borrowers. RMA is introducing LTI ratio as “macro-prudential measure” to ensure that households are not excessively leveraged.

3.6 Scope

3.6.1. LTV and LTI shall apply to all credit facilities. For which the financial institutions may establish internal LTV and LTI limits if not prescribed by the RMA.

3.7 Responsibility

3.7.1. The responsibility of adhering to this rule and regulation lies with the Board of the financial institution.

3.7.2. The Board of Directors subject to compliance with this rule and regulation shall:

i. Establish, assess and approve the LTV / LTI limits that will be applicable to its borrowers when granting credit facilities, as an integral part of the financial institution’s credit risk management policy;

ii. Review, at least once a year, the LTV / LTI limits applicable to credit facilities;

iii. Ensure, through audit and inspection, adherence to the LTV / LTI limits ;

iv. Develop and implement information systems, procedures and techniques that accurately identify measure and monitor adherence to the LTV/ LTI limits while granting credit.

Implementation and specific requirements

3.8 Limits and requirements

Loan to Value Ratio

3.8.1. A financial institution shall compute the LTV ratio by using the following formula:

$$LTV = \frac{\sum_{1}^{i} \text{Outstanding amount of loan i}}{\text{Appraised value of property being purchased/constructed}} \times 100$$

Where ∑ refers to sum of all outstanding debt obligations (including the value of the current loan) against the collateral. Outstanding amount of loan shall be equivalent to value of the current loan if no other loan is taken against the underlying collateral.

3.8.2. The Board shall set the principles for valuation of the property and remedial measures in case of any violation. The appraised value of the property shall be determined by either

i. an independent valuation agency as approved by RMA, or

ii. by the internal valuation team of respective financial institutions which is not involved in the approval process of the loan.

3.8.3. The financial institution shall ensure that the borrower has financial interest in the asset, which is being purchased with the loan. For this, the financial institution must ensure that the difference between the value of the asset and loan amount (known as 'down payment') is made first by the borrower. The Financial institution shall not disburse funds until and unless the borrower has made the down payment.

3.8.4. The financial institution shall consider disbursement of the loan amount in tranches as per the financial institution's internal risk management policy.

3.8.5. In addition to the prescription of maximum LTV ratios, RMA may also prescribe the risk weights to be adopted for each category of loan, if RMA perceives that credit risk may escalate in future due to macro-financial developments.

Prudential Limits

3.8.6 Limits on Loan to Value ratio shall be as under

a. Loan given against fixed deposit shall have maximum LTV ratio of 90%.

b. Loan to value ratio shall vary by the size of the loan as outlined below:

Table 2: Maximum LTV limits

Loan Amount	Maximum LTV
Up to Nu. 50 million	70%
More than Nu. 50 million	60%

3.8.6. In case of a loan for purchase/construction of a second or any subsequent property, LTV shall not exceed 70% of the value of the property.

3.8.7. In case of joint applications consisting of two or more borrowers for the purchase /construction of a property, LTV shall not exceed 70% of the value of the property.

3.8.8. Financial institutions shall ensure that both LTV and LTI conditions are satisfied for any loan.

Loan to Income ratio

3.8.9. Loan to income ratio is the percentage of a borrower's monthly disposable income from all sources that goes towards paying his monthly total debt obligations.

3.8.10. A financial institution shall compute the LTI ratio of a borrower who is applying for credit facilities in accordance with the following formula:

$$\mathrm{LTI} = \frac{\text{Total monthly debt obligations}}{\text{Monthly disposable income from all sources}} \times 100$$

3.8.11. The total monthly debt obligations of a borrower shall consist of the sum of the monthly repayment instalments of all credit facilities granted by financial institutions.

3.8.12. The monthly disposable income from all sources, including the income from the collateral, shall consist of:

Table 3: Monthly disposable income by sources

Source of Income	**Income to be considered for the purpose of LTI calculation**
(A) Fixed Income	Up to 100% of current fixed income
(B) Variable Income	Up to 70% of the average income for the past 6 months
(C) Fixed and Variable Income	A+B

3.8.13. Unless otherwise stated by the RMA, the maximum LTI for is set at 70%. Financial institutions are encouraged to apply its own due diligence process while determining the LTI limit.

3.8.14. In case of joint applications consisting of two or more borrowers , the financial institution shall:

i. determine the monthly repayment installment of each borrower in a manner that is consistent with each borrower’s monthly repayment capacity; and

ii. ensure that the LTI ratio does not exceed 70%.

3.8.15. The financial institution shall obtain a written declaration, with all documentary proofs, from each borrower regarding his monthly disposable income from all sources, all outstanding loan amount and monthly repayments towards them.

3.9 General

3.9.1. All financial institutions shall ensure strict adherence to these LTV and LTI ratios while granting credit facilities, as part of their credit management process through audit and inspection. In addition, the financial institutions should also have necessary MIS in this context and review periodically the efficiency of the same.

3.9.2. The rules and regulations under the "Loan to value and loan to income restrictions" may be reviewed by the RMA as and when required.

3.10 Reporting requirements

3.10.1. Financial institutions shall submit returns in respect of LTV and LTI in the form and frequency as the RMA may prescribe.

Effective date

3.11 Effective date

3.11.1. This rule and regulation has come into effect on 7th May, 2014.

3.11.2. The above guidelines has been applicable to the loans sanctioned on and after 1st November, 2014.

Regulation 4: Disclosure Requirements

Introduction

4.1 Short title

4.1.1 Disclosure Requirements

4.2 Authorization

4.2.1 The Royal Monetary Authority is authorized to issue this rule and regulation under Section 9 (h) of the RMA Act 2010 in pursuance of the objectives stated in Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

4.3 Application

4.3.1 This rule and regulation is applicable to all Banks and Other Financial Institutions (collectively referred to as "Financial Institutions" or "FIs") which are licensed by the RMA to perform lending operations in Bhutan.

4.4 Definitions

4.4.1 Terms used within this rule and regulation are as defined below, or as stated under Prudential Regulations/ Financial Services Act 2011/ Macro-prudential Rules and Regulations 2014 or as reasonably implied by contextual usage:

i. **Tier 1 or Core Capital** refers to the sum of the following components (as defined under the Prudential Regulations):

- Paid-up capital (+)
- General Reserves (Statutory Reserves) (+)
- Share Premium Account (+)
- Retained Earnings (Free Reserves) (+)
- Loss for the current year (-)

ii. **Tier 2 or Secondary or Supplementary Capital** refers to the sum of the following components (as defined under the Prudential Regulations):

- Capital Reserve (+)
- Fixed Assets Revaluation Reserve (+)
- Exchange Fluctuation Reserves (+)
- Investment Fluctuation Reserve (+)
- Research and Development Fund (+)

- General provisions to the extent that they do not exceed more than 1.25% of the sum of risk-weighted assets (+)
- Subordinated term debts with a minimum original maturity of at least 5 years (+)
- Profit for the current year (+)

iii. **Capital fund** refers to sum of Tier 1 capital and Tier 2 capital (only to the extent of 100% of the Tier 1 capital), as defined in the Prudential Regulations.

iv. **Capital Adequacy Ratio (CAR)** refers to the ratio of the financial institutions total capital fund to its risk-weighted assets plus risk weighted off balance sheet exposures as defined in the Prudential Regulations.

v. **Core capital adequacy ratio** refers to the ratio of the financial institution's Tier 1 capital to its risk-weighted assets and risk weighted off-balance sheet exposures as defined in the Prudential Regulations.

vi. **General Provisions** refer to provisioning requirements against Standard and Watch assets, as defined in the Prudential Regulations.

vii. **Specific Provisions** refer to loan loss provisions made against Substandard, Doubtful, and Loss assets, as specified in the Prudential Regulations.

viii. **Interest-in-suspense account** is as defined in the RMA in the Prudential Regulations.

ix. **Non-performing loans** (NPL) are as defined by the RMA in the Prudential Regulations.

x. **Material (information):** Information is material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Statement of policy

4.5 Purpose

4.5.1 This rule and regulation specifies the form and content of information that financial institutions shall disclose at regular intervals to ensure a higher degree of transparency. This would enable all stakeholders to take informed decisions with regard to their financial activities.

4.6 Scope

4.6.1 This rule and regulation applies to qualitative and quantitative information that shall be made available to the public by all financial institutions in the form and frequency specified by the provisions of this rule and regulation.

4.7 Responsibility

4.7.1 The responsibility of complying with the stipulations under this rule and regulation and its subsequent amendments lies with the respective Board of Directors of the financial institution.

Implementation and specific requirements

4.8 General

4.8.1 This rule and regulation shall supplement the existing disclosure requirements as prescribed in Financial Services Act, 2011 (section 96); Corporate Governance Regulations, 2011 (Section 14-i) and Accounting Standards Rules for Companies in Bhutan, 2012 or any other relevant rules/guidelines/regulations.

4.8.2 The disclosure requirements laid down below constitute the minimum requirements. Financial Institutions shall make additional disclosures if the Board of the financial institution deems such information to be of 'material' in nature. All disclosures shall be made available on the website of the respective financial institution for public viewing.

4.9 Annual Disclosures

4.9.1 The annual disclosures shall comprise of all items as per Section 96 (a) of Financial Services Act, 2011 and the items specified by Section 4.9.2 and Section 4.9.3 below.

4.9.2 Annual **quantitative disclosures** shall include the following items:

i. The amount of Tier 1 capital and its sub-components as given by

ii. Item ***1*** in Annexure.1.

iii. The amount of Tier 2 capital and its sub-components as given by Item 2 in Annexure.1.

iv. Risk weighted assets as given by Item 3 in Annexure.1.

v. Capital Adequacy ratios as given by Item 4 in Annexure.1.

vi. Loans by sectoral classification as given by Item 5 in Annexure.1.

vii. Gross non-performing loans by sector as given by Item 5 in Annexure.1.

viii. Loans by type of counter-party as given by Item 6 in Annexure.1.

ix. Maturity pattern of assets and liabilities (original and residual) as given in Item 7 and

As of period ending __,	***On Demand***	***1-30 days***	***31 to 90 days***	***91-180 days***	***181-270 days***	***271-365 days***	***Over 1 year***	***Total***
Cash in hand								
Govt. Securities								
Investment securities								
Loans & advances to banks								
Loans & advances to customers								
Other assets								
TOTAL								
Amounts owed to other banks								
Demand deposits								
Savings								

deposits								
Time deposits								
Bonds & other negotiable instruments								
Other liabilities								
TOTAL								
Assets/Liabilities								
Net Mismatch in each Time Interval								
Cumulative Net Mismatch								

x. ***Item 8*** in Annexure.1.

xi. Exposure to interest rate risk: Assets and liabilities by time to re-pricing as given in Item 9 in Annexure.1.

xii. Gross and net non-performing loans by category (i.e., sub-standard, doubtful and loss loans) as on end of reporting year as given under Item 10 in Annexure.1.

xiii. Specific provisions and interest-in-suspense against non-performing loans by category (i.e. sub-standard, doubtful and loss exposures) as on end of reporting year as given under Item 10 in Annexure.1.

xiv. General Provisions by category (i.e., Standard and Watch exposures) as on end of reporting year as given under Item 10 in Annexure.1.

xv. Equity and other investments as given under Item 11 in Annexure.1.

xvi. Foreign exchange assets and liabilities as given under Item 12 in Annexure.1. (The disclosure will be effective upon the removal of RMA's restrictions to the banks in managing foreign exchange)

xvii. Geographic distribution of assets and liabilities as given under Item 13 in Annexure.1

xviii. Credit risk exposures covered by collateral or guarantees as given under Item 14 in Annexure.1.

xix. Earnings Ratios as given under Item 15 in Annexure.1.

xx. Penalties imposed by the RMA on the financial institution in the past period under Item 16 in Annexure.1.

xxi. Customer complaints received and addressed in the past period as given under Item 17 in Annexure.1.

xxii. Provisioning Coverage ratio, as and when it is effective as given under Item 18 in Annexure.1.

xxiii. Concentration of deposits and advances in terms of exposure to the 10 largest borrowers and depositors as given under Item 19 in Annexure.1.

xxiv. Exposure to 5 largest NPL accounts as given under Item 20 in Annexure.1.

4.9.3 Annual qualitative disclosures shall at a minimum include the following items:

i. Summary discussion of the main features of all capital components

ii. A discussion of the financial institution's approach to capital planning to support current and future activity

iii. A discussion of the financial institution's credit risk management strategy including structure and organization of the risk management function, scope and nature of risk reporting and strategies for mitigating such risk.

iv. Definitions of 'non-performing' loans as per RMA Regulations.

v. Calculation of specific provisions and general provisions.

vi. The Financial institution's methodology used for valuation and management of collaterals along with the different types of collateral taken by Financial Institutions.

vii. Financial institution's market risk management strategy including organizational structure of the risk management Department/Committee, function, scope and nature of risk reporting and strategies for mitigating such risk.

viii. Financial institution's operational risk management strategy including organizational structure of the risk management Department/Committee, function, scope and nature of risk reporting and strategies for mitigating such risk.

4.9.4 The items for annual disclosures laid down under Section 4.9.2 and Section 4.9.3 are to be disclosed as 'notes to the accounts' to the annual statements published by the financial institutions.

4.9.5 The Annual Report containing the balance sheet, profit and loss account, cash-flow statement, auditor's report, annual return, directors' report to the Authority, notes to accounts and the disclosures made thereunder shall be made available on the financial institution's website within 6 months from the end of the financial year.

4.9.6 In compliance with the section 96 of Financial Services Act, 2011, balance sheet, profit and loss account, cash-flow statement, auditor's report, annual return, directors' report shall be published in at least one national newspaper.

4.10 Quarterly Disclosures

4.10.1 The items laid down in this section shall be disclosed every quarter on the financial institution's website, within 45 days of the end of a quarter.

4.10.2 The Audit Committee of the financial institution shall validate the disclosures made on a quarterly basis.

4.10.3 Quarterly disclosures shall at a minimum include the following items:

i. The amount of Tier 1 capital and its sub-components as given by

ii. Item 21 in Annexure.2.

iii. The amount of Tier 2 capital and its sub-components as given by

iv. Item 22 in Annexure.2.

v. Risk weighted assets as given by Item 23 in Annexure.2.

vi. Capital Adequacy ratios as given by Item 24 in Annexure.2.

vii. Loans by sectoral classification as given by Item 25 in Annexure.2.

viii. Gross non-performing loans by sector as given by Item 25 in Annexure.2.

ix. Loans by type of counter-party as given by Item 26 in Annexure.2.

x. Maturity pattern of assets and liabilities (original and residual) as given in Item 27 and

xi. Item 28 in Annexure.2.

xii. Gross and net non-performing loans by category (i.e., sub-standard, doubtful and loss loans) as on end of reporting quarter as given under Item 29 in Annexure.2.

xiii. Specific provisions and interest-in-suspense against non-performing loans by category (i.e. sub-standard, doubtful and loss exposures) as on end of reporting quarter as given under Item 29 in Annexure.2.

xiv. General Provisions by category (i.e., Standard and Watch exposures) as on end of reporting quarter as given under Item 29 in Annexure.2.

xv. Equity and other investments as given under Item 30 in Annexure.2.

xvi. Geographic distribution assets and liabilities as given under Item 31 in Annexure.2.

xvii. Credit risk exposures covered by collateral or guarantees as given under Item 32 in Annexure.2.

Effective date

4.11 Effective date

4.11.1 This regulation has come into effect on July 2015.

4.11.2 The above guidelines has become applicable on and after December 2015.

Annexure.1 Formats for Annual Disclosures[1]

Item 1: Tier 1 Capital and its sub-components

S. No		Current Period	Corresponding Period of Previous Year (COPPY)
1.	**Total Tier 1 Capital**		
a.	Paid-Up Capital		
b.	General Reserves		
c.	Share Premium Account		
d.	Retained Earnings		
Less:-			
e.	Losses for the Current Year and other regulatory deduction		

Item 2: Tier 2 Capital and its sub-components

S.no.		Current Period	COPPY
1.	**Tier II Capital**		
a.	Capital Reserve		
b.	Fixed Assets Revaluation Reserve		
c.	Exchange Fluctuation Reserve		
d.	Investment Fluctuation Reserve		
e.	Research and Development Fund		
f.	General Provision		
g.	Capital Grants		
h.	Subordinated Debt		
i.	Profit for the Year		

[1] All items to be reported in 000' Ngultrum

Item 3: Risk weighted assets (Current Period and COPPY[2])[3]

S.no.	Assets	Balance Sheet Amount	Risk Weight %	Risk Weighted Asset
1.	Zero-Risk Weighted Assets			
2.	20% Risk Weighted Assets			
3.	50% Risk Weighted Assets			
4.	100% Risk Weighted Assets			
5.	150% Risk weighted Assets			
6.	200% Risk Weighted Assets			
7.	250% Risk weighted Assets			
8.	300% Risk Weighted Assets			
Grand Totals				

Item 4: Capital Adequacy ratios

S.no.		Current Period	COPPY
1.	Tier 1 Capital		
a.	*Of which Counter-Cyclical Capital Buffer (CCyB) (if applicable)*		
b.	*Of which Sectoral Capital Requirements (SCR) (if applicable)*		
i.	*Sector 1*		
ii.	*Sector 2*		
iii.	*Sector 3*		
2.	Tier 2 Capital		
3.	Total qualifying capital		
4.	Core CAR		
a.	*Of which CCyB (if applicable) expressed as % of RWA*		

[2] COPPY figures to be reported in parenthesis next to the figures for the current reporting period

[3] (i)This format is subject to change in line with a change in Form M12 of the monthly returns submitted by financial institutions to the RMA. (ii) In case of sector-specific risk-weights, loans to different sectors having the same risk weight can be summed together and reported under one risk weight heading. For example, if housing and transport loans are to receive the same 150% risk weight, then loans to the two sectors may be added together and reported as part of 'Loans and Advances' under the 150% risk-weight category.

S.no.		Current Period	COPPY
b.	*Of which SCR (if applicable) expressed as % of Sectoral RWA*		
i.	*Sector 1*		
ii.	*Sector 2*		
iii.	*Sector 3*		
5.	CAR		
6.	Leverage ratio		

Item 5: Loans and NPL by Sectoral Classification[4]

S.no	*Sector*	**Current Period**		**COPPY**	
		Total Loans	NPL	Total Loans	NPL
a.	***Agriculture***				
b.	***Manufacturing/Industry***				
c.	***Service & Tourism***				
d.	***Trade & Commerce***				
e.	***Housing***				
f.	***Transport***				
g.	***Loans to Purchase Securities***				

4 The sectoral classification may be subject to change as directed by RMA time to time.

h.	***Personal Loan***				
i.	***Education Loan***				
j.	***Loan Against Term Deposit***				
k.	***Loans to FI(s)***				
l.	***Infrastructure Loan***				
m.	***Staff loan (incentive)***				
n.	***Loans to Govt. Owned Corporation***				
o.	***Consumer Loan (GE)***				

Item 6: Loans (Over-drafts and term loans) by type of counter-party

S.no	*Counter-party*	**Current Period**	**COPPY**
1.	***Overdrafts***		
a.	***Government***		
b.	***Government Corporations***		
c.	***Public Companies***		
d.	***Private Companies***		
e.	***Individuals***		
f.	***Commercial Banks***		
g.	***Non-Bank Financial Institutions***		

2.	***Term Loans***		
a.	***Government***		
b.	***Government Corporations***		
c.	***Public Companies***		
d.	***Private Companies***		
e.	***Individuals***		
f.	***Commercial Banks***		
g.	***Non-Bank Financial Institutions***		

Item 7: Assets (net of provisions) and Liabilities by Residual Maturity (Current Period and COPPY[5])[6]

As of period ending __,	***On Deman d***	***1-30 days***	***31 to 90 days***	***91-180 days***	***181-270 days***	***271-365 days***	***Over 1 year***	***Total***
Cash in hand								
Govt. Securities								
Investment securities								
Loans & advances to banks								
Loans & advances to customers								
Other assets								

[5] COPPY figures to be reported in parenthesis next to the figures for the current reporting period
[6] This format is subject to change in line with changes in RMA liquidity Management Framework

TOTAL								
Amounts owed to other banks								
Demand deposits								
Savings deposits								
Time deposits								
Bonds & other negotiable instruments								
Other liabilities								
TOTAL								
Assets/Liabilities								
Net Mismatch in each Time Interval								
Cumulative Net Mismatch								

Item 8: Assets (net of provisions) and Liabilities by Original Maturity (Current Period and COPPY[7])[8]

As of period	***On Deman***	***1-30***	***31 to 90***	***91-180***	***181-270***	***271-365***	***Over 1***	***Total***

[7] COPPY figures to be reported in parenthesis next to the figures for the current reporting period
[8] This format is subject to change in line with changes in RMA Liquidity Management Framework

ending __,	*d*	*days*	*days*	*days*	*days*	*days*	*year*	
Cash in hand								
Govt. Securities								
Investment securities								
Loans & advances to banks								
Loans & advances to customers								
Other assets								
TOTAL								
Amounts owed to other banks								
Demand deposits								
Savings deposits								
Time deposits								
Bonds & other negotiable instruments								

Other liabilities								
TOTAL								
Assets/Liabilities								
Net Mismatch in each Time Interval								
Cumulative Net Mismatch								

Item 9: Assets and Liabilities by time-to-re-pricing (Current Period and COPPY[9])

As of period ending __	Time to re-pricing				Non-interest bearing	Total
Assets	0-3 Months	3- 6 Months	6-12 months	More than 12 months		
Cash and Balances with Banks						
Treasury Bills						
Loans and Advances						
Investment securities						
Other Assets						
Total financial assets						
Liabilities						
Deposits						
Borrowings						

9 COPPY figures to be reported in parenthesis next to the figures for the current reporting period

Other Liabilities						
Total financial liabilities						
Total interest Re-pricing gap						

Item 10: Non performing Loans and Provisions

		Current Period	COPPY
1.	***Amount of NPLs (Gross)***		
a.	***Substandard***		
b.	***Doubtful***		
c.	***Loss***		
2.	***Specific Provisions***		
a.	***Substandard***		
b.	***Doubtful***		
c.	***Loss***		
3.	***Interest-in-Suspense***		
a.	***Substandard***		

b.	***Doubtful***		
c.	***Loss***		
4.	***Net NPLS***		
a.	***Substandard***		
b.	***Doubtful***		
c.	***Loss***		
5.	***Gross NPLs to Gross Loans***		
6.	***Net NPLs to Net loans***		
7.	***General Provisions***		
a.	***Standard***		
b.	***Watch***		

Item 11: Assets and Investments

S.no	Investment	Current Period	COPPY
1.	**Marketable Securities (Interest Earning)**		
a.	RMA Securities		
b.	RGOB Bonds/Securities		

c.	Corporate Bonds		
d.	Others		
	Sub-total		
2.	**Equity Investments**		
e.	Public Companies		
f.	Private Companies		
g.	Commercial Banks		
h.	Non-Bank Financial Institutions		
Less			
i.	Specific Provisions		
3.	**Fixed Assets**		
j.	Fixed Assets (Gross)		
Less			
k.	Accumulated Depreciation		
l.	Fixed Assets (Net Book Value)		

Item 12: Foreign exchange assets and liabilities (Current Period and COPPY[10])

CURRENCY	**Liquid Foreign Currency Holdings (Up to one week)**			**Long Term Foreign Currency Holdings (More than one week)**			**Nu. In millions**	
	Assets in Foreign Currency	Liabilities in Foreign Currency	**Net Short Term Position**	Assets in Foreign Currency	Liabilities in Foreign Currency	**Long Term Net Position**	**OVERALL NET POSITION**	**Overall Net Position*/ Core Capital**
	1	**2**	**3 = 1 - 2**	**4**	**5**	**6 = 4 - 5**	**7 = 3 + 6**	**8**
Currency 1								
Currency 2								
Currency 3								
Currency 4								
Currency 5								

[10] COPPY figures to be reported in parenthesis next to the figures for the current reporting period

Item 13: Geographical Distribution of Exposures

	Domestic		*India*		*Other*	
	Current Period	***COPPY***	***Current Period***	***COPPY***	***Current Period***	***COPPY***
Demand deposits held with other banks						
Time deposits held with other banks						
Borrowings						

Item 14: Credit Risk Exposures by collateral

S. No	**Particular**	**Current Period**	**COPPY**
1.	Secured Loans		
a.	Loans secured by physical/ real estate collateral		
b.	Loans secured by financial collateral		
c.	Loans secured by guarantees		
2.	Unsecured Loans		
3.	Total Loans		

Item 15: Earnings Ratios (%)

S. no	**Ratio**	**Current Period**	**COPPY**

1.	Interest Income as a percentage of Average Assets[11]		
2.	Non-interest income as a percentage of Average Assets		
3.	Operating Profit as a percentage of Average Assets		
4.	Return on Assets		
5.	Business (Deposits plus advances) per employee		
6.	Profit per employee		

Item 16: Penalties imposed by the RMA in the past period

S.No	Current Period (year for which the disclosure is being made)		Corresponding period of the previous year (COPPY)	
	Reason for Penalty Imposed	Penalty Imposed*	Reason for Penalty Imposed	Penalty Imposed*

*In case a monetary penalty was imposed, please report in Nu.

Item 17: Customer Complaints

S. No	Particular	Current Period	COPPY
1.	No. of complaints pending at the beginning of the year		
2.	No. of complaints received during the year		
3.	No. of complaints redressed during the year		
4.	No. of complaints pending at the end of the year		

[11] **Average Assets** is the average of the total assets at the beginning and closing of a particular accounting period

Item 18: Provisioning Coverage Ratio (PCR)

Year	Gross NPL	Additional NPL	Additional specific provisions	Additional Interest-in-suspense A/C	PCR
1	2	3	4	5	6= (4/5)
COPPY					
Current Year					

Item 19: Concentration of Credit and Deposits

S. No	Particular	End of Current Period	COPPY
1.	Total loans to 10 largest borrowers		
2.	*As % of total Loans*		
3.	Total deposits of the 10 largest depositors		
4.	*As % of total deposits*		

Item 20: Exposure to 5 Largest NPL accounts

S. No	Particular	End of Current Period	COPPY
1.	Five largest NPL accounts		
2.	*As % of total NPLs*		

Annexure.2 Format for Quarterly Disclosures

Item 21: Tier 1 Capital and its sub-components

S. No		**Current Period**	**Corresponding Period of Previous Year (COPPY)**
1.	**Total Tier 1 Capital**		
a.	Paid-Up Capital		
b.	General Reserves		
c.	Share Premium Account		
d.	Retained Earnings		
Less:-			
e.	Losses for the Current Year and other regulatory deduction		

Item 22: Tier 2 Capital and its sub-components

S.no.		**Current Period**	**COPPY**
1.	**Tier II Capital**		
a.	Capital Reserve		
b.	Fixed Assets Revaluation Reserve		
c.	Exchange Fluctuation Reserve		
d.	Investment Fluctuation Reserve		
e.	Research and Development Fund		
f.	General Provision		
g.	Capital Grants		
h.	Subordinated Debt		

Item 23: Risk weighted exposure table (Current Period and COPPY[12])[13]

S.no.	Assets	Balance Sheet Amount	Risk Weight %	Risk Component
1.	Zero-Risk Weighted Assets			
2.	20% Risk Weighted Assets			
3.	50% Risk Weighted Assets			
4.	100% Risk Weighted Assets			
5.	150% Risk Weighted Assets			
6.	200% Risk Weighted Assets			
7.	250% Risk Weighted Assets			
8.	300% Risk Weighted Assets			
Grand Totals				

Item 24: Capital Adequacy ratios

S.no.		Current Period	COPPY
1.	Tier 1 Capital		
a.	*Of which Counter-Cyclical Capital Buffer (CCyB) (if applicable)*		
b.	*Of which Sectoral Capital Requirements (SCR) (if applicable)*		
i.	*Sector 1*		
ii.	*Sector 2*		
iii.	*Sector 3*		
2.	Tier 2 Capital		
3.	Total qualifying capital		
4.	Core CAR		
a.	*Of which CCyB (if applicable) expressed as % of RWA*		

[12] COPPY figures to be reported in parenthesis next to the figures for the current reporting period
[13] This format is subject to change in line with a change in Form M12 of the monthly returns submitted by financial institutions to the RMA

S.no.		Current Period	COPPY
b.	*Of which SCR (if applicable) expressed as % of Sectoral RWA*		
i.	*Sector 1*		
ii.	*Sector 2*		
iii.	*Sector 3*		
5.	CAR		
6.	Leverage ratio		

Item 25: Loans and NPL by Sectoral Classification

S.no	*Sector*	**Current Period**		**COPPY**	
		Total Loans	NPL	Total Loans	NPL
a.	***Agriculture***				
b.	***Manufacturing/Industry***				
c.	***Service & Tourism***				
D	***Trade & Commerce***				
e.	***Housing***				
f.	***Transport***				
g.	***Loans to Purchase Securities***				
h.	***Personal Loan***				

i.	***Education Loan***				
j.	***Loan Against Term Deposit***				
k.	***Loans to FI(s)***				
l.	***Infrastructure Loan***				
m.	***Staff loan (incentive)***				
n.	***Loans to Govt. Owned Corporation***				
o.	***Consumer Loan (GE)***				

Item 26: Loans (Over-drafts and term loans) by type of counter-party

S.no	*Counter-party*	**Current Period**	**COPPY**
1.	***Overdrafts***		
a.	***Government***		
b.	***Government Corporations***		
c.	***Public Companies***		
d.	***Private Companies***		
e.	***Individuals***		
f.	***Commercial Banks***		
g.	***Non-Bank Financial Institutions***		
2.	***Term Loans***		
a.	***Government***		
b.	***Government Corporations***		
c.	***Public Companies***		

d.	***Private Companies***		
e.	***Individuals***		
f.	***Commercial Banks***		
g.	***Non-Bank Financial Institutions***		

Item 27: Assets (net of provisions) and Liabilities by Residual Maturity (Current Period and COPPY[14])[15]

As of period ending __,	*On Demand*	*1-30 days*	*31 to 90 days*	*91-180 days*	*181-270 days*	*271-365 days*	*Over 1 year*	*Total*
Cash in hand								
Govt. Securities								
Investment securities								
Loans & advances to banks								
Loans & advances to customers								
Other assets								

[14] COPPY figures to be reported in parenthesis next to the figures for the current reporting period
[15] This format is subject to change in line with changes inRMA Liquidity Management Framework

TOTAL								
Amounts owed to other banks								
Demand deposits								
Savings deposits								
Time deposits								
Bonds & other negotiable instruments								
Other liabilities								
TOTAL								
Assets/Liabilities								
Net Mismatch in each Time Interval								
Cumulative Net Mismatch								

Item 28: Assets (net of provisions) and Liabilities by Original Maturity (Current Period and COPPY[16])[17]

As of	***On***	***1-30***	***31 to 90***	***91-180***	***181-270***	***271-365***	***Over 1***	***Total***

[16] COPPY figures to be reported in parenthesis next to the figures for the current reporting period
[17] This format is subject to change in line with changes in RMA Liquidity management framework

period ending __,	Deman d	days	days	days	days	days	year	
Cash in hand								
Govt. Securities								
Investment securities								
Loans & advances to banks								
Loans & advances to customers								
Other assets								
TOTAL								
Amounts owed to other banks								
Demand deposits								
Savings deposits								
Time deposits								
Bonds & other negotiable instruments								

Other liabilities								
TOTAL								
Assets/Liabilities								
Net Mismatch in each Time Interval								
Cumulative Net Mismatch								

Item 29: Non performing Loans and Provisions

		Current Period	**COPPY**
1.	***Amount of NPLs (Gross)***		
a.	***Substandard***		
b.	***Doubtful***		
c.	***Loss***		
2.	***Specific Provisions***		
a.	***Substandard***		
b.	***Doubtful***		

c.	*Loss*		
3.	*Interest-in-Suspense*		
a.	*Substandard*		
b.	*Doubtful*		
c.	*Loss*		
4.	*Net NPLS*		
a.	*Substandard*		
b.	*Doubtful*		
c.	*Loss*		
5.	*Gross NPLs to Gross Loans*		
6.	*Net NPLs to Net loans*		
7.	*General Provisions*		
a.	*Standard*		
b.	*Watch*		

Item 30: Assets and Investments

S.no	Investment	End of Current Period	COPPY
1.	**Marketable Securities (Interest Earning)**		
a.	RMA Securities		
b.	RGOB Bonds/Securities		
c.	Corporate Bonds		
d.	Others		
	Sub-total		
2.	**Equity Investments**		
a.	Public Companies		
b.	Private Companies		
c.	Commercial Banks		
d.	Non-Bank Financial Institutions		
Less			
e.	Specific Provisions		
3.	**Fixed Assets**		
a.	Fixed Assets (Gross)		
Less			
b.	Accumulated Depreciation		
c.	Fixed Assets (Net Book Value)		

Item 31: Geographical Distribution of Exposures

	Domestic		*India*		*Other*	
	Current Period	***COPPY***	***Current Period***	***COPPY***	***Current Period***	***COPPY***
Demand deposits held						

with other banks						
Time deposits held with other banks						
Borrowings						

Item 32: Credit Risk Exposure by collateral

S. No	Particular	Current Period	COPPY
1.	Secured Loans		
a.	Loans secured by physical/ real estate collateral		
b.	Loans secured by financial collateral		
c.	Loans secured by guarantees		
2.	Unsecured Loans		
3.	Total Loans		