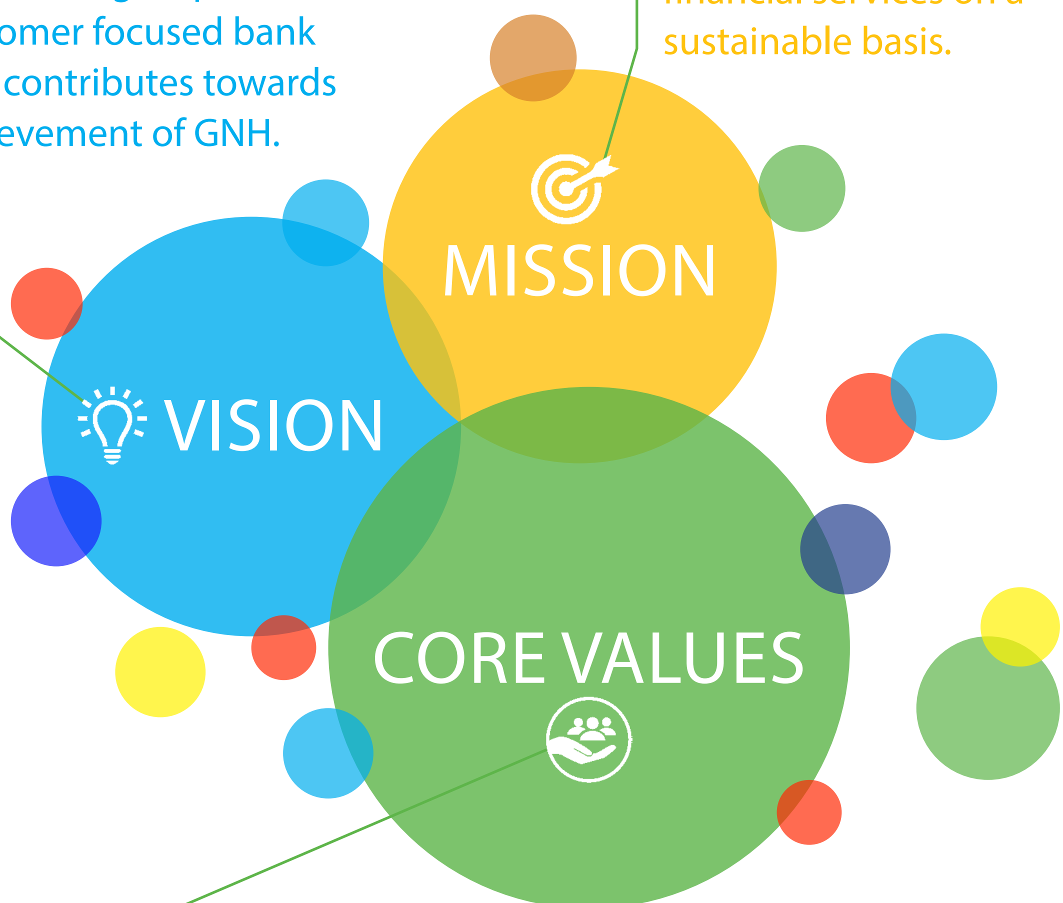
ANNUAL REPORT 2018

BHUTAN DEVELOPMENT BANK LIMITED

A premier development bank with focus on rural prosperity through prompt, efficient and effective financial services on a sustainable basis.

To be strong, dependable, customer focused bank that contributes towards achievement of GNH.



Professionalism	-	Give your Best
Excellence	-	Aim for higher ideals
Ownership	-	Own your Bank and care for your customers
Partnership	-	Work together for growth
Loyalty	-	Be true to oneself and stakeholders
Efficiency	-	Deliver prompt services

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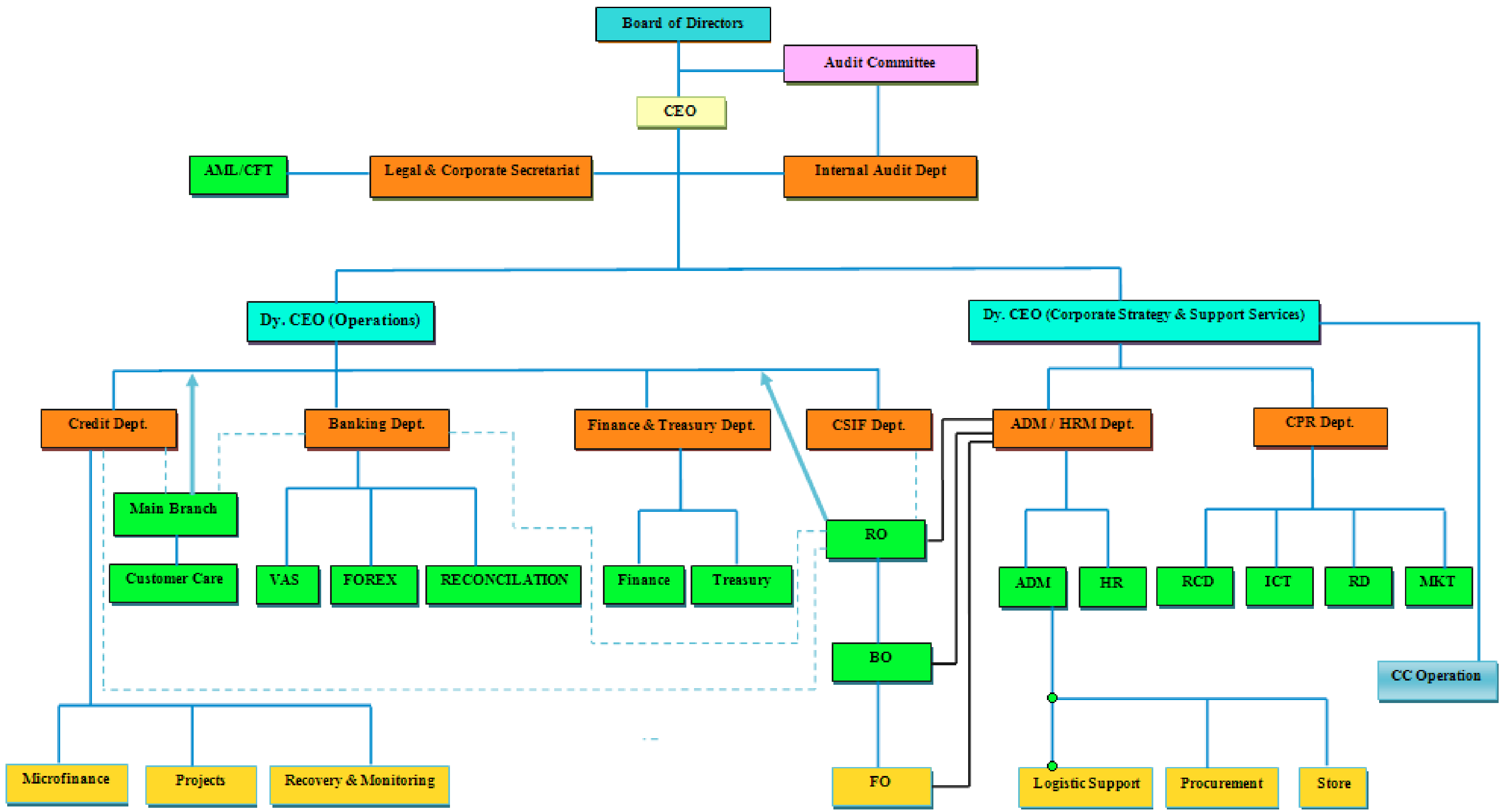
ORGANIZATIONAL STRUCTURE



BHUTAN DEVELOPMENT BANK LIMITED

HEAD OFFICE, THIMPHU
Post Box: 256, Norzin Lam
Telephone PABX No: (00975-2) 322579, 323425, 324678, 333865 Fax 323428
Toll free No. 1424

Email: info@bdb.bt

REGIONAL OFFICES

Sl #	Regional Managers	Office Location	Telephone No.
1.	Mr. Tenzin Tashi (Western)	Paro	00975-08-272410/3004
2.	Mr. Pema Tashi (Central)	Gelephu	00975-06-252137
3.	Mr. Rinchen (Eastern)	Trashigang	00972-04-521243

BRANCH OFFICES

WESTERN REGION

Sl#	Branch Managers/ Chief Manager	Location	Phone No.	Fax No.
1.	Mr. Phub Dorji	Thimphu	02-326853	
2.	Mr. Yeshi Samdrup	Paro	08-271334	
3.	Mr. Tshering Dorji	Haa	08-375459	
4.	Ms. Yangchen Lhamo	Punakha	02-584102	
5.	Mr. Jigme Norbu	Gasa	16288121	
6.	Mr. Sangay Wangdi	Wangdue	02-481261	02-481848
7.	Mr. Karma Sherub	Chukha	08-478243	
8.	Mr. Yeshey K Tshering	Phuntsholing	05-252881	
9.	Mr. Janga Bdr Rai	Samtse	05-365469	
10.	Mr. Damcho Wangdi	Dorokha	17160380	
11.	Mr. Yonten	Sibsoo	17501735	

CENTRAL REGION

Sl#	Branch Managers/ Chief Manager	Location	Phone No.	Fax No.
1.	Mr. Namgay Dorji	Dagana	06-481106	

2.	Mr. Nima Choezang	Bumthang	03-631111	
3.	Mr. Lobsang Choiphel	Trongsa	03-521147	
4.	Ms. Dawa Dem	Zhemgang	03-741127	
5.	Mr. Ugyen Tshewang	Panbang	03-742017	
6.	Mr. Jhamba	Tsirang	06-471206	
7.	Mr. Penjor	Sarpang	06-365136	
8.	Mr. Pema Tashi	Gelephu	06-252135	
9.	Mr. Sonam Wangchuk	Lhamoi Zingkha	06-241422	06-241425
10.	Mr. BB Tamang	Dagapela	06-483143	06-483151

EASTERN REGION

Sl#	Branch Managers/ Chief Manager	Location	Phone No.	Fax No.
1.	Ms. Kunzang Tshomo	Lhuntse	04-545106	
2.	Mr. Tshewang	Mongar	04-641127	04-641177
3.	Mr. Yeshey Jamtsho	Pema Gatshel	07-471126/471260	
4.	Mr. Tenzin Wangdi	Samdrup Jongkhar	07-251118	
5.	Mr. Sonam Dhendup	Trashigang	04-521122	
6.	Mr. Jigme Sonam Tenzin	Trashi Yangtse	04-781239	
7.	Mr. Thinlay Wangchuk	Wamrong	04-571148/751164	
8.	Mr. Namgay Doenyan	Nganglam	07-481190	
9.	Mr. Samten Wangchuk	Jomotshangkha	07-264023	
10.	Mr. Palden	Yadi	17246434	
11.	Ms. Tashi Wangmo	Samdrupcholing	17704475	

THIMPHU MAIN BRANCH, GENERAL MANAGER

1.	Mr. Sonam Letho	Main Branch,Thimphu	02-323852	02-323428

BOARD OF DIRECTORS

CHAIRMAN
Mr. Lekzang Dorji
Director General
Department of Macro Economic Affairs
Ministry of Finance

DIRECTOR
Mr. Nima Wangdi
Former Health Secretary
Gadhen Khangzang

DIRECTOR
Mr. Ugyen Penjor
Director General
Department of Agricultural
Marketing and Cooperatives

DIRECTOR
Mr. Phub Tshering
Former Secretary General
BCCI

DIRECTOR
Mr. Pema Wangdi
Chief Executive Officer
REDCL

DIRECTOR
Mr. Dhak Tshering
Director
DoS, MOWHS

MEMBER SECRETARY
Mr. Phub Dorji
Chief Executive Officer
BDB

BDB MANAGEMENT TEAM

Mr. Phub Dorji
Chief Executive Officer

Mr. Ugyen Dhendup
Dy. CEO (CSSS)

Mr. Sonam Rigyel
Dy. CEO, Operations

Mr. Dorji Wangdi
General Manager
Credit Dept.

Mr. Karma Jigme
General Manager
ADM/HRM Dept.

Mr. Tshering Dukpa
General Manager
Corporate Planning &
Research Dept.

Mr. Nidup Tshering
General Manager
Finance & Treasury
Department

Mr. Tsewang Dorji
General Manager
ICT Dept.

Mr. Sonam Letho
General Manager
Thimphu Main Branch

Mr. Pema Wangdi
General Manager
Internal Audit

Mr. Bhawani Shankar
Company Secretary

CHAIRMAN'S REPORT

I would like to extend a warm welcome to the esteemed Shareholders for attending the 27th Annual General Meeting of Bhutan Development Bank Ltd. (BDB). It has been a little over one year since I was appointed as a Chairman of Bhutan Development Bank in December 2017. With the constant support and cooperation of the Board of Directors and the Shareholders we have been able to guide the bank in fulfilling their social mandate of taking financial services to the nuke and corners of country. It is also worth mentioning the bank was able to recover from the huge loss suffered in 2017 to a very successful financial year in 2018. On behalf of the Board of Directors and the Shareholders I would like to congratulate the Management and staff for their success and urge them to keep working with the same enthusiasm and commitment.

On behalf of the Board of Directors and the Management of BDB, I am pleased to present herewith the 27th Annual Report for the year ended December 31, 2018.

1. Governance:

The seven Board of Directors of the Board, including the CEO, are directly appointed by the Royal Government. During 2018, 4 Board Meetings and 1 Annual General Meeting were conducted.

The Board of Directors have been supported by 3 Board Sub-committees covering the areas of Governance andRisk Management, Audit and Credit, after the implementation of the new Corporate Governance Regulation (CGR)issued by Royal Monetary Authority (RMA) of Bhutan. Prior to implementation of the CGR there were 4 Board Sub-committees. The Board Sub-committees held their quarterly or biannual meeting as per the statutory requirement to review, discuss and amend important policies, priorities and plans to facilitate decision making by the Board.

In 2018 the Board set the approved a realistic and set the following major targets; stabilization of the Finacle - Core Banking Solution (CBS), start construction of Trashiyangtse office building, upgradation of two Community Centers (CCs) to Gewog Field Office (GFOs), install five additional ATMs and reduce the NPL/PAR to make Nu. 304 million profit.

1.1 Supervision by Regulators, Governing bodies and Auditors:

The Statutory Auditors M/s Gianender and Associates, Chartered Accountants, New Delhi audited the Bank for the financial year 2018. This is their last year of audit engagement with BDB.

I am pleased to share the auditors' opinion on activities undertaken by the bank. The Bank has complied with the applicable laws, rules and regulations while discharging its responsibilities while making a decent profit of Nu. 322millioncompared to the loss of Nu. 762million in 2017as per the final audited accounts.

2. Financial Highlights

2.1 Equity

The capital and reserves (Total Equity) witnessed a growth of 5% from Nu. 2.19 billion to Nu. 2.59 billion. The growth in equity was mainly due to profit appropriations and injection of Nu. 93 million additional capital by the Ministry of Finance (major shareholder) during the period.

2.2.Bank's Financial Position and Performance:

As per the finalized accounts the Bank's total assets grew by 5% to Nu. 25.22 billion from the previous year of Nu. 24.03 billion. The growth was possible mainly due to increase in loans and short term investments.

The Bank's liabilities increased by 4% from Nu. 21.84 billion to Nu. 22.63 billion due to increase in deposits and borrowings. The Bank earned a profit of Nu. 322million in 2018 against the target of Nu.304 million, compared to loss of Nu. 762million during the same period in 2017.
The total interest and similar income grew by 6% from Nu. 1.97 billion to Nu. 2.09 billion. Other operating income also increased substantially from Nu. 13 million to Nu. 31 million. On the other hand, the interest expenses increased by 5% from Nu. 1.34 billion to Nu. 1.41 billion on year to year comparisons due to growth in deposit.

The personnel expenses increased by 19% from Nu. 227 million to Nu. 269 million due to increase in staff strength while other operating expenses also increased by 8 % from Nu. 173 million to Nu. 187 million.

The loan impairment charges, decreased significantly from Nu. 971 million in 2017 to Nu. 107

million resulting in a write-back due to improvement in Non-Performing Loans (NPL) from 22.72% (2017) to 20.73% in 2018. The bank was also able to achieve most of the non-financial targets with an overall performance measurement system (PMS) rating of 96.27%. The statutory requirement of 10% Cash Reserve Ratio (CRR) and 20% of Statutory Liquidity Ratio (SLR) were all fully complied with. It is worth noting that through a prudent control measures put in place, the Bank has been able to maintain its operating expenses ratio at 23.20% which is below the 26% ceiling set by the Board.

3. Operational Highlights:

3.1 Credit Distribution:

- In keeping with the mandates, BDB as the only development bank continues to assume the lead role in offering financial and other allied services in the rural areas of the country. The Bank, with 35 branch offices, 2- Gewog Field Offices (GFO) and 198 Gewog Banking Services (GBS) is able to provide financial services across all 20 Dzongkhags and 14 Dungkhags. Additionally, through the Farmers Outreach Banking (FOB) BDB is able to take financial services to the doorstep of the people despite high establishment and operational costs.

- Loans to needy farmers continue to increase its penetration in the far-flung and unbanked areas taking the total clientele base to 54,441 as of December 31, 2018 with an outstanding loan balance of Nu.18.923 billion. Agriculture being the mainstay of the rural economy continues to dominate other sectors in terms of credit portfolio, which conforms to the Bank's mandate of empowering farmers through extension of credit. Agriculture portfolio of 26% of the total loan amount is not only highest in the Bank but also in the whole banking sector, which is a testimony of the Bank's unwavering support for agriculture development.

- The final audited accounts in 2018 shows an overall credit growth of 0.67% with loan outstanding of Nu.18.923 billion which grew from Nu. 18.83 billion in 2017.The Credit growth from 2013 to 2018 has increased by 122.62% from Nu. 8.50 billion to Nu. 18.923 billion.

1.2 Banking Activities

- The Bank is continuously implementing all possible means to take banking services to the door steps of the far flung areas as an integral part of Bank's effort to promote financial inclusion. The Farmer Outreach Banking (FOB), a very popular program at the Gewog level, requires the bank's staff to visit designated places on preset date and time every month besides their regular follow-up with the clients.

- The Bank started mobilizing deposits from 2010 onwards as a reliable source of fund. With concerted efforts the bank has managed to raise the deposit to Nu. 20.08 billion with a total of 203,000 deposit accounts compared to Nu. 19.689billion with a total of 178,386 deposit accounts in 2017. The Bank's corporate to retail deposit ratio improved to 48:52 in 2018. The retail deposits increased by 29% from Nu. 8,083 million to Nu. 10,395 million as of December 31, 2018.

- During 2018, to increase the retail deposit base, metal saving boxes were distributed to religious bodies (Dratshang and Shedras). This effort resulted in an addition enrollment of 243 accounts on the first day of introduction of the new scheme for religious bodies.

- The Bank also started YE[1] - Banking in collaboration with RMA in Arekha Middle Secondary School under Chukha Dzongkhag where 592 saving accounts opened by students with a total deposit of Nu.4.6 million.

3.3 Investments

- While majority of the Bank's investments are in the form of loans and advances, efforts are made to diversify investments to mitigate risk whenever there is opportunity. As of date, the Bank has invested in bonds and shares with reputable commercial entities in the country. As of 2018 end Nu.435.9 million have been invested in bonds with three institutions, namely RICBL, DCCL and RSA for the period ranging from seven to ten years as compared to Nu. 421.2 million in 2017 end.

- The Bank has also invested in shares worth Nu.53.8 million in 2018 with eight different companies in the country as compared to 44 million in 2017.

- Further, the Bank has been regularly bidding for Government treasury bills to use the SLR funds to supplement its regular income of the bank.

3.4. Human Resources Management

- The Bank had an allocated budget of Nu.24 million for capacity building of the employees. During the year, a total of 273 employees were trained in various fields such as Corporate Governance, Credit Appraisal, Delinquency Management and Loan Recovery, Customer Care, Development bank practices, International study visit program, Finacle core technical training, Institutional Visit, Loan Impairment, Branch monitoring and Supervisions, Leadership Program, both within and outside country. A total of 160 staff attended trainings outside the country and 113 staffs

1 Youth Ethics (YE)

were trained within the country. The board fully supported the plans to enhance the capacity of staff and instill a culture of professionalism in the Bank.

- During the year an additional of 82 new employees were recruited increasing the total regular employee strength to 572 as of December 31, 2018. In addition, there are 231 Community Center (CC) operators including 11 regular CC management team. The overall staff strength of the Bank is 814 employees who are scattered across the country.

4. Key achievements during the year 2018

- The Standard Operating Procedure (SOP) for the ICT Department, Revision of Credit and Banking manuals, Internal Audit Operational Guidelines and Board Audit Charter have been completed successfully. The revision of these manuals, Operational Guidelines, and SoP will facilitate the provision of transparent and efficient financial services.

- With the new Switch, the Bank also procured and installed 5 new ATMs in various locations around the country. The Bank now has 50 ATMs to enable our customers to carry out banking services at their convenience.

- To provide more financial products and services, two Gewog Banking Services (GBS) within the Community Centers, were up graded to Gewog Field Offices (GFO)at Betaykha under Branch Office, Paro Dzongkhag and Dungna under Gedu Branch

- Office, Chukha Dzongkhag where loans can also be sanctioned and disbursed unlike the GBS.

- The Customer Satisfaction Survey for the Bank was conducted by Corporate Planning and Research Department (CPRD) by hiring students from Gedu Business College and Royal Thimphu College. The overall score improved to 85.57% from 83.57% in 2014.

5. Corporate Social Responsibilities

- BDB as the only development bank with strong social mandate always attach due importance in upholding values, preservation of culture and tradition that binds the society. Towards this end, the bank participated in the blood donation.

- The bank has been making modest donations to institutions such as schools, health agencies, sporting firms, religious bodies including individuals. The bank donated a total of Nu. 1,087,550in 2018 as compared to Nu. 830,000in 2017

6. **Challenges and risks facing the bank**

- The Finacle CBS has been stabilized by recruiting a Finacle expert from India on contract and upgrading the ICT Division to a Department by strengthen the capacity and capabilities of the IT team. However, reduction in NPL/PAR remains one of the biggest challenges.

- Implementation of the Minimum Lending Rate (MLR) for a development bank which has very high operation cost poses significant challenge.

- The commercial banks with bigger loan amount and less clientele have the luxury of time to plan and provide better services attracting good clients while our social mandate requires us to serve clients with small loan amounts but very high number of clientele.

- Recovery is becoming extremely challenging as the rural land offered as collateral does not attract bidders when the assets are taken over and auction conducted.

- The huge overhead costs of CCs with minimal returns affects the profit of the Bank. Further, the penetration of smart phones in the rural areas has rendered many G2C services redundant. With the CC operators mostly on contract, attrition rate is very high and complains against disruptions of services from all quarters is another challenge.

7. **Way forward**

- Unlike the preceding years, the Bank's theme for this year was decided as **"Growth with Quality".**The bank has set a modest credit growth target of 3% for 2019. The bank will continue to be the preferred choice for the farmers but the focus will be on reducing the NPL.

- With the launch of BDB ***ePay***, clients can make the utility bill payment, mobile top up and transfer funds by leveraging on the new CBS and Switch.

- The frequencies of the visits to the branches by the Regional Managers and the Internal Auditors will be increased for the surprise visits to curb the misuse cases.

- Thimphu Main Branch (TMB) has 37% of the loan portfolio and also very high NPL. To improve the NPL situations, the Recovery Division of the TMB will be strengthened by providing adequate and senior staff.

- The Legal Division will be restructured into NPA and Litigation Units to clean the loan portfolios. The Write Off manual will be implemented to write off all the old cases which contribute to the high NPL.

- The Recovery Officers will identify high risk area, identify serious defaulters and devise and implement recovery strategies.

- During the Annual Workshop many strategies have been planned to improve profits, reduce NPL, build human resource capacities, and minimize frauds in keeping with the overall theme to achieve **"growth with quality".**

- The Bank has developed a Penalty clause which will be implemented in 2019 to improve loan documentation, reduce loan denial and multiple loan disbursement.

- The bank will continue to expand the Group Guaranteed Lending Scheme (GGLS) for people who do not have collateral. As part of the ongoing financial inclusion the bank will expand the saving scheme for the religious and monastic bodies.

8. Conclusion

In conclusion, the Bank commits to remain a dominant player in providing financial services to the farmers who comprise close to 56% of Bhutan's working population. Our financial services will not only improve the livelihoods of the farmers but contribute to the overarching goal of self reliance. The Board will continue to provide the required support, guidance and direction to the management to improve the performance of the Bank in each successive year. It goes without saying the importance of the reassurance of the Government, Ministry of Finance, donors and other stakeholders in the ultimate delivery of the financial services to the Bhutanese for many years to come.

[Lekzang Dorji]
Chairman
Bhutan Development Bank Ltd.

OPERATIONAL HIGHLIGHTS FROM 2014- 2018

Sl #	Particulars	2014	2015	2016	2017	2018
I	**Assets (Million)**	**16,563**	**19,073**	**22,649**	**24,148**	**25,222**
II	**Profits/(Loss) (PBT) (Million)**	**282**	**409**	**325**	**(880)**	**322**
III	**Disbursement (Million)**	**5,379**	**6,321**	**7,327**	**6,036**	**5,330**
	Main Branch	1,413	1,574	1,719	1,184	595
	Branch Office	3,967	4,747	5,609	4,852	4,735
IV	**Loan Outstanding (Million)**	**10,819**	**13,920**	**16,547**	**18,836**	**18,924**
	Main Branch	4,584	5,242	5,970	6,830	6,475
	Branch Office	6,235	8,678	10,577	12,007	12,448
V	**Portfolio At Risk**	**7.77%**	**8.59%**	**12.48%**	**22.72%**	**20.73%**
	Main Branch	7.97%	9.32%	17.56%	33.42%	30.29%
	Branch Office	7.63%	8.12%	9.44%	18.67%	15.75%
VI	**Number of Active Clients**	**46,326**	**52,248**	**56,192**	**57,414**	**55,241**
	Main Branch	3,317	3,730	4,163	4,563	4,295
	Branch Office	43,009	48,518	52,029	52,851	50,946
VII	**Cumulative Nos. of Beneficiary**	**178,108**	**199,484**	**219,182**	**237,068**	**234,895**
	Main Branch	10,586	11,818	13,073	14,249	13,981
	Branch Office	167,522	187,666	206,109	222,819	220,914
VIII	**Deposit Amount (Million)**	**12,162**	**14,216**	**17,479**	**19,689**	**20,085**
	Main Branch	9,628	10,575	12,322	13,523	12,490
	Branch Office	2,534	3,641	5,156	6,165	7,595
IX	**No.of Depositors**	**109,005**	**133,366**	**159,576**	**178,386**	**203,018**
	Main Branch	6,322	8,436	11,186	15,101	18,386
	Branch Office	102,683	124,930	148,390	163,285	184,632
X	**Number of Employees**	**385**	**416**	**452**	**563**	**572**
	Head Office	125	117	144	152	164
	Main Branch	30	31	39	45	43
	Branch Office	230	268	269	366	365
XI	**Active Clients/Employee Ratio**					
	Main Branch	111	120	107	101	100
	Branch Office	187	181	193	144	140
XII	**Loans /Employee Ratio**	**28**	**33**	**37**	**33**	**33**
	Main Branch	153	169	153	152	151
	Branch Office	27	32	39	33	34

BHUTAN DEVELOPMENT BANK LIMITED

AUDITORS' REPORT
2018

Gianender & Associates
Chartered Accountants
New Delhi
India

AUDITOR'S REPORT

Gianender& Associates
Chartered Accountants
Plot No 6, SiteNo 21
GeetaMandir Marg,
New Rajinder Nagar
New Delhi -110060

Phone: 011- 28743942; 42412008
Telefax : 01142412008
Email-id:gka_ma@ yahoo.com

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

Opinion

We have audited the financial statements of **Bhutan Development Bank Limited,** which comprise the Statement of Financial Position as at December 31, 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financials present fairly, in all material respects, the financial position of the Company as at December 31, 2018 of its financial performance and its cash flows for the year then ended in accordance with the Bhutanese Accounting Standards (BAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants '*Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasis of Matter:

Without qualifying our opinion we draw attention to the following:

a) *i) Current account with Royal Monetary Authority is under reconciliation, as on 31.12.2018. An amount of Nu. 3,245,520.19 mentioned as "prior period adjustments" are pending for identification and reconciliation since 2016.*

ii) BFS account with Royal Monetary Authority is under reconciliation, as on 31.12.2018. An amount of Nu. 9,103,150 mentioned as "Any other adjustments" are pending for identification and reconciliation.

b) In view of the various cases of misappropriation/ Embezzlements and unauthorized sanctions & disbursements acts involving employees of the bank, overwriting of field receipts, back date errors in field receipts, non-updating of field collections of funds collected by PSOs in various branches, internal control systems and procedures of the bank relating to credit management need to be strengthened.

Our opinion is not modified due to above matter.

OtherMatter

Bank has 35 branches, out of which 12 branches were audited by us, and for remaining 23 branches, accounts as prepared by the management have been incorporated in the financial statements.

Management's Responsibility for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to ceases operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility

Our objective are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that included our opinion. Reasonable assurance is a high level assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our additional responsibilities are provided in Exhibit I.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan, 2016, we enclose Minimum Audit Examination&Reporting Requirement. (Refer Exhibit II)

Further, as required by Section 265 of the Act, we report that:

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

b) In our opinion, proper books of account as required by law have been kept by the Company so far as 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 and are in agreement with the books of accounts.

d) the company has complied with other legal and regulatory requirements.

For Gianender& Associates
Chartered Accountants
ICAI registration Number: 004661N

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

Place: New Delhi, India
Date:

G.K Agrawal
Partner
Membership No. 081603

Exhibit I

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 significant 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all

GIANENDER & ASSOCIATES * NEW DELHI * Chartered Accountants

relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

GIANENDER & ASSOCIATES
NEW DELHI
Chartered Accountants

Exhibit II

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

1. *The Bank is maintaining records showing full particulars including quantitative details of fixed assets. Situation of fixed assets and descriptions thereof are maintained by Accounts department. Physical verification of fixed assets of some of the branches were carried out by the Bank during the year 2018. Disrepancies noticed on such verification as compared to book records have not been dealt with in the books of accounts.*

2. Fixed Assets have not been re-valued during the year and therefore, there is no profits/loss on revaluation.

3. *Physical verification of various stores items were carried out by the internal audit during the year. Discrepancies noticed on such verification as compared to book records have not been dealt with in the books of account.*

4. In our opinion, rate of interest and other terms and conditions of secured/unsecured loans availed by the Bank from banks, financial institutions or other parties are prima facie not prejudicial to the interest of the Bank.

5. According to the information and explanations given to us, no loan, secured or unsecured, has been granted to other companies, firms or other parties under the same management. The loans granted by the Bank are prima facie not prejudicial to its interest. The advances granted to officers/staffs are in keeping with the provisions of service rule and no excessive and frequent advances are granted and accumulation of large advances against particular individual is avoided ***except in some of the cases unauthorized loans have been granted by the branch officials to cover misappropriation /embezzlement of cash.***

6. Internal controls of the bank relating to credit management need to be strengthened as on review of reports of Internal Audit Department, it was observed that there were many cases of embezzlement/ misappropriation, unauthorized sanctions &disbursements,irregularities in field receipts etc.

7. There is a system of competitive bidding, commensurate with the size of the Bank and the nature of its business for the purchase of goods and services including stores, equipment and other assets. The Bank is not engaged in manufacturing or trading activities.

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

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9. Unserviceable or damaged stores have been determined on the basis of verification conducted at periodic intervals.
10. The Bank is maintaining reasonable records for sale and disposal of scrap.
11. According to the records, the Bank has been regular in depositing rates and taxes, duties etc. and other statutory dues with the appropriate authorities during the year.
12. There are no undisputed amounts payable in respect of rates, taxes, duties, provident funds and other statutory deductions payable at the last day of the financial year 31.12.2018.
13. According to the information and explanations given to us, no personal expenses have been debited to the Income Statement other than those payable under contractual obligations/ service rules of the Bank.
14. The Bank has a reasonable system of recording receipts, issues and consumption of stores items commensurate with the nature and size of its business.
15. The Bank has a reasonable system for follow-up with various parties for recovery/adjustment of outstanding amounts.
16. Cash has been held time and again by the branches over and above their cash retention limits sanctioned by the Head office. This results in holding of idle cash with the defaulting branches.
17. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Bank are, in our opinion, lawful and intra-vires to the Articles of Incorporation of the Bank.
18. The Bank has a system of approval of the Board for all capital investment decision and investments in new projects and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.
19. The Bank has established an effective budgetary control system.
20. The details of remuneration to the Directors and CEO have been disclosed in Notes to financial statements.
21. The directives of the Board have generally been complied with.
22. According to the information and explanations given to us, the officials of the Bank have not transmitted any price sensitive information, which is not made publicly available to their relatives/ friends/associates, or close persons, which would directly or indirectly benefit themselves.

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In Case of Finance and Investment Bank

1. There are lapses on the documentation part of loans granted by the Bank and this area requires further improvement.
2. Proper records of the transactions and contracts have been maintained and timely entries have been made for the investments made.
3. The Bank has maintained reasonable records for funds collected from depositors and for interest payment.
4. Investments made by the Bank and outstanding in its books as on 31.12.2018 have not undergone any permanent diminution in value as per information and explanations given to us.
5. The Bank has complied with the requirements of the Financial Services Act of Bhutan, 2011 and any other applicable laws, rules and regulations and guidelines issued by the appropriate authorities as explained by the management except otherwise mentioned elsewhere in the report or notes to the accounts.
6. Provisioning for non– performing assets including loans and advances has been carried out as per accounting policy of the Bank.
7. Interest on non- performing loans has not been recognized as interest income as per accounting policy of the Bank.
8. As stated by the management, except for few cases, assets hypothecated against loans and advances have been physically verified and properly valued by management and mortgage deeds have been executed and it has been ensured that the assets are free of any prior lien or charges.
9. The Bank has a system of monitoring of projects for which loans have been provided to ensure that loan amounts are used for the specified purposes and project activities are progressing satisfactorily.
10. Taking over of assets for repayment defaults are made through open / sealed bids.
11. The Bank has complied with the guidelines for Prudential Regulations as issued by RMA for re-phasing / rescheduling of loan accounts.
12. There is a system to ensure that additional loans are not granted to those who have defaulted payments of previous advances except for some instances.

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Computerized Accounting Environment

1. *It was informed to us that Migration audit was conducted by the Royal Audit Authority for which no report was available. In some of the branches, unidentified differences are lying as "Migration account" which requires proper identification and reconciliation of related accounts.*
2. Adequate safeguard measures and back up facilities exist.
3. Back up facilities and disaster recovery measures include keeping files in different and remote locations.
4. Operational controls are adequate to ensure correctness and validity of input data and output information.
5. There are adequate preventive measures to prevent unauthorized access over the computer installation and files.

General

1. ***Going Concern Presumption***

   Based on the Bank's financial statements for the year ended 31st December, 2018, we are of the opinion that the going concern assumption is appropriate.

2. **Ratio Analysis**

   Financial and operational ratio in respect of the Bank is given in the statement of Ratio Analysis.

RATIOS	2018	2017	Comments
A. Ratios for assessing Financial health			
Capital Turnover Ratio(As per BAS)			Decrease in ratio due to increase in capital -Average capital employed has been considered
(Income / Capital Employed)	90.15%	76.20%	
Current Ratio (As per BAS)			Current ratio though within permissible norms but decline due to increase in current liabilities.
(Current Assets / Current Liabilities)	147%	143%	
Fixed Assets Turnover Ratio(As per BAS)			Decrease in ratio due to increase in fixed assets. -Average Fixed assets have been considered
(Income/Fixed Asset)	386%	543%	
B. Ratios for assessing Profitability			
Profit on Capital Employed Ratio (As per BAS) (Profit after Tax / Capital Employed)	12.54%	-34.70%	Increase in ratio due to profits. -Average capital employed has been considered
Profit Turnover Ratio(As per BAS) (Net Profit/Total Income) *100	13.66%	-39.11%	Increase in ratio due to profits. -For net profit -Profit before tax is considered.

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RATIOS	2018	2017	Comments
Operating Ratio (As per BAS) (All Expenses – Finance Charges)/Total Income*100	24.52%	23.05%	Increase in ratio due to increase in operating expenses -All expenses are excluding Impairment (charges)/reversal for loans and other losses.
Total Expenses to Total Income Ratio (As per BAS) (Total Expense/Total Income)*100	90.02%	89.68%	Decrease in ratio due to improvement in NPL -All expenses are excluding Impairment (charges)/reversal for loans and other losses.
Capital Adequacy Ratio (As per OLD GAAP)	12.50%	10.34%	
Statutory Liquidity Reserve Ratio (As per OLD GAAP)	25.83%	22.32%	Higher than minimum requirement of 20% as PR 2002 (RMA).
Credit Deposit Ratio (As per OLD GAAP)	94.29%	91.44%	Increased due to increase in Credit

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

The Bank has not complied with the following areas of the Companies Act of Bhutan 2016:

a) *Company has seven directors on its board. Article 46 prescribes appointment of minimum three directors. Article 50 states that " …… shall not any time exceed the maximum strength fixed for the Board by the Articles" Company has not fixed any maximum number of directors by the Articles. In the absence of fixation of maximum numbers, appointment of directors exceeding three director is not in conformity with Articles of Incorporation.*

4. Adherence to Laws, Rules & Regulations

Audit of the Bank is governed by the Companies Act of Bhutan 2016 and the scope of audit is limited to examination and review of the financial statements as produced to us by the management. In the course of audit, we have considered the compliance of provisions of the said Companies Act and its Article of Incorporation and we are unable to state that the Bank has been complying with the applicable laws (other than the Companies Act), rules and regulations, systems, procedures and practices.

For **Gianender & Associates**
Chartered Accountants
ICAI registration Number :004661N

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

Place: New Delhi, India
Date:

G.K Agrawal
Partner
Membership No. 081603

BHUTAN DEVELOPMENT BANK LIMITED

ANNUAL ACCOUNTS 2018

Gianender & Associates
Chartered Accountants
New Delhi
India

FINANCIAL STATEMENTS

31st DECEMBER 2018

1. CORPORATE INFORMATION

Bhutan Development Bank Limited provides services to Small and Medium Enterprises (SME) and farmers' outreach in various parts of the Kingdom of Bhutan

Bhutan Development Bank Limited is a domestic development bank incorporated and domiciled in the Kingdom of Bhutan. Its registered office is at P.O. Box 256, Norzin Lam, Thimphu, Bhutan.

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on February 16, 2019.

2.1 BASIS OF PREPARATION

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

Statement of compliance

The financial statements of the Bank have been prepared in accordance with Bhutanese Accounting Standards /Bhutan Financial Reporting Standards (BAS/BFRS) and International Financial Reporting Standards (IFRS).

Presentation of financial statements

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

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

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Audited Financial Statements for 31.12.2017 are prepared in accordance with BAS 1 on presentation of financial statements in line with BAS/BFRS and IFRS.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

Estimates and assumptions

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

Going concern

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

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.

For the purpose of valuation of quoted equity the Bank considers dividend growth model.

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Wherever the growth cannot be estimated reasonably Bank assumes a positive correlation on growth at par with the sector/GDP growth.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.3.1 Foreign currency translation

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

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.

2.3.2 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 appropriate valuation techniques.

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

2.3.3 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in

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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.

2.3.4 Leasing

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

Group as a lessee

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

2.3.5 Recognition of income and expenses

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

(i) Fee and commission income

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

Fee income can be divided into the following two categories:

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.

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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.

(ii) Dividend income

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

(iii) 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. This includes any ineffectiveness recorded in hedging transactions.

2.3.6 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.

2.3.7 Property, Plant and Equipment

Property, Plant and Equipment (including equipment under operating leases where the Bank is the lessor) 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	20-50 years
Furniture & Fitting	10 years

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Office Equipment	5 years
Electrical Equipment	10 years
Network Equipment	5 years
Computer Hardware	5 years
Motor Vehicle	10 years
Security Equipment	5 years

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

2.3.8 Intangible assets

The Bank's other intangible assets include the value of computer software.

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 Bank.

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 expense on intangible assets with finite lives is presented as a separate line item in the income statement.
Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 6-7 years

2.3.9 Provisions

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

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2.3.10 Dividends on ordinary shares

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

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.3.11 Equity reserves

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

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

2.3.12 Changes in Accounting Policies

1. **New Amended standards and interpretations**

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

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 de recognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on De recognition

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- 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.

Changes to impairment calculation

The adoption of BFRS 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 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 29 and 30. The quantitative impact of applying BFRS 9 as at 1 January 2018 is disclosed in Note 36.

BFRS 7R

To reflect the differences between BFRS 9 and BAS 39, BFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with BFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 12.3.4

Summary of significant accounting policies

2.1. Recognition of interest income

2.1.1. 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 amortized 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

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asset.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognizes 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 recognizes 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 amortized through Interest and similar income in the income statement.

2.1.2. Interest & 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 (as set out in Note 30 to 35) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

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.

2.2. Financial Instrument - Initial Recognition
2.2.1 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.

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2.2.2. 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 2.3.2. Financial instruments are initially measured at their fair value (as defined in Note 2.2), 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

2.2.3. Day 1 Profit & Loss

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

2.2.4. 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:

- Amortized Cost, as explained in Note 2.3.1.2
- FVOCI, as explained in Note 2.3.4
- FVPL, as explained in Note 2.3.2

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.

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.

2.3. Financial assets and liabilities

Due from banks, Loans and advances to customers, Financial investments at amortised cost, from 1 January 2018, the Bank only measures Due from 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:

2.3.1.1 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 of aggregated portfolios 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.

2.3.1.2. 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.

'Principal' 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 amortization of the premium/discount).

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

In contrast, contractual terms that introduce a more than de minimum 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

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

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

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

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.

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 de recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

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

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of 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

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are not subject to an impairment assessment.

2.3.6. Debt issued and other borrowed funds

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

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

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

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

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

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

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

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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.

2.3.8. Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.
Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under BAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under BFRS 9 – an ECL provision as set out in Note 2.6.2.

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.

2.4. Reclassification of financial assets and liabilities

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

The Bank did not reclassify any of its financial assets or liabilities in 2017 & 2018.

2.5. De recognition of financial assets and liabilities

2.5.1. De recognition 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 de recognition gain or loss, to the extent that an impairment

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loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

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

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

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

2.5.2. De recognition other than for substantial modification

2.5.2.1. 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 de recognition.

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 or
- 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

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- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients without material delay.
- 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.

2.5.2.1. Financial assets continued

A transfer only qualifies for de recognition if either:

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

  or

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

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

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

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

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.

2.5.2.2. 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

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

2.6.1. Overview of the ECL principles

As described in Note 1.1.1, 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 12m ECL is 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.

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 29 to 35.

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.

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.

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- Stage 3:
  Loans considered credit-impaired. 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.

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

2.6.2. The calculation of ECLs

The Bank calculates ECLs based on a 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.

- EAD
  The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, hether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

  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.

  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

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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.

- 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.

  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 31. 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 xxxx, 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.

  Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 35.
  The mechanics of the ECL method are summarised below:

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

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of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3:
  For loans considered credit-impaired , 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.

- Loan Commitments and letters of credit:
  When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment 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 loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

- Financial Guarantee contracts:
  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.

The measurement of impairment losses both under BFRS 9 and IAS 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 Banks for criteria assessing if there has been a significant increase in credit risk and so allowance for financial asset should be measured on a LTECL basis and qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs,

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such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

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 ECL model.

2.6.3. 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.

2.6.4. 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.

2.6.5. Credit cards and other revolving facilities

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

2.6.6. 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
- Unemployment rates
- Central Bank base rates
- Inflation

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- Exchange Rate

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

- Government Policies
- Industry Business cycle
- Regulatory impact

2.7. 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.

2.8. 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.

2.9. 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

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carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.10. Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the 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. The Bank also considers whether the assets should be classified as Stage 3.

2.11 Grouping financial assets measured on a collective basis

As explained in Note 2.6.1 dependant 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

Asset classes where the Bank calculates ECL on a collective basis include:

- Customers below the Individually Significant thresh hold

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

For retail mortgages these are:

- Product type (buy to let/owner occupied)
- Property type (prime, standard grade, low grade)
- Geographic location
- Loan-to-value ratios

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- Internal grade
- Exposure value

For consumer lending these are:

- Product type (overdraft, unsecured personal loan, credit card, etc.)
- Internal grade
- Geographic location/residence of the borrower
- Utilisation
- In the case of credit cards, whether or not borrowers repay their balances in full every month
- Exposure value

For small business lending these are:

- Borrower's industry
- Internal credit grade
- Geographic location
- Exposure value
- Collateral type

3.1. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

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 Credit Risk Department verifies the accuracy of inputs to the Bank' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios for each of the four geographical segments, as at 31 December 2017 and 2018.

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

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31 December 2018

Key drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent years
		%	%	%	%	%	%	%
GDP growth %								
	Upside	30	2.6	2.8	2.8	2.38	2.9	2.3
	Base case	40	2.2	2.3	2.3	2.8	2.4	2.3
	Downside 1	15	2.1	1.6	0.9	1.2	1.7	2.3
	Downside 2	15	0.5	-0.5	-1.0	0.0	1.4	2.3
Unemployment rates %								
	Upside	30	4.1	4.2	4.3	4.3	4.4	4.8
	Base case	40	5.5	5.8	5.6	5.4	5.2	4.8
	Downside 1	15	6.1	7.2	6.8	6.1	5.3	4.8
	Downside 2	15	7.0	8.3	7.8	7.3	5.5	4.8
Central Bank base rates %								
	Upside	30	2.79	2.8	2.56	2.4	2.3	2.2
	Base case	40	2.5	2.50	2.40	2.31	2.20	2.20
	Downside 1	15	2.30	2.10	2.00	2.10	2.10	2.20
	Downside 2	15	2.10	1.80	1.90	2.00	2.10	2.20
House price index %								
	Upside	30	0.9	1.5	2.3	3.0	2.84	2.7
	Base case	40	0.5	1.06	1.5	2.0	2.4	2.7
	Downside 1	15	-0.5	-0.6	0.7	1.9	2.3	2.7
	Downside 2	15	-1.5	-1.4	-0.6	1.5	2.5	2.7

1 January 2018

Key drivers	ECL Scenario	Assigned Probabilities	2018	2019	2020	2021	2022	Subsequent years
		%	%	%	%	%	%	%
GDP growth								
	Upside	30	3.1	2.9	2.8	2.6	2.5	2.3
	Base case	40	0,7	1.0	1.5	1.7	1.9	2.3
	Downside 1	15	0.2	0.5	2.1	2.1	2.3	2.3
	Downside 2	15	-0.40	-1.70	-1.0	1.2	2.0	2.3
Unemployment rates								
	Upside	30	4.6	4.4	4.3	4.5	4.7	4.8
	Base case	40	5.4	5.2	5.1	4.9	4.9	4.8
	Downside 1	15	6.0	6.3	6.0	5.7	5.3	4.8
	Downside 2	15	6.5	7.3	7.0	6.2	5.7	4.8
Central Bank base rates								
	Upside	30	2.80	2.70	2.60	2.40	2.30	2.20
	Base case	40	2.60	2.50	2.40	2.30	2.20	2.20
	Downside 1	15	2.50	2.00	1.90	2.00	2.10	2.20
	Downside 2	15	2.30	2.21	2.10	2.00	2.10	2.20
House price index								
	Upside	30	1.4	1.9	3.3	3.1	2.9	2.7
	Base case	40	1.0	1.5	1,9	2.2	2.5	2.7
	Downside 1	15	0.0	0.8	1,5	1.9	2.3	2.7
	Downside 2	15	-0.5	0.5	1.0	1.7	2.1	2.7

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INCOME STATEMENT

FOR THE YEAR ENDING

	Note	Dec/18 Nu	Dec/17 Nu
Interest & Similar Income	4	2,092,539,811	1,972,742,968
Interest & Similar Expense	5	(1,412,902,694)	(1,347,835,104)
Net interest income		**679,637,117**	**624,907,864**
Fee and commission income	6	33,515,328	36,540,864
Fee and commission expenses		-	-
Net fee and commission income		**33,515,328**	**36,540,864**
Other Operating Income	7	31,042,966	13,463,736
Total operating income		**744,195,411**	**674,912,464**
Personnel Expenses	8	(269,087,670)	(226,942,303)
Depreciation on Property Plant & Equipment	17	(60,594,580)	(61,175,185)
Amortization of Intangible Assets	18	(12,339,032)	(4,696,488)
Other Operating Expenses	9	(187,002,534)	(173,413,533)
Impairment (charges)/reversal for loans and other losses	13	106,936,403	(970,836,756)
Total Operating Expenses		**(422,087,415)**	**(1437064266)**
Profit Before Tax from Continuing Operations		**322,107,997**	**(762,151,802)**
Less : Expenditure on Community Centers (net of Income Nu. 4,506,842)	10	(27,392,142)	(28,891,495)
		294,715,855	**(791,043,296)**
Income Tax Expense	22	(5,371,890)	130,124,364
Profit For the year ending		**300,087,745**	**(921,167,660)**

Note 1 to 48 form an integral part of Financial Statements

In terms of our attached report of even date.
For Gianender & Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

G.K. Agrawal
Partner
Membership No. 081603
Dated:
Place : Delhi, India

Chief Executive Officer

Chairman

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Dec/18 Nu	Dec/17 Nu
Profit for the year ending	**300,087,745**	**(921,167,660)**
Gains /(losses) on re-measuring available for sale financial assets	(9,504,414)	(511,965)
Impairment during the year - Available for sale investments	-	-
Gain/(loss) on Actuarial valuation of defined benefit liability	(672,078)	(1,440,482)
Total other comprehensive income / (loss)	**289,911,253**	**(1,952,447)**
Income tax income /(expense) relating to components of other comprehensive income	-	-
Total comprehensive income for the year, net of tax	**289,911,253**	**(923,120,108)**

Note 1 to 48 form an integral part of Financial Statements

In terms of our attached report of even date.
For Gianender & Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

G.K.Aggrawal
Partner
Membership No. 081603
Dated :
Place : Delhi, India

Chief Executive Officer

Chairman

STATEMENT OF FINANCIAL POSITION

AS AT	Note	Dec/18 Nu	Dec/17 Nu	Jan/17 Nu
Assets				
Cash & Cash Equivalent	11	1,033,785,150	2,057,664,062	1,146,711,320
Balances with Central Bank		4,558,530,690	3,145,623,910	3,289,114,317
Due from Banks	12	2,226,479,604	1,568,427,036	1,610,142,126
Loans & Advances to Customers	13	16,149,426,484	15,971,251,657	15,160,391,664
Equity Instruments at FVOCI	14	53,871,996	44,367,583	43,761,202
Debt Instruments at Amortised Cost	15	435,969,348	421,266,432	425,053,556
Other Assets	16	402,108,414	433,111,234	393,975,388
Property, Plant & Equipment	17	253,765,244	285,912,990	293,115,321
Intangible Assets	18	107,630,117	108,791,951	57,561,143
Total Assets		**25,221,567,046**	**24,036,416,856**	**22,419,826,039**
Liabilities				
Due to Banks	19	1,321,999,945	996,526,429	1,136,189,393
Due to Customers	20	21,012,626,967	20,548,704,715	18,029,398,131
Retirement benefit plans	23	67,461,629	57,909,228	52,274,515
Deferred Tax Liability		124,752,474	130,124,364	
Other Liabilities	22	102,665,195	109,751,177	86,561,295
Total Liabilities		**22,629,506,210**	**21,843,015,914**	**19,304,423,335**
Equity				
Share Capital		600,317,000	507,317,000	507,317,000
Retained Earnings		803,809,051	624,419,708	1,547,027,850
Other Reserves		1,172,504,620	1,055,738,480	1,055,738,480
FVOCI Reserve		15,430,168	5,925,755	5,319,375
Total Equity		**2,592,060,839**	**2,193,400,943**	**3,115,402,705**
Total Liabilities and Equity		**25,221,567,047**	**24,036,416,856**	**22,419,826,039**

Note 1 to 48 form an integral part of Financial Statements

In terms of our attached report of even date.
For Gianender & Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES
NEW DELHI
Chartered Accountants

G.K. Agrawal
Partner
Membership No. 081603
Dated:
Place : Delhi, India

Chief Executive Officer

Chairman

STATEMENT OF CHANGES IN EQUITY

				Other Reserves				
	Stated Capital	Retained Earnings	General Reserves	Reserve for Land And Building	Professional Development Fund	Staff Development Fund	FVOCI	Total Shareholder Funds
Balance as at January 1 2017	507,317,000	1,776,443,016	946,792,826	20,000,000	48,945,654	40,000,000	5,319,375	3,344,817,871
IFRS 9 Transitional Adjustment		(229,415,166)						(229,415,166)
Adjustments/Additional							606,380	606,380
Acturial Gains/(Losses)		(1,440,482)						(1,440,482)
Net profit for the year		(921,167,660)						(921,167,660)
Transfers during the year								-
Balance as at 31st December 2017	**507,317,000**	**624,419,708**	**946,792,826**	**20,000,000**	**48,945,654**	**40,000,000**	**5,925,755**	**2,193,400,943**
Balance as at January 1 2018	507,317,000	624,419,708	946,792,826	20,000,000	48,945,654	40,000,000	5,925,755	2,193,400,943
Adjustments/Additional	93,000,000	-			-	3,260,183)	9,504,413	99,244,230
Acturial Gains/(Losses)		(672,078)						(672,078)
Net profit for the year		300,087,745						300,087,745
Transfers during the year		(120,026,323)	90,026,323.47	20,000,000	0	10,000,000	-	-
Balance as at 31st December 2018	**600,317,000**	**803,809,051**	**1,036,819,149**	**40,000,000**	**48,945,654**	**46,739,817**	**15,430,168**	**2,592,060,839**

Note 1 to 48 form an integral part of Financial Statements

In terms of our attached report of even date.

For Gianender & Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES ★ NEW DELHI ★ Chartered Accountants

G.K. Agrawal
Partner
Membership No. 081603
Dated:

Chief Executive Officer

Chairman

STATEMENT OF CASH FLOWS

AS AT	Dec/18 Nu	Dec/17 Nu
Operating Activities		
Profit Before Tax from Continuing Operations	294,715,855	(791,043,296)
Adjustments for ;		
Dividend received	(795,428)	(508,109)
Depreciation of Property, plant and equipment	72,933,613	65,871,673
Movement in Impairment of Loans & Advances	(106,936,403)	970,328,984
(Gain)/loss on Disposal of PPE	895,120	342,640
Operating profit before changes in operating assets & liabilities	**260,812,757**	**244,991,893**
(Increase)/Decrease in operating assets		
Balance with Royal Monetary Authority	(1,412,906,780)	143,490,407
Loans & Advances to Customers	(71,238,424.10)	(1,781,188,977)
Funds advanced to banks		
Financial Investments	(14,702,916)	3,787,124
Other assets	31,002,820	(39,135,846)
Increase/(Decrease) in operating liabilities		
Movement in gov't Grant	-	
Movement in Share Capital	93,000,000	
Movement in other reserve	6,739,817	
Retirement Benefit Plans	8,880,323	4,194,231
Other liabilities	(7,085,982)	23,189,882
Due to banks	325,473,516	(139,662,964)
Due to customers	463,922,252	2,519,306,584
Net cash flow from operating activities	**(576,915,374)**	**733,980,440**
Cash flow from investing activities		
Placement with other Banks	(658,052,568)	41,715,090
Dividend received	795,428	508,109
Purchase of property & equipment	(40,519,154)	(110,242,790)
	(697,776,294)	**(68,019,591)**
Cash flow from financing activities		
	-	-
Net cash flow from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(1,013,878,910)	910,952,742
Cash the beginning of the year	2,057,664,062	1,146,711,320
Cash at the end of the year	**1,043,785,152**	**2,057,664,062**

Note 1 to 48 form an integral part of Financial Statements

In terms of our attached report of even date.
For Gianender & Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

G.K.Agrawal
Partner
Membership No. 081603
Dated:
Place : Delhi, India

Chief Executive Officer

Chairman

3. Reclassification and Re-mesurement from BAS 39 to BFRS 9

3.1 Reconciliation to Statement of Financial Position As At

	Note	With BAS 39 Dec/16 Nu	Ref	Re-measurement	with BFRS 9 Dec/16 Nu
Assets					
Cash	10	1,146,721,506	A	10,186	1,146,711,320
Balances with Central Bank	10	3,289,114,317		-	3,289,114,317
Due from Banks	11	1,610,166,892	A	24,766	1,610,142,126
Loans & Advances to Customers	12	15,389,765,486	B	229,373,822	15,160,391,664
Equity Instruments at FVOCI	13	43,761,202		-	43,761,202
Debt Instruments at Amortised Cost	14	425,059,948	A	6,392	425,053,556
Other Assets	15	393,975,388		-	393,975,388
Property, Plant & Equipment	16	293,115,321		-	293,115,321
Intangible Assets	17	57,561,143		-	57,561,143
Total Assets		**22,649,241,204**		**229,415,166**	**22,419,826,037**
Liabilities					
Due to Banks	18	1,136,189,393		-	1,136,189,393
Due to Customers	19	18,029,398,131		-	18,029,398,131
Retirement benefit plans	20	52,274,515		-	52,274,515
Other Liabilities	21	86,561,295		-	86,561,295
Total Liabilities		**19,304,423,334**		**-**	**19,304,423,334**
Equity					
Share Capital		507,317,000		-	507,317,000
Retained Earnings		1,776,443,016		229,415,166	1,547,027,850
Other Reserves		1,055,738,480		-	1,055,738,480
AFS Reserve		5,319,375		-	5,319,375
Total Equity		**3,344,817,871**		**229,415,166**	**3,115,402,705**
Total Liabilities and Equity		**22,649,241,204**		**229,415,166**	**22,419,826,038**

Note 1 to 39 form an integral part of Financial Statements

In terms of our attached report of even date.
For Gianender & Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

G.K. Agrawal
Partner
Membership No. 081603
Dated:
Place : Delhi, India

Chief Executive Officer

Chairman

3. Reclassification and Re-mesurement from BAS 39 to BFRS 9

3.2 Reconciliation to Statement of Financial Position As At

	Note	With BAS 39 Dec/18 Nu	Ref	Re-measurement	with BFRS 9 Dec/17 Nu
Assets					
Cash	10	2,057,681,724	A	17,662	2,057,664,062
Balances with Central Bank		3,145,623,910		-	3,145,623,910
Due from Banks	11	1,568,447,439	A	20,403	1,568,427,036
Loans & Advances to Customers	12	16,083,019,436	B	111,767,779	15,971,251,657
Equity Instruments at FVOCI	13	44,367,583		-	44,367,583
Debt Instruments at Amortised Cost	14	421,272,000	A	5,568	421,266,432
Other Assets	15	433,111,234		-	433,111,234
Property, Plant & Equipment	16	285,912,990		-	285,912,990
Intangible Assets	17	108,791,951		-	108,791,951
Total Assets		**24,148,228,266**		**111,811,412**	**24,036,416,854**
Liabilities					
Due to Banks	18	996,526,429		-	996,526,429
Due to Customers	19	20,548,704,715		-	20,548,704,715
Retirement benefit plans	20	57,909,228		-	57,909,228
Deferred Tax Liability			D	(130,124,364)	130,124,364
Other Liabilities	21	109,751,177		-	109,751,177
Total Liabilities		**21,712,891,549**		**(130,124,364)**	**21,843,015,913**
Equity					
Share Capital		507,317,000		-	507,317,000
Retained Earnings		866,355,483		241,935,775	624,419,708
Other Reserves		1,055,738,480		-	1,055,738,480
AFS Reserve		5,925,754		-	5,925,754
Total Equity		**2,435,336,717**		**241,935,775**	**2,193,400,942**
Total Liabilities and Equity		**24,148,228,266**		**111,811,411**	**24,036,416,855**

Note 1 to 39 form an integral part of Financial Statements

In terms of our attached report of even date.
For Gianender & Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

G.K. Agrawal
Partner
Membership No. 081603
Dated:
Place : Delhi, India

Chief Executive Officer

Chairman

3. Reclassification and Re-measurement from BAS 39 to BFRS 9

3.3 Reconciliation to Statement of Financial Position As At

	With BAS 39 Dec/17 Nu	Ref	Re-measurement	with BFRS 9 Dec/17 Nu
Interest & Similar Income	2,143,413,934	C	170,670,966	1,972,742,968
Interest & Similar Expense	(1,347,835,104)		-	(1,347,835,104)
Net interest income	**795,578,830**		**170,670,966**	**624,907,864**
Fee and commission income	36,540,864		-	36,540,864
Fee and commission expenses	-		-	-
Net fee and commission income	**36,540,864**		**-**	**36,540,864**
Other Operating Income	13,463,736		-	13,463,736
Total operating income	**845,583,430**		**170,670,966**	**674,912,464**
Personnel Expenses	(226,942,303)		-	(226,942,303)
Depreciation on Property Plant & Equipment	(61,175,185)		-	(61,175,185)
Amortization of Intangible Assets	(4,696,488)		-	(4,696,488)
Other Operating Expenses	(173,413,533)		-	(173,413,533)
Impairment (charges)/reversal for loans and other losses	(1,259,111,477)	B	(288,274,721)	(970,836,756)
Total Operating Expenses	**(1,725,338,9860)**		**(288,274,721)**	**(1,437,064,266)**
Profit Before Tax from Continuing Operations	**(879,755,557)**		**(117,603,755)**	**(762,151,802)**
Less : Expenditure on Community Centers (net of Income 5,813,788)	(28,891,495)		-	(28,891,495)
	(908,647,052)		**(117,603,755)**	**(791,043,296)**
Income Tax Expense	-	D	-	130,124,364
Profit For the year ending	**(908,647,052)**		**(117,603,755)**	**(921,167,660)**

Notes to the Reconciliation of Statement of Financial Position as at 31st December, 2016 &2017 and Statement of Comprehensive income as on 31st December, 2017.

a. ALL the Financial Assets measured at Fair value through other Comprehensive Income (except investment in equity share) & amortized cost shall be subjected to impairment assessment under BFRS 9 Financial Instrument.

b. The adoption of BFRS 9 has fundamentally changed the Bank's accounting for loan loss impairment by replacing BAS 39's incurred loss approach with a forward- looking expected credit loss (ECL) approach. BFRS requires the Bank to record all impairment allowances for ECLs for all Loans together with loan commitments and financial guarantee contracts.

c. Under BFRS 9, unlike BAS 39, when the financial asset becomes credit impaired and categorize as Stage 3, the interest accrual ceases. If the financial assets cure and is no longer under stage 3, then the Bank reverts to calculate income.

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

4 INTEREST AND SIMILAR INCOME

	Dec/18 Nu	Dec/17 Nu
Loans & Advances to customers	1,962,093,356	1,844,373,481
Due from Banks	62,452,764	79,764,066
Notional Interest on Staff Loans	7,229,749	7,229,749
Brokerage	-	-
Other short term investments	60,763,942	41,375,673
	2,092,539,811	1,972,742,968

5 INTEREST & SIMILAR EXPENSE

	Dec/18 Nu	Dec/17 Nu
Due to customers	1,345,200,560	1,295,622,245
Due to banks	67,702,134	52,212,859
	1,412,902,694	1,347,835,104

6 NET FEES & COMMISSION INCOME

	Dec/18 Nu	Dec/17 Nu
Fees & Commission Income		
Commission on Guarantee	10,539,383	18,233,218
Other fees Received	22,975,945	18,307,646
Total fees and commission income	**33,515,328**	**36,540,864**
Fees & Commission Expense	-	-
Net Fees & Commission Income	33,515,328	36,540,864

7 OTHER OPERATING INCOME

	Dec/18 Nu	Dec/17 Nu
Operating lease income	5,331,476	5,564,738
Other	25,711,490	7,898,999
	31,042,965	13,463,736

8 PERSONNEL EXPENSES

	Dec/18 Nu	Dec/17 Nu
Wages & Salaries	207,006,854	185,094,799
Training & Seminars Expenses	33,769,460	28,370,254
Amortization of Pre-paid employment benefits	7,229,749	7,229,749
Current Period Service cost/Interest Expense	5,198,338	6,247,501
Leave Encashment	15,883,269	-
	269,087,670	226,942,303

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

9	OTHER OPERATING EXPENSES	Dec/18 Nu	Dec/17 Nu
	Advertising and marketing	6,677,994	15,071,444
	Administrative	127,601,292	100,218,085
	Professional fees	2,906,002	2,269,663
	Bank levy	129,481	149,233
	Other	46,333,054	38,492,162
	Provision on receivables	3,354,711	17,212,946
	Prior Period income/Expense	-	-
		187,002,534	173,413,533

10	Community Center Operations	Nu	Nu
	Expenditure on Community Centers (net of Income)	(27,392,142)	(28,891,495)
		(27,392,142)	(28,891,495)

11	CASH & CASH EQUIVALENT	Dec/18 Nu	Dec/17 Nu
	Cash on hand/Bank Balance	1,033,790,953	2,057,681,724
	Allowance for Expected Credit Losses	(5,803)	(17,662)
		1,033,785,150	2,057,664,062

12	DUE FROM BANKS	Dec/18 Nu	Dec/17 Nu
	Placements with other banks	2,226,518,008	1,529,955,277
	Other	-	38,492,162
	Allowance for Expected Credit Losses	(38,404)	(20,403)
		2,226,479,604	1,568,427,036

	BALANCE WITH CENTRAL BANK	Dec/18 Nu	Dec/17 Nu
	Balance in Cash Reserve Ratio	2,024,417,249	1,961,329,055
	Balance in Current Deposit	2,534,113,441	885,394,455
	Short Term Investment - Treasury Bill	-	298,900,400
		4,558,530,690	3,145,623,910

13	LOANS & ADVANCES TO CUSTOMERS	Dec/18 Nu	Dec/17 Nu
	Loans & Receivables	18,132,470,390.70	18,065,741,314
		18,132,470,391	**18,065,741,314**
	Less: Allowance for Impairment (Collective)	(1,983,043,907)	(2,094,489,657)
		16,149,426,484	**15,971,251,657**

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

13.1 **Impairment (charges)/reversal**

Impairment (charges)/reversal for loans	(111,445,750)	970,328,984
Impairment (charges)/reversal for other assets	7,849	2,289
Write Offs	4,501,498.53	505,483
	(106,936,403)	**970,836,756**

14 Equity Instruments at FVOCI

	Dec/18 Nu	Dec/17 Nu	Dec/16 Nu
Quoted Investments			
Quoted Equities (14.1)	26,310,996	16,806,583	16,200,202
Unquoted Equities (14.2)	27,561,000	27,561,000	27,561,000
	53,871,996	44,367,583	43,761,202

	No. of Shares			
(14.1) Quoted Equities				
Bhutan Carbide and Chemical Limited	25,000	457,790	113,175	113,175
Penden Cement Authority Limited	38,100	3,556,000	3,396,822	3,555,404
Bhutan National Bank Limited	178,120	20,085,781	6,546,586	7,531,623
GIC Bhutan Reinsurance Limited	500,000	2,211,425	6,750,000	5,000,000
		26,310,996	16,806,583	16,200,202
(14.2) Unquoted Equities				
Royal Securities Exchange of Bhutan	162,000	19,811,000	19,811,000	19,811,000
Financial Institution Training Institute	600,000	6,000,000	6,000,000	6,000,000
Credit Information Bureau	137,500	1,750,000	1,750,000	1,750,000
		27,561,000	27,561,000	27,561,000

15 Debt Instruments at Amortised Cost

	Dec/18 Nu	Dec/17 Nu	Dec/16 Nu
Investments in RICBL Bonds	108,953,425	100,000,000	108,907,634
Investments in DCCL Bonds	316,167,581	311,272,000	316,152,314
Investments in RSA Bonds	10,855,617	10,000,000	-
Allowance for Expected Credit Losses	(7,275)	(5,568)	(6,392)
	435,969,348	421,266,432	425,053,556

Bank has invested 100,000 scripts of RICBL bond at Nu.1,000 each, and 311,272 scripts of DCCL bonds at Nu. 1,000 each respectively. Such investments are intended to be held to maturity in order to recover the contractual cashflows (Principal + Interest). Although the bonds are listed in the Royal Securities Exchange it does not meet the definition of an Active Market. Hence bank has determined it's Financial Asset Classification as Loans & Recievables in Line with BAS 39 Financial Instrument Recognition & Measurement.

GIANENDER & ASSOCIATES NEW DELHI Chartered Accountants

16 OTHER ASSETS

	Dec/18 Nu	Dec/17 Nu	Dec/16
Loans & Advances to Employees	144,664,190	180,269,242	188,603,437
Advances & Pre-payments	18,655,397	12,902,780	8,654,899
Pre-paid Employment Benefits	164,601,715	153,051,292	159,736,690
Stock of Stationeries and Spares	11,582,170	6,609,146	5,771,299
Accounts/Other receivables	687,524	26,763,018	16,652,877
Pre-Paid Tax	51,517,871	48,539,623	4,934,408
Security Deposits	-	-	86,500
ATM - Receivable (Net)	10,399,547	4,976,132	9,535,278
	402,108,414	**433,111,234**	**393,975,383**

GIANENDER & ASSOCIATES ★ NEW DELHI ★ Chartered Accountants

17 **PROPERTY, PLANT AND EQIPMENT**

Cost:	Land	Buildings		Furniture and Fixtures	Arts & Art Effects	Office, Electrical & other Equipment	Motor Vehicles	Security Equipments	Network Equipments	Computer Hardware	Capital WIP	Total
	Nu	Nu		Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu
At 1 January 2016	2,588,622	86,548,640		30,566,260	817,438	31,649,744	13,267,787	5,759,394	34,916,666	78,207,523	1,957,560	286,279,634
Movement During the Period	-	4,832,504		4,577,203	23,170	5,859,358	103,635	11,650,552	10,246,291	10,549,728	83,506,226	131,348,667
Disposals				(1,304,452)		(1,049,446)		(70,341)	(293,124)	(2,736,548)		(5,453,911)
At 31st December 2016	2,588,622	91,381,144		33,839,011	840,608	36,459,656	13,371,422	17,339,605	44,869,833	86,020,702	85,463,786	412,174,390
	-	-	-	-	-	-	-	-	-	-	-	-
At 1 January 2017	2,588,622	91,381,144	-	33,839,011	840,608	36,459,656	13,371,422	17,339,605	44,869,833	86,020,702	85,463,786	412,174,390
Movement During the Period	-	3,123,136		8,062,213	101,300	13,809,770	6,576,917	18,270,000	17,311,717	68,799,753	(81,727,919)	54,326,889
Disposals	-	-		(295,552)	-	(374,869)	-		(1,066,421)	(1,151,197)	-	(2,888,038)
At 31st December 2017	2,588,622	94,504,280	-	41,605,672	941,908	49,894,557	19,948,339	35,609,605	61,115,129	153,669,258	3,735,867	463,613,240
At 1 January 2018	2,588,622	94,504,280	-	41,605,672	941,908	49,894,557	19,948,339	35,609,605	61,115,129	153,669,258	3,735,867	463,613,237
Movement During the Period	-	3,475,794		2,709,150	10,420	5,592,155	95,261	0	2,474,381	12,997,648	2,776,552	30,131,360
Disposals				(1,284,693)	(1,970)	(2,184,475)	(1,691,185)	(22,700)	(783,273)	(5,520,929)		(11,489,226)
At 31st December 2018	2,588,622	97,980,074	-	43,030,128	950,358	53,302,237	18,352,414	35,586,905	62,806,237	161,145,977	6,512,419	482,255,372
		-										
Accumulated Depreciation						-						
At 1 January 2016		11,433,838		8,313,463		14,159,030	3,803,092	1,862,511	26,211,445	23,952,841		89,736,219
Depreciation charge for the year		4,115,310		4,668,313		4,154,638	899,712	575,191	4,179,305	14,814,121		33,406,590
Assets Disposed				977,069		655,191		70,338	258,743	2,122,399		4,083,741
Amortization to the Grants						-						-
At 31st December, 2016		15,549,148		13,958,845	-	18,968,859	4,702,804	2,508,040	30,649,493	40,889,362	-	119,059,069
At 1 January 2017	-	15,549,148		12,004,706	-	17,658,477	4,702,804	2,367,364	30,132,006	36,644,563		119,059,070
Depreciation charge for the year	-	4,116,416		2,937,218	-	21,478,118	204,124	4,164,754	6,017,468	22,257,087		61,175,185
Assets Disposed				(243,152)		(322,742)			(953,352)	(1,006,153)		(2,525,399)
Amortization to the Grants						-						
At 31st December, 2017	-	19,665,564	-	14,698,773	-	38,813,853	4,906,929	6,532,119	35,196,121	57,895,497	-	177,708,856
						-						

At 1 January 2018	-	19,665,564	-	14,698,773	-	38,813,853	4,906,929	6,532,119	35,196,121	57,895,497		177,708,855
Depreciation charge for the year		4,427,629		4,475,647		8,320,895	2,102,526	6,829,707	7,394,564	27,035,011		60,585,977
Assets Disposed				1,090,393		1,698,096	1,691,184	13,800	690,352	4,620,880		9,804,705
Amortization to the Grants						-						-
At 31st December 2018	-	24,093,193	-	18,084,026	-	45,436,652	5,318,270	13,348,025	41,900,333	80,309,628		228,490,128
Net book value:												
At 31st December, 2016	2,588,622	75,831,996		19,880,166	840,608	17,490,797	8,668,618	14,831,565	14,220,341	45,131,340	85,463,786	293,115,321
At 31st December 2017	2,588,622	74,838,716	#REF!	26,906,899	941,908	11,080,704	15,041,410	29,077,486	25,919,008	95,773,761	3,735,867	285,904,384
At 31st December 2018	2,588,622	73,886,882	-	24,946,102	950,358	7,865,585	13,034,144	22,238,880	20,905,903	80,836,348	6,512,419	253,765,244

There were no capitalized borrowing costs related to the acquisition of property, plant & equipment during the year.

No depreciation charged on Art and Artifacts

18	INTANGIBLE ASSETS	Softwares	IAUD	Total
	At 1 January 2016	51,654,392	-	51,654,392
	Movement During the Period	1,978,511	35,941,940	37,920,451
	Disposals			
	At 31st December 2016	**53,632,903**	**35,941,940**	**89,574,843**
	At 1 January 2017	53,632,903	35,941,940	89,574,843
	Movement During the Period	91,869,236	(35,941,940)	55,927,296
	Disposals			-
	At 31st December 2017	**145,502,139**	**-**	**145,502,139**
	At 1 January 2018	145,502,139		145,502,139
	Movement During the Period	11,177,198	-	11,177,198
	Disposals			
	At 31st December 2018	**156,679,337**		**156,679,337**
	Accumulated Amortization			
	At 1 January 2016	27,796,855	-	27,796,855
	Disposals		-	-
	Amortization	4,216,845	-	4,216,845
	At 31st December 2016	**32,013,700**	**-**	**32,013,700**
	At 1 January 2017	32,013,700	-	32,013,700
	Disposals			-
	Amortization	4,696,488	-	4,696,488
	At 31st December 2017	**36,710,188**	**-**	**36,710,188**
	At 1 January 2018	36,710,188	-	36,710,188
	Movement During the Period	-	-	-
	Disposals	-	-	-
	Amortization	12,339,032	-	12,339,032
	At 31st December 2018	**49,049,220**		**49,049,220**
	Net book value:			
	At 31st December 2016	21,619,203	35,941,940	57,561,143
	At 31st December 2017	108,791,951	-	108,791,951
	At 31st December 2018	107,630,117	-	107,630,117

19	DUE TO BANKS	Dec/18	Dec/17	Dec/16
		Nu	**Nu**	**Nu**
	Unsecured Loans	161,290,250	165,445,005	190,631,437
	Secured Loans	711,766,134	382,208,547	515,557,956
	Subordinated Term Debt	448,943,562	448,872,877	430,000,000
		1,321,999,945	**996,526,429**	**1,136,189,393**

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20	DUE TO CUSTOMERS	Dec/18	Dec/17	Dec/16
		Nu	Nu	Nu
	Fixed Deposit	15,517,838,794	15,748,205,550	13,967,184,416
	Recurring Deposit	310,546,510	232,441,221	198,244,338
	Savings Deposits	4,590,036,651	3,799,881,255	3,115,952,002
	Current Deposit	594,205,012	768,176,689	748,017,375
		21,012,626,967	**20,548,704,715**	**18,029,398,131**

21	**RETIREMENT BENEFIT PLANS**	67,461,629	7,299,860	8,648,447

22	**Deferred Tax Liability**			
	Deferred Tax Liability	124,752,474	130,124,364	

23(i) OTHER LIABILITIES

	Dec/18	Dec/17	Dec/16
	Nu	Nu	Nu
Accounts payable & Sundry creditors	56,430,957	62,496,027	45,750,889
Provisions	925,108	800,000	600,000
	57,356,065	**63,296,027**	**46,350,889**

23(ii)	Revolving Funds	Dec/18	Dec/17	Dec/16
		Nu	Nu	Nu
	Credit - Bio-Gas	39,386,000	39,386,000	32,112,152
	Subsidy - Bio-Gas	-	-	56,375
	Rudolf Fund - Credit	3,708,950	4,050,736	4,046,363
	Rudolf (Monitoring and Supervision A/C)	183,901	189,697	207,237
	Rudolf Fund - Subsidy	149,161	937,359	1,788,279
	BCCI - SME Development Revolving Fund RLP -II	1,300,000	1,300,000	1,300,000
	Coop. Revolving (DAMC) Fund	581,117	591,357	700,000
		45,309,130	**46,455,149.62**	**40,210,406.21**

24 COMMITMENT & 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 and other undrawn commitments to lend. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

a. Guarantees 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.

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b. Bank is contingently liable as on for Nu.674,701,109.19 (PY Nu. 801,661,911) towards guarantees issued to its constituents of which aging analysis are given in Note No. 29

c. Pending capital commitments (net of advance) as on 31.12.2018 are of Nu. Nil (PY Nu. Nil).

25 RELATED PARTY TRANSACTIONS

The Bank carries out transactions in the ordinary course of business with the parties who are defined as related parties in the 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.

25.1 Parent and Ultimate Controlling Party

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

25.2 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 partners and children of the KMPs/domestic partners and dependents of the KMPs/domestic partners.

25.2.1	Transactions with Key Managerial Personnel (KMPs)	Dec/18	Dec/17	Jan/00
		Nu	Nu	Nu
	Pay and Allowances to Managing Director	1,764,306	1,626,130	1,131,750
	Director's Sitting Fee	563,000	1,483,000	1,229,000
	Reimbursement of Travelling Expenses	571,455	871,914	3,271,993
		2,898,761	**3,981,044**	**5,632,743**

25.3	Transactions, Arrangements and Agreements Involving KMPs and their CFMs			
		Dec/18	Dec/17	Jan/00
		Nu	Nu	Nu
25.3.1	Loans and Advances to KMPs and their CFMs are detailed below:	3,018,202	4,941,631	2,749,689
		3,018,202	**4,941,631**	**2,749,689**
		Dec/18	**Dec/17**	**Jan/00**
25.3.3	Deposits and Investments from KMPs and their CFMs are detailed below:			
	Deposits & investments	601,373	2,935,917	86,891
		601,373	**2,935,917**	**86,891**

26 EVENTS AFTER THE REPORTING DATE

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

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27 FAIR VALUE OF FINANCIAL INSTRUMENTS

A. Determination of fair value hierarchy

	Dec/18			Dec/17			Dec/16		
	Level I	Level II	Level III	Level I	Level II	Level III	Level I	Level II	Level III
Financial Assets									
Quoted Equities	-	-	26,310,996			16,806,582			16,200,202
Loans & Advances to Employees	-	-	144,664,190			156,214,613			188,603,437
	-	-	170,975,186	-	-	173,021,195	-	-	204,803,639

Set out below is a comparison, by class of the carrying amounts and fair values of the bank's financial instruments. This table does not include the fair value of non-financial assets & non financial liabilities.

	Dec/18		Dec/17		Dec/16	
	Carrying Value Nu	Fair Value Nu	Carrying Value Nu	Fair Value Nu	Carrying Value Nu	Fair Value Nu
Financial Assets						
Cash and cash equivalents	1,033,785,150	1,033,785,150	2,057,664,062	2,057,664,062	1,146,711,320	1,146,711,320
Balances with Royal Monetary Authority of Bhutan	4,558,530,690	4,558,530,690	3,145,623,910	3,145,623,910	3,289,114,317	3,289,114,317
Placements with Banks	2,226,479,604	2,226,479,604	1,568,427,036	1,568,427,036	1,610,142,126	1,610,142,126
Loans & Advances to Customers	16,149,426,484	16,149,426,484	15,971,251,657	15,971,251,657	15,160,391,664	15,160,391,664
Other Financial Assets	459,713,828	489,841,344	459,713,828	465,634,015	449,713,828	468,814,759
	24,427,935,756	24,458,063,272	23,202,680,493	23,208,600,680	21,656,073,255	21,675,174,185
Financial Liabilities						
Due to banks	1,321,999,945	1,321,999,945	996,526,429	996,526,429	1,136,189,393	1,136,189,393
Due to other customers	21,012,626,967	21,012,626,967	20,548,704,715	20,548,704,715	18,029,398,131	18,029,398,131
Other Financial Liabilities	102,665,195	102,665,195	109,751,177	109,751,177	86,561,295	86,561,295
	22,437,292,108	22,437,292,108	21,654,982,321	21,654,982,321	19,252,148,819	19,252,148,819
				-		

The Fair Value and carrying value of Financial Assets and Liabilities have been assumed to be significantly similar.

28 RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to the Bank if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers/other Banks and investments in debt securities. In addition to the credit risk from direct funding exposure, the bank would also be exposed to indirect liabilities such as Letters of Credit guarantees etc, which would carry similar credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management. Maximum Exposure to Credit Risk/Type of collateral or credit enhancement:

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including geography of counterparty, and sector. As part of its overall risk management, the bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

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	Dec/18			Dec/17			Dec/16		
	Maximum Exposure to credit Risk	Properties	Net Exposure	Maximum Exposure to credit Risk	Properties	Net Exposure	Maximum Exposure to credit Risk	Properties	Net Exposure
	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu	Nu
Financial Assets									
Placements with Banks	**2,226,479,604**	**-**	**2,226,479,604**	**1,568,427,036**	**-**	**1,568,427,036**	**1,610,142,126**	-	1,610,166,892
Loans & advances to customers	**16,149,426,484**	**16,149,426,484**	**-**	**15,971,251,657**	**15,971,251,657**	**-**	**15,160,391,664**	15,389,765,486	-
Equity Instruments at FVOCI	**53,871,996**	**-**	**53,871,996**	**44,367,583**	**-**	**44,367,583**	**15,160,391,664**	-	43,761,202
Other assets	**459,713,828**	**-**	**459,713,828**	**465,634,015**	**-**	**465,634,015**	**43,761,202**	-	214,878,092
	18,889,491,911	**16,149,426,484**	**2,740,065,428**	**18,049,680,291**	**15,971,251,657**	**2,078,428,634**	**17,258,571,672**	15,389,765,486	1,868,806,186

29 . Loans and advances to customers

	2018	2017
Agriculture	5,410,363,108	5,153,099,402
Overdraft	3,599,412,108	3,349,603,909
Hosuing	3,355,366,388	3,074,684,839
Personal	2,052,064,927	2,439,270,321
Others	2,270,859,745	,416,083,848
Transport	1,060,586,765	1,218,960,274
Trade Commerce	775,118,357	812,879,186
Less: Allowance for ECL/impairment losses(Individual & Collective)	(1,983,043,907)	(2,094,376,039)
	16,540,727,492	16,370,205,740

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29.1. Impairment allowance for loans and advances to customers

29.1.1. Agriculture

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.

	2018				2017			
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Ind/Coll**	**POCI**	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Ind/Coll**	**POCI**
Current	2,827,842,232				1,966,686,759			
1-30 Days Passed Due	764,836,629				1,308,467,007			
31-60 Days Passed Due		462,501,467				442,955,357		
61-90 Days Passed Due		330,349,694				325,160,932		
90 Days & Above			1,024,833,087				1,109,829,346	
Individually impaired			-				-	
Total	3,592,678,860	792,851,161	1,024,833,087	-	3,275,153,767	768,116,290	1,109,829,346	-

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

	Stage 1 Collective	**Stage 2 Collective**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 1 January 2018	3,275,153,767	768,116,290	1,109,829,346	0	5,153,099,402
New assets originated	1,885,134,252	263,766,608	96,086,882		2,244,987,742
Closures/write offs	(1,168,929,844)	(206,713,184)	(612,081,007)		(1,987,724,036)
Transfers to Stage 1	(638,092,869)	346,316,302	291,776,567		-
Transfers to Stage 2	239,413,555	(378,634,855)	139,221,299		-
Transfers to Stage 3					-
At 31 December 2018	3,592,678,860	792,851,161	1,024,833,087		5,410,363,108

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30. Overdraft

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.

	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI
Current	2,542,616,005				2,294,906,012			
1-30 Days Passed Due	85,527,929				83,235,966			
31-60 Days Passed Due		16,030,414				87,077,585		
61-90 Days Passed Due		17,151,554				60,117,149		
90 Days & Above			626,088,581				649,108,406	
Individually impaired			311,997,625				175,158,792	
Total	2,628,143,934	33,181,969	938,086,205	-	2,378,141,977	147,194,734	824,267,198	-

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

	Stage 1 Colletive	Stage 2 Collective	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	2,378,141,977	147,194,734	824,267,198		3,349,603,909
New assets originated	522,427,331	-	9,384,748		531,812,079
Closures/write offs	(148,783,237)	(70,223,833)	(62,996,810)		(282,003,880)
Transfers to Stage 1	(164,867,986)	29,633,389	135,234,597		-
Transfers to Stage 2	41,225,849	(73,422,321)	32,196,472		-
Transfers to Stage 3					
At 31 December 2018	2,628,143,934	33,181,969	938,086,205		3,599,412,108

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31 Housing Loan

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

	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI
Current	1,849,216,036				898,784,067			
1-30 Days Passed Due	506,004,196				1,088,008,519			
31-60 Days Passed Due		327,853,902				262,441,408		
61-90 Days Passed Due		164,381,366				145,964,984		
90 Days & Above			421,604,786				654,842,879	
Individually impaired			86,306,103				24,642,983	
Total	2,355,220,232	492,235,268	507,910,888	-	1,986,792,586	408,406,392	679,485,862	-

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

	Stage 1 Collective	Stage 2 Collective	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	1,986,792,586	408,406,392	679,485,862		3,074,684,839
New assets originated	919,107,041	78,616,926	32,407,816		1,030,131,784
Closures/write offs	(309,834,530)	(102,546,155)	(337,069,549)		(749,450,235)
Transfers to Stage 1	(389,820,994)	307,655,358	82,165,636		-
Transfers to Stage 2	148,976,129	(199,897,252)	50,921,123		-
Transfers to Stage 3					-
At 31 December 2018	2,355,220,232	492,235,268	507,910,888		3,355,366,388

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32. Personal Loan

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.

	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI
Current	1,463,461,662				973,855,759			
1-30 Days Passed Due	195,466,517				1,056,240,441			
31-60 Days Passed Due		74,325,743				64,811,695		
61-90 Days Passed Due		36,870,534				43,555,916		
90 Days & Above			253,155,919				300,806,510	
Individually impaired			28,784,553				-	
Total	1,658,928,179	111,196,276	281,940,472	-	2,030,096,200	108,367,611	300,806,510	-

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

	Stage 1 Collective	Stage 2 Collective	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	2,030,096,200	108,367,611	300,806,510		2,439,270,321
New assets originated	761,510,966	36,170,930	13,124,327		810,806,223
Closures/write offs	(1,068,784,048)	(41,962,066)	(87,265,502)		(1,198,011,616)
Transfers to Stage 1	(92,371,088)	64,077,235	28,293,854		-
Transfers to Stage 2	28,476,149	(55,457,433)	26,981,284		-
Transfers to Stage 3					
At 31 December 2018	1,658,928,179	111,196,276	281,940,472		2,052,064,927

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33. Other Loan

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.

	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI
Current	1,177,916,527				1,162,987,804			
1-30 Days Passed Due	271,940,360				327,258,889			
31-60 Days Passed Due		121,845,922				212,188,456		
61-90 Days Passed Due		214,551,833				156,988,578		
90 Days & Above			382,956,667				520,032,291	
Individually impaired			101,648,437				36,627,832	
Total	1,449,856,886	336,397,755	484,605,104	-	1,490,246,692	369,177,034	556,660,123	-

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

	Stage 1 Collective	Stage 2 Collective	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	1,490,246,692	369,177,034	556,660,123		2,416,083,848
New assets originated	407,371,963	52,651,649	16,949,058		476,972,670
Closures/write offs	(285,517,442)	(117,940,848)	(218,738,483)		(622,196,773)
					-
Transfers to Stage 1	(234,250,730)	120,830,665	113,420,065		-
Transfers to Stage 2	72,006,403	(88,320,745)	16,314,341		-
Transfers to Stage 3					-
At 31 December 2018	1,449,856,886	336,397,755	484,605,104		2,270,859,745

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34 Transport Loan

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 xxxx and policies about whether ECL allowances are

	2018				2017			
Delinquency Grades	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI	Stage 1 Collective	Stage 2 Collective	Stage 3 Ind/Coll	POCI
Current	406,623,654				299,991,491			
1-30 Days Passed Due	225,410,125				524,316,980			
31-60 Days Passed Due		127,619,303				130,900,306		
61-90 Days Passed Due		107,086,518				72,774,695		
90 Days & Above			176,631,090				179,676,290	
Individually impaired			17,216,074				11,300,512	
Total	632,033,779	234,705,821	193,847,165	-	824,308,471	203,675,001	190,976,802	-

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

	Stage 1 Collective	Stage 2 Collective	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	824,308,471	203,675,001	190,976,802		1,218,960,274
New assets originated	130,841,785	27,902,888	18,268,028		177,012,700
Closures/write offs	(215,103,047)	(30,399,444)	(89,883,719)		(335,386,209)
Transfers to Stage 1	(180,018,146)	150,798,280	29,219,866		-
Transfers to Stage 2	72,004,716	(117,270,904)	45,266,188		-
Transfers to Stage 3					
At 31 December 2018	632,033,779	234,705,821	193,847,165		1,060,586,765

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35 Trade & Commerce Loan

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.

	2018				2017			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Delinquency Grades	**Collective**	**Collective**	**Ind/Coll**	**POCI**	**Collective**	**Collective**	**Ind/Coll**	**POCI**
Current	303,507,896				186,353,433			
1-30 Days Passed Due	96,502,748				224,139,672			
31-60 Days Passed Due		47,639,327				51,862,540		
61-90 Days Passed Due		36,778,339				53,508,199		
90 Days & Above			259,230,723				297,015,341	
Individually impaired			31,459,324				-	
Total	400,010,644	84,417,666	290,690,047	-	410,493,106	105,370,739	297,015,341	-

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

	Stage 1 Colletive	**Stage 2 Collective**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 1 January 2018	410,493,106	105,370,739	297,015,341		812,879,186
New assets originated	203,265,088	10,670,474	5,994,880		219,930,443
Closures/write offs	(160,485,455)	(25,186,893)	(72,018,923)		(257,691,271)
Transfers to Stage 1	(80,588,634)	50,225,799	30,362,835		-
Transfers to Stage 2	27,326,540	(56,662,454)	29,335,914		-
Transfers to Stage 3					
At 31 December 2018	400,010,644	84,417,666	290,690,047		775,118,357

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36 Impairment allowance as at 31 December 2018

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

2018	Agriculture	Overdraft	Housing	Personal	Other Loan	Transport	Trade & Commerce	Total
At 1 January 2018:	409,935,300.61	470,277,898.67	308,831,005.71	107,042,893.97	399,502,880.42	139,590,649.83	128,386,238.38	1,963,566,867.59
Individual impairment								130,922,789.41
Collective impairment:								
Charge/ Reversal for the year	31,077,726.58	(90,705,689.06)	(68,072,904.85)	(21,754,746.81)	(65,522,999.81)	(6,488,560.33)	(12,030,413.98)	(233,497,588.27)
Collective At 31 December 2018	441,013,027.19	379,572,209.60	240,758,100.86	85,288,147.15	333,979,880.62	133,102,089.50	116,355,824.40	1,730,069,279.32
Made up of:								
Individual impairment	-	-		-	-	-	-	252,974,628
Collective impairment:	441,013,027	379,572,210	240,758,101	85,288,147	333,979,881	133,102,090	116,355,824	1,730,069,279
Total Impairment	441,013,027	379,572,210	240,758,101	85,288,147	333,979,881	133,102,090	116,355,824	1,983,043,907

37 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:

	2018	2017
Financial guarantees	674,701,109	801,661,911
Other undrawn commitments	529,980,827	759,244,212
Total	1,204,681,936	1,560,906,123

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31.1. 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:

31.1.1. 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

Outstanding exposure

				2018	2017
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		674,701,109		**674,701,109**	801,661,911
61-90 Days Passed Due				-	
90 Days & Above				-	
Total	-	674,701,109	-	674,701,109	801,661,911

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

	Stage 1 Individual	**Stage 2 Individual**	**Stage 3**	**Total**
Outstanding exposure as at 1 January 2018		801,661,911	-	**801,661,911**
New exposures		754,063,542	-	754,063,542
Exposure derecognised or matured/lapsed		(881,024,344)	-	(881,024,344)
(excluding write offs)	-	-	-	-
At 31 December 2018	-	674,701,109	-	674,701,109

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38 . Other undrawn commitments (Undisbursed Amount)

The table below shows the credit quality and the maximum exposure to credit risk based on the customer passed due days
Outstanding exposure

	2018				2017
Delinquency Grades	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Ind/Coll**	**Total**	**Total**
Current	1,356,070,540				390,733,428
1-30 Days Passed Due	191,650,846			191,650,846	405,787,334
31-60 Days Passed Due		112,784,509		112,784,509	111,759,366
61-90 Days Passed Due		83,146,976		83,146,976	66,247,723
90 Days & Above			142,398,497	142,398,497	175,449,789
Total	191,650,846	195,931,484	142,398,497	529,980,827	759,244,212

39. Risk Management

Type of collateral or credit enhancement

		Fair value of collateral and credit enhancements held				
31 December 2018	Maximum exposure to credit risk	**Cash &** Cash equivalent	**Immovable** Property	Vehicle & Machineries	Others	Net exposure
Financial assets						
Loans and advances to customers		89,497,935	12,757,716,066	1,024,226,269	5,046,600,410	18,918,040,681
		89,497,935	12,757,716,066	1,024,226,269	5,046,600,410	18,918,040,681

Type of collateral or credit enhancement

		Fair value of collateral and credit enhancements held				
31 December 2017	Maximum exposure to credit risk	**Cash &** Cash equivalent	**Immovable** Property	Vehicle & Machineries	Others	Net exposure
Financial assets						
Cash and balances with central banks						
Due from banks						
Loans and advances to customers		23,583,967	12,815,013,448	1,371,981,308	4,625,781,746	18,836,360,468
		23,583,967	12,815,013,448	1,371,981,308	4,625,781,746	18,836,360,468

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40 (i) Liquidity Risk & Funding management

Contractual maturities & undiscounted cashflows of financial assets & liabilities

2017	On Demand Nu	Less than 3 months Nu	3 to 12 months Nu	1 to 5 years Nu	More than 5 years Nu	Total Nu
Cash & Cash Equivalent	2,057,681,724	-	-	-	-	2,057,681,724
Balances with Central Bank	3,145,623,910	-	-	-	-	3,145,623,910
Due from Banks	1,568,447,439	-	-	-	-	1,568,447,439
Loans & Advances to Customers	1,138,700,952	558,965,542	2,373,984,867	10,463,873,176	3,530,216,777	18,065,741,314
Financial Investments Available for Sale	465,639,582	-	-	-	-	465,639,582
Total undiscounted Assets	8,376,093,607	558,965,542	2,373,984,867	10,463,873,176	3,530,216,777	25,303,133,969
Due to Customers	4,806,796,808	2,138,878,806	6,026,681,498	4,176,660,328	3,399,687,276	20,548,704,716
Total Undiscounted Liabilities	4,806,796,808	2,138,878,806	6,026,681,498	4,176,660,328	3,399,687,276	20,548,704,716

2018	On Demand Nu	Less than 3 months Nu	3 to 12 months Nu	1 to 5 years Nu	More than 5 years Nu	Total Nu
Cash & Cash Equivalent	1,033,785,150					1,033,785,150
Balances with Central Bank	4,558,530,690					4,558,530,690
Due from Banks	2,226,479,604					2,226,479,604
Loans & Advances to Customers	1,271,452,143	519,688,024	2,594,194,270	10,202,710,687	3,544,425,266	18,132,470,390
Financial Investments Available for Sale	489,841,344					489,841,344
Total undiscounted Assets	9,580,088,931	519,688,024	2,594,194,270	10,202,710,687	3,544,425,266	26,441,107,178
Due to Customers	60,889,529	2,005,547,619	5,767,295,322	3,888,837,261	3,795,269,063	15,517,838,795
Total Undiscounted Liabilities	60,889,529	2,005,547,619	5,767,295,322	3,888,837,261	3,795,269,063	15,517,838,795

Net Undiscounted Financial Assets/(Liabilities)

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40 (ii) Liquidity Risk & Funding management

The table shows the contractual expiry by maturity of banks contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn.

31 December 2017	On Demand Nu	Less than 3 months Nu	3 to 12 months Nu	1 to 5 years Nu	More than 5 years Nu	Total Nu
Financial Guarantees	-	367,362,793	412,407,789	21,891,329		801,661,911
	-	367,362,793	412,407,789	21,891,329	-	801,661,911

31 December 2018	On Demand Nu	Less than 3 months Nu	3 to 12 months Nu	1 to 5 years Nu	More than 5 years Nu	Total Nu
Financial Guarantees		2,208,286	19,027,101	81,461,481	572,004,242	674,701,109
	-	2,208,286	19,027,101	81,461,481	572,004,242	674,701,109

41. RISK MANAGEMENT (Contd…)
Geographical Risk

The geographical risk is the risk that an occurrence within a geographical locations have an adverse effect on the bank directly by impairing the value through an obligors ability to meet its obligation to the bank.

Financial Assets	Thimphu Main Branch	Paro Branch	Wangdue Branch	Phuntsholing Branch	Others	Total
Loans & Advances to Customers	6,318,191,500	879,124,424	654,653,205	469,675,102	8,225,020,757	16,546,664,989
	6,318,191,500	879,124,424	654,653,205	469,675,102	8,225,020,757	16,546,664,989

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2017

Financial Assets	Thimphu Main Branch	Paro Branch	Wangdue Branch	Phuntsholing Branch	Others	Total
Loans & Advances to Customers	6,823,327,363	987,529,424	791,186,459	528,583,933	9,448,414,482	18,579,041,660
	6,823,327,363	987,529,424	791,186,459	528,583,933	9,448,414,482	18,579,041,660

2018

Financial Assets	Thimphu Main Branch	Paro Branch	Wangdue Branch	Phuntsholing Branch	Others	Total
Loans & Advances to Customers	6,247,801,861	1,029,583,549	610,169,813	545,201,922	9,699,713,246	18,132,470,391
	6,247,801,861	1,029,583,549	610,169,813	545,201,922	9,699,713,246	18,132,470,391

42. Confirmations from various parties are not available in respect of loans, advances, receivables, payable etc. and therefore, their consequential impact, if any, is not ascertainable.

43. Up tothe year 2016, Bank was exempt from corporate income tax. From the year 2017, Bank is under corporate income tax ambit. Accordingly, the Bank has paid advance tax of Nu. 48,000,000.00 during the year 2017 and also the parties have deducted TDS during the year 2017 and 2018, and in view of the excess of losses carried forward as compared to the current year income, no provision for taxation has been made.

44. The Bank has taken over the Bhutan Postal Corporation Limited effective from 01.03.2015, the task of operation and management of community centers spread across the country in terms of a transfer agreement entered into with Bhutan Postal Corporation Limited on 06.05.2015. Pursuance to this agreement, the bank has to manage and subsidize the operations of the CC Operations. Towards this end, the CC operations expenditure is Nu. 31,898,985(PY 34,705,283)

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and income of Nu.4,506,842(PY 5,813,788)during the year 2018leaving a deficit of Nu. 27,392,142 (PY 28,891,495)which has been borne by the Bank as directed by the Ministry of Finance vide their letter no.MoF/PED/19/2015/854 dated 29.09.2015.

45. Detail of remuneration and expenditure paid/reimbursed to the Chief Executive Officer and other directors is as under:

Chief Executive Officer

Sl #	Particulars	2018 (Nu.)	2017 (Nu.)
1	Pay & Allowances	1,764,306	1,626,130
2	Leave Travel Concession	20,000	15,000
3	Leave Encashment	82,513	80,500
4	Bonus	82,513	154,623
5	Travel Expense (In country)	63,000	40,250
6	Travel Expense (Aboard)	508,455	831,664
7	Provident Fund	109,366	106,868
8	Board Sitting Fees	107,000	149,000
	Total	**2,737,153**	**3,004,035**

Other Directors

Particulars	2018 (Nu.)	2017 (Nu.)
Board Sitting Fees	456,000	727,000

46. Additional information pursuant to the provision of Part II of Schedule XIII A of the Companies Act of the Kingdom of Bhutan 2000:

Sl No.	Nature of expense	2018 (Nu.)	2017 (Nu.)
1	Audit Fees	108,900	99,000
2	Power and Water	2,682,351	2,297,824
3	Rent	13,538,171	11,878,945
4	Repairs & maintenance of buildings	353,767	746,516
5	Repairs & maintenance of computer hardware	2,956,623	1,356,619
6	Salaries and bonus	185,702,277	159,798,469
7	Contribution to Provident Fund	11,352,574	10,723,096
8	Insurance	4,538,055	2,890,334
9	Rates & taxes excluding Income tax	128,142	150,188
10	**Other expenses exceeding 1% of total revenue:**		
10.1	Staff training	24,569,165	21,434,893
10.2	Travel expenses	54,691,617	33,897,999
10.3	Depreciation and Amortisation	72,933,613	65,871,673

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47. Chetrums have been rounded to the nearest Ngultrum.

48. Previous year's figures have been rearranged / regrouped wherever necessary to make them comparable with the current year's figures.

For Gianender& Associates
Chartered Accountants
FRN : 004661N

GIANENDER & ASSOCIATES
NEW DELHI
Chartered Accountants

G.K Agrawal **Chief Executive Officer** **Chairman**
Partner
Membership No. 081603
Date:
Place: New Delhi, India

RMA Disclosure

***All items in 000' Ngultrum**

Item 1 : Tier 1 Capital and its sub-components

S. No		31-12-2018	31-12-2017	
1	**Total Tier 1 Capital**	**1,662,075**	**1,313,949**	
a	Paid up Capital	600,317	507,317	
b	General Reserves	886,754	802,716	
c	Share premium Account	-		
d	Retained Earnings	180,004	13,916	
	Less:-			
e	Losses for the Current Year			
f	Holdings of Tier 1 instruments issued by other Fis	4,999.83	9,999.83	

Item 2: Tier 2 Capital and its sub-components

S.No		31-12-2018	31-12-2017	
1	**Total Tier II Capital**	**724,348**	**690,991**	
a	Capital Reserve	-		
b	Fixed Assets Revaluation Reserve	-		
c	Exchange Fluctuation Reserve	-		
d	Investment Fluctuation Reserve	-		
e	Research and Development Fund	135,685	108,946	
f	General Provision	158,662	152,045	
g	Capital Grants	-		
h	Subordinated Debt	430,000	430,000	
i	Profit for the Year	-		

Item 3: Risk Weighted Assets (Current Year and Previous Year)

31-12-2018				
Sl#	**Assets**	**Balance Sheet Amount**	**Risk Weight (%)**	**Risk Weighted Asset**
1	Zero - Risk Weighted Assets		0%	-
2	20% - Risk Weighted Assets	2,541,377	20%	508,275
3	50% - Risk Weighted Assets	15,767	50%	7,883
4	100% - Risk Weighted Assets	15,956,681	100%	15,956,681
5	150% - Risk Weighted Assets	740,644	150%	1,110,965
6	200% - Risk Weighted Assets	-	200%	-
7	250% - Risk Weighted Assets	-	250%	-
8	300% - Risk Weighted Assets		300%	-
	Add: Risk Weighted Assets for Operational Risk			1,182,216
Grand Total		**19,254,469**		**18,766,021.41**

31-12-2017				
Sl#	**Assets**	**Balance Sheet Amount**	**Risk Weight (%)**	**Risk Weighted Asset**
1	Zero - Risk Weighted Assets	4,055,352	0%	-
2	20% - Risk Weighted Assets	2,803,345	20%	560,669
3	50% - Risk Weighted Assets	11,686	50%	5,843
4	100% - Risk Weighted Assets	15,809,771	100%	15,809,771
5	150% - Risk Weighted Assets	1,063,175	150%	1,594,763
6	200% - Risk Weighted Assets	-	200%	
7	250% - Risk Weighted Assets	-	250%	
8	300% - Risk Weighted Assets		300%	-
	Add: Risk Weighted Assets for Operational Risk			1,255,726
Grand Total		**23,743,329**		**19,226,772**

Item 4: Capital Adequacy Ratios

		31-12-2018	31-12-2017	
1	**Tier 1 Capital**	1,662,075	1,313,949	
a	Of which Counter-Cyclical Capital Buffer (CCyB) (If applicable)	469,151	32,849	
b	Of which sectoral Capital Requirments (SCR) (if applicable)	-		
	i Sector 1	-		
	ii Sector 2	-		
	iii Sector 3	-		
2	**Tier 2 Capital**	724,348	690,991	
3	**Total qualifying capital**	2,345,900	2,004,940	
4	Core CAR	8.86%	8.02%	
a	Of which CCyB (if applicable) expressed as % of RWA	469,151	32,849	
b	Of which SCR(if applicable) expressed as % of Sectoral RWA			
	i Sector 1	-		
	ii Sector 2	-		
	iii Sector 3	-		
5	CAR	12.50%	10.40%	
6	Leverage ratio	6.74%	5.40%	

Item 5: Loans and NPL by Sectoral Classification

SL#	Sector	31-12-2018		31-12-2017	
		Total Loans	NPL (Amount)	Total Loans	NPL (Amount)
a	Agriculture	5,640,244.61	1,078,208.52	5,606,031.89	1,170,807.80
b	Production & Manufacturing	848,162.08	288,271.90	934,450.49	281,102.83
c	Service	2,841,988.48	932,006.41	3,102,055.41	1,246,742.78
d	Trade & Commerce	1,414,999.70	401,417.32	1,487,887.55	416,549.09
e	Loans to FI (s)	259,955.39	-	150,492.55	-
f	Housing	3,359,189.08	517,520.79	3,094,785.80	630,905.53
g	Transport	1,116,035.22	194,680.89	1,293,658.31	210,375.34
h	Personal loan	2,553,595.90	409,717.77	2,439,331.91	313,145.05
i	Staff Loan	314,921.25	16,219.46	342,084.16	8,528.45
j	Education Loan	392,089.96	66,654.52	313,755.18	1,040.98
k	Loan Against Fixed Deposit	85,142.71	81.05	25,886.49	497.32
l	Loan to Govt. owned Corporation	-	-	-	-
m	Others	97,406.96	17,834.40	45,940.72	601.10
	Total	**18,923,731**	**3,922,613.04**	**18,836,360.46**	**4,280,296.27**

Item 6: Loans (Over-drafts and term Loans) by types of counter-party

Sl#	Counter party	31-12-2018	31-12-2017
1	**Overdrafts**		
a	Government	-	
b	Government Corporation	-	
c	Public Companies	-	
d	Private Companies	394,340	298,723
e	Individuals	3,136,359	3,046,130
f	Commercial Banks	-	
g	Non-Bank Financial Institutions	259,955	
2	**Term Loans**		
a	Government	-	
b	Government Corporation	-	
c	Public Companies	-	
d	Private Companies	479,300	544,032
e	Individuals	14,652,315	14,742,306
f	Commercial Banks	-	
g	Non-Bank Financial Institutions	-	200654

Item 7 : Assets (net of provisions) and liabilities by Residual Maturity (Current Year And Previous Year)

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	686,262	0	0	0	0	0	0	686,262
Govt Securities	0	0	0	0	0	0	0	0
Investment Securities	0	0	0	0	0	0	459,714	459,714
Loans & Advances to Bank	0	0	0	0	0	0	0	0
Loans & Advances to Customers(net)	(89,130)	62,767	416,913	642,409	1,075,927	861,078	12,978,013	15,947,978
Others Assets	2,881,643	2,140,465	575,089	1,009,465	155,711	63,565	789,713	7,615,651
Total	**3,478,775**	**2,203,233**	**992,001**	**1,651,873**	**1,231,638**	**924,643**	**14,227,440**	**24,709,604**
Amounts Owed to Others Bank	0	1,931	16,896	11,845	18,827	11,845	807,374	868,717
Demand Deposits	594,205	0	0	0	0	0	0	594,205
Savings Deposits	4,580,204	0	0	0	0	0	0	4,580,204
Time Deposit	67,758	948,888	1,006,260	1,426,558	2,611,032	1,403,023	7,430,913	14,894,432
Bonds & Others Negotiable Instruments	0	0	0	0	0	0	430,000	430,000
Other Liabilities	186,889	67,635	39,537	36,344	203,979	60,194	2,747,468	3,342,045
Total	**5,429,056**	**1,018,454**	**1,062,693**	**1,474,746**	**2,833,839**	**1,475,061**	**11,415,754**	**24,709,604**
Assets/Liabilities	64.08%	216.33%	93.35%	112.01%	43.46%	62.69%	124.63%	100.00%
Net Mismatch in Each Time Interval	1,950,282	(1,184,779)	70,692	(177,127)	1,602,200	550,418	(2,811,687)	0
Cumulative Net Mismatch	1,950,282	765,503	836,195	659,068	2,261,268	2,811,687	0	0

31-12-2017	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in hand	727,602	0	0	0	0	0	0	727,602
Govt Securities	0	0	0	0	0	0	0	0
Investment Securities	0	0	0	0	0	0	758,614	758,614
Loans & Advances to Bank	0	0	0	0	0	0	0	0
Loans & Advances to Customers(net)	106,313	88,695	404,688	618,137	792,982	861,390	12,761,448	15,633,653
Others Assets	2,207,904	1,535,596	916,457	634,402	191,009	37,641	752,930	6,275,939
Total	**3,041,819**	**1,624,291**	**1,321,145**	**1,252,539**	**983,991**	**899,030**	**14,272,992**	**23,395,808**
Amounts Owed to Others Bank	0	929	108,129	1,604	9,058	5,699	417,951	543,370
Demand Deposits	759,902	0	0	0	0	0	0	759,902

Savings Deposits	3,799,128	0	0	0	0	0	0	3,799,128
Time Deposit	209,096	1,354,335	779,635	2,368,540	2,824,603	867,410	6,690,424	15,094,042
Bonds & Others Negotiable Instruments	0	0	0	0	0	0	430,000	430,000
Other Liabilities	83,897	66,109	27,284	75,337	222,011	61,289	2,233,438	2,769,365
Total	**4,852,024**	**1,421,372**	**915,048**	**2,445,481**	**3,055,672**	**934,398**	**9,771,813**	**23,395,808**
Assets/Liabilities	62.69%	114.28%	144.38%	51.22%	32.20%	96.21%	146.06%	100.00%
Net Mismatch in Each Time Interval	1,810,205	(202,919)	(406,097)	1,192,942	2,071,681	35,368	(4,501,179)	0
Cumulative Net Mismatch	1,810,205	1,607,286	1,201,189	2,394,131	4,465,811	4,501,179	0	0

Item 8 : Assets (net of provisions) and liabilities by Orginal Maturity (Current Period and Previouos Year)

31-12-2-18	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in Hand	686,262	0	0	0	0	0	0	686,262
Govt Securities	0	0	0	0	0	0	0	0
Investment Securities	0	0	0	0	0	0	459,714	459,714
Loans & Advances to Bank	0	0	0	0	0	0	0	0
Loans & Advances to Customers	6,453	(4)	2,198	3,898	303	742,038	15,193,091	15,947,978
Others Assets	2,881,643	1,393,456	181	1,333,437	941,559	30,405	1,034,970	7,615,651
Total	**3,574,358**	**1,393,452**	**2,379**	**1,337,335**	**941,862**	**772,444**	**16,687,775**	**24,709,604**
Amounts owed to Others Bank	0	1,931	16,896	11,845	18,827	11,845	807,374	868,717
Demand Deposits	594,205	0	0	0	0	0	0	594,205
Savings Deposits	4,580,204	0	0	0	0	0	0	4,580,204
Time Deposit	0	0	3,995	391,358	981,872	671,114	12,846,093	14,894,432
Bonds & Others Negotiable Instruments	0	0	0	0	0	0	430,000	430,000
Other liabilities	181,724	43,810	5,105	6,447	13,135	22,268	3,069,556	3,342,045
Total	**5,356,134**	**45,741**	**25,996**	**409,650**	**1,013,834**	**705,227**	**17,153,022**	**24,709,604**
Assets/Liabilities	66.73%	3046.42%	9.15%	326.46%	92.90%	109.53%	97.29%	100.00%
Net Mismatch in each Time Interval	1,781,776	(1,347,711)	23,617	(927,685)	71,972	(67,217)	465,247	0
Cumulative Net Mismatch	1,781,776	434,065	457,682	(470,002)	(398,030)	(465,247)	0	0

Note: Capital Fund /Equity not included

31-12-2-17	On Demand	1-30 days	31-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total
Cash in Hand	727,602	0	0	0	0	0	0	727,602
Govt Securities	0	0	0	0	0	0	0	0
Investment Securities	0	0	0	0	0	0	758,614	758,614
Loans & Advances to Bank	0	0	0	0	0	0	0	0
Loans & Advances to Customers	12,106	1,906	814	21,500	23,220	647,358	14,926,748	15,633,653
Others Assets	2,207,904	1,365,187	87	999,319	691,888	91,937	919,617	6,275,939
Total	**2,947,612**	**1,367,093**	**901**	**1,020,820**	**715,108**	**739,295**	**16,604,979**	**23,395,808**
Amounts owed to Others Bank	0	929	108,129	1,604	9,058	5,699	417,951	543,370
Demand Deposits	759,902	0	0	0	0	0	0	759,902
Savings Deposits	3,799,128	0	0	0	0	0	0	3,799,128
Time Deposit	30,684	0	2,000	1,869,245	541,834	2,118,631	10,531,648	15,094,042
Bonds & Others Negotiable Instruments	0	0	0	0	0	0	430,000	430,000
Other liabilities	74,638	48,378	6,959	11,488	11,345	42,710	2,573,847	2,769,365
Total	**4,664,352**	**49,307**	**117,088**	**1,882,338**	**562,237**	**2,167,040**	**13,953,446**	**23,395,808**
Assets/Liabilities	63.19%	2772.62%	0.77%	54.23%	127.19%	34.12%	119.00%	100.00%
Net Mismatch in each Time Interval	1,716,741	(1,317,786)	116,187	861,518	(152,871)	1,427,745	(2,651,533)	0
Cumulative Net Mismatch	1,716,741	398,954	515,141	1,376,659	1,223,789	2,651,533	0	0

Item 9 : Assets & Liabilities by time-to re-pricing (Current Period and Previous Year)

31-12-1018	Time to re-pricing				Non Interest bearing	Total
Asset	**0-3 Months**	**3-6 Months**	**6-12 Months**	**More than 12 Months**		
Cash and Balance with Banks	1,213,096	931,508	0	65,011	1,033,791	3,243,406
Treasury Bills	0	0	0	0	0	0
Loans and Advances	390,550	642,409	1,937,005	12,978,013	0	15,947,978
Investment Securities	0	0	0	459,714	0	459,714
Others Assets	683,432	157,227	404,912	750,514	3,062,421	5,058,506
Total financial assets	**2,287,079**	**1,731,144**	**2,341,917**	**14,253,252**	**4,096,212**	**24,709,604**
Liabilities	0	0	0	0	0	0
Deposit	6,603,111	1,426,558	4,014,055	7,430,913	594,205	20,068,841
Borrowings	18,827	11,845	30,672	807,374	0	868,717
Other liabilities	83,996	43,296	318,769	1,054,665	2,271,320	3,772,045
Total financial liabilities	**6,705,934**	**1,481,698**	**4,363,496**	**9,292,951**	**2,865,525**	**24,709,604**
Total Interest Re-pricing gap	34.11%	116.84%	53.67%	153.38%	142.95%	100.00%

Note: Capital Fund /Equity not included

31-12-1017	Time to re-pricing				Non Interest bearing	Total
Asset	**0-3 Months**	**3-6 Months**	**6-12 Months**	**More than 12 Months**		
Cash and Balance with Banks	964,950	519,996	0	52,294	2,046,000	3,583,241
Treasury Bills	0	0	0	0	0	298,900
Loans and Advances	599,696	618,137	1,654,372	12,761,448	0	15,633,653
Investment Securities	0	0	0	459,714	0	459,714
Others Assets	634,880	247,856	369,717	670,817	1,497,029	3,420,300
Total financial assets	**2,199,527**	**1,385,989**	**2,024,089**	**13,944,273**	**3,543,029**	**23,395,808**
Liabilities	0	0	0	0	0	0
Deposit	6,142,194	2,368,540	3,692,013	6,690,424	759,902	19,653,073
Borrowings	109,058	1,604	14,757	417,951	0	543,370
Other liabilities	60,461	81,295	303,960	1,006,891	1,746,758	3,199,365
Total financial liabilities	**6,311,713**	**2,451,439**	**4,010,729**	**8,115,266**	**2,506,660**	**23,395,808**
Total Interest Re-pricing gap	34.85%	56.54%	50.47%	171.83%	141.34%	100.00%

Item 10 : Non Performing Loans and Provisions

		31-12-2018	31-12-2017
1	**Amount of NPLs (Gross)**	**3,922,613**	**4,280,296**
a	Substandard	613,309	945,084
b	Doubtful	623,551	843,613
c	Loss	2,685,753	2,491,599
2	**Specific Provisions**	**2,701,436**	**2,784,338**
a	Substandard	129,055	201,675
b	Doubtful	297,401	397,046
c	Loss	2,274,980	2,185,617
3	**Interest-in-Suspense**	**480,534**	**432,783**
a	Substandard	22,466	38,538
b	Doubtful	47,295	88,263
c	Loss	410,773	305,982
4	**Net NPLs**	**740,644**	**1,063,175**
a	Substandard	461,788	704,871
b	Doubtful	278,855	358,304
c	Loss	-	-
5	**Gross NPLs to Gross Loans**	**20.73%**	**22.72%**
6	**Net NPLs to Net Loans**	**4.85%**	**6.81%**
7	**General Provisions**	**158,662**	**152,045**
a	Standard	129,311	127,710
b	Watch	29,351	24,335

Item 11 : Assets and Investments

Sl#	Investment	31-12-2018	31-12-2017
1	**Marketable Securities (Interest Earning)**		
a	RMA securities	-	298,900
b	RGOB Bonds/Securities	-	
c	Corporate Bonds	421,272	421,272
d	Others	-	
	Sub-total	**421,272**	**720,172**
2	**Equity Investments**		
e	Public Companies	27,942	27,942
f	Private Companies	500	500
g	Commercial Banks	5,000	5,000
h	Non- Bank Financial Institutions	5,000	5,000
	Less		
i	Specific Provisions	-	
3	**Fixed Assets**		
j	Fixed Assets (Gross)	638,935	609,115
	Less		
k	Accumulated Depreciation	263,409	207,114
l	Fixed Assets (Net Book Value)	375,526	402,001

Item 12 : Foreign Exchange Assets and Liabilities (Current Period and COPPY)

	Liquid Foreign Currency Holdings (Upto One Week)			Long Term Foreign Currency Holdings (More Than One Week)			Nu. In Millions	
	Assets in Foreign currency	Liabilities in Foreign currency	Net Short Tem Position	Assets in Foreign Currency	Liabilities in Foreign Currency	Long term Position	Overall Net Position	Overall Net Position/Core Capital
	Currency 1							
	Currency 2							
	Currency 3							
	Currency 4							
	Currency 5							

Item 13 : Geographical Distribution of Exposures

		Domestic		India		Other	
		31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017
	Demand Deposits Held With others banks	331,762	1,318,398				
	Time deposits held with others banks	456,718	1,537,241				
	Borrowings	868,717	543,370				

Item 14 : Credit Risk Exposure by Collateral

SL#	Particulars	31-12-2018	31-12-2017
1	**Secured Loans**		
a	Loans Secured by Physical/Real Estate collateral	18,336,846	18,160,757.00
b	Loans Secured by Financial Collateral	338,869	171730
c	Loan Secured by Guarantees	248,047	503,873
2	**Unsecured Loans**		0
3	**Total Loans**	**18,923,761.33**	**18,836,360**

Item 15 : Earning Ratios (%)

SL#	Ratio	31-12-2018	31-12-2017
1	Interest Income as a Percentage of Average Assets	8.77%	8.69%
2	Non Interest Income as a Percentage of Average Assets	0.27%	0.22%
3	Operating Profit as a Percentage of Average Profit	-59.21%	-340%
4	Return on Assets	1.18%	-5.58%
5	Business (Deposits plus advances) per employee	31,630	70,033
6	Profit Per employee	441	-2237

Item 17 : Customers Complaints

Sl#	Particulars	31-12-2018	31-12-2017
1	No. of complaints pending at the beginning of the year	2	
2	No. of complaints received during the year		2
3	No. of complaints redressed during the year		1
4	No. of complaints pending at the end of the year		2

Item 19 : Concentration of Credit and Deposits

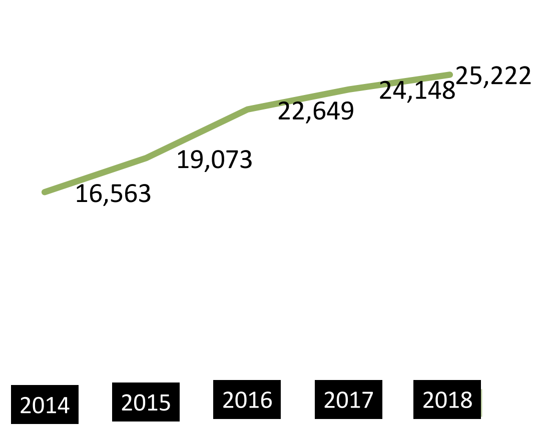
Sl. No	Particulars	31-12-2018	31-12-2017
1	Total Loans to 10 Largest Borrowers	920,329	1,225,457
2	As % of Total Loans	5%	7%
3	Total Deposit of the 10 Largest Depositors	8,247,908	10,373,210
4	As % of Total Deposits	47.19%	72.97%

Item 19 : Exposure to 5 Largest NPL Accounts

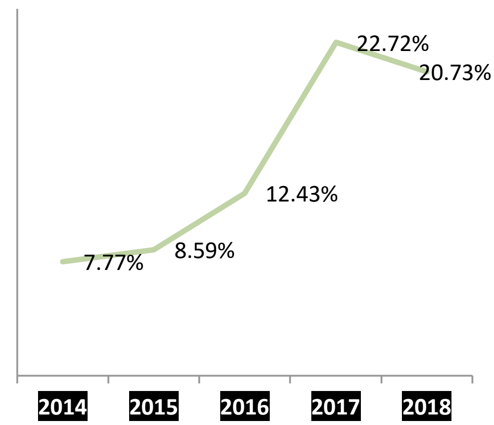
Sl. No	Particulars	31-12-2018	31-12-2017
1	Five Largest NPL Accounts	118,653.02	266,833.17
2	As % of Total NPLs	3.02%	6.23%

CONSOLIDATED PERFORMANCE INDICATORS FOR THE YEAR 2018

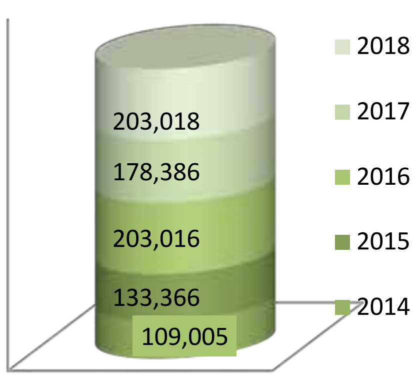
Assets Position (in million)



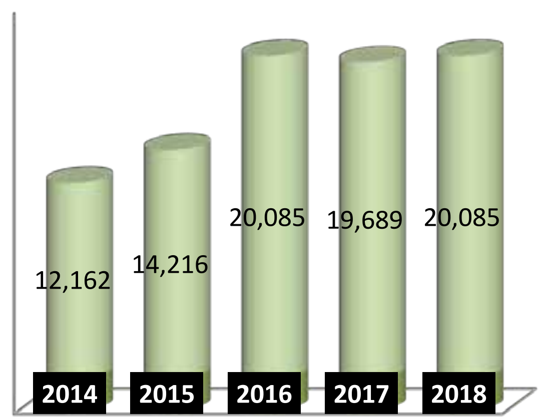
Portfolio At Risk



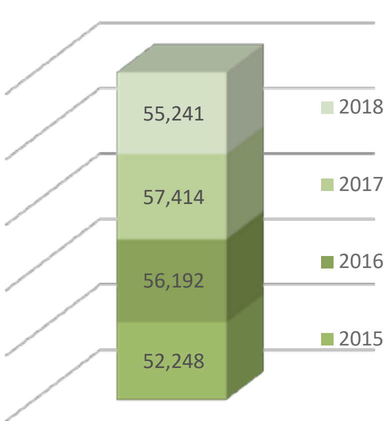
No. of Deposit Accounts



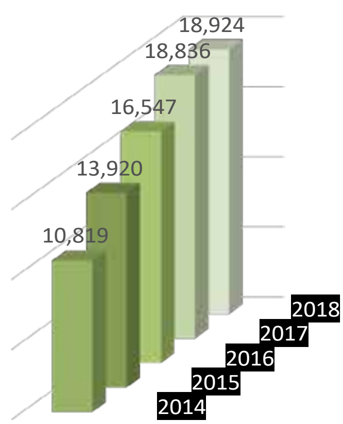
Deposit Amounts (in million)



No.of Loan Accounts

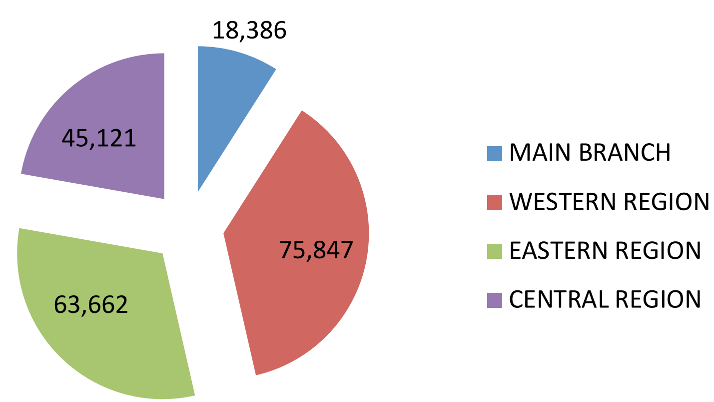


Loan Receivables (in million)

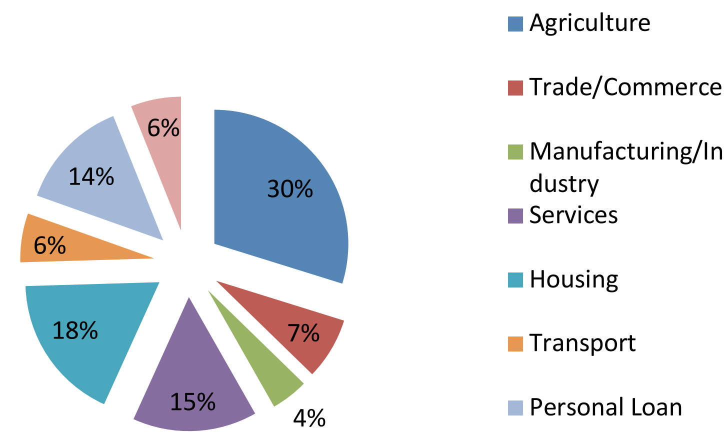


CONSOLIDATED PERFORMANCE INDICATORS FOR THE YEAR 2018

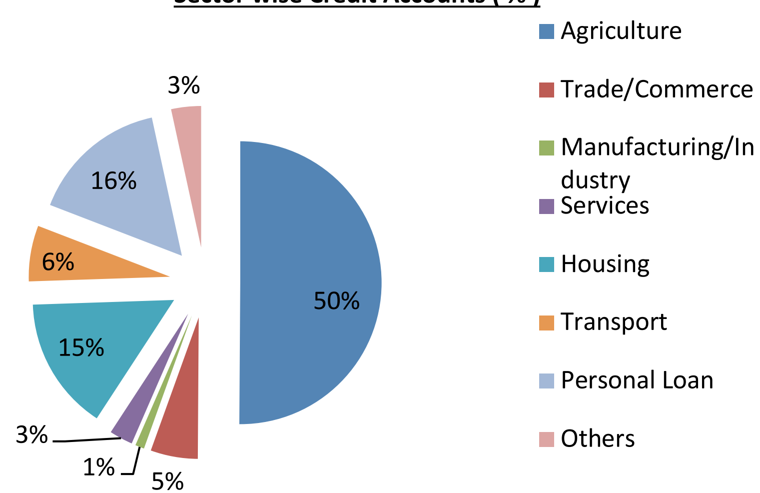
Region - Wise Deposit Accounts



Sector wise Credit Outstanding (%)



Sector wise Credit Accounts (%)



Region - Wise Deposit Amount