ANNUAL REPORT
2018

BHUTAN NATIONAL BANK LTD.

"Your Relationship Bank"

Piggy Bank Account
Savings Account
Debit Card, INR & Credit Cards
B-Wallet, mPay, Internet Banking & SMS Services
Term Deposit
Consumer Loan
Transport Loan
Business Loan
Housing Loan
Pensioners Account
BNB
Your Relationship Bank
BHUTAN NATIONAL BANK LTD.
www.bnb.bt
/BhutanNationalBank
@bhtnationalbank
Hotline: 144

Our Purpose:
"To provide financial choice through innovation"

Our Values:

- **Integrity**: through fair and honest actions;
- **Innovation**: by being a learning organization that puts good ideas to practice;
- **Leadership**: by example, humility, recognition and empowerment;
- **Teamwork**: through individual respect, underpinned by a united purpose; and
- **Discipline**: through people, thought and action.

Vision:
"To gain regional recognition by being #1 in all our services and work culture"

Contents

Stupendous growth

If there's a phrase that best captures Bhutan National Bank's existence in the past two decades, it is 'astonishing growth'.

Since it began operations as the country's second commercial bank in 1997, the bank attained levels of growth unprecedented for any financial institution or commercial enterprise in Bhutan.

BNB grew by an average of 80 percent in its first 10 years. It started with an asset base of Nu 607.98 million and by 2006 it had increased to Nu 10.05 billion of which half were in loans and investments.

510
Employees

A combination of factors led by a forward-looking management helped the bank achieve an amazing trajectory starting at a time when banking options were limited to the Bank of Bhutan, the government's banker, and economic activities were on the rise.

"We took advantage of technology when the existing banking system wasn't ready for change," said BNB's CEO, Kipchu Tshering.

BNB began by using the latest banking technology, micro banker software,

BNB's new corporate head office in Thimphu under construction

BNBL

1980
Established

1996
Year of listing

NU. 3.29B
Paid up capital

5,151
Shareholders

NU. 10.3B
Current market capitalization

to fully computerize operations and do away with the manual systems and long delays associated with availing banking services then. It has changed its banking software thrice to keep abreast of changes, needs and demands of clients.

The bank also offered a host of new loan packages, such as the government employees (GE) loan scheme that became one of its most lucrative ventures and is today offered by other banks in a similar scheme.

Another important element in BNB's success was the involvement of multilateral investors - Asian Development Bank (20 percent) and Citibank (19.90 percent) - which bought nearly 40 percent of the government's 67.22 percent holdings and helped privatise the bank. This made the public the largest shareholders with a 28.58 percent holding.

Nu 3.1Bn

Dividends paid till 2017

The involvement of the multilateral investors in the early years not only brought credibility and image but also technology and skill transfer to handle international banking. ADB and Citibank later sold their holdings at more than twice the purchase price.

After the turn of the millennium, the bank began offering rights and bonus shares on top of dividends reflecting its healthy reserve and to raise capital for expansion.

Nu 3Bn

Corporate Income Tax paid till 2017

According to the management, one reason for its success has been heavy investment in information technology and training of employees outside the country. Today, the bank offers the highest entry-level pay for graduates because of which it is able to attract the best who secure long term studies on their own merit.

In terms of capital base, it is the largest listed company on the stock exchange because of its bonus and rights issue. Its shares are also among the most traded.

"BNB has played a crucial role in the creation of wealth and the growth of the private sector, ranging from transport, housing, trade and industry, service sector, etc.," said the CEO. Today the total loan portfolio stands at Nu 27.63 billion.

CEO Kipchu Tshering said that BNB has been able to do well even though the cost of fund was higher for them. "If you look at business per employee, BNB is at the top," he said.

Although the entry of new banks in recent years has eaten into the market share, he said the most important thing is that the bank is on a sound footing in terms of capital, human resources, management and banking practices. “Through the years the internal processes have been strengthened and we’ve put in place every kind of system to manage risk, assets and liability,” he said. “Every employee knows what is expected out of them and bonuses are tied to the performance of the individual.”

More recently, in 2013, the International Finance Cooperation (IFC) bought 20 percent of the bank’s shares amounting to US$28 million. In 2016, with the changes in the FDI policy of the country, the bank bought back 50% of IFC shareholdings.

The bank paid Nu 444.50 million, Nu 313 million, Nu 385 million in 2015, 2016 and 2017 respectively as Corporate Income Tax. BNB is the first financial institution in the country to declare a profit after tax of one billion Ngultrums in 2015.

HISTORY

Requested by private sector

BNB’s creation was the outcome of the need for choice and banking options to the Bhutanese citizens since at that point in time, banking options were limited only to the Bank of Bhutan.

A representative of the Bhutan Chamber of Commerce and Industry first raised the discussion during the 1989 National Assembly session for a second commercial bank to facilitate growth of small-scale businesses. It was resolved that a full-fledged proposal would be drawn up and submitted to the government.

By late 1994, the government decided to convert the Unit Trust of Bhutan into a commercial bank with technical and financial assistance by the Asian Development Bank.

Clients avail teller services at the Thimphu branch

Single largest traded stock

BNBL stocks are among the most lucrative and heavily traded. More than 89 percent of trading in the secondary market is driven by BNB stock.

When it started, its capital raised through shares were Nu 59.5 million, today it is Nu 3.29 billion.

The bank has also offered 41 bonus shares and eight rights offers since inception. This means that a shareholder with one share in 1997 today owns 50 shares.

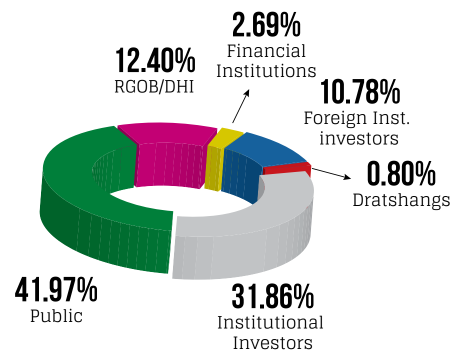
The bank listed in 1996 offering 170,000 shares at a premium of 65 percent and raised Nu 28.050 million from 430 individual investors.

When it opened for business in January 1997 the government held 67.22 percent, the public 28.58 percent and RICB and provident fund held 2.10 percent each. It started with a paid-up capital of Nu 70 million and Nu 30 million reserves.

In September 1998, ADB and Citibank bought 40 percent of the government's holdings worth Nu 45.223 million at Nu 190 a share.

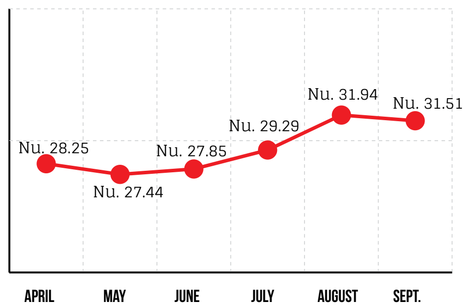
In the past five years ending 2017 market price of BNB stock varied from Nu 39 to Nu 24.5 a share. At the end of September 2018, it was trading at Nu 36.5 share.

Share holding pattern



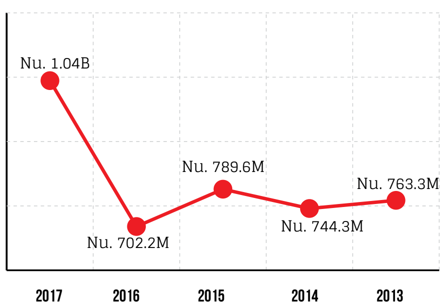
Traded price

(From April - September, 2018)



Net Profit, 2013-17

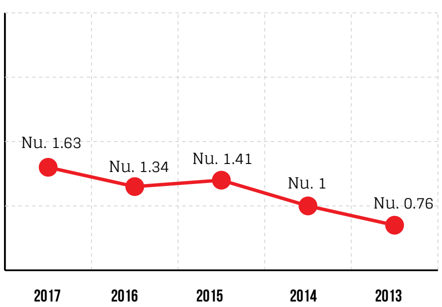
(For last five years only)



Dividends, 2013-17

(For last five years only)

Dividend to Nu. 10 a share



MANAGEMENT TEAM

Members of the Executive Team

TOP ROW

Kipchu Tshering
Chief Executive Officer/Board Director

MIDDLE ROW FROM LEFT

Sonam Tobgay
Deputy Chief Executive Officer

Tandin Dukpa
Chief Finance Officer

Pelzore Rumba
Chief Credit Officer

BOTTOM ROW FROM LEFT

Hem Kumar Archarya
Chief Operations Officer

Om P. Nirola
Chief Resource Officer

Dorji Penjor
Chief Strategy & IT Officer

MANAGEMENT TEAM

HEAD OF DEPARTMENTS

In alphabetical order

1. Bidah Dorji, Human Resource & Administration
2. Dellay Phuntshok, Credit Department
3. Deki Wangmo, Legal, Monitoring & Recovery Department
4. Dorji, Finance Department
5. Dorji Dukpa, Credit Review Department
6. Dorji Namgyal Rinchhen, Company Secretary, Compliance Department & BNBL Securities
7. Karma Choki(A), Operations Department
8. Man Bahadur Rai, IT Department
9. Norbu Wangchuk, Sales and Marketing Department
10. Purna B. Mongar, Risk Department
11. Sangay Wangdi, Engineering Department
12. Shree Prasad Subedi, Card Administration
13. Sonam Tobgay, Strategy Management Department
14. Tenzing Gyeltshen, Internal Audit Department

BRANCH MANAGERS

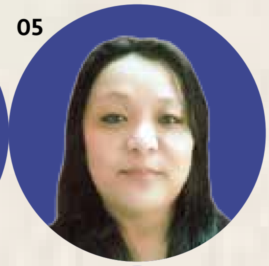
01

02

03

04

05



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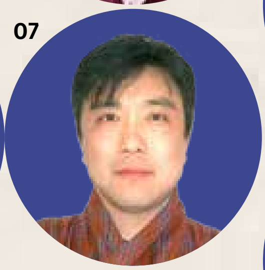

09

10

11

In alphabetical order

1	Dorji Dagpa	Branch Manager, Tsirang
2	Dorji Wangchuk	Branch Manager, SamdrupJongkhar
3	Karma Deki	Branch Manager, Thimphu
4	Kelden Dorji	Branch Manager, Wangdue
5	Kesang Deki	Branch Manager, Phuntsholing
6	Kinley Jamtsho	Branch Manager, Tashigang
7	Namgyal Wangda	Branch Manager, Paro
8	Norbu	Branch Manager, Samtse
9	Pema Jamtsho	Branch Manager, Gelephu
10	Chhoe Dhen	Branch Manager, Mongar
11	Yeshey Norbu	Branch Manager, Bumthang

DIRECTOR'S PROFILE

Mr. Tenzing Yonten, Chairperson, appointed on 28th February 2018 during the 22nd AGM is the founding Director of the Royal Thimphu College. He has a degree in Mechanical Engineering from the University of California, Berkeley, and an MBA from Yale University. He worked as a civil servant in the Ministry of Trade & Industries for 14 years before he left in 2007 to start RTC. As a civil servant he worked first in the Department of Power and then the Bhutan Power Corporation. He has experience in a wide range of areas covering policy formulation, planning, project management, contracts, regulation and operations. He has also done consulting work and interned at the World Bank in Washington DC. He is a member of the National Environment Commission and has served on the boards of many organizations such as the Druk Green Power Corporation, Royal Insurance Corporation of Bhutan, Penden Cement Authority, Bhutan Olympic Committee, Bhutan Electricity Authority and the Royal Education Council. He has also held other significant positions such as President of the Bhutan Basketball Federation and Chairman of Bhutan Telecom.

Dr. Pema Choephyel, Director, appointed on 28th February 2018 during the 22nd AGM. He is the Director of the Bhutan Trust Fund for Environmental Conservation. Dr. Pema Choephyel's career has covered environmental conservation, research in renewable natural resources and commercial finance. He began his career with the Royal Civil Service Commission; as a civil servant he held various positions as the Principal at Royal Veterinary Institute, Department of Animal Husbandry, Pedagogic Head (VP) at the Natural Resources Training Institute, Chief Research Officer, Chief Extension Officer, Director, Council of RNR Research of Bhutan and as an Advisor to the Bhutan Development Finance Corporation Limited. A graduate of Bombay Veterinary College, Bombay, India, Dr. Pema Choephyel received his master's degree in Rural Development and Communication from Lincoln University, New Zealand in 1991.

Mr. Sonam Lhundrup, Director, appointed on 28th February 2018 during the 22nd AGM representing the Druk Holding and Investments. Currently Mr. Sonam is the Company Secretary and General Counsel of Druk Holding and Investments (DHI). Mr. Sonam has served as a Board Director on the Boards of the Druk Green Power Corporation (DGPC) and the Bhutan Power Corporation (BPC). Mr. Sonam pursued the Master of Law Degree (LL.M) from the George Washington University Law School, Washington DC, USA. Prior to his master's degree, Mr. Sonam served as Legal Officer at the Policy and Planning Division of the Ministry of Agriculture (MoA), Royal Government of Bhutan. Mr. Sonam has a Bachelor of Law (LL. B) from the University of Mumbai, India and a Bachelor of Arts (Eng. Hons.) from University of Delhi, India.

DIRECTOR'S PROFILE

Mr. Tshering Dorji, Director, appointed on 28th February 2018 during the 22nd AGM is the Director of Public Accounts at Department of Public Accounts, Ministry of Finance, since January 2017. His current responsibilities include treasury management, fiscal transfers, government expenditure reporting and the management of National Finance Service personnel. He joined the Ministry of Finance in 1998 as a regular employee under the National Finance Service (NFS). Since then, he has taken key positions of increasing responsibility including as the Head of Debt Management Division (DMD) from 2014 to 2016. Apart from holding many senior positions in the Government, Mr. Dorji also represented Ministry of Finance as Board of Directors in several Government Owned Corporations. He is also a member to various working committees under the Ministry of Finance. Mr. Dorji has a MBA from School of Management, Asian Institute of Technology, Bangkok, Thailand and is a member of CPA Australia.

Mr. Kunzang Dechen, Director, appointed on 28th February 2018 during the 22nd AGM. He has a master's degree in International Relations from the University of Hawaii and a Post Graduate Diploma in US Economic Policy and Domestic US Legislation from Georgetown University, Washington DC, the United States. During his post graduate studies in the US, he also worked as a research intern in the International Relations Division at the East-West Center, Honolulu for two and a half years. He served in the Foreign Service for 10 years and last served as the Head of the Economic Division at the Royal Bhutanese Embassy in New Delhi. Thereafter for the last thirteen years, he has worked extensively as a consultant for the Royal Government of Bhutan and with various international development agencies, primarily the EU, ACB and the UNDP. He has also worked part-time as the Senior Policy Advisor to the UNDP.

Mr. Passang Dorji, Director, appointed on 28th February 2018 during the 22nd AGM joined the BNB Board as an independent director. He is currently the CEO of Dawa Hospitality Pvt. Ltd, a FDI company development hotel in Paro, Bhutan. He last served as the Director of Investments, Druk Holding and Investments, where he was heading business development, projects and private sector partnership and promotion. Passang also serves on the Board of Drukair Corporation and has served as Board Director on other prominent corporations in several sectors in Bhutan.

The Board of Directors has great pleasure in presenting the Annual Report along with the Audited Financial Statement of Accounts and the Cash Flow Statement of the Bank for the year ended 31.12.2018.

The 2018 financial year was a challenging one for the banking industry as a whole. During 2018, the Bank created substantial provisioning for non-performing loans in line with the relevant regulatory requirements and standards, thus increasing the accumulated provision for loan losses to Nu. 1.58 bn (under previous GAAP) and Nu. 1.82 bn (under BAS) as at 31 December 2018, and ultimately increasing provision coverage ratio to 89% of these non-performing loans. Due to provisioning, profit for the year stood at Nu. 606.85 mn (under BAS) and Nu. 736.19 mn (under previous GAAP) for 2018, as compared with the previous year of Nu. 777.12 mn (under BAS) and Nu. 828.94 mn (under previous GAAP).

Looking ahead, the growth prospects for 2019 continue to be challenging given the current market uncertainties. We reaffirm our strong commitment to meet the challenges by focusing on taking preemptive measures to address potential issues in advance in order to sustain consistent growth in the years ahead.

I am happy to report that your bank is now positioned to be a truly customer oriented bank in the heart of the banking industry, with a very clear and simple structure, a very healthy balance sheet and an improved risk and compliance function which enables us to be an even better bank for all our customers by increasing our efficiency.

FINANCIAL HIGHLIGHTS

The key financial highlights, in millions (in compliance to BAS/IFRS) are summarized in the following table:

	Fiscal Year 2017	Fiscal Year 2018
Net Interest Income	1,504.54	1,640.15
Net Fee & Commission Income	98.87	121.95
Total Operating Income	1,692.22	1,831.33
Total Operating Expenses including Impairment	463.06	784.53
Profit Before Tax from Continuing Operations	1,229.16	1,046.80
Profit for the Year	777.12	606.85

DIRECTOR'S REPORT

STATUTORY AUDITORS

The 22nd Annual General Meeting of Shareholders held on 28.02.2018 approved the appointment of auditors, M/s N. C. Mitra & Co for the year 2018. As per the Royal Audit Authority regulations, an audit firm may audit an organization for a maximum three years.

CORPORATE GOVERNANCE

Bhutan National Bank (BNB) has established a tradition of best practices in corporate governance. The corporate governance framework in BNB is based on an effective independent Board, the separation of the Board's supervisory role from the executive management and the constitution of Board Committees, generally represented by a suitable blend of independent Directors, private shareholding Directors and Directors nominated by the shareholding Institutions and chaired by an able & experienced Director, to oversee critical areas.

Philosophy of Corporate Governance

Bhutan National Bank's corporate governance philosophy encompasses not only regulatory and legal requirements, but also several voluntary practices aimed at a high level of business ethics, effective supervision and enhancement of value for all stakeholders.

Whistle Blower Policy

BNB has formulated a Whistle Blower Policy for the bank. In terms of this policy, employees of BNB are free to raise issues, if any, on breach of any law, statute or regulation by the Bank or any of its employees / directors and on the accounting policies and procedures adopted for any area or item and report them to the Audit, Compliance & Grievance Committee through specified channels. This mechanism has been communicated to all concerned of the bank.

Prevention of Insider Trading

In accordance with the requirements of BNB's Corporate Governance policy and requirement by RMA, the regulatory authority for equity trading on exchange, BNB has instituted a comprehensive guidelines / code of conduct for prevention of insider trading.

Code of Business Conduct and Ethics

The Board of Directors of the Bank adopted a comprehensive Code of Business Conduct and Ethics primarily by strengthening and providing illustrative guidance on the existing Code of Business Conduct and Ethics approved by the Board. The code aims at ensuring consistent standards of conduct and business ethical practices across the bank.

Board of Directors & Board Committees

The Financial Services Act of Bhutan 2011 states in section 63 (d) and (e) "every financial institution shall have Board of Directors comprising of not more than 7 directors including the chairman of which two will be Independent Director. Furthermore, RMA Corporate Governance Policy 2011 states in section 5, clause ii, d, "Directors of a regulated entity shall be elected by shareholders for a term of one year. Directors may stand for re-election."

BNB has a Board constituted in compliance with the regulatory and statutory guidelines & laws and in accordance with best practices in corporate governance. The Board functions either as a full Board or through various committees constituted to oversee specific operational areas. At BNB, we believe that governance is focused not only on the boardroom but across the business. The bank believes that good governance ultimately results in better business and improves long term performance. The work of the board should complement, enhance and support the work of the management.

The Board has four board committees, viz. Board Governance, Recruitment & Remuneration Committee, Board Audit Committee, Board Credit and Investment Committee and the Board Risk Management Committee.

As of December 31, 2018, the Board of Directors consisted of 7 members. There were four meetings of the Board during fiscal year 2018. The names of the Directors and the details of their attendance at board meetings are set out in the following table:

Name of Member	No. of Board Meetings attended
Mr. Tenzing Yonten, Chairperson	4
Dr. Pema Choephyel, Director	4
Mr. Sonam Lhundrup, Director	4
Mr. Tshering Dorji, Director	4
Mr. Passang Dorji, Director	3
Mr. Kunzang Dechen, Director	4
Mr. Kipchu Tshering, CEO/Director	4

The Board is assisted by the Company Secretary who ensures that the board receives adequate and detailed information in a timely manner to enable full and proper consideration of agenda items. We believe this practice helps board directors make informed and sound decisions.

Composition of Board Committees

The Board Governance, Recruitment & Remuneration Committee comprised of 5 Directors and was chaired by Dr. Pema Choephyel. There were eleven meetings of the Committee during the year. This was mainly due to the fact that the bank recruited five new Chiefs in 2018 for which this committee was given the task of recruitment and selection process.

The Board Audit and Compliance Committee comprised of 3 Directors and was chaired by Mr. Passang Dorji. There were six meetings of the Committee during the year.

The Board Credit and Investment Committee comprised of 4 Directors and was chaired by Mr. Tenzing Yonten. There were six meetings of the Committee during the year.

The Board Risk Management Committee comprised of 4 Directors and was chaired by Mr. Sonam Lhundrup. There were five meetings of the Committee during the year.

Annual General Meetings of Shareholders

The AGM provides the board and management with the opportunity to meet and engage directly with our shareholders. Shareholders who are not able to attend the meeting are always encouraged to send their representatives. The notices of meeting and related papers for the AGM are sent to the leading newspapers and shareholders at least 21 days before the day of the meeting. The 22nd AGM was held on 28.02.2018.

Dividend

For the year ended 31.12.2018, a dividend of 10% or Nu 1.00 per share (face value being Nu 10 per share) was approved by the shareholders. The dividend was thereafter approved by RMA and paid to all shareholders.

Means of Communication

It is Bhutan National Bank's belief that all stakeholders should have access to complete information regarding its position to enable them to accurately assess its record and future potential. BNB disseminates information on its operations and initiatives on a regular basis. BNB's website serves as a key awareness facility for all its stakeholders, allowing them to access information at their convenience. It also provides comprehensive information on BNB's business segments, financial performance, operational performance, and other relevant information.

BNB's annual financial results are published in the leading news papers in Bhutan and are also available on the banks website for the information of the public.

Market Price Information

The BNB Securities had another good year in 2018 with regard to the stock market. BNB Securities was recognized as the Best Securities firm for the last 3 years during the Royal Securities Exchange of Bhutan Silver Jubilee Celebrations in 2018.

The BNB Securities was merged with its parent company Bhutan National Bank Ltd towards the end of 2017. The volume of equity shares traded and the commission earned during fiscal year 2018 by BNB Securities as compared to previous years are set out in the following table:

	COMMISSION			No OF SHARES TRADED		
Month/Year	2016	2017	2018	2016	2017	2018
January	43,241.60	6,790.00	270,054.14	133,540	26,000	1,962,558.00
February	84,154.60	28,406.20	86,199.17	459,220	121,940	299,350.00
March	14,040.20	218,004.00	32,485.30	52,860	1,023,740	98,050.00
April	13,193.60	134,140.90	61,909.50	47,300	378,280	205,426.00
May	213,415.10	34,021.80	55,940.44	797,450	102,460	173,652.00
June	664,090.03	156,822.64	421,429.47	2,774,240	583,760	1,552,332.00
July	75,660.50	9,830.08	719,871.16	272,800	28,890	3,115,168.00
August	463,694.38	15,535.04	119,783.71	2,185,060	66,404	357,681.00
September	185,081.15	78,266.00	377,068.29	941,550	147,176	1,849,423.00
October	182,679.60	192,404.29	188,925.06	600,180	668,684	428,033.00
November	624,137.28	164,844.50	108,509.57	4,700,900	770,720	263,767.00
December	399,650.55	520,703.26		3,173,400	3,790,433	
Total	2,963,038.58	1,559,768.71	2,442,175.81	16,138,500	7,708,487	10,305,440

Information on Shareholding

Shareholding pattern (above 5%) of Bhutan National Bank at December 31, 2018;

Shareholder Category	Shares	% Holding
National Pension & Provident Fund	76,960,290	23.38%
International Finance Corporation (IFC)	35,481,290	10.78%
Druk Holding & Investment	40,819,960	12.40%
Mr. Kunzang Dechen	22,272,716	6.77%
Public	153,659,340	46.68%
Total	329,193,596	100.00%

DIRECTOR'S REPORT

Address for Correspondence
Mr. Dorji Namgyal Rinchhen
Company Secretary
Head Office, Bhutan National Bank Ltd
Post Box 439, Thimphu, Bhutan

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm: that in the preparation of the annual accounts, the applicable accounting standards have been followed, along with proper explanation relating to material departures; that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, to give a true and fair view of the state of affairs of the bank at the end of the financial year and of the profit or loss of the Bank for that period; that they have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act 2016 and the Financial Services Act of Bhutan 2011 for safeguarding the assets of the bank and for preventing and detecting fraud and other irregularities; and that they have prepared the annual accounts on a going concern basis.

CLOSING STATEMENT

I would like to take this opportunity to thank our board directors for their contribution to our company. On behalf of the board of directors, I want to take this opportunity to thank all the employees of the bank for all their efforts throughout the year. The success of our bank is built on the efforts of our employees and we thank you for the dedication, loyalty and commitment that each one of you has shown. Without the dedication and commitment of our employees, such growth would not be sustainable.

To our customers and shareholders, on behalf of the board and management, I want to take this opportunity to thank you for choosing BNB and giving us the privilege of assisting you for all your banking needs. Your trust in BNB allows us to deliver products and a level of service that continues to exceed expectations. At the conclusion of 2018, I want to take this time to wholeheartedly thank you for working with us. We not only value our relationship with you but take the responsibility of being your banking provider very seriously. It has been an honor to work with you in 2018 and we look forward to our continued partnership in 2019 and beyond.

For 2019, we have our priorities very clear. We are now placed to intensify customer efforts and increase our business momentum while at the same time continue to strive towards meeting and surpassing our shareholders expectations.

ACKNOWLEDGEMENTS

The Board of Directors on behalf of the bank would like to express its sincere gratitude to the bank's valued customers, shareholders and well-wishers for their valuable contribution towards the progress of the bank and seek their continued support and cooperation in the future. The Board of Directors acknowledges with gratitude, the timely advice, valuable guidance and support received from Royal Government of Bhutan, Royal Monetary Authority of Bhutan, Royal Audit Authority and other statutory bodies. Furthermore, the Board of Directors are also thankful to the RSEB, Registrar of Companies, Financial Institutions / Banks and Correspondents for their cooperation and support to the Bank. The Board of Directors wish to place on record, the deep appreciation of the valuable contribution made by the management and staff, at all levels, for the progress achieved in Bank's business. The Directors look forward to their continued cooperation in development and progress of the Bank.

I also confirm that all Directors have affirmed compliance with Bhutan National Bank Code of Business Conduct and Ethics as laid down in its Corporate Governance Policy for the year ended December 31, 2018.

Mr. Tenzing Yonten
Chairperson
BNB Board of Directors

Place: Thimphu

CHIEF EXECUTIVE OFFICER'S REPORT

As is traditional, in our annual report, we look back on 2018, some of the key actions and learnings, as well as our outlook for 2019. In summary, 2018 was another satisfactory year for the bank. A robust combination of a gaining business with new clients and an ever-expanding relationship with our existing clients has made 2018 a successful year.

As I look back on 2018 or rather in fact, the last decade, it is remarkable how well our bank has performed. I am not only referring to our strong financial performance but also about how much we have accomplished to help our shareholders, clients and customers and communities all around the country. The story of BNB's journey is an exceptional one with an even more promising future. During my tenure as CEO of BNB, we have accomplished a lot, and I cannot help feeling proud of being part of this journey.

We continue to make excellent progress around all spheres of our business from technology to risk and controls and innovation. Today we have our presence in all 20 dzongkhags and with the advancement of technology, we strive to reach a bigger segment of our population in both urban and rural areas.

Before we go into the financials, allow me to share some of the highlights of 2018.

BNBL mPAY: Launched the revamped version of mPAY mobile banking in January 2018. Impressive growth of mPay users has been recorded during the year, current number of users: 24,000. The revamped mPay provides all the facilities to the customers, including payment of utility bills, telecom bills, cable TV, Loans, fund transfers to all the banks within Bhutan and Tax payments. MPay also boasts of QR code payments at merchant outlets.

Marketing of products and services: The sales and marketing team visited several places for marketing of our products during year, including Samtse and Gasa. The team has also been promoting Piggy Bank savings accounts and Youth Ethics (YE) savings accounts to selected schools like Jigme Losel Primary School, and Arekha MSS, Darla, Chhukha. The team also carried out a detailed marketing campaign at Samdrupcholing (*erstwhile Bhangtar*) during the opening of the extension office. Along with the RMA, the marketing team has been actively participating in the Financial Inclusion and Literacy drives throughout the year.

POS deployment: The bank has been advocating the usage of the POS machines to merchants, and with the support of RMA procured 250 POS machines. We have currently allocated around 60 POS machines to merchants and fuel depots.

VISA membership: The bank has been able to join the VISA network as a principal member in 2018 and will soon be issuing its own VISA co-branded Debit and Credit cards, replacing the cards currently in circulation. The partnership with Himalayan Bank, Nepal, used to issue credit cards using their VISA linkage will thereafter be discontinued.

Agency Banking: Agency Banking has been on the cards for quite some time for the bank, and in 2018, we initiated the discussions with Bhutan Post, with whom we are now on the verge of signing an agreement to provide agency services through 40 post offices as a start. We will subsequently also tie up with retail shopkeepers. Through Agency services, we shall be providing services similar to what is available in our mPay app, using the POS devices.

Branches/ Extension offices and ATMs: The bank opened 2 extensions offices at Kanglung and Samdrupcholing (*erstwhile Bhangtar*) and also installed several ATMs at Dechencholing, Changzamtog, Babesa, Basochhu and Dagapela.

FINANCIAL HIGHLIGHTS

The bank prepared financials under both previous GAAP required by the Royal Monetary Authority of Bhutan and Bhutanese Accounting Standards as required by Accounting & Auditing Standards Board of Bhutan. As on 31st December 2018 under Group account, only Associates (DFAL) has been consolidated unlike in the past, where the bank consolidated BNB Securities and Associates.

In 2018, with the engagement of EY, Sri Lanka, the Bank has adopted BFRS in full including 'Expected Credit Loss' model (ECL) under IFRS 9 and accordingly the figures for past two years have been reinstated.

Balance sheet/Statement of Financial Position

The balance sheet of the bank under previous GAAP has shrunk by 0.15% (PY - growth of 8%) as against the decrease of 0.46% (PY - growth of about 9%) under BAS. Despite growth in the business of 4.36% under previous GAAP, the balance sheet size has decreased, mainly because of decrease in the investment in RGoB treasury bill on the reporting date by about Nu. 3 bn.

The net worth or shareholders' fund under previous GAAP increased from Nu. 6.45 bn to Nu. 6.86 bn, recording a growth of about 6%. However, under BAS, the total equity increased by only about 1% from Nu. 7.03 bn to Nu. 7.11 bn. The difference is mainly because application of ECL model of impairment under BAS, which has resulted in lesser Profit for the year as compared to PAT as per previous GAAP.

Profit & Loss Account/Income Statement
Previous GAAP

- The total interest income of the bank grew by 3.14% (PY- about 2%) and increase in the interest income on loans & advances by 5.53% contributed at large to increase in the total interest income.
- The interest expense on deposits recorded a marginal growth of 0.55% over previous year as compared to 24% growth in the previous year manly due to decrease in the interest expenses on term deposits. The ratio of interest-bearing deposit to total deposits increased from 77% to 86% because of increase in the term deposits, however, the Bank through constant monitoring of interest rates and asset liability mismatch have been able to manage the interest expenses. The bank during the year has been negotiating rates on short term corporate deposits and offered as low as 0.1% for corporate deposits in 2018.
- The net interest differential has increased by 5.60% as against the negative growth of 12.89% in the previous year.
- The overall PAT has reduced by 11% from Nu. 828.94 mn in 2017 to Nu. 773.40 mn, mainly due to increase in the provision charged. For the year 2018, there was a charge of Nu.90 mn as provision as against the write back of Nu. 132 mn in 2017.

BAS

- The profit for the year under BAS has decreased from Nu. 777.12 mn in 2017 to Nu. 606.85 mn in 2018, a decrease of about 22% mainly due to increase in the impairment charge.
- The Interest & Similar income increased by 5% as against 3% growth in 2017 and the interest expenses increased marginally by 0.59% from Nu. 1.35 bn in 2017 to Nu. 1.36 bn in 2018.
- The Net fee and commission income increased by 23% as against the decrease of 5% in the previous year.
- The other operating income has gone down from Nu. 88.82 mn in 2017 to Nu. 69.22 mn in the current year mainly because of decrease in the foreign exchange earnings.
- Personnel expenses recorded a growth of 26% as against the growth of 11% in 2017 with increase in the number of employees and Staff loan fair valuation of Nu. 64 mn, which is considered as part of personnel expenses.
- With the implementation of Expected Credit Loss model under IFRS/BFRS 9, the provision charged for the year increased to Nu. 129.93 mn against the write back of Nu. 70.28 mn in 2017. which had major impact on the Profit for the year.

Business

Previous GAAP

- The gross loans & advances increased from Nu. 26.72 bn to Nu. 29.07 bn recording a growth of 9% from the previous year.
- The deposits grew marginally by 0.42% from Nu. 30.04 bn in 2017 to Nu. 30.16 bn in 2018.
- The CD ratio stands at 92.69% for the reporting year as against 89.66% in the previous year.

BAS

- The net loans & advances (after netting off the provision) has increased by 9.18% as against the growth of 9.51% in 2017 from Nu. 24.75 bn to Nu. 27.02 bn.
- Loan sanctioned during 2018 was Nu 8.027 billion as compared to Nu. 8.052 billion in 2017, decreased by Nu.0.025 billion
- The deposit has increased from Nu. 29.96 bn to Nu. 30.05 bn in 2018, a marginal growth of 0.31%.
- The CD ratios stands at 90% in the current year as against 83% in 2017.

Credit Quality (this is computed under Local GAAP as per RMA only)

- The gross NPL% has slightly increased from 5.49% to 5.62% computed as per the requirements of RMA PR 2017.
- The net NPL stands at 0.65% in the reporting year as against 0.35% in 2017.

Liquidity ratio and Capital Adequacy Ratio under Local GAAP

- The liquidity ratio has reduced from 30.17% in 2017 to 20.43% in 2018, which is little over the statutory liquidity ratio requirement of 20%.
- The CAR stands at 21.72% as against 22.22% in 2017.

Proposed Dividend

The bank has complied to the requirement specified under Section 9.5.1 of RMA PR with regard to declaration of dividend and the Bank is proposing the maximum payout ratio of 65% which translates to Nu. 1.00 (10%) per share.

The Bank is also transferring Nu. 50 mn from the residual profit to Bond redemption reserve against the Bond issued to RGoB, which is maturing in 2024.

Risk Management Function

The Bank has an integrated risk management policy in place which provides a robust framework for risk identification, measurement, controlling, monitoring, mitigating and reporting through proper tools and methodologies. The major categories of risks that the policy emphasizes are credit risk, market risk, operational risk and the liquidity risk. These risks are addressed through board approved tolerance limits which are monitored and reported regularly.

Yield on Loans

Yield on loans was 9.64 % under previous GAAP and 9.94% under BAS in 2018 as against 9.95% and 10.05% under previous GAAP and BAS respectively in 2017.

Market Share

The BNBL's contribution to Credit as of December 2018 was 24% as compared to 27.00 % in 2017

DEPOSITS

Total Deposits in 2018 was 30,163 (in million) and the total deposit accounts was 182,562.

Off Balance Sheet Items

Letter of Credit
December 2017 – Nu. 2,265.60 million.
December 2018 - Nu. 2,575.632 million
Increase by 14 % (Nu. 309.872 million)

MoneyGram business
December 2017 = Nu. 87.78 million
December 2018 = Nu. 136.44 million
Increase by 55 % (Nu. 48.66 million)

Remit Bhutan (NRB accounts)
December 2017 = 65 nos (Opened in 2017)
December 2018 = 48 nos (Opened in 2018)
Total accounts opened till 31st December: 190)
Decrease by 26 % (-17 Nos.)

STRATEGY

In order to bolster the bank's two main strategic themes namely Operational Excellence and Growing Business for enhancement of bank's strategic direction, by mid-2018 we made major changes in bank's

Executives. A new Strategy and IT vertical headed by Chief Strategy and IT Officer was created within the bank putting under it two departments- Strategy Management Department and IT Department. The idea of putting these two departments under one vertical has been done to create strategies that supported by technology and are data driven.

HUMAN RESOURCE

The bank in 2018 had 543 Employees of which 224 were female and 319 male.

Employees by years of service

Less than 5 years : 149
5-15 years : 290
More than 15 years : 104

In 2018, 272 applications were received for 21 posts that were announced. Five executives' positions were announced and recruited through open competition in an approach to leverage the skills and experience already available within the bank and bringing in the necessary capabilities that would help position the bank for long term sustainability and exceptional performance.

The total investment in training was 34,932,350.00 in 2018 which was an increase by 7.64 % over the previous year.

The Bank maintained a broad range of Training Programs.

Training	No. of Employees trained
Ex-Country training	169
In- country training	96
Workshop/Seminars	90

23 employees availed the medical facility in 2018.

ASSETS ACQUIRED

Land and building at Tsirang and two plots at Trashigang were purchased during the year thereby increasing the assets of the Bank.

CORPORATE SOCIAL RESPONSIBILITY

As a socially responsible corporate citizen, BNB gives back 1% of its Profit After Tax to financing CSR projects within the country. The following activities were financed by the bank during the year:

- Renew : Nu. 2 million
- YDF : Nu. 395,000.00

- Dechencholing Higher Secondary School : Nu. 100,000.00
- Clean Bhutan : Nu. 508,000.00
- Phyathai Hospital : Nu. 350,000.00

A detailed description of the banks CSR and the activities are disclosed in the report.

RISK

The following major activities were carried out in 2018

Risk profile Assessment: The risk department had carried out an enterprise-wide risk profile assessment of the Bank covering all the departments and branches. The detailed risk assessment report outlining the major risks and action plans developed to manage the risks was presented to the senior management and the board risk management committee. The risk department of the Bank regularly monitors on the action plans to ensure that the risks are appropriately managed.

Review of Policies & Procedures: The various policies and procedures of the Bank such as AML/CFT policy, Credit policy, Risk Management policy, Accounting policy and procedures, Environmental and Social Risk Management policy and banking SOPs were reviewed during the year to ensure their consistency and relevance in achieving the bank's overall objectives.

Basel II Gap Analysis: The gap analysis had been done to examine the Basel II requirements laid down under the three pillars vis- à-vis the internal practices of the Bank which are in accordance with the regulations issued by the Royal Monetary Authority (RMA)

COMPLIANCE

As per RMA requirements, the bank in March 2018 established an independent compliance department. The compliance department works to meet key regulatory objectives to protect investors and ensure that markets are fair, efficient and transparent. To identify the risks that an organization faces and advise on them and to monitor and report on the effectiveness of those controls in the management of an organization's exposure to risks. Their role also includes resolving compliance difficulties as they occur and advise the business on rules and controls

For 2019, we will continue to respond to the ever-increasing needs of our customers. We will continue to focus on helping our clients gain control of their finances, fulfill their aspirations and look forward with confidence.

CHIEF EXECUTIVE OFFICER'S REPORT

Looking back at the past year and looking forward to 2019, I am grateful for the work that my team puts in each and every year to ensuring that BNB is the leading bank in the country. I am extremely proud of all the employees of the bank and thankful for their contribution towards the success of the bank. It has been an honor to lead BNB for over the last 20 years. Throughout my time with the bank, I have been humbled by the commitment and hard work of our people and their desire for creating the best bank in Bhutan for all banking products and services.

My sincere appreciation to all our customers and shareholders. I am fortunate and honored to be part of this company and the journey we have embarked upon together. On behalf of the Bhutan National Bank team, we look forward to partnering with you for another successful year in 2019. We look forward to nurturing a long-lasting relationship with all our shareholders and customers and appreciate your support in making BNB Your Relationship Bank.

A special thank you to our board directors. Each of our board directors has been extremely supportive of the work that we do. It would not have been possible to successfully engage in our mission if we did not have the leadership of our Board of Directors.

We would like to take this opportunity to inform all our shareholders that the bank paid Nu 439.95 million as Corporate Income Tax to the National Exchequer thereby contributing to the nation's economy and development. We are confident that 2019 will be an even more successful year.

In conclusion, we would like to express our deepest appreciation and gratitude to the Royal Government of Bhutan, Ministry of Finance, Royal Monetary Authority (RMA) of Bhutan, Royal Audit Authority, Company Registry Division of the MOEA, the RSEBL, the Legal System, other regulators, Board of Directors, shareholders, customers, auditors and all other stakeholders for their continued guidance and support without which the achievements made by us would not have been possible.

Tashi Delek

Kipchu Tshering
Chief Executive Officer

Place: Thimphu

CORPORATE SOCIAL RESPONSIBILITY PROJECTS DURING 2018

In the recent years the concept of Corporate Social Responsibility (CSR) has spread very rapidly globally in all sectors including banking. This prevalence is because the fast pace of globalization and social development appeals to all corporations, big or small, local orientation, to take their CSR into account by improving the social and environmental performance.

CSR has become one of the standard business practices of our time. For companies, the overall aim is to achieve a positive impact on society as a whole while maximizing the creation of shared value for the owners of the business, its employees, shareholders and stakeholders.

Although the primary objective of any business is to earn maximum profits for shareholders in ethical way, it is also expected to operate in a way that fulfills social obligation. Today companies have CSR practices and these companies commit themselves to operating in a way to benefit the community at large.

BNB's CSR activities aims to embrace responsibility for corporate actions and to encourage a positive impact to the environment and stakeholders.

BNB's CSR budget for 2018 was Nu. 8,289,044.00 (Ngultrum Eigth million two hundred eighty-nine thousand and forty four).

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1. Contract detail

Name of the Local [CSO] providing the report: Clean Bhutan(registered# CSOA/PBO-33)

Address: Post Box 626, Rabten Lam, Thimphu

Email # cleanbhutan1@gmail.com **Tel no. #** 02-333708

Person in charge of the final report: Mr. Nedup Tshering, Executive Director, Clean Bhutan.

2. Identification of the project

Name of the project: "safe and proper disposal of sanitary pad" in school, nunnery & colleges of Bhutan.

Project Duration: 12 months

Developments partners: Bhutans National Bank Limited (BNBL)

Implementing partners: Ministry of Education (MoE) and Royal University of Bhutan(RUB)

Project Beneficiary: Direct beneficiary to 1050 students (from 2 schools, 2 colleges and a nunnery)

3. Budget and finance

Total Project Cost: Nu. 894,100.00

Amount received under this Agreement: Nu.508,200.00 (under company's CSR, Bhutan National Bank limited).

Amount contributed by applicants: Nu.385,900.00 from Clean Bhutan

Clean Bhutan
Zero Waste Bhutan by 2030

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4. **Introduction of Applicant**

Under the Royal Patronage, Her Majesty, The Gyaltsuen, Ashi Jetsun Pema Wangchuck, Clean Bhutan was established on 5th February 2014, and on 11th November 2014, was registered as Civil Society Organization (CSO) with CSO Authority, as memento to the celebration of 60th Birth Anniversary of His Majesty, Drukgyal Zhipa.

Clean Bhutan aims to advocate and sensitize every Bhutanese citizens about behavioral change and to develop habit in managing their own waste and initiate to reduce waste at source. As Bhutan is beginning to experience rapid socio-economic development and waste is becoming a major concern which is inevitable. Therefore, Clean Bhutan's responsibility is to inform the people of Bhutan about the negative impacts on the environment and human health from waste through advocacy programs and develop mechanisms on how to manage and reduce waste at source.

5. Background

5.1 Overview of project

Bhutan has 63 central schools and more than 15 Nunnery schools. In each of these central school an average of 600 students are enrolled and 50% are girls/women. A total number of 26,118 girls of which 25,000 girls in the central schools, 418 nuns in nunnery schools, 700 girls in Paro College of Education and Samtse College of Education.

As of May 28, 2018, Ministry of Education launched the program "Menstrual Hygiene Bhutan" to observe "Menstrual Hygiene Day". Inhibition and disposal facilities were some of the common challenges associated with maintaining menstrual hygiene in the schools and colleges. Since this program was launched in 2018, Ministry of Education has been collaborating with Clean Bhutan on the sanitary pads disposal and how to educate students on the managing of proper disposal program so that the girls will not miss a single day of school or college due to the menstrual cycle facility not available in the institutions. By providing facility and breaking off the taboo, the girls will ensure more hygienic lifestyle within the school, nunnery and college premises.

Further, the two teachers' colleges have been selected, as it is pertinent to educate the students, who will be graduating as teachers. After their graduation, they will be assigned as teachers for primary and secondary schools. The teachers will provide guidance to their students from an early age to motivate and learn about safe hygiene and waste free society.

Zero Waste Bhutan by 2030

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5.2 Objective of the project

The proposed project has two main objectives with the target groups being school, college and nunnery girls and women. Firstly, to tackle the waste disposal system at its source by reducing unhygienic waste handling carried out by service providers as well as reduces the burden of the landfills. Secondly, dissemination of information. The following are the objectives:

Objective 1. Provide a facility like sanitary pad incinerators in these four institutions for proper disposal of sanitary pads, i.e. 1 school, 1 nunnery school and the 2 teachers colleges. Electric incinerators, which is eco-friendly and easy to use by the students.

Objective 2. Advocacy program on waste management for wider audience outreach on how to reduce waste at source. For long term advocacy we hope to provide waste bags to reduce plastic and as part of visibility.

5.3 Target group

The program is aimed at four major institutions on safe sanitary pads disposal system in the schools & colleges that will provide a dominos affect to other communities and students.

Direct beneficiaries, a total of 1,050 girls from schools & colleges will benefit from this program in the following institutions:

1. One high School
2. One nunnery school and
3. Women of 2 colleges of education, the future teachers. As part of sustainable program, the teachers will educate the school children from primary levels after their graduation

5.4 Outcome Benefits and work plan of project

The project is aimed at multi-facet benefits to the local community and the environment. The table 1. below show the outcome benefits. This program will have long time benefit to educate the women on safe disposal of sanitary pads, which would encourage other donors on implementing similar programs in other institutions and communities.

Table 1. Outcome benefit to the community/students

Output	Target	Key partners	Outcome Benefits
Sanitary Pad Incinerators	Schools & colleges & students	MOE & RUB	- 1050 students have easy & hygienic access to sanitary pad disposal system - Reducing students' absentee in the schools and colleges - Proper disposal bins for pads plastics - Reduced sanitary pads going to the landfill, a positive impact to the environment
Dustbins	Schools & colleges & students	MOE &RUB	
Advocacy program on	Students and teachers (Girls & youths)	MOE &RUB	

CSR PROJECTS UNDERTAKEN IN 2018
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waste management			- college students are also equipped with waste management starting from their personal hygiene such as sanitary pads disposal and they shall implement in school once they graduate teacher
Bags for shopping	Girls & community youths	Nuns and local communities	- Know- how on proper waste management by reducing waste at source
Awareness bags for women and girls	Girls & community youths	Nuns and local communities	- Understanding employment opportunities – waste to wealth

Table 2. Work plan and timeframe for implementing the activities.

#s	Activity	M 1	M 2	M 3	M 4	M 5	M 6	M 7	M 8	M 9	M 10	M 11	M 12
1	Purchase of Sanitary Napkin Incinerator							H					
2	Instruction program on how to use the incinerator in schools												
3	Plastic Dustbins							H					
4	Logo stickers & messages design							H					
5	Advocacy program on waste management												
6	Media coverage TV, Newspaper												
7	Printing of banners for advocacy												
8	Monitoring & Evaluation												

D= Distribution, H= Handing-over to MOE, M= Month Grey color indicates the implementation timeframe

Above two tables shows the outcome benefits after the completion of the project and activities to be carried out during project period. As per the work plan we have completed activity 1 and activity 4 (purchasing sanitary napkin incinerator and logo stickers and massage design) to reduce improper disposal of pad and waste bag has been also purchased to advocate and to reduce waste at source. Other activities like activities 2,3,5,6,7, and 8 will be done according to the timeframe of the project.

Annexure 1. Images of incinerator and waste bag

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5.5. Proposed budget and total budget used till date

Table 3. Proposed activities budget (Request from BNBL) and budget used for implementing this project till date.

#	Particulars	Qty.	Rate	Total Amt	Budget used till date	Balance Amt
1	Sanitary Pad Incinerators	5	25,900.00	129,500.00	129,500.00	0.00
2	Plastic Dustbins	5	3,860.00	19,300.00	0.00	19,300.00
3	Logo stickers (visibility)	160	15.00	2,400.00	2400.00	0.00
4	Printing of banners	2	3,500.00	7,000.00	0.	7,000.00
5	Advocacy program on waste management	3 X 200	450.00	270,000.00	0	2,70,000.00
6	Handing taking over of equipment	1		25,000.00	0	25,000.00
7	Awareness bags for school children	500	110.00	55,000.00	55,000.00	0.00
	Total budget requests and total amount used.			**508,200.00**	**186,900.00**	
	Total budget balance					**321,300.00**

Total budget approved for implement this project was Nu. 508,200.00 and the total amount used till date was Nu. 186,900.00.The budget has been used for purchasing sanitary pad incinerators, awareness bags and logo printing for the visibility. Remaining balance of Nu. 321,000.00 will be used for other activities according with the work plan of the project.

5.6. Project implementer and implementing partners

A twelve-months project from November 2018 to October 2019 on "safe and proper disposal of sanitary pad" in school, nunnery & colleges of Bhutan" supported by BNBL with a sum of Nu: 508,200.00 will be implemented by Clean Bhutan and the implementing partners will be Ministry of Education (MoE) and Royal University of Bhutan.

For the visibility of the project the media partners will be done through BBS TV, Kuensel and other medias.

Feedback

- Indeed it was good opportunity for Clean Bhutan to work with BNBL under CSR project and we look forward for same opportunity in future for social benefits.

- If given more opportunities, we love to work with BNBL for the benefits of country and whereby it will also improve the partnership as well.

- We would suggest new project under CSR fund like:

- Empowering of women and youth by developing their skills/knowledge,

CSR PROJECTS UNDERTAKEN IN 2018
BHUTAN YOUTH DEVELOPMENT FUND

Programme	**While(in)g Vacation programme 2018-19**
Date	24th December, 2018 – 11th January, 2019
Venue	24th December, 2018 to 1st January, 2019: Nazhoen Pelri, YDF 10th January, 2019: Bhutan Institute of Wellbeing, Tshaluna 7th January, 2019: Yarab Institute of Hospitality & Management
Number of Participants	280 young people
Age	7 to 24 years
Resource persons/ Teachers	10 resource persons (full time) 5 resource persons (For talk/session)
Volunteers	25 volunteers (Young volunteers in Action (Y-VIA) & YDF Scholarship alumni)
Activities covered in the programme	1. Reading (both English & Dzongkha): (Junior & Senior) 2. Art and craft: (Traditional & Contemporary Art) 3. Dance the story: (Theatrical dance) 4. Education and Edutainment: (Forum theatre on Child Protection) 5. Training: (Passport to Success & Child protection)

In addition to core programs, sessions covered:	1. Financial Literary and education on saving by BNB 2. Child Protection by NCWC 3. Disaster management by Department of Disaster Management 4. Entrepreneurship by Loden Foundation
Budget	Nu.395, 000/- (Three lakhs ninety-five thousand only)

Background

The Bhutan Youth Development Fund (YDF) recognizes the strength of after School settings while the young people are on vacation. The While (in)g Vacation program under YDF has for the last eight years offered exciting activities that are fun, engaging, and effective in building the capacity of youth through a series of learning processes.

While(in)g Vacation is a regular winter program specially designed for youth and children to *while* (verb form means "to pass time leisurely") away their vacation creatively and productively. The program provides deeper insight for the youth to things that matters the most in their life besides it being fun and engaging. Furthermore, it is an opportunity for our young minds to get together and learn, enhancing their talents and opening new doors for the profound world of learning.

Vision

To cultivate productive citizens and leaders through quality educational programs.

Mission

To provide wholesome education to every child & youth.

Strategy

To realize the mission through creativity and collaboration.

This year, the programs were divided into **FIVE** categories based on the interest of the individual child and eligibility of their age. All the activities have been listed below.

1. **Junior Reading**

   For the reading activity, we had children ages from 7 to 14 who were divided into junior and senior groups. This is because different levels of classes and age differences in one large group was challenging for the resource persons. Moreover, it was more effective for the youth's participation and learning when divided into two groups. Unlike last year, the children were introduced not just to English but Dzongkha reading considering the importance of preserving our national language. They learned multiple reading strategies, engaging with poetry, short stories, and local folk tales in English. While in Dzongkha reading, they learned independent and guided reading, writing a book review and storytelling. This activity had the largest number with over 120 participants.

CSR PROJECTS UNDERTAKEN IN 2018
BHUTAN YOUTH DEVELOPMENT FUND

Figure 1: Reading group engaging with their favorite book.

2. Art and Craft:

I. Traditional Bhutanese Art
II. Contemporary Art

Under the Art and Craft category, children ages from 7 to 14 were divided into two groups; traditional Bhutanese art and contemporary art based on their interests. In the traditional art group, the children learned the basic drawing skills of the Bhutanese 8 lucky signs and paintings. About 12 enthusiasts opted for this program and they have shown extreme interest in Bhutanese traditional art.

As for the contemporary art, the children were taught basic painting but mostly focused on craft works which the children enjoyed. The children learned to create amazing origami works.

Figure 2: Art and Crafts origami display

Figure 3: Parents admiring the craft work displayed during the closing event.

Figure 4: Works of young people under Traditional Bhutanese Art

3. **Dance the Story (Theatrical dance):**
   Unlike some hip hop and stereotype contemporary dances, this year children were introduced to a new program titled "Dance the story", a theatrical dance. This is to give platform to the young people to showcase their creativity and storytelling through the form of dance. This year the story was about a young boy who loved to dance and dreamed of being a dancer. The story portrayed how people looked down at him for having such ambitions and how he was mocked by his friends in his class. Their story taught us to always follow our dreams. Moreover, this group of young people also performed a traditional Japanese Fishermen song and dance.

Figure 5: Children practicing and rehearsing their dance story

Figure 6: Children performing the Fishermen song

4. Education and Edutainment – Theatre on Child Protection

This group of young people, ages from 7 to 14 were introduced to theatrical skills. This year, the theme for the theatre was on child protection. Unlike previous year, they showed lots of creatively, coming up with a drama that was unique and interesting to watch. The drama was showcased through an animal realm, personifying plants and animals, while still delivering a strong social message on child rights and protection. The performance was also very engaging, inviting the audience during the closing event to interact with the drama. The youth in this group provided a very educational and entertaining show for the audience.

Figure 7: Performance by forum theatre group

Figure 8: Children practicing their drama outside, under the sun

5. **Training:**
   i. **Passport to Success, Life Skills program**: Passport to Success (PTS) equips young people ages 14 to 24 with a range of skills that help them stay in school and acquire the education, professional skills, employment readiness, and confidence they need to succeed in life and in the work place. The training focused on personal competencies, positive attitude, responsibility, and many more life skills. About 35 young people were trained under this program.

Figure 9: Participants making final presentations on their learnings.

   ii. **Child Protection & Participation** – (This training component is supported by UNICEF. Report attached for your kind reference)

The participants also had an opportunity to visit Yarab Institute of Hospitality and Management and underwent training on table etiquette and cooking. About 35 of them participated in the day program.

Moreover, the children also had Friday sessions besides normal activities:

1. **Disaster management**: Officials from Department of Disaster management made a presentation to all the participants on 4th January, 2019 on different disasters and its safety measures. Major topics on fire, earthquake, and flood were highlighted through the vision of "Safe, Resilient, and Happy Bhutan".
   This session focused on the importance of educating our young people on disaster management, equipping them with the necessary information to help them act wisely during the time of disaster in their community. Over 250 participants attended the program.

2. **Entrepreneurship:** On 9th January, 2019, Loden Foundation made a presentation to familiarize young people on the work they are undertaking. The session stressed on the Student Empowerment through Entrepreneurship Development (SEED) programme that was started in 2015 in Colleges and Technical Training Institute (TTI) to inspire young

people to pursue entrepreneurship as a career choice. Children ages from 14-24 were part of the program.

3. **Child Protection:** Session on ‘Child Protection in Bhutan’ and awareness on toll free helpline were given to children above 14 years. The child were educated on the overall child protection system in Bhutan and the services available. About 35 young people attended the program.

4. **Financial Literacy and education on saving**: Official from BNB educated all the young people on financial literacy and the importance of savings. The session highlighted on the saving culture and moreover, encouraged young people on starting to save from a young age. Over 250 participants attended the program.

Figure 10: Participants attending the special Friday programmes.

Participants from 15 to 24 years old also had an opportunity for a field trip to BIW (Bhutan Institute of Well-being) in Tshaluna towards the end of the program. The participants were introduced to the nature around BIW and had a picnic lunch in the forest. The participants took packed lunches and enjoyed with friends in a beautiful place. It was an effective community building activity.

Acknowledgment to BNBL

The Bhutan Youth Development Fund would like pay our deepest gratitude to BNBL for supporting this program which has helped meaningfully engage over 250 young people during their winter vacation. The While(in)g Vacation program 2018-19 was a success and an enriching program thanks to you BNBL. This would not have been possible without your kind support.

BNBL has always been instrumental in YDF's programs and we will forever remain grateful for your contribution. Thanking you once again for your support and generosity. We hope similar support be rendered to YDF in future years, allowing more enriching programs to be organized for our youth.

CSR PROJECTS UNDERTAKEN IN 2018 RENEW

Report on activities in Gawailing Happy Home, 2018

One of the core services of RENEW is the safe place for women and children survivors of domestic violence/ gender based violence. It is called Gawailing Happy Home (GHH), a place where women and children can access all kinds of support services that includes Counselling, Legal, Aid, Medical Aid, Scholarship, Livelihood Skills training. Besides the support services, GHH organizes various programs for children and women living in the home.

We have 24 children permanently living in the Happy Home and have at 4-5 women everyday seeking shelter services in GHH. We organize different programs for women and children during their vacations. Last year, with support from Bhutan National Bank, UNICEF and Friends of RENEW from Singapore, a special program on *Resiliency* was organized for children to boost their self-esteem.

The program introduced creative approach using visual art expressions to help children discover their untapped potentials and provide safe emotional space to express their inner thought, feelings and life aspirations. It led children to recognize and appreciate inner strengths overcoming the past

experiences. Through resilience related skills, children were taught to cope with difficult situation.

In addition to usual Livelihood skills trainings programs on Weaving and tailoring, training on flower making, tofu making, Ginger candy, Amla candy and production of recycled products was organized for 220 women and young girls in 2018 as mentioned below:

- Food production (Ginger, Tofu & Amla Candy) - 35 women and girls
- Natural dyeing - 65 women
- Artificial flower making - 26 women and girls
- Assamese Loom Weaving - 15 women
- Tailoring - 56 women and girls
- Recycle training - 19 (4 boys in the group)
- Mat weaving - 1 female adult (client)
- Waste paper - 1 female adult (client)
- Horticulture - 2 female adult (staffs)

The fund support from development partners are time bound and limited to specific activities, therefore not adequate to cover client support in the Happy Home all through the year. With the support from Bhutan National Bank (BNB), beside the additional support to conduct various programs, RENEW GHH was able to sustain its services for 221 clients who availed services at home in 2018. The fund support from BNB enabled GHH to carry out GHH maintenance work which was pending for quite some time due to fund constraint and supported the running cost which is the most challenging task for CSO like RENEW having to provide free services to most needed population. The contribution from BNB has been utilized to its fullest guiding us to better support services for our people.

CSR PROJECTS UNDERTAKEN IN 2018
DECHENCHHOELING HIGHER SECONDARY SCHOOL

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DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

Implementation and Status Report

Evaluation submitted (by name of Member State or INGO)
Dechencholing Higher Secondary School, Thimphu on February 8, 2019

1. **Introduction and Background of the firm/company/organisation**
   - Name of the firm/organization

Dechencholing Higher Secondary School, Thimphu

- Location and set-up

Dechencholing Higher Secondary School is one of the oldest and biggest schools in the Thim-Throm. It was established in 1960. It is located in nearby the Dechencholing Palace, where our fourth Dharma king, Jigme Singye Wangchuk was born. The school mostly caters to students from the encampment of the Royal Body Guards. The school lies at the foothills of the *Dechenphug* monastery, the abode the local deity, *Ap Genyen.* To the North are Kabesa, Begana, Tango and Chari monasteries.

What started as a primary school for children of the personnel of the Royal Body Guards has emerged to a higher secondary school now. Today, it caters to the educational needs of more than 1800 children studying from class PP to class XII mostly coming from the neighboring places of Zungshina, Taba, Dechencholing, Kabisa and Begana. There are 76 teachers and 14 supporting staff. The school campus stretches approximately over 8.56 acres of land just above the highway.

The school has won various awards and accolades from the academic toppers to aesthetic champions. It has proven its competence many a time, in many different fields and the battle is always kept abreast. The school strives to instill the best in our youths. This is our vision!

- Its mandates and objectives

School Vision
Be the center of excellence with pleasant ambience, conducive for nurturing versatile and competent youth.

Mission
To produce competent and productive citizen possessing human values and life skills, capable of contributing towards nation building

Core values
Patriotism
Respect to self and others
Collaboration
Dignity of labour
Honesty

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ROYAL GOVERNMENT OF BHUTAN
DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

Perseverance
Sense of belongingness
Team Work
Empathy

Mandate
Academic excellence
Holistic and wholesome education
Student-centric environment

- Its registration and licensing status

Under the Ministry of Education, Bhutan

2. Background and Objectives of the Project for which the CSR funds were released

- In brief describe/list/tabulate the following:
    - o Project and its activities

Dechencholing Higher Secondary School, with its current enrollment of 1800 children with 76 teachers and 14 supporting staffs, is grappling with issues and problems of waste management. Class wise waste segregation at source, systematic collection, storage and proper disposition of recycle wastes has been tried but it did not turn out to be successful. The increased amount of waste generated in the school, has challenged the school management to look for sustainable measures to manage the wastes to control unpleasant living conditions and an unhealthy environment. The collected wastes in the school are blown up by wind, dispersed by cattle, dogs, insects and so on. While occurrence of waste heaps in the school can clog drains and cause runoff to low lying places when it rains, run off into rivers and streams can affect clean water and aquatic ecosystems. There is huge cost to both school and the environment to collect and dispose of the wastes generated in the school. Although there is increased emphasis placed on operational waste management, funding to build a proper waste segregation and storage house had been a big issue.

The garbage truck from Clean City collects all kinds of garbage from the school twice a month. Biodegradable and non-biodegradable waste are packed together and collected by the garbage truck. However the 6Rs Club of the schools segregates wastes such as bottles, glass, cans, metal, cardboard from the wastes are stored in open space in the school. The 6Rs Club puts every possible effort, but still the Club is not able to cope with the huge amount of waste generated in the school due to large number of students, teachers, supporting staffs and school canteen. Having different storage space for different wastes will be helpful in segregating wastes from the source and this will be helpful in waste management, storage and segregation.

As a result of the large volume of wastes generated by the school, and the fact that the waste is collected by the Clean City only twice a month, the waste heaps keep growing and since it is heaped in the open air exposing it to the wind and rain, dogs and cattle. There is frequent occurrence of waste scattering in the school campus and clogging of drains. The risk of environmental and health hazards and health problems among the

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ROYAL GOVERNMENT OF BHUTAN
DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

students, teachers and the school community is highly possible if the wastes are not disposed for proper management.

Constructing a waste segregation and storage house in the school campus will enable the school to develop a proper recycling program as well as support the many initiatives by agencies to manage wastes and very importantly our students will learn about waste management. As more and more industries start to use recyclables as a raw material to manufacture new products, it will be possible for the school to gain financially in continuously maintaining the waste segregation and storage program and supply materials for recycling and reducing wastes. The school can make sure that waste doesn't go waste and keep Dechencholing campus clean and green.

The school plans to start agriculture program in the school with the sole purpose of making use of degradable wastes generated in the school from food waste from lunches of students and the school canteen. By composting food scraps and grass and plant trimmings, school will be minimizing disposal of degradable waste right from the source.

In summary, proposed fund for the construction of the waste storage and segregation house can address the Sustainable Development Goal of the nations by supporting good health and well-being for people, quality education, clean water and sanitation, responsible consumption and production, life below water, life on earth, partnership for goals and also achieve the GNH values of maintaining environmental integrity.

A project report on the success, challenges and way forward for the project will be submitted to the funding agency and the same will be published in the Annual School Magazine.

Aim of the Project
To foster sense of responsibility among the younger generation. Our waste our responsibility.

Project Goals and Objective
The objectives of the project are
i) construct the waste segregation and storage house to overcome the littering of wastes in the school and its catchment area.
ii) generate fund for continuous functioning of the 6Rs Club by selling recyclable wastes such as bottles, glasses, cans, metals, papers, cardboard and plastics.
iii) role model best practices in solid waste management in Dechencholing HSS and its catchment areas.
iv) enhance the waste management practice in the school and its vicinity.
v) protect the environment, minimize environment hazard and maintain a healthy, safe and sound environment.
vi) ensure clean, green and waste free learning environment.
vii) minimize possible occurrence of contiguous diseases and control environmental pollution.
viii) promote recycling and reusing based on the idea of "nothing wasted, everything used"

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ROYAL GOVERNMENT OF BHUTAN
DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

ix) create awareness in the school and its community about waste management.
x) inculcate a civic sense among students, teachers, staffs and community.
xi) build partnership between school, parents and other relevant organization in promoting clean and green environment.
xii) promote entrepreneurial education in the school.
xiii) manage waste for sustainable development.

Siting and Layout

The proposed new waste storage and segregation house will occupy the front site of the school Multi Purpose Hall. The existing proposed new waste storage and segregation house will be accessible to all the school buildings on the campus and can be reached by all classes including the school canteen. The garbage truck can drive to the site from south entrance to the school and can easily pick up, thus minimizing disruption during class hours.

- The beneficiaries of the project and its activities

We have acknowledged the support of Bhutan National Bank Limited and Bhutan Power of Corporation Limited in all forums. The teachers, school leaders at the local and national level know of the project and are appreciative of the generosity of Bhutan National Bank Limited and Bhutan Power of Corporation Limited. Without the financial support of UNESCO our desire and aspiration of taking action research to teachers would not have been possible and it would have still remained a distant dream.

The Project will benefit the whole school and community of the Royal Body Guards in managing wastes through enforcement of waste segregation practices and having access to the waste segregation and storage house. The community and students learn about wastes and its management including recycling and generating income from it. The practice and program will create civic consciousness among students and the community and influence mindful consuming patterns. The waste segregation and storage house will minimize environmental pollution and health problems to humans and animals and prevent occurrence of human-made calamities due to improper waste management.

Waste heaps and littering around the school campus will be a thing of the past with the use of waste segregation and storage house. The school in general and 6Rs club in particular will engage in practicing recycling of non-biodegradable wastes and composting of bio-degradable waste to grow vegetables and flowers. In short, 6Rs club will reuse, reduce, recycle and make the world a clean, green and better place to live.

Project Sustainability

After the completion of the project, the school management and the 6Rs club shall properly maintain the waste segregation and storage house. While the 6Rs Club initiates and coordinates, the club expects all the teachers, parents and students to render full support and cooperation in implementing the waste segregation strategies by the 6Rs Club.

To begin with, the 6Rs Club and the school management will make a reminding

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ROYAL GOVERNMENT OF BHUTAN
DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

announcement in the morning assembly on Wednesday. All class will maintain three dustbins labeled with plastic, bottle and paper, and will segregate waste accordingly. Every Wednesday and Thursday, all the classes and school canteen will have to dump their segregated wastes in the waste segregation and storage house. Waste segregation at the source shall be strictly implemented by 6Rs club members and ensure that wastes are properly segregated and dumped in the right place.

The 6Rs Club shall use the fund generated from sale of non-degradable waste for repair and maintenance of the waste storage house as well as to explore and try out new ideas and innovation. The school shall also allocate funds for the maintenance of the waste segregation and storage house through its school maintenance fund.

Project Output/Outcome
The project will be very useful in the practicing effective implementation of waste management. If the project is realized, school and its vicinity shall be benefited. Environment can be preserved and protected, environmental hazard can be minimized and a health, safe and sound environment can be maintained and realized the sustainable development goal and GNH.

Risks Analysis
There's no risk identified in the project, provided it is executed under proper supervision adhering to relevant financial and procurement rules and procedures of the RGOB and with the approval of the School Management Board.

Periodic audit of accounts and operations by the Royal Audit Authority shall be an important part of the accounting process.

- How was the project implemented?

Upon the approval of the fund from the Bhutan National Bank Limited and Bhutan Power of Corporation limited with 100, 000/- (One Hundred Thousand) and 25,000/- (Twenty Five Thousand) the school made a spot quotation for fabrication work. The fabrication work was awarded to Karma Fabrication at the rate of 1, 15000/- (One Lake Fifteen Thousand). The labelling of ground for the construction of waste segregation house was done with the available support from RBG excavator.

The pavement and the construction were directly given to local laboure for 15,000/- (Fifteen Thousand). The remaining cements, sand, gravels and hollow bricks were provided by the school. It took almost two and half month to complete the project. The class X, XI and XII students and male teachers help to gather stone and carry out final fabrication works in the school.

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ROYAL GOVERNMENT OF BHUTAN

DECHENCHHOELING HIGHER SECONDARY SCHOOL

TEL : 361036 POST BOX NO. 1126

THIMPHU : BHUTAN

- Who are/were partners organisations, if any, in implementing the project?

The project was fully dependent on the funding received from the Bhutan National Bank Limited and Bhutan Power of Corporation Limited.

- What is the status of implementation?

The project was completed however the last finished touched will be given by the end of March 2019. By the end of March the school in return for the generosity, the name of Bhutan National Bank Limited and Bhutan Power Corporation Limited and key message will appear on the signboard that will be placed strategically on the completed wastage segregation and storage house.

3. Details of Funds Received and activities funded

- Include a table and appropriate write-up to explain the receipt and utilization of funds received from BNBL

Receipt

Funding Organization	Amount
1. Bhutan National Bank Limited	100,000/-
2. Bhutan Power Corporation Limited	25,000/-

Total	1, 25000/-

Expenditure

Expenditure	Amount
1. Karma Fabrication for fabrication work	1, 15,000/-
2. Labour Payment for construction of wall pavement and plastering	15,000/-
Sand, Gravel, Sand, Cement and Hollow Blocks (born by the school)	10, 000/-
	-------------------
Total	1, 40,000/-

4. Outcome and Impact of the Project

- Describe the impact and benefits of the project and its activities. Besides write-ups, please include the following:
  - Photographs of project activities, including beneficiaries

The school acknowledged the due credit to Bhutan National Bank and Bhutan Power Corporation who supported us with Ngultrum 100,000/- (One Hundred Thousand) and 25,000/- (Twenty Five Thousand) to construct a waste segregation and storage house in the school compound. The name of Bhutan National Bank and your key message will appear on the signboard that will be placed strategically on the completed wastage

CSR PROJECTS UNDERTAKEN IN 2018
DECHENCHHOELING HIGHER SECONDARY SCHOOL

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ROYAL GOVERNMENT OF BHUTAN
DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

segregation and storage house. The School acknowledges the Bhutan National Bank Limited and Bhutan Power Corporation Limited on the cover paper of School Magazine, 2018. The school will also invite the head of the Bhutan National Bank and relevant officials during the opening ceremony of waste segregation and storage house, which is scheduled on World Environment Day, June 5, 2019.

Dechencholing Higher Secondary School family appreciate your kindness and support for being a partner to support us the national vision of maintaining greenery of our country. Without the generous support of Bhutan National Bank Limited and Bhutan Power Corporation, our plans and dreams for the students and the school would have not materialized. We look forward to your continued support and assistance in the near future.

- Statements from beneficiaries to show benefits & impacts

The project will be very useful in the practicing effective implementation of waste management. If the project is realized, school and its vicinity shall be benefited. Environment can be preserved and protected, environmental hazard can be minimized and a health, safe and sound environment can be maintained and realized the sustainable development goal and GNH. The Statements from beneficiaries to show benefits & impacts will be heighted in the club activities in the annual school magazine 2019. The 6Rs club will conduct a small action research on benefits & impacts of construction of waste segregation and storage house in the school and its vicinity.

- Clippings and evidences of media coverage of project activities

The teachers, school leaders, Thromde Education at the local and national level know of the project and are appreciative of the generosity of Bhutan National Bank Limited and Bhutan Power Corporation Limited. Without the financial support of Bhutan National Bank Limited and Bhutan Power Corporation Limited our desire and aspiration of taking project in school would not have been possible and it would have still remained a distant dream.

For the further publicity the following photos will be documented in the annual school magazine of academic session 2019.

CSR PROJECTS UNDERTAKEN IN 2018
DECHENCHHOELING HIGHER SECONDARY SCHOOL

CSR PROJECTS UNDERTAKEN IN 2018
DECHENCHHOELING HIGHER SECONDARY SCHOOL

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ROYAL GOVERNMENT OF BHUTAN
DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

5. Feedback

- Please share with us your experience of working with BNBL for the CSR Project

At the end of the project, we felt it was time for celebrations when the team had put in great efforts working late, over weekends and we made a successful delivery. The project was over and customer accolades were a delight to the team! So, we have seen now the journey of the project.

This is first project that is carried in the school. We are glad that we have completed the project. Now I have gained a better understanding on and the ways and means to construct waste segregation and storage house. We are more confident to carry out such project in near future.

Overall the children, teachers and principals value the project in enhancing authentic learning and brought real life experiences to the children, teachers and management. The project helped to foster collaboration, working for a common goal, team spirit, and resourcefulness. School also learnt to do proper planning, communication, building consensus, remaining focused and meeting deadlines and quality. On my part the project has helped me understand more about carrying out project, that requires a teacher to be adaptable, remain engaged in the work, it helped me understand my colleagues and their potential. It enhances creativity and problem-solving skills of children and foster teacher competency in 21st century. I have also experienced that project help Dechencholing Higher Secondary School to know some of the staffs of Bhutan National Bank Limited and Bhutan Power Corporation limited.

- Provide us with your feedback in implementing the CSR funds

There should be proper monitoring and evolution of the project. The corporate official should monitor and evaluate the project after the completion so that CSR fund does not get misused. Incase if the estimated fund for the project is limited, the Corporate Organization should review and if possible should give additional fund to complete the project.

The estimated cost of project submitted to the organization was less, which was noticed while carrying out the project.

- Make specific suggestions to improve the partnership

Some of the specific suggestion to improve partnership between Corporate Organization and schools are

i. Educate student on Financial Literacy or hydropower
ii. Visit school twice (one before midterm and one after midterm) for free service to open piggy bank account
iii. Guest Speaker
iv. Corporate officials should visit schools

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ROYAL GOVERNMENT OF BHUTAN
DECHENCHHOELING HIGHER SECONDARY SCHOOL
TEL : 361036 POST BOX NO. 1126
THIMPHU : BHUTAN

- Suggest new projects for CSR funds. Your suggestion may include not only projects that you can or would like to implement, but also those that other entities/organisations can take up.

Major challenge faced by school aspiring to carry out project is the challenge of getting fund. Generally teachers also lack knowledge about project. I endeavoured to look for some of the resources myself and email them. I shared project proposal, project activities with students and teacher collages.

Currently all schools in Bhutan cannot carry out project and other related activities due to shortage of money. Therefore it is very important for Corporate Organization to tie up with few schools to support project and activities there by we can improve the quality of education in Bhutan. The quality of education in Bhutan in the recent few decades had been questioned. The government is continuing its effort to address the challenge and issues through a variety of initiatives. There are some corporate organizations where their mission of the organization is 'Corporate Social Responsibility' unfortunately they are never carried or support this mission.

The Corporate Organization and school should collaborate each other and school should provide platform for corporate organization to implement their important functions and activities in the school.

Prepared and Submitted by:

Sd/-	Sd/-
Tashi Gyeltshen	Tshewang Dorji/ Tshering Wangchuk
Principal	**Teacher/ 6Rs Club Member**
Contact Number: 17688046	Contact Number: 17965418

CSR PROJECTS UNDERTAKEN IN 2018
PHYATHAI 2 HOSPITAL

To Whom It May Concern

Regarding the project titled "Lumbar Disc Surgery for Bhutanese Patients", we would like to send the summary of three patients who have received the treatment at Phyathai 2 Hospital as following;

1. Mr.Tashi Dorji

HN: 50700/61

Orthopedic Surgeon at Phyathai 2 Hospital: Dr.Nantawat Uttamo

Operation and Treatment Duration at Phyathai 2 Hospital: July 26, 2018 – August 6, 2018

Status: Follow up with Orthopedic Surgeon at Bhutan.

CSR PROJECTS UNDERTAKEN IN 2018
PHYATHAI 2 HOSPITAL

2. Miss Tshering Chozom

HN: 50460/61

Orthopedic Surgeon at Phyathai 2 Hospital: Dr.Nantawat Uttamo

Operation and treatment duration at Phyathai 2 Hospital: July 26, 2018 – August 6, 2018

Status: Follow up with Orthopedic Surgeon at Bhutan.

CSR PROJECTS UNDERTAKEN IN 2018
PHYATHAI 2 HOSPITAL

3. Miss Damcho Zangmo

HN: 50458/61

Orthopedic Surgeon at Phyathai 2 Hospital: Dr.Nantawat Uttamo

Operation and treatment duration at Phyathai 2 Hospital: July 26, 2018 – August 6, 2018

Status: Follow up with Orthopedic Surgeon at Bhutan.

Auditors’ Report
and
Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of
BHUTAN NATIONAL BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the Financial Statements of Bhutan National Bank Limited (The Bank), which accompanies the Statement of Financial Position as at 31st December 2018,the Statement of Comprehensive Income for the year ended on that date, the Statement of Changes in Equity for the year ended on that date, the Statement of Cash Flows for the year ended on that date, and notes to the financial statements, including a summary of significant accounting policies, in which are incorporated:

Financial Statements of three branches audited by us and unaudited Financial Statements of eight branches; and
Audited Financial Statements of one associate namely Druk Ferro Alloys Limited (the Associate) for the year ended 31st December,2017, (latest available) not audited by us.

In our opinion, the accompanying Financial Statements, in all material respects, give a true and fair view of the financial position of The Bank as at December 31, 2018, and (of) its financial performance and its cash flows for the year then ended in accordance with applicable Bhutanese Accounting Standards (BAS) issued by the Accounting & Auditing Standards Board of Bhutan (AASBB) except otherwise mentioned in this report.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) as prescribed in section 266 of the Companies' Act of Bhutan 2016, RMA Prudential Regulations,2017 and the Financial Services Act of Bhutan,2011. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of The Bank in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

N. C. MITRA & CO. Chartered Accountants KOLKATA

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial statements of the current period. The following matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon:

Balance in Network Settlement Account as on 31.12.2018 is credit balance of Nu 159,971,876 as appeared under "Balance with Central Bank of Bhutan (Royal Monetary Authority)" in Note-13 which includes a sum of Nu. 182,995,329 (credit balance) and Nu. 45,831,774 (Debit balance) pending reconciliations since 2016 and 2017. This balance represents withdrawal by the customers using inter-bank ATM Cards and settlement of which is pending with other banks through the Bhutan Financial Switch system (BFS).

Therefore, it is not possible to ascertain existence of any amount of understatement/overstatement of assets/liabilities as on the reporting date and also consequential impact on revenue is not readily ascertainable.

Ownership of Assets aggregating Nu.208,623,213 as acquired in satisfaction of debts throughout the years 2012 to 2018 has not yet been transferred to the bank.

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

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the provisions of the Companies Act of Bhutan,2016,RMA Prudential Regulations,2017,Financial Services Act of Bhutan,2011 and applicable Bhutanese Accounting Standards (BAS) issued by Accounting & Auditing Standards Board of Bhutan (AASBB) and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing The Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing The Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

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 this Financial Statements.

As required by Section 266 of the Companies' Act of the Kingdom of Bhutan 2016, with respect to 'The Minimum Audit Examination and Reporting Requirements', we enclose in the ''Annexure A" a statement on the matters specified therein to the extent applicable to The Bank. This is to further report that:

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

In our opinion, proper books of accounts as required by law have been kept by the Company so far as it appears from our examination of the books.

The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this Report have been prepared in accordance with Bhutanese Accounting Standards (BAS) and the provisions of the Companies Act of Bhutan,2016.

For N.C. MITRA & CO.
Chartered Accountants
FRN: 306027E

N. C. MITRA & CO. Chartered Accountants KOLKATA

(Ujjwal Kumar BASU)
Membership No.052995

Date: 15-05-19
Place: Thimphu

ANNEXURE A
MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS
AS REFERRED IN PARA 6 in the Auditors' Report.

The Bank is maintaining separate fixed Assets Register in proper form. As explained to us, items of the assets were physically verified during the year and neither any discrepancies nor impairment were detected during such verification process.

None of the items have been re-valued during the year. As explained to us, the last revaluation of land and building was done by the Management in the year 2014.

The rate of interest and other terms and conditions of secured/unsecured bonds issued by the Bank and secured loans availed by the Associate Company from Banks, financial institutions are prima facie not prejudicial to the interest of the Bank. The Bank has not availed any loan from any company under the same management.

The rate of interest and other terms and conditions of loans granted to other Companies, firms or other parties and/or to the Companies under the same management, are prima facie not prejudicial to the interest of the Bank. The Advances are granted to the officers/staffs are in line with the provisions of Service Rules and no excessive/frequent advances are given and accumulation of large advances against particular individual is avoided.

In our opinion and according to the explanations given to us, The Bank has established an adequate system of internal control to ensure completeness, accuracy and reliability of accounting records, to carry out the business in an orderly and efficient manner, to safeguard the assets of The Bank as well as to ensure adherence to the applicable rules/regulations and systems and procedures.

During the year the volume of Non-Performing Loans (NPL) has increased from Nu. 1,466,237,395 to Nu. 1,634,370,911. It is suggested to introduce time bound monitoring system indicating NPL Status at every month.

There is a system of competitive biddings except funds for short term at times borrowed/invested, commensurate with the size of the Bank and nature of its business, for purchase of goods and services including stores and other assets and for the sale of assets. The Bank is not engaged in manufacturing or trading activities.

Fund based or non-fund-based facilities provided to the directors or to Companies or firms in which any director was directly or indirectly interested, were under similar terms and conditions as are applied to the other parties and were not prima facie prejudicial to the interest of other shareholders

N. C. MITRA & CO. Chartered Accountants KOLKATA

or to the Bank.

The Bank is regular in depositing its provident fund, salary tax and health tax, Bhutan sales Tax Royalties and other statutory dues with the appropriate authorities.

As explained to us and as per our relevant examination of records, no undisputed amounts payable in respect of rates, taxes, duties, royalties, provident fund and other statutory dues as on 31.12.2018

No personal expenses, of employees or Directors (other than those payable under contractual obligation/service rules) have been charged against Revenue other than those payable under contractual obligations/or service rules of The Bank.
The Bank has a reasonable system for follow up with various parties for recovery/adjustment of outstanding amounts.

Idle Cash and Bank balances are generally not held by the Bank.

In our opinion and on the basis of available records and information, the activities carried out by the bank were lawful and intra vires to the respective Articles of Incorporation of the Companies.

The Bank has a system of approval of the Board for all Capital Investment decision and investments in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.

The Bank has established effective budgetary control system.

The details of remuneration and other payments by the Bank to the Board of Directors including the Chief Executive Officer or any of their relatives are disclosed in Note No. 35.

The directives of the Board of Directors have generally been complied with.

As explained to us; the officials of The Bank have not transmitted any price sensitive information which are not publicly available, unauthorized, to their relatives/friends/associates or close persons which will directly or indirectly benefit themselves.

The Bank has maintained adequate documents and records where it has granted loans and advances for which agreements have been drawn up and timely entries have been made.

The Bank has adequate records for funds collected from depositors and for interest payments.

N. C. MITRA & CO. Chartered Accountants KOLKATA

The Bank has the system of identifying objective evidence to assess and provide for any impairment in value of Loans & Advances and other Financial Instruments.

The Bank has complied with the requirements of the Financial Services Act of Bhutan,2011 and any other applicable laws, rules and regulations and guidelines issued by the appropriate authorities

The Bank has provided Nu. 1,815,038,551 towards Provision of Impaired Loans in accordance with BFRS-9, as against Nu. 1,580,121,342 provided as per RMA Prudential Norms. As explained to us implementation of BFRS-9 was conducted by the Bank with the support of external consultant.

As stated by the Management, the Bank has in place a system for physical verification and proper valuation of assets hypothecated against loans and advances, execution of mortgage deeds and to ensure that the assets are free of any prior lien or charges.

The Bank has generally a system of monitoring the projects for which loans have been provided to ensure that the loan amounts are used for the specified purposes and project activities are progressing satisfactorily.

The disposals of assets taken over for repayment defaults etc are made through open/sealed bids.

Proper analysis is generally carried out before restructuring/rescheduling/renewal of loans.

There is a system to ensure that additional loans are not granted to those who have been defaulted in payment of earlier advances.

Compliance with the Companies Act of the Kingdom of Bhutan
During the course of audit, we have verified compliance with the Companies' 'Act of Bhutan, 2016 by the Bank and we have not come across any instance of any non-compliance of the said provisions.

COMPUTERISED ACCOUNTING ENVIRONMENT
The organizational and system development controls and other internal controls are adequate commensurate with size and nature of computer installations subject to the following observations:
System audit has never been carried out by expert professionals.
System penetration test, as guard against cybercrime, has not been conducted.
System software is yet to be introduced to identify illegal transaction (possible linkage with Anti Money Laundering /terrorist activities)

Adequate safeguard measures and back up facilities exist.

N. C. MITRA & CO. Chartered Accountants KOLKATA

Disaster recovery measures are adequate.
The operational controls are adequate and automatic to ensure correctness and validity of input data and output information.

The measures taken by The Bank to prevent unauthorized access over the Computer Installations and Files are adequate.

GENERAL
Going Concern Problem
Based on the net asset position reflected in the Statement of Financial Position as at 31.12.2018 audited by us in accordance with the International Auditing Standards and on the basis of such other tests as we considered necessary in this regard, we have no reason to believe that the Bank is not a going concern on the date of Statement of Financial Position and is not likely to become sick in near future.

Adherence to Laws, Rules and Regulations
The audit of The Bank is governed by the Companies Act of the Kingdom 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 Audit, we have considered the compliance of provisions of the said Companies Act, RMA Prudential regulations,2017, Financial Services Act of Bhutan,2011, Articles of Incorporation and Corporate Governance Rules & Regulations 2018 issued by the Royal Monetary Authority.

Present Corporate Governance Norms of the Bank need appropriate synchronization with the provisions of the 'Corporate Governance Rules and Regulations 2018' issued by the Royal Monetary Authority.

Ratio Analysis:
Financial and Operational Resume including Ratio Analysis in respect of the Bank has been worked out in Exhibit-1.

For N.C. MITRA & CO.
Chartered Accountants
FRN: 306027E

(Ujjwal Kumar Basu)
Membership No.052995

N. C. MITRA & CO. Chartered Accountants KOLKATA

Date: 15-05-19
Place: Thimphu

ANNEXURE A

Exhibit-1

	Local GAAP			BAS		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
Deposit (bn)	30.16	30.04	27.24	30.05	29.96	27.19
Gross Loans & Advances (bn)	29.07	26.72	24.63	28.91	26.58	24.48
Deposit Growth	0.42%	10.27%	24.36%	0.31%	10.17%	24.33%
Loan Growth	8.79%	8.51%		8.79%	8.54%	16.17%
CD Ratio	92.69%	89.66%	93.01%	92.46%	89.34%	92.85%
Interest income on loans & advances to Customers (bn)	2.80	2.66	2.67	2.87	2.67	2.65
Interest Expenses on deposits	1.35	1.33	1.06	1.31	1.30	1.06
Interest Expenses/Deposits	4.47%	4.44%	3.90%	4.37%	4.35%	3.91%
Interest Income/Loans	9.64%	9.95%	10.84%	9.94%	10.05%	10.83%
Interest Spread	5.18%	5.50%	6.93%	5.56%	5.71%	6.91%
Earning per Share (With Split)	Nu. 2.24	Nu. 2.52	Nu. 2.07	Nu. 1.84	Nu. 2.36	Nu. 2.13
ROA	1.84%	2.06%	1.84%	1.58%	2.02%	1.99%
ROE	10.74%	12.85%	11.08%	8.63%	11.64%	9.53%
CAR *	21.72%	22.22%	22.83%	21.29%	22.22%	22.83%
Gross NPA ratio *	5.62%	5.49%	6.91%	5.62%	5.49%	6.91%
Net NPL ratio *	0.65%	0.35%	0.74%	0.65%	0.35%	0.74%
Book Value	Nu. 20.83	Nu. 19.59	Nu. 18.67	Nu. 21.59	Nu. 21.35	Nu. 20.27
Dividend per Share (with Split) **	Nu. 1.00	Nu. 1.635	Nu. 1.34	Nu. 1.00	Nu. 1.635	Nu. 1.34

Previous year figrues and/ratios have been changed accordingly.

** The ratios are considered the same under Local GAAP and BAS*

*** The dividend is declared based on the profit under Local GAAP*

N. C. MITRA & CO. Chartered Accountants KOLKATA

STATEMENT OF FINANCIAL POSITION

As at 31st December 2018

		Bank (Nu)		Group (Nu)	
	Note	2018	2017	2018	2017
Assets					
Cash & cash Equivalents	12	3,736,421,617	6,697,966,187	3,736,421,617	6,697,966,187
Cash & Balances with Central Bank	13	4,095,243,197	4,536,360,335	4,095,243,197	4,536,360,335
Placement with other Banks	14	1,824,508,963	1,008,597,885	1,824,508,963	1,008,597,885
Loans & Advances to Customers	15	27,022,303,710	24,751,249,763	27,022,303,710	24,751,249,763
Investments in Subsidiaries	16	-	-	-	-
Investments in Associates	17	91,463,480	91,463,480	93,394,481	108,342,544
Equity Instruments at Fair Value through P/L	18	112,838,492	84,109,013	112,838,492	84,109,013
Equity Instruments at Fair Value through OCI		39,561,000	39,561,000	39,561,000	39,561,000
Debt Instruments at Amortized Cost	19	116,950,699	116,949,561	116,950,699	116,949,561
Defined Benefit Assets	20	55,833,490	50,395,784	55,833,490	50,395,784
Other Financial Assets	21	182,137,220	207,057,808	182,137,220	207,057,808
Other Assets	22	297,638,368	322,166,338	297,638,368	322,166,338
Property & Equipment	23	745,095,879	623,392,939	745,095,879	623,392,939
Intangible Assets	24	66,271,415	35,409,329	66,271,415	35,409,329
Total Assets		**38,386,267,532**	**38,564,679,422**	**38,388,198,533**	**38,581,558,486**
Liabilities					
Due to Banks and Financial Institution	25	11,101,465,782	8,206,162,304	11,101,465,782	8,206,162,304
Due to Customers	26	18,952,311,216	21,753,867,023	18,952,311,216	21,753,867,023
Debts Issued & Other Borrowed Funds	27	522,027,397	876,400,000	522,027,397	876,400,000
Current Tax Liabilities	28	322,178,289	384,746,803	322,178,289	384,746,803
Defined Benefit Liability		8,578,990	-	8,578,990	-
Deferred Tax Liability	30	201,231,426	72,743,688	201,810,727	77,807,408
Unclaimed Balances		8,438,591	43,149,082	8,438,591	43,149,082
Deferred Income		18,882,274	22,588,369	18,882,274	22,588,369
Provisions	31	21,777,180	19,649,119	21,777,180	19,649,119
Other Liabilities	32	122,968,549	157,458,861	122,968,549	157,458,861
Total Liabilities		**31,279,859,693**	**31,536,765,249**	**31,280,438,994**	**31,541,828,968**
Equity					
Share Capital	33	3,291,935,960	3,291,935,960	3,291,935,960	3,291,935,960
Share Premium	33	-	-	-	-
Reserves					
Revenue Reserve		248,712,408	428,873,647	250,064,108	440,688,992
General Reserve		2,728,867,004	2,544,818,049	2,728,867,004	2,544,818,049
Statutory Reserve		151,217,485	146,722,170	151,217,485	146,722,170
Specific Reserves		479,000,000	429,000,000	479,000,000	429,000,000
AFS Reserve		57,054,520	36,943,885	57,054,520	36,943,885
Revaluation Reserve		149,620,462	149,620,462	149,620,462	149,620,462
Total equity		**7,106,407,838**	**7,027,914,173**	**7,107,759,539**	**7,039,729,518**
Total liabilities and equity		**38,386,267,532**	**38,564,679,422**	**38,388,198,532**	**38,581,558,486**

For N.C. Mitra & Co.
Chartered Accountants
FRN: 306027E

(Ujjwal Kumar Basu)
Membership No.: 052995

Date: 15-05-19
Place: Thimphu

N. C. MITRA & CO. Chartered Accountants KOLKATA

CHAIRPERSON

CHIEF EXECUTIVE OFFICER

INCOME STATEMENT

For the year ended 31st December 2018

		Bank (Nu)		Group (Nu)	
	Note	2018	2017	2018	2017
Interest & Similar Income	4	3,001,820,858	2,858,269,391	3,001,820,858	2,858,269,391
Interest & Similar Expense	5	1,361,667,588	1,353,733,478	1,361,667,588	1,353,733,478
Net interest income		**1,640,153,269**	**1,504,535,912**	**1,640,153,269**	**1,504,535,912**
Fee and commission income	6	128,103,416	107,298,223	128,103,416	107,298,223
Fee and commission expenses	6	6,151,596	8,430,687	6,151,596	8,430,687
Net fee and commission income		**121,951,821**	**98,867,536**	**121,951,821**	**98,867,536**
Other Operating Income	7	69,222,333	88,815,835	69,222,333	88,815,835
Share of Profit/(Loss) from Associates		-	-	(15,006,269)	1,469,178
Total operating income		**1,831,327,423**	**1,692,219,283**	**1,816,321,153**	**1,693,688,461**
Personnel Expenses	8	464,454,965	367,180,044	464,454,965	367,180,044
Depreciation on Property Plant & Equipment	22	41,926,640	31,116,074	41,926,640	31,116,074
Amortization of Intangible Assets	23	18,350,773	12,775,087	18,350,773	12,775,087
Other Operating Expenses	9	129,867,587	122,267,287	129,867,587	122,267,287
Impairment charges/(reversal) for loans and other losses	10	129,926,663	(70,275,017)	129,926,663	(70,275,017)
Total Operating Expenses		**784,526,628**	**463,063,475**	**784,526,628**	**463,063,475**
Profit Before Tax from Continuing Operations		**1,046,800,795**	**1,229,155,809**	**1,031,794,525**	**1,230,624,986**
Income Tax Expense	11	439,953,127	452,038,654	435,430,391	452,479,407
Profit For the Year		**606,847,668**	**777,117,155**	**596,364,134**	**778,145,579**

For N.C. Mitra & Co.
Chartered Accountants
FRN: 306027E

(Ujjwal Kumar Basu)
Membership No.: 052995

CHAIRPERSON

CHIEF EXECUTIVE OFFICER

Date: 15-05-19
Place: Thimphu

N. C. MITRA & CO. Chartered Accountants KOLKATA

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31st December 2018

	Bank (Nu)		Group (Nu)	
	2018	**2017**	**2018**	**2017**
Profit for the year	**606,847,668**	**777,117,155**	**596,364,134**	**778,145,579**
Items which will not be reclassified to PL				
Gains /(losses) on re-measuring available for sale financial assets	28,729,479	21,391,141	28,729,479	21,391,141
Remeasurment Gain/(Loss) on Defined Benefit Plan	(7,871,622)	(867,469)	(7,871,622)	(867,469)
Net loss on available for sale financial assets				
Share of undistributed OCI of Associates	-	-	58,207	(69,516)
Total other comprehensive income before tax	**20,857,857**	**20,523,672**	**20,916,064**	**20,454,156**
Income tax income /(expense) relating to components of other comprehensive income	10,980,330	14,870,002	11,018,647	14,849,147
Other comprehensive income for the year, net of tax	**9,877,527**	**5,653,670**	**9,897,416**	**5,605,008**
Total comprehensive income for the year, net of tax	**616,725,194**	**782,770,825**	**606,261,551**	**783,750,588**
Basic Earnings Per Share	1.84	2.36	1.81	2.36

For N.C. Mitra & Co.
Chartered Accountants
FRN: 306027E

(Ujjwal Kumar Basu)
Membership No.: 052995

CHAIRPERSON

CHIEF EXECUTIVE OFFICER

Date: 15-05-19
Place: Thimphu

CASH FLOW STATEMENT

For the year ended 31st December 2018

	Bank		Group	
	2018	2017	2018	2017
Cash flows from operating activities				
PBT	**1,046,800,795**	**1,361,696,603**	**1,031,794,525**	**1,363,096,264**
Adjustment for:				
Depreciation and Amortisation	60,277,413	43,891,161	60,277,413	43,891,161
Prior Period adjustment	-	2,295,351	-	2,295,351
Profit on Sale of PPE	453,778	(59,540)	453,778	(59,540)
Income from RGOB Bonds	(31,956,587)	(62,762,107)	(31,956,587)	(62,762,107)
Provisions for gratuity	(257,012)	4,646,235	(257,012)	4,646,235
Income From AFS Financial Investments	(6,955,820)	(5,690,950)	(6,955,820)	(5,690,950)
Income From Investments in Associates	(34,773,180)	(6,375,083)	(34,773,180)	(6,375,083)
Interest paid for Borrowings	46,627,397	51,072,131	46,627,397	51,072,131
Impairment Charges for Loans and advances and other write-offs	129,926,663	(199,071,396)	129,926,663	(199,071,396)
Movement in Provisions(Lease encashment and Off balance sheet provions)	(2,128,061)	(2,399,960)	(2,128,061)	(2,399,960)
Operating profit before changes in operating assets & liabilities	**1,208,015,386**	**1,187,242,445**	**1,193,009,116**	**1,188,642,106**
(Increase) / decrease in operating assets				
DBO Movement	3,398,296	(21,635,896)	3,398,296	(21,635,896)
Balances with RMA	-	-	-	-
Loans & receivables from customers	(2,400,980,610)	(2,082,440,233)	(2,400,980,610)	(2,082,440,233)
Loans & receivables from banks	-	-	-	-
Other loans & receivables	-	-	-	-
Deferred Tax Assets	-	-	-	-
Other assets	49,448,558	(15,026,616)	49,448,558	(14,792,879)
	(2,348,133,756)	**(2,119,102,746)**	**(2,348,133,756)**	**(2,118,869,009)**
Increase / (decrease) in operating liabilities				
Tax Liabilities	-	-	-	-
Due to customers	(2,801,555,806)	4,409,278,693	(2,801,555,806)	4,409,278,693
Due to banks & Financial Institutions	2,895,303,478	(1,644,204,009)	2,895,303,478	(1,632,959,793)
Other liabilities	(34,490,312)	(66,254,835)	(34,490,312)	(66,265,135)
Deferred Tax Liability	-	-	-	-
Unclaimed Balances	(34,710,491)	8,569,422	(34,710,491)	8,569,422
Deferred Income	(3,706,095)	(2,981,750)	(3,706,095)	(2,981,750)
Provisions	4,256,122	4,799,920	4,256,122	4,724,019
	25,096,895	**2,709,207,442**	**25,096,895**	**2,720,365,456**
Net cash generated from/(used in) operating activities before income tax	**(1,115,021,475)**	**1,777,347,141**	**(1,130,027,745)**	**1,790,138,554**
Income tax paid	(385,014,233)	(313,223,998)	(385,014,233)	(313,897,372)
Net cash generated from/(used in) operating activities	**(1,500,035,709)**	**1,464,123,143**	**(1,515,041,978)**	**1,476,241,181**

	Bank 2018	2017	Group 2018	2017
Cash flows from investing activities				
Investment in Bonds	(1,139)	(4,429)	(1,139)	(4,429)
Net proceeds from sale,maturity and purchase of available for sale investments	(28,729,479)	(21,391,141)	(28,729,479)	(21,391,141)
Income from investments	6,955,820	5,690,950	6,955,820	5,690,950
Income from Investment is subsidiries/Associates	34,773,180	6,375,083	49,721,243	4,975,422
Revaluation of AFS	20,857,857	20,523,672	20,916,064	20,523,672
Investment in Subsidiary	-	500,000	-	-
Purchase of property plant and equipment	(164,083,359)	(129,703,726)	(164,083,359)	(129,703,726)
Purchase of intangible assets	(49,212,860)	(5,119,171)	(49,212,860)	(5,119,171)
Income from RGOB Bonds	31,956,587	62,762,107	31,956,587	62,762,107
Net cash flows used in investing activities	**(147,483,391)**	**(60,366,655)**	**(132,477,122)**	**(62,266,316)**
Cash flows from financing activities				
Interest Paid on borrowings	(46,627,397)	(51,072,131)	(46,627,397)	(51,072,131)
Movement in Debt and other Borrowed Funds	(354,372,603)	72,131	(354,372,603)	72,131
Issuance of Share capital and Changes in Share premium	-	-	-	-
Dividend paid	(538,231,529)	(441,119,419)	(538,231,529)	(441,119,419)
Increase / (Decrease) in Debentures	-	-	-	-
Increase / (Decrease) due to banks	-	-	-	-
Decrease in Derivative Financial Instruments	-	-	-	-
Increase / (Decrease) in Commercial papers	-	-	-	-
Increase/(Decrease) in borrowed funds	-	-	-	-
Buyback of Shares	-	10,218,377	-	-
Net cash generated from financing activities	**(939,231,529)**	**(481,901,042)**	**(939,231,529)**	**(492,119,419)**
Net cash generated / (used in) during the year	(3,402,661,707)	921,855,446	(3,402,661,707)	921,855,446
Cash and cash equivalents at the beginning of the year	10,857,862,510	10,241,693,305	10,857,862,510	10,241,693,305
Net Foreign exchange difference	(762,041,137)	703,454,959	(762,041,137)	703,454,959
Cash and cash equivalents at the end of the year	**6,693,159,666**	**11,867,003,710**	**6,693,159,666**	**11,867,003,710**

Reconciliation of Cash & cash equivalent

	2018
Cash & Cash equivalent	2,598,825,999
Balances with Central Bank of Bhutan(RMA)	4,095,243,197
Allowance for Expected Credit Loss	(909,530)
Cash & cash equivalent	**6,693,159,666**

Balance with Central Bank of Bhutan for the current year includes Nu. 2,973,209,596 as CRR which are not available for use in the daily business

For N.C. Mitra & Co.
Chartered Accountants
FRN: 306027E

(Ujjwal Kumar Basu)
Membership No.: 052995

N. C. MITRA & CO. Chartered Accountants KOLKATA

CHAIRPERSON

CHIEF EXECUTIVE OFFICER

Date: 15-05-19
Place: Thimphu

STATEMENT OF CHANGES IN EQUITY - BANK

For the year ended 31st December 2018

In Nu.

	Note	Stated Capital	Share Premium	Retained Earnings	Statutory Reserve	General Reserve	Specific Reserve	Available for Sale	Revaluation Reserve	Total Shareholders' Funds
Adjusted Opening Retain Earings 1st January 2017		**3,291,935,960**	-	**396,916,954**	**131,941,851**	**2,327,363,726**	**354,000,000**	**21,970,086**	**149,620,462**	**6,673,749,039**
Adjustments										
Net profit for the year				777,117,155						777,117,155
Tax Impact on other Comprehensive Income				(8,452,660)				(6,417,342)	-	(14,870,002)
Tax Impact on Share of undistributed profit in Associates				-						-
Revaluation for the year								21,391,141		21,391,141
Remeasurement Gains/Losses on DBO				(867,469)						(867,469)
Buyback of shares										-
Prior Period Adjustment				2,295,351						2,295,351
Issuance of Bonus Shares										-
Dividend Paid (Out of 2016 Profits)				(441,119,419)						(441,119,419)
Transferred from BNB Sec Ltd (Merger)						10,218,377				10,218,377
Transfers during the year				(297,016,266)	14,780,319	207,235,947	75,000,000			-
Balance as at 31st December 2017		**3,291,935,960**	-	**428,873,647**	**146,722,170**	**2,544,818,049**	**429,000,000**	**36,943,885**	**149,620,462**	**7,027,914,173**
Adjustments										
Net profit for the year				606,847,668						606,847,668
Tax Impact on other Comprehensive Income				(2,361,487)				(8,618,844)	-	(10,980,330)
Tax Impact on Share of undistributed profit in Associates										-
Remeasurement Gains/Losses on AFS								28,729,479		28,729,479
Remeasurement Gains/Losses on DBO				(7,871,622)						(7,871,622)
Buyback of shares										-
Prior Period Adjustment				-						-
Issuance of Bonus Shares										-
Dividend Paid (Out of 2017 Profits)				(538,231,529)						(538,231,529)
Transferred from BNB Sec Ltd (Merger)										-
Transfers during the year				(238,544,269)	4,495,315	184,048,955	50,000,000			-
Balance as at 31st December 2018		**3,291,935,960**	-	**248,712,408**	**151,217,485**	**2,728,867,004**	**479,000,000**	**57,054,520**	**149,620,462**	**7,106,407,838**

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STATEMENT OF CHANGES IN EQUITY - BANK

For the year ended 31st December 2018

Group

In Nu.

	Note	Stated Capital	Share Premium	Retained Earnings	Statutory Reserve	General Reserve	Specific Reserve	Available for Sale	Revaluation Reserve	Total Shareholders' Funds
Adjusted Opening Retain Earings 1st January 2017		**3,291,935,960**	**-**	**417,970,913**	**131,941,851**	**2,327,363,726**	**354,000,000**	**21,970,086**	**149,620,462**	**6,694,802,997**
Adjustments										
Net profit for the year		-	-	778,145,579	-	-	-	-	-	778,145,579
Tax Impact on other Comprehensive Income		-	-	(8,431,805)	-	-	-	(6,417,342)	-	(14,849,147)
Revaluation for the year		-	-	-	-	-	-	21,391,141	-	21,391,141
Remeasurement Gains/Losses on DBO		-	-	(936,985)	-	-	-	-	-	(936,985)
Buyback of shares		-	-	-	-	-	-	-	-	-
Prior Period Adjustment		-	-	2,295,351	-	-	-	-	-	2,295,351
Issuance of Bonus Shares		-	-	-	-	-	-	-	-	-
Dividend Paid (Out of 2016 Profits)		-	-	(441,119,419)	-	-	-	-	-	(441,119,419)
Transferred from BNB Sec Ltd (Merger)		-	-	(10,218,377)	-	10,218,377	-	-	-	-
Transfers during the year		-	-	(297,016,266)	14,780,319	207,235,947	75,000,000	-	-	(0)
Balance as at 31st December 2017		**3,291,935,960**	**-**	**440,688,992**	**146,722,170**	**2,544,818,049**	**429,000,000**	**36,943,885**	**149,620,462**	**7,039,729,518**
Adjustments										
Net profit for the year		-	-	596,364,134	-	-	-	-	-	596,364,134
Tax Impact on other Comprehensive Income		-	-	(2,399,804)	-	-	-	(8,618,844)	-	(11,018,647)
Revaluation for the year		-	-	-	-	-	-	28,729,479	-	28,729,479
Remeasurement Gains/Losses on DBO		-	-	(7,813,415)	-	-	-	-	-	(7,813,415)
Buyback of shares		-	-	-	-	-	-	-	-	-
Prior Period Adjustment		-	-	-	-	-	-	-	-	-
Issuance of Bonus Shares		-	-	-	-	-	-	-	-	-
Dividend Paid (Out of 2016 Profits)		-	-	(538,231,529)	-	-	-	-	-	(538,231,529)
Transferred from BNB Sec Ltd (Merger)		-	-	-	-	-	-	-	-	-
Transfers during the year		-	-	(238,544,269)	4,495,315	184,048,955	50,000,000	-	-	-
Balance as at 31st December 2018		**3,291,935,960**	**-**	**250,064,108**	**151,217,485**	**2,728,867,004**	**479,000,000**	**57,054,520**	**149,620,462**	**7,107,759,539**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Bhutan National Bank Limited (the Bank) together with its subsidiary ('the Group'), 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 1992.

Bhutan National Bank is a domestic national bank incorporated and domiciled in the Kingdom of Bhutan. Its registered office is at P.O. Box 439, Head Office, Norzin Lam, Thimphu, Bhutan.

The Bank does not have an identifiable parent on its own. Bhutan National Bank is the ultimate parent of the Group.

The consolidated financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on February 27, 2019.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for available –for sale investments, Land & Buildings, defined benefit plan, and financial assets & liabilities, which are recognized at fair value. The consolidated financial statements are presented in Bhutan Ngultrum rounded (Nu.)

2.1.1 Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with Bhutanese Accounting Standards (BAS) in line with International Financial Reporting Standards (IFRS).

2.1.2 Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current).

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

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simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.1.3 Basis of consolidation

The consolidated financial statements comprise of financial statements of the Bank, and its associate for the year ended 31 December 2018.

All intra–group balances, transactions, income and expenses are eliminated in full.

2.2 Changes in accounting policies and disclosures

2.2.1 New and amended standards and interpretations

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

2.2.1.1 Changes to classification and measurement

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

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

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

The accounting for financial liabilities remains largely the same as it was under BAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated

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at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in Notes 2.5.2(iv). The quantitative impact of applying BFRS 9 as at 1 January 2018 is disclosed in Note 3 & 38.1.4.

2.2.1.2 Changes to the impairment calculation

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

Details of the Bank's impairment method are disclosed in Note 2.5.6. The quantitative impact of applying BFRS 9 as at 1 January 2018 is disclosed in Note 3 & 38.1.4.

2.2.1.3 BFRS 7R

To reflect the differences between BFRS 9/IFRS 9 and BAS 39, BFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with BFRS 9/IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 3, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 2.5 & 38.1.10.

2.3 First-time adoption of BFRS

The financial statements, for the year ended 31 December 2014 were the first, the Group had prepared in accordance with BAS in-line with IFRS. For periods up to and including the year ended 31 December 2013, the Group prepared its financial statements in accordance with Generally Accepted Accounting Principles in Bhutan (Local GAAP).

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Accordingly, the Group has prepared financial statements which comply with applicable for period ending 31 December 2018, together with the comparative period data as at and for the year ended 31 December 2017, as described in the summary of significant accounting policies. The Note 2.6 explains the principal adjustments made by the Bank in restating its Previous GAAP financial statements.

2.4 Significant accounting judgements, estimates and assumptions

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

In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur.

Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved

2.4.1 Going concern

The Group'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 Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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2.4.2 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.

2.4.3 Impairment losses on financial assets

The measurement of impairment losses both under BFRS 9 and BAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGD s

  Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.5 Summary of Significant Accounting Policies

2.5.1 Recognition of income

2.5.1.1 The effective interest rate method

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

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

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

2.5.1.2 Interest and similar income

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

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

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 2.5.6.1), the

Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

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

2.5.1.3 Fee and commission income

The Group 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:

- ***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.

- ***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.

2.5.1.4 Dividend income

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

2.5.1.5 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.

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2.5.1.6 Foreign currency translation

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

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.

2.5.2 Financial instruments – initial recognition and subsequent measurement

i. Date of recognition

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

ii. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.3.1.2 and 2.5.3.1.1. Financial instruments are initially measured at their fair value (as defined in Note 2.5.3.6), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

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KOLKATA

iii. 'Day 1' profit or loss

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

iv. Measurement categories of financial assets and liabilities

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

- Amortised cost, as explained in Note 2.5.3.1
- FVOCI, as explained in Notes 2.5.3.3 and 2.5.3.4
- FVPL

The Bank classifies and measures its trading portfolio at FVPL as explained in Notes 2.5.3.2. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 2.5.3.6.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.5.3.1.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.5.3.6.

2.5.3 Financial Assets & Labilities

2.5.3.1 Placements with other banks, Loans and advances to customers, Financial investments at amortised cost

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

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale

N. C. MITRA & CO. Chartered Accountants KOLKATA

- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures Placement with other banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

2.5.3.1.1 Business model assessment

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

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

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

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

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2.5.3.1.2 The SPPI Test

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

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

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

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

2.5.3.2 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

2.5.3.3 Debt instruments at FVOCI (Policy applicable from 1 January 2018)

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

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 2.5.3.1. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.5.6.3. 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. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

2.5.3.4 Equity instruments at FVOCI (Policy applicable from 1 January 2018)

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

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

2.5.3.5 Debt issued and other borrowed funds

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

When establishing the accounting treatment for these non-derivative instruments (financial instruments with equity conversion rights, write-down and call options), the Bank first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with BAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the

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KOLKATA

option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as a call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion option), is included in the liability component. Once the Bank has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for. The Bank has not issued any non-derivative instruments as of the reporting date.

2.5.3.6 Financial assets and financial liabilities at fair value through profit or loss

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

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

  OR

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

  OR

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

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the

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profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate as explained in Note 2.5.1.2. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

2.5.3.7 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within Provisions) 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 – under BAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under BFRS 9 – an ECL provision as set out in Note 38.1.8.1. The premium received is recognised in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 38.1.8.

2.5.4 Reclassification of Financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017 & 2018.

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2.5.5 Derecognition

2.5.5.1 Derecognition due to substantial modification of terms and conditions

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

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

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

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

2.5.5.2 Derecognition other than substantial modification

2.5.5.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

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

  OR

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients

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

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

OR

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the 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 the Bank could be required to pay.

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

2.5.5.2.2 Financial Liabilities

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

2.5.6 Impairment of financial assets (Policy applicable from 1 January 2018)

2.5.6.1 Overview of the ECL principles

As described in Note 2.2.1.2, the adoption of BFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing BAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments. Equity instruments are not subject to impairment under BFRS 9.

The ECL allowances is based on the credit losses expected to arise over the life of the assets (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 2.5.6.1. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 38.1.9.4.

The 12mECL is the portion of Life-Time ECLs (LTECL) that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 38.1.9.5.

The Bank has established a policy to perform an assessment, at the end of each reporting period,

N. C. MITRA & CO. Chartered Accountants KOLKATA

of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This has further explained in Note 38.1.9.4.

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 38.1.9). The bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. The Bank does not have any POCI assets as of the reporting date.

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

2.5.6.2 The calculation of ECLs

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

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

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio. The concept of PDs is further explained in Note 38.1.9.1.

N. C. MITRA & CO. Chartered Accountants KOLKATA

- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 38.1.9.2.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 38.1.9.3.

When estimating the ECLs, the Bank considers three scenarios base case, worst case, and worst case. Each of these is associated with different PDs, EADs and LGDs, as set out in Note 2.5.6.2. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 2.5.6.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

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

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 38.1.8.1 The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 2.5.6.5.

The mechanics of the ECL method are summarised below:

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

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- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 38.1.9), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR. The Bank does not have any POCI assets as of the reporting date.
- Loan commitments and letters of credit: When estimating LTECLs for Letter of Credit, the Bank estimates the expected portion of the LCs that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the LC is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.
- Financial Guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantees contracts are recognized within provisions.

2.5.6.3 Debt instruments measured at fair value through OCI

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

2.5.6.4 Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

2.5.6.5 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year due to the credit mitigating actions bank have enforced on a continuous basis.

2.5.6.6 Forward looking information

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

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

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

Therefore, bank also considers the following qualitative factors:

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

2.5.7 Collateral valuation

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

2.5.8 Collateral repossessed

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

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

2.5.9 Write-offs

The Bank's accounting policy under BFRS 9 remains the same as it was under BAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.5.10 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the

N. C. MITRA & CO. Chartered Accountants KOLKATA

terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 38.1.9.4. The Bank also considers whether the assets should be classified as Stage 3.

2.5.11 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

2.5.12 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.

2.5.13 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.

Group as a lessee

Leases that do not transfer to the Group 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

N. C. MITTAL & CO. Chartered Accountants KOLKATA 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.

Group as a lessor

Lease income from operating lease is recognized in income on straight line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

2.5.14 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.

2.5.15 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 Group applies the requirements of BAS 16 (Property, Plant and Equipment) in accounting for these assets.

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued on a roll over basis at every three to five years interval as may be considered appropriate to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in 'Other Comprehensive Income' and accumulated in Equity, under the Revaluation Reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement.

In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in Equity under revaluation reserves.

Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

N. C. MITRA & CO. Chartered Accountants KOLKATA

Property and equipment (including equipment under operating leases where the Group is the lessor and excluding Land & Buildings) is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Asset Type	***Useful Life***
Buildings	10 - 60 Years (Component Based)
Furniture & Fitting	3 – 20 Years
Office Equipment	2 – 20 Years
Motor Vehicles	7 – 10 Years
Computer Hardware	1 – 10 Years
Security Equipment	3 – 10 Years
Electrical Equipment	2 - 10 Years
Carpet & Soft Furnishing	2 – 15 Years

Property and equipment are 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 derecognised.

2.5.16 Intangible assets

The Group's intangible assets include the value of computer software and licences.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with

N. C. MITRA & CO. Chartered Accountants KOLKATA

finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful live as:

Computer Software	1-5 years

2.5.17 Impairment of non–financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group 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.

2.5.18 Financial guarantees

In the ordinary course of business, the Group 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.

2.5.19 Provisions

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

2.5.20 Employee Benefits

The Group measures the present value of the Pension obligation, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit method (PUC) as required by BAS 19 Employee Benefits.

An actuarial valuation has been carried out at every year end starting from the year 2012 to ascertain the full liability under the Fund.

Recognition of Actuarial Gains and Losses: Actuarial gains and losses occur when the actual plan experience differs from the assumed. The Bank recognises the total actuarial 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.

Short-term obligation

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave that are expected to be settled wholly within the 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Other long-term benefit obligation

The liabilities for the annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of reporting period using the projected unit credit method. Consideration is given to expected future wage and salary level, experience of employee departures and period of service. The expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in the actuarial assumptions are recognised in profit or loss.

The obligation is presented as current liabilities in the balance sheet if the entity does not have unconditional right to defer settlement for at least twelve months after the reporting period regardless of when the actuarial settlement is expected to occur.

N. C. MITRA & CO. Chartered Accountants KOLKATA

2.5.21 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date (Note 36).

2.5.22 Equity reserves

The reserves recorded in equity (Other comprehensive income) on the Group's statement of financial position include:

Available-for-sale reserve, which comprises changes in fair value of available-for-sale investments.

Revaluation reserve, comprises changes in fair value of land and building.

2.5.23 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 realised 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 recognised only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

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 realise the asset and settle the liability simultaneously.

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

2.5.24 Earnings Per share

The Group 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.

2.5.25 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of Bhutan National Bank Limited has mandated the executives (CEO, Dy. CEO and Chiefs), who has been identified as chief operating decision maker to assess the financial performance of the group and make strategic decisions.

2.5.26 Investment in Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

2.5.27 IFRS 15 Revenue from contracts with customers

2.5.27.1 Identify the contract

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met;

- the parties to the contract have approved the contract

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- the entity can identify each party's rights regarding the goods or services to be transferred.
- the entity can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance.
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

2.5.27.2 Identify the Performance Obligations

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract).

2.5.27.3 Determine the Transaction Price

An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event.

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The standard deals with the uncertainty relating to variable consideration by limiting the amount of variable consideration that can be recognised. Specifically, variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. However, a different, more restrictive approach is applied in respect of sales or usage-based royalty revenue arising from licenses of intellectual property. Such revenue is recognised only when the underlying sales or usage occur.

2.5.27.4 Allocate the Transaction Price

The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.

2.5.27.5 Recognize Revenue

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date

At the date of transition bank contains fee and commission-based income within the scope of IFRS 15, the impact of which is appeared to be immaterial.

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2.5.28 Contingent liability

Contingent liabilities are not recognized but disclosed for all possible obligations that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.5.29 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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16, as issued, reflects the first phase of IASB's initiative to replace IAS 17 and sets out the principles for recognition, measurement, presentation and disclosure of leases for both the parties to a contract. The IFRS 16 will have a single accounting model for all leases with two exception of low-value assets and short-term leases. IFRS 16 is effective January 1, 2019 but a company can choose to apply the standard before that date provided it also applies IFRS 15 *Revenue from Contracts with Customers.*

N. C. MITRA & CO. Chartered Accountants KOLKATA

For the year ended 31st December 2018

2.6. Principal Adjustments made in reinstating the Previous GAAP

2.6.1 Notes to the Reconciliation of Equity and Total Comprehensive Income for the year ended 31 December 2018.

(A) Property, Plant and Equipment

According to BAS 16, depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Currently Group uses rate established by the tax authorities to calculate depreciation of each assets. Therefore, the useful life of the assets is revised to match with the requirement of BAS 16 and recalculated the depreciation.

BAS 16 requires significant component parts of an item of property, plant and equipment to be depreciated separately, the cost of major inspections/components is capitalized and depreciated separately over the period of the useful life. Further the group adopts revaluation model for Land & buildings in line with BAS 16.

(B) Intangible assets

BAS 38 recognizes assets as intangible assets if it is identifiable non-monetary asset without physical substance. Further depreciable amount of an intangible assets should amortize over its use full life time. Currently, the Group recognized intangible assets as Fixed Assets. Therefore, to comply with BAS 38 all the assets which meets the recognition criteria in BAS 38 are recognized as intangible assets and amortized over the useful life time.

(C) Loans and receivables

The provisions made by the group (Specific and General) under local GAAP is different from the BFRS 9 requirement which requires an entity to assess the Expected Credit Loss (ECL) based on the 12 months ECL and Lifetime ECL. Therefore, impairment for individually significant loans (similar to BAS 39) and ECL for others have been done in respect of loans and receivables in compliance with the BFRS 9.

(D) Staff loan fair-valuation

Group has provided concessionary rate loans to employees and as per IFRS 9, the benefit that the employees are getting from the reduced interest rate has to be quantified and presented in financial statement. For this purpose, the staff loans have been fair valued using the market interest rate.

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(E) Available-for-sale financial assets

Currently, the Group measured investments in unquoted and quoted equity shares at cost. Under BAS/BFRS, investments in quoted and unquoted shares has been designated as available-for-sale investments. BAS 39/BFRS 9 requires available-for-sale investments to be measured at fair value. Fair valuation of the investment in quoted shares has been done using the Level 3 technique as per BFRS 13 fair value measurement in line with the IFRS.

(F) Defined benefit obligation

Under Local GAAP, the Group recognised the contributions made to the fund as an expense. Gratuity liability has been recognised based on projected unit credit method as per BAS 19 Employee Benefits.

(G) Deferred tax

The various transitional adjustments lead to different temporary differences. According to the accounting policies the Group has to account for such differences. Deferred tax adjustments are recognised in correlation to the underlying transaction either in retained earnings or a separate component of equity as per BAS 12 Income Tax.

(H) Refundable deposits

Group has provided security deposits on refundable basis and recognized at cost, on transition to BAS group fair valued the refundable deposits kept/received in line with BFRS 9 Financial Instruments: Recognition & Measurement in order to adjust the time value of money.

(I) Fixed Deposit EIR Adjustment

Group allocated interest for fixed deposit on straight line basis, with the transition to BAS, the group measures interest expenses on Effective Interest Basis (EIR) on compounding basis in line with BFRS 9 Financial Instruments

(J) Investments in Associates

Under Old GAAP group did not accounted for the investments in Associates, on transition to BAS the group measures investments in associates using equity method of accounting as per BAS 28 Investments in associates.

2.6 Principal adjustments made in reinstating the previous GAAP
2.6.2 Reconciliation of Balance Sheet as at 31st December 2018

Assets	Note	Bank ('Nu) Local GAAP Reclassified	Re-measurement	BAS/IFRS
Cash & cash Equivalents		3,737,331,147	(909,530)	3,736,421,617
Cash & Balances with Central Bank		4,095,243,197	-	4,095,243,197
Placement with other Banks		1,824,545,205	(36,242)	1,824,508,963
Loans & Advances to Customers	C/D	27,331,131,478	(308,827,768)	27,022,303,710
Investments in Associates		91,463,480	-	91,463,480
Equity Instruments at Fair Value through P/L	E	31,332,035	81,506,457	112,838,492
Equity Instruments at Fair Value through OCI		39,561,000	-	39,561,000
Debt Instruments at Amortized Cost		116,952,968	(2,268)	116,950,699
Defined Benefit Assets	F	-	55,833,490	55,833,490
Other Financial Assets		182,154,687	(17,467)	182,137,220
Other Assets	H	223,727,810	73,910,559	297,638,368
Property & Equipment	A	631,065,193	114,030,687	745,095,879
Intangible Assets	B	60,644,456	5,626,959	66,271,415
Total Assets		**38,365,152,655**	**21,114,877**	**38,386,267,532**
Liabilities				
Due to Banks and Financial Institution		11,101,465,782		11,101,465,782
Due to Customers	I	19,061,660,502	(109,349,286)	18,952,311,216
Debts Issued & Other Borrowed Funds		522,027,397	-	522,027,397
Current Tax Liabilities		322,178,289	-	322,178,289
Defined Benefit Liability		-	8,578,990	8,578,990
Deferred Tax Liability		-	201,231,426	201,231,426
Unclaimed Balances		8,438,591	-	8,438,591
Deferred Income		18,882,274	-	18,882,274
Provisions		350,883,814	(329,106,634)	21,777,180
Other Liabilities	H	122,930,232	-	122,968,549
Total Liabilities		**31,508,466,880**	**(228,645,503)**	**31,279,859,693**
Equity				
Share Capital		3,291,935,960	-	3,291,935,960
Share Premium		-	-	-
Reserves				
Revenue Reserve		205,665,327	43,047,081	248,712,408
General Reserve		2,728,867,004	-	2,728,867,004
Statutory Reserve		151,217,485	-	151,217,485
Specific Reserves		479,000,000	-	479,000,000
AFS Reserve		-	57,054,520	57,054,520
Revaluation Reserve		-	149,620,462	149,620,462
Total equity		**6,856,685,776**	**249,722,063**	**7,106,407,838**
Total liabilities and equity		**38,365,152,655**	**21,076,560**	**38,386,267,532**

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		Group ('Nu)			
Assets	**Note**	**Local GAAP**	**Reclassif**	**Re-measuremen**	**BAS/IFRS**
Cash & cash Equivalents		3,737,331,147		(909,530)	3,736,421,617
Cash & Balances with Central Bank		4,095,243,197		-	4,095,243,197
Placement with other Banks		1,824,545,205		(36,242)	1,824,508,963
Loans & Advances to Customers	**C/D**	27,331,131,478		(308,827,768)	27,022,303,710
Investments in Associates		91,463,480		1,931,001	93,394,481
Equity Instruments at Fair Value through P/L	**E**	31,332,035		81,506,457	112,838,492
Equity Instruments at Fair Value through OCI		39,561,000		-	39,561,000
Debt Instruments at Amortized Cost		116,952,968		(2,268)	116,950,699
Defined Benefit Assets	**F**	-		55,833,490	55,833,490
Other Financial Assets		182,154,687		(17,467)	182,137,220
Other Assets	**H**	223,727,810		73,910,559	297,638,368
Property & Equipment	**A**	631,065,193		114,030,687	745,095,879
Intangible Assets	**B**	60,644,456		5,626,959	66,271,415
Total Assets		**38,365,152,655**		**23,045,878**	**38,388,198,533**
Liabilities					
Due to Banks and Financial Institution		11,101,465,782		-	11,101,465,782
Due to Customers	**I**	19,061,660,502		(109,349,286)	18,952,311,216
Debts Issued & Other Borrowed Funds		522,027,397		-	522,027,397
Current Tax Liabilities		322,178,289		-	322,178,289
Defined Benefit Liability		-		8,578,990	8,578,990
Deferred Tax Liability		-		201,810,727	201,810,727
Unclaimed Balances		8,438,591		-	8,438,591
Deferred Income		18,882,274		-	18,882,274
Provisions		350,883,814		(329,106,634)	21,777,180
Other Liabilities	**H**	122,930,232		-	122,968,549
Total Liabilities		**31,508,466,880**		**(228,066,203)**	**31,280,438,994**
Equity					
Share Capital		3,291,935,960		-	3,291,935,960
Share Premium		-		-	-
Reserves					
Revenue Reserve		205,665,327		44,398,781	250,064,109
General Reserve		2,728,867,004		-	2,728,867,004
Statutory Reserve		151,217,485		-	151,217,485
Specific Reserves		479,000,000		-	479,000,000
AFS Reserve		-		57,054,520	57,054,520
Revaluation Reserve		-		149,620,462	149,620,462
Total equity		**6,856,685,776**		**251,073,764**	**7,107,759,539**
Total liabilities and equity		**38,365,152,655**		**23,007,561**	**38,388,198,533**

2.6.3 Reconciliation of Income Statement for the year ended 31st December 2018

	Note	Bank (Nu) Local GAAP Reclassified	Re-measurement	BAS/IFRS
Interest & Similar Income	D	2,933,268,752	68,552,105	3,001,820,858
Interest & Similar Expense	I	1,394,291,896	(32,624,307)	1,361,667,588
Net interest income		**1,538,976,857**	**101,176,413**	**1,640,153,269**
Fee and commission income		128,103,416	-	128,103,416
Fee and commission expenses		6,151,596	-	6,151,596
Net fee and commission income		**121,951,821**	**-**	**121,951,821**
Other Operating Income		69,222,333	-	69,222,333
Share of Profit/(Loss) from Associates	J	-	-	-
Total operating income		**1,730,151,010**	**101,176,413**	**1,831,327,423**
Personnel Expenses	D	400,444,432	64,010,533	464,454,965
Depreciation on Property Plant & Equipment	A	37,078,742	4,847,898	41,926,640
Amortization of Intangible Assets	B	13,431,212	4,919,561	18,350,773
Other Operating Expenses		129,864,603	2,984	129,867,587
Impairment charges/(reversal) for loans and other losses	C	90,957,913	38,968,749	129,926,663
Total Operating Expenses		**671,776,903**	**112,749,725**	**784,526,628**
Profit Before Tax from Continuing Operations		**1,058,374,107**	**(11,573,312)**	**1,046,800,795**
Income Tax Expense	G	322,178,289	117,774,838	439,953,127
Profit For the Year		**736,195,818**	**(129,348,150)**	**606,847,668**
Other Comprehensive Income				
Profit For the Year		**736,195,818**	**(129,348,150)**	**606,847,668**
Gains /(losses) on re-measuring available for sale financial assets	E	-	28,729,479	28,729,479
Remeasurment Gain/(Loss) on Defined Benefit Plan	F	-	(7,871,622)	(7,871,622)
Net loss on available for sale financial assets		-	-	-
Share of OCI of Associates		-	-	-
Total other comprehensive income before tax		**-**	**20,857,857**	**20,857,857**
Income tax income /(expense) relating to components of other comprehensive income		-	10,980,330	10,980,330
Other comprehensive income for the year, net of tax		**-**	**9,877,527**	**9,877,527**
Total comprehensive income for the year, net of tax		**736,195,818**	**(119,470,624)**	**616,725,194**

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	Note	Group (Nu)		
		Local GAAP Reclassified	Re-measurement	BAS/IFRS
Interest & Similar Income	D	2,933,268,752	68,552,105	3,001,820,858
Interest & Similar Expense	I	1,394,291,896	(32,624,307)	1,361,667,588
Net interest income		**1,538,976,857**	**101,176,413**	**1,640,153,269**
Fee and commission income		128,103,416	-	128,103,416
Fee and commission expenses		6,151,596	-	6,151,596
Net fee and commission income		**121,951,821**	**-**	**121,951,821**
Other Operating Income		69,222,333	-	69,222,333
Share of Profit/(Loss) from Associates	J	(15,006,269)	-	(15,006,269)
Total operating income		**1,715,144,740**	**101,176,413**	**1,816,321,153**
Personnel Expenses	D	400,444,432	64,010,533	464,454,965
Depreciation on Property Plant & Equipment	A	37,078,742	4,847,898	41,926,640
Amortization of Intangible Assets	B	13,431,212	4,919,561	18,350,773
Other Operating Expenses		129,864,603	2,984	129,867,587
Impairment charges/(reversal) for loans and other losses	C	90,957,913	38,968,749	129,926,663
Total Operating Expenses		**671,776,903**	**112,749,725**	**784,526,628**
Profit Before Tax from Continuing Operations		**1,043,367,837**	**(11,573,312)**	**1,031,794,525**
Income Tax Expense	G	322,178,289	113,252,102	435,430,391
Profit For the Year		**721,189,549**	**(124,825,414)**	**596,364,134**
Other Comprehensive Income				
Profit For the Year		**721,189,549**	**(124,825,414)**	**596,364,134**
Gains /(losses) on re-measuring available for sale financial assets	E	-	28,729,479	28,729,479
Remeasurment Gain/(Loss) on Defined Benefit Plan	F	-	(7,871,622)	(7,871,622)
Net loss on available for sale financial assets		-	-	-
Share of OCI of Associates		-	58,207	58,207
Total other comprehensive income before tax		**-**	**20,916,064**	**20,916,064**
Income tax income /(expense) relating to components of other comprehensive income		-	11,018,647	11,018,647
Other comprehensive income for the year, net of tax		**-**	**9,897,416**	**9,897,416**
Total comprehensive income for the year, net of tax		**721,189,549**	**(114,927,998)**	**606,261,551**

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3. Transition disclosures

3.1 A reconciliation between the carrying amounts under BAS 39 to the balances reported under BFRS 9 as of 1 January 2018 is, as follows:

In Nu. million		BAS 39 measurement			Remeasurement		BFRS 9	
Financial assets	Ref	Category	Amount	Reclassification	ECL	Other	Amount	Category
Cash & cash Equivalents		L&R	6,698,501,907	-	(535,720)	-	6,697,966,187	AC
Cash & Balances with Central Bank		L&R	4,536,360,335	-	-	-	4,536,360,335	AC
Placement with other Banks		L&R	1,008,605,479	-	(7,594.00)	-	1,008,597,885	AC
Loans & Advances to Customers		L&R	25,009,851,908	-	(110,616,234)	(147,985,911)	24,751,249,763	AC
Debt instruments at amortised cost				116,952,968	(3,407)	-	116,949,561	AC
From Financial investments – HTM	A			116,952,968	(3,407)	-	116,949,561	
		L&R	**37,253,319,629**	**116,952,968**	**(111,162,955)**	**(147,985,911)**	**37,111,123,731**	AC
Financial investments – AFS					-	-	-	
To: Equity instruments FVTPL	B	AFS		(84,109,013)	-	-	-	
To: Equity instruments FVOCI	C	AFS		(39,561,000)	-	-	-	
		AFS	**123,670,013**	**(123,670,013)**	**-**	**-**	**N/A**	
Financial investments - HTM		HTM	116,952,968	(116,952,968)	-	-	N/A	
To: Debt instruments at amortised cost				(116,952,968)	-			
		HTM	116,952,968	(116,952,968)	-		N/A	
Equity instruments at fair value through OCI								
			N/A	39,561,000	-		39,561,000	FVOCI
From: Financial investments - AFS	C			39,561,000			39,561,000	
			N/A	**39,561,000**	**-**	**-**	**39,561,000**	**FVOCI**
Equity instruments at fair value through P&L								
			N/A	84,109,013	-		84,109,013	FVTPL
From: Financial investments - AFS	C			84,109,013			84,109,013	
			N/A	**84,109,013**	**-**	**-**	**84,109,013**	**FVTPL**

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In Nu. million		BAS 39 measurement			Remeasurement		BFRS 9	
Financial liabilities	**Ref**	**Category**	**Amount**	**Reclassification**	**ECL**	**Other**	**Amount**	**Category**
Due to Banks and Financial Institution		AC	8,206,162,304	-	-	-	8,206,162,304	AC
Due to Customers		AC	21,753,867,023	-	-	-	21,753,867,023	AC
Debts Issued & Other Borrowed Funds		AC	876,400,000	-	-	-	876,400,000	AC
			30,836,429,327				**30,836,429,327**	
Non-financial liabilities								
Provisions		N/A	19,649,119	-	- -		19,649,119	N/A
			19,649,119				**19,649,119**	
Total liabilities		N/A	**30,856,078,445**	-	-	-	**30,856,078,445**	N/A

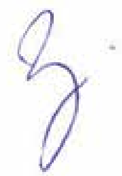
A. As of 1 January 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

B. As of 1 January 2018, the Bank has classified a portion of its AFS asset-backed securities as financial assets measured at FVPL as the payments did not meet the SPPI criterion. The Bank did not elect to apply the FVPL option to any other securities previously recognised in the AFS portfolio.

C. The Bank has elected the option to irrevocably designate some of its previous AFS equity instruments as Equity instruments at FVOCI.

3.2 The impact of transition to IFRS 9 is as follows:

In Nu. million	**Loan loss provision under BAS 39/BAS 37 at 31 December 2017**	**Re measurement**	**ECLs under BFRS 9 at 1 January 2018**
Impairment allowance for			
Cash & cash Equivalents	-	535,720.00	535,720
Placement with other Banks	-	7,594.00	7,594
Loans & Advances to Customers	1,575,293,387	104,062,726	1,679,356,113
Debt instruments at amortised cost	-	3,407.00	3,407
Financial guarantees	-	1,347,708	1,347,708
Letters of credit	-	5,205,800	5,205,800
	1,575,293,387	**111,162,955**	**1,686,456,342**



4 Interest and Similar Income	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Loans & Advances to customers	2,872,498,517	2,672,135,543	2,872,498,517	2,672,135,543
Cash & Short term funds	4,321,305	3,135,757	4,321,305	3,135,757
Placements with other banks	93,044,449	120,235,984	93,044,449	120,235,984
Income from Government securities	31,956,587	62,762,107	31,956,587	62,762,107
Others			-	-
	3,001,820,858	**2,858,269,391**	**3,001,820,858**	**2,858,269,391**

5 Interest & Similar Expense	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Due to customers	1,314,826,053	1,301,812,294	1,314,826,053	1,301,812,294
Debt issued and other borrowed funds	46,627,397	51,072,131	46,627,397	51,072,131
Others	214,138	849,053	214,138	849,053
	1,361,667,588	**1,353,733,478**	**1,361,667,588**	**1,353,733,478**

	Bank (Nu)		Group (Nu)	
6 Net Fees & Commission Income	2018	2017	2018	2017
Fees & Commission Income				
Banking services	99,071,227	80,650,969	99,071,227	80,650,969
Foreign remittance related services	29,032,189	26,647,254	29,032,189	26,647,254
Brokering Commission	-	-	-	-
Total fees and commission income	**128,103,416**	**107,298,223**	**128,103,416**	**107,298,223**
Fees & Commission Expense				
Brokerage Fees	-	-	-	-
Trading Fees	-	-	-	-
Other Bank charges & fees	6,151,596	8,430,687	6,151,596	8,430,687
Total fees and commission Expense	**6,151,596**	**8,430,687**	**6,151,596**	**8,430,687**
Net Fees & Commission Income	**121,951,821**	**98,867,536**	**121,951,821**	**98,867,536**

	Bank (Nu)		Group (Nu)	
7 Other Operating Income	2018	2017	2018	2017
Income From AFS Financial Investments	6,955,820	5,690,950	6,955,820	5,690,950
Income From Investments in Subsidiaries	-	-	-	-
Income From Investments in Associates	34,773,180	6,375,083	34,773,180	6,375,083
Exchange Gain	17,981,259	59,121,276	17,981,259	59,121,276
Profit on Disposal Of Fixed Assets	(453,778)	59,540	(453,778)	59,540
Operating lease income			-	-
Charges Recovered	2,625,439	8,429,519	2,625,439	8,429,519
Others	7,340,412	9,139,467	7,340,412	9,139,467
	69,222,333	**88,815,835**	**69,222,333**	**88,815,835**

	Bank (Nu)		Group (Nu)	
8 Personel Expenses	2018	2017	2018	2017
Wages & Salaries	341,509,930	314,141,940	341,509,930	314,141,940
Amortization of Pre-paid employment ben	64,267,545	16,973,458	64,267,545	16,973,458
Defined Benefit plan	(257,012)	(17,857,130)	(257,012)	(17,857,130)
HRD Cost	37,496,183	36,028,873	37,496,183	36,028,873
Other Benefits	21,438,319	17,892,904	21,438,319	17,892,904
	464,454,965	**367,180,044**	**464,454,965**	**367,180,044**

N. C. MITRA & CO. Chartered Accountants KOLKATA

		Bank (Nu)		Group (Nu)	
9	**Other Operating Expenses**	**2018**	**2017**	**2018**	**2017**
	Advertising & Marketing	9,808,925	4,271,775	9,808,925	4,271,775
	Corporate Social Responsibilities	3,373,200	6,019,000	3,373,200	6,019,000
	Administrative	81,191,821	81,756,820	81,191,821	81,756,820
	Professional Fees	8,386,751	7,673,987	8,386,751	7,673,987
	Rent Paid under operating leases	17,025,171	15,735,717	17,025,171	15,735,717
	Other	10,081,719	6,809,987	10,081,719	6,809,987
		129,867,587	**122,267,287**	**129,867,587**	**122,267,287**

10 **Impairment (charges)/reversal for loans and other losses**

Account-Individual and Collective Impairment	Bank (Nu) 2018	Bank (Nu) 2017	Group (Nu) 2018	Group (Nu) 2017
Individual Impairment				
Opening Balance as at 01 st January	21,337,626	-	21,337,626	-
Charge/(Reversal) for the Years	(5,397,578)	21,337,626	(5,397,578)	21,337,626
Closing Balance as at 31 December	**15,940,048**	**21,337,626**	**15,940,048**	**21,337,626**
Collective Impairment				
Movement in Provision for Impairment Losses				
Opening Balance as at 01 st January	1,665,118,716	1,805,807,617	1,665,118,716	1,805,807,617
Charge/(Reversal) for the Years	135,373,641	(109,691,452)	135,373,641	(109,691,452)
Write-offs	(445,813)	(30,997,449)	(445,813)	(30,997,449)
Closing Balance as at 31 December	**1,800,046,544**	**1,665,118,716**	**1,800,046,544**	**1,665,118,716**
Provisioning for Other losses				
Opening Balance as at 01 st January	1,093,190	1,776,156	1,093,190	1,776,156
Charge/(Reversal) for the Years	(49,400)	445,384	(49,400)	445,384
Closing Balance as at 31 December	**1,043,790**	**1,093,190**	**1,043,790**	**2,221,540**
Total Charge or Reversal for Loans and Advai	**129,926,663**	**(70,275,017)**	**129,926,663**	**(70,275,017)**
Inventory write-offs	-	-	-	-
Total Charge/(Reversal)	**129,926,663**	**(70,275,017)**	**129,926,663**	**(70,275,017)**

11 **TAXATION**

The major components of income tax expense for the years ended 31st December are as follows.

Statement of Comprehensive Income	Bank (Nu) 2018	Bank (Nu) 2017	Group (Nu) 2018	Group (Nu) 2017
Current Income Tax				
Income Tax for the year	322,178,289	384,746,803	322,178,289	384,746,803
Assessed Tax of earlier period	267,430	47,794	267,430	47,794
Deferred Tax	117,507,408	67,244,057	112,984,672	67,684,810
Deferred Taxation Charge/ (Reversal)	**439,953,127**	**452,038,654**	**435,430,391**	**452,479,407**
Other Comprehensive Income				
Deferred Tax				
Deferred Taxation Charge/ (Reversal) (Refer No	(10,980,330)	(14,870,002)	(11,018,647)	(14,849,147)
Property Plan and Equipment				
	(10,980,330)	**(14,870,002)**	**(11,018,647)**	**(14,849,147)**
Total Tax Expense for the financial year	**428,972,796**	**437,168,651**	**424,411,744**	**437,630,260**

N. C. MITRA & CO. Chartered Accountants KOLKATA

		Bank (Nu)		Group (Nu)	
12	**Cash and Cash Equivalents**	**2018**	**2017**	**2018**	**2017**
	Local Currency In Hand	508,099,074	414,499,752	508,099,074	414,499,752
	Foreign Curency In hand	61,763,614	85,126,767	61,763,614	85,126,767
	Balances with Local Banks	1,094,096,918	1,910,968,144	1,094,096,918	1,910,968,144
	Balances with Foreign Banks	1,076,741,535	291,337,245	1,076,741,535	291,337,245
	Money at Call and Short Notice	996,630,006	3,996,569,999	996,630,006	3,996,569,999
	Allowance for Expected Credit Loss	(909,530)	(535,720)	(909,530)	(535,720)
		3,736,421,617	**6,697,966,187**	**3,736,421,617**	**6,697,966,187**

		Bank (Nu)		Group (Nu)	
13	**Balances with Central Bank of Bhutan(RMA)**	**2018**	**2017**	**2018**	**2017**
	RMA Current Account	862,450,200	1,454,903,307	862,450,200	1,454,903,307
	CRR With RMA Account	2,973,209,596	2,897,825,878	2,973,209,596	2,897,825,878
	RMA Penalty Account	77,278	77,278	77,278	77,278
	RMA - BFS Settlement Account	(116,456,916)	(125,109,508)	(116,456,916)	(125,109,508)
	ATM Settlement Account	(12,206,494)	(12,218,994)	(12,206,494)	(12,218,994)
	RMA - BFS Settlement Account -	(1,705,928)	(2,448,786)	(1,705,928)	(2,448,786)
	RMA-PG & IMPS	(29,602,538)	5,600,161	(29,602,538)	5,600,161
	RMA Currency Chest	419,478,000	317,731,000	419,478,000	317,731,000
		4,095,243,197	**4,536,360,335**	**4,095,243,197**	**4,536,360,335**

		Bank (Nu)		Group (Nu)	
14	**Placements with other banks**	**2018**	**2017**	**2018**	**2017**
	Placements with other banks	1,824,545,205	1,008,605,479	1,824,545,205	1,008,605,479
	Allowance for Expected Credit Loss	(36,242)	(7,594)	(36,242)	(7,594)
		1,824,508,963	**1,008,597,885**	**1,824,508,963**	**1,008,597,885**

		Bank (Nu)		Group (Nu)	
15	**Gross loans & receivables**	**2018**	**2017**	**2018**	**2017**
	Gross loans & receivables	28,911,252,820	26,575,337,488	28,911,252,820	26,575,337,488
	Less: Staff loan fair value adjustment	(73,910,559)	(138,178,104)	(73,910,559)	(138,178,104)
		28,837,342,261	**26,437,159,384**	**28,837,342,261**	**26,437,159,384**
	Less: Impairment				
	Individual impairment	(15,940,048)	(21,337,626)	(15,940,048)	(21,337,626)
	Collective impairment	(1,799,098,504)	(1,664,571,995)	(1,799,098,504)	(1,664,571,995)
	Total Impairment	**(1,815,038,551)**	**(1,685,909,621)**	**(1,815,038,551)**	**(1,685,909,621)**
	Net Loans and Receivables	**27,022,303,710**	**24,751,249,763**	**27,022,303,710**	**24,751,249,763**

		Bank (Nu)		Group (Nu)	
15.1	**Loans & Advances to Customers**	**2018**	**2017**	**2018**	**2017**
	Term Loan	21,233,806,665	19,229,620,237	21,233,806,665	19,229,620,237
	Overdrafts and Working Capital	7,223,290,563	6,953,044,363	7,223,290,563	6,953,044,363
	Bills discounted	69,205,758	31,357,983	69,205,758	31,357,983
	Cheques purchased	(1,118)	(1,118)	(1,118)	(1,118)
	Credit cards' outstandings	2,800,628	2,776,205	2,800,628	2,776,205
	Suspended loans	382,150,323	358,539,818	382,150,323	358,539,818
		28,911,252,820	**26,575,337,488**	**28,911,252,820**	**26,575,337,488**

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

		Bank (Nu)		Group (Nu)	
17	**Investments in Associates**	**2018**	**2017**	**2018**	**2017**
	DFAL (Quoted Investment)	91,463,480	91,463,480	93,394,481	108,342,544
	Total	**91,463,480**	**91,463,480**	**93,394,481**	**108,342,544**

Fair valuation is done on the basis of latest available audited financials i.e as of 31.12.17 (PY 31.12.16)

		Bank (Nu)		Group (Nu)	
18	**Financial Investments Available for Sale**	**2018**	**2017**	**2018**	**2017**
	Quoted Investments				
	Equities(Fair Valued)	110,338,492	81,609,013	110,338,492	81,609,013
		110,338,492	**81,609,013**	**110,338,492**	**81,609,013**

Fair valuation is done on the basis of latest available audited financials i.e as of 31.12.2017 (PY31.12.16)

Un quoted Investments				
Equities	2,500,000	2,500,000	2,500,000	2,500,000
	2,500,000	**2,500,000**	**2,500,000**	**2,500,000**
Subtotal	**112,838,492**	**84,109,013**	**112,838,492**	**84,109,013**
Statutory Investments				
Investment in FITI	18,000,000	18,000,000	18,000,000	18,000,000
Investment in CIB	1,750,000	1,750,000	1,750,000	1,750,000
Investment in RSEB	19,811,000	19,811,000	19,811,000	19,811,000
	39,561,000	**39,561,000**	**39,561,000**	**39,561,000**
Total	**152,399,492**	**123,670,013**	**152,399,492**	**123,670,013**

			2018	
18.1	**Investment available for sale: December 31st**	**No of Shares**	**Cost**	**Market Value**
	Name of the Company			
	Quoted			
	Penden Cement Authority Ltd.	609,550	21,686,278	56,078,600
	Bhutan Board Products Ltd.	14,000	141,400	160,300
	Bhutan Carbide & Chemicals Ltd.	500,000	5,000,000	35,000,000
	Bhutan Polymers Co. Ltd.	127,140	1,271,400	1,589,250
	Royal Insurance Corpn. of Bhutan	442,500	732,957	31,860,000
			28,832,035	**28,832,035**
	Unquoted			
	Bhutan Development Bank Limited	2,500	2,500,000	
			2,500,000	

		2017	
Investment available for sale: December 31st	**No of Shares**	**Cost**	**Market Value**
Name of the Company			
Quoted			
Penden Cement Authority Ltd.	609,550	21,686,278	31452780
Bhutan Board Products Ltd.	14,000	141,400	140000
Bhutan Carbide & Chemicals Ltd.	500,000	5,000,000	37500000
Bhutan Polymers Co. Ltd.	127,140	1,271,400	1271400
Royal Insurance Corpn. of Bhutan	442,500	732,957	17700000
		28,832,035	**88,064,180**
Unquoted			
Bhutan Development Bank Limited	2,500	2,500,000	
		2,500,000	

N. C. MITRA & CO. Chartered Accountants KOLKATA

		Bank (Nu)		Group (Nu)	
19	**Financial Assets - Loans & Receivables**	**2018**	**2017**	**2018**	**2017**
	As at 31st December				
	Investment in Bonds	116,952,968	116,952,968	116,952,968	116,952,968
	Allowance for Expected Credit Loss	(2,268)	(3,407)	(2,268)	(3,407)
	Total Investment	**116,950,699**	**116,949,561**	**116,950,699**	**116,949,561**

		Bank (Nu)		Group (Nu)	
19.1	**Details of Loans & Receivable**	**2018**	**2017**	**2018**	**2017**
	Face Value	115,332,000	115,332,000	115,332,000	115,332,000
	Interest receivable	1,620,968	1,620,968	1,620,968	1,620,968
	Allowance for Expected Credit Loss	(2,268)	(3,407)	(2,268)	(3,407)
		116,950,699	**116,949,561**	**116,950,699**	**116,949,561**

20. Retirement benefit plans

Defined benefit Plan

A defined benefit plan/(gratuity) 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 salary. The maximum amount an employee is entitled to receive is 2 million in 2018 reporting period. A full actuarial valuation by a qualified independent actuary is carried out every year.

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.

N. C. MITRA & CO. Chartered Accountants KOLKATA

Net cost for the year recognized in profit or loss (recognised under personnel expense)

	2018	2017
Current Service Cost	13,396,760	7,995,570
Interest cost on benefit obligation	(2,799,168)	(3,349,335)
Immediate recognition of (gains)/losses – other long term employee benefit plans	10,708,677	-
Past service cost	9,517,720	-
Net cost for the year recognized in profit or loss	**30,823,989**	**4,646,235**

	2018	2017
Actual return/(deficit) on plan assets	-	9,963,025

Retirement Benefit Asset

	2018	2017
Present Value of Defined Benefit Obligation	(176,663,150)	(101,175,915)
Fair Value of Scheme Assets	203,184,260	151,571,699
Funded Status [Surplus/(Deficit)]	26,521,110	50,395,784
Retirement Benefit Asset	**26,521,110**	**50,395,784**

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

Changes in the present values of the defined benefit obligation are as follows:

	2018	2017
Opening Defined Benefit Obligation	132,523,992	88,088,911
Current service cost	10,407,438	7,995,570
Interest cost	10,575,666	6,517,054
Past service cost – plan amendments	7,511,240	-
Benefits paid from plan assets	(4,915,370)	(2,389,725)
Actuarial (gain)/loss due to scheme experier	7,660,721	964,105
Actuarial (gain)/loss - financial assumptions	7,765,270	
11 Benefits paid directly by the Company	(15,428,216)	
Closing Defined Benefit Obligation	**156,100,741**	**101,175,915**

Change in the fair value of plan assets are as follows:

	2018	2017
Fair value of assets at end of prior period	178,445,980	121,495,034
Interest income on plan assets	14,859,308	9,866,389
Employer contributions	17,948,650	22,503,365
Benefits paid	(4,915,370)	(2,389,725)
Return on plan assets greater or (less) than (	(3,154,308)	96,636
Closing fair value of plan asset	**203,184,260**	**151,571,699**

A Expected benefit payments for the year ending

December 31 2019	11,247,942
December 31 2020	10,219,590
December 31 2021	9,089,690
December 31 2022	12,462,480
December 31 2023	14,104,210
December 31 2024-to December 31,2028	101,644,970

	2018
B Expected employer contributions for the period ending 31	NIL
C Weighted average duration of defined benefit obligation	12 years
D Accured benefit Obligation at 31 December 2018	87,873,430

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2018	2017/2016
	%	%
Term Deposits with Banks	0.00%	15.71%
Current Account	100.00%	84.29%
	100.00%	**100.00%**

The amount has been kept with Bhutan Insurance Limited, which provides 7% interest and the interest income is tax exempted

N. C. MITRA & CO. Chartered Accountants KOLKATA

The principal assumptions used in determining Defined Benefit Obligations for the bank's plan for 2015 and 2014 are sh

	2018	2017/2016
Discount Rates	5% - 8%	7.50%
Salary Escalation Rates	8.00%	15.00%
Employee Turnover Rates	3.00%	5.61%
Mortality Rates	100% of IALM (2006-08)	

Sensitivity of assumptions employed in actuarial valuation

The following table 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 2018 reporting period.

A.11 Sensitivity Analyses

A Discount Rate	**2018**
Discount rate as at 31 December 2018	8.00%
1. Effect on DBO due to 1% increase in Disc	(16,591,200.00)
2. Effect on DBO due to 1% decerease in Dis	22,484,620.00

B Carriage inflation Rate	
Carriage inflation Rate as at 31 December 20	8.00%
1. Effect on DBO due to 1% increase in carri	13,035,550.00
2. Effect on DBO due to 1% decerease in car	(13,007,190.00)

21 Other Financial Assets	Bank (Nu)		Group (Nu)	
As at 31st December	**2018**	**2017**	**2018**	**2017**
Sundry Receivables	66,586,035	161,561,787	66,586,035	161,561,787
Security Deposits	349,556	406,707	349,556	406,707
Others	115,201,630	45,089,314	115,201,630	45,089,314
	182,137,220	**207,057,808**	**182,137,220**	**207,057,808**

22 Other Assets	Bank (Nu)		Group (Nu)	
As at 31st December	**2018**	**2017**	**2018**	**2017**
Assets acquired in satisfaction of debts	208,623,213	174,624,078	208,623,213	174,624,078
Others	1,374,123	62	1,374,123	62
Prepaid Staff Cost	73,910,559	138,178,104	73,910,559	138,178,104
Prepaid Cost on Refundable Deposits	-	919	-	919
Advance Tax Paid and Tax Deducted at Source	13,730,473	9,363,176	13,730,473	9,363,176
	297,638,368	**322,166,338**	**297,638,368**	**322,166,338**

The Movement in Pre-Paid Staff cost / Unamortised Day One Difference (Bank & Group)

Bank / Group	**2018**	**2017**
As at 1st January	138,033,445	94,326,026
Add / (Less): Adjustment for new grants & settl	1,104,837	60,683,616
Less: charge to Personnel cost	(64,267,545)	(16,976,197)
As at 31st December	**74,870,737**	**138,033,445**

The Movement in Advance rentals on Refundable Deposits (Bank & Group)

Bank / Group	**2018**	**2017**
As at 1st January	919	4,788
Add / (Less): Adjustment for new Deposits & se	-	-
Less: Charge to Operating Expenses	919	3,869
As at 31st December	**(0)**	**919**

N. C. MITRA & CO. Chartered Accountants KOLKATA

Note 23: Property Plant & Equipment (Bank & Group)

Cost/Revalued Amount:	Land	Building	Electric Appliances & Machineries	Furniture, fixtures, & fittings	Office equipments	Computer hardwares	Security tools	Carpets & soft furnishings	Vehicles	WIP	Total
At 1 January 2017	193,270,800	87,347,851	11,029,756	47,582,230	45,081,366	162,206,593	9,135,213	1,175,365	24,307,358	144,374,400	**725,510,931**
Additions	17,950,000	23,327,725	844,910	4,888,360	6,959,521	42,771,569	4,063,921	-	-	30,259,734	**131,065,739**
Disposals	-	-	(71,160)	(6,570,952)	(1,392,841)	(146,663)	-	(8,150)	-		**(8,189,767)**
At 31 December 2017	**211,220,800**	**110,675,575**	**11,803,506**	**45,899,637**	**50,648,046**	**204,831,498**	**13,199,134**	**1,167,215**	**24,307,358**	**174,634,134**	**848,386,904**

Accumulated Depreciation	Land	Building	Electric Appliances & Machineries	Furniture, fixtures, & fittings	Office equipments	Computer hardwares	Security tools	Carpets & soft furnishings	Vehicles	WIP	Total
At 1 January 2017	-	11,601,685	6,965,321	29,529,468	26,940,990	112,625,452	7,500,452	1,051,645	4,550,172	-	**200,765,184**
Charge for the year	-	2,690,483	308,078	3,191,043	5,112,163	16,589,971	596,330	106,251	2,521,755	-	**31,116,074**
Disposals	-	-	(43,565)	(5,362,931)	(1,328,677)	(143,971)	-	(8,149)	-		**(6,887,294)**
At 31 December 2017	**-**	**14,292,168**	**7,229,834**	**27,357,580**	**30,724,476**	**129,071,451**	**8,096,782**	**1,149,747**	**7,071,927**	**-**	**224,993,964**

Cost/Revalued Amount:	Land	Building	Electric Appliances & Machineries	Furniture, fixtures, & fittings	Office equipments	Computer hardwares	Security tools	Carpets & soft furnishings	Vehicles	WIP	Total
At 1 January 2018	211,220,800	110,675,575	11,803,506	45,899,637	50,648,046	204,831,498	13,199,134	1,167,215	24,307,358	174,634,134	**848,386,904**
Additions	-	2,706,027	2,236,055	3,306,160	5,926,217	6,711,333	302,928	28,793	-	158,031,828	**179,249,342**
Disposals	(14,000,000)	-	(1,794,880)	(3,115,666)	(5,690,198)	(33,049,798)	(1,494,210)	(369,684)	-	-	**(59,514,437)**
At 31 December 2017	**197,220,800**	**113,381,603**	**12,244,681**	**46,090,131**	**50,884,065**	**178,493,033**	**12,007,852**	**826,324**	**24,307,358**	**332,665,962**	**968,121,809**

Accumulated Depreciation	Land	Building	Electric Appliances & Machineries	Furniture, fixtures, & fittings	Office equipments	Computer hardwares	Security tools	Carpets & soft furnishings	Vehicles	WIP	Total
At 1 January 2018	-	14,292,168	7,229,834	27,357,580	30,724,476	129,071,451	8,096,782	1,149,747	7,071,927	-	**224,993,964**
Charge for the year	-	2,899,825	1,709,120	3,400,352	8,327,114	22,071,446	985,307	15,012	2,518,463	-	**41,926,640**
Disposals	-	-	(1,549,888)	(3,114,567)	(5,609,564)	(31,759,846)	(1,491,146)	(369,664)	-	-	**(43,894,675)**
At 31 December 2018	**-**	**17,191,993**	**7,389,066**	**27,643,365**	**33,442,026**	**119,383,051**	**7,590,943**	**795,095**	**9,590,390**	**-**	**223,025,929**

N. C. MITRA & CO. Chartered Accountants KOLKATA

23.1 Fully Depreciated Property, Plant & Equipment – Bank

A class wise analysis of the initial cost of fully depreciated property, plant and equipment of the Bank which are still in use as at reporting date is as follows.

As at 31st December	2018	2017
Electric Appliances & Machineries	3,887,655	4,311,124
Furniture, fixtures, & fittings	16,705,393	15,740,768
Office equipments	13,545,734	17,365,254
IT hardwares	49,080,406	71,326,230
Security tools	3,831,262	3,843,775
Carpets & soft furnishings	466,574	821,979
Vehicles	-	-
	87,517,024	**113,409,130**

23.2 Temporarily idle property, plant and equipment- Bank

	2018	2017
Land		
IT Hardwares	252,993	29,589,433
Furniture & Fixture	707,544	-
Office Equipment	467,000	-
Electrical appliance	151,600	-
Security Tools	1,557,725	3,861,942
	3,136,862	**33,451,375**

24. Intangible Assets (Bank & Group)

At 1 January 2017	**107,625,282**
Additions	5,119,171
Disposals	-
At 31 December 2017	**112,744,453**
Amortisation and impairment:	
At 1 January 2017	**64,560,038**
Amortisation	12,775,087
Disposals	
At 31 December 2017	**77,335,125**
At 1 January 2018	**112,744,453**
Additions	49,212,878
Disposals	(7,409,673)
At 31 December 2018	**154,547,658**
Amortisation and impairment:	
At 1 January 2018	**77,335,125**
Amortisation	18,350,773
Disposals	(7,409,655)
At 31 December 2018	**88,276,243**

24.1 Fully depreciated Intangible Assets – Bank

	2018	2017
Softwares	36,625,839	40,549,838

24.2 Temporarily idle Intangible assets- Bank

	2018	2017
Softwares	20,528,742	8,279,228
	20,528,742	**8,279,228**

N. C. MITRA & CO. Chartered Accountants KOLKATA

25. Due to Banks and Financial Institutions

	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Banks	2,577,626,709	1,945,537,993	2,577,626,709	1,945,537,993
Non Bank Financial Institutions	8,523,839,073	6,260,624,311	8,523,839,073	6,260,624,311
	11,101,465,782	**8,206,162,304**	**11,101,465,782**	**8,206,162,304**

26. Due to Customers

	Bank (Nu)		Group (Nu)	
Due to Customers	2018	2017	2018	2017
Fixed Deposit	7,246,882,944	8,636,006,688	7,246,882,944	8,636,006,688
Recurring Deposit	276,770,165	227,717,777	276,770,165	227,717,777
Savings Deposits	7,778,303,175	7,100,552,037	7,778,303,175	7,100,552,037
Current Accounts	3,650,354,933	5,789,590,521	3,650,354,933	5,789,590,521
	18,952,311,216	**21,753,867,023**	**18,952,311,216**	**21,753,867,023**

26.1 Local Currency Deposits

	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Fixed Deposit	17,689,644,973	15,783,070,786	17,689,644,973	15,783,070,786
Recurring Deposit	276,770,165	227,717,777	276,770,165	227,717,777
Savings Deposits	7,769,571,257	7,087,086,402	7,769,571,257	7,087,086,402
Current Accounts	3,117,073,980	4,749,898,280	3,117,073,980	4,747,508,312
	28,853,060,375	**27,847,773,246**	**28,853,060,375**	**27,845,383,277**

26.2 Foreign Currency Deposits

Fixed Deposit	-	-	-	-
Recurring Deposit	-	-	-	-
Current Accounts	1,191,550,617	2,098,334,445	1,191,550,617	2,098,334,445
Savings Deposits	9,166,006	13,921,636	9,166,006	13,921,636
	1,200,716,623	**2,112,256,081**	**1,200,716,623**	**2,112,256,081**

N. C. MITRA & CO. Chartered Accountants KOLKATA

27. Debts issued & borrowed funds

	Bank (Nu)		Group (Nu)	
Debts issued & borrowed fun	**2018**	**2017**	**2018**	**2017**
Subordinated Bonds	522,027,397	876,400,000	522,027,397	876,400,000
	522,027,397	**876,400,000**	**522,027,397**	**876,400,000**

27.1 Bond Details

Number of Bonds	Face Value	2018	2017	Allotment Date	Maturity Date	Rate of Interest
350,000 numbers of certificates issued to DGPC	1,000	Matured	354,372,603	17 October 2011	16 October 2018	6%
500,000 numbers of certifcates issued to RGoB	1,000	522,027,397	522,027,397	09 April 2014	08 April 2024	6%
		522,027,397	**876,400,000**			

28. Current tax liabilities

	Bank (Nu)		Group (Nu)	
Current tax liabilities	**2018**	**2017**	**2018**	**2017**
Balance as at 1st January	384,746,803	313,176,205	384,746,803	313,849,579
Current year provision	322,178,289	384,746,803	322,178,289	384,746,803
Less: Payment of tax	384,746,803	313,176,205	384,746,803	313,849,579
Balance as at 31st December	**322,178,289**	**384,746,803**	**322,178,289**	**384,746,803**

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

29. 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. The following table analyses the carrying amounts of the financial instruments by category as defined in Bhutanese Accounting Standard - BAS 39 (Financial Instruments: Recognition & Measurement) under headings of the Statement of Financial Position.

As at 31-Dec-2018-Bank

Analysis of Financial Instruments by Measurment Basis	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
Financial Assets					
Cash & cash Equivalents	-	3,736,421,617	-	-	3,736,421,617
Cash & Balances with Central Bank	-	4,095,243,197	-	-	4,095,243,197
Placement with other Banks	-	1,824,508,963	-	-	1,824,508,963
Loans & Advances to Customers	-	27,022,303,710	-	-	27,022,303,710
Equity Instruments at Fair Value through P/L	-	-	-	112,838,492	112,838,492
Equity Instruments at Fair Value through OCI	-	-	-	39,561,000	39,561,000
Debt Instruments at Amortized Cost	-	116,950,699	-	-	116,950,699
Other Financial Assets	-	182,137,220	-	-	182,137,220
Financial Liabilities					
Due to Banks and Financial Institution	-	11,101,465,782	-	-	11,101,465,782
Due to Customers	-	18,952,311,216	-	-	18,952,311,216
Debts Issued & Other Borrowed Funds	-	522,027,397	-	-	522,027,397
Unclaimed Balances	-	8,438,591	-	-	8,438,591
Other Liabilities	-	14,060,402	-	-	14,060,402

As at 31-Dec-2018-Group

Analysis of Financial Instruments by Measurment Basis	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
Financial Assets					
Cash & cash Equivalents	-	3,736,421,617	-	-	3,736,421,617
Cash & Balances with Central Bank	-	4,095,243,197	-	-	4,095,243,197
Placement with other Banks	-	1,824,508,963	-	-	1,824,508,963
Loans & Advances to Customers	-	27,022,303,710	-	-	27,022,303,710
Equity Instruments at Fair Value through P/L	-		-	112,838,492	112,838,492
Equity Instruments at Fair Value through OCI	-	-	-	39,561,000	39,561,000
Debt Instruments at Amortized Cost	-	116,950,699	-	-	116,950,699
Other Financial Assets	-	182,137,220	-	-	182,137,220
Financial Liabilities					
Due to Banks and Financial Institution	-	11,101,465,782	-	-	11,101,465,782
Due to Customers	-	18,952,311,216	-	-	18,952,311,216
Debts Issued & Other Borrowed Funds	-	522,027,397	-	-	522,027,397
Unclaimed Balances	-	8,438,591	-	-	8,438,591
Other Liabilities	-	14,060,402	-	-	14,060,402

N. C. MITRA & CO. Chartered Accountants KOLKATA

As at 31-Dec-2017-Bank

Analysis of Financial Instruments by Measurment Basis	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
Financial Assets					
Cash & cash Equivalents	-	6,697,966,187			6,697,966,187
Cash & Balances with Central Bank	-	4,536,360,335			4,536,360,335
Placement with other Banks	-	1,008,597,885			1,008,597,885
Due From Banks and Financial Institution	-	-	-		-
Loans & Advances to Customers	-	24,751,249,763			24,751,249,763
Equity Instruments at Fair Value through P/L	-	-	-	84,109,013	84,109,013
Equity Instruments at Fair Value through OCI	-	-	-	39,561,000	39,561,000
Debt Instruments at Amortized Cost	-	116,949,561			116,949,561
Other Financial Assets	-	207,057,808			207,057,808
Financial Liabilities					
Due to Banks and Financial Institution	-	8,206,162,304			8,206,162,304
Due to Customers	-	21,753,867,023			21,753,867,023
Debts Issued & Other Borrowed Funds	-	876,400,000			876,400,000
Unclaimed Balances	-	43,149,082	-		43,149,082
Other Liabilities	-	23,865,734	-		23,865,734

As at 31-Dec-2017-Group

Analysis of Financial Instruments by Measurment Basis	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
Financial Assets					
Cash & cash Equivalents	-	6,697,966,187			6,697,966,187
Cash & Balances with Central Bank	-	4,536,360,335			4,536,360,335
Placement with other Banks	-	1,008,597,885			1,008,597,885
Loans & Advances to Customers	-	24,751,249,763			24,751,249,763
Equity Instruments at Fair Value through P/L	-	-	-	84,109,013	84,109,013
Equity Instruments at Fair Value through OCI	-	-	-	39,561,000	39,561,000
Debt Instruments at Amortized Cost	-	116,949,561			116,949,561
Other Financial Assets	-	207,057,808			207,057,808
Financial Liabilities					
Due to Banks and Financial Institution	-	8,206,162,304			8,206,162,304
Due to Customers	-	21,753,867,023			21,753,867,023
Debts Issued & Other Borrowed Funds	-	876,400,000			876,400,000
Unclaimed Balances	-	43,149,082	-		43,149,082
Other Liabilities	-	23,865,734	-		23,865,734

30. Deferred Taxation (Bank and the Group)

Deferred Tax Assets, Liabilities and Income Tax relates to the followings

	Reflectced in Statement of Financial Position		Reflectced in Statement of Comprehensive Income		Reflectced in Statement of Other Comprehensive Income	
Deferred Tax (Bank)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Property Plant and Equipment & Intangibles	(37,212,750)	(37,512,076)	299,326	571,957	-	-
Fair value change of Available for Financial Assets - Equity Securities	(24,451,937)	(15,833,094)	-	-	(8,618,844)	(6,417,342)
Revaluation	(1,315,456)	(1,315,456)	-	-	-	-
Deposit EIR	(32,804,786)	(23,017,494)	(9,787,292)	(23,017,494)	-	-
Defined Benefit Assets	(30,802,924)	(16,674,604)	(14,128,320)	(15,378,976)	-	-
Defined Benefit Liabilities	2,573,697	-	2,573,697	-	-	-
Defined Benefit Assets (OCI)	(6,457,696)	(4,096,210)	-	-	(2,361,487)	(8,452,660)
Impariment Charges	(70,759,575)	25,705,244	(96,464,819)	(29,419,545)	-	-
Deferred Tax Assets/(Liabilities)	**(201,231,426)**	**(72,743,688)**	**(117,507,408)**	**(67,244,057)**	**(10,980,330)**	**(14,870,002)**
Deferred Tax has been determined based on the enacted tax rate of 30%		-				
Deferred Income Tax Charge/(Reversal)			**(117,507,408)**	**(67,244,057)**	**(10,980,330)**	**(14,870,002)**

	Reflectced in Statement of Financial Position		Reflectced in Statement of Comprehensive Income		Reflectced in Statement of other Comprehensive Income	
Deferred Tax (Group)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Property Plant and Equipment & Intangibles	(37,212,750)	(37,512,076)	299,326	571,957		
Fair value change of Available for Financial Assets - Equity Securities	(24,451,937)	(15,833,094)			(8,618,844)	(6,417,342)
Revaluation	(1,315,456)	(1,315,456)			-	-
Share of undistributed profit in Associates (IS)	(561,838)	(5,084,574)	4,522,736	(440,753)		
Share of undistributed profit in Associates (OCI)	(17,462)	20,855			(38,317)	20,855
Deposit EIR	(32,804,786)	(23,017,494)	(9,787,292)	(23,017,494)		
Defined Benefit Assets	(30,802,924)	(16,674,604)	(14,128,320)	(15,378,976)		
Defined Benefit Liabilities	2,573,697	-	2,573,697	-		
Defined Benefit Assets (OCI)	(6,457,696)	(4,096,210)			(2,361,487)	(8,452,660)
Impariment Charges	(70,759,575)	25,705,244	(96,464,819)	(29,419,545)		
Deferred Tax Assets/(Liabilities)	**(201,810,727)**	**(77,807,408)**	**(112,984,672)**	**(67,684,810)**	**(11,018,647)**	**(14,849,147)**
Deferred Tax has been determined based on the enacted tax rate of 30%						
Deferred Income Tax Charge/(Reversal)			**(112,984,672)**	**(67,684,810)**	**(11,018,647)**	**(14,849,147)**

N. C. MITRA & CO. Chartered Accountants KOLKATA

31. Provisions

	Bank (Nu)		Group (Nu)	
Provisions	**2018**	**2017**	**2018**	**2017**
Provisions for Leave Encashment	20,646,428	18,555,929	20,646,428	18,555,929
Provisions for Other Losses	1,043,790	1,093,190	1,043,790	1,093,190
Additional Provision for Leave as per acturial valuation	86,962	-	86,962	-
	21,777,180	**19,649,119**	**21,777,180**	**19,649,119**
	-			
Movements				
Provisions for Leave Encashment	2,090,499	3,082,926		
Provisions for Off Balance sheet items & other losses	37,562	(682,966)		
PL Impact	**(2,128,061)**	**(2,399,960)**		

32. Other Liabilities

	Bank (Nu)		Group (Nu)	
	2018	**2017**	**2018**	**2017**
Financial				
Accounts payable & Sundry creditors	14,060,402	23,865,734	14,060,402	23,865,734
Non Financial				
Margin Money	35,139,429	28,296,598	35,139,429	28,296,598
Other	73,730,402	105,296,529	73,730,402	105,296,529
	122,930,232	**157,458,861**	**122,930,232**	**157,458,861**

33. Share Capital & Share Premium

	Bank (Nu)		Group (Nu)	
Share Capital and Share Premium	**2018**	**2017**	**2018**	**2017**
Share Capital	3,291,935,960	3,291,935,960	3,291,935,960	3,291,935,960
Share Premium	-	-	-	-
	3,291,935,960	**3,291,935,960**	**3,291,935,960**	**3,291,935,960**

Share Capital	**2018**	**2017**
Opening balance (January 01)	3,291,935,960	3,291,935,960
Issue of Bonus shares during the year	-	-
Buyback of shares	-	-
Closing Balance (December 31)	**3,291,935,960**	**3,291,935,960**

N. C. MITRA & CO. Chartered Accountants KOLKATA

34. Commitment and Contingencies

34.1 Committement and Contingencies	Bank (Nu) 2018	Bank (Nu) 2017	Group (Nu) 2018	Group (Nu) 2017
As at 31st December				
Commitments				
Commitment for unutilised facilities (direct advances)	3,503,731,071	3,106,524,593	3,503,731,071	3,106,524,593
	3,503,731,071	**3,106,524,593**	**3,503,731,071**	**3,106,524,593**
Contingent Liabilities				
Gurantess	1,976,298,923	2,773,791,244	1,976,298,923	2,773,791,244
Letter of Credits	236,484,852	191,286,215	236,484,852	191,286,215
Other	3,503,731,071	3,106,524,593	3,503,731,071	3,106,524,593
	5,716,514,846	**6,071,602,051**	**5,716,514,846**	**6,071,602,051**
Commitment & contingencies	**9,220,245,917**	**9,178,126,643**	**9,220,245,917**	**9,178,126,643**

34.2 Other Contingent Liabilities: Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. During the year there were no instance of litigation against the bank.

3.4.3 Capital commitments for which provisions have not been made in these accounts, amounts approved

As at 31st December	Bank (Nu) 2018	Bank (Nu) 2017	Group (Nu) 2018	Group (Nu) 2017
Approved & contracted for	421,822,707	207,861,083	421,822,707	207,861,083
	421,822,707	**207,861,083**	**421,822,707**	**207,861,083**

35. 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.

35.1 Parent and Ultimate Controlling Party

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

35.2 Transactions with Key Managerial Personnel (KMPs)

According to 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.

35.3 Related Party Disclosures Contd.

35.3.1 Transactions with Key Managerial Personnel (KMPs)

	Bank (Nu)		Group (Nu)	
For the Year Ended 31st December	**2018**	**2017**	**2018**	**2017**
Short term employee benefits	6,980,111	6,556,466	6,980,111	6,556,466
Post-employment benefits	2,000,000	2,000,000	2,000,000	2,000,000
Directors' fees & expenses	4,001,225	4,111,261	4,001,225	4,111,261
Total	**12,981,336**	**12,667,727**	**12,981,336**	**12,667,727**

	Bank (Nu)		Group (Nu)	
Short term employee benefits to CEO	**2018**	**2017**	**2018**	**2017**
Salary & Other Benefits	4,957,441	4,620,297	4,957,441	4,620,297
Vehicle Expenses	399,352	506,993	399,352	506,993
Trave - Local/Foreign	1,623,318	1,340,359	1,623,318	1,340,359
	6,980,111	**6,467,649**	**6,980,111**	**6,467,649**

N. C. MITRA & CO. Chartered Accountants KOLKATA

35.4 Transactions, Arrangements and Agreements Involving KMPs and Their CFMs

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

	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Loans and Receivables outstanding	95,222,948	159,919,000	95,222,948	159,919,000
	95,222,948	**159,919,000**	**95,222,948**	**159,919,000**

35.4.2 Credit Card Facilities to KMPs and their CFMs are detailed below:

	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Credit Card outstanding	1,050,750	-	1,050,750	-
	1,050,750	**-**	**1,050,750**	**-**

35.4.3 Deposits and Investments from KMPs and their CFMs are detailed below:

	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Deposits	27,950,294	125,128,066	27,950,294	125,128,066
Investment in Equity shares of BNBL	248,061,890	14,219,200	248,061,890	14,219,200
	276,012,184	**139,347,266**	**276,012,184**	**139,347,266**

35.4.4 Dividend paid to KMPs and their CFMs

	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Dividend	405,582,549	19,053,728	405,582,549	19,053,728

35.5 Transactions, Arrangements and Agreements involving Entities which are controlled and / or jointly controlled by the KMPs or their CFMs

	Bank (Nu)		Group (Nu)	
	2018	2017	2018	2017
Loans & receivables	71,337,011	192,678,796	71,337,011	192,678,796
Deposits	18,381,991	110,828,578	18,381,991	110,828,578
	89,719,002	**303,507,375**	**89,719,002**	**303,507,375**

35.6 Transactions and outstanding balances with Subsidiaries:

The Bank had only one subsidiary company namely BNB Securities Limited which stand merged wth Bank as on 31.12.2017.

N. C. MITRA & CO. Chartered Accountants KOLKATA

31st December	Bank (Nu) 2018	Bank (Nu) 2017	Group (Nu) 2018	Group (Nu) 2017
Transactions				
Interest paid on deposits		217,063	-	217,063
Outstanding Balances at year end				
Balances in Current, Savings & Fixed Deposits		-	-	-
Company's contribution to its capital		-	-	-
Payable on account of investment in RSEBL transferred to BNB		-	-	-

36. Events After the Reporting Period (Bank/Group)

The board in the 127th BoD Meeting held on February 27, 2019 proposed a dividend of Nu. 1 per share (10%) for the income year 2018, which was endorsed by the Shareholders in the 7th EAGM held on April 4, 2019 and subsequently approved by the Royal Monetary Authority of Bhutan.

37. Fair value of Financial Instruments

Financial Instruments Recorded at Fair Value

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

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

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.

Determination of Fair Value and Fair Value Hierarchy

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:
Level 1 - Quoted Market Price (unadjusted): financial instruments with quoted prices for identical instruments in active markets.
Level 2 - Valuation Technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
Level 3 - Valuation Technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value

	Bank (Nu)			Group (Nu)		
	Level I	Level II	Level III	Level I	Level II	Level III
31st December 2018						
Financial Investment Available For sale (Quo	-	-	110,338,492	-	-	110,338,492
Staff Loan	-	-	245,342,289	-	-	245,342,289
31st December 2017						
Financial Investment Available For sale (Quo	-	-	81,609,013	-	-	81,609,013
Staff Loan	-	-	226,016,653	-	-	226,016,653

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements. Assets for which Fair Value Approximates Carrying Value for financial assets and liabilities that have short term maturity is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and saving deposits which do not have a specific maturity.

Fixed Rate Financial Instruments
The fair value of fixed rate financial assets & liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity.

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

For quoted debt issued

The fair values are determined based on quoted market prices. For those not issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

For other variable rate instruments

An adjustment is also made to reflect the change in required credit spread since the instrument was first recognized. Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at FairValue in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

	Bank (Nu)			
	2018		2017	
31st December	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets				
Cash & cash equivalents	3,736,421,617	3,736,421,617	6,697,966,187	6,697,966,187
Balances with Central Bank	4,095,243,197	4,095,243,197	4,536,360,335	4,536,360,335
Placements with Banks	1,824,508,963	1,824,508,963	1,008,597,885	1,008,597,885
Loans & Advances to Customers	27,022,303,710	18,644,233,144	24,751,249,763	21,108,095,294
Investments in Subsidiaries	-	-	-	-
Investments in Associates	91,463,480	91,463,480	91,463,480	91,463,480
Financial Investments Available for Sale	112,838,492	112,838,492	84,109,013	84,109,013
Investment's in Bonds	116,950,699	115,298,389	116,949,561	115,190,235
Other Financial Assets	182,137,220	182,137,220	207,057,808	207,057,808
Financial Liabilities				
Due to Banks	11,101,465,782	11,101,465,782	8,206,162,304	8,381,886,659
Due to Customers	18,952,311,216	18,952,669,500	21,753,867,023	21,578,142,668
Debts Issued & Other Borrowed Funds	522,027,397	451,206,578	876,400,000	809,865,108
Unclaimed Balances	8,438,591	8,438,591	43,149,082	43,149,082
Other Liabilities	14,060,402	14,060,402	23,865,734	23,865,734

	Group (Nu)			
	2018		2017	
31st December	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets				
Cash & cash equivalents	3,736,421,617	3,736,421,617	6,697,966,187	6,697,966,187
Balances with Central Bank	4,095,243,197	4,095,243,197	4,536,360,335	4,536,360,335
Placements with Banks	1,824,508,963	1,824,508,963	1,008,597,885	1,008,597,885
Loans & Advances to Customers	27,022,303,710	18,644,233,144	24,751,249,763	21,108,095,294
Investments in Subsidiaries	-	-	-	-
Investments in Associates	93,394,481	93,394,481	108,342,544	108,342,544
Financial Investments Available for Sale	112,838,492	112,838,492	84,109,013	84,109,013
Investment's in Bonds	116,950,699	115,298,389	116,949,561	115,190,235
Other Financial Assets	182,137,220	182,137,220	207,057,808	207,057,808
Financial Liabilities				
Due to Banks	11,101,465,782	11,101,465,782	8,206,162,304	8,381,886,659
Due to Customers	18,952,311,216	18,952,669,500	21,753,867,023	21,578,142,668
Debts Issued & Other Borrowed Funds	522,027,397	451,206,578	876,400,000	809,865,108
Unclaimed Balances	8,438,591	8,438,591	43,149,082	43,149,082
Other Liabilities	14,060,402	14,060,402	23,865,734	23,865,734

N. C. MITRA & CO. Chartered Accountants KOLKATA

38. Risk Management

The Bank has an integrated risk management policy in place which provides a robust framework for risk identification, measurement, controlling, monitoring, mitigating and reporting through proper tools and methodologies. The major categories of risks that the policy emphasizes are credit risk, market risk, operational risk and the liquidity risk. These risks are addressed through board approved tolerance limits which are monitored and reported regularly.

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 worthiness of a client to receive credit. A state-of-the-art credit scoring model has been developed and in use to capture both quantitative and qualitative risk factors of the corporate clients-registered companies. The credit scoring model will generate a final score for the client which will enable the Bank to take a prudent lending decision.

Under Credit Risk we monitor the concentration risks such as single borrower limit, group borrower limit, sector limit, and also the prohibited industry/ sector or product as well as related party exposures. These risks are 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. A tolerance limit for net FX position has been set by the Board. The FX risk assumed within the tolerance limit. 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. The Bank will be implementing a comprehensive Operational Risk Management policy in 2019.

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1 Credit Risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. 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; and
- For retail lending: mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. 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.

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

31st December 2018	Bank (Nu.)		
Financial Assets	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**
Cash & cash Equivalents	3,736,421,617	-	3,736,421,617
Cash & Balances with Central Bank	4,095,243,197	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	1,824,508,963
Loans & Advances to Customers	27,022,303,710	26,262,999,607	759,304,103
Financial Investments Available for Sale	112,838,492	-	112,838,492
Investment's in Bonds	116,950,699	-	116,950,699
Other Financial Assets	182,137,220	-	182,137,220

	Group (Nu.)		
31st December 2018	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**
Financial Assets	3,736,421,617	-	3,736,421,617
Cash & cash Equivalents	4,095,243,197	-	4,095,243,197
Cash & Balances with Central Bank	1,824,508,963	-	1,824,508,963
Placement with other Banks	27,022,303,710	26,262,999,607	759,304,103
Loans & Advances to Customers	112,838,492	-	112,838,492
Financial Investments Available for Sale	116,950,699	-	116,950,699
Investment's in Bonds	182,137,220	-	182,137,220
Other Financial Assets			

31st December 2017	Bank (Nu.)		
Financial Assets	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**
Cash & cash Equivalents	6,697,966,187	-	6,697,966,187
Cash & Balances with Central Bank	4,536,360,335	-	4,536,360,335
Placement with other Banks	1,008,597,885	-	1,008,597,885
Loans & Advances to Customers	24,751,249,763	24,002,443,297	748,806,466
Financial Investments Available for Sale	84,109,013	-	84,109,013
Investment's in Bonds	116,949,561	-	116,949,561
Other Financial Assets	207,057,808	-	207,057,808

31st December 2017	Group (Nu.)		
Financial Assets	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**
Cash & cash Equivalents	6,697,966,187		6,697,966,187
Cash & Balances with Central Bank	4,536,360,335		4,536,360,335
Placement with other Banks	1,008,597,885		1,008,597,885
Loans & Advances to Customers	24,751,249,763	24,002,443,297	748,806,466
Financial Investments Available for Sale	84,109,013		84,109,013
Investment's in Bonds	116,949,561		116,949,561
Other Financial Assets	207,057,808		207,057,808

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

38.1.1 Credit quality by class of financial asset

The tables below show the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

Definition of Past Due

The Bank considers that any amounts uncollected one day or more beyond their contractual due date as 'past due'.

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

Bank (Nu)

31st December 2018	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	3,736,421,617	-	-	3,736,421,617
Cash & Balances with Central Bank	4,095,243,197	-	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	-	1,824,508,963
Loans & Advances to Customers	20,405,496,453	6,558,163,591	58,643,667	27,022,303,710
Investments in Subsidiaries	-	-	-	-
Investments in Associates	91,463,480	-	-	91,463,480
Financial Investments Available for Sale	112,838,492	-	-	112,838,492
Financial Investments Held to Maturity	39,561,000	-	-	39,561,000
Investment's in Bonds	116,950,699	-	-	116,950,699
Other Financial Assets	182,137,220	-	-	182,137,220
	30,604,621,122	**6,558,163,591**	**58,643,667**	**37,221,428,379**

Age Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by Class of Financial Assets

	Past due but not impaired				
	Less than 30 Days	31-60 Days	61-90 Days	More than 90 days	Total
Loans & receivables to banks	-	-	-	-	-
Loans & receivables to other customers	2,325,124,342	2,343,774,633	1,315,447,770	573,816,846	6,558,163,591

Group (Nu)

31st December 2018	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	3,736,421,617	-	-	3,736,421,617
Cash & Balances with Central Bank	4,095,243,197	-	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	-	1,824,508,963
Loans & Advances to Customers	20,405,496,453	6,558,163,591	58,643,667	27,022,303,710
Investments in Subsidiaries	-	-	-	-
Investments in Associates	93,394,481	-	-	93,394,481
Financial Investments Available for Sale	112,838,492	-	-	112,838,492
Financial Investments Held to Maturity	39,561,000	-	-	39,561,000
Investment's in Bonds	116,950,699	-	-	116,950,699
Other Financial Assets	182,137,220	-	-	182,137,220
	30,606,552,123	**6,558,163,591**	**58,643,667**	**37,223,359,380**

Age Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by Class of Financial Assets

	Past due but not impaired				
	Less than 30 Days	31-60 Days	61-90 Days	More than 90 days	Total
Loans & receivables to banks	-	-	-	-	-
Loans & receivables to other customers	2,325,124,342	2,343,774,633	1,315,447,770	573,816,846	6,558,163,591

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

31st December 2017	Bank (Nu) Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	6,697,966,187			6,697,966,187
Cash & Balances with Central Bank	4,536,360,335			4,536,360,335
Placement with other Banks	1,008,597,885			1,008,597,885
Loans & Advances to Customers	19,370,958,217	5,309,547,882	70,743,667	24,751,249,763
Investments in Subsidiaries	-			-
Investments in Associates	91,463,480			91,463,480
Financial Investments Available for Sale	84,109,013			84,109,013
Financial Investments Held to Maturity	39,561,000			39,561,000
Investment's in Bonds	116,949,561			116,949,561
Other Financial Assets	207,057,808			207,057,808
	32,153,023,486	**5,309,547,882**	**70,743,667**	**37,533,315,032**

Age Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by Class of Financial Assets

	Past due but not impaired Less than 30 Days	31-60 Days	61-90 Days	More than 90 days	Total
Loans & receivables to banks	-	-	-	-	-
Loans & receivables to other customers	2,335,277,715	2,195,713,477	375,602,359	402,954,331	5,309,547,882

31st December 2017	Group (Nu) Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	6,697,966,187			6,697,966,187
Cash & Balances with Central Bank	4,536,360,335			4,536,360,335
Placement with other Banks	1,008,597,885			1,008,597,885
Loans & Advances to Customers	19,370,958,217	5,309,547,882	70,743,667	24,751,249,763
Investments in Subsidiaries	-			-
Investments in Associates	108,342,544			108,342,544
Financial Investments Available for Sale	84,109,013			84,109,013
Financial Investments Held to Maturity	39,561,000			39,561,000
Investment's in Bonds	116,949,561			116,949,561
Other Financial Assets	207,057,808			207,057,808
	32,169,902,550	**5,309,547,882**	**70,743,667**	**37,550,194,096**

Age Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by Class of Financial Assets

	Past due but not impaired Less than 30 Days	31-60 Days	61-90 Days	More than 90 days	Total
Loans & receivables to banks	-	-	-	-	-
Loans & receivables to other customers	2,335,277,715	2,195,713,477	375,602,359	402,954,331	5,309,547,882

38.1.2 Analysis of Risk Concentration

Risk concentrations: maximum exposure to credit risk without taking into account of any collateral and other credit enhancements. The Concentration risk is monitored/managed through borrower/group, Sector, product etc. The following tables show the maximum exposure to credit risk for the components of the Statement of Financial Position, including geography of counterparty, and sector.

N. C. MITRA & CO. Chartered Accountants KOLKATA

Country Risk - Geographical Analysis	**Bank (Nu)**				
as at 31Dec 2018	**Bhutan**	**Asia**	**Europe**	**Americas**	**Total**
Cash and Cash Equivalents	2,597,916,469	718,925,121	88,103,187	331,476,841	3,736,421,617
Balances with Central Bank	4,095,243,197	-	-	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	-	-	1,824,508,963
Loans & Advances to Customers	27,022,303,710	-	-	-	27,022,303,710
Investments in Associates	91,463,480	-	-	-	91,463,480
Financial Investments Available for Sale	112,838,492	-	-	-	112,838,492
Investment's in Bonds	116,950,699	-	-	-	116,950,699
Other Financial Assets	182,137,220	-	-	-	182,137,220
	36,043,362,230	**718,925,121**	**88,103,187**	**331,476,841**	**37,181,867,379**
Regional Break Down of Loans					
Thimphu	17,524,932,844				
Phuntsholing	3,193,858,697				
Samdrupjongkhar	582,040,236				
Trashigang	409,071,281				
Gelephu	1,177,942,206				
Paro	1,324,592,625				
Monggar	543,969,014				
Wangdue	776,935,976				
Bumthang	472,697,291				
Gomtu	675,093,901				
Tsirang	341,169,638				
	27,022,303,710				

Country Risk - Geographical Analysis	**Group (Nu)**				
as at 31Dec 2018	**Bhutan**	**Asia**	**Europe**	**Americas**	**Total**
Cash and Cash Equivalents	2,597,916,469	718,925,121	88,103,187	331,476,841	3,736,421,617
Balances with Central Bank	4,095,243,197	-	-	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	-	-	1,824,508,963
Loans & Advances to Customers	27,022,303,710	-	-	-	27,022,303,710
Investments in Associates	93,394,481	-	-	-	93,394,481
Financial Investments Available for Sale	112,838,492	-	-	-	112,838,492
Investment's in Bonds	116,950,699	-	-	-	116,950,699
Other Financial Assets	182,137,220	-	-	-	182,137,220
	36,045,293,231	**718,925,121**	**88,103,187**	**331,476,841**	**37,183,798,380**
Regional Break Down of Loans					
Thimphu	17,524,932,844				
Phuntsholing	3,193,858,697				
Samdrupjongkhar	582,040,236				
Trashigang	409,071,281				
Gelephu	1,177,942,206				
Paro	1,324,592,625				
Monggar	543,969,014				
Wangdue	776,935,976				
Bumthang	472,697,291				
Gomtu	675,093,901				
Tsirang	341,169,638				
	27,022,303,710				

N. C. MITRA & CO. Chartered Accountants KOLKATA

Country Risk - Geographical Analysis as at 31Dec 2017	Bank (Nu)				
	Bhutan	**Asia**	**Europe**	**Americas**	**Total**
Cash and Cash Equivalents	6,321,502,176	543,000,942	40,397,835	(206,934,765)	6,697,966,187
Balances with Central Bank	4,536,360,335	-	-	-	4,536,360,335
Placement with other Banks	1,008,597,885	-	-	-	1,008,597,885
Loans & Advances to Customers	24,751,249,763	-	-	-	24,751,249,763
Investments in Associates	91,463,480	-	-	-	91,463,480
Financial Investments Available for Sale	84,109,013	-	-	-	84,109,013
Investment's in Bonds	116,949,561	-	-	-	116,949,561
Other Financial Assets	207,057,808	-	-	-	207,057,808
	37,117,290,021	**543,000,942**	**40,397,835**	**(206,934,765)**	**37,493,754,032**
Regional Break Down of Loans					
Thimphu	16,194,910,795				
Phuntsholing	3,079,222,104				
Samdrupjongkhar	531,982,910				
Trashigang	353,892,050				
Gelephu	1,110,720,958				
Paro	1,124,394,310				
Monggar	489,016,637				
Wangdue	739,242,858				
Bumthang	409,451,932				
Gomtu	448,624,609				
Tsirang	269,790,601				
	24,751,249,764				

Country Risk - Geographical Analysis as at 31Dec 2017	Group (Nu)				
	Bhutan	**Asia**	**Europe**	**Americas**	**Total**
Cash and Cash Equivalents	6,321,502,176	543,000,942	40,397,835	(206,934,765)	6,697,966,187
Balances with Central Bank	4,536,360,335	-	-	-	4,536,360,335
Placement with other Banks	1,008,597,885	-	-	-	1,008,597,885
Loans & Advances to Customers	24,751,249,763	-	-	-	24,751,249,763
Investments in Associates	108,342,544	-	-	-	108,342,544
Financial Investments Available for Sale	84,109,013	-	-	-	84,109,013
Investment's in Bonds	116,949,561	-	-	-	116,949,561
Other Financial Assets	207,057,808	-	-	-	207,057,808
	37,134,169,085	**543,000,942**	**40,397,835**	**(206,934,765)**	**37,510,633,096**
Regional Break Down of Loans					
Thimphu	16,194,910,795				
Phuntsholing	3,079,222,104				
Samdrupjongkhar	531,982,910				
Trashigang	353,892,050				
Gelephu	1,110,720,958				
Paro	1,124,394,310				
Monggar	489,016,637				
Wangdue	739,242,858				
Bumthang	409,451,932				
Gomtu	448,624,609				
Tsirang	269,790,601				
	24,751,249,764				

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

38.1.3 Industry Analysis

Bank (Nu.)

31st December 2018	Product & Manufacturing	Services	Trade & Commerce	Housing Loans	Transport Loans	Personal Loans	Agriculture	Others	ODWC	Credit Card	Bills	Suspended	Total
Cash and Cash Equivalents	-	3,166,558,929	-	-	-	-	-	569,862,688	-	-	-	-	3,736,421,617
Balances with Central Bank	-	-	-	-	-	-	-	4,095,243,197	-	-	-	-	4,095,243,197
Placement with other Banks	-	1,824,508,963	-	-	-	-	-	-	-	-	-	-	1,824,508,963
Loans & Advances to Customers	3,078,504,342	4,627,150,083	1,364,965,865	8,148,370,330	1,768,401,255	925,045,419	47,080,092	783,638,125	6,158,034,569	356,941	62,113,022	58,643,667	27,022,303,710
Investments in Associates	91,463,480	-	-	-	-	-	-	-	-	-	-	-	91,463,480
Equity Instruments at Fair Value through P/L	100,876,291	11,962,201	-	-	-	-	-	-	-	-	-	-	112,838,492
Equity Instruments at Fair Value through OCI	-	39,561,000	-	-	-	-	-	-	-	-	-	-	39,561,000
Debt Instruments at Amortized Cost	116,950,699	-	-	-	-	-	-	-	-	-	-	-	116,950,699
Other Financial Assets	-	-	-	-	-	-	-	182,137,220	-	-	-	-	182,137,220

Group (Nu.)

31st December 2018	Product & Manufacturing	Services	Trade & Commerce	Housing Loans	Transport Loans	Personal Loans	Agriculture	Others	ODWC	Credit Card	Bills	Suspended	Total
Cash and Cash Equivalents	-	3,166,558,929	-	-	-	-	-	569,862,688	-	-	-	-	3,736,421,617
Balances with Central Bank	-	-	-	-	-	-	-	4,095,243,197	-	-	-	-	4,095,243,197
Placement with other Banks	-	1,824,508,963	-	-	-	-	-	-	-	-	-	-	1,824,508,963
Loans & Advances to Customers	3,078,504,342	4,627,150,083	1,364,965,865	8,148,370,330	1,768,401,255	925,045,419	47,080,092	783,638,125	6,158,034,569	356,941	62,113,022	58,643,667	27,022,303,710
Investments in Associates	93,394,481	-	-	-	-	-	-	-	-	-	-	-	93,394,481
Equity Instruments at Fair Value through P/L	100,876,291	11,962,201	-	-	-	-	-	-	-	-	-	-	112,838,492
Equity Instruments at Fair Value through OCI	-	39,561,000	-	-	-	-	-	-	-	-	-	-	39,561,000
Debt Instruments at Amortized Cost	116,950,699	-	-	-	-	-	-	-	-	-	-	-	116,950,699
Other Financial Assets	-	-	-	-	-	-	-	182,137,220	-	-	-	-	182,137,220

N. C. MITRA & CO. Chartered Accountants KOLKATA

Bank (Nu.)

31st December 2017	Product & Manufacturing	Services	Trade & Commerce	Housing Loans	Transport Loans	Personal Loans	Agriculture	Others	ODWC	Credit Card	Bills	Suspended	Total
Cash and Cash Equivalents		6,198,339,668						499,626,519					6,697,966,187
Balances with Central Bank								4,536,360,335					4,536,360,335
Placement with other Banks		1,008,597,885											1,008,597,885
Loans & Advances to Customers	3,368,227,768	3,698,611,219	1,293,371,489	7,065,786,070	1,481,085,675	1,001,859,112	-	775,114,499	5,967,286,415	1,057,762	28,011,688	70,838,067	24,751,249,763
Investments in Associates	91,463,480												91,463,480
Equity Instruments at Fair Value through P/L	62,797,162	21,311,851											84,109,013
Equity Instruments at Fair Value through OCI		39,561,000											39,561,000
Debt Instruments at Amortized Cost	116,949,561												116,949,561
Other Financial Assets								207,057,808					207,057,808

Group (Nu.)

31st December 2017	Product & Manufacturing	Services	Trade & Commerce	Housing Loans	Transport Loans	Personal Loans	Agriculture	Others	ODWC	Credit Card	Bills	Suspended	Total
Cash and Cash Equivalents	-	6,198,339,668	-	-	-	-	-	499,626,519	-	-	-	-	6,697,966,187
Balances with Central Bank	-	-	-	-	-	-	-	4,536,360,335	-	-	-	-	4,536,360,335
Placement with other Banks	-	1,008,597,885	-	-	-	-	-	-	-	-	-	-	1,008,597,885
Loans & Advances to Customers	3,368,227,768	3,698,611,219	1,293,371,489	7,065,786,070	1,481,085,675	1,001,859,112	-	775,114,499	5,967,286,415	1,057,762	28,011,688	70,838,067	24,751,249,763
Investments in Associates	108,342,544	-	-	-	-	-	-	-	-	-	-	-	108,342,544
Equity Instruments at Fair Value through P/L	62,797,162	21,311,851	-	-	-	-	-	-	-	-	-	-	84,109,013
Equity Instruments at Fair Value through OCI	-	39,561,000	-	-	-	-	-	-	-	-	-	-	39,561,000
Debt Instruments at Amortized Cost	116,949,561	-	-	-	-	-	-	-	-	-	-	-	116,949,561
Other Financial Assets	-	-	-	-	-	-	-	207,057,808	-	-	-	-	207,057,808

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.4 Credit Loss Exposure

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

2018 In Nu. million	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual/Collective	Total
Cash & cash Equivalents	909,530	-	-	909,530
Placement with other Banks	36,242	-	-	36,242
Loans & Advances to Customers	714,721,633	324,350,696	770,495,198	1,809,567,527
Debt instruments at amortised cost	2,268	-	-	2,268
Off balance sheet items	-	-	-	
Financial guarantees	-	4,082,239	-	4,082,239
Letters of credit	-	1,388,785	-	1,388,785
Total Impairment Loss	**715,669,674**	**329,821,720**	**770,495,198**	**1,815,986,592**

31 December 2017 In Nu. million	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual/Collective	Total
Cash & cash Equivalents	535,720	-	-	535,720
Placement with other Banks	7,594	-	-	7,594
Loans & Advances to Customers	743,936,294	237,133,493	698,286,326	1,679,356,113
Debt instruments at amortised cost	3,407	-	-	3,407
Off balance sheet items	-	-	-	-
Financial guarantees	-	5,205,800	-	5,205,800
Letters of credit	-	1,347,708	-	1,347,708
Total Impairment Loss	**744,483,015**	**243,687,001**	**698,286,326**	**1,686,456,341**

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

38.1.5 Loans and advances to customers

	2018	2017
OD & Working Capital	7,178,188,617	6,905,280,395
Housing Loans	8,231,819,540	7,174,895,420
Services	4,732,692,700	3,779,950,573
Product & Manufacturing	3,217,286,056	3,480,984,848
Transport Loans	1,785,008,935	1,494,825,949
Trade & Commerce	1,443,842,661	1,374,149,068
Personal Loans	943,901,176	1,025,682,751
Others	476,476,950	520,557,914
Credit Card	2,288,708	2,420,593
Agriculture	47,880,650	263,630
Suspended Loan	382,150,323	358,539,818
Bills	69,204,640	31,356,865
Fairvalue Adjusted Staff Loan	245,292,947	225,900,553
Loan against TDs	81,308,357	62,351,010
	28,837,342,261	**26,437,159,384**
Less: Allowance for ECL/impairment losses (Individual & Collective)	(1,815,038,551)	(1,685,909,621)
	27,022,303,710	**24,751,249,763**

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.5.1 Impairment allowance for loans and advances to customers

38.1.5.1.1 OD & Working Capital

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	2018				2017			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**
Current	3,803,876,251			**3,803,876,251**	3,569,595,439			**3,569,595,439**
1-30 Days Passed Due	1,775,088,906			**1,775,088,906**	2,044,827,809			**2,044,827,809**
31-60 Days Passed Due		945,845,368		**945,845,368**		704,751,796		**704,751,796**
61-90 Days Passed Due		279,841,419		**279,841,419**		298,458,352		**298,458,352**
90 Days & Above			373,536,674	**373,536,674**			287,646,998	**287,646,998**
Individually impaired	-	-	-	-				-
Total	**5,578,965,157**	**1,225,686,786**	**373,536,674**	**7,178,188,617**	**5,614,423,248**	**1,003,210,148**	**287,646,998**	**6,905,280,395**

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

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**5,614,423,248**	**1,003,210,148**	**287,646,998**	**6,905,280,395**
New assets originated	611,217,735	352,156,877	45,643,029	**1,009,017,641**
Assets derecognised or repaid	(472,686,263)	(86,061,453)	(177,361,704)	**(736,109,419)**
Transfers to Stage 1	(465,741,246)	380,639,835	85,101,411	-
Transfers to Stage 2	291,751,682	(424,258,622)	132,506,940	-
Transfers to Stage 3	-	-		-
At 31 December 2018	**5,578,965,157**	**1,225,686,786**	**373,536,674**	**7,178,188,617**

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.5.1.2 Housing

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total
Current	6,571,960,210			**6,571,960,210**	5,979,469,847			**5,979,469,847**
1-30 Days Passed Due	708,052,277			**708,052,277**	541,665,289			**541,665,289**
31-60 Days Passed Due		491,148,470		**491,148,470**		425,331,444		**425,331,444**
61-90 Days Passed Due		350,454,230		**350,454,230**		113,984,531		**113,984,531**
90 Days & Above			110,204,352	**110,204,352**			114,444,310	**114,444,310**
Individually impaired	-	-	-	-				-
Total	**7,280,012,488**	**841,602,700**	**110,204,352**	**8,231,819,540**	**6,521,135,136**	**539,315,975**	**114,444,310**	**7,174,895,420**

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

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**6,521,135,136**	**539,315,975**	**114,444,310**	**7,174,895,420**
New assets originated	2,341,354,473	131,387,847	23,405,942	**2,496,148,263**
Assets derecognised or repaid	(1,282,028,981)	(78,567,972)	(78,627,190)	**(1,439,224,143)**
Transfers to Stage 1	(491,730,793)	467,280,506	24,450,287	-
Transfers to Stage 2	191,282,653	(217,813,656)	26,531,004	-
Transfers to Stage 3	-			-
At 31 December 2018	**7,280,012,488**	**841,602,700**	**110,204,352**	**8,231,819,540**

N.C. MITRA & CO. Chartered Accountants KOLKATA

38.1.5.1.3 Production and Manufacturing

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total
Current	2,386,726,801			**2,386,726,801**	2,806,341,087			**2,806,341,087**
1-30 Days Passed Due				-	5,936,390			**5,936,390**
31-60 Days Passed Due		298,011,260		**298,011,260**		371,155,602		**371,155,602**
61-90 Days Passed Due		168,251,779		**168,251,779**				-
90 Days & Above			364,296,215	**364,296,215**			297,551,768	**297,551,768**
Individually impaired	-	-	-	-				-
Total	**2,386,726,801**	**466,263,038**	**364,296,215**	**3,217,286,055**	**2,812,277,478**	**371,155,602**	**297,551,768**	**3,480,984,848**

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

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**2,812,277,478**	**371,155,602**	**297,551,768**	**3,480,984,848**
New assets originated	796,662,263	192,869,444	23,807,373	1,013,339,080
Assets derecognised or repaid	(1,082,722,999)	(227,774,347)	(105,301,647)	(1,415,798,994)
Transfers to Stage 1	(208,870,500)	135,125,558	73,744,942	-
Transfers to Stage 2	69,380,560	(5,113,219)	74,493,779	138,761,120
Transfers to Stage 3				-
At 31 December 2018	**2,386,726,801**	**466,263,038**	**364,296,215**	**3,217,286,054**

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.5.1.4 Transport

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	**2018**				**2017**			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**
Current	1,190,212,670			**1,190,212,670**	1,120,054,734			**1,120,054,734**
1-30 Days Passed Due	1,015,449			**1,015,449**	6,729,213			**6,729,213**
31-60 Days Passed Due		350,394,876		**350,394,876**		336,142,978		**336,142,978**
61-90 Days Passed Due		195,618,847		**195,618,847**		388,675		**388,675**
90 Days & Above			47,767,093	**47,767,093**			31,510,348	**31,510,348**
Individually impaired	-	-	-	-				-
Total	**1,191,228,119**	**546,013,723**	**47,767,093**	**1,785,008,935**	**1,126,783,948**	**336,531,653**	**31,510,348**	**1,494,825,949**

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

In NU. million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	**1,126,783,948**	**336,531,653**	**31,510,348**	**1,494,825,949**
New assets originated	491,676,718	229,526,876	18,872,513	740,076,108
Assets derecognised or repaid	(287,742,607)	(11,296,026)	(150,854,489)	(449,893,122)
Transfers to Stage 1	(208,870,500)	135,125,558	73,744,942	-
Transfers to Stage 2	69,380,560	(143,874,338)	74,493,779	-
Transfers to Stage 3	-			-
At 31 December 2018	**1,191,228,119**	**546,013,723**	**47,767,093**	**1,785,008,935**

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

38.1.5.1.5 Trade & Commerce

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total
Current	977,547,312			**977,547,312**	898,566,519			**898,566,519**
1-30 Days Passed Due	786,920			**786,920**	485,974			**485,974**
31-60 Days Passed Due		177,764,965		**177,764,965**		309,947,772		**309,947,772**
61-90 Days Passed Due		160,265,233		**160,265,233**				-
90 Days & Above			127,478,231	**127,478,231**			165,148,803	**165,148,803**
Individually impaired	-	-	-	-				-
Total	**978,334,231**	**338,030,199**	**127,478,231**	**1,443,842,661**	**899,052,493**	**309,947,772**	**165,148,803**	**1,374,149,068**

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

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**899,052,493**	**309,947,772**	**165,148,803**	**1,374,149,068**
New assets originated	553,551,074	168,319,328	26,008,790	747,879,192
Assets derecognised or repaid	(398,883,854)	(66,833,848)	(212,467,897)	(678,185,599)
Transfers to Stage 1	(140,390,439)	96,202,960	44,187,479	-
Transfers to Stage 2	65,004,957	(169,606,013)	104,601,056	-
Transfers to Stage 3				-
At 31 December 2018	**978,334,231**	**338,030,199**	**127,478,231**	**1,443,842,661**

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.5.1.6 Personal

The table below shows the credit quality and the maximum exposure to credit risk based on the past due status of the borrowers. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

38.1.5.1.7 Credit Card

The table below shows the credit quality and the maximum exposure to credit risk based on the past due status of the borrowers. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total
Current	75,886			**75,886**	1,601,260			**1,601,260**
1-30 Days Passed Due	307,945			**307,945**				**-**
31-60 Days Passed Due		96,634		**96,634**		2,398		**2,398**
61-90 Days Passed Due		34,058		**34,058**		80,001		**80,001**
90 Days & Above			1,774,185	**1,774,185**			736,934	**736,934**
Individually impaired	-	-	-	**-**				**-**
Total	**383,830**	**130,692**	**1,774,185**	**2,288,707**	**1,601,260**	**82,398**	**736,934**	**2,420,593**

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

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**1,601,260**	**82,398**	**736,934**	**2,420,593**
New assets originated	5,512	35,176	94,332	**135,019**
Assets derecognised or repaid	(485,947)	35,019	184,024	**(266,905)**
Transfers to Stage 1	(811,004)	58,100	752,904	**-**
Transfers to Stage 2	74,009	(80,001)	5,991	**-**
Transfers to Stage 3				**-**
At 31 December 2018	**383,830**	**130,692**	**1,774,185**	**2,288,707**

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.5.2 Impairment allowance as at 31 December 2018

An analysis of the allowance for impairment losses under BFRS 9/IFRS 9 for loans and advances, by sector, for the year 31 December 2018 is, as follows:

In NU. million	ODWC	Housing	Services	Production & manufacturing	Transport	Trade and commerce	Personal	Others	Credit card	Agriculture	Total
At 1 January 2018	**910,102,844**	**109,109,350**	**81,339,354**	**112,757,079**	**13,740,274**	**80,777,578**	**23,823,639**	**6,849,356**	**1,362,831**	**-**	**1,339,862,306**
Charge/ Reversal for the year	94,111,157	(25,660,140)	24,203,264	26,024,633	2,867,407	(1,900,783)	(4,967,883)	(28,148)	568,936	800,558	116,019,001
At 31 December 2018	**1,004,214,001**	**83,449,210**	**105,542,618**	**138,781,712**	**16,607,680**	**78,876,796**	**18,855,757**	**6,821,208**	**1,931,767**	**800,558**	**1,455,881,306**
Made up of:											
Individual impairment	-	-		-	-	-	-	-	-	-	-
Collective impairment:	1,004,214,001	83,449,210	105,542,618	138,781,712	16,607,680	78,876,796	18,855,757	6,821,208	1,931,767	800,558	1,455,881,306
Gross amount of loans individually determined to be impaired	1,004,214,001	83,449,210	105,542,618	138,781,712	16,607,680	78,876,796	18,855,757	6,821,208	1,931,767	800,558	1,455,881,306

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.6 Financial investments other than those measured at FVPL

Below is an analysis of the Bank's financial investments other than those measured at FVPL:

In NU. million	2018	2017
Financial investments - Available-for-sale (not pledged as collateral)		
Equities	39,561,000	39,561,000
Total	**39,561,000**	**39,561,000**
Available for sale investments pledged as collateral		
Equities	-	-
Total	**-**	**-**
Debt instruments at amortised cost		
Corporate bonds	116,950,699	116,949,561
Total	**116,950,699**	**116,949,561**
Total financial investments other than those measured at FVPL	**156,511,699**	**156,510,561**

The Bank received Nu. 12.07 million in the year 2017 and Nu. 41.73 million in the year 2018 as dividends from its available-for-sale securities.

38.1.7 Impairment losses on financial investments subject to impairment assessment

38.1.7.1 Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk and the amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.9.1 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	2018			
Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Performing				
High grade	116,950,699	-	-	**116,950,699**
Standard grade	-	-	-	-
Sub-standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Non- performing	-	-	-	-
Individually impaired	-	-	-	-
Total	**116,950,699**	**-**	**-**	**116,950,699**

An analysis of changes in the gross carrying amount and the corresponding ECLs is, as follows:

N. C. MITRA & CO. Chartered Accountants KOLKATA

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 Jan	**116,949,561**	**-**	**-**	**116,949,561**
New assets purchased	-	-	-	-
Assets derecognised or matured (excl	1,139	-	-	**1,139**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2018	**116,950,699**	**-**	**-**	**116,950,699**

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
ECL allowance as at 1 January 20	3,407	-	-	**3,407**
New assets purchased	-	-	-	-
Charge /Reversal	(1,139)	-	-	**(1,139)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2018	**2,268**	**-**	**-**	**2,268**

38.1.8 Contingent liabilities, commitments

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

Letters of credit and 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. The nominal values of such commitments are listed below:

In NU. million	2018	2017
Financial guarantees	1,976,298,923	2,773,791,244
Letters of credit	236,484,852.33	191,286,215.00
Other undrawn commitments	3,503,731,071	3,106,524,593
Total	**5,716,514,846**	**6,071,602,052**

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.8.1 Impairment losses on guarantees and other commitments

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

38.1.8.1.1 Financial guarantees

The table below shows the credit quality and the maximum exposure to credit risk based on the customer passed due days Details of the Bank's internal credit risk management policies are in Note 38.1 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 38.1.9.5.

Outstanding exposure In NU. million	2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total
Current				-
1-30 Days Passed Due				-
31-60 Days Passed Due		1,976,298,923		**1,976,298,923**
61-90 Days Passed Due				-
90 Days & Above				-
Total	**-**	**1,976,298,923**	**-**	**1,976,298,923**

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

In NU. million	Stage 1 Individual	Stage 2 Individual	Stage 3
Outstanding exposure as at 1 January 2018		2,773,791,244	-
New exposures		3,798,030,610	-
Exposure derecognised or matured/lapsed (excluding		(4,595,522,931)	-
write offs)	-	-	-
Transfers to Stage 1	-	-	-
Transfers to Stage 2	-	-	-
Transfers to Stage 3	-	-	-
At 31 December 2018	**-**	**1,976,298,923**	**-**

38.1.8.1.2 Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the customer passed due days. Details of the Bank's internal credit risk management policies are in Note 38.1 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 38.1.9.5.

N. C. MITRA & CO. Chartered Accountants KOLKATA

Outstanding exposure

In NU. million

Delinquency Grades	**2018** **Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Ind/Coll**	**Total**
Current				
1-30 Days Passed Due				-
31-60 Days Passed Due				-
61-90 Days Passed Due		236,484,852		**236,484,852**
90 Days & Above				-
Total	**-**	**236,484,852**	**-**	**236,484,852**

An analysis of changes in the outstanding exposures and the corresponding ECLs is, as follows:

In NU. million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Outstanding exposure as at 1 January 2018	-	191,286,215	-	**191,286,215**
New exposures	-	1,913,758,650	-	**1,913,758,650**
Exposure derecognised or matured/lapsed	-	(1,868,560,013)	-	(1,868,560,013)
(excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2018	**-**	**236,484,852**	**-**	**236,484,852**

38.1.8.1.3 Other undrawn commitments continued

N. C. MITRA & CO. Chartered Accountants KOLKATA

Outstanding exposure

In NU. million	2018			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Ind/Coll**	**Total**
Current	3,503,731,071			3,503,731,071
1-30 Days Passed Due				-
31-60 Days Passed Due				-
61-90 Days Passed Due		-		-
90 Days & Above				-
Total	**3,503,731,071**	**-**	**-**	**3,503,731,071**

An analysis of changes in the outstanding exposures and the corresponding ECLs is, as follows:

In NU. million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Outstanding exposure as at 1 January 2018	3,106,524,593	-	-	**3,106,524,593**
New exposures	1,382,375,300	-	-	**1,382,375,300**
Exposure derecognised or matured/lapsed	(985,168,822)	-	-	(985,168,822)
(excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2018	**3,503,731,071**	**-**	**-**	**3,503,731,071**

38.1.9 Impairment Assessment (Policy applicable from January 1, 2018)

The Bank considers a financial instrument defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances as defaulted and takes immediate action when the required payments are not settled by the close of the business as outlined in the individual agreements. As part of qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such event occurs, the Bank carefully considers a whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculation.

It is in the Bank's policy to consider a financial instrument as 'Cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit status, at the time of the cure, and whether this indicates there has been significant increase in the credit risk compared to initial recognition.

38.1.9.1 The Bank's internal rating process

Treasury, trading and interbank relationships

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

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on the behavior of the customer and the RMA classification based on the past due status. Further bank considers following when assessing the risk of a customer:

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

The Bank's Delinquency status

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

38.1.9.2 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.5.6.5.

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

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

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

38.1.9.3 Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every three months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held

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

Further recent data and forward-looking economic scenarios are used in order to determine the BFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios.

38.1.9.4 Significant increase in credit risk

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

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

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

38.1.9.5 Grouping financial assets measured on a collective basis

As explained in Note 2.5.6 dependent on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

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

Asset classes where the Bank calculates ECL on a collective basis include Customers below the Individually Significant threshold of 25%

The Bank groups these exposure into smaller homogeneous portfolios described below:

- Product Type
- Collateral Type
- Nature of Business
- Utilisation/Revolving Amount
- Income/Repayment source
- Loan Amount
- LTV
- LTI
- Repayment history

38.1.10 Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 2.5.6.1 Summary of significant accounting policies and in Note 2.4 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (RMA Published data, IMF & World Bank.) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios for each of the four geographical segments, as at 31 December 2017 and 2018.

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

31 December 2018

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

1 January 2018

Key drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent years
		%	%	%	%	%	%	%
GDP growth %	Base Case	30	5.22	5.22	5.22	5.22	5.22	5.22
	Best Case	30	7.37	7.52	7.67	7.82	7.98	7.99
	Worse Case	40	3.22	2.14	2.14	2.14	2.14	2.14
Inflation Rates %	Base Case	30	4.90	4.90	4.90	4.90	4.90	4.90
	Best Case	30	4.67	4.55	4.43	4.32	4.31	4.31
	Worse Case	40	9.82	10.92	10.92	10.92	10.92	10.92
Interest Rate %	Base Case	30	13.04	13.04	13.04	13.04	13.04	13.04
	Best Case	30	12.92	12.85	12.75	12.60	12.46	12.46
	Worse Case	40	13.35	13.52	13.64	13.72	13.74	13.74
Exchange rates (USD $ to Ngultrum BTN)	Base Case	30	69.87	74.69	79.85	85.36	91.24	97.54
	Best Case	30	70.34	75.19	80.38	85.93	91.86	98.19
	Worse Case	40	87.96	94.03	100.00	100.00	100.00	100.00
Unemployment rates %	Base Case	30	2.00	2.00	2.00	2.00	2.00	2.00
	Best Case	30	1.99	1.99	1.98	1.96	1.95	1.95
	Worse Case	40	2.02	2.04	2.05	2.05	2.06	2.06

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.1.11 Credit risk exposure analysis

December 31 2018	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3 Individual & Collective	Total
Per portfolio						
Cash & cash Equivalents	-	909,530	-	-	-	909,530
Placement with other Banks	-	36,242	-	-	-	36,242
Debt Instruments at Amortized Cos	-	2,268	-	-	-	2,268
Loans & Advances to Customers	-	709,250,609	-	336,969,815	763,347,299	1,809,567,723
Financial guarantees	-	-	-	4,082,239	-	4,082,239
Letters of credit	-	-	-	1,388,785	-	1,388,785
Per industry segment(*)						
OD & Working Capital	-	542,953,238	-	215,074,158	262,126,652	1,020,154,048
Housing Loans	-	27,491,559	-	29,193,217	26,764,434	83,449,210
Services	-	63,910,198	-	21,437,767	20,194,653	105,542,618
Product & Manufacturing	-	39,890,670	-	36,909,131	61,981,911	138,781,712
Transport Loans	-	4,725,858	-	6,584,850	5,296,973	16,607,680
Trade & Commerce	-	14,399,779	-	16,136,322	48,340,695	78,876,796
Personal Loans	-	2,359,571	-	1,928,083	14,568,103	18,855,757
Others	-	6,385,975	-	435,233	-	6,821,208
Credit Card	-	1,339,503	-	25,042	567,222	1,931,767
Agriculture	-	761,054	-	39,504	-	800,558
Suspended Loan	-	-	-	-	323,506,656	323,506,656
Bills	-	5,032,343	-	2,059,275	-	7,091,618
Devolved LC	-	-	-	7,147,899	-	7,147,899

(*) Includes financial assets measured at FVOCI and also financial assets measured amortised cost.

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

38.2 Liquidity Risk & Funding management

38.2.1 Maturity Profile of Undiscounted cashflow

The tables below summarize the maturity profile of the undiscounted cash flows of the Bank's financial assets and financial liabilities as at 31st December 2018. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

	Bank (Nu)					
31st December 2018	**up to 3 months**	**3 to 12 months**	**1 to 3 years**	**3-5 Years**	**Over 5 years**	**Total**
Cash & cash Equivalents	3,736,421,617	-	-	-	-	**3,736,421,617**
Cash & Balances with Central Bank	4,095,243,197	-	-	-	-	**4,095,243,197**
Placement with other Banks	-	1,824,508,963	-	-	-	**1,824,508,963**
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	2,721,483,452	7,182,575,963	5,417,582,505	2,827,673,068	15,112,229,803	**33,261,544,790**
Investments in Subsidiaries	-	-	-	-	-	-
Investments in Associates	-	-	-	-	91,463,480	**91,463,480**
Equity Instruments at Fair Value through P/L	-	-	-	-	112,838,492	**112,838,492**
Equity Instruments at Fair Value through OCI	-	-	-	-	39,561,000	**39,561,000**
Debt Instruments at Amortized Cost		10,379,880	20,759,760	20,759,760	125,711,880	**177,611,280**
Other Financial Assets	-	-	-	-	182,137,220	**182,137,220**
Total undiscounted Assets	**10,553,148,266**	**9,017,464,806**	**5,438,342,265**	**2,848,432,828**	**15,663,941,875**	**43,521,330,040**
Due to Banks	2,151,733,313	1,811,146,758	174,767,117	1,303,092,301	5,660,726,293	**11,101,465,782**
Due to Customers	12,069,103,627	3,129,724,006	2,558,399,129	599,576,404	595,508,050	**18,952,311,216**
Debts Issued & Other Borrowed Funds	-	30,000,000	60,000,000	60,000,000	530,000,000	**680,000,000**
Unclaimed Balances	8,438,591	-	-	-	-	**8,438,591**
Other Liabilities	14,060,402	-	-	-	-	**14,060,402**
Total undiscounted Liabilities	**14,243,335,933**	**4,970,870,764**	**2,793,166,246**	**1,962,668,705**	**6,786,234,343**	**30,756,275,990**
Net Undiscounted Financial Assets/(Liabilities)	**(3,690,187,667)**	**4,046,594,042**	**2,645,176,019**	**885,764,123**	**8,877,707,533**	**12,765,054,050**

N. C. MITRA & CO. Chartered Accountants KOLKATA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group (Nu)					
31st December 2018	**up to 3 months**	**3 to 12 months**	**1 to 3 years**	**3-5 Years**	**Over 5 years**	**Total**
Cash & cash Equivalents	3,736,421,617	-	-	-	-	**3,736,421,617**
Cash & Balances with Central Bank	4,095,243,197	-	-	-	-	**4,095,243,197**
Placement with other Banks	-	1,824,508,963	-	-	-	**1,824,508,963**
Due From Banks	-	-	-	-	-	**-**
Loans & Advances to Customers	2,721,483,452	7,182,575,963	5,417,582,505	2,827,673,068	15,112,229,803	**33,261,544,790**
Investments in Associates	-	-	-	-	93,394,481	**93,394,481**
Equity Instruments at Fair Value through P/L	-	-	-	-	112,838,492	**112,838,492**
Equity Instruments at Fair Value through OCI	-	-	-	-	39,561,000	**39,561,000**
Debt Instruments at Amortized Cost	-	10,379,880	20,759,760	20,759,760	125,711,880	**177,611,280**
Other Financial Assets	-	-	-	-	182,137,220	**182,137,220**
Total undiscounted Assets	**10,553,148,266**	**9,017,464,806**	**5,438,342,265**	**2,848,432,828**	**15,665,872,876**	**43,523,261,041**
Due to Banks	2,151,733,313	1,811,146,758	174,767,117	1,303,092,301	5,660,726,293	**11,101,465,782**
Due to Customers	12,069,103,627	3,129,724,006	2,558,399,129	599,576,404	595,508,050	**18,952,311,216**
Debts Issued & Other Borrowed Funds	-	30,000,000	60,000,000	60,000,000	530,000,000	**680,000,000**
Unclaimed Balances	8,438,591	-	-	-	-	**8,438,591**
Other Liabilities	14,060,402	-	-	-	-	**14,060,402**
Total undiscounted Liabilities	**14,243,335,933**	**4,970,870,764**	**2,793,166,246**	**1,962,668,705**	**6,786,234,343**	**30,756,275,990**
Net Undiscounted Financial Assets/(Liabilities)	**(3,690,187,667)**	**4,046,594,042**	**2,645,176,019**	**885,764,123**	**8,879,638,534**	**12,766,985,051**

N. C. MITRA & CO. Chartered Accountants KOLKATA

31st December 2017	Bank (Nu) up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
Cash & cash Equivalents	6,697,966,187	-	-	-	-	**6,697,966,187**
Cash & Balances with Central Bank	4,536,360,335	-	-	-	-	**4,536,360,335**
Placement with other Banks	-	1,008,597,885	-	-	-	**1,008,597,885**
Due From Banks	-	-	-	-	-	**-**
Loans & Advances to Customers	2,004,504,069	8,433,850,059	6,131,440,922	4,340,527,113	19,059,146,877	**39,969,469,040**
Investments in Subsidiaries	-	-	-	-	-	**-**
Investments in Associates	-	-	-	-	91,463,480	**91,463,480**
Equity Instruments at Fair Value through P/L	-	-	-	-	84,109,013	**84,109,013**
Equity Instruments at Fair Value through OCI					39,561,000	**39,561,000**
Debt Instruments at Amortized Cost	-	10,379,880	20,759,760	20,759,760	136,091,760	**187,991,160**
Other Financial Assets	-	-	-	-	207,057,808	**207,057,808**
Total undiscounted Assets	**13,238,830,591**	**9,452,827,825**	**6,152,200,682**	**4,361,286,873**	**19,617,429,939**	**52,822,575,909**
Due to Banks	1,804,592,365	2,375,067,007	936,754,979	949,381,290	2,316,091,018	**8,381,886,659**
Due to Customers	16,495,019,480	2,086,499,795	2,039,579,107	638,406,709	318,637,576	**21,578,142,668**
Debts Issued & Other Borrowed Funds	-	401,000,000	60,000,000	60,000,000	560,000,000	**1,081,000,000**
Unclaimed Balances	43,149,082	-	-	-	-	**43,149,082**
Other Liabilities	23,865,734	-	-	-	-	**23,865,734**
Total undiscounted Liabilities	**18,366,626,660**	**4,862,566,802**	**3,036,334,086**	**1,647,787,999**	**3,194,728,595**	**31,108,044,142**
Net Undiscounted Financial Assets/(Liabilities)	**(5,127,796,069)**	**4,590,261,023**	**3,115,866,595**	**2,713,498,873**	**16,422,701,344**	**21,714,531,767**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group (Nu)					
31st December 2017	**up to 3 months**	**3 to 12 months**	**1 to 3 years**	**3-5 Years**	**Over 5 years**	**Total**
Cash & cash Equivalents	6,697,966,187	-	-	-	-	**6,697,966,187**
Cash & Balances with Central Bank	4,536,360,335	-	-	-	-	**4,536,360,335**
Placement with other Banks	-	1,008,597,885	-	-	-	**1,008,597,885**
Due From Banks	-	-	-	-	-	**-**
Loans & Advances to Customers	2,004,504,069	8,433,850,059	6,131,440,922	4,340,527,113	19,059,146,877	**39,969,469,040**
Investments in Associates	-	-	-	-	108,342,544	**108,342,544**
Equity Instruments at Fair Value through P/L	-	-	-	-	84,109,013	**84,109,013**
Equity Instruments at Fair Value through OCI					39,561,000	**39,561,000**
Debt Instruments at Amortized Cost	-	10,379,880	20,759,760	20,759,760	136,091,760	**187,991,160**
Other Financial Assets	-	-	-	-	207,057,808	**207,057,808**
Total undiscounted Assets	**13,238,830,591**	**9,452,827,825**	**6,152,200,682**	**4,361,286,873**	**19,634,309,003**	**52,839,454,973**
Due to Banks	1,804,592,365	2,375,067,007	936,754,979	949,381,290	2,316,091,018	**8,381,886,659**
Due to Customers	16,495,019,480	2,086,499,795	2,039,579,107	638,406,709	318,637,576	**21,578,142,668**
Debts Issued & Other Borrowed Funds	-	401,000,000	60,000,000	60,000,000	560,000,000	**1,081,000,000**
Unclaimed Balances	43,149,082	-	-	-	-	**43,149,082**
Other Liabilities	23,865,734	-	-	-	-	**23,865,734**
Total undiscounted Liabilities	**18,366,626,660**	**4,862,566,802**	**3,036,334,086**	**1,647,787,999**	**3,194,728,595**	**31,108,044,142**
Net Undiscounted Financial Assets/(Liabilities)	**(5,127,796,069)**	**4,590,261,023**	**3,115,866,595**	**2,713,498,873**	**16,439,580,408**	**21,731,410,831**

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38.2.2 Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Bank (Nu)					
As at 31 Dec 2018	**On Demand**	**ess than 3 Montl**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Contingencies						
Financial guarantees	-	704,857,936	1,070,080,642	200,848,151	349,193	-
LCs	14,699,429	93,706,061	128,079,363	-	-	-
Total Contingenceis	**14,699,429**	**798,563,997**	**1,198,160,005**	**200,848,151**	**349,193**	**-**
Commitments						
Undrawn credit card limits	53,480,136	-	-	-	-	-
Undrawn OD	2,066,613,724	-	-	-	-	-
Undisbursed other loans & advances	1,383,637,211	-	-	-	-	-
Total Commitments	**3,503,731,071**	**-**	**-**	**-**	**-**	**-**

	Group (Nu)					
As at 31 Dec 2018	**On Demand**	**ess than 3 Montl**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Contingencies						
Financial guarantees	-	704,857,936	1,070,080,642	200,848,151	349,193	-
LCs	14,699,429	93,706,061	128,079,363	-	-	-
Total Contingenceis	**14,699,429**	**798,563,997**	**1,198,160,005**	**200,848,151**	**349,193**	**-**
Commitments						
Undrawn credit card limits	53,480,136	-	-	-	-	-
Undrawn OD	2,066,613,724	-	-	-	-	-
Undisbursed other loans & advances	1,383,637,211	-	-	-	-	-
Total Commitments	**3,503,731,071**	**-**	**-**	**-**	**-**	**-**

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	Bank (Nu)					
As at 31 Dec 2017	**On Demand**	**Less than 3 Months**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Contingencies						
Financial guarantees	50,000	1,017,438,443	1,431,610,233	254,836,829	2,961,287	66,894,452
LCs	24,484,178	65,660,598	2,949,970	-	-	98,191,468
Total Contingenceis	**24,534,178**	**1,083,099,041**	**1,434,560,203**	**254,836,829**	**2,961,287**	**165,085,920**
Commitments						
Undrawn credit card limits	660,974,002	-	-	-	-	-
Undrawn OD	2,095,769,476	-	-	-	-	-
Undisbursed other loans & advances	41,446,456	-	-	-	-	-
Total Commitments	**2,798,189,933**	**-**	**-**	**-**	**-**	**-**

	Group (Nu)					
As at 31 Dec 2017	**On Demand**	**Less than 3 Months**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Contingencies						
Financial guarantees	50,000	1,017,438,443	1,431,610,233	254,836,829	2,961,287	66,894,452
LCs	24,484,178	65,660,598	2,949,970	-	-	98,191,468
Total Contingenceis	**24,534,178**	**1,083,099,041**	**1,434,560,203**	**254,836,829**	**2,961,287**	**165,085,920**
Commitments						
Undrawn credit card limits	660,974,002	-	-	-	-	-
Undrawn OD	2,095,769,476	-	-	-	-	-
Undisbursed other loans & advances	41,446,456	-	-	-	-	-
Total Commitments	**2,798,189,933**	**-**	**-**	**-**	**-**	**-**

N. C. MITRA & CO. Chartered Accountants KOLKATA

38.2.3 Maturity Profile of cashflow

Maturity Gap Analysis

	Bank (Nu)		Group (Nu)	
As at 31 Dec 2018	**Within 12 Months**	**After 12 Months**	**Within 12 Months**	**After 12 Months**
Cash & cash Equivalents	3,736,421,617	-	3,736,421,617	-
Cash & Balances with Central Bank	4,095,243,197	-	4,095,243,197	-
Placement with other Banks	1,824,508,963	-	1,824,508,963	-
Due From Banks	-	-	-	-
Loans & Advances to Customers	9,904,059,414	23,357,485,376	9,904,059,414	23,357,485,376
Investments in Associates	-	91,463,480	-	93,394,481
Financial Investments Available for Sale	-	112,838,492	-	112,838,492
Investment's in Bonds	10,379,880	167,231,400	10,379,880	167,231,400
Other Financial Assets	-	182,137,220	-	182,137,220
Other Assets		297,638,368		297,638,368
Property & Equipment		745,095,879		745,095,879
Intangible Assets		66,271,415		66,271,415
Total Assets	**19,570,613,072**	**25,020,161,631**	**19,570,613,072**	**25,022,092,632**
Liabilities				
Due to Banks	3,962,880,071	7,138,585,711	3,962,880,071	7,138,585,711
Due to Customers	15,198,827,634	3,753,483,583	15,198,827,634	3,753,483,583
Debts Issued & Other Borrowed Funds	30,000,000	650,000,000	30,000,000	650,000,000
Current Tax Liabilities	322,178,289		322,178,289	
Retirement benefit plans	8,578,990		8,578,990	
Provisions	21,777,180		21,777,180	
Deferred Income	18,882,274		18,882,274	
Unclaimed Balances	8,438,591	-	8,438,591	
Other Liabilities	122,968,549		122,968,549	
Total Liabilities	**19,694,531,576**	**11,542,069,293**	**19,694,531,576**	**11,542,069,293**
Maturity Gap	**(123,918,505)**	**13,478,092,338**	**(123,918,505)**	**13,480,023,339**
Cumulative Gap	**(123,918,505)**	**13,354,173,833**	**(123,918,505)**	**13,356,104,834**

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KOLKATA

	Bank (Nu)		Group (Nu)	
As at 31 Dec 2017	**Within 12 Months**	**After 12 Months**	**Within 12 Months**	**After 12 Months**
Cash & cash Equivalents	6,697,966,187	-	6,697,966,187	-
Cash & Balances with Central Bank	4,536,360,335	-	4,536,360,335	-
Placement with other Banks	1,008,597,885	-	1,008,597,885	-
Loans & Advances to Customers	10,438,354,129	29,531,114,912	10,438,354,129	29,531,114,912
Investments in Associates	-	91,463,480	-	108,342,544
Financial Investments Available for Sale	-	84,109,013	-	84,109,013
Investment's in Bonds	10,379,880	177,611,280	10,379,880	177,611,280
Other Financial Assets	-	207,057,808	-	207,057,808
Other Assets		322,166,338		322,166,338
Property & Equipment		623,392,939		623,392,939
Intangible Assets		35,409,329		35,409,329
Total Assets	**22,691,658,416**	**31,072,325,099**	**22,691,658,416**	**31,089,204,163**
Liabilities				
Due to Banks	4,179,659,372	4,202,227,287	4,179,659,372	4,202,227,287
Due to Customers	18,581,519,275	2,996,623,393	18,581,519,275	2,996,623,393
Debts Issued & Other Borrowed Funds	401,000,000	680,000,000	401,000,000	680,000,000
Current Tax Liabilities	384,746,803		384,746,803	
Retirement benefit plans	-		-	
Proposed Dividend	-			
Provisions	19,649,119		19,649,119	
Deferred Income	22,588,369		22,588,369	
Unclaimed Balances	43,149,082		43,149,082	
Other Liabilities	157,458,861		157,458,861	
Total Liabilities	**23,789,770,880**	**7,878,850,680**	**23,789,770,880**	**7,878,850,680**
Maturity Gap	**(1,098,112,464)**	**23,193,474,419**	**(1,098,112,464)**	**23,210,353,483**
Cumulative Gap	**(1,098,112,464)**	**22,095,361,955**	**(1,098,112,464)**	**22,112,241,018**

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38.2.4 Currency Risk

The table below indicates the currencies to which the bank had significant exposure as at 31 December. The analysis calculates the effect of a reasonable possible movement of the currencies against the Ngultrum (Nu).

Currency	Change in currency rate (%)	Effect on profit before tax/Equity 2018	2017
EUR	(+/-) 1%	492,969	4,792
USD	(+/-) 1%	(5,835,676)	(18,817,417)
GBP	(+/-) 1%	223,513	197,159
AUD	(+/-) 1%	12,386	45,240
JPY	(+/-) 1%	204,102	53,745
SGD	(+/-) 1%	10,442	13,212
HKD	(+/-) 1%	813	4,098
CHF	(+/-) 1%	142	646
NOK	(+/-) 1%	-	78
SEK	(+/-) 1%	-	-
DKK	(+/-) 1%	-	1,630
CAD	(+/-) 1%	6,267	127
		(4,885,042)	**(18,496,689)**

38.4 Operational Risk

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

38.5 Reputational Risks are not covered in Operational Risk.

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

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Note 39: RMA Disclosures

Qualitative Disclosures

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 increased by about 7% over previous year (PY increased by 3%). The increase is mainly due to transfer of regulatory requirements to general reserves and residual profit after appropriation.

The Tier 2 capital consists of Exchange Fluctuation Reserve, Research and Development Fund, General Provisions and Subordinated Debts. Despite increase in the general provision by 10% and regulatory transfer to foreign exchange reserves and transfer to bond redemption reserves,

Tier 2 capital marginally increased by 1.88% (PY increased by 2,39 %) because of redemption of Subordinated Debt amounting of Nu. 350 million in 2018.

The capital adequacy ratio as on the reporting date stands at 21.72% as compared to 22.22%, in the previous year.

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 5.62% and net NPL stands at 0.65% as against 5.49% and 0.35% in the previous year. The gross non-performing loan has increased by 2.46% as against the decreased of 21% in the previous period.

General provisions of 1% and 1.5% are allocated against exposures classified under Standard and Watch respectively. Specific provisions of 20%, 50% and 100% are provided for term and Overdraft/ working capital classified under sub-standard, doubtful and Loss/litigation/suspended respectively. The general provision provided by the Bank has increased by 10% (PY increased by 9%) and specific provision has increased by 5% (PY decreased by 10%) over the previous year.

N. C. MITRA & CO. Chartered Accountants KOLKATA

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 GAP presented in '000' Ngultrum unless specified.

Item 1: Tier 1 Capital and its sub-components

Sl.No		Current Period	COPPY
1	**Total Tier 1 Capital**		
a	Paid-Up Capital	3,291,936	3,291,936
b	General Reserves	2,728,867	2,544,818
c	Share Premium Account	-	-
d	Retained Earnings	205,665	37,475
Less:-			-
e	Losses for the Current Year		-
f	Buyback of FI's own shares		-
g	Holdings of Tier 1 instruments issued by FIs		3,233

Item 2: Tier 2 Capital and its sub-components

Sl.No		Current Period	COPPY
1	**Tier II Capital**		
a	Capital Reserve	-	-
b	Fixed Assets Revaluation Reserve	-	-
c	Exchange Fluctuation Reserve	151,217	146,722
d	Investment Fluctuation Reserve	-	-
e	Research and Development Fund	479,000	429,000
f	General Provision	288,146	261,016
g	Capital Grants	-	-
h	Subordinated Debt	500,000	850,000
i	Less: amount of subordinated debt to	-	294,606
J	Profit for the year	-	-

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Item 3: Risk weighted Assets (Current Year and COPPY)

Current year

Sl.No	Assets	Balance Sheet Amount	Risk Weight %	Risk Weighted Asset
1	Zero-Risk Weighted Assets	5,779,146	0%	-
2	20% Risk Weighted Assets	3,284,247	20%	656,849
3	50% Risk Weighted Assets	684,616	50%	342,308
4	100% Risk Weighted Assets	31,084,899	100%	31,084,899
5	150% Risk Weighted Assets	180,121	150%	270,181
6	200% Risk Weighted Assets	-	200%	-
7	250% Risk Weighted Assets	-	250%	-
8	300% Risk Weighted Assets	-	300%	-
9	Operational Risk			2,643,854

COPPY

Sl.No	Assets	Balance Sheet Amount	Risk Weight %	Risk Weighted Asset
1	Zero-Risk Weighted Assets	9,184,470	0%	-
2	20% Risk Weighted Assets	2,955,786	20%	591,157
3	50% Risk Weighted Assets	526,185	50%	263,092
4	100% Risk Weighted Assets	28,800,656	100%	28,800,656
5	150% Risk Weighted Assets	89,658	150%	134,488
6	200% Risk Weighted Assets	-	200%	-
7	250% Risk Weighted Assets	-	250%	-
8	300% Risk Weighted Assets		300%	-
9	Operational Risk			2,642,910

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KOLKATA

Item 4: Capital Adequacy ratios

	Current Period	COPPY
Tier 1 Capital	6,226,468	5,870,996
Of which Counter-cyclical Capital Buffer (CcyB) (if applicable)	-	-
Of which Sectoral Capital Requirements (SCR) (if applicable)	-	-
Sector 1	-	-
Sector 2	-	-
Sector 3	-	-
Tier 2 Capital	1,418,364	1,392,133
Total Qualifying capital	7,601,798	7,205,630
Core CAR	17.79%	18.10%
Of which CcyB (if applicable) expressed as % of RWA	-	-
Of which SCR (if applicable) expressed as % of Sectoral RWA	-	-
Sector 1	-	-
Sector 2	-	-
Sector 3	-	-
CAR	21.72%	22.22%
Leverage Ratio	15.18%	14.13%

Item 5: Loans and NPL by Sectoral Classification

S.No	Sector	Current Period		COPPY	
		Total Loans	NPL	Total Loans	NPL
a.	Agriculture	48,356	444	428	428
b.	Manufacturing/Industry	4,592,855	528,518	4,729,338	307,896
c.	Service & Toursim	5,268,387	156,790	4,435,917	195,938
d.	Trade & Commerce	6,632,749	663,573	5,938,191	626,619
e.	Housing	8,267,205	151,061	7,233,959	184,298
f.	Transport	1,809,309	57,861	1,515,884	54,840
g.	Loans to Purchase Securities	56,043	-	55,317	-
h.	Personal Loan/LDCL/CC	970,841	72,148	1,052,540	84,157
i.	Education Loan	-	-	-	-
j.	Loan Against Term Deposit	117,410	-	154,892	306
k.	Loans to FI (s)	499,300	-	735,766	-
l.	Infrastructure Loan	-	-	-	-
m.	Staff Loan (incentive)	321,201	3,744	366,012	7,359
n.	Loans to Govt. Owned Corporation	420,435	-	469,325	-
o.	Consumer Loan (GE)	-	-	-	-
p.	Others	69,437	232	35,754	4,397
	Total	**29,073,528**	**1,634,371**	**26,723,323**	**1,466,237**

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

S.No	Counter- party	Current Period	COPPY
1	**Overdrafts**	**7,402,927**	**7,180,795**
a.	Governments	-	-
b.	Governments Corporation	-	-
c.	Public Companies	1,951	18,371
d.	Private Companies	6,858,583	6,283,966
e.	Individuals	43,093	142,693
f.	Commercial Banks	-	-
g.	Non-Bank Financial Institutions	499,300	735,766
2	**Term Loans**	**21,670,601**	**19,542,528**
a.	Governments	221	273
b.	Governments Corporation	-	-
c.	Public Companies	474,167	469,325
d.	Private Companies	7,182,593	6,770,365
e.	Individuals	14,013,326	12,302,213
f.	Commercial Banks	293	351
g.	Non-Bank Financial Institutions	-	-

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Item 7: Assets (net of provisions) and Liabilities by Residual Maturity (Current Period)

As of period ending 31.12.2018	On demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in hand	6,329,347	-	-	-	-	-	-	6,329,347
Govt. Securities	-	-	996,630	-	-	-	-	996,630
Investment securities	-	1,066,103	357,502	553,477	-	354,061	239,748	2,570,891
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	-	536,695	1,188,671	1,634,891	1,378,754	1,990,745	20,889,521	27,619,278
Other assets	820	- 499	65,811	109	-	13,756	1,057,158	1,137,153
TOTAL	**6,330,167**	**1,602,299**	**2,608,614**	**2,188,476**	**1,378,754**	**2,358,562**	**22,186,427**	**38,653,299**
Amounts owed to other banks ***	256,487	641,079	852,040	845,157	-	29,509	-	2,624,271
Demand deposits	4,052,138	-	-	-	-	-	-	4,052,138
Savings deposits	7,778,737	-	-	-	-	-	-	7,778,737
Time deposits	894	137,558	503,975	2,101,406	1,116,323	852,356	10,995,469	15,707,981
Bonds & other negotiable instruments	-	-	-	-	-	-	522,027	522,027
Other liabilities	150,251	660,259	12,600	17,254	14,744	19,985	7,093,052	7,968,145
TOTAL	**12,238,507**	**1,438,895**	**1,368,614**	**2,963,817**	**1,131,067**	**901,850**	**18,610,548**	**38,653,299**
Assets/Liabilities	0.5	1.1	1.9	0.7	1.2	2.6	1.2	1.0
Net Mismatch in each Time Interval	(5,908,340)	163,404	1,240,000	(775,341)	247,687	1,456,712	3,575,879	(0)
Cumulative Net Mismatch	(5,908,340)	(5,744,937)	(4,504,937)	(5,280,278)	(5,032,591)	(3,575,879)	(0)	(0)

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Assets (net of provisions) and Liabilities by Residual Maturity (COPPY)

As of period ending 31.12.2017	On demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in hand	5,328,649	-	-	-	-	-	-	5,328,649
Govt. Securities	-	-	3,996,570	-	-	-	-	3,996,570
Investment securities	-	2,112,753	51,165	754,332	-	-	239,748	3,157,998
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	(314)	380,638	864,149	1,479,160	1,808,390	2,565,437	18,248,970	25,346,431
Other assets	87	296	161,768	100	-	9,381	788,353	959,985
TOTAL	**5,328,422**	**2,493,687**	**5,073,651**	**2,233,592**	**1,808,390**	**2,574,818**	**19,277,071**	**38,789,632**
Amounts owed to other banks ***	494,754	429,710	297,806	571,853	171,207	-	1,207	1,966,537
Demand deposits	6,353,479	-	-	-	-	-	-	6,353,479
Savings deposits	7,101,008	-	-	-	-	-	-	7,101,008
Time deposits	2,042	754,094	2,856,011	654,876	2,316,498	758,354	7,273,855	14,615,730
Bonds & other negotiable instruments	-	-	-	-	-	354,373	522,027	876,400
Other liabilities	223,196	926,877	9,174	15,700	17,858	26,239	6,657,433	7,876,477
TOTAL	**14,174,479**	**2,110,681**	**3,162,992**	**1,242,428**	**2,505,563**	**1,138,965**	**14,454,523**	**38,789,632**
Assets/Liabilities	0.4	1.2	1.6	1.8	0.7	2.3	1.3	1.0
Net Mismatch in each Time Interval	(8,846,057)	383,005	1,910,659	991,163	(697,173)	1,435,853	4,822,549	0
Cumulative Net Mismatch	(8,846,057)	(8,463,052)	(6,552,393)	(5,561,229)	(6,258,402)	(4,822,549)	0	0

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Chartered Accountants
KOLKATA

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

As of period ending 31.12.2018	On demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in hand	6,329,347	-	-	-	-	-	-	6,329,347
Govt. Securities	-	-	996,630	-	-	-	-	996,630
Investment securities	-	-	256,417	351,068	1,369,597	-	593,809	2,570,891
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	-	69,205	71,993	175,543	58,470	804,760	26,439,307	27,619,278
Other assets	820	- 499	65,811	109	-	13,756	1,057,158	1,137,153
TOTAL	**6,330,167**	**68,705**	**1,390,851**	**526,719**	**1,428,067**	**818,516**	**28,090,274**	**38,653,299**
Amounts owed to other banks ***	256,487	200,894	-	1,118,983	1,017,112	29,509	1,286	2,624,271
Demand deposits	4,052,138	-	-	-	-	-	-	4,052,138
Savings deposits	7,778,737	-	-	-	-	-	-	7,778,737
Time deposits	-	-	-	500,147	144,377	932,988	14,130,468	15,707,981
Bonds & other negotiable instruments	-	-	-	-	-	-	522,027	522,027
Other liabilities	150,251	654,158	717	2,138	615	8,746	7,151,519	7,968,145
TOTAL	**12,237,613**	**855,053**	**717**	**1,621,269**	**1,162,104**	**971,243**	**21,805,300**	**38,653,299**
Assets/Liabilities	1	0	1,939	0	1	1	1	1
Net Mismatch in each Time Interval	(5,907,446)	(786,347)	1,390,134	(1,094,550)	265,963	(152,727)	6,284,974	(0)
Cumulative Net Mismatch	(5,907,446)	(6,693,793)	(5,303,660)	(6,398,209)	(6,132,246)	(6,284,974)	(0)	(0)

N. C. MITRA & CO. Chartered Accountants KOLKATA

Assets (net of provisions) and Liabilities by Original Maturity (COPPY)

As of period ending 31.12.2017	On demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in hand	5,328,649	-	-	-	-	-	-	5,328,649
Govt. Securities	-	-	-	3,996,570	-	-	-	3,996,570
Investment securities	-	-	196,105	2,318,158	403,986	-	239,748	3,157,998
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	(314)	25,065	62,350	93,772	77,781	902,922	24,184,855	25,346,431
Other assets	87	296	161,768	100	-	9,381	788,353	959,985
TOTAL	**5,328,422**	**25,361**	**420,222**	**6,408,600**	**481,767**	**912,303**	**25,212,956**	**38,789,632**
Amounts owed to other banks ***	494,754	-	-	611,186	687,116	28,961	144,521	1,966,537
Demand deposits	6,353,479	-	-	-	-	-	-	6,353,479
Savings deposits	7,101,008	-	-	-	-	-	-	7,101,008
Time deposits	-	160,052	-	2,734,146	38,519	1,382,340	10,300,674	14,615,730
Bonds & other negotiable instruments	-	-	-	-	-	-	876,400	876,400
Other liabilities	223,196	923,268	620	932	748	8,485	6,719,229	7,876,477
TOTAL	**14,172,437**	**1,083,319**	**620**	**3,346,264**	**726,382**	**1,419,786**	**18,040,824**	**38,789,632**
Assets/Liabilities	0	0	678	2	1	1	1	1
Net Mismatch in each Time Interval	(8,844,015)	(1,057,959)	419,602	3,062,336	(244,615)	(507,483)	7,172,133	0
Cumulative Net Mismatch	(8,844,015)	(9,901,973)	(9,482,371)	(6,420,035)	(6,664,650)	(7,172,133)	0	0

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Item 10: Non-Performing Loans and Provisions

Sl No		Current Period	COPPY
1	**Amount of NPLs (Gross)**	**1,634,371**	**1,466,237**
a.	Substandard	255,793	196,322
b.	Doubtful	65,748	109,835
c.	Loss	1,312,830	1,160,080
2	**Specific Provisions**	**1,291,975**	**1,228,593**
a.	Substandard	50,006	40,961
b.	Doubtful	30,808	52,177
c.	Loss	1,211,161	1,135,455
3	**Interest - in -Suspense**	**162,275**	**147,986**
a.	Substandard	11,687	6,598
b.	Doubtful	4,864	6,323
c.	Loss	145,724	135,065
4	**Net NPLs**	**180,121**	**89,658**
a.	Substandard	194,101	148,763
b.	Doubtful	30,076	51,334
c.	Loss	(44,056)	(110,439)
5	**Gross NPLs to Gross Loans**	5.62%	5.49%
6	**Net NPLs to Net Loans**	0.65%	0.35%
7	**General Provision**	**288,146**	**261,016**
a.	Standard	236,413	224,451
b.	Watch	51,733	36,565

Item 11: Assets and Investments

Sl No	Investment	Current Period	COPPY
1	**Marketable Securities (Interest Earning)**		
a	RMA Securities	994,009	3,993,591
b	RGOB Bonds/Securities	-	-
c	Corporate Bonds	115,332	115,332
d	Others	-	-
	Sub-total	**1,109,341**	**4,108,923**
2	**Equity Investments**		
	Public Companies	119,563	119,563
	Private Companies	-	-
	Commercial Banks	2,500	2,500
	Non-Bank Financial Institutions	733	40,294
Less			
i	Specific Provisions	-	-
3	**Fixed Assets**		
j	Fixed Assets (Gross)	971,734	810,195
Less			
k	Accumulated Depreciation	280,024	280,818
l	Fixed Assets (Net Book Value)	691,710	529,377

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

Current period

Currency	Liquid Foreign Currency Holdings (Up to one week)			Long Term Foreign Currency Holdings (More than One week)			Nu. In millions	
	Assets in Foreign Currency	Liabilities in Foreign Currency	Net Short Term Position	Assets in Foreign Currency	Liabilities in Foreign Currency	Long Term Net Position	OVERALL NET POSITION	Overall Net Position/ Core Capital
	1	2	3= 1 - 2	4	5	6 = 4 - 5	7 = 3 + 6	8
USD	486,863	1,175,052	- 688,190	104,622		104,622	- 583,568	- 9.37
SG $	1,044		1,044			-	1,044	0.02
EURO	65,738	16,441	49,297			-	49,297	0.79
AUD	6,527	2,945	3,582			-	3,582	0.06
CAD	627	-	627	-		-	627	0.01
HKD	81	-	81	-		-	81	0.00
GBP	22,351	0	22,351			-	22,351	0.36
NOK	-	-	-	-		-	-	-
DKK	-	-	-	-		-	-	-
CHF	14	-	14	-		-	14	0.00
JPY	20,410	-	20,410	-		-	20,410	0.33
INR	500,632	4,636	495,996	-		-	495,996	7.97
SEK	-	-	-	-			-	

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COPPY

Currency	Liquid Foreign Currency Holdings (Up to one week)			Long Term Foreign Currency Holdings (More than One week)			Nu. In millions	
	Assets in Foreign Currency	Liabilities in Foreign Currency	Net Short Term Position	Assets in Foreign Currency	Liabilities in Foreign Currency	Long Term Net Position	OVERALL NET POSITION	Overall Net Position/ Core Capital
	1	2	3= 1 - 2	4	5	6 = 4 - 5	7 = 3 + 6	8
USD	- 85,437	2,060,123	- 2,145,561	246,749		246,749	- 1,898,812	- 32.30
SG $	1,321	-	1,321			-	1,321	0.02
EURO	20,447	19,967	479			-	479	0.01
AUD	4,524	-	4,524			-	4,524	0.08
CAD	13	-	13			-	13	0.00
HKD	410	-	410			-	410	0.01
GBP	19,716	0	19,716			-	19,716	0.34
NOK	8	-	8			-	8	0.00
DKK	163	-	163			-	163	0.00
CHF	65	-	65			-	65	0.00
JPY	5,375	-	5,375			-	5,375	0.09
INR	195,713	18,882	176,830			-	176,830	3.01
SEK			-			-	-	-

Item 13: Geographical Distribution of Exposures

	Domestic		India		Other	
	Current Period	COPPY	Current Period	COPPY	Current Period	COPPY
Demand Deposits held with other banks	692,464	248,594	414,673	113,686	557,104	- 69,619
Time deposits held with other banks	2,226,178	2,670,979	-	-	104,965	247,269,702
Borrowings	500,000	850,000	-	-	-	

Item 14: Credit Risk Exposures by collateral

Sl.No	Particular	Current Period	COPPY
1	**Secured Loans**	**29,073,528**	**26,723,323**
a.	Loans secured by physical/real estate collateral	28,188,569	25,811,667
b.	Loans secured by financial collateral	117,410	154,892
c.	Loans secured by guarantees	767,548	756,765
2	**Unsecured Loans**	**-**	**-**
3	**Total Loans**	**29,073,528**	**26,723,323**

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Item 15: Earnings Ratio (%)

Sl.No	Ratio	Current Period	COPPY
1	Interest Income as a percentage of Average Assets	7.75%	7.36%
2	Non-interest income as a percentage of Average Assets	0.52%	0.51%
b.	Operating Profit as a percentage of Average Assets	4.59%	4.28%
c.	Return on Assets	1.90%	2.06%
2	Business (Deposits plus advances) per employee	107,385	111,953
3	Profit per employee	1,356	1,635

Item 16: Penalties imposed by RMA in the past period

Sl.No	Current Period (Year for which the disclosure is being made)		Corresponding period of the previous year (COPPY)	
	Reason for Penalty Imposed	Penalty Imposed	Reason for Penalty Imposed	Penalty Imposed
1	NA	Nil	NA	Nil

Item 19: Concentration of Credit and Deposits

Sl.No	Particular	End of Current Period	COPPY
1	Total Loans to 10 Largest borrowers	4,764,194	5,322,204
2	*As % of total loans*	16.39%	19.92%
3	Total deposits of the 10 Largest depositors	13,712,646	13,149,446
4	*As % of total deposits*	46.90%	43.78%

Item 20: Exposure of 5 Largest NPL accounts

Sl.No	Particular	End of Current Period	COPPY
1	Five Largest NPL Accounts	202,852	171,746
2	*As % of total NPLs*	12.41%	11.71%

CORRESPONDENT BANKS

Standard Chartered Bank,
Frankfurt am Main, Germany

Standard Chartered Bank,
London, UK

Standard Chartered Bank,
Tokyo, Japan

Standard Bank Limited,
Dhaka, Bangladesh

Standard Chartered Bank,
New York, USA

Standard Chartered Bank,
Singapore

Standard Chartered Bank Nepal Ltd,
Kathmandu, Nepal

Standard Chartered Bank,
Mumbai, India

Export-Import Bank of Thailand, Bangkok,
Thailand

Kasikornbank PCL, 400/22 Phahon Yothin
Avenue, Bangkok, Thailand

Janata Bank Limited, Dhaka, Bangladesh
Bank Asia Limited, Dhaka, Bangladesh

Bank of America, New York, USA

State Bank of India, Mumbai, India

State Bank of India, Siliguri, India

State Bank of India, Hasimara, India

Axis Bank Ltd, Siliguri, India

HDFC Bank Ltd, Mumbai, India

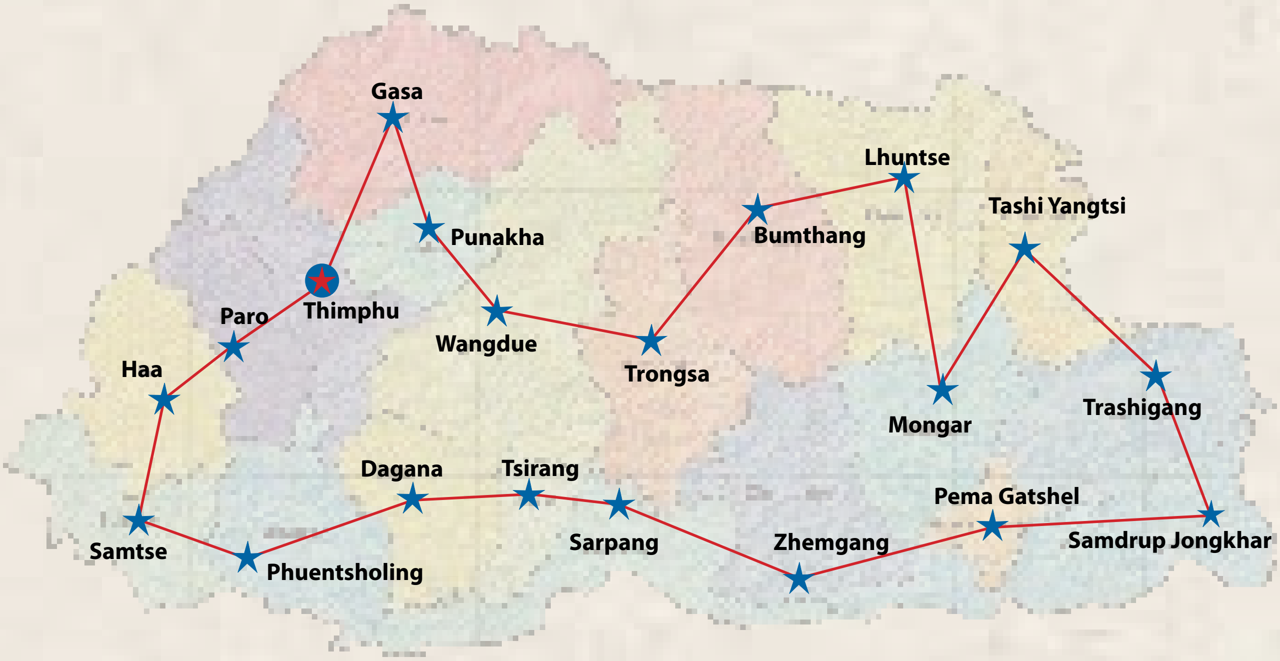
ICICI Bank Limited, Mumbai, India

IDBI Bank Limited, Mumbai, India

IndusInd Bank, Mumbai, India

Bank of America N.A, Mumbai-6205, India

OUR OFFICES



Head Office, Thimphu
Post Box no.: 439, RICBL Building
Phone no: 02-322767/328577/78/328587/88;
Hotline: 144/6070; Fax: 02-328839

Branch Office, Thimphu
Post Box No. 439, Bhutan Post Building
Phone no: 02-323895/325297/328585;
Hotline: 144/6070; Fax: 02-331778/336112;
Branch Manager: 02-327535; E-mail: thimphu@bnb.bt

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Branch Office, Mongar
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Branch Office, Samtse
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Manager: 05-365757; Email :samtse@bnb.bt

Branch Office, Tsirang
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OUR OFFICES

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Email: tashiyangtsi@bnb.bt

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Lhuntse Main town
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Email: lhuentse@bnb.bt

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