



**Druk PNB Bank Ltd.**

*...your partner in growth!*

**ANNUAL REPORT 2020**





### **CORPORATE OFFICE**

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**Staff members of Corporate Office and Thimphu Branch**



**Staff members of Branch Office, Gelephu**



**Staff members of Branch Office, Paro**



**Staff members of Branch Office, Trongsa**





**Staff members of Branch Office, Phuentsholing**



**Staff members of Branch Office, Bajo, Wangduephodrang**



**Staff members of Branch Office, Bumthang**



**Staff members of Branch Office, Samtse**

## BOARD OF DIRECTORS



**Aum Sangay Om**  
*Chairman*



**Sonam Tashi**  
*Independent Director*



**Tashi Pem**  
*Public Shareholder Director*



**Sunil Soni**  
*PNB Nominated Director*



**Alok Verdhan Chaturvedi**  
*Independent Director*



**Mr. Rajesh Verma**  
*PNB Nominated Director*



**Sumesh Kumar**  
*Chief Executive Officer*





## Director's Report: 2020

### Dear Shareholders,

Druk PNB Bank Limited (DPNBL) takes immense pleasure in presenting its Annual Report for the year 2020. On behalf of the Board of Directors, I present before you the Annual Report of your bank for the year ended 31<sup>st</sup> December 2020. 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 11 years of successful operations in 2020 registering a growth in total business from Nu. 25,289.93 Mio in 2019 to Nu 29,850.20 Mio in 2020, showing a growth of 18.03%, comprising of Nu 17,569.41 Mio as Deposits and Nu. 12,280.79 Mio as Advances.

### Net Profit:

In 2020, the Bank earned total income of Nu 1,233.36 million against total expenditure of Nu 949.32 million. The Net profit of the bank for the year stood at Nu.54.45 million (as per BAS).

### Capital & Reserve:

With the restriction for payment of dividend for 2020 by the regulator, the Board of Directors is pleased to recommend the ploughing back of the entire profit of Nu.54.45 million for the year ended 31.12.2020 to conserve the bank's capital, support economy and to absorb unexpected losses. In order to strengthen bank's capital funds, Nu. 27.225 may be transferred to General Reserves, Nu. 2.723 for Foreign Exchange Fluctuation Reserve and the rest to Bank's Retained Earnings. This would improve the bank's capital fund to Nu. 1,867.146 million as compared to Nu.1,807.955 ,million as on 31.12.2019.

Further the fund so retained will also enable the bank of expansion/growth plans in the coming years.

### **Board of Directors:**

As on 31<sup>st</sup> December 2020, 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:**

The Bank has launched YESA (Young Earners Savings Account) scheme with an objective to instil the saving culture and develop the financial discipline among the youth of Bhutan. Similarly, bank has launched Salary Saving Scheme with attractive USPs namely “Druk Gold” and Druk Platinum”.



The IT product- Point of Sales (POS) which was launched on 21<sup>st</sup> May 2019, installed 55 POS machines in 2019 and 185 POS machines installed as on 31.12.2020 which is a 236% increase in growth.

We are also exploring viable sites for opening of new branch offices in Olakha, Thimphu within 2021.

### **Corporate Social Responsibility:**

The bank has concern towards society in which it operates. As a part of its CSR, Bank has contributed Nu. 1.53 million in response to Covid-19. Apart from that, employees has also contributed their one month Bonus towards Covid-19 response fund amounting to Nu.4.47 million. Altogether, Bank has contributed Nu.6 million in response to Covid-19. Further, as per the guidelines issued by RMA, 50% of the interest was borne by the Bank for the month of April, May and June 2020 which amounts to Nu.138.73 Million being waived off by the Bank.

### **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 18 of its employees in various organizations as per details given as under.

<b>Sl. No.</b>	<b>Training Institute</b>	<b>No. of employees who attended the training.</b>
1	Descriptive Data analysis (Conducted by FITI)	1
2	PSL Guidelines by RMA	1
3	JA-FITI/CPDP (conducted by FITI)	16
	<b>Total</b>	<b>18</b>

### **Statutory Auditors:**

M/s. M.PSureka & Company, Chartered Accountants, Kolkata have audited the bank's books of accounts for the year ended 31<sup>st</sup> December 2020.

## Acknowledgment:

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:



**(Aum Sangay OM)**

Chair

For and on behalf of the Board of Directors.





## 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 31<sup>st</sup> December 2020.

The total business of the bank stood at Nu. 29,850.20 Mn during the year ended 2020 as against Nu. 25,289.93 Mn during 2019 thus registering a growth of 18.03% 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. 17,569.41 and 12,280.79 million showing a growth of 22.21 % and 12.52% respectively over previous year. Our net profit has decreased from Nu. 194.99 million in 2019 to Nu. 54.45 million in 2020 due to the ongoing COVID-19, Global Pandemic and due to additional provisions provided for NPL accounts considering the challenges bank may face in coming years.

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	31.12.2019	31.12.2020	Variance
Total Business	25,289.93	29,850.20	18.03%
Total Deposits	14,375.99	17,569.41	22.21%
Total Advances	10,913.94	12,280.79	12.52%
Net Profit	194.99	54.45	-72.08%
Capital Funds	1,807.95	1,867.14	3.27%
Customers Base	100,578.00	106,612.00	6.00%

## COVID 19 Pandemic Our Bank's Performance Review 2020

2020 has been a challenging year for everyone due to the COVID-19 pandemic and its mitigation efforts, resulting in unprecedented hardships and sacrifices for all sections of our community. Guided by the wisdom of His Majesty The Druk Gyalpo, RMA and the financial service providers also joined the Nation in preventing widespread economic disruptions in an inclusive manner. Key highlights of the monetary policy implementation and its impact on the performance of our bank for the year 2020 are summarized below.

### Implementation of Monetary Policy Measures

As an immediate response to curtail the impact of the pandemic, His Majesty The King granted 100 percent interest payment support to all the borrowers for six months (April to September 2020) followed by 50 percent interest payment support for the next six months (October 2020 to March 2021). Of the 100 percent interest payment support provided during the first three months, 50 percent was borne by the financial institutions itself, 50 % interest support born by our bank for the month of April '20 to June '20 amounts to Nu.138.73 million. The interest payment support has provided economic relief to the borrowers during the pandemic to a larger extent.

- Complementing the interest payment support measures, deferment of loan repayment was also provided until June 2021 to all borrowers. Likewise, account holders who made full regular payment of EMIs during the deferred period benefited through provision of 1 percent reduced interest rate.
- RMA has introduced Soft Term Loans to Businesses (Bridging Loans) to ensure the resilience and continuation of operations for corporate and business entities (CIT & BIT filing business/agencies) that are affected by COVID-19 Pandemic. Financial institutions shall provide bridging loan to meet the operational cost/expenses, Employment expenses



(wage and salary paid to employees), Overhead expenses (rents, utility bills, lease, insurance premiums) and also Procurement/purchase of raw materials. Under the scheme our bank has sanctioned 36 new soft / bridge loan amounting to Nu.882.78 Mn up to 31.12.2020

- c. To facilitate the soft loan at 5 % and to bring liquidity RMA has reduced CRR from 10 % to 7 % and thereby amount of NU.421.15 Mn has been released to us. Out of the above we have disbursed an amount of Nu.465.88 Mn as soft / bridge loan to our eligible customers up to 31.12.2020.

**There were two nationwide lock downs during this period and DPNBL was able to deliver uninterrupted service to our customers.**

### **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 has launched YESA (Young Earners Savings Account) scheme with an objective to in still the saving culture and develop the financial discipline among the youth of Bhutan. Similarly, bank has launched Salary Saving Scheme with attractive USPs namely “Druk Gold” and Druk Platinum”.

The IT product- Point of Sales (POS) which was launched on 21<sup>st</sup> May 2019, has installed 55 POS machines in 2019 and 185 POS machines as on 31.12.2020 which is a 236% increase in growth.

### **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, Bank has contributed Nu. 1.53 million in response to Covid-19. Apart from that, employees has also contributed their one month Bonus towards Covid-19 response fund amounting to Nu.4.47 million. Further, as per the guidelines issued by RMA, 50% of the interest was borne by the Bank for the month of April, May and June 2020 which amounts to Nu.138.73 Million being waived off by the Bank.

Tashi Delek.



**(Sumesh Kumar)**  
**Chief Executive Officer**



**Independent Auditor's Report on the Financial Statements for year ended 31 December 2020**

**To  
The Shareholders of the Druk PNB Bank Limited  
Thimphu  
Bhutan.**

**1. Opinion**

We have audited the financials statements of Druk PNB Bank Limited ('the Company'), which comprises the Statement of Financial Position as at 31 Dec. 2020, and the Statement of Comprehensive Income, Statement of Cash Flows and the Statement of Changes in Equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 Dec. 2020, and its financial performance and cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

**2. Basis for Opinion**

We conducted our audit in accordance with the International Standards on Auditing (ISAs).

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

**3. Key Audit Matters**

Key audit matters are those that pertains to following accounting standards which are not complied with and in our professional judgment having significant impact on the financial statements as a whole, and in forming our opinion thereon, and we do not provide a





separate opinion on these matters. We have determined the matter described below to be the key audit matters to be communicated in our report.

The spread of COVID-19 Pandemic has greatly impacted the regular business operations of the bank during the year. The border gates were closed and only the controlled economic activities of essential nature were carried out. The management has considered various internal and external sources of information up to date of approval of its annual financial statements by the Board of Directors in determining the impact of pandemic on the various elements of financial statements. The management has used the principles of prudence in applying judgments, estimates & assumptions and based on the current estimates expects to fully recover the carrying amount of various non-current & current assets and the Management is also optimistic on payment of various non-current & current liabilities.

Further considering the uncertainties involved, the eventual outcome of the impact of the pandemic may be different from those estimated as on the date of approval of the annual financial statements. The company will continue to closely monitor any material changes in future economic conditions.

#### **4. Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing these 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.



## 5. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 audit in accordance with ISAs, we have exercised professional judgment and maintained professional skepticism throughout the audit. Our additional responsibilities are:

- i. To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, to design and perform audit procedures responsive to those risks, and to 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 omission, misrepresentations, or the override of internal control;
- ii. To 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 entity's internal control;
- iii. To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- iv. To 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 entity'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 Company to cease to continue as a going concern; and





- v. To evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management, among others, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 6. Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan 2016, we enclose the Minimum Audit Examination and Reporting Requirements as *Appendix I* with statements on the matters specified therein to the extent applicable.

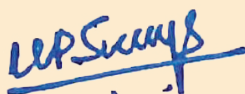
Further, as required under Section 265 of the Companies Act of Bhutan 2016, we report that:

- i. We have obtained all the information and explanations to the best of our knowledge and belief were necessary for the purpose of the audit;
- ii. In our opinion, proper books of accounts have been kept by the Company insofar as it appears from our examination of those books;
- iii. The Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, and Statement of Changes in Equity dealt with in this Report have been prepared in accordance with BAS ; and
- iv. Based on the information, explanations and management representations received during the course of our audit, the Company has complied with other legal and regulatory requirements.



In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements provide the information in the manner so required and give a true and fair view in conformity with the BAS, and provisions of the Companies Act of Bhutan, 2016.

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



M.P.Sureka (Membership No. 050560)  
PARTNER  
Date: 12/05/2021  
Place: Thimphu, Bhutan



## MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

### *Appendix I*

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 payments.
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

Based on the net asset position reflected by the statement of financial position as at 31 December, 2020 and audited by us in accordance with the Bhutan Accounting and Auditing Standard of Bhutan and on the basis of such other tests as we considered necessary in this regard alongside with the forecast by the management, the company cannot be judged as sick business entity.

### 2. Ratio Analysis

Financial and Operational Ratio Analysis for 2020 and 2019 in respect of the company is annexed.

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

The Company has complied with the applicable laws, rules & regulations, systems, procedures & practices as per the requirements of the Companies Act of Bhutan, 2016.

### 4. Adherence to Laws, Rules and Regulations

The audit of the company is governed by the Companies Act of Bhutan, 2016 and the scope of audit is limited to examination and review of the Financial Statement as produced to us by the management. In the course of the audit we have considered the compliance of provisions of the said Companies Act, its Articles of Incorporation and applicable BAS, and also the Corporate Governance Guidelines 2020.

**For, M.P.Sureka & Co.**

**Chartered Accountants (FR No. 322097E)**

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

**PARTNER**

**Date: 10/04/2021**

**Place: Thimphu, Bhutan**



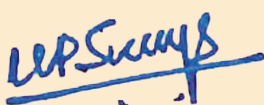


## Statement of Financial Position as at 31st December, 2020

	Note	Amount in Nu.	
		2020	2019
<b>Assets</b>			
Cash & Cash Equivalents	13	161,036,009.84	144,470,374.53
Cash & Balances with Central Bank	13A	5,579,320,128.42	1,826,211,230.55
Placement with other Banks	14	1,685,338,122.45	3,535,260,001.99
Loans and advances to customers	15	12,280,799,407.40	10,913,936,045.61
Financial investments	15A	530,323,390.07	573,877,002.62
Other assets	16	433,397,053.35	127,919,631.16
Property, Plant and Equipment	4	61,743,890.07	76,249,585.47
Deferred tax assets	3	6,607,086.76	24,447,272.16
<b>Total assets</b>		<b>20,738,565,088.36</b>	<b>17,222,371,144.09</b>
<b>Liabilities</b>			
Due to Banks and Financial Institutions	17	98,229,363.12	213,316,178.77
Due to customers	18	17,548,634,953.45	14,304,434,443.25
Debt issued and other borrowed funds	19	209,373,768.46	150,000,000.00
Current tax liabilities	12	-	16,388,320.53
Other liabilities	20	503,430,256.73	355,809,618.59
Provisions	21	488,713,255.95	349,559,397.99
Retirement Benefit Obligations	22	23,037,467.24	24,907,410.31
<b>Total liabilities</b>		<b>18,871,419,064.95</b>	<b>15,414,415,369.44</b>
<b>Equity attributable to shareholders</b>			
Issued capital	SOE	840,002,022.00	700,000,000.00
Share premium	SOE	153,150,800.00	153,150,800.00
Statutory Reserve	SOE	495,467,405.18	634,108,182.36
Retained earnings	SOE	325,957,154.29	305,717,696.77
Foreign Fluctuation Reserve	SOE	50,386,634.41	17,537,544.18
Other Comprehensive Income(/ Loss)	OCI	2,182,007.53	(2,558,448.63)
<b>Total equity</b>		<b>1,867,146,023.41</b>	<b>1,807,955,774.68</b>
<b>Total liabilities and equity</b>		<b>20,738,565,088.36</b>	<b>17,222,371,144.10</b>

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

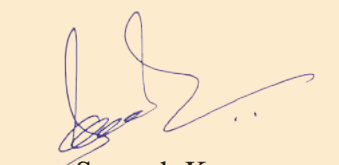
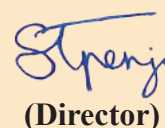

For & On Behalf of Board of Directors



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

Date: 12-05-2021

Place: Thimphu, Bhutan


  
Sumesh Kumar  
**Chief Executive Officer**
  
**(Director)**
  
Aum Sangay Om  
**(Chairperson)**

## Statement of Comprehensive Income for the year ended 31st December, 2020

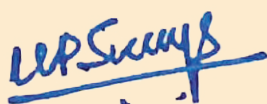
	Note	Amount in Nu.	
		2020	2019
Interest and similar income	5	1,106,362,066.49	1,058,951,522.21
Interest and similar expense	6	736,371,995.88	600,548,130.63
<b>Net interest income</b>		<b>369,990,070.61</b>	<b>458,403,391.58</b>
Fees and commission income	7	92,357,833.18	126,428,027.32
Net fee and commission income		92,357,833.18	126,428,027.32
Other operating income	8	627,006.90	12,771,239.48
<b>Total operating income</b>		<b>462,974,910.69</b>	<b>597,602,658.38</b>
Provisions on Loan & Advances	9	139,153,857.96	144,428,664.96
<b>Net operating income</b>		<b>323,821,052.73</b>	<b>453,173,993.42</b>
Personnel expenses	10	112,066,299.01	104,408,677.53
Depreciation of property, Plant and equipment		15,671,291.63	18,306,643.52
Other operating expenses	11	123,793,484.12	86,272,170.51
<b>Total operating expenses</b>		<b>251,531,074.75</b>	<b>208,987,491.56</b>
Profit before tax from continuing operations		72,289,977.97	244,186,501.86
Income tax expense - Deferred tax	3	(17,840,185.40)	49,188,585.51
<b>Profit for the year from continuing operations</b>		<b>54,449,792.57</b>	<b>194,997,916.35</b>

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

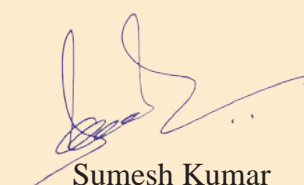


**M.P.Sureka (Membership No. 050560)**

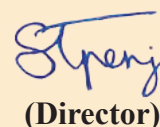
**Partner**

Date: 12-05-2021

Place: Thimphu, Bhutan



**Sumesh Kumar**  
**Chief Executive Officer)**



**(Director)**



**Aum Sangay Om**  
**(Chairperson)**

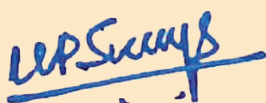


## Statement of Other Comprehensive Income for the year ended 31st December, 2020

	Amount in Nu. 2020	2019
<b>Profit for the year</b>	<b>54,449,792.57</b>	<b>194,997,916.35</b>
Items which are not reclassified in Income Statement		
Net Actuarial Gain/(Loss) on retirement benefits	6,487,592.00	(4,215,592.70)
Net Gain/(Loss) on re-measurement of Financial Assets	(166,983.78)	2,367,348.67
Net Gains/(losses) from Financial Instruments at FV	-	-
<b>Other Comprehensive income/(loss) before tax</b>	<b>6,320,608.22</b>	<b>(1,848,244.03)</b>
Income Tax Income/(Expense) relating to OCI	1,580,152.05	710,204.60
<b>Other Comprehensive income/(loss) net of tax</b>	<b>4,740,456.16</b>	<b>(2,558,448.63)</b>
<b>Total Comprehensive income/(loss) net of tax</b>	<b>59,190,248.73</b>	<b>192,439,467.72</b>
<b>Basic Earnings Per Share</b>	<b>0.70</b>	<b>2.75</b>

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

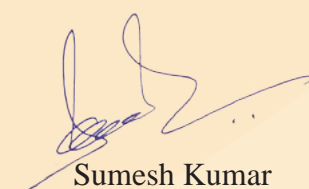


**M.P.Sureka (Membership No. 050560)**

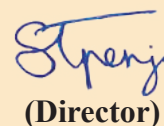
**Partner**

Date: 12-05-2021

Place: Thimphu, Bhutan



**Sumesh Kumar  
Chief Executive Officer**



**(Director)**



**Aum Sangay Om  
(Chairperson)**





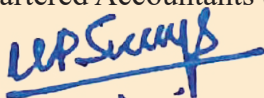
## Statement of Cash Flows for the year ending 31st December,2020

	2020	2019
	Amounts(Nu.)	
<b>A. Operating Activities</b>		
Profit before tax from continuing operations	72,289,977.97	244,186,501.86
Profit before tax from discontinued operations	-	-
<b>Profit before tax</b>	<b>72,289,977.97</b>	<b>244,186,501.86</b>
<b>Adjustment for:-</b>		
Interest Income from deposits	(89,352,497.55)	(104,907,166.03)
Change in operating assets	(1,366,863,361.79)	(2,443,813,496.75)
Change in operating liabilities	3,244,200,510.20	1,865,492,611.99
Change in other operating assets	(287,637,236.79)	(57,292,223.49)
Change in other operating liabilities	129,362,374.54	(77,568,213.76)
Other non-cash items (depreciation)	15,671,291.63	18,306,643.52
Interest Expense-Subordinate debt	9,000,000.00	-
Unrealised foreign exchange Gain	596,725.75	-
Income tax paid	(19,402,478.92)	(106,102,705.68)
Provisions	139,153,857.96	144,428,664.95
<b>Net cash flows from operating activities</b>	<b>Total of (A) 1,847,019,163.00</b>	<b>(517,269,383.39)</b>
<b>B. Financing Activities</b>		
Proceeds from issuance of bonds/borrowings	(55,713,047.19)	-
Dividends paid to equity holders	-	(84,630,000.00)
Increase in Financial Investments	43,553,612.55	2,179,213,917.64
Interest Expense-Subordinate debt	(9,000,000.00)	9,000,000.00
<b>Net cash flows from/(used in) financing activities</b>	<b>Total of (B) (21,159,434.64)</b>	<b>2,103,583,917.64</b>
<b>C. Cash Flow from Investing Activity</b>		
Purchase of property and equipment	(1,162,215.02)	(20,620,032.50)
Proceeds from sale/damage of property and equipment	5,702,642.82	34,525.00
Interest Income-Investment	89,352,497.55	104,907,166.03
<b>Net cash flows from/(used in) investing activities</b>	<b>Total of (C) 93,892,925.35</b>	<b>84,321,658.53</b>
Change in Cash and cash equivalents (A+B+C)	1,919,752,653.71	1,670,636,192.78
<b>Opening Cash and cash equivalents</b>	<b>5,505,941,607.00</b>	<b>3,835,305,416.28</b>
<b>Closing Cash and cash equivalents</b>	<b>7,425,694,260.71</b>	<b>5,505,941,607.00</b>

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)

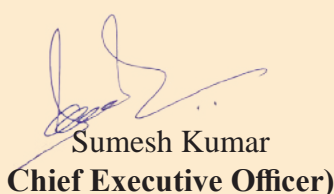
Partner

Date: 12-05-2021

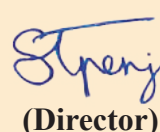
Place: Thimphu, Bhutan



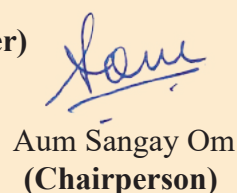
For & On Behalf of Board of Directors



Sumesh Kumar  
Chief Executive Officer



(Director)



Aum Sangay Om  
(Chairperson)

## Statement of Changes in the Equity for the year ended 31st, December 2020

	Issued Capital	Share Premium	Statutory Reserve	Retained Earnings	Foreign Fluctuation Reserve	Other Comprehensive Income/(loss)	Total Equity
<b>At 1 January 2019</b>	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	-	-	-	-	-	-	-
Dividends paid for 2018	-	-	-	(84,630,000.00)	-	-	(84,630,000.00)
Transfer from Other Comprehensive income	-	-	-	-	-	(2,558,448.63)	(2,558,448.63)
Transfer to Foreign Fluctuation Reserve	-	-	-	(2,993,450.52)	2,993,450.52	-	-
Transfer to General Reserve	-	-	97,498,958.18	(97,498,958.18)	-	-	-
<b>At 31 December 2019</b>	700,000,000.00	153,150,800.00	634,108,182.37	305,717,696.77	17,537,544.18	(2,558,448.63)	1,807,955,774.68
Total comprehensive income	-	-	-	54,449,792.57	-	-	54,449,792.57
Issue of share capital	140,002,022.00	-	(140,002,022.00)	-	-	-	-
Dividends paid of 2019	-	-	-	-	-	-	-
Transfer from Other Comprehensive income	-	-	-	-	-	4,740,456.16	4,740,456.16
Transfer to Foreign Fluctuation Reserve	-	-	-	(32,849,090.23)	32,849,090.23	-	-
Transfer to General Reserve	-	-	1,361,244.81	(1,361,244.81)	-	-	-
<b>At 31 December 2020</b>	840,002,022.00	153,150,800.00	495,467,405.18	325,957,154.29	50,386,634.41	2,182,007.53	1,867,146,023.41

Signed in terms of our attached report of even date

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

For &amp; On Behalf of Board of Directors

UPSC

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

## Partner

Date: 12-05-2021.

Place: Thimphu, Bhutan

  
Suresh Kumar

Sumesh Kumar

**Chief Executive Officer)**

Levi

Aum Sangay Om

**(Chairperson)**

King

**(Director)**

# NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.12.2020

## 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 2020 were authorized for issue in accordance with a 49<sup>th</sup> Resolution of the Board of Directors on 11<sup>th</sup> May 2021 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 realize 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 2020, which was authorized for issue by at the 49<sup>th</sup> Resolution of the Board of Directors held in Thimphu, Bhutan.





## **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.

### **2.1. 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.

### **2.2. FIRST-TIME ADOPTION OF BAS PHASE III**

The Bank has prepared financial statements which comply with BAS applicable for period ending 31 December 2020 making comparisons between local GAAP and BAS.



## **2.3. SUMMARY OF SIGNIFCANT ACCOUNTING POLCIES**

### **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. 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.

### **iv. 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.



## 2.4. 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.





## **2.5. 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.

## **2.6. 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.

## **2.7. Offsetting financial instruments**

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

## **2.8. 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

## **2.9. 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**

Interest income on loans and advances is recognized on accrual basis except for nonperforming loans and advances, in respect of which the interest income, as per the guidelines issued by the Royal Monetary Authority of Bhutan is deferred and shown under the head "Interest Suspense Account" in the liabilities, and is taken to the Other Comprehensive Income on actual realization only.

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 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:





a. 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.

**b. Fee income from providing transaction services**

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

**iii. Dividend income**

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

**iv. Net trading income**

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

## **2.10. Cash and cash equivalents**

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

## **2.11. 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:



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

## **2.12. 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.

## **2.13. 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. 2.61 billion as presented below:



	Nu.
Letter of Credit	290,232,642.00
Other Guarantees	2,319,258,521.66
<b>Total</b>	<b>2,609,491,163.66</b>

## 2.14. 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.

## 2.15. 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.

## 2.16. 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.

## 2.17. Earnings Per share

The Bank presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.





## 2.18. 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 as presented below:

Assets & Liabilities	2020			2019		
	Retail Segment	Corporate Segment	Total	Retail Segment	Corporate Segment	Total
<b>Assets</b>						
<b>Loans and advances to customers</b>						
OD/Cash Credit/ Demand Loan	3,170,622,081.41	1,348,262,326.09	4,518,884,407.50	2,758,023,738.48	1,348,262,326.09	4,106,286,064.57
Term Loan	5,730,724,615.06	2,031,190,384.84	7,761,914,999.90	4,776,459,596.20	2,031,190,384.84	6,807,649,981.04
Financial investments	-	305,000,000.00	305,000,000.00	-	305,000,000.00	305,000,000.00
<b>Total Assets</b>	<b>,901,346,696.47</b>	<b>3,684,452,710.93</b>	<b>12,585,799,407.40</b>	<b>7,534,483,334.68</b>	<b>3,684,452,710.93</b>	<b>11,218,936,045.61</b>
	<b>70.73%</b>	<b>29.27%</b>		<b>67.16%</b>	<b>32.84%</b>	
<b>Liabilities</b>						
<b>Due to customers</b>						
Current Deposits	1,169,589,142.09	332,851,482.89	1,502,440,624.98	1,169,589,142.09	332,851,482.89	1,502,440,624.98
Savings Bank Deposits	3,854,715,069.61	-	3,854,715,069.61	3,854,715,069.61	-	3,854,715,069.61
Fixed Deposits	2,450,839,061.00	6,259,273,465.00	8,710,112,526.00	2,450,839,061.00	6,259,273,465.00	8,710,112,526.00
Recurring Deposits	198,791,366.00	-	198,791,366.00	198,791,366.00	204,069,178.00	198,791,366.00
<b>Total Liabilities</b>	<b>,673,934,638.70</b>	<b>6,592,124,947.89</b>	<b>14,266,059,586.59</b>	<b>7,673,934,638.70</b>	<b>6,592,124,947.89</b>	<b>14,266,059,586.59</b>
	<b>53.79%</b>	<b>46.21%</b>		<b>53.79%</b>	<b>46.21%</b>	
<b>Income &amp; Expenses</b>						
<b>Income</b>						
Interest and similar income	782,478,093.51	323,883,972.98	1,106,362,066.49	711,177,295.59	347,774,226.62	1,058,951,522.21
Fees and commission income	65,320,371.53	27,037,461.65	92,357,833.18	84,907,326.42	41,520,700.90	126,428,027.32
Miscellaneous Income	490,803.59	82,550.00	573,353.59	490,803.59	82,550.00	573,353.59
<b>Total Income</b>	<b>848,289,268.63</b>	<b>351,003,984.63</b>	<b>1,199,293,253.26</b>	<b>796,575,425.60</b>	<b>389,377,477.52</b>	<b>1,185,952,903.12</b>
<b>Expenses</b>						
Interest and similar expense	396,105,913.61	340,266,082.27	736,371,995.88	323,044,150.62	277,503,980.01	600,548,130.63
<b>Total Expense</b>	<b>396,105,913.61</b>	<b>340,266,082.27</b>	<b>736,371,995.88</b>	<b>323,044,150.62</b>	<b>277,503,980.01</b>	<b>600,548,130.63</b>



## 2.19. 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.

## 2.20. 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.

## 2.21. 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 2020 reporting period.

### 2.21.1 Gratuity

#### 1. 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.

#### 2. Salary increment rate

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

#### 3. Employee turnover rate

The employee turnover rate was calculated as follows:

The Staff turnover factor can be computed as follows:

<b>Number of employees whose service is terminated during the year</b>	<b>= t</b>
<b>Average number of staff employed by the entity</b>	

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

### Statement of financial position

In Nu.	31.12.2020	31.12,2019
Present value of Defined benefit obligation	16,667,011	18,597,151
Net defined benefit asset/(liability)	(16,667,011 )	(18,597,151 )

### Expenses recognized

In Nu.	31.12.2020	31.12.2019
Statement of profit or loss-prior period adjustment	459,087	-
Other comprehensive income (Loss/(gain))	(4,063,162)	4,215,592.70

### A. Computation of Actuarial Gain/Loss

Computation of Interest charge for the year	Nu	Nu
Gratuity opening balance	18,597,151.00	10,464,450.00
Discount Rate	9.50%	9.50%
Interest amount	1,766,729	994,123



	2020	2019
<b>Computation of Net actuarial loss recognized during the year</b>	<b>Nu</b>	<b>Nu</b>
<b>Gratuity Provision at the end of Current Year</b>	19,011,921.08	18,597,151
Less		
Gratuity Provision at the beginning of the Current Year	(18,597,151)	(10,464,450)
Interest on the opening balance	(1,766,729)	(994,123)
Gratuity charge for the current year	(2,711,203.24)	(2,922,985)
Prior period mismatch		
<b>Net actuarial loss recognized during the year(gain)/Loss</b>	<b>(4,063,162.50)</b>	<b>4,215,593</b>

## B. Summary

<b>DEFINED BENEFIT LIABILITY</b>	<b>2020</b>	<b>2019</b>
<b>Gratuity liability</b>	<b>Nu</b>	<b>Nu</b>
<b>Net Benefit Expense</b>		
Current service cost	2,711,203	2,922,985
Interest charge for the year	1,766,729	994,123
Net actuarial loss/(gain) recognized during the year	(4,063,162)	4,215,593
Net Benefit Expense	414,770	8,132,701
Defined benefit obligation	19,011,921	18,597,151
Unrecognized Actuarial losses	-	-
Benefit liability	19,011,921	18,597,151
<b>Defined Benefit Obligation/Gratuity</b>		
At the beginning of the year	18,597,151	10,464,450
Current service cost	2,711,203	2,922,985
Interest charge for the year	1,766,729	994,123
Net actuarial loss/ (Gain) recognized during the year	(4,063,162)	4,215,593
Gratuity Paid during the year	(2,344,910)	
At the end of the year	<b>16,667,011</b>	<b>18,597,151</b>





Prior period mismatch- Current Service Cost	459,087	-
Assumptions	<b>2020</b>	<b>2019</b>
Discount Rate	9.50%	9.50%
Salary Increment Rate	11.0%	11.0%
Retirement Age	60	60
Staff Turnover	6.0%	6.0%

## 2.21.2 Leave Valuation

### Statement of Financial Position

	2020	2019
Present value of Defined benefit obligation	948,050	2,661,306.84
Net Defined Benefit Asset/(Liability)	<b>( 948,050)</b>	<b>(2,661,306.84)</b>

### Expenses recognized

In Nu.	31.12.20	31.12.2019
<b>Statement of profit or loss</b>	4,828,119	<b>2,661,306.84</b>
Other comprehensive income (Loss)/(gain)	(1,678,072)	-

## A. Computation of Actuarial Gain/Loss

	2020	2019
<b>Computation of Interest charge for the year</b>	<b>Nu</b>	<b>Nu</b>
Opening balance	2,661,307.00	0.00
Discount Rate	9.50%	9.50%
Interest amount	252,824	-
	<b>2020</b>	<b>2019</b>
<b>Computation of Net actuarial loss recognized during the year</b>	<b>Nu</b>	<b>Nu</b>
Provision at the end of Current year	5,811,353.56	
<b>Less</b>		
- Provision at the beginning of the Current year	(2,661,307)	
- Interest on the opening balance	(252,824)	
- <b>charge for the current year (4,575,294.72)</b>		2,661,307
<b>Net actuarial loss recognized during the year(gain)/Loss</b>	<b>(1,678,072.33)</b>	<b>2,661,307</b>



## B. Summary

DEFINED BENEFIT LIABILITY		2020	2019
		Nu	Nu
<b>Net Benefit Expense</b>			
Current service cost		4,575,295	2,661,307
Interest charge for the year		252,824	-
Net actuarial loss/gain recognized during the year		(1,678,072)	
Net Benefit Expense		3,150,047	2,661,307
<b>Benefit liability</b>			
Defined benefit obligation		5,811,354	2,661,307
Unrecognized Actuarial losses			
Benefit liability		5,811,354	2,661,307
<b>Defined Benefit Obligation/Gratuity</b>			
At the beginning of the year		2,661,307	-
Current service cost		4,575,295	2,661,307
Interest charge for the year		252,824	-
Net actuarial loss/ (Gain) recognized during the year		(1,678,072)	-
Paid during the year		(4,863,304)	
At the end of the year		<b>948,050</b>	<b>2,661,307</b>
Assumptions		<b>2020</b>	<b>2019</b>
Discount Rate		9.50%	9.50%
Salary Increment Rate		11.0%	11.0%
Retirement Age		60	60
Staff Turnover		6.0%	6.0%

### 2.21.3 Transfer Grant Valuation

#### Statement of financial position

In Nu.	31.12.2020	31.12.2019
Present value of Defined benefit obligation	2,711,203	<b>2,922,985</b>
Net defined benefit asset/(liability)	( 2,711,203 )	<b>(2,922,985 )</b>



## Expenses recognized

In Nu.	31.12.2020	31.12.2109
Statement of profit or loss	489,465	2,922,985
Other comprehensive income Loss/(gain)	(701,247)	-

### A. Computation of Actuarial Gain/Loss

					2020	2019
<b>Computation of Interest charge for the year</b>					<b>Nu</b>	<b>Nu</b>
	Opening balance				(2,922,985.00)	0.00
	Discount Rate				9.50%	9.50%
	<b>Interest amount</b>				<b>(277,684)</b>	<b>-</b>
					<b>2020</b>	<b>2019</b>
<b>Computation of Net actuarial loss recognized during the year</b>					<b>Nu</b>	<b>Nu</b>
	Provision at the end of Current Year				2,711,203.24	
	Less					
-	Provision at the beginning of the Current Year				(2,922,985)	
-	Interest on the opening balance				(277,684)	
-	charge for the current year				(211,781.76)	2,922,985
	<b>Net actuarial loss recognized during the year ( gain)</b>				<b>(701,247.10)</b>	<b>-</b>

### B. Summary

DEFINED BENEFIT LIABILITY			2020	2019
<b>Transfer Grant</b>			<b>Nu</b>	<b>Nu</b>
	<u>Net Benefit Expense</u>			
	Current service cost		211,782	(2,922,985)
	Interest charge for the year		277,684	-
	Net actuarial loss/gain recognized during the year		(701,247)	-
	<b>Net Benefit Expense</b>		<b>(211,782)</b>	<b>(2,922,985)</b>



	<u>Benefit liability</u>			
	Defined benefit obligation		2,711,203	-
	Unrecognized Actuarial losses		-	
	Benefit liability		2,711,203	-
	<u>Defined Benefit Obligation/Gratuity</u>			
	At the beginning of the year		2,922,985	
	Current service cost		211,782	2,922,985
	Interest charge for the year		277,684	-
	Net actuarial loss/ (Gain)		(701,247)	-
	Paid during the year		-	
	At the end of the year		<b>2,711,203</b>	<b>2,922,985</b>
	<b>Assumptions</b>		<b>2020</b>	<b>2019</b>
	Discount Rate		9.50%	9.50%
	Salary Increment Rate		11.0%	11.0%
	Retirement Age		60	60
	Staff Turnover		6.0%	6.0%

## 2.21.4 Traveling Allowance Valuation

### Statement of financial position

In Nu.	31.12.2020	31.12.2019
Present value of Defined benefit obligation	2,711,203	474,850
Net defined benefit asset/(liability)	( 2,711,203 )	(474,850)

### Expenses recognized

In Nu.	31.12.2020	31.12.2019
<b>Statement of profit or loss</b>	<b>2,281,464</b>	<b>474,850</b>
<b>Other comprehensive income (gain) (45,111)</b>		
-		





## A. Computation of Actuarial Gain/Loss

				2020	2019
<b>Computation of Interest charge for the year</b>				<b>Nu</b>	<b>Nu</b>
opening balance				(474,850.00)	0.00
Discount Rate				9.50%	9.50%
<b>Interest amount</b>				<b>(45,111)</b>	<b>-</b>
				2020	2019
<b>Computation of Net actuarial loss recognized during the year</b>				<b>Nu</b>	<b>Nu</b>
Provision at the end of Current Year				2,711,203.24	-
Less					
- Provision at the beginning of the Current Year				(474,850)	-
- Interest on the opening balance				(45,111)	-
- charge for the current year				(2,236,353.24)	474,850
<b>Net actuarial loss recognized during the year(gain)</b>				<b>(45,110.75)</b>	<b>-</b>

## B. Summary

<b>DEFINED BENEFIT LIABILITY</b>		2020	2019
Travel Allowance		<b>Nu</b>	<b>Nu</b>
<u>Net Benefit Expense</u>			
Current service cost		2,236,353	-
Interest charge for the year		45,111	-
Net actuarial loss/gain recognized		(45,111)	-
Net Benefit Expense		2,236,353	-
<u>Benefit liability</u>			
Defined benefit obligation		2,711,203	474,850
Unrecognized Actuarial losses		-	
Benefit liability		2,711,203	474,850
<u>Defined Benefit Obligation/Gratuity</u>			
At the beginning of the year		474,850	
Current service cost		2,236,353	474,850
Interest charge for the year		45,111	-
Net actuarial loss/ (Gain)		(45,111)	-



Paid during the year		-	
At the end of the year		<b>2,711,203</b>	<b>474,850</b>
Assumptions		<b>2020</b>	<b>2019</b>
Discount Rate		9.50%	9.50%
Salary Increment Rate		11.0%	11.0%
Retirement Age		60	60
Staff Turnover		6.0%	6.0%

## 2.22. 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.

### Government Grant

Government grants related to assets are recognized as per Section 24 “Government Grants” of BAS for SMEs and BAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” based on the deferred income approach and recognized as income over the average useful life of the fixed assets. Deferred income is further segregated into current and non-current. Current deferred income includes the amount that will be recognized as grant income in the next twelve (12) months. Grants from Government and Non-Government agencies are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

The company has received funds from the Ministry of Finance in the form of grant towards the waiver on the interest on loans due COVID19. Similarly, the Company has also waived-off certain portion of interest on loans. The details on the above are presented below:



Details/Month	No. of accounts	Principal Outstanding (Last Day)	Total Interest Amount	50% bank	50% gov
April, 2020 (100%)	2067	10,904,002,640.08	93,445,843.06	46,722,921.53	46,722,921.53
May, 2020 (100%)	2048	10,935,825,636.92	94,145,943.03	47,072,971.52	47,072,971.52
June (100%)	2048	10,961,174,100.41	91,194,255.43	45,597,127.72	45,597,127.72
		<b>Total Interest</b>	<b>278,786,041.52</b>	<b>139,393,020.76</b>	<b>139,393,020.76</b>
Details/Month	No. of accounts	Principal Outstanding (Last Day)	Total Interest Amount	100% RGoB	
July, 2020 (100%)	2037	10,577,491,658.60	94,758,709.23	94,758,709.23	
August, 2020 (100%)	2016	10,422,743,534.98	93,122,924.38	93,122,924.38	
September, 2020 (100%)	2013	10,332,985,866.50	92,459,785.71	92,459,785.71	
		<b>Total Interest</b>	<b>280,341,419.32</b>		
Details/Month	No. of accounts	Principal Outstanding (Last Day)	50% Client	50% Client	
October, 2020 (50%)	1996	9,970,471,018.25	45,522,416.37	45,522,416.37	
November, 2020 (50%)	1957	10,165,130,458.71	43,844,359.48	43,844,359.48	
December, 2020 (50%)	1912	10,088,250,273.00	44,945,651.33	44,945,651.33	
January, 2021 (50%)	1900	9,906,611,497.56	44,092,487.85	44,092,487.85	
February, 2021 (50%)	1894	10,023,793,128.36	40,494,072.19	40,494,072.19	
March, 2021 (50%)	1868	10,036,205,958.93	44,148,365.36	44,148,365.36	
		<b>Total Interest</b>	<b>263,047,352.58</b>	<b>263,047,352.58</b>	
		<b>Total Interest</b>	<b>822,174,813.42</b>		

### 3. 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 as presented below:

Deferred Tax Assets /(Liability)	As per IT (Act)	BAS	Deferred Tax Asset/(Liability)
Opening: Deferred Tax Asset			24,447,272.16
Profit as per Comprehensive Income	72,289,977.97	72,289,977.97	
Other Comprehensive income (Taxable)	-	6,320,608.22	
Add: Not allowable expenses	513,148.72	-	
<b>Total Taxable Income</b>	<b>72,803,126.69</b>	<b>78,610,586.19</b>	
<b>Tax Payable (25%)</b>	<b>18,200,781.67</b>	<b>19,652,646.55</b>	
Opening Tax payable 1.1.2020	-	16,388,320.53	
TDS payable	4,986,714.86	4,986,714.86	
<b>Total Taxable</b>	<b>23,187,496.53</b>	<b>41,027,681.94</b>	
Less: TDS Paid	(27,818,630.48)	(27,818,630.48)	
Less: Advance half yearly tax-2020	(19,402,478.92)	(19,402,478.92)	
<b>Tax Payable/(refundable)</b>	<b>(24,033,612.87)</b>	<b>(6,193,427.46)</b>	(17,840,185.40)
<b>Deferred tax Assets/(Liability)</b>			<b>6,607,086.76</b>

#### 4. Depreciation Schedule

Property, Plant & Equipment	Vehicles	Machinery & Furniture fittings	Steel Items	Wooden Articles	Machinery & Electrical Goods	Computer Hardware	Misc Items	Total
<b>Cost</b>								
<b>At 1 January 2020</b>	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	03,975,344.38
Add: Addition	605,340.00	-	32,250.00			117,780.00	406,845.02	1,162,215.02
Less: Disposal	-	-		5,177.82	4,054,150.00	1,643,315.00		5,702,642.82
<b>At 31 December 2020</b>	<b>4,292,290.00</b>	<b>729,216.43</b>	<b>10,596,754.72</b>	<b>7,948,276.56</b>	<b>23,210,186.35</b>	<b>148,051,908.65</b>	<b>4,606,283.87</b>	<b>99,434,916.58</b>
<b>Depreciation and Impairment</b>								
<b>At 1 January 2020</b>	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
Depreciation	643,843.50	25,513.64	534,453.63	489,800.38	1,261,710.77	12,076,333.23	639,636.48	15,671,291.63
Less: Disposal				4,881.03	4,054,148.00	1,646,995.00		5,706,024.03
<b>At 31 December 2020</b>	<b>1,936,296.05</b>	<b>683,143.18</b>	<b>3,666,839.12</b>	<b>6,760,007.62</b>	<b>13,532,361.97</b>	<b>108,196,668.95</b>	<b>2,918,611.00</b>	<b>137,693,927.89</b>
<b>Net Book value</b>								
<b>At 1 January 2020</b>	2,394,497.25	71,586.89	7,432,119.23	1,678,366.11	10,939,537.15	51,810,112.93	1,920,464.33	76,246,684.09
<b>At 31 December 2020</b>	<b>2,355,993.75</b>	<b>46,073.25</b>	<b>6,929,915.60</b>	<b>1,188,268.94</b>	<b>9,680,725.96</b>	<b>39,855,239.70</b>	<b>1,687,672.87</b>	<b>61,743,890.07</b>





**Note 5**

<b>Interest and similar income</b>	<b>2020</b>	<b>2019</b>
Interest from Loans & Advances:		
Interest on Cash Credit	45,997,449.57	73,930,150.85
Interest on Demand Loan	42,459,070.42	38,437,959.00
Interest on OD Loan	313,133,022.55	262,835,736.86
Interest on Term Loan	615,420,026.40	578,833,718.54
Export Loan	-	5,000.00
Miscellaneous Interest		1,790.93
Interest from Deposits with Banks in Bhutan	89,352,497.55	104,907,166.03
<b>Total</b>	<b>1,106,362,066.49</b>	<b>1,058,951,522.21</b>

**Note 6**

<b>Interest and similar expense</b>	<b>2020</b>	<b>2019</b>
Fixed Deposit	514,601,266.09	409,324,330.34
Saving Deposit	198,659,856.92	167,960,378.40
Recurring deposit	14,110,872.87	14,263,421.89
Interest paid on Subordinated Term debts	9,000,000.00	9,000,000.00
<b>Total</b>	<b>736,371,995.88</b>	<b>600,548,130.63</b>

**Note 7**

<b>Income from fees and commission income</b>	<b>2020</b>	<b>2019</b>
IDBC and IUBC	4,700.00	244,396.20
Issue/Cancellation of Drafts/Transfers	307,329.40	696,936.25
Inland Letters of Guarantee	10,937,804.00	14,234,067.90
Foreign Letters of Guarantee	29,803,304.00	34,435,380.00
Foreign Documentary Credits	4,766,992.53	10,968,686.73
Foreign Bills	41,216.00	73,576.00
Incidental Charges on Deposits	7,788,682.44	6,912,792.95
Service Charges/Processing Fees	159,410.00	332,060.00
Rent on Safe Deposit Vaults	124,500.00	130,000.00
ATM/Kiosks Charges	10,879,788.11	14,147,333.10
ATM inter-change fees from other banks	2,526,473.65	5,112,830.23
RTGS/NEFT/ECS	24,539,738.92	37,997,630.83
Others	477,894.13	1,142,337.13
<b>Total</b>	<b>92,357,833.18</b>	<b>126,428,027.32</b>



**Note 8**

<b>Other operating income</b>	<b>2020</b>	<b>2019</b>
Gain on sale of Motor Car/Cycles/PPE/SFF	69,591.00	19,072.37
Misc. Income: Retail Banking	381,413.00	490,803.59
Misc. Income: Corporate Finance	176,000.00	82,550.00
Foreign Exchange Gain/Loss (Realized & Unrealized):	-	11,973,802.07
Add - Forex Income:	-	13,162,185.25
Less - Forex Expense:	-	(1,188,383.18)
Staff Loan Incentive Income	3,520,115.64	205,011.45
<b>Total</b>	<b>4,147,119.64</b>	<b>12,771,239.48</b>

**Note 9**

<b>Credit /Other loss expenses</b>	<b>2020</b>	<b>2019</b>
Provisions against loans:	139,153,857.96	144,428,664.96
<b>Total</b>	<b>139,153,857.96</b>	<b>144,428,664.96</b>

**Note 10**

<b>Personnel expenses</b>	<b>2020</b>	<b>2019</b>
Basic Pay	44,071,028.85	42,488,855.02
Dearness Allowance	13,119,443.00	12,213,363.00
Other Allowance	21,541,140.00	16,957,923.35
Gratuity (Actuary)	4,937,020.00	3,607,221.01
Employers Contribution to PF	2,936,368.36	2,803,586.00
House Rent Allowance	9,659,303.00	8,920,672.00
Medical Aid	464,243.72	457,808.45
Leave Fare Concession	2,513,219.33	2,051,368.00
Leave Encashment	4,828,119.00	6,986,621.81
Separation & Travel Expenses (Actuary)	2,770,929.00	-
Conveyance Allowance	2,152,092.25	4,943,333.00
Uniform	225,400.00	222,940.00
Staff Welfare	2,727,377.60	2,423,014.44
Rent Paid for residential premises	120,612.00	126,960.00
Staff Loan Incentive Cost	3,520,115.64	205,011.45
<b>Total</b>	<b>115,586,411.75</b>	<b>104,408,677.53</b>



**Note 11**

<b>Other operating expenses</b>	<b>2020</b>	<b>2019</b>
Advertising and marketing	368,695.25	3,625,438.25
Stationery and Printing	2,552,866.00	2,416,559.50
Travel	4,212,951.41	4,950,583.18
Transportation and Conveyance Charges	254,105.00	345,700.75
Annual Maintenance Charges and re- pairs of SFF	7,394,303.81	8,547,566.26
Outsourcing of Financial services	38,237,770.78	19,504,488.49
Professional and Audit fees	500,000.00	-
Audit Fees	325,000.00	325,000.00
Director Sitting Fees	671,500.00	240,000.00
Rent for office premises	15,899,770.31	14,694,099.78
Postage	188,195.73	346,225.00
Telephone	2,551,041.35	1,821,837.61
Telex/Fax/Swift	334,186.82	249,892.00
Networking	11,498,468.81	11,830,751.96
Software Charges	24,075,007.76	5,456,891.07
Legal Charges	735,000.00	917,800.00
Insurance	1,629,649.00	
Repair and Maintenance:Rented Prem- ises	9,625.00	52,986.00
Repair and Maintenance: MCC	-	118,903.00
Newspapers and Periodicals	69,310.00	113,590.00
Remitting Charges(Including RTGS/ NEFT/ECS charges)	47,350.00	93,800.00
Stamps	-	5,670.00
Entertainment	1,951,621.65	2,297,268.85
Sumptuary	394,804.25	350,602.25
Recruitment and Training	12,000.00	1,839,009.00
Loss on Sale of Safe, Furniture and Fix- ture	110,667.00	-
Water and Electricity	1,309,699.93	1,381,904.60
ATM/kiosks charges	4,200.00	1,200.00
Miscellaneous	8,455,694.26	3,352,349.96
<b>Total</b>	<b>123,793,484.12</b>	<b>84,880,117.51</b>



## Note 12

Current Tax Liability/Assets	2020	2019
<b>(A)</b>		
<b>Previous Tax Payable</b>	<b>16,388,320.53</b>	-
Comprehensive Income (25%)	18,072,494.49	73,100,003.67
Over the Comprehensive Income	1,580,152.05	-
Tax for earlier year period	-	-
<b>(B)</b>	<b>36,040,967.08</b>	<b>73,100,003.67</b>
<b>Current Tax Liability</b>	<b>36,040,967.08</b>	<b>73,100,003.67</b>
TDS Payable	4,986,714.86	556,763.86
Tax Deducted at Source	(27,818,630.48)	(5,432,910.97)
Advance I.Tax	(19,402,478.92)	(51,835,536.03)
<b>Total (A+B)</b>	<b>(6,193,427.46)</b>	<b>16,388,320.53</b>

## Note 13

Cash and Balances with Central Bank	2020	2019
<b>Cash in hand:</b>		
BTN	90,064,018.56	80,873,277.86
INR	10,590.00	266,050.00
FC	70,961,401.28	63,331,046.67
<b>Total</b>	<b>161,036,009.84</b>	<b>144,470,374.53</b>

## Note 13 A

### 13 A. Cash & Balances with Central Bank

CRR with the Central Bank	1,067,649,394.20	1,414,835,241.43
Current account with the Central Bank	250,000.00	100,000.00
Balance with RMA	4,511,420,734.22	411,275,989.12
<b>Total</b>	<b>5,579,320,128.42</b>	<b>1,826,211,230.55</b>
<b>Total (13+13A)</b>	<b>5,740,356,138.26</b>	<b>1,970,681,605.08</b>

## Note 14

Due from banks	2020	2019
<b>Balance with Banks</b>		
Current Account Outside Bhutan	388,204,525.14	796,910,543.79
Current Account in Bhutan	247,861,403.37	214,061,501.62
Deposit Account in Bhutan	1,049,272,193.94	2,524,287,956.58
<b>Total</b>	<b>1,685,338,122.45</b>	<b>3,535,260,001.99</b>





**Note 15**

<b>Loans and advances to customers</b>	<b>2020</b>	<b>2019</b>
Demand loans	389,449,251.88	403,936,159.79
Cash Credit	787,628,867.66	843,378,146.51
Overdraft	3,341,806,287.96	2,858,971,758.27
Term Loan	7,761,914,999.90	6,807,649,981.04
<b>Total</b>	<b>12,280,799,407.40</b>	<b>10,913,936,045.61</b>

**Note 15A**

<b>Investments</b>	<b>2020</b>	<b>2019</b>
Financial investments-Others	112,890,278.72	268,877,002.62
Financial investments – held-to-maturity	417,433,111.35	305,000,000.00
<b>Total</b>	<b>530,323,390.07</b>	<b>573,877,002.62</b>

**Note 16**

<b>Other assets</b>	<b>2020</b>	<b>2019</b>
Interest accrued	22,086,206.00	21,822,551.49
Advances made recoverable/Adjustable	402,763,580.83	35,801,005.20
Tax Refundable	6,193,427.46	-
Advances to Staff	258,000.00	-
Stationery in hand	2,079,494.06	36,146,387.06
Prepaid expenses	16,345.00	67,149,687.41
<b>Total</b>	<b>433,397,053.35</b>	<b>127,919,631.16</b>

**Note 17**

<b>Due to banks</b>	<b>2020</b>	<b>2019</b>
Balance from other banks in Current Deposits	89,682,074.54	109,929,729.79
Call/Short Term money(Inter-Bank )/ATM Payable	8,547,288.58	103,386,448.98
<b>Total</b>	<b>98,229,363.12</b>	<b>213,316,178.77</b>

**Note 18**

<b>Due to Customers</b>	<b>2020</b>	<b>2019</b>
<b>Demand Deposits:</b>	<b>8,273,424,945.63</b>	<b>5,357,155,694.59</b>
Current Deposits	4,035,381,633.53	1,502,440,624.98
Savings Bank Deposits	4,238,043,312.10	3,854,715,069.61
<b>Term Deposits:</b>	<b>9,275,210,007.82</b>	<b>8,947,278,748.66</b>
Fixed Deposits	9,076,406,536.82	8,748,487,382.66
Recurring Deposits	198,803,471.00	198,791,366.00
<b>Total</b>	<b>17,548,634,953.45</b>	<b>14,304,434,443.25</b>

**Note 19**

<b>Debts issued &amp; other borrowed funds</b>	<b>2020</b>	<b>2019</b>
Borrowings from other Banks	59,373,768.46	-
150000 Bonds of Nu. 1000 each under Govt. ESP	150,000,000.00	150,000,000.00
<b>Total</b>	<b>209,373,768.46</b>	<b>150,000,000.00</b>

#### **Note 20**

<b>Other Liabilities</b>	<b>2020</b>	<b>2019</b>
Interest Payable	274,400,514.72	208,483,782.50
Suspended Interest	50,590,051.35	37,216,009.95
Accounts Payable and sundry creditors	74,246,374.03	43,020,354.66
Intersol Account	-	5,500.00
Others	104,193,316.63	54,607,760.80
<b>Total</b>	<b>503,430,256.73</b>	<b>355,809,618.59</b>

#### **Note 21**

<b>Impairment on loans as per BAS</b>	<b>2020</b>	<b>2019</b>
Impairment on Loans	488,713,255.95	349,559,397.99
<b>Total</b>	<b>488,713,255.95</b>	<b>349,559,397.99</b>

#### **Note 22**

<b>Retirement Benefit Obligations</b>	<b>2020</b>	<b>2019</b>
Gratuity	16,667,010.74	18,138,063.71
Leave Encashment	948,049.84	2,661,307.00
Transfer Grant and Travel Allowance	5,422,406.66	3,397,835.00
<b>Total</b>	<b>23,037,467.24</b>	<b>24,197,205.71</b>

#### **Note 23**

<b>Earning per share</b>	<b>2020</b>	<b>2019</b>
Net Profit attributable to the owners of the company	59,190,248.73	192,439,467.72
Issued and outstanding ordinary shares at the beginning of the year	70,000,000.00	45,000,000.00
<b>Shares issued during the year</b>	<b>140,002,02.20</b>	<b>25,000,000.00</b>
<b>Total Shares outstanding at the end of the year</b>	<b>84,000,202.20</b>	<b>70,000,000.00</b>
<b>Basic and diluted EPS</b>	<b>0.70</b>	<b>2.75</b>



## Note 24 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.#	Name	Nature of Relationship	Loan Facility	Sanction Amt.	Outstanding Amt.
1	Aum Sangay Om	Director	OD	90,000,000.00	89,139,450.00



**b. Relatives of Directors**

Sl.#	Name	Nature of Relationship	Loan	Year 2020			Year 2019		
				Deposit	Withdrawn	Balance	Deposit	Withdrawn	Balance
1	Dasho Sangay Wangchuk	Director's son	TL	13.66 million	11.82 million	51.15 million	13.66 million	11.83 million	123.51 million
2	Kesang Wangchuk	Director's son	TL	4.53 million	5.23 million	72.01 million	4.53 million	5.22 million	29.67 million
3	Yangchen Wangchuk	Director's daughter	CC & OD	3.52 million	3.63 million	3.46 million	7.68 million	3.84 million	8.57 million
4	Hotel Riverview	In the name of Director's husband	CC & OD	7.67 million	25.72 million	18.05 million	-	-	-
5	Bhutan Silk House	In the name of Director's daughter	CC	5.48 million	10.76 million	5.28 million	-	-	-
6	Quality stones & Aggregates	In the name of Director's son	TL & OD	1.96 million	20.35 million	18.38 million	-	-	-
7	Trowa Theatre	In the name of Director's husband	TL	0.67 million	13.86 million	13.19 million	-	-	-
8	Bhutan Spring	In the name of Director's son	TL	3.06 million	29.21 million	26.15 million	-	-	-





### c. Key Managerial Personnel

Sl.#	Name	Nature of Relationship	Loan Facility	Year 2020			Year 2019		
				Deposit	Withdrawn	Balance	Deposit	Withdrawn	Balance
1	Sumesh Kumar	CEO	-	-	-	-	-	-	-
2	A.B. Rai	Dy. CEO	Term Loan	0.26 million	0.079 million	1.25 million	0.26 million	0.079 million	1.46 million
3	T C Ghimirey	Executive Vice President	Term Loan	0.13 million	0.032 million	0.27 million	0.13 million	0.032 million	0.28 million

### d. Key Managerial Remuneration

Sl.#	Key Managerial Person	Nature of Relationship	Nature of Transaction	2020	2019
1	Sumesh Kumar	Chief Executive Officer	Remuneration	4,148,223.36	-
			Sitting Fees	75,000.00	-
2	A.B. Rai	Dy. Chief Executive Officer	Remuneration	1,772,665.00	1,653,000.00
3	Arun P.R.	Executive Vice President	Remuneration	3,727,784.00	3,179,372.03
4	Vijaya Sagar	Executive Vice President	Remuneration	2,953,542.20	-
5	Deepak Kumar Verma	Executive Vice President	Remuneration	3,675,947.36	1,201,913.30
6	Sonu Goshwami	Sr. Vice President	Remuneration	2,493,755.44	-
7	T C Ghimirey	Executive Vice President	Remuneration	1,297,330.00	1,213,700.00

### e. Dividends paid to the Directors

Sl.#	Name	Nature of Relationship	Dividend Paid	
			2020 (Given Bonus share in lieu of Dividend for 2019)	2019 (Dividend for 2018)
	<b>Director/Associates</b>			
1	Aum Sangay Om	Director	-	2,538,899.64

### f. Dividend paid to the relatives of the Directors

Sl.#	Name	Nature of Relationship	2020 (Given Bonus share in lieu of Dividend for 2019)	2019 (Dividend for 2018)
1	Dasho Kuenley Wangchuk	Director's Husband	-	2,538,899.64
2	Dasho Sangay Wangchuk	Director's Son	-	6,874,443.88
3	Kesang Wangchuk	Director's Son	-	203,264.70
4	Yangchen Wangchuk	Director's Daughter	-	2,877.42



### g. Dividend paid to the Key Managerial Personnel

Sl.#	Name	Nature of Relationship	Dividend Paid	
			2020 (Given Bonus share in lieu of Dividend for 2019)	2019 (Dividend for 2018)
1	A.B. Rai	Dy. Chief Executive Officer	-	4,466.05
2	T C Ghimirey	Ex. Vice President	-	6,046.21

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

Sl.#	Name	Nature of Relationship	Dividend Paid	
			2020 (Given Bonus share in lieu of Dividend for 2019)	2019 (Dividend for 2018)
1	PNB, India	Joint Company	-	38,845,170.00

## Note 25 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. 7.03 million	Nu.3.50 million	Nu.3.52 million



#### 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.

Companies	Revalued Investment Value (A)	Initial Investment Value(B)	Difference (A-B) recognized in OCI
FITI	Nu. 11,833,016.22	Nu. 12,000,000.00	Nu. (166,983.78)
CIB	Nu. 1,750,000.00	Nu. 1,750,000.00	-
<b>Total</b>			<b>Nu. (166,983.78)</b>

#### Note 26 Disclosure of Assets based on maturity

##### Loans & Advances

Particular	Maturity Period in Nu. '000'		Total
	Less than 1 year	More than 1 year	
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
<b>Total</b>	<b>3,895,727.11</b>	<b>7,018,208.94</b>	<b>10,913,936.05</b>

#### Note 27 Events After the Reporting Period

The board in .....Board of Directors Meeting held in Thimphu, Bhutan on 11<sup>th</sup> May, 2021 proposed a bonus share in the ratio of. ....for the income year 2020.

#### Note 28 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.

## **Note 29 RMA Disclosures**

### **1. 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. 1.76 billion compared to Nu. 1.71 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. 311.12 million compared to Nu. 334.55 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 5.45% and net NPL stands at 1.26% as against 3.98% and 2.73% in the previous year.

The general provision on loans and advances provided by the Bank for the current year is Nu. 143. 56 million and the specific provision is Nu. 538.23 million during the year compared to Nu. 167.01 million and Nu. 313.80 million respectively in 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.

## 2. 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.

### 3. Tier 1 Capital and its Sub-component

Sl.#	Particular	Year 2020	Year 2019
<b>1</b>	<b>Total Tier I Capital</b>		
a	Paid up Capital	840,002.00	700,000.00
b	General Reserve	463,621.85	591,045.24
c	Share Premium Account	153,151.00	153,150.80
d	Retained Earning	300,390.61	262,654.76
	<b>Total</b>	<b>1,757,165.46</b>	<b>1,706,850.80</b>



### i. Tier 2 Capital and its Sub-components

Sl.#	Particular	Year 2020	Year 2019
<b>1</b>	<b>Total Tier II Capital</b>		
a	Exchange Fluctuation Reserve	19,470.00	17,537.54
b	General Provision	143,585.13	167,012.48
c	Subordinate Debt	150,000.00	150,000.00
	<b>Total</b>	<b>311,122.67</b>	<b>334,550.03</b>

### ii. Risk weighted Assets

Risk Weighted Assets	Balance Sheet Amount		Risk Weight	Risk Weight Amount	
	Year 2020	Year 2019		Year 2020	Year 2019
LAFD	526,809.00	293,253.67	0%	-	-
L & A other than LAFD & NPL	11,848,075.50	10,385,535.53	100%	11,848,075.50	10,385,535.53
NPL Less specific Prov. & Suspense Interest	239,214.00	81,335.42	150%	358,821.00	122,003.13
Claim on Commercial Bank	1,297,133.60	2,738,349.46	20%	259,426.72	547,669.89
Bonds/ Securities	305,000.00	305,000.00	20%	61,000	61,000.00
RGOB subOrdinate debt	150,000.00	150,000.00	0%	-	-
Claims on FIs in India	388,204.53	796,910.54	50%	194,102.26	398,455.27
Fixed Assets	761,743.89	76,249.59	100%	761,743.89	76,249.59
Other Assets	384,014.79	127,819.63	100%	384,014.79	127,919.63
Off balance sheet items (Direct Credit Substitute)	2,609,491.16	3,872,496.01	100%	2,609,491.16	3,872,496.01
	<b>17,344,727.00</b>	<b>18,827,049.84</b>		<b>15,776,675.32</b>	<b>15,591,329.04</b>

### iii. Loans and NPL by Sectorial Classification

Sl.#	Particular	Year 2020		Year 2019	
		Total Loans	NPL	Total Loans	NPL
a	Agriculture	20,997.17	-	17,795.20	-
b	Manufacturing/Industry	2,958,674.99	284,001.54	2,782,457.42	7,410.23
c	Services & Tourism	3,397,858.79	234,026.41	2,772,916.90	139,585.39
d	Trade & Commerce	1,494,037.37	77,554.75	1,411,972.02	30,073.16
e	Housing	3,149,097.93	40,535.98	2,630,316.95	12,006.54
f	Transport	136,637.09	24,251.14	147,770.75	18,183.59
g	Loan to Purchase Securities	280,837.76	-	265,211.10	-



h	Personal Loan	78,507.03	5,952.32	110,077.94	7,873.42
i	Education Loan	30,091.91	131.98	173,882.24	1,104.87
j	Loan Against Term Deposits	526,809.15	-	293,253.67	-
k	Loan to FI(s)	-	-	99,975.53	-
L	Staff Loan (Incentive)	71,502.41	-	70,510.92	-
m	Consumer Loan (GE)	120,539.23	3,030.61	122,240.01	3,438.07
n	Others	15,208.57	-	15,555.39	15,486.56
	<b>Grand Total</b>	<b>12,280,799.40</b>	<b>669,484.73</b>	<b>10,913,936.05</b>	<b>235,161.84</b>

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

Sl.#	Particular	Year 2020	Year 2019
<b>1</b>	<b>Overdraft</b>		
a	Government Corporations	66,597.60	98,641.90
b	Private Companies	1,120,724.73	1,014,910.56
c	Individuals	2,942,268.82	2,588,767.34
d	Non-Bank Financial Institutions	-	99,975.53
	<b>Total</b>	<b>4,129,591.15</b>	<b>3,802,295.33</b>
<b>2</b>	<b>Term Loan</b>		
a	Government Corporations	86,716.15	39,409.48
b	Private Companies	1,328,201.29	1,277,175.70
c	Individuals	6,736,290.81	5,795,055.53
	<b>Total</b>	<b>8,151,208.25</b>	<b>7,111,640.71</b>
	<b>Total Loans</b>	<b>12,280,799.40</b>	<b>10,913,936.05</b>

#### v. Non-Performing Loans and Provisions

Sl.#	Particulars	Year 2020	Year 2019
<b>1</b>	<b>Gross Loans</b>	<b>12,280,799.40</b>	<b>10,913,936.05</b>
	<b>Amount of NPLs (Gross)</b>	<b>669,484.74</b>	<b>434,137.84</b>
	Substandard	233,441.43	337,995.23
	Doubtful	48,258.37	34,972.32
	Loss	387,784.94	61,170.29
<b>2</b>	<b>Specific Provisions</b>	<b>523,260.12</b>	<b>142,986.10</b>
	Substandard	146,690.92	56,097.96
	Doubtful	22,519.58	22,595.42
	Loss	354,049.62	64,292.72
	Additional Provision (As per RMA direction)	-	-
	<b>Total Provision</b>	<b>681,817.35</b>	<b>142,986.10</b>
<b>3</b>	<b>Interest in Suspense</b>	<b>51,071.89</b>	<b>37,216.01</b>



	Substandard	14,117.38	24,298.05
	Doubtful	3,219.20	3,482.24
	Loss	33,735.31	9,435.72
4	<b>Net NPLs</b>	146,224.61	253,935.73
	Substandard	86,750.51	281,897.27
	Doubtful	25,738.79	12,376.90
	Loss	33,735.31	12,432.96
	<b>Net Loans</b>	<b>11,560,242.77</b>	<b>10,760,124.62</b>
5	Gross NPLs to Gross Loans	5.45%	3.98%
6	Net NPLs to Net Loans	1.26%	2.73%
7	<b>General Provisioning</b>	<b>158,557.22</b>	<b>113,721.23</b>
	Standard	132,564.60	967,341.51
	Watch	25,992.63	16,987.08

#### vi. Concentration of Credit and Deposits

Sl.#	Particular	Year 2020	Year 2019
1	Total Loans of 10 Largest borrowers	3,111,480.55	2,653,292.26
	<b>Total Loans</b>	<b>12,280,799.40</b>	<b>10,913,936.05</b>
2	As % of total loans	25.34%	24.31%
3	Total deposits of 10 largest deposits	5,660,752.178	6,611,113.98
	<b>Total deposits</b>	14,375,989.316	14,266,059.57
4	As % of total deposits	39.37	46.34%

#### vii. Exposure of 5 Largest NPL accounts

Sl.#	Particular	Year 2020	Year 2019
1	Five Largest NPL Accounts	540,172.40	353,833.94
	<b>Total NPL</b>	669,484.74	434,137.84
2	As % of total NPLs	80.68%	81.50%

#### 4. 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.

