



**ROYAL MONETARY AUTHORITY OF  
BHUTAN**

**AUDITORS REPORT ON THE FINANCIAL  
STATEMENTS**

**PERIOD: JULY 1, 2021 to JUNE 30, 2022**

**SEPTEMBER 2022**

## 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 Email: penjore@rma.org.bt From: 2016 till date
Finance Personnel	:	Ms. Tshering Dema, Executive Director EID No. 2001008 Email: tdema@rma.org.bt From: 2016 till date
Period Audited	:	July 1, 2021 – June 30, 2022
Schedule of Audit	:	Planned: July 27 – 5 Sept 2022 Actual: July 27 – 5 Sept 2022 Reporting: September 2022
Composition of Audit Team	:	<u>Team Leader:</u> Yeshe Jamtsho, Managing Partner CID No.10711001985 Chhewang Rinzin, Partner CID No. 10607002263 <u>Team Members:</u> 1. Namen Pradhan, Senior Auditor CID No. 11203004911 2. Jamyang Tshering, Audit Associate CID No. 11312003189
Supervising Officer	:	Yeshe Jamtsho, Managing Partner
Engagement Letter	:	RAA(SA-20)/COAD/2022/831 dated 7 June 2022
Focal Person	:	Yeshe Jamtsho Email: <a href="mailto:yeshe.jamtsho@gmail.com">yeshe.jamtsho@gmail.com</a> Phone: +975 17606922

# Table of Contents

INDEPENDENT AUDITOR'S REPORT .....	1-3
REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENTS .....	4-8
FINANCIAL STATEMENTS	
Statement of Financial Position .....	9-10
Statement of Comprehensive Income .....	11
Statement of Changes in Equity .....	12
Statement of Cash Flows .....	13
ACCOUNTING POLICIES & NOTES TO ACCOUNTS .....	14-57
MANAGEMENT APPRAISAL REPORT .....	58-59

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INDEPENDENT AUDITOR'S REPORT

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Dechok & Associates Private Limited  
Auditing, Accounting and Tax Services  
Thimphu : Bhutan

**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, 2022, 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, 2022, 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter**

*We draw attention to Note No. 25 wherein as a result of the impact of Covid 19 and in order to augment the cash flow the RMA had transferred Nu. 2 billion from its General Reserves. This has fully depleted the General Reserves as at the financial yearend.*

*Our opinion is not modified in respect of this matter.*

**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 Appraisal 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 Dechok & Associates Pvt. Ltd.**  
Firm License No. 4008504

  
**Yeshi Jamtsho, FCCA**  
Managing Partner  
Membership No. 2641177  
Date: 28/09/2022  
Place: Thimphu, Bhutan  


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REPORT ON MINIMUM AUDIT EXAMINATION  
REQUIREMENTS

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## REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENTS

### General:

- a. The Authority has generally adhered to the provisions of its Corporate Governance Regulations 2020.
- b. In our opinion, the management and governing Board of RMA pursue a prudent and sound financial management practices in managing the affairs of the Authority.
- c. The financial statements are prepared in accordance with the Bhutanese Accounting Standards issued by the Accounting and Auditing Standards Board of Bhutan.
- d. We report that proper books of accounts were maintained and the financial statements are in agreement with the underlying accounting records.
- e. As the RMA is not governed by the Companies Act of Bhutan 2016, maintaining records as required by the Companies act is not applicable.
- f. As informed by the management, mandatory obligations social or otherwise entrusted to the authority are being fulfilled.
- g. No taxes are applicable on the profits of the Authority as it is a tax exempt organization.

### Other Applicable report on the Minimum Audit Examinations:

1. In our opinion and according to the information and explanations given to us, the RMA has maintained proper records to show full particulars including quantitative details of its Fixed Assets. The management had conducted physical verification of fixed assets during the period and no material discrepancies were noted during the physical verification.
2. No fixed assets were re-valued during the period under consideration.
3. Regular physical verifications were conducted for stocks of bank notes including foreign currencies, other commodities such as gold, silver and other valuable items.
4. The procedures followed by the management for physical verification for stocks of bank notes including foreign currencies, other commodities such as gold, silver and other valuable items are adequate.
5. No material discrepancies were noticed during the physical verification.
6. Not Applicable.
7. Not Applicable.



8. Not Applicable.
9. Not Applicable.
10. Not Applicable.
11. The valuation of stock of bank notes and other items of inventories are in accordance with the Bhutanese Accounting Standards. The basis of valuation is the lower of cost or net realisable value which is same as in the preceding year.
12. The rate of interest and other terms and conditions of loans availed by the RMA are prima facie not prejudicial to the interest of the Authority.
13. The Authority has not granted loans to other parties which are ultra vires to the RMA Act.
14. Loans and advances granted to officers/staffs generally in keeping with the provisions of Service Rule of the Authority and no excessive/frequent advances granted and/or accumulation of large advances against any particular individuals were noticed.
15. In our opinion and according to the information given to us, the Authority has established a system of Internal Control to ensure completeness, accuracy and reliability of accounting records, to carry out the business in orderly and efficient manner, to safeguard the Assets of the Company, as well as to ensure adherence to the applicable Rules/Regulations and systems and procedures. Any deficiencies are reported in our Management report.
16. Not Applicable.
17. There is a system of competitive bidding for purchase of goods and services by the Authority.
18. Not Applicable.
19. We have not come across any instances where personal expenses were charged off to the statement of comprehensive income and all expenses appear to be legitimate business expenses.
20. Not Applicable.
21. Not Applicable.
22. Not Applicable.
23. Not Applicable.
24. According to the records the Authority has generally been regular in depositing of rates and taxes, provident funds and other statutory dues to the appropriate



authorities during the year 2022. The Authority is a tax exempt entity and no provision for tax is required.

25. According to the information and explanations given to us, the Authority does not have any undisputed amounts of statutory dues.
26. Not Applicable.
27. Not Applicable.
28. Not Applicable.
29. Not Applicable.
30. Not Applicable.
31. Not Applicable.
32. In general, the management of liquid resources and short term deposits are adequate. We observed that some foreign currencies whose demand were negligible were retained in excess of requirement without depositing into an interest bearing account. We did not observe instances of excessive withdrawals from the loan accounts leading to unnecessary interest burden on the Authority.
33. The activities carried out by the Authority are lawful and intra vires to the RMA Act.
34. Investment decisions are made with prior approval of the Board and investment in new projects are made only after ascertaining the technical and economic feasibility of such new projects.
35. Budgetary Control exist but the effectiveness during the period under audit was questionable as activities planned and budgeted were mostly not carried out.
36. Not Applicable.
37. The details of remuneration paid to Governor, Deputy Governors and other Board Directors are disclosed in Note No. 37 in Notes to Financial Statements. As informed to us and according to information and explanations given, no payments have been made to any relatives of the directors.
38. The directives of the Board have been generally complied with and we have not come across any instances of non compliance.
39. Not Applicable.
40. Not Applicable.
41. The Authority has leased office spaces for its regional offices. The terms and conditions of the lease agreement are reasonable.





42. On basis of the verification of records and information and explanations given to us, we noted no permanent diminutions during the current year.
43. On the basis of verification of records and information and explanations given to us, the Authority has no assets hypothecated against loans and advances.
44. 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.

#### **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.



For Dechok & Associates Pvt. Ltd.  
Firm License No. 4008504



Yeshi Jamtsho, FCCA  
Managing Partner  
Membership No. 2641177





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## FINANCIAL STATEMENTS

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**Royal Monetary Authority of Bhutan**  
**Statement of Financial Position**

Assets	(Amount in Nu. '000)		
	Note	June 30, 2022	June 30, 2021
<b>Foreign currency financial assets</b>			
Cash and cash equivalents	9	47,973,007	38,292,422
Deposits with banks	10	-	42,343,613
Trading assets	11	969	1,085,207
Securities	12	57,388,135	24,324,635
IMF related assets	13	4,738,350	2,820,725
Interest and other receivables		555,456	148,818
<b>Total foreign currency financial assets</b>		<u>110,655,917</u>	<u>109,015,421</u>
<b>Local currency financial assets</b>			
Cash and cash equivalents	9	173,693	34,111
Gratuity fund	10	71,183	62,872
Loans to staff	14	14,395	17,285
<b>Total local currency financial assets</b>		<u>259,271</u>	<u>114,267</u>
<b>Foreign currency non- financial assets</b>			
Monetary gold	15	688,898	2,823,406
Other foreign currency non-financial asset	16	780,745	606,479
<b>Total foreign currency non-financial assets</b>		<u>1,469,644</u>	<u>3,429,885</u>
<b>Local currency non-financial assets</b>			
Non-monetary gold	17	55,566	26,901
Inventory for banknotes	18	213,524	237,857
Property, Plant and Equipment	19	139,988	127,327
Intangible assets	19	2,511	29,431
Other assets	20	4,923,467	4,661,381
<b>Total non-financial assets</b>		<u>5,335,055</u>	<u>5,082,898</u>
<b>Total Assets</b>		<u>117,719,888</u>	<u>117,642,470</u>

For Dechok & Associates Pvt. Ltd.  
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For Royal Monetary Authority of Bhutan

  
Yeshi Jamtsho, FCCA  
Managing Partner  
Membership No. 2641177

Date: 28/09/2022  
Place: Thimphu, Bhutan



  
Dasho Penjore  
Chairperson


The notes on page 14 to 57 are an integral part of these financial statements

**Royal Monetary Authority of Bhutan**  
**Statement of Financial Position**

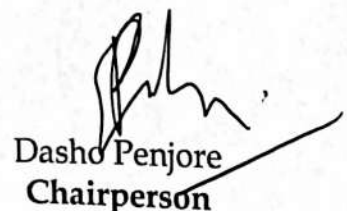
Liabilities and Equity	(Amount in Nu. '000)		
	Note	June 30, 2022	June 30, 2021
<b>Foreign currency financial liabilities</b>			
Balances of Royal Government	21	7,347,627	7,267,110
IMF related liabilities	13	4,256,001	2,322,396
Due to IFIs	22	3,675	2,849
Due to foreign central banks	22	19,916,600	18,995,140
Accrued interest payables		50,337	36,182
<b>Total foreign currency financial liabilities</b>		<b>31,574,239</b>	<b>28,623,677</b>
<b>Local currency financial liabilities</b>			
Currency in circulation	23	13,519,102	15,321,544
Balances of commercial banks	24	46,080,487	51,852,994
Balances of Royal Government	21	2,927,678	2,195,145
Due to other financial institutions	22	542	542
<b>Total local currency financial liabilities</b>		<b>62,527,810</b>	<b>69,370,225</b>
<b>Other liabilities</b>			
Deferred grants	25	107,906	120,185
Gratuity and other employee benefits	31	131,218	124,537
Others	26	109,226	123,297
<b>Total Other Liabilities</b>		<b>348,350</b>	<b>368,020</b>
<b>Total Liabilities</b>		<b>94,450,399</b>	<b>98,361,922</b>
<b>Equity</b>			
Capital		800,000	800,000
General reserve	27	-	-
BAS transition reserve	27	138,814	138,814
Revaluation reserve	27	20,600,536	17,809,783
Retained earnings	27	1,724,408	544,529
Other reserves	27	5,731	(12,578)
<b>Total Equity</b>		<b>23,269,489</b>	<b>19,280,548</b>
<b>Total Equity and Liabilities</b>		<b>117,719,888</b>	<b>117,642,470</b>

For Dechok & Associates Pvt. Ltd.  
Firm License No. 4008504

For Royal Monetary Authority of Bhutan

  
Yeshi Jamtsho, FCCA  
Managing Partner  
Membership No. 2641177

Date: 28/09/2022  
Place: Thimphu, Bhutan

  
Dasho Penjore  
Chairperson

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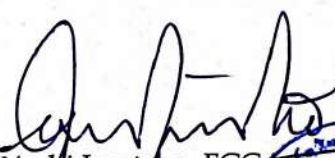
**Royal Monetary Authority of Bhutan**  
**Statement of Comprehensive Income**


		<i>(Amount in Nu. '000)</i>	
	<u>Notes</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
<b>Foreign currency income and expenses</b>			
Interest income on foreign currency financial assets	28	1,725,441	1,395,400
Interest expense on foreign currency financial liabilities		(675,332)	(590,682)
Gain/(loss) on trading of assets		96,131	33,721
<b>Net foreign currency income</b>		<u>1,146,241</u>	<u>838,438</u>
<b>Local currency income</b>			
Interest income on local currency financial assets	28	12,469	3,415
<b>Net local currency income</b>		<u>12,469</u>	<u>3,415</u>
<b>Net foreign currency income</b>		<u>1,158,709</u>	<u>841,853</u>
<b>Other income</b>			
Realised gain/(loss) on sale of assets	29	846,477	46,918
Unrealised fair value gain/(loss) of assets	30	(1,810,734)	(436,841)
Foreign exchange revaluation gain/(loss)	31	4,687,553	(1,282,833)
Others	32	(16,045)	4,146
<b>Net other income</b>		<u>3,707,251</u>	<u>(1,668,610)</u>
<b>Total net operating income</b>		<u>4,865,961</u>	<u>(826,757)</u>
<b>Expenses</b>			
Cost of banknote printing		(50,367)	(83,038)
Employee benefits	33	(232,398)	(220,627)
Administrative expenses	34	(160,203)	(148,749)
<b>Total operating expenses</b>		<u>(442,967)</u>	<u>(452,415)</u>
<b>Net profit for year</b>		<u>4,422,993</u>	<u>(1,279,171)</u>
<b>Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods</b>			
Actuarial gain on Staff gratuity Fund		5,731	(12,578)
<b>Total Comprehensive Income</b>		<u>4,428,724</u>	<u>(1,291,749)</u>

Please refer to Note 35 on profit for distribution

For Dechok & Associates Pvt. Ltd.  
Firm License No. 4008504

For Royal Monetary Authority of Bhutan

  
Yeshi Jamtsho, FCCA  
Managing Partner  
Membership No. 2641177



  
Dasho Penjore  
Chairperson

The notes on page 14 to 37 are an integral part of these financial statement

## Royal Monetary Authority of Bhutan Statement of Changes in Equity

*(Amount in Nu. '000)*

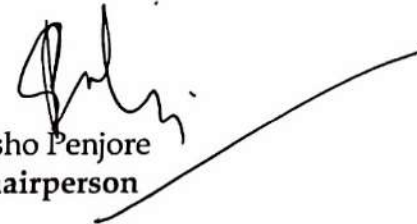
	Capital	General Reserve	Revaluation Reserve	Retained Earnings	OCI	BAS Transition Reserve	Total
<b>Balance at July 1, 2021</b>	800,000	-	17,809,783	544,529	(12,578)	138,814	19,280,548
Transfer of revaluation gain for the year (net of current year realised)	-	-	2,876,820	(2,876,820)	-	-	-
Total comprehensive Income	-	-	-	4,422,993	5,731	-	4,428,724
Transfer to Royal Government	-	-	-	(439,784)	-	-	(439,784)
Other movements	-	-	(12,578)	-	12,578	-	-
Transfer from revaluation reserve	-	-	(73,489)	73,489	-	-	-
<b>Balance at June 30, 2022</b>	<b>800,000</b>	<b>-</b>	<b>20,600,535</b>	<b>1,724,408</b>	<b>5,731</b>	<b>138,814</b>	<b>23,269,489</b>

For Dechok & Associates Pvt. Ltd.  
Firm License No. 4008504

  
Yeshi Jamtsho, FCCA  
Managing Partner  
Membership No. 2641177  
Date: 28/09/2022  
Place: Thimphu, Bhutan



For Royal Monetary Authority of Bhutan

  
Dasho Penjore  
Chairperson

The notes on page 14 to 57 are an integral part of these financial statement



# Royal Monetary Authority of Bhutan

## Statement of Cash Flows


	<i>(Amount in Nu. '000)</i>	
	June 30, 2022	June 30, 2021
<b>Cash flows from operating activities</b>		
Profit for year	1,619,663	439,784
<i>Adjustments for items not involving cash flows</i>		
Unrealised fx revaluations	2,809,062	(1,731,533)
Accrued interest in foreign currency	(406,638)	78,375
Depreciation	52,117	46,297
<b>Adjusted profit</b>	<b>4,074,203</b>	<b>(1,167,077)</b>
<b>(Increase)/decrease in operating assets</b>		
Placements with banks	42,335,302	(13,387,873)
Trading assets	3,044,479	(4,515,092)
Non-monetary gold	(28,665)	27,449
Inventory for banknotes	24,334	(14,753)
Other financial assets	2,889	3,829
Other assets	(262,086)	(4,118,217)
	<b>45,116,254</b>	<b>(22,004,655)</b>
<b>Increase/(decrease) in operating liabilities</b>		
Currency in circulation	(1,802,441)	687,634
Due to Banks	(5,772,507)	18,022,426
Due to Government foreign currency	80,517	10,009
Due to Government domestic	732,533	829,535
Due to foreign banks	826	(7,974)
Other foreign liabilities	14,155	(45,536)
Gratuity and other employee benefits	6,681	30,901
Other domestic currency liabilities	(14,071)	18,980
<b>Cash flows for operating activities</b>	<b>(6,754,309)</b>	<b>19,545,974</b>
<b>Cash flows from investing activities</b>		
Net purchase of property	(37,858)	(31,023)
Net purchase of securities	(33,063,500)	(22,417,850)
Increase in IMF balance	(1,917,625)	(81,046)
Increase in IMF liability	1,933,605	65,025
<b>Cash flows from investing activities</b>	<b>(33,085,377)</b>	<b>(22,464,895)</b>
<b>Cash flows from financing activities</b>		
Due to foreign central banks	921,460	183,040
Deferred grant	(12,279)	76,712
Retained earnings	(0)	(305,255)
Distributions	(439,784)	(3,769,392)
<b>Cash flows from financing activities</b>	<b>469,397</b>	<b>(3,814,895)</b>
<b>Net increase in cash equivalents</b>	<b>9,820,167</b>	<b>(29,905,549)</b>
Cash equivalents at beginning of year	38,326,532	68,232,081
Cash equivalents at end of year	<b>48,146,700</b>	<b>38,326,532</b>

**For Dechok & Associates Pvt. Ltd.**  
Firm License No. 4008504

  
Yeshe Jaratsho, FCCA  
Managing Partner  
Membership No. 2641177  
Date: 28/09/2022  
Place: Thimphu, Bhutan



**For Royal Monetary Authority of Bhutan**

  
Dasho Penjore  
Chairperson

The notes on page 14 to 57 are an integral part of these financial statements

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ACCOUNTING POLICIES & NOTES TO ACCOUNTS

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# ROYAL MONETARY AUTHORITY OF BHUTAN

## SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

### 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 all the relevant standards issued by AASBB in the near future.

#### **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.

### 3. 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.

### 4. 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 7).

### (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.
- Monetary gold – the authority has classified the gold as monetary gold under fair value through profit or loss.
- Currency in circulation - the Authority has classified currency 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.

## 5. EFFECT OF ACCOUNTING STANDARDS NOT YET IN FORCE

As stated in Note 2, the Authority intends to fully comply with relevant standards issued by AASBB. 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.

## 6. 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 PIMCO and BlackRock 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.

### **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. Monetary gold**

The Authority shall recognise the gold when it acquires the contractual right to the economic risk and rewards of the gold ownership. On acquisition, it shall classify the monetary gold at fair value through profit or loss. Gains and losses arising from changes in fair value, referring to price changes are recognised in profit or loss and revaluation gains and loss will be transferred to the dedicated revaluation reserve as per the RMA Act 2010 and recycle back to profit or loss on the sale of the gold.

#### **e. Other foreign currency non-financial asset**

Authority's investment in other assets for short term trading in the ordinary course of business will be measured at fair value less cost to sell in line with BAS 2. Any gain or loss on sale of the other assets will be recognised as profit or loss and revaluation gains and loss will be transferred to the dedicated revaluation reserve as per the RMA Act 2010 and recycle back to profit or loss on the sale of the assets.

#### **f. Non-monetary gold**

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

#### **g. 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.



#### **h. 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.

#### **i. 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.

#### **j. 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:

<b>Asset Class</b>	<b>Depreciation Rate</b>
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. The Authority considers residual value of all its PPE as Ngultrum One at the end of its useful life. Obsolete and unserviceable PPEs are surrendered to the Department of National Properties without any consideration in return.

#### **k. Interest**

Interest income and expenses 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.

#### **l. 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.

#### **m. 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.

#### **n. 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.

#### **o. 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.

#### **p. 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 in which it is realised. See Note 32 for the calculation of distributable profit.

#### **q. 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 is 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 it occurs, 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.

**r. 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.

**s. 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.

**t. 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.

**7. 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 ensure 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.

June 30, 2022	<i>(Amount in Nu. 000)</i>							
	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
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and cash equivalents	48,146,700	-	-	-	-	-	-	48,146,700
Deposits	-	-	-	-	-	-	-	-
Securities at amortised cost	100,014	-	4,737,900	2,763,775	42,578,824	-	-	50,180,513
Externally managed securities	-	-	-	-	7,207,622	-	-	7,207,622
Monetary gold	-	-	-	-	-	-	688,898	688,898
IMF related assets	2,640,979	-	-	-	-	-	2,097,371	4,738,350
Loans to staff and other assets	556,425	-	-	71,183	-	14,395	780,745	1,422,749
<b>Total financial assets</b>	<b>51,444,118</b>	<b>-</b>	<b>4,737,900</b>	<b>2,834,958</b>	<b>49,786,446</b>	<b>14,395</b>	<b>3,567,015</b>	<b>112,384,832</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	13,519,102	13,519,102
Balances of Commercial banks	46,080,487	-	-	-	-	-	-	46,080,487
Deposits from third parties	4,216	-	-	-	-	-	-	4,216
Balances of Royal Government	3,275,305	-	-	-	7,000,000	-	-	10,275,305
IMF related liabilities	2,631,292	-	-	-	-	-	1,624,709	4,256,001
Due to foreign Central Banks	-	15,178,700	4,737,900	-	-	-	-	19,916,600
Other liabilities	50,337	-	-	-	-	-	-	50,337
<b>Total financial liabilities</b>	<b>52,041,638</b>	<b>15,178,700</b>	<b>4,737,900</b>	<b>-</b>	<b>7,000,000</b>	<b>-</b>	<b>15,143,811</b>	<b>94,102,049</b>
<b>Asset-liability maturity mismatch as of June 30, 2022</b>	<b>(597,520)</b>	<b>(15,178,700)</b>	<b>-</b>	<b>2,834,958</b>	<b>42,786,446</b>	<b>14,395</b>	<b>(11,576,796)</b>	<b>18,282,784</b>

Given the nature of business as a central bank, most of assets and liabilities are under the short term maturity buckets, due to which the asset-liability maturity mismatches are seen majorly in the maturity buckets of upto 1 month and upto 3 months. However, RMA being the issuer of the local currency can address the liquidity risk in terms of mismatches as most of the liabilities are payable in local currency. Further, the overall maturity mismatch is positive as the financial assets are more than financial liabilities.

**(a) Liquidity risk (continued)**

June 30, 2021	<i>(Amount in Nu. 000)</i>							Undefined maturity	Total
	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			
<b>Financial assets</b>									
<b>Non-derivative assets</b>									
Cash and cash equivalents	38,326,532	-	-	-	-	-	-	-	38,326,532
Deposits	6,688,480	14,917,448	9,371,421	11,366,265	-	-	-	-	42,343,613
Securities at amortised cost	300,125	-	-	-	16,638,146	-	-	-	16,938,271
Externally managed securities	-	-	-	-	7,386,364	-	-	-	7,386,364
Monetary gold	-	-	-	-	-	-	2,823,406	-	2,823,406
IMF related assets	651,786	-	-	-	-	-	2,168,939	-	2,820,725
Loans to staff and other assets	1,234,025	-	-	62,872	-	17,285	606,479	-	1,920,661
	<b>47,200,949</b>	<b>14,917,448</b>	<b>9,371,421</b>	<b>11,429,136</b>	<b>24,024,510</b>	<b>17,285</b>	<b>5,598,824</b>	-	<b>112,559,573</b>
<b>Derivative assets</b>									
Foreign exchange forwards	-	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>47,200,949</b>	<b>14,917,448</b>	<b>9,371,421</b>	<b>11,429,136</b>	<b>24,024,510</b>	<b>17,285</b>	<b>5,598,824</b>	-	<b>112,559,573</b>
<b>Financial liabilities</b>									
<b>Non-derivative liabilities</b>									
Currency in circulation	-	-	-	-	-	-	15,321,544	-	15,321,544
Balances of Commercial banks	51,852,994	-	-	-	-	-	-	-	51,852,994
Deposits from third parties	3,391	-	-	-	-	-	-	-	3,391
Balances of Royal Government	2,462,255	-	-	-	7,000,000	-	-	-	9,462,255
IMF related liabilities	642,248	-	-	-	-	-	1,680,148	-	2,322,396
Due to foreign Central Banks	-	14,541,940	4,453,200	-	-	-	-	-	18,995,140
Other liabilities	36,182	-	-	-	-	-	-	-	36,182
	<b>54,997,070</b>	<b>14,541,940</b>	<b>4,453,200</b>	-	<b>7,000,000</b>	-	<b>17,001,692</b>	-	<b>97,993,902</b>
<b>Derivative liabilities</b>									
Interest rate futures	-	-	-	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>54,997,070</b>	<b>14,541,940</b>	<b>4,453,200</b>	-	<b>7,000,000</b>	-	<b>17,001,692</b>	-	<b>97,993,902</b>
<b>Asset-liability maturity mismatch as of June 30, 2021</b>	<b>(7,796,122)</b>	<b>375,508</b>	<b>4,918,221</b>	<b>11,429,136</b>	<b>17,024,510</b>	<b>17,285</b>	<b>(11,402,868)</b>	-	<b>14,565,670</b>

## (b) 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 assets that are exposed to credit risk as at June 30, 2022 and 2021.

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Assets</b>		
Cash and cash equivalents	48,146,700	38,326,532
Deposits	-	42,343,613
Securities at amortised cost	50,180,513	16,938,271
Externally managed securities	7,207,622	7,386,364
Monetary gold	688,898	2,823,406
IMF related assets	4,738,350	2,820,725
Loans to staff and other assets	1,422,749	1,920,661
<b>Total assets</b>	<b>112,384,832</b>	<b>112,559,573</b>

An amount of Nu. 2,641 million (2021: Nu. 652 million) which is included in the SDR Holdings with the IMF (see Note 13) 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. 15 million (2021: Nu. 15 million) included in the assets above represent credit risk.



(b) Credit risk (continued)

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

	<i>(Amount in Nu. '000)</i>								
June 30, 2022	United States of America	EU countries	UK	East Asia	India	Singapore	Bhutan	Others	Total
Cash and cash equivalents	17,063,556	29,496	110,737	5,161,843	6,258,633	1,655,004	2,561,542	15,305,889	48,146,700
Deposits	-	-	-	-	-	-	-	-	-
Securities at amortised cost	-	-	-	-	100,014	-	50,080,499	-	50,180,513
Externally managed securities	-	-	-	-	-	7,207,622	-	-	7,207,622
Monetary gold	-	688,898	-	-	-	-	-	-	688,898
IMF related assets	4,738,350	-	-	-	-	-	-	-	4,738,350
Loans to staff and other assets	-	-	-	-	-	-	85,578	1,337,171	1,422,749
<b>Total financial assets</b>	<b>21,801,906</b>	<b>718,394</b>	<b>110,737</b>	<b>5,161,843</b>	<b>6,358,647</b>	<b>8,862,626</b>	<b>52,727,619</b>	<b>16,643,059</b>	<b>112,384,832</b>

	<i>(Amount in Nu. '000)</i>								
June 30, 2021	United States of America	EU countries	UK	East Asia	India	Singapore	Bhutan	Others	Total
Cash and cash equivalents	12,655,673	48,256	1,218,847	-	18,904,246	1,582,999	1,643,758	2,272,754	38,326,532
Deposits	13,165,393	-	-	20,963,415	-	3,737,005	-	4,477,799	42,343,613
Securities at amortised cost	-	-	-	-	300,125	-	16,638,146	-	16,938,271
Externally managed securities	-	-	-	-	-	7,386,364	-	-	7,386,364
Monetary gold	-	2,823,406	-	-	-	-	-	-	2,823,406
IMF related assets	2,820,725	-	-	-	-	-	-	-	2,820,725
Loans to staff and other assets	-	-	-	-	-	-	80,156	1,840,504	1,920,661
<b>Total financial assets</b>	<b>28,641,792</b>	<b>2,871,662</b>	<b>1,218,847</b>	<b>20,963,415</b>	<b>19,204,371</b>	<b>12,706,368</b>	<b>18,362,061</b>	<b>8,591,057</b>	<b>112,559,573</b>

**(b) Credit risk (continued)**

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

*(Amount in Nu. '000)*

June 30, 2022	Cash and cash equivalents	Deposits	Securities at amortised cost	Externally managed securities	IMF related assets	Monetary gold	Loans to staff and other assets	Total
Central Authority	2,387,849	-	-	-	-	-	14,395	2,402,244
Foreign Central Banks	6,031,186	-	100,014	-	4,738,350	688,898	969	11,559,417
Commercial Banks	39,727,665	-	-	-	-	-	-	39,727,665
Others	-	-	50,080,499	7,207,622	-	-	1,407,385	58,695,506
<b>Total financial assets</b>	<b>48,146,700</b>	<b>-</b>	<b>50,180,513</b>	<b>7,207,622</b>	<b>4,738,350</b>	<b>688,898</b>	<b>1,422,749</b>	<b>112,384,832</b>

*(Amount in Nu. '000)*

June 30, 2021	Cash and cash equivalents	Deposits	Securities at amortised cost	Externally managed securities	IMF related assets	Monetary gold	Loans to staff and other assets	Total
Central Authority	1,609,647	-	-	-	-	-	17,285	1,626,932
Foreign Central Banks	6,585,628	-	300,125	-	2,820,725	2,823,406	1,085,207	13,615,091
Commercial Banks	30,131,257	42,343,613	-	-	-	-	-	72,474,871
Others	-	-	16,638,146	7,386,364	-	-	818,169	24,842,679
<b>Total financial assets</b>	<b>38,326,532</b>	<b>42,343,613</b>	<b>16,938,271</b>	<b>7,386,364</b>	<b>2,820,725</b>	<b>2,823,406</b>	<b>1,920,661</b>	<b>112,559,573</b>

(c) 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, 2022	Cash and cash equivalents	Deposits	Investment securities	Externally managed assets	Special Drawing Rights (SDR)**	Monetary gold	Loans to Staff and other assets	Total
Balances with foreign Central Banks	3,428,909	-	100,014	-	-	688,898	-	4,217,822
IMF related assets	-	-	-	-	4,738,350	-	-	4,738,350
State-owned Banks	13,805,769	-	-	-	-	-	-	13,805,769
AA	1,655,014	-	-	-	-	-	-	1,655,014
AA-	21,598,358	-	-	3,580,843	-	-	-	25,179,201
A	2,020,446	-	-	3,626,778	-	-	-	5,647,224
Unrated	5,638,203	-	50,080,499	-	-	-	1,422,749	57,141,451
<b>Total financial assets</b>	<b>48,146,700</b>	<b>-</b>	<b>50,180,513</b>	<b>7,207,622</b>	<b>4,738,350</b>	<b>688,898</b>	<b>1,422,749</b>	<b>112,384,832</b>

*(Amount in Nu. '000)*

June 30, 2021	Cash and cash equivalents	Deposits	Investment securities	Externally managed assets	Special Drawing Rights (SDR)**	Monetary gold	Loans to Staff and other assets	Total
Balances with foreign Central Banks	5,864,490	-	300,125	-	-	2,823,406	-	8,988,020
IMF related assets	-	-	-	-	2,820,725	-	-	2,820,725
State-owned Banks	17,798,106	13,165,393	-	-	-	-	-	30,963,499
AA-	4,916,769	3,737,005	-	3,683,233	-	-	-	12,337,007
A+	1,147,765	-	-	-	-	-	-	1,147,765
A	6,287,283	23,908,962	-	3,703,131	-	-	-	33,899,376
Unrated	2,312,119	1,532,253	16,638,146	-	-	-	1,920,661	22,403,179
<b>Total financial assets</b>	<b>38,326,532</b>	<b>42,343,613</b>	<b>16,938,271</b>	<b>7,386,364</b>	<b>2,820,725</b>	<b>2,823,406</b>	<b>1,920,661</b>	<b>112,559,573</b>

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 shall hold 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 Department Foreign Exchange and Reserve Management 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 Department Foreign Exchange and Reserve Management.

*(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	<i>(Amount in Nu. '000)</i>			
	June 30, 2022		June 30, 2021	
	100 bp	50 bp	100 bp	50 bp
Increase	(1,971,488)	(985,744)	(2,115,467)	(1,057,733)
Decrease	1,971,488	985,744	2,115,467	1,057,733

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)

June 30, 2022	<i>(Amount in Nu. '000)</i>					
	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and cash equivalents	48,146,700	3,897,039	-	29,247,723	-	15,001,939
Deposits	-	-	-	-	-	-
Securities at amortised cost	50,180,513	-	100,014	-	50,080,499	-
Externally managed securities	7,207,622	-	-	-	7,207,622	-
IMF related assets	4,738,350	2,640,979	-	-	-	2,097,371
Monetary gold	688,898	-	-	-	-	688,898
Loans to staff and other assets	1,422,749	-	-	-	85,578	1,337,171
<b>Total financial assets</b>	<b>112,384,832</b>	<b>6,538,017</b>	<b>100,014</b>	<b>29,247,723</b>	<b>57,373,699</b>	<b>19,125,379</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	13,519,102	-	-	-	-	13,519,102
Balances of Commercial banks	46,080,487	-	-	-	-	46,080,487
Deposits from third parties	4,216	-	-	-	-	4,216
Balances of Royal Government	10,275,305	-	-	-	7,000,000	3,275,305
IMF related liabilities	4,256,001	2,626,027	-	-	-	1,629,974
Due to foreign Central Banks	19,916,600	-	-	15,178,700	4,737,900	-
Other liabilities	50,337	-	-	-	-	50,337
<b>Total financial liabilities</b>	<b>94,102,049</b>	<b>2,626,027</b>	<b>-</b>	<b>15,178,700</b>	<b>11,737,900</b>	<b>64,559,422</b>
<b>Interest-bearing financial instruments gap</b>	<b>18,282,784</b>	<b>3,911,991</b>	<b>100,014</b>	<b>14,069,023</b>	<b>45,635,799</b>	<b>(45,434,043)</b>

(c) Market risk (continued)

(i) Interest rate risk (continued)

June 30, 2021	<i>(Amount in Nu. '000)</i>					
	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and cash equivalents	38,326,532	668,361	-	21,834,650	-	15,823,522
Deposits	42,343,613	-	-	-	42,343,613	-
Securities at amortised cost	16,938,271	-	300,125	-	16,638,146	-
Externally managed securities	7,386,364	-	-	-	7,386,364	-
IMF related assets	2,820,725	651,786	-	-	-	2,168,939
Monetary gold	2,823,406	-	-	-	-	2,823,406
Loans to staff and other assets	1,920,661	-	-	-	80,156	1,840,504
<b>Total financial assets</b>	<b>112,559,573</b>	<b>1,320,147</b>	<b>300,125</b>	<b>21,834,650</b>	<b>66,448,280</b>	<b>22,656,371</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	15,321,544	-	-	-	-	15,321,544
Balances of Commercial banks	51,852,994	-	-	-	-	51,852,994
Deposits from third parties	3,391	-	-	-	-	3,391
Balances of Royal Government	9,462,255	-	-	-	7,000,000	2,462,255
IMF related liabilities	2,322,396	636,803	-	-	-	1,685,593
Due to foreign Central Banks	18,995,140	-	-	14,541,940	4,453,200	-
Other liabilities	36,182	-	-	-	-	36,182
<b>Total financial liabilities</b>	<b>97,993,902</b>	<b>636,803</b>	<b>-</b>	<b>14,541,940</b>	<b>11,453,200</b>	<b>71,361,959</b>
<b>Interest-bearing financial instruments gap</b>	<b>14,565,670</b>	<b>683,345</b>	<b>300,125</b>	<b>7,292,710</b>	<b>54,995,080</b>	<b>(48,705,588)</b>

**(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.

(c) Market risk (continued)

(ii) Exchange rate risk (continued)

The Authority's exposure to foreign currency risk as at June 30, 2022 and 2021 is as follows:

June 30, 2022	<i>(Amount in Nu. '000)</i>						
	USD	EUR	GBP	INR	SDR	Other	Total
<b>Assets</b>							
Cash and cash equivalents	35,377,732	82,655	1,164,950	7,953,786	-	3,393,885	47,973,007
Deposits	-	-	-	-	-	-	-
Securities at amortised cost	50,080,499	-	-	100,014	-	-	50,180,513
Externally managed securities	7,207,622	-	-	-	-	-	7,207,622
IMF related assets	-	-	-	-	4,738,350	-	4,738,350
Monetary gold	688,898	-	-	-	-	-	688,898
Loans to staff and other assets	781,714	-	-	-	-	555,456	1,337,171
<b>Total foreign financial assets</b>	<b>94,136,466</b>	<b>82,655</b>	<b>1,164,950</b>	<b>8,053,800</b>	<b>4,738,350</b>	<b>3,949,341</b>	<b>112,125,561</b>
<b>Liabilities</b>							
Deposits from third parties	3,675	-	-	-	-	-	3,675
Balances of Royal Government	296,081	51,546	-	7,000,000	-	-	7,347,627
IMF related liabilities	-	-	-	-	4,256,001	-	4,256,001
Due to foreign Central Banks	4,737,900	-	-	15,178,700	-	-	19,916,600
Other liabilities	38,693	-	-	11,644	-	-	50,337
<b>Total foreign financial liabilities</b>	<b>5,076,349</b>	<b>51,546</b>	<b>-</b>	<b>22,190,344</b>	<b>4,256,001</b>	<b>-</b>	<b>31,574,239</b>
<b>Net currency position</b>	<b>89,060,117</b>	<b>31,109</b>	<b>1,164,950</b>	<b>(14,136,544)</b>	<b>482,350</b>	<b>3,949,341</b>	<b>80,551,322</b>

(c) Market risk (continued)

(ii) Exchange rate risk (continued)

June 30, 2021	<i>(Amount in Nu. '000)</i>						
	USD	EUR	GBP	INR	SDR	Other	Total
<b>Assets</b>							
Cash and cash equivalents	17,515,764	99,151	1,227,713	19,167,282	-	282,510	38,292,422
Deposits	42,343,613	-	-	-	-	-	42,343,613
Securities at amortised cost	16,638,146	-	-	300,125	-	-	16,938,271
Externally managed securities	7,386,364	-	-	-	-	-	7,386,364
IMF related assets	-	-	-	-	2,820,725	-	2,820,725
Monetary gold	2,823,406	-	-	-	-	-	2,823,406
Loans to staff and other assets	1,691,686	-	-	-	-	148,818	1,840,504
<b>Total foreign financial assets</b>	<b>88,398,979</b>	<b>99,151</b>	<b>1,227,713</b>	<b>19,467,408</b>	<b>2,820,725</b>	<b>431,328</b>	<b>112,445,305</b>
<b>Liabilities</b>							
Deposits from third parties	2,849	-	-	-	-	-	2,849
Balances of Royal Government	210,220	56,890	-	7,000,000	-	-	7,267,110
IMF related liabilities	-	-	-	-	2,322,396	-	2,322,396
Due to foreign Central Banks	4,453,200	-	-	14,541,940	-	-	18,995,140
Other liabilities	36,182	-	-	-	-	-	36,182
<b>Total foreign financial liabilities</b>	<b>4,702,452</b>	<b>56,890</b>	<b>-</b>	<b>21,541,940</b>	<b>2,322,396</b>	<b>-</b>	<b>28,623,677</b>
<b>Net currency position</b>	<b>83,696,528</b>	<b>42,261</b>	<b>1,227,713</b>	<b>- 2,074,532</b>	<b>498,330</b>	<b>431,328</b>	<b>83,821,628</b>



(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, 2022		June 30, 2021	
	10%	5%	10%	5%
<b>Financial assets</b>				
Cash and cash equivalents	400	200	191	96
Deposits	-	-	423	212
Securities	573	286	240	120
IMF related assets	47	24	28	14
<b>Impact on Financial assets</b>	<b>1,020</b>	<b>510</b>	<b>883</b>	<b>442</b>
<b>Financial liabilities</b>				
Balances of Royal Government	3	1	2	1
IMF related liabilities	43	21	23	12
<b>Impact on financial liabilities</b>	<b>46</b>	<b>23</b>	<b>25</b>	<b>13</b>
<b>Total increase/(decrease)</b>	<b>975</b>	<b>487</b>	<b>858</b>	<b>429</b>
<b>Impact on the Profit</b>	<b>975</b>	<b>487</b>	<b>858</b>	<b>429</b>

(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 4 (b) (ii) 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.

	<i>(Amount in Nu. '000)</i>			
	June 30, 2022		June 30, 2021	
	Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
<b>Assets</b>				
Deposits	-	-	42,343,613	42,343,613
Securities at amortised cost	50,180,513	50,180,513	16,938,271	16,938,271
IMF related assets	4,738,350	4,738,350	2,820,725	2,820,725
Externally managed securities	7,207,622	7,207,622	7,386,364	7,386,364
Loans to staff and other assets	1,422,749	1,422,749	1,920,661	1,920,661
<b>Liabilities</b>				
IMF related liabilities	4,256,001	4,256,001	2,322,396	2,322,396
Balances of Commercial banks	46,080,487	46,080,487	51,852,994	51,852,994
Due to foreign Central Banks	19,916,600	19,916,600	18,995,140	18,995,140
Deposits from third parties	4,216	4,216	3,391	3,391
Balances of Royal Government	10,275,305	10,275,305	9,462,255	9,462,255
Other financial liabilities	50,337	50,337	36,182	36,182

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

	<i>(Amount in Nu. '000)</i>	
	June 30, 2022	June 30, 2021
<b>Foreign currency</b>		
Cash	2,387,849	1,609,647
Current accounts	16,335,572	14,848,124
Short-term deposits	29,249,587	21,834,650
<b>Total foreign currency</b>	<b>47,973,007</b>	<b>38,292,422</b>
<b>Local currency</b>		
Current accounts	173,693	34,111
<b>Total local currency</b>	<b>173,693</b>	<b>34,111</b>
<b>Total cash and cash equivalents</b>	<b>48,146,700</b>	<b>38,326,532</b>

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 0.62% and 4.38%, respectively.

## 10. DEPOSITS

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Foreign currency</b>		
Terms deposits with Indian banks	-	-
Term deposits with other foreign banks	-	42,343,613
<b>Total foreign currency deposits</b>	<b>-</b>	<b>42,343,613</b>
<b>Domestic currency</b>		
Staff gratuity deposit	71,183	62,872
<b>Total domestic currency deposits</b>	<b>71,183</b>	<b>62,872</b>

## 11. TRADING ASSETS

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2020</b>
Currency trading	969	1,085,207
<b>Total trading assets</b>	<b>969</b>	<b>1,085,207</b>

## 12. SECURITIES

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Held at amortised cost	50,180,513	16,938,271
Held at fair value	7,207,622	7,386,364
<b>Total securities</b>	<b>57,388,135</b>	<b>24,324,635</b>

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

The Securities held at fair value consist of a portfolio managed by the PIMCO and Blackrock which mainly comprises of U.S. Treasury Bonds.

### 13. INTERNATIONAL MONETARY FUND (IMF) RELATED ASSETS

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Assets</b>		
Quota	2,097,371	2,168,939
SDR Holding	2,640,979	651,786
<b>Total assets</b>	<b>4,738,350</b>	<b>2,820,725</b>
<b>Liability</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
IMF A/C I	5,243	5,422
IMF A/C II	22	22
Securities Account	1,624,709	1,680,148
SDR Allocation	2,626,027	636,803
<b>Total liabilities</b>	<b>4,256,001</b>	<b>2,322,396</b>

The Quota with the IMF of Nu. 2,097.4 million or SDR 20.4 million (2021: Nu. 2,168.9 million or SDR 20.4 million) originates from the membership of the Bhutan in the IMF. This was paid 25% in hard currency with the balance provided in the form of securities issued by the Royal Government of Bhutan.

The SDR holdings of Nu. 2,641 million or SDR 25.7 million (2021: Nu. 651.7 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, 2022 is 0.889% p.a. (June 2021 0.050% p.a.).

SDR Allocations of Nu. 2,626 million or SDR 25.5 million (2021: Nu 636.8 million or SDR 6 million) was made to Bhutan as IMF member in proportion to the Bhutan's quota in the Fund.

During the year, the IMF allocated SDR 19.5 million to Bhutan in proportion to their existing Quota in the fund to address long-term global need for reserve, build confidence and foster the resilience in stability of global economy, and to help the most vulnerable countries struggling to cope with the impact of the COVID-19 crisis.

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 0.889% p.a. (June 2021: 0.050% 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.

### 14. LOANS TO STAFF

These are vehicle loans granted to RMA employees at a subsidised interest rate. The total outstanding loan balance as at June 30, 2022 is Nu. 14 million (2021: Nu. 17 million).

## 15. MONETARY GOLD

The Authority shall recognise the gold when it acquires the contractual right to the economic risk and rewards of the gold ownership. On acquisition, it shall classify the gold as monetary gold under fair value through profit or loss.

	<i>(Amount in Nu. '000)</i>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Monetary Gold- unallocated	688,898	678,430
Monetary Gold- allocated	-	2,144,976
<b>Total monetary gold</b>	<b>688,898</b>	<b>2,823,406</b>

## 16. OTHER FOREIGN CURRENCY NON-FINANCIAL ASSET

Other foreign currency non-financial asset includes Authority's investment in other assets for short term trading in the ordinary course of business will be measured at fair value less cost to sell in line with BAS 2. Any gain or loss on sale of these assets is recognised in profit or loss and revaluation gains and loss will be transferred to the dedicated revaluation reserve and recycled back to profit or loss on the sale of the assets.

## 17. NON-MONETARY GOLD AND SILVER ASSETS

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

	<i>(Amount in Nu. '000)</i>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Gold	39,615	16,679
Silver granules	15,951	10,222
<b>Total non-monetary gold and silver asset</b>	<b>55,566</b>	<b>26,901</b>

## 18. INVENTORY FOR BANKNOTES

	<i>(Amount in Nu. '000)</i>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Notes in the course of printing	34,577	8,544
Notes for circulation	178,946	229,313
<b>Total Banknote inventories at cost</b>	<b>213,524</b>	<b>237,857</b>



## 19. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	<i>(Amount in Nu. '000)</i>									
	Land, buildings & installations	Furniture & Equipment	Vehicles	Computers & Accessories	Paintings & other artwork	Total Property & Equipment	Computer software	Work-in- progress	Total Intangible Assets	Total
<b>Amortized costs</b>										
<b>At June 30, 2020</b>	<b>47,296</b>	<b>39,275</b>	<b>16,517</b>	<b>11,849</b>	<b>745</b>	<b>115,682</b>	<b>56,352</b>	<b>-</b>	<b>56,352</b>	<b>172,034</b>
Additions	-	8,411	-	22,609	128	31,148	-	-	-	31,148
Transfers	-	-	-	-	-	-	-	-	-	-
Disposal	-	3,734	-	4,881	-	8,615	-	-	-	8,615
<b>At June 30, 2021</b>	<b>44,655</b>	<b>40,915</b>	<b>12,975</b>	<b>27,909</b>	<b>873</b>	<b>127,327</b>	<b>29,431</b>	<b>-</b>	<b>29,431</b>	<b>156,759</b>
Additions	-	6,577	12,031	17,978	1,301	37,886	-	-	-	37,886
Transfers	-	-	-	-	-	-	-	-	-	-
Disposal	-	1,157	-	2,048	-	3,206	-	-	-	3,206
<b>At June 30, 2022</b>	<b>42,015</b>	<b>39,562</b>	<b>20,592</b>	<b>35,646</b>	<b>2,174</b>	<b>139,988</b>	<b>2,511</b>	<b>-</b>	<b>2,511</b>	<b>142,499</b>
<b>Cumulative/ amortization and impairment losses</b>										
<b>At June 30, 2020</b>	<b>41,641</b>	<b>62,788</b>	<b>22,303</b>	<b>51,493</b>	<b>-</b>	<b>178,226</b>	<b>70,837</b>	<b>-</b>	<b>70,837</b>	<b>249,063</b>
Amortization	2,640	6,702	3,542	6,493	-	19,377	26,921	-	26,921	46,297
Disposal	-	3,667	-	4,823	-	8,490	-	-	-	8,490
<b>At June 30, 2021</b>	<b>44,281</b>	<b>65,824</b>	<b>25,845</b>	<b>53,162</b>	<b>-</b>	<b>189,112</b>	<b>97,758</b>	<b>-</b>	<b>97,758</b>	<b>286,870</b>
Amortization	2,640	7,903	4,414	10,239	-	25,197	26,921	-	26,921	52,117
Writeoff	-	26	-	2	-	29	-	-	-	29
Disposal	-	1,157	-	2,048	-	3,206	-	-	-	3,206
<b>At June 30, 2022</b>	<b>46,922</b>	<b>72,596</b>	<b>30,259</b>	<b>61,355</b>	<b>-</b>	<b>211,132</b>	<b>124,678</b>	<b>-</b>	<b>124,678</b>	<b>335,810</b>
<b>Net carrying value</b>								<b>-</b>		
<b>At June 30, 2021</b>	<b>44,655</b>	<b>40,915</b>	<b>12,975</b>	<b>27,909</b>	<b>873</b>	<b>127,327</b>	<b>29,431</b>	<b>-</b>	<b>29,431</b>	<b>156,759</b>
<b>At June 30, 2022</b>	<b>42,015</b>	<b>39,562</b>	<b>20,592</b>	<b>35,646</b>	<b>2,174</b>	<b>139,988</b>	<b>2,511</b>	<b>-</b>	<b>2,511</b>	<b>142,499</b>

## 20. OTHER ASSETS

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Commemorative assets	149,299	149,021
Others	4,774,168	4,512,360
<b>Total</b>	<b>4,923,467</b>	<b>4,661,381</b>

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 Kuwait fund managed by His Majesty's Secretariat and miscellaneous receivables. Other assets also include an advance payment of Nu.12.89 million towards Bhutan TradeFin Net Project (BTFN). The Authority and other parties of the project is exploring funds for BTFN from ADB and other donors.

## 21. BALANCES OF THE ROYAL GOVERNMENT

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Foreign currency</b>		
Deposits	347,627	267,110
Government of India Standby Credit Facility	7,000,000	7,000,000
<b>Total foreign currency balances of Royal Government</b>	<b>7,347,627</b>	<b>7,267,110</b>
<b>Local currency</b>		
Royal Government of Bhutan Economic Stimulus Plan	192,424	96,424
Government Consolidated Account	1,518,978	577,665
Ministry of Finance Refundable Deposit Account	44	1,430,873
National Resilience Fund	1,216,231	90,183
<b>Total local currency balances of Royal Government</b>	<b>2,927,678</b>	<b>2,195,145</b>
<b>Total balances of Royal Government</b>	<b>10,275,305</b>	<b>9,462,255</b>

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.

## 22. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

### i) Deposits of International institutions

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
International Bank for Reconstruction and Development (IBRD)	3,048	2,222
International Development Association (IDA)	519	519
Asian Development Bank (ADB)	108	108
<b>Total deposits of international financial institutions</b>	<b>3,675</b>	<b>2,849</b>

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

### ii) Deposits of foreign central banks

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Central Bank of Kuwait	4,737,900	4,453,200
Reserve Bank of India	15,178,700	14,541,940
<b>Total deposit of central banks</b>	<b>19,916,600</b>	<b>18,995,140</b>

#### **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 managed by His Majesty's Secretariat (HMS).

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. The deposit is managed by HMS and shown as an asset of the Authority.

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, February 2020, March 2021 and March 2022.

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.

### 23. CURRENCY IN CIRCULATION

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

The following banknotes and coins were in circulation as at June 30, 2021 and 2020:

Nominal value Nu.	June 30, 2022		June 30, 2021	
	Value in thousand	Total Nu. (million)	Value in thousand	Total Nu. (million)
	<i>(Amount in Nu. '000)</i>			
Notes:				
1	62,463	62	62,023	62
2	3,830	4	3,830	4
5	187,656	188	185,050	185
10	203,436	203	197,676	198
20	186,304	186	181,308	181
50	376,549	377	373,274	373
100	1,170,997	1,171	1,222,435	1,222
500	3,240,141	3,240	3,754,192	3,754
1,000	8,071,035	8,071	9,324,189	9,324
Coins	17,563	18	17,567	18
	<b>13,519,974</b>	<b>13,520</b>	<b>15,321,544</b>	<b>15,322</b>

### 24. BALANCES OF COMMERCIAL BANKS

	<i>(Amount in Nu. '000)</i>	
	June 30, 2022	June 30, 2021
Mandatory reserve accounts (Cash Reserve Ratio)	14,088,191	12,707,794
Current accounts	28,541,240	34,246,923
Sweeping account	3,451,057	4,898,277
<b>Total balances of banks</b>	<b>46,080,487</b>	<b>51,852,994</b>

Commercial banks are required to maintain Statutory reserve (Cash Reserve Ratio), with the Authority. These are currently calculated as 7% of the commercial bank's deposit liabilities in Ngultrum.

Sweeping accounts represent funds of local corporations and 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.

## 25. DEFERRED GRANTS

	<i>(Amount in Nu. '000)</i>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Financial Inclusion & literacy grant	176	176
Micro finance institution- Druk MicroFin	6,668	6,668
Micro finance institution grant for priority sector lending and cottage & small industries	32,889	32,889
Fintech	60,242	65,788
Priority sector lending and financial inclusion & literacy	7,931	14,664
	<u>107,906</u>	<u>120,185</u>

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.

## 26. OTHERS

	<i>(Amount in Nu. '000)</i>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Abandoned property	94,838	93,962
Others	14,388	29,335
<b>Total other liabilities</b>	<u>109,226</u>	<u>123,297</u>

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 as abandoned property. The Authority holds these balances in case the beneficial owners claim their funds.

## 27. RESERVES

	<i>(Amount in Nu. '000)</i>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>
General reserve	-	-
Revaluation reserves	20,600,536	17,809,783
Other reserves	5,731	(12,578)
Retained earnings	1,724,408	544,529
BAS adjustment reserve	138,814	138,814
<b>Total reserve</b>	<u>22,469,489</u>	<u>18,480,548</u>

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 gain/(loss) 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 on July 1, 2017 as a result of the first-time BAS adoption and reflects the net adjustments on transition.

## 28. NET INTEREST INCOME

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Interest Income on foreign currency financial assets</b>		
Interest on assets denominated in Rupees	586,080	789,409
Interest on assets other foreign currencies	1,139,361	605,991
<b>Total interest income on foreign currency financial assets</b>	<b>1,725,441</b>	<b>1,395,400</b>

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

## 29. REALISED GAIN/(LOSS) ON SALE OF ASSETS

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Gain/(loss) on sale of foreign currencies	746,955	66,623
Realised gain/(loss) on sale of securities	(71,826)	(49,015)
Realised gain/(loss) of sale monetary gold	171,347	29,310
<b>Total realised gain/(loss) on sale of assets</b>	<b>846,477</b>	<b>46,918</b>

## 30. UNREALISED GAIN/(LOSS) ON FAIR VALUE OF ASSETS

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Unrealised gain/(loss) on fair value of securities	(984,156)	(279,196)
Unrealised gain/(loss) on fair value of monetary gold	(68,299)	(119,275)
Unrealised gain/(loss) on fair value of other asset	(758,278)	(38,369)
<b>Total unrealised gain/(loss) on fair value of assets</b>	<b>(1,810,734)</b>	<b>(436,841)</b>

## 31. 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:

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Indian Rupee	1	1
U.S. Dollar	78.96	74.22
Euro	82.97	88.38
GBP	96.0	102.82
SDR	102.81	106.32

The currency exposure which contributed to the revaluation gain of Nu. 4,687 million (2021: loss Nu. 1,282 million) is explained under Note: 8 (c) (ii), Market risk: Exchange rate risk.



### 32. OTHER INCOME

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Royalties from commemorative coins	606	710
Sale of commemorative items	25,341	9,972
Penalties & charges received	1,434	410
Commissions and fees received	4,949	6,286
Commissions and fees paid	(63,485)	(21,820)
Others	15,110	8,587
<b>Total other income</b>	<b>(16,045)</b>	<b>4,146</b>

### 33. EMPLOYEE BENEFIT EXPENSES

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Salaries, allowances and other staff costs	201,422	203,611
Staff Superannuation fund	28,321	14,259
Directors' fees and expenses	1,768	1,686
Fringe benefit on staff loan	887	1,072
<b>Total employee benefit expenses</b>	<b>232,398</b>	<b>220,627</b>

As at June 30, 2022, the Authority had 250 employees (2021: 241 employees).

Vehicle loans to employees of the Authority are provided at a 5% p.a. interest with a 7-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.

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Provision for Gratuity	78,523	75,090
Provision for Leave Encashment	18,526	17,139
Provision for PLIS	34,169	32,308
<b>Total provision for employee benefits</b>	<b>131,218</b>	<b>124,537</b>

Disclosure as per BAS 19, Gratuity

(Amount in Nu. '000)

<b>A Assets/Liabilities</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 DBO at end of prior period	75,090	64,073
2 Current service cost	5,792	5,727
3 Interest cost on the DBO	5,885	5,434
8 Actuarial (gain)/loss - experience	268	3,929
10 Actuarial (gain)/loss - financial assumptions	-	5,927
12 Benefits paid from plan assets	(8,512)	(10,000)
<b>DBO at Current Period End</b>	<b>78,523</b>	<b>75,090</b>

<b>B Statement of Profit &amp; Loss</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Current service cost	5,792	5,727
5 Service cost	5,792	5,727
6 Net interest on net defined benefit liability / (asset)	1,231	714
<b>Cost Recognized in P&amp;L</b>	<b>7,023</b>	<b>6,441</b>

<b>C Defined Benefit Cost</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Service cost	5,792	5,727
2 Net interest on net defined benefit liability / (asset)	1,231	714
3 Actuarial (gains)/ losses recognized in OCI	(5,731)	12,578
<b>Defined Benefit Cost</b>	<b>1,292</b>	<b>19,019</b>

<b>D Development of Net Financial Position</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Defined Benefit Obligation (DBO)	(78,523)	(75,090)
2 Fair Value of Plan Assets (FVA)	71,183	56,842
3 Funded Status (Surplus/(Deficit))	(7,340)	(18,248)
<b>Net Defined Benefit Asset</b>	<b>(7,340)</b>	<b>(18,248)</b>

<b>E Reconciliation of Net Balance Sheet Position</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Net defined benefit asset/ (liability) at end of prior period	(18,248)	(11,023)
2 Service cost	(5,792)	(5,727)
3 Net interest on net defined benefit liability/ (asset)	(1,231)	(714)
4 Amount recognized in OCI	5,731	(12,578)
5 Employer contributions	12,200	11,794
<b>Net Defined Benefit Asset/ (Liability) at Current Period End</b>	<b>(7,340)</b>	<b>(18,248)</b>

<b>F Other Comprehensive Income ( OCI )</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Actuarial (gain)/loss due to liability experience	268	3,929
2 Actuarial (gain)/loss due to liability assumption changes	-	5,927
3 Actuarial (gain)/loss arising during period	268	9,855
4 Return on plan assets (greater)/less than discount rate	(5,998)	2,723
5 Actuarial (gains)/ losses recognized in OCI	(5,731)	12,578
<b>Actuarial (Gain) or Loss Recognized via OCI at Current Period End</b>	<b>(5,731)</b>	<b>12,578</b>

<b>G Expected benefit payments for the year ending</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
June 30, 2023 (2023)	4,509	4,515
June 30, 2024 (2024)	2,627	4,293
June 30, 2025 (2025)	5,758	2,871
June 30, 2026 (2026)	9,919	5,930
June 30, 2027 (2027)	7,421	10,076
June 30, 2028 to June 30, 2032 (2028- 2032)	33,833	33,601

*(Amount in Nu. '000)*

<b>(i) Expected employer contributions for the period ending June 30 (next year)</b>	5,519	5,792
<b>(ii) Weighted average duration of defined benefit obligation</b>	13 years	13 years
<b>(iii) Accrued Benefit Obligation at June 30 (current year)</b>	41,931	39,275

#### Sensitivity Analysis

*(Amount in Nu. '000)*

<b>a Discount Rate</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Discount Rate as at June 30 (current year)</b>	8.00%	8.00%
Effect on DBO due to 1% increase in Discount Rate	(7,969)	(7,739)
Effect on DBO due to 1% decrease in Discount Rate	9,482	9,222
<b>b Salary escalation rate</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Discount Rate as at June 30 (current year)</b>	10%	10%
Effect on DBO due to 1% increase in Salary escalation rate	2,601	2,673
Effect on DBO due to 1% decrease in Salary escalation rate	(3,114)	(3,033)

#### Disclosure as per BAS 19, Leave Encashment

*(Amount in Nu. '000)*

<b>A Assets/Liabilities</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 DBO at end of prior period	17,139	13,860
2 Current service cost	5,777	5,226
3 Interest cost on the DBO	1,351	1,190
8 Actuarial (gain)/loss - experience	3,017	(2,666)
11 Benefits paid directly by the Company	(8,759)	(471)
<b>DBO at Current Period End</b>	<b>18,526</b>	<b>17,139</b>

<b>B Statement of Profit &amp; Loss</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Current service cost	5,777	5,226
5 Service cost	5,777	5,226
6 Net interest on net defined benefit liability / (asset)	1,351	1,190
7 Immediate recognition of (gains)/losses - other long term employee benefit plans	3,017	(2,666)
<b>Cost Recognized in P&amp;L</b>	<b>10,146</b>	<b>3,750</b>

<b>C Defined Benefit Cost</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Service cost	5,777	5,226
2 Net interest on net defined benefit liability / (asset)	1,351	1,190
4 Immediate recognition of (gains)/losses - other long term employee benefit plans	3,017	(2,666)
<b>Defined Benefit Cost</b>	<b>10,146</b>	<b>3,750</b>

<b>D Development of Net Financial Position</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Defined Benefit Obligation (DBO)	(18,526)	(17,139)
3 Funded Status (Surplus/(Deficit))	(18,526)	(17,139)
<b>Net Defined Benefit Asset</b>	<b>(18,526)</b>	<b>(17,139)</b>

(Amount in Nu. '000)

<b>E Reconciliation of Net Balance Sheet Position</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Net defined benefit asset/ (liability) at end of prior period	(17,139)	(13,860)
2 Service cost	(5,777)	(5,226)
3 Net interest on net defined benefit liability/ (asset)	(1,351)	(1,190)
4 Actuarial (losses)/gains	(3,017)	2,666
6 Benefit paid directly by the Company	8,759	471
<b>Net Defined Benefit Asset/ (Liability) at Current Period End</b>	<b>(18,526)</b>	<b>(17,139)</b>

(Amount in Nu. '000)

<b>F Other Comprehensive Income ( OCI )</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
1 Actuarial (gain)/loss due to liability experience	3,017	(4,401)
2 Actuarial (gain)/loss due to liability assumption changes	-	1,735
3 Actuarial (gain)/loss arising during period	3,017	(2,666)
<b>Actuarial (Gain) or Loss Recognized via OCI at Current Period End</b>	<b>-</b>	<b>-</b>

<b>G Expected benefit payments for the year ending</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
June 30, 2022 (2023)	1,165	693
June 30, 2023 (2024)	527	1,190
June 30, 2024 (2025)	932	604
June 30, 2025 (2026)	1,372	1,006
June 30, 2026 (2027)	1,248	1,446
June 30, 2028 to June 30, 2032 (2028- 2032)	7,452	6,766

<b>(i) Expected employer contributions for the period ending June 30 (next year)</b>	-	-
<b>(ii) Weighted average duration of defined benefit obligation</b>	13 years	13 years
<b>(iii) Accrued Benefit Obligation at June 30 (current year)</b>	5,982	5,433

#### Sensitivity Analysis

<b>a Discount Rate</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Discount Rate as at June 30 (current year)</b>	8.00%	8.00%
Effect on DBO due to 1% increase in Discount Rate	(2,407)	(2,258)
Effect on DBO due to 1% decrease in Discount Rate	2,941	2,764
<b>b Salary escalation rate</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Discount Rate as at June 30 (current year)</b>	10%	10%
Effect on DBO due to 1% increase in Salary escalation rate	2,855	2,683
Effect on DBO due to 1% decrease in Salary escalation rate	(2,388)	(2,240)

### 34. ADMINISTRATIVE EXPENSES

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Property related expenditure	13,628	10,129
Depreciation	52,117	46,297
Communication and other office expenditure	12,273	13,212
Financial inclusion & literacy expenses	12,620	10,455
Conference & hospitality expenditure	4,898	3,947
Grants & Donations	8,839	9,765
Auditors' fees	217	345
Other operating expenditure	55,611	54,599
<b>Total administrative expenses</b>	<b>160,203</b>	<b>148,749</b>

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

### 35. PROFIT FOR DISTRIBUTION

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Net profit as per Statement of Comprehensive Income	4,428,724	(1,291,749)
Adjustment to revaluation reserve	(2,876,820)	1,719,674
Previous unrealised gains/losses recognised in year	73,489	(719)
Actuarial (gain)/loss on the employee benefit	(5,731)	12,578
<b>Distributable profit for the year</b>	<b>1,619,663</b>	<b>439,784</b>

### 36. CONTINGENCIES AND COMMITMENTS

#### (a) Rent agreements

The Authority has entered into rent agreements for its regional office premises ranging from two to six years with a revision after every two years. Rent commitments payable within one year is Nu. 2.14 million, whilst rent commitments payable within five years is Nu. 10.7 million (2021: Nu. 1.98 million).

#### (b) Capital commitments

As at June 30, 2022 and June 2021, the Authority has not entered into capital commitments.

### 37. 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, 2022 and 2021, transactions and balances with related parties comprised:

**(a) Governor, Deputy Governors and other board members**

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Loans to Governor and Deputy Governors	291	624
<b>Total</b>	<b>291</b>	<b>624</b>

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:

	<i>(Amount in Nu. '000)</i>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Aggregate payments made to Governor and Deputy Governors</b>		
<b>Short-term benefits</b>		
Sitting fees paid to Board members	1,500	1,455
Short-term employee benefits	7,168	7,054
<b>Total</b>	<b>8,668</b>	<b>8,509</b>
<b>Contribution to National Pension and Provident Fund</b>	<b>769</b>	<b>750</b>

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 21, and related interest income from securities and interest expenses are included in Note 29. Promissory notes issued by the Royal Government in favour of the IMF are detailed in Note 13, whilst securities issued by the Royal Government and managed by the Authority are detailed below. The Authority does not charge for these services.

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
	<b>Nu. billion</b>	<b>Nu. billion</b>
Total government treasury bills issued	86.5	45.9
Total treasury bills redeemed	71.0	32.9
Total outstanding treasury bills	15.5	13.0



### **38. SUBSEQUENT EVENTS**

With the COVID-19 restrictions imposed for the last two years, the inflow of foreign remittance has decreased significantly, especially from the tourism sector. This has imposed a strain on the external reserve which might lead to decrease in the interest income if the trend continues. Further resorting to external borrowings to meet balance of payment requirements might result to significant increase in the borrowing cost. In view of the above, there is an anticipation that RMA would incur loss in the future which will have a material impact on the financial statements of the Authority. The Authority does not have any other subsequent events that will have a material impact on the financial statements of the Authority.

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## MANAGEMENT APPRAISAL REPORT

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## MANAGEMENT APPRAISAL REPORT

### 1. Supply of APC Galaxy UPS and Annual Maintenance Contract (AMC) to NGN Technologies

An advance payment of Nu.1.3 million was made to NGN Technologies Private Limited vide voucher No. AAM/GV/1920/3007, dated 24/04/2020 representing 50% of the total cost of Nu. 2.6 million for supply and installation of APC Galaxy UPS for power backup.

The supply order No. RMA/ADM-06/2018-19/6509, was issued on May 7, 2019 with following terms and conditions:

- a) To furnish 10% of contract price amounting to Nu, 260,000 within a week from issuance of the order,
- b) Delivery and commissioning should be made within 45-60 days, failing which liquidity damages of 0.1% of contract price per day subject to maximum of 10% shall be liable as penalty for delay,
- c) Terms and conditions as prescribed in the bidding documents along with the scope of work coverage are applicable.

Following audit observations are made:

- A. 50% payment amounting to Nu. 1.3 million was released on 24 April 2020 in contravention to the Payment Clause, Section 3.4 of the bidding document. The payment clause stipulates "payment shall be made only upon satisfactory completion of supply of all items under supply order as per the payment terms reflected in the contract". Supply of UPS and accessories were made during September 2019 (refer supplier invoice No. inv(T)\2019\0073, dated 19 September 2019), installed but one unit malfunctioned, remained idle until 28 July 2022.
- B. Security deposit @ 10% of contract price in an amount of Nu. 260,000 was not collected from the supplier.

The management may provide details of why the contract terms and conditions were not enforced.

#### Management Response:

a) *The validity for performance security of 10% of the contract price has expired. Since the supplier has failed to supply a full quantity of goods, the penalty shall be liable as per the clause mentioned in the tender document.*

b) Regarding two numbers of UPS Galaxy 5500, NGN was supposed to complete the installation and should have commissioned within 45 to 60 days post the issuance of work order. However, one of the UPS could not complete the installation and be commissioned as its internal parts required replacement to make it functional. RMA has expedited following up with the NGN to have the spare parts replaced. The spare parts had to be purchased from India as it was unavailable in our local market. The vendor (NGN) had placed orders for the spare parts. However, there was a shortage of the required spare parts globally in the market and could not purchase the parts within the required timeframe. Subsequently, the pandemic and lockdown have hampered the imports of its parts in the country.

One of the UPS was installed and commissioned within the stipulated timeline and it has helped to power the servers in our on-premise Data Center in the event of power outage from BPC. Since one of the UPS was functional, RMA has released 50% of advance payment to the vendor as per the vendor's request and due approval of management.

On 28th July 2022, the vendor completed the installation of the non-functional UPS upon the arrival of the spare parts from India. Currently the newly installed and configured UPS is under the observation to ensure the smooth functioning.

c) We could not inventory the functional UPS as the installation of both the UPS could not be completed which needs to synchronize both the UPS to each other to provide the uninterrupted power for the duration composite of individual UPS capacity.

Upon full completion and proper verification of both the UPS by DIT, the DAF will do the inventory of the equipment and accordingly impose penalties to the firm on raising the final bill for the payment. Therefore, in view of the above justification and assurance, the audit may kindly drop the memo.

**Observation is treated as Settled:**

Based on the justifications provided by the management, the observation is treated as settled subject to the compliances to be made as per the assurances given by the management.

**Compliance to be made:**

The management as mentioned in the response to the audit observation should forfeit the performance security from the balance amount payable with an intimation to RAA. The management approval for advance payment contrary to the terms and conditions of the contract agreement should be furnished to RAA for further review and comments.

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PRIOR YEAR AUDIT FOLLOW UP REPORT

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**PRIOR YEAR AUDIT FOLLOW UP REPORT**

The current status of the external audit observations conducted for the FY 2019-2020 and 2020-2021 are listed below:

<b>Financial Year</b>	<b>No. of Observations</b>	<b>Ongoing</b>	<b>Implemented</b>	<b>Balance</b>
2019 - 2020	1	0	1	0
2020 - 2021	0	0	0	0

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