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Management Team

THE EXECUTIVES

Top

Sonam Tobgay - Chief Executive Offcer

Middle Row from left

Pelzore Rumba - Chief Credit Offcer

Tandin Dukpa - Chief Finance Offcer

Bottom Row from left

Om Prakash Nirola - Chief Resource Offcer

Hem Kumar Acharya - Chief Operations Offcer

Dorji Penjor - Chief Strategy & IT Offcer

HEAD OF DEPARTMENTS

In alphabetical order

Bidah Dorji,
Human Resource &
Administration

Dellay Phuntshok,
Operations Department

Deki Wangmo,
Credit Monitoring,
Recovery & Legal
Department

Dorji, Finance Department

Dorji Dukpa, Review
Department

Dorji Namgyal Rinchhen,
Company Secretary,
Compliance Department

Karma Deki, Credit
Department

Man Bahadur Rai, IT
Department

Norbu Wangchuk,
Sales and Marketing
Department

Purna B. Mongar, Risk
Department

Sangay Wangdi,
Engineering Department

Shree Prasad Subedi,
Value Added Services
Department

Sonam Tobgay, Strategy
Management Department

Tenzing Gyeltshen, Internal
Audit Department

BRANCH MANAGERS

In alphabetical order

Chhoe Dhen, Mongar Branch

Dorji Dagpa, Tsirang Branch

Dorji Wangchuk, SamdrupJongkhar Branch

Karma Choki, Corporate Branch, Thimphu

Kelden Dorji, Wangdue Branch

Kesang Deki, Phuntsholing Branch

Kinley Jamtsho, Tashigang Branch

Namgyal Wangda, Paro Branch

Norbu, Samtse Branch

Pema Jamtsho, Gelephu Branch

Tshering Dorji, Thimphu Branch

Yeshey Norbu, Bumthang Branch

Director's Profile

Mr. Tenzing Yonten, Chairperson, appointed on 01.03.2019 during the 23rd AGM is the founding Director of the Royal Thimphu College. He has a degree in Mechanical Engineering from the University of California, Berkeley, and an MBA from Yale University. He worked as a civil servant in the Ministry of Trade & Industries for 14 years before he left in 2007 to start RTC. As a civil servant he worked frst in the Department of Power and then the Bhutan Power Corporation. He has experience in a wide range of areas covering policy formulation, planning, project management, contracts, regulation and operations. He has also done consulting work and interned at the World Bank in Washington DC. He is a member of the National Environment Commission and has served on the boards of many organizations such as the Druk Green Power Corporation, Royal Insurance Corporation of Bhutan, Penden Cement Authority, Bhutan Olympic Committee, Bhutan Electricity Authority and the Royal Education Council. He has also held other signifcant positions such as President of the Bhutan Basketball Federation and Chairman of Bhutan Telecom.

Mr. Sonam Lhundrup, Director, appointed on 01.03.2019 during the 23rd AGM representing the Druk Holding and Investments. Currently Mr. Sonam is the Company Secretary and General Counsel of Druk Holding and Investments (DHI). Mr. Sonam has served as a Board Director on the Boards of the Druk Green Power Corporation (DGPC) and the Bhutan Power Corporation (BPC). Mr. Sonam pursued the Master of Law Degree (LL.M) from the George Washington University Law School, Washington DC, USA. Prior to his master's degree, Mr. Sonam served as Legal Offcer 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. Tshering Dorji, Director, appointed on 01.03.2019 during the 23rd AGM is the Director of Public Accounts at Department of Public Accounts, Ministry of Finance, since January 2017. His current responsibilities include treasury management, fscal transfers, government expenditure reporting and the management of National Finance Service personnel. He joined the Ministry of Finance in 1998 as a regular employee under the National Finance Service (NFS). Since then, he has taken key positions of increasing responsibility including as the Head of Debt Management Division (DMD) from 2014 to 2016. Apart from holding many senior positions in the Government, Mr. Dorji also represented Ministry of Finance as Board of Directors in several Government

Owned Corporations. He is also a member to various working committees under the Ministry of Finance. Mr. Dorji has an MBA from School of Management, Asian Institute of Technology, Bangkok, Thailand and is a member of CPA Australia.

Mr. Passang Dorji, Director, appointed on 01.03.2019 during the 23rd AGM joined the BNB Board as an independent director. He is currently the CEO of Dawa Hospitality Pvt. Ltd, an FDI company development hotel in Paro, Bhutan. He last served as the Director of Investments, Druk Holding and Investments, where he was heading business development, projects and private sector partnership and promotion. Passang also serves on the Board of Drukair Corporation and has served as Board Director on other prominent corporations in several sectors in Bhutan.

Aum Dago Beda appointed on 01.03.2019 during the 23rd AGM. Aum Dago joined the Royal Government of Bhutan, Department of Tourism, Sales and Marketing Manager as the frst graduate and the frst female offcer. After the privatization of tourism, Dago together with two colleagues from the tourism department started Etho Metho Tours & Treks in 1990. She was instrumental in framing the policy of the Bhutanese Tourism Industry which is still in place today i.e. high value–low impact policy. Being an entrepreneur by nature, she has set up and invested in numerous business ventures. Aum Dago has been a board director of many organizations and has vast experience in management and operations.

Dr Tshering Cigay Dorji, appointed on 01.03.2019 during the 23rd AGM. Dr. Tshering leads Thimphu TechPark, Bhutan's frst IT Park, and Bhutan Innovation & Technology Centre, Bhutan's frst Incubation Centre, as the Chief Executive Offcer. He joined Thimphu TechPark in early 2012 to launch its operations after the construction was completed. Since then, he has played an important role in bringing the IT Park to a stage where it now provides employment to more than 700 Bhutanese youths in various companies located there. He previously worked with Bhutan Telecom for several years as system and database administrator, research engineer and head of Billing & International Affairs. Dr Tshering has a Masters and Ph.D in computer engineering (informatics) from the University of Tokushima, Japan, a Master of Management degree from the University of Canberra, Australia., and a B.E. Electrical Engineering degree (First Class Honours) from the University of Wollongong, Australia.

Directors Report

The Board of Directors has great pleasure in presenting the Annual Report along with the Audited Financial Statement of Accounts and the Cash Flow Statement of the Bank for the year ended 31.12.2019.

2019 has been a diff cult year, not only for the Bank, but also for the banking industry in general. In 2019, the bank's total provision increased to Nu. 2.76 billion from Nu. 1.74 billion (*under GAAP*) and Nu. 2.62 billion from 1.82 billion in the previous year (*under BAS*). Due to the substantial additional provisioning charge of Nu. 1.015 billion, prof t for the year stood at Nu.233.83million (*under BAS*) and Nu. 61.96 million (*under previous GAAP*) for 2019, as compared with the previous year of Nu. 606.85 million (*under BAS*) and Nu. 736.19 million (*under GAAP*).

The main reason for the additional increase in provisioning was mainly due to the increase in the NPL from 5.62% to 8.54% and moreover most of the NPL accounts have gone into the term expired and loss category for which 100% provisioning is required as per RMA regulations.

Before moving on to the f nancial reporting, I would like to share some of the key highlights for 2019. Bhutan National Bank (BNB) corporate off ce was completed at a total cost of Nu. 558.745 million and the project was completed within a timeframe of sixty months from 2014 to 2019. The Bank began operations from its new corporate off ce ! ¿ et ! o

As per the policy of the bank, "the CSR fund for the year shall be 1 % of the PAT of the previous year". The recipients of the bank's 2019 CSR fund are as follows:

RENEW	-	Nu. 1,000,000.00
BAOWE	-	Nu. 1,000,000.00
Guide Association of Bhutan	-	Nu. 250,000.00
Zamin Friends Forever	-	Nu. 250,000.00
New Focus Multimedia	-	Nu. 225,000.00
Trashigang Middle Secondary School	-	Nu. 158,968.00
Evergreen Bhutan Initiative	-	Nu. 198,000.00
Promoting Financial Literacy	-	Nu. 922,400.00

FINANCIAL HIGHLIGHTS

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

	Fiscal Year 2018	Fiscal Year 2019
Net Interest Income	1,640.15	1,439.56
Net Fee & Commission Income	121.95	117.07
Total Operating Income	1,831.33	1,677.12
Total Operating Expenses including Impairment	784.53	1,520.61
Proft Before Tax from Continuing Operations	1,046.80	156.50
Proft for the Year	606.85	233.83

STATUTORY AUDITORS

The 23rd Annual General Meeting of Shareholders held on 01.03.2019 approved the appointment of auditors, M/s N. C. Mitra & Co for the year 2019. As per the Royal Audit Authority regulations, an audit frm may audit an organization for a maximum of three years.

CORPORATE GOVERNANCE

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 Directors and chaired by an able & experienced Director, to oversee critical areas.

i. Philosophy of Corporate Governance

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

ii. Whistle Blower Policy

BNB has formulated a Whistle Blower Policy for the bank. In terms of this policy, the 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 specifed channels. This mechanism has been communicated to all employees of the bank.

iii. Prevention of Insider Trading

In accordance with the requirements of BNB's Corporate Governance policy and requirement by Royal Monetary Authority of Bhutan (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 specifc 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 and Compliance Committee, Board Credit and Investment Committee and the Board Risk Management Committee.

As of December 31, 2019, the Board of Directors consisted of 7 members. There were **11** meetings of the Board during fscal year 2019. The names of the Directors and the details of their attendance at board meetings are set out in the following table:

Name of Member	No. of Board Meetings attended
Mr. Tenzing Yonten, Chairperson	11
Mr. Tshering Dorji, Director	10
Mr. Passang Dorji, Director	9
Mr. Sonam Lhundrup, Director	8
Aum Dago Beda, Director	8
Dr Tshering Cigay Dorji, Director	7
Mr. Kipchu Tshering, CEO/Director	10 (till September 2019)
Mr. Sonam Tobgay, CEO/Director	3 (from September 2019 onward)
Outgoing Board Directors	
Mr. Kunzang Dechen, Director	*2 (till AGM)*
Dr. Pema Choephyel, Director	*2 (till AGM)*

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

COMPOSITION OF BOARD COMMITTEES

The **Board Governance, Recruitment & Remuneration Committee** comprised of 5 Directors and was chaired by Mr. Tenzing Yonten. There were 6 meetings of the Committee during the year. The names of the Directors and the details of their attendance at the board committee meetings are set out in the following table:

Name of Member	No. of Board Meetings attended
Mr. Tenzing Yonten, Chairperson	5
Mr. Tshering Dorji, Director	3
Mr. Sonam Lhundrup, Director	6
Dr Tshering Cigay Dorji, Director	5
Mr. Kipchu Tshering, CEO/Director	3 (till 30.08.2019)
Mr. Sonam Tobgay, CEO/Director	3 (from 01.09.2019)
Outgoing Board Directors	
Mr. Kunzang Dechen, Director	*1 (till AGM)*
Dr. Pema Choephyel, Director	*1 (till AGM)*

The **Board Audit and Compliance Committee** comprised of 4 Directors and was chaired by Independent Director, Mr. Passang Dorji. There were **4** meetings of the Committee during the year. The names of the Directors and the details of their attendance at the board committee meetings are set out in the following table:

Name of Member	No. of Board Meetings attended
Mr. Passang Dorji, Chairperson	4
Aum Dago Beda, Director	4
Mr. Sonam Lhundrup, Director	4
Dr Tshering Cigay Dorji, Director	4

The **Board Credit and Investment Committee** comprised of 5 Directors and was chaired by Mr. Tshering Dorji. There were **5** meetings of the Committee during the year. The names of the Directors and the details of their attendance at the board committee meetings are set out in the following table:

Name of Member	No. of Board Meetings attended
Mr. Tshering Dorji, Chairperson	5
Mr. Tenzing Yonten, Director	4
Aum Dago Beda, Director	4
Dr Tshering Cigay Dorji, Director	5

Mr. Kipchu Tshering, CEO/Director	4 (till 30.08.2019)
Mr. Sonam Tobgay, CEO/Director	2 (from 01.09.2019)

The **Board Risk Management Committee** comprised of 4 Directors and was chaired by Mr. Sonam Lhundrup. There were **4** meetings of the Committee during the year. The names of the Directors and the details of their attendance at the board committee meetings are set out in the following table:

Name of Member	No. of Board Meetings attended
Mr. Sonam Lhundrup, Chairperson	3
Mr. Passang Dorji, Director	3
Mr. Tshering Dorji , Director	3
Mr. Kipchu Tshering, CEO/Director	3 (till 30.08.2019)
Mr. Sonam Tobgay, CEO/Director	1 (from 01.09.2019)

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 23rd AGM was held on 01.03.2019.

DIVIDEND

For the year ended 31.12.2019, a dividend of 0.69% or Nu 0.069 per share (face value being Nu 10 per share) was approved by the shareholders during the 24th AGM held on 28.02.2020.

COMPLIANCE

The banking industry local and global is undergoing dramatic advancement propelled by two main factors that are technology and global convergence. The emerging technologies today stir the fnance industry like never before to adapt to more economical and time-saving fnancial services. While banks across the world may differ, they all share one thing in common, and that is compliance. Compliance and risk have become one of the key concerns for fnancial institutions globally and even in Bhutan. It has become essential for all banks to have compliance management systems in place. BNB established the compliance department in 2018 and two years hence, we are a bank highly compliant to our internal regulators as well as our correspondent banks and international investors. In 2019, the board approved the bank's compliance policy as well as the bank's AML/CFT policy.

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, fnancial performance, operational performance, and other relevant information.

BNB's annual fnancial results are published in the leading newspapers in Bhutan and are also available on the bank's website for the information of the public.

INFORMATION ON SHAREHOLDING

Shareholding pattern (above 5%) of Bhutan National Bank as of 31.12.2019;

Shareholder Category	Shares	% Holding
National Pension & Provident Fund	92,352,348	23.38%
Druk Holding & Investment (DHI)	48,983,952	12.40%
International Finance Cooperation (IFC)	42,577,548	10.78%
Mr. Kunzang Dechen	25,711,041	6.51%
Kidu Foundation	20,957,541	5.31%
Public	164,449,881	41.63%
Total	395,032,311	100.00%

ADDRESS FOR CORRESPONDENCE

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

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confrm:

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 fnancial year and of the proft or loss of the Bank for that period;
3. that they have taken proper and suffcient care for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act 2016 and the Financial Services Act of Bhutan 2011 for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities; and
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 directors for their contribution to our company. On behalf of the board of directors, I want to take this opportunity to thank all the employees of the Bank for all their efforts throughout the year.

Looking ahead, the growth prospects for 2020 continue to be challenging given the current domestic and regional market uncertainties. Priority must continue to be given to reducing the high stock of non-performing loans (NPLs), which impairs bank's proftability and lending capacity and delays the recovery of investment and economic activity.

We will endeavor to fulfll the hopes and expectations of our shareholders and be a market leader in the banking industry. While 2019 was a year flled with economic uncertainties and unexpected circumstances, we assure all our shareholders that 2020 will see better results and rewards for our shareholders.

On behalf of the board and management, I would like to take this opportunity to thank all our customers and shareholders for choosing BNB and giving us the privilege of assisting you for all your banking needs. Your trust in BNB allows us to deliver products and a level of service that continues to exceed expectations.

ACKNOWLEDGEMENTS

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

Last but not least, on behalf of the Board of Directors, shareholders, clients and the employees of the bank, I would like to place on record our sincere thanks and appreciation to the former CEO Mr. Kipchu Tshering for his long and dedicated service to the bank. We thank him for his hard work and commitment in helping build a strong and prosperous organization. Over the last twenty-three years, Mr. Kipchu Tshering's stewardship of BNB has been characterized by innovative ideas, strategic thinking and, most valuable, his tireless efforts to promote the brand of BNB in the local and regional market. From a personal point of view, his warm friendship, support and advise has been very important to all past and present Board of Directors throughout the 23 years that he has been the bank's CEO.

I confrm that all Directors have affrmed 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, 2019.

Tenzing Yonten
Chairperson, BNB Board of Directors

Place: Thimphu

Chief Executive Officer's Report

Kuzu Zangpo la.

Before I present the performance of your bank in 2019, I would like to frst shed light on the recent Royal Monetary Authority (RMA) Annual Report 2019 that mentions the three major triggers of the economic growth in Bhutan as being hydropower, Government expenditure and Credit. Since there were not many activities from the frst two, it was largely the credit that sustained the GDP growth of 3% in 2018.

As a result of lesser activities from the frst two of the three major triggers, all Financial Institutions (FIs), including your bank, have faced challenges in 2019 particularly in the Non-Performing Loans (NPL). As compared to previous year, all FIs in 2019 saw higher than their normal NPLs. NPLs have double-edge effect on the performance of FIs. First, it lowers the Interest Income since interest accrued until the year end from the NPL clients is not allowed to be taken as income for the year. Second, a higher NPL leads to higher provisioning particularly when the NPL bucket is in the loss or term expired category that have associated related party accounts.

With this, let me now provide some of the performance highlights of your bank in 2019.

FINANCIAL HIGHLIGHTS

Since 2014, BNB has been preparing two sets of fnancial statements - one following GAAP as required by the RMA & Tax Authority and another set following Bhutanese Accounting Standards (BAS) as required by Accounting & Auditing Standards Board of Bhutan (AASBB). The fgures that I report below are under GAAP; detailed presentation under both GAAP and BAS shall be made by the Chief Financial Offcer.

Balance Sheet

The balance sheet size of your bank has increased by 14.9% from Nu 40.10 billion in 2018 to 46.08 billion in 2019. The growth in the balance sheet size is mainly attributed due to the increase in the total business from Nu. 59.24 billion in 2018 to Nu. 68.40 billion in 2019 registering a growth of 15.50%. The gross loans & advances increased from Nu. 29.07 billion in 2018 to Nu. 32.92 billion in 2019, recording a growth of 13% or net loan growth of over Nu 3.8 billion, the highest in the history of BNB. The deposits grew from Nu. 30.16 billion in 2018 to Nu. 35.48 billion in 2019. registering a growth of about 18%. The CD ratio was 92.80% in 2019 as against 96.39% in 2018.

In 2019, BNB provided bonus shares to its shareholders at 1:5 ratio increasing the paid-up capital by 20% to Nu. 3.95 billion. In comparison to 2017 and 2018 where the net gain in shareholders' value was 3.22% and 19.58%respectively, there has been an increase in the net gain in shareholder value of over 36% in 2019.

Your bank's net worth stood at Nu. 6.92 billion in 2019, registering a marginal growth of about 1% from that of Nu. 6.86 billion in 2018.

Profit & Loss Account

The interest income from loans & advances grew by 5.70% (PY 5.53%) largely contributing to the total interest income growth of 6.69% (PY 3.14%).

The interest expense on deposits grew by 21.33% in 2019 mainly due to increase in the total deposits by over Nu. 5 billion. The increase can be also attributed to the increase in interest-bearing deposits which constituted about 88% of total deposits in 2019.

This has led to decrease in net interest differential by about 7% as against the growth of 6.57% in 2018.

The Proft After Tax (PAT) was Nu. 61.96 million in 2019, 91.58% down from Nu. 736.19 million in 2018.

The overall weak economy in the country fueled by lesser Government capital expenditure and lesser activities in the hydropower sector have largely contributed to the huge reduction in the PAT. For the kind information of all shareholders, as per the CIB information, BNB has 2,341 commercial accounts (trade & commerce sector) which is almost twice as many as the second highest bank. NPLs from this sector, mainly overdraft and business loans, caused over 43% of the total NPL of 8.54% which further led to increase in net provisions by over Nu. 1.015 billion in 2019.

Furthermore, there has been also cases of arbitrations between Government agencies and the clients of the Bank which further led to nonpayment of loans by our clients.

Major Initiatives in 2019

1) New Products & Services:
   - i. Payment Gateway for Tour Operators
   - ii. mPAY additional features - Online Cheque Deposit, Money request, Card-less withdrawal, TV bill payment and Tax Payment
   - iii. Social Media Marketing
   - iv. Agency Banking "BNB Ngotshab"
   - v. RuPay Acquiring
   - vi. Introduced Relationship Pricing to reward its valued customers in the form of gifts, cash rebate and fee discounts for its services to value them and also to retain them.
   - vii. Consumer Loan Origination phase I – GE loans

2)	Number of branches	12 (new Corporate branch)
3)	No. of Extension Offces	26 (new Sarpang)
4)	No. of ATMs	63
5)	No. of staff	561 (224 female and 337 male)

Future Plans

Having submitted the above, on behalf of the board and management, I would like to provide a brief insight into 2020 and how your bank plans to mitigate some of the above issues.

NPL

We have put in place a 360-degree NPL management system which allows us to track the NPL accounts of the Bank throughout the year. Early warning signals will enable us to keep monitor clients on a regular basis thereby ensuring low NPL at the year-end which will result in enhancing your bank's proftability for 2020.

High Provisioning

BNB has a total of over Nu 2.757 billion in provisioning for 2019. With the NPL management system in place, the Bank will focus on recovery as well as keeping the NPL low for 2020 which may result in a write back for 2020. With this system in place, the shareholders can expect a better performance of the Bank in 2020 thereby rewarding the shareholders with a better dividend.

Investment Policy

The investment policy, once approved will allow us to takeover fxed assets in lieu of bad credit assets and sell them at a future date particularly when the Bank is going through bad times. While this will help us to address NPL issues, more importantly this will increase other incomes through selling of these assets which will lead to higher profts and therefore, higher dividends to shareholders.

For the kind information of all our shareholders present here today, as of December 31, 2019, we have disposable assets worth at Nu 247.55 million (bank valuation rate) while at market value is Nu. 451.31 million, substantially higher than the cost price of Nu

Internal control systems

Your bank has been continuously strengthening its internal control systems through reviews, compliance, risks management and audits. This will ensure that your bank is fully compliant to all regulations both domestic as well as international. Furthermore, for the kind information of all shareholders, in 2019, BNB was awarded ISO 9001:2015 and ISO 27001: 2013 certifcation. ISO 9001:2015 is for customer satisfaction and best quality while ISO 27001:2013 is for information security management system.

Issuance of Bond

In 2020, your bank plans to issue bond of Nu 1.0 billion as part of the fund diversifcation. As compared to deposits for which we can only use 70% as per regulations, we can use 100% of the bond money for giving loans which will increase our topline with the same level of interest cost in fxed deposits (current practice of fund mobilization) thereby increasing the profts of the Bank which will lead to higher dividends to shareholders.

Customer Service

BNB is carrying out automation of AML/CFT, ERP and IFRS projects in 2020. Further, your bank will continuously explore ways to automate its systems and processes and preliminary works on online account opening, online updating of KYC information, Data warehouse, Document management have already begun.

We are confdent that with the above initiatives, systems and processes, 2020 will be a better year for the Bank and for all our shareholders.

Finally, let me express my deepest appreciation and gratitude to all the stakeholders - the Royal Government of Bhutan, Ministry of Finance, Royal Monetary Authority (RMA), Royal Audit Authority, Company Registry, RSEBL, Courts, Board of Directors, shareholders, customers, other auditors and employees - for their guidance and support. I look forward to receiving the continued guidance, feedbacks and supports from all the stakeholders.

Tashi Delek!

Mr. Sonam Tobgay
Chief Executive Officer

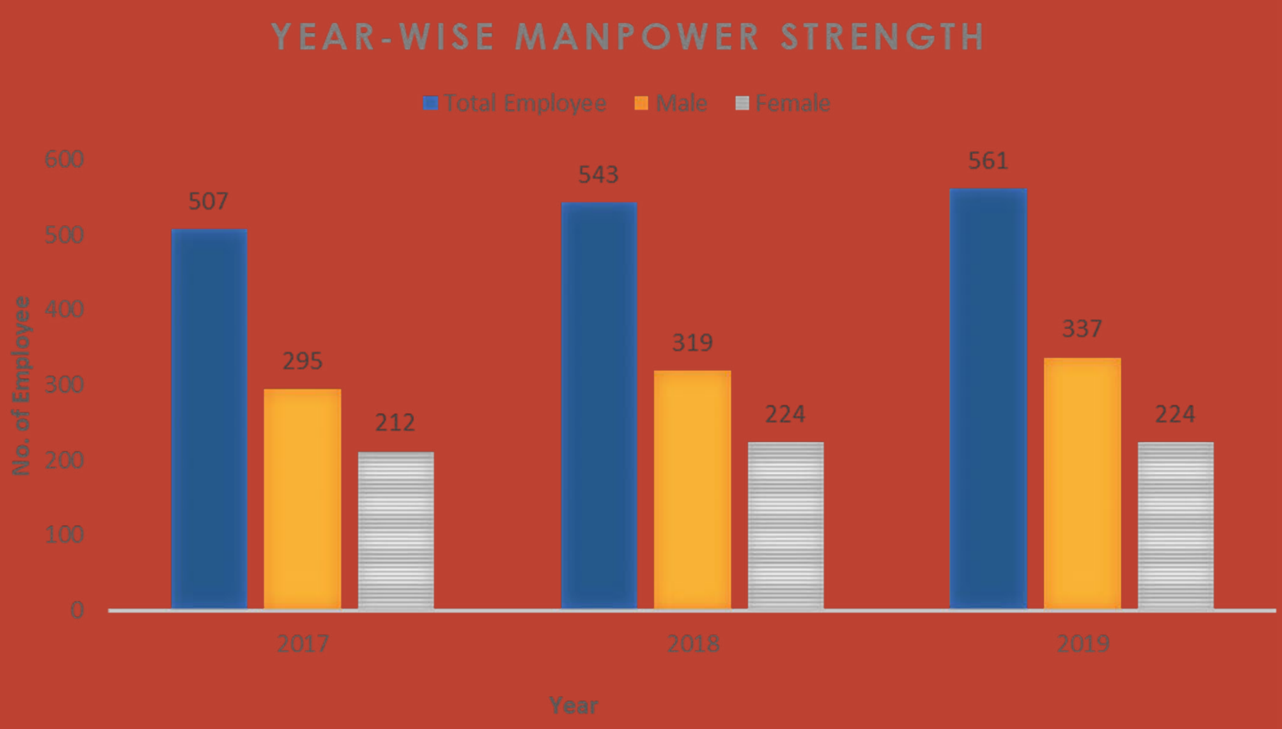
Place: Thimphu

Resource Vertical Report

Manpower Strength

In 2019, the Bank had an aggregate of 561 employees, out of which 224 were female and 337 were male. In terms of percentage, male employees accounted for 60.07% of the employees and female employees 39.93%. 160 employees had been in employment with the Bank for less than 5 years, 332 employees for a duration between 5 to 15 years, and 69 employees had been in employment with the Bank for more than 15 years.

The manpower strength of the Bank for the last three years is shown graphically below:



Total manpower strength has increased by 10.65% between 2017 and 2019. In terms of the gender mix, the percentage of male employees has increased from 58.19% in 2017 to 60.07% in 2019.

Recruitment and Retention of Talent

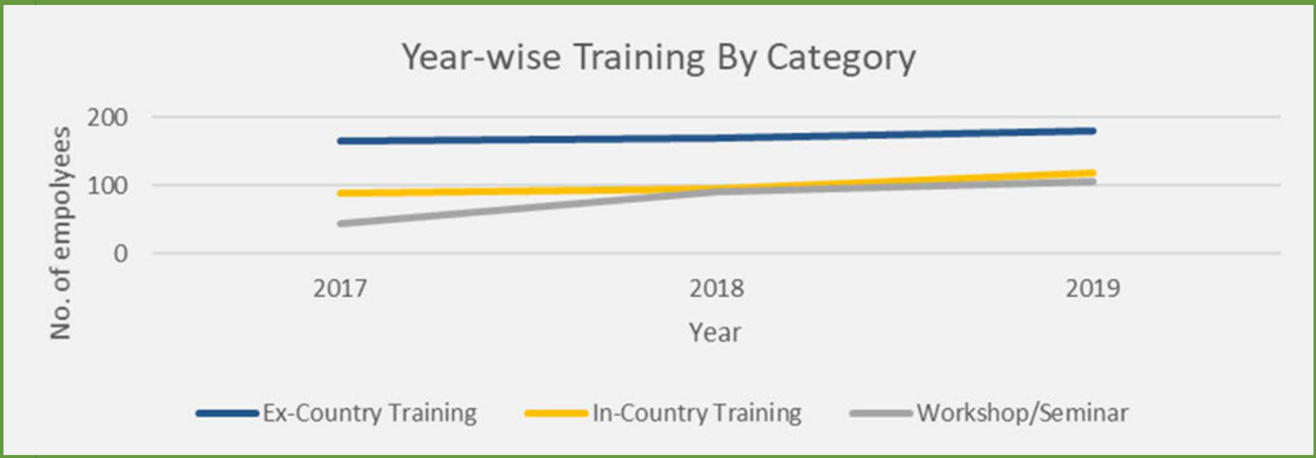
The Bank ensures that the remuneration package of its employees remains competitive and commensurate across the Bank in order to attract and retain the best talent. In 2019, 558 applications were received for the 23 posts that were announced for various levels of recruitment.

Similarly, the Bank makes substantial investment every year to train and develop its employees. The Bank implemented various training programs as per the Training Needs Assessment conducted by the Heads of Departments.

The table below shows the number of employees trained under various categories in 2019:

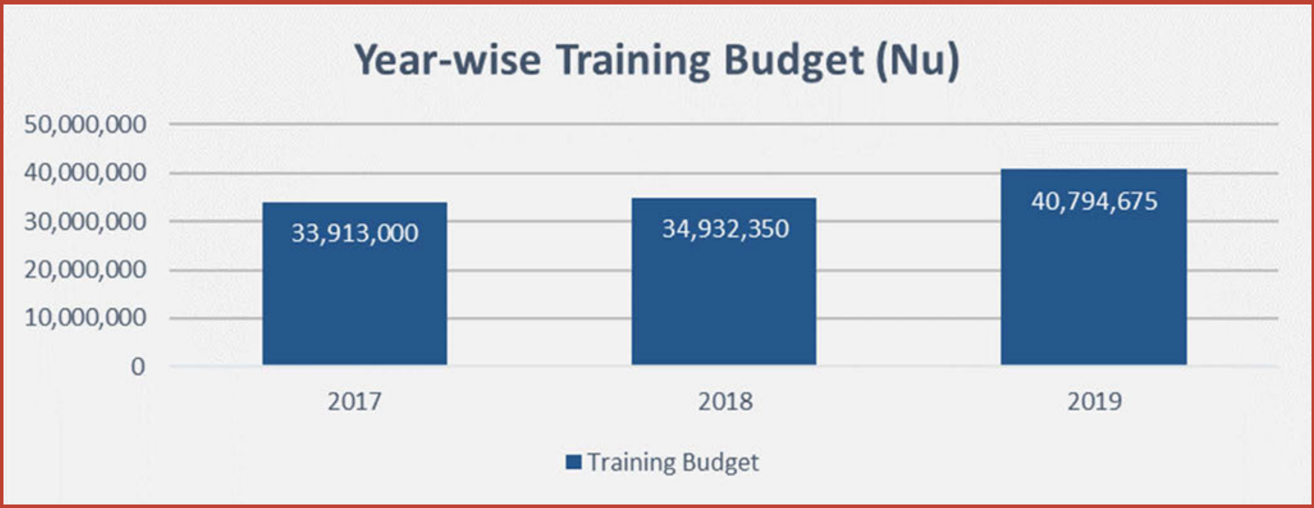
Training	No. of Employees Trained
Ex-Country training	180
In- country training	119
Workshop/Seminars	105

The graph below shows the annual training conducted in the last three years:



The graphical representation indicates that except for the number of employees attending workshops/seminar, the number of employees attending training (ex-country as well as in-country) has remained fairly constant during the last three years. It shows the efforts put in by HRA to streamline the management and optimization of training programs.

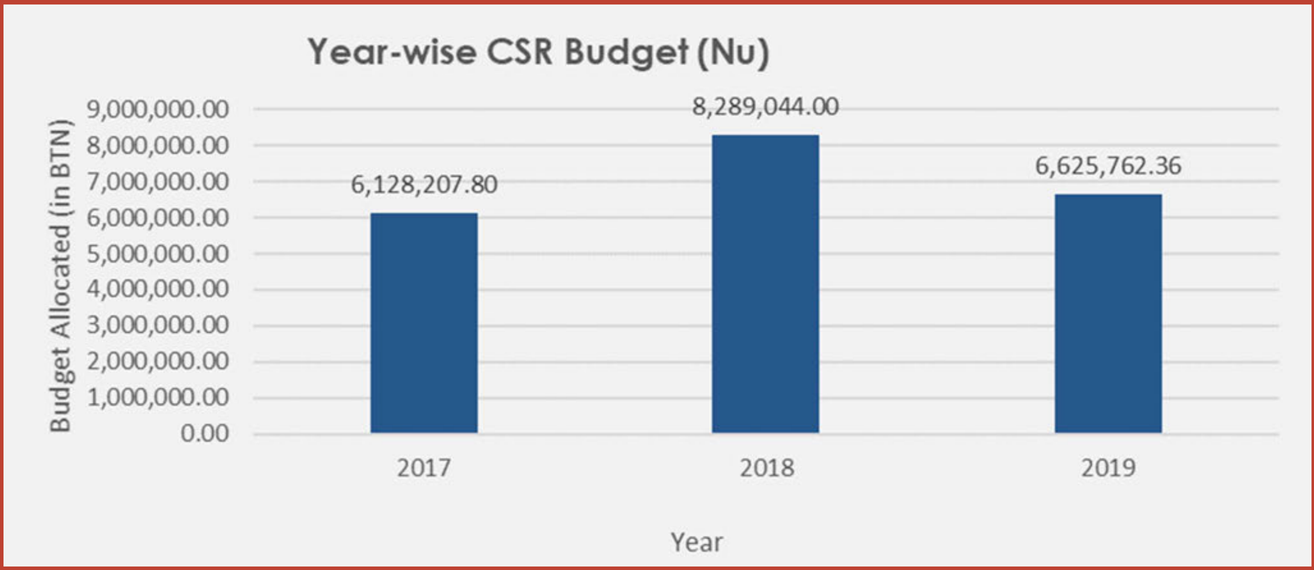
In terms of expenditure, a total amount of Nu 40,794,675.00 was spent on training in 2019. This was an increase of 14% over the previous year's expenditure of Nu. 34,932,350.00. The graph below shows the total expenditure on training during the last three years.



Corporate Social Responsibility (CSR)

As per the approved Policy, the Bank's CSR budget for 2019 was Nu 7.36 million, out of which 10% (Nu. 736,000) was allocated for donations. Details of the CSR activities in 2019 are available in the section titled 'CSR 2019' of this Report.

The graph below shows the annual CSR budget for the last three years:



Real Estate Management

Efforts were made to improve the management of the Bank's real estate properties. The frst step in the process was the designation of a Real Estate offcer. Various legal and ownership issues were sorted out and Lagthrams obtained for the plot of land at Wangdue, where the Bank's Branch Offce is located and the land at Dekiling, Bumthang.

Closure of the Corporate Office Project

The corporate offce moved to the newly completed building on Norzin Lam, Thimphu in February 2019. The building consists of seven foors including double basements. The Project has been audited by the Internal Audit Department of the Bank. A Special Audit of the project was conducted on the instruction of the shareholders issued during the 22nd Annual General Meeting (AGM) held on 28 February 2018. The special audit was conducted by M/s Bansal & Company LLP, New Delhi. The Royal Audit Authority also audited the Project between May and October 2019. There is no outstanding audit issue and that all minor issues raised have been resolved.

Way Forward

The key initiatives that the Vertical will be undertaking in 2020 are as follows:

a) Review of the Role Band System in order to make it relevant for the requirement of the Bank and employees for the next three to fve years.

b) Revision of the HR Policy to strengthen, among others, recruitment and selection of employees at various levels and under various methods and career progression of employees.

c) Revision of the HR Policy of the Bank to incorporate new provisions approved by the Bank and to revise/update others provisions.

d) Revision of the Bank's Zero Tolerance Policy to introduce Supervisory Accountability for breach of Zero Tolerance by subordinate employees.

e) Policy to introduce Mandatory Leave for Branch Managers and others occupying sensitive positions as a measure to enhance the internal control system at the Bank.

f) Strengthen the management of the Bank's real estate assets and provide data and information to the Strategy and Finance Verticals to enable them to make strategic business decisions.

g) Provide technical/engineering assistance to the Strategy Vertical to implement the new construction project at Paro and the design of the project at Gelephu, as approved by the Board.

Om P. Nirola
Chief Resource Officer

Credit Vertical Report

As the Chief Credit Offcer of the bank, it is my honor and privilege to submit the highlights of the credit vertical for the year 2019.

LOANS AND ADVANCES OUTSTANDING

Loans and advances grew by Nu.3.850 billion, 13.24% growth from Nu.29.073 billion in 2018 to Nu.32.923 billion in 2019, highest in the history of the Bank. Majority of the growth is driven by lending to Housing, Services, and Trade & Commerce sectors which constitute more than 70% of the total loans. The consumer lending portfolio has also continued to grow in 2019, increasing by Nu.81.88 million, 4.15% growth, mainly attributed to lending to Agriculture, Transport, and Loan Against Term Deposit.

LOANS SANCTIONED AND LOANS DISBURSED DURING THE YEAR

New loans sanctioned during 2019 grew by Nu.1.687 billion, 21% growth from Nu.8.027 billion in 2018 to Nu.9.714 billion in 2019. Loans for Housing (commercial), Services, Overdrafts, and Shares accounted for 78% (Nu.7.564 billion) of new lending in 2019.

Total new PSL loans sanctioned during the year 2019 was Nu.64.505 million as compared to Nu. 151,680 million in 2018.

Total loans disbursed in 2019 increased to Nu.7.025 billion from Nu.6.806 billion in 2018.

CREDIT/ASSET QUALITY

The Bank experienced deterioration in asset quality with the gross NPL and Net NPL rising to 8.54% and 1.21% respectively as at December 2019 compared to 5.62% and 0.65% in the previous year. The NPL is inclusive of the cases under arbitration and litigation which accounts to Nu.142.01 million and Nu.982.63 million as at December 2019.

The sectoral NPL analysis depicts that Trade and Commerce has the highest share with 43.05%, followed by Production and Manufacturing with 25.35%, and Housing with 18.29%. These sectors constitute 87% of the total NPL. Overdraft is the sub-sector with highest contribution to the total NPL with 32.7% (Nu.919.81 million) share. This mainly attributed to the Overdraft facilities availed by the contractors who were awarded work by the government agencies.

INTEREST INCOME

Interest Income on loans grew by Nu. 0.16 billion, 5.70% increase from Nu.2.81 billion in 2018 to Nu.2.97 billion in 2019. The increase was mainly driven by interest income from Overdraft loans, housing and services sectors which contributed 67% to the total interest income. Interest earned from PSL loans in 2019 amounted to Nu.12.715 million.

YIELD ON LOANS

Yield on loans decreased by 0.94%, from 9.96% in 2018 to 9.02% in 2019.

MARKET SHARE

Market share in credit remained at 24% in 2019 with no change from 2018.

INITIATIVES IN 2019

1. **Relationship Pricing** or “**Thuendrel Gatshor**” scheme was launched on 27th August, 2019 during the inauguration of the new Corporate Offce. It is an automated pricing mechanism of our products and services based on the client’s business relationship with us. The scheme enables us to acknowledge and reward our loyal customers in terms of gifts, cash rebates and discounts on the services they avail. This helps us recognize and reward customers for the depth of their relationship with us. It is an initiative towards providing the best customer service to our clients and a step towards digital banking.

   For the frst phase, the scheme l’ ᴀ r rwevle e r th

3. The loan sanctioning limits in the **Delegation of Authority (DOA)** was thoroughly reviewed and increased at all levels to further improve the effectiveness and effciency in loan appraisal and sanctioning process.

4. A new **loan appraisal model/format** was developed and implemented for appraisal of project-based loans. The model is a risk-based approach to loan appraisal where a project is evaluated based on the four risk parameters drawn from the credit scoring model. It allows a more thorough assessment of projects and credit risk mitigation at origination.

WAY FORWARD

1. **Improve customer experience** by continuing to improve RP scheme to reward more clients including our deposit customers and implementing CLO across products and branches in a phase-wise manner.

2. **Role enhancement for credit officers** by including all functions in the credit life cycle starting from origination to collection and recovery. Credit offcers will be renamed as Relationship Managers. This is to improve customer relationship and NPL management.

3. **Portfolio Management and Provision Analysis** model and tools will be developed and implemented. Relationship Managers will be thoroughly trained on portfolio management and provision analysis for their client group. This will help in identifying positive trends to extend credit and up-sell and cross-sell offers to proftable customers. It will also help in scoring the probability of delinquency, performing risk trend analysis and monitoring the loan status (credit risk) movement and develop strategies to manage accounts that are going bad.

For 2020, we will continue to look for new ways to meet the fnancial needs of our customers through technology enhancements and product offerings while maintaining and improving our commitment to delivering the highest level of service and individual experience possible.

With the support, loyalty and dedication of our employees and the guidance of our Board of Directors, I am confdent that 2020 will be a successful year for Bhutan

National Bank. On behalf of the credit vertical, I would like to place on record our sincere thanks and appreciation to all the clients of the Bank for your loyal support.

Pelzore Rumba
Chief Credit Officer

Operations Vertical Report

In line with the changing times and changing customer preferences, the Bank has been increasingly adopting digital channels for its transactions. As we are the customer facing vertical, driven by the technologies put in place through the Strategy and IT Vertical, a majority of the initiatives that resulted in increased service points have been covered under the technological add-ons, as presented by the SIT vertical. However, the operations vertical would like to highlight the following initiatives taken up in 2019:

1. **Opening of a new corporate branch at the BNB's new building:** A new corporate branch was opened with the state-of-the art locker facilities in the new BNBL Corporate Offce building in 2019, taking the number of branches in Thimphu to 2. Although named as a "Corporate Branch", the branch caters to all types of customers, in a modern setting.

2. **Opening of new extension office in Sarpang** on 1st June 2019, by the outgoing CEO Dasho Kipchu Tshering in the presence of dignitaries of the Sarpang Dzongkhag and Dratshang. With the new extension, the BNB now has 11 branches and 26 extensions, covering the entire country.

3. **Social Media Marketing launched**: A new strategy leveraging on the social media attraction of the current generation was launched in July 2019, and Facebook, Instagram & Twitter are being actively used by the Bank to make the Bank more visible to its customers.

4. **New ATMs:** In 2019, we procured 18 new ATMs and the installations shall be completed in 2020. A large number of old ATMs were replaced to bring up our service standards, in line with the target of issuing VISA co-branded cards in 2020.

5. **ATM re-branding:** BNB has similarly taken up the re-branding of all the ATM imagery to bring it up-to-date with the currently trending design principals, and made it more simplistic but attractive. This effort shall be carried out in 2020 to cover the exteriors of all the ATM enclosures as well. With the re-branding, BNB also procured 18 new ATMs and deployed them across the country, thereby taking the total

number of ATMs to 63 (by replacing many of the old ones, and deploying some at new locations).

DEPOSIT Highlights

December 2018		December 2019		Variance			
Amount (in Mn)	No. of deposit accounts	Amount (in Mn)	No. of deposit accounts	Variance in number of accounts	Growth (%)	Variance in amount (Mn)	Growth (%)
30,163.75	**182,562**	**35,478.18**	**184,660**	**+2,098**	**+1.15%**	**+5,314.43**	**+17.62%**

New Initiatives in 2020

The operations vertical has the following plans for 2020:

1. **Improved Customer Service:** With a new customer service manual, we have planned to re-vamp the customer service in order to be able to compete better in the market. Having introduced a feedback mechanism in all our digital channels (mPay, Website, Social Media) in addition to the usual walk-in mechanism, we expect to meet the increasing expectations of our customers by taking a more proactive approach. This will be supported by the Contact Centre that functions from 8 am – 8 pm every day of the week.

2. **Online Account Opening Mechanism:** The vertical shall also introduce an online account opening/ KYC update channel in conjunction with the SIT vertical.

3. **PhoneSavings Account:** The vertical is exploring the introduction of virtual Phone-based savings accounts, similar to digital wallets being launched by Telcos.

4. **Mobilisation of Deposits:** A focused effort shall be made to garner low cost deposits, since we had a large expenditure in interest expenses in 2019.

5. **Roll-out of Retail Ngotshab Agents:** With the introduction of BNB Ngotshab with Bhutan Post, we shall start the roll-out of retail agents, with target of covering all the isolated places where the Bhutan National Bank doesn't already have a presence. The effort shall also include major towns so that customers can avail of the bank's services every day of the week.

6. **Continuation of Social Media Marketing:** Considering the trend the market is taking in leveraging the marketing through social media sites, we shall continue the initiative, but with the focus more on indirect approach to customers be concentrating more on the "relationship" with customers, rather than a direct approach. Accordingly, we have put in place a strategy to come up with world-class ads that leverage this, so that we can penetrate the market more.

7. **Quick Response Code (QR Code):** We have initiated the task to redesign out QR code-based fund transfer mechanism to include the capability to read other bank QR codes so that more convenience is made available to our customers.

With the above initiatives, we look forward to have a larger customer base, and the efforts to continually improve our customer service delivery is an ongoing task that we have taken seriously. We are also actively involved in promoting cash-less transactions by providing more channels to our customer, and improving our existing capabilities.

Hem Kumar Acharya
Chief Operations Officer

Strategy & IT Vertical Report

BNB has been consistently putting efforts to improve its business by satisfying its customers by attempting to meet their taste and preference. Lots of initiatives is being taken investing substantial resources.

1. Initiatives taken in 2019

Keeping in view the growing competition in the market and drastic shift happening in banking system demanding transformation on the digital front, in 2019 BNB has implemented number of projects all geared towards digital transformation and also to remain competitive such as following;

New Features in mPAY: In 2019 BNB has added following new features in its mobile banking application to encourage customers to use alternate banking channel and move towards cash less society;

a) Integrated mPAY with RICB services for payment of life annuity, life insurance and loan repayment on 28th Jan, 2019.

b) Online cheque deposit feature has been added and went live on 22nd May, 2019 to make easier and safer for customers to make online cheque deposits.

c) Added "Forgot mPIN" feature on 4th June, 2019 for the convenience of customer to reset the forgot mPIN by entering debit card details.

d) "Request Money" which went live on 12th November, 2019 will allow benefciary to request for transfer of money from another individual using mPAY.

e) Added feature for payment of Bhutan Telecom's internet leased line which went live on 30th Dec, 2019

The application was also rebranded to reach out to more people with more prominent and eye-catching colors/lettering for customers to notice. With the addition of features and rebranding, the mPAY user and transaction has been increasing. By end of 2019 there were 40,790 mPAY users who have routed 5.36 million transactions amounting to Nu 8.43 billion through mPAY as compared to 24,251 users at the end of 2018 who had done 2.19 million transactions amounting to Nu 3.37 billion through mPAY which indicates adding more features and branding do help in increasing mPAY usage.

ISO Certified Company: After having known the hosts of benefts that will accrue to

BNB by becoming ISO certifed company especially on quality management and information security front, the preparatory work was started from early 2017 and became ISO certifed company for Quality Management System (ISO 9001: 2015) and Information Security Management System (ISO 27001: 2013) from 7th August, 2019. By complying with these certifcation BNB will be able to increase its customer satisfaction, improve credibility and make processes cohesive, increase customer confdence, have better business resilience and build customer trust with proper information security management system in place. To meet the requirement on continuous basis, IT Policy and DR Plan have been revised totally and started implementing from 2019.

Relationship Pricing: To value its customers, particularly the ones who contribute to the Bank's revenue in signifcant manner, and also to thwart migrating to other banks due to lower interest rates, in 2019 BNB has formally introduced Relationship Pricing Module. Through the model, the Bank has started rewarding its valued customers in the form of gifts, cash rebate and discounts on fees for its services to value them so that they are retained with BNB.

Consumer Loan Origination: In order to cut down turnaround time and improve the effciency in its loan processing system, BNB has procured Consumer Loan Origination System module from Oracle (its CBS software vendor) and in phase I started processing GE loan using the module from August 2019. In the phase II that falls in 2020, the Bank will roll out for processing other retail loans to optimize its usage.

BNB Payment Gateway: BNB's Payment Gateway transaction was started from 9th March, 2019 starting with USD 6,000 on trial basis and was formally launched on 27th August, 2019 and by the end of 2019 there were 120 tour operators registered on the payment gateway portal. With the increasing number of transactions passing through the gateway, it has been able to reduce the charges to less than 5%. Following concerns expressed by tour operators, attempt is being made to reduce the charges further in the future with the increasing volume of transactions.

RuPay Acquiring: As preferred by the RMA, BNBL became the frst bank to successfully start RuPay card acquirer transaction through BNB ATM and POS terminal which was launched on 17th August, 2w019 by Honorable Indian Prime Minister Shri Narendra Modi during his state visit to Bhutan.

IT Cost Rationalization: In 2019 BNB had renegotiated leased line cost for Branches and Extension Offces and also for HO transit link with Bhutan Telecom and Nano to contain the IT network recurring cost. This will help BNB to save about Nu 5.50 million in a year from 2020. Similar, attempt will be made on other cost drivers in future.

Dashboard: A Dash Board containing all kinds of data and information at Bank as well as at business unit level, was developed for use by senior executives, Head of Departments and Branches to improve monitoring its business performance on near real time basis. It will also enable and enhance analytic capacity of employees and take data driven decision.

2. Future Plans

VISA Primary Membership: BNB has been offering VISA card service as an associate member since 2005. However, after having known that associate member does not enjoy certain privileges as primary member do, BNB has attempted for primary membership since 2017 and fnally got the approval for primary membership in 2018 and started project implementation from 2019 which is scheduled to go live by end of frst quarter of 2020. After BNB become primary member it will be able to do card personalization in house, to have full control over card management, and do its card branding, can have own card classifcation, reduce turnaround time for card issuance and above all, it will have secured card data management system as a PCI DSS certifed company which will enable BNB to enhance the security of its overall IT system as well.

Addition of features in mPAY: Following are the key features that are being added in in mPAY such as;

1. B Ngul Cash: Transfer of money from one's bank account to their BT Wallet. And from they can pay BT utility services.
2. Revamped mPAY Dashboard
3. Tshogyen Jabchor (Entertainment) for voting one's favorite contestants which will earn 15% commission. It will have the option to add new shows in the future.

Adding some more features in mPay is being explored such as adding option to remove accounts that are added from the mPAY portal by users themselves, enabling users to block contact requesting for Money by certain users, option for generating

ATM Green PIN from mPAY without users having to visit BNB ATM, auto cropping tool and Optical Character Recognition (OCR) on Online Cheque Deposit function, face ID and Touch ID on mPAY login screen, card less withdrawal, fast cash button(similar to fast cash on the ATM screen), stop payments for lost cheques and VISA Location on mPAY which will reduce the fraud activity especially while performing issuer transactions on another bank's ATM outside Bhutan.

Tashi Cell Wallet

BNB developed API for Tashi Cell wallet with which Tashi Cell users using their application can transfer money from their BNB account to their Tashi Cell wallet and vice versa which is going live in January 2020.

RuPay Card Issuance

After acquiring transactions in 2018, BNB is working with RMA on co-branded RuPay card issuance and expected to start issuing RuPay card from the frst quarter of 2020 after which BNB will become frst Bank to issue RuPay card outside India which will allow it to tap and pay without swapping

Other initiatives

The Bank is also exploring ways to automate its banking systems and processes. To this end, projects like AML/CFT, ERP and IFRS automation projects are since started and will be implemented in 2020. Other projects like online account opening, online updating of KYC information, data warehouse, document management and graduating to BASEL II are some other initiatives that are being explored for implementation in next one to three years.

Dorji Penjor
Chief Strategy and Information Officer

Finance Vertical

It is my pleasure to submit the highlights of the Finance Vertical for year 2019. The Finance Vertical comprises of Finance Department, Risk Department and Review Department.

FINANCIAL HIGHLIGHTS

The Bank prepared fnancials under both Generally Accepted Accounting Principles (GAAP) required by the Royal Monetary Authority of Bhutan and Bhutanese Accounting Standards (BAS) as required by Accounting & Auditing Standards Board of Bhutan (AASBB).

Balance sheet/Statement of Financial Position

The balance sheet of the Bank under GAAP has increased by 14.9% (P.Y – decreased by 0.15%) as against growth of 13% (P.Y-decrease of 0.46%) under the BAS. The growth in the balance sheet size is mainly because of increased in the total business by 15.50% from Nu. 59.24 billion in 2018 to Nu. 68.40 billion in 2019 under GAAP.

During the year, the Bank provided bonus share of 1:5 to its shareholders, which increased the paid-up capital by 20% to Nu. 3.95 billion.

The net worth under GAAP stands at Nu. 6.92 billion in 2019, a marginal growth of about 1% from Nu. 6.86 billion in 2018. However, under BAS, the total equity decreased from Nu. 7.11 billion to Nu.6.99 billion in 2019. The decrease in the Retained Earnings due to adjustment under BAS has largely reduced the total equity under BAS.

Profit & Loss Account/Income Statement

GAAP

- The total interest income of the Bank grew by 6.69% as against the growth of 3.14% in 2018.The increase in the interest income on loans & advances by 5.70% (PY - 5.53%) contributed at large to increase in the total interest income.
- The interest expense on deposits recorded a growth of 23% over previous year mainly due to increase in the total deposits by over Nu. 5 billion. The ratio of interest-bearing deposit to total deposits increased from 86% to 88%because of increase in

the term deposits by about Nu. 5billion.

- The net interest differential has decreased by about 7% as against the growth of 5.60% in the previous year.
- The overall PAT has reduced to Nu. 61.96 million from Nu. 736.19 million in 2018, mainly due to increase in the net provision charged of Nu. 1.015 billion including interest in suspense.

BAS

- The proft for the year under BAS has decreased from Nu. 606.85 million to Nu. 233.83 million in 2019, a decrease of about 61% mainly due to increase in the impairment charge of Nu. 816.33 million.
- The Interest & Similar income increased by 4% as against 5% growth in 2018 and the interest expenses increased by 24.30% from Nu. 1.36 billion in 2018 to Nu. 1.69 billion in 2019.
- The Net fee and commission income decreased by about 4% as against the increased by 23% in the previous year.
- The other operating income has increased by 74% from Nu. 69.22 million in 2018 to Nu. 120.49 million in the current year mainly because of increase in the foreign exchange earnings.
- The provision charged for the year increased to Nu. 816.33 million from Nu. 129.93 million 2018, which had major impact on the Proft for the year.

Business

- The gross loans & advances increased from Nu. 29.07 billion to Nu. 32.92 billion recording a growth of 13% from the previous year.
- The deposits grew by almost 18% from Nu. 30.16 billion in 2018 to Nu. 35.48 billion in 2019.
- The CD ratio stands at 92.80% for the reporting year as against 96.39% in the previous year.

Capital Adequacy Ratio (CAR)

- The CAR stands at 19.38% as against 21.72% in 2018.

Risk Management Function

The Bank has an integrated risk management policy in place which provides a robust framework for risk identifcation, measurement, controlling, monitoring, mitigating and reporting through proper tools and methodologies. The major categories of risks that the policy emphasizes are: (a) ***Credit risk***, (b***) Market risk***, (c) ***Operational risk*** and (d) ***liquidity risk***. These risks are addressed through board approved risk appetite and tolerance limits which are monitored and reported to Executive Risk Management Committee (ERMC) and Board Risk Management Committee (BRMC) on regular basis.

1. Credit Risk

Currently the Bank identifes the following under credit risk category which includes Credit Concentration (single borrower limit, top ten borrower limit, sector limit), Related party exposure, overall NPL ratio and prohibited industry/sector or product. As the Bank is in the process of adopting Basel II standard, a 'credit risk management policy' will be framed to handle risks arising from lending activities as per best practices.

2. Market Risk

Our Bank is exposed to lending rate risk which is mostly market driven in our context, and foreign exchange risk.

The Bank in 2019 has adopted a capital computation methodology as per Basel II called 'Shorthand Method' to allocate capital charge for Market risk.

The capital charge for market risk will be 10% of the overall net open position.

3. Operational Risk

The Bank implemented a comprehensive Operational Risk Management Framework from September 2019.

The Operational Risk of the Bank are mitigated and managed through a Board approved Operational Risk Management Policy Framework, which consists of monitoring and responding to potential risks such as segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, Business Continuity Planning etc.

The main risk evaluation and assessment documents contain the Risk Control and

Self-Assessment (RCSA), Key Risk Indicators (KRIs) and Loss Data Reports that are developed in context of the Basel's seven Risk Categories pertinent to the functions of the various daily operations.

4. **Liquidity Risk**

Bank has adopted the following tools in managing and monitoring liquidity risks:

- Monitoring of Cash Reserve Ratio and Statutory liquidity ratio requirement ratio as prescribed by RMA. A tolerance limit of 21.5% has been set for SLR over and above the RMA requirement of 20% while CRR remains same at 10%.
- On-going monitoring to ensure adherence to the liquidity ratios
- Gap limits approved by the Board on different maturities of time buckets for assets and liabilities established. Limits are monitored closely and any adverse gaps are addressed immediately. Any excess on the approved limits are discussed at ALCO and reported to the Board.

REVIEW

The erstwhile credit review unit has been upgraded as the Review Department in 2019. With this upgradation, the department has the additional mandate to review the Banking Operations function of the Bank in addition to its previous role of reviewing the credit portfolio as mandated by RMA. Essentially the scope of review department encompasses the two core functions of the Bank that is credit and banking.

In 2019, the department completed the review of the Bank in line with the annual plan and accordingly submitted the reports to the relevant stakeholders. As per the annual review plan 2020, the department will start preparing and analyzing bucket movement report. This is done with an objective to provide management timely information to assist them in making informed decision with regard to Bank's NPL management. Also, the department has already started to carry out some process improvement/internal control improving exercises and similar type of works will be the part of ongoing exercise for the remaining part of the year.

Major Plan for 2020

The vertical in 2020 will initiate the following activities;

Automation of BAS. Along with the ERP solution putting in place, the Bank will automate the fnancial reporting linked with ERP system by mid-2020.This will ease the fnancial reporting process and more importantly can have the complete report on time.

Basel II Adoption. The Basel II implementation road map for the Bank has been drawn. Taking into consideration the various aspects of Basel II requirements, the implementation time lines are planned into different phases spanning till 2023. In 2020 the Bank will develop comprehensive credit risk policy and prepare operational and market risk report.

Tandin Dukpa
Chief Finance Officer

Corporate Social Responsibility **2019**

The Bank's Corporate Social Responsibility Policy was endorsed by the Board in May 2015. The primary objective of the Policy is to serve as a guide for the Bank in its pursuit to become a good corporate citizen.

The Executive Management Committee (EMC), consisting of the CEO and the Chief Offcers, functions as the CSR Committee. The Head of Human Resources and Administration serves as the focal person of the committee and the CSR activities.

As per the CSR Policy 2015, 1% of the PAT of the previous year was taken as the CSR budget for the year. Adhering to this policy, the Bank allocated a CSR budget of Nu. 7.36 million for the year 2019, which was 1% of the PAT of Nu. 736.19 for year 2018.

Of the total CSR budget, 10% (amounting to Nu. 736,195.82) was used for miscellaneous donations and the remaining 90% (amounting to Nu. 6,625,762.36) was used to fund CSR activities through the various proponents.

As approved by the 47th Board Governance, Recruitment and Remuneration Committee meeting held on 26 March 2019, CSR activities were implemented under the following themes:

1. Waste and Environment management
2. Youth Engagement, Education, Entrepreneurship and Employment
3. Promoting Financial Literacy

The summary of the agencies and programs supported under the CSR budget and the key activities are as follows:

Agency/Program	CSR Fund (Nu.)	Activities
RENEW Bhutan	Nu. 1,000,000	Gawailing Happy Home (GHH), a place where women and children can access all kinds of support services that includes Counselling, legal aid, medical aid, scholarship, livelihood skills training.
Bhutan Association of Women Entrepreneurs (BAOWE)	Nu. 1,000,000	Construction of a food court in collaboration with Gelephu Thromde for the disadvantaged women/girls and single mothers around Gelephu town.
Guide Association of Bhutan	Nu. 250,000	Installing waste bins along the Taktsang Trail.
Zamin Friends Forever	Nu. 250,000	A project to reduce sanitary pads waste by providing eco-friendly sanitary pads to female students in Bhutan.
New Focus Multimedia	Nu. 225,000	Nazhoen Speaks is a magazine for the youth with the objective of nurturing and educating them
Trashigang Middle Secondary School (TMSS)	Nu. 158,968	Waste management project at TMSS.
Evergreen Bhutan Initiative	Nu. 198,000	Waste management project at Trashi Yangtse Dzongkhag.
Promoting Financial Literacy	Nu. 922,400	The Bank's Sales & Marketing Department recruited 12 graduates from Gedu College of Business Studies and trained them in the basics of fnancial literacy and banking services. The youth were then sent out in teams led by the Bank offcials to various schools, colleges, institutes, Dratsangs, and RBA locations to conduct fnancial literacy and awareness programs.

PICTURES - RENEW Bhutan

BAOWE Project Report

Name of organization:	Bhutan Association of Women Entrepreneurs (BAOWE)
Location and Set-Up	**Gelephu**
Its registration and licensing	The organization is registered under the Civil Society Act (CSOA) of Bhutan 2007 15th April, 2010
Contact details (address, contact person, phone #, email):	BAOWE offce, P.O. Box 903, New YDF Building, Thimphu. Phone no. +975-2-329125 / Fax: +975-2-329126 Email: baowe.bhutan@gmail.com
Project and its activities	Construction of a food court in collaboration with Gelephu Thromde for the disadvantaged women/girls and single mothers around Gelephu town. The project activities include construction of the building, training of the member benefciaries on food handling, health& sanitation, food production, basic fnancial literacy, and entrepreneurship.
The beneficiaries of the project and its objective	**Beneficiaries** Street Hawkers (15 in total) who are currently engaged in selling home-made fast foods and snacks along the access road close by the new hospital building at Gelephu. The street hawkers are identifed as single mothers, widows and women who do not have any sustainable source of income for livelihood. **Objectives:** The purpose and objective of the proposed project is to build a livelihood stations for the ffteen women street hawkers with the aim to provide them with livelihood opportunities and empower them economically.

The beneficiaries of the project and their activities	**Beneficiaries:** Street Hawkers (15 in total) who are currently engaged in selling home-made fast foods and snacks along the access road close by the new hospital building at Gelephu. The street hawkers are identifed as single mothers, widows and women who do not have any sustainable source of income for livelihood. **Their Activities:** The street hawkers have been formed into groups and registered under BAOWE. These 15-member group will be trained in production of healthy snacks, homemade food, packaging, health and sanitation, fnancial literacy and entrepreneurship. After the training and on completion of the outlet building, they will be allotted a sale counter each within the building to sell their products. The income earned from the sale is expected to raise their standard of living, send their children to good schools, provide good food, and save part of the income for future. Basically, the project is expected to empower them.
How was the project implemented?	The preliminary project costs as estimated comes around 2.5 million of which, 1 million have been committed by BNB from its CSR budget. The balance amount will be arranged by BAOWE and will be implemented in collaboration with Gelephu Thromde who has agreed to spare 9.7 decimal government land near the New Hospital Building and also prepare all the related construction drawings for free. The benefciary group has been created through a meeting and registration. The group is now been registered as BAOWE members. BAFRA has agreed to impart training on food handling, health and sanitation. BAOWE team will be engaged in imparting basic fnancial literacy training. Some renowned chefs from Thimphu will be hired to impart food production training to the members.
Who are/ were partners' organizations, if any, in implementing the project?	• Bhutan National Bank (Funding Agency) • BAFRA (Training partner in food handling, health, hygiene and sanitation) • Gelephu Thromde (land and drawings)

What is the status of implementation?	1. Consultative meeting with Thromde and members have been done. Benefciary group have been created and registered. 2. Project lands (9.7 decimal) have been leased by thromde for a period of 10 years. The land is provisionally allotted to BAOWE and even the Sa-lhang tendrel/ceremony has been carried out. 3. As agreed, Thromde has completed, approved and handed over all the three drawings (architectural, structural and electrical) to BAOWE on 8th of Feb 2020. 4. Currently, preparation of detailed cost estimates is underway for award of the contract.
The impact and benefits of the project and its outcome	Upon successful completion of the project, at least 15 street vendors would have received a designated legitimate place to produce and sell their products. The vendors would have already received trainings in food handling, processing, hygiene and sanitation resulting to sell nutritious and healthy food. Their income will rise by many folds and will be self-suffcient fnancially as drawn from BAOWE's past experiences dealing with the food vendors here in Thimphu. Indirectly, our farmer groups in zhemganag will use the structure to display and sell their rural products such as dairy products and vegetables/fruits etc.
Include a table and appropriate write-up to explain the receipt and utilization of funds received from BNBL	Since the fund received from BNB is to be used for construction of the food court and the construction have not yet been started, the fund remains unutilized at the moment.
Photographs of project activities, including beneficiaries	Pictures are attached below.

Statements from beneficiaries to show benefits & impacts **Clippings and evidences of media coverage of project activities**	Will be submitted once the project is implemented. The report shall also include the video clippings of media coverage of the project activities.
Please share with us your experience of working with BNBL for the CSR Project **Provide us with your feedback in implementing the CSR funds**	BAOWE's experience with BNB so far has been great in terms of cooperation a support received. As mentioned in our project proposal, once the construction is completed, the group members will be allotted with spaces to operate. Media will be called and BNB senior offcial and BAOWE senior offcial will be made to speak to the media about their experiences.
Make specific suggestions to improve the partnership	The only suggestion BAOWE can give at the moment would be increase in the fund limit since the fund allotted is insuffcient to complete the project. With regard to others, partnership have been excellent as of now so no further comments. As the project progress, periodic suggestions will be provided as and when required.
Suggest new projects for CSR funds. **Your suggestion may include not only projects that you can or would like to implement, but also those that other entities/organizations can take up.**	New projects will be suggested as and when BAOWE come up with new plans

PICTURES - BAOWE

Guide Association of Bhutan *Project Report*

GAB
Guide Association of Bhutan

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Guide Association of Bhutan

P.O. Box 125,
Thimphu, Bhutan,
Phone: (975) 2 339864
Fax: (975) 2 331666
Email: gab@druknet.bt
Web: www.gab.org.bt

CSR Grant Report

Name of the organization: Guide Association of Bhutan

Location: Lhaki Building, Hongkong Market, Thimphu

Mandates and objectives: A registered CSO listed as a non-profit, MBO. Our mandate is to empower and professionalize tour guides and the guiding profession in the country. We are also mandated to work for the betterment of the society.

Registration and licensing status: Certified as CSO with License No. CSOA/MBO-01 dated 29/06/2010.

Background and Objectives of the Project for which the CSR fund availed:

a. Project and its activities:
   - Installing waste bins along the Taktsang Trail.
   - We have installed some 55 dustbins along the path to Taktsang with an objective to minimize wastes.

b. The beneficiaries of the project and its activities:
   - Waste bins are for all the tourists and pilgrims alike visiting the sacred Taktsang Monastery. Its benefit is for whole of the nation. Taktsang is the most important tourist destination and it is very important for us to keep it clean.

c. How was the project implemented?
   - The inauguration of this project will be done coinciding the 40th Birth Anniversary of His Majesty The King. We have completed the works such as installing 55 dust bins with a sign board mentioning that the project is with the support from BNBL and implemented by GAB in collaboration with Paro Dzongkhag Administration. We are also fixing a big sign board at the Base Camp (Ramthangka) mentioning the dos and don'ts while hiking to the monastery.

d. Who are/were partner organisation, if any, in implementing the project?
   - We haven't partnered with any organization but GAB is also affiliated to Tourism Council of Bhutan. And because this trail directly comes under

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Guide Association of Bhutan
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Web: www.gab.org.bt

Paro Dzongkhag, we have notified the Dzongkhag Administration and sought their consent and necessary approval.

e. What is the status of implementation?
   - As mentioned above, the project remains to be inaugurated on the auspicious occasion of the 40th Birth Anniversary of His Majesty the King which falls on 23rd February, 2020.

Details of Funds Received and activities funded

- We have received Nu 250,000 as the CRS grant. And following table explains how we have used it.

Sl. No	Particulars	Amount (Nu)
1.	55 dustbins @ Nu 1,400 for each (55 x 1,500)	77,000
2.	2,000 polymer bags @ Nu 30 for each (2,000 x 30)	60,000
3.	Transportation & Travel allowance	39,500
4.	Labour charges to install the dustbins (Nu 600 for 60 dustbins, including the cost of cement, sand, aggregates etc)	35,000
5.	Administrative cost (Banners, flags etc)	10,000
6.	Expenses during inauguration (tent charges, labour hiring charges, transportation cost, lunch etc)	30000
7	Inauguration Expenses	24,500
8	Miscellaneous Expenses	9,000
	Total Amount	250,000

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Outcome and Impact of the Project

The benefits will no doubt be immense. Many times, we have received complaints about the trail getting littered. We have seen it personally some people throwing wastes hither and thither.

Taktsang Monastery being the attraction point for the people from around the globe must all time remain clean and green.

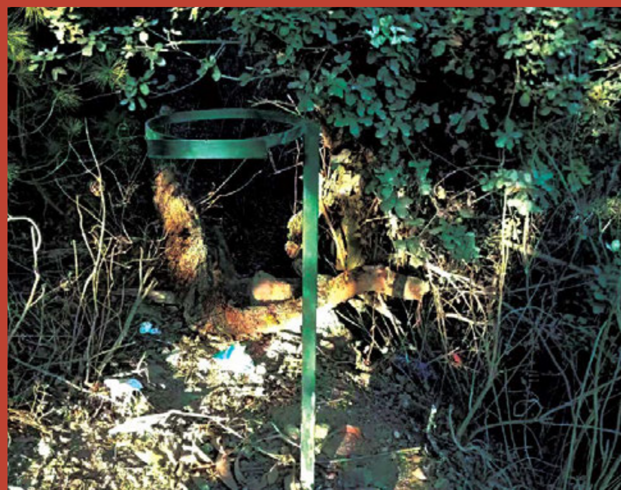
As mentioned above, we will be launching it later this month and thus we cannot provide you with clippings and evidences of media coverage of the project activities at the moment. We vouch to provide you these things after the launch.

Feedback

Our experience of working with BNBL for the CSR Project:

- Everything aside first, we are very grateful to BNBL for giving us the opportunity to work with you. We are more thankful to BNBL management for granting us CSR grant which was instrumental in achieving our goal of making Taktsang trail cleaner.
- Being one of the leading financial institutions in the country, such a responsibility for the betterment of our society is timely and much needed. And we laud for your CSR initiative.
- We didn't see any area for improvement. The initiative and service from your office had been commendable. The only suggestion from us would be to see the CSR Grant amount hike and that too if possible.

PICTURES - BAOWE



IMPLEMENTATION AND STATUS REPORT

1. Introduction and Background of the firm/company/organisation

Name of the firm/organization – Zamin Friends Forever
Location and set-up – Startup center, Changzamtog. Thimphu Bhutan
Its mandates and objectives – To provide eco friendly Pads to Student to reduce pads waste in schools and landfills
Its registration and licensing status – 13/March/2018. Manufacturing of sanitary pads –License no 1038551

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

- In brief describe/list/tabulate the following:

Project and its activities
A project to reduce sanitary pads waste by providing ECO FRIENDLY PADS To female student
We are 384800 female population of Bhutan all potential for monthly menstrual cycle and if we all start using disposable sanitary pads, our country will have huge land-filling in coming years. Apparently 50% of female has easy access to disposable sanitary pads which are commercially sold in Bhutan and Let's not forget that disposable sanitary pads are non-degradable and lead to health and environmental hazards which cause huge land-filling, although it's is a huge growing concern for many yet we fail to do nothing.
For that reason we Zamin Friends Forever are very keen on encouraging the eco friendly (reusable) Pads in all the schools of Bhutan for coming years, so this pilot project will give us wider knowledge on acceptance of reusable pads by school girls and to know if the sanitary pad wastes have been controlled.

The beneficiaries of the project and its activities
Female student of Bhutan
With this CSR fund we were able to give out 500 female student

How was the project implemented?
We gave out pad to Dawakha High school with member staff of BNB

Who are/were partners organisations, if any, in implementing the project?
No partner

What is the status of implementation?
We have successfully completed the CSR project 2019 and we are looking forward to do Same project in 2020 with additional task force to grow trees and benefit environment

3. **Details of Funds Received and activities funded**

Make specific suggestions to improve the partnership
If the projects are good, BNB can continue CSR fund to help society and community

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

1. Zamin Friends Forever– Providing eco-friendly pads to female students to reduce pad waste going in landfills, making responsible and grow trees
2. Nang Gi Aum - Service- provider, online platform allowing employ and employee to find the right person
3. Sangay's Creation – Manufacturing miniature souvenirs

New Focus Multimedia *Project Report*

SUBJECT: Project Report.

Dear Madam,

Kuzuzangpola from Nazhoen Speaks.
Nazhoen Speaks is a magazine for the youth with the objective of nurturing and educating them and enhancing their capability to cope with the world around them. It is a quarterly magazine and each issue is based on a theme that is relevant to the youth.

The magazine on ‘Youth and Finance” was funded by Bhutan National Bank as part of CSR. We have covering important topics such as the history of financial institutions, financial literacy, insurance, banking, saving, economy, etc.

PUBLISHING DATE
The magazine was published coinciding with the 112th National day, 2019.

CIRCULATION
The print run of the magazine was 2000 and the magazine was distributed free to all our youth and schools especially rural areas through Dzongkhag Education officer. 500 copies will be distributed free to youth and student in Thimphu.

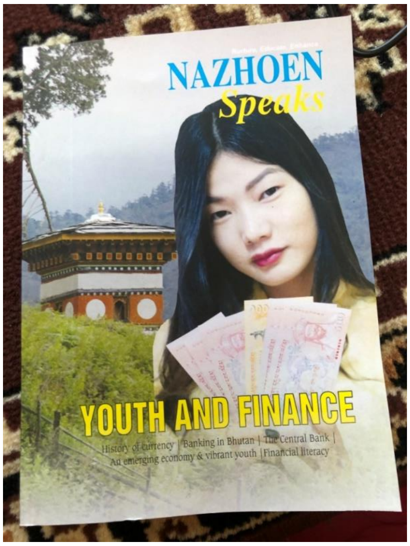
TECHNICAL SPECIFICATIONS

Name	:	Nazhoen Speaks
Size	:	17.5 cm x 22.5 cm
No of Pages	:	90 - 100 pages (Art Paper with 100 gsm)
Color	:	Full Color
Cover Page	:	Matt (220 gsm with UV lamination)
No of copies	:	3000
Distribution	:	Schools, Public library, Offices (Note: The magazine will be distributed freely)

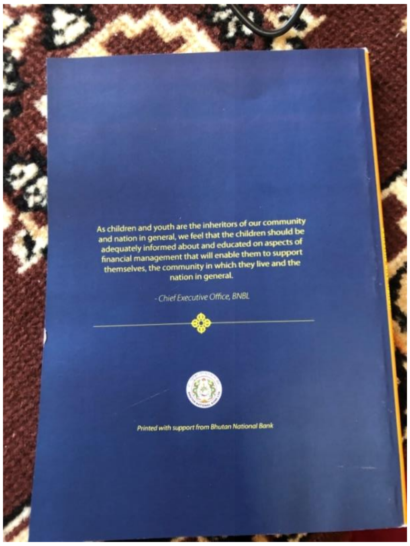
Credit of sponsorship:
- Back page of our magazine.
- 4 Full page advertisements.

PICTURES - New Focus Multimedia

Distribution of book through Bhutan Post



Cover page of magazine



Back page of magazine

Trashigang Middle Secondary School
Project Reports

Report on CSR Project completion

The Success and the final outcome of the waste management garden project in our school completed with financial assistance of Nu. 1, 58,968/- from Bhutan National Bank Ltd. as CSR (Cooperative Social Responsibilities),2019. We are extremely privileged to have got this project which is first of its kind to be the recipient of CSR project to the school. Due to such assistance, we proudly inform regarding the successful completion of the project.

The project was constructed with the following objectives***:***

- ✓ Manage plastic waste in and around school by materializing it into materials for garden.
- ✓ Engage, educate and help develop skills of young students in managing waste.
- ✓ Promote saving culture in the school and the vicinity area.
- ✓ Encourage the community to take up waste management projects.
- ✓ Built relationship with BNBL as a relationship Bank

However, we regret to inform that we could not construct the Piggy Bank structure and His Majesty's Portraits due to shortage of the fund. The shortage of fund has incurred due to under estimation of the budget. We also assure that the full completion of the project will be done soon as we are in the process of finding budget from other alternative sources.

The opening ceremony of the project is not done as of now but we had a symbolic plantation on 17th December 2019 by planting five saplings by the distinguished guest who has gather on that day to mark the day.

We respect and thank BNBL, for providing us an opportunity to do this project and giving us all support and guidance which helped us to complete the project on time. The project has glorified the area and the credit goes to your office for the timely support. We also look forward for the same support.

First Phase of the project.

PICTURES - Trashigang Middle Secondary School

Symbolic Plantation on 17th December 2019 in the project area.

Implementation and Status Report

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

• Name of the firm/organization	**Evergreen Bhutan**
• Location and set-up	**Doksum: Trashiyangtse**
• Its mandates and objectives	**Private based waste management**
• Its registration and licensing status	**Registered as cottage industry license under department of cottage and small industry, Ministry of Economic Affair, Bhutan.**

2. **Background and Objectives of the Project for which the CSR funds were released**
   - In brief describe/list/tabulate the following:

o Project and its activities

Waste Management Advocacy and Installation of Recycle Drop off Centre

o The beneficiaries of the project and its activities

People of Khamdang Gewog, Under Trashiyangtse Dzongkhag

o How was the project implemented?

'Sustainable Waste Management' also called as SWM project is a three months long program planned by Evergreen Bhutan, also initiated by Evergreen Bhutan after seeking through financial assistance from other social organization or business entities. In 2017, Evergreen Bhutan received fund support of Nu 2,84,000 /- ($4000) from International Republican Institute, Mongolia as part of LEAD Alliance 2017 program (Leaders Advancing Democracy) since the founder of Evergreen Bhutan was the first cohort LEAD fellow from Bhutan to attend the first LEAD program in Ulaanbaatar, Mongolia. Our first project supported by IRI, Mongolia was the same program projected in Baylling Central School and Trashiyangtse town which was later implemented in first three months of 2018.

This SWM project proposed to BNB was projected with the budget size of Nu 6,53,965 but we were supported with only Nu 1,98,000/-. After receiving the fund, we also went to other agencies to seek for additional fund support but we couldn't get. Moreover, the year (2019) was about to end and we had to redesign the plan for a low budget to fulfill the mission. Actually the budget we received from BNB CSR program 2019 was to develop five recycle drop off centres but we developed only three waste drop off centre, in Tshankharla Central School, Khamdang Gewog Centre (Near BHU1) and one in new Doksum Town. The three Recycle Drop Off Centres will be a centre point where people will firstly segregate the waste and put different materials in different sections which are then easily collected by Evergreen Bhutan to easily handle with wastes. About 80% of waste which comes through these centres are easily recycled or up cycled by Evergreen Bhutan.

As mentioned earlier, Evergreen Bhutan developed three recycle drop off centres and the budget which was suppose to develop the other two drop off centres were used for the advocacy program. It was very important to add the advocacy program in line with developing of recycle drop off centre, we create awareness on waste management and about the use of recycle drop off centres to 400 people (298 students and teachers of Tshankharla Centre School and 102 farmers of Khamdang Gewog. Lunch and refreshments were served to the people who attended the program.

The project was executed on 1st October, 2019 and it was completed on 30th December, 2019.

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

Principal, teachers and students of Tshankharla Central School, Khamdang Gewog Administration Heads including gup and some farmers of Khamdang Gewog (We could not include all the farmers due to insufficient fund. Only few farmers from some Chewog were called for the meeting)

3. **Details of Funds Received and activities funded**
    - Include a table and appropriate write-up to explain the receipt and utilization of funds received from BNBL

Received the sum of Nu 1,98,000/- from BNB CSR program 2019 on 20th August 2019		
Recycled Drop Off Centre	**-**	**1,19,000/-**
Fooding and Refreshments for people who attended the advocacy program	**-**	**79,000/-**

4. **Outcome and Impact of the Project**
    - Describe the impact and benefits of the project and its activities. Besides write-ups, please include the following:

After the completion of the project activities, Tshankharla Centre School, Khamdang Gewog Centre and new Doksum Town got its new recycle drop off centre. About 400 people got sensitized on adequate waste management facility and more importantly, 80% of waste that are generated in lower part of Trashiyangtse are now recycled easily by Evergreen Bhutan.

- Photographs and video clips of the program are attached with this CSR Report

5. **Feedback**
    - Please share with us your experience of working with BNBL for the CSR Project

The team Evergreen Bhutan is very happy and firstly, we heartily thank BNB for supporting us for our program. Evergreen Bhutan is a community based waste management and despite so many challenges in our work field, we are doing our best to inject the idea of sustainable waste management project in Trashiyangtse Dzongkhag, and upon seeing BNB being on our part for the noble cause, is something that e can never forget in our life.

To share some of my personal opinions, BNB is one of the very innovative Bank that I have seen so far in our country in terms of Banking and giving facilities to the customers, in terms of bringing up many innovative advertisements which touches the hearts of customers and more than anything else, for targeting its CSR program for Environment. I should say BNB as the "Green Bank of the Nation"

- Provide us with your feedback in implementing the CSR funds

I have seen other banks or institutions mostly focusing with its CSR program on entertainments and other social activities but for BNB, I have always seen focusing on environment, which is a great initiative and I would like to request not to divert its interests from the Environment. I have always seen this as a signature of BNB and wanted to see more for being a Green Bank in the country. I am expecting to see BNB doing more of its CSR programs on sustainable environmental activities in the country.

- Make specific suggestions to improve the partnership

1. One of my small suggestion to BNB is if you could shorten the banking account number as its 13digit for now which is so far so hard to remember (this is just my view),
2. Like BDBL, if BNB can also bring community banking system to make it easier for farmers and people residing in rural areas to do with the banking.
3. There are many people in town but there are also as many people in scattered rural areas, who hardly gets the banking service at doorsteps.

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

1. I would suggest if BNB can invest its CSR fund for sustainable green programs which will make a difference in a very long run.
2. If BNB can make its CSR program as a grant competition program for young entrepreneurs who aspire to take many green small business. However, if they succeed in their business plan and implementation, they will be the active customers of BNB or stand as the Brand Ambassador throughout.
   It is not only through loans, that some of the social business should start. A community based waste management project like mine never make big profit in terms of recycling since

the size of waste that we get are less but are always a threat to our environment if not managed well. Should we leave the project just because we don't get good profit? Sometimes we are more than just focusing on a profitable side.

Today, I am doing very good in fulfilling the environmental goals. People are becoming very active, they segregate waste at household level even in community level and they also reduce creating of waste. And more than anything else, we encourage and motivate youths who see us as their role model. However, financially, I am becoming very poor in management. I defaults in loan repayments, I cannot buy things which are important for my green business, I cannot pay on time to people who helps me in fulfilling the environmental goals and many more.

PICTURES - Evergreen Bhutan Initiative

Promoting Financial Literacy

Promoting Financial Literacy was an additional CSR theme approved by the Board for 2019. Through this theme, the Management wanted to promote fnancial literacy in Bhutan, among youth, prospective as well as budding entrepreneurs, and students. It was felt that in return, it would help the Bank to grow its market and outreach.

The primary objective of promoting fnancial literacy is to provide the target groups with familiarity and understanding of fnancial market products, especially rewards and risks, to enable people make informed choices.

The program was spearheaded by the Sales & Marketing Team of the Bank under its CSR budget. Twelve graduates from Gedu College of Business Studies (GCBS) were recruited and trained in the basics of fnancial literacy and banking services. Separate teams, consisting of the Bank's offcials and the interns, then visited various parts of the country to conduct the program. The program was targeted at schools, college, Dratshangs and Armed Forces stations across the country.

The program was implemented for a period of 3 months from 1st August to 31st October 2019 and covered more than eleven Dzongkhags.

PICTURES - Promoting Financial Literacy

Independent Auditors' Report

Report on the Audit of the Financial Statements

1. Opinion

We have audited the Financial Statements of Bhutan National Bank Limited (The Bank), which accompanies the Statement of Financial Position as at 31st December 2019,the Statement of Comprehensive Income for the year ended on that date, the Statement of Changes in Equity for the year ended on that date, the Statement of Cash Flows for the year ended on that date, and notes to the fnancial statements, including a summary of signifcant accounting policies, in which are incorporated:

a) Audited Financial Statements of Bhutan National Bank Limited (The Bank) in which are consolidated Financial Statements of three branches audited by us and unaudited Financial Statements of eight branches; and

b) Audited Financial Statements of one associate namely Druk Ferro Alloys Limited (the Associate) not audited by us.

In our opinion, the accompanying Financial Statements, in all material respects, *give a true and fair view of* the fnancial position of The Bank as at December 31, 2019, and (*of*) its fnancial performance and its cash fows for the year then ended in accordance with applicable Bhutanese Accounting Standards (BAS) issued by the Accounting & Auditing Standards Board of Bhutan (AASBB) except otherwise mentioned in this report.

2. Basis for Opinion

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

N.C. MITRA & CO.
Chartered Accountants
KOLKATA

3. Key Audit Matters

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

- Total receivables and payables in relation to transactions with Indian Banks where Nu. 66,454,683.78 (P.Y Nu. 108,586,815.80) and Nu. 139,125,265.24 (P.Y Nu. 193,596,594.55) respectively and the net payable stood at Nu. 72,670,581.46 pending claim from the benefciaries as on December 31, 2019.
- Ownership of Assets aggregating Nu. 92,876,711 (P.Y Nu. 208,623,213) as acquired in satisfaction of debt throughout the years 2015 to 2019 has not been transferred to the Bank as on December 31, 2019.

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

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

In preparing the Financial Statements, management is responsible for assessing The Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate The Bank or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or

N.C. MITRA & CO. Chartered Accountants KOLKATA

error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to infuence the economic decisions of users taken on the basis of this Financial Statements.

Additional responsibilities of the Auditor have been given in **Annexure I.**

6. As required by Section 266 of the Companies' Act of the Kingdom of Bhutan 2016, with respect to 'The Minimum Audit Examination and Reporting Requirements', we enclose in the **''Annexure A''** a statement on the matters specifed therein to the extent applicable to The Bank. This is to further 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 accounts as required by law have been kept by the Company so far as it appears from our examination of the books.

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

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

(Ujjwal Kumar BASU)
Membership No.052995

Date: 10.06.2020
Place: Kolkata

ANNEXURE A

<u>MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS
AS REFERRED IN PARA 6 in the Auditors' Report.</u>

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

2. None of the items were revalued during the year. As explained to us, the last revaluation of land and building was done by the Management in the year 2014.

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, fnancial institutions are prima facie not prejudicial to the interest of the Company. The Company has not availed any loan from any company under the same management.

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

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

a) During the year the volume of Non-Performing Loans (NPL) has substantially increased from Nu. 1,634,370,912 to Nu. 2,811,232,515.

6. There is a system of competitive biddings except funds for short term at times borrowed/invested, commensurate with the size of the Bank and nature of its business, for purchase of goods and services including stores and other assets and

N. C. MITRA & CO. Chartered Accountants KOLKATA

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 frms in which any director was directly or indirectly interested, were under similar terms and conditions as are applied to the other parties and were not prima facie prejudicial to the interest of other shareholders or to the Bank.

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

9. As explained to us and as per our relevant examination of records, no undisputed amounts payable in respect of rates, taxes, duties, royalties, provident fund and other statutory dues as on 31.12.2019.

10. No personal expenses, of employees or Directors (other than those payable under contractual obligation/service rules) have been charged against Revenue other than those payable under contractual obligations/or service rules of The Bank.

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 intra vires to the respective Articles of Incorporation of the Companies.

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 established effective budgetary control system.

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

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

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

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 Loans & Advances and other Financial Instruments.

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

23. The Bank has provided Nu. 2,620,288,746 (P.Y Nu. 1,815,038,551) towards Provision of Impaired Loans in accordance with BFRS-9, as against Nu. 2,455,798,041 (P.Y Nu.1,580,121,342) provided as per RMA Prudential Norms excluding Interest in Suspense of Nu. 303,211,634.63 (P.Y Nu. 140,936,722.41). As explained to us implementation of BFRS-9 was conducted by the Bank.

24. 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.

25. 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.

26. The disposals of assets taken over for repayment defaults etc are made through

N. C. MITRA & CO. Chartered Accountants KOLKATA

open/sealed bids.

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

28. There is a system to ensure that additional loans are granted to those who have been defaulted in payment of earlier advances.

Compliance with the Companies Act of the Kingdom of Bhutan

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

COMPUTERISED ACCOUNTING ENVIRONMENT

1. The organizational and system development controls and other internal controls are adequate commensurate with size and nature of computer installations. However comprehensive system audit should be carried out to review their effectiveness and updation.

2. Adequate safeguard measures and back up facilities exist.

3. Disaster recovery measures are adequate.

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

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

GENRAL

1. Going Concern Problem

Based on the net asset position refected in the Statement of Financial Position as at 31.12.2018 audited by us in accordance with the International Auditing Standards and on the basis of such other tests as we considered necessary in this regard, we have no

N. C. MITRA & CO. Chartered Accountants KOLKATA

reason to believe that the Bank is not a going concern on the date of Statement of Financial Position and is not likely to become sick in near future.

2. Adherence to Laws, Rules and Regulations

The audit of The Bank is governed by the Companies Act of the Kingdom of Bhutan 2016 and the scope of audit is limited to examination and review of the fnancial statement as produced to us by the management. In the course of Audit, we have considered the compliance of provisions of the said Companies Act, RMA Prudential regulations,2017, Financial Services Act of Bhutan,2011 and Articles of Incorporation.

3. Ratio Analysis:

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

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

(Ujjwal Kumar Basu)
Membership No.052995

Date: 10.06.2020
Place: Kolkata

Annexure – I

Additional Responsibilities of the Auditor:

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the fnancial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is suffcient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast signifcant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the fnancial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

N. C. MITRA & CO. Chartered Accountants KOLKATA

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and signifcant audit fndings, including any signifcant defciencies in internal control that we identify during our audit.

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

(Ujjwal Kumar Basu)
Partner
Membership No. 306038

Date: 10.06.2020
Place: Kolkata

Exhibit-1

	GAAP		BAS	
Ratio Analysis	**2019**	**2018**	**2019**	**2018**
Deposit (bn)	35.48	30.16	35.37	30.05

N. C. MITRA & CO.
Chartered Accountants
KOLKATA

Financials

Statement of Financial Position

As at 31st December 2019

	Note	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
Assets					
Cash & cash Equivalents	12	4,760,807,022	3,736,421,617	4,760,807,022	3,736,421,617
Cash & Balances with Central Bank	13	4,714,907,127	4,095,243,197	4,714,907,127	4,095,243,197
Placement with other Banks	14	2,120,312,530	1,824,508,963	2,120,312,530	1,824,508,963
Loans & Advances to Customers	15	29,917,889,290	27,022,303,710	29,917,889,290	27,022,303,710
Investments in Subsidiaries	16	-	-	-	-
Investments in Associates	17	91,463,480	91,463,480	102,046,068	93,394,481
Equity Instruments at Fair Value through P/L	18	101,661,152	112,838,492	101,661,152	112,838,492
Equity Instruments at Fair Value through OCI		39,561,000	39,561,000	39,561,000	39,561,000
Debt Instruments at Amortized Cost	19	116,950,146	116,950,699	116,950,146	116,950,699
Defined Benefit Assets	20	56,379,518	55,833,490	56,379,518	55,833,490
Other Financial Assets	21	108,441,423	182,137,220	108,441,423	182,137,220
Other Assets	22	187,506,582	297,638,368	187,506,582	297,638,368
Property & Equipment	23	1,066,653,272	745,095,879	1,066,653,272	745,095,879
Intangible Assets	24	106,859,813	66,271,415	106,859,813	66,271,415
Deferred tax assets		-	-	-	-
Total Assets		**43,389,392,354**	**38,386,267,532**	**43,399,974,943**	**38,388,198,533**
Liabilities					
Due to Banks and Financial Institution	25	14,889,805,850	11,101,465,782	14,889,805,850	11,101,465,782
Due to Customers	26	20,482,767,188	18,952,311,216	20,482,767,188	18,952,311,216
Debts Issued & Other Borrowed Funds	27	522,027,397	522,027,397	522,027,397	522,027,397
Current Tax Liabilities	28	30,520,249	322,178,289	30,520,249	322,178,289
Defined Benefit Liability		-	8,578,990	-	8,578,990
Deferred Tax Liability	30	94,718,501	201,231,426	97,893,278	201,810,727
Unclaimed Balances		15,581,277	8,438,591	15,581,277	8,438,591
Deferred Income		21,829,189	18,882,274	21,829,189	18,882,274
Provisions	31	21,845,823	21,777,180	21,845,823	21,777,180
Other Liabilities	32	319,910,156	122,968,549	319,910,157	122,968,550
Total Liabilities		**36,399,005,631**	**31,279,859,693**	**36,402,180,408**	**31,280,438,994**
Equity					
Share Capital	33	3,950,323,110	3,291,935,960	3,950,323,110	3,291,935,960
Share Premium	33	-	-	-	-
Reserves					
Revenue Reserve		105,958,573	248,712,408	113,366,384	250,064,108
General Reserve		2,085,970,158	2,728,867,004	2,085,970,158	2,728,867,004
Statutory Reserve		170,284,038	151,217,485	170,284,038	151,217,485
Specific Reserves		479,000,000	479,000,000	479,000,000	479,000,000
AFS Reserve		49,230,382	57,054,520	49,230,382	57,054,520
Revaluation Reserve		149,620,462	149,620,462	149,620,462	149,620,462
Total equity		**6,990,386,723**	**7,106,407,838**	**6,997,794,535**	**7,107,759,539**
Total liabilities and equity		**43,389,392,354**	**38,386,267,532**	**43,399,974,943**	**38,388,198,533**

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

(Ujjwal Kumar Basu)
Membership No.: 052995

Chairperson

Chief Executive Officer

Income Statement

For the year ended 31st December 2019

	Note	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
Interest & Similar Income	4	3,134,966,435	3,001,820,858	3,134,966,435	3,001,820,858
Interest & Similar Expense	5	1,695,405,149	1,361,667,588	1,695,405,149	1,361,667,588
Net interest income		**1,439,561,286**	**1,640,153,269**	**1,439,561,286**	**1,640,153,269**
Fee and commission income	6	125,031,748	128,103,416	125,031,748	128,103,416
Fee and commission expenses	6	7,965,144	6,151,596	7,965,144	6,151,596
Net fee and commission income		**117,066,603**	**121,951,821**	**117,066,603**	**121,951,821**
Other Operating Income	7	120,487,648	69,222,333	120,487,648	69,222,333
Share of Profit/(Loss) from Associates		-	-	22,161,304	(15,006,269)
Total operating income		**1,677,115,538**	**1,831,327,423**	**1,699,276,842**	**1,816,321,153**
Personnel Expenses	8	409,269,354	464,454,965	409,269,354	464,454,965
Depreciation on Property Plant & Equipment	22	90,100,407	41,926,640	90,100,407	41,926,640
Amortization of Intangible Assets	23	18,030,123	18,350,773	18,030,123	18,350,773
Other Operating Expenses	9	186,881,591	129,867,587	186,881,591	129,867,587
Impairment charges/(reversal) for loans and other losses	10	816,351,764	129,926,663	816,351,764	129,926,663
Total Operating Expenses		**1,520,633,240**	**784,526,628**	**1,520,633,240**	**784,526,628**
Profit Before Tax from Continuing Operations		**156,482,298**	**1,046,800,795**	**178,643,602**	**1,031,794,525**
Income Tax Expense	11	(77,331,554)	439,953,127	(70,665,701)	435,430,391
Profit for the Year		**233,813,852**	**606,847,668**	**249,309,303**	**596,364,134**

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

(Ujjwal Kumar Basu)
Membership No.: 052995

Date: 10.06.2020
Place: Kolkata

N. C. MITRA & CO. Chartered Accountants KOLKATA

Chairperson

Chief Executive Officer

Statement of Other Comprehensive Income

For the year ended 31 December 2019

	Bank (Nu)		Group (Nu)	
	2019	2018	2019	2018
Profit for the year	**233,813,852**	**606,847,668**	**249,309,303**	**596,364,134**
Items which will not be reclassified to PL				
Gains /(losses) on re-measuring available for sale financial assets	(11,177,340)	28,729,479	(11,177,340)	28,729,479
Remeasurment Gain/(Loss) on Defined Benefit Plan	(15,640,267)	(7,871,622)	(15,640,267)	(7,871,622)
Net loss on available for sale financial assets	-	-	-	-
Share of undistributed OCI of Associates	-	-	(13,509,717)	58,207
Total other comprehensive income before tax	**(26,817,607)**	**20,857,857**	**(40,327,324)**	**20,916,064**
Income tax income /(expense) relating to components of other	(1,338,878)	10,980,330	(2,731,499)	11,018,647
Other comprehensive income for the year, net of tax	**(25,478,729)**	**9,877,527**	**(37,595,825)**	**9,897,416**
Total comprehensive income for the year, net of tax	**208,335,123**	**616,725,194**	**211,713,478**	**606,261,551**
Basic Earnings Per Share	0.59	1.84	0.63	1.81

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

(Ujjwal Kumar Basu)
Membership No.: 052995

Date: 10.06.2020
Place: Kolkata

N. C. MITRA & CO. Chartered Accountants KOLKATA

Chairperson

Chief Executive Offcer

Bhhutan National Bank Limited

CASH FLOW STATEMENT

For the year ended 31st December

	Bank		Group	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
PBT	**156,482,298**	1,046,800,795	**178,643,602**	1,031,794,525
Adjustment for:				
Depreciation and Amortisation	108,130,531	60,277,413	108,130,531	60,277,413
Profit on Sale of PPE	(797,804)	453,778	(797,804)	453,778
Income from RGOB Bonds	(43,761,674)	(31,956,587)	(43,761,674)	(31,956,587)
Provisions for gratuity	(14,218,141)	(257,012)	(14,218,141)	(257,012)
Income From AFS Financial Investments	(6,411,580)	(6,955,820)	(6,411,580)	(6,955,820)
Income From Investments in Associates	(28,977,650)	(34,773,180)	(22,161,304)	(34,773,180)
Interest paid for Borrowings	30,000,000	46,627,397	30,000,000	46,627,397
Impairment Charges for Loans and advances and other write-offs	816,351,764	129,926,663	816,351,764	129,926,663
Movement in Provisions(Lease encashment and Off balance sheet provions)	68,643	(2,128,061)	68,643	(2,128,061)
Operating profit before changes in operating assets & liabilities	**1,016,866,387**	**1,208,015,386**	**1,045,844,037**	**1,193,009,116**
(Increase) / decrease in operating assets				
DBO Movement	(10,547,144)	3,398,296	(10,547,144)	3,398,296
Placement with other banks	(295,803,567)	(815,911,078)	(295,803,567)	(815,911,078)
Loans & receivables from customers	(2,565,917,083)	(2,400,980,610)	(2,565,917,083)	(2,400,980,610)
Other assets	183,827,584	49,448,558	183,827,584	49,448,558
	(2,688,440,210)	**(3,164,044,834)**	**(2,688,440,210)**	**(3,164,044,834)**
Increase / (decrease) in operating liabilities				
Due to customers	1,530,455,972	(2,801,555,806)	1,530,455,972	(2,801,555,806)
Due to banks & Financial Institutions	3,788,340,069	2,895,303,478	3,788,340,069	2,895,303,478
Other liabilities	196,941,607	(34,490,312)	196,941,607	(34,490,312)
Unclaimed Balances	7,142,687	(34,710,491)	7,142,687	(34,710,491)
Deferred Income	2,946,916	(3,706,095)	2,946,916	(3,706,095)
Provisions	-	4,256,122	-	4,256,122
	5,525,827,250	**25,096,895**	**5,525,827,250**	**25,096,895**
Net cash generated from/(used in) operating activities before income tax	**3,854,253,427**	**(1,930,932,553)**	**3,883,231,077**	**(1,945,938,823)**
Income tax paid	(322,178,289)	(385,014,233)	(322,178,289)	(385,014,233)
Net cash generated from/(used in) operating activities	**3,532,075,138**	**(2,315,946,787)**	**3,561,052,788**	**(2,330,953,056)**

N. C. MITRA & CO. Chartered Accountants KOLKATA

Cash flows from investing activities				
Investment in Bonds	-	(1,139)	-	(1,139)
Net proceeds from sale,maturity and purchase of available for sale investments	-	(28,729,479)	-	(28,729,479)
Income from investments	6,412,133	6,955,820	6,412,133	6,955,820
Income from Investment is subsidiries/Associates	28,977,650	34,773,180	-	49,721,243
Revaluation of AFS		20,857,857		20,916,064
Net Sale/(Purchase) of property plant and equipment	(410,859,995)	(164,083,359)	(410,859,995)	(164,083,359)
Net Sale/(Purchase) of intangible assets	(58,618,521)	(49,212,860)	(58,618,521)	(49,212,860)
Income from RGOB Bonds	43,761,674	31,956,587	43,761,674	31,956,587
Net cash flows used in investing activities	**(390,327,059)**	**(147,483,391)**	**(419,304,709)**	**(132,477,122)**
Cash flows from financing activities				
Interest Paid on borrowings	(30,000,000)	(46,627,397)	(30,000,000)	(46,627,397)
Movement in Debt and other Borrowed Funds	-	(354,372,603)	-	(354,372,603)
Dividend paid	(329,193,596)	(538,231,529)	(329,193,596)	(538,231,529)
Net cash generated from financing activities	**(359,193,596)**	**(939,231,529)**	**(359,193,596)**	**(939,231,529)**
Net cash generated / (used in) during the year	2,782,554,483	(3,402,661,707)	2,782,554,483	(3,402,661,707)
Cash and cash equivalents at the beginning of the year	6,693,159,666	10,857,862,510	6,693,159,666	10,857,862,510
Net Foreign exchange difference		(762,041,137)		(762,041,137)
Cash and cash equivalents at the end of the year	**9,475,714,149**	**6,693,159,666**	**9,475,714,149**	**6,693,159,666**

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

(Ujjwal Kumar Basu)
Membership No.: 052995

N. C. MITRA & CO. Chartered Accountants KOLKATA

Chairperson

Chief Executive Officer

Date: 10.06.2020
Place: Kolkata

Statement of Changes in Equity - Bank

For the year ended 31 December 2019

Bank

	Note	Stated Capital	Share Premium	Retained Earnings	Statutory Reserve	General Reserve	Specific Reserve	Available for Sale	Revaluation Reserve	Total Shareholders' Funds
		In Nu.								
Balance as at 31st December 2017		**3,291,935,960**	**-**	**428,873,647**	**146,722,170**	**2,544,818,049**	**429,000,000**	**36,943,885**	**149,620,462**	**7,027,914,173**
Adjustments										
Net profit for the year		-	-	606,847,668	-	-	-	-	-	606,847,668
Tax Impact on other Comprehensive Income		-	-	(2,361,487)	-	-	-	(8,618,844)	-	(10,980,330)
Tax Impact on Share of undistributed profit in Associates		-	-	-	-	-	-	-	-	-
Remeasurement Gains/Losses on AFS		-	-	-	-	-	-	28,729,479	-	28,729,479
Remeasurement Gains/Losses on DBO		-	-	(7,871,622)	-	-	-	-	-	(7,871,622)
Buyback of shares		-	-		-	-	-	-	-	-
Prior Period Adjustment		-	-	-	-	-	-	-	-	-
Issuance of Bonus Shares		-	-	-	-	-	-	-	-	-
Dividend Paid (Out of 2017 Profits)		-	-	(538,231,529)	-	-	-	-	-	(538,231,529)
Transferred from BNB Sec Ltd (Merger)		-	-	-	-	-	-	-	-	-
Transfers during the year		-	-	(238,544,269)	4,495,315	184,048,955	50,000,000	-	-	-
Balance as at 31st December 2018		**3,291,935,960**	**-**	**248,712,408**	**151,217,485**	**2,728,867,004**	**479,000,000**	**57,054,520**	**149,620,462**	**7,106,407,838**
Adjustments										
Net profit for the year		-	-	233,813,852	-	-	-	-	-	233,813,852
Tax Impact on other Comprehensive Income		-	-	(4,692,080)	-	-	-	3,353,202	-	(1,338,878)
Other adjustments		-	-	(61,598,602)	-	-	-	-	-	(61,598,602)
Remeasurement Gains/Losses on AFS		-	-	-	-	-	-	(11,177,340)	-	(11,177,340)
Remeasurement Gains/Losses on DBO		-	-	(15,640,267)	-	-	-	-	-	(15,640,267)
Buyback of shares		-	-	-	-	-	-	-	-	-
Prior Period Adjustment		-	-	-	-	-	-	-	-	-
Issuance of Bonus Shares		658,387,150	-	-	-	(658,387,150)	-	-	-	-
Dividend Paid (Out of 2018 Profits)		-	-	(329,193,596)	-	-	-	-	-	(329,193,596)
Transferred from BNB Sec Ltd (Merger)		-	-	-	-	-	-	-	-	-
Transfers during the year		-	-	34,556,858	19,066,554	15,490,304	-	-	-	69,113,715
Balance as at 31st December 2019		**3,950,323,110**	**-**	**105,958,573**	**170,284,038**	**2,085,970,158**	**479,000,000**	**49,230,382**	**149,620,462**	**6,990,386,723**

Statement of Changes in Equity - Group

For the year ended 31 December 2019

Group

In Nu.

	Note	Stated Capital	Share Premium	Retained Earnings	Statutory Reserve	General Reserve	Specific Reserve	Available for Sale	Revaluation Reserve	Total Shareholders' Funds
Balance as at 31st December 2017		**3,291,935,960**	**-**	**440,688,992**	**146,722,170**	**2,544,818,049**	**429,000,000**	**36,943,885**	**149,620,462**	**7,039,729,518**
Adjustments										
Net profit for the year		-	-	596,364,134	-	-	-	-	-	596,364,134
Tax Impact on other Comprehensive Income		-	-	(2,399,804)	-	-	-	(8,618,844)	-	(11,018,647)
Revaluation for the year		-	-		-	-	-	28,729,479	-	28,729,479
Remeasurement Gains/Losses on DBO		-	-	(7,871,622)	-	-	-	-	-	(7,871,622)
Tax Impact on Share of undistributed profit in Associates		-	-	58,207	-	-	-	-	-	58,207
Buyback of shares		-	-		-	-	-	-	-	-
Prior Period Adjustment		-	-	-	-	-	-	-	-	-
Issuance of Bonus Shares		-	-		-	-	-	-	-	-
Dividend Paid (Out of 2016 Profits)		-	-	(538,231,529)	-	-	-	-	-	(538,231,529)
Transferred from BNB Sec Ltd (Merger)		-	-		-	-	-	-	-	-
Transfers during the year		-	-	(238,544,269)	4,495,315	184,048,955	50,000,000	-	-	-
Balance as at 31st December 2018		**3,291,935,960**	**-**	**250,064,108**	**151,217,485**	**2,728,867,004**	**479,000,000**	**57,054,520**	**149,620,462**	**7,107,759,539**
Adjustments										
Net profit for the year		-	-	249,309,303	-	-	-	-	-	249,309,303
Tax Impact on other Comprehensive Income		-	-	(621,703)	-	-	-	3,353,202	-	2,731,499
Revaluation for the year		-	-	-	-	-	-	(11,177,340)	-	(11,177,340)
Remeasurement Gains/Losses on DBO		-	-	(29,149,984)	-	-	-	-	-	(29,149,984)
Other adjustments		-	-	(61,598,602)	-	-	-	-	-	(61,598,602)
Prior Period Adjustment		-	-	-	-	-	-	-	-	-
Issuance of Bonus Shares		658,387,150	-	-	-	(658,387,150)	-	-	-	-
Dividend Paid (Out of 2018 Profits)		-	-	(329,193,596)	-	-	-	-	-	(329,193,596)
Transferred from BNB Sec Ltd (Merger)		-	-	-	-	-	-	-	-	-
Transfers during the year		-	-	34,556,858	19,066,554	15,490,304	-	-	-	69,113,715
Balance as at 31st December 2019		**3,950,323,110**	**-**	**113,366,384**	**170,284,038**	**2,085,970,158**	**479,000,000**	**49,230,382**	**149,620,462**	**6,997,794,535**

Notes to Financial Statement

1. CORPORATE INFORMATION

Bhutan National Bank Limited (the Bank), provides Commercial Banking services in various parts of the Kingdom of Bhutan. It is a Licensed Commercial Bank under the Financial Institutions' Act of Bhutan 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 2019 were authorised for issue in accordance with a resolution of the directors on February 26, 2020.

2.1 BASIS OF PREPARATION

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

2.1.1 Statement of compliance

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

2.1.2 Presentation of financial statements

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

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized 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.

2.1.3 Basis of consolidation

The consolidated financial statements comprise of financial statements of the Bank, and its associate for the year ended 31 December 2019.

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

2.2 Changes in accounting policies and disclosures

2.2.1 New and amended standards and interpretations

In these financial statements, the Bank has applied BFRS 9 and BFRS 7R, effective for annual periods beginning on or after 1 January 2019, for the first time. The Bank has early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2.1.1 Changes to classification and measurement

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

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

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

The accounting for financial liabilities remains largely the same as it was under BAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

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

2.2.1.2 Changes to the impairment calculation

The adoption of BFRS 9 (IFRS 9) has fundamentally changed the Bank's accounting for loan loss impairments by replacing BAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. BFRS 9/IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless

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there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 2.5.6. The quantitative impact of applying BFRS 9 is disclosed in Note 38.1.4.

2.2.1.3 BFRS 7R

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

2.3 First-time adoption of BFRS

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

Accordingly, the Group has prepared financial statements which comply with applicable BAS for period ending 31 December 2019, together with the comparative period data as at and for the year ended 31 December 2018, as described in the summary of significant accounting policies. The Note 2.6 explains the principal adjustments made by the Bank in restating its GAAP financial statements.

2.4 Significant accounting judgements, estimates and assumptions

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

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

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to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur.

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

2.4.1 Going concern

The Group's management has assessed 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.

2.4.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for discount rates, income earning potential and etc.

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

2.4.3 Impairment losses on financial assets

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

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

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment

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- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

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

2.5 Summary of Significant Accounting Policies

2.5.1 Recognition of income

2.5.1.1 The effective interest rate method

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

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

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

2.5.1.2 Interest and similar income

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

When a financial asset becomes credit-impaired and is, therefore, regarded as

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

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 2.5.6.1), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

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

2.5.1.3 Fee and commission income

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

Fee income can be divided into the following two categories:

- ***Fee income earned from services that are provided over a certain period of time*** Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.
- ***Fee income from providing transaction services*** Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2.5.1.4 Dividend income

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

2.5.1.5 Net trading income

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

2.5.1.6 Foreign currency translation

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

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Transactions and balances

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

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

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

2.5.2 Financial instruments – initial recognition and subsequent measurement

i. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

ii. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.3.1.2 and

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

iii. 'Day 1' profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading

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income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

iv. *Measurement categories of financial assets and liabilities*

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

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

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

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

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

2.5.3 Financial Assets & Labilities

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

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

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

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

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

The details of these conditions are outlined below.

2.5.3.1.1 Business model assessment

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

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

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

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

2.5.3.1.2 The SPPI Test

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

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

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

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financial asset is denominated, and the period for which the interest rate is set.

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

2.5.3.2 Financial assets or financial liabilities held for trading

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

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

2.5.3.3 Debt instruments at FVOCI

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

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 2.5.3.1. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.5.6.3. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

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2.5.3.4 Equity instruments at FVOCI

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

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

2.5.3.5 Debt issued and other borrowed funds

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

When establishing the accounting treatment for these non-derivative instruments (financial instruments with equity conversion rights, write-down and call options), the Bank first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with BAS

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

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

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

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

OR

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

OR

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

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, considering any discount/ premium and qualifying transaction costs being an integral part of instrument.

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

2.5.3.7 **Financial guarantees, letters of credit and undrawn loan commitments**

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements

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(within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under BAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under BFRS 9 – an ECL provision as set out in Note 38.1.8.1. The premium received is recognised in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

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

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

2.5.4 Reclassification of Financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018 & 2019.

2.5.5 Derecognition

2.5.5.1 Derecognition due to substantial modification of terms and conditions

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

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

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty

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- If the modification is such that the instrument would no longer meet the SPPI criterion

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

2.5.5.2 Derecognition other than substantial modification

2.5.5.2.1 Financial assets

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

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

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

OR

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

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

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

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

A transfer only qualifies for derecognition if either:

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

OR

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

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

2.5.5.2.2 Financial Liabilities

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

2.5.6 Impairment of financial assets

2.5.6.1 Overview of the ECL principles

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

The ECL allowances is based on the credit losses expected to arise over the

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

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

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This has further explained in Note 38.1.9.4.

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

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

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

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2.5.6.2 The calculation of ECLs

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

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

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio. The concept of PDs is further explained in Note 38.1.9.1.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 38.1.9.2.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 38.1.9.3.

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

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

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

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

The mechanics of the ECL method are

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summarised below:

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

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For loans considered credit-impaired (as defined in Note 38.1.9), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR. The Bank does not have any POCI assets as of the reporting date.

- Loan commitments and letters of credit: When estimating LTECLs for Letter of Credit, the Bank estimates the expected portion of the LCs that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the LC is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

- Financial Guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to

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financial guarantees contracts are recognized within provisions.

2.5.6.3 Debt instruments measured at fair value through OCI

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

2.5.6.4 Purchased or originated credit impaired financial assets (POCI)

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

2.5.6.5 Credit cards and other revolving facilities

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

2.5.6.6 Forward looking information

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

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

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

Therefore, bank also considers the following qualitative factors:

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

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2.5.7 Collateral valuation

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

2.5.8 Collateral repossessed

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

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

2.5.9 Write-offs

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

2.5.10 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.

Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk

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

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note

38.1.9.4. The Bank also considers whether the assets should be classified as Stage 3.

2.5.11 Determination of fair value

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

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

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

2.5.12 Offsetting financial instruments

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

2.5.13 Leasing

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

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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.

Group as a lessor

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

2.5.14 Cash and cash equivalents

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

2.5.15 Property and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Group applies the requirements of BAS 16 (Property, Plant and Equipment) in accounting for these assets.

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

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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.

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

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

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

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

2.5.16 Intangible assets

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

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.

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

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

Computer Software	1-5 years

2.5.17 Impairment of non–financial assets

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

2.5.18 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

2.5.19 Provisions

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

2.5.20 Employee Benefits

The Group measures the present value of the Pension obligation, which is a

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defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit method (PUC) as required by BAS 19 Employee Benefits.

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

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

Short-term obligation

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

Other long-term benefit obligation

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

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

2.5.21 Dividends on ordinary shares

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

Dividends for the year that are approved

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after the reporting date are disclosed as an event after the reporting date (Note 36).

2.5.22 Equity reserves

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

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

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

2.5.23 Income Tax

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

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

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

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

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

2.5.24 Earnings Per share

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

2.5.25 Segment Reporting

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

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

2.5.26 Investment in Associates

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

2.5.27 IFRS 15 Revenue from contracts with customers

2.5.27.1 Identify the contract

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

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

2.5.27.2 Identify the Performance Obligations

At contract inception, an entity shall

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

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

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

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

2.5.27.3 Determine the Transaction Price

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

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

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

2.5.27.4 Allocate the Transaction Price

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

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

2.5.27.5 Recognize Revenue

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

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

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

2.5.28 Contingent liability

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

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

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

Contingent liabilities are disclosed if

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

2.5.29 Standards issued but not yet effective

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

IFRS 16 Leases

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

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2.6. Principal Adjustments made in reinstating the GAAP

(A)Property, Plant and Equipment

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

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

(B) Intangible assets

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

(C)Loans and receivables

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

(D)Staff loan fair-valuation

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

(E) Available-for-sale financial assets

Currently, the Group measured investments in unquoted and quoted equity shares at cost. Under BAS/BFRS, investments in quoted and unquoted shares has been designated as available-for-sale investments. BAS 39/BFRS 9 requires available-for-sale investments to be measured at fair

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value. Fair valuation of the investment in quoted shares has been done using the Level 3 technique as per BFRS 13 fair value measurement in line with the IFRS.

(F) Defined benefit obligation

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

(G) Deferred tax

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

(H) Refundable deposits

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

(I) Fixed Deposit EIR Adjustment

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

(J) Investments in Associates

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

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4	Interest and Similar Income	Bank (Nu)		Group (Nu)	
		2019	2018	2019	2018
	Loans & Advances to customers	2,969,176,232	2,872,498,517	2,969,176,232	2,872,498,517
	Cash & Short term funds	7,012,212	4,321,305	7,012,212	4,321,305
	Placements with other banks	115,016,317	93,044,449	115,016,317	93,044,449
	Income from Government securities	43,761,674	31,956,587	43,761,674	31,956,587
		3,134,966,435	**3,001,820,858**	**3,134,966,435**	**3,001,820,858**

5	Interest & Similar Expense	Bank (Nu)		Group (Nu)	
		2019	2018	2019	2018
	Due to customers	1,661,735,439	1,314,826,053	1,661,735,439	1,314,826,053
	Debt issued and other borrowed funds	30,000,000	46,627,397	30,000,000	46,627,397
	Others	3,669,710	214,138	3,669,710	214,138
		1,695,405,149	**1,361,667,588**	**1,695,405,149**	**1,361,667,588**

		Bank (Nu)		Group (Nu)	
6	**Net Fees & Commission Income**	2019	2018	2019	2018
	Fees & Commission Income				
	Banking services	96,054,963	99,071,227	96,054,963	99,071,227
	Foreign remittance related services	25,498,202	26,489,811	25,498,202	26,489,811
	Brokering Commission	3,478,583	2,542,378	3,478,583	2,542,378
	Total fees and commission income	**125,031,748**	**128,103,416**	**125,031,748**	**128,103,416**
	Fees & Commission Expense				
	Brokerage Fees	-	-	-	-
	Trading Fees	-	-	-	-
	Other Bank charges & fees	7,965,144	6,151,596	7,965,144	6,151,596
	Total fees and commission Expense	**7,965,144**	**6,151,596**	**7,965,144**	**6,151,596**
	Net Fees & Commission Income	**117,066,603**	**121,951,821**	**117,066,603**	**121,951,821**

		Bank (Nu)		Group (Nu)	
7	**Other Operating Income**	2019	2018	2019	2018
	Income From AFS Financial Investments	6,411,580	6,955,820	6,411,580	6,955,820
	Income From Investments in Subsidiaries	-	-	-	-
	Income From Investments in Associates	28,977,650	34,773,180	28,977,650	34,773,180
	Exchange Gain	76,266,215	17,981,259	76,266,215	17,981,259
	Profit on Disposal Of Fixed Assets	797,804	(453,778)	797,804	(453,778)
	Operating lease income			-	-
	Charges Recovered	2,869,169	2,625,439	2,869,169	2,625,439
	Others	5,165,229	7,340,412	5,165,229	7,340,412
		120,487,648	**69,222,333**	**120,487,648**	**69,222,333**

		Bank (Nu)		Group (Nu)	
8	**Personnel Expenses**	2019	2018	2019	2018
	Wages & Salaries	364,570,218	341,509,930	364,570,218	341,509,930
	Amortization of Pre-paid employment benefits	5,431,899	64,267,545	5,431,899	64,267,545
	Defined Benefit plan	(14,218,141)	(257,012)	(14,218,141)	(257,012)
	HRD Cost	32,408,019	37,496,183	32,408,019	37,496,183
	Other Benefits	21,077,359	21,438,319	21,077,359	21,438,319
		409,269,354	**464,454,965**	**409,269,354**	**464,454,965**

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9	Other Operating Expenses	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
	Advertising & Marketing	12,059,126	9,808,925	12,059,126	9,808,925
	Corporate Social Responsibilities	4,981,394	3,373,200	4,981,394	3,373,200
	Administrative	106,072,151	81,191,821	106,072,151	81,191,821
	Professional Fees	7,309,346	8,386,751	7,309,346	8,386,751
	Rent Paid under operating leases	13,790,957	17,025,171	13,790,957	17,025,171
	Other	42,668,616	10,081,719	42,668,616	10,081,719
		186,881,591	**129,867,587**	**186,881,591**	**129,867,587**

10	Impairment (charges)/reversal for loans and other losses	Bank (Nu)		Group (Nu)	
	Reconciliation of Impairment Allowance Account-Individual and Collective Impairment	**2019**	**2018**	**2019**	**2018**
	Individual Impairment				
	Opening Balance as at 01st January	15,940,048	21,337,626	15,940,048	21,337,626
	Charge/(Reversal) for the Years	(5,496,625)	(5,397,578)	(5,496,625)	(5,397,578)
	Closing Balance as at 31 December	**10,443,422**	**15,940,048**	**10,443,422**	**15,940,048**
	Collective Impairment				
	Movement in Provision for Impairment Losses				
	Opening Balance as at 01 st January	1,800,046,544	1,665,118,716	1,800,046,544	1,665,118,716
	Charge/(Reversal) for the Years	821,848,390	135,373,641	821,848,390	135,373,641
	Write-offs	(11,130,828)	(445,813)	(11,130,828)	(445,813)
	Closing Balance as at 31 December	**2,610,764,106**	**1,800,046,544**	**2,610,764,106**	**1,800,046,544**
	Provisioning for Other losses				
	Opening Balance as at 01st January	1,043,790	1,093,190	1,043,790	1,093,190
	Charge/(Reversal) for the Years	-	(49,400)	-	(49,400)
	Closing Balance as at 31 December	**1,043,790**	**1,043,790**	**1,043,790**	**1,043,790**
	Total Charge or Reversal for Loans and Advances	**816,351,764**	**129,926,663**	**816,351,764**	**129,926,663**
	Inventory write-offs				
	Total Charge/(Reversal)	**816,351,764**	**129,926,663**	**816,351,764**	**129,926,663**

11 TAXATION

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

	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
Statement of Comprehensive Income				
Current Income Tax				
Income Tax for the year	30,520,249	322,178,289	30,520,249	322,178,289
Assessed Tax of earlier period	-	267,430	-	267,430
Deferred Tax	(107,851,803)	117,507,408	(101,185,950)	112,984,672
Deferred Taxation Charge/ (Reversal)	**(77,331,554)**	**439,953,127**	**(70,665,701)**	**435,430,391**
Other Comprehensive Income				
Deferred Tax				
Deferred Taxation Charge/ (Reversal) (Refer Note 30)	1,338,878	(10,980,330)	2,731,499	(11,018,647)
Property Plan and Equipment				
	1,338,878	**(10,980,330)**	**2,731,499**	**(11,018,647)**
Total Tax Expense for the financial year	**(75,992,676)**	**428,972,796**	**(67,934,202)**	**424,411,744**

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		Bank (Nu)		Group (Nu)	
12	**Cash and Cash Equivalents**	**2019**	**2018**	**2019**	**2018**
	Local Currency In Hand	527,240,437	508,099,074	527,240,437	508,099,074
	Foreign Curency In hand	74,722,219	61,763,614	74,722,219	61,763,614
	Balances with Local Banks	3,642,734,542	1,094,096,918	3,642,734,542	1,094,096,918
	Balances with Foreign Banks	516,954,977	1,076,741,535	516,954,977	1,076,741,535
	Money at Call and Short Notice	-	996,630,006	-	996,630,006
	Allowance for Expected Credit Loss	(845,153)	(909,530)	(845,153)	(909,530)
		4,760,807,022	**3,736,421,617**	**4,760,807,022**	**3,736,421,617**

		Bank (Nu)		Group (Nu)	
13	**Balances with Central Bank of Bhutan(RMA)**	**2019**	**2018**	**2019**	**2018**
	RMA Current Account (Clearing)	1,429,170,725	862,450,200	1,429,170,725	862,450,200
	RMA Current Account (GIFT)	406,000,728	-	406,000,728	-
	CRR With RMA Account	3,338,050,634	2,973,209,596	3,338,050,634	2,973,209,596
	RMA Penalty Account	77,278	77,278	77,278	77,278
	RMA - BFS Settlement Account	18,683,273	(116,456,916)	18,683,273	(116,456,916)
	ATM Settlement Account	-	(12,206,494)	-	(12,206,494)
	RMA - BFS Settlement Account - POS	(298,523)	(1,705,928)	(298,523)	(1,705,928)
	RMA-PG & IMPS	29,386,012	(29,602,538)	29,386,012	(29,602,538)
	RMA Currency Chest	(506,163,000)	419,478,000	(506,163,000)	419,478,000
		4,714,907,127	**4,095,243,197**	**4,714,907,127**	**4,095,243,197**

		Bank (Nu)		Group (Nu)	
14	**Placements with other banks**	**2019**	**2018**	**2019**	**2018**
	Placements with other banks	2,120,365,068	1,824,545,205	2,120,365,068	1,824,545,205
	Allowance for Expected Credit Loss	(52,538)	(36,242)	(52,538)	(36,242)
		2,120,312,530	**1,824,508,963**	**2,120,312,530**	**1,824,508,963**

		Bank (Nu)		Group (Nu)	
15	**Gross loans & receivables**	**2019**	**2018**	**2019**	**2018**
	Gross loans & receivables	32,620,747,206	28,911,252,820	32,620,747,206	28,911,252,820
	Less: Staff loan fair value adjustment	(82,550,900)	(73,910,559)	(82,550,900)	(73,910,559)
		32,538,196,305	**28,837,342,261**	**32,538,196,305**	**28,837,342,261**
	Less: Impairment				
	Individual impairment	(10,443,422)	(15,940,048)	(10,443,422)	(15,940,048)
	Collective impairment	(2,609,863,593)	(1,799,098,504)	(2,609,863,593)	(1,799,098,504)
	Total Impairment	**(2,620,307,015)**	**(1,815,038,551)**	**(2,620,307,015)**	**(1,815,038,551)**
	Net Loans and Receivables	**29,917,889,290**	**27,022,303,710**	**29,917,889,290**	**27,022,303,710**

		Bank (Nu)		Group (Nu)	
15.1	**Loans & Advances to Customers**	**2019**	**2018**	**2019**	**2018**
	Term Loan	24,253,353,814	21,396,081,578	24,253,353,814	21,396,081,578
	Overdrafts and Working Capital	8,027,875,702	7,223,290,563	8,027,875,702	7,223,290,563
	Bills discounted	53,448,061	69,205,758	53,448,061	69,205,758
	Cheques purchased	(1,118)	(1,118)	(1,118)	(1,118)
	Credit cards' outstanding	2,569,994	2,800,628	2,569,994	2,800,628
	Suspended loans	586,712,388	382,150,323	586,712,388	382,150,323
		32,923,958,840	**29,073,527,732**	**32,923,958,840**	**29,073,527,732**
	Less: Staff Loans Unamortized Day One Difference	(82,550,900)	(73,910,559)	(82,550,900)	(73,910,559)
	Less: Allowance for Impairment	(2,620,307,015)	(1,815,038,551)	(2,620,307,015)	(1,815,038,551)
	Less: Reversal of IIS	(303,211,635)	(162,274,912)	(303,211,635)	(162,274,912)
		29,917,889,290	**27,022,303,710**	**29,917,889,290**	**27,022,303,710**

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16	Investments in Subsidiaries	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
	BNB Securities	-	-	-	-

17	Investments in Associates	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
	DFAL (Quoted Investment)	91,463,480	91,463,480	102,046,068	93,394,481
	Total	**91,463,480**	**91,463,480**	**102,046,068**	**93,394,481**

Fair valuation is done on the basis of latest available audited financials i.e. as of 31.12.18 (PY 31.12.17)

18	Financial Investments Available for Sale	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
	Quoted Investments				
	Equities(Fair Valued)	99,161,152	110,338,492	99,161,152	110,338,492
		99,161,152	**110,338,492**	**99,161,152**	**110,338,492**

Fair valuation is done on the basis of latest available audited financials i.e. as of 31.12.18 (PY 31.12.17)

	Bank (Nu) 2019	Bank (Nu) 2018	Group (Nu) 2019	Group (Nu) 2018
Un quoted Investments				
Equities	2,500,000	2,500,000	2,500,000	2,500,000
	2,500,000	**2,500,000**	**2,500,000**	**2,500,000**
Subtotal	**101,661,152**	**112,838,492**	**101,661,152**	**112,838,492**
Statutory Investments				
Investment in RSEB	19,811,000	19,811,000	19,811,000	19,811,000
Investment in FITI	18,000,000	18,000,000	18,000,000	18,000,000
Investment in CIB	1,750,000	1,750,000	1,750,000	1,750,000
	39,561,000	**39,561,000**	**39,561,000**	**39,561,000**
Total	**141,222,152**	**152,399,492**	**141,222,152**	**152,399,492**

18.1 Investment available for sale: December 31st

Name of the Company	2019 No of Shares	2019 Cost	Market Value
Quoted			
Penden Cement Authority Ltd.	609,550	21,686,278	74,669,875
Bhutan Board Products Ltd.	14,000	141,400	251,020
Bhutan Carbide & Chemicals Ltd.	500,000	5,000,000	32,375,000
Bhutan Polymers Co. Ltd.	127,140	1,271,400	6,824,875
Royal Insurance Corpn. of Bhutan	442,500	732,957	33,147,675
		28,832,035	**147,268,445**
Unquoted			
Bhutan Development Bank Limited	2,500	2,500,000	

Investment available for sale: December 31st

Name of the Company	2018 No of Shares	2018 Cost	Market Value
Quoted			
Penden Cement Authority Ltd.	609,550	21,686,278	56,078,600
Bhutan Board Products Ltd.	14,000	141,400	160,300
Bhutan Carbide & Chemicals Ltd.	500,000	5,000,000	35,000,000
Bhutan Polymers Co. Ltd.	127,140	1,271,400	1,589,250
Royal Insurance Corpn. of Bhutan	442,500	732,957	31,860,000
		28,832,035	**124,688,150**
Unquoted			
Bhutan Development Bank Limited	2,500	2,500,000	

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19	Financial Assets - Loans & Receivables	Bank (Nu)		Group (Nu)	
		2019	**2018**	**2019**	**2018**
	As at 31st December				
	Investment in Bonds	116,952,968	116,952,968	116,952,968	116,952,968
	Allowance for Expected Credit Loss	(2,822)	(2,268)	(2,822)	(2,268)
	Total Investment	**116,950,146**	**116,950,699**	**116,950,146**	**116,950,699**

19.1	Details of Loans & Receivable	Bank (Nu)		Group (Nu)	
		2019	**2018**	**2019**	**2018**
	Face Value	115,332,000	115,332,000	115,332,000	115,332,000
	Interest receivable	1,620,968	1,620,968	1,620,968	1,620,968
	Allowance for Expected Credit Loss	(2,822)	(2,268)	(2,822)	(2,268)
		116,950,146	**116,950,699**	**116,950,146**	**116,950,699**

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20 Retirement benefit plans

Defined benefit Plan

A defined benefit plan/(gratuity) defines, an amount of benefit that an employee is entitled to receive on (a)retirement/resignation or (b)on superannuation or (c) on death or disablement due to accident or disease as per the terms and conditions specified in the service rule of the bank. The benefit is dependent on factors such as age, number of years served and salary. The maximum amount an employee is entitled to receive is Nu. 2 million in 2019 reporting period. A full actuarial valuation by a qualified independent actuary is carried out every year.

As required under IAS 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.

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

	2019	2018
Current Service Cost	15,937,676	13,396,760
Interest cost on benefit obligation	(2,261,613)	(2,799,168)
Immediate recognition of (gains)/losses – other long term employee benefit plans	8,930,672	10,708,677
Past service cost	-	9,517,720
Net cost for the year recognized in profit or loss	**22,606,735**	**30,823,989**

	2019	2018
Actual return/(deficit) on plan assets	13,700,944	11,705,000

Retirement Benefit Asset

	2019	2018
Present Value of Defined Benefit Obligation	171,792,718	(176,663,150)
Fair Value of Scheme Assets	228,172,236	203,184,260
Funded Status [Surplus/(Deficit)]	56,379,518	26,521,110
Retirement Benefit Asset	**56,379,518**	**26,521,110**

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:

	2019	2018
Opening Defined Benefit Obligation	176,663,150	132,523,992
Current service cost	16,964,132	10,407,438
Interest cost	13,683,133	10,575,666
Past service cost – plan amendments	-	7,511,240
Benefits paid from plan assets	(9,741,073)	(4,915,370)
Actuarial (gain)/loss due to scheme experience	6,846,059	7,660,721
Actuarial (gain)/loss - financial assumptions	(15,943,127)	7,765,270
11 Benefits paid directly by the Company	(16,660,927)	(15,428,216)
Closing Defined Benefit Obligation	**171,811,347**	**156,100,741**

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

	2019	2018
Fair value of assets at end of prior period	203,184,260	178,445,980
Interest income on plan assets	15,944,746	14,859,308
Employer contributions	21,028,105	17,948,650
Benefits paid	(9,741,073)	(4,915,370)
Return on plan assets greater or (less) than discount rate	(2,243,802)	(3,154,308)
Closing fair value of plan asset	**228,172,236**	**203,184,260**

A Expected benefit payments for the year ending	
December 31 2020	10,469,607
December 31 2021	8,765,261
December 31 2022	12,272,208
December 31 2023	13,870,295
December 31 2024	16,321,307
December 31 2025-to December 31,2029	113,871,341

	2019	2018
B Expected employer contributions for the period ending 31 December 201	NIL	NIL
C Weighted average duration of defined benefit obligation	12 years	12 years
D Accrued benefit Obligation at 31 December 2018	88,176,521	87,873,430

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

	2019	2018
	%	**%**
Term Deposits with Banks	0.00%	0.00%
Current Account	100.00%	100.00%
	0.00%	**100.00%**

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

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

	2019	2018
Discount Rates	8.80%	5% - 8%
Salary Escalation Rates	8.00%	8.00%
Employee Turnover Rates	3.00%	3.00%
Mortality Rates	100% of IALM (2006-	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 2019 reporting period.

A.11 Sensitivity Analyses

A Discount Rate	2019	2018
Discount rate as at 31 December 2018	8.80%	8.00%
1. Effect on DBO due to 1% increase in Discount rate	(17,957,915.00)	(16,591,200.00)
2. Effect on DBO due to 1% decrease in Discount rate	20,567,626.00	22,484,620.00

B Carriage inflation Rate		
Carriage inflation Rate as at 31 December 2018	8.00%	8.00%
1. Effect on DBO due to 1% increase in carriage cost inflation rate	11,545,155.00	13,035,550.00
2. Effect on DBO due to 1% decrease in carriage cost inflation rate rate	(11,988,534.00)	(13,007,190.00)

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21	Other Financial Assets	Bank (Nu)		Group (Nu)	
	As at 31st December	**2019**	**2018**	**2019**	**2018**
	Sundry Receivables	88,394,968	66,586,035	88,394,968	66,586,035
	Security Deposits	456,797	349,556	456,797	349,556
	Others	19,589,658	115,201,630	19,589,658	115,201,630
		108,441,423	**182,137,220**	**108,441,423**	**182,137,220**

22	Other Assets	Bank (Nu)		Group (Nu)	
	As at 31st December	**2019**	**2018**	**2019**	**2018**
	Assets acquired in satisfaction of debts	92,876,711	208,623,213	92,876,711	208,623,213
	Others	1,162,017	1,374,123	1,162,017	1,374,123
	Prepaid Staff Cost	82,550,900	73,910,559	82,550,900	73,910,559
	Advance Tax Paid and Tax Deducted at Source	10,916,953	13,730,473	10,916,953	13,730,473
		187,506,582	**297,638,368**	**187,506,582**	**297,638,368**

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

Bank / Group	**2019**	**2018**
As at 1st January	73,910,559	138,178,104
Add / (Less): Adjustment for new grants & settlements	14,072,240	(11,349,641)
Less: charge to Personnel cost	(5,431,899)	(52,917,904)
As at 31st December	**82,550,900**	**73,910,559**

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

Bank / Group	**2019**	**2018**
As at 1st January	-	919
Add / (Less): Adjustment for new Deposits & settleme	-	-
Less: Charge to Operating Expenses	-	919
As at 31st December	-	-

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

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

Cost/Revalued Amount:	Land	Building	Electric Appliances & Machineries	Furniture, fixtures, & fittings	Office equipment	Computer hardwares	Security tools	Carpets & soft furnishings	Vehicles	WIP	Total
At 1 January 2019	197,220,800	113,381,603	12,244,681	46,090,131	50,884,065	178,493,033	12,007,852	826,324	24,307,358	332,665,962	**968,121,809**
Additions/Reclassification/Capitalizatioı	163,314,500	341,477,540	138,229,173	39,343,957	24,905,087	62,511,622	11,331,187	3,310,010	-	(332,665,962)	**451,757,113**
Disposals	-	(36,381,438)	(823,637)	(3,210,525)	(581,915)	(6,423,980)	(164,900)	-	(5,955,316)		**(53,541,711)**
At 31 December 2019	**360,535,300**	**418,477,705**	**149,650,217**	**82,223,562**	**75,207,237**	**234,580,675**	**23,174,139**	**4,136,333**	**18,352,042**	**-**	**1,366,337,211**

Accumulated Depreciation	Land	Building	Electric Appliances & Machineries	Furniture, fixtures, & fittings	Office equipment	Computer hardwares	Security tools	Carpets & soft furnishings	Vehicles	WIP	Total
At 1 January 2019	-	17,191,993	7,389,066	27,643,365	33,442,026	119,383,051	7,590,943	795,095	9,590,390	-	**223,025,929**
Charge for the year		7,959,792	27,902,792	7,938,744	9,566,800	31,751,624	2,766,088	397,507	1,817,061		**90,100,407**
Disposals	-	-	(768,337)	(2,813,408)	(541,576)	(6,134,795)	(159,308)	-	(3,024,974)		**(13,442,398)**
At 31 December 2019	**-**	**25,151,785**	**34,523,520**	**32,768,702**	**42,467,250**	**144,999,880**	**10,197,723**	**1,192,602**	**8,382,477**	**-**	**299,683,939**

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Fully depreciated property, plant and equipment - Bank

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

As at 31st December	2019	2018
Electric Appliances & Machineries	3,274,136	3,887,655
Furniture, fixtures, & fittings	16,365,114	16,705,393
Office equipment	15,364,652	13,545,734
IT hardwares	47,738,175	49,080,406
Security tools	3,780,962	3,831,262
Carpets & soft furnishings	506,052	466,574
Vehicles	10,433,182	-
	97,462,273	**87,517,024**

Temporarily idle property, plant and equipment- Bank

	2019	2018
IT Hardwares	12,328,509	252,993
Furniture & Fixture	2,354,719	707,544
Office Equipment	319,750	467,000
Electrical appliance	388,479	151,600
Security Tools	1,367,914	1,557,725
	16,759,370	**3,136,862**

24 Intangible Assets (Bank & Group)

At 1 January 2018	**112,744,453**
Additions	49,212,878
Disposals	(7,409,673)
At 31 December 2018	**154,547,658**
Amortization and impairment:	
At 1 January 2018	**77,335,125**
Amortization	18,350,773
Disposals	(7,409,655)
At 31 December 2018	**88,276,243**
At 1 January 2019	**154,547,658**
Additions/Reclassification/Capitalization	58,750,650
Disposals	(8,085,366)
At 31 December 2019	**205,212,942**
Amortization and impairment:	
At 1 January 2019	**88,276,243**
Amortization	18,030,123
Disposals	(7,953,237)
At 31 December 2019	**98,353,129**

Fully depreciated Intangible Assets - Bank

	2019	2018
Software	26,734,334	36,625,839

Temporarily idle Intangible assets- Bank

	2019	2018
Software	46,897,196	20,528,742
	46,897,196	**20,528,742**

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		Bank (Nu)		Group (Nu)	
25	**Due to Banks and Financials Institution**	**2019**	**2018**	**2019**	**2018**
	Banks	5,003,255,239	2,577,626,709	5,003,255,239	2,577,626,709
	Non Bank Financial Institutions	9,886,550,611	8,523,839,073	9,886,550,611	8,523,839,073
		14,889,805,850	**11,101,465,782**	**14,889,805,850**	**11,101,465,782**

		Bank (Nu)		Group (Nu)	
26	**Due to Customers**	**2019**	**2018**	**2019**	**2018**
	Fixed Deposit	8,642,875,384	7,246,882,944	8,642,875,384	7,246,882,944
	Recurring Deposit	400,007,995	276,770,165	400,007,995	276,770,165
	Savings Deposits	8,048,017,739	7,778,303,175	8,048,017,739	7,778,303,175
	Current Accounts	3,391,866,069	3,650,354,933	3,391,866,069	3,650,354,933
		20,482,767,188	**18,952,311,216**	**20,482,767,188**	**18,952,311,216**

		Bank (Nu)		Group (Nu)	
26.1	**Local Currency Deposits**	**2019**	**2018**	**2019**	**2018**
	Fixed Deposit	22,781,354,399	17,689,644,973	22,781,354,399	17,689,644,973
	Recurring Deposit	400,007,995	276,770,165	400,007,995	276,770,165
	Savings Deposits	8,028,997,609	7,769,571,257	8,028,997,609	7,769,571,257
	Current Accounts	3,056,092,715	3,117,073,980	3,056,092,715	3,117,073,980
		34,266,452,719	**28,853,060,375**	**34,266,452,719**	**28,853,060,375**
	Foreign Currency Deposits				
	Fixed Deposit	-	-	-	-
	Recurring Deposit	-	-	-	-
	Current Accounts	1,086,705,625	1,191,550,617	1,086,705,625	1,191,550,617
	Savings Deposits	19,414,694	9,166,006	19,414,694	9,166,006
		1,106,120,319	**1,200,716,623**	**1,106,120,319**	**1,200,716,623**

		Bank (Nu)		Group (Nu)	
27	**Debts issued & borrowed funds**	**2019**	**2018**	**2019**	**2018**
	Subordinated Bonds	522,027,397	522,027,397	522,027,397	522,027,397
		522,027,397	**522,027,397**	**522,027,397**	**522,027,397**

Number of Bonds	**Face Value**	**Amortized Cost 2019**	**2018**	**Allotment Date**	**Maturity Date**	**Rate**
500,000 numbers of certificates issued to RGoB	1,000	522,027,397	522,027,397	09 April 2014	08 April 2024	6%
		522,027,397				

		Bank (Nu)		Group (Nu)	
28	**Current tax liabilities**	**2019**	**2018**	**2019**	**2018**
	Balance as at 1st January	322,178,289	384,746,803	322,178,289	384,746,803
	Current year provision	30,520,249	322,178,289	30,520,249	322,178,289
	Less: Payment of tax	322,178,289	384,746,803	322,178,289	384,746,803
	Balance as at 31st December	**30,520,249**	**322,178,289**	**30,520,249**	**322,178,289**

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29 Analysis Of Financial Instruments By Measurement Basis

Financial instruments are measured on an ongoing basis either at fair value or at amortized 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-2019-Bank

Analysis of Financial Instruments by Measurement Basis	Held for Trading	Amortized Cost	Held to maturity	AFS	Total
Financial Assets					
Cash & cash Equivalents	-	4,760,807,022	-	-	4,760,807,022
Cash & Balances with Central Bank	-	4,714,907,127	-	-	4,714,907,127
Placement with other Banks	-	2,120,312,530	-	-	2,120,312,530
Due From Banks and Financial Institution	-		-	-	-
Loans & Advances to Customers	-	29,917,889,290	-	-	29,917,889,290
Equity Instruments at Fair Value through P/L	-	-	-	101,661,152	101,661,152
Equity Instruments at Fair Value through OCI	-	-	-	39,561,000	39,561,000
Debt Instruments at Amortized Cost	-	116,950,146	-	-	116,950,146
Other Financial Assets	-	108,441,423	-	-	108,441,423
Financial Liabilities					
Due to Banks and Financial Institution	-	14,889,805,850	-	-	14,889,805,850
Due to Customers	-	20,482,767,188	-	-	20,482,767,188
Debts Issued & Other Borrowed Funds	-	522,027,397	-	-	522,027,397
Unclaimed Balances	-	15,581,277	-	-	15,581,277
Other Liabilities	-	73,479,351	-	-	73,479,351

As at 31-Dec-2019-Group

Analysis of Financial Instruments by Measurement Basis	Held for Trading	Amortized Cost	Held to maturity	AFS	Total
Financial Assets					
Cash & cash Equivalents	-	4,760,807,022	-	-	4,760,807,022
Cash & Balances with Central Bank	-	4,714,907,127	-	-	4,714,907,127
Placement with other Banks	-	2,120,312,530	-	-	2,120,312,530
Due From Banks and Financial Institution	-	-	-	-	-
Loans & Advances to Customers	-	29,917,889,290	-	-	29,917,889,290
Equity Instruments at Fair Value through P/L	-	-	-	101,661,152	101,661,152
Equity Instruments at Fair Value through OCI	-	-	-	39,561,000	39,561,000
Debt Instruments at Amortized Cost	-	116,950,146	-	-	116,950,146
Other Financial Assets	-	108,441,423	-	-	108,441,423
Financial Liabilities					
Due to Banks and Financial Institution	-	14,889,805,850	-	-	14,889,805,850
Due to Customers	-	20,482,767,188	-	-	20,482,767,188
Debts Issued & Other Borrowed Funds	-	522,027,397	-	-	522,027,397
Unclaimed Balances	-	15,581,277	-	-	15,581,277
Other Liabilities	-	73,479,351	-	-	73,479,351

As at 31-Dec-2018-Bank

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

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As at 31-Dec-2018-Group

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

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30 Deferred Taxation (Bank and the Group)

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

	Reflected in SFP		Reflected in IS		Reflected in OCI	
Deferred Tax (Bank)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Property Plant and Equipment & Intangibles	(32,444,938)	(37,212,750)	4,767,812	299,326		
Fair value change of Available for Financial Assets - Equity Securities	(21,098,735)	(24,451,937)	-	-	3,353,202	(8,618,844)
Revaluation	(1,315,456)	(1,315,456)	-	-	-	-
Deposit EIR	(31,683,813)	(32,804,786)	1,120,972	(9,787,292)	-	-
Defined Benefit Assets	(51,683,514)	(30,802,924)	(20,880,591)	(14,128,320)	-	-
Defined Benefit Liabilities	4,991,903	2,573,697	2,418,206	2,573,697	-	-
Defined Benefit Assets (OCI)	(11,149,776)	(6,457,696)	-	-	(4,692,080)	(2,361,487)
Impairment Charges	49,665,829	(70,759,575)	120,425,404	(96,464,819)		
Deferred Tax Assets/(Liabilities)	**(94,718,501)**	**(201,231,426)**	**107,851,803**	**(117,507,408)**	**(1,338,878)**	**(10,980,330)**
Deferred Tax has been determined based on the enacted tax rate of 30%						
Deferred Income Tax Charge/(Reversal)			**107,851,803**	**(117,507,408)**	**(1,338,878)**	**(10,980,330)**

	Reflected in SFP		Reflected in IS		Reflected in OCI	
Deferred Tax (Group)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Property Plant and Equipment & Intangibles	(32,444,938)	(37,212,750)	4,767,812	299,326		
Fair value change of Available for Financial Assets - Equity Securities	(21,098,735)	(24,451,937)			3,353,202	(8,618,844)
Revaluation	(1,315,456)	(1,315,456)			-	-
Share of undistributed profit in Associates (IS)	(7,227,692)	(561,838)	(6,665,853)	4,522,736		
Share of undistributed profit in Associates (OCI)	4,052,915	(17,462)			4,070,377	(38,317)
Deposit EIR	(31,683,813)	(32,804,786)	1,120,972	(9,787,292)		
Defined Benefit Assets	(51,683,514)	(30,802,924)	(20,880,591)	(14,128,320)		
Defined Benefit Liabilities	4,991,903	2,573,697	2,418,206	2,573,697		
Defined Benefit Assets (OCI)	(11,149,776)	(6,457,696)			(4,692,080)	(2,361,487)
Impairment Charges	49,665,829	(70,759,575)	120,425,404	(96,464,819)		
Deferred Tax Assets/(Liabilities)	**(97,893,278)**	**(201,810,727)**	**101,185,950**	**(112,984,672)**	**2,731,499**	**(11,018,647)**
Deferred Tax has been determined based on the enacted tax rate of 30%						
Deferred Income Tax Charge/(Reversal)			**101,185,950**	**(112,984,672)**	**2,731,499**	**(11,018,647)**

31 Provisions

	Bank (Nu)		Bank (Nu)	
Provisions	**2019**	**2018**	**2019**	**2018**
Provisions for Leave Encashment	23,251,134	20,646,428	23,251,134	20,646,428
Provisions for Other Losses	1,043,790	1,043,790	1,043,790	1,043,790
Additional Provision for Leave as per actuarial valuation	(2,449,101)	86,962	(2,449,101)	86,962
	21,845,823	**21,777,180**	**21,845,823**	**21,777,180**
	-			
Movements				
Provisions for Leave Encashment	2,604,706	2,090,499		
Provisions for Off Balance sheet items & other losses	(2,536,063)	37,562		
PL Impact	**(68,643)**	**(2,128,061)**		

32 Other Liabilities

	Bank (Nu)		Bank (Nu)	
Other Liabilities	**2019**	**2018**	**2019**	**2018**
Financial				
Accounts payable & Sundry creditors	73,479,351	14,060,402	73,479,351	14,060,402
Non Financial				
Margin Money	29,357,575	35,139,429	29,357,575	35,139,429
Other	217,073,230	73,730,402	217,073,230	73,730,402
	319,910,156	**122,930,232**	**319,910,156**	**122,930,232**

33 Share Capital and Share Premium

	Bank (Nu)		Bank (Nu)	
Share Capital and Share Premium	**2019**	**2018**	**2019**	**2018**
Share Capital	3,950,323,110	3,291,935,960	3,950,323,110	3,291,935,960
Share Premium	-	-	-	-
	3,950,323,110	**3,291,935,960**	**3,950,323,110**	**3,291,935,960**

33.1 Share Capital

Share Capital	**2019**	**2018**
Opening balance (January 01)	3,291,935,960	3,291,935,960
Issue of Bonus shares during the year	658,387,150	-
Buyback of shares	-	-
Closing Balance (December 31)	**3,950,323,110**	**3,291,935,960**

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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.

		Bank (Nu)		Group (Nu)	
34.1	**Commitment and Contingencies**	**2019**	**2018**	**2019**	**2018**
	As at 31st December				
	Commitments				
	Commitment for unutilised facilities (direct advances)	4,366,805,798	3,503,731,071	4,366,805,798	3,503,731,071
		4,366,805,798	**3,503,731,071**	**4,366,805,798**	**3,503,731,071**
	Contingent Liabilities				
	Guarantees	2,601,779,596	1,976,298,923	2,601,779,596	1,976,298,923
	Letter of Credits	156,422,133	236,484,852	156,422,133	236,484,852
	Other	4,366,805,798	3,503,731,071	4,366,805,798	3,503,731,071
		7,125,007,527	**5,716,514,846**	**7,125,007,527**	**5,716,514,846**
	Commitment & contingencies	**11,491,813,325**	**9,220,245,917**	**11,491,813,325**	**9,220,245,917**

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 was a claim against the Bank, which has been accordingly adjusted to accounts, however, the Bank has appealed to the higher court.

34.3 **in these accounts, amounts approximately to:**

	Bank (Nu)		Group (Nu)	
As at 31st December	**2019**	**2018**	**2019**	**2018**
Approved & contracted for	-	421,822,707	-	421,822,707
	-	**421,822,707**	**-**	**421,822,707**

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 Bhutan 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 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.**

		Bank (Nu)		Group (Nu)	
35.3.1	**Transactions with Key Managerial Personnel (KMPs)**				
	For the Year Ended 31st December	**2019**	**2018**	**2019**	**2018**
	Short term employee benefits	5,737,782	6,980,111	5,737,782	6,980,111
	Separation benefits	2,110,647	-	-	-
	Post-employment benefits	2,000,000	2,000,000	2,000,000	2,000,000
	Directors' fees & expenses	5,439,526	4,001,225	5,439,526	4,001,225
	Total	**15,287,954**	**12,981,336**	**13,177,307**	**12,981,336**

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		Bank (Nu)		Group (Nu)	
35.3.2	**Short term employee benefits to CEO**	**2019**	**2018**	**2019**	**2018**
	Salary & Other Benefits	5,134,853	4,957,441	5,134,853	4,957,441
	Vehicle Expenses	529,669	399,352	529,669	399,352
	Travel - Local/Foreign	350,759	1,623,318	350,759	1,623,318
		6,015,282	**6,980,111**	**6,015,282**	**6,980,111**

35.4 Transactions, Arrangements and Agreements Involving KMPs and Their CFMs

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

	Bank (Nu)		Group (Nu)	
	2019	**2018**	**2019**	**2018**
Loans and Receivables outstanding	338,973,662	95,222,948	338,973,662	95,222,948
	338,973,662	**95,222,948**	**338,973,662**	**95,222,948**

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

	Bank (Nu)		Group (Nu)	
	2019	**2018**	**2019**	**2018**
Credit Card outstanding	1,629,000	1,050,750	1,629,000	1,050,750
	1,629,000	**1,050,750**	**1,629,000**	**1,050,750**

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

	Bank (Nu)		Group (Nu)	
	2019	**2018**	**2019**	**2018**
Deposits	202,779,753	27,950,294	202,779,753	27,950,294
Investment in Equity shares of BNBL	340,438,840	248,061,890	340,438,840	248,061,890
	543,218,593	**276,012,184**	**543,218,593**	**276,012,184**

35.4.4 Dividend paid to KMPs and their CFMs

	Bank (Nu)		Group (Nu)	
	2019	**2018**	**2019**	**2018**
Dividend	34,043,884	405,582,549	34,043,884	405,582,549

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

	Bank (Nu)		Group (Nu)	
	2019	**2018**	**2019**	**2018**
Loans & receivables	202,821,742	71,337,011	202,821,742	71,337,011
Deposits	202,779,753	18,381,991	202,779,753	18,381,991
	405,601,495	**89,719,002**	**405,601,495**	**89,719,002**

36 Events After The Reporting Period

Bank/Group

The board in the 138th Board of Directors Meeting held on February 26, 2020 proposed a dividend of Nu. 0.069 per share (0.69%) for the income year 2019, which was endorsed by the Shareholders in the 24th AGM held on February 28, 2020 and subsequently approved by the Royal Monetary Authority of Bhutan.

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37 Fair value of Financial Instruments

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Investments Available for sale

Available for sale financial assets (primarily consist of quoted equities and Government debt securities) are valued using valuation techniques or pricing models. These assets are valued using models that use observable data.

Trading Assets and Other Assets Measured at Fair Value

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

Determination of Fair Value and Fair Value Hierarchy

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

Fair values are determined according to the following hierarchy:

Level 1 - Quoted Market Price (unadjusted): financial instruments with quoted prices for identical instruments in active markets.

Level 2 - Valuation Technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 - Valuation Technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

recorded at fair value by level of the fair value hierarchy

	Bank (Nu)			Group (Nu)		
	Level I	Level II	Level III	Level I	Level II	Level III
31st December 2019						
Financial Investment Available For sale (Quoted)			99,161,152			99,161,152
Staff Loan			270,897,973.23			270,897,973
31st December 2018						
Financial Investment Available For sale (Quoted)	-	-	110,338,492	-	-	110,338,492
Staff Loan	-	-	245,342,289	-	-	245,342,289

A. Determination of fair value hierarchy (contd,)

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

Fixed Rate Financial Instruments

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

For Quoted Debt issued

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

For other variable rate instruments

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

	Bank (Nu)			
31st December	2019		2018	
Financial Assets	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash & cash equivalents	4,760,807,022	4,760,807,022	3,736,421,617	3,736,421,617
Balances with Central Bank	4,714,907,127	4,714,907,127	4,095,243,197	4,095,243,197
Placements with Banks	2,120,312,530	2,120,312,530	1,824,508,963	1,824,508,963
Loans & Advances to Customers	29,917,889,290	27,761,768,824	27,022,303,710	18,644,233,144
Investments in Subsidiaries	-	-	-	-
Investments in Associates	91,463,480	91,463,480	91,463,480	91,463,480
Equity Instruments at Fair Value through P/L	101,661,152	101,661,152	112,838,492	112,838,492
Equity Instruments at Fair Value through OCI	39,561,000	39,561,000	39,561,000	39,561,000
Debt Instruments at Amortized Cost	116,950,146	115,416,689	116,950,699	115,298,389
Other Financial Assets	108,441,423	108,441,423	182,137,220	182,137,220
Financial Liabilities				
Due to Banks	14,889,805,850	14,889,805,850	11,101,465,782	11,101,465,782
Due to Customers	20,482,767,188	20,364,080,613	18,952,311,216	18,952,669,500
Debts Issued & Other Borrowed Funds	522,027,397	461,684,901	522,027,397	451,206,578
Unclaimed Balances	15,581,277	15,581,277	8,438,591	8,438,591
Other Liabilities	73,479,351	73,479,351	14,060,402	14,060,402

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31st December	Group (Nu)			
	2019		2018	
Financial Assets	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash & cash equivalents	4,760,807,022	4,760,807,022	3,736,421,617	3,736,421,617
Balances with Central Bank	4,714,907,127	4,714,907,127	4,095,243,197	4,095,243,197
Placements with Banks	2,120,312,530	2,120,312,530	1,824,508,963	1,824,508,963
Loans & Advances to Customers	29,917,889,290	27,761,768,824	27,022,303,710	18,644,233,144
Investments in Subsidiaries	-	-	-	-
Investments in Associates	102,046,068	102,046,068	93,394,481	93,394,481
Equity Instruments at Fair Value through P/L	101,661,152	101,661,152	112,838,492	112,838,492
Equity Instruments at Fair Value through OCI	39,561,000	39,561,000	39,561,000	39,561,000
Debt Instruments at Amortized Cost	116,950,146	115,416,689	116,950,699	115,298,389
Other Financial Assets	108,441,423	108,441,423	182,137,220	182,137,220
Financial Liabilities				
Due to Banks	14,889,805,850	14,889,805,850	11,101,465,782	11,101,465,782
Due to Customers	20,482,767,188	20,364,080,613	18,952,311,216	18,952,669,500
Debts Issued & Other Borrowed Funds	522,027,397	461,684,901	522,027,397	451,206,578
Unclaimed Balances	15,581,277	15,581,277	8,438,591	8,438,591
Other Liabilities	73,479,351	73,479,351	14,060,402	14,060,402

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38 Risk Management

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

The risk governance structure is defined in three tiers, namely the Board level Committee, Management Level Committee and Functional Risk Organization. Under Functional Risk Organization, the Bank has Risk Management Department (RMD) which consists of three sub units, namely, Credit Risk Management Unit, Market Risk Management Unit and Operational Risk Management Unit. While presently these Units are not created in the Bank separately but managed together under RMD, the Bank will be instituting independent units for dedicated and focused risk management in the near future.

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 both corporate and retail clients of the Bank. The credit scoring model will generate a final score for the client which will enable the Bank to take a prudent lending decision.

Under Credit Risk we monitor the concentration risks such as single borrower limit, group borrower limit, sector limit, the prohibited industry/ sector or product, related party exposures and non-performing loans (NPL) on regular basis.

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. Currently there is no tolerance limit defined for equity/commodity risk and the Interest rate risk.

Operational Risk Management

The bank implemented a comprehensive Operational Risk Management Framework from September 2019. The Operational Risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Operational Risk of the Bank are mitigated and managed through a Board approved Operational Risk Management Policy Framework, which consists of monitoring and responding to potential risks such as segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, Business Continuity Planning etc. The Risk Management Department reports to Interim Chief Risk Officer and the Board Risk Management Committee, which maintains a high-level overall supervision of managing Operational Risks of the Bank.

The main risk evaluation and assessment documents contain the Risk Control and Self-Assessment (RCSA), Key Risk Indicators (KRIs) and Loss Data Reports that are developed in context of the seven Risk Categories pertinent to the functions of the various daily operations. These reports are prepared and compiled at the Department/Branch level, and are submitted to Risk Department on monthly/quarterly basis. Based on the reports received from these reporting Units, the Risk Team compile, assess, analyses them and consolidates at bank level. After consolidation of these reports at Bank level, it is presented to Executive Risk Management Committee (ERMC) and subsequently to Board Risk Management Committee (BRMC) on monthly or quarterly basis as applicable for deliberation and directives. These reports enable bank to evaluate residual risks and develop corrective measures based on the evaluation and findings. Under circumstance that there are gaps in system or process improvement requirement, subsequent controls and mitigating controls/measures are suggested or recommended for its development and compliance wherever applicable.

38.1 Credit Risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are, as follows:
- For commercial lending, charges over real estate properties, inventory and trade receivables
- 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 2019	**Bank (Nu.)**			**Group (Nu.)**		
Financial Assets	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**
Cash & cash Equivalents	4,760,807,022	-	4,760,807,022	4,760,807,022	-	4,760,807,022
Cash & Balances with Central Bank	4,714,907,127	-	4,714,907,127	4,714,907,127	-	4,714,907,127
Placement with other Banks	2,120,312,530	-	2,120,312,530	2,120,312,530	-	2,120,312,530
Loans & Advances to Customers	29,917,889,290	29,161,011,265	756,878,025	29,917,889,290	29,161,011,265	756,878,025
Equity Instruments at Fair Value through P/L	101,661,152	-	101,661,152	101,661,152	-	101,661,152
Equity Instruments at Fair Value through OCI	39,561,000	-	39,561,000	39,561,000	-	39,561,000
Debt Instruments at Amortized Cost	116,950,146	-	116,950,146	116,950,146	-	116,950,146
Other Financial Assets	108,441,423	-	108,441,423	108,441,423	-	108,441,423

31st December 2018	**Bank (Nu.)**			**Group (Nu.)**		
Financial Assets	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**	**Maximum Exposure to credit Risk (Nu)**	**Net Collateral**	**Net Exposure**
Cash & cash Equivalents	3,736,421,617	-	3,736,421,617	3,736,421,617	-	3,736,421,617
Cash & Balances with Central Bank	4,095,243,197	-	4,095,243,197	4,095,243,197	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	1,824,508,963	1,824,508,963	-	1,824,508,963
Loans & Advances to Customers	27,022,303,710	26,262,999,607	759,304,103	27,022,303,710	26,262,999,607	759,304,103
Equity Instruments at Fair Value through P/L	112,838,492	-	112,838,492	112,838,492	-	112,838,492
Equity Instruments at Fair Value through OCI	39,561,000	-	39,561,000	39,561,000	-	39,561,000
Debt Instruments at Amortized Cost	116,950,699	-	116,950,699	116,950,699	-	116,950,699
Other Financial Assets	182,137,220	-	182,137,220	182,137,220	-	182,137,220

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38.1 Credit Risk (Contd,)

38.1.1 Credit quality by class of financial asset

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

Definition of Past Due

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

Bank (Nu)

31st December 2019	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	4,760,807,022			4,760,807,022
Cash & Balances with Central Bank	4,714,907,127			4,714,907,127
Placement with other Banks	2,120,312,530			2,120,312,530
Loans & Advances to Customers	26,637,550,368	7,232,850,520	45,443,667	33,915,844,554
Investments in Subsidiaries	-			-
Investments in Associates	91,463,480			91,463,480
Equity Instruments at Fair Value through P/L	101,661,152			101,661,152
Equity Instruments at Fair Value through OCI	39,561,000			
Debt Instruments at Amortized Cost	116,950,146			116,950,146
Other Financial Assets	108,441,423			108,441,423
	38,691,654,248	**7,232,850,520**	**45,443,667**	**45,930,387,434**

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

	Past due but not impaired				
	Less than 30 Days	**31-60 Days**	**61-90 Days**	**More than 90 days**	**Total**
Loans & receivables to banks					-
Loans & receivables to other customers	2,316,818,811	2,214,368,168	1,345,808,819	1,355,854,723	7,232,850,520

Group (Nu)

31st December 2019	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	4,760,807,022			4,760,807,022
Cash & Balances with Central Bank	4,714,907,127			4,714,907,127
Placement with other Banks	2,120,312,530			2,120,312,530
Loans & Advances to Customers	26,637,550,368	7,232,850,520	45,443,667	33,915,844,554
Investments in Subsidiaries	-			-
Investments in Associates	102,046,068			102,046,068
Equity Instruments at Fair Value through P/L	101,661,152			101,661,152
Equity Instruments at Fair Value through OCI	39,561,000			39,561,000
Debt Instruments at Amortized Cost	116,950,146			116,950,146
Other Financial Assets	108,441,423			108,441,423
	38,702,236,836	**7,232,850,520**	**45,443,667**	**45,980,531,023**

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

	Past due but not impaired				
	Less than 30 Days	**31-60 Days**	**61-90 Days**	**More than 90 days**	**Total**
Loans & receivables to banks	-	-	-	-	-
Loans & receivables to other customers	2,316,818,811	2,214,368,168	1,345,808,819	1,355,854,723	7,232,850,520

Bank (Nu)

31st December 2018	Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	3,736,421,617			3,736,421,617
Cash & Balances with Central Bank	4,095,243,197			4,095,243,197
Placement with other Banks	1,824,508,963			1,824,508,963
Loans & Advances to Customers	20,405,496,453	6,558,163,591	58,643,667	27,022,303,710
Investments in Subsidiaries	-			-
Investments in Associates	91,463,480			91,463,480
Equity Instruments at Fair Value through P/L	112,838,492			112,838,492
Equity Instruments at Fair Value through OCI	39,561,000			39,561,000
Debt Instruments at Amortized Cost	116,950,699			116,950,699
Other Financial Assets	182,137,220			182,137,220
	30,604,621,122	**32,153,023,486**	**58,643,667**	**37,221,428,379**

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

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

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31st December 2018	Group (Nu) Neither past due nor Individually impaired	Past due but not Individually impaired	Individually Impaired	Total
Cash & cash Equivalents	3,736,421,617			3,736,421,617
Cash & Balances with Central Bank	4,095,243,197			4,095,243,197
Placement with other Banks	1,824,508,963			1,824,508,963
Loans & Advances to Customers	20,405,496,453	6,558,163,591	58,643,667	27,022,303,710
Investments in Subsidiaries	-			-
Investments in Associates	93,394,481			93,394,481
Equity Instruments at Fair Value through P/L	112,838,492			112,838,492
Equity Instruments at Fair Value through OCI	39,561,000			39,561,000
Debt Instruments at Amortized Cost	116,950,699			116,950,699
Other Financial Assets	182,137,220			182,137,220
	30,606,552,123	**6,558,163,591**	**58,643,667**	**37,223,359,380**

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

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

38.1.2 **Analysis of Risk Concentration**

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

Country Risk - Geographical Analysis as at 31Dec 2019	Bank (Nu) Bhutan	Asia	Europe	Americas	Total
Cash and Cash Equivalents	4,169,129,827	457,559,726	18,601,565	115,515,905	4,760,807,022
Balances with Central Bank	4,714,907,127	-	-	-	4,714,907,127
Placement with other Banks	2,120,312,530	-	-	-	2,120,312,530
Loans & Advances to Customers	29,917,889,290	-	-	-	29,917,889,290
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates	91,463,480	-	-	-	91,463,480
Equity Instruments at Fair Value through P/L	101,661,152	-	-	-	
Equity Instruments at Fair Value through OCI	39,561,000	-	-	-	39,561,000
Debt Instruments at Amortized Cost	116,950,146	-	-	-	116,950,146
Other Financial Assets	108,441,423	-	-	-	108,441,423
	41,380,315,975	**457,559,726**	**18,601,565**	**115,515,905**	**41,870,332,018**

Regional Break Down of Loans	
Corporate Office	16,476,568,353
Thimphu	3,207,498,544
Phuntsholing	3,318,010,384
Samdrupjongkhar	700,581,116
Trashigang	470,996,281
Gelephu	1,457,517,873
Paro	1,310,383,426
Monggar	615,780,096
Wangdue	810,946,456
Bumthang	527,294,240
Gomtu	713,303,432
Tsirang	309,009,089
	29,917,889,290

Country Risk - Geographical Analysis as at 31Dec 2019	Group (Nu) Bhutan	Asia	Europe	Americas	Total
Cash and Cash Equivalents	4,169,129,827	457,559,726	18,601,565	115,515,905	4,760,807,022
Balances with Central Bank	4,714,907,127	-	-	-	4,714,907,127
Placement with other Banks	2,120,312,530	-	-	-	2,120,312,530
Loans & Advances to Customers	29,917,889,290	-	-	-	29,917,889,290
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates	102,046,068	-	-	-	102,046,068
Equity Instruments at Fair Value through P/L	101,661,152	-	-	-	
Equity Instruments at Fair Value through OCI	39,561,000	-	-	-	39,561,000
Debt Instruments at Amortized Cost	116,950,146	-	-	-	116,950,146
Other Financial Assets	108,441,423	-	-	-	108,441,423
	41,390,898,564	**457,559,726**	**18,601,565**	**115,515,905**	**41,880,914,607**

Regional Break Down of Loans	
Thimphu	3,207,498,544
Phuntsholing	3,318,010,384
Samdrupjongkhar	700,581,116
Trashigang	470,996,281
Gelephu	1,457,517,873
Paro	1,310,383,426
Monggar	615,780,096
Wangdue	810,946,456
Bumthang	527,294,240
Gomtu	713,303,432
Tsirang	309,009,089
	13,441,320,937

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Country Risk - Geographical Analysis	Bank (Nu)				
as at 31Dec 2018	**Bhutan**	**Asia**	**Europe**	**Americas**	**Total**
Cash and Cash Equivalents	2,597,916,469	718,925,121	88,103,187	331,476,841	3,736,421,617
Balances with Central Bank	4,095,243,197	-	-	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	-	-	1,824,508,963
Loans & Advances to Customers	27,022,303,710	-	-	-	27,022,303,710
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates	91,463,480	-	-	-	91,463,480
Financial Investments Available for Sale	112,838,492	-	-	-	112,838,492
Investment's in Bonds	116,950,699	-	-	-	116,950,699
Other Financial Assets	182,137,220	-	-	-	182,137,220
	36,043,362,230	**718,925,121**	**88,103,187**	**331,476,841**	**37,181,867,379**

Regional Break Down of Loans	
Thimphu	17,524,932,844
Phuntsholing	3,193,858,697
Samdrupjongkhar	582,040,236
Trashigang	409,071,281
Gelephu	1,177,942,206
Paro	1,324,592,625
Monggar	543,969,014
Wangdue	776,935,976
Bumthang	472,697,291
Gomtu	675,093,901
Tsirang	341,169,638
	27,022,303,710

Country Risk - Geographical Analysis	Group (Nu)				
as at 31Dec 2018	**Bhutan**	**Asia**	**Europe**	**Americas**	**Total**
Cash and Cash Equivalents	2,597,916,469	718,925,121	88,103,187	331,476,841	3,736,421,617
Balances with Central Bank	4,095,243,197	-	-	-	4,095,243,197
Placement with other Banks	1,824,508,963	-	-	-	1,824,508,963
Loans & Advances to Customers	27,022,303,710	-	-	-	27,022,303,710
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates	93,394,481	-	-	-	93,394,481
Financial Investments Available for Sale	112,838,492	-	-	-	112,838,492
Investment's in Bonds	116,950,699	-	-	-	116,950,699
Other Financial Assets	182,137,220	-	-	-	182,137,220
	36,045,293,231	**718,925,121**	**88,103,187**	**331,476,841**	**37,183,798,380**

Regional Break Down of Loans	
Thimphu	17,524,932,844
Phuntsholing	3,193,858,697
Samdrupjongkhar	582,040,236
Trashigang	409,071,281
Gelephu	1,177,942,206
Paro	1,324,592,625
Monggar	543,969,014
Wangdue	776,935,976
Bumthang	472,697,291
Gomtu	675,093,901
Tsirang	341,169,638
	27,022,303,710

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38.1 Credit Risk (Contd,)

38.1.3 Industry Analysis

31st December 2019	Product & Manufacturing	Services	Trade & Commerce	Housing Loans	Transport Loans	Personal Loans	Agriculture	Others	ODWC	Credit Card	Bills	Suspended	Total
Cash and Cash Equivalents		4,158,844,366						601,962,656					4,760,807,022
Balances with Central Bank								4,714,907,127					4,714,907,127
Placement with other Banks		2,120,312,530											2,120,312,530
Loans & Advances to Customers	2,822,473,003	5,750,744,090	1,328,177,555	9,809,920,982	1,772,233,792	867,033,766	171,847,203	893,556,453	6,446,279,444	371,237	44,808,342	10,443,422	29,917,889,290
Investments in Associates	91,463,480												91,463,480
Equity Instruments at Fair Value through P/L	99,161,152	2,500,000											101,661,152
Equity Instruments at Fair Value through OCI		39,561,000											39,561,000
Debt Instruments at Amortized Cost	91,463,480												91,463,480
Other Financial Assets								108,441,423					108,441,423

31st December 2019	Product & Manufacturing	Services	Trade & Commerce	Housing Loans	Transport Loans	Personal Loans	Agriculture	Others	ODWC	Credit Card	Bills	Suspended	Total
Cash and Cash Equivalents	-	4,158,844,366	-	-	-	-	-	601,962,656	-	-	-	-	4,760,807,022
Balances with Central Bank	-	-	-	-	-	-	-	4,714,907,127	-	-	-	-	4,714,907,127
Placement with other Banks	-	2,120,312,530	-	-	-	-	-	-	-	-	-	-	2,120,312,530
Loans & Advances to Customers	2,822,473,003	5,750,744,090	1,328,177,555	9,809,920,982	1,772,233,792	867,033,766	171,847,203	893,556,453	6,446,279,444	371,237	44,808,342	10,443,422	29,917,889,290
Investments in Associates	-	-	-	-	-	-	-	-	-	-	`	-	-
Equity Instruments at Fair Value through P/L	99,161,152	2,500,000	-	-	-	-	-	-	-	-	-	-	101,661,152
Equity Instruments at Fair Value through OCI	-	39,561,000	-	-	-	-	-	-	-	-	-	-	39,561,000
Debt Instruments at Amortized Cost	91,463,480	-	-	-	-	-	-	-	-	-	-	-	91,463,480
Other Financial Assets	-	-	-	-	-	-	-	108,441,423	-	-	-	-	108,441,423

31st December 2018	Product & Manufacturing	Services	Trade & Commerce	Housing Loans	Transport Loans	Personal Loans	Agriculture	Others	ODWC	Credit Card	Bills	Suspended	Total
Cash and Cash Equivalents	-	3,166,558,929	-	-	-	-	-	569,862,688	-	-	-	-	3,736,421,617
Balances with Central Bank	-	-	-	-	-	-	-	4,095,243,197	-	-	-	-	4,095,243,197
Placement with other Banks	-	1,824,508,963	-	-	-	-	-	-	-	-	-	-	1,824,508,963
Loans & Advances to Customers	3,031,112,885	4,603,665,978	1,364,965,866	8,148,370,330	1,768,401,255	925,045,420	117,612,056	796,600,645	6,145,415,646	356,941	62,113,022	58,643,667	27,022,303,710
Investments in Associates													

38.1 Credit Risk (Contd,)

38.1.4 Credit loss expense

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

2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	Collective	Collective	Individual/Collective	
Cash & cash Equivalents	845,153			845,153
Placement with other Banks	52,538			52,538
Loans & Advances to Customers	900,301,560	415,518,692	1,296,403,791	2,612,224,044
Debt instruments at amortised cost	2,822			2,822
Off balance sheet items		6,291,565		6,291,565
Financial guarantees		1,791,406		1,791,406
Total Impairment Loss	**901,202,073**	**423,601,663**	**1,296,403,791**	**2,621,207,528**

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

38.1 Credit Risk (Contd,)

38.1.5 Loans and advances to customers

	2019	**2018**	**2017**
OD & Working Capital	7,932,820,038	7,178,188,617	6,905,280,395
Housing Loans	9,953,981,579	8,231,819,540	7,174,895,420
Services	5,945,123,299	4,732,692,700	3,779,950,573
Product & Manufacturing	2,748,205,954	3,217,286,056	3,480,984,848
Transport Loans	1,802,458,867	1,785,008,935	1,494,825,949
Trade & Commerce	1,644,325,244	1,443,842,661	1,374,149,068
Personal Loans	881,003,484	943,901,176	1,025,682,751
Others	534,456,360	476,476,950	520,557,914
Credit Card	2,233,848	2,288,708	2,420,593
Agriculture	65,170,006	47,880,650	263,630
Suspended Loan	586,712,388	382,150,323	358,539,818
Bills	53,446,943	69,204,640	31,356,865
FairValue Adjusted Staff Loan	270,897,773	245,292,947	225,900,553
Loan against TDs	117,360,522	81,308,357	62,351,010
	32,538,196,305	**28,837,342,261**	**26,437,159,384**
Less: Allowance for ECL/impairment losses (Individu	(2,620,307,015)	(1,815,038,551)	(1,685,909,621)
	29,917,889,290	**27,022,303,710**	**24,751,249,763**

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38.1.5.1 Impairment allowance for loans and advances to customers

38.1.5.1.1 OD & Working Capital

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 12.3.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 12.3.3.6.

	2019				2018			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**
Current	4,094,955,197			**4,094,955,197**	3,803,876,251			**3,803,876,251**
1-30 Days Passed Due	2,188,349,868			**2,188,349,868**	1,775,088,906			**1,775,088,906**
31-60 Days Passed Due		812,043,280		**812,043,280**		945,845,368		**945,845,368**
61-90 Days Passed Due		214,857,149		**214,857,149**		279,841,419		**279,841,419**
90 Days & Above			622,614,545	**622,614,545**			373,536,674	**373,536,674**
Individually impaired				-	-	-	-	-
Total	**6,283,305,065**	**1,026,900,428**	**622,614,545**	**7,932,820,038**	**5,578,965,157**	**1,225,686,786**	**373,536,674**	**7,178,188,617**

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

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**5,614,423,248**	**1,003,210,148**	**287,646,998**	**6,905,280,395**
New assets originated	611,217,735	352,156,877	45,643,029	**1,009,017,641**
Assets derecognised or repaid	(472,686,263)	(86,061,453)	(177,361,704)	**(736,109,419)**
Transfers to Stage 1	(465,741,246)	380,639,835	85,101,411	-
Transfers to Stage 2	291,751,682	(424,258,622)	132,506,940	-
Transfers to Stage 3	-	-		-
At 31 December 2018	**5,578,965,157**	**1,225,686,786**	**373,536,674**	**7,178,188,617**
Gross carrying amount as at 1 January 2019	5,578,965,157	1,225,686,786	373,536,674	7,178,188,617
New assets originated	832,780,645	232,156,857	6,727,586	1,071,665,087
Assets derecognised or repaid	224,955,216	(383,735,029)	(158,253,853)	(317,033,666)
Transfers to Stage 1	(611,533,141)	422,704,535	188,828,606	-
Transfers to Stage 2	258,137,188	(469,912,721)	211,775,533	-
Transfers to Stage 3	-	-		-
At 31 December 2019	**6,283,305,065**	**1,026,900,428**	**622,614,545**	**7,932,820,038**

38.1.5.1.2 Housing

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 12.3.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 12.3.3.6.

	2019				2018			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total
Current	8,449,449,655			**8,449,449,655**	6,571,960,210			**6,571,960,210**
1-30 Days Passed Due	483,890,462			**483,890,462**	708,052,277			**708,052,277**
31-60 Days Passed Due		360,977,620		**360,977,620**		491,148,470		**491,148,470**
61-90 Days Passed Due		252,049,876		**252,049,876**		350,454,230		**350,454,230**
90 Days & Above			407,613,967	**407,613,967**			110,204,352	**110,204,352**
Individually impaired				-	-	-	-	-
Total	**8,933,340,117**	**613,027,495**	**407,613,967**	**9,953,981,579**	**7,280,012,488**	**841,602,700**	**110,204,352**	**8,231,819,540**

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

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**6,521,135,136**	**539,315,975**	**114,444,310**	**7,174,895,420**
New assets originated	2,341,354,473	131,387,847	23,405,942	**2,496,148,263**
Assets derecognised or repaid	(1,282,028,981)	(78,567,972)	(78,627,190)	**(1,439,224,143)**
Transfers to Stage 1	(491,730,793)	467,280,506	24,450,287	-
Transfers to Stage 2	191,282,653	(217,813,656)	26,531,004	-
Transfers to Stage 3	-			-
At 31 December 2018	**7,280,012,488**	**841,602,700**	**110,204,352**	**8,231,819,540**
Gross carrying amount as at 1 January 2019	7,280,012,487.66	841,602,700.12	110,204,352.00	8,231,819,539.78
New assets originated	2,993,744,482.18	81,956,781.23	31,798,394.84	3,107,499,658.25
Assets derecognised or repaid	(1,188,297,029.44)	(118,555,844.35)	(78,484,745.05)	(1,385,337,618.84)
Transfers to Stage 1	(321,051,143.84)	267,794,920.29	53,256,223.55	0.00
Transfers to Stage 2	168,931,320.37	(459,771,061.91)	290,839,741.54	0.00
Transfers to Stage 3	0.00			0.00
At 31 December 2019	**8,933,340,116.93**	**613,027,495.38**	**407,613,966.88**	**9,953,981,579.19**

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38.1.5.1.3 Production and Manufacturing

Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual &Collective	Total
Current	1,901,169,678			**1,901,169,678**	2,386,726,801			**2,386,726,801**
1-30 Days Passed Due	67,972			**67,972**				-
31-60 Days Passed Due		217,253,882		**217,253,882**		298,011,260		**298,011,260**
61-90 Days Passed Due		439,417,205		**439,417,205**		168,251,779		**168,251,779**
90 Days & Above			190,297,218	**190,297,218**			364,296,215	**364,296,215**
Individually impaired				-	-	-	-	-
Total	**1,901,237,650**	**656,671,087**	**190,297,218**					

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

In NU. million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	**1,126,783,948**	**336,531,653**	**31,510,348**	**1,494,825,949**
New assets originated	491,676,718	229,526,876	18,872,513	**740,076,108**
Assets derecognised or repaid	(287,742,607)	(11,296,026)	(150,854,489)	**(449,893,122)**
Transfers to Stage 1	(208,870,500)	135,125,558	73,744,942	-
Transfers to Stage 2	69,380,560	(143,874,338)	74,493,779	-
Transfers to Stage 3	-			-
At 31 December 2018	**1,191,228,119**	**546,013,723**	**47,767,093**	**1,785,008,935**
Gross carrying amount as at 1 January 2019	1,191,228,118.63	546,013,723.25	47,767,093.00	**1,785,008,934.88**
New assets originated	443,058,331.39	100,097,588.22	11,006,039.30	**554,161,958.91**
Assets derecognised or repaid	(295,676,779.01)	(171,574,693.45)	(69,460,553.97)	**(536,712,026.43)**
Transfers to Stage 1	(257,156,354.82)	225,674,405.50	31,481,949.32	**0.00**
Transfers to Stage 2	167,121,065.42	(269,079,966.64)	101,958,901.22	**0.00**
Transfers to Stage 3				**0.00**
At 31 December 2019	**1,248,574,381.61**	**431,131,056.88**	**122,753,428.87**	**1,802,458,867.36**

38.1.5.1.5 Trade & Commerce

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 12.3.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 12.3.3.6.

	2019				**2018**			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**
Current	1,098,383,336			**1,098,383,336**	977,547,312			**977,547,312**
1-30 Days Passed Due	502,672			**502,672**	786,920			**786,920**
31-60 Days Passed Due		131,628,936		**131,628,936**		177,764,965		**177,764,965**
61-90 Days Passed Due		119,530,475		**119,530,475**		160,265,233		**160,265,233**
90 Days & Above			294,279,825	**294,279,825**			127,478,231	**127,478,231**
Individually impaired				-	-	-	-	-
Total	**1,098,886,008**	**251,159,411**	**294,279,825**	**1,644,325,244**	**978,334,231**	**338,030,199**	**127,478,231**	**1,443,842,661**

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

	Stage 1 Individual	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	**899,052,493**	**309,947,772**	**165,148,803**	**1,374,149,068**
New assets originated	553,551,074	168,319,328	26,008,790	747,879,192
Assets derecognised or repaid	(398,883,854)	(66,833,848)	(212,467,897)	(678,185,599)
Transfers to Stage 1	(140,390,439)	96,202,960	44,187,479	-
Transfers to Stage 2	65,004,957	(169,606,013)	104,601,056	-
Transfers to Stage 3				-
At 31 December 2018	**978,334,231**	**338,030,199**	**127,478,231**	**1,443,842,661**
Gross carrying amount as at 1 January 2019	978,334,231	338,030,199	127,478,231	**1,443,842,661**
New assets originated	553,551,074	168,319,328	26,008,790	**747,879,192**
Assets derecognised or repaid	(292,036,126)	(204,659,499)	(50,700,983)	**(547,396,609)**
Transfers to Stage 1	(220,696,888)	113,866,729	106,830,159	-
Transfers to Stage 2	79,733,717	(164,397,345)	84,663,628	-
Transfers to Stage 3				-
At 31 December 2019	**1,098,886,008**	**251,159,411**	**294,279,825**	**1,644,325,244**

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38.1.5.1.6 Personal

The table below shows the credit quality and the maximum exposure to credit risk based on the passed due status of the borrowers The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.1.19.1 and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5

In NU. million	**2019**				**2018**			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**
Current	783,929,633			**783,929,633**	837,022,970			**837,022,970**
1-30 Days Passed Due	2,934,049			**2,934,049**	6,851,034			**6,851,034**
31-60 Days Passed Due		37,194,047		**37,194,047**		37,757,987		**37,757,987**
61-90 Days Passed Due		21,441,849		**21,441,849**		17,059,701		**17,059,701**
90 Days & Above			35,503,906	**35,503,906**			45,209,484	**45,209,484**
Individually impaired	-	-	-	-	-	-	-	-
Total	**786,863,682**	**58,635,896**	**35,503,906**	**881,003,484**	**843,874,004**	**54,817,688**	**45,209,484**	**943,901,176**

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

In NU. million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	**896,560,323**	**73,797,183**	**55,325,245**	**1,025,682,751**
New assets originated	380,638,485	17,143,445	495,687	**398,277,617**
Assets derecognised or repaid	(432,104,321)	(27,087,835)	(20,867,036)	**(480,059,192)**
Transfers to Stage 1	(36,302,317)	30,607,511	5,694,806	-
Transfers to Stage 2	35,081,833	(39,642,615)	4,560,782	-
Transfers to Stage 3				-
At 31 December 2018	**843,874,004**	**54,817,688**	**45,209,484**	**943,901,176**
Gross carrying amount as at 1 January 2019	843,874,004	54,817,688	45,209,484	**943,901,176**
New assets originated	354,930,704.55	22,373,387.81	2,764,170.55	**380,068,263**
Assets derecognised or repaid	(409,256,005.86)	(17,778,328.73)	(15,931,620.88)	**(442,965,955)**
Transfers to Stage 1	(2,685,020.12)	0.00	2,685,020.12	-
Transfers to Stage 2	0.00	(776,851.71)	776,851.71	-
Transfers to Stage 3				-
At 31 December 2019	**786,863,682**	**58,635,896**	**35,503,906**	**881,003,484**

38.1.5.1.7 Credit Card

The table below shows the credit quality and the maximum exposure to credit risk based on the passed due status of the borrowers The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 38.19.1 and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 38.1.9.5.

In NU. million	**2019**				**2018**			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual &Collective**	**Total**
Current	29,624			**29,624**	75,886			**75,886**
1-30 Days Passed Due	223,549			**223,549**	307,945			**307,945**
31-60 Days Passed Due		288,584		**288,584**		96,634		**96,634**
61-90 Days Passed Due		473,298		**473,298**		34,058		**34,058**
90 Days & Above			1,218,794	**1,218,794**			1,774,185	**1,774,185**
Individually impaired	-	-	-	-	-	-	-	-
Total	**253,172**	**761,882**	**1,218,794**	**2,233,848**	**383,830**	**130,692**	**1,774,185**	**2,288,707**

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

In NU. million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	**1,601,260**	**82,398**	**736,934**	**2,420,593**
New assets originated	5,512	35,176	94,332	**135,019**
Assets derecognised or repaid	(485,947)	35,019	184,024	**(266,905)**
Transfers to Stage 1	(811,004)	58,100	752,904	-
Transfers to Stage 2	74,009	(80,001)	5,991	-
Transfers to Stage 3				-
At 31 December 2018	**383,830**	**130,692**	**1,774,185**	**2,288,707**
Gross carrying amount as at 1 January 2019	383,830	130,692	1,774,185	**2,288,707**
New assets originated	34,287.26	36,863.23	123,686.96	**194,837**
Assets derecognised or repaid	(246,296.03)	714,848.84	(718,249.04)	**(249,696)**
Transfers to Stage 1	(8,079.65)	4,083.97	3,995.68	-
Transfers to Stage 2	89,430.27	(124,605.92)	35,175.64	-
Transfers to Stage 3				-
At 31 December 2019	**253,172**	**761,882**	**1,218,794**	**2,233,848**

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38.1 Credit Risk (Contd,)

38.1.5 Loans and advances to customers

38.1.5.2 Impairment allowance as at 31 December 2019

An analysis of the allowance for impairment losses **under BFRS 9/IFRS 9** for loans and advances, by class, for the year 31 December 2019 is, as follows:

In NU. million	ODWC	Housing	Services	Production and manufacturing	Transport	Trade and commerce	Personal	Others	Credit card	Agriculture	Total
At 1 January 2019	**1,004,214,001**	**83,449,210**	**105,542,618**	**138,781,712**	**16,607,680**	**78,876,796**	**18,855,757**	**350,986,446**	**1,931,767**	**800,558**	**1,800,046,544**
Charge/ Reversal for the year - Collective impairment	477,379,796	60,611,387	(7,953,664)	(28,520,927)	13,617,396	40,684,691	(4,886,015)	264,208,976	(81,170)	1,153,717	**816,214,187**
Charge/ Reversal for the year - Individual Impairment	(5,496,625)										(5,496,625)
At 31 December 2019	**1,476,097,171**	**144,060,597**	**97,588,954**	**110,260,785**	**30,225,076**	**119,561,487**	**13,969,741**	**615,195,422**	**1,850,597**	**1,954,275**	**2,616,260,731**
Made up of:											
Individual impairment	10,443,422	-	-	-	-	-	-	-	-	-	**10,443,422**
Collective impairment	1,476,097,171	144,060,597	97,588,954	110,260,785	30,225,076	119,561,487	13,969,741	615,195,422	1,850,597	1,954,275	**2,610,764,106**
Total Impairment	**1,486,540,594**	**144,060,597**	**97,588,954**	**110,260,785**	**30,225,076**	**119,561,487**	**13,969,741**	**615,195,422**	**1,850,597**	**1,954,275**	**2,621,207,528**
Gross amount of loans individually determined to be impaired	2,811,099,663	888,291,723	2,246,228,528	1,246,437,148	65,820,712	303,136,120	6,029,376	602,994,133	188,846	0	**8,170,226,249**

In NU. million	ODWC	Housing	Services	Production and manufacturing	Transport	Trade and commerce	Personal	Others	Credit card	Agriculture	Total
At 1 January 2018	**910,102,844**	**109,109,350**	**81,339,354**	**112,757,079**	**13,740,274**	**80,777,578**	**23,823,639**	**6,849,356**	**1,362,831**	**0**	**1,339,862,306**
Charge/ Reversal for the year - Collective impairment	131,388,830	(25,660,140)	24,203,264	26,024,633	2,867,407	(1,900,783)	(4,967,883)	344,137,091	568,936	800,558	**497,461,912**
Charge/ Reversal for the year - Individual Impairment	(37,277,674)										
At 31 December 2018	**1,004,214,001**	**83,449,210**	**105,542,618**	**138,781,712**	**16,607,680**	**78,876,796**	**18,855,757**	**350,986,446**	**1,931,767**	**800,558**	**1,837,324,218**
Made up of:											
Individual impairment	15,940,048	0		0	0	0	0	0	0	0	**15,940,048**
Collective impairment:	1,004,214,001	83,449,210	105,542,618	138,781,712	16,607,680	78,876,796	18,855,757	6,821,208	1,931,767	800,558	**1,455,881,306**
Total Impairment	1,020,154,048	83,449,210	105,542,618	138,781,712	16,607,680	78,876,796	18,855,757	6,821,208	1,931,767	800,558	**1,471,821,354**
Gross amount of loans individually determined to be impaired	2,507,972,971	658,098,240	2,016,960,831	1,242,003,256	74,481,937	272,965,304	4,635,633	520,851,202	3,802	0	**7,297,973,177**

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38.1.7 Impairment losses on financial investments subject to impairment assessment continued

38.1.7.1 Debt instruments measured at amortised cost

Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Performing								
High grade	116,950,146	-	-	**116,950,146**	116,950,699	-	-	**116,950,699**
Standard grade	-	-	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-	-	-
Non- performing	-	-	-	-	-	-	-	-
Individually impaired	-	-	-	-	-			

38.1 Credit Risk (Contd,)

38.1.8 Contingent liabilities, commitments

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

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. The nominal values of such commitments are listed below:

	2019	2018
Financial guarantees	2,400,582,252	1,976,298,923
Letters of credit	285,992,125.50	236,484,852.33
Other undrawn commitments	4,366,805,798	3,503,731,071
Total	**7,053,380,175**	**5,716,514,846**

38.1.8.1 Impairment losses on guarantees and other commitments

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

38.1.8.1.1 Financial guarantees

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

Outstanding exposure

	2019				2018
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	Total	Total
Current	-	-	-	-	-
1-30 Days Passed Due	-	-	-	-	-
31-60 Days Passed Due	-	2,400,582,252	-	**2,400,582,252**	**1,976,298,923**
61-90 Days Passed Due	-	-	-	-	-
90 Days & Above	-	-	-	-	-
Total	-	**2,400,582,252**	-	**2,400,582,252**	**1,976,298,923**

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

	2019				2018
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
Outstanding exposure as at 1 January 2019	-	1,976,298,923	-	**1,976,298,923**	**2,773,791,244**
New exposures	-	5,945,501,854	-	5,945,501,854	3,798,030,610
Exposure derecognised or matured/lapsed (excluc	-	(5,521,218,525)	-	(5,521,218,525)	(4,595,522,931)
write offs)	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
At 31 December 2019	-	**2,400,582,252**	-	**2,400,582,252**	**1,976,298,923**

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

	Stage 1 Individual	Stage 2 Individual	2018

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38.1 Credit Risk (Contd,)

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

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

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

38.1.9.1 The Bank's internal rating process

Treasury, trading and interbank relationships

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

Corporate and small business lending

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

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any other objectinantseepor8 (l)2 pre information on tealdits b avaialditiee of the client'riiet rain co49 (v)1T41 (8.i)7(nf)-9 (o)4(f)-9 (t)7g

Consumer lending and retail mortgages

<u>The Bank's Delinquency status</u>

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

38.1.9.2 Exposure at default

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

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

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

38.1.9.3 Loss given default

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

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

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

38.1.9.4 Significant increase in credit risk

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

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

38.1.9.5 Grouping financial assets measured on a collective basis

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

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

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

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

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

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

An overview of the approach to estimating ECLs is set out in Note 2.1 Summary of significant accounting policies and in Note 3.1 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (RMA Published data, IMF & World Bank.) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios for each of the four geographical segments, as at 31 December 2018 and 2019.

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

31 December 2019

Key drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent years
		%	%	%	%	%	%	%
GDP growth %	Base Case	30	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Best Case	30	3.00%	3.11%	3.20%	3.30%	3.40%	3.44%
	Worse Case	40	3.00%	2.85%	2.81%	2.78%	2.74%	2.66%
Inflation Rates %	Base Case	30	2.72%	2.72%	2.72%	2.72%	2.72%	2.72%
	Best Case	30	2.72%	2.56%	2.52%	2.48%	2.44%	2.36%
	Worse Case	40	2.72%	2.84%	2.94%	3.05%	3.16%	3.21%
Interest Rate %	Base Case	30	10.47%	10.47%	10.47%	10.47%	10.47%	10.47%
	Best Case	30	10.47%	10.22%	10.09%	9.87%	9.58%	9.30%
	Worse Case	40	10.47%	11.13%	11.49%	11.76%	11.94%	11.99%
Exchange rates (USD $ to Ngultrum BTN)	Base Case	30	70.42	72.44	74.52	76.65	78.85	81.11
	Best Case	30	70.42	70.89	71.37	71.84	72.33	72.81
	Worse Case	40	70.42	74.87	79.61	84.65	90.00	95.69
Unemployment rates %	Base Case	30	3.41%	3.41%	3.41%	3.41%	3.41%	3.41%
	Best Case	30	3.41%	3.39%	3.38%	3.36%	3.34%	3.32%
	Worse Case	40	3.41%	3.46%	3.49%	3.51%	3.52%	3.52%

31 December 2018

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

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38.1 Credit Risk (Contd,)

38.1.11 Credit risk exposure analysis

December 31 2019	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3 Individual & Collective	Total
Per portfolio						
Cash & cash Equivalents	-	845,153	-	-	-	845,153
Placement with other Banks	-	52,538	-	-	-	52,538
Debt Instruments at Amortized Cost	-	2,822	-	-	-	2,822
Loans & Advances to Customers	-	900,301,560	-	415,518,692	1,296,385,520	2,612,205,773
Financial guarantees	-	-	-	6,291,565	-	6,291,565
Letters of credit	-	-	-	1,791,406	-	1,791,406
Per industry segment(*)						
OD & Working Capital	-	771,101,009	-	288,184,112	437,698,894	1,496,984,015
Housing Loans	-	22,085,589	-	33,823,739	88,151,269	144,060,597
Services	-	58,032,642	-	20,371,011	19,185,119	97,588,772
Product & Manufacturing	-	20,099,096	-	37,594,688	52,567,001	110,260,785
Transport Loans	-	4,069,001	-	6,557,298	19,598,777	30,225,076
Trade & Commerce	-	12,085,998	-	9,599,821	97,857,581	119,543,400
Personal Loans	-	1,423,020	-	1,131,540	11,415,181	13,969,741
Others	-	4,740,956	-	390,161	-	5,131,117
Credit Card	-	1,152,023	-	117,068	581,506	1,850,597
Agriculture	-	387,062	-	759,796	807,417	1,954,275
Suspended Loan	-	-	-	-	576,268,966	576,268,966
Bills	-	5,125,164	-	816,205	2,697,232	8,638,601
Devolved LC	-	-	-	16,173,253	-	16,173,253

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

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December 31 2018	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3 Individual & Collective	Total
Per portfolio						
Cash & cash Equivalents	-	909,530	-	-	-	909,530
Placement with other Banks	-	36,242	-	-	-	36,242
Debt Instruments at Amortized Cost	-	2,268	-	-	-	2,268
Loans & Advances to Customers	-	709,250,609	-	336,969,815	763,347,299	1,809,567,723
Financial guarantees	-	-	-	4,082,239	-	4,082,239
Letters of credit	-	-	-	1,388,785	-	1,388,785
Per industry segment(*)						
OD & Working Capital		542,953,238	-	215,074,158	278,066,700	1,036,094,096
Housing Loans	-	27,491,559	-	29,193,217	26,764,434	83,449,210
Services	-	63,910,198	-	21,437,767	20,194,653	105,542,618
Product & Manufacturing	-	39,890,670	-	36,909,131	61,981,911	138,781,712
Transport Loans	-	4,725,858	-	6,584,850	5,296,973	16,607,680
Trade & Commerce	-	14,399,779	-	16,136,322	48,340,695	78,876,796
Personal Loans	-	2,359,571	-	1,928,083	14,568,103	18,855,757
Others	-	6,385,975	-	435,233	-	6,821,208
Credit Card	-	1,339,503	-	25,042	567,222	1,931,767
Agriculture	-	761,054	-	39,504	-	800,558
Suspended Loan	-	-	-	-	323,506,656	323,506,656
Bills	-	5,032,343	-	2,059,275	-	7,091,618
Devolved LC	-	-	-	7,147,899	-	7,147,899

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

31st December 2019	up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
Cash & cash Equivalents	4,760,807,022	-	-	-	-	**4,760,807,022**
Cash & Balances with Central Bank	4,714,907,127	-	-	-	-	**4,714,907,127**
Placement with other Banks	-	2,120,365,068	-	-	-	**2,120,365,068**
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	3,194,009,830	8,564,066,678	7,158,723,082	5,786,859,640	27,082,512,240	**51,786,171,471**
Investments in Subsidiaries	-	-	-	-	-	-
Investments in Associates	-	-	-	-	91,463,480	**91,463,480**
Equity Instruments at Fair Value through P/L	-	-	-	-	101,661,152	**101,661,152**
Equity Instruments at Fair Value through OCI	-	-	-	-	39,561,000	**39,561,000**
Debt Instruments at Amortized Cost	-	10,379,880	20,759,760	136,091,760	-	**167,231,400**
Other Financial Assets	-	-	-	-	108,441,423	**108,441,423**
Total undiscounted Assets	**9,475,714,149**	**2,130,744,948**	**20,759,760**	**136,091,760**	**341,127,055**	**12,104,437,672**
Due to Banks	5,593,390,764	741,088,374	1,490,884,624	895,928,367	5,933,508,691	**14,654,800,819**
Due to Customers	12,900,164,383	1,864,754,282	3,064,311,220	498,326,830	2,008,360,917	**20,335,917,633**
Debts Issued & Other Borrowed Funds	-	30,000,000	60,000,000	560,000,000	-	**650,000,000**
Unclaimed Balances	15,581,277	-	-	-	-	**15,581,277**
Other Liabilities	73,479,351	-	-	-	-	**73,479,351**
Total undiscounted Liabilities	**18,582,615,775**	**2,635,842,656**	**4,615,195,844**	**1,954,255,198**	**7,941,869,608**	**35,729,779,080**
Net Undiscounted Financial Assets/(Liabilities)	**(9,106,901,626)**	**(505,097,707)**	**(4,594,436,084)**	**(1,818,163,438)**	**(7,600,742,552)**	**(23,625,341,408)**

31st December 2019	up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
Cash & cash Equivalents	4,760,807,022	-	-	-	-	**4,760,807,022**
Cash & Balances with Central Bank	4,714,907,127	-	-	-	-	**4,714,907,127**
Placement with other Banks	-	2,120,365,068	-	-	-	**2,120,365,068**
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	3,194,009,830	8,564,066,678	7,158,723,082	5,786,859,640	27,082,512,240	**51,786,171,471**
Investments in Associates	-	-	-	-	102,046,068	**102,046,068**
Equity Instruments at Fair Value through P/L	-	-	-	-	101,661,152	**101,661,152**
Equity Instruments at Fair Value through OCI	-	-	-	-	39,561,000	**39,561,000**
Debt Instruments at Amortized Cost	-	10,379,880	20,759,760	136,091,760	-	**167,231,400**
Other Financial Assets	-	-	-	-	108,441,423	**108,441,423**
Total undiscounted Assets	**9,475,714,149**	**2,130,744,948**	**20,759,760**	**136,091,760**	**351,709,644**	**12,115,020,261**
Due to Banks	5,593,390,764	741,088,374	1,490,884,624	895,928,367	5,933,508,691	**14,654,800,819**
Due to Customers	12,900,164,383	1,864,754,282	3,064,311,220	498,326,830	2,008,360,917	**20,335,917,633**
Debts Issued & Other Borrowed Funds	-	30,000,000	60,000,000	560,000,000	-	**650,000,000**
Unclaimed Balances	15,581,277	-	-	-	-	**15,581,277**
Other Liabilities	73,479,351	-	-	-	-	**73,479,351**
Total undiscounted Liabilities	**18,582,615,775**	**2,635,842,656**	**4,615,195,844**	**1,954,255,198**	**7,941,869,608**	**35,729,779,080**
Net Undiscounted Financial Assets/(Liabilities)	**(9,106,901,626)**	**(505,097,707)**	**(4,594,436,084)**	**(1,818,163,438)**	**(7,590,159,964)**	**(23,614,758,819)**

31st December 2018	up to 3 months	3 to 12 months	1 to 3 years	3-5 Years	Over 5 years	Total
Cash & cash Equivalents	3,736,421,617	-	-	-	-	**3,736,421,617**
Cash & Balances with Central Bank	4,095,243,197	-	-	-	-	**4,095,243,197**
Placement with other Banks	-	1,824,508,963	-	-	-	**1,824,508,963**
Due From Banks	-	-	-	-	-	-
Loans & Advances to Customers	2,721,483,452	7,182,575,963	5,417,582,505	2,827,673,068	15,112,229,803	**33,261,544,790**
Investments in Subsidiaries	-	-	-	-	-	-
Investments in Associates	-	-	-	-	91,463,480	**91,463,480**
Equity Instruments at Fair Value through P/L	-	-	-	-	112,838,492	**112,838,492**
y						

38.2.2 Contractual Maturities of Commitments and Contingencies

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

	Bank (Nu)						
As at 31 Dec 2019	**On Demand**	**Less than 3 Months**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**
Contingencies							
Financial guarantees	-	840,966,910	1,546,579,867	211,197,785	2,872,035	-	2,601,616,596
LCs	45,545,269	82,080,881	28,795,983	-	-	-	156,422,133
Total Contingencies	**45,545,269**	**923,047,791**	**1,575,375,849**	**211,197,785**	**2,872,035**	**-**	**2,758,038,729**
Commitments							
Undrawn credit card limits	61,126,406	-	-	-	-	-	61,126,406
Undrawn OD	2,178,330,298	-	-	-	-	-	2,178,330,298
Undisbursed other loans & advances	2,127,349,094	-	-	-	-	-	2,127,349,094
Total Commitments	**4,366,805,798**	**-**	**-**	**-**	**-**	**-**	**4,366,805,798**

	Group (Nu)						
As at 31 Dec 2019	**On Demand**	**Less than 3 Months**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**
Contingencies							
Financial guarantees	-	840,966,910	1,546,579,867	211,197,785	2,872,035	-	2,601,616,596
LCs	45,545,269	82,080,881	28,795,983	-	-	-	156,422,133
Total Contingencies	**45,545,269**	**923,047,791**	**1,575,375,849**	**211,197,785**	**2,872,035**	**-**	**2,758,038,729**
Commitments							
Undrawn credit card limits	61,126,406	-	-	-	-	-	61,126,406
Undrawn OD	2,178,330,298	-	-	-	-	-	2,178,330,298
Undisbursed other loans & advances	2,127,349,094	-	-	-	-	-	2,127,349,094
Total Commitments	**4,366,805,798**	**-**	**-**	**-**	**-**	**-**	**4,366,805,798**

	Bank (Nu)						
As at 31 Dec 2018	**On Demand**	**Less than 3 Months**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**
Contingencies							
Financial guarantees	-	704,857,936	1,070,080,642	200,848,151	349,193	-	1,976,135,923
LCs	14,699,429	93,706,061	128,079,363	-	-	-	236,484,852
Total Contingencies	**14,699,429**	**798,563,997**	**1,198,160,005**	**200,848,151**	**349,193**	**-**	**2,212,620,775**
Commitments							
Undrawn credit card limits	53,480,136	-	-	-	-	-	53,480,136
Undrawn OD	2,066,613,724	-	-	-	-	-	2,066,613,724
Undisbursed other loans & advances	1,383,637,211	-	-	-	-	-	1,383,637,211
Total Commitments	**3,503,731,071**	**-**	**-**	**-**	**-**	**-**	**3,503,731,071**

	Group (Nu)						
As at 31 Dec 2018	**On Demand**	**Less than 3 Months**	**3-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**
Contingencies							
Financial guarantees	-	704,857,936	1,070,080,642	200,848,151	349,193	-	1,976,135,923
LCs	14,699,429	93,706,061	128,079,363	-	-	-	236,484,852
Total Contingencies	**14,699,429**	**798,563,997**	**1,198,160,005**	**200,848,151**	**349,193**	**-**	**2,212,620,775**
Commitments							
Undrawn credit card limits	53,480,136	-	-	-	-	-	53,480,136
Undrawn OD	2,066,613,724	-	-	-	-	-	2,066,613,724
Undisbursed other loans & advances	1,383,637,211	-	-	-	-	-	1,383,637,211
Total Commitments	**3,503,731,071**	**-**	**-**	**-**	**-**	**-**	**3,503,731,071**

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38 Risk Management (Contd,)

38.2.3 Maturity profile of cashflow

Maturity Gap Analysis

	Bank (Nu)		Group (Nu)	
As at 31 Dec 2019	**Within 12 Months**	**After 12 Months**	**Within 12 Months**	**After 12 Months**
Cash & cash Equivalents	4,760,807,022	-	4,760,807,022	-
Cash & Balances with Central Bank	4,714,907,127	-	4,714,907,127	-
Placement with other Banks	2,120,365,068	-	2,120,365,068	-
Due From Banks	-	-	-	-
Loans & Advances to Customers	11,758,076,508	40,028,094,962	11,758,076,508	40,028,094,962
Investments in Subsidiaries	-	-	-	-
Investments in Associates	-	91,463,480	-	102,046,068
Equity Instruments at Fair Value through P/L	-	101,661,152	-	101,661,152
Equity Instruments at Fair Value through OCI	-	39,561,000	-	39,561,000
Debt Instruments at Amortized Cost	10,379,880	156,851,520	10,379,880	156,851,520
Other Financial Assets	-	108,441,423	-	108,441,423
Other Assets	-	187,506,582	-	187,506,582
Property & Equipment	-	1,066,653,272	-	1,066,653,272
Intangible Assets	-	106,859,813	-	106,859,813
Deferred tax assets	-	-	-	-
Total Assets	**11,606,459,097**	**1,858,998,241**	**11,606,459,097**	**1,869,580,830**
Liabilities				
Due to Banks	6,334,479,137	8,320,321,682	6,334,479,137	8,320,321,682
Due to Customers	14,764,918,665	5,570,998,968	14,764,918,665	5,570,998,968
Debts Issued & Other Borrowed Funds	30,000,000	620,000,000	30,000,000	620,000,000
Current Tax Liabilities	30,520,249		30,520,249	
Retirement benefit plans	-	-	-	
Proposed Dividend	-	-	-	-
Provisions	21,845,823	-	21,845,823	-
Deferred Income	21,829,189	-	21,829,189	-
Unclaimed Balances	15,581,277	-	15,581,277	-
Other Liabilities	73,479,351	-	73,479,351	-
Total Liabilities	**21,292,653,692**	**14,511,320,649**	**21,292,653,692**	**14,511,320,649**
Maturity Gap	**(9,686,194,595)**	**(12,652,322,408)**	**(9,686,194,595)**	**(12,641,739,820)**
Cumulative Gap	**(9,686,194,595)**	**(22,338,517,003)**	**(9,686,194,595)**	**(22,327,934,414)**

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

38 Risk Management (Contd,)

38.2.4 Currency Risk

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

		Effect on profit before tax/Equity	
Currency	**Change in currency rate (%)**	**2019**	**2018**
EUR	(+/-) 1%	127,095	492,969
USD	(+/-) 1%	(8,757,562)	(5,835,676)
GBP	(+/-) 1%	8,833	223,513
AUD	(+/-) 1%	41,301	12,386
JPY	(+/-) 1%	34,344	204,102
SGD	(+/-) 1%	18,734	10,442
HKD	(+/-) 1%	3,020	813
CHF	(+/-) 1%	4,455	142
NOK	(+/-) 1%	2,285	-
SEK	(+/-) 1%	13,043	-
DKK	(+/-) 1%	-	-
CAD	(+/-) 1%	272	6,267
		(8,504,179)	**(4,885,042)**

38.3 Operational Risk

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

38.4 Reputational Risks are not covered in Operational Risk.

Operational Risks of the Bank are mitigated and managed through a Board approved Operational Risk Management Policy control framework which consists of monitoring and responding to potential risks such as segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, Business Continuity Planning etc. Operational Risk Management Unit reports to Group Chief Risk Officer and the Board Risk Management Committee maintains a high level overall supervision of managing Operational Risks of the Bank

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Note 39: RMA Disclosures

Qualitative Disclosures

Capital Adequacy Ratio

The capital of the bank consists of Tier 1, which forms a core capital and Tier 2, which is a supplementary capital. Tier 1 capital, which constitutes paid up capital; general reserves; share premium; and retained earnings increased by about 0.25% over previous year (PY increased by 7%). The increase is mainly due to transfer of regulatory requirements to general reserves and residual profit after appropriation.

The Tier 2 capital consists of Exchange Fluctuation Reserve, Research and Development Fund, General Provisions and Subordinated Debts. Despite increase in the general provision by 9.26% and regulatory transfer to foreign exchange reserves and transfer to bond redemption reserves, Tier 2 capital decreased by 1.93% (PY increased by marginal increase of 1.88%) due to adjustment of reduction of subordinated term debt as per the regulation.

The capital adequacy ratio as on the reporting date stands at 19.38% as compared to 21.72%, in the previous year.

Non-performing Loans & Provisioning

Loans and advances of the Bank has been classified under non-performing as per the definition provided in section 4.4 of the RMA Prudential Regulation 2017. In the current year, the gross NPL stands at 8.54% and net NPL stands at 1.24% as against 5.62% and 0.65% in the previous year. The gross non-performing loan has increased by 72% as against the increase of 2.46% in the previous period.

General provisions of 1% and 1.5% are allocated against exposures classified under Standard and Watch respectively. Specific provisions of 20%, 50% and 100% are provided for term and Overdraft/working capital classified under sub-standard, doubtful and Loss/litigation/suspended respectively. The general provision provided by the Bank has increased by 9.26% (PY increased by 10%) and specific provision has increased by about 65% (PY decreased by 5%) over the previous year.

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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 GAAP presented in '000' Ngultrum unless specified.

Item 1: Tier 1 Capital and its sub-components

Sl.No		Current Period	COPPY
1	**Total Tier 1 Capital**		
a	Paid-Up Capital	3,291,936	3,291,936
b	General Reserves	2,728,867	2,544,818
c	Share Premium Account	-	-
d	Retained Earnings	205,665	205,665
Less:-			-
e	Losses for the Current Year	-	-
f	Buyback of FI's own shares	-	-
g	Holdings of Tier 1 instruments issued by FIs	-	-

Item 2: Tier 2 Capital and its sub-components

Sl.No		Current Period	COPPY
1	**Tier II Capital**		
a	Capital Reserve	-	-
b	Fixed Assets Revaluation Reserve	-	-
c	Exchange Fluctuation Reserve	170,284	151,217
d	Investment Fluctuation Reserve	-	-
e	Research and Development Fund	479,000	479,000
f	General Provision	314,842	288,146
g	Capital Grants	-	-
h	Subordinated Debt	500,000	500,000
i	Less: amount of subordinated debt to b	(73,151)	-
J	Profit for the year	-	-

Item 3: Risk weighted Assets (Current Year and COPPY)

Current year

Sl.No	Assets	Balance Sheet Amount	Risk Weight %	Risk Weighted Asset
1	Zero-Risk Weighted Assets	5,473,993	0%	-
2	20% Risk Weighted Assets	5,826,600	20%	1,165,320
3	50% Risk Weighted Assets	427,181	50%	213,590

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4	100% Risk Weighted Assets	34,570,621	100%	34,570,621
5	150% Risk Weighted Assets	368,108	150%	552,163
9	Operational Risk	2,536,356		2,536,356

COPPY

Sl.No	Assets	Balance Sheet Amount	Risk Weight %	Risk Weighted Asset
1	Zero-Risk Weighted Assets	5,779,146	0%	-
2	20% Risk Weighted Assets	3,284,247	20%	656,849
3	50% Risk Weighted Assets	684,616	50%	342,308
4	100% Risk Weighted Assets	31,084,899	100%	31,084,899
5	150% Risk Weighted Assets	180,121	150%	270,181
9	Operational Risk	2,643,854		2,643,854

Item 4: Capital Adequacy ratios

	Current Period	COPPY
Tier 1 Capital	6,242,106	6,226,468
Of which Counter-cyclical Capital Buffer (CcyB) (if applicable)	-	-
Of which Sectoral Capital Requirements (SCR) (if applicable)	-	-
Sector 1	-	-
Sector 2	-	-
Sector 3	-	-
Tier 2 Capital	1,390,975	1,418,364
Total Qualifying capital	7,567,382	7,601,798
Core CAR	15.99%	17.79%
Of which CcyB (if applicable) expressed as % of RWA	-	-
Of which SCR (if applicable) expressed as % of Sectoral RWA	-	-
Sector 1	-	-
Sector 2	-	-
Sector 3	-	-
CAR	19.38%	21.72%
Leverage Ratio	13.38%	15.18%

Item 5: Loans and NPL by Sectoral Classification

S.No	Sector	Current Period		COPPY	
		Total Loans	NPL	Total Loans	NPL
a.	Agriculture	73,627	12,555	48,356	444
b.	Manufacturing/Industry	4,531,343	712,702	4,592,855	528,518
c.	Service & Tourism	6,649,766	119,774	5,268,387	156,790

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d.	Trade & Commerce	7,601,064	1,210,367	6,632,749	663,573
e.	Housing	10,027,824	514,313	8,267,205	151,061
f.	Transport	1,826,205	168,324	1,809,309	57,861
g.	Loans to Purchase Securities	534,861	8,334	56,043	-
h.	Personal Loan/LDCL/CC	144,969	47,010	970,841	72,148
i.	Education Loan	-	-	-	-
j.	Loan Against Term Deposit	157,123	-	117,410	-
k.	Loans to FI (s)	206,577	-	499,300	-
l.	Infrastructure Loan	-	-	-	-
m.	Staff Loan (incentive)	353,986	1,999	321,201	3,744
n.	Loans to Govt. Owned Corporation	-	-	420,435	-
o.	Consumer Loan (GE)	763,159	15,847	-	-
p.	Others	53,453	6	69,437	232
	Total	**32,923,959**	**2,811,233**	**29,073,528**	**1,634,371**

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

S.No	Counter- party	Current Period	COPPY
1	**Overdrafts**	**8,282,656**	**7,402,927**
a.	Governments	-	-
b.	Governments Corporation	-	-
c.	Public Companies	-	1,951
d.	Private Companies	8,056,382	6,858,583
e.	Individuals	19,697	43,093
f.	Commercial Banks	-	-
g.	Non-Bank Financial Institutions	206,577	499,300
2	**Term Loans**	**24,641,303**	**21,670,601**
a.	Governments	-	221
b.	Governments Corporation	-	-
c.	Public Companies	-	474,167
d.	Private Companies	8,606,176	7,182,593
e.	Individuals	16,034,897	14,013,326
f.	Commercial Banks	230	293
g.	Non-Bank Financial Institutions	-	-

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Item 7: Assets (net of provisions) and Liabilities by Residual Maturity (Current Period)

As of period ending 31.12.2019	On demand	1- 30 days	31 - 90 days	91- 180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in hand	6,284,963	-	-	-	-	-	-	6,284,963
Govt. Securities	-	-	-	-	-	-	-	-
Investment securities	-	2,614,874	1,792,387	904,688	-	-	239,748	5,551,697
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	34,199	713,901	1,248,168	1,857,830	1,730,150	2,110,662	22,785,924	30,480,835
Other assets	1,320	2,690	87,108	464	-	10,955	1,220,169	1,322,706
TOTAL	**6,320,483**	**3,331,465**	**3,127,663**	**2,762,981**	**1,730,150**	**2,121,617**	**24,245,842**	**43,640,201**
Amounts owed to other banks ***	274,452	2,856,767	1,160,093	710,980	-	29,509	-	5,031,800
Demand deposits	3,868,347	-	-	-	-	-	-	3,868,347
Savings deposits	8,048,412	-	-	-	-	-	-	8,048,412
Time deposits	- 7,340	1,004,643	1,285,855	882,320	474,051	530,371	14,359,727	18,529,627
Bonds & other negotiable instruments	-	-	-	-	-	-	522,027	522,027
Other liabilities	352,195	72,497	12,731	20,008	18,421	21,168	7,142,969	7,639,988
TOTAL	**12,536,065**	**3,933,907**	**2,458,678**	**1,613,307**	**492,472**	**581,049**	**22,024,723**	**43,640,201**
Assets/Liabilities	0.5	0.8	1.3	1.7	3.5	3.7	1.1	1.0
Net Mismatch in each Time Interval	(6,215,583)	(602,442)	668,984	1,149,675	1,237,678	1,540,568	2,221,119	0
Cumulative Net Mismatch	(6,215,583)	(6,818,024)	(6,149,040)	(4,999,365)	(3,761,687)	(2,221,119)	0	0

Assets (net of provisions) and Liabilities by Residual Maturity (COPPY)

As of period ending 31.12.2018	On demand	1-30 days	31- 90 days	91- 180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in hand	6,329,347	-	-	-	-	-	-	6,329,347
Govt. Securities	-	-	996,630	-	-	-	-	996,630
Investment securities	-	1,066,103	357,502	553,477	-	354,061	239,748	2,570,891
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	-	536,695	1,188,671	1,634,891	1,378,754	1,990,745	20,889,521	27,619,278
Other assets	820	- 499	65,811	109	-	13,756	1,057,158	1,137,153
TOTAL	**6,330,167**	**1,602,299**	**2,608,614**	**2,188,476**	**1,378,754**	**2,358,562**	**22,186,427**	**38,653,299**
Amounts owed to other banks ***	256,487	641,079	852,040	845,157	-	29,509	-	2,624,271
Demand deposits	4,052,138	-	-	-	-	-	-	4,052,138
Savings deposits	7,778,737	-	-	-	-	-	-	7,778,737
Time deposits	894	137,558	503,975	2,101,406	1,116,323	852,356	10,995,469	15,707,981
Bonds & other negotiable instruments	-	-	-	-	-	-	522,027	522,027
Other liabilities	150,251	660,259	12,600	17,254	14,744	19,985	7,093,052	7,968,145
TOTAL	**12,238,507**	**1,438,895**	**1,368,614**	**2,963,817**	**1,131,067**	**901,850**	**18,610,548**	**38,653,299**
Assets/Liabilities	0.5	1.1	1.9	0.7	1.2	2.6	1.2	1.0
Net Mismatch in each Time Interval	(5,908,340)	163,404	1,240,000	(775,341)	247,687	1,456,712	3,575,879	(0)
Cumulative Net Mismatch	(5,908,340)	(5,744,937)	(4,504,937)	(5,280,278)	(5,032,591)	(3,575,879)	(0)	(0)

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

As of period ending 31.12.2019	On demand	1-30 days	31- 90 days	91- 180 days	181- 270 days	271- 365 days	Over 1 year	Total
Cash in hand	6,284,963	-	-	-	-	-	-	6,284,963
Govt. Securities	-	-	-	-	-	-	-	-
Investment securities	-	800,181	2,355,653	1,251,331	904,784	-	239,748	5,551,697
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	-	53,447	9,960	47,396	102,341	912,683	29,355,008	30,480,835
Other assets	1,320	2,690	87,108	464	-	10,955	1,220,169	1,322,706
TOTAL	**6,286,284**	**856,318**	**2,452,721**	**1,299,192**	**1,007,124**	**923,638**	**30,814,925**	**43,640,201**
Amounts owed to other banks ***	274,452	2,352,223	-	1,539,266	836,350	29,509	-	5,031,800
Demand deposits	3,868,347	-	-	-	-	-	-	3,868,347
Savings deposits	8,048,412	-	-	-	-	-	-	8,048,412
Time deposits	- 7,651	170,883	-	1,848,592	144,526	189,849	16,183,428	18,529,627
Bonds & other negotiable instruments	-	-	-	-	-	-	522,027	522,027
Other liabilities	351,684	65,027	99	471	991	9,656	7,212,059	7,639,988
TOTAL	**12,535,244**	**2,588,134**	**99**	**3,388,329**	**981,867**	**229,014**	**23,917,514**	**43,640,201**
Assets/Liabilities	1	0	24,666	0	1	4	1	1
Net Mismatch in each Time Interval	(6,248,960)	(1,731,816)	2,452,621	(2,089,138)	25,258	694,624	6,897,411	0
Cumulative Net Mismatch	(6,248,960)	(7,980,776)	(5,528,155)	(7,617,293)	(7,592,035)	(6,897,411)	0	0

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Assets (net of provisions) and Liabilities by Original Maturity (COPPY)

As of period ending 31.12.2018	On demand	1-30 days	31- 90 days	91- 180 days	181- 270 days	271- 365 days	Over 1 year	Total
Cash in hand	6,329,347	-	-	-	-	-	-	6,329,347
Govt. Securities	-	-	996,630	-	-	-	-	996,630
Investment securities	-	-	256,417	351,068	1,369,597	-	593,809	2,570,891
Loans & advances to banks	-	-	-	-	-	-	-	-
Loans & advances to customers	-	69,205	71,993	175,543	58,470	804,760	26,439,307	27,619,278
Other assets	820	- 499	65,811	109	-	13,756	1,057,158	1,137,153
TOTAL	**6,330,167**	**68,705**	**1,390,851**	**526,719**	**1,428,067**	**818,516**	**28,090,274**	**38,653,299**
Amounts owed to other banks ***	256,487	200,894	-	1,118,983	1,017,112	29,509	1,286	2,624,271
Demand deposits	4,052,138	-	-	-	-	-	-	4,052,138
Savings deposits	7,778,737	-	-	-	-	-	-	7,778,737
Time deposits	-	-	-	500,147	144,377	932,988	14,130,468	15,707,981
Bonds & other negotiable instruments	-	-	-	-	-	-	522,027	522,027
Other liabilities	150,251	654,158	717	2,138	615	8,746	7,151,519	7,968,145
TOTAL	**12,237,613**	**855,053**	**717**	**1,621,269**	**1,162,104**	**971,243**	**21,805,300**	**38,653,299**
Assets/Liabilities	1	0	1,939	0	1	1	1	1
Net Mismatch in each Time Interval	(5,907,446)	(786,347)	1,390,134	(1,094,550)	265,963	(152,727)	6,284,974	(0)
Cumulative Net Mismatch	(5,907,446)	(6,693,793)	(5,303,660)	(6,398,209)	(6,132,246)	(6,284,974)	(0)	(0)

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Item 10: Non-Performing Loans and Provisions

Sl No		Current Period	COPPY
1	**Amount of NPLs (Gross)**	**2,811,233**	**1,634,371**
a.	Substandard	353,442	255,793
b.	Doubtful	253,414	65,748
c.	Loss	2,204,377	1,312,830
2	**Specific Provisions**	**2,128,524**	**1,291,975**
a.	Substandard	72,338	50,006
b.	Doubtful	122,597	30,808
c.	Loss	1,933,589	1,211,161
3	**Interest - in -Suspense**	**303,212**	**162,275**
a.	Substandard	15,159	11,687
b.	Doubtful	17,265	4,864
c.	Loss	270,788	145,724
4	**Net NPLs**	**379,497**	**89,658**
a.	Substandard	265,946	148,763
b.	Doubtful	113,551	51,334
c.	Loss	0	(110,439)
5	**Gross NPLs to Gross Loans**	8.54%	5.62%
6	**Net NPLs to Net Loans**	1.24%	0.65%
7	**General Provision**	**314,842**	**288,146**
a.	Standard	260,878	236,413
b.	Watch	53,964	51,733

Item 11: Assets and Investments

Sl No	Investment	Current Period	COPPY
1	**Marketable Securities (Interest Earning)**		
a	RMA Securities	-	994,009
b	RGOB Bonds/Securities	-	-
c	Corporate Bonds	115,332	115,332
d	Others	-	-
	Sub-total	**115,332**	**1,109,341**
2	**Equity Investments**		
e	Public Companies	119,563	119,563
f	Private Companies		-
g	Commercial Banks	2,500	2,500
h	Non-Bank Financial Institutions	40,294	733

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Less			
i	Specific Provisions	-	-
3	**Fixed Assets**		
j	Fixed Assets (Gross)	1,420,614	971,734
Less			
k	Accumulated Depreciation	350,866	280,024
l	Fixed Assets (Net Book Value)	1,069,748	691,710

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

Current period

	Liquid Foreign Currency Holdings (Up to one week)			Long Term Foreign Currency Holdings (More than One week)			Nu. In millions	
Currency	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/C ore Capital
	1	2	3= 1 - 2	4	5	6 = 4 - 5	7 = 3 + 6	8
USD	250,282	1,093,076	- 842, 794	35,688		35,688	- 807,106	- 12.93
SG $	1,873	-	1,873	-		-	1,873	0.03
EURO	15,532	2,587	12,945	-		-	12,945	0.21
AUD	6,358	2,227	4,130	-		-	4,130	0.07
CAD	27	-	27	-		-	27	0.00
HKD	302	-	302	-		-	302	0.00
GBP	1,091	0	1,091	-		-	1,091	0.02
NOK	229	-	229	-		-	229	0.00
DKK	-	-	-	-		-	-	-
CHF	445	-	445	-		-	445	0.01
JPY	3,434	-	3,434	-		-	3,434	0.06
INR	328,604	8,944	319,659	-		-	319,659	5.12
SEK	1,304	-	1,304	-			1,304	-

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COPPY

Currency	Liquid Foreign Currency Holdings (Up to one week)			Long Term Foreign Currency Holdings (More than One week)			Nu. In millions	
	Assets in Foreign Currency	Liabilities in Foreign Currency	Net Short-Term Position	Assets in Foreign Currency	Liabilities in Foreign Currency	Long Term Net Position	OVERALL NET POSITION	Overall Net Position/ Core Capital
	1	2	3= 1 - 2	4	5	6 = 4 - 5	7 = 3 + 6	8
USD	486,863	1,175,052	- 688,190	104,622		104,622	- 583,568	- 9.37
SG $	1,044		1,044			-	1,044	0.02
EURO	65,738	16,441	49,297			-	49,297	0.79
AUD	6,527	2,945	3,582			-	3,582	0.06
CAD	627	-	627	-		-	627	0.01
HKD	81	-	81	-		-	81	0.00
GBP	22,351	0	22,351			-	22,351	0.36
NOK	-	-	-	-		-	-	-
DKK	-	-	-	-		-	-	-
CHF	14	-	14	-		-	14	0.00
JPY	20,410	-	20,410	-		-	20,410	0.33
INR	500,632	4,636	495,996	-		-	495,996	7.97
SEK	-	-	-	-			-	

Item 13: Geographical Distribution of Exposures

	Domestic		India		Other	
	Current Period	COPPY	Current Period	COPPY	Current Period	COPPY
Demand Deposits held with other banks	486,901	692,464	294,845	414,673	186,348	557,104
Time deposits held with other banks	5,276,199	2,226,178	-	-	35,750	104,965
Borrowings	500,000	500,000	-	-	-	-

Item 14: Credit Risk Exposures by collateral

Sl.No	Particular	Current Period	COPPY
1	**Secured Loans**	**32,352,632**	**29,073,528**
a.	Loans secured by physical/real estate collateral	31,988,932	28,188,569
b.	Loans secured by financial collateral	363,700	117,410
c.	Loans secured by guarantees	-	767,548
2	**Unsecured Loans**	**-**	**-**
3	**Total Loans**	**32,352,632**	**29,073,528**

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Item 15: Earnings Ratio (%)

Sl.No	Ratio	Current Period	COPPY
1	Interest Income as a percentage of Average Assets	7.60%	7.75%
2	Non-interest income as a percentage of Average Assets	0.59%	0.52%
b.	Operating Profit as a percentage of Average Assets	4.09%	4.59%
c.	Return on Assets	0.14%	1.90%
2	Business (Deposits plus advances) per employee	120,846	107,385
3	Profit per employee	111	1,356

Item 16: Penalties imposed by RMA in the past period

Sl.No	Current Period (Year for which the disclosure is being made)		Corresponding period of the previous year (COPPY)	
	Reason for Penalty Imposed	Penalty Imposed	Reason for Penalty Imposed	Penalty Imposed
1	NA	Nil	NA	Nil

Item 19: Concentration of Credit and Deposits

Sl.No	Particular	End of Current Period	COPPY
1	Total Loans to 10 Largest borrowers	5,405,244	4,764,194
2	*As % of total loans*	16.42%	16.39%
3	Total deposits of the 10 Largest depositors	20,708,227	13,712,646
4	*As % of total deposits*	60.22%	46.90%

Item 20: Exposure of 5 Largest NPL accounts

Sl.No	Particular	End of Current Period	COPPY
1	Five Largest NPL Accounts	394,892	202,852
2	*As % of total NPLs*	0.01%	12.41%

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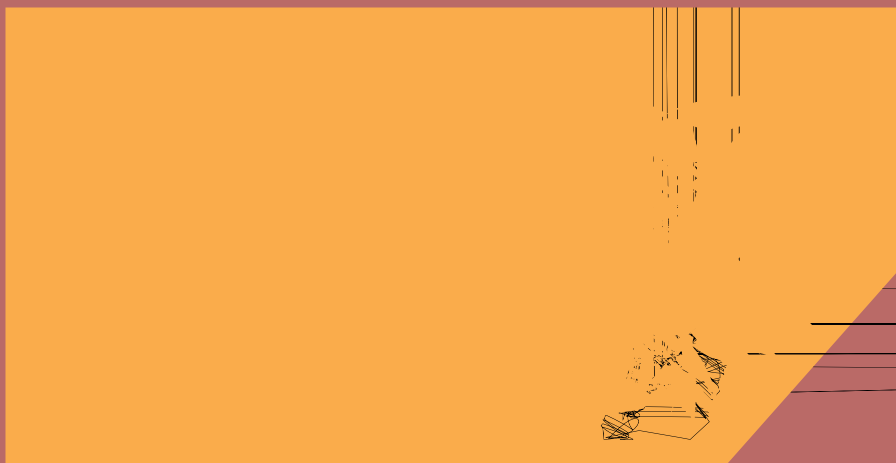
Correspondent Banks

- 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, Bangkok, Thailand
- Janata Bank Limited, Dhaka, Bangladesh
- Bank Asia Limited, Dhaka, Bangladesh
- 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
- IDFC First Bank, Mumbai, India
- ICICI Bank Limited, Mumbai, India
- IDBI Bank Limited, Mumbai, India
- IndusInd Bank, Mumbai, India
- Bank of America N.A, Mumbai, India



Corporate Head Office, Thimphu
Post Box no.: 439, Nordzin Lam II
Phone no: 02-322767/328577/78/328587/88
Toll Free: 6070; Fax: 02-328839

Branch Office, Thimphu
Post Box No. 439, Bhutan Post Building
Phone no: 02-323895/325297/328585
Toll Free: 6070; 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, Samtse
Post Box No: 328, Below Chorten
Phone no: 05- 365758/365759; Fax no 05-365756
Manager: 05-365757; Email: samtse@bnb.bt

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 (Samtse 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.)
Shearee 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

Gyalposhing Extension Office, (Mongar Br.)
Gyalposhing main town
Phone: 04-744258; Fax: 04-744263
Email: bnbgyelposhing@bnb.bt

Khuruthang Extension Office, (Wangdue 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: bnbtala@bnb.bt

Rangjung Extension Office, (Trashigang Br.)
Near chorten of Rangjung town
Phone: 04-561170; Fax: 04-561172
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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

Samdrup Jongkhar Extension Office. (Samdrup Jongkhar Br.)
Main town - Upper
Phone: 07-251507; Fax: 07-251506

Haa Extension Office, (Paro Br.)
Haa main town
Phone: 08-375375; Fax: 08-375374; Email: haa@bnb.bt

Bondey Extension Office, (Paro Br.)
Bondey main town
Phone/fax: 08-270191; Email: parobondey@bnb.bt

Dagapela Extension Office, (Tsirang Br.)
Above Dratshang
Phone: 06-483129; Fax: 06-483128
Email: dagapela@bnb.bt

Tashi Yangtsi Extension Office, (Trashigang Br.)
On the way to Dzong
Phone: 04-781200; Fax: 04-781175
Email: tashiyangtsi@bnb.bt

Lhuntse Extension Office. (Mongar Br.)
Lhuntse Main town
Phone: 04-545238; Fax: 04-545237
Email: lhuentse@bnb.bt

Tashicholing Extension Office. (Samtse Br.)
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Phone: 05-382001; Fax: 05-382002
Email: tashicholing@bnb.bt

Nanglam Extension Office. (Samdrup Jongkhar Br.)
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Gasa Extension Office. (Wangdue Br.)
Gasa Main town
TeleFax: 02-688101; Email: gasa@bnb.bt

Lingmithang Extension Office. (Mongar Br.)
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Samdrupcholing Extension Office. (Samdrup Jongkhar Br.)
Tshangchuthama (Kawaipani), Samdrupcholing

Sarpang Extension Office. (Gelephu Br.)
Shechamthang Town, Sarpang

Kanglung Extension Office. (Tashigang Br.)
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