



CORPORATE OFFICE

Norzin Lam, Thimphu: Bhutan

Phone: +975 2 324 497 / 325 546

Fax: 333 156 / 327 546

Email: corporate@drukpnbbank.bt

Website: www.drukpnbbank.bt



Druk PNB Bank Ltd.

...your partner in growth!

ANNUAL REPORT 2019





Staff members of Corporate Office and Thimphu Branch



Staff members of Phuentsholing Branch



Staff members of Paro Branch



Staff members of Gelephu Branch



Staff members of Bumthang Branch



Staff members of Trongsa Branch



Staff members of Wangdue Phodrang Branch



Staff members of Samtse Branch



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SHARE HOLDING PATTERN

Punjab National Bank, India: 51%

Promoters in Bhutan: 19%

Public: 30%

CORPORATE OFFICE

P.O. Box No. 502, Norzin Lam • Thimphu: Bhutan
Tel.: +975 3 324 497, 325 936, 331 291 • Fax: +975 2 327 546, 333 156
SWIFT CODE: PUNBBTBT • Website: www.drukpnb.bt



THIMPHU BRANCH

P.O. Box No. 502, Norzin Lam
Thimphu: Bhutan
Tel.: +975 3 324 497, 325 936
Fax: +975 2 327 546, 333 156



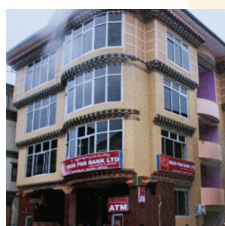
PHUENTSHOLING BRANCH

P.O. Box No. 156, Zhung Lam
Phuentsholing: Bhutan
Tel.: +975 5 253 660, 253 661,
253 662
Fax: +975 5 253 669



WANGDUE BRANCH

P.O. Box No. 1305, Bajo Town
Wangdue Phodrang: Bhutan
Tel.: +975 2 481 932, 481 931
Fax: +975 2 481 932



GELEPHU BRANCH

P.O. Box No. 156, Jangchub Lam
Gelephu: Bhutan
Tel.: +975 6 252 246
Fax: +975 6 252 245



PARO BRANCH

Paro Town
Paro: Bhutan
Tel.: +975 8 271 036
Fax: +975 8 271 038



TRONGSA BRANCH

MHPA Colony, Dangdung
Trongsa: Bhutan
Tel.: +975 3 528 012
Fax: +975 3 528 013



SAMTSE BRANCH

Main Town
Samtse: Bhutan
Tel.: +975 5 365 419
Fax: +975 5 365 420



BUMTHANG BRANCH

Dekiling, Near Hospital
Bumthang: Bhutan
Tel.: +975 2 630 037
Fax: +975 2 630 038

BOARD OF DIRECTORS



Dasho Sangay Wangchuk
Non Executive Chairman



Sonam Tashi
Independent Director



Tashi Pem
Public Shareholder Director



Sunil Soni
General Manager, IT, PNB
(PNB Nominated Director)



Alok Vardhan Chaturvedi
Independent Director



Sumesh Kumar
Chief Executive Officer

Financial Highlights

Assets/Liabilities Position

(in million Ngultrum)

Item	As on 31.12.2018	As on 31.12.2019
Total Assets	15,262.61	17,222.37
Capital Fund	1700.14	1807.95
Deposit Liabilities	12,652.26	14,266.05
Advances	8,470.12	10,913.94

Operating Results

(in million Ngultrum)

Item	As on 31.12.2018	As on 31.12.2019
Income	1,011.46	1,198.15
Expenses	653.84	809.54
Net Profit (after tax)	233.74	194.997

Ratios

Item	2018	2019
Net Interest Margin	3.59%	4.06%
Return on Assets	1.53%	1.13%
Return on Capital	12.07%	10.79%
Profit per employee	1.54 Mio	1.11 Mio
Earning per share	Nu. 4.22	Nu. 2.32



Druk PNB Bank Ltd.

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Director's Report: 2019

Dear Shareholders,

Druk PNB Bank Limited (DPNBL) takes immense pleasure in presenting its Annual Report for the year 2019. On behalf of the Board of Directors I present before you the Annual Report of your bank for the year ended 31st December '2019. The report highlights the DPNBL's achievements during the year and the final accounts of your bank is in compliance to Bhutanese Accounting Standards (BAS).

Your bank has completed 10 years of successful operations in 2019 registering a growth in total business from Nu. 21,122.44 Mio in 2018 to Nu 25,289.93 Mio, showing a growth of 19.73%, comprising of Nu 14,375.99 Mio as Deposits and Nu. 10,913.94 Mio as Advances. I am extremely happy to report that the Board has approved three months Bonus/Performance Based Incentive (PBI) to the employees for the year 2019 to mark the 10th Anniversary of the Bank. Further, the bank also offered bonus shares in the ratio of 5:1 to our shareholders for the year ended 2019.

In terms of customer base also, the bank has achieved encouraging results with number of accounts surpassing 100578 mark as on 31st December 2019 This satisfactory performance of your bank in a span of 10 years is indicative of the quality services rendered. Your bank has not only registered satisfactory business growth, but also has maintained the quality of assets and liabilities much better than the Industry average. The retail deposit base of the Bank, which is considered to be stable deposit, is 53.79% of the total deposits, while the performing advances are 96.02 % of total advances.

Net Profit:

In 2019, the Bank earned total income of Nu 1,211.04 million against total expenditure of Nu 768.96 million. Net profit of the bank (as per BAS) is Nu.194.99 million and (after making

provisions, as per GAAP) resulting in post-tax net profit of Nu 108.87 million. Same was done with prudent management of liquidity and cost of deposit and by maintaining asset quality.

Capital & Reserve, Bonus shares:

The Bank has earned a net profit of Nu.194.99 million (as per BAS) and Nu 108.88 million (as per GAAP). An amount of Nu.54.43 million has been transferred to General reserve in terms of the RMA guidelines and balance Nu.51.44 million is retained in P & L account after maintaining foreign exchange fluctuation reserve of Nu. 2.99 million.

Board of Directors:

As on 31st December 2019, there were seven directors on the Board of the Bank, comprising the Chairman, the CEO, two PNB nominee directors, one public shareholder director and two Independent Directors.

The Board met four times during the year complying with the requirements of the Companies Act of Bhutan, 2016 and RMA Prudential Regulations. The quorums of these meetings were duly maintained. The statutory records/documents have been duly maintained by the Bank as per the requirement of the Companies Act of Bhutan, 2016.

Corporate Governance:

The bank is committed to best practices in Corporate Governance by adhering to high standard of transparency, accountability, ethical business practices, operational efficiencies and social responsiveness for maximizing interest of all the shareholders.

As a listed company, Bank is complying with various regulatory requirements. Bank has complied with the guidelines of the Royal Monetary Authority of Bhutan and the Royal Security Exchange of Bhutan on the matters relating to corporate governance, which has been examined by the Statutory Auditors.

Statutory Compliance:

The bank has complied with all regulatory norms in respect of classification of assets; provisioning on loans as per the quality, exposure limits to single largest borrower & ten largest borrowers; Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) and other guidelines of RMA at all times.

Business expansion:

To expand our banking business and to increase the accessibility of banking services, a new Branch Office was opened in Bumthang during the year. The Branch became fully operational from 12th December 2019. With the opening of Bumthang branch, the total number of branches of the bank now stands at 8.

To improve on our alternate delivery channels, the bank procured 8 more new ATMs during the year and were installed at Thimphu, Paro, Punakha (Khuruthang), Bumthang and Samtse (Chengmari), thus raising the total number of ATMs to 30.

We are also exploring viable sites for opening of new branch offices in Mongar and Samdrup jongkhar in the near future.

Further, Bank has also launched the Point of Sales (POS) machines and Scan and Pay (QRC) Mobile app during the year 2019 for the convenience and ease of making payments digitally by our esteemed customers.

Corporate Social Responsibility:

The bank has concern towards society in which it operates. As a part of its CSR and to promote sports in the society the Bank sponsored India House golf tournament followed by participation of staff of all Branches in the local football tournament and International Yoga September, 2019.

Staff training and welfare:

The bank gives top priority to the banking knowledge and skill development of its employees by providing them regular training to ensure efficiency in delivering service to its customers. During the year the bank provided training to 93 of its employees in various organizations as per details given as under.

Sl. No.	Training Institute	No. of employees who attended the training.
1	Various in-country programs-FITI	28
2	Customized training on AML/CFT	50
3	Workshop on Risk Management -ADB	2
4	Financial Consumer protection- MOEA	1
5	NIIBM- India	10
6	Master Card summit- Mumbai	2
	Total	93

Statutory Auditors:

M/s. M.P. Sureka & Company, Chartered Accountants, Kolkata have audited the bank's books of accounts for the year ended 31st December 2019.

Acknowledgement:

The Board expresses its sincere gratitude to the Royal Government of Bhutan, the Royal Monetary Authority of Bhutan, the Royal Securities Exchange of Bhutan and other regulators for their valuable guidance and support. The Board also would like to thank all the financial institutions in Bhutan and correspondent banks in India & third countries for their cooperation and patronage. The Board acknowledges the gratifying confidence of the customers and shareholders and wishes to place on record its appreciation for the dedicated services and contribution made by the employees of the bank towards its growth and achievement during the year.



(Dasho Sangay Wangchuk)

Chairman: For and on behalf of the Board of Directors.



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CEO's Report

I, on behalf of the Board and the Management of Druk PNB Bank Limited would like to take this opportunity to place before you the financial highlights of this bank for the year ended 31st December 2019.

The total business of the Bank stood at Nu. 25,289.93 Mn during the year ended 2019 as against Nu. 21,122.38 Mn during 2018 thus registering a growth of 19.73% which is much above the system's growth and also your bank has been able to achieve other business target set by the Bank's Board on various fronts. The total deposit and advance of the bank stood at Nu. 14,375.99 and 10,913.94 million showing a growth of 13.63 % and 28.85% respectively over previous year. Our net profit has decreased from Nu. 233.74 million in 2018 to Nu. 194.99 million in 2019 due to increase in NPL and additional provisions mandated by RMA over and above the normal provisioning. However, despite this fresh slippage in NPL, our overall NPL level is amongst lowest in the system.

Bank's high level of Customer Service ably backed by efficient technical support provided by the parent Bank- Punjab National Bank, which is a leading Public Sector Bank in India, has made remittances to India very fast and reliable, making lives of Bhutanese people, particularly those whose children are studying in India, easier and hassle free. Business community having financial dealings with India has also been the beneficiary of our smooth and efficient facility for transfer of funds, both inward and outward. All these achievements were made possible due to our understanding of customers' needs and providing them with appropriate customized banking solutions.

Financial Aspect

Some of the key parameters from which the performance of your Bank can be gauged are as under:

(Nu. In Million)

Particulars	31.12.2018	31.12.2019	Variance
Total Business	21,122.38	25,289.93	19.73%
Total Deposits	12,652.26	14,375.99	13.62%
Total Advances	8,470.12	10,913.94	28.85%
Net Profit	233.74	194.99	-16.58%
Capital Funds	1,937.04	1960.51	1.21%
Customers Base	107349.00	100578.00	-6.30%
Business per employee	193.78	191.59	-1.13%
Return on Equity	42.17%	27.86%	-33.93%
Earnings per share (Actual in Nu.)	4.22%	2.75%	-17.66%
Book Value of Share (Actual in Nu)	30.67	25.83	-15.78%

Service Delivery Channel

The Bank continues to serve the country through its eight branches in Thimphu, Phuentsholing, Wangdue, Gelephu, Paro, Dangdung-Trongsa, Samtse and Bumthang as the prospective customers are mainly concentrated in these areas.

The Bank's ATM network now stands at 30 in centers where it opened branches except for the one opened near Jaypee Colony, on the side of the Wangdue – Tsirang highway hitherto an unbanked area, for the convenience of customers to withdraw cash 24x7 and reduce footfall in the branches. Your Bank's ATM's have been acknowledged to provide uninterrupted efficient services to the customers with minimum down-time, which is redefining the way Banking is transacted in Bhutan.

Further, Your Bank has done Mobile app enhancement during the year 2019 with more features, for easy and convenient use for its esteemed customers.

Community Services

The bank not only focuses on its core business of providing banking services to the people, it values community services as well. As a part of its corporate social responsibility and as a gesture of sports promotion in Bhutan, your Bank has sponsored India House Golf Tournament, Local Football and International Yoga Day etc during the year 2019

Tashi Delek.

(Sumesh Kumar)
Chief Executive Officer



**To The Members of
DRUK PNB BANK LIMITED
THIMPHU, BHUTAN**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Druk PNB Bank Limited (DPNBL), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the financial statements of DPNBL give the information required by the Companies Act of Bhutan, 2016 in the manner so required and give a true and fair view in conformity with the Bhutanese Accounting Standard as notified by the Accounting and Auditing Standards Board of Bhutan ("AASBB")

- a. in the case of the statement of financial position, of the state of affairs of the Company as at 31st December, 2019;
- b. in the case of the statement of comprehensive income, of the financial performance for the year ended on that date;
- c. in the case of the statement of changes in equity, of the changes in equity for the year ended on that date; and
- d. in the case of the statement of cash flows, of the cash flows for the year ended on that date.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company

in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Bhutanese Accounting Standard as notified by the Accounting and Auditing Standards Board of Bhutan ("AASBB") read with the Companies Act of Bhutan, 2016 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the 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:

- 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 a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- 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.
- 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.

Report on Other Legal and Regulatory Requirements

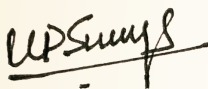
As required by Section 266 of the Companies Act of Bhutan, 2016, we enclose in the Annexure – A hereto statement on the 'Minimum Audit Examination and Reporting Requirements' to the extent applicable to the Bank.

As required by Section 265 of the Companies Act of Bhutan, 2016, we report that:

- a. We have obtained all the information and explanations which to best of our knowledge and belief were necessary for the purpose of our audit.
- b. In our opinion, proper books of accounts as required by law as stated in the Companies Act of Bhutan, 2016, have been kept by the Company so far as it appears from our examination of those books.
- c. The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow with by this report are in agreement with the books of account;
- d. Based on the information, explanations and management representations received during the course of our audit, the Bank has complied with all the applicable and relevant legal and regulatory requirements.

For, M.P.Sureka & Co.

Chartered Accountants (FR No. 322097E)



M.P.Sureka (Membership No. 050560)

PARTNER

Date: 26/05/2020

Place: Thimphu, Bhutan

DRUK PNB BANK LIMITED

Thimphu : Bhutan

ANNEXURE REFERRED TO OUR AUDIT REPORT OF EVEN DATE MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

As required by the minimum audit examination and reporting requirements under clause 266 of the Companies Act of Bhutan 2016, and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we further report that:

1. The Bank has maintained proper records of the property, plant & equipment in the assets register to show full particulars including quantitative details and situation of the assets. As explained to us, the property, plant & equipment have been physically verified by the management during the year in a phased/periodical manner which in our opinion is reasonable having regard to the size of Bank and nature of its assets. As informed, no material discrepancies were noted in the physical verification.
2. None of the property, plant & equipment has been revalued during the year.
3. The Bank has not taken any loan secured or unsecured from Companies under the same management terms of which are prejudicial to the interest of the Company.
4. The Bank has not granted any loan, secured or unsecured to other companies, firms or other parties and/or to companies under the same management terms of which are prejudicial to the interest of the Company.
5. No excessive/frequent advances are generally granted and accumulation of large advances against particular individual is generally avoided.
6. The loans/advances granted to officers/staffs are in keeping with the provision of Service Rules and no excessive/frequent advances are granted and accumulation of large advances against particular individual is avoided.
7. In our opinion and according to the information and explanation given to us the Bank has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Bank as well as to ensure adherence to the rules, regulations and systems and procedures.
8. Fund based/Non-fund based facilities were provided to the Directors or any other parties related to the Directors or with company or firms in which the Directors are directly or

indirectly interested under similar terms and conditions as are applied with other parties. Such transactions have been adequately disclosed in the financial statements. Such terms and conditions are not prejudicial to the interest of shareholders and other Directors of the Bank.

9. In our opinion, the transactions of purchase and sales of goods and services made in pursuance of contracts or arrangements entered into with the directors or their relatives, companies or firms in which the directors are directly or indirectly interested have been made at prices, at which the transactions for similar goods or services have been made with other parties. Such transactions have been adequately disclosed in the financial statements. Such terms and conditions are not prejudicial to the interest of shareholders and other Directors of the Bank.
10. According to the records, the Bank is regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authority.
11. There are no undisputed amounts payable in respect of rates, taxes, duties, provident fund and other statutory dues outstanding at the year-end.
12. No personal expenses of employees or directors have been charged to the Bank accounts other than that payable under contractual obligations or in accordance with generally accepted business practice.
13. In our opinion and on the basis of information and explanation given to us, the management of liquid resources, particularly cash/bank and short term deposits etc is reasonably adequate and excessive amounts are not lying idle in non interest-bearing accounts.
14. In our opinion and on the basis of available records and information, the activities carried out by the Bank are lawful and intravires to the Articles of the Incorporation of the Bank.
15. In our opinion and according to the information and explanations given to us, other than the remunerations to the Chief Executive Officer, and sitting fees to other Directors, no other payments in cash or in kind, has been paid to them or any of their relatives, in the nature of remuneration or commission. The remunerations and sitting fees paid to the Chief Executive Officer, and the Directors, are disclosed in the Financial Statement.
16. The Bank has established an effective budgetary control system
17. As represented to us, the directives of the Boards have been complied with.
18. So far as we have been represented and our knowledge is concerned, the officials of the Bank have not transmitted any price sensitive information which is not made public, unauthorized to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.

19. The Bank has maintained the adequate documents and records where it has granted loans and advances for which agreements have been drawn up and timely entries have been made therein.
20. The Bank has not dealt or traded in shares, securities and other investment during the year.
21. The Bank has adequate records for funds collected from depositors and for interest payment.
22. The Bank has complied with the requirements of Financial Service Act of Bhutan, 2011 and any other applicable laws, rules and regulations and guidelines issued by the appropriate Authorities.
23. The requirements of RMA Prudential Regulations, 2016 relating to provisioning for the non-performing assets including loans and advances have been complied with.
24. Recognition of interest income in respect of non-performing assets has been complied with.
25. The assets hypothecated against loans and advances have been physically verified, properly valued, mortgage deed executed and ensured that the assets are free of any prior lien or charges.
26. Proper analysis is carried out before re-phasing / rescheduling of loans.
27. There is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances.

Computerized Accounting Environment

1. The Organizational and system development controls and other internal controls are adequate relative to size and nature of computer installations.
2. There are adequate safeguard measures and backup facilities exist in relation to computer facilities.
3. The backup facilities and disaster recovery measures include keeping files in different locations.
4. The operational controls have been established with the implementation of the CBS to ensure correctness and validity of input data and output information.

5. The measures to prevent unauthorized access over the computer installation and files are adequate.
6. As informed, wherever there is data migration during change over to new system, it is managed effectively to ensure completeness and integrity of data as well as smooth operation of the system.

General

1. Going Concern Perspective:

Based on the net asset position reflected by the Bank's Balance Sheet as at 31st December, 2019 audited by us in accordance with the International Auditing Standards and on the basis of such other tests as we considered necessary in this regards, we have no reason to believe that the Bank is not a going concern on the Balance Sheet date and is not likely to become sick in the near future.

2. Ratio Analysis:

The significant ratios indicating the financial health and profitability of the Bank are given below:

Ratio	Amount in Mio	2019	2018
Current ratio Current Assets/Current liabilities	9,881.10/8,465.95	1.17	1.23
Core capital Tier I capital/Total Risk weighted assets	1,792.98/15,591.32	11.50%	13.47%
Capital Adequacy Tier I & Tier II capital/Total Risk weighted assets	1,960.51/15,591.33	12.57%	17.97%
Statutory Liquidity Requirement Quick Assets/Total liabilities less Capital fund	5,505.94/15,414.41	35.72%	37.45%

Particulars	2019	2018
Credit Deposit Ratio – Loans & Advances / Deposits	76.30%	66.95%
NPA Ratios – Total NPA / Loans & Advances	3.98%	1.66%
Interest Expense / Deposits	4.20%	3.81%
Interest Income / Loans	7.40%	10.44%
Deposit Growth	14.36%	17.95%
Advance Growth	28.85%	31.96%
Increase / (Decrease) in Provision	134.39%	7.46%
Increase / (Decrease) in Forex Income	(14.35)%	30.45%
Return on Equity (PAT / Equity x 100)	10.79%	42.17%
Return on Assets (PAT / Total Assets x 100)	1.13%	1.53%
Earnings per Share (PAT / No. of Shares issued)	Nu.2.75	Nu.3.34
Net Profit Ratio (PAT / Total Income x 100)	16.27%	23.11%

3. Compliance with the Companies Act of Bhutan, 2016.

The Bank has complied with the various provisions of the Companies Act of Bhutan, 2016 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares and all other matters specified in the said Act.

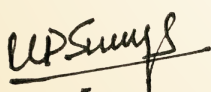
4. Adherence to Laws, Rules and Regulations

The audit of the Bank is governed by the Companies Act of Bhutan, 2016, RMA Prudential Regulations, 2016 and Financial Service Act of Bhutan 2011. The scope of audit is limited to examination and review of the financial statements as produced to us by the management.

The Bank has generally complied with the applicable laws, rules and regulations, systems, procedures and practices as informed and explained to us.

For, M.P.Sureka & Co.

Chartered Accountants (FR No. 322097E)




M.P.Sureka (Membership No. 050560)

PARTNER

Date: 26/05/2020

Place: Thimphu, Bhutan

DRUK PNB BANK LTD.
Statement of Financial Position
As at 31st December 2019

Assets	Note	Amount in Nu.	
		December 31, 2019	December 31, 2018
Cash & Cash Equivalents	13	144,470,374.53	128,905,996.76
Cash & Balances with Central Bank	13A	1,826,211,230.55	1,344,494,264.37
Placement with other Banks	14	3,535,260,001.99	2,363,609,065.00
Loans and advances to customers	15	10,913,936,045.61	8,470,122,546.86
Financial investments – available-for-sale		-	-
Financial investments – available-for-sale pledged as collateral		-	-
Financial investments	15A	573,877,002.62	2,753,090,920.26
Other assets	16	127,919,631.16	127,895,854.67
Property, Plant and Equipment	Note:4	76,249,585.47	73,953,038.61
Goodwill and other intangible assets		-	-
Deferred tax assets	Note:3	24,447,272.16	535,854.00
Non-current assets and disposal groups held for sale		-	-
Total assets		17,222,371,144.12	15,262,607,540.53
Liabilities			
Due to Banks and Financial Institutions	17	213,316,178.77	144,472,619.13
Due to customers	18	14,304,434,443.25	12,507,785,390.90
Debt issued and other borrowed funds	19	150,000,000.00	150,000,000.00
Current tax liabilities	12	16,388,320.53	105,230,484.01
Additional Tax Liabilities			
Other liabilities	20	355,809,618.59	439,377,556.52
Provisions	21	349,559,397.99	205,130,733.03
Retirement Benefit Obligations	22	24,907,410.31	10,464,450.00
Non-current liabilities and disposal groups held for sale		-	-
Total liabilities		15,414,415,369.44	13,562,461,233.59
Equity attributable to equity holders of parent			
Issued capital		700,000,000.00	700,000,000.00
Share premium		153,150,800.00	153,150,800.00
General Reserve		634,108,182.36	536,609,224.19
Retained earnings		305,717,696.77	295,842,189.11
Foreign Fluctuation Reserve		17,537,544.18	14,544,093.66
Other Comprehensive Income/(Loss)		-2,558,448.63	-
Total equity		1,807,955,774.68	1,700,146,306.96
Total liabilities and equity		17,222,371,144.12	15,262,607,540.53

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)

M.P. Sureka



M.P. Sureka (Membership No. 050560)
Partner

Date: 26/05/2020

Place: Thimphu, Bhutan

For & On Behalf of Board of Directors

[Signature]
(CEO)

[Signature]
(Director)

[Signature]
(Chairman)

DRUK PNB BANK LTD.
Statement of Comprehensive Income
For the year ended 31st December 2019

	Note	Amount in Nu.	
		31-Dec-19	31-Dec-18
Interest and similar income	5	1,058,951,522.21	885,582,958.26
Interest and similar expense	6	600,548,130.63	482,423,141.59
Net interest income		458,403,391.58	403,159,816.67
Fees and commission income	7	126,428,027.32	108,145,258.25
Fees and commission expense		-	-
Net fee and commission income		126,428,027.32	108,145,258.25
Net trading income		-	-
Net gain (loss) on financial assets and liabilities designated at fair value through profit or loss		-	-
Other operating income	8	12,771,239.48	17,728,535.44
Total operating income		597,602,658.38	529,033,610.36
NPA Provisions	9	144,428,664.96	3,595,378.50
Impairment losses on financial investments		-	-
Net operating income		453,173,993.43	525,438,231.86
Personnel expenses	10	104,408,677.53	79,607,161.03
Depreciation of property and equipment		18,306,643.52	16,345,731.10
Amortisation of intangible assets		-	-
Other operating expenses	11	86,272,170.51	75,466,289.90
Total operating expenses		208,987,491.56	171,419,182.03
Profit before tax from continuing operations		244,186,501.86	354,019,049.83
Less: Provision-Others		-	10,649,750.00
Profit Before Tax		244,186,501.86	343,369,299.83
Income tax expense-Current Tax	12A	73,100,003.67	108,971,054.81
Income tax expense-Deferred Tax		(23,911,418.16)	656,297.31
Profit for the year from continuing operations		194,997,916.35	233,741,947.71
Discontinued operations			
Profit after tax for the year from discontinued operations		-	-
Profit for the year		194,997,916.35	233,741,947.71
Attributable to:			
Equity holders of the parent			
Profit for the year from continuing operations		194,997,916.35	233,741,947.71
Profit for the year from discontinued operations		-	-
Profit for the year attributable to equity holders of the parent		194,997,916.35	233,741,947.71
Non-Controlling Interest			
Profit for the year from continuing operations		-	-
Profit for the year from discontinued operations		-	-
Profit for the year attributable to non-controlling interests		-	-
		194,997,916.35	233,741,947.71

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)

For & On Behalf of Board of Directors

M.P. Sureka (Membership No. 050560)
Partner

Date: 26/05/2020

Place: Thimphu, Bhutan



M.P. Sureka

[Signature]
(CEO)

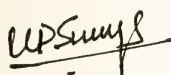
[Signature]
(Director)

[Signature]
(Chairman)

DRUK PNB BANK LTD.
Statement of Other Comprehensive Income
For the Year ended 31st December 2019

Profit for the year	194,997,916.35
Items which are not reclassified in Income Statement	
Net Actuarial Gain/(Loss) on retirement benefits	(4,215,592.70)
Net Gain/(Loss) on re-measurement of Financial Assets	2,367,348.67
Net Gains/(losses) from Financial Instruments at FV	-
Other Comprehensive income/(loss) before tax	(1,848,244.03)
Tax impact on Other Comprehensive income	-
Income Tax Income/(Expense) relating to OCI	710,204.60
Other Comprehensive income/(loss) net of tax	(2,558,448.63)
Total Comprehensive income/(loss) net of tax	192,439,467.72
Basic Earnings Per Share	2.75

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)



M.P. Sureka (Membership No. 050560)
Partner

Date: 26/05/2020

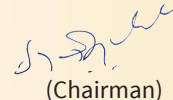
Place: Thimphu, Bhutan



For & On Behalf of Board of Directors


(CEO)


(Director)


(Chairman)

DRUK PNB BANK LTD.
Cash Flow Statement for the Year ending 31.12.2019

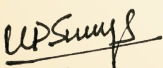
	31-Dec-19	31-Dec-18
	Amounts(Nu.)	Amounts(Nu.)
A. Operating Activities		
Profit before tax from continuing operations	244,186,501.86	343,369,299.83
Profit before tax from discontinued operations	-	-
Profit before tax	244,186,501.86	343,369,299.83
Adjustment for:-		
Interest Income from deposits	(104,907,166.03)	
Change in operating assets	(2,443,813,498.75)	(2,051,833,499.46)
Change in operating liabilities	1,865,492,611.99	883,524,999.69
Change in other operating assets	(57,292,223.49)	27,695,607.57
Change in other operating liabilities	(77,568,213.76)	3,449,231.70
Other non-cash items included in profit before tax (depreciation)	18,306,643.52	16,345,731.10
Unrealised foreign exchange Gain on conversion of cash and cash equivalent	-	(1,703,909.85)
Prior Period Expenses paid		(1,345,126.00)
Income tax paid	(106,102,705.68)	(84,080,732.04)
Provisions	144,428,664.95	
Net cash flows from operating activities	(517,269,385.38)	(864,578,397.46)
B. Financing Activities		
Proceeds from Issue of share capital	-	250,000,000.00
Proceeds from Issue of share premium		125,000,000.00
Proceeds from issuance of bonds	-	-
Dividends paid to equity holders	(84,630,000.00)	(54,000,000.00)
Increase in Financial Investments	2,179,213,917.64	(1,285,812,456.26)
Interest Expense-Subordinate debt	9,000,000.00	
Net cash flows from/(used in) financing activities	2,103,583,917.64	(964,812,456.26)
C. Cash Flow from Investing Activity		
Purchase of property and equipment	(20,620,032.50)	(33,885,429.10)
Proceeds from sale/damage of property and equipment	34,525.00	2,777,865.43
Interest Income-Investment	104,907,166.03	
Net cash flows from/(used in) investing activities	84,321,658.53	(31,107,563.67)
Change in Cash and cash equivalents	1,670,636,190.79	(1,860,498,417.39)
Unrealised foreign exchange Gain on conversion of cash and cash equivalent	-	1,703,909.85
Opening Cash and cash equivalents	3,835,305,416.28	5,695,803,833.67
Closing Cash and cash equivalents	5,505,941,607.07	3,835,305,416.28
Reconciliation of closing Cash and Cash equivalent		
As per Cash Flow Statement	5,505,941,607.07	3,835,305,416.28
As per Statement of Financial Position		
Cash and balances with central banks	1,970,681,605.08	1,473,400,261.13
Due from banks	3,535,260,001.99	2,363,609,065.00
Unrealised foreign exchange Gain on conversion of cash and cash equivalent	-	(1,703,909.85)
	5,505,941,607.07	3,835,305,416.28

Signed in terms of our attached report of even date

For M.P.Sureka & Co.

Chartered Accountants (FR No. 322097E)

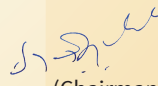
For & On Behalf of Board of Directors


M.P. Sureka (Membership No. 050560)
Partner
 Date: 26/05/2020
 Place: Thimphu, Bhutan




 (CEO)


 (Director)


 (Chairman)

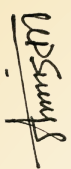
SEGMENT REPORTING

Particulars	2019			2018		
	Retail Segment	Corporate Segment	Total	Retail Segment	Corporate Segment	Total
ASSETS AND LIABILITIES						
Assets						
Loans and advances to customers						
OD/Cash Credit/Demand Loan	2,758,023,738.48	1,348,262,326.09	4,106,286,064.57	1,821,028,488.35	1,498,428,163.95	3,319,456,652.30
Term Loan	4,776,459,596.20	2,031,190,384.84	6,807,649,981.04	3,884,147,141.70	1,266,118,752.86	5,150,265,894.56
Financial investments	-	305,000,000.00	305,000,000.00	-	2,753,090,920.26	2,753,090,920.26
Total Assets	7,534,483,334.68	3,684,452,710.93	11,218,936,045.61	5,705,175,630.05	5,517,637,837.07	11,222,813,467.12
	67.16%	32.84%		50.84%	49.16%	
Liabilities						
Due to customers						
Current Deposits	1,169,589,142.09	332,851,482.89	1,502,440,624.98	1,011,756,937.89	332,851,482.89	1,344,608,420.78
Savings Bank Deposits	3,854,715,069.61	-	3,854,715,069.61	3,455,527,247.64	-	3,455,527,247.64
Fixed Deposits	2,450,839,061.00	6,259,273,465.00	8,710,112,526.00	1,384,853,801.00	6,259,273,465.00	7,644,127,266.00
Recurring Deposits	198,791,366.00	-	198,791,366.00	204,069,178.00	204,069,178.00	204,069,178.00
Total Liabilities	7,673,934,638.70	6,592,124,947.89	14,266,059,586.59	6,056,207,164.53	6,796,194,125.89	12,648,332,112.42
	53.79%	46.21%		47.88%	53.73%	
INCOME AND EXPENSE						
Income						
Interest and similar income	711,177,295.59	347,774,226.62	1,058,951,522.21	450,190,705.45	435,392,252.81	885,582,958.26
Fees and commission income	84,907,326.42	41,520,700.90	126,428,027.32	54,976,204.82	53,169,053.43	108,145,258.25
Miscellaneous Income	490,803.59	82,550.00	573,353.59	404,081.46	69,000.00	473,081.46
Total Income	796,575,425.60	389,377,477.52	1,185,952,903.12	505,570,991.73	488,630,306.24	994,201,297.97
Expense						
Interest and similar expense	323,044,150.62	277,503,980.01	600,548,130.63	230,991,284.90	259,215,309.33	482,423,141.59
Fees and commission expense	-	-	-	-	-	-
Total Expense	323,044,150.62	277,503,980.01	600,548,130.63	230,991,284.90	259,215,309.33	482,423,141.59

Signed in terms of our attached report of even date

For M.P.Sureka & Co.

Chartered Accountants (FR No. 322097E)





M.P. Sureka (Membership No. 050560)

Partner

Date: 26/05/2020

Place: Thimphu, Bhutan

For & On Behalf of Board of Directors


(CEO)


(Director)


(Chairman)

DRUK PNB BANK LTD.
Statement of Changes in Equity
For the year ended 31st December 2019

	Issued Capital	Share Premium	General Reserve (Statutory Reserve)	Retained Earnings	Foreign Fluctuation Reserve	General Provision (Loans)	Other Comprehensive Income/(Loss)	Total Equity
At 1 January 2018	450,000,000.00	28,150,800.00	419,738,250.33	237,811,416.95	11,049,017.97			1,146,749,485.25
Total comprehensive income	-	-	-	233,741,947.71				233,741,947.71
Issue of share capital	250,000,000.00	125,000,000.00	-	-				375,000,000.00
Share-based payments	-	-	-	-	-			-
Dividends paid for 2017	-	-	-	-54,000,000.00				-54,000,000.00
Transfer to Foreign Fluctuation Reserve	-	-	-	-3,495,075.69	3,495,075.69			-
Transfer to General Reserve	-	-	116,870,973.86	-116,870,973.86				-
Prior Period Adjustments	-	-	-	-1,345,126.00	-			-1,345,126.00
At 31 December 2018	700,000,000.00	153,150,800.00	536,609,224.19	295,842,189.11	14,544,093.66			1,700,146,306.96
Total comprehensive income	-	-	-	194,997,916.35				194,997,916.35
Issue of share capital	-	-	-	-	-			-
Share-based payments	-	-	-	-	-			-
Dividends paid of 2018	-	-	-	-84,630,000.00				-84,630,000.00
Transfer from Other Comprehensive income	-	-	-	-2,993,450.52	2,993,450.52		-2,558,448.63	-2,558,448.63
Transfer to Foreign Fluctuation Reserve	-	-	97,498,958.18	-97,498,958.18				-
Transfer to General Reserve	-	-	-	-				-
Transfer from General Provision(Loan)	-	-	-	-				-
Prior Period Adjustments	-	-	-	-	-			-
At 31 December 2019	700,000,000.00	153,150,800.00	634,108,182.36	305,717,696.77	17,537,544.18	-	-2,558,448.63	1,807,955,774.68

Purpose of maintaining different reserves:-

- a) Share Premium lying in reserves: To maintain single borrower limit within norms.
- b) General Reserve: Mandatory as per Financial Services Act, 2011, Chapter 6, Section 82(b) (i) which says as under: Every Financial Institution shall (a) Maintain a reserve fund; and (b) before declaring any dividend from its net profit of each year (after due provision made for taxation), transfer to its reserve fund out of the net profits each year-i. a sum equal to not less than 50% of net profits of that year, so long as the amount of the reserve fund is less than 50% of its paid-up capital; or ii), a sum equal to not less than 25% of the net profits of the year, so long as the amount of the reserve fund is 50% but less than 100% of its paid-up capital.
- c) Foreign Exchange Fluctuation Reserves as per PR Regulation, 2017, Clause 8.3: A Financial institution which is authorized dealers in foreign exchange shall keep in view the possible fluctuations in exchange rates, and therefore, create a Foreign Exchange Fluctuation Reserve to book one-fourth of the total gains on an annual basis from the profit after tax only.

Signed in terms of our attached report of even date

For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)

UP Sureka



M.P. Sureka (Membership No. 050560)

Partner

Date: 26/05/2020

Place: Thimphu, Bhutan

[Signature]
(CEO)

[Signature]
(Director)

[Signature]
(Chairman)

For & On Behalf of Board of Directors

Reconciliation of Share Capital

		Amount in Nu.	
		Amount in Nu.	
		As at 31.12.2019	As at 31.12.2018
(a)	SHARE CAPITAL Authorised Share Capital 100,000,000 Equity Shares of Nu.10 Each (P.Y. 10,000,000 equity shares of Nu 100 each)	1,000,000,000.00	1,000,000,000.00
(b)	Issued, Subscribed and Fully Paid Up Share Capital 70,000,000 Equity Shares of Rs.10 each fully paid up	700,000,000.00	700,000,000.00
(c)	Par Value per Share	10.00	10.00
(d)	Number of Equity Shares at the beginning of the year	700,000,000.00	450,000,000.00
	Add: Issue	-	250,000,000.00
	Less: Buy Back	-	-
	Number of Equity Shares at the end of the year	700,000,000.00	700,000,000.00
(e)	The company has only one class of equity shares having a par value of Nu.10 per share (which has been converted during 2014 from Nu. 100 to Nu. 10 as per directions by RMA and RSEB of Bhutan). Each holder of equity shares is entitled to one vote per share. The holders of Equity Shares are entitled to receive dividends as declared from time to time. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.		

Notes:

1. The Royal Securities Exchange of Bhutan has converted the face value of shares of all listed companies from Nu. 100/- to Nu. 10/- with effect from 1st August, 2014. Consequently, the face value of share of Druk PNB Bank Ltd. has also changed from Nu. 100/- to Nu. 10/-.

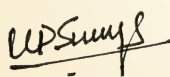
2. Capital Management-

Capital Management: The primary objectives of the Bank's capital management policy is to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local regulator (Royal Monetary Authority of Bhutan). During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Regulatory capital consists of Tier 1 capital, which comprises of Paid up capital, share premium, general reserve (statutory reserve) and retained earnings less loss for the current year. The other component of regulatory capital is Tier 2 capital, which includes other reserves; General Provisions to the extent that they do not exceed 1.25% of the sum of total risk weighted assets, subordinated term debts with a minimum original maturity of at least 5 years and profit for the current year.

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)



M.P. Sureka (Membership No. 050560)
Partner


Date: 26/05/2020

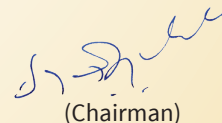
Place: Thimphu, Bhutan



For & On Behalf of Board of Directors


(CEO)

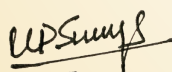

(Director)


(Chairman)

Note 1: Re-measurement of Statement of Financial Position as at 31st December 2019

	Local GAAP	Re-measurement	BAS
Assets			
Cash & Cash Equivalents	144,470,374.53		144,470,374.53
Cash & Balances with Central Bank	1,826,211,230.55		1,826,211,230.55
Placement with other Banks	3,535,260,001.99		3,535,260,001.99
Cash collateral on securities borrowed and reverse			-
Repurchase agreements	-		-
Derivative financial instruments	-		-
Other financial assets held for trading	-		-
Financial assets held for trading pledged as collateral	-		-
Financial assets designated at fair value through profit or loss	-		-
Loans and advances to customers	10,913,936,045.61		10,913,936,045.61
Financial investments – available-for-sale	-		-
Financial investments – available-for-sale pledged as collateral	-		-
Financial investments	571,509,653.95	2,367,348.67	573,877,002.62
Other assets	127,919,631.16		127,919,631.16
Property, Plant and Equipment	76,249,585.47		76,249,585.47
Goodwill and other intangible assets	-		-
Deferred tax assets	535,854.00	23,911,418.16	24,447,272.16
Non-current assets and disposal groups held for sale	-		-
Total assets	17,196,092,377.29		17,222,371,144.12
Liabilities			
Due to Banks and Financial Institutions	213,316,178.77		213,316,178.77
Cash collateral on securities lent and repurchase agreements	-		-
Derivative financial instruments	-		-
Other financial liabilities held for trading	-		-
Financial liabilities designated at fair value through profit or loss	-		-
Due to customers	14,266,059,586.59	38,374,856.66	14,304,434,443.25
Debt issued and other borrowed funds	-	150,000,000.00	150,000,000.00
Current tax liabilities	(10,052,237.76)		16,388,320.53
Additional Tax Liabilities			-
Other liabilities	355,809,618.59		355,809,618.59
Provisions	313,779,061.46	35,780,336.52	349,559,397.99
Retirement Benefit Obligations	15,779,340.00	9,128,070.31	24,907,410.31
Non-current liabilities and disposal groups held for sale	-		-
Total liabilities	15,154,691,547.66		15,414,415,369.44
Equity attributable to equity holders of parent			
Issued capital	700,000,000.00		700,000,000.00
Share premium	153,150,800.00		153,150,800.00
General Reserve	591,045,243.80	43,062,938.56	634,108,182.36
Retained earnings	262,654,758.21	43,062,938.56	305,717,696.77
Foreign Fluctuation Reserve	17,537,544.18		17,537,544.18
Subordinate Debt	150,000,000.00		
General Provision(Loans)	167,012,483.44		
Other Comprehensive Income/(Loss)	-	-2,558,448.63	-2,558,448.63
Total equity	2,041,400,829.63		1,807,955,774.68
Total liabilities and equity	17,196,092,377.29		17,222,371,144.12

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)



M.P. Sureka (Membership No. 050560)
Partner

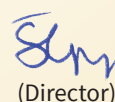
Date: 26/05/2020

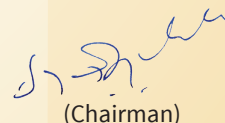
Place: Thimphu, Bhutan



For & On Behalf of Board of Directors


(CEO)

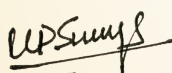

(Director)


(Chairman)

Note 2: Re-Measurement of Statement of Comprehensive Income as at 31st December 2019

	Local GAAP	Re-measurement	BAS
Interest and similar income	1,058,951,522.21		1,058,951,522.21
Interest and similar expense	562,173,273.97	38,374,856.66	600,548,130.63
Net interest income	496,778,248.24		458,403,391.58
Fees and commission income	126,428,027.32		126,428,027.32
Fees and commission expense	-		
Net fee and commission income	126,428,027.32		126,428,027.32
Net trading income	-		
Net gain (loss) on financial assets and liabilities designated at fair value through profit or loss	-		
Other operating income	12,566,228.03	205,011.45	12,771,239.48
Total operating income	635,772,503.59		597,602,658.38
NPA Provisions	275,660,811.87	(131,232,146.91)	144,428,664.96
Impairment losses on financial investments	-		-
Net operating income	360,111,691.72		453,173,993.43
Personnel expenses	100,001,393.07	4,407,284.46	104,408,677.53
Depreciation of property and equipment	18,306,643.52		18,306,643.52
Amortisation of intangible assets	-		-
Other operating expenses	86,272,170.51		86,272,170.51
Total operating expenses	204,580,207.10		208,987,491.56
Profit before tax from continuing operations	155,531,484.62		244,186,501.86
Less: Provision-Others	-		
Profit Before Tax	155,531,484.62		244,186,501.86
Income tax expense-Current Tax	46,659,445.38		73,100,003.67
Income tax expense-Deferred Tax		(23,911,418.16)	(23,911,418.16)
Profit for the year from continuing operations	108,872,039.23		194,997,916.35

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)



M.P. Sureka (Membership No. 050560)
Partner

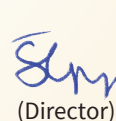
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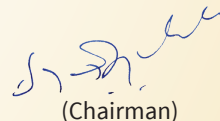
Place: Thimphu, Bhutan



For & On Behalf of Board of Directors


(CEO)

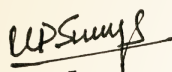

(Director)


(Chairman)

Note 3: Deferred Tax Computation for the Year 2019

Deferred Tax Assets /Liability	GAAP	BAS	Difference (Nu.)
Opening Deferred Tax			535,854.00
Deposits (EIR)	-	38,374,856.66	(38,374,856.66)
Impairment Charges	480,791,544.90	349,559,397.99	131,232,146.91
Financial Assets	13,750,000.00	16,117,348.67	(2,367,348.67)
Retirement Benefit Obligations	15,779,340.00	24,197,205.71	(8,417,865.71)
	510,320,884.90	428,248,809.02	82,072,075.88
OCI tax impact			(710,204.60)
			24,621,622.76
Deferred tax Assets/(Liability)			23,911,418.16

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)



M.P. Sureka (Membership No. 050560)
Partner

Date: 26/05/2020


Place: Thimphu, Bhutan



For & On Behalf of Board of Directors


(CEO)


(Director)


(Chairman)

Note 4: Property, Plant & Equipment

Particulars	Land and Building	Vehicles	Machinery & Furniture fittings	Steel Items	Wooden Articles	Machinery & Electrical Goods	Computer Hardware	Misc Items	Total
Cost									
At 1 January 2019	-	3,686,950.00	729,216.43	8,444,078.19	7,873,234.38	18,957,299.35	141,662,938.65	2,699,193.88	184,052,910.88
Additions	-	-	-	2,120,426.53	487,500.00	8,563,311.00	7,914,505.00	1,534,289.97	20,620,032.50
Disposals	-	-	-	-	407,280.00	256,274.00	-	34,045.00	697,599.00
Exchange adjustment	-	-	-	-	-	-	-	-	-
At 31 December 2019	-	3,686,950.00	729,216.43	10,564,504.72	7,953,454.38	27,264,336.35	149,577,443.65	4,199,438.85	203,975,344.38
Depreciation and Impairment									
At 1 January 2019	-	739,410.05	618,166.43	2,682,271.20	5,893,978.47	14,186,017.41	83,924,677.66	2,055,351.06	110,099,872.27
Depreciation charge for the yr.	-	553,042.50	39,463.11	450,114.29	788,389.80	2,375,312.30	13,842,653.06	257,668.46	18,306,643.52
Less: Disposals	-	-	-	-	407,280.00	236,530.51	-	34,045.00	677,855.51
At 31 December 2019	-	1,292,452.55	657,629.54	3,132,385.49	6,275,088.27	16,324,799.20	97,767,330.72	2,278,974.52	127,728,660.29
Net Book value									
At 1 January 2019	-	2,947,539.75	111,050.00	5,761,806.99	1,979,255.91	4,771,281.94	57,738,260.99	643,842.82	73,953,038.61
At 31 December 2019	-	2,394,497.25	71,586.89	7,432,119.23	1,678,366.11	10,942,438.73	51,810,112.93	1,920,464.33	76,249,585.47

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)



M.P. Sureka

M.P. Sureka (Membership No. 050560)
Partner

Date: 26/05/2020

Place: Thimphu, Bhutan

For & On Behalf of Board of Directors

[Signature]
(CEO)

[Signature]
(Director)

[Signature]
(Chairman)

Notes to Accounts

5. Interest and similar income

Particulars	As at 31-December - 2019	As at 31-December - 2018
Interest from Loans & Advances:		
Interest on Cash Credit	73,930,150.85	75,532,966.00
Interest on Demand Loan	38,437,959.00	30,044,734.02
Interest on OD Loan	262,835,736.86	188,645,609.11
Interest on Term Loan	578,833,718.54	470,941,141.34
Hundian	-	126.00
Export Loan	5,000.00	-
Miscellaneous Interest	1,790.93	-
Interest from Deposits with Banks in Bhutan	104,907,166.03	120,418,381.79
	1,058,951,522.21	885,582,958.26

6. Interest and similar expense

Particulars	As at 31-December- 2019	As at 31-December- 2018
Interest paid on Deposits:		
Fixed Deposit	409,324,330.34	304,173,720.86
Saving Deposit	167,960,378.40	148,257,763.00
Recurring deposit	14,263,421.89	14,176,315.70
Interest paid on Subordinated Term debts	9,000,000.00	15,815,342.03
	600,548,130.63	482,423,141.59

7. Income from fees and commission income

Particulars	As at 31-December- 2019	As at 31-December- 2018
Fees and commission income:		
Collection Charges on outward instrument/bills	-	210.00
IDBC and IUBC	244,396.20	114,074.80
Issue/Cancellation of Drafts/Transfers	696,936.25	1,240,082.79
Inland Letters of Guarantee	14,234,067.90	16,116,073.50
Foreign Letters of Guarantee	34,435,380.00	15,375,815.42
Foreign Documentary Credits	10,968,686.73	9,772,799.16
Foreign Bills	73,576.00	564,957.33
Incidental Charges on Deposits	6,912,792.95	8,751,977.67
Service Charges/Processing Fees	332,060.00	268,500.00
Rent on Safe Deposit Vaults	130,000.00	142,000.00
ATM/Kiosks Charges	14,147,333.10	15,252,027.47
ATM inter-change fees from other banks	5,112,830.23	6,801,252.72
RTGS/NEFT/ECS	37,997,630.83	33,272,906.11
Others	1,142,337.13	472,581.28
	126,428,027.32	108,145,258.25

8. Other operating income

Particulars	As at 31-December- 2019	As at 31-December- 2018
Dividend income	-	-
Income of Forex Buisness	-	2,900,153.21
Gain on sale of Motor Car/Cycles	19,072.37	374,998.00
Misc. Income: Retail Banking	490,803.59	404,081.46
Misc. Income: Corporate Finance	82,550.00	69,000.00
Foreign Exchange Gain/Loss (Realized & Unrealized):	11,973,802.07	13,980,302.77
Add - Forex Income:	13,162,185.25	
Less - Forex Expense:	1,188,383.18	
Staff Loan Incentive Income	205,011.45	
	12,771,239.48	17,728,535.44

9. Credit /Other loss expenses

Particulars	As at 31-December- 2019	As at 31-December- 2018
(A) Provisions against loans:		
General	80,111,689.73	11,457,751.92
Specific	64,316,975.23	(7,862,373.42)
	-	3,595,378.50
(B) Others Provision	-	10,649,750.00
	144,428,664.96	14,245,128.50

10. Personnel expenses

Particulars	As at 31-December- 2019	As at 31-December- 2018
Basic Pay	42,488,855.02	38,231,412.68
Dearness Allowance	12,213,363.00	9,242,445.00
Other Allowance	16,957,923.35	18,130,319.00
Gratuity	3,607,221.01	-
Employers Contribution to PF	2,803,586.00	2,061,823.79
House Rent Allowance	8,920,672.00	4,015,667.00
Medical Aid	457,808.45	560,557.35
Leave Fare Concession	2,051,368.00	1,739,352.00
Leave Encashment	6,986,621.81	2,802,154.56
Conveyance Allowance	4,943,333.00	1,172,372.38
Uniform	222,940.00	239,000.00
Staff Welfare	2,423,014.44	1,384,457.27
Rent Paid for residential premises	126,960.00	27,600.00
Staff Loan Incentive Cost	205,011.45	-
	104,408,677.53	79,607,161.03

11. Other operating expenses

Particulars	As at 31-December- 2019	As at 31-December- 2018
Advertising and marketing	3,625,438.25	1,432,440.25
Stationery and Printing	2,416,559.50	1,489,912.30
Travel	4,950,583.18	3,883,633.25
Transportation and Conveyance Charges	345,700.75	114,376.00
Annual Maintenance Charges and repairs of SFF	8,547,566.26	8,575,702.19
Outsourcing of Financial services	19,504,488.49	14,648,184.41
Professional and Audit fees	325,000.00	275,000.00
Director Sitting Fees	240,000.00	345,000.00
Rent for office premises	14,694,099.78	12,851,286.00
Postage	346,225.00	52,727.00
Telephone	1,821,837.61	1,661,106.60
Telex/Fax/Swift	249,892.00	168,954.79
Networking	11,830,751.96	10,801,008.69
Software Charges	5,456,891.07	7,277,473.44
Legal Charges	917,800.00	1,042,250.00
Insurance	1,392,053.00	1,576,888.00
Repair and Maintenance: Rented Premises	52,986.00	60,880.00
Repair and Maintenance: MCC	118,903.00	31,510.00
Newspapers and Periodicals	113,590.00	76,395.00
Remitting Charges(Including RTGS/NEFT/ECS charges)	93,800.00	178,200.00
Stamps	5,670.00	610.00
Entertainment	2,297,268.85	1,613,858.70
Sumptuary	350,602.25	944,907.04
Recruitment and Training	1,839,009.00	843,595.50
Brokerage	-	937,500.00
Loss on Sale of Safe, Furniture and Fixture	-	7,296.13
Water and Electricity	1,381,904.60	1,333,354.68
ATM/kiosks charges	1,200.00	-
Miscellaneous	3,352,349.96	3,242,239.93
	86,272,170.51	75,466,289.90

12. Tax expenses

Particulars	As at 31-December- 2019	As at 31-December- 2018
(A)		
Current tax for the year	73,100,003.67	103,310,108.65
Miscellaneous tax paid	-	3,740,570.80
Tax for earlier year period		1,920,375.36
(B)	73,100,003.67	108,971,054.81
Current Tax Liability	73,100,003.67	
TDS Payable	556,763.86	
Tax Deducted at Source	(5,432,910.97)	
Advance I.Tax	(51,835,536.03)	955,616.31
Deferred tax	-	(299,319.00)
TOTAL (A+B)	16,388,320.53	109,627,352.12

13. Cash and Balances with Central Bank

Particulars	As at 31-December- 2019	As at 31-December- 2018
Cash in hand:		
BTN	80,873,277.86	81,072,056.58
INR	266,050.00	266,050.00
FC	63,331,046.67	47,567,890.18
	144,470,374.53	128,905,996.76
13A. Cash & Balances with Central Bank		
CRR with the Central Bank	1,414,835,241.43	1,160,892,097.71
Current account with the Central Bank	100,000.00	100,000.00
Balance with RMA	411,275,989.12	183,502,166.66
	1,826,211,230.55	1,344,494,264.37
	1,970,681,605.08	1,473,400,261.13

14. Due from banks

Particulars	As at 31-December- 2019	As at 31-December- 2018
Balance with Banks		
Current Account Outside Bhutan	796,910,543.79	553,426,194.33
Balance with other offices	-	-
Current Account in Bhutan	214,061,501.62	106,328,091.56
Deposit Account in Bhutan	2,524,287,956.58	1,703,854,779.11
	3,535,260,001.99	2,363,609,065.00

15. Loans and advances to customers

Particulars	As at 31-December- 2019	As at 31-December- 2018
Demand loans	403,936,159.79	295,824,457.00
Cash Credit	843,378,146.51	702,125,499.87
Overdraft	2,858,971,758.27	2,321,506,695.43
Term Loan	6,807,649,981.04	5,150,265,894.56
Bills discounted & Purchased	-	400,000.00
	10,913,936,045.61	8,470,122,546.86

15A. Investments

Particulars	As at 31-December- 2019	As at 31-December- 2018
Financial investments-Others	268,877,002.62	2,503,090,920.26
Financial investments – held-to-maturity	305,000,000.00	250,000,000.00
	573,877,002.62	2,753,090,920.26

16. Other assets

Particulars	As at 31-December- 2019	As at 31-December- 2018
Interest accrued	21,822,551.49	48,488,897.29
Advances made recoverable/ Adjustable	35,801,005.20	11,556,611.21
Advance I.Tax	-	46,843,536.30
Tax Deducted at Source	-	1,077,262.44
Remittances in Transit	-	-
Govt. T Bills/other investments	-	-
Stationery in hand	3,146,387.06	3,678,167.56
Prepaid expenses	67,149,687.41	16,251,379.87
	127,919,631.16	127,895,854.67

17. Due to banks

Particulars	As at 31-December- 2019	As at 31-December- 2018
Balance from other banks in Current Deposits	109,929,729.79	140,546,721.52
Balances with other offices (Imprest)	-	
Call/Short Term money(Inter-Bank)/ATM Payable	103,386,448.98	3,925,897.61
	213,316,178.77	144,472,619.13

18. Due to Customers

Particulars	As at 31-December- 2019	As at 31-December- 2018
Demand Deposits:	5,357,155,694.59	4,659,588,946.90
Current Deposits	1,502,440,624.98	1,204,061,699.26
Savings Bank Deposits	3,854,715,069.61	3,455,527,247.64
Term Deposits:	8,947,278,748.66	7,848,196,444.00
Fixed Deposits	8,748,487,382.66	7,644,127,266.00
Recurring Deposits	198,791,366.00	204,069,178.00
	14,304,434,443.25	12,507,785,390.90

19. Subordinated term debts

Particulars	As at 31-December- 2019	As at 31-December- 2018
150000 Bonds of Nu. 1000 each under Govt. ESP	150,000,000.00	150,000,000.00
	150,000,000.00	150,000,000.00

20. Other Liabilities

Particulars	As at 31-December- 2019	As at 31-December- 2018
Suspended Interest	37,216,009.95	19,588,935.76
Subordinate Debt Payable	-	-
Accounts Payable and sundry creditors	43,020,354.66	211,304,838.26
Intersol Account	5,500.00	
Others	54,607,760.80	
	355,809,618.59	439,377,556.52

21A. Provisions as per local GAAP

Particulars	As at 31-December- 2019	As at 31-December- 2018
Provision - Loans - General	167,012,483.44	86,900,793.71
- Specific	171,897,164.55	107,580,189.32
- Dynamic	-	
Provision for Expense	10,649,750.00	10,649,750.00
	349,559,397.99	205,130,733.03

21B. Impairment on loans as per BAS

Particulars	As at 31-December- 2019	As at 31-December- 2018
Impairment on Loans	349,559,397.99	-
- Dynamic	-	
	349,559,397.99	-

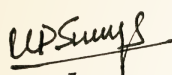
22. Retirement Benefit Obligations

Particulars	As at 31-December- 2019	As at 31-December- 2018
Gratuity	18,138,063.71	10,464,450.00
Leave Encashment	2,661,307.00	
Transfer Grant and Travel Allowance	3,397,835.00	
	24,197,205.71	10,464,450.00

23. EPS

Particulars	As at 31-December- 2019	As at 31-December- 2018
Net Profit attributable to the owners of the company	192,439,467.72	233,741,947.71
Issued and outstanding ordinary shares at the beginning of the year	45,000,000.00	45,000,000.00
Shares issued during the year	25,000,000.00	25,000,000.00
Total Shares outstanding at the end of the year	70,000,000.00	70,000,000.00
Basic and Diluted EPS	2.75	3.34

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)




M.P. Sureka (Membership No. 050560)

Partner

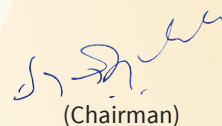
Date: 26/05/2020

Place: Thimphu, Bhutan

For & On Behalf of Board of Directors


(CEO)


(Director)


(Chairman)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31.12.2019

1. CORPORATE INFORMATION

Druk PNB Bank Limited (the Bank) provides Commercial Banking services in various parts of the Kingdom of Bhutan. It is a Licensed Commercial Bank under the Financial Institutions' Act of Bhutan 2011. Druk PNB Bank Limited is a joint venture bank with 51% shareholding by Punjab National Bank, India. It is incorporated and domiciled in the Kingdom of Bhutan. Its registered office is at P.O. Box 502, Head Office, Norzin Lam, Thimphu, Bhutan.

The financial statements for the year ended 31 December 2019 were authorized for issue in accordance with a 45th Resolution of the Board of Directors on 30th March, 2020 held in Thimphu, Bhutan.

i. Basis of preparation

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

ii. Statement of compliance

The financial statements of the Bank have been prepared in accordance with Bhutanese Accounting Standards (BAS).

iii. Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

iv. Basis of Financial Statements

The financial statements comprise of financial statements of the Bank for the year ended 31 December 2019, which was authorized for issue by at the 45th Board Meeting held in Thimphu, Bhutan on 30th March, 2020.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

i. Judgments

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

ii. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

iii. Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

iv. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. 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 and etc.

For the purpose of valuing the quoted equity, Bank used the Dividend Growth Model and in certain circumstances, the growth was anticipated to be in line with the GDP growth/Business sector of the economy.

v. Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement-of-financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in Banks of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, loan type, etc.) and judgement on the effect of economic and market conditions.

vi. Impairment of available-for-sale investments

The Bank reviews its equity securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

3. FIRST-TIME ADOPTION OF BAS PHASE III

The Bank has prepared financial statements which comply with BAS applicable for period ending 31 December 2019 making comparisons between local GAAP and BAS.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

i. Foreign currency translation

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

ii. Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to other operating income in the income statement.

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

iii. Financial instruments—initial recognition and subsequent measurement

a. Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place i.e Refundable Deposits/Staff Loans.

b. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring

them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

c. Financial assets or financial liabilities held for trading

Currently the Bank does not have any Financial Assets classified as held for trading.

d. Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in Net gain or loss on financial assets and liabilities designated at fair value through profit or loss. Interest earned or incurred is accrued in Interest income or Interest expense, respectively, using the effective interest rate (EIR), while dividend income is recorded in other operating income when the right to the payment has been established.

Currently the Bank does not have any Financial Instruments designated as Fair Value through Profit or Loss.

e. 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

f. Available-for-sale financial investments

Available-for-sale investments include equity securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the Available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in other operating income. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the Available for-sale reserve. Currently, Druk PNB Bank Limited has no financial investments available-for-sale.

g. Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate (EIR). The amortisation is included in Interest and similar income in the income statement. The losses arising from impairment of such investments are recognised in the income statement line Credit loss expense.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

h. Due from banks and loans and advances to customers

Due from banks and Loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available-for-sale
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts due from banks and Loans and advances to customers are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate (EIR). The amortisation is included in Interest and similar income in the income statement. The losses arising from impairment are recognised in the income statement in Credit loss expense.

i. Debt issued and other borrowed funds

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities under Debt issued and other borrowed funds, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR). Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate (EIR).

j. Reclassification of financial assets

The Bank is permitted to reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to maturity categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

5. DE-RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

i. Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a Bank of similar financial assets) is derecognised when:

The rights to receive cash flows from the asset have expired

The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

- The Bank has transferred substantially all the risks and rewards of the asset.
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay. The difference between the carrying value of the original financial Asset and the consideration received is recognised in profit or loss.

ii. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

6. DETERMINATION OF FAIR VALUE

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using the dividend growth model (i.e. quoted equity in Royal Security Exchange of Bhutan).

An Active Market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

7. IMPAIRMENT OF FINANCIAL ASSETS

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a Bank of financial assets is impaired. A financial asset or a Bank of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Bank of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a Bank of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

i. Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a Bank of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an

impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

The interest income is recorded as part of Interest and similar income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate (EIR). If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate (EIR) determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a Bank of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

ii. Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the

investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

iii. Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original Effective Interest Rate (EIR).

iv. Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and as appropriate.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models.

v. Collateral repossessed

The Bank's policy is to auction all repossessed collateral provided.

8. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of financial position.

9. LEASING

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

As per the lease agreement, one of the clauses mentioned that the rent may be increased every after two years in accordance with the Tenancy Act of Bhutan. However, the non-cancellable period/notification of vacation period is one year as per the agreement. Hence, the rent escalation and subsequent straight-lining of rental expense doesn't arise

10. RECOGNITION OF INCOME AND EXPENSES

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

i. Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for- sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). Effective Interest Rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

ii. Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

iii. Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

iv. Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

v. Dividend income

Revenue is recognised when the Bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

vi. Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

12. PROPERTY AND EQUIPMENT

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are

expected to be used during more than one period. The Bank applies the requirements of BAS 16 (Property, Plant and Equipment) in accounting for these assets.

The Bank applies the cost model to the entire class of freehold land and buildings. The cost of an item of property, plant and equipment is recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Property, plant and equipment are initially recognized at cost. The cost of an item of property, plant and equipment comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of directly attributable costs are: (a) costs of employee benefits (as defined in BAS 19 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment; (b) costs of site preparation; (c) initial delivery and handling costs; (d) installation and assembly costs; (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and (f) professional fees.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Subsequent expenditures relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Company and the cost of the item can be measured reliably. Currently, the bank do not have high value assets which require revaluation at the end of reporting period that would have significant impact in the financial statements. Hence, revaluation of assets are not carried out at the end of the reporting period.

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 the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is computed using the straight line method over the estimated useful lives. Freehold land is not depreciated as it has an unlimited useful life whereas leasehold land is depreciated on a straight line method over the primary term of the lease.

The Company has based on evaluation performed by the technical Department, established the estimated range of useful lives of assets for depreciating its property, plant and equipment as follows:

Asset Type	Useful life
Buildings (Capitalized expenses)	5 Years
Machinery & Electrical Fittings	6.5 Years
Steel Items	20 Years
Wooden Articles	10 Years
Machinery & Electrical Goods	6.5 Years
Vehicle	6.5 Years
Computer Equipment	6.5 Years
Miscellaneous items	6.5 Years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognized.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

14. CONTINGENT LIABILITIES

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative

amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

During the year the bank has issued a financial guarantees amounting to Nu. 3.872 billion as presented below:

Nu.	
Letter of Credit	377,287,484.69
Other Guarantees	3,495,208,520.42
Total	3,872,496,005.11

15. PROVISIONS

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

16. EMPLOYEE BENEFITS

The Bank measures the present value of the Pension obligation, which is a defined benefit plan using the Projected Unit Credit method (PUC) as required by BAS 19 Employee Benefits (in line with IFRS).

A valuation has been carried out at every year to ascertain the full liability under the Fund.

Recognition of Gains and Losses: The gains and losses occur when the actual plan experience differs from the assumed. The Bank recognizes the total gains and losses that arise in calculating the Bank's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

17. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

18. OPERATING SEGMENT

An Operating Segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Chief Operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Operating segments have been identified based on the information available with the bank and are reported separately.

The segment is based on the type of clients to whom the bank provides services, viz., corporate and retail segments. The corporate segment includes such as government corporations, public corporations, commercial banks, non-bank financial institutes and private limited companies. Whereas retail segment includes unincorporated business and individuals.

All the loans & advances and deposits are categorized under these two segments based on the loan and deposit facilities.

19. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

20. BFRS 9 FINANCIAL INSTRUMENTS

BFRS 9, as issued by the Accounting & Auditing Standards Board of Bhutan (AASBB) applies to classification and measurement of financial assets and financial liabilities as defined in BAS 39. As notified by Ministry of Economic Affairs, the "expected credit loss model" of IFRS 9 shall remain out of the scope of BFRS 9 and the companies shall comply with "incurred loss model" of BAS 39 for impairment, until the new set of standards are issued by AASBB.

21. RETIREMENT BENEFIT PLANS

A defined benefit plan defines, an amount of benefit that an employee is entitled to receive on (a) retirement/resignation or (b) on superannuation or (c) on death or disablement due to accident or disease as per the terms and conditions specified in the service rule of the bank. The benefit is dependent on factors such as age, number of years served and last drawn basic pay.

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

BAS 19 also requires that “Service Cost” be calculated separately in respect of the benefit accrued during the current period. Service Cost is calculated using the same method as described above.

The retirement benefit asset is recorded as separate line item in Statement of Financial Position.

The following demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment defined benefit assets measurement for 2019 reporting period.

The following demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment defined benefit assets measurement for 2019 reporting period.

i. **Gratuity**

Discount rate

BAS 19 highlights that the rate used to discount post-employment benefit obligations shall be determined by reference to market yields as the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used. In this valuation the discount rate of 9.5 % is being used.

Salary increment rate

The increment rate has been calculated based on the data given and the rate was arrived at 11%.

Employee turnover rate

The employee turnover rate was calculated as follows:

The Staff turnover factor can be computed as follows:

$$\frac{\text{Number of employees whose service is terminated during the year}}{\text{Average number of staff employed by the entity}} = t$$

The turnover rate is being arrived at 6 % based on the data given.

Detail of Financial Workings:

Computation of Actuarial Gain/Loss

Computation of Interest charge for the year	Nu.
Gratuity opening balance	10,464,450.00
Discount Rate	9.50%
Therefore Interest amount	994,123.00

Computation of Net actuarial loss recognized during the year	Nu
Gratuity Provision at the end of Current Year	18,138,063.70
Less	
(-) Gratuity Provision at the beginning of the Current Year	(10,464,450.00)
(-) Interest on the opening balance	(994,123)
(-) Current Service Cost	(2,922,985)
Net actuarial loss recognized during the year	4,215,592.70

ii. Leave Valuation

Assumptions

Discount Rate	9.50%
Salary Increment Rate	11.00%
Retirement Age	60
Staff Turnover	6.0%

Type of plan: Defined benefit

Last salary x (accrued leave / 30)

Statement of Financial Position (2019)

Present value of Defined benefit obligation	2,661,306.84
Net Defined Benefit Asset/Liability	(2,661,306.84)

Statement of Comprehensive income and other Comprehensive income	
Comprehensive income	2,661,306.84
Other Comprehensive income	-
DEFINED BENEFIT LIABILITY	
Leave balance liability	Nu.
Net Benefit Expense	
Current service cost	2,661,307.00
Interest charge for the year	
Net actuarial loss recognized during the year	
Net Benefit Expense	2,661,307.00
Benefit liability	
Defined benefit obligation	2,661,307.00
Unrecognized Actuarial losses	
Benefit liability	2,661,307.00
Defined Benefit Obligation	
Current service cost	2,661,307.00
At the end of the year	2,661,307.00

iii. Transfer Grant

As per the Company service rule, all employees are eligible for the transfer grant equivalent to one month's Basic Pay. In this valuation, future expected number of years were calculated based on turnover rate, thereafter discounted to arrive at the present value of defined benefit obligation.

Assumptions

Discount Rate	9.50%
Salary Increment Rate	11.0%
Retirement Age	60
Staff Turnover	6.0%

Basis: Basic Pay

Statement of financial position

In Nu.	31-Dec 2019
Present value of Defined benefit obligation	2,922,985
Net defined benefit asset/(liability)	(2,922,985)

Expenses recognized in:

In Nu.	31-Dec-19
Statement of profit or loss	2,922,985
Other comprehensive income (Loss)	-

DEFINED BENEFIT LIABILITY

	Nu
Net Benefit Expense	
Current service cost	2,922,985
Interest charge for the year	
Net actuarial loss recognized during the year	
Net Benefit Expense	2,922,985

Benefit liability

Defined benefit obligation	2,922,985
Unrecognized Actuarial losses	
Benefit liability	2,922,985

Defined Benefit Obligation

At the beginning of the year	-
Current service cost	2,922,985
Interest charge for the year	-
Net actuarial loss/ (Gain) recognized during the year	
Prior period mismatch	
At the end of the year	2,922,985

iv. Traveling Allowance Valuation**Assumptions**

Discount Rate	9.50%
Salary Increment Rate	11.0%
Retirement Age	60
Staff Turnover	6.0%

Statement of financial position

In Nu.	31-Dec 2019
Present value of Defined benefit obligation	474,850
Net defined benefit asset/(liability)	(474,850)

Expenses recognized in:

In Nu.	31-Dec-19
Statement of profit or loss	474,850
Other comprehensive income (Loss)	-

22. INCOME TAX

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax law enacted in the country where the Bank and its associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale. Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

23. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognized.

24. COMMITMENT AND CONTINGENCIES

To meet the financial needs of customers in the ordinary course of business, the Bank enters into various irrevocable commitments and incurs certain contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. Letters of credit & guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. No material losses are anticipated as a result of these commitments and contingencies.

25. RELATED PARTY DISCLOSURES

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

i. Transactions with Key Managerial Personnel (KMPs)

According to Bhutanese Accounting Standard - BAS 24 (Related Party Disclosures) Key Managerial Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Such KMPs include the Board of Directors of the Bank (including both Executive and Non-Executive Directors), key employees who are holding directorship in Subsidiary companies of the Bank. Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs domestic partner and children of the KMPs domestic partner and dependents of the KMPs and the KMPs domestic partner.

a. Directors & Associates

Sl. No.	Name	Nature of Relationship	Loan Facility	Year 2019	Year 2018		
					Deposit	Withdrawal	Outstanding
1.	Dasho Sangay Wangchuk	Director	OD	Account closed	72,148,386.00	72,148,386.00	20,000,000.00

b. Relatives of Directors

Sl. #	Name	Nature of Relationship	Loan Facility	Year 2019			Year 2018		
				Deposit	Withdraw	Outstanding	Deposit	Withdrawal	Outstanding
1	Dasho Kuenley Wangchuk	Director's Father	TL	13,668,440.00	11,826,919.00	123,510,629.00	78,694,360.00	16,502,537.21	159,306,606.17
2	Aum Sangay Om	Director's Mother	TL & CC	4,533,111.00	5,219,064.00	29,667,018.99	2,914,675.00	2,659,231.00	28,308,059.00
3	Kesang Wangchuk	Director's Brother	CC & OD	3,519,517.96	3,628,045.54	121,999.80	4,277,103.85	4,289,990.73	46,313,809.46
4	Yangchen Wangchuk	Director's Sister	CC & OD	7,681,529.74	3,844,739.14	8,568,881.77	8,630,798.67	4,406,304.53	25,267,673.44

c. Key Managerial Personnel

Sl.#	Name	Nature of Relationship	Loan Facility	Year 2019			Year 2018		
				Deposit	Withdrawal	Outstanding	Deposit	Withdrawal	Outstanding
1	D.K. Gupta	CEO	-	-	-	-	-	-	-
2	A.B. Rai	Dy. CEO	Term Loan	264,000.00	77,823.00	1,459,521.00	264,000.00	86,860.00	1,645,698.00
3	Arun P.R.	Executive Vice President	Term Loan	312,800.00	527,954.00	205,154.00	-	-	-
4	Tarun Banger	Executive Vice President	-	-	-	-	-	-	-
5	Deepak Kumar Verma	Executive Vice President	Term Loan	50,507.00	507,995.00	457,488.00	-	-	-
6	Mukesh Kumar	Sr. Vice President	-	-	-	-	-	-	-
7	T C Ghimirey	Executive Vice President	Term Loan	126,012.00	31,860.00	284,837.00	126,012.00	40,246.00	378,989.00
8	Tashi Penjor	Executive Vice President	Term Loan	166,800.00	74,890.00	1,445,367.00	166,800.00	79,220.00	1,537,277.00

d. Key Managerial Remuneration

Sl.#	Key Managerial Person	Nature of Relationship	Nature of Transaction	2019	2018
1	D.K. Gupta	Chief Executive Officer	Remuneration	3,694,917.40	3,866,636.50
			Sitting Fees	60,000.00	60,000.00
2	A.B. Rai	Dy. Chief Executive Officer	Remuneration	1,653,000.00	1,238,150.00
3	Arun P.R.	Executive Vice President	Remuneration	3,179,372.03	1,857,263.12
4	Tarun Banger	Executive Vice President	Remuneration	3,195,476.45	2,795,881.49
5	Deepak Kumar Verma	Executive Vice President	Remuneration	1,201,913.30	-
6	Mukesh Kumar	Sr. Vice President	Remuneration	2,571,649.86	2,255,881.49
7	T C Ghimirey	Executive Vice President	Remuneration	1,213,700.00	1,015,500.00
8	Tashi Penjor	Executive Vice President	Remuneration	1,245,300.00	1,051,800.00

e. Dividends paid to the Directors

Sl.#	Name	Nature of Relationship	Dividend Paid	
			2019 (dividend for 2018)	2018 (Dividend for 2017)
	Director/Associates			
1	Dasho Sangay Wangchuk	Director	6,874,443.88	4,386,387.60

f. Dividend paid to the relatives of the Directors

Sl.#	Name	Nature of Relationship	2019 (dividend for 2018)	2018 (Dividend for 2017)
1	Dasho Kuenley Wangchuk	Director's Father	2,538,899.64	1,620,000.00
2	Aum Sangay Om	Director's Mother	2,538,899.64	1,620,000.00
3	Kesang Wangchuk	Director's Brother	203,264.70	129,697.20
4	Yangchen Wangchuk	Director's Sister	2,877.42	1,836.00

g. Dividend paid to the Key Managerial Personnel

Sl.#	Name	Nature of Relationship	Dividend Paid	
			2019 (dividend for 2018)	2018 (Dividend for 2017)
1	D.K. Gupta	Chief Executive Officer	-	-
2	A.B. Rai	Dy. Chief Executive Officer	4,466.05	2,850.00
3	Arun P.R.	Ex. Vice President	-	-
4	Tarun Banger	Ex. Vice President	-	-
5	Deepak Kumar Verma	Ex. Vice President	-	-
6	Mukesh Kumar	Sr. Vice President	-	-
7	T C Ghimirey	Ex. Vice President	6,046.21	3,858.00
8	Tashi Penjor	Ex. Vice President	4,466.08	2,050.00

h. Dividend paid to the Joint Venture Company (Punjab National Bank Limited, India)

Sl.#	Name	Nature of Relationship	Dividend Paid	
			2019 (dividend for 2018)	2018 (Dividend for 2017)
1	PNB, India	Joint Company	38,845,170.00	24,786,000.00

26. IMPLEMENTATION OF BAS PHASE III.

a. Loans and Advances

The provision made by the Bank (Specific and General) under earlier GAAP was different from the BAS 39 requirement which requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Therefore, individual and collective impairment has been done in respect of loans and receivables in compliance with BAS 39.

b. Deposits

Other banks and customers have invested fixed deposits with the bank at varying simple interest rates. The bank has started recognizing the deposits at revalued figure and the interest at effective interest rate as per BAS 39. The revaluation values are reflected in the financial statements accordingly.

c. Staff Loan Fair-Valuation

Bank has provided loans to their employees at concessionary rate and as per the BAS 39, the benefit that the employees are getting from the reduced interest has to be quantified and presented in the financial statement. For this purpose, the staff loans have been fair valued using the market interest rate.

Interest Outstanding as per Market Rate(A)	Interest Outstanding as per Incentive(B)	Difference recognized in Income Statement(A-B)
Nu. 489,997.45	Nu. 284,986.00	Nu. 205,011.45

d. Fair Valuation of Investment (FITI & CIB)

Under the previous BAS (Phase I & II), investment in equity shares were carried at cost. After adoption of BAS 39, the company has fair valued this investment at the date of initial recognition and each reporting period.

Particular/ Organization	Revalued Investment Value(A)	Initial Investment Value(B)	Difference(A-B) recognized in OCI
FITI	Nu. 12,558,427.85	Nu. 12,000,000.00	Nu. 558,427.85
CIB	Nu. 3,558,920.82	Nu. 1,750,000.00	Nu. 1,808,920.82
Total			Nu. 2,367,348.67

27. DISCLOSURE OF ASSETS BASED ON MATURITY

Loans & Advances

Particular	Maturity Period in Nu. '000'		Total
	Less than 1 year	More than 1 year	
Loan and Advances to Banks	-	-	-
Amount Provided to other Banks	-	-	-
Demand deposits	121,180.85	282,755.31	403,936.16
Term deposits	72,196.35	6,735,453.63	6,807,649.98
Cash Credit	843,378.15	-	843,378.15
Overdraft	2,858,971.76	-	2,858,971.76
Total	3,895,727.11	7,018,208.94	10,913,936.05

28. EVENTS AFTER THE REPORTING PERIOD

The board in 45th Board of Directors Meeting held in Thimphu, Bhutan on 30th March, 2020 proposed a bonus share in the ratio of.for the income year 2019.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments. Financial Investments available for sale financial assets (primarily consist of quoted equities and Government debt securities) are valued using valuation techniques or pricing models. These assets are valued using models that use observable data.

Trading assets and other assets measured at fair value are the Government debt securities and quoted equities. Government debt securities and quoted equities the Bank uses quoted market prices in the active market as at the reporting date.

30. RISK MANAGEMENT

Credit Risk

The amount and type of collateral required depends on an assessment of the credit risk of the counter party. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

- For commercial lending: charges over real estate properties, inventory and trade receivables
- For retail lending: mortgages over residential properties

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for Business use.

31. RMA DISCLOSURES

Qualitative Disclosures

i. Capital Adequacy Ratio

The capital of the bank consists of Tier 1, which forms a core capital and Tier 2, which is a supplementary capital. Tier 1 capital, which constitutes paid up capital; general reserves; share premium; and retained earnings is Nu. 1.69 billion compared to Nu. 1.68 billion in pervious year.

The Tier 2 capital consists of Exchange Fluctuation Reserve, Research and Development Fund, General Provisions and Subordinated Debts. As required under section 1.3.2 of RMA Prudential Regulation 2016, Tier 2 capital is to be reduced by 20% of the subordinated debts with remaining maturity of 5 years and the same has been adjusted. Tier 2 capital is Nu. 334.55 million compared to Nu. 251.44 million in the previous year.

ii. Non-performing Loans & Provisioning

Loans and advances of the Bank has been classified under non-performing as per the definition provided in section 4.4 of the RMA Prudential Regulation 2017. In the current year, the gross NPL stands at 3.98% and net NPL stands at 2.73% as against 1.66% and 0.20% in the previous year. The gross non-performing percentage loan has increased by about 2.23% and in absolute term, the NPL amount has increased by Nu. 275.66 as compared to previous year.

Out of Nu. 480.79 million allocated against exposure, Nu. 119.51 million and Nu. 361.28 million are allocated to General and Specific provisions respectively. The general provision provided by the Bank has increased by Nu. 32.61 million and specific provision by Nu. 243.05 over the previous year.

iii. Risk Management

DPNBL has introduced risk management function formally to monitor and manage various risks the Bank is exposed to. The bank has now implemented a comprehensive written policy on Risk Management to identify, measure, manage and mitigate the risk. The policy also has a detailed controlling tools, methodologies and reporting principles. The major risks the policy emphasizes are Credit Risk, Market Risk, Operational Risk and Liquidity Risk.

The risk governance structure is defined in three tiers, namely the Board Level Committee, Management Level Committee and Functional Risk Organization. Under Functional Risk Organization, we have Risk Management Department (RMD) which consists of three sub units, namely, Credit Risk Management Unit, Market Risk Management Unit and Operational Risk Management Unit. However, presently these Units are not handled separately by different personnel but managed together under RMD. As the Risk function matures in the Bank, the said Units will be handled by experienced personnel in the future reporting to Head of Risk. Credit Risk forms the major risk of the Bank. The Bank has a robust credit approval process in place to assess the credit worthiness of a client to receive credit.

Under Credit Risk we monitor the concentration risk- single borrower limit, Bank borrower limit, sector limit rating grade concentration and also the prohibited industry/ sector or product. These risks were managed well within the pre-approved limits during the year.

Under market risk, the Bank monitors the net Foreign Exchange position, movement of equity/ commodity prices and Interest rate risk. Currently there is no tolerance limit defined for equity/commodity risk and the Interest Rate Risk.

Operational Risk is enterprise-wide. The Bank has implemented robust measures and processes in all operational areas in accordance with the standard operational procedures (SOP) and anti-money laundering and combating the financing of terrorism policy.

Besides the above risks, the Bank also monitors liquidity risk, reputation risk, strategic risk which are material to the Bank.

32. QUANTITATIVE DISCLOSURE

The disclosures are as per the requirements under section 3.2.2 of Macro-prudential rules and regulations–Disclosure Requirements and the figures are under Local GAAP presented in “000” Ngultrum unless specified.

i. Tier 1 Capital and its Sub-component

Sl.#	Particular	Year 2019	Year 2018
1	Total Tier I Capital		
a	Paid up Capital	700,000.00	700,000.00
b	General Reserve	591,045.24	536,609.22
c	Share Premium Account	153,150.80	153,150.80
d	Retained Earning	262,654.76	295,842.19
e	Losses for the Current Year Total	-	-
	Total	1,706,850.80	1,685,602.21

ii. Tier 2 Capital and its Sub-components

Sl.#	Particular	Year 2019	Year 2018
1	Total Tier II Capital		
a	Capital Reserve	-	-
b	Fixed Assets Revaluation Reserve	-	-
c	Exchange Fluctuation Reserve	17,537.54	14,544.09
d	Investment Fluctuation Reserve	-	-
e	Research & Development Fund	-	-
f	General Provision	167,012.48	86,900.79
g	Capital Grants	-	-
h	Subordinate Debt	150,000.00	150,000.00
i	Profit of the year	-	-
	Total	334,550.03	251,444.89

iii. Risk weighted Assets

Risk Weighted Assets	Balance Sheet Amount		Risk Weight	Risk Weight Amount	
	Year 2019	Year 2018		Year 2019	Year 2018
LAFD	293,253.67	192,658.54	0%	-	-
L & A other than LAFD & NPL	10,385,535.53	8,145,734.03	100%	10,385,535.53	8,145,734.03
NPL Less specific Prov. & Susp. Int.	81,335.42	16,400.67	150%	122,003.13	24,601.01
Claim on Commercial Bank	2,738,349.46	2,265,983.74	20%	547,669.89	453,196.75
Bonds/ Securities	305,000.00	250,000.00	20%	61,000.00	50,000.00
RGOB subOrdinate debt	150,000.00	150,000.00	0%	-	-
Claims on FIs in India	796,910.54	352,836.33	50%	398,455.27	176,418.17
Fixed Assets	76,249.59	56,434.83	100%	76,249.59	56,434.83
Other Assets	127,819.63	155,591.46	100%	127,919.63	155,591.46
Off balance sheet items (Direct Credit Substitute)	3,872,496.01	884,771.80	100%	3,872,496.01	884,771.80
Operational Risk	-	594,520.30	100%	-	594,520.30
	18,827,049.84			15,591,329.04	10,541,268.33

iv. Loans and NPL by Sectorial Classification

Sl. #	Particular	Year 2019		Year 2018	
		Total Loans	NPL	Total Loans	NPL
a	Agriculture	17,795.20	-	9,469.06	524.30
b	Manufacturing/Industry	2,782,457.42	7,410.23	1,857,387.78	11,728.70
c	Services & Tourism	2,772,916.90	139,585.39	2,498,125.71	65,120.23
d	Trade & Commerce	1,411,972.02	30,073.16	1,026,295.96	25,650.32
e	Housing	2,630,316.95	12,006.54	1,723,513.56	8,720.53
f	Transport	147,770.75	18,183.59	159,755.23	2,825.55
g	Loan to Purchase Securities	265,211.10	-	334,092.79	-
h	Personal Loan	110,077.94	7,873.42	128,670.96	10,563.49
i	Education Loan	173,882.24	1,104.87	6,770.50	131.98
j	Loan Against Term Deposits	293,253.67	-	192,658.54	-
k	Loan to FI(s)	99,975.53	-	350,051.71	-
l	Infrastructure Loan	-	-	-	-
m	Staff Loan (Incentive)	70,510.92	-	53,536.95	-
n	Loan to Govt. Owned Corporation	-	-	-	-
o	Consumer Loan (GE)	122,240.01	3,438.07	117,377.17	2,601.43
p	Others	15,555.39	15,486.56	12,416.62	12,416.62
	Grand Total	10,913,936.05	235,161.84	8,470,122.54	140,283.15

v. Loans (Over-draft and term loans) by type of counter-party

Sl.#	Particular	Year 2019	Year 2018
1	Overdraft		
a	Government	-	-
b	Government Corporations	98,641.90	83,585.97
c	Pubic Companies	-	121,238.99
d	Private Companies	1,014,910.56	471,047.60
e	Individuals	2,588,767.34	2,165,974.19
f	Commercial Banks	-	-
g	Non-Bank Financial Institutions	99,975.53	350,051.71
	Total	3,802,295.33	3,191,898.46
2	Term Loan		
a	Government	-	-
b	Government Corporations	39,409.48	
c	Pubic Companies	-	86,471.61
d	Private Companies	1,277,175.70	1,168,311.69
e	Individuals	5,795,055.53	4,023,440.80
f	Commercial Banks	-	-
g	Non-Bank Financial Institutions	-	-
	Total	7,111,640.71	5,278,224.09
	Total Loans	10,913,936.05	8,470,122.55

vi. Non-Performing Loans and Provisions

Sl.#	Particulars	Year 2019	Year 2018
1	Gross Loans	10913936.05	8,470,122.55
	Amount of NPLs (Gross)	434,137.84	140,283.16
	Substandard	337,995.23	11,641.78
	Doubtful	34,972.32	18,184.81
	Loss	61,170.29	110,456.57
2	Specific Provisions	142,986.10	103,671.86
	Substandard	56,097.96	3,016.12
	Doubtful	22,595.42	8,634.52
	Loss	64,292.72	92,021.22
	Additional Provision (As per RMA direction)	-	14,558.08
	Total Provision	142,986.10	
3	Interest in Suspense	37,216.01	20,210.63
	Substandard	24,298.05	713.75
	Doubtful	3,482.24	1,056.86
	Loss	9,435.72	18,440.02
4	Net NPLs	253,935.73	16,400.67
	Substandard	281,897.27	7,911.91
	Doubtful	12,376.90	8,493.43
	Loss	12,432.96	(4.67)
	Net Loans	10,760,124.62	8,346,240.06
5	Gross NPLs to Gross Loans	3.98%	1.66%
6	Net NPLs to Net Loans	2.73%	0.20%
7	General Provisioning	11,372,123.34	8,329,839.39
	Standard	9,673,415.14	7,521,636.96
	Watch	1,698,708.20	808,202.43

vii. Concentration of Credit and Deposits

Sl.#	Particular	Year 2019	Year 2018
1	Total Loans of 10 Largest borrowers	2,653,292.26	3,025,893.54
	Total Loans	10,913,936.05	8,470,122.55
2	As % of total loans	24.31%	35.72%
3	Total deposits of 10 largest deposits	6,611,113.98	5,812,108.07
	Total deposits	14,266,059.57	12,648,332.11
4	As % of total deposits	46.34%	45.95%

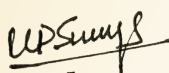
viii. Exposure of 5 Largest NPL accounts

Sl.#	Particular	Year 2019	Year 2018
1	Five Largest NPL Accounts	353,833.94	54,491.83
	Total NPL	434,137.84	140,283.16
2	As % of total NPLs	81.50%	38.84%

33. RMA DISCLOSURES

The Bank has received Nu. 150 Million from the Ministry of Finance, RGoB On 9th April 2014 in the form of subordinated debt (159,000 scripts of subordinated bonds at face value of Nu. 1,000/-each) having maturity of 10 years and coupon rate of 6%, payable annually.

Signed in terms of our attached report of even date
For M.P.Sureka & Co.
Chartered Accountants (FR No. 322097E)



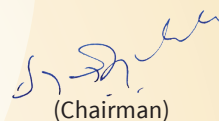
M.P. Sureka (Membership No. 050560)

Partner

Date: 26/05/2020

Place: Thimphu, Bhutan

For & On Behalf of Board of Directors


(CEO)
(Director)
(Chairman)

Our Correspondent Banks

NAME OF THE BANK	SWIFT CODE
Punjab National Bank in India (all branches)	PUNBINBB
Punjab National Bank (International) Ltd., London, UK	PUNBGB22
Standard Chartered Bank, New York, USA	SCBLUS33
Standard Chartered Bank, Singapore	SCBLSGSG
Standard Chartered Bank (Hong Kong) Ltd., Hong Kong	SCBLHKHH
Standard Chartered Bank, Malaysia	SCBLMYKX
Standard Chartered Bank, Mumbai (India)	SCBLINBB
Standard Chartered Bank (all U.K. Offices, London, UK)	SCBLGB2L
Standard Chartered Bank, Taipei, Taiwan	SCBLTWTP
Standard Chartered Bank, Japan	SCBLJPJT
Standard Chartered Bank, Colombo, Sri Lanka	SCBLKLX
Standard Chartered Bank (Thai) Public Company Ltd., Bangkok, Thailand	SCBLTHBX
Standard Chartered Bank, Muscat, Oman	SCBLOMRX
Standard Chartered Bank, Manama, Bahrain (all offices)	SCBLBHBM
Standard Chartered Bank, Frankfurt am Main Germany Branch	SCBLDEFX
Standard Chartered Bank, Jakarta, Indonesia	SCBLIDJX
PNB Hong Kong	PNBHKHH
Standard Chartered Bank, Dhaka	SCBLBDDX
Mizuho Bank Ltd., Tokyo Japan	MHCBJPJT
Nordea Bank Finland PLC	NEWAFIHH