

PROSPECTUS

The following constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the Companies Act of Bhutan 2016 and the regulations there under:

PART – I

1. General Information

- 1.1. Name & Registered Office : Druk PNB Bank Ltd. [Incorporated under the Companies Act of the Kingdom of Bhutan 2000], P.O. Box 502, Norzin Lam, Main Traffic, Thimphu, Bhutan.
- 1.2. The Royal Monetary Authority of Bhutan has awarded the licence to Druk PNB Bank Limited to transact general banking business vide licence no.RMA/FISD/42-2010/5547 dated 19 January 2010.
- 1.3. The Ministry of Economic Affairs has awarded licence to Druk PNB Bank Limited vide license No. 1025367 dated 22/01/2010
- 1.4. Incorporation: The company has been incorporated under the Companies Act of the Kingdom of Bhutan 2000 vide registration no. U20081231TH10224 dated 31 December 2008.
- 1.5. Name & Address of Auditors: M/S S. Patodia & Associates, 43/3, Room No. 17, Strand Road, Kolkata 700001.
- 1.6. Name & Address of Broker: RICBL Securities Ltd., C/o RICBL, Thimphu

2. Existing Capital Position of the Bank vis-à-vis Regulatory Norms & Industry

a. Regulatory Norms:

S. No.	Particular	31.12.2017	31.12.2018
i)	Core Capital Ratio/ Minimum Common Equity Tier 1	5.00%	5.00%
ii)	Capital Conservation Buffer (CCB)	2.50%	2.50%
iii)	Core Capital Ratio + Capital Conservation Buffer [(i)+ii]	7.50%	7.50%
iv)	Tier 2 Capital	5.00%	5.00%
v)	Capital Adequacy Ratio (including Capital Conservation Buffer) [(iii)+iv]	12.50%	12.50%
vi)	Minimum paid- up capital Requirement (Nu. In Mio)	300.00	*600.00

* Royal Monetary Authority of Bhutan vide their letter RMA/FRSD/34/2016-17/239 dated 12.12.2016 have increased the minimum paid up capital requirement for Banks from Nu.300Mio to Nu.600Mio which is to be complied with before 01.01.2019.

b. Capital/ CRAR position against Regulatory Norms for Dec 2017:

Sr. No.	Particulars	Dec' 17
	Capital Fund	(Nu. In Mio)
1	Tier 1	1078.30
	Of which	
	Common Equity	450.00
	Additional Tier I	628.30
2	Tier II	227.78
3	Total (Tier I+II)	1306.08
4	Risk Weighted Assets	9489.65
	Capital Adequacy Ratio	(In %)
5	Tier I (including CCB)	11.36
6	Tier II	2.40
7	Total (Tier I+II)	13.76

**c. Capital/CRAR position of the entire Financial Sector of Bhutan for Sept. 2017
(As per RMA data):**

Sr. No.	Particulars	Sept' 17
	Capital Fund	(Nu. In Mio)
1	Tier 1	16018.88
2	Tier II	4161.12
3	Total (Tier I+II)	20180.00
4	Risk Weighted Assets	123955.77
	Capital Adequacy Ratio	(in %)
5	Tier I (including CCB)	12.92
6	Tier II	3.36
7	Total (Tier I+II)	16.28

3. Reasons for increasing Capital:

The major reasons for increasing the capital of our Bank are enumerated hereunder:

- a. RMA has made it mandatory for Banks to maintain a minimum paid up capital of Nu. 600 million before 01.01.2019.
- b. The CRAR of entire banking industry is 16.28% as on September 31, 2017 against our CRAR of only 13.75% as on as at the same period.
- c. As per extant guidelines the maximum exposure on any single borrower can be maximum 25% of the capital funds. For instance, with bank's total qualifying capital fund of Nu.1306.08 million (as on December 31, 2017) the maximum exposure on any counter party can be only Nu.326.52 million. As a result of this constraint, the Bank is not able to attract big ticket advances.
- d. RMA has introduced Counter Cyclical Capital Buffer (CCyB) which could be applied on Banks anytime based on emergence of gap between the Credit outstanding to GDP Ratio. The Banks may have to maintain additional capital in the form of CCyB any time which may range between 0.50 to 2.50%, increasing the total CAR requirement from 12.50% to 15.00%.

4. Objective of the Issue

The issue is being made to augment the capital of bank under Tier I capital thus ensuring business growth of the Bank while maintaining the minimum capital adequacy ratio (CAR) requirement as per the prudential regulation guidelines of Royal Monetary Authority of Bhutan

5. Risk Factors and Management perception to address the risk:

The investors shall make their own assumption/analysis on the general market risks in banking industry, before deciding to invest in Scripts. However, following risks are directly related in the investment business:

- 5.1. **Credit Risk:** The credit risk may be the direct risk associated to the above nature of investment. This may be by way of default in repayment of the loans either due to failure of business or other associated factors. The quality of Loan and Advances of the Bank is reflected through Non Performing Loans (NPL) ratio which is calculated based on the criteria set out by Royal Monetary Authority of Bhutan.

Management Perception:

We grant loans after proper appraisals and thorough study on the background of the borrower. The terms and conditions of the loans are based on the various schemes tailor made to suit the local environment with detailed guidelines within the framework provided in the Prudential Regulations of Royal Monetary Authority of Bhutan. We consider our loaning policies/guidelines to be adequate for effective management and control of credit risk. Further, the Gross NPL ration of the Bank was 2.75% as on 31.12.2017 against the ratio of 12.93% as on 30.09.2017 of whole Banking Industry.

- 5.2. **Operational Risk:** Operational risk may be due to failure of system and procedures or lack of good governance which may result in mismanagement of the Bank's assets.

Management Perception:

We have sufficient control measures including monthly information system, periodical inspection of the branches ensuring delivery of services as per the book of instructions which is easy to understand and put into practice. Thus these offsite and onsite measures being taken regularly are quite effective in controlling the operational risk.

- 5.3. **Interest rate risk:** This risk may be due to competition in the market which may entail reduction of lending rates below the cost of fund and put the company under financial stress or redeem the borrowed fund.

Management Perception:

We have a system of monitoring interest rates on regular basis by Asset and Liability Committee (ALCO). ALCO meets regularly and reviews the maturity pattern of assets and liabilities and fixes the interest rates as per requirements. This tool is considered to be very effective in containing the Interest Rate Risk.

5.4. **Economy Risk:** Economy Risk is the chance that macroeconomic conditions like exchange rates, government regulation, or political stability will affect an investment

Management Perception:

The Prudential Guidelines of RMA and their continuous and effective monitoring on regular intervals adequately cover such risks.

6. Capital Structure:

Authorised Capital	Issued and fully paid-up Capital	Capital Fund as of 31.12.2017
Nu. 1,000 million	Nu. 450 million	Nu 1306.08 million

7. Details of Dividend Paid:

(Nu. In Mio)

	2014	2015	2016	2017
Paid up Capital	449.712	450.00	450.00	450.00
Dividend Paid	35.977	-	45.00	54.00 *(proposed)
Dividend payout ratio	8%	-	10%	12% *(proposed)

*A dividend of 12% has been recommended by the Board for consideration by the shareholders in the upcoming Annual General Meeting.

8. Fair Valuation of the Shares:

At present, the face value of our share is Nu.10/- per share and the market price is Nu.28.00/- (as on 01.03.2018). Average market price of the share for the last six months has been Nu.24.10/- per share.

We had got done the valuation of our shares. The valuation is enclosed at Annexure I. As per the valuation done, the fair value of the share comes to Nu.24.00 per share.

The key financial ratios of the Bank are as under:

(Nu. in Mio)

	CY13	CY14	CY15	CY16	CY17
Profit after Tax	97.36	99.55	128.98	176.43	184.14
YoY%		2.3%	29.6%	36.8%	4.4%
Net Worth	667.95	736.37	830.04	1007.61	1146.75
YoY%		10.2%	12.7%	21.4%	13.8%
Provisioning	22.94	26.30	23.30	17.77	18.00
YoY%		14.6%	-11.4%	-23.7%	1.3%
Adjusted Net Worth	645.0	710.1	806.7	989.8	1128.8
Earnings per Share (EPS)	2.17	2.21	2.87	3.92	4.09
Book Value (BVPS)	14.9	16.4	18.4	22.4	25.5
Return on Equity (RoE%)		14.2	16.5	19.2	17.1
Price Earning Ratio (P/E)	12.9	12.6	9.8	7.1	6.8
Price/Book Value	1.9	1.7	1.5	1.3	1.1

9. Particulars of the offer

- 9.1. Number of shares on offer for right issue : 25,000,000
- 9.2. Issue price : Nu.15 per share
- 9.3. Rights share offered : (5 share against every 9 shares held)
- 9.4. Total amount of rights shares : Nu.375,000,000
- 9.5. Time line of the issue is as under:

Opening Date	Closing date	Allotment date
11 th May, 2018	11 th June, 2018	25 th June, 2018

- 9.6. Allotment: The offer of rights is in the ratio of Five share against Nine equity shares held and the allotment will be confirmed in that ratio. However, in case of fractional entitlement, the allotment shall be carried out as per the existing practice of issuing rights shares of the RSEB.
- 9.7. Eligibility: All existing shareholders.

10. Terms of the present issue

- 10.1. Shareholders shall be issued five rights share each for every nine shares held.
- 10.2. Shares will be traded from the existing system of the RSEBL.
- 10.3. Individual Trade Confirmation will be distributed by the dealing broker to all the shareholders after the transaction of the Rights offer.
- 10.4. In the event of shares being unsubscribed following unsuccessful auction or if the right issue is partially auctioned (as per item no 11), the remaining rights issue shall be exercised by the Bank in the most beneficial manner that the Bank deems fit.

11. Terms of Payment

- 11.1. The dealing broker shall receive the share application with the money and deposit it into their account.
- 11.2. Upon allotment of shares, the share money after adjusting the agreed brokerage commissions the dealing broker shall deposit the money with DPNBL at Thimphu alongwith the complete list of shareholders in excel format (in both hard and soft copies).

12. Renunciation of Rights Issue

- a) The shareholders shall have the right to renounce the rights offered partially or in full in favor of any person other than the promoters, substantial shareholders of the issuing company and other than a person who is less than 18 years of age as per Companies Act of Bhutan, 2016;
- b) The shareholders who do not want to renounce their rights shall have the option to sell their rights as per Item No. 13 below.
- c) Any shareholder not exercising their rights as above, their rights shall be treated as renounced and the option shall be sold as per Item No.13.

13. Option for Sale of the Rights Issue

- a) The shareholders shall have the option for sale of their rights through the RSEB auctioning process. All shareholders who agrees to sale their rights shall inform the executing broker through the rights issue form;
- b) The RSEB shall offer sale of the rights issue through an auctioning process where the buyers shall be allowed to bid for the sale volume. The best price shall be determined through RSEB auctioning process where prices shall be placed in descending order, the price at which the total volume gets filled shall be the auction price. The orders shall be allocated as per equal allocation method;
- c) After the close of the rights issue, the executing broker shall submit the list of the shareholders in the following format:
 - i) Shareholders who have renounced;
 - ii) Shareholders exercising their rights by selling; and
 - iii) Shareholders who have not exercised their rights.
- d) The RSEB shall announce the date for the auction of the rights within two (2) working days from the receipt of the list of the shareholders from the executing broker;
- e) The auction of the rights issue shall be open for five (5) working days, after the announcement;
- f) Interested bidders shall submit their bids for the rights issue through any broker according to the bid order form as per schedule (B) and the minimum lot size shall be 100 shares and multiples thereof.
- g) Interested bidders shall deposit 25% as advance of the initial bid value in order to qualify for the auction. Successful bidders shall deposit the remaining amount on the allotment date. If the successful bidders fail to deposit the amount on the allotment date, the 25% advance shall be forfeited in favor of the RSEB.
- h) In the event of unsuccessful auction or if the right issue is partially auctioned, the remaining rights issue shall be exercised by the Bank in the most beneficial manner that the Bank deems fit.

13.1. Broker's Commission and Settlement Procedures

- a) Permissible fee charged to the bidders by the respective brokers for the auction shall be 0.5% of the successful bid value;
- b) The Exchange shall charge 0.25% of the total successful bid value from the respective brokers;
- c) The RSEB shall provide the allotment list of the successful bidders to the respective brokers for the purpose of payment and settlement;
- d) The respective brokers shall deposit the proceeds from the auction to the settlement account of the RSEB. The RSEB shall be responsible to transfer the rights issue subscription proceeds to the Bank. The difference between the auction price and the rights issue price shall be paid to respective shareholders through the executing broker.

14. Availability of forms and Offer documents and submission

14.1. Application forms and offer documents are available at the following:

- DPNBL Branch Offices: Thimphu, Phuentsholing, Wangdue, Paro, Gelephu, Dangdung (Trongsa) and Samtse
- Brokerage firm i.e. RICBL Securities Ltd. and at their offices at all Dzongkhags
- The website of Bank at <http://www.drukpnbbank.bt>

14.2. Filled in application forms may be submitted at the following addresses:

- Brokerage firm and at their offices at all Dzongkhags

15. Outstanding Litigations/Default

The Bank has no outstanding statutory dues as of date. No litigation is pending against the Bank.

PART – II

1. Financial Information

1.1. Balance Sheet

(Nu. In Mio)

Liabilities	31.12.16	31.12.17	31.12.18	31.12.19	31.12.20
	(Audited)	(Un Audited)	(Projected)	(Projected)	(Projected)
Share Capital	450.000	450.000	700.000	700.000	700.000
Share premium	28.151	28.151	153.151	153.510	153.510
Subordinated Debt	178.800	150.000	0.000	0.000	0.000
General Reserves	327.668	419.738	526.128	648.476	792.847
Retained Earnings	193.420	237.811	287.701	407.049	553.901
Foreign Exchange Fluctuation reserves	8.370	11.049	13.549	16.549	19.031
Deposits	8313.675	11766.326	12148.120	13970.338	16484.999
Provisions	179.848	199.202	219.202	242.202	269.342
Other Liabilities	486.655	535.406	562.176	618.394	680.233
	10166.587	13797.683	14610.027	16756.518	19653.864
Assets					
Cash and Balance with RMA & Banks	4509.173	5699.853	5027.728	6033.273	6938.264
Loans and Advances	5040.229	6418.289	7702.130	8857.450	10628.939
Fixed Assets	42.839	56.435	52.187	50.187	47.980
Investment	436.750	1467.278	1650.688	1617.674	1779.441
Other Assets	137.596	155.828	177.295	197.934	259.238
	10166.587	13797.683	14610.028	16756.518	19653.863

1.2. Profit & Loss:

(Nu. In Mio)

	31.12.16	31.12.17	31.12.18	31.12.19	31.12.20
	(Audited)	(Un Audited)	(Projected)	(Projected)	(Projected)
Income					
Interest Earned	642.549	721.343	835.450	960.768	1133.706
Other Income	129.438	127.695	141.020	162.173	191.364
Total Income	771.987	849.038	976.470	1122.941	1325.070
Expenditure					
Interest	344.345	405.581	472.000	542.800	640.504

	31.12.16	31.12.17	31.12.18	31.12.19	31.12.20
Expended					
Operating Expenses	146.178	156.539	180.500	207.575	244.939
Provisions and Cintingencies	17.778	17.999	20.000	23.000	27.140
Total Expenses	508.301	580.119	672.500	773.375	912.583
Profit/Loss before Tax	263.686	268.919	303.970	349.566	412.487
Provision for Income Tax	87.254	86.589	91.190	104.870	123.746
Net Profit for the year	176.432	182.33	212.780	244.696	288.741

2. Management of the Bank

Board of Directors comprising of following individuals is the top management of the Bank:

- 2.1 Dasho Sangay Wangchuk –(Non-Executive Chairman)
- 2.2 Mr. Sanjiv Sharan - PNB Director, Executive Director, PNB Head Office, New Delhi
- 2.3 Mr. Dhaneswar Sahoo - PNB Director, GM, PNB Head Office, New Delhi
- 2.4 Mr. Tandin Tshering - Public Shareholder Director, Director General, Department of Industry, MoEA.
- 2.5 Mr. R. Bhaskaran- Independent Director, Mumbai, India
- 2.6 Mr. D.K. Gupta - Member Secretary (CEO)

The internal management of the Bank for day to day operation and for representing the Bank to the outside groups and organizations rest with the Chief Executive Officer (CEO) who is assisted by Dy.CEO and various division heads at corporate office.

3. Name and Address of the Company Secretary and the Broker of the issue

Mr. Tenzin Wangchuk Co. Secretary, Druk PNB Bank Ltd. Corporate Office, Thimphu.	Broker RICBL Securities Ltd. C/o RICBL, Norzin Lam, Thimphu Contact No. :17605229, 322426
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4. Declaration

That all the relevant provisions of the Royal Securities Exchange of Bhutan with regard to the rules on rights issue of the shares for listed companies (2015) have been complied with and no statement made in the offer document is contrary to the provisions of the rules on rights issue of shares for listed companies (2015) of the RSEBL.

(D.K. Gupta)
Chief Executive Officer
Druk PNB Bank Limited

(Tenzin Wangchuk)
Company Secretary
Druk PNB Bank Limited

Date :

Annexure-I

Fair Valuation of Shares of Druk PNB Bank Ltd:

	Equity Capital	Nu Mio	450.0	
	Fair Value (FV)	Nu	10	
	Equity Shares	Mio	45.0	
	CMP (as on 01/03/2018)	Nu	28	
	Market Capitalisation	Nu Mio	1260.0	
Sr no	Valuation Methodology	Unit	Value	Weight Assigned
1	NAV			
	Calendar Year (CY) 16 NW	Nu Mio	1007.6	
	Equity Shares	in Mio	45.0	
	Fair value/share	Rs	22.4	20%
2	Relative Valuations (based on historical nos)			
(a)	CY16 NW (adj for provisioning)	Nu Mio	989.8	
	30% Discount to CY14-CY16 Average P/ABV Multiple	x	1.1	
	CY16 Fair Value	Nu Mio	1064.3	
	Fair value/share	Nu	23.7	
(b)	CY16 PAT	Nu Mio	176.43	
	30% Discount to CY14-CY16 Average P/E Multiple	x	6.9	
	CY16 Fair Value	Nu Mio	1216.9	
	Fair value/share	Nu	27.0	
	Avg of Fair Value of (a) and (b)	Nu	25.3	20%
3	Average Market Price			
	Average market price per share for last 6 months	Nu	24.1	60%
				100%
	Weighted Avg Fair Right Issue Price	Nu	24.0	
	CMP	Nu	28.0	
	Premium/Discount to CMP	%	-14.3	

Annexure-II

Schedule B

Name of the Issuing Company (Druk PNB Bank Ltd.)
RIGHTS SHARE APPLICATION FORM
(For use by Bhutanese Citizen (s) only)

The Board of Directors
Druk PNB Bank Ltd.
Thimphu: Bhutan

Sub: Rights Offer of Equity Shares

Dear Sir (s)/ Madam (s),

On basis of the Offer document of the, I/We, hereby apply for the allotment of the Equity shares stated below out of the above issue. A sum of Nu...../- is remitted herewith and deposited withSecurities, Thimphu. I/We, hereby agree to accept the Equity shares applied or such numbers as may be allotted to me/us, subject to the terms of the Offer document.

I/We, hereby undertake that, I/We, shall sign all such other documents and do all other acts as necessary on my/our part to enable me/us to be registered as the holders (s) of the Equity Shares which may be allotted to me/us. I/We, authorize you to place my/our name on the Register of the shareholders of the company, as holders of the equity shares that may be so allotted to me/us and to register my/our address as given below:

I/We, also confirm that I/We am/are Bhutanese Citizen(s).

PART I: Rights Offer Subscription

Central Depository Code : -----

Name	CID No.	Current Address & Contact No.	No. of Shares applied

Bank Saving Account No:----- (Dividend mandate compulsory)

(* Please attach herewith the copy of the Citizenship Identity Card.

SIGNATURE OF APPLICANT

PART II: RENUNCIATION

The shareholder (s) reserve the right to renounce their right offers wholly or partially to any person, other than the promoters or any substantial shareholders of the company whom he/she so desires.

Name	CID No.	Current Address	No. of Shares

This is to confirm that the above listed applicant(s) have been offered my rights and are not the promoters or substantial shareholders of the company and therefore, authorize the company to register them as shareholders of the company.

SIGNATURE OF APPLICANT

NB: Applicants including renounced nominee (s) are requested to submit a photo copy of their new CID Card.

Part III: Buy/Sell Order Form (Rights Issue)

Central Depository Code:-----

Date :----/----/-----

<i>Buy/Sell</i>	<i>Quantity</i>	<i>Price</i>

- a) Name of the Buyer :-----
- b) Citizenship Identity Card :-----
- c) Address :-----
- d) Bank Saving Account No. :-----
- e) Contact No. :-----
- f) TPN # :-----

(SIGNATURE OF THE APPLICANT)

Signature of the Executing Broker: _____

Order Received on: _____