



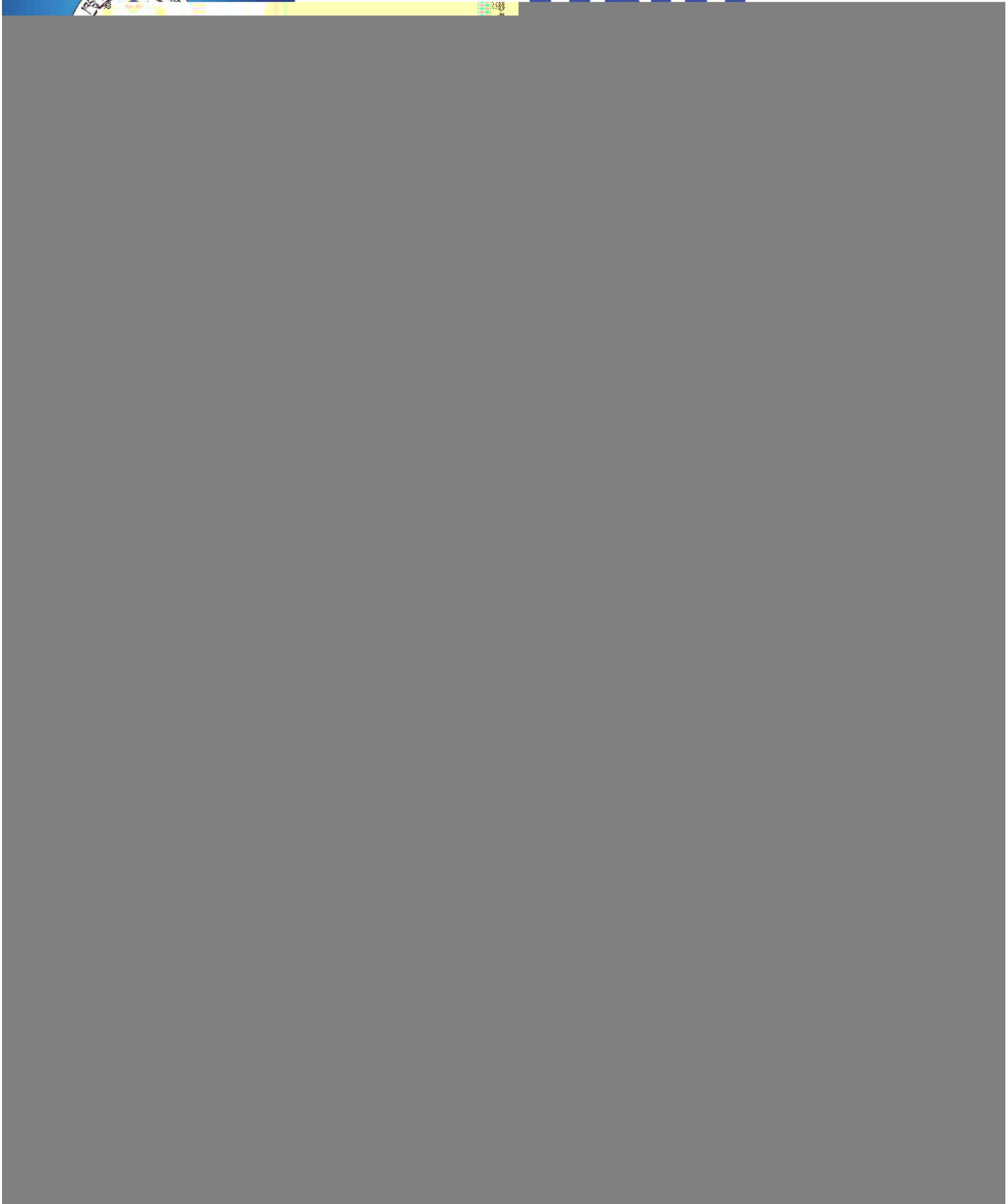
# BHUTAN NATIONAL BANK LTD.

*"Your Relationship Bank"*

**ANNUAL REPORT**  
**2016**



**DND**



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## MISSION STATEMENT

### 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”



# MANAGEMENT TEAM



<b>NAME</b>	<b>DESIGNATION</b>
Kipchu Tshering	Chief Executive Officer
Sonam Tobgay	Dy. CEO
Dorji Namgyal Rinchen	Company Secretary
Tandin Dukpa	Chief Finance Officer
Gyam A.D. Namgyal	Chief Resource Officer
Pelzore Rumba	Chief Credit Officer
Kesang Namgyel	Chief Operations Officer
Deki Wangmo	Head, Internal Audit Department
Dellay Phuntshok	Head, Credit Department
Norbu Wangchuk	Head, Sales and Marketing Department
Bidah Dorji	Head, Human Resource & Administration
Dorji	Head, Accounts Department
Sonam Tobgay	Head, OSM Department
Shree Prasad Subedi	Head, Credit Administration
Sangay Wangdi	Head, Engineering Department
Man Bahadur Rai	Head, IT Department
Dorji Dukpa	Head, Legal Department
Karma Choki(A)	Head, Operations Department
Purna B. Mongar	Head, Risk Department
Tenzing Gyeltshen	Head, Card Division
Karma Deki	Branch Manager, Thimphu
Kesang Deki	Branch Manager, Phuntsholing
Norbu	Branch Manager, Samtse
Dorji Dagpa	Branch Manager, Mongar
Namgyal Wangda	Branch Manager, Gelephu
Kelden Dorji	Branch Manager, Wangdue
Yeshey Norbu	Branch Manager, Bumthang
Pema Jamtsho	Branch Manager, Trashigang
Dorji Wangchuk	Branch Manager, SamdrupJongkhar
Chencho Tshering	Branch Manager, Paro
Surjaman Samal	Branch Manager, Tsirang



## DIRECTOR'S PROFILE

**Dr. Pema Choephyel**, Chairperson, appointed on 26th February 2016 during the 21st AGM representing the BT FEC. 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. Yonten Namgyel**, appointed on 26th February 2016 during the 21st AGM of the bank representing the National Pension and Provident Fund. Mr. Yonten has a Bachelor's degree in Commerce from Sherubtse College. Thereafter he completed his Masters in Commerce from the University of Sydney in Australia. Mr. Yonten is currently the Director in the Department of Revenue and Custom, Ministry of Finance in Thimphu.

**Mr. Kunzang Dechen**, Director, appointed on 26th February 2016 during the 21st 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. Ugyen Namgyal**, Director, appointed on 26th February 2016 during the 21st AGM. He has worked as the General Manager of Finance in Bhutan Development Finance Corporation for 6 years after which he took over as the CFO in Druk Green Power Corporation and has been in the current position for the last 3 years. Mr. Ugyen is a member of the CPA Australia with Bachelors in Business from University of South Australia and has a Bachelor of Commerce (Hons) degree from Sherubtse College, Kanglung.

**Mr. Sonam Lhundrup**, Director, appointed on 26th February 2016 during the 21st AGM of the bank 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.

**Mr. Harish H. Engineer**, Director appointed on 26th February 2016 during the 21st AGM is the IFC Nominee Director on the bank's board. He has served as the Head of Wholesale Banking at HDFC Bank Ltd. and served as its Head of Financial Institution Group since November 1999 and Head of Corporate Banking since July 1994. He has been a Director of Infrastructure Leasing & Financial Services Limited since March 2014 and an Independent Director of Federal Bank Ltd. since October 19, 2013. Mr. Engineer served as an Executive Director of HDFC Bank Ltd. from October 12, 2007 to September 30, 2013. Mr. Engineer holds a Bachelor of Science degree in Physics and Chemistry from the University of Mumbai and a Diploma in Business Management from Hajarimal Somani College, Bombay. Harish brings with him around 45 years of enriched experience in the field of finance and banking, being associated with HDFC Bank in various capacities since 1994. He retired in October 2013 as Executive Director on the Board, being responsible for Wholesale Banking including International Banking.



It is my privilege to present this preface to your Bank's Annual Report for the Financial Year 2016.

In 2016, the bank made a simple commitment. We set out to get back to what BNB has always done best: being the champion for customers; putting customers first; and taking small actions to make big differences. I am happy to report that the bank is on the right track towards continued success.



## FINANCIAL HIGHLIGHTS

The key financial highlights for the bank (*in compliance to BAS*) are summarized in the following table:

	Fiscal Year 2015 (in mn.)	Fiscal Year 2016 (in mn.)
Net Interest Income	1,555.88	1,654.15
Net Fee & Commission Income	87.36	104.01
Total Operating Income	1,794.36	1,873.90
Total Operating Expenses	507.74	861.84
Profit Before Tax from Continuing Operations	1,286.62	1,012.06
Profit for the Year	785.88	702.50

## STATUTORY AUDITORS

The 20th AGM held on 26th February 2016 approved the re-appointment of auditors, M/s S.K.Mittal & Co for the year 2016. 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.

### i. 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,



## DIRECTOR'S REPORT

effective supervision and enhancement of value for all stakeholders.

### ii. 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.

### iii. 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.

### iv. 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.

### v. 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 produces 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 constituted four board committees, namely, Board Governance, Recruitment & Remuneration Committee, Board Audit, Compliance & Grievance Committee, Board Credit and



Investment Committee and the Board Risk Management Committee.

As of December 31, 2016, the Board of Directors consisted of 7 members. There were eleven meetings of the Board during fiscal year 2016. 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
Dr. Pema Choephyel, Chairperson	10
Mr. Ugyen Namgyal, Director	11
Mr Sonam Lhundrup, Director	8
Mr. Kunzang Dechen, Director	11
Mr. Harish H Engineer, Director	9
Mr Yonten Namgyel, Director	4*
Mr. Kipchu Tshering, CEO/Director	11

\* NPPF withdrew its' nomination in September 2016.

The Board is assisted by Mr. Sonam Tobgay, Dy CEO who is the Member Secretary to the board. The Company Secretary 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.

Directors are also granted an indemnity from the company in respect of liabilities incurred as a result of their office. In respect of those matters for which they cannot be indemnified, the bank maintains appropriate director liability insurance for the benefit of directors.

## COMPOSITION OF BOARD COMMITTEES

The **Board Governance, Recruitment & Remuneration Committee** comprised of 4 Directors and was chaired by Dr. Pema Choephyel. There were five meetings of the Committee during the year.

The **Board Audit, Compliance & Grievance Committee** comprised of 3 Directors and was chaired by Mr. Ugyen Namgyal. There were three meetings of the Committee during the year.

The **Board Credit and Investment Committee** comprised of 4 Directors and was chaired by Mr. Kunzang Dechen. There were seven meetings of the Committee during the year.



## DIRECTOR'S REPORT

The **Board Risk Management Committee** comprised of 4 Directors and was co-chaired by Mr. Yonten Namgyal and Mr. Ugyen Namgyal. There were four 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 20th AGM held on 26th February 2016.

### DIVIDEND

For the year ended 31.12.2016, the 21<sup>st</sup> Annual General Meeting of Shareholders held on 10.03.2017 approved a dividend of 13.4% or Nu 1.34 per share (face value being Nu 10 per share). The dividend was thereafter approved by RMA and paid to all shareholders in April 2017.

### 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 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

2016 saw a record profit registered by the BNB Securities. The volume of equity shares traded during fiscal year 2016 by BNB Securities on RSEB as compared to previous years are set out in the following table:



# DIRECTOR'S REPORT



Month/ Year	Commission			Number of Shares Traded		
	2014	2015	2016	2014	2015	2016
January	72,264.64	-	43,241.60	214,560.00		133,540.00
February	47,887.82	19,564.40	84,154.60	186,970.00	61,180.00	459,220.00
March	29,987.60	103,485.00	14,040.20	99,130.00	421,020.00	52,860.00
April	304,699.98	99,413.30	13,193.60	1,168,140.00	736,040.00	47,300.00
May	123,254.74	97,327.50	213,415.10	423,550.00	453,490.00	797,450.00
June	193,398.30	86,725.50	664,090.03	855,930.00	320,200.00	2,774,240.00
July	21,754.25	46,402.00	75,660.50	80,010.00	185,080.00	272,800.00
August	161,318.25	383,534.86	463,694.38	914,800.00	2,275,084.00	2,185,060.00
September	65,127.19	191,343.62	185,081.15	255,830.00	948,840.00	941,550.00
October	342,893.85	53,602.65	182,679.60	1,821,800.00	227,700.00	600,180.00
November	239,662.55	147,384.92	624,137.28	501,650.00	647,840.00	4,700,900.00
December	589,627.48	476,571.92	399,650.55	2,659,540.00	1,232,408.00	3,173,400.00
<b>Total</b>	<b>2,191,876.65</b>	<b>1,705,355.67</b>	<b>2,963,038.58</b>	<b>9,181,910.00</b>	<b>7,508,882.00</b>	<b>16,138,500.00</b>

## INFORMATION ON SHAREHOLDING

Shareholding pattern (above 5%) of Bhutan National Bank at December 31, 2016;

Shareholder Category	Shares	% Holding
National Pension & Provident Fund	76,960,290	23.38%
International Finance Cooperation (IFC)	35,481,290	10.78%
Druk Holding & Investment	40,819,960	12.40%
Mr. Kunzang Dechen	18,647,898.00	5.66%
Public	157,284,158	47.78%
<b>Total</b>	<b>329,193,596</b>	<b>100.00%</b>

## ADDRESS FOR CORRESPONDENCE

Mr. Dorji Namgyal Rinchen  
 Company Secretary  
 Head Office, Bhutan National Bank Ltd  
 Post Box 439, Thimphu, Bhutan





# DIRECTOR'S REPORT

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

1. that in the preparation of the annual accounts, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
2. 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;
3. that they have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act 2000 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
4. that they have prepared the annual accounts on a going concern basis.

## CLOSING STATEMENT

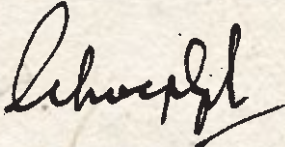
I would like to take this opportunity to thank our Board for their contribution to our company. I am also grateful for the enormous progress made by our senior management team and thank our staff across the organization without whom we not be where we are today. Our people, and their commitment to the banks customers and clients, are the reason why the board of directors have such confidence in our capacity to realize our potential as a company. Regardless of role or location, seniority or business unit, I am continually amazed by the talent that we have within BNB and the dedication people show to this institution. That dedication is one of the company's strongest assets, and it is because of it that bright years lie ahead for our bank.

## ACKNOWLEDGEMENTS

Bhutan National Bank Limited is grateful to the Royal Government of Bhutan, RMA, Royal Audit Authority and other statutory bodies for their continued co-operation, support and advice. Bhutan National Bank wishes to thank its investors, the domestic banking community, RSEB and Registrar of Companies for their support.

Bhutan National Bank would like to take this opportunity to express sincere thanks to its valued clients and customers for their continued patronage. The Directors express their deep sense of appreciation of all the employees, whose outstanding professionalism, commitment and initiative have made the organization's growth and success possible and continue to drive its progress. Finally, the Directors wish to express their gratitude to the management for their trust and support.

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, 2016.



**Dr Pema Choephyel**  
**Chairperson**  
**BNB Board of Directors**

**Place: Thimphu**





## CHIEF EXECUTIVE OFFICER'S REPORT

2016 was a very challenging year for us at Bhutan National Bank. It was also a year in which we demonstrated our resilience and changed much for the better, despite a tough environment. Our business has always been at its best when we've made customers our absolute priority. Over the past year, we have restored our total commitment to giving the best possible service to our customers. This is reflected in the new purpose we have set out for the bank: **customers first.**



I would like to draw your attention to our financial highlights; *(The following highlights are based on the financial prepared under Local GAAP)*

### **Risk Management Function**

BNBL has introduced risk management function formally from 2015 to monitor and manage various risks the Bank is exposed to. The bank has now a comprehensive written policy on Risk Management to identify, measure, manage and mitigate the risk. The policy also has a detailed controlling tools, methodologies and reporting principles. The major risks the policy emphasizes are Credit Risk, Market Risk, Operational Risk and Liquidity Risk. The details of the risk management are provided in the section under RMA Disclosures.

### **Financial Performance Review**

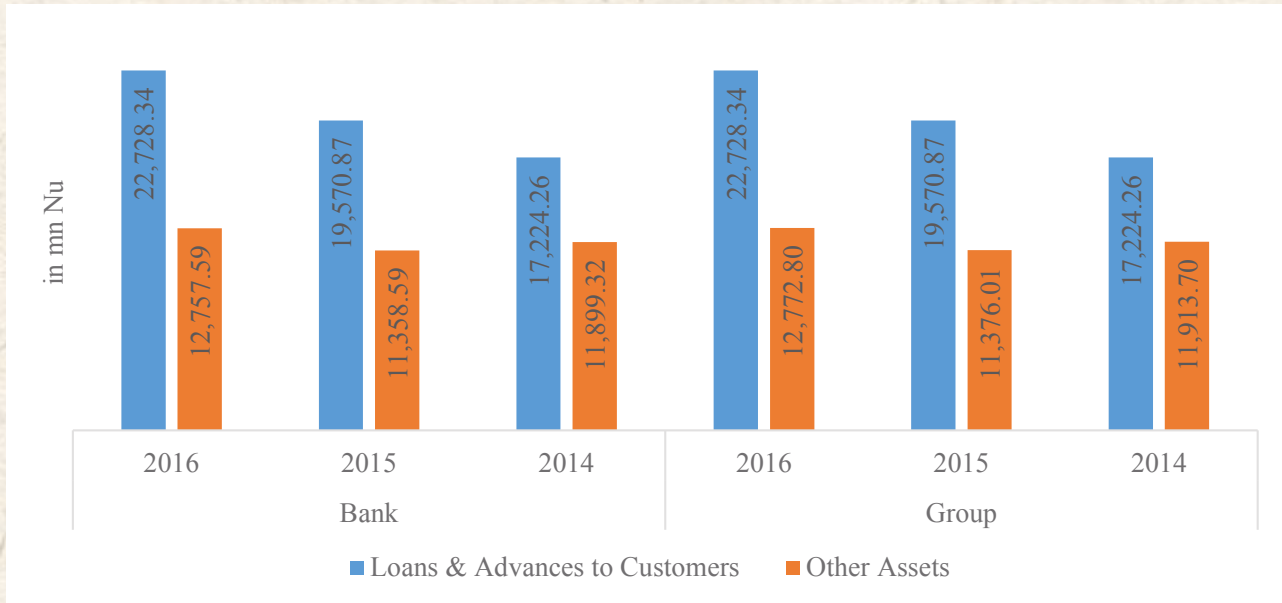
The financial statements of Bank and Group are prepared in conformity with the requirement of Bhutan Accounting Standards (BAS), which are aligned to corresponding International Financial Reporting standards (IFRS). However, the compliance to Central Bank and Tax Authority are based on the requirements under local GAAP. The bank prepared two sets of financial statements, one as per BAS, which are published in Annual Report and other as per Local GAAP, for compliance to Royal Monetary Authority and to Regional Revenue & Custom Office. As required under BAS, the bank prepared financial statements for both Bank and the Group (which constitutes Subsidiary and Associates), however since, bank by far contributes the largest to profit and assets, the review will focus on the performance of the bank. The review as presented are based on the financials prepared under BAS, unless specified.

### **Assets**

The bank recorded a growth of about 15% as at 31st December 2016 as against the growth of 6%, the previous year. The increase was mainly due to increase in the Loans and Advances of over Nu. 3 billion (16%) and Cash & Cash Equivalent of about Nu. 3 billion.

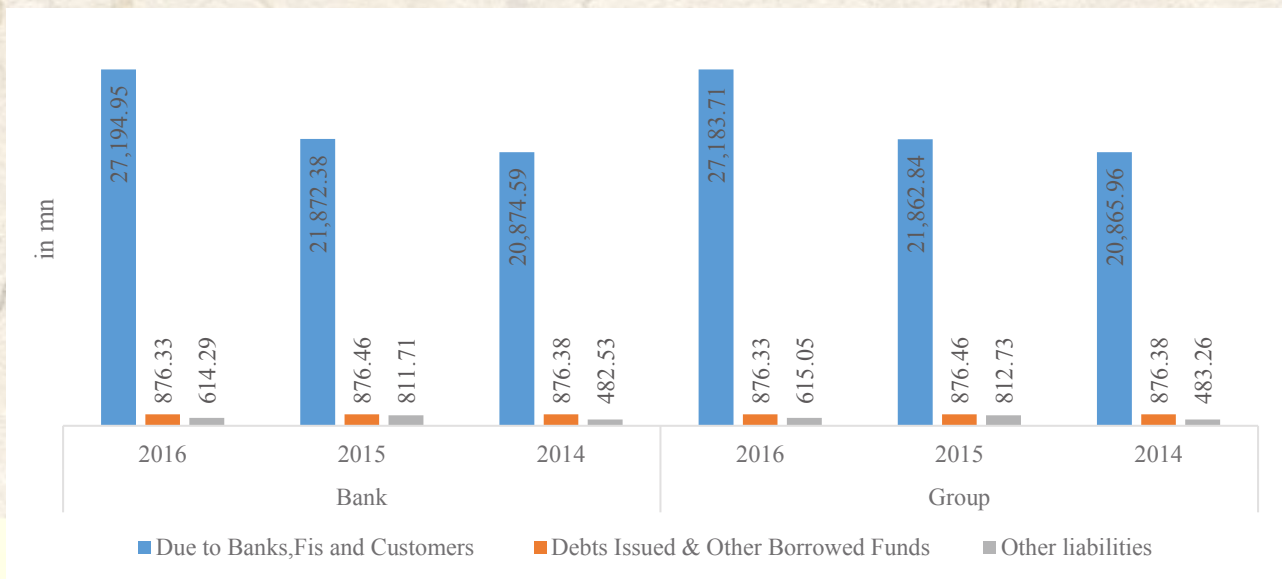


# CHIEF EXECUTIVE OFFICER'S REPORT



## Liabilities

The total liabilities excluding equity recorded a growth of 21% as against the growth of 6% last year for the Bank. The increase in the deposits by from Nu. 21.87 billion to Nu. 27.19 billion (24%) largely contributed to increase in the liability.

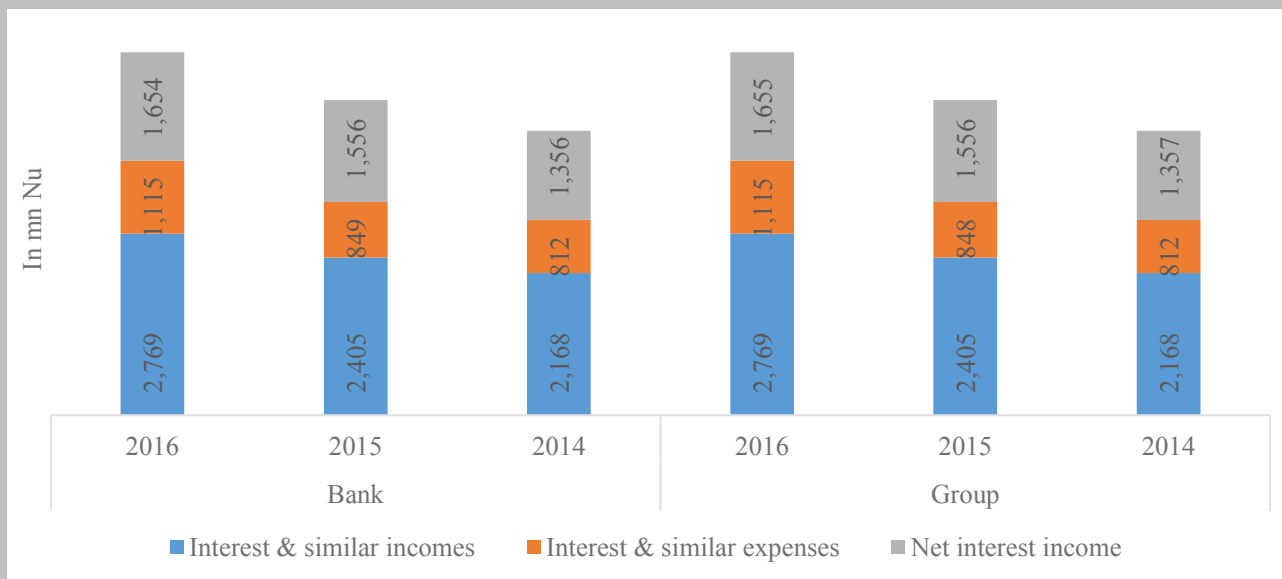




# CHIEF EXECUTIVE OFFICER'S REPORT

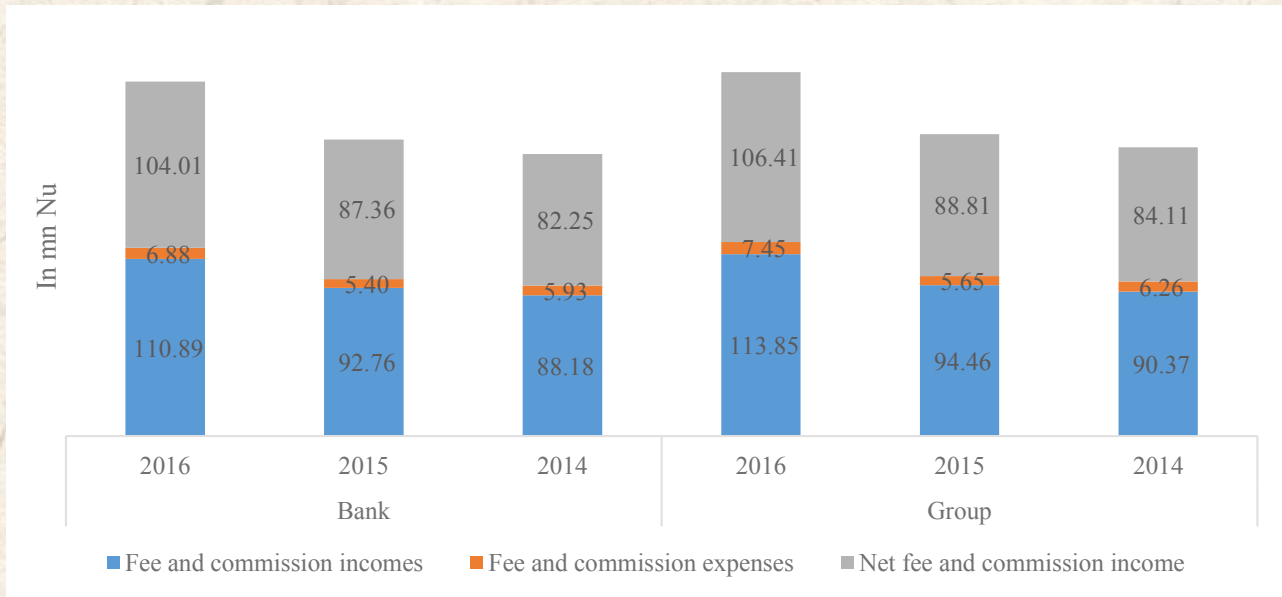
## Net Interest Income (NII)

The Net Interest Income of the Bank increased by 6% to Nu. 1.65 billion in 2016 as against the growth of about 15% in the previous year. Despite increase in the loan size, the growth in the NII has dropped mainly due to reduction in the interest rates with the introduction of Minimum Lending Rate by RMA and increase in the interest expenses. The interest from Loans & Advances constitutes about 96% to the overall interest income, which has more or less remain the same like the previous period.



## Net Fee and Commission Income

The Net fee & commission income during the year under review increased from Nu. 87.36 mn to Nu. 104.01 mn, recording a growth of 19% (previous year: 6%). The Fee and Commission Income increased to Nu. 110.89 mn (previous year: Nu. 92.76 mn) and Fee and Commission Expenses increased Nu. 6.88 mn (previous year: Nu. 5.40 mn).



## Other Operating Income

Other operating income recorded a negative growth of 23% from Nu. 151.12 mn in 2015 to Nu. 115.74 mn in the current year. The decrease in the gains from foreign exchange and income from AFS instruments largely contributed to the decrease in the other operating income.

## Operating Expenses

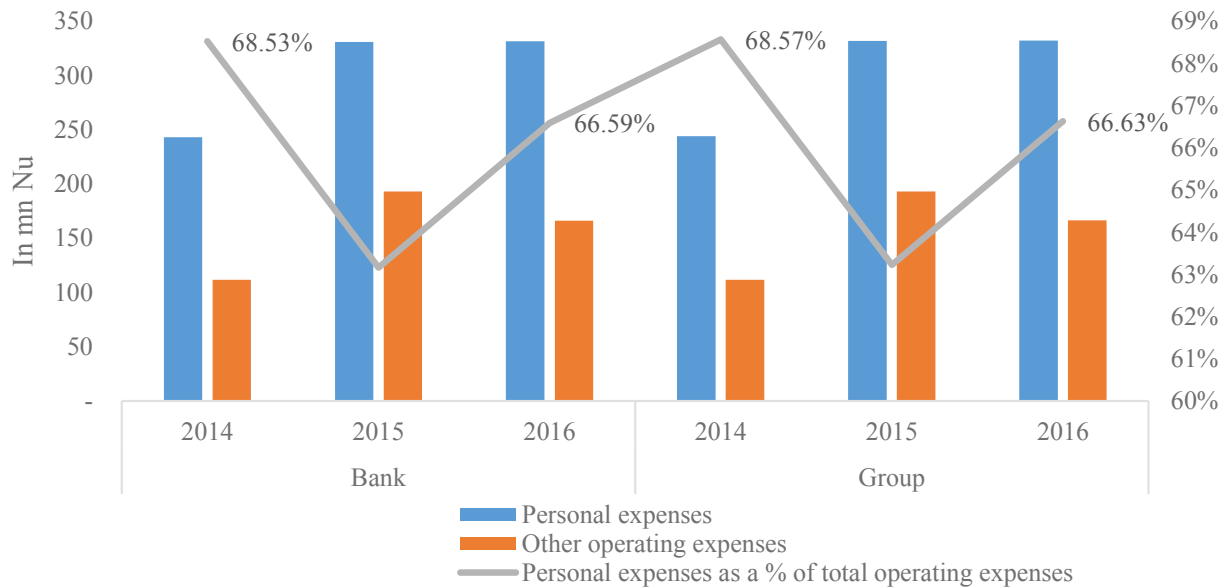
The operating expenses excluding impairment for the current year decreased by 5% as against the increase of about 48% last year. This was mainly because of decrease in the depreciation charged due to changes in the useful lives of assets.

However, the personnel expenses as a proportion of total operating expenses excluding impairment has increased from 64% (previous year) to 67% in the current year, an increase of 3.43%.





# CHIEF EXECUTIVE OFFICER'S REPORT



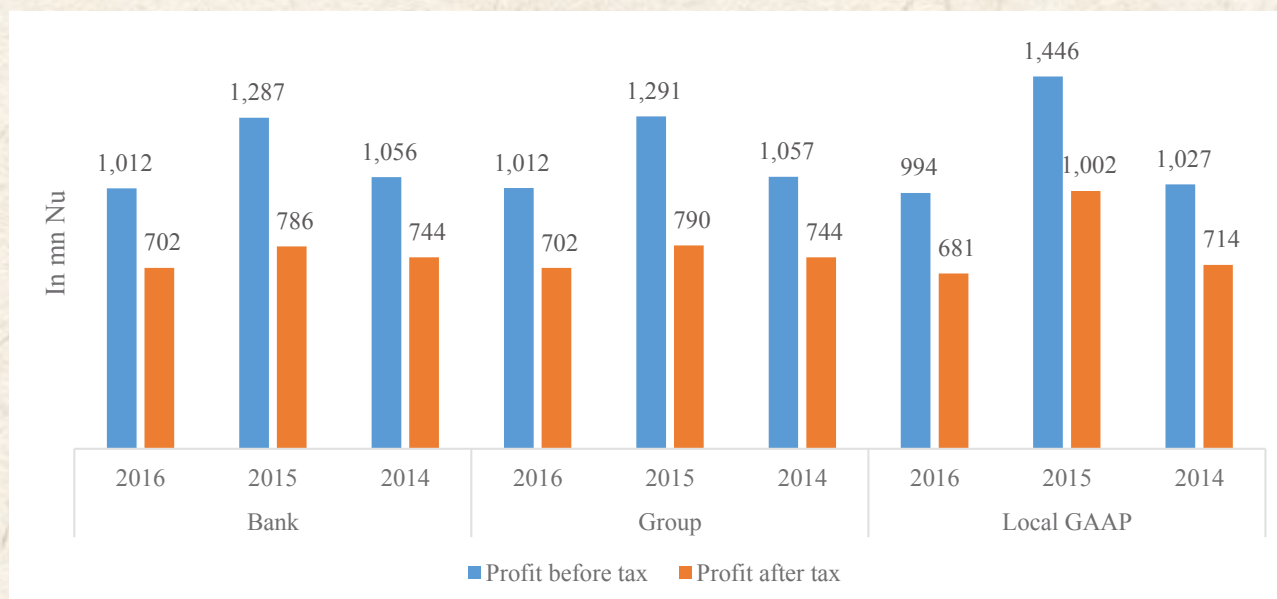
## Impairment of loan losses

The total impairment of loan losses during the year stands at Nu. 1.81 bn, an increase of 25% over last year. Despite having no impairment charge on the individually significant loans, the increase in the collective loan impairment attributed the increase in the impairment charges of Nu. 363.92 mn.

## Pre and Post tax profit

The profit after tax record a negative growth of 10.61% as against the growth of 5.68% in the previous year under BAS. However, the profit under Local GAAP decreased by 32% as compared to increase of 40% in the previous year. The decrease under Local GAAP was mainly due to provision charged of Nu. 376.96 mn in the current year against the writeback of Nu. 162.70 mn in the previous year.

# CHIEF EXECUTIVE OFFICER'S REPORT



## Taxation

The tax liability is based on the accounting profit computed under Local GAAP adjusted for inadmissible expenses as per Rules on the Income Tax Act of the Kingdom of Bhutan 2001. The bank paid Nu. 313.18 mn as tax for the current year to the authority as compared to Nu. Nu. 444.50 mn in the previous year.

## Credit Quality

The bank as required by BAS computed and made an impairment provisions on loans & advances comprising of individual and collective impairment. The impairment ratios were as follows:

	2016	2015	2014
Individual Impairment as a % of total loans	0.00%	0.13%	0.00%
Collective Impairment as a % of total loans	7.95%	7.24%	8.54%
Total Impairment as a % of total loans	7.95%	7.38%	8.54%

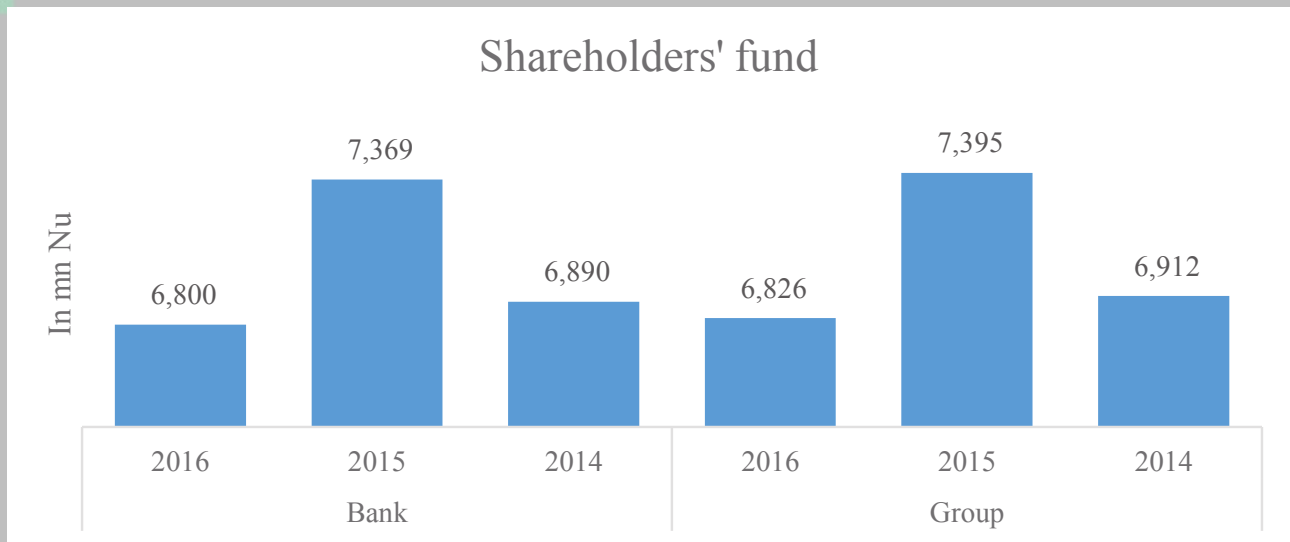
Since, there was no individual impairment, the total loans and advances were subject to collective impairment, which resulted in the impairment charge of 7.33% as against 6.75% in the previous year. The bank continues to compute provision as per the norms of the Central Bank based on the asset classification specified in the RMA Prudential Regulation 2016. The bank during the first half experienced an increase in the NPL but this trend gradually reduced towards the end of the year through proactive measures adopted by the bank. The gross NPL ratio which was 7.13% in 2015 has slightly improved to 6.91% with a net NPL of 0.74% (previous year: -0.67%).



# CHIEF EXECUTIVE OFFICER'S REPORT

## Shareholders' fund

In the current period, Shareholders' fund decreased by Nu. 568.55 mn as against the increase of Nu. 478.83 mn in the previous year and this is mainly due to buyback of shares from International Finance Corporation.



## Dividend

The bank has a dividend policy designed primarily to create profitable and sustained growth within acceptable risk parameters in order to maximize long term value for shareholders. The objective is to provide a return that shareholders expect from their investment with consideration given to cash and growth requirement of the business. However, for the current year, the board decided to follow the guidelines on dividend provided in the RMA Prudential regulation 2016, where the bank can pay maximum of 65% of the PAT upon fulfillment of conditions as specified.

The Board of Directors approved a cash dividend of Nu. 1.34 per share (previous year: Nu. 1.41 per share) with a payout ratio of 64.78% (previous year: 49.93%) on the PAT under local GAAP. The basic earnings per share stood at Nu. 2.13 in 2016 as against Nu. 2.21 in 2015.

## Capital Adequacy Ratio & Liquid Asset Ratio

The Capital Adequacy Ratio, which was 23.36% in 2015 has dropped to 22.83% in 2016 because of decrease in the capital by way of share buyback. The total risk weighted assets (TRWA) decreased by 11.93% with change in the risk weight of assets in RMA Prudential regulation 2016.



# CHIEF EXECUTIVE OFFICER'S REPORT



	2016	2015	Statutory Requirement
Capital Adequacy - Tier I	18.56%	19.15%	Minimum is 5%
Capital Adequacy - Tier I & Tier II	22.83%	23.36%	10%

The liquidity ratio continued to be well above the statutory requirement of 20% due to readily available liquid cash in the market. The liquidity ratio increased to 25.46% as at 31st December 2016 against 31.68% in 2015.

## Investor Relations

The figures presented are under Local GAAP unless specified.

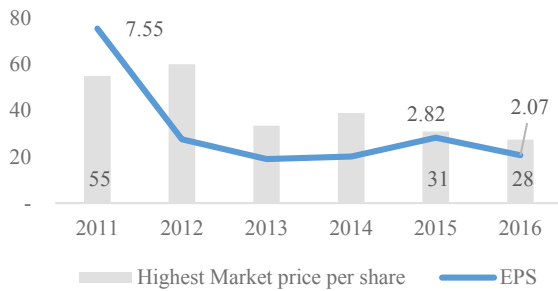
## Value creation for Shareholders

	2016	2015	Change
Net Assets per share (Nu)	18.67	18.60	0.38%
Earnings per share (Nu)	2.07	2.82	-26.75%
Dividend per share (Nu)	1.34	1.41	-4.96%
Market Price per share (31st December)	27.00	29.00	-6.90%

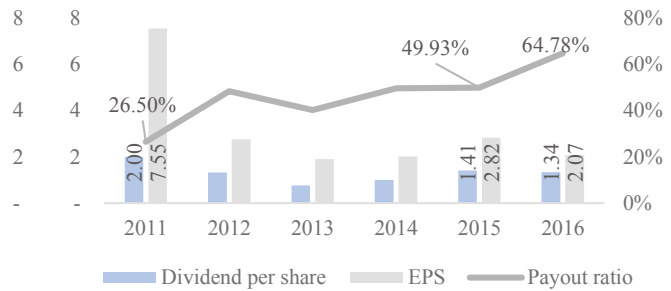


# CHIEF EXECUTIVE OFFICER'S REPORT

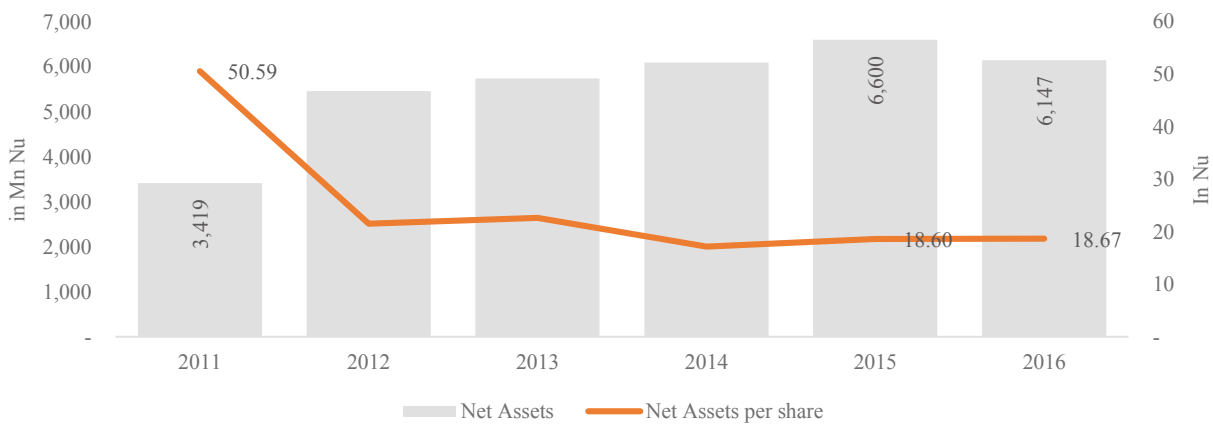
EPS & highest Market price per share



Dividend per share, EPS and payout ratio



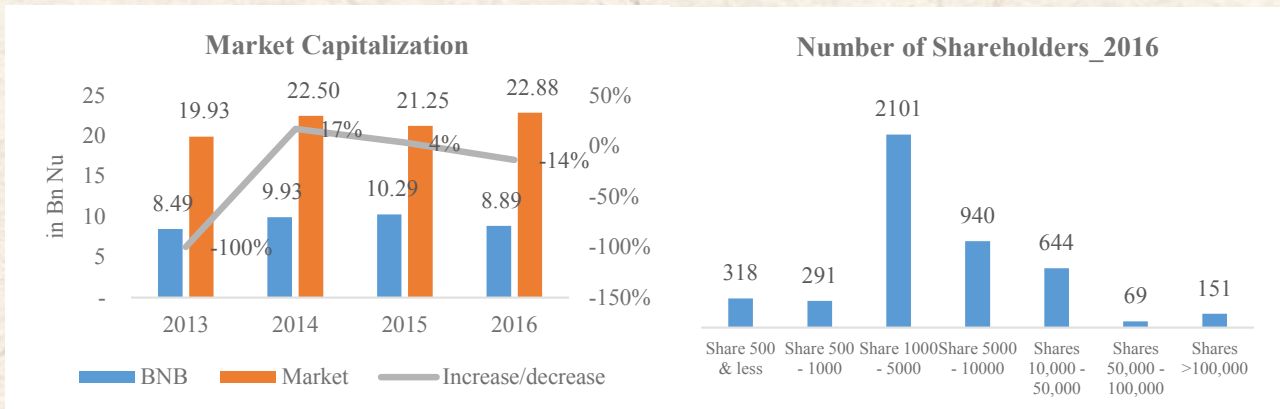
Net Assets



Bank's market capitalization in comparison to market as at 31st December

	2012	2013	2014	2015	2016
BNB market capitalization	7,603	8,490	9,935	10,289	8,888
Increase/decrease	139%	12%	17%	4%	-14%
RSEBL market capitalization	17,630	19,933	22,498	21,250	22,882
As a % of RSEBL market capitalization	43.13%	42.59%	44.16%	48.42%	38.84%
Market capitalization (Rank)	1	1	1	1	1

# CHIEF EXECUTIVE OFFICER'S REPORT



## Analysis of Shareholders

	2016			2015		
	No of Shareholders	No of Shares (mn)	%	No of Shareholders	No of Shares (mn)	%
Resident Shareholders	4,513	293.71	89%	4,513	283.85	80%
Non resident Shareholders	1	35.48	11%	1	70.96	20%
<b>Total</b>	<b>4,514</b>	<b>329.19</b>		<b>4,514</b>	<b>354.81</b>	

	2016			2015		
	No of Shareholders	No of Shares (mn)	%	No of Shareholders	No of Shares (mn)	%
Individuals	4,476	149.65	45.46%	4,479	138.87	39.14%
Institutions	38	179.54	54.54%	35	215.94	60.86%
<b>Total</b>	<b>4,514</b>	<b>329.19</b>		<b>4,514</b>	<b>354.81</b>	



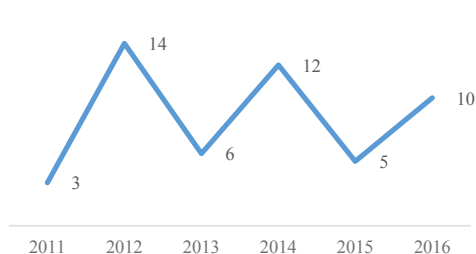


# CHIEF EXECUTIVE OFFICER'S REPORT

## Composition of Share ownership

	2016				2015			
	No of Shareholders	%	No of Shares (mn)	%	No of Shareholders	%	No of Shares (mn)	%
Share 500 & less	318	7.04%	0.08	0.02%	301	6.67%	0.08	0.02%
Share 500 - 1000	291	6.45%	0.21	0.06%	291	6.45%	0.21	0.06%
Share 1000 - 5000	2,101	46.54%	5.20	1.58%	2,107	46.68%	5.22	1.47%
Share 5000 - 10000	940	20.82%	5.99	1.82%	952	21.09%	6.05	1.71%
Shares 10,000 - 50,000	644	14.27%	11.77	3.58%	642	14.22%	11.88	3.35%
Shares 50,000 - 100,000	69	1.53%	4.85	1.47%	80	1.77%	5.54	1.56%
Shares >100,000	151	3.35%	301.09	91.46%	141	3.12%	325.83	91.83%
<b>Total</b>	<b>4,514</b>		<b>329</b>		<b>4,514</b>		<b>355</b>	

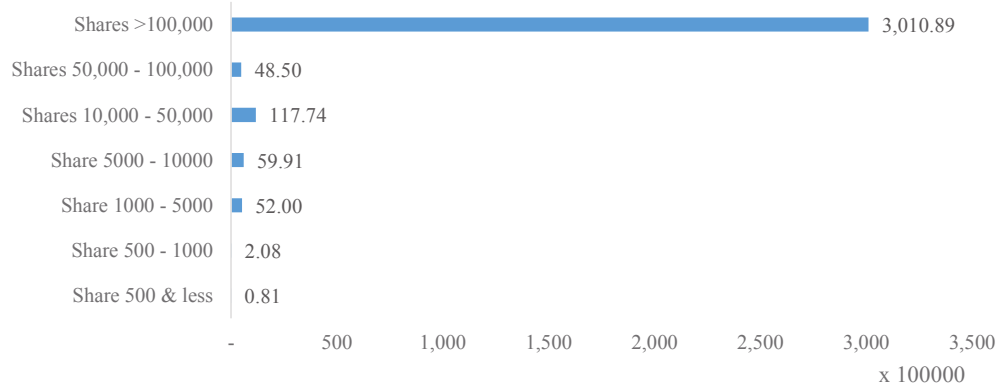
No of Shares traded (in mn)



Share Price



Number of Shares



## Employee

- We firmly believe that one of the best investments the Bank can make is in our people. We are providing employees with more tools and training opportunities so they can reach their full potential. The total number of employees as on 31<sup>st</sup> December 2016, was 459 as against 453 employees 2015.
- A total of 261 employees were trained in 2016 as against 312 employees in 2015.
- BNB has implemented the Role Band for all employees of the bank. With this exercise, roles across the Bank were studied and Job Descriptions and competency requirement were properly documented. It is expected that with the implementation of this new system, employees will be encouraged to develop themselves to move into key positions in the Bank.

## Initiatives and Projects implemented in 2016

- Performance Management System based on Balanced Scorecard for all employees is in place.
- Unified Communication and Contact Center (UCCC) launched in December, which enables video conferencing, staff telephony linked to computers and personal mobiles.
- The Disaster Recovery site has been now hoisted at a different geographic location at the BT Data Centre at Phuentsholing.
- Standardization of Desktops and Laptops through single OEM vendors had been undertaken. The old desktops have been donated to different schools and shedras across the country.
- BNB Launched mPAY mobile banking to cater to the demands of our customers.
- In collaboration with the Himalayan Bank, Nepal, we have issued new credit cards from December 10, 2016. The new cards are with EMV compliant and state of the art chip. Customer can use these cards to make online purchases and bookings.
- Axis Remit Direct (ARD) systems: In order to resolve the problem of double posting under the same reference number and increase the trade remittances, the ARD system was launched w.e.f November 2016.
- 2 new ATMs were installed in 2016
- Opened two extensions, one in Gasa and the other in Sipsoo (TashiCholing) and as of now we have 11 branches and 22 extensions.
- Activated RMA's Bhutan Immediate payment systems (BIMPS) which allows inter-bank fund transfers.





## CHIEF EXECUTIVE OFFICER'S REPORT

- Security features in note counting, sorting and authentication of major currencies has been done.

I would like to report to all shareholders that the BNB Corporate Building is on track and completion is expected by end of 2018.

Looking forward, we will continue to build on our momentum, become even more relevant to our customers, implement our strategic agenda, and build an even better Bank. I'm very proud of the BNB team, and I'm especially grateful to our shareholders for the trust you have shown in us. I am very confident that the bank's best days are ahead as we continue to build on our momentum.

We would like to take this opportunity to inform all our shareholders that the bank paid Nu 313 million as Corporate Income Tax to the National Exchequer thereby contributing to the nation's economy and development. We are confident that 2017 will be an even more successful year with the plans and projects the bank has in place for the coming year. With the support of our able and enthusiast employees and with the guidance of the board of directors, we believe that the shareholders will continue to receive significant returns on their investment in the bank despite the challenges that remain ahead.

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**



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# **Auditors' Report and Financial Statements**



# AUDITORS' REPORT

To the Members of  
**BHUTAN NATIONAL BANK LIMITED**

## 1. Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of **BHUTAN NATIONAL BANK LIMITED** (the Group) which accompanies the Consolidated Statement of Financial Position as at 31<sup>st</sup> December 2016, the Consolidated Income Statement for the year ended on that date, the Consolidated Statement of Other Comprehensive Income for the year ended on date, the Consolidated Statement of Changes in Equity for the year ended on that date, the Consolidated Cash Flow Statement for the year ended on that date and a summary of significant accounting policies and other explanatory information (hereinafter referred to as “the Consolidated Financial Statements”), in which are incorporated:

- a. Audited financial statements of Bhutan National Bank Limited (the Bank) in which are incorporated financial statements of three branches audited by us and unaudited financial statements of eight branches;
- b. Audited financial statements of one subsidiary namely BNB Securities Limited (the Subsidiary) audited by us; and
- c. Audited financial statements of one associate namely Druk Ferro Alloys Limited (the Associate) not audited by us.

## 2. Management’s Responsibility for the Consolidated Financial Statements

The Bank’s management is responsible for the preparation of these consolidated financial statements in accordance with the Bhutanese Accounting Standards, provisions of the Companies Act of Bhutan, 2016 (the Act), RMA Prudential Regulations 2016 and the Financial Services Act of Bhutan 2011. The respective Board of Directors of the companies included in the Group are responsible for design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Bank, as aforesaid.

## 3. Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.



We conducted our audit in accordance with the applicable auditing standards prescribed by the Accounting and Auditing Standards Board of Bhutan and the General Terms of reference for Auditors and minimum audit reporting requirements prescribed by Royal Audit Authority and Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Bank's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Bank has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### 4. Opinion

As required by section 265 of the Companies Act of Bhutan, 2016 (the Act), we report that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b. In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as appears from our examination of those books and report of other auditor in the case of Associate company and proper returns adequate for the purposes of our audit have been received by the Bank from the branches not visited by us.
- c. The consolidated financial statements dealt with by this report have been prepared in accordance with accounting principles and practices generally accepted and as per the provisions of applicable laws, rules, regulations and accounting standards as well as Bhutanese Accounting Standards (BAS).
- d. The consolidated financial statements dealt with in this report are in agreement with the books of account and returns maintained for the purpose of preparation of consolidated financial statements and adjustments carried out by the Bank to comply with the accounting policies revised on 01.01.2014 upon adoption of Bhutanese Accounting Standard.







## AUDITORS' REPORT

- e. As per information and explanations given to us, the Group has complied with other legal and regulatory requirements.
- f. In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of the report of the other auditor on the financial statements of the Associate company, the aforesaid consolidated financial statements give the information required by the Act, in the manner so required and exhibit a true and fair view in conformity with the applied Bhutanese Accounting Standards and the provisions of the Act:
  - i. in the case of Statement of Financial Position, of the state of affairs of the Group as at 31st December 2016;
  - ii. in the case of Income Statement, of the profit of the Group for the year ended on that date;
  - iii. in the case of Statement of Other Comprehensive Income, of the comprehensive income of the Group for the year ended on that date;
  - iv. in the case of Statement of Changes in Equity, of the changes in equity of the Group for the year ended on that date; and
  - v. in the case of Statement of Cash Flow, of the cash flows of the Group for the year ended on that date.

### 5. Emphasis of Matter

- a. In accordance with the requisite approvals obtained from the shareholders, Ministry of Economic Affairs and Royal Monetary Authority of Bhutan, the Bank has reduced its paid up share capital during the year 2016 by Nu.256,141,040 upon buy back from International Finance Corporation (IFC) of its own 25,614,104 fully paid equity shares of Nu.10 each at a premium of Nu.16.94 per share. This buy back was done at the instance of IFC to facilitate them in lowering their existing shareholding in the Bank's share capital from 20% to 10% as per the revised Foreign Direct Investment (FDI) Policy 2010. Premium amount of Nu.433,902,922 has been adjusted against the reserves.
- b. Un-reconciled balance in RMA current account in respect of inter-bank ATM transactions, settlement of which is done through the Bhutan Financial Switch (BFS), as on 31st December 2016 is net debit of Nu.140,756,378 (PY net debit Nu. 97,814,480). Against this, there is an un-reconciled credit balance of Nu. 276,377,606 (PY credit Nu. 901,587,129) in BFS settlement account and a debit of Nu. 141,021,051 (PY amount not ascertained) in ATM settlement account representing difference in GL and physical balance of cash in ATMs. Above accounts are presently in the course of reconciliation as informed to us by the management.



- c. Loans and advances at the reporting date are of Nu. 24,628,473,921 (PY Nu.21,077,072,707) as per old GAAP. There is a difference of Nu.2,387,807 (PY Nu. 4,857,099) compared to loan ledger balance as given in the system generated ageing report and is presently under reconciliation as explained to us by the management.

## 6. Other Matter

- a. The consolidated financial statements include the Group's share of loss Nu. 1,813,494 in the Associate company which is taken from its audited financials for the year 2015 since it was not considered last year due to the same being under audit. Financials of the Associate for the year 2016 are under finalization presently and therefore the same shall be considered while finalizing Group's accounts for the year 2017.
- b. Confirmation of outstanding balances of loans and advances given, deposits taken and other receivables/payables were not available for our verification. However, the Bank contended that such confirmations are not feasible.
7. As required by the Companies Act of Bhutan 2016 (the Act) read with Minimum Audit Reporting Requirements in pursuance to section 266 of the Act, we enclose in the annexure a statement on the matters to the extent applicable to the Company.

**Dated:** New Delhi  
**Place:** April 27, 2017

**For S.K. MITTAL & CO.**  
Chartered Accountants  
FRN: 001135N



Partner: Krishan Sarup  
Membership No.: 10633



## MINIMUM AUDIT REPORTING REQUIREMENTS

As required by the Companies Act of Bhutan 2016 (the Act) read with Minimum Audit Reporting Requirements in pursuance to section 266 of the Act, we enclose in the annexure a statement on the matters to the extent applicable to the Company, based on the comments in the auditors' reports of the Bank, the Subsidiary and the Associate and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that:

1. The Group is maintaining proper records showing full particulars including quantitative details and situation of fixed assets. Discrepancies noticed on physical verification were not material and have been properly dealt with in the books of account.
2. No fixed asset has been re-valued during the year.
3. 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 Group. The Group has not availed any loan from any company under the same management.
4. In our opinion, 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 Group. The advances granted to the officers/staff are in keeping with the provisions of the service rules and no excessive/frequent advances are given and accumulation of large advances against particular individual is avoided.
5. In our opinion, the Group has internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Group as well as to ensure adherence to the rules / regulations and system and procedures. However, these needs to be strengthened as we have observed some procedural lapses in the matter of funds for short term at times invested by the Bank during the year.
6. There is a system of competitive biddings, commensurate with the size of the Group and the nature of its business, for the 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.
7. 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 other parties and were not prima facie prejudicial to the interest of other shareholders or to the Bank.
8. According to the records, the Group has been regular in depositing rates and taxes, duties, provident fund, and other statutory dues with the appropriate authority.





9. There is no undisputed amount in respect of rates, taxes, duties, royalties, provident funds and other statutory dues outstanding at the year end.
10. No personal expenses have been charged to the Group's account other than those payable under contractual obligations/or service rules of the Bank.
11. The Bank has a reasonable system for follow up with various parties for recovery/ adjustment of outstanding amounts.
12. Idle cash and bank balances are generally not held by the Bank.
13. In our opinion and on the basis of available records and information, the activities carried out were lawful and intravires to the respective Articles of Incorporation of the companies comprised in the Group.
14. 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.
15. The Bank has an established and effective budgetary control system.
16. 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.
17. The directives of the Board of Directors have generally been complied with.
18. We have not come across any information where the officials of the Bank have transmitted any price sensitive information which is not made publicly available, unauthorisedly to their relatives/friends/associates or close persons which would have directly or indirectly benefit themselves.
19. 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.
20. The Bank has adequate records for funds collected from depositors and for interest payments.
21. The bank has the system of identifying objective evidence to assess and provide for any impairment in value of Investment.
22. 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 as explained by the management except otherwise mentioned elsewhere in the report or notes to the accounts.
23. The Bank has provided Nu. 1,805,807,617 towards provision for impaired loans in accordance with BAS 39, as against Nu. 1,622,058,322 provided as per RMA prudential norms.





## ANNEXURE

24. Accrued interest on non-performing loans has been recognised as interest income as per accounting policy of the Bank revised upon adoption of BAS and has not been deferred. However, accrued interest has been taken into account while arriving at provision for impairment loss.
25. 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.
26. 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.
27. The disposals of assets taken over for repayment defaults etc. are made through open/sealed bids.
28. Proper analysis is generally carried out before re-phasing/rescheduling of loans.
29. There is a system to ensure that additional loans are not granted to those who have defaulted in payment of earlier advances.
30. **Computerized Accounting Environment**
  - a. The organizational and system development controls and other internal controls are adequate commensurate with size and nature of computer installations.
  - b. Adequate safeguard measures and back up facilities exist.
  - c. Back up facilities and disaster recovery measures include keeping files at different locations.
  - d. The operational controls need to be strengthened to ensure correctness and validity of input data and output information.
  - e. The measures to prevent unauthorized access over the computer installation and files are adequate.



## GENERAL

### 1. Going Concern Problems

Based on the net asset position reflected by the Group's Balance Sheet as at 31<sup>st</sup> December 2016 audited by us in accordance with the generally accepted 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 Group is not a going concern on the Balance Sheet date and is not likely to become sick in the near future. However, the Subsidiary is in the course of merger with the Bank.

### 2. Ratio Analysis

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

	2016	2015
Deposit Growth	24.33%	4.78%
Loan Growth	16.13%	13.62%
Credit Deposit Ratio	83.58%	89.48%
Interest Expenses/Deposits	3.91%	3.64%
Interest Income/Loans	11.68%	11.86%
Earning per Share	Nu. 2.13	Nu. 2.21
Return on Assets	1.98%	2.54%
Return on Equity	10.33%	10.66%
Capital Adequacy Ratio*	22.83%	23.36%
NPL ratio*	6.91%	7.13%
Book Value	Nu. 20.66	Nu. 20.77
Dividend per Share*	Nu. 1.34	Nu. 1.41

- *As per Local GAAP*

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

In our opinion and on the basis of available records and information the Bank has complied with the applicable provisions of the aforesaid Act.







## 4. Adherence to Laws, Rules and Regulations

Audit of the Group is governed by the Companies Act of Bhutan, 2016 and the scope of audit is limited to examination and review of the financial statements as produced to us by the management. In the course of audit, we have considered the compliance of provisions of the said Companies Act and its Article of Incorporation. The Group has complied with the other applicable law, rules and regulations, systems, procedures and practices as informed to us.

**Dated:** New Delhi  
**Place:** April 27, 2017

**For S.K. MITTAL & CO.**  
Chartered Accountants  
FRN: 001135N



Partner: Krishan Sarup  
Membership No.: 10633



# INCOME STATEMENT

For the year ended 31<sup>st</sup> December 2016



	Note	Bank (Nu)		Group (Nu)	
		2016	2015	2016	2015
Interest & Similar Income	4	2,769,487,130	2,404,737,855	2,769,487,130	2,404,737,855
Interest & Similar Expense	5	1,115,334,776	848,857,185	1,114,654,620	848,247,060
<b>Net interest income</b>		<b>1,654,152,354</b>	<b>1,555,880,670</b>	<b>1,654,832,510</b>	<b>1,556,490,795</b>
Fee and commission income	6	110,890,642	92,758,596	113,853,681	94,463,951
Fee and commission expenses	6	6,879,344	5,399,600	7,446,270	5,650,830
<b>Net fee and commission income</b>		<b>104,011,298</b>	<b>87,358,996</b>	<b>106,407,411</b>	<b>88,813,121</b>
Other Operating Income	7	115,735,251	151,121,012	115,735,260	151,163,865
Share of Profit/(Loss) from Associates		-	-	-	3,109,276
<b>Total operating income</b>		<b>1,873,898,903</b>	<b>1,794,360,677</b>	<b>1,875,161,686</b>	<b>1,799,577,057</b>
Personnel Expenses	8	331,585,781	331,102,364	332,331,679	332,084,607
Depreciation on Property Plant & Equipment	22	28,753,481	49,461,031	28,753,481	49,461,031
Amortization of Intangible Assets	23	8,164,472	24,388,588	8,164,472	24,388,588
Other Operating Expenses	9	129,419,664	119,249,060	129,505,464	119,314,360
Impairment charges/(reversal) for loans and other losses	10	363,917,372	16,459,522	363,917,372	16,459,522
<b>Total Operating Expenses</b>		<b>861,840,770</b>	<b>507,741,521</b>	<b>862,672,468</b>	<b>508,789,064</b>
<b>Profit Before Tax from Continuing Operations</b>		<b>1,012,058,133</b>	<b>1,286,619,157</b>	<b>1,012,489,218</b>	<b>1,290,787,993</b>
Income Tax Expense	11	309,559,194	500,739,122	310,232,568	501,139,948
<b>Profit For the Year</b>		<b>702,498,939</b>	<b>785,880,035</b>	<b>702,256,651</b>	<b>789,648,044</b>

CHAIRPERSON

CHIEF EXECUTIVE OFFICER

For S.K. MITTAL & CO.  
Chartered Accountants  
FRN : 001135N

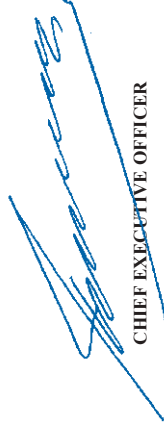
Partner: Krishan Sarup  
M. No: 10633  
Dated : April 27, 2017  
Place : New Delhi

# STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31<sup>st</sup> December 2016

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
<b>Profit for the year</b>	702,498,939	785,880,035	702,256,651	789,648,044
Gains/(losses) on re-measuring available for sale financial assets	- 98,042,485	60,907,056	- 98,042,485	60,907,056
Remeasurement Gain/(Loss) on Defined Benefit Plan	- 13,982,513	- 6,478,747	- 13,982,513	- 6,478,747
Net loss on available for sale financial assets	-	-	-	-
<b>Total other comprehensive income before tax</b>	- 112,024,998	54,428,309	- 112,024,998	54,428,309
Income tax income/(expense) relating to components of other comprehensive income	- 33,930,892	16,651,885	- 33,930,892	16,651,885
<b>Other comprehensive income for the year, net of tax</b>	- 78,094,106	37,776,423	- 78,094,106	37,776,423
<b>Total comprehensive income for the year, net of tax</b>	624,404,833	823,656,458	624,162,545	827,424,467
<b>Basic Earnings Per Share</b>	2.13	2.21	2.13	2.23

  
CHAIRPERSON

  
CHIEF EXECUTIVE OFFICER

For S.K. MITTAL & CO.  
Chartered Accountants  
FRN : 001135N

Partner: Krishan Sarup  
M. No: 10633  
Dated : April 27, 2017  
Place : New Delhi





# STATEMENT OF FINANCIAL POSITION

For the year ended 31<sup>st</sup> December 2016



	Note	Bank (Nu)		Group (Nu)	
		2016	2015	2016	2015
<b>Assets</b>					
Cash & cash Equivalents	12	6,171,652,407	3,218,820,420	6,171,652,407	3,218,820,420
Cash & Balances with Central Bank	13	4,385,003,584	5,143,875,234	4,385,003,584	5,143,875,234
Placement with other Banks	14	764,956,284	1,665,026,712	764,956,284	1,665,026,712
Due From Banks and Financial Institution					
Loans & Advances to Customers	15	22,728,340,278	19,570,868,060	22,728,340,278	19,570,868,060
Investments in Subsidiaries	16	500,000	500,000	-	-
Investments in Associates	17	91,463,480	91,463,480	106,942,883	108,756,377
Financial Investments Available for Sale	18	102,278,872	200,321,357	102,278,872	200,321,357
Financial Investments Held to Maturity					
Financial Assets - Loans & Receivables	19	116,948,539	116,952,968	116,948,539	116,952,968
Defined Benefit Assets	20	33,406,123	26,704,762	33,406,123	26,704,762
Other Financial Assets	21	157,875,152	60,686,060	157,875,152	60,686,060
Other Assets	22	356,322,378	342,452,655	356,556,115	343,087,192
Property & Equipment	23	524,745,747	466,447,739	524,745,747	466,447,739
Intangible Assets	24	43,065,244	25,333,704	43,065,244	25,333,704
Deferred tax assets		9,370,371	-	9,370,371	-
<b>Total Assets</b>		<b>35,485,928,460</b>	<b>30,929,453,152</b>	<b>35,501,141,599</b>	<b>30,946,880,586</b>
<b>Liabilities</b>					
Due to Banks and Financial Institution	25	9,849,910,311	5,308,457,911	9,838,666,096	5,298,924,579
Due to Customers	26	17,345,044,331	16,563,920,373	17,345,044,331	16,563,920,373
Debts Issued & Other Borrowed Funds	27	876,327,869	876,457,534	876,327,869	876,457,534
Current Tax Liabilities	28	313,176,205	444,501,788	313,849,579	444,902,615
Defined Benefit Liability					
Deferred Tax Liability	30	-	28,177,532	-	28,177,532
Unclaimed Balances		34,579,659	34,546,203	34,579,659	34,546,203
Deferred Income		25,570,119	33,393,367	25,570,119	33,393,367
Provisions	31	17,249,159	15,751,021	17,325,060	15,795,769
Other Liabilities	32	223,713,696	255,337,898	223,723,996	255,913,023
<b>Total Liabilities</b>		<b>28,685,571,349</b>	<b>23,560,543,629</b>	<b>28,675,086,708</b>	<b>23,552,030,995</b>
<b>Equity</b>					
Share Capital	33	3,291,935,960	3,548,077,000	3,291,935,960	3,548,077,000
Share Premium	33	-	34,022,965	-	34,022,965
<b>Reserves</b>					
Revenue Reserve		523,525,026	704,496,746	549,222,806	730,436,814
General Reserve		2,327,363,726	2,381,549,554	2,327,363,726	2,381,549,554
Statutory Reserve		131,941,851	106,542,969	131,941,851	106,542,969
Specific Reserves		354,000,000	354,000,000	354,000,000	354,000,000
AFS Reserve		21,970,086	90,599,826	21,970,086	90,599,826
Revaluation Reserve		149,620,462	149,620,462	149,620,462	149,620,462
<b>Total equity</b>		<b>6,800,357,111</b>	<b>7,368,909,524</b>	<b>6,826,054,890</b>	<b>7,394,849,591</b>
<b>Total liabilities and equity</b>		<b>35,485,928,460</b>	<b>30,929,453,152</b>	<b>35,501,141,599</b>	<b>30,946,880,586</b>

For S.K. MITTAL & CO.

Chartered Accountants

FRN : 001135N

Partner: Krishan Sarup

M. No: 10633

Dated : April 27, 2017

Place : New Delhi

  
CHAIRPERSON

  
CHIEF EXECUTIVE OFFICER



Group

	Note	In Nu.					Total Shareholders' Funds			
		Stated Capital	Share Premium	Retained Earnings	Statutory Reserve	General Reserve		Specific Reserve	Available for Sale	Revaluation Reserve
<b>Balance as at January 1, 2015</b>		3,548,077,000	34,022,965	799,819,648	77,784,067	2,131,072,416	124,000,000	47,964,887	149,620,462	6,912,361,445
<b>Adjustments</b>										
Net profit for the year		-	-	789,648,044	-	-	-	-	-	789,648,044
Tax Impact on other Comprehensive Income		-	-	1,620,231	-	-	-	18,272,117	-	16,651,885
Revaluation for the year		-	-	-	-	-	-	60,907,056	-	60,907,056
Remeasurement Gains/Losses on DBO		-	-	6,478,747	-	-	-	-	-	6,478,747
Tfird to specific reserve from current year PAT(local GAAP)		-	-	-	-	-	-	-	-	-
Prior Period Adjustment		-	-	110,128,622	-	-	120,000,000	-	-	9,871,378
Issuance of Bonus Shares		-	-	-	-	-	-	-	-	-
Dividend Paid (Out of 2014 Profits)		-	-	354,807,700	-	-	-	-	-	-
Transfers during the year		-	-	389,236,041	28,758,902	-	-	-	-	354,807,700

	Bank		Group	
	2016	2015	2016	2015
<b>Cash flows from operating activities</b>				
PBT	1,012,058,133	1,286,619,157	1,012,489,218	1,290,787,993
<b>Adjustment for:</b>				
Depreciation and Amortisation	36,917,953	73,849,619	36,917,953	73,849,619
Prior Period adjustment	- 2,634,427	9,982,199	- 2,634,427	9,871,378
Profit on Sale of PPE	- 26,052,817	- 766,027	- 1,998,581	- 766,027
Income from RGOB Bonds	- -	10,800,053	- 24,054,236	10,800,053
Provisions for gratuity	4,223,310	16,799,223	4,223,310	16,799,223
Income From AFS Financial Investments	- 3,720,335	- 5,505,700	- 3,720,335	- 5,505,700
Income From Investments in Associates	- -	17,386,590	- -	17,386,590
Interest paid for Borrowings	50,870,335	51,082,192	50,870,335	51,082,192
Impairment Charges for Loans and advances and other write-offs	363,917,372	16,459,522	363,917,372	16,459,522
Movement in Provisions (Lease encashment and Off balance sheet provisions)	- 1,498,137	- 3,254,681	- 1,498,137	- 3,254,681
<b>Operating profit before changes in operating assets &amp; liabilities</b>	<b>1,434,081,386</b>	<b>1,384,159,816</b>	<b>1,434,512,472</b>	<b>1,388,217,832</b>
<b>(Increase) / decrease in operating assets</b>				
DBO Movement	- 10,924,671	- 8,005,051	- 10,924,671	- 8,005,051
Loans & receivables from customers	- 3,521,389,591	- 2,330,152,957	- 3,521,389,591	- 2,330,152,957
Other assets	- 111,058,814	- 134,468,099	- 110,658,014	- 134,902,636
	- 3,643,373,076	- 2,472,626,107	- 3,642,972,276	- 2,473,060,644
<b>Increase / (decrease) in operating liabilities</b>				
Due to customers	781,123,958	1,488,046,234	781,123,958	1,488,046,234
Due to banks & Financial Institutions	4,541,452,401	490,261,985	4,539,741,517	491,160,863
Other liabilities	- 31,624,203	168,577,616	- 32,189,027	169,014,633
Unclaimed Balances	- 33,457	2,790,258	- 33,457	2,790,258
Deferred Income	- 7,823,248	16,898,765	- 7,823,248	16,898,765
Provisions	2,996,275	9,892,145	3,027,428	10,060,311
	5,286,158,639	1,170,578,227	5,283,914,085	1,169,948,200
<b>Net cash generated from/(used in) operating activities before income tax</b>	<b>3,076,866,948</b>	<b>82,111,936</b>	<b>3,075,454,280</b>	<b>85,105,388</b>
Income tax paid	- 444,501,788	- 313,038,801	- 444,902,615	- 313,422,977
<b>Net cash generated from/(used in) operating activities</b>	<b>2,632,365,160</b>	<b>- 230,926,865</b>	<b>2,630,551,666</b>	<b>- 228,317,589</b>
<b>Cash flows from investing activities</b>				
Investment in Bonds	4,429	-	4,429	-
Net proceeds from sale, maturity and purchase of available for sale investments	98,042,485	95,343,056	98,042,485	94,843,056
Income from investments	3,720,335	5,505,700	3,720,335	5,505,700
Income from Investment in subsidiaries/Associates	-	17,386,590	1,813,494	17,386,590
Revaluation of AFS	- 112,024,998	54,428,309	- 112,024,998	54,428,309
Investment in Subsidiary	-	-	-	3,109,276
Purchase of property plant and equipment	- 85,052,909	- 184,915,970	- 85,052,909	- 184,915,970
Purchase of intangible assets	- 25,896,012	- 255,717	- 25,896,012	- 255,717
Income from RGOB Bonds	24,054,236	10,800,053	24,054,236	10,800,053
<b>Net cash flows used in investing activities</b>	<b>- 97,152,433</b>	<b>- 192,394,091</b>	<b>- 95,338,939</b>	<b>- 195,003,367</b>
<b>Cash flows from financing activities</b>				
Interest Paid on borrowings	- 50,870,335	- 51,082,192	- 50,870,335	- 51,082,192
Movement in Debt and other Borrowed Funds	- 129,665	82,192	- 129,665	82,192
Issuance of Share capital and Changes in Share premium	- 290,164,005	-	- 290,164,005	-
Dividend paid	- 500,278,857	- 354,807,700	- 500,278,857	- 354,807,700
Buyback of Shares	- 399,879,956	-	- 399,879,956	-
<b>Net cash generated from financing activities</b>	<b>- 1,241,322,819</b>	<b>- 405,807,700</b>	<b>- 1,241,322,819</b>	<b>- 405,807,700</b>
Net cash generated / (used in) during the year	1,293,889,908	829,128,656	1,293,889,908	829,128,656
Cash and cash equivalents at the beginning of the year	8,757,533,539	10,035,904,191	8,757,533,539	10,035,904,191
Net Foreign exchange difference	190,269,858	- 449,241,997	190,269,858	- 449,241,997
<b>Cash and cash equivalents at the end of the year</b>	<b>10,241,693,305</b>	<b>8,757,533,539</b>	<b>10,241,693,305</b>	<b>8,757,533,539</b>

For S.K. MITTAL & CO.  
Chartered Accountants  
FRN : 001135N

CHAIRPERSON

CHIEF EXECUTIVE OFFICER





# NOTES TO 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 2016 were authorised for issue in accordance with a resolution of the directors on March 10, 2016.

## 2.1 BASIS OF PREPARATION

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

### 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).

### 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) is presented in note 41.

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 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.



## Basis of consolidation

The consolidated financial statements comprise of financial statements of the Bank, its subsidiary and associate for the year ended 31 December 2016. The financial statements of the Bank's subsidiary are prepared for the same reporting year as the Bank, using consistent accounting policies.

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

Subsidiary is fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group'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.

### Judgements

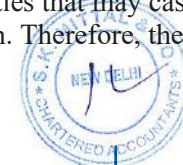
In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

### Estimates and assumptions

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

### 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.





# NOTES TO FINANCIAL STATEMENTS

## 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.

## Impairment losses on loans and advances

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




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

The impairment loss on loans and advances is disclosed in more detail in Note 10 & 15.

## Impairment of available-for-sale investments

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

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



## 2.3 FIRST-TIME ADOPTION OF IFRS

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).

Accordingly, the Group has prepared financial statements which comply with BAS (in line with IFRS) applicable for period ending 31 December 2016, together with the comparative period data as at and for the year ended 31 December 2015, as described in the summary of significant accounting policies. The note 2.5 explains the principal adjustments made by the Bank in restating its Local GAAP financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.4.1 Foreign currency translation

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

#### (i) *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.

### 2.4.2 Financial instruments – initial recognition and subsequent measurement

#### (i) *Date of recognition*

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





## NOTES TO FINANCIAL STATEMENTS

**(ii) Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

**(iii) Financial assets or financial liabilities held for trading**

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

**(iv) Financial assets and financial liabilities designated at fair value through profit or loss**

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

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

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

**(v) 'Day 1' profit or loss**

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

**(vi) Available-for-sale financial investments**

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other



comprehensive income) in the Available-for sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in Other operating income. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as Other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the Available-for-sale reserve.

## **(vii) Held-to-maturity financial investments**

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

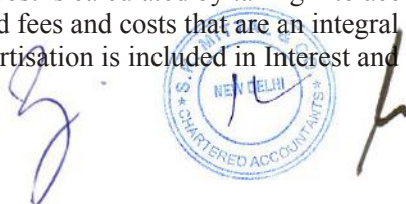
If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years. Currently the Group does not have any financial instruments classified as Held Till Maturity.

## **(viii) Due from banks and loans and advances to customers**

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

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

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







# NOTES TO FINANCIAL STATEMENTS

in the income statement. The losses arising from impairment are recognised in the income statement in Credit loss expense.

## (ix) *Debt issued and other borrowed funds*

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

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

## (x) *Reclassification of financial assets*

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

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

### 2.4.3 De-recognition of financial assets and financial liabilities

#### (i) *Financial asset*

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

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Group has transferred substantially all the risks and rewards of the asset.
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group 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 Group has retained.

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

## (ii) *Financial liabilities*

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

### 2.4.4 **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.

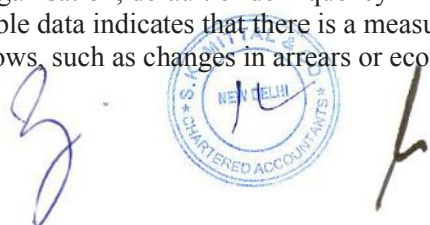
For all other financial instruments not traded in an active market, the fair value is determined by using the dividend growth model (i.e quoted equity in Royal Security Exchange of Bhutan).

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

### 2.4.5 **Impairment of financial assets**

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

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





# NOTES TO FINANCIAL STATEMENTS

## (i) *Financial assets carried at amortised cost*

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

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

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Loan types, Overdue Status, etc.

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

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



**(ii) Available-for-sale financial investments**

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

In the case of equity investments classified as available-for-sale, objective evidence would also include a ‘significant’ or ‘prolonged’ decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

**(iii) Renegotiated loans**

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

**(iv) Collateral valuation**

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

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

**(v) Collateral repossessed**

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

## 2.4.6 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.







# NOTES TO FINANCIAL STATEMENTS

## 2.4.7 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 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.

## 2.4.8 Recognition of income and expenses

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

### (i) *Interest and similar income and expense*

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

### (ii) *Fee and commission income*

The 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.

### **(iii) 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.

### **(iv) Net trading income**

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

## **2.4.9 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.




## **2.4.10 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 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.





# NOTES TO FINANCIAL STATEMENTS

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:

<u>Asset Type</u>	<u>Useful Life</u>
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
Computer Software	1 – 5 Years
Carpet & Soft Furnishing	2 – 15 Years

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

## 2.4.11 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 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 lives.

## 2.4.12 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.

## 2.4.13 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.

## 2.4.14 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.







#### **2.4.15 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 (in line with IFRS). 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.

#### **2.4.16 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.

impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of the Company's financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

## **IFRS 15 Revenue from Contracts with Customers**

IFRS 15, as issued, reflects the first phase of IASB's initiative to replace IAS 18, the objective of which is to establish the principles that the company shall apply in reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2017 onwards. Earlier application by the company is permitted.

Contracts with customers will be presented in the company's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment.

## **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*.





# NOTES TO FINANCIAL STATEMENTS

## 2.5. Principal Adjustments made in reinstating the Local GAAP

### 2.5.1 Notes to the Reconciliation of Equity and Total Comprehensive Income for the year ended 31 December 2016.

#### (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 BAS 39 requirement which requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Therefore Collective impairment has been done in respect of loans and receivables in compliance with BAS 39.

#### (D) Staff loan fair-valuation

Group has provided concessionary rate loans to employees and as per BAS 39, 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.



## **(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 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 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 BAS 39 Financial Instrument: 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 group measures interest expenses on Effective Interest Basis (EIR) on compounding basis in line with BAS 39 Financial Instrument: Recognition & Measurement.

## **(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.







# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Principal adjustments made

### 3.1 Reconciliation of Balance Sheet as at 31st December 2016 -Bank

Assets	Note	Local GAAP Reclassified	Bank ('Nu) Re-measurement	BAS/IFRS
Cash & cash Equivalents		6,171,652,407	-	6,171,652,407
Cash & Balances with Central Bank		4,385,003,584	-	4,385,003,584
Placement with other Banks		764,956,284	-	764,956,284
Due From Banks and Financial Institution		-	-	-
Loans & Advances to Customers	C/D	22,859,445,434	131,105,156	22,728,340,278
Investments in Subsidiaries		500,000	-	500,000
Investments in Associates		91,463,480	-	91,463,480
Financial Investments Available for Sale	E	70,893,035	31,385,837	102,278,872
Financial Investments Held to Maturity		-	-	-
Financial Assets - Loans & Receivables		116,948,539	-	116,948,539
Defined Benefit Assets	F	-	33,406,123	33,406,123
Other Financial Assets		157,880,304	5,152	157,875,152
Other Assets	H	261,991,564	94,330,814	356,322,378
Property & Equipment	A	405,541,553	119,204,194	524,745,747
Intangible Assets	B	30,937,810	12,127,434	43,065,244
Deferred tax assets	G	-	9,370,371	9,370,371
<b>Total Assets</b>		<b>35,317,213,994</b>	<b>168,714,466</b>	<b>35,485,928,460</b>
<b>Liabilities</b>				
Due to Banks and Financial Institution		9,849,910,311	-	9,849,910,311
Due to Customers	I	17,388,794,765	43,750,434	17,345,044,331
Debts Issued & Other Borrowed Funds		876,327,869	-	876,327,869
Current Tax Liabilities		313,176,205	-	313,176,205
Defined Benefit Liability		-	-	-
Deferred Tax Liability		-	-	-
Unclaimed Balances		34,579,659	-	34,579,659
Deferred Income		25,570,119	-	25,570,119
Provisions		458,368,577	441,119,419	17,249,159
Other Liabilities	H	223,713,695.59	-	223,713,696
<b>Total Liabilities</b>		<b>29,170,441,201</b>	<b>484,869,852</b>	<b>28,685,571,349</b>
<b>Equity</b>				
Share Capital		3,291,935,960	-	3,291,935,960
Share Premium		-	-	-
<b>Reserves</b>				
Revenue Reserve		41,531,256	481,993,770	523,525,027
General Reserve		2,327,363,726	-	2,327,363,726
Statutory Reserve		131,941,851	-	131,941,851
Specific Reserves		354,000,000	-	354,000,000
AFS Reserve		-	21,970,086	21,970,086
Revaluation Reserve		-	149,620,462	149,620,462
<b>Total equity</b>		<b>6,146,772,793</b>	<b>653,584,319</b>	<b>6,800,357,111</b>
<b>Total liabilities and equity</b>		<b>35,317,213,994</b>	<b>168,714,466</b>	<b>35,485,928,460</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## Reconciliation of Balance Sheet as at 31st December 2016 - Group

Assets	Note	Local GAAP Reclassified	Group ('Nu) Re-measurement	BAS/IFRS
Cash & cash Equivalents		6,171,652,407	-	6,171,652,407
Cash & Balances with Central Bank		4,385,003,584	-	4,385,003,584
Placement with other Banks		764,956,284	-	764,956,284
Due From Banks and Financial Institution		-	-	-
Loans & Advances to Customers	C/D	22,859,445,434	131,105,156	22,728,340,278
Investments in Subsidiaries		-	-	-
Investments in Associates		91,463,480	15,479,403	106,942,883
Financial Investments Available for Sale	E	70,893,035	31,385,837	102,278,872
Financial Investments Held to Maturity		-	-	-
Financial Assets - Loans & Receivables		116,948,539	-	116,948,539
Defined Benefit Assets	F	-	33,406,123	33,406,123
Other Financial Assets		157,880,304	5,152	157,875,152
Other Assets	H	262,225,301	94,330,814	356,556,115
Property & Equipment	A	405,541,553	119,204,194	524,745,747
Intangible Assets	B	30,937,810	12,127,434	43,065,244
Deferred tax assets	G	-	9,370,371	9,370,371
<b>Total Assets</b>		<b>35,316,947,731</b>	<b>184,193,869</b>	<b>35,501,141,599</b>
<b>Liabilities</b>				
Due to Banks and Financial Institution		9,838,666,096	-	9,838,666,096
Due to Customers	I	17,388,794,765	43,750,434	17,345,044,331
Debts Issued & Other Borrowed Funds		876,327,869	-	876,327,869
Current Tax Liabilities		313,849,579	-	313,849,579
Defined Benefit Liability		-	-	-
Deferred Tax Liability		-	-	-
Unclaimed Balances		34,579,659	-	34,579,659
Deferred Income		25,570,119	-	25,570,119
Provisions		458,444,479	441,119,419	17,325,060
Other Liabilities	H	223,723,996	-	223,723,996
<b>Total Liabilities</b>		<b>29,159,956,561</b>	<b>484,869,852</b>	<b>28,675,086,708</b>
<b>Equity</b>				
Share Capital		3,291,935,960	-	3,291,935,960
Share Premium		-	-	-
<b>Reserves</b>				
Revenue Reserve		51,749,633	497,473,173	549,222,806
General Reserve		2,327,363,726	-	2,327,363,726
Statutory Reserve		131,941,851	-	131,941,851
Specific Reserves		354,000,000	-	354,000,000
AFS Reserve		-	21,970,086	21,970,086
Revaluation Reserve		-	149,620,462	149,620,462
<b>Total equity</b>		<b>6,156,991,170</b>	<b>669,063,721</b>	<b>6,826,054,891</b>
<b>Total liabilities and equity</b>		<b>35,316,947,731</b>	<b>184,193,869</b>	<b>35,501,141,599</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Principal adjustments made  
3.2 Reconciliation of Income Statement for the year ended 31st December 2016-Bank

Note	Local GAAP Reclassified	Bank (Nu)	
		Re-measurement	BAS/IFRS
Interest & Similar Income	D 2,787,665,200	(18,178,070)	2,769,487,130
Interest & Similar Expense	I 1,114,709,412	625,364	1,115,334,776
<b>Net interest income</b>	<b>1,672,955,789</b>	<b>(18,803,435)</b>	<b>1,654,152,354</b>
Fee and commission income	110,890,642	-	110,890,642
Fee and commission expenses	6,879,344	-	6,879,344
<b>Net fee and commission income</b>	<b>104,011,298</b>	-	<b>104,011,298</b>
Other Operating Income	115,735,251	-	115,735,251
Share of Profit/(Loss) from Associates	J		
<b>Total operating income</b>	<b>1,892,702,337</b>	<b>(18,803,435)</b>	<b>1,873,898,903</b>
Personnel Expenses	D 355,650,791	(24,065,010)	331,585,781
Depreciation on Property Plant & Equipment	A 28,111,614	641,867	28,753,481
Amortization of Intangible Assets	B 6,787,201	1,377,271	8,164,472
Other Operating Expenses	129,416,139	3,524	129,419,664
Impairment charges/(reversal) for loans and other losses	C 378,648,409	(14,731,037)	363,917,372
<b>Total Operating Expenses</b>	<b>898,614,155</b>	<b>(36,773,385)</b>	<b>861,840,770</b>
<b>Profit Before Tax from Continuing Operations</b>	<b>994,088,183</b>	<b>17,969,950</b>	<b>1,012,058,133</b>
Income Tax Expense	G 313,176,205	(3,617,011)	309,559,194
<b>Profit For the Year</b>	<b>680,911,978</b>	<b>21,586,961</b>	<b>702,498,939</b>
<b>Other Comprehensive Income</b>			
<b>Profit For the Year</b>	<b>680,911,978</b>	<b>21,586,961</b>	<b>702,498,939</b>
Gains /(losses) on re-measuring available for sale financial assets	E -	(98,042,485)	(98,042,485)
Remeasurement Gain/(Loss) on Defined Benefit Plan	F -	(13,982,513)	(13,982,513)
Net loss on available for sale financial assets	-	-	-
<b>Total other comprehensive income before tax</b>	<b>-</b>	<b>(112,024,998)</b>	<b>(112,024,998)</b>
Income tax income /(expense) relating to components of other comprehensive income	-	(33,930,892)	(33,930,892)
<b>Other comprehensive income for the year, net of tax</b>	<b>-</b>	<b>(78,094,106)</b>	<b>(78,094,106)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>680,911,978</b>	<b>(56,507,145)</b>	<b>624,404,833</b>

Reconciliation of Income Statement for the year ended 31st December 2016 - Group

Note	Local GAAP Reclassified	Group (Nu)	
		Re-measurement	BAS/IFRS
Interest & Similar Income	D 2,787,665,200	(18,178,070)	2,769,487,130
Interest & Similar Expense	I 1,114,029,256	625,364	1,114,654,620
<b>Net interest income</b>	<b>1,673,635,944</b>	<b>(18,803,435)</b>	<b>1,654,832,510</b>
Fee and commission income	113,853,681	-	113,853,681
Fee and commission expenses	7,446,270	-	7,446,270
<b>Net fee and commission income</b>	<b>106,407,411</b>	-	<b>106,407,411</b>
Other Operating Income	115,735,260	-	115,735,260
Share of Profit/(Loss) from Associates	J (1,813,494)	-	(1,813,494)
<b>Total operating income</b>	<b>1,893,965,121</b>	<b>(18,803,435)</b>	<b>1,875,161,686</b>
Personnel Expenses	D 356,396,689	(24,065,010)	332,331,679
Depreciation on Property Plant & Equipment	A 28,111,614	641,867	28,753,481
Amortization of Intangible Assets	B 6,787,201	1,377,271	8,164,472
Other Operating Expenses	129,501,939	3,524	129,505,464
Impairment charges/(reversal) for loans and other losses	C 378,648,409	(14,731,037)	363,917,372
<b>Total Operating Expenses</b>	<b>899,445,853</b>	<b>(36,773,385)</b>	<b>862,672,468</b>
<b>Profit Before Tax from Continuing Operations</b>	<b>994,519,268</b>	<b>17,969,950</b>	<b>1,012,489,218</b>
Income Tax Expense	G 313,849,579	(3,617,011)	310,232,568
<b>Profit For the Year</b>	<b>680,669,690</b>	<b>21,586,961</b>	<b>702,256,651</b>
<b>Other Comprehensive Income</b>			
<b>Profit For the Year</b>	<b>680,669,690</b>	<b>21,586,961</b>	<b>702,256,651</b>
Gains /(losses) on re-measuring available for sale financial assets	E -	(98,042,485)	(98,042,485)
Remeasurement Gain/(Loss) on Defined Benefit Plan	F -	(13,982,513)	(13,982,513)
Net loss on available for sale financial assets	-	-	-
<b>Total other comprehensive income before tax</b>	<b>-</b>	<b>(112,024,998)</b>	<b>(112,024,998)</b>
Income tax income /(expense) relating to components of other comprehensive income	-	(33,930,892)	(33,930,892)
<b>Other comprehensive income for the year, net of tax</b>	<b>-</b>	<b>(78,094,106)</b>	<b>(78,094,106)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>680,669,690</b>	<b>(56,507,145)</b>	<b>624,162,545</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 4. Interest & Similar Income

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Loans & Advances to customers	2,650,773,781	2,317,224,092	2,650,773,781	2,317,224,092
Cash & Short term funds	2,761,545	3,349,490	2,761,545	3,349,490
Placements with other banks	91,897,568	73,364,219	91,897,568	73,364,219
Income From RGOB Bonds	24,054,236	10,800,053	24,054,236	10,800,053
	<b>2,769,487,130</b>	<b>2,404,737,855</b>	<b>2,769,487,130</b>	<b>2,404,737,855</b>

## 5. Interest & Similar Expenses

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Due to customers	1,063,946,608	797,040,438	1,063,266,452	796,430,313
Debt issued and other borrowed funds	50,870,335	51,082,192	50,870,335	51,082,192
Other	517,834	734,555	517,834	734,555
	<b>1,115,334,776</b>	<b>848,857,185</b>	<b>1,114,654,620</b>	<b>848,247,060</b>

## 6. Net Fees & Commission Income

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
<b>Fees &amp; Commission Income</b>				
Banking services	84,463,804	68,871,824	84,463,804	68,871,824
Foreign remittance related services	26,426,838	23,886,772	26,426,838	23,886,772
Brokering Commission	-	-	2,963,039	1,705,356
<b>Total fees and commission income</b>	<b>110,890,642</b>	<b>92,758,596</b>	<b>113,853,681</b>	<b>94,463,951</b>
<b>Fees &amp; Commission Expense</b>				
Brokerage Fees	-	-	-	-
Trading Fees	-	-	566,925	251,230
Other Bank charges & fees	6,879,344	5,399,600	6,879,344	5,399,600
	<b>6,879,344</b>	<b>5,399,600</b>	<b>7,446,270</b>	<b>5,650,830</b>
<b>Net Fees &amp; Commission Income</b>	<b>104,011,298</b>	<b>87,358,996</b>	<b>106,407,411</b>	<b>88,813,121</b>

## 7. Other Operating Income

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Income From AFS Financial Investments	3,720,335	5,505,700	3,720,335	5,505,700
Income From Investments in Associates	-	17,386,590	-	17,386,590
Exchange Gain	101,595,525	115,035,608	101,595,525	115,035,608
Profit on Disposal Of Fixed Assets	1,998,581	766,027	1,998,581	766,027
Charges Recovered	4,104,379	3,483,886	4,104,379	3,483,886
Others	4,316,430	8,943,201	4,316,440	8,986,054
	<b>115,735,251</b>	<b>151,121,012</b>	<b>115,735,260</b>	<b>151,163,865</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. Personnel Expenses

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Wages & Salaries	290,247,258	237,844,787	290,993,155	238,526,919
Amortization of Pre-paid employment benefits	-	41,431,578	3,381,136	41,431,578
Defined Benefit plan	4,223,310	16,799,344	4,223,310	16,799,344
HRD Cost	26,437,724	23,194,381	26,437,724	23,494,493
Other Benefits	14,058,625	11,832,273	14,058,625	11,832,273
	<b>331,585,781</b>	<b>331,102,364</b>	<b>332,331,679</b>	<b>332,084,607</b>

## 9. Other Operating Expenses

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Advertising & Marketing	4,535,807	5,519,585	4,535,807	5,519,585
Corporate Social Responsibilities	7,139,000	-	7,139,000	-
Administrative	85,468,968	86,852,941	85,543,968	86,902,941
Professional Fees	7,307,123	5,488,508	7,317,423	5,498,808
Rent Paid under operating leases	14,818,152	13,687,539	14,818,152	13,687,539
Other	10,150,614	7,700,487	10,151,114	7,705,487
	<b>129,419,664</b>	<b>119,249,060</b>	<b>129,505,464</b>	<b>119,314,360</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### Reconciliation of Impairment Allowance Account-Individual and Collective Impairment

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
<b>Individual Impairment</b>				
Opening Balance as at 01 st January	26,398,405	-	26,398,405	-
Charge/(Reversal) for the Years	26,398,405	26,398,405	26,398,405	26,398,405
Closing Balance as at 31 December	-	<b>26,398,405</b>	-	<b>26,398,405</b>
<b>Collective Impairment</b>				
<b>Movement in Provision for Impairment Losses - Productwise</b>				
Opening Balance as at 01 st January	1,417,182,923	1,470,982,309	1,417,182,923	1,470,982,309
Charge/(Reversal) for the Years	390,315,777	44,690,715	390,315,777	44,690,715
Write-offs	1,691,083	9,108,672	1,691,083	9,108,672
Closing Balance as at 31 December	<b>1,805,807,617</b>	<b>1,417,182,923</b>	<b>1,805,807,617</b>	<b>1,417,182,923</b>
<b>Off Balance Sheet Items Provisioning</b>				
Opening Balance as at 01 st January	1,832,787.84	-	1,832,787.84	-
Charge/(Reversal) for the Years	-	1,832,787.84	-	1,832,787.84
Closing Balance as at 31 December	<b>1,776,155.70</b>	<b>1,832,787.84</b>	<b>1,832,787.84</b>	<b>1,832,787.84</b>
<b>Total Charge or Reversal for Loans and Advances</b>	<b>363,917,372</b>	<b>16,459,522</b>	<b>363,917,372</b>	<b>16,459,522</b>
Inventory write-offs	-	-	-	-
<b>Total Charge/(Reversal)</b>	<b>363,917,372</b>	<b>16,459,522</b>	<b>363,917,372</b>	<b>16,459,522</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. TAXATION

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

Statement of Comprehensive Income	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
<b>Current Income Tax</b>				
Income Tax for the year	313,176,205	444,501,788	313,849,579	444,902,615
Assessed Tax of earlier period	-	-	-	-
Deferred Tax	3,617,011	56,237,334	3,617,011	56,237,334
<b>Deferred Taxation Charge/ (Reversal)</b>	<b>309,559,194</b>	<b>500,739,122</b>	<b>310,232,568</b>	<b>501,139,948</b>
<b>Other Comprehensive Income</b>				
<b>Deferred Tax</b>				
Deferred Taxation Charge/ (Reversal) (Refer Note 30)	33,930,892	16,651,885	33,930,892	16,651,885
Property Plant and Equipment	<b>33,930,892</b>	<b>16,651,885</b>	<b>33,930,892</b>	<b>16,651,885</b>
<b>Total Tax Expense for the financial year</b>	<b>343,490,086</b>	<b>484,087,236</b>	<b>344,163,460</b>	<b>484,488,063</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 12. Cash and Cash Equivalents

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Local Currency In Hand	379,548,856	1,039,868,271	379,548,856	1,039,868,271
Foreign Currency In hand	45,235,286	93,932,461	45,235,286	93,932,461
Balances with Local Banks	1,713,661,153	908,763,321	1,713,661,153	908,763,321
Balances with Foreign Banks	1,034,683,684	1,176,256,366	1,034,683,684	1,176,256,366
Money at Call and Short Notice	2,998,523,427	-	2,998,523,427	-
	<b>6,171,652,407</b>	<b>3,218,820,420</b>	<b>6,171,652,407</b>	<b>3,218,820,420</b>

## 13. Balances with Central Bank of Bhutan (RMA)

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
RMA Current Account	1,534,153,778	3,546,779,877	1,534,153,778	3,546,779,877
CRR With RMA Account	2,562,774,558	2,094,773,000	2,562,774,558	2,094,773,000
RMA Penalty Account	77,278	77,278	77,278	77,278
RMA - BFS Settlement Account	- 276,377,606	- 901,587,129	- 276,377,606	- 901,587,129
ATM Settlement Account	141,021,051	-	141,021,051	-
RMA - BFS Settlement Account - I-	1,230,474	1,262,671	1,230,474	1,262,671
RMA-PG & IMPS	-	-	-	-
RMA Currency Chest	424,585,000	405,094,880	424,585,000	405,094,880
	<b>4,385,003,584</b>	<b>5,143,875,234</b>	<b>4,385,003,584</b>	<b>5,143,875,234</b>

## 14. Placements with other banks

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Placement within Bhutan	764,956,284	1,665,026,712	764,956,284	1,665,026,712
Placement outside Bhutan	-	-	-	-
	<b>764,956,284</b>	<b>1,665,026,712</b>	<b>764,956,284</b>	<b>1,665,026,712</b>

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. Gross loans & receivables

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Gross loans & receivables	24,628,473,921	21,077,072,707	24,628,473,921	21,077,072,707
Less: Staff loan fair value adjustment-	94,326,026	62,623,319	94,326,026	62,623,319
	<b>24,534,147,895</b>	<b>21,014,449,388</b>	<b>24,534,147,895</b>	<b>21,014,449,388</b>
Less: Impairment				
<i>Individual impairment</i>	-	26,398,405	-	26,398,405
<i>Collective impairment</i>	- 1,805,807,617	- 1,417,182,923	- 1,805,807,617	- 1,417,182,923
<b>Total Impairment</b>	<b>- 1,805,807,617</b>	<b>- 1,443,581,328</b>	<b>- 1,805,807,617</b>	<b>- 1,443,581,328</b>
<b>Net Loans and Receivables</b>	<b>22,728,340,278</b>	<b>19,570,868,060</b>	<b>22,728,340,278</b>	<b>19,570,868,060</b>

### 15.1.1. Analysis by Product

Loans & Advances to Customers	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Term Loan	17,921,992,732	15,707,441,782	17,921,992,732	15,707,441,782
Overdrafts and Working Capital	6,314,276,573	5,049,439,822	6,314,276,573	5,049,439,822
Bills discounted	22,075,014	20,128,524	22,075,014	20,128,524
Cheques purchased	- 1,118	- 1,774	- 1,118	- 1,774
Credit cards' outstandings	4,511,806	7,066,394	4,511,806	7,066,394
Suspended loans	365,618,915	292,997,958	365,618,915	292,997,958
	<b>24,628,473,921</b>	<b>21,077,072,707</b>	<b>24,628,473,921</b>	<b>21,077,072,707</b>
Less: Staff Loans Unamortised Day	- 94,326,026	- 62,623,319	- 94,326,026	- 62,623,319
Less: Allowance for Impairment	- 1,805,807,617	- 1,443,581,328	- 1,805,807,617	- 1,443,581,328
	<b>22,728,340,278</b>	<b>19,570,868,060</b>	<b>22,728,340,278</b>	<b>19,570,868,060</b>

## 16. Investments in Subsidiaries

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
BNB Securities Limited	500,000	500,000	-	-
	<b>500,000</b>	<b>500,000</b>	<b>-</b>	<b>-</b>

### 16.1. Summarized Financial Information of Subsidiary

	2016	2015
Total Income	3,643,203	2,358,334
Less: Operating expenses	1,398,623	1,298,774
<b>Profit before Tax</b>	<b>2,244,580</b>	<b>1,059,560</b>
Less: Taxes	673,374	400,827
<b>Profit after Tax</b>	<b>1,571,206</b>	<b>658,734</b>
Share Capital	500,000	500,000
Reserves & Surplus	10,218,377	8,647,171
Asset size	11,477,952	10,167,869



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. Investments in Associates

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Druk Ferro Alloy Limited	91,463,480	91,463,480	106,942,883	108,756,377
	<b>91,463,480</b>	<b>91,463,480</b>	<b>106,942,883</b>	<b>108,756,377</b>

	Holdings	2016		2015	
		Cost	Market Value	Cost	Market Value
Equity Investment in DFAL	20%	91,463,480	12,750,166	91,463,480	13,909,272

## 18. Financial Investments Available for Sale

	2016	2015	2016	2015
Quoted Investment (Note 18.1)	60,217,872	158,260,357	60,217,872	158,260,357
unquoted Investment (Note 18.2)	2,500,000	2,500,000	2,500,000	2,500,000
Statutory Investment (Note 18.3)	39,561,000	39,561,000	39,561,000	39,561,000
	<b>102,278,872</b>	<b>200,321,357</b>	<b>102,278,872</b>	<b>200,321,357</b>

### 18.1. Quoted Investment

	2016			2015		
	No of Shares	Cost	Market Value	No of Shares	Cost	Market Value
PCAL	609,550	21,686,278	31,452,780	609,550	21,686,278	36,573,000
BBPL	14,000	141,400	140,000	14,000	141,400	140,000
BCCL	500,000	5,000,000	37,500,000	500,000	5,000,000	37,500,000
BPCL	127,140	1,271,400	1,271,400	127,140	1,271,400	1,271,400
RICBL	442,500	732,957	17,700,000	442,500	732,957	16,638,000
		<b>28,832,035</b>	<b>88,064,180</b>		<b>28,832,035</b>	<b>92,122,400</b>
Less: FV Adjustment		31,385,837			129,428,322	
		<b>60,217,872</b>			<b>158,260,357</b>	

Note: Market value of investment is based on the last closing price as per RSEBL

### 18.2. Unquoted Investment

	2016		2015	
	No of Shares	Cost	No of Shares	Cost
Bhutan Development Bank Limited	2,500	2,500,000	2,500	2,500,000
		<b>2,500,000</b>		<b>2,500,000</b>





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18.3. Statutory Investment

	2016		2015	
	No of Shares	Cost	No of Shares	Cost
Financial Institution Training Institute	1,800,000	18,000,000	1,800,000	18,000,000
Credit Information Bureau	175,000	1,750,000	137,500	1,375,000
Royal Securities Exchange of Bhutan Ltd	162,000	19,811,000	162,000	19,811,000
		<b>39,561,000</b>		<b>39,186,000</b>

## 19. Financial Assets - Loans & Receivables

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Investment in Bonds	116,948,539	116,952,968	116,948,539	116,952,968
	<b>116,948,539</b>	<b>116,952,968</b>	<b>116,948,539</b>	<b>116,952,968</b>

### 19.1. Investment in DCCL Bond

	Unit	Face Value	Amount	Coupon Rate	Date	
					Purchase	Maturity
Bond Series I (G014)	115,332	1,000	115,332,000	9%	5-Nov-14	4-Nov-24

## 20. Retirement benefit plans

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 last drawn basic pay. The maximum amount an employee is entitled to receive is Nu. 2 million in 2016 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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

	2016	2015
Current Service Cost	7,160,186	7,011,379
Interest cost on benefit obligation	(2,936,876)	(3,205,567)
Past service cost	-	12,993,532
<b>Net cost for the year recognized in profit or loss</b>	<b>4,223,310</b>	<b>16,799,344</b>

	2016	2015
Actual return/(deficit) on plan assets	(6,049,854)	(9,182,952)

## Retirement Benefit Asset

	2016	2015
Present Value of Defined Benefit Obligation	(88,088,911)	(77,583,746)
Fair Value of Scheme Assets	121,495,034	104,288,508
Funded Status [Surplus/(Deficit)]	33,406,123	26,704,762
<b>Retirement Benefit Asset</b>	<b>33,406,123</b>	<b>26,704,762</b>

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:

	2,016	2,015
Opening Defined Benefit Obligation	77,583,746	67,659,740
Current service cost	7,160,186	7,011,379
Interest cost	5,756,876	4,927,071
Past service cost – plan amendments	-	12,993,532
Benefits paid from plan assets	- 1,650,804	- 3,930,917
Actuarial (gain)/loss due to scheme experience	- 761,093	3,150,731
Actuarial (gain)/loss due to change in demographic assumptions	-	- 14,227,790
<b>Closing Defined Benefit Obligation</b>	<b>88,088,911</b>	<b>91,811,536</b>

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

	2016	2015
Fair Value of Assets at the beginning of current period	104,288,508	103,158,674
Interest income on plan assets	8,693,752	8,123,630
Employer contributions	24,907,184	14,483,919
Benefits paid	- 1,650,804	- 4,171,133
Return on plan assets greater or (less) than discount rate	- 14,743,606	- 17,306,582
<b>Closing fair value of plan asset</b>	<b>121,495,034</b>	<b>104,288,508</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The major categories of plan assets as a percentage of the fair value of total plan assets for 2015 and 2014 are as follows:

	<u>2016/2015</u>	<u>2015/2014</u>
Term Deposits with Banks	20%	35%
Current Account	80%	65%
<b>Closing fair value of plan asset</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

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

	<u>2016/2015</u>	<u>2015/2014</u>
Discount Rates	7.50%	7.50%
Salary Escalation Rates	15.00%	15.00%
Employee Turnover Rates	5.61%	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 2015 reporting period.

	In Nu.	
	<u>Defined Benefit Obligation</u>	<u>Net Effect on Defined Benefit Obligation</u>
<b>1. Discount Rate</b>		
<i>Base Discount Rate of 7.5%</i>	88,088,911	-
<i>Discount rate of 8% (+0.5%)</i>	84,418,984 -	3,669,927
<i>Discount rate of 7% (-0.5%)</i>	92,022,059	3,933,148
<b>2. Salary Escalation Rate</b>		
<i>Base Salary Escalation Rate of 15%</i>	88,088,911	-
<i>Salary Escalation Rate of 16% (+1%)</i>	89,508,933	1,420,022
<i>Salary Escalation Rate of 14% (-1%)</i>	86,497,211 -	1,591,700
<b>3. Attrition Rate</b>		
<i>Base Attrition Rate of 5.61%</i>	88,088,911	-
<i>Attrition Rate of 6.61% (+1%)</i>	89,340,029	1,251,118
<i>Attrition Rate of 4.61% (-1%)</i>	86,433,174 -	1,655,736



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 21. Other Financial Assets

As at 31st December	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Sundry Receivables	134,805,714	24,041,906	134,805,714	24,041,906
Security Deposits	402,062	397,271	402,062	397,271
Others	22,667,375	36,246,883	22,667,375	36,246,883
	<b>157,875,152</b>	<b>60,686,060</b>	<b>157,875,152</b>	<b>60,686,060</b>

## 22. Other Assets

As at 31st December	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Assets acquired in satisfaction of debts	174,624,078	178,198,777	174,624,078	178,198,777
Others	9,062	943,333	9,062	1,443,333
Prepaid Staff Cost	94,326,026	62,623,319	94,326,026	62,623,319
Prepaid Cost on Refundable Deposits	4,788	8,312	4,788	8,312
Advance Tax Paid and Tax Deducted at Source	87,358,424	100,678,914	87,592,161	100,813,451
	<b>356,322,378</b>	<b>342,452,655</b>	<b>356,556,115</b>	<b>343,087,192</b>

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

Bank / Group	2016	2015
As at 1st January	62,623,319	73,354,302
Add / (Less): Adjustment for new grants & settlements	28,321,572	30,700,596
Less: charge to Personnel cost	3,381,136	- 41,431,578
<b>As at 31st December</b>	<b>94,326,026</b>	<b>62,623,319</b>

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

Bank / Group	2016	2015
As at 1st January	8,312	12,338
Add / (Less): Adjustment for new Deposits & settlements	-	-
Less: Charge to Operating Expenses	3,524	4,025
<b>As at 31st December</b>	<b>4,788</b>	<b>8,312</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23. Property, Plant and Equipment (Bank & Group)

Cost/Revalued Amount:	Land		Building		Electric Appliances & Machinery		Furniture, fixtures, & fittings		Office equipments		Computer hardwares		Security tools		Carpets & soft furnishings		Vehicles		Total
At 1 January 2015	181,139,800	30,578,882	8,810,331	39,139,997	28,230,161	128,588,664	7,786,795	1,039,447	15,623,287	26,778,608	467,715,972								
Additions	-	54,250,000	2,133,500	2,034,279	2,052,896	8,952,485	977,620	200,910	5,955,316										
Reclassification of WIP	-	-	-	-	-	5,132,000	203,000	-	-	-	125,139,336								
Capitalization of PY WIP	-	-	1,109,125	-	-	853,990	-	-	-	-	-								
Revaluation	-	-	-	-	-	-	-	-	-	-	-								
Disposals	-	-	42,000	149,232	251,503	671,200	-	-	3,080,497	26,778,608	30,973,041								
At 31 December 2015	181,139,800	84,828,882	9,792,706	41,025,043	30,031,554	141,147,959	8,967,415	1,240,357	18,498,106	125,139,336	641,811,158								

Accumulated Depreciation	Land		Building		Electric Appliances & Machinery		Furniture, fixtures, & fittings		Office equipments		Computer hardwares		Security tools		Carpets & soft furnishings		Vehicles		Total
At 1 January 2015	-	4,281,206	5,054,337	20,099,465	17,640,951	70,148,961	5,654,941	834,863	5,932,744	-	-	-	-	-	-	-	-	-	-
Prior Period Adjustment	-	-	-	-	-	-	-	-	-	-	-								
Charge for the year	-	1,543,383	861,491	8,561,829	4,069,067	31,422,416	1,469,004	148,298	1,385,541	-	-								
Disposals	-	-	40,477	148,116	164,446	311,545	-	-	3,080,496	-	-								
At 31 December 2015	-	5,824,590	5,875,351	28,513,178	21,545,571	101,259,832	7,123,946	983,161	4,237,789	-	-								

Cost/Revalued Amount:	Land		Building		Electric Appliances & Machinery		Furniture, fixtures, & fittings		Office equipments		Computer hardwares		Security tools		Carpets & soft furnishings		Vehicles		Total
At 1 January 2016	181,139,800	84,828,882	9,792,706	41,025,043	30,031,554	141,147,959	8,967,415	1,240,357	18,498,106	125,139,336	641,811,158								
Additions	12,131,000	2,518,968	1,328,050	9,533,315	15,664,879	22,975,248	810,544	-	7,674,450	-	72,636,454								
Reclassification of WIP	-	-	-	141,694	433,013	4,815,363	-	-	-	-	144,374,400								
Capitalization of PY WIP	-	-	-	-	-	5,132,000	203,000	-	-	-	-								
Revaluation	-	-	-	-	-	-	-	-	-	-	-								
Disposals	-	-	91,000	3,117,822	1,048,080	1,599,976	439,746	64,992	1,865,198	125,139,336	133,366,150								
At 31 December 2016	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								

Accumulated Depreciation	Land		Building		Electric Appliances & Machinery		Furniture, fixtures, & fittings		Office equipments		Computer hardwares		Security tools		Carpets & soft furnishings		Vehicles		Total
At 1 January 2016	-	5,824,590	5,875,351	28,513,178	21,545,571	101,259,832	7,123,946	983,161	4,237,789	-	-								
Prior Period Adjustment	-	3,345,864	156,321	1,977,570	2,097,651	98,442	177,961	-	-	-	-								
Charge for the year	2,431,231	933,649	3,247,561	3,333,162	3,333,162	12,600,846	556,465	127,124	2,177,580	-	-								
Disposals	-	-	-	253,701	35,395	1,136,785	1,998	58,640	1,865,197	-	-								
At 31 December 2016	-	11,601,685	6,965,321	29,529,468	26,940,990	112,625,452	7,500,452	1,051,645	4,550,172	-	-								



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 23.1. Fully depreciated property, plant and equipment – Bank

The cost of fully depreciated Property, Plant & Equipment of the bank which are still in use

As at 31st December	2016	2015
Electric Appliances & Machineries	3,899,474	3,161,844
Furniture, fixtures, & fittings	17,791,925	17,293,548
Office equipments	12,620,646	8,810,730
Computer hardwares	61,894,480	56,970,409
Security tools	3,075,525	2,185,597
Carpets & soft furnishings	814,959	783,319
Vehicles	-	1,865,198
	<b>100,097,009</b>	<b>91,070,644</b>

## 23.2. Temporarily idle property, plant and equipment- Bank

Following Property, Plant & Equipment of the bank were idle (until the assets issued to business units). Include land as well- Previous year to be changed accordingly

As at 31st December	2016	2015
Land	44,003,959	31,872,959
IT Hardwares	4,815,363	5,132,000
Furniture & Fixture	141,694	-
Office Equipment	433,013	-
Electrical appliance	-	-
Security Tools	-	203,000
	<b>49,394,029</b>	<b>37,207,959</b>

## 24. Intangible Assets (Bank & Group)

Cost:	Softwares
At 1 January 2015	81,473,554
Additions	3,620,163
Reclassification from WIP	-
Capitalization of PY WIP	- 3,364,446
Disposals	-
At 31 December 2015	<b>81,729,271</b>

### Amortisation and impairment:

At 1 January 2015	32,006,978
Amortisation	24,388,588
Disposals	-
At 31 December 2015	<b>56,395,566</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>Cost:</b>	<b>Softwares</b>
At 1 January 2016	81,729,271
Additions	7,029,078
Reclassification from WIP	18,866,934
Capitalization of PY WIP	-
Disposals	-
<b>At 31 December 2016</b>	<b>107,625,282</b>
<b>Amortisation and impairment:</b>	
At 1 January 2016	56,395,566
Amortisation	8,164,472
Disposals	-
<b>At 31 December 2016</b>	<b>64,560,038</b>
<b>Net book value:</b>	
At 31 December 2015	25,333,704
At 31 December 2016	43,065,244

## 24.1. Fully depreciated Intangible Assets - Bank

	<b>2016</b>	<b>2015</b>
Softwares	39,850,553	33,408,728

## 24.2. Temporarily idle Intangible assets- Bank

	<b>2016</b>	<b>2015</b>
Softwares	18,866,934	-
	<b>18,866,934</b>	-

## 25. Due to Banks and Financial Institution

	<b>Bank (Nu)</b>		<b>Group (Nu)</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Banks	1,858,107,577	2,122,048,896	1,858,107,577	2,122,048,896
Non Bank Financial Institutions	7,991,802,735	3,186,409,015	7,980,558,519	3,176,875,682
	<b>9,849,910,311</b>	<b>5,308,457,911</b>	<b>9,838,666,096</b>	<b>5,298,924,579</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 26. Due to Customers

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Fixed Deposit	7,876,040,642	8,102,078,259	7,876,040,642	8,102,078,259
Recurring Deposit	197,277,161	154,203,999	197,277,161	154,203,999
Savings Deposits	5,928,438,617	4,733,649,216	5,928,438,617	4,733,649,216
Current Accounts	3,343,287,911	3,573,988,899	3,343,287,911	3,573,988,899
	<b>17,345,044,331</b>	<b>16,563,920,373</b>	<b>17,345,044,331</b>	<b>16,563,920,373</b>

### 26.1. Due to Customers (Currency)

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
<b>Local Currency Deposits</b>				
Fixed Deposit	16,587,434,435	12,862,349,407	16,578,580,188	12,854,111,953
Recurring Deposit	197,277,161	154,203,999	197,277,161	154,203,999
Savings Deposits	5,928,438,617	4,733,649,216	5,928,438,617	4,733,649,216
Current Accounts	3,821,675,904	3,719,221,420	3,819,285,935	3,717,925,541
	<b>26,534,826,117</b>	<b>21,469,424,041</b>	<b>26,523,581,902</b>	<b>21,459,890,709</b>
<b>Foreign Currency Deposits</b>				
Fixed Deposit	-	-	-	-
Recurring Deposit	-	-	-	-
Savings Deposits	-	-	-	-
Current Accounts	660,128,525	402,954,243	660,128,525	402,954,243
	<b>660,128,525</b>	<b>402,954,243</b>	<b>660,128,525</b>	<b>402,954,243</b>

## 27. Debts issued & borrowed funds

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Subordinated Bonds	876,327,869	876,457,534	876,327,869	876,457,534
	<b>876,327,869</b>	<b>876,457,534</b>	<b>876,327,869</b>	<b>876,457,534</b>

### 27.1. Bond Details

	Unit	Face Value	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
			2016	2015			
DGPC	350,000	1,000	354,430,137	354,430,137	17-Oct-11	16-Oct-18	6%
RGoB	500,000	1,000	522,027,397	521,945,205	9-Apr-14	8-Apr-24	6%
			<b>876,457,534</b>	<b>876,375,342</b>			





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Current tax liabilities

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Balance as at 1st January	444,501,788	313,038,801	444,902,615	313,422,977
Current year provision	313,176,205	444,501,788	313,849,579	444,902,615
Less: Payment of tax	444,501,788	313,038,801	444,902,615	313,422,977
<b>Balance as at 31st December</b>	<b>313,176,205</b>	<b>444,501,788</b>	<b>313,849,579</b>	<b>444,902,615</b>

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2016

## 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 International Accounting Standard - BAS 39 (Financial Instruments: Recognition & Measurement) under headings of the Statement of Financial Position.

As at 31-Dec-2016-Bank

### Analysis of Financial Instruments by Measurement Basis

	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
<b>Financial Assets</b>					
Cash & cash Equivalents	-	6,171,652,407	-	-	6,171,652,407
Cash & Balances with Central Bank	-	4,385,003,584	-	-	4,385,003,584
Placement with other Banks	-	764,956,284	-	-	764,956,284
Due From Banks and Financial Institution	-	-	-	-	-
Loans & Advances to Customers	-	22,728,340,278	-	-	22,728,340,278
Financial Investments Available for Sale	-	-	-	102,278,872	102,278,872
Financial Investments Held to Maturity	-	-	-	-	-
Investment's in Bonds	-	116,948,539	-	-	116,948,539
Other Financial Assets	-	157,875,152	-	-	157,875,152
<b>Financial Liabilities</b>					
Due to Banks and Financial Institution	-	9,849,910,311	-	-	9,849,910,311
Due to Customers	-	17,345,044,331	-	-	17,345,044,331
Debts Issued & Other Borrowed Funds	-	876,327,869	-	-	876,327,869
Unclaimed Balances	-	34,579,659	-	-	34,579,659
Other Liabilities	-	21,540,625	-	-	21,540,625



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## As at 31-Dec-2016-Group

### Analysis of Financial Instruments by Measurement Basis

	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
<b>Financial Assets</b>					
Cash & cash Equivalents	-	6,171,652,407	-	-	6,171,652,407
Cash & Balances with Central Bank	-	4,385,003,584	-	-	4,385,003,584
Placement with other Banks	-	764,956,284	-	-	764,956,284
Due From Banks and Financial Institution	-	-	-	-	-
Loans & Advances to Customers	-	22,728,340,278	-	-	22,728,340,278
Financial Investments Available for Sale	-	-	-	102,278,872	102,278,872
Financial Investments Held to Maturity	-	-	-	-	-
Investment's in Bonds	-	116,948,539	-	-	116,948,539
Other Financial Assets	-	157,875,152	-	-	157,875,152
<b>Financial Liabilities</b>					
Due to Banks and Financial Institution	-	9,838,666,096	-	-	9,838,666,096
Due to Customers	-	17,345,044,331	-	-	17,345,044,331
Debts Issued & Other Borrowed Funds	-	876,327,869	-	-	876,327,869
Unclaimed Balances	-	34,579,659	-	-	34,579,659
Other Liabilities	-	21,540,625	-	-	21,540,625




# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31-Dec-2015-Bank

Analysis of Financial Instruments by Measurement Basis

	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
<b>Financial Assets</b>					
Cash & cash Equivalents	-	3,218,820,420	-	-	3,218,820,420
Cash & Balances with Central Bank	-	5,143,875,234	-	-	5,143,875,234
Placement with other Banks	-	1,665,026,712	-	-	1,665,026,712
Due From Banks and Financial Institution	-	-	-	-	-
Loans & Advances to Customers	-	19,570,868,060	-	-	19,570,868,060
Financial Investments Available for Sale	-	-	-	200,321,357	200,321,357
Financial Investments Held to Maturity	-	-	-	-	-
Investment's in Bonds	-	116,952,968	-	-	116,952,968
Other Financial Assets	-	60,686,060	-	-	60,686,060
<b>Financial Liabilities</b>					
Due to Banks and Financial Institution	-	5,308,457,911	-	-	5,308,457,911
Due to Customers	-	16,563,920,373	-	-	16,563,920,373
Debts Issued & Other Borrowed Funds	-	876,457,534	-	-	876,457,534
Unclaimed Balances	-	34,546,203	-	-	34,546,203
Other Liabilities	-	20,493,001	-	-	20,493,001



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## As at 31-Dec-2015-Group

### Analysis of Financial Instruments by Measurement Basis

	Held for Trading	Amortised Cost	Held to maturity	AFS	Total
<b>Financial Assets</b>					
Cash & cash Equivalents	-	3,218,820,420	-	-	3,218,820,420
Cash & Balances with Central Bank	-	5,143,875,234	-	-	5,143,875,234
Placement with other Banks	-	1,665,026,712	-	-	1,665,026,712
Due From Banks and Financial Institution	-	-	-	-	-
Loans & Advances to Customers	-	19,570,868,060	-	-	19,570,868,060
Financial Investments Available for Sale	-	-	-	200,321,357	200,321,357
Financial Investments Held to Maturity	-	-	-	-	-
Investment's in Bonds	-	116,952,968	-	-	116,952,968
Other Financial Assets	-	60,686,060	-	-	60,686,060
<b>Financial Liabilities</b>					
Due to Banks and Financial Institution	-	5,298,924,579	-	-	5,298,924,579
Due to Customers	-	16,563,920,373	-	-	16,563,920,373
Debts Issued & Other Borrowed Funds	-	876,457,534	-	-	876,457,534
Unclaimed Balances	-	34,546,203	-	-	34,546,203
Other Liabilities	-	21,057,826	-	-	21,057,826

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 30. Deferred Taxation (Bank and the Group)

### 30.1. Reflected in Statement of Financial Position

	2016	2015
Property Plant and Equipment & Intangibles	- 38,084,033	- 38,689,774
Fair value change of Available for Financial Assets - Equity Securities	- 9,415,751	- 38,828,497
Revaluation	- 1,315,456	- 1,315,456
Defined Benefit Assets	- 1,295,628	- 8,726,209
Defined Benefit Liabilities	-	-
Defined Benefit Assets (OCI)	4,356,450	- 161,696
Impairment Charges	55,124,788	59,544,099
<b>Deferred Tax Assets/(Liabilities)</b>	<b>9,370,371</b>	<b>(28,177,532)</b>

*Deferred Tax has been determined based on the enacted tax rate of 30%.*

### 30.2. Reflected in Statement of Comprehensive Income

	2016	2015
Property Plant and Equipment & Intangibles	605,741	- 87,936,615
Defined Benefit Assets	7,430,581	- 9,440,989
Impairment Charges	- 4,419,311	41,140,270
<b>Deferred Tax Assets/(Liabilities)</b>	<b>3,617,011</b>	<b>56,237,334</b>
<b>Deferred Income Tax Charge/(Reversal)</b>	<b>3,617,011</b>	<b>- 56,237,334</b>

### 30.3. Reflected in Statement of Other Comprehensive Income

	2016	2015
Fair value change of Available for Financial Assets - Equity Securities	29,412,746	- 18,272,117
Defined Benefit Assets (OCI)	4,518,147	1,620,231
<b>Deferred Tax Assets/(Liabilities)</b>	<b>33,930,892</b>	<b>16,651,885</b>
<b>Deferred Income Tax Charge/(Reversal)</b>	<b>33,930,892</b>	<b>- 16,651,885</b>





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. Provisions

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Provisions for Leave Encashment	15,473,003	13,918,234	15,511,592	13,959,747
Provisions for Off Balance sheet items	1,776,156	1,832,788	1,776,156	1,832,788
Payable to Gratuity Fund (Provision)	-	-	37,312	3,234
	<b>17,249,159</b>	<b>15,751,021</b>	<b>17,325,060</b>	<b>15,795,769</b>

### Movements

Provisions for Leave Encashment	1,554,769	1,421,893
Provisions for Off Balance sheet items	- 56,632	- 14,568,720
<b>PL Impact</b>	<b>- 1,498,137</b>	<b>13,146,826</b>

## 32. Other Liabilities

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
<b>Financial</b>				
Accounts payable & Sundry creditors	21,540,625	20,493,001	21,540,625	21,057,826
<b>Non Financial</b>				
Margin Money	65,565,682	177,978,826	65,565,682	177,978,826
Other	136,607,389	56,866,070	136,617,689	56,876,370
	<b>223,713,696</b>	<b>255,337,898</b>	<b>223,723,996</b>	<b>255,913,023</b>

## 33. Share Capital and Share Premium

	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Share Capital	3,291,935,960	3,548,077,000	3,291,935,960	3,548,077,000
Share Premium	-	34,022,965	-	34,022,965
	<b>3,291,935,960</b>	<b>3,582,099,965</b>	<b>3,291,935,960</b>	<b>3,582,099,965</b>

### 33.1. Share Capital

	2015	2014
Opening balance (January 01)	3,548,077,000	3,548,077,000
Buyback of shares	(256,141,040)	-
<b>Closing Balance (December 31)</b>	<b>3,291,935,960</b>	<b>3,548,077,000</b>





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 34. Commitment and Contingencies

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

### 34.1. Commitment and Contingencies

As at 31st December	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
<b>Commitments</b>				
Commitment for unutilised facilities (direct advances)	3,017,601,679	3,631,494,082	3,017,601,679	3,631,494,082
	<b>3,017,601,679</b>	<b>3,631,494,082</b>	<b>3,017,601,679</b>	<b>3,631,494,082</b>
<b>Contingent Liabilities</b>				
Gurantess	2,754,124,274	3,064,448,076	2,754,124,274	3,064,448,076
Letter of Credits	978,644,930	663,822,980	978,644,930	663,822,980
Other	3,017,601,679	3,631,494,082	3,017,601,679	3,631,494,082
	<b>6,750,370,883</b>	<b>7,359,765,138</b>	<b>6,750,370,883</b>	<b>7,359,765,138</b>
<b>Commitment &amp; contingencies</b>	<b>9,767,972,562</b>	<b>10,991,259,220</b>	<b>9,767,972,562</b>	<b>10,991,259,220</b>

### 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.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**34.3. Capital Expenditure approved by the Board of Directors, for which provisions have not been made in these accounts, amounted to approximately;**

As at 31st December	Bank (Nu)		Group (Nu)	
	2016	2015	2016	2015
Approved & contracted for	202,961,583	203,517,360	202,961,583	203,517,360
	<b>202,961,583</b>	<b>203,517,360</b>	<b>202,961,583</b>	<b>203,517,360</b>

## 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.

### 35.2. Transactions with Key Managerial Personnel (KMPs)

According to International Accounting Standard - BAS 24 (Related Party Disclosures) Key Managerial Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Such KMPs include the Board of Directors of the Bank (including both Executive and Non-Executive Directors), key employees who are holding directorship in Subsidiary companies of the Bank.

Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs domestic partner and children of the KMPs domestic partner and dependents of the KMPs and the KMPs domestic partner.

### 35.3. Related Party Disclosures Contd.

#### 35.3.1. Transactions with Key Managerial Personnel (KMPs)

For the Year Ended 31st December	Bank		Group	
	2016	2015	2016	2015
Short term employee benefits	6,435,974	5,774,618	6,435,974	5,774,618
Post-employment benefits	2,000,000	2,000,000	2,000,000	2,000,000
Directors' fees & expenses	4,633,761	3,548,235	4,633,761	3,598,235
<b>Total</b>	<b>13,069,735</b>	<b>11,322,853</b>	<b>13,069,735</b>	<b>11,372,853</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 35.3.2. Remuneration and expenditure paid, reimbursed or accrued to the Chief Executive Officer

Particulars	Bank		Group	
	2016	2015	2016	2015
Salary & Other Benefits	4,784,968	3,968,964	4,784,968	3,968,964
Vehicle Expenses	349,454	355,000	349,454	355,000
Trave - Local/Foreign	1,185,123	1,450,655	1,185,123	1,450,655
<b>Total</b>	<b>6,319,545</b>	<b>5,774,618</b>	<b>6,319,545</b>	<b>5,774,618</b>

## 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		Group	
	2016	2015	2016	2015
Loans and Receivables	573,630	6,234,651	573,630	6,234,651

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

	Bank		Group	
	2016	2015	2016	2015
Credit Card outstanding	-	31,820	-	31,820

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

	Bank		Group	
	2016	2015	2016	2015
Deposits	4,299,927	6,154,331	4,299,927	6,154,331
Investment in Equity shares of BNBL	204,924,480	197,208,380	204,924,480	197,208,380
	<b>209,224,407</b>	<b>203,362,711</b>	<b>209,224,407</b>	<b>203,362,711</b>

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

	Bank		Group	
	2016	2015	2016	2015
Loans & receivables	234,143,927	218,815,352	234,143,927	218,815,352
Deposits	42,154,051	8,261,560	42,154,051	8,261,560
	<b>276,297,978</b>	<b>227,076,912</b>	<b>276,297,978</b>	<b>227,076,912</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35.6. Transactions with Subsidiaries

Subsidiary Name: BNB Securities Limited

31st December	Bank		Group	
	2016	2015	2016	2015
<b>Transactions</b>				
Interest paid on deposits	680,156	610,125	-	-
<b>Outstanding Balances at year end</b>				
Balances in Current, Savings & Fixed Deposits	11,244,215	9,533,332	-	-
Company's contribution to its capital	500,000	500,000	-	-
Payable on account of investment in RSEBL transferred to BNB	-	500,000	-	-

## 36. Events after the Reporting Period

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

## 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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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 hierarchy

	Bank			Group		
	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
<b>31st December 2016</b>						
Financial Investment Available For sale (Quoted)	-	-	60,217,872	-	-	60,217,872
Staff Loan	-	-	192,707,750	-	-	192,707,750
<b>31st December 2015</b>						
Financial Investment Available For sale (Quoted)	-	-	158,260,357	-	-	158,260,357
Staff Loan	-	-	191,219,375	-	-	191,219,375

## A. Determination of fair value hierarchy

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.







# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

## 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 fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



Bank	Bank (Nu)				
	31st December	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value	
<b>Financial Assets</b>					
Cash & cash equivalents	6,171,652,407	6,171,652,407	3,218,820,420	3,218,820,420	
Balances with Central Bank	4,385,003,584	4,385,003,584	5,143,875,234	5,143,875,234	
Placements with Banks	764,956,284	764,956,284	1,665,026,712	1,665,026,712	
Loans & Advances to Customers	22,728,340,278	20,952,192,693	19,570,868,060	18,032,977,447	
Investments in Subsidiaries	500,000	500,000	500,000	500,000	
Investments in Associates	91,463,480	91,463,480	91,463,480	91,463,480	
Financial Investments Available for Sale	102,278,872	102,278,872	200,321,357	200,321,357	
Investment's in Bonds	116,948,539	115,091,356	116,952,968	118,489,993	
Other Financial Assets	157,875,152	157,875,152	60,686,060	60,686,060	
			-	5,369,490,216	
<b>Financial Liabilities</b>					
Due to Banks	9,849,910,311	6,905,017,288	5,308,457,911	4,636,439,744	
Due to Customers	17,345,044,331	20,290,076,066	16,563,920,373	17,229,132,810	
Debts Issued & Other Borrowed Funds	876,327,869	767,119,144	876,457,534	749,934,282	
Unclaimed Balances	34,579,659	34,579,659	34,546,203	34,546,203	
Other Liabilities	21,540,625	21,540,625	20,493,001	20,493,001	

Group	Group (Nu)				
	31st December	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value	
<b>Financial Assets</b>					
Cash & cash equivalents	6,171,652,407	6,171,652,407	3,218,820,420	3,218,820,420	
Balances with Central Bank	4,385,003,584	4,385,003,584	5,143,875,234	5,143,875,234	
Placements with Banks	764,956,284	764,956,284	1,665,026,712	1,665,026,712	
Loans & Advances to Customers	22,728,340,278	20,952,192,693	19,570,868,060	18,032,977,447	
Investments in Subsidiaries	-	-	-	-	
Investments in Associates	106,942,883	106,942,883	108,756,377	108,756,377	
Financial Investments Available for Sale	102,278,872	102,278,872	200,321,357	200,321,357	
Investment's in Bonds	116,948,539	115,091,356	116,952,968	118,489,993	
Other Financial Assets	157,875,152	157,875,152	60,686,060	60,686,060	
			-	5,369,490,216	
<b>Financial Liabilities</b>					
Due to Banks	9,838,666,096	6,905,017,288	5,298,924,579	4,636,439,744	
Due to Customers	17,345,044,331	20,290,076,066	16,563,920,373	17,229,132,810	
Debts Issued & Other Borrowed Funds	876,327,869	767,119,144	876,457,534	749,934,282	
Unclaimed Balances	34,579,659	34,579,659	34,546,203	34,546,203	
Other Liabilities	21,540,625	21,540,625	21,057,826	21,057,826	

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 38. 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. 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 2016	Bank (Nu)		
	Maximum Exposure to credit Risk (Nu)	Net Collateral	Net Exposure
<b>Financial Assets</b>			
Cash & cash Equivalents	6,171,652,407	-	6,171,652,407
Cash & Balances with Central Bank	4,385,003,584	-	4,385,003,584
Placement with other Banks	764,956,284	-	764,956,284
Loans & Advances to Customers	22,728,340,278	22,064,395,015	663,945,263
Financial Investments Available for Sale	102,278,872	-	102,278,872
Investment's in Bonds	116,948,539	-	116,948,539
Other Financial Assets	157,875,152	-	157,875,152

31st December 2016	Group (Nu)		
	Maximum Exposure to credit Risk (Nu)	Net Collateral	Net Exposure
<b>Financial Assets</b>			
Cash & cash Equivalents	6,171,652,407	-	6,171,652,407
Cash & Balances with Central Bank	4,385,003,584	-	4,385,003,584
Placement with other Banks	764,956,284	-	764,956,284
Loans & Advances to Customers	22,728,340,278	22,064,395,015	663,945,263
Financial Investments Available for Sale	102,278,872	-	102,278,872
Investment's in Bonds	116,948,539	-	116,948,539
Other Financial Assets	157,875,152	-	157,875,152



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



31st December 2015	Maximum Exposure to credit Risk (Nu)	Bank (Nu)	
		Net Collateral	Net Exposure
<b>Financial Assets</b>			
Cash & cash Equivalents	3,218,820,420	-	3,218,820,420
Cash & Balances with Central Bank	5,143,875,234	-	5,143,875,234
Placement with other Banks	1,665,026,712	-	1,665,026,712
Loans & Advances to Customers	19,570,868,060	19,107,475,467	463,392,593
Financial Investments Available for Sale	200,321,357	-	200,321,357
Investment's in Bonds	116,952,968	-	116,952,968
Other Financial Assets	60,686,060	-	60,686,060

31st December 2015	Maximum Exposure to credit Risk (Nu)	Group (Nu)	
		Net Collateral	Net Exposure
<b>Financial Assets</b>			
Cash & cash Equivalents	3,218,820,420	-	3,218,820,420
Cash & Balances with Central Bank	5,143,875,234	-	5,143,875,234
Placement with other Banks	1,665,026,712	-	1,665,026,712
Loans & Advances to Customers	19,570,868,060	19,107,475,467	463,392,593
Financial Investments Available for Sale	200,321,357	-	200,321,357
Investment's in Bonds	116,952,968	-	116,952,968
Other Financial Assets	60,686,060	-	60,686,060

## 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 net of impairment allowances.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Definition of Past Due

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

31st December 2016	Bank (Nu)			Total
	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	
Cash & cash Equivalents	6,171,652,407	-	-	6,171,652,407
Cash & Balances with Central Bank	4,385,003,584	-	-	4,385,003,584
Placement with other Banks	764,956,284	-	-	764,956,284
Loans & Advances to Customers	18,780,259,287	3,948,080,992	-	22,728,340,279
Investments in Subsidiaries	500,000	-	-	500,000
Investments in Associates	91,463,480	-	-	91,463,480
Financial Investments Available for Sale	102,278,872	-	-	102,278,872
Financial Investments Held to Maturity	-	-	-	-
Investment's in Bonds	116,948,539	-	-	116,948,539
Other Financial Assets	157,875,152	-	-	157,875,152
	<b>30,570,937,605</b>	<b>3,948,080,992</b>	-	<b>34,519,018,597</b>

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

	Past due but not individually impaired				Total
	< 30 Days	31-60 Days	61-90 Days	> 90 days	
Loans & receivables to other customers	1,612,902,556	1,513,887,919	512,138,760	309,151,756	3,948,080,992





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



31st December 2016	Group (Nu)			Total
	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	
Cash & cash Equivalents	6,171,652,407	-	-	6,171,652,407
Cash & Balances with Central Bank	4,385,003,584	-	-	4,385,003,584
Placement with other Banks	764,956,284	-	-	764,956,284
Loans & Advances to Customers	18,780,259,287	3,948,080,992	-	22,728,340,279
Investments in Subsidiaries	-	-	-	-
Investments in Associates	106,942,883	-	-	106,942,883
Financial Investments Available for Sale	102,278,872	-	-	102,278,872
Financial Investments Held to Maturity	-	-	-	-
Investment's in Bonds	116,948,539	-	-	116,948,539
Other Financial Assets	157,875,152	-	-	157,875,152
<b>Total</b>	<b>30,585,917,008</b>	<b>3,948,080,992</b>	<b>-</b>	<b>34,533,997,999</b>

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

	< 30 Days	31-60 Days	61-90 Days	> 90 days	Total
Loans & receivables to other customers	1,612,902,556	1,513,887,919	512,138,760	309,151,756	3,948,080,992

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st December 2015	Bank (Nu)			Total
	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	
Cash & cash Equivalents	3,218,820,420	-	-	3,218,820,420
Cash & Balances with Central Bank	5,143,875,234	-	-	5,143,875,234
Placement with other Banks	1,665,026,712	-	-	1,665,026,712
Loans & Advances to Customers	15,624,078,520	3,883,922,670	62,866,870	19,570,868,060
Investments in Subsidiaries	500,000	-	-	500,000
Investments in Associates	91,463,480	-	-	91,463,480
Financial Investments Available for Sale	200,321,357	-	-	200,321,357
Financial Investments Held to Maturity	-	-	-	-
Investment's in Bonds	116,952,968	-	-	116,952,968
Other Financial Assets	60,686,060	-	-	60,686,060
	<b>26,121,724,752</b>	<b>3,883,922,670</b>	<b>62,866,870</b>	<b>30,068,514,292</b>

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 individually impaired				Total
	< 30 Days	31-60 Days	61-90 Days	> 90 days	
Loans & receivables to other customers	1,667,154,742	1,245,805,275	535,325,915	435,636,739	3,883,922,670

31st December 2015	Group (Nu)			Total
	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	
Cash & cash Equivalents	3,218,820,420	-	-	3,218,820,420
Cash & Balances with Central Bank	5,143,875,234	-	-	5,143,875,234
Placement with other Banks	1,665,026,712	-	-	1,665,026,712
Loans & Advances to Customers	15,624,078,520	3,883,922,670	62,866,870	19,570,868,060
Investments in Associates	108,756,377	-	-	108,756,377
Financial Investments Available for Sale	200,321,357	-	-	200,321,357
Financial Investments Held to Maturity	-	-	-	-
Investment's in Bonds	116,952,968	-	-	116,952,968
Other Financial Assets	60,686,060	-	-	60,686,060
	<b>26,138,517,649</b>			<b>30,085,307,189</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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 individually impaired				Total
	< 30 Days	31-60 Days	61-90 Days	> 90 days	
Loans & receivables to other customers	1,667,154,742	1,245,805,275	535,325,915	435,636,739	3,883,922,670

## 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.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Country Risk - Geographical Analysis as at 31 Dec 2016

	Bank (Nu)				Total
	Bhutan	Asia	Europe	Americas	
Cash and Cash Equivalents	5,091,733,436	455,823,204	78,446,051	545,649,716	6,171,652,407
Balances with Central Bank	4,385,003,584	-	-	-	4,385,003,584
Placement with other Banks	764,956,284	-	-	-	764,956,284
Loans & Advances to Customers	22,728,340,278	-	-	-	22,728,340,278
Investments in Subsidiaries	500,000	-	-	-	500,000
Investments in Associates	91,463,480	-	-	-	91,463,480
Financial Investments Available for Sale	102,278,872	-	-	-	102,278,872
Investment's in Bonds	116,948,539	-	-	-	116,948,539
Other Financial Assets	157,875,152	-	-	-	157,875,152

## Regional Break Down of Loans

Thimphu	14,985,582,812
Phuntsholing	2,886,001,036
Samdrupjongkhar	447,570,026
Trashigang	325,393,307
Gelephu	991,924,412
Paro	1,006,777,222
Monggar	401,834,119
Wangdue	721,226,460
Bumthang	367,386,074
Gomtu	360,979,775
Tsirang	233,665,037
	<b>22,728,340,279</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Country Risk - Geographical Analysis as at 31Dec 2016

	Group (Nu)				Total
	Bhutan	Asia	Europe	Americas	
Cash and Cash Equivalents	5,091,733,436.38	455,823,203.59	78,446,050.83	545,649,715.71	6,171,652,407
Balances with Central Bank	4,385,003,584	-	-	-	4,385,003,584
Placement with other Banks	764,956,284	-	-	-	764,956,284
Loans & Advances to Customers	22,728,340,278	-	-	-	22,728,340,278
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates	106,942,883	-	-	-	106,942,883
Financial Investments Available for Sale	102,278,872	-	-	-	102,278,872
Investment's in Bonds	116,948,539	-	-	-	116,948,539
Other Financial Assets	157,875,152	-	-	-	157,875,152

## Regional Break Down of Loans

Thimphu	14,985,582,812.13
Phuntsholing	2,886,001,035.65
Samdrupjongkhar	447,570,025.90
Trashigang	325,393,307.16
Gelephu	991,924,412.03
Paro	1,006,777,221.51
Monggar	401,834,118.52
Wangdue	721,226,460.36
Bumthang	367,386,073.74
Gomtu	360,979,775.39
Tsirang	233,665,036.73
	<b>22,728,340,279</b>

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2016

## Country Risk - Geographical Analysis as at 31Dec 2015

	Bank (Nu)				Total
	Bhutan	Asia	Europe	Americas	
Cash and Cash Equivalents	2,855,664,012	173,607,278	183,767,888	5,781,241	3,218,820,420
Balances with Central Bank	5,143,875,234	-	-	-	5,143,875,234
Placement with other Banks	1,665,026,712	-	-	-	1,665,026,712
Loans & Advances to Customers	19,570,868,060	-	-	-	19,570,868,060
Investments in Subsidiaries	500,000	-	-	-	500,000
Investments in Associates	91,463,480	-	-	-	91,463,480
Financial Investments Available for Sale	200,321,357	-	-	-	200,321,357
Investment's in Bonds	116,952,968	-	-	-	116,952,968
Other Financial Assets	60,686,060	-	-	-	60,686,060

## Regional Break Down of Loans

Thimphu	12,731,856,268
Phuntsholing	2,797,093,603
Samdrupjongkhar	367,967,708
Trashigang	266,808,584
Gelephu	899,352,437
Paro	952,718,019
Monggar	345,295,205
Wangdue	577,465,471
Bumthang	323,490,843
Gomtu	140,362,160
Tsirang	168,457,760
	<b>19,570,868,060</b>

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Country Risk - Geographical Analysis as at 31Dec 2015

	Group (Nu)				Total
	Bhutan	Asia	Europe	Americas	
Cash and Cash Equivalents	2,855,664,012	173,607,278	183,767,888	5,781,241	3,218,820,420
Balances with Central Bank	5,143,875,234	-	-	-	5,143,875,234
Placement with other Banks	1,665,026,712	-	-	-	1,665,026,712
Loans & Advances to Customers	-	-	-	-	-
Investments in Subsidiaries	19,570,868,060	-	-	-	19,570,868,060
Investments in Associates	108,756,377	-	-	-	108,756,377
Financial Investments Available for Sale	200,321,357	-	-	-	200,321,357
Investment's in Bonds	116,952,968	-	-	-	116,952,968
Other Financial Assets	60,686,060	-	-	-	60,686,060

## Regional Break Down of Loans

Thimphu	12,731,856,268
Phuntsholing	2,797,093,603
Samdrupjongkhar	367,967,708
Trashigang	266,808,584
Gelephu	899,352,437
Paro	952,718,019
Monggar	345,295,205
Wangdue	577,465,471
Bunthang	323,490,843
Gomtu	140,362,160
Tsirang	168,457,760
	<b>19,570,868,060</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2016

## Industry Analysis

Cash and Cash Equivalents	-	-	-	5,746,868,264	-	-	-	424,784,142
Balances with Central Bank	-	4,385,003,584	-	-	-	-	-	-
Placement with other Banks	-	-	-	764,956,284	-	-	-	-
Loans & Advances to Customers	3,554,677,228	508,494,765	3,621,457,633	6,605,123,121	815,168,248	1,084,424,848	5,073,814,581	1,443,326,699
Investments in Associates	91,463,480	-	-	-	-	-	-	-
Investments in Subsidiaries	-	-	-	500,000	-	-	-	-
Financial Investments Available for Sale	45,441,961	-	18,000,000	-	38,836,911	-	-	-
Investment's in Bonds	-	116,948,539	-	-	-	-	-	-
Other Financial Assets	-	-	-	-	-	-	-	157,875,152
<b>Cash and Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,746,868,264</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>424,784,142</b>
<b>Balances with Central Bank</b>	<b>-</b>	<b>4,385,003,584</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Placement with other Banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>764,956,284</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loans &amp; Advances to Customers</b>	<b>3,554,677,228</b>	<b>508,494,765</b>	<b>3,621,457,633</b>	<b>6,605,123,121</b>	<b>815,168,248</b>	<b>1,084,424,848</b>	<b>5,073,814,581</b>	<b>1,443,326,699</b>
<b>Investments in Associates</b>	<b>106,942,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Investments Available for Sale</b>	<b>45,441,961</b>	<b>-</b>	<b>18,000,000</b>	<b>-</b>	<b>38,836,911</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investment's in Bonds</b>	<b>-</b>	<b>116,948,539</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,875,152</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Credit Risk (Contd.)

Industry Analysis

31st December 2015-

Bank	Industrial	Government	Services & tourism	Construction	Financial Services	Transport	Trade & Commerce	Consumer	Others	Total
Cash and Cash Equivalents	-	-	-	-	2,085,019,687	-	-	-	1,133,800,733	3,218,820,420
Balances with Central Bank	-	5,143,875,234	-	-	-	-	-	-	-	5,143,875,234
Placement with other Banks	-	-	-	-	1,665,026,712	-	-	-	-	1,665,026,712
Loans & Advances to Customers	2,746,983,727	555,256,775	5,898,919,080	6,169,364,268	91,495,296	728,417,484	1,986,991,085	1,373,514,862	19,925,482	19,570,868,060
Investments in Associates	91,463,480	-	-	-	-	-	-	-	-	91,463,480
Investments in Subsidiaries	-	-	-	-	500,000	-	-	-	-	500,000
Financial Investments Available for Sale	133,264,041	-	18,000,000	-	49,057,317	-	-	-	-	200,321,357
Investment's in Bonds	-	116,952,968	-	-	-	-	-	-	-	116,952,968
Other Financial Assets	-	-	-	-	-	-	-	-	60,686,060	60,686,060

31st December 2015-  
Group

Group	Industrial	Government	Services & tourism	Construction	Financial Services	Transport	Trade & Commerce	Consumer	Others	Total
Cash and Cash Equivalents	-	-	-	-	2,085,019,687	-	-	-	1,133,800,733	3,218,820,420
Balances with Central Bank	-	5,143,875,234	-	-	-	-	-	-	-	5,143,875,234
Placement with other Banks	-	-	-	-	1,665,026,712	-	-	-	-	1,665,026,712
Loans & Advances to Customers	2,746,983,727	555,256,775	5,898,919,080	6,169,364,268	91,495,296	728,417,484	1,986,991,085	1,373,514,862	19,925,482	19,570,868,060
Investments in Associates	108,756,377	-	-	-	-	-	-	-	-	108,756,377
Financial Investments Available for Sale	133,264,041	-	18,000,000	-	49,057,317	-	-	-	-	200,321,357
Investment's in Bonds	-	116,952,968	-	-	-	-	-	-	-	116,952,968
Other Financial Assets	-	-	-	-	-	-	-	-	60,686,060	60,686,060



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39. Risk Management (Contd.)

### Liquidity Risk & Funding management

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 2015. 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

	up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
<b>31st December 2016</b>						
Cash & cash Equivalents	6,171,652,407	-	-	-	-	6,171,652,407
Cash & Balances with Central Bank	4,385,003,584	-	-	-	-	4,385,003,584
Placement with other Banks	-	764,956,284	-	-	-	764,956,284
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	2,117,421,225	7,163,933,456	7,818,069,294	3,126,039,711	17,661,524,158	37,886,987,844
Investments in Subsidiaries	-	-	-	-	500,000	500,000
Investments in Associates	-	-	-	-	91,463,480	91,463,480
Financial Investments Available for Sale	-	-	-	-	102,278,872	102,278,872
Investment's in Bonds	-	10,379,880	20,759,760	20,759,760	146,471,640	198,371,040
Other Financial Assets	-	-	-	-	157,875,152	157,875,152
<b>Total undiscounted Assets</b>	<b>12,674,077,215</b>	<b>7,939,269,621</b>	<b>7,838,829,054</b>	<b>3,146,799,471</b>	<b>18,160,113,302</b>	<b>49,759,088,662</b>
Due to Banks	1,380,394,499	2,243,875,588	2,705,745,136	151,583,291	423,418,774	6,905,017,288
Due to Customers	15,207,644,248	2,298,664,369	1,848,190,747	561,311,756	374,273,113	20,290,084,234
Debits Issued & Other Borrowed Funds	-	51,000,000	431,000,000	60,000,000	590,000,000	1,132,000,000
Unclaimed Balances	34,579,659	-	-	-	-	34,579,659
Other Liabilities	21,540,625	-	-	-	-	21,540,625
<b>Total undiscounted Liabilities</b>	<b>16,644,159,031</b>	<b>4,593,539,957</b>	<b>4,984,935,883</b>	<b>772,895,047</b>	<b>1,387,691,887</b>	<b>28,383,221,806</b>
<b>Net Undiscounted Financial Assets/(Liabilities)</b>	<b>(3,970,081,816)</b>	<b>3,345,729,664</b>	<b>2,853,893,170</b>	<b>2,373,904,424</b>	<b>16,772,421,415</b>	<b>21,375,866,856</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2016

## Group

31st December 2016	up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
Cash & cash Equivalents	6,171,652,407	-	-	-	-	6,171,652,407
Cash & Balances with Central Bank	4,385,003,584	-	-	-	-	4,385,003,584
Placement with other Banks	-	764,956,284	-	-	-	764,956,284
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	2,117,421,225	7,163,933,456	7,818,069,294	3,126,039,711	17,661,524,158	37,886,987,844
Investments in Associates	-	-	-	-	106,942,883	106,942,883
Financial Investments Available for Sale	-	-	-	-	102,278,872	102,278,872
Investment's in Bonds	-	10,379,880	20,759,760	20,759,760	146,471,640	198,371,040
Other Financial Assets	-	-	-	-	157,875,152	157,875,152
<b>Total undiscounted Assets</b>	<b>12,674,077,215</b>	<b>7,939,269,621</b>	<b>7,838,829,054</b>	<b>3,146,799,471</b>	<b>18,175,092,704</b>	<b>49,774,068,065</b>
Due to Banks	1,380,394,499	2,243,875,588	2,705,745,136	151,583,291	423,418,774	6,905,017,288
Due to Customers	15,207,644,248	2,298,664,369	1,848,190,747	561,311,756	374,273,113	20,290,084,234
Debts Issued & Other Borrowed Funds	-	51,000,000	431,000,000	60,000,000	590,000,000	1,132,000,000
Unclaimed Balances	34,579,659	-	-	-	-	34,579,659
Other Liabilities	21,540,625	-	-	-	-	21,540,625
<b>Total undiscounted Liabilities</b>	<b>16,644,159,031</b>	<b>4,593,539,957</b>	<b>4,984,935,883</b>	<b>772,895,047</b>	<b>1,387,691,887</b>	<b>28,383,221,806</b>
<b>Net Undiscounted Financial Assets/(Liabilities)</b>	<b>(3,970,081,816)</b>	<b>3,345,729,664</b>	<b>2,853,893,170</b>	<b>2,373,904,424</b>	<b>16,787,400,817</b>	<b>21,390,846,259</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2016

## Bank

31st December 2015	up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
Cash & cash Equivalents	3,219,093,352	-	-	-	-	3,219,093,352
Cash & Balances with Central Bank	5,143,875,234	-	-	-	-	5,143,875,234
Placement with other Banks	611,835,616	1,086,852,740	-	-	-	1,698,688,356
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	2,185,940,788	5,762,672,942	4,513,361,234	4,421,169,831	18,303,573,321	35,186,718,116
Investments in Subsidiaries	-	-	-	-	500,000	500,000
Investments in Associates	-	-	-	-	91,463,480	91,463,480
Financial Investments Available for Sale	-	-	-	-	200,321,357	200,321,357
Investment's in Bonds	-	10,379,880	20,759,760	20,759,760	156,851,520	208,750,920
Other Financial Assets	-	-	-	-	60,686,060	60,686,060
<b>Total undiscounted Assets</b>	<b>11,160,744,991</b>	<b>6,859,905,561</b>	<b>4,534,120,994</b>	<b>4,441,929,591</b>	<b>18,813,395,738</b>	<b>45,810,096,876</b>
Due to Banks	1,548,880,273	880,897,068	2,551,573,004	6,111,676	426,614,677	5,414,076,698
Due to Customers	10,871,477,066	2,461,022,981	2,936,789,156	597,784,809	528,449,567	17,395,523,579
Debts Issued & Other Borrowed Funds	-	51,000,000	452,000,000	60,000,000	620,000,000	1,183,000,000
Unclaimed Balances	34,546,203	-	-	-	-	34,546,203
Other Liabilities	20,493,001	-	-	-	-	20,493,001
<b>Total undiscounted Liabilities</b>	<b>12,475,396,543</b>	<b>3,392,920,050</b>	<b>5,940,362,160</b>	<b>663,896,485</b>	<b>1,575,064,244</b>	<b>24,047,639,481</b>
<b>Net Undiscounted Financial Assets/(Liabilities)</b>	<b>(1,314,651,552)</b>	<b>3,466,985,512</b>	<b>(1,406,241,166)</b>	<b>3,778,033,106</b>	<b>17,238,331,494</b>	<b>21,762,457,395</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2016

## Group

	up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
<b>31st December 2015</b>						
Cash & cash Equivalents	3,219,093,352	-	-	-	-	3,219,093,352
Cash & Balances with Central Bank	5,143,875,234	-	-	-	-	5,143,875,234
Placement with other Banks	611,835,616	1,086,852,740	-	-	-	1,698,688,356
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	2,185,940,788	5,762,672,942	4,513,361,234	4,421,169,831	18,303,573,321	35,186,718,116
Investments in Associates	-	-	-	-	108,756,377	108,756,377
Financial Investments Available for Sale	-	-	-	-	200,321,357	200,321,357
Investment's in Bonds	-	10,379,880	20,759,760	20,759,760	156,851,520	208,750,920
Other Financial Assets	-	-	-	-	60,686,060	60,686,060
<b>Total undiscounted Assets</b>	<b>11,160,744,991</b>	<b>6,859,905,561</b>	<b>4,534,120,994</b>	<b>4,441,929,591</b>	<b>18,830,188,635</b>	<b>45,826,889,773</b>
Due to Banks	1,548,091,653	880,897,068	2,542,583,333	5,392,926	426,614,677	5,403,579,657
Due to Customers	10,871,477,066	2,461,022,981	2,936,789,156	597,784,809	528,449,567	17,395,523,579
Debts Issued & Other Borrowed Funds	-	51,000,000	452,000,000	60,000,000	620,000,000	1,183,000,000
Unclaimed Balances	34,546,203	-	-	-	-	34,546,203
Other Liabilities	21,057,826	-	-	-	-	21,057,826
<b>Total undiscounted Liabilities</b>	<b>12,475,172,747</b>	<b>3,392,920,050</b>	<b>5,931,372,489</b>	<b>663,177,735</b>	<b>1,575,064,244</b>	<b>24,037,707,264</b>
<b>Net Undiscounted Financial Assets/(Liabilities)</b>	<b>- 1,314,427,756</b>	<b>3,466,985,512</b>	<b>- 1,397,251,495</b>	<b>3,778,751,856</b>	<b>17,255,124,391</b>	<b>21,789,182,509</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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	Less than 3					Total
	On Demand	Months	3-12 Months	1-3 Years	3-5 Years	
<b>As at 31 Dec 2016</b>						
<b>Contingencies</b>						
Financial guarantees	-	-	1,399,477,448	53,439,774	1,301,207,053	2,754,124,274
LCS	-	11,300	72,466,615	906,167,014	-	978,644,930
<b>Total Contingencies</b>	-	<b>11,300</b>	<b>72,466,615</b>	<b>2,305,644,462</b>	<b>1,301,207,053</b>	<b>3,732,769,204</b>
<b>Commitments</b>						
Undrawn credit card limits	26,765,928	-	-	-	-	26,765,928
Undrawn OD	2,385,040,494	-	-	-	-	2,385,040,494
Undisbursed other loans & advances	605,795,257	-	-	-	-	605,795,257
<b>Total Commitments</b>	<b>3,017,601,679</b>	-	-	-	-	<b>3,017,601,679</b>

Group	Less than 3					Total
	On Demand	Months	3-12 Months	1-3 Years	3-5 Years	
<b>As at 31 Dec 2016</b>						
<b>Contingencies</b>						
Financial guarantees	-	-	1,399,477,448	53,439,774	1,301,207,053	2,754,124,274
Letter of Credits	-	11,300	72,466,615	906,167,014	-	978,644,930
<b>Total Contingencies</b>	-	<b>11,300</b>	<b>72,466,615</b>	<b>2,305,644,462</b>	<b>1,301,207,053</b>	<b>3,732,769,204</b>
<b>Commitments</b>						
Undrawn credit card limits	26,765,928	-	-	-	-	26,765,928
Undrawn OD	2,385,040,494	-	-	-	-	2,385,040,494
Undisbursed other loans & advances	605,795,257	-	-	-	-	605,795,257
<b>Total Commitments</b>	<b>3,017,601,679</b>	-	-	-	-	<b>3,017,601,679</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2016

Bank	Less than 3			Over 5		
	On Demand	Months	1-3 Years	3-5 Years	Years	Total
<b>As at 31 Dec 2015</b>						
<b>Contingencies</b>						
Financial guarantees	-	1,014,068,967	1,645,153,668	398,068,681	7,156,760	-
LCs	-	572,377,308	90,671,700	-	-	773,972
<b>Total Contingencies</b>	-	<b>1,586,446,275</b>	<b>1,735,825,368</b>	<b>398,068,681</b>	<b>7,156,760</b>	<b>773,972</b>
<b>Commitments</b>						
Undrawn credit card limits	25,430,439	-	-	-	-	-
Undrawn OD	2,702,267,322	-	-	-	-	-
Undisbursed other loans & advances	903,796,320	-	-	-	-	-
<b>Total Commitments</b>	<b>3,631,494,082</b>	-	-	-	-	-

Group	Less than 3			Over 5		
	On Demand	Months	1-3 Years	3-5 Years	Years	Total
<b>As at 31 Dec 2015</b>						
<b>Contingencies</b>						
Financial guarantees	-	1,014,068,967	1,645,153,668	398,068,681	7,156,760	-
Letter of Credits	-	572,377,308	90,671,700	-	-	773,972
<b>Total Contingencies</b>	-	<b>1,586,446,275</b>	<b>1,735,825,368</b>	<b>398,068,681</b>	<b>7,156,760</b>	<b>773,972</b>
<b>Commitments</b>						
Undrawn credit card limits	25,430,439	-	-	-	-	-
Undrawn OD	2,702,267,322	-	-	-	-	-
Undisbursed other loans & advances	903,796,320	-	-	-	-	-
<b>Total Commitments</b>	<b>3,631,494,082</b>	-	-	-	-	-



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## 40. Risk Management (Contd.)

### Currency Risk

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Maturity Gap Analysis

As at 31 Dec 2016	Bank (Nu)		Group (Nu)	
	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months
<b>Assets</b>				
Cash & cash Equivalents	6,171,652,407	-	6,171,652,407	-
Cash & Balances with Central Bank	4,385,003,584	-	4,385,003,584	-
Placement with other Banks	764,956,284	-	764,956,284	-
Due From Banks	-	-	-	-
Loans & Advances to Customers	9,281,354,681	28,605,633,163	9,281,354,681	28,605,633,163
Investments in Subsidiaries	-	500,000	-	-
Investments in Associates	-	91,463,480	-	106,942,883
Financial Investments Available for Sale	-	102,278,872	-	102,278,872
Financial Investments Held to Maturity	-	-	-	-
Investment's in Bonds	10,379,880	187,991,160	10,379,880	187,991,160
Other Financial Assets	-	157,875,152	-	157,875,152
Other Assets	-	356,322,378	-	356,556,115
Property & Equipment	-	524,745,747	-	524,745,747
Intangible Assets	-	43,065,244	-	43,065,244
Deferred tax assets	-	9,370,371	-	9,370,371
<b>Total Assets</b>	<b>20,613,346,836</b>	<b>30,079,245,567</b>	<b>20,613,346,836</b>	<b>30,094,458,707</b>
<b>Liabilities</b>				
Due to Banks and Financial Institution	3,624,270,087	3,280,747,201	3,624,270,087	3,280,747,201
Due to Customers	17,506,308,617	2,783,775,617	17,506,308,617	2,783,775,617
Debts Issued & Other Borrowed Funds	51,000,000	1,081,000,000	51,000,000	1,081,000,000
Current Tax Liabilities	313,176,205	-	313,849,579	-
Provisions	17,249,159	-	17,325,060	-
Deferred Income	25,570,119	-	25,570,119	-
Unclaimed Balances	34,579,659	-	34,579,659	-
Other Liabilities	223,713,696	-	223,723,996	-
<b>Total Liabilities</b>	<b>21,795,867,541</b>	<b>7,145,522,818</b>	<b>21,796,627,116</b>	<b>7,145,522,818</b>
<b>Maturity Gap</b>	<b>1,182,520,705</b>	<b>22,933,722,749</b>	<b>1,183,280,280</b>	<b>22,948,935,889</b>
<b>Cumulative Gap</b>	<b>1,182,520,705</b>	<b>21,751,202,044</b>	<b>1,183,280,280</b>	<b>21,765,655,608</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Maturity Gap Analysis

As at 31 Dec 2015	Bank (Nu)		Group (Nu)	
	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months
<b>Assets</b>				
Cash & cash Equivalents	3,219,093,352	-	3,219,093,352	-
Cash & Balances with Central Bank	5,143,875,234	-	5,143,875,234	-
Placement with other Banks	1,698,688,356	-	1,698,688,356	-
Loans & Advances to Customers	7,948,613,730	27,238,104,386	7,948,613,730	27,238,104,386
Investments in Subsidiaries	-	500,000	-	-
Investments in Associates	-	91,463,480	-	108,756,377
Financial Investments Available for Sale	-	200,321,357	-	200,321,357
Financial Investments Held to Maturity	-	-	-	-
Investment's in Bonds	10,379,880	198,371,040	10,379,880	198,371,040
Other Financial Assets	-	60,686,060	-	60,686,060
Other Assets	-	342,452,655	-	343,087,192
Property & Equipment	-	466,447,739	-	466,447,739
Intangible Assets	-	25,333,704	-	25,333,704
Deferred tax assets	-	-	-	-
<b>Total Assets</b>	<b>18,020,650,553</b>	<b>28,623,680,422</b>	<b>18,020,650,553</b>	<b>28,641,107,856</b>
<b>Liabilities</b>				
Due to Banks	2,429,777,342	2,984,299,357	2,428,988,721	2,974,590,936
Due to Customers	13,332,500,047	4,063,023,532	13,332,500,047	4,063,023,532
Debts Issued & Other Borrowed Funds	51,000,000	1,132,000,000	51,000,000	1,132,000,000
Current Tax Liabilities	444,501,788	-	444,902,615	-
Provisions	15,751,021	-	15,795,769	-
Differed Income	33,393,367	-	33,393,367	-
Unclaimed Balances	34,546,203	-	34,546,203	-
Other Liabilities	255,337,898	-	255,913,023	-
<b>Total Liabilities</b>	<b>16,596,807,667</b>	<b>8,179,322,888</b>	<b>16,597,039,745</b>	<b>8,169,614,467</b>
<b>Maturity Gap</b>	<b>1,423,842,886</b>	<b>20,444,357,534</b>	<b>1,423,610,808</b>	<b>20,471,493,389</b>
<b>Cumulative Gap</b>	<b>1,423,842,886</b>	<b>21,868,200,420</b>	<b>1,423,610,808</b>	<b>21,895,104,197</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## Note 41: 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 constitutes paid up capital; general reserves; share premium; and retained earnings, which has decreased by 7.85% as compared to previous year. The decrease was mainly due to buyback of shares from IFC.

The Tier 2 capital consists of Exchange Fluctuation Reserve, Research and Development Fund, General Provisions and Subordinated Debts. As required under section 1.3.2 of RMA Prudential Regulation 2016, Tier 2 capital is to be reduced by 20% of the subordinated debts with remaining maturity of 5 years and the same has been adjusted. Tier 2 capital has decreased by 4.30% and the bank has not transferred any amount towards Bond redemption reserves in the accounting year.

The capital adequacy ratio as on the reporting date stands at 22.83% as compared to 23.36%, 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. In the current year, the gross NPL stands at 6.91% and net NPL stands at 0.74% as against 7.13% and 0.51% in the previous year. The percentage of gross non-performing loans have decreased by about 3% as compared to last year, however in absolute amount, the gross NPL has increased by 13%.

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 17% from 2015 and specific provision has increased by about 33% over the previous year.

### Risk Management

BNBL has introduced risk management function formally from 2015 to monitor and manage various risks the Bank is exposed to. The bank has now a comprehensive written policy on Risk Management to identify, measure, manage and mitigate the risk. The policy also has a detailed controlling tools, methodologies and reporting principles. The major risks the policy emphasizes are Credit Risk, Market Risk, Operational Risk and Liquidity Risk.

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





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Under market risk, the Bank monitors the net foreign exchange position, movement of equity/commodity prices and Interest rate risk. A tolerance limit for net FX position has been set by the Board. The FX risk is assumed within the approved threshold. Currently there is no tolerance limit defined for equity/commodity risk and the Interest Rate Risk.

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

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

## 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. However, the bank without proper written guidelines from the regulator has not disclosed Item 7, 8 and 9.

### Item 1: Tier 1 Capital and its sub-components

Sl.No		Current Period	COPPY
<b>1</b>	<b>Total Tier 1 Capital</b>		
a	Paid-Up Capital	3,291,936	3,548,077
b	General Reserves	2,327,364	2,381,550
c	Share Premium Account	-	34,023
d	Retained Earnings	41,531	175,466
Less:-			
e	Losses for the Current Year	-	-
f	Buyback of FI's own shares	-	-
g	Holdings of Tier 1 instruments issued by FIs	- 3,733	-





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## Item 2: Tier 2 Capital and its sub-components

Sl.No		Current Period	COPPY
<b>1</b>	<b>Tier II Capital</b>		
a	Capital Reserve	-	-
b	Fixed Assets Revaluation Reserve	-	-
c	Exchange Fluctuation Reserve	131,942	106,543
d	Investment Fluctuation Reserve	-	-
e	Research and Development Fund	354,000	354,000
f	General Provision	238,713	205,968
g	Capital Grants	-	-
h	Subordinated Debt	850,000	850,000
i	Profit for the Year	- 224,644	- 154,491

## 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	7,817,515	0%	-
2	20% Risk Weighted Assets	3,073,083	20%	614,617
3	50% Risk Weighted Assets	419,221	50%	209,611
4	100% Risk Weighted Assets	27,151,376	100%	27,151,376
5	150% Risk Weighted Assets	171,634	150%	257,452
6	200% Risk Weighted Assets	-	200%	-
7	250% Risk Weighted Assets	-	250%	-
8	300% Risk Weighted Assets	-	300%	-

### COPPY

Sl.No	Assets	Balance Sheet Amount	Risk Weight %	Risk Weighted Asset
1	Zero-Risk Weighted Assets	6,430,073	0%	-
2	20% Risk Weighted Assets	3,733,858	20%	746,772
3	50% Risk Weighted Assets	704,634	50%	352,317
4	100% Risk Weighted Assets	9,451,559	100%	9,451,559
5	150% Risk Weighted Assets	10,115,569	150%	15,173,354
6	200% Risk Weighted Assets	-	200%	-
7	250% Risk Weighted Assets	-	250%	-
8	300% Risk Weighted Assets	446,954	300%	1,340,861





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Item 4: Capital Adequacy ratios

	Current Period	COPPY
Tier 1 Capital	5,657,098	6,139,116
<i>Of which Counter-cyclical Capital Buffer (CcyB) (if applicable)</i>		
<i>Of which Sectoral Capital Requirements (SCR) (if applicable)</i>		
Sector 1		
Sector 2		
Sector 3		
Tier 2 Capital	1,350,011	1,348,119
Total Qualifying capital	6,960,529	7,487,235
Core CAR	18.56%	19.15%
<i>Of which CcyB (if applicable) expressed as % of RWA</i>		
<i>Of which SCR (if applicable) expressed as % of Sectoral RWA</i>		
Sector 1		
Sector 2		
Sector 3		
CAR	22.83%	23.36%
Leverage Ratio	14.64%	17.83%

## Item 5: Loans and NPL by Sectoral Classification

S.No	Sector	Current Period		COPPY	
		Total Loans	NPL	Total Loans	NPL
a.	Agriculture	695	695	714	410
b.	Manufacturing/Industry	4,442,348	371,681	2,936,473	271,947
c.	Service & Toursim	4,596,155	87,456	3,490,142	267,380
d.	Trade & Commerce	6,060,151	593,712	5,376,308	357,441
e.	Housing	6,862,905	326,931	6,473,261	249,036
f.	Transport	1,162,279	62,190	789,899	50,021
g.	Loans to Purchase Securities	63,438	835	83,434	799
h.	Personal Loan/LDCL/CC	1,042,841	105,370	495,566	63,834
i.	Education Loan	-	-	-	-
j.	Loan Against Term Deposit	110,627	250	152,397	41
k.	Loans to FI (s)	-	-	-	-
l.	Infrastructure Loan	-	-	-	-
m.	Staff Loan (incentive)	287,034	7,879	253,846	2,367
n.	Loans to Govt. Owned Corporation	-	-	561,017	154
o.	Consumer Loan (GE)	-	-	464,015	10,708
	<b>Total</b>	<b>24,628,474</b>	<b>1,556,999</b>	<b>21,077,073</b>	<b>1,274,137</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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

S.No	Counter- party	Current Period	COPPY
<b>1</b>	<b>Overdrafts</b>		
a.	Governments	-	-
b.	Governments Corporation	-	-
c.	Public Companies	8,040	85,567
d.	Private Companies	5,527,849	4,951,164
e.	Individuals	173,097	130,479
f.	Commercial Banks	-	-
g.	Non-Bank Financial Institutions	845,032	100,030
<b>2</b>	<b>Term Loans</b>		
a.	Governments	-	-
b.	Governments Corporation	-	-
c.	Public Companies	513,630	561,283
d.	Private Companies	6,359,716	5,197,264
e.	Individuals	11,201,109	10,015,182
f.	Commercial Banks	-	-
g.	Non-Bank Financial Institutions	-	36,104

## Item 10: Non Performing Loans and Provisions

SI No		Current Period	COPPY
<b>1</b>	<b>Amount of NPLs (Gross)</b>		
a.	Substandard	185,367	394,097
b.	Doubtful	124,492	164,408
c.	Loss	1,394,478	943,864
<b>2</b>	<b>Specific Provisions</b>		
a.	Substandard	40,216	64,841
b.	Doubtful	63,034	71,473
c.	Loss	1,280,096	900,392
<b>3</b>	<b>Interest - in -Suspense</b>		
a.	Substandard	7,706	9,679
b.	Doubtful	8,571	11,016
c.	Loss	130,693	141,058
<b>4</b>	<b>Net NPLs</b>		
a.	Substandard	137,446	319,577
b.	Doubtful	52,887	81,918
c.	Loss	- 16,311	- 97,586
<b>5</b>	<b>Gross NPLs to Gross Loans</b>	6.91%	7.13%
<b>6</b>	<b>Net NPLs to Net Loans</b>	0.74%	0.51%
<b>7</b>	<b>General Provision</b>		
a.	Standard	204,049.20	172,790.81
b.	Watch	34,663.50	30,847.55





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Item 11: Assets and Investments

SI No	Investment	Current Period	COPPY
<b>1</b>	<b>Marketable Securities (Interest Earning)</b>		
a	RMA Securities	2,897,100	-
b	RGOB Bonds/Securities	-	-
c	Corporate Bonds	115,332	115,332
d	Others	100,000	-
	<b>Sub-total</b>	<b>3,112,432</b>	<b>115,332</b>
<b>2</b>	<b>Equity Investments</b>		
	Public Companies	119,563	119,563
	Private Companies	-	-
	Commercial Banks	2,500	2,500
	Non-Bank Financial Institutions	40,794	40,794
<i>Less</i>			
i	Specific Provisions		-
<b>3</b>	<b>Fixed Assets</b>		
j	Fixed Assets (Gross)	682,200	572,605
<i>Less</i>			
k	Accumulated Depreciation	245,721	214,174
l	Fixed Assets (Net Book Value)	436,479	358,431

## Item 12: Foreign exchange assets and liabilities (Current Period and COPPY)

### Current period



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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	688,754	528,134	160,620	135,800	-	135,800	296,420	5.24
SG \$	1,593		1,593	-	-	-	1,593	0.03
EURO	60,895	24,532	36,363	-	-	-	36,363	0.64
AUD	29,643	4,644	24,999	-	-	-	24,999	0.44
CAD	143		143	-	-	-	143	0.00
HKD	1,808		1,808	-	-	-	1,808	0.03
GBP	16,783	0	16,783	-	-	-	16,783	0.30
NOK	39		39	-	-	-	39	0.00
DKK	-		-	-	-	-	-	-
CHF	571		571	-	-	-	571	0.01
JPY	4,393		4,393	-	-	-	4,393	0.08
INR	201,642	18,975	182,667	-	-	-	182,667	3.23
SEK	158		158	-	-	-	158	0.00

## 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	615,185	339,021	276,164	445,383	-	445,383	721,547	11.75
SG \$	816		816	-	-	-	816	0.01
EURO	67,266	41,864	25,402	-	-	-	25,402	0.41
AUD	70,803		70,803	-	-	-	70,803	1.15
CAD	12		12	-	-	-	12	0.00
HKD	475		475	-	-	-	475	0.01
GBP	37,735	0	37,734	-	-	-	37,734	0.61
NOK			-	-	-	-	-	-
DKK	29		29	-	-	-	29	0.00
CHF	691		691	-	-	-	691	0.01
JPY	10,757		10,757	-	-	-	10,757	0.18
INR	405,478	22,734	382,743	-	-	-	382,743	6.23
SEK	2		2	-	-	-	2	0.00

## Item 13: Geographical Distribution of Exposures









# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Domestic		India		Other	
	Current Period	COPPY	Current Period	COPPY	Current Period	COPPY
Demand Deposits held with other banks	704,029	5,546,601	177,875	315,828	720,831	414,827
Time deposits held with other banks	1,774,589	1,765,969	-	-	135,977	445,601
Borrowings	850,000	850,000	-	-	-	-

## Item 14: Credit Risk Exposures by collateral

Sl.No	Particular	Current Period	COPPY
<b>1</b>	<b>Secured Loans</b>	<b>24,628,474</b>	<b>21,077,073</b>
a.	Loans secured by physical/real estate collateral	23,781,010	20,365,579
b.	Loans secured by financial collateral	174,065	235,831
c.	Loans secured by guarantees	673,399	475,662
<b>2</b>	<b>Unsecured Loans</b>	-	-
<b>3</b>	<b>Total Loans</b>	<b>24,628,474</b>	<b>21,077,073</b>

## Item 15: Earnings Ratio (%)

Sl.No	Ratio	Current Period	COPPY
1	Interest Income as a percentage of Average Assets	8.06%	7.50%
2	Non-interest income as a percentage of Average Assets	0.66%	0.78%
b.	Operating Profit as a percentage of Average Assets	5.49%	5.57%
c.	Return on Assets	1.84%	3.12%
2	Business (Deposits plus advances) per employee	113,000	94,047
3	Profit per employee	1,483	2,192

## 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	Current Account OD	315.58	NA	-

## Item 19: Concentration of Credit and Deposits



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Sl.No	Particular	End of Current Period	COPPY
1	Total Loans to 10 Largest borrowers	5,518,369	4,719,388
2	<i>As % of total loans</i>	22.41%	22.39%
3	Total deposits of the 10 Largest depositors	10,764,884	10,233,237
4	<i>As % of total deposits</i>	41.07%	48.53%

**Item 20: Exposure of 5 Largest NPL accounts**

Sl.No	Particular	End of Current Period	COPPY
1	Five Largest NPL Accounts	178,631	353,986
2	<i>As % of total NPLs</i>	10.50%	23.56%

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**BNB Securities Limited  
Auditors' Report  
and  
Financial Statements**



# AUDITORS' REPORT

## **1. Report on the Financial Statements**

We have audited the accompanying financial statements of **BNB SECURITIES Limited** ("the Company"), which comprise the Balance Sheet as at 31st December, 2016, the Statement of Profit and Loss and the Statement of Cash Flow for the year ended on that date, and a summary of significant accounting policies and other explanatory notes.

## **2. Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements in accordance with the generally accepted accounting principles and practices followed by the financial institutions in Bhutan and with provisions of the Companies Act of Bhutan, 2016, RMA Prudential Regulations 2016 and The Financial Services Act of Bhutan 2011. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view of the financial position of the company at the end of the reporting period and of its performance for the reporting period.



# AUDITORS' REPORT



## 4. Opinion

- i) 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;
- ii) In our opinion, proper books





# AUDITORS' REPORT

## ANNEXURE TO THE AUDITORS' REPORT (REFERRED TO IN PARAGRAPH '5' OF OUR REPORT OF EVEN DATE)

### MINIMUM AUDIT REPORTING REQUIREMENTS

1. The company has no fixed assets. Fixed assets of Bhutan National Bank Ltd. (BNBL) are used by the company since it is a 100% subsidiary of BNBL.
2. The Company has not availed any loan, secured or unsecured from companies, firms or other parties or from the companies under the same management.
3. The Company has not granted any loan, secured or unsecured to other companies, firms or other parties or to the companies under the same management.
4. The Company has established a system of internal control to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the rules, regulations, systems and procedures.
5. As explained to us, the transactions in respect of dealing or trading in shares, securities and other investments entered into by the Company wherein the Directors are directly or indirectly interested are not prejudicial to the interest of the other Shareholders and the Company.
6. The Company is generally regular in depositing rates and taxes, duties, provident funds and other statutory dues with the appropriate authority.
7. Personal expenses, except under contractual obligations, have not been charged to the Company's accounts.
8. The management of liquid resources particularly cash/bank and short term deposits etc. are adequate and that excessive amount are not lying idle in non-interest bearing accounts.
9. The activities carried out by the Company are lawful and intra-vires to the license given by Ministry of Economic Affairs, Royal Government of Bhutan.
10. The directives of Board of Directors have been complied with.



## General

### 1. Going concern

Financial statements have been prepared on a going concern basis. However, the Company is in the course of merger with its parent company.

### 2. Ratio Analysis

Financial and operational ratios of the Company are given below:

Ratios	2016	2015
Current Ratio = Current Assets/Current liabilities	3.45	1.89
Earnings per Share = Profit after Tax/No. of shares	314.24	109.58
Return on Investment = Profit after Tax/ Capital Employed	14.66%	5.99%

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

In our opinion and on the basis of available records and information the Company has



# BALANCE SHEET

As at 31<sup>st</sup> December 2016

## BNB SECURITIES LIMITED


### BALANCE SHEET AS AT 31ST DECEMBER 2016

Particulars	Schedule	2016 Nu.	2015 Nu.
<b><u>CAPITAL AND LIABILITIES</u></b>			
Share Capital	1	500,000	500,000
Reserves & Surplus	2	10,218,377	8,647,171
Current Liabilities & Provisions	3	759,575	1,020,698
<b>Total Liabilities</b>		<b>11,477,952</b>	<b>10,167,869</b>
<b><u>ASSETS</u></b>			
Investment	4	8,854,247	8,237,454
Balances with Banks	5	2,389,968	1,295,878
Other Assets	6	233,737	634,537
<b>Total Assets</b>		<b>11,477,952</b>	<b>10,167,869</b>

Significant Accounting Policies & Notes on Accounts - Schedule 7

The schedules referred to above form part of the Balance Sheet.  
This is the Balance Sheet referred to in our report of even date.


For S.K. MITTAL & CO.  
Chartered Accountants  
FRN : 001135N

  
JITENDRA SAHA  
Partner

M. No: 010633  
Dated: 27 APR 2017  
Place: NEW DELHI



  
CHAIRPERSON

  
CHIEF EXECUTIVE OFFICER



# PROFIT & LOSS ACCOUNT

For the year ended 31<sup>st</sup> December 2016



**BNB SECURITIES LIMITED**  
**STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST DECEMBER**

<u>Particulars</u>	<u>2016</u>	<u>2015</u>
	<u>Nu.</u>	<u>Nu.</u>
<b><u>INCOME</u></b>		
Brokerage	2,963,039	1,705,356
Interest from banks	680,156	610,125
Other Income	9	42,853
<b>Total Income</b>	<b>3,643,203.39</b>	<b>2,358,334</b>

**EXPENDITURE**

Legal & Regulatory Expenses

- Annual Membership Fees 75,000

CHIEF EXECUTIVE OFFICER

27 APR 2017





# SCHEDULES

Schedules forming part of Balance Sheet

	2016 (Nu.)	2015 (Nu.)
<b>Schedules 1 : Share Capital</b>		
<b>Authorised Capital</b>		
<b>5000 Equity Shares of Nu.100 each</b>	<b>500,000</b>	<b>500,000</b>
Issued, Subscribed and Fully paid up		
5000 Equity Shares of Nu.100 each	500,000	500,000
<b>Total</b>	<b>500,000</b>	<b>500,000</b>

### **Schedule 2 : Reserves and Surplus**

#### **General Reserve**

Opening Balance	8,647,171	8,099,258
Add. Transferred from Profit and Loss Account	1,571,206	547,913
<b>Total</b>	<b>10,218,377</b>	<b>8,647,171</b>

### **Schedule 3 : Current Liabilities and Provisions**

#### **Current Liabilities**

Trading Fees Payable	1,571,206	
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# CASH FLOW STATEMENT

For the year ended 31<sup>st</sup> December 2016



	2016 Nu.	2015 Nu.
<b>Cash flow from Operating Activities</b>		
Profit before taxation	2,244,580	1,059,560
Add: Provision for Gratuity	34,078 -	158,814
Add: Provision for leave encashment	- 2,924 -	9,352
Less: Interest income from Investment	- 680,156 -	652,673
Less : Liability Written Back	-	300
Less : Prior Period Item	-	110,821
<b>Cash flows before working capital changes</b>	<b>1,595,578</b>	<b>127,600</b>
<b>Changes in working capital</b>		
(Increase)/ Decrease in Loans/other Assets	400,800 -	434,537
Increase/ (Decrease) in Current Liability/Deposits & Provisions (other than tax)	- 564,824	437,317
	- <b>164,024</b>	<b>2,780</b>
<b>Net cash flow before tax</b>	<b>1,431,554</b>	<b>130,381</b>
Less: Tax Paid	400,827	384,176
<b>Net Cash Flow from Operation Activities (A)</b>	<b>1,030,728 -</b>	<b>253,796</b>
<b>Cash Flow from Investing Activities</b>		
Increase/Decrease in Investments	- 616,793	90,305
Interest Received	680,156	652,673
<b>Net Cash Flow from Investing Activities (B)</b>	<b>63,363</b>	<b>742,978</b>
<b>Cash Flow from Financing Activities</b>		
Issue of shares		-
Dividend paid		-
<b>Net Cash Flow from Financing Activities ( C )</b>	<b>-</b>	<b>-</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalent (A+B+C)</b>	<b>1,094,090</b>	<b>489,183</b>
Add: Opening cash & cash equivalent	1,295,878	806,695
<b>Closing Cash &amp; Cash Equivalent</b>	<b>2,389,968</b>	<b>1,295,878</b>

For S.K. MITTAL & CO.  
Chartered Accountants  
FRN : 001135N

*[Signature]*  
JALSHAN SARUP  
Partner

M. No: 010633  
Dated: 27 APR 2017  
Place: NEW DELHI



*[Signature]*  
CHAIRPERSON

*[Signature]*  
CHIEF EXECUTIVE OFFICER





# SCHEDULES

Schedules forming part of Profit & Loss Account

## SCHEDULE 7

### SIGNIFICANT ACCOUNTING POLICIES



*Amish Kumar*



*[Signature]*



# 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

Commerzbank AG Financial Institutions  
Kaiserplatz 60261 Frankfurt am Main Germany

Commonwealth Bank of Australia Sydney,  
201 Sussex Street Floor 27, Sydney NSW 2000,  
Australia

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

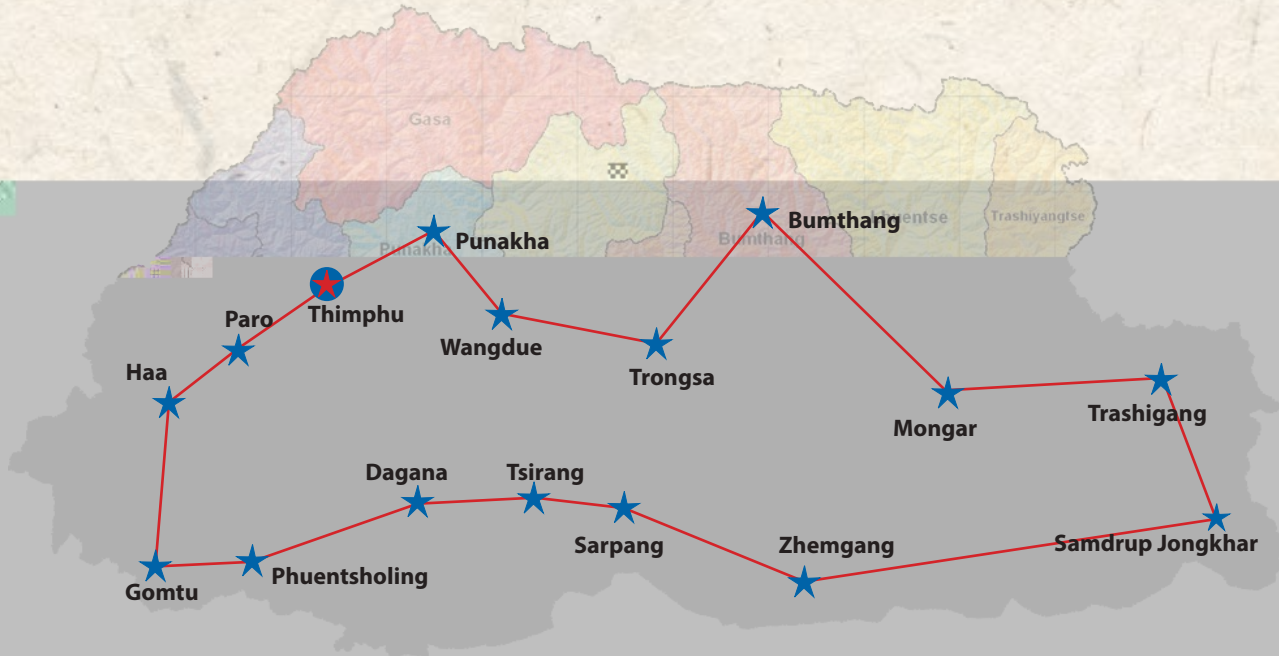
IndusInd Bank, Mumbai, India

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  
Fax: 02-328839

### Branch Office, Thimphu

Post Box No. 439, Bhutan Post Building  
Phone no: 02-323895/325297/328585; Hotline: 144  
Fax: 02-331778/336112;  
Branch Manager: 02-327535; E-mail: thimphu@bnb.bt

### Branch Office, Phuntsholing

Post Box No: 96, Bhutan Post Colony  
Phone no: 05-252502/252431/253057 Fax: 05-252647;  
Manager: 05-252001; Email: pling@bnb.bt

### Branch Office, Paro

Post Box No: 1237, Near Vegetable Market, Tsongdue  
Phone no: 08-272730/31/32; Fax: 08-272733  
Manager: 08-272688; Email: paro@bnb.bt

### Branch Office, Gelephu

Post Box No: 163, Pelri Lam  
Phone no: 06-251008/251765; Fax: 06-251161  
Manager: 06-251775; Email: gelephu@bnb.bt

### Branch Office, Wangdue

Post Box No: 1271, Bajo Town  
Phone no: 02-481912/13; Fax: 02-481916  
Manager: 02-481915; Email: wangdi@bnb.bt

### Branch Office, Mongar

Post Box No: 108, Mongar Town  
Phone no: 04-641494/95/97; Fax: 04-641493  
Manager: 04-641494; Email: mongar@bnb.bt

### Branch Office, Bumthang

Post Box No: 143, Dekiling New Town  
Phone no: 03-631625/897; Fax: 03- 631898  
Manager: 03-631626; Email: bumthang@bnb.bt

### Branch Office, Trashigang

Post Box No: 111 Below School  
Phone no: 04-521129; Fax: 04-521195/521386  
Manager: 04-521426; Email: tgang@bnb.bt

### Branch Office, Samdrup Jongkhar

Post Box No: 1328, Near Dzong entrance gate  
Phone no: 07-251149/251527; Fax: 07-251208  
Manager: 07-251667; Email: sj@bnb.bt

### Branch Office, Samchi

Post Box No: 328, Below Chorten  
Phone no: 05- 365758/365759; Fax no 05-365756  
Manager: 05-365757; Email :samtse@bnb.bt



## OUR OFFICES



### **Branch Office, Tsirang**

P.O. Box No:130, Damphu town  
Phone: 06-471235; Fax: 06-471239  
Manager: 471253; Email: tsirang@bnb.bt

### **Gomtu Extension office (Samchi Br.)**

Gomtu main town  
Phone: 05-371270/71, Fax: 05-371273;  
Email: gomtu@bnb.bt

### **Motithang Extension Office, (Thimphu Br.)**

Below DGPC Office  
Phone: 02-323061/323028; Fax: 02-323132;  
Email: bnbmotithang@bnb.bt

### **Taba Extension Office, (Thimphu Br.)**

Opposite chorten  
Phone: 02-365314; Fax: 02-365313;  
Email: bnbtaba@bnb.bt

### **Olakha Extension Office, (Thimphu Br.)**

Sheeree Square ground floor  
Phone:02-340604; Fax: 02-340605;  
Email: bnbolakha@bnb.bt

### **Babesa Extension Office, (Thimphu Br.)**

Below IT park  
Phone: 02- 350298; Fax: 02- 323132;  
Email: Babesa@bnb.bt

### **Khasadrapchu Extension Office, (Thimphu Br.)**

Near Highway  
Phone: 02-371166; Fax: 02- 371211;  
Email: Khasadrapchu@bnb.bt

### **Gyalpozhing Extension Office, (Mongar Br.)**

Gyalpozhing main town  
Phone: 04-744258; Fax: 04-744263;  
Email: bnbgyalpozhing@bnb.bt

### **Khuruthang Extension Office, (Wangdi Br.)**

Upper Market of Khuruthang Town  
Phone: 02-584472; Fax: 02-584475;  
Email: bnbkhuruthang@bnb.bt

### **Trongsa Extension Office, (Bumthang Br.)**

Trongsa town  
Phone: 03-521537; Fax: 03-521538;  
Email: bnbtrongsa@bnb.bt

### **Tala Extension Office, (Phuentsholing Br.)**

Near THPA Helipad ground  
Phone: 17160674; Fax: 16225181;  
Email: bnbatala@bnb.bt

### **Rangjung Extension Office, (Trashigang Br.)**

Near chorten of Rangjung town  
Phone: 04-561170; Fax: 04-561172;  
Email: bnbrangjung@bnb.bt

### **Wamrong Extension Office, (Trashigang Br.)**

Wamrong main town  
Phone/Fax: 04-571169;  
Email: bnbwamrong@bnb.bt

### **Tingtibi Extension Office, (Gelephu Br.)**

Tingtibi Main town  
Phone: 03-790027;  
Fax: 03-790028; Email: bnbtingtibi@bnb.bt

### **Haa Extension Office, (Paro Br.)**

Haa main town  
Phone: 08-375375;  
Fax: 08-375374; Email: haa@bnb.bt

### **Bonday Extension Office, (Paro Br.)**

Bonday main town  
Phone/fax: 08-270191; Email: parobonday@bnb.bt

### **Dagapela Extension Office, (Tsirang Br.)**

Above Dratshang  
Phone: 06-483129; Fax: 06-483128;  
Email: dagapela@bnb.bt

### **Tashi Yangtshi Extension Office, (Trashigang Br.)**

On the way to Dzong  
Phone: 04-781200; Fax: 04-781175; Email:

### **Lhunshi Extension Office. (Monggar Br.)**

Lhunshi Main town  
Phone: 04-545238;  
Fax: 04-545237; Email:Lhuentse@bnb.bt

### **Tashicholing Extension Office. (Samchi Br.)**

On the way to Dungkhag office  
Phone: 05-382001; Fax: 05-382002;  
Email:tashicholing@bnb.bt

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*





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