ROYAL MONETARY AUTHORITY OF BHUTAN

FINANCIAL STATEMENTS

PERIOD: JULY 1, 2019 to JUNE 30, 2020

OCTOBER 2020

TITLE SHEET

Title	:	Audit Report on the financial statements of Royal Monetary Authority of Bhutan
AIN:		
Head of the Agency	:	Dasho Penjore, Governor EID No. 2015002
Finance Personnel	:	Mr. Julien Gurung, Executive Director EID No. 2001012
Period Audited	:	July 1, 2019 – June 30, 2020
Schedule of Audit	:	Actual: August – October 2020 Reporting: October 21, 2020
Composition of Audit Team	:	Team Leader: Tashi Rinzing Schmidt, Managing Partner CID No. 11410002120 Team Members: 1. Ngawang Loday, Senior Audit Associate CID No. 10604000452 2. Shrijana Rai, Senior Audit Associate CID No. 11306001532 3. Kunzang Pasa Tenzin, Audit Associate CID No. 11410000669 4. Biran Rasaily, Audit Associate CID No. 11803002763
Supervising Officer	:	Tashi Rinzing Schmidt, Managing Partner
Engagement Letter	:	Appointment letter dated May 18, 2020
Focal Person	:	Tashi Rinzing Schmidt Email: tashi@rinzingfinancial.com Phone: +975 1733 9454

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR’S REPORT

Report on the Audit of the Financial Statements

To the Members of the Board of the Royal Monetary Authority of Bhutan

Opinion

We have audited the financial statements of the Royal Monetary Authority of Bhutan (the Authority), which comprise the Statement of Financial Position as at June 30, 2020, 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 financial statements present fairly, in all material respects, the financial position of the Authority as at June 30, 2020, and its financial performance and its cash flows for the year then ended in accordance with 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 Authority 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

There are no such matters to report.

Responsibilities of Management and Those Charged with Governance for the

Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has not realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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 Authority'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 Authority'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 Authority 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 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.

Report on Other Legal and Regulatory Requirements

As stipulated in requirement 5 and 10 of the audit appointment letter issued by Royal Audit Authority of Bhutan, we have enclosed Annexure I on the Minimum Audit Examination and Reporting Requirements to the extent applicable and Management Report in Annexure II highlighting certain issues for Management's attention and consideration.

Further to our comments in Annexure I and II referred above, 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 accounts as required by law have been kept by the Authority so far as appears from our examination of the books;

c) The Authority's financial statements are in agreement with the books of account and returns; and

d) In our opinion, the Authority has complied with other legal and regulatory requirement.

For Rinzing Financial Group
Firm License 1036380

RINZING FINANCIAL PRIVATE LIMITED

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020
Place: Thimphu, Bhutan

REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENTS

REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENTS

1. The Authority fulfilled all matters specified in clause-A except those pertaining to manufacturing activities and relative procurements, sales, marketing, etc.

2. Adequate documents and records have been maintained for loans and advances with timely entries.

3. Proper records of transactions and contracts have been maintained with timely entries in the books.

4. On the basis of verification of records and information and explanations given to us, we noted that reasonable records have been maintained for the funds collected from the depositors and interest payments.

5. On basis of the verification of records and information and explanations given to us, we noted no permanent diminutions during the current year.

6. The financial statements prepared are in accordance in Bhutanese Accounting Standards.

7. On the basis of verification of records and information and explanations given to us, no non-performing assets were noted during the current year.

8. On the basis of verification of records and information and explanations given to us, the Authority has no assets hypothecated against loans and advances.

9. On the basis of verification of records and information and explanations given to us, the Authority has a system of monitoring 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. On the basis of verification of records and information and explanations given to us, disposed assets are sent to the Department of National Property and then the disposed assets are sold through open/sealed bids.

11. On the basis of records and information and explanations given to us, we noted no instances of re-phasing/rescheduling of loans.

12. On the basis of records and information and explanations given to us, we noted no additional loans granted to those who have defaulted on payments of previous advances.

13. On the basis of records and information and explanations given to us, we noted no write –off of loans during the year.

Computerized Accounting Environment

1. During the course of our audit, we have neither come across nor have been informed of any failure or major weakness in the organizational and system development controls and other internal controls relative to size and nature of the computer installation.

2. According to information and explanation given to us, the Authority has adequate safeguard measures and back up facilities.

3. Based on the information and explanations given to us, the Authority has set up an offsite facility in Phuentsholing to store and back up files as a disaster recovery measure.

4. According to information and explanation given to us, the operational controls are adequate to ensure correctness and validity of input data and output information.

5. The Authority has adequate measures to prevent unauthorized access to the computer installation and files.

Going Concern Problem

The Authority has been making adequate profits in the past years and the financial position as on the date of this report is healthy. There are no potential going concern problems for the Authority.

Adherence to Laws, Rules and Regulations

The audit of the Authority is governed by the Royal Monetary Authority Act of Bhutan 2010 (the Act), By-laws, 2018 and Bhutanese Accounting Standards. The scope of audit is limited to examination and review of the financial statements prepared by the Management during our audit, we have considered the compliance of the provisions of the said Act and By-laws, 2018 as well as the Bhutanese Accounting Standards.

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RINZING FINANCIAL PRIVATE LIMITED

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020

FINANCIAL STATEMENTS

Royal Monetary Authority of Bhutan
Statement of Financial Position

(Amount in Nu. '000)

Assets	Note	June 30, 2020	June 30, 2019
Foreign currency financial assets			
Cash and cash equivalents	9	68,190,895	51,598,402
Deposits with banks	10	28,965,978	15,895,170
Securities	11	1,906,785	4,342,724
IMF related assets	12	2,739,680	2,560,586
Interest and other receivables		227,193	199,444
Total foreign currency financial assets		102,030,530	74,596,326
Local currency financial assets			
Cash and cash equivalents	9	41,186	19,688
Gratuity fund	10	52,635	39,661
Loans to staff	13	21,114	25,732
Ways and means advance to Royal Government	14	-	2,500,000
Interest and other receivables		-	362
Total local currency financial assets		114,935	2,585,444
Non-financial assets			
Non-monetary gold	15	54,350	37,713
Inventories for banknotes	16	223,104	165,333
Property, Plant and Equipment	17	115,681	161,721
Intangible assets	17	56,352	-
Other assets	18	543,164	166,761
Total non-financial assets		992,652	531,529
Total assets		**103,138,117**	**77,713,299**

For Rinzing Financial Private Limited
Firm License 1036380

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020
Place: Thimphu, Bhutan

RINZING FINANCIAL PRIVATE LIMITED

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

The notes on page 11 to 62 are an integral part of these financial statements

Royal Monetary Authority of Bhutan
Statement of Financial Position

Liabilities and Equity

(Amount in Nu. '000)

	Note	June 30, 2020	June 30, 2019
Foreign currency financial liabilities			
Balances of Royal Government	19	7,257,101	7,176,250
IMF related liabilities	12	2,257,371	2,112,733
Due to IFIs	20	10,823	1,368
Due to foreign central banks	20	18,812,100	11,117,600
Accrued interest payables		81,718	63,711
Total foreign currency financial liabilities		28,419,114	20,471,662
Local currency financial liabilities			
Currency in circulation	21	14,633,910	12,545,310
Balances of Commercial banks	22	33,830,569	22,799,762
Balances of Royal Government	19	1,365,610	96,563
Due to other Financial institutions	20	542	557
Total local currency financial liabilities		49,830,631	35,442,192
Other liabilities			
Deferred grants	23	43,474	66,538
Gratuity and other employee benefits	30	93,637	91,728
Managed Fund	24	-	253,874
Others	25	104,318	99,794
Total Liabilities		78,491,172	56,425,786
Equity			
Capital		800,000	800,000
General reserve	26	2,000,000	2,000,000
Profit and loss		1,769,392	3,421,435
BAS transition reserve	26	138,814	138,814
Revaluation reserve	26	19,533,991	14,932,773
Retained earnings	26	410,000	-
Other reserves	26	(5,252)	(5,510)
Total Equity		24,646,945	21,287,512
Total Equity and Liabilities		**103,138,117**	**77,713,299**

For Rinzing Financial Private Limited
Firm License 1036380

Schmidt

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020
Place: Thimphu, Bhutan

RINZING FINANCIAL PRIVATE LIMITED

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

The notes on page 11 to 62 are an integral part of these financial statements

Royal Monetary Authority of Bhutan
Statement of Comprehensive Income

(Amount in Nu. '000)

	Notes	June 30, 2020	June 30, 2019
Foreign currency income and expenses			
Interest income on foreign currency financial assets	27	1,955,433	2,237,151
Interest expense on foreign currency financial liabilities		(660,697)	(563,297)
Net foreign currency income		1,294,735	1,673,854
Local currency income			
Interest income on local currency financial assets	27	8,039	34,314
Net local currency income		8,039	34,314
Net interest income		1,302,775	1,708,168
Other income			
Gains on sale of foreign currencies		60,078	103,859
Unrealised gain/(loss) of fair value of securities		-	64,791
Realised gain/(loss) on sale of securities		3,699	3,604
Realised gain or (loss) on sale of monetary gold		72,198	-
Foreign exchange revaluation	28	5,354,931	271,794
Others	29	26,170	8,189
Net other income		5,517,077	452,237
Total net operating income		6,819,851	2,160,405
Expenses			
Cost of banknote printing		(52,060)	(46,877)
Employee benefits	30	(212,185)	(196,495)
Administrative expenses	31	(179,487)	(110,210)
Total operating expenses		(443,732)	(353,583)
Net profit for year		**6,376,119**	**1,806,822**
Other Comprehensive Income not to be			
Actuarial gain on Staff gratuity Fund		(5,252)	(5,510)
Total Comprehensive Income		**6,370,867**	**1,801,312**

Please refer to 32 on profit for distribution

For Rinzing Financial Private Limited
Firm License 1036380

RINZING FINANCIAL PRIVATE LIMITED

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

The notes on page 11 to 62 are an integral part of these financial statements

Royal Monetary Authority of Bhutan
Statement of Changes in Equity

(Amount in Nu. '000)

	Capital	General Reserve	Revaluation Reserve	Retained Earnings	OCI	BAS Transition Reserve	Total
Balance at July 1, 2019	800,000	2,000,000	14,932,773	3,421,435	(5,510)	138,814	21,287,512
Transfer of revaluation gain for the year (net of current year realised)	-	-	5,354,931	(5,354,931)	-	-	-
Total comprehensive Income	-	-	-	6,376,119	(5,252)	-	6,370,867
Transfer to Royal Government	-	-	-	(3,011,435)	-	-	(3,011,435)
Other movements	-	-	(5,510)	-	5,510	-	-
Transfer from revaluation reserve	-	-	(748,204)	748,204	-	-	-
Balance at June 30, 2020	**800,000**	**2,000,000**	**19,533,990**	**2,179,392**	**(5,252)**	**138,814**	**24,646,945**

For Rinzing Financial Private Limited
Firm License 1036380

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct 21, 2020
Place: Thimphu, Bhutan

RINZING FINANCIAL PRIVATE LIMITED

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

The notes on page 11 to 62 are an integral part of these financial statements

Royal Monetary Authority of Bhutan

Statement of Cash Flows

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Cash flows from operating activities		
Profit for year	1,769,392	3,421,435
Adjustments for items not involving cash flows		
Unrealised fx revaluations	4,601,475	(1,614,612)
Accrued interest in foreign currency	(27,749)	20,829
Accrued interest in domestic currency	362	(362)
Depreciation	(42,644)	(20,248)
Adjusted profit	**6,300,836**	**1,807,040**
(Increase)/decrease in operating assets		
Placements with banks	(13,083,782)	(2,529,789)
Advance to Government	2,500,000	(2,500,000)
Non-monetary gold	(16,637)	(21,041)
Inventory for banknotes	(57,771)	14,800
Other financial assets	4,618	6,150
Other assets	(376,403)	(11,157)
	(11,029,974)	(5,041,038)
Increase/(decrease) in operating liabilities		
Currency in circulation	2,088,600	278,192
Due to Banks	11,030,807	(866,999)
Due to Government foreign currency	80,851	(30,516)
Due to Government domestic	1,269,047	(251,789)
Due to foreign banks	9,456	(6,294)
Other foreign liabilities	18,007	(7,376)
Due to financial institutions	(16)	-
Gratuity and other employee benefits	1,909	15,425
Managed fund	(253,874)	210,429
Other domestic currency liabilities	4,524	(52,926)
Cash flows for operating activities	**14,249,312**	**(711,852)**
Cash flows from investing activities		
Net purchase of property	32,331	(6,908)
Net purchase of securities	2,435,940	1,262,831
Increase in IMF balance	(179,094)	(23,516)
Increase in IMF liability	144,638	15,820
Cash flows from investing activities	**2,433,815**	**1,248,227**
Cash flows from financing activities		
Due to foreign central banks	7,694,500	272,140
Deferred grant	(23,064)	5,395
Creation of BAS transition reserve	-	11,354.85
Retained earnings	410,000	-
Distributions	(3,421,435)	(1,585,243)
Cash flows from financing activities	**4,660,001**	**(1,296,353)**
Net increase in cash equivalents	16,613,991	(3,993,976)
Cash equivalents at beginning of year	51,618,090	55,612,066
Cash equivalents at end of year	**68,232,081**	**51,618,090**

For Rinzing Financial Private Limited Firm License 1036380

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

RINZING FINANCIAL PRIVATE LIMITED

The notes on page 11 to 62 are an integral part of these financial statements

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

ROYAL MONETARY AUTHORITY OF BHUTAN

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

1. GENERAL

The Royal Monetary Authority of Bhutan (hereinafter referred to as "the Authority") established in 1982 is the Central Bank of the Kingdom of Bhutan and sole authority for issuing of notes and coins in the country. All activities of the Authority are now governed by the provisions of the Royal Monetary Authority Act of Bhutan, 2010 (herein referred to as "the Act"), the amended By-laws 2018 and Expenditure Rules 2017 as approved by the Board of Directors. The Authority is a body corporate with perpetual succession and a common seal. The main activities of the Authority are to:

- Formulate and implement monetary policies to achieve price stability;
- Supervise and regulate banks and other financial institutions subject to the Financial Services Act of Bhutan 2011;
- Promote an efficient financial system comparable to international best practices;
- Promote, supervise and operate national and international payment and settlement system including electronic transfer of funds by financial institutions, other entities and individuals;
- Promote sound practices and good governance in the financial service industries to protect it against systemic risk; and
- Promote macro-economic stability and economic growth in Bhutan.

As per Section 155 of the Act, the financial year of the Authority is aligned with the financial year of the Royal Government of Bhutan and ends on June 30.

2. BASIS OF ACCOUNTING

These statements have been prepared in accordance with and complied with Bhutanese Accounting Standards (BAS).

The Authority has adopted BAS for these financial statements. BAS standards are based on the International Financial Reporting Standards (IFRS) 2014. In particular, for financial instruments, BAS incorporated the classification and measurement basis of IFRS 9, as existing in 2014, but the impairment is based on BAS 39. The Authority intends to fully comply with IFRS in 2021.

3. BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis except for the financial assets managed externally which are measured at fair value.

4. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Bhutanese Ngultrum ('Nu'), which is the Authority's functional currency. Ngultrum amounts have been rounded to the nearest thousand, unless otherwise indicated.

5. USE OF ESTIMATES AND JUDGMENTS

When preparing the financial statements in conformity with BAS, the Authority makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities for the following financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under certain circumstances.
These disclosures supplement the commentary on financial instruments (see Note 8).

(a) **Judgments**

The critical judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

- The externally managed portfolio of financial assets is operated under a business model that, in the judgement of management, should be classified as one that should be measured at fair value.
- Currency in circulation - the Authority has classified cash in circulation as a financial liability (see Note 21); and
- Gold - the Authority has classified standardized gold as a non-monetary asset at cost (see Note 15).

The Authority has classified the amount received from the Reserve Bank of India under the South Asian Association for Regional Cooperation (SAARC) swap arrangements as a loan denominated in Indian Rupees.

(b) **Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is set out below in relation to the impairment of financial instruments and determination of the fair value of financial instruments.

(i) Impairment of financial instruments

Assets accounted for at amortised cost are evaluated for impairment. The allowances for impairment applied to financial assets is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and an estimate of cash flows considered recoverable is independently approved.

(ii) Determining fair values

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Authority determines fair values using other valuation techniques.

For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Measurement of fair values

The Authority measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 - inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments

in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 - inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. The Authority has no such assets.

The Authority recognises transfers between levels of the fair value hierarchy at end of the reporting period during which the change has occurred.

6. EFFECT OF ACCOUNTING STANDARDS NOT YET IN FORCE

As stated in Note 2, the Authority intends to fully comply with IFRS in 2021. Current IFRS differs from BAS in the following aspects:

- BFRS 9 is based on an older version of IFRS 9 (the 2014 version) which is different from the latest version. The latest version of IFRS 9 requires additional disclosures about investments in equity instruments designated as Fair Value through Other Comprehensive income (FVOCI). This category would possibly be used by the Authority in addition to the current categories of amortised cost and Fair Value through Profit or Loss in the future.
- IFRS 9 adopts a very different approach to impairment of financial assets, based on an expected credit loss model instead of the incurred loss model currently used meaning that expected credit losses must be recognised at the point at which an entity makes a loan or invests in a relevant financial asset. The Authority will assess the implications of this approach.
- IFRS 16 on Leases will require more leased assets to be recognised on the balance sheet. The Authority does not expect this to have a material effect on its financial statements.
- IFRS 17 on Insurance Contracts is not expected to have a material impact on the Authority's financial statements.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial assets and liabilities

Measurement Methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Authority revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets.

(i) Initial recognition and measurement

The Authority initially recognises loans and advances on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Authority becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

At initial recognition, the Authority measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(ii) Classification and subsequent measurement

Financial assets

From July 1, 2018, the Authority has applied BFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, both foreign and domestic.

Classification and subsequent measurement of debt instruments depends on:

(i) the Authority's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Authority classifies its debt instruments into one of the following two measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any impairment and measured as described in Note 5. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model: the business model reflects how the Authority manages the assets in order to generate cash flows. That is, whether the Authority's objective is solely to collect the contractual cash flows from the assets. If this is not applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Authority in determining the business model for the Authority of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. As described in Note 8, the Authority's foreign reserves portfolio is managed in 3 tranches; a working capital tranche for immediate use, a liquidity tranche to support the working capital tranche, and an investment tranche held for the longer term. The business model for the working capital tranche is to hold to collect contractual cash flows, whilst the other two tranches are generally classified within the 'hold to collect and sell business model'. Within the Investment tranche, Securities in the portfolio managed under the World Bank's RAMP program are held for trading purposes. These securities are classified in the 'other' business model and accordingly measured at FVPL. The domestic currency portfolio is held for the purposes of collecting the contractual cash flows.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Authority assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Authority considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Authority reclassifies debt securities when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares. The Authority does not currently hold any equity holdings. The Authority does, however, hold the Kingdom of Bhutan’s quota in the International Monetary Fund. This has been treated as an equity holding for the purposes of BFRS 9. It is held as a strategic investment. The Authority’s management has elected, at initial recognition, to irrevocably designate that any movements in the fair value of its quota at the IMF will be presented through other comprehensive income as it is held for purposes other than to generate investment returns. Under this election, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Financial liabilities

The Authority classifies its financial liabilities as measured at amortised cost.

(iii) Derecognition

Financial assets

The Authority derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Authority neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On the derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Authority is recognised as a separate asset or liability.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Authority has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under BAS, or for gains and losses arising from a group of similar transactions such as in the Authority's trading activity.

(v) Identification and measurement of impairment

At each reporting date, the Authority assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- indications that a borrower or issuer will enter bankruptcy;
- disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against the relevant asset or investments. Interest on the impaired assets continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The Authority writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when it determines that there is no realistic prospect of recovery.

b. Currency in circulation

Currency in circulation includes banknotes and coins in circulation and is presented under liabilities by deducting the nominal value of the banknotes and coins on hand in the Authority from the nominal value of all the banknotes and coins issued.

c. Cash and cash equivalents

Cash and cash equivalents include deposits in local currency, together with notes and coins on hand in foreign currency, and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value and are used by the Authority in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

d. Non-monetary gold

Non-monetary gold is valued at cost being the purchase price paid in Ngultrum.

e. Deposits and borrowings

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

f. Printing and minting costs

Freshly printed banknotes and coins, which have not yet been put into circulation, are recognized as assets at acquisition cost. The costs of notes are charged as an expense when the notes are issued to the public.

g. Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Authority and the cost of the asset can be measured reliably. Intangible assets consist of computer software.

Intangible assets acquired by the Authority are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of a software is three years. Work-in-progress is not amortised.

h. Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day-to-day maintenance of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land, work in progress, and paintings and other artworks and objects are not depreciated.

The rates of depreciation are as follows:

Asset Class	Depreciation Rate
Building:	
Structure	3%
Electrical	10%
Roofing	10%
Furniture & fixtures	15%
Machinery	5%
Equipment	20%
Motor vehicles	15%
Electricity generation & transmission equipment	5%
Computer & IT Equipment	20%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

i. Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Authority estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and

- Interest on securities calculated on an effective interest basis.

j. Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, fund transfer fees, placement fees and credit registry fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

k. Transactions in foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates on the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The resulting differences from the conversion and translation are recognised in profit or loss in the year in which they arise.

Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

According to the RMA Act 2010, the net gains/losses from foreign exchange that are initially recognised in profit or loss in the period in which they arise, are then transferred from retained earnings to the 'Revaluation reserves' included in Capital and Reserves.

l. Unrealised gains/losses of fair value of securities

Unrealised gains/losses of the fair value of securities relate to financial assets designated at fair value through profit or loss. It includes all realised and unrealised fair value changes. Under the RMA Act 2010, these gains/losses are transferred to the revaluation reserve before distribution of profit to the Government.

m. Taxation

As per section 14 of the Act, the Authority is exempted from all taxes on its yearly surplus, stamp duties, custom duties on gold, silver, currency notes and coins or any other goods that may be specified by the Government.

n. Profit distribution

The profits of the authority are computed under BAS. In order to calculate the profits available for distribution, certain adjustments are necessary. Under Section 24 of the Act, any gains arising from revaluation or changes in the exchange rate that are recognised in income are transferred to the revaluation reserve. Any losses arising from such revaluations shall initially be offset against the revaluation reserve. If the revaluation reserve is insufficient, then the excess losses should be deducted from the current year's profit and then from the general reserve. 50% of the distributable profits may, with the approval of the Royal Government be transferred to the general reserve. The remaining distributable profits are paid to the Royal Government. Revaluation gains and losses taken to revaluation reserves that are realised in subsequent years are included in distributable profits in the year which they are realised. See Note 32 for the calculation of distributable profit.

o. Employee benefits

(i) Defined contribution plans

The Authority makes compulsory contributions to the National Pension & Provident Fund (NPPF) that provide pension benefits for employees upon retirement. These contributions are charged in the income statement. The NPPF are responsible for providing the legally set minimum threshold for pensions in Bhutan under a defined contribution pension plan.

(ii) *Defined benefit plans (Gratuity)*

Staff on leaving the authority are entitled to one month's pay for each year of service. Provision is made for the gratuity over the service period of the employees. In accordance with BAS 19, the authority's net obligation in respect to the gratuity plan is calculated by estimating the amount of future benefits that the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method and amount of obligation is provided in profit or loss and invested in the form of deposits with financial institutions within Bhutan. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income and presented within equity.

(iii) Termination benefits

Termination benefits are recognized as an expense when the Authority is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Authority has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus (performance linked incentive scheme) if the Authority has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) *Earned leave encashment*

The employees of the Authority are entitled for earned leave. The employees can carry forward a portion of the unutilized earned leave subject to the limit set by the Authority and utilize it in future periods or compensated in cash during retirement or termination of employment for the unutilized accrued earned leave based on the salary at the time. The Authority's net obligation in respect to earned leave is calculated by estimating the amount of future benefits that the employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary and the amount of obligation is provided in profit or loss. The plan is unfunded.

p. Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

q. Impairment of non-financial assets

The carrying amounts of the Authority's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the highest of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

r. Provisions

A provision is recognised if, as a result of a past event, the Authority has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

8. FINANCIAL INSTRUMENTS: RISK MANAGEMENT AND FAIR VALUES

Risk management framework

The financial instruments of the Authority are mainly used for the purposes of foreign reserve management and for the maintenance of the Ngultrum's peg to the Indian Rupee. The significance of risk is assessed within the context of these functions. The Authority has exposure to the liquidity risk, credit risk and market risk from financial instruments. During the performance of the foreign reserve management function, the Authority is also exposed to, and manages, the legal risk, settlement risk, custodian risk and operational risk. This note presents information about the Authority's exposure to each of the above risks, the Authority's objectives, policies and processes for measuring and managing risk.

Pursuant to the legal requirements, the Authority holds and manages the foreign reserves of the Kingdom of Bhutan. As such the Board has approved the Reserve Management Policy (RMP) which defines the general principles, the investment structure of the external reserves, the permitted asset classes, the risk management rules and internal organization for reserve management. The quantified investment framework of the reserve management, in accordance with the Reserve Management Policy (RMP) is set out in the Investment Guidelines (IG) approved by the Executive Committee.

The Reserve Management Committee is responsible to review the risks, the performance, and compliance of the reserve management practice with the RMP and IG.

In accordance with the decisions of the Board on the eligible instruments, the reserve is invested in fixed or floating income securities, in deposits or certificates of deposit, the remaining foreign reserves are held in SDR.

a) Liquidity risk

Liquidity risk is the risk that: a) the Authority will encounter difficulty in meeting obligations associated with its financial liabilities in due time; and b) the Authority will not be able to sell a financial instrument within a specific time frame without causing significant loss compared to the market value. Liquidity is amongst the primary objectives of the foreign reserve management and is defined as the goal to insure the availability at all times of sufficient funds to meet the liquidity needs associated with:

- the implementation of the monetary policy and the exchange rate policy of the Authority; and

- maintaining the financial stability and meeting the needs of the country in the period of crisis.

The implementation of these objectives is performed through the breakdown of the foreign reserves into certain tranches that, within the context of a prudent management of the liquidity risk, serve specific purposes and carry specific features.

The net reserve is composed of:

(i) the working capital tranche: designed to meet the monthly liquidity needs arising within one month;

(ii) the liquidity tranche: designed to meet the liquidity needs arising within one year;

(iii) the investment tranche: it represents the remaining balance as surplus and is designed to meet the liquidity needs arising beyond the timeframes described in the first two tranches.

The amount and currency composition of the tranches is determined based on the needs to use such tranches. The selection of the financial instruments in which the majority of each tranche is invested, (the 'benchmark portfolios') and the duration of each benchmark portfolio are determined in line with the use of each tranche to meet the liquidity needs of the Authority. Although the overall reserve is invested in highly liquid instruments, the first and the second tranches described above, are invested in highly liquid short-term sovereign issues with high credit rating.

8. FINANCIAL INSTRUMENTS: RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Liquidity risk (continued)

The tables below set out the remaining contractual maturities of the Authority's financial liabilities and financial assets. The Authority's expected cash flows on these instruments may vary from the contractual cash flows.

(Amount in Nu. 000)

June 30, 2020	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and cash equivalents	24,175,022	22,304,710	21,752,349	-	-	-	-	**68,232,081**
Securities at amortised cost	1,889,500	15,589,127	9,597,851	1,889,500	-	-	-	**28,965,978**
Securities at amortised cost	303,633	1,603,152	-	-	-	-	-	**1,906,785**
IMF related assets	631,468	-	-	-	-	-	2,108,211	**2,739,680**
Loans to staff and other assets	227,193	-	-	52,635	-	21,114	-	**300,942**
Total financial assets	**27,226,816**	**39,496,988**	**31,350,200**	**1,942,135**	**-**	**21,114**	**2,108,211**	**102,145,465**
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	14,633,910	**14,633,910**
Balances of Commercial banks	33,830,569	-	-	-	-	-	-	**33,830,569**
Deposits from third parties	11,365	-	-	-	-	-	-	**11,365**
Balances of Royal Government	1,622,711	-	-	-	7,000,000	-	-	**8,622,711**
IMF related liabilities	624,265	-	-	-	-	-	1,633,106	**2,257,371**
Due to foreign Central Banks	-	14,277,300	4,534,800	-	-	-	-	**18,812,100**
Other liabilities	81,718	-	-	-	-	-	-	**81,718**
	36,170,628	**14,277,300**	**4,534,800**	**-**	**7,000,000**	**-**	**16,267,016**	**78,249,744**
Asset-liability maturity mismatch as of June 30, 2020	**(8,943,812)**	**25,219,688**	**26,815,400**	**1,942,135**	**(7,000,000)**	**21,114**	**(14,158,805)**	**23,895,721**

Rinzing Financial Private Limited

(a) Liquidity risk (continued)

(Amount in Nu. 000)

June 30, 2019	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and cash equivalents	31,938,483	19,679,607	-	-	-	-	-	**51,618,090**
Deposits	-	1,850,549	8,283,229	5,761,392	-	-	-	**15,895,170**
Securities at amortised cost	-	787,930	-	-	-	-	-	**787,930**
Externally managed securities	227,758	-	-	-	3,327,037	-	-	**3,554,794**
IMF related assets	587,455	-	-	-	-	-	1,973,131	**2,560,586**
Ways and Means Advance to Royal Government	-	2,500,000	-	-	-	-	-	**2,500,000**
Loans to staff and other assets	199,806	-	-	39,661	-	25,732	-	**265,199**
Total financial assets	**32,953,503**	**24,818,086**	**8,283,229**	**5,801,053**	**3,327,037**	**25,732**	**1,973,131**	**77,181,770**
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	12,545,310	**12,545,310**
Balances of Commercial banks	22,799,762	-	-	-	-	-	-	**22,799,762**
Deposits from third parties	1,925	-	-	-	-	-	-	**1,925**
Balances of Royal Government	272,813	-	-	-	7,000,000	-	-	**7,272,813**
IMF related liabilities	584,267	-	-	-	-	-	1,528,467	**2,112,733**
Due to foreign Central Banks	-	6,976,550	-	4,141,050	-	-	-	**11,117,600**
Other liabilities	63,711	-	-	-	-	-	-	**63,711**
Total financial liabilities	**23,722,476**	**6,976,550**	**-**	**4,141,050**	**7,000,000**	**-**	**14,073,777**	**55,913,853**
Asset-liability maturity mismatch as of June 30, 2019	**9,231,027**	**17,841,536**	**8,283,229**	**1,660,003**	**(3,672,963)**	**25,732**	**(12,100,646)**	**21,267,917**

(a) Credit risk

For the purpose of the foreign reserve management, the credit risk is the risk of financial loss to the Authority, if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Authority's loans and advances to other banks and investment securities. For risk management reporting purposes, the Authority considers and consolidates elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The management of this risk is an important objective, in the process of the foreign exchange reserve management.

The risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk; for further details, see (d) below.

The RMP establishes concentration of exposure to counterparties, and by type of investment, issuer, credit rating band, market liquidity, with the governments and central Bank issues prioritized. The evaluation and monitoring process of the credit rating of the eligible issuers is based on the analysis and the rating determined by the principal rating agencies, including Standard & Poor's, Moody's and Fitch, as well as in the reviewing processes, on a daily basis, of the performance of several market indicators of the quality of the credit rating of the issuer. In accordance with the limits imposed by the Board, the Reserve Management Committee is authorized to establish other qualitative and/or quantitative limits on the exposure level for the issuer/financial institution on an individual basis, category, or combined category and instrument basis. Depending on the market environment and conditions, the Authority may decide to adapt even more conservative limits for an issuer/financial institution.

The investment of the foreign exchange reserve is limited to sovereign (government/central bank) issues with minimum credit ratings of A+ sovereign agencies, multilateral institutions, public entities with a minimum credit rating of AA-; and, with the exception of Indian banks, banks and other financial institutions with a minimum credit rating of A-. The credit rating refers to the credit rating of an issuer/financial institution, and if such rating is not provided, the credit rating of the long-term debt of the financial institution is used. For Indian banks, it must be public owned banks.

The loans to the local banks are secured/collateralized by treasury bills issued by the Royal Government.

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at June 30, 2020 and 2019.

		(Amount in Nu. '000)
	June 30, 2020	**June 30, 2019**
Assets		
Cash and cash equivalents	68,232,081	51,618,090
Deposits	28,965,978	15,895,170
Securities at amortised cost	1,906,785	787,930
Externally managed securities	-	3,554,794
IMF related assets	2,739,680	2,560,586
Ways and Means Advance to Royal Government	-	2,500,000
Loans to staff and other assets	300,942	265,199
Total financial assets	**102,145,465**	**77,181,770**

An amount of Nu. 631 million (2019: Nu. 587 million) which is included in the SDR Holdings with the IMF (see Note 12) is not considered to represent credit risk for the Authority since it represents the counter-account of the amounts acquired through the SDR allocations. Only Nu. 12.50 million (2019: Nu. 8.14 million) included in the assets above represent credit risk.

(b) Credit risk (continued)

A segregation of the financial assets by geography is set out below:

(Amount in Nu. '000)

June 30, 2020	United States of America	EU countries	UK	East Asia	India	Singapore	Bhutan	Others	Total
Cash and cash equivalents	16,494,252	100,237	342,324	4,912,700	23,700,214	17,051,604	1,588,539	4,042,211	68,232,081
Deposits	10,647,986	-	-	8,714,074	-	5,824,918	-	3,779,000	28,965,978
Securities at amortised cost	-	-	-	-	1,906,785	-	-	-	1,906,785
IMF related assets	2,739,680	-	-	-	-	-	-	-	2,739,680
Loans to staff and other assets	-	-	-	-	-	-	73,749	227,193	300,942
Total financial assets	**29,881,918**	**100,237**	**342,324**	**13,626,774**	**25,606,998**	**22,876,521**	**1,662,288**	**8,048,404**	**102,145,465**

(Amount in Nu. '000)

June 30, 2019	United States of America	EU countries	UK	East Asia	India	Singapore	Bhutan	Others	Total
Cash and cash equivalents	8,826,338	24,526	258,220	1,380,350	11,664,682	27,807,580	800,385	856,009	51,618,090
Deposits	-	-	-	-	4,342,405	9,702,216	-	1,850,549	15,895,170
Securities at amortised cost	-	-	-	-	787,930	-	-	-	787,930
Externally managed securities	3,554,794	-	-	-	-	-	-	-	3,554,794
IMF related assets	2,560,586	-	-	-	-	-	-	-	2,560,586
Ways and Means Advance to RGOB	-	-	-	-	-	-	2,500,000	-	2,500,000
Loans to staff and other assets	-	-	-	-	-	-	65,755	199,444	265,199
Total financial assets	**14,941,718**	**24,526**	**258,220**	**1,380,350**	**16,795,018**	**37,509,795**	**3,366,140**	**2,906,002**	**77,181,770**

(b) Credit risk (continued)

A segregation of the financial assets by counterparty type is set out below:

(Amount in Nu. '000)

June 30, 2020	Cash and cash equivalents	Deposits	Securities at amortised cost	Externally managed securities	IMF related assets	Ways and Means Advance to RGOB	Loans to staff and other assets	Total
Central Authority	1,547,353	-	-	-	-	-	21,114	1,568,467
Foreign Central Banks	7,332,738	-	1,906,785	-	2,739,680	-	-	11,979,202
Commercial Banks	59,351,990	28,965,978	-	-	-	-	-	88,317,967
Others	-	-	-	-	-	-	279,828	279,828
Total financial assets	**68,232,081**	**28,965,978**	**1,906,785**	**-**	**2,739,680**	**-**	**300,942**	**102,145,465**

(Amount in Nu. '000)

June 30, 2019	Cash and cash equivalents	Deposits	Securities at amortised cost	Externally managed securities	IMF related assets	Ways and Means Advance to RGOB	Loans to staff and other assets	Total
Central Authority	780,697	-	-	-	-	-	25,732	806,428
Foreign Central Banks	50,781,102	-	787,930	3,554,794	2,560,586	-	-	57,684,412
Commercial Banks	56,292	15,895,170	-	-	-	-	-	15,951,462
Royal Government	-	-	-	-	-	2,500,000	-	2,500,000
Others	-	-	-	-	-	-	239,467	239,467
Total financial assets	**51,618,090**	**15,895,170**	**787,930**	**3,554,794**	**2,560,586**	**2,500,000**	**265,199**	**77,181,770**

(b) Credit risk (continued)

An analysis of concentration of the credit risk by quality of credit rating is shown below:

(Amount in Nu. '000)

June 30, 2020	Cash and cash equivalents	Deposits	Investment securities	Special Drawing Rights (SDR)**	Ways and Means Advance to RGOB	Loans to Staff and other assets	Total
Balances with foreign Central Banks	4,036,206	-	1,906,785	-	-	-	5,942,991
IMF related assets	-	-	-	2,739,680	-	-	2,739,680
State-owned Banks	17,952,737	10,647,986	-	-	-	-	28,600,723
AA-	22,484,669	5,824,918	-	-	-	-	28,309,586
A	21,911,088	10,959,100	-	-	-	-	32,870,188
Unrated	1,847,381	1,533,974	-	-	-	300,942	3,682,297
Total financial assets	**68,232,081**	**28,965,978**	**1,906,785**	**2,739,680**	**-**	**300,942**	**102,145,465**

(Amount in Nu. '000)

June 30, 2019	Cash and cash equivalents	Deposits	Investment securities	Special Drawing Rights (SDR)**	Ways and Means Advance to RGOB	Loans to Staff and other assets	Total
Balances with foreign Central Banks	5,281,649	-	787,930	-	-	-	6,069,579
IMF related assets	-	-	-	2,560,586	-	-	2,560,586
State-owned Banks	12,201,998	-	-	-	-	-	12,201,998
AAA	-	-	3,554,794	-	-	-	3,554,794
AA-	26,157,080	11,747,962	-	-	-	-	37,905,041
A	4,945,572	4,147,208	-	-	-	-	9,092,781
Unrated	3,031,791	-	-	-	2,500,000	265,199	5,796,991
Total financial assets	**51,618,090**	**15,895,170**	**4,342,724**	**2,560,586**	**2,500,000**	**265,199**	**77,181,770**

The credit ratings included above show the second-best rating amongst Standard & Poor's, Moody's and Fitch.

** The Ngultrum value of SDR is calculated by using the SDR US dollar exchange rate combined with the US dollar Ngultrum exchange rate, based on market exchange rates, of a basket of major currencies (the US dollar, euro, Japanese yen, and pound sterling). The value of the SDR is determined the weighted average of the basket of major currencies and adjusted every five years.

The unrated items include cash in the Authority's vault, deposits with banks in Bhutan and Ways & Means Advance to Royal Government of Bhutan.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Royal Monetary Authority's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The key elements of price risk affecting the Authority are:

- Interest rate risk associated with fluctuations in the fair value of financial instruments due to changes in market interest rates; and
- Currency risk associated with fluctuations in the fair value of financial instruments due to changes in foreign exchange rates.

The Authority's exposure to currency risk is monitored on a continual basis by the Department of Foreign Exchange & Reserve Management. Financial assets and liabilities denominated in foreign currencies are disclosed in the relevant notes of the financial statements.

For the purpose of foreign exchange reserve management, in terms of ensuring compliance with the criteria set by the Board on the composition according to currency of the foreign currency reserve, the Authority is passive in the management of foreign exchange rate risk. The Authority holds 30% of its foreign reserves in Indian rupees, with the balance in other currencies, of which the majority is held in US Dollars. The other main component is SDRs held at the IMF. The authority may also hold other reserve currencies such as the Euro and Pound Sterling.

(i) Interest rate risk

The Authority's operations are subject to the risk of interest rate fluctuations, which affect the prices of interest-earning assets (including investments) and interest-bearing liabilities.

The Foreign Exchange and Reserve Management Department of the Authority monitors the interest rate risk. The Authority mitigates such risks by maintaining a significant excess of interest-bearing assets over liabilities. The Authority maintains a portfolio of interest-bearing financial assets and liabilities such that the net interest income is significantly higher than operating needs, in order to minimize the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in the relevant notes to the financial statements.

The interest rate risk management for the purpose of foreign exchange reserve management, in its core process includes the selection of the portfolio/duration benchmark for each market (currency) in which the foreign reserves are held. The benchmark selection is reviewed annually or whenever changes in market conditions require a reassessment. Besides determining the benchmark portfolio, the Reserve Management Committee, in accordance with the limits imposed by the Board, determines limits at the tranche level for the additional risk factors that can be taken by the portfolio manager specialist during the active administration. The portfolio level limits are established by the Head of the Reserve Management Department.

(i) Interest Rate Risk (continued)

Assuming an immediate parallel increase (decrease) in interest rates by 50 basis points and 100 basis points and a correlation equal to 1 between the curves, and based on the duration of the aggregate foreign exchange reserves, the estimated loss (gain) for each scenario is as follows:

Estimated profit (loss) effect	**June 30, 2020**		**June 30, 2019**	
	100 bp	50 bp	100 bp	50 bp
Increase	(756,636)	(378,318)	(668,154)	(334,077)
Decrease	756,636	378,318	668,154	334,077

Assets and liabilities with variable interest rates carry the risk of changing the base that serves to determine interest rates.

The position of the Authority's sensitivity to interest rate by contractual repricing is presented in the following table, showing the carrying amounts of financial instruments classified by contractual repricing or maturity date.

(c) Market risk (continued)

(i) Interest rate risk (continued)

(Amount in Nu. '000)

June 30, 2020	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
Interest-earning assets						
Cash and cash equivalents	68,232,081	258,842	-	53,431,407	-	14,541,832
Deposits	28,965,978	-	-	-	28,965,978	-
Securities at amortised cost	1,906,785	-	-	1,906,785	-	-
Externally managed securities	-	-	-	-	-	-
IMF related assets	2,739,680	631,468	-	-	-	2,108,211
Ways and Means Advance to RGOB	-	-	-	-	-	-
Loans to staff and other assets	300,942	-	-	-	73,749	227,193
Total financial assets	**102,145,465**	**890,310**	**-**	**55,338,192**	**29,039,726**	**16,877,236**
Interest-bearing liabilities						-
Currency in circulation	14,633,910	-	-	-	-	14,633,910
Loans to staff and other assets	33,830,569	-	-	-	-	33,830,569
Deposits from third parties	11,365	-	-	-	-	11,365
Balances of Royal Government	8,622,711	-	-	-	7,000,000	1,622,711
IMF related liabilities	2,257,371	618,973	-	-	-	1,638,398
Due to foreign Central Banks	18,812,100	-	-	14,277,300	4,534,800	-
Other liabilities	81,718	-	-	-	-	81,718
Total financial liabilities	**78,249,744**	**618,973**	**-**	**14,277,300**	**11,534,800**	**51,818,671**
Interest-bearing financial instruments gap	**23,895,721**	**271,337**	**-**	**41,060,892**	**17,504,926**	**(34,941,435)**

(c) Market risk (continued)

(i) *Interest rate risk (continued)*

(Amount in Nu. '000)

June 30, 2019	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
Interest-earning assets						
Cash and cash equivalents	51,618,090	851,056	-	44,642,636	-	6,124,398
Deposits	15,895,170	-	4,342,405	-	11,552,764	-
Securities at amortised cost	787,930	-	-	787,930	-	-
Externally managed securities	3,554,794	-	227,758	-	3,327,037	-
IMF related assets	2,560,586	587,455	-	-	-	1,973,131
Ways and Means Advance to RGOB	2,500,000	2,500,000	-	-	-	-
Loans to staff and other assets	265,199	-	-	-	65,393	199,806
Total financial assets	**77,181,770**	**3,938,512**	**4,570,163**	**45,430,566**	**14,945,194**	**8,297,335**
Interest-bearing liabilities						
Currency in circulation	12,545,310	-	-	-	-	12,545,310
Balances of Commercial banks	22,799,762	-	-	-	-	22,799,762
Deposits from third parties	1,925	-	-	-	-	1,925
Balances of Royal Government	7,272,813	-	-	-	7,000,000	272,813
IMF related liabilities	2,112,733	579,313	-	-	-	1,533,420
Due to foreign Central Banks	11,117,600	-	-	-	11,117,600	-
Other liabilities	63,711	-	-	-	-	63,711
Total financial liabilities	**55,913,853**	**579,313**	**-**	**-**	**18,117,600**	**37,216,940**
Interest-bearing financial instruments gap	**21,267,917**	**3,359,198**	**4,570,163**	**45,430,566**	**(3,172,406)**	**(28,919,605)**

(c) Market risk (continued)

(ii) Exchange rate risk

Exchange rate risk results from the difference between the currency structure of assets and liabilities. From an accounting point of view, the Authority is exposed to currency risk due to its principal functions.

The Authority's principal exposure to exchange rate risk is on the USD component of its foreign reserves. The Authority may at times hold other international currencies including Euro and Pound Sterling. Majority of the Authority's foreign assets are denominated in Indian Rupees, with which the Ngultrum is held at parity.

Rinzing Financial Private Limited

(c) Market risk (continued)

(ii) Exchange rate risk (continued)

The Authority’s exposure to foreign currency risk as at June 30, 2020 and 2019 is as follows:

(Amount in Nu. '000)

June 30, 2020	USD	EUR	GBP	INR	SDR	Other	Total
Assets							
Cash and cash equivalents	43,422,944	134,162	349,052	24,189,558	-	95,180	**68,190,895**
Deposits	28,965,978	-	-	-	-	-	**28,965,978**
Securities at amortised cost	-	-	-	1,906,785	-	-	**1,906,785**
IMF related assets	-	-	-	-	2,739,680	-	**2,739,680**
Loans to staff and other assets	-	-	-	-	-	227,193	**227,193**
Total foreign financial assets	**72,388,922**	**134,162**	**349,052**	**26,096,342**	**2,739,680**	**322,373**	**102,030,530**
Liabilities							
Deposits from third parties	10,823	-	-	-	-	-	**10,823**
Balances of Royal Government	188,521	68,581	-	7,000,000	-	-	**7,257,101**
IMF related liabilities	-	-	-	-	2,257,371	-	**2,257,371**
Due to foreign Central Banks	4,534,800	-	-	14,277,300	-	-	**18,812,100**
Other liabilities	81,718	-	-	-	-	-	**81,718**
Total foreign financial liabilities	**4,815,862**	**68,581**	**-**	**21,277,300**	**2,257,371**	**-**	**28,419,114**
Net currency position	**67,573,060**	**65,581**	**349,052**	**4,819,042**	**482,309**	**322,373**	**73,611,416**

(c) Market risk (continued)

(ii) *Exchange rate risk (continued)*

(Amount in Nu. '000)

June 30, 2019	USD	EUR	GBP	INR	SDR	Other	Total
Assets							
Cash and cash equivalents	39,220,232	24,680	258,220	12,090,273	-	4,996	**51,598,402**
Deposits	11,552,764	-	-	4,342,405	-	-	**15,895,170**
Securities at amortised cost	-	-	-	787,930	-	-	**787,930**
Externally managed securities	3,554,794	-	-	-	-	-	**3,554,794**
IMF related assets	-	-	-	-	2,560,586	-	**2,560,586**
Loans to staff and other assets	-	-	-	-	-	199,444	**199,444**
Total foreign financial assets	**54,327,791**	**24,680**	**258,220**	**17,220,609**	**2,560,586**	**204,440**	**74,596,326**
Liabilities							
Deposits from third parties	1,368	-	-	-	-	-	**1,368**
Balances of Royal Government	138,784	37,466	-	7,000,000	-	-	**7,176,250**
IMF related liabilities	-	-	-	-	2,112,733	-	**2,112,733**
Due to foreign Central Banks	4,141,050	-	-	6,976,550	-	-	**11,117,600**
Other liabilities	63,711	-	-	-	-	-	**63,711**
Total foreign financial liabilities	**4,344,913**	**37,466**	**-**	**13,976,550**	**2,112,733**	**-**	**20,471,662**
Net currency position	**49,982,878**	**(12,786)**	**258,220**	**3,244,059**	**447,853**	**204,440**	**54,124,664**

(c) Market risk (continued)

(iii) ***Exchange rate risk (continued)***

The following table shows the effect of a movement in exchange rate by 10% and 5%, respectively:

(Amount in Nu., million)

	June 30, 2020		June 30, 2019	
Financial assets	**10%**	**5%**	**10%**	**5%**
Cash and cash equivalents	440	220	392	198
Deposits	290	145	116	58
Securities	-	-	36	18
IMF related assets	27	14	26	13
Impact on Financial assets	**757**	**379**	**569**	**286**
Financial liabilities				
Balances of Royal Government	2	1	1	1
IMF related liabilities	23	11	21	11
Impact on financial liabilities	**24**	**12**	**23**	**11**
Total increase/(decrease)	**733**	**366**	**547**	**275**
Impact on the Profit	**733**	**366**	**547**	**275**

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Authority's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from the Authority's operations.

Operational risk management is supported by the internal control systems on several activities of the Authority and standards for the management of operational risk and a wide range of common policies, staff management regulations and obligatory requirements.

Fair value of financial instruments

The Authority's financial instruments which are measured at fair value are currently traded securities for which there is a wide market. For these securities the fair value is the market value as described in Note 5(b) and comprise the externally managed securities.

Financial instruments not measured at fair value

The following table sets out the fair values of certain financial instruments not measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised.

(Amount in Nu. '000)

	June 30, 2020		June 30, 2019	
	Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
Assets				
Deposits	28,965,978	28,965,978	15,895,170	15,895,170
Securities at amortised cost	1,906,785	1,906,785	787,930	787,930
IMF related assets	2,739,680	2,739,680	2,560,586	2,560,586
Ways and Means Advance to RGOB	-	-	2,500,000	2,500,000
Loans to staff and other assets	300,942	300,942	265,199	265,199
Liabilities				
IMF related liabilities	2,257,371	2,257,371	2,112,733	2,112,733
Balances of Commercial banks	33,830,569	33,830,569	22,799,762	22,799,762
Due to foreign Central Banks	18,812,100	18,812,100	11,117,600	11,117,600
Deposits from third parties	11,365	11,365	1,925	1,925
Balances of Royal Government	8,622,711	8,622,711	7,272,813	7,272,813
Other financial liabilities	81,718	81,718	63,711	63,711

The Authority considers that the fair value for cash and deposits is the same as the carrying value. For the investment in Government of India Treasury Bills, which are not traded, the fair value has been estimated based on prevailing interest rates.

9. CASH AND CASH EQUIVALENTS

(Amount in Nu. '000)

Foreign currency	June 30, 2020	June 30, 2019
Cash	1,547,353	780,697
Current accounts	13,212,135	6,175,070
Short-term deposits	53,431,407	44,642,636
Total foreign currency	**68,190,895**	**51,598,402**
Local currency		
Current accounts	41,186	19,688
Total local currency	**41,186**	**19,688**
Total Cash and cash equivalents	**68,232,081**	**51,618,090**

The Authority holds current accounts with Bank of Bhutan Ltd. to facilitate operational payments on its own behalf and on behalf of the Royal Government.

The annual average interest rates for short-term deposits for convertible currencies and INR are 2.00% and 4.3%, respectively.

10. DEPOSITS

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Foreign currency		
Term deposits with Indian banks	-	4,342,405
Term deposits with other foreign banks	28,965,978	11,552,764
Total foreign currency deposits	**28,965,978**	**15,895,170**
Domestic currency		
Staff gratuity deposit	52,635	39,661
Total Domestic currency deposits	**52,635**	**39,661**

11. SECURITIES

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Held at amortised cost	1,906,785	787,930
Held at fair value	-	3,554,794
Total securities	**1,906,785**	**4,342,724**

Securities held at amortised cost are comprised of 91-day Government of India (GOI) treasury bills issued by the Reserve Bank of India.

The Securities held at fair value consist of a portfolio managed by the World Bank under the RAMP programme and mainly comprise U.S. Treasury Bonds.

12. ACCOUNTS WITH THE INTERNATIONAL MONETARY FUND (IMF)

(Amount in Nu. '000)

Assets	June 30, 2020	June 30, 2019
Quota	2,108,211	1,973,131
SDR Holding	631,468	587,455
Total Assets	**2,739,680**	**2,560,586**

Liability	June 30, 2020	June 30, 2019
IMF A/C I	5,271	4,933
IMF A/C II	22	20
Securities Account	1,633,106	1,528,467
SDR Allocation	618,973	579,313
Total liabilities	**2,257,371**	**2,112,733**

The Quota with the IMF of Nu. 2,108 million or SDR 20 million (2019: Nu. 1,973 million or SDR 20 million) originates from the membership of the Kingdom of Bhutan in the IMF. This was paid up 25% in hard currency with the balance provided by securities issued by the Royal Government of Bhutan.

The SDR holdings of Nu. 631 million or SDR 6 million (2019: Nu. 587 million or SDR 6 million) represent deposits with the IMF. The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at June 30, 2020 is 0.084% p.a. (June 2019: 0.996% p.a.).

SDR Allocations of Nu. 619 million or SDR 6 million (2019: Nu 579 million or SDR 6 million) represents the counterpart to SDRs allocated in September 2009.

The IMF accounts represent liabilities towards Bhutan's participation in the IMF. The securities account and IMF Account No. 1 account represent the balance of the quota payment made in local currency. The IMF may draw on these accounts on demand and the deposits do not have a defined maturity. These accounts are denominated in Ngultrum but are regularly revalued to maintain the value in SDR.

The IMF pays remuneration to members with remunerated reserve tranche positions, at 0.084% p.a. (June 2019: 0.996% p.a.). The reserve tranche position is calculated as the difference between Quota in the IMF and the local currency holdings in the IMF accounts, and holdings in the IMF Account No. 2.

13. LOANS TO STAFF

These are vehicle loans granted to RMA employees.

14. WAYS AND MEANS ADVANCE TO THE ROYAL GOVERNMENT OF BHUTAN

The Ways and Means Advance to the Royal Government represents the overdraft extended in pursuant to Section 150 of the RMA Act 2010. This was repaid on July 2, 2019.

15. GOLD AND SILVER ASSETS

The non-monetary gold and silver are primarily purchased for the Government and held by the Authority pending resale to the Government.

(Amount in Nu. '000)

Non-monetary gold & silver	**June 30, 2020**	**June 30, 2019**
Gold	40,616	37,713
Silver granules	13,735	-
Total gold and silver asset	**54,350**	**37,713**

16. INVENTORY FOR BANKNOTES

(Amount in Nu. '000)

	June 30, 2020	**June 30, 2019**
Notes in the course of printing	32,857	32,077
Notes for circulation	190,247	133,256
Total Banknote inventories at cost	**223,104**	**165,333**

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Rinzing Financial Private Limited

(Amount in Nu. '000)

	Land, buildings and installations	Furniture and Equipment	Vehicles	Computers & Accessories	Paintings and other artwork	Total Property and Equipment	Computer software	Work-in-progress	Total Intangible Assets	Total
Amortized costs										
At June 30, 2018	**42,821**	**13,952**	**8,388**	**22,023**	**623**	**87,807**	**-**	**46,758**	**-**	**134,565**
Additions	660	11,910	4,101	3,966	72	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Disposal	-	2,766	-	-	-	-	-	-	-	-
At June 30, 2019	**40,857**	**20,327**	**10,067**	**16,323**	**695**	**88,268**	**-**	**73,452**	**-**	**161,721**
Additions	9,079	24,900	9,630	2,012	50	-	81,578	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Disposal	-	2,029	-	5,812	-	-	-	-	-	-
At June 30, 2020	**47,296**	**39,274**	**16,517**	**11,849**	**745**	**115,681**	**56,352**	**-**	**56,352**	**172,033**
Cumulative/ amortization and impairment losses										
At June 30, 2018	**36,376**	**56,095**	**16,701**	**41,154**	**-**	**150,326**	**45,611**	**-**	**45,611**	**195,938**
Amortization	2,624	5,536	2,423	9,666	-	-	-	-	-	-
Disposal	-	2,766	-	-	-	-	-	-	-	-
At June 30, 2019	**39,001**	**58,865**	**19,123**	**50,819**	**-**	**167,809**	**45,611**	**-**	**45,611**	**213,420**
Amortization	2,640	5,802	3,180	5,796	-	-	25,226	-	-	-
Disposal	-	1,878	-	5,122	-	-	-	-	-	-
At June 30, 2020	**41,641**	**62,789**	**22,303**	**51,493**	**-**	**178,227**	**70,837**	**-**	**70,837**	**249,064**
Net carrying value								-		
At June 30, 2019	**40,857**	**20,327**	**10,067**	**16,323**	**695**	**88,268**	**-**	**73,452**	**-**	**161,721**
At June 30, 2020	**47,296**	**39,274**	**16,517**	**11,849**	**745**	**115,681**	**56,352**	**-**	**56,352**	**172,033**

18. OTHER ASSETS

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Commemorative assets	141,016	157,056
Others	402,148	9,706
Total	**543,164**	**166,761**

Commemorative assets include notes and coins produced to mark special occasions such as the Royal Wedding, Coronation, and Birth Anniversary of the Crown Prince. These are recorded at cost. Other assets include miscellaneous receivables.

19. BALANCES OF THE ROYAL GOVERNMENT

(Amount in Nu. '000)

Foreign currency	June 30, 2020	June 30, 2019
Deposits	257,101	176,250
Government of India Standby Credit Facility	7,000,000	7,000,000
Total foreign currency balances of Royal Government	**7,257,101**	**7,176,250**
Local currency		
Royal Government of Bhutan Economic Stimulus Plan	424	96,424
Government Consolidated Account	264,445	-
Ministry of Finance Refundable Deposit Account	1,029,633	138
National Resilence Fund	71,107	-
Total local currency balances of Royal Government	**1,365,610**	**96,563**
Total balances of Royal Government	**8,622,711**	**7,272,813**

The Government of India Standby Credit is a facility originally negotiated in 2009 between the Royal Government of Bhutan and the Government of India for the purposes of making trade payments. It is subject to renewal every 3 years. Funds received under this facility are held by the Authority and included in foreign reserves. The Authority pays the interest to the Government of India on behalf of the Royal Government of Bhutan.

The Authority does not pay interest on other deposits from the Government. Ministry of Finance refundable deposit and Government consolidated accounts are operated through Bank of Bhutan Limited. The balances on both these accounts are swept overnight to the Authority.

20. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

i) Deposits of International institutions

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
International Bank for Reconstruction and Development (IBRD)	10,196	740
International Development Association (IDA)	519	519
Asian Development Bank (ADB)	108	108
Total deposits of International Financial Institutions	**10,823**	**1,368**

These deposits are held by the institutions to provide funds for their operations in Bhutan.

ii) Deposits of central banks

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Central Bank of Kuwait	4,534,800	4,141,050
Reserve Bank of India	14,277,300	6,976,550
Total deposit of central banks	**18,812,100**	**11,117,600**

The deposit from the Central Bank of Kuwait represents funds received in relation to the Kuwait Fund described in Note 24.

The deposit from the Reserve Bank of India represents funds received under the South Asian Association of Regional Cooperation (SAARC) swap facility agreed among the SAARC Finance Governors meeting in 2012. This provides a framework under which the Reserve Bank of India may agree to bilateral arrangements with the South Asian Association for Regional Cooperation (SAARC) member countries for a facility agreement lasting for a period of 3 years. The Authority agreed to such a facility on March 8, 2013 and it was renewed on March 17, 2016. Under this facility the Authority may draw funds for 3 months with renewal possible for a further 3 months. The Authority drew under this facility on May 2018, January 2019, May 2019, November 2019, and February 2020.

The Royal Government has issued a guarantee in respect of this facility.

iii) Deposits of other domestic financial institutions

The deposits from the other financial institution include deposits from pension fund and insurance companies. The deposits are maintained for the purposes of settling any penalties relating to non-compliance with relevant regulatory requirements and are subject to a minimum balance.

21. CURRENCY IN CIRCULATION

The exclusive right of issuing Bhutanese currency is vested with the Authority. Currency in circulation comprises domestic banknotes and coins in circulation issued by the Authority.

The following banknotes and coins were in circulation as at June 30, 2020 and 2019:

(Amount in Nu. '000)

	June 30, 2020		June 30, 2019	
Nominal value Nu.	**Value in thousand**	**Total Nu. (million)**	**Value in thousand**	**Total Nu. (million)**
Notes:				
1	61,371	61	60,438	60
2	3,830	4	3,830	4
5	181,312	181	174,954	175
10	188,621	189	181,089	181
20	172,444	172	165,573	166
50	342,789	343	323,636	324
100	1,155,405	1,155	1,048,234	1,048
500	3,677,433	3,677	3,234,378	3,234
1,000	8,833,139	8,833	7,335,611	7,336
Coins	17,567	18	17,567	18
	14,633,910	**14,634**	**12,545,310**	**12,545**

22. DUE TO BANKS

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Mandatory reserve accounts (Cash Reserve Ratio)	10,223,781	11,995,340
Current accounts	20,190,189	7,432,536
Sweeping account	3,416,599	3,371,886
Total balances of banks	**33,830,569**	**22,799,762**

Commercial banks are required to maintain compulsory reserve (cash reserve ratio), with the Authority. These are currently calculated as 10% of the commercial bank's deposit liabilities in Ngultrum.

Sweeping accounts represent funds of local corporations' other entities originally deposited with commercial banks. On an overnight basis, the Authority requires the commercial banks to transfer the funds received on certain specified accounts into separate sweeping accounts at the Authority. Such accounts are not included when computing the liquidity position of the commercial banks for prudential purposes.

23. DEFERRED GRANTS

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Financial Inclusion & literacy grant	176	10,739
Micro finance institution- Druk MicroFin	6,668	10,002
Micro finance institution grant for priority sector lending and cottage & small industries	36,629	45,797
	43,474	**66,538**

Deferred grants consist of grants provided by the Royal Government to promote financial literacy and to develop a financial system for micro finance, cottage and small industries and priority sector lending. These grants are treated in accordance with BAS 20 using the income approach. The grants are initially deferred and recognised in profit and loss over the period that matches with the expenditure. Grants related to assets are also recognised as deferred income in profit and loss over the useful life of the asset.

24. MANAGED ASSETS

Kuwait Fund

The Government of Kuwait offered to provide assistance to Bhutan as a gesture of friendship to His Majesty the Fourth King. This assistance was received in the form of deposit from the Central Bank of Kuwait with the Royal Monetary Authority of Bhutan. The funds are invested by the Authority, in deposits with foreign banks. The income is held by the Authority on behalf of His Majesty's Secretariat and is paid over as required by the Secretariat, net of the interest paid on the deposit. This income is not included in the Income statement of the Authority. The net income is maintained in a separate account under other liabilities.

The deposit contract of USD 60 million was originally signed between the Central Bank of Kuwait and the Authority in 2006. The deposit was for a period of one year and has been renewed annually. It carries an interest rate of 1.5 percent per annum. As per the contract, Authority is liable to return the amount of the deposit at the maturity date to the Kuwait Central Bank. The Authority also handles the renewal of deposit with Kuwait Central Bank. Accordingly, the deposit is shown as a liability of the Authority with the investment of the funds shown as an asset of the Authority.

25. OTHERS

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Abandoned property	93,962	93,964
Others	10,355	5,830
Total other liabilities	**104,318**	**99,794**

Under the Financial Services Act 2011, unclaimed accounts with banks and other unclaimed property held with banks such as in safe deposits whose owners cannot be traced are transferred to the Authority. The Authority holds these balances in case the beneficial owners claim their funds.

26. RESERVES

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
General reserve	2,000,000	2,000,000
Revaluation reserves	19,533,991	14,932,773
Other reserves	(5,252)	(5,510)
Retained earnings	410,000	-
BAS adjustment reserve	138,814	138,814
Total reserve	**22,077,553**	**17,066,078**

Section 21 of the RMA Act defines the distributable profit. According to the requirements of Section 24 of the RMA Act, any gain arising from any change in the revaluation of the assets and liabilities of the Authority which has been recognised in the profit and loss statement shall be credited to a revaluation reserve account.

Net (loss)/gain from financial instruments at fair value through profit or loss and net foreign exchange gains/(losses) are initially recognized in profit or loss and then transferred to the revaluation reserves.

The transition reserve was created at July 1, 2017 as a result of the first-time BAS adoption and reflects the net adjustments on transition.

27. NET INTEREST INCOME

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Interest Income on foreign currency financial assets		
Interest on assets denominated in Rupees	826,650	904,350
Interest on assets other foreign currencies	1,128,783	1,332,801
Total interest income on foreign currency financial assets	**1,955,433**	**2,237,151**
Interest Income on local currency financial assets		
Interest on Ways and Means advance to RGOB	5,522	31,333
Interest on Staff loans	2,517	2,981
Total interest income on local currency financial assets	**8,039**	**34,314**

Interest income includes charges arising from negative yielding deposits and accounts placed with foreign financial institutions.

28. FOREIGN EXCHANGE REVALUATION

The foreign exchange revaluation gain for the current year has been accounted as per BAS 21 and reported as operating income. However, since it is an unrealised gain, it is transferred to the Revaluation Reserve as per the Section 24 of the RMA Act 2010 before distribution to the Royal Government.

The principal exchange rates used in preparing these financial statements are:

	June 30, 2020	June 30, 2019
Indian Rupee	1	1
U.S. Dollar	75.58	69.02
Euro	84.78	78.56
GBP	93.59	87.49
SDR	103.34	96.72

The currency exposure which contributed to the revaluation gain of Nu. 5,354.93 million (2019: Nu. 271.79 million) is explained under Note: 8 (c) (ii), Market risk: Exchange rate risk.

29. OTHER INCOME

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Royalties from commemorative coins	1,009	525
Sale of commemorative items	7,266	4,852
Penalties & charges received	2,426	1,705
Commissions and fees received	6,877	11,959
Commissions and fees paid	(9,904)	(16,139)
Others	18,497	5,286
Total other income	**26,170**	**8,189**

30. EMPLOYEE BENEFIT EXPENSES

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Salaries, allowances and other staff costs	191,181	168,012
Staff Superannuation fund	18,075	25,597
Directors' fees and expenses	1,619	1,343
Fringe benefit on staff loan	1,310	1,543
Total Employee Benefit expenses	**212,185**	**196,495**

As at June 30, 2020, the Authority had 252 employees (2019: 231 employees).

Vehicle loans to employees of the Authority are provided at a 5% p.a. interest with a 5-year loan term. The Authority has considered BAS 19 for the treatment of the below market interest offered to its employees, which requires the deferment and amortisation of the benefit provided to the employees (difference between the nominal value of the loan given and the fair value of the loan at the prevailing market interest rate at the time of the loan) and noted that the difference between its current treatment (capturing the difference between the market interest rate and the 5% interest charged on a monthly basis as a fringe benefit expense on the profit & loss statement) is not material. The undue burden of applying BAS 19 outweighs the benefit, as such, the Authority has opted to continue to apply its current methodology.

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Provision for Gratuity	64,073	61,114
Provision for Leave Encashment	13,860	12,497
Provision for PLIS	15,703	18,117
Total provision for employee benefits	**93,637**	**91,728**

Disclosure as per BAS 19, Gratuity *(Amount in Nu. '000)*

A	Assets/Liabilities	June 30, 2020	June 30, 2019
1	DBO at end of prior period	61,114	55,294
2	Current service cost	4,460	3,744
3	Interest cost on the DBO	4,820	4,631
4	Curtailment (credit)/ cost	-	-
5	Settlement (credit)/ cost	-	-
6	Past service cost - plan amendments	-	-
7	Acquisitions (credit)/ cost	-	-
8	Actuarial (gain)/loss - experience	10,739	(2,915)
9	Actuarial (gain)/loss - demographic assumptions	-	-
10	Actuarial (gain)/loss - financial assumptions	(5,566)	3,516
11	Benefits paid directly by the Company	-	-
12	Benefits paid from plan assets	(11,493)	(3,156)
13	**DBO at Current Period End**	**64,073**	**61,114**

B	Statement of Profit & Loss	June 30, 2020	June 30, 2019
1	Current service cost	4,460	3,744
2	Past service cost - plan amendments	-	-
3	Curtailment cost / (credit)	-	-
4	Settlement cost / (credit)	-	-
5	Service cost	4,460	3,744
6	Net interest on net defined benefit liability / (asset)	858	439
7	Immediate recognition of (gains)/losses – other long term employee benefit plans	-	-
8	**Cost Recognized in P&L**	**5,318**	**4,183**

C	Defined Benefit Cost	June 30, 2020	June 30, 2019
1	Service cost	4,460	3,744
2	Net interest on net defined benefit liability / (asset)	858	439
3	Actuarial (gains)/ losses recognized in OCI	5,252	1,721
4	Immediate recognition of (gains)/losses – other long term employee benefit plans	-	-
5	**Defined Benefit Cost**	**10,570**	**5,905**

D	Development of Net Financial Position	June 30, 2020	June 30, 2019
1	Defined Benefit Obligation (DBO)	(64,073)	(61,114)
2	Fair Value of Plan Assets (FVA)	53,051	39,661
3	Funded Status (Surplus/(Deficit))	(11,023)	(21,453)
4	**Net Defined Benefit Asset**	**(11,023)**	**(21,453)**

E	Reconciliation of Net Balance Sheet Position	June 30, 2020	June 30, 2019
1	Net defined benefit asset/ (liability) at end of prior period	(21,453)	5,210
2	Service cost	(4,460)	(3,744)
3	Net interest on net defined benefit liability/ (asset)	(858)	(439)
4	Amount recognized in OCI	(5,252)	(1,721)
5	Employer contributions	21,000	-
6	Benefit paid directly by the Company	-	-
7	Acquisitions credit/ (cost)	-	(20,758)
8	Divestitures	-	-
9	Cost of termination benefits	-	-
10	**Net Defined Benefit Asset/ (Liability) at Current Period End**	**(11,023)**	**(21,453)**

(Amount in Nu. '000)

F	Other Comprehensive Income (OCI)	June 30, 2020	June 30, 2019
1	Actuarial (gain)/loss due to liability experience	107,386	(2,915)
2	Actuarial (gain)/loss due to liability assumption changes	(5,566)	3,516
3	Actuarial (gain)/loss arising during period	5,173	601
4	Return on plan assets (greater)/less than discount rate	79	1,120
5	Actuarial (gains)/ losses recognized in OCI	5,252	1,721
6	Adjustment for limit on net asset	-	-
7	Cumulative actuarial (gain) or loss recognized via OCI at prior period end	-	-
	Actuarial (Gain) or Loss Recognized via OCI at Current Period End	**5,252**	**1,721**

G	Expected benefit payments for the year ending	June 30, 2020	June 30, 2019
	June 30, 2021 (2020)	3,946	1,730
	June 30, 2022 (2021)	3,162	3,477
	June 30, 2023 (2022)	5,311	3,171
	June 30, 2024 (2023)	3,049	3,928
	June 30, 2025 (2024)	6,034	3,250
	June 30, 2026 to June 30, 2030 (2025- 2029)	34,985	31,333

(i)	**Expected employer contributions for the period ending June 30 (next year)**	5,727	21,453
(ii)	**Weighted average duration of defined benefit obligation**	12 years	13 years
(iii)	**Accrued Benefit Obligation at June 30 (current year)**	33,511	29,456

Sensitivity Analysis

a	Discount Rate	June 30, 2020	June 30, 2019
	Discount Rate as at June 30 (current year)	8.75%	8.00%
	Effect on DBO due to 1% increase in Discount Rate	(6,401)	(6,733)
	Effect on DBO due to 1% decrease in Discount Rate	7,588	8,072
b	**Salary escalation rate**	**June 30, 2020**	**June 30, 2019**
	Discount Rate as at June 30 (current year)	10%	10%
	Effect on DBO due to 1% increase in Salary escalation rate	2,179	2,163
	Effect on DBO due to 1% decrease in Salary escalation rate	(2,454)	(2,543)

Disclosure as per BAS 19, Leave Encashment *(Amount in Nu. '000)*

A	Assets/Liabilities	June 30, 2020	June 30, 2019
1	DBO at end of prior period	12,497	9,543
2	Current service cost	4,463	3,651
3	Interest cost on the DBO	988	800
8	Actuarial (gain)/loss - experience	3,979	3,789
11	Benefits paid directly by the Company	(8,067)	(5,286)
13	**DBO at Current Period End**	**13,860**	**12,497**

B	Statement of Profit & Loss	June 30, 2020	June 30, 2019
1	Current service cost	4,463	3,651
5	Service cost	4,463	3,651
6	Net interest on net defined benefit liability / (asset)	988	800
7	Immediate recognition of (gains)/losses – other long term employee benefit plans	3,979	3,789
8	**Cost Recognized in P&L**	**9,430**	**8,240**

C	Defined Benefit Cost	June 30, 2020	June 30, 2019
1	Service cost	4,463	3,651
2	Net interest on net defined benefit liability / (asset)	988	800
4	Immediate recognition of (gains)/losses – other long term employee benefit plans	3,979	3,789
5	**Defined Benefit Cost**	**9,430**	**8,240**

D	Development of Net Financial Position	June 30, 2020	June 30, 2019
1	Defined Benefit Obligation (DBO)	(13,860)	(12,497)
3	Funded Status (Surplus/(Deficit))	(13,860)	(12,497)
4	**Net Defined Benefit Asset**	**(13,860)**	**(12,497)**

E	Reconciliation of Net Balance Sheet Position	June 30, 2020	June 30, 2019
1	Net defined benefit asset/ (liability) at end of prior period	(12,497)	(9,543)
2	Service cost	(4,463)	(3,651)
3	Net interest on net defined benefit liability/ (asset)	(988)	(800)
4	Actuarial (losses)/gains	(3,979)	(3,789)
6	Benefit paid directly by the Company	8,067	5,286
10	**Net Defined Benefit Asset/ (Liability) at Current Period End**	**(13,860)**	**(12,497)**

F	Other Comprehensive Income (OCI)	June 30, 2020	June 30, 2019
1	Actuarial (gain)/loss due to liability experience	5,601	3,789
2	Actuarial (gain)/loss due to liability assumption changes	(1,622)	-
3	Actuarial (gain)/loss arising during period	3,979	3,789
	Actuarial (Gain) or Loss Recognized via OCI at Current Period End	**-**	**-**

G	Expected benefit payments for the year ending	June 30, 2020	June 30, 2019
	June 30, 2020 (2021)	517	298
	June 30, 2021 (2022)	525	518
	June 30, 2022 (2023)	1,335	859
	June 30, 2023 (2024)	689	837
	June 30, 2024 (2025)	1,081	664
	June 30, 2026 to June 30, 2030 (2024- 2028)	6,790	5,489

(i)	**Expected employer contributions for the period ending June 30 (next year)**	-	-
(ii)	**Weighted average duration of defined benefit obligation**	12 years	13 years
(iii)	**Accrued Benefit Obligation at June 30 (current year)**	4,354	3,711

Sensitivity Analysis

a	Discount Rate	June 30, 2020	June 30, 2019
	Discount Rate as at June 30 (current year)	8.75%	8.00%
	Effect on DBO due to 1% increase in Discount Rate	(1,817)	(1,726)
	Effect on DBO due to 1% decrease in Discount Rate	2,220	2,127
b	**Salary escalation rate**	**June 30, 2020**	**June 30, 2019**
	Discount Rate as at June 30 (current year)	10%	10%
	Effect on DBO due to 1% increase in Salary escalation rate	2,172	2,064
	Effect on DBO due to 1% decrease in Salary escalation rate	(1,814)	(1,712)

31. ADMINISTRATIVE EXPENSES

	(Amount in Nu. '000)	
	June 30, 2020	**June 30, 2019**
Property related expenditure	9,205	13,286
Depreciation	42,644	20,248
Communication and other office expenditure	10,396	11,241
Financial inclusion & literacy expenses	40,613	9,346
Conference & hospitality expenditure	7,251	6,437
Grants & Donations	32,091	33,261
Auditors' fees	407	493
Other operating expenditure	36,881	15,898
Total administrative expenses	**179,487**	**110,210**

Grants & donations include expenses made to departments and agencies to promote and ensure financial stability and integrity within Bhutan.

32. PROFIT FOR DISTRIBUTION

	(Amount in Nu. '000)	
	June 30, 2020	**June 30, 2019**
Net profit as per Statement of Comprehensive Income	6,370,867	1,801,312
Transferred to revaluation reserve	(5,354,931)	(336,585)
Previous unrealised gains/losses recognised in year	748,204	1,951,197
Actuarial (gain)/loss on the employee benefit	5,252	5,510
Distributable profit for the year	**1,769,392**	**3,421,435**

33. CONTINGENCIES AND COMMITMENTS

(a) Rent agreements

The Authority has entered into rent agreements for its regional office premises for six years with a revision after every two years. The rent agreement expires on March 1, 2021. Rent commitments payable within one year are Nu. 0.268 million, whilst rent commitments payable within five years is Nu. 1.34 million (2019: Nu. 0.268 million).

(b) Capital commitments

As at June 30, 2020 and June 2019, the Authority has not entered into capital commitments.

34. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial and other decisions.

Considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

The related parties of Royal Monetary Authority include the Royal Government, Governor, Deputy Governors and the other members of the Board. As at June 30, 2020 and 2019, transactions and balances with related parties comprised:

(a) Governor, Deputy Governors and other board members

(Amount in Nu. '000)

	June 30, 2020	June 30, 2019
Loans to Governor and Deputy Governors	562	788
Total	**562**	**788**

Loans to the Governors have an interest rate of 5% p.a. with a grace period of two years and are repayable within a maximum of 7 years in equal monthly instalments.

Aggregate payments to the Governor, Deputy Governors and other Board members comprised remuneration, allowances, sitting fees and contributions made to National Pension and Provident Fund (NPPF) together with payments to other Directors as sitting fees are shown below:

(Amount in Nu. '000)

Aggregate payments made to Governor and Deputy	June 30, 2020	June 30, 2019
Short-term benefits		
Sitting fees paid to Board members	1,455	1,035
Short-term employee benefits	6,006	5,626
Total	**7,461**	**6,661**
Contribution to National Pension and Provident Fund	**562**	**456**

The Governor and Deputy Governors are entitled to other staff benefits such as termination gratuities and health coverage on a similar basis to other employees of the Authority.

(b) Transactions with the Royal Government

As the Central Bank, the Authority provides various services and operations to the Royal Government of Bhutan. These include banking services, provision of advances under Section 151 of the RMA Act 2010. The Authority also acts as an agent in issuing Royal Government of Bhutan securities. The Authority may hold such securities either outright or as collateral for advances to commercial banks.

Balances with/ due to the Royal Government are disclosed in Note 19, and related interest income from securities and interest expenses are included in Note 27. Promissory notes issued by the Royal Government in favour of the IMF are detailed in Note 12, whilst securities issued by the Royal Government and managed by the Authority are detailed below. The Authority does not charge for these services.

	June 30, 2020 Nu. billion	June 30, 2019 Nu. billion
Total government treasury bills issued	34.1	45.6
Total treasury bills redeemed	32.5	41.4
Total outstanding treasury bills	1.6	4.2

35. SUBSEQUENT EVENTS

The interest income for the subsequent period may be impacted substantially due to the global COVID-19 pandemic. The Authority does not have any other subsequent events that will have a material impact on the financial statements of the Authority.

Rinzing Financial Private Limited

MANAGEMENT REPORT

MANAGEMENT REPORT

Rinzing Financial Private Limited

1. Non-Booking & Non-Collection of Staff Loan EMI (5.15.5)

Auditor's Observation:

We observed that EMI for staff loans for two current employees were not booked or collected for an extended period of time.

- For one employee, there were no EMI payments booked for 8 months (November 2019 through June 2020) amounting to Nu. 70,408. Additionally, the EMI payments collected from that employee for 9 months (February 2019 – October 2019) totaling Nu. 80,334 was not captured in the books.

- For another employee, there were no EMI payments booked for 10 months (September 2019 through June 2020). The total uncaptured EMI amounts to Nu. 100,830.

We recommend putting in better controls and checks in place to ensure all EMI payments are booked and/or collected in a timely manner. Also, in order to ensure all deposits and payments are recorded accurately, it is imperative that monthly bank reconciliations are performed.

Auditee's Response:

We have followed up with the concerned employees and have regularized their outstanding loan account. One of the defaulters who is currently on EOL expresses to liquidate his outstanding loan balance through his benefits on resignation from his service which is under process.

The other defaulter has been informed to intimate us upon depositing the installment (EMI) on monthly basis. Upon following up with those concerned employees, we have reconciled and made the necessary adjustment subsequently. Henceforth; we would scrutinize the outstanding entries in the monthly Bank reconciliation statement and settle those entries immediately.

Auditor's Further Comments:

This issue will be followed up on the next audit period.

Direct Accountability: Mr. Pasang Norbu, Chief Finance Officer, DAF, EID: 1985002

Supervisory Accountability: Mr. Julien Gurung, Executive Director, DAF, EID: 2001012

Rinzing Financial Private Limited

PRIOR YEAR AUDIT FOLLOW UP REPORT

Rinzing Financial Private Limited

PRIOR YEAR AUDIT FOLLOW UP REPORT

The current status of the external audit observations conducted for the FY 2018-2019 and FY 2016-2017 are listed below:

Financial Year	No. of Observations	Ongoing	Implemented
2018 - 2019	2	0	2
2016 - 2017	6	0	6

ANNEXURE A: ACTION TAKEN REPORT ON FY 2016-2017 AUDIT OBSERVATIONS

Sl. No.	Department	Observations	Department's Comment	Current Status
1	Information Technology (DIT)	**Disaster Recovery Plan/Business Continuity Plan** As per explanation given there is no Disaster Recovery Plan or Business continuity plan is in place.	The RMA developed BCP/DR plan and procedures in 2018 which is also in line with the ISO 27001 and PCI DSS certification requirements. Currently, the replication is at data level for critical systems; however, the application level DR setup has been commenced by DIT, planned in phases.	Implemented

Rinzing Financial Private Limited

ANNEXURE B: ACTION TAKEN REPORT ON FY 2018-2019 AUDIT OBSERVATIONS

Sl. No.	Department	Observations	Department's Comment	Current Status
1	Banking (DB)	**Consensus and approval on the BAS Adjustment Reserve Treatment** The conversion from RMA's old accounting system to the BAS has resulted in a BAS Adjustment Reserve balance of Nu. 139 million as of June 30, 2019, which was then presented under the Equity section of the Statement of Financial Position. The RMA Act 2010 (Act) allows for only two types of reserves to be created, namely, the General Reserve and the Revaluation Reserve. As such, the External Audit recommended to retain the Reserve until full adoption of the IFRS in 2021 through prior discussion with the Board and necessary approval from the MOF.	The approval for retaining of BAS transition reserve until full adoption of IFRS was submitted to RMA Board during 151th meeting and was approved by Board with further instruction to seek final endorsement from the Ministry of Finance (MoF). The Ministry of Finance granted the approval to retain the BAS transition reserve vide letter no. DMEA/ICGD/17/2019/500 dated 26th November 2019 (attached).	Implemented
2	Adm. & Finance (DAF)	**Miscalculation of Property, Plant & Equipment depreciation and Net book value:** The RMA is in the process of incorporating all of the fixed assets into their system, ICBS. However, External Audit noted that the data in their system is not fully accurate at the moment. As such, an offline worksheet should be maintained until the system can be fully relied upon. The total NBV in the systems has been understated by Nu. 1.4 M, which has since been corrected on the financial statements. It was suggested that ICBS is corrected to reflect the figures published in the financial statements and that an offline worksheet is maintained and reconciled on a regular basis to avoid discrepancies in the future.	As per the recommendation made by the External Auditor, the DAF is maintaining the off-line worksheet and the data are being updated in the ICBS system to reconcile it with off-line worksheet. Since the documents are too bulky to be attached, DAF requested RAA to verify the records onsite whenever it is convenient. Nevertheless, it is expected to be verified by the External Audit during the next audit.	Implemented

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