ROYAL MONETARY AUTHORITY OF BHUTAN

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Financial Regulation & Supervision Department

QUARTERLY PERFORMANCE REVIEW OF THE BHUTANESE FINANCIAL SECTOR (December2013-2014)

This report presents in general the performance of the Bhutanese financial sector on peer group basis (excluding NPPF) for the period ended Q4FY'14 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.

1. Overview

The financial sector has expanded in the last couple of years, registering an improvement in asset quality, profitability and liquidity. The performance of the financial sector improved with the continued expansion in the business, while the stability of the system was maintained. Both the banking and nonbanking sector performed better in December 2014 than the corresponding period of the previous year. In particular, both the banks and non banks experienced:

- higher profitability,
- larger capital base,
- showed an improvement in SLR, and
- registered a lower NPL ratio.

2. Business size and growth

Asset

The total asset of the financial sector has expanded to Nu.109.72 billion in December 2014 compared to Nu. 86.32 billion in December 2013 indicating a growth of 27.11%. The banking sector's asset has increased from Nu.76.74 billion to Nu. 97.12 billion, and similarly, the asset of non-banks increased from Nu.9.58 billion to Nu. 12.57 billion during the period under review (Table 1). In terms of the percentage growth of the total assets of banks and non-banks, it has increased by 26.56% and 31.56% respectively compared to the corresponding quarter of the previous year. In terms of the asset composition, 88.52% of the total assets are held by banks and the remaining 11.48% by the non-banks.

					Figures in million	
	Banks		Non Banks		Total FIs	
ASSETS	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Cash & Bank Balances	39,012.12	24,563.82	2,678.54	1,686.61	**41,690.66**	**26,250.43**
Cash & Bank Balances(Nu.)	10,368.82	7,436.16	2,641.71	1,660.14	13,010.52	9,096.30
Balances with Banks in India	1,160.56	413.68	34.00	0.04	1,194.56	413.72
Balances with Banks abroad	2,185.98	2,852.85	2.70	26.25	2,188.68	2,879.10
Balances with RMA	25,296.77	13,861.12	0.13	0.18	25,296.90	13,861.30
RGOB/RMA Securities	4,038.33	2,890.91	0.00	0.00	**4,038.33**	**2,890.91**
RMA Bills	2,996.58	2,481.66	0.00	0.00	2,996.58	2,481.66
RGOB Bills/ Bonds	0.00	409.24	0.00	0.00	0.00	409.24
corporate bonds	1,041.76	0.00	0.00		1,041.76	0.00
Others	0.00	0.00	0.00	0.00	0.00	0.00
Loans & Advances (net of prov)	52,306.49	47,713.24	8,455.08	6,761.31	60,761.57	54,474.54
Equity Investments	256.39	236.14	159.22	115.98	415.61	352.13
Fixed Assets	781.17	754.16	178.79	179.65	959.95	933.82
Other Assets	730.01	586.43	1,128.32	833.51	1,858.33	1,419.94
Total Assets	**97,124.51**	**76,744.69**	**12,599.95**	**9,577.07**	**109,724.46**	**86,321.76**

The increase in the total assets of the banks was mainly contributed by the following:

- ✓ the increase in cash and bank balances from Nu.24.56 billion to Nu. 39.01 billion indicating a growth of 58.82%

- ✓ increase in bank's investment in corporate bonds and RMA bills of 39.69%.

- ✓ Increase in loans and advances(net of specific provision and interest in suspense) and equity investment by Nu. 4.59 billion and Nu.20.25 million respectively during the period under review.

Similarly, for non banks, the increase in asset was mainly due to the following:

- ✓ increase in cash and bank balances by Nu.991 million from Nu. 1.69 billion in December 2013 to Nu.2.68 billion in December 2014.
- ✓ The increase in equity investments and loans and advances . The investment in equity has increased from Nu.115.98 million to Nu. 159.22 million and total loans from Nu.6.76 billion to Nu.8.46 billion during the period under review.

Liability

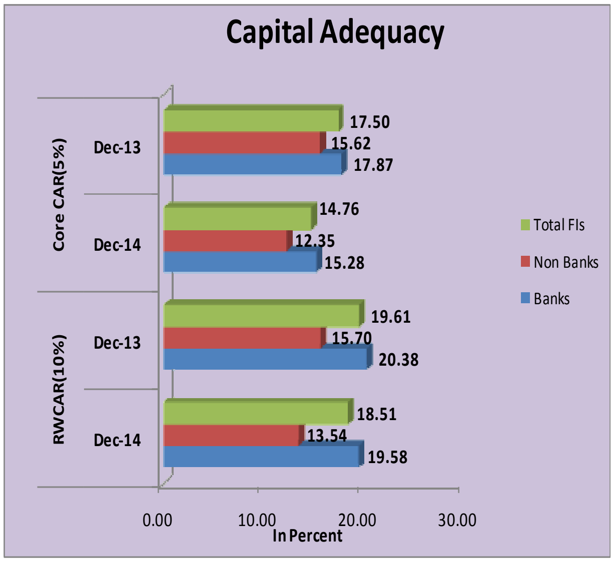
Out of the total liabilities of Nu.109.72 billion, the following were observed:

- ✓ the capital and reserves of banks has increased from Nu.13.43 billion in December 2013 to Nu.16.13 billion in December 2014.
- ✓ the capital and reserve of non-banks has increased from Nu. 2.04 billion to Nu.2.61 billion.
- ✓ The deposit liabilities of banks has also increased by 29.11%, from Nu.58.36 billion in December 2013 to Nu.75.34 billion in December 2014 and
- ✓ the bonds/ debentures of Non banks stood at Nu. 2.5 billion in December 2014.

	Banks		Non Banks		Total FIs	
LIABILITIES	**Dec-14**	**Dec-13**	**Dec-14**	**Dec-13**	**Dec-14**	**Dec-13**
Paid-up Capital	6,097.79	5,083.77	680.00	440.00	6,777.79	5,523.77
Reserves	10,036.74	8,344.91	1,978.38	1,597.50	12,015.12	9,942.41
Deposit Liabilities	75,343.99	58,355.17	0.00	0.00	75,343.99	58,355.17
Borrowings	1,067.11	1,308.51	1,354.08	1,674.08	2,421.19	2,982.59
Bonds/ Debentures			2,500.00		2,500.00	0.00
Provisions	1,958.78	1,581.97	9.68	3.23	1,968.46	1,585.20
Current & Other Liabilities	2,620.11	2,070.35	6,077.81	3,862.28	8,697.92	5,932.63
Total Liabilities	**97,124.51**	**76,744.69**	**12,599.95**	**9,577.07**	**109,724.46**	**86,321.76**

3.Capital & Reserves.

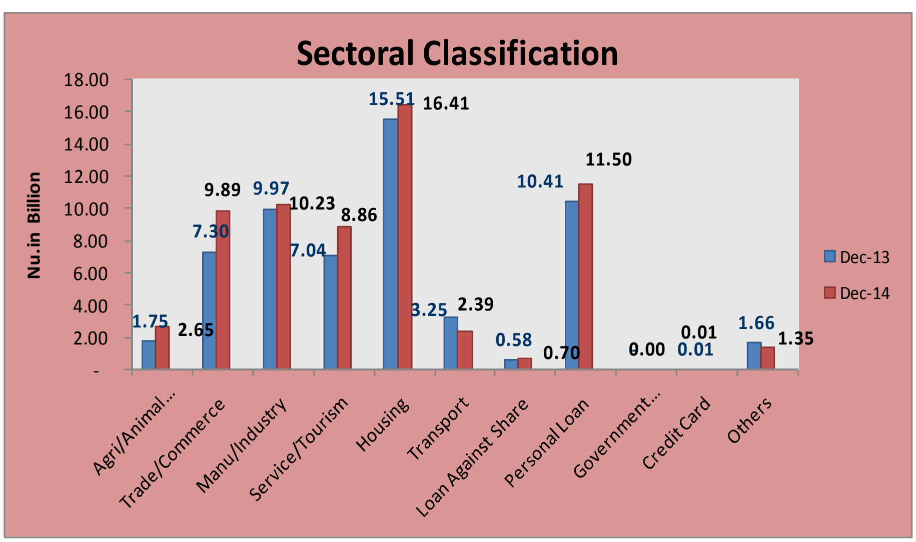
The financial sector's risk weighted capital adequacy ratio (RWCAR) stood at 18.51% in December 2014 against the RWCAR of 19.61% in December 2013, indicating slight decrease in ratio by 1.01%. The RWCAR of banks decreased from 20.38% to 19.58% during the period under review. Similarly, for non-banks it has decreased from 15.70% to 13.54% in December 2014. However, the RWCAR was maintained well above the regulatory requirement –both institution wise and a systemic perspective.



The slight deterioration in the ratio was mainly due to the increase in the total risk weighted asset by 27%, which has offset the increase in capital fund by 19.89%.

4. Sectoral Credit Analysis

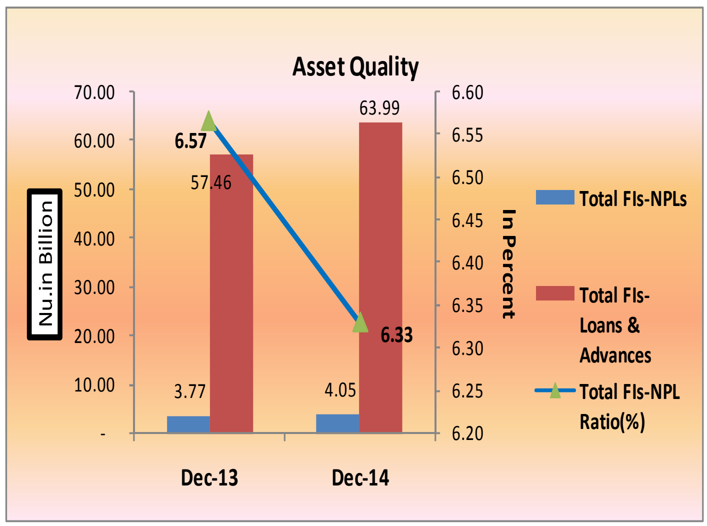
The financial/banking system continued to play an active role in providing financing to both the household and corporate/private sectors. During the period ended December 2014, the financial sectors' total loans (gross) to the economy reached to Nu. 63.98 billion from Nu.57.46 billion in December 2013 indicating an increase of 11.36%. The growth in the lending activity was attributable to strong demand towards the housing and personal sector, leading the other sectoral exposures.



As depicted in the above diagram, the sectoral exposures to total loans and advances analysis of the financial sector reveal that the Housing Sector has the highest loan with Nu. 16.41 billion (25.65%) followed by Personal sector with Nu.11.49 billion(17.97%)and manufacturing & industry sector with Nu.10.23 billion(15.99%) respectively. However, in terms of percentage growth by sector, loans to agriculture sector experienced the highest sectoral growth of 51.99% followed by loans to trade and commerce with 35.43% in 2014. Out of total credit of Nu. 63.98 billion, 86.45% (Nu. 55.32 billion) were provided by banks and remaining 13.55% (Nu. 8.67 billion) by non-banks. The total loans and advances provided by the banks increased from Nu. 50.53 billion to Nu. 55.32 billion indicating a growth of 9.48%.Similarly, the total loans and advances of non-banks increased by 25.09%, from Nu. 6.93 billion to Nu. 8.67 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 total Non Performing Loans (NPL) of the financial sector increased from Nu. 3.77 billion in December 2013 to Nu. 4.05 billion in December 2014 indicating an increase of 7.35%. However, the NPL to total loans ratio stood at 6.33% in 2014 as compared to 6.57% in 2013.



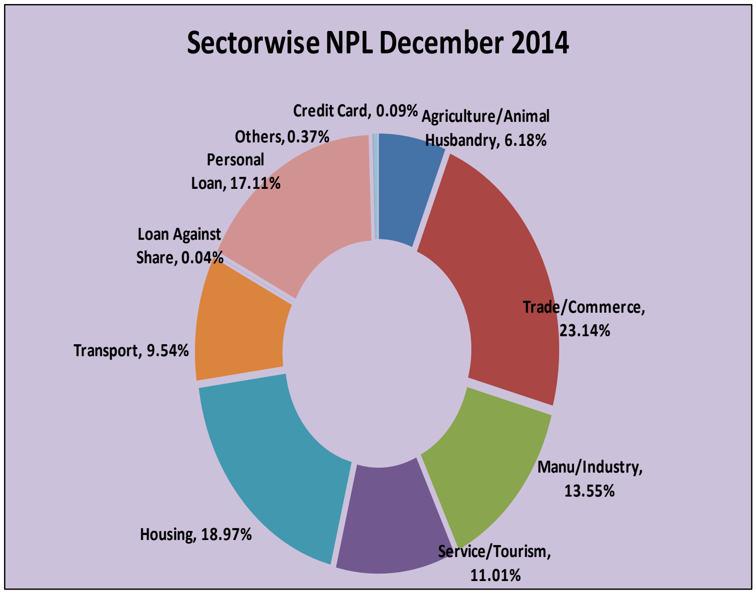
The NPL of the banks increased from Nu. 3.51 billion to Nu.3.74 billion as against the increase in the total loans from Nu. 50.53 billion to Nu. 55.32 billion during the period under review. The gross NPL ratio of banks stood at 6.75% as compared to 6.95% during the period under review. The NPL for non-banks has also increased from Nu.0.26 billion to Nu.0.32 billion as against the increase in the total loans from Nu.6.93 billion to Nu. 8.67 billion during the period under review. The NPL ratio of non-banks stood at 3.64% in December 2014 as compared to 3.75% in December 2013. It is important to note here that the the slight improvement in the NPL ratio by 0.24 % was not because of the improvement of NPL in absolute terms but it wasdue to the growth in total loans and advances by 11.36% which has offset the increase in NPL by 7.35%.

Out of the total NPL of Nu.4.05 billion, doubtful and loss assets comprises of 77.39% (Nu.0.94 billion under doubtful category loan and Nu.2.19 billion under loss category) and the remaining 22.61%(Nu.0.92 billion) comprises of substandard loans.

The provision to NPL has slightly increased from 67.78% in December 2013 to 68.39% in December 2014. The increase in the ratio was due to the increase in NPL by Nu. 0.28 billion during the period under review.

The diagram below represents the sectorwise NPL for December 2014. The sectoral exposures to total NPL analysis of the financial sector indicates that out of the total NPL of Nu. 4.05 billion as of December 2014 the chronological distribution of Sectoral NPLS are:

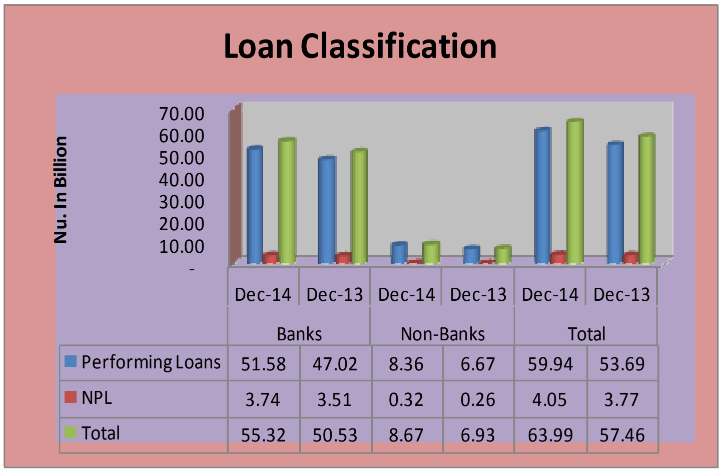
- ✓ the Trade and commerce sector has the highest NPL with Nu. 0.94 billion (23.14%)
- ✓ Housing Sector with Nu. 0.77 billion (18.97)
- ✓ Personal sector with Nu.0.69 billion(17.11%) .



However, in terms of percentage increase in NPL by sector,

- ✓ NPL to loan against share experienced the highest sectoral growth of 122.86% (from Nu.0.72 million to Nu. 1.60 million)
- ✓ Housing sector with 70.36%
- ✓ Manufacturing industry with 41.57%
- ✓ NPL in Trade and commerce and transport sectors contracted for the period ended December 2014 by 5.69%(Nu.56.50million) and 11.71%(Nu.51.23 million) respectively.

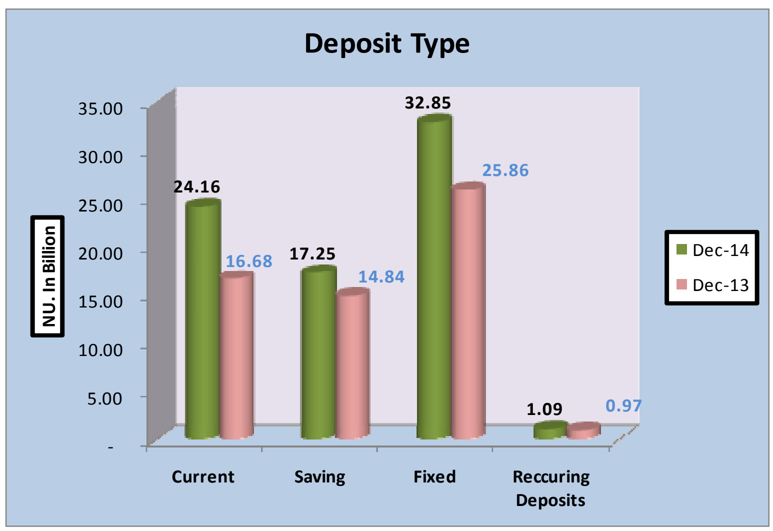
6. **Consolidated Loan Classification of the FIs.**



	Banks Dec-14	Banks Dec-13	Non-Banks Dec-14	Non-Banks Dec-13	Total Dec-14	Total Dec-13
Performing Loans	51.58	47.02	8.36	6.67	59.94	53.69
NPL	3.74	3.51	0.32	0.26	4.05	3.77
Total	55.32	50.53	8.67	6.93	63.99	57.46

The review on loan classification indicates that around 93.67% (Nu.59.94 billion) of total loans(Nu.63.98 billion) disbursed by the financial sector are performing loans and remaining 6.33% (Nu.4.05 billion) are non-performing loans. Of the total loans of Nu. 55.32 billion of banks, 93.25% are performing loans and only 6.75% are non-performing. Similarly, for non banks, 96.36% of the total loan outstanding (Nu.8.67 billion) are performing loans and the remaining 3.64% were non-performing loans for the period under review.

7. **Deposit**



The figure below shows the deposit trend by deposit type. The total deposit base of the banking sector increased significantly from Nu. 58.36 billion to Nu.75.34 billion indicating a growth of 29.11% during the period under review.

The increase in the overall deposit base was mainly due to increase in both the demand and time deposits by 31.33% and 26.50% respectively.

Demand deposits has increased to Nu. 41.40 billion from Nu. 31.52 billion during the period under review (the current deposit increased from Nu.16.68 billion in December 2013 to Nu.24.16 billion in December 2014 and the saving deposit grew from Nu.14.84 billion to Nu. 17.25 billion).

Deposits by Type	Figures in Billion		
	Total FIs		% Holding
	Dec-14	Dec-13	
Demand Deposits	**41.40**	**31.52**	**54.95%**
Current	24.16	16.68	32.06%
Saving	17.25	14.84	22.89%
Time Deposits	**33.94**	**26.83**	**45.05%**
Fixed	32.85	25.86	43.60%
Reccuring Deposits	1.09	0.97	1.45%
Total	**75.34**	**58.36**	**100.00%**

Similarly, the time deposit has also increased from Nu. 26.83 billion to Nu. 33.94 billion (from Nu. 25.80 billion in December 2013 to Nu. 32.85 billion in December 2014 for Fixed Account and from Nu. 0.97 billion in to Nu. 1.09 billion in Recurring Account).

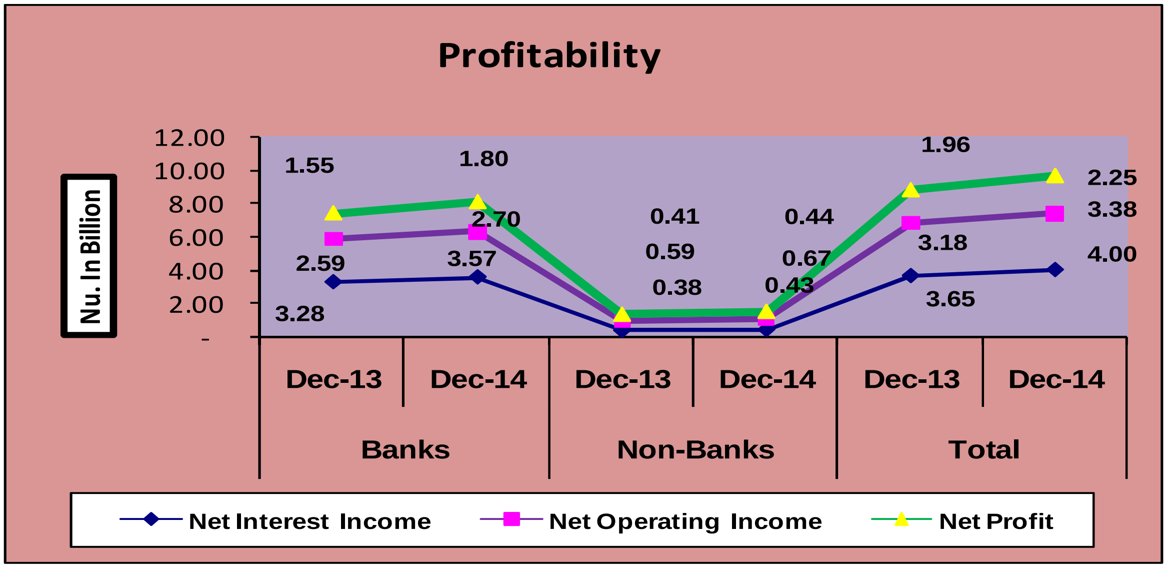
In terms of customer holdings, out of total deposits of Nu.75.34 billion, retail deposits accounts for 50.39% (Nu. 37.97 billion) and remaining 49.61% (Nu. 37.38 billion) constitutes corporate deposits.

Deposits by Customer	Total FIs		(Nu. in billion)	
	Dec-14	Dec-13	% change	% Holding
Corporate deposits	**37.38**	**31.15**	**20.00%**	**49.61%**
Government	8.47	7.00	21.05%	11.24%
Government Corp.	11.00	8.69	26.66%	14.60%
Public Companies	0.36	0.36	0.16%	0.47%
Private Co.	3.02	4.54	-33.37%	4.01%
Commercial Banks	7.65	5.55	37.79%	10.15%
NBFIs	6.88	5.02	36.95%	9.13%
Retail deposits	**37.97**	**27.21**	**39.55%**	**50.39%**
Individuals	36.74	25.87	42.01%	48.77%
Foreign Currency	1.22	1.33	-8.23%	1.63%
Total	**75.34**	**58.36**	**29.11%**	**100.00%**

In other words, retail deposits continued to dominate the deposit holding pattern of the banks for the period ended December 2014. As a share of total deposits, demand deposits (current and saving) accounted for 54.95% and time deposits (fixed and recurring) of 45.05%.

8. Profitability

During the period ended December 2014, the net profit of the financial sector has increased when compared to the corresponding quarter of the previous year. The net profit stood at

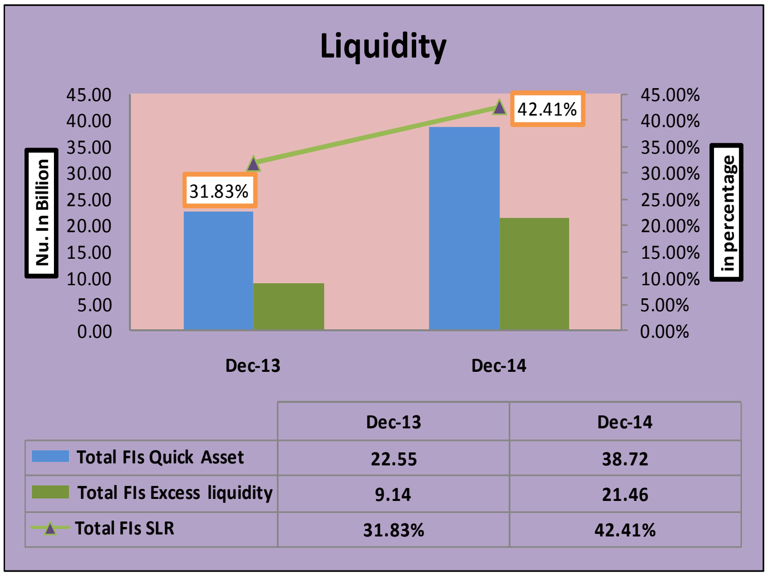


Nu.2.25 billion in December 2014 as compared to a net profit of Nu. 1.96 billion in December 2013.. The net profit of the banks has increased by 16.55%, from Nu. 1.55 billion in December 2013 to Nu.1.80 billion in December 2014. Similarly, the net profit of the non banks also increased from Nu.0.41 billion to Nu.0.44 billion indicating a growth of 8.31% during the period under review.

The increase in the profit of the financial sector can be attributed mainly to the increase in the interest income by 15.28% amounting to approximately 1 billion out of which interest income from loans and overdrafts amounts to Nu. 0.9 billion (97% of the interest income). Similarly, the interest expenses has also increased by 22.27% amounting to 654.39 million. However, in absolute figure, the increase in interest income was comparatively much higher than the increase in interest expenses. This resulted in the increase in NET interest income from Nu.3.65 billion in December 2013 to Nu.4 billion in December 2014 indicating an increase of 9.66%.

9. **Liquidity**

On the liquidity front, the excess liquidity of the financial sector has increased by Nu.12.23 billion, from Nu.9.14 billion in December 2013 to Nu. 21.46 billion in December 2014. The increase in liquidity is mainly due to increase in the quick assets to Nu. 38.67 billion from Nu. 22.55billion (quick asset of the banks and non banks has increased by 72.50% and 58.82% respectively). The increase in the quick asset was mainly because of the increase in the balances with the RMA by 97.38% followed by the increase in demand deposits with commercial banks in Bhutan by 84.82%.



The statutory liquidity requirement (SLR) of the financial sectors stood at 42.41% in December 2014 as compared to 31.83% in the previous year. The SLR of the banks stood at 44.44% in December 2014 as compared to 32.96% in December 2013. Similarly, the non-banks' SLR position for the December 2014 stood at 26.28% as compared to 22.37% in December 2013.

The other indicators of fund based liquidity showed improvements as liquid asset to total asset of the financial sector increased to 26.41% during the period under review by 3.62%. Further, Credit to Deposit ratio of the banking sector also improved to 73.42% from 86.59% during the period under review.