

ROYAL MONETARY AUTHORITY OF BHUTAN

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BHUTANESE FINANCIAL SECTOR PERFORMANCE REVIEW

(December 2012 - 2013)

Financial Regulation & Supervision Department

This report presents in general the performance of the Bhutanese financial sector on peer group basis (excluding NPPF) for the period ended Q4FY'13 in comparison to the corresponding quarter of the previous year. This report has been prepared by the Financial Regulation & Supervision Department of the Royal Monetary Authority of Bhutan (RMA) and the information contained in this report is based on the returns submitted by the financial institutions to the RMA. The observations are highlighted below:

1. Overview

The performance of the financial sector improved with the continued expansion in the business, while the stability of the system was maintained. The credit growth accelerated during the year and the performance of financial institutions improved with enhanced growth in assets. Except for BDBL and DPNBL, the net profit of the other banks has decreased. However, the profit for non banks has increased during the period under review.

2. Business size and growth (Financial Sector)

2.1 Asset

As of December 2013, the total asset of the financial sector has expanded to Nu. 86.32 billion compared to Nu.81.60 billion in December 2012 indicating a growth of 5.78 percent. The growth has been recorded in the assets of banks which have increased from Nu. 73.34 billion to Nu. 76.74 billion, and that of non-banks from Nu. 8.26 billion to Nu. 9.58 billion during the period under review. However, in terms of the percentage growth of the total assets of banks and non-banks, the bank's and non-bank's total assets increased by 4.64 percent and 15.94 percent respectively.

The increase in the total assets of the banks was mainly contributed by the increase in loans and advances from Nu.45.35 billion to Nu. 47.71 billion indicating an increase of Nu. 2.36 billion followed by increase in cash and bank balances of Nu. 2.30 billion. The fixed asset slightly increased from Nu.0.63 billion in December 2012 to 0.75 billion in December 2013. However, the banks investment in Government securities and RMA bills has decreased from Nu. 4.15 billion to Nu. 2.89 billion during the period under review.

For non-banks, the loans and advances increased from Nu.5.86 billion to Nu.6.76 billion and the cash and bank balances increased from Nu. 1.56 billion to Nu. 1.69 billion during the period under review. In terms of percentage growth, the loans/advances and the cash and bank balances of non-banks grew by 15.3 percent and 7.97 percent respectively.

Asset	Banks		Non Banks		Total	
	Dec-13	Dec-12	Dec-13	Dec-12	Dec-13	Dec-12
Cash & Bank Balances	24,563.82	22,254.65	1,686.66	1,562.13	26,250.48	23,816.78
Cash & Bank Balances(Nu.)	7,436.16	6,733.21	1,660.14	1,559.55	9,096.30	8,292.76
Balances with Banks in India	413.68	1,228.81	0.04	0.04	413.72	1,228.85
Balances with Banks abroad	2,852.85	3,269.96	26.25	2.30	2,879.10	3,272.26
Balances with RMA	13,861.12	11,022.68	0.23	0.23	13,861.35	11,022.91
RGOB/RMA Securities	2,890.91	4,146.00	0.00	0.00	2,890.91	4,146.00
RMA Bills	2,481.66	3,001.36	0.00	0.00	2,481.66	3,001.36
RGOB Bills/ Bonds	409.24	1,144.65	0.00	0.00	409.24	1,144.65
Others	0.00	-	0.00	0.00	0.00	0.00
Loans & Advances (net of prov)	47,713.24	45,349.31	6,761.31	5,860.51	54,474.54	51,209.82
Equity Investments	236.14	242.14	115.98	83.98	352.13	326.13
Fixed Assets	754.16	629.27	179.65	163.61	933.82	792.88
Other Assets	586.43	721.72	833.51	589.97	1,419.94	1,311.69
Total Assets	76,744.69	73,343.10	9,577.12	8,260.20	86,321.81	81,603.30

In terms of the asset composition of financial sector, the banking system constitutes 88.91 percent of the total assets and the remaining 11.09 percent constitutes non-bank's assets.

2.2 Liability

Out of total liabilities of Nu.86.32 billion, it was observed that the capital and reserves increased from Nu.14.27 billion in December 2012 to Nu.15.47 billion in December 2013. However, the deposit liabilities of banks slightly increased by 5.17 percent, from Nu. 55.49 billion in December 2012 to Nu. 58.36 billion in December 2013. The borrowing of the financial sectors has increased by 8.82 percent (from Nu. 4.58 billion to Nu.4.98 billion) during the period under review.

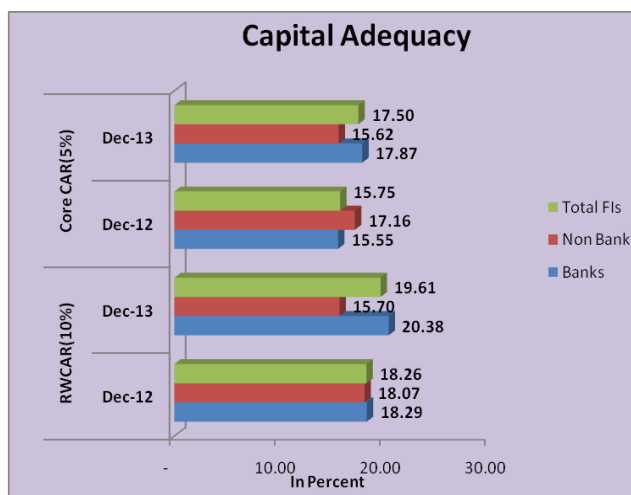
Liabilities	Banks		Non Banks		Total	
	Dec-13	Dec-12	Dec-13	Dec-12	Dec-13	Dec-12
Paid-up Capital	5,083.77	4,503.41	440.00	440.00	5,523.77	4,943.41
Reserves	8,344.91	8,010.47	1,597.50	1,317.44	9,942.41	9,327.91
Deposit Liabilities	58,355.17	55,486.94	0.00	0.00	58,355.17	55,486.94
Borrowings	1,308.51	1,278.68	3,674.05	3,299.97	4,982.56	4,578.65
Funds/Grants	-	0.00	0.00	0.00	-	0.00
Provisions	1,581.97	1,252.34	3.23	1.96	1,585.20	1,254.30
Current & Other Liabilities	2,070.35	2,811.27	3,862.28	3,200.83	5,932.63	6,012.10
Total Liabilities	76,744.69	73,343.10	9,577.07	8,260.20	86,321.76	81,603.30

3. Capital & Reserves.

The financial system remained satisfactory with risk weighted capital adequacy ratio (RWCAR) of 19.61 percent in December 2013 against the RWCAR of 18.26 percent in December, 2012. RWCAR is maintained well above the regulatory requirement –both institution wise and a systemic perspective. The total risk weighted assets of the financial sector increased from Nu.78.14 billion in December 2012 to Nu. 78. 87 billion in December 2013.

As against the bank's risk weighted assets of Nu. 65.89 billion in December 2013, the paid up capital increased from Nu. 4.50 billion to Nu. 5.08 billion during the period under review.

Similarly, the reserves of the banks slightly increased from Nu. 8.01 billion in 2012 to Nu. 8.34 billion in 2013. The RWCAR of banks increased from 18.29 percent to 20.38 percent during the period under review.

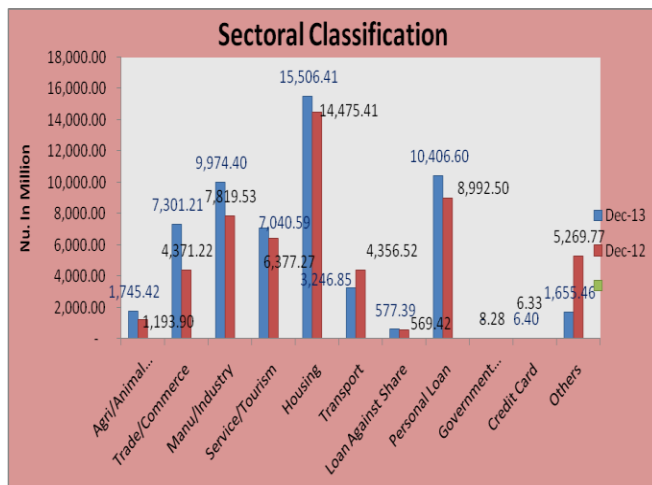


However, the RWCAR of non-banks has decreased from 18.07 percent in 2012 to 15.70 percent in 2013. In term of absolute figure, the total risk weighted assets of the non-banks increased from Nu. 9.72 billion to Nu. 12.98 billion. The RWCAR has decreased mainly because the risk weighted asset grew by 33.47 percent whereas the capital fund grew only by 15.94 percent. The paid up capital of non-banks remained same at Nu.0.44 billion and the reserve has increased from Nu. 1.32 billion to Nu.1.59 billion for the period under review.

The total risk weighted assets of the financial system stood at Nu.78.87 billion in December 2013 as compared to Nu.78.14 billion in December 2012, out of which 83.54 percent of the risk weighted assets are within the banking sector and only 16.46 percent comprises of the non-bank's assets. The core capital ratio of the financial sector has slightly increased to 17.50 percent from 15.75 percent during the period under review.

4. Sectoral Credit Analysis (including the credit extension by the non-banks)

The banking system continued to play an active role in providing financing to both the household and corporate/private sectors. During the period ended December, 2013 the



financial sectors total lending (gross) to the economy reached to Nu. 57.46 billion from Nu.53.44 billion in December 2012 indicating an increase of 7.52 percent. The growth in the lending activity was always attributable to strong demand towards the housing and personal sector, as a result leading the other sectoral exposures. The Housing loan increased from Nu.14.48 billion in December 2012 to Nu.15.51 billion in December 2013 and personal loans increased

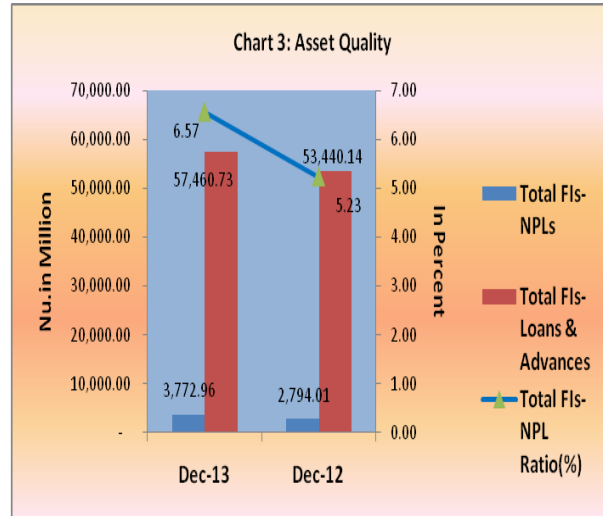
from Nu. 8.99 billion to Nu. 10.41 during the period under review.

The sectoral exposures to total loans and advances analysis of the financial sector reveal that the Housing Sector has the highest loan with Nu. 15.51 billion (26.99 percent) followed by Personal sector loan and manufacturing & industry loan with Nu.10.41 billion(18.11 percent) and Nu.9.9 billion(17.36 percent) respectively. However, in terms of percentage growth by sector, loans to trade and commerce sector experienced the highest sectoral growth of 67.03 percent (from Nu.4.37 billion to Nu. 7.30 billion), followed by the loans to agriculture sector with a growth of 46.20 percent (from Nu.1.19 billion to Nu. 1.75 billion)

Majority of credit are provided by the banks. Out of total credit of Nu. 57.46 billion, 87.94percent (Nu. 50.53 billion) are provided by banks and remaining 12.06 percent (Nu. 6.93 billion) are credit provided by non-banks. The total loans and advances provided by the banks increased to Nu. 50.53 billion from Nu. 47.43 billion indicating a growth of 15.27 percent. Similarly, the total loans and advances of non-banks increased by 5.76 percent, from Nu. 6.01 billion to Nu. 6.93 billion during the period under review.

5. Credit Quality (Loans and Advances including the non-banks)

Asset quality continued to pose some concerns as the Non Performing Loans (NPL) of the financial sector grew from Nu. 2.79 billion in December 2012 to Nu. 3.77 billion in December 2013 indicating an increase of 35.04 percent. As against the total loans of Nu. 57.46 billion (gross), the NPL to total loans ratio stood at 6.57 percent in 2013 as compared to 5.23 percent in 2012. For the period ended December 2013, the NPL grew at more than 35 percent as against the growth in the total loans and advances by 7.52

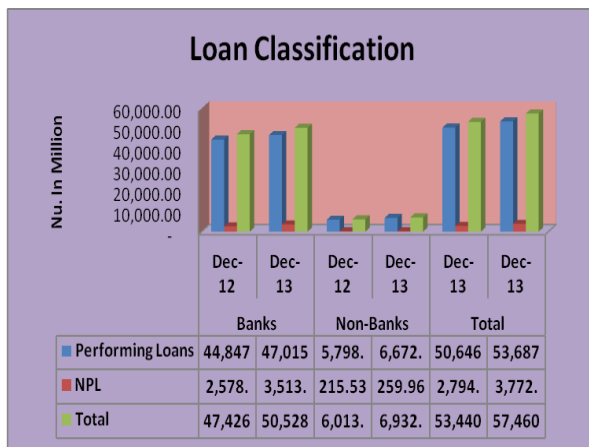


percent. Doubtful and loss assets comprised over 79.3 percent (24.40 percent doubtful and 54.92 percent loss) of the stock of NPLs indicating preponderance of sticky advances, and the remaining 20.68 percent comprised of substandard assets.

Meanwhile, the percentage of provision as a percentage of NPLs provided for impaired loans has decreased from 69.84 percent in December 2012 to 67.78 percent in December 2013. The decrease in the ratio was due to the increase in NPL by Nu. 0.98 billion during the period under review. The NPL of the banks increased from Nu. 2.59 billion to Nu. 3.51 billion as against the increase in the total loans from Nu. 47.43 billion in 2012 to Nu. 50.53 billion in 2013. The gross NPL to total loans ratio of banks stood at 6.57 percent as compared to 5.23 percent during the period under review. However, the NPL for non-banks slightly increased from Nu. 0.22 billion to Nu. 0.26 billion as against the increase in the total loans to Nu. 6.93 billion in 2013 from Nu. 6.01 billion in 2012. The NPL ratio of non-banks stood at 3.75 percent in 2013 as compared to 3.58 percent in 2012.

6. Consolidated Loan Classification of the FIs.

The review on asset classification confirms that around 93.43 percent (Nu.53.69



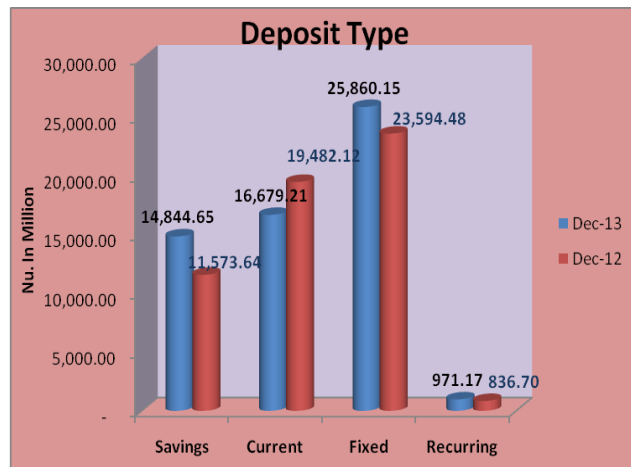
billion) of total loans(Nu.57.46 billion) disbursed by the financial sector are performing loans and remaining 6.57 percent (Nu.3.77 billion) are non-performing loans. Of the total loans of Nu. 50.53 billion of banks, 93.05 percent are performing loans and only 6.95 percent are non-performing. Similarly, 96.25 percent of the total loan outstanding (Nu.6.93 billion) of the non-banks are performing loans and the remaining 3.75 percent were non-

performing loans for the period under review.

7. Deposit

The total deposit base of the banking sector increased slightly by 5.17 percent, from

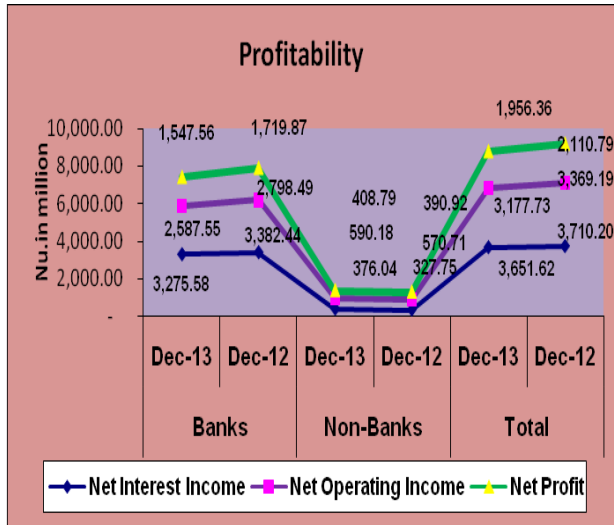
Nu. 55.49 billion to Nu. 58.36 billion during the period under review. The demand deposits which comprises of saving account and current account grew only by 1.51 percent, from Nu. 31.05 billion in December 2012 to Nu. 31.52 billion in December 2013. The time deposits which comprises of fixed and recurring account grew by 9.82 percent, from Nu. 24.43 billion to Nu. 26.83 billion during the period under review.



In terms of customer holdings, out of total deposits of Nu.58.36 billion, corporate deposits accounts for 53.38 percent (Nu. 31.15 billion) and remaining 46.62 percent (Nu. 27.21 billion) constitutes retail deposits. In other words, corporate deposits continued to dominate the deposit holding pattern of the financial institutions. As a share of total deposits, demand deposits (current and saving) accounted for 54.02 percent and time deposits (fixed and recurring) comprised of 45.98 percent.

8. Profitability

During the period ended December 2013, the net profit of the financial sector has decreased when compared to the corresponding quarter of the previous year. The net profit stood at Nu.1.96 billion in December 2013 as compared to a net profit of Nu.

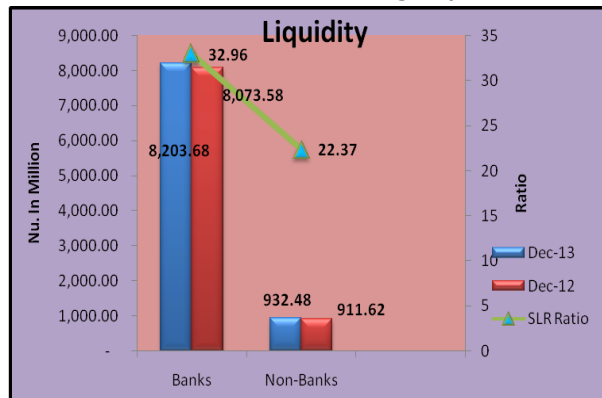


2.11 billion in December 2012. The Profit After Tax of banks decreased by 11.13 percent, from Nu. 1.72 billion in 2012 to Nu. 1.56 billion in 2013 (except for BDBL and DPNBL, all other banks showed a decrease in Profit After Tax). However, the profit after tax for non-banks increased slightly from Nu. 0.39 billion to Nu. 0.41 billion during the period under review indicating a growth of 4.57 percent. The net interest income of banks decreased by 3.26 percent (by Nu. 0.11 billion) and net operating income by 8 percent from Nu. 2.79 billion to

Nu. 2.59 billion. The net interest income and net operating income of non-banks has increased by 14.73 percent and 3.41 percent respectively.

9. Liquidity

On the liquidity front, the excess liquidity of the financial sector has slightly increased to Nu.9.12 billion in December 2013 from Nu.8.98 billion in December 2012 indicating a growth of 1.68 percent. The increase in liquidity is mainly due to increase in the quick assets from Nu. 21.80 billion to Nu. 22.55 billion (cash & bank balance by 10.22 percent from Nu. 23.92 billion to Nu. 26.25 billion) during the period under review. The statutory liquidity requirement (SLR) of the banks stood at 32.96 percent as compared to



33.27percent during the period under review and the decrease in the ratio is mainly due to increase in the total liabilities from Nu.73.34 billion in December 2012 to Nu.76.74 billion in December 2013 indicating a growth of Nu.3.4 billion. Similarly, the statutory liquidity position of non-banks stood at 22.37 percent as compared to 24.02 percent (the SLR of BIL has increased by 6.73 percent whereas, the SLR of RICBL has decreased by 1.87 percent). The ratio has decreased because the liabilities increased from Nu. 8.26 billion to Nu. 9.58 billion during the period under review. However, The SLR position of both banks and non-banks is above the minimum prudential requirement of 20 percent and 10 percent respectively.