

Financial Sector Performance Review Report December 2017



This report presents the performance of the Bhutanese financial sector on peer group basis (excluding NPPF) for the period ended Q4FY'17 in comparison to 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.

FINANCIAL REGULATION & SUPERVISION DEPARTMENT



Financial Sector Performance Review Report

Overview

The financial sector continued to grow with an expansion of asset and liability by 13.97%. The financial system in Bhutan is dominated by the banking sector¹ with its assets accounting for 85.55% (Nu. 134.55billion) while 14.45% comprised (Nu. 22.72billion) of non-banks² asset.

The net profit of the financial institution stood at Nu.997.36 million with banking sector recording a profit of Nu.577.76 million and non-banking sector of Nu.419.60million in December 2017. The increase in loan provisions has impacted the earnings of both the banking and non-banking sector.

Loans and NPL of the financial institutions³ have increased by Nu. 14.92billion and Nu. 2.52 billion respectively during the period ended December 2017. The growth in the total loans was attributable to strong demand towards Housing, Service/Tourism and Trade/ Commerce sectors which constituted 58.53% of the total loans. Similarly, the highest NPL exposure was observed in Trade & Commerce, Service/Tourism and Manufacturing sectors constituting 57.35% of total NPL of the financial sector.

Of the total loans in the financial sector,

Highlights of the financial institutions(Financial sector Indicators)					
Indicators	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Capital					
RWCAR(12.5%)	18.99%	17.84%	17.27%	16.28%	16.02%
Core CAR(7.5%)	15.58%	15.06%	14.19%	12.97%	13.31%
Leverage Ratio	11.60%	11.65%	10.44%	10.01%	9.78%
Asset Quality					
Gross NPL Ratio	6.48%	12.38%	11.36%	12.93%	7.98%
Net NPL to Net Loan	1.12%	5.46%	4.01%	5.18%	1.40%
Single Largest Borrower	15.42%	14.61%	15.88%	15.25%	15.49%
Provision to NPL	70.79%	49.32%	57.82%	54.13%	70.58%
Ten Largest Borrower	16.64%	16.82%	17.39%	16.38%	15.20%
Earning					
Return on Asset(ROA)	1.82%	-0.61%	-0.47%	-0.47%	0.67%
Return on Equity(ROE)	11.31%	-3.85%	-3.14%	-3.25%	4.80%
Profit After Tax(in million)	Nu.2,312.43	Nu.(801.93)	Nu.(654.13)	Nu.(679.48)	997.36
Liquidity					
Loans to Deposits ratio	77.23%	77.20%	73.36%	77.84%	77.02%
Statutory Liquidity Requirement	29.30%	31.24%	30.65%	26.43%	27.37%
liquidity Position(Nu. In billion)	12.52	Nu.15.54	Nu.15.41	Nu.9.98	Nu.12.02
Statutory Liquidity Requirement(in Nu.billion)	Nu.21.64	Nu.23.02	Nu.24.02	Nu.23.68	Nu.25.43

¹ Banking sector includes BoB, BNB, DPNBL, Tbank and BDBL

² Non Banks includes RICBL and BIL

³ Here the figure of loan and NPL of Financial institution is excluding MFIs and NPPF

Financial Sector Performance Review Report

the loans to Medium and Large enterprises constituted 22.20% (Nu. 22billion) and 15.91% (Nu. 16billion) respectively. The loan to Micro enterprise constituted of 2.87%(Nu.2.97billion). Cottage and Small enterprises comprised of 3.14%(Nu.3.25billion) and 11.34% (Nu.11.72billion of the total loans) respectively.

Financial sector registered a gross NPL ratio of 7.98% in December 2017 as compared to 6.48% in December 2016. Gross NPL ratio of both banks and non-banks has increased during the period under review. Capital Adequacy Ratio and Statutory Liquidity Requirement were also maintained above the minimum regulatory requirements.

On the financial inclusion front, the RMA has issued registration certificates to three microfinance institutions: (i) Respect, Educate, Nurture and Empower Women (RENEW), (ii) Rural Enterprise Development Corporation Limited (REDCL) and (iii) Bhutan Association of Women Entrepreneurs (BAOWE). As of December 2017, the MFIs⁴ have sanctioned loans to 3,630 accounts amounting to Nu.297.49 million.

Banks were also able to expand their agent banking networks across the country, bringing greater access to finance in the remote areas. As of December 2017, there were 194 banking agents carrying out banking services in the country.

As part of the financial sector reforms, the RMA completed formulating the PSL guidelines to provide wider access to finance to the CSI sector in 2017.

⁴ The data of MFI is excluding BAOWE

Financial Sector Performance Review Report

1. Business Size and Growth

1.1. Assets/Liabilities of financial sector

Total asset of the financial sector has increased by Nu. 19.28 billion, from Nu.137.99.billion in December 2016 to Nu. 157.28 billion in December 2017. Out of the total assets of Nu. 157.28 billion, Nu.134.55billion (85.55%) comprised of banks' asset while Nu. 22.72billion (14.45%) comprised of non-banks' asset. The increase in loans and advances (net of specific provision and interest in suspense) by Nu.12.82billion was the major component for the increase in total assets.

On the liability side, the expansion has been made primarily, due to increase in deposits by 17.61% (Nu. 16.40billion).

1.2. Banking sector and Non-banking sector

The banking sector's asset grew by Nu.16.50billion, while the asset of non-banks has also increased by Nu.2.79billion. Within the banking sector, the net loan has grown by 16.13%(Nu.10.91billion) followed by Nu.5.19billion rise in marketable investments. The deposits constituted major component of liabilities with 81% (Nu. 109.57billion).

The non-banks also continued to grow with an increase of its assets/liabilities by 13.97% during the period under

review. Similar to the banking sector, the loans and advances (net of provisions) of Nu. 1.91billion was the major reason for the increase in assets of non-banks. On the liability side, the increase in the liability by Nu.2.79billion was contributed by the increase in the insurance liabilities. As of December 2017, the non-banking sector had an Insurance Fund of Nu.6.56 billion which comprises of the life insurance fund, general insurance fund, group insurance fund and other funds.

ASSET	Dec-16	Dec-17
Cash and bank balances	39,785.58	40,343.90
Marketable securities	10,021.60	15,232.89
Loans and advances(net of provisions)	83,617.88	96,436.04
Equity Investment	632.63	648.65
Fixed Asset	1,641.13	1,916.60
Other Assets	2,293.38	2,697.40
Total	137,992.20	157,275.49

Financial Sector Performance Review Report

1.2. Off-balance sheet exposure of financial sector

For the year 2017, the off-balance sheet (OBS) exposure of the financial sector accounted to Nu.15.54billion. The share of financial guarantees against total off-balance sheet exposure of the financial sector comprised the highest with 44.24% amounting to Nu.5.49billion, followed by other guarantees and letter of Credit by 39% and 16% respectively. The OBS of banking sector accounted for Nu.14.12 billion and the remaining Nu.1.41billion accounted for non-banks' OBS.

2. Capital and Reserves Position

Capital serves as a reserve against unexpected losses and is the foundation of sound financial system. Besides absorbing the unanticipated shocks, it also signals that the financial institution will continue to honor its obligations.

Qualifying capital fund is composed of Tier I and Tier II capital. Tier I capital is the financial sector's core capital which comprises of paid-up capital and accumulated reserves. Tier II capital is a supplementary capital to Tier 1 capital and it is impermanent in nature.

The capital fund⁵ of the financial sector for the year 2017 amounted to Nu.20.44

⁵ The capital fund is the total capital fund without deducting the NPL of related party. The total capital

billion, a decrease of Nu.962 million, as compared to the previous year capital of Nu. 21.40billion. The decrease in the capital fund was mainly brought about by the decrease in profit earned by the financial institution in the year 2017 by Nu.1.32billion. The withdrawal of subordinated debt/bond by the government has also impacted the capital position of the financial sector. The capital fund of the banking sector amounted to Nu.17.11billion, while the capital fund for non-banks accounted for Nu. 3.33billion. In terms of the capital composition, the tier 1 capital (consisting of paid up capital, general reserves and retained earnings), which can absorb the unexpected losses without the bank being required to cease operation, consists of 82% of the total capital fund.

2.1 Capital Adequacy of financial sector

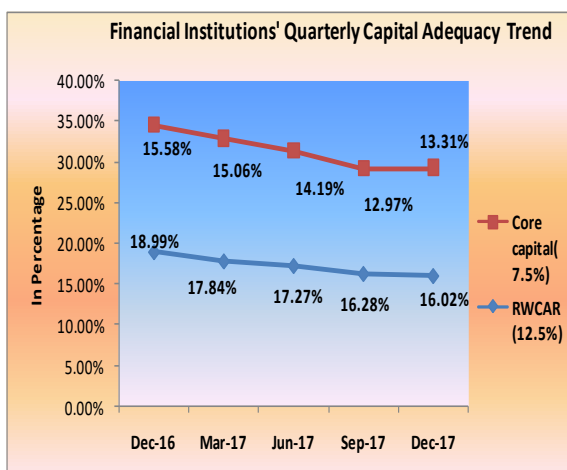
The Financial Sector's total Risk Weighted Capital Adequacy Ratio (RWCAR)⁶ has decreased from 18.99% in 2016 to 16.02% in 2017, mainly due to increase in total risk weighted assets by Nu.14.58 billion . The increase in risk weighted assets was attributed by the increase in NPL by Nu.2.5billion whereby a high risk weight of 150% has to be assigned.

fund and the capital fund while calculating the CAR ratio will not tally since the NPL of related party has been deducted from the capital fund while assessing the RWCAR as required by the PR.

⁶ The RWCAR signifies the availability of amount of shareholders' funds to support the business of the financial institutions.

Financial Sector Performance Review Report

Similarly, the Core capital ratio of the financial sector, which measures the minimum value of personal risk undertaken by shareholders, has also decreased gradually from 15.58% in 2016 to 13.31% in 2017



2.2 Banking sector and non-banking sector

RWCAR of banks stood at 16.48% in financial year 2017 as compared to 20.16% in 2016. The decrease in RWCAR was attributed by the increase in risk weighted asset by 14.42% (↑Nu.13billion) which was brought about by the increase in NPL which ultimately led to assigning higher risk weight of 150%. Similarly, the RWCAR of non-banks has slightly decreased by 0.23%, to 13.99% in 2017 as compared to 14.21% in the previous year.

The core capital of banks stood at 13.69% and for non-banks, it stood at 11.65%. The ratio of both banks and non-banks

were observed to be maintained well above the minimum requirement of 7.5%.

2.3 Leverage Ratio

Leverage ratio⁷ acts as a supplementary measure to capital adequacy ratio by ensuring that the financial institutions maintain adequate levels of capital at all times. The Leverage ratio for the financial sector for period ended December 2017 stood at 9.78%, maintaining 4.78% higher than the regulatory requirement of 5%. The Leverage ratio of Banking and non-banking sector stood at 9.50% and 11.46% respectively during the year 2017. Both the banking and non-banking sector has maintained within the regulatory minimum leverage ratio of 5%.

3. Asset Quality

Quality of asset is one of the most important factor and determinants of the performance and profitability of the financial sector. Since deterioration in the quality of assets has negative impact on the profit, liquidity and capital of the financial sector, assessing asset quality is

Particular	Banks		Non-Banks	
	Dec 2016	Dec 2017	Dec 2016	Dec 2017
Capital Fund(in billion Nu.)	18.19	17.01	3.15	3.32
Risk weighted(in billion Nu.)	90.22	103.2	22.17	23.75
RWCAR(12.5%)	20.16%	16.48%	14.21%	13.99%
Core Capital (7.5%)	16.52%	13.69%	11.77%	11.65%

Financial Sector Performance Review Report

essential to ensure that assets are stated at reasonable values in relation to the associated risk.

Review on the loan classification of the financial sector indicated that both loans and NPL have increased by Nu. 14.92billion and Nu. 2.52 billion respectively during the period ended December 2017. Financial sectors' total loans to the economy have increased by 16.88%, from Nu. 88.41 billion in December 2016 to Nu. 103.33billion in December 2017. Likewise, the NPL of the financial sector has also increased to Nu.8.25billion in December 2017 as compared to Nu.5.73billion in December 2016 showing an increase of 44%.

Gross NPL ratio (NPL to total loans) of the financial sector slightly increased by 1.50%. The ratio stood at 7.98% in December 2017 as compared to 6.48% in the previous year. For the period ended December 2017, proportionate growth in provisions (Nu.5.82billion) ensured that the coverage ratio remained stable at 70.58%.

During the year 2017, Out of the total NPL of Nu.8.25 billion, NPL classified under the Loss category⁸ (which includes the term expired loans and loans under litigation cases) comprises of 68.98% amounting to Nu.5.69 billion followed by NPL classified under the Substandard

and Doubtful category⁹ with 16.48%(Nu.1.36billion)and 14.54% (Nu.1.19 billion) respectively.

3.1. Asset Quality: banking and non-banking sector

Gross NPL ratio of both banks and non-banks has increased during the period under review. The gross NPL ratio of banks stood at 8.42% in December 2017 as compared to 7.19% in December 2016, an increase by 1.23%. However, when compared to the September 2017, the NPL ratio of banking sector has decreased by 5.96%. Of the total loan outstanding of Nu. 84.39billion in the banking sector, 91.58% (Nu.77.29billion) was regular loans and 8.42% (Nu.7.10billion) was non-performing loans.

Similarly, the gross NPL ratio of non-banks has also doubled from 3.38% in December 2016 to 6.03% in December 2017, an increase by 2.65%. The NPL ratio when compared to September 2017 showed a slight decrease of 0.72%. Of the total loan outstanding of Nu. 18.94 billion of non-banks, 6.03% (Nu.1.14billion) was non-performing loans and remaining 93.97% (Nu. 17.79billion) were regular loans.

⁸ principal and interest overdue above 365 days has been categorized into loss bucket.

⁹ The loans and advances whose principal and interest payment has been overdue by 181days to 365days has been included under doubtful category

Financial Sector Performance Review Report

As shown in the diagram below (illustration 1), the loan of the financial sector has been on an increasing trend

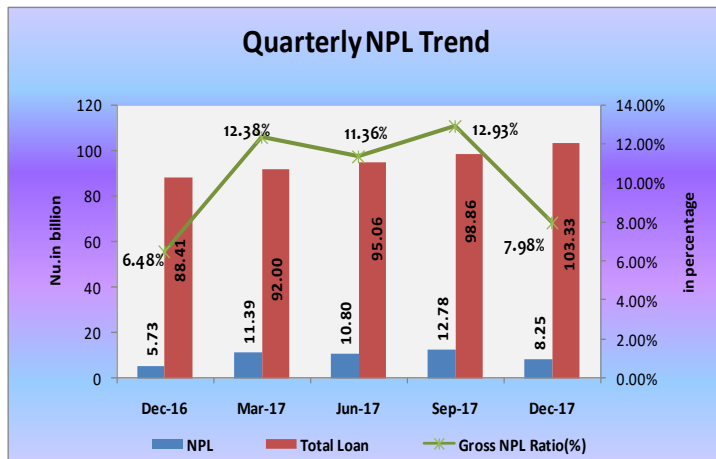


Illustration 1: Quarterly NPL Trend

whereas the NPL has been showing a undulating pattern; a high NPL in first three quarters and low at the end of the year.

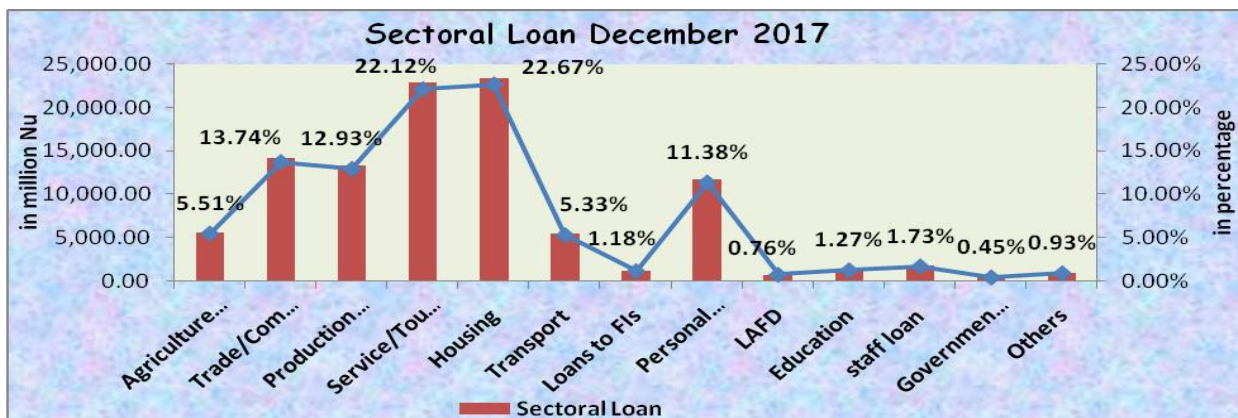
Similarly, the Gross NPL also depicts high ratio in the first three quarters of the year and it decreases towards the end of the year. The NPL ratio has improved drastically from 12.93% in September 2017 to 7.98% in December 2017. Nevertheless, the NPL ratio has deteriorated when compared to December 2016.

Further, the other ratios of asset quality such as Single Largest borrower's (SLB) exposure at 15.49% and Ten Largest Borrower (TLB) exposure at 15.20% were maintained within the limit of 30% (of capital fund) and 30% (of the total loans) respectively. The net NPL to net loan for December 2017 stood at 1.40%.

4. Sectoral Loans and Advances

The financial sectors' total loans reached to Nu.103.33billion, indicating a growth of 16.88% (↑Nu.14.92billion). The growth in the total loans was attributable to strong demand towards the Housing sector, Service/Tourism Sector and Trade &Commerce sector.

The analysis on sectoral exposure to total loans and advances of the financial sector indicates that out of the total loans of Nu.103.33billion, Housing sector has the highest loan outstanding with Nu. 23.42billion (22.67%) of which Commercial Housing loan comprised of Nu.18.37billion and Home loan



Financial Sector Performance Review Report

comprised of Nu.5.06billion. The Service/Tourism sector and Trade/Commerce sector followed the composition with Nu.22.86billion (22.12%) and Nu.14.19billion (13.74%) respectively.

In terms of absolute loan increase for the period ended December 2017, the loans to Service and Tourism sector experienced the highest sectoral increase by Nu.6.18billion followed by loans to Housing sector by Nu.3.11billion and Production/ Manufacturing sector by Nu.2.32billion. However, Loans to Trade/commerce and Loans against Fixed Deposit(LAFD) decreased when compared to the previous year.

4.1 Sectoral loan and advances: banking and non-banking sector

From the total loan of Nu. 103.33 billion for the year 2017, 84.39% (Nu.84.39billion) comprises of loans provided by the banking sector and remaining 18.33% (Nu. 18.94billion) were provided by non-banking sector. The total loans and advances provided by banks and non-banks have increased by Nu. 12.45 billion and Nu.2.48billion respectively

The analysis on the sectoral loan for banking sector for 2017 reveals the following:

- ✓ the highest loan was seen in Housing sector amounting to Nu.20.31 billion(24.07%).

Commercial housing loan comprised of Nu.15.71billion and the remaining Nu. 4.60 billion consisted of home loan for 2017.

- ✓ Service and Tourism sector with Nu.17.26billion(20.45%)
- ✓ Production sector with Nu.11.16billion (13.22%)

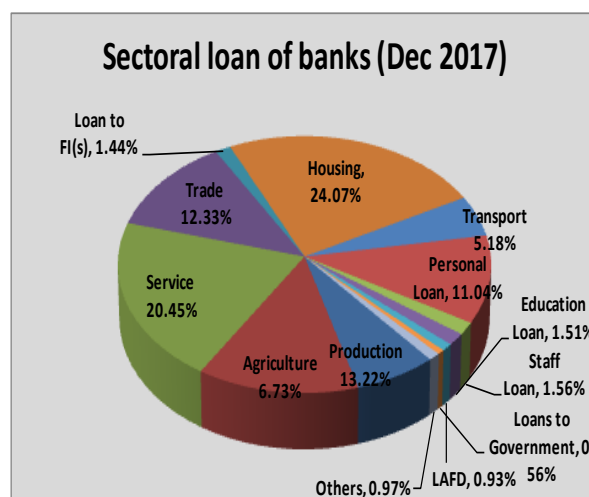


Illustration 2: Sectoral loan of banks

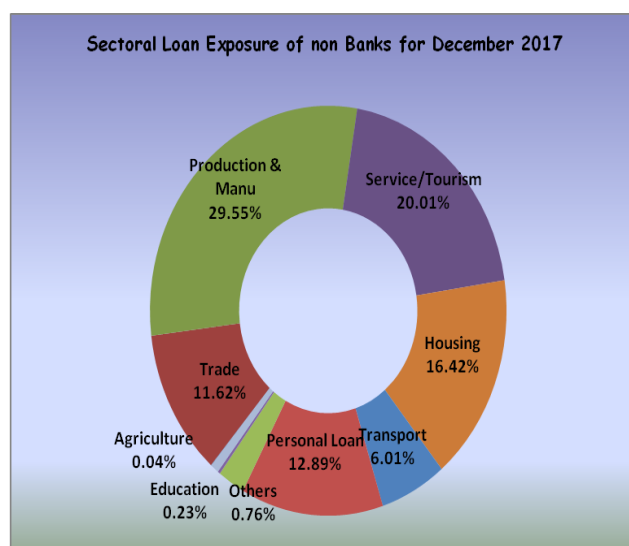


Illustration 3: Sectoral loan of Non banks

Financial Sector Performance Review Report

Conversely, for non-banking sector, out of the total loan of Nu.18.94billion in 2017, the loan exposure reveals the following:

- ✓ Production/Manufacturing sector with 29.55% (Nu.5.59billion) was the highest sector
- ✓ Service/Tourism with 20.01%(Nu.3.79billion)
- ✓ Housing sector with 16.42% amounting to Nu.3.11billion.

had the highest NPL with Nu.2.00billion (24.31%) followed by Trade/Commerce sector and Housing sector with Nu.1.47billion (17.88%) and Nu.1.25billion(15.16%) respectively.

Year on year absolute growth of sectoral NPL shows that the Service/Tourism sector and Agriculture sector has significantly increased by Nu.848.28 million and Nu.630.06 million. However, the NPL of education and LAFD have decreased by Nu.1.86million and Nu.2.64million respectively.

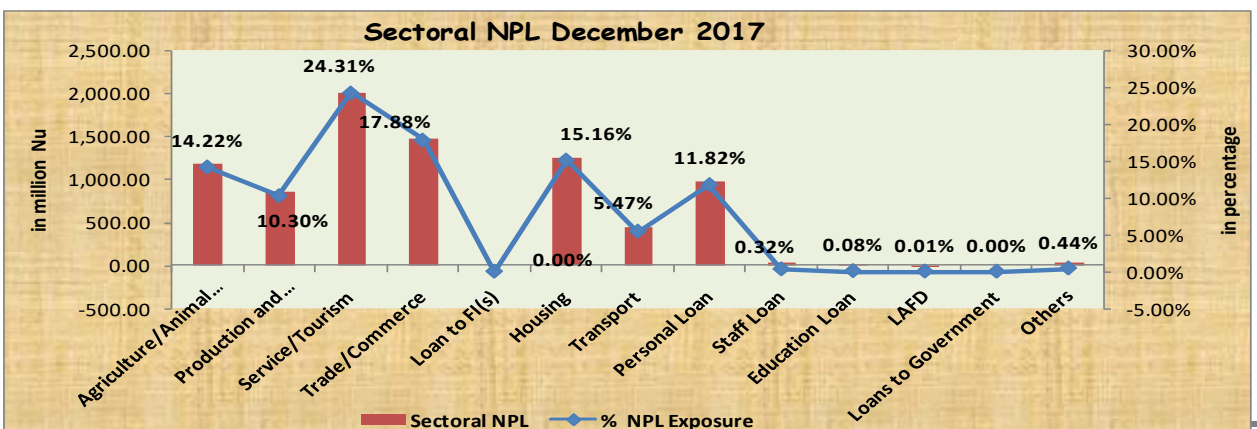
5. Credit Quality/ Sectoral NPL of Financial sector

Asset quality which is a key measure to gauge credit risk has deteriorated with the increase in NPL from Nu.5.73billion in December 2016 to Nu. 8.25billion in December 2017, indicating an increase of Nu.2.52billion. However, when compared to September 2017, the NPL has decreased by Nu.4.53billion.

The analysis on the sectoral exposure to total NPL of the financial sector for 2017 shows that out of the total NPL of Nu.8.25 billion, the Service and Tourism sector

5.1 Sectoral NPL of banking and non-banking Sector

NPL of banking sector has increased by Nu.1.92billion, from Nu.5.17billion in 2016 to Nu.7.10billion in 2017. However, when compared to September 2017, it has decreased by Nu.4billion. The sectoral NPL of banking sector for the year 2017 reveals that highest NPL was seen in Service and Tourism sector with 23.67% which was followed by Trade and Commerce sector and Housing sector with 18.24% and 17.03% respectively.

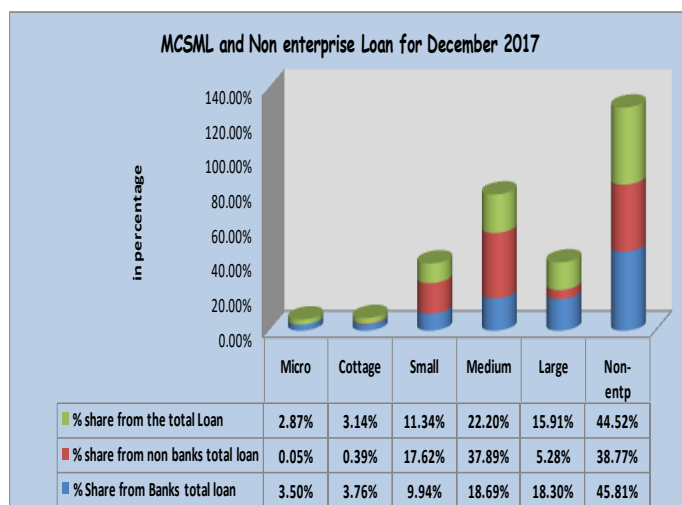


Financial Sector Performance Review Report

Likewise, for the non-banking sector, the NPL has also increased by Nu.586million (from Nu.555.53 million in 2016 to Nu.1.14billion in 2017). From the total NPL of non-banking sector amounting to Nu.1.14billion, the highest NPL was seen in Service and Tourism Sector with 28.30% and Personal Sector¹⁰ with 28.29%

6. Loans and Advances to Micro, Cottage, Small, Medium and Large Enterprise (MCSML)

The diagram below shows the loans towards MCSML¹¹ and non -enterprise as of December 2017. From the total loan of



Nu.103.33billion in the financial sector, major loan component was seen in non-enterprise loan with Nu.46billion(44.52%) which was followed by Medium and Large enterprise with Nu. 22billion(22.20%)

and Nu.16billion(15.91%) respectively. The loan to Micro, Cottage and Small enterprise comprised of 17.3% (17.94billion) of the total loans.

As of December 2017, the loan to MCSML enterprise by banks and non-banks' amounted to Nu.45.73billion(54% of loan provided by Banks) and Nu.7.34billion(61% of the loan provided by non-banks) respectively.

The analysis on the loans to MCSML enterprise by banks shows that the loan to Medium enterprise comprised of 18.69% (Nu.15.78billion) followed by Large enterprise with 18.30% (Nu.15.44billion). The loans of 9.94% amounting to Nu.8.39billion consisted of Small enterprise, the loans to Micro and Cottage enterprises comprised of 3.50% (Nu.2.96billion) and 3.76%(Nu.3.17billion) respectively.

Similarly, for non-banking sector, the Medium enterprise constituted of 37.89% (Nu. 7.18billion) followed by Small enterprises and Large enterprise by 17.62% (Nu. 3.34billion) and 5.28%(Nu.999.47million) respectively, while loan to Micro and Cottage enterprise consisted of 0.44% amounting to Nu.83million for December 2017.

¹⁰ The personal includes mortgage loan ,consumer loan and credit card loan.

¹¹ The sectors under MCSML includes Agriculture, Production/Manufacturing, Service and Trade/commerce.

Financial Sector Performance Review Report

6.1. Trend in MCSML and Non-enterprise Loan

The analysis on the loan trend of MCSML and non enterprise revealed that all the Loans to MCSML and non enterprise is an increasing trend over the quarters.

Quarterly MCSML and Non enterprise Trend (figure in Billion Nu.)						
Loans	Dec 2016	March 2017	June 2017	Sep 2017	Dec 2017	CAGR (%)
Micro	2.96	2.93	3.09	3.21	2.97	0.003%
Cottage	2.69	3.14	3.06	3.17	3.25	4.48%
Small	9.72	10.55	10.74	11.27	11.72	4.79%
Medium	19.25	20.05	20.43	21.74	22.94	4.49%
Large	13.22	13.02	14.08	14.50	16.44	5.61%
Non-ent	40.57	42.29	43.64	49.96	46.01	3.20%
Total	88.41	91.99	95.06	98.86	103.33	3.98%

However, the loans to non-enterprise have decreased in December 2017 by Nu.3billion when compared to September 2017. As seen in the above table, the least growth (CAGR) over the quarters was seen in the loans to Micro enterprise with only 0.003% whereas the highest growth was observed in Large enterprise loan with 5.61% which was then followed by Small enterprise with 4.79%.

7. Excess to Finance by Micro Finance Institutions (MFIs)

With the implementation of regulations for microfinance institutions and agent banking, the RMA so far issued registration certificates to three microfinance institutions- (i) Respect, Educate, Nurture and Empower Women (RENEW), (ii) Rural Enterprise Development Corporation Limited (REDCL) and (iii) Bhutan Association of Women Entrepreneurs (BAOWE). As of December 2017, the MFIs¹² have sanctioned a loan to 3630 accounts amounting to Nu.297.49million.

As seen in the table below, both the loan and NPL of the MFIs has increased by Nu.68.12million (↑718 accounts) and Nu.4.43 million (↑20 accounts) respectively during the period under review.

Further, the gross NPL ratio of MFI(s) stood at 14.08% in December 2017 as compared to 17.55% in the previous year.

NPL and Loan of MFI(Nu. in million)				
	Loan Accounts	Loan outstanding (Nu)	NPL Accounts	NPL Outstanding (Nu)
Dec 2016	2912	148.78	445	26.10
Dec 2017	3630	216.90	465	30.54
Growth	718	68.12	20	4.43

¹² The data of MFI is excluding BAOWE

Financial Sector Performance Review Report

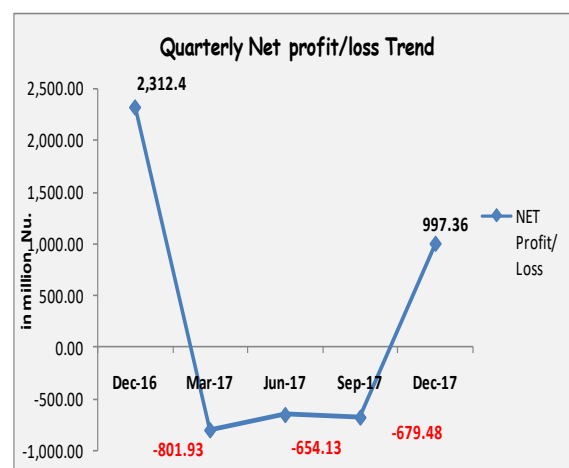
8. Financial Performance

Earning trend is one of the important parameters to assess the performance of the financial sector. The continued viability of the financial institutions depends on its ability to earn an appropriate return on its assets, which enables the institutions to fund business expansion and remain competitive.

In December 2017, both interest income and interest expenses grew by 3.73% and 19.82% respectively. The loan provisioning expenses has also increased due to deterioration in asset quality. Therefore, a significantly higher provisioning expenses of Nu.2.09billion in December 2017 has led to a drastic drop in net profits in 2017. Consequently, the profit made by the financial sector stood at Nu.997.36million, decreased from Nu. 2.31 billion in 2016. The increase in interest expenses and Operating expenses by Nu.1 billion and Nu.348million respectively has also contributed to the reduction in the net profit of the financial sector. Financial sector also suffered from losses for the past three quarters of the period under review.

As shown in the diagram below, the Financial sector has incurred loss from

March 2017 till September 2017, however, towards the end of the year the



financial institutions has managed to earn a net profit of Nu.997.36million. . Nevertheless, the net profit has drastically decreased by Nu. 1.23billion when compared to December 2016.

During the period under review, financial performance indicators, such as, return on assets (RoA) and return on equity (RoE) showed a substantial decline as compared to the previous year. Return on Assets (RoA) ratio has decreased from 1.82% in December 2016 to 0.67% in December 2017 and Return on Equity (RoE) decreased from 11.31% in December 2016 to 4.80% in December 2017.

Financial Sector Performance Review Report

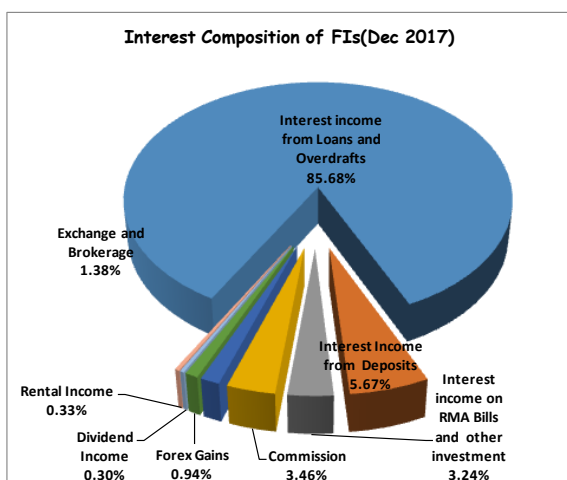


Illustration 4: Income composition of FIs

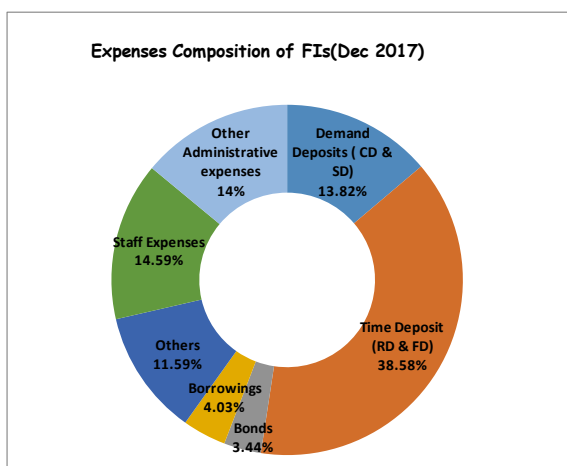


Illustration 5: Expenses Composition of FIs

deterioration in earnings of the banking sector. Additionally, the increase in interest expense and operating expenses by Nu 738.million and Nu.193million respectively and decrease in interest income earned by few banks has also led to the decrease in net profit earned by the overall banks.

Similarly, the net profit of the non-banking sector has decreased by Nu.200million. The increase in interest expense by Nu.283million was more compared to the increase in interest income earned of Nu. 256million. Similar to banking sector, the increase in interest expense and operating expense has negatively affected the profit earned by non-banks during the year 2017.

RoA and RoE of the banking sector stood at 0.45% and 3.39% respectively, both the ratios have decreased by 1.09% and 6.20% as compared to the previous year. Likewise, the ROA and ROE ratios of non-banking sector has also decreased by 1.09% and 10% respectively.

8.1. Financial Performance: banking and non-banking sector

The net profit of the banking sector has decreased significantly by Nu.1.11 billion, from Nu.1.69billion in December 2016 to Nu.577million in December 2017. The substantial increase in NPL by Nu.1.93billion has resulted to high provisioning of Nu.1.56 billion which ultimately contributed towards the

Financial Sector Performance Review Report

9. Deposit (Banking Sector)

The deposit liabilities are the main source of fund for the banks. The total deposit base of banking sector increased by 17.61%(↑Nu.16.40billion), from Nu.93.17billion in December 2016 to Nu.109.57 billion in December 2017.

The Current and Saving Account (CASA) increased by 24% in December 2017 (↑Nu.11.42billion). Out of the total deposit of Nu.109billion, CASA deposits accounted for 54% amounting to Nu.58.82billion for December 2017. The Individual and Private companies constituted the highest CASA accounts with 78% and 6% of the total CASA account respectively.

The Time Deposit which comprises of Fixed Deposit and Recurring Deposit increased by Nu.4.98 billion (↑11%) in December 2017. Share of Time Deposit from the total deposit accounted for 46.32%. In terms of percentage share from the total deposit, the highest deposit was seen in Fixed Deposit with 44.88% which was followed by Current Deposits

with 28.10%. The Saving deposit and Recurring Deposit had a share of 25.58% and 1.43% respectively.

The comparison of quarterly deposits trend by deposit type is depicted in the table below. Both the Demand Deposit and Time Deposit has increased gradually over the quarters. The significant growth (CAGR) was seen in Current Deposit with 5.70% and least growth observed in Fixed Deposits with 2.06%.

The year on year growth in the overall deposit base shows that the increase in deposit base was due to the increase in deposits by Individual in CASA accounts and Term deposits by Nu.12billion and Nu.4billion respectively.

In terms of deposits by customer type, Retail Deposits accounts for 63% (Nu.69billion) and remaining 37% (Nu. 40billion) comprises of Corporate Deposits. Out of the total Retail Deposits of Nu.69billion, individual deposits consists of 95% and remaining 5% is in the form of foreign currency deposits. Similarly, out of

Deposit by Type (Nu in million)						
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	CAGR(%)
Demand Deposits	47,395.20	50409.76	55,704.74	56,378.70	58,820.55	4.41%
Current Deposits	23,332.05	25,528.03	28,721.31	28,322.41	30,788.93	5.70%
Savings Deposits	24,063.15	24,881.73	26,983.43	28,056.28	28,031.62	3.10%
Time Deposits	45,773.38	45,754.76	48,882.83	46,389.55	50,751.14	2.09%
Fixed Deposits	44,417.16	44,389.02	47,449.12	44,921.33	49,179.77	2.06%
Recurring Deposits	1,356.22	1,365.73	1,433.71	1,468.21	1,571.38	2.99%
Total	93,168.59	96,164.51	104,587.56	102,768.24	109,571.69	3.30%

Financial Sector Performance Review Report

the total Corporate Deposits of Nu.40billion, deposit by Government Corporation constituted the highest with 39% amounting to Nu. 13billion which was then followed by Deposit by Commercial Banks with 19% amounting to Nu.8billion (Annexure II)

Further, the Credit to Deposit ratio of the banking sector stood at 77.02% for December 2017.

10. Liquidity

Financial institutions with access to reliable funding sources are likely to expose to low liquidity risk than those having to depend on volatile sources of fund. Further, the Prudential Regulations requires all banks and non-banks to maintain a minimum statutory liquidity ratio(SLR) in the form of quick assets of 20% and 10% respectively.

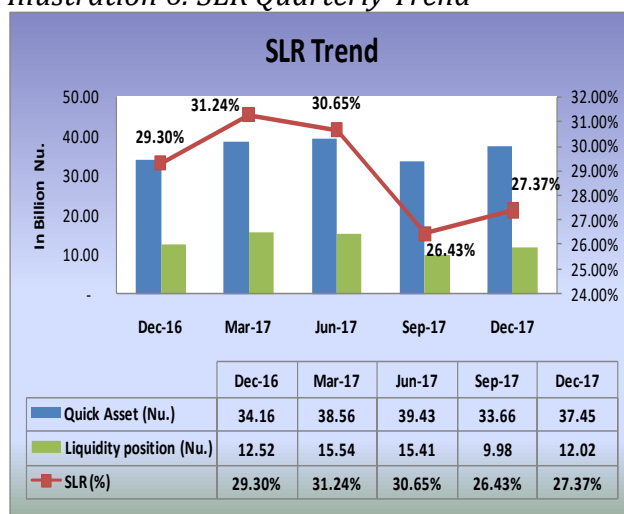
The quarterly SLR trend is depicted in the diagram below. During the period ended December 2017, financial sector has maintained SLR at 27.37% .The ratio when compared to September 2017, has slightly increased by 0.94% which was brought about increase in quick asset by Nu.3.79billion. However as compared to the previous year, SLR of financial sector has slightly decreased by 1.93%. The increase in liabilities by Nu.19billion has led to decrease in the SLR ratio.

Further, during the period under review, the financial sector has maintained a

sufficient amount of asset in the form of quick asset (which can be easily converted to cash and use during the liquidity shortage), amounting to Nu.37billion against the minimum requirement of Nu.25billion .

SLR position of the banking sector stood at 29.34% in 2017 as compared to 31.99% in 2016. Conversely, the non-banking sector's SLR position as of December 2017 has slightly increased to 15.42% as compared to 13.28% in December 2016, mainly due to increase in quick asset. Both the banks and non-banking sector has maintained the ratios within the minimum requirement of 20% and 10% respectively.

Illustration 6: SLR Quarterly Trend



Financial Sector Performance Review Report

Annexure I

Sectoral Loan of Banks and Non-banks Dec 2016- 2017 (Figures in Million Nu)

Sector	Banks		Non-Banks		Total Loans		Absolute Change	% Holding (dec 2017)
	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17		
Agriculture/ Animal Husbandry	4,624.36	5,682.29	5.70	7.98	4,630.06	5,690.27	1060.22	5.51%
Production and Manufacturing	9,204.73	11,160.69	1,838.87	2,201.33	11,043.60	13,362.01	2318.41	12.93%
Service/Tourism	12,513.66	17,260.46	4,163.72	5,596.95	16,677.38	22,857.41	6180.04	22.12%
Trade/Commerce	10,566.99	10,409.15	4,674.72	3,789.06	15,241.71	14,198.21	-1043.50	13.74%
Loan to FI(s)	1,394.05	1,217.49	0.00	0.00	1,394.05	1,217.49	-176.56	1.18%
Housing	17,353.72	20,312.17	2,953.81	3,109.82	20,307.53	23,421.99	3114.46	22.67%
Transport	3,372.80	4,372.41	858.29	1,138.11	4,231.09	5,510.52	1279.43	5.33%
Personal Loan	9,275.61	9,316.39	1,310.02	2,441.72	10,585.63	11,758.11	1172.48	11.38%
Staff Loan	1,110.68	1,317.90	500.23	466.77	1,610.91	1,784.67	173.76	1.73%
Education Loan	384.90	1,271.99	0.00	43.39	384.90	1,315.39	930.48	1.27%
LAFD	907.48	788.30	0.00	0.00	907.48	788.30	-119.17	0.76%
Loans to Government	513.63	469.33	0.00	0.00	513.63	469.33	-44.30	0.45%
Others	727.91	817.36	152.94	143.43	880.85	960.79	79.94	0.93%
Totals	71,950.51	84,395.93	16,458.30	18,938.56	88,408.81	103,334.49	14925.68	100%

Sectoral NPL of Banks and Non-banks Dec 2016- 2017 (Figures in Million Nu)

Sector	Banks		Non-Banks		Total NPLs		Absolute Change	% Holding
	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17		
Agriculture/ Animal Husbandry	541.98	1,171.76	0.37	0.65	542.35	1,172.41	630.06	14.22%
Production and Manufacturing	522.05	668.81	11.33	180.35	533.38	849.16	315.78	10.30%
Service/Tourism	1,009.89	1,681.22	146.17	323.13	1,156.07	2,004.34	848.28	24.31%
Trade/Commerce	1,242.88	1,295.39	191.91	179.15	1,434.79	1,474.54	39.75	17.88%
Loan to FI(s)	-	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00%
Housing	901.93	1,209.48	19.76	40.53	921.70	1,250.01	328.31	15.16%
Transport	271.27	366.71	49.33	84.06	320.59	450.76	130.17	5.47%
Personal Loan	652.86	651.56	124.97	323.02	777.83	974.58	196.75	11.82%
Staff Loan	13.84	15.95	11.58	10.38	25.42	26.33	0.91	0.32%
Education Loan	8.32	5.80	0.00	0.67	8.32	6.46	-1.86	0.08%
LAFD	3.67	1.03	0.00	0.00	3.67	1.03	-2.64	0.01%
Loans to Government	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00%
Others	2.20	36.17	0.11	0.00	2.31	36.17	33.86	0.44%
Total NPL	5,170.90	7,103.87	555.53	1,141.95	5,726.43	8,245.81	2519.38	100.00%
Total Loan	71,950.51	84,395.93	16,458.30	18,938.56	88,408.81	103,334.49	14,925.68	
Gross NPL Ratio	7.19%	8.42%	3.38%	6.03%	6.48%	7.98%	1.50%	

Financial Sector Performance Review Report

Annexure II

Year on Year Growth (December 2016-2017) of total Financial sector

Year on Year Growth (Financial sector)				Figures in Million Nu.
Particulars	Dec-16	% Growth	Absolute growth	Dec-17
Total Capital Fund	21402.73	-4.50%	-962.97	20439.76
Total Assets	137,992.20	13.97%	19283.29	157,275.49
Total Risk-Weighted Assets	112391.13	12.98%	14584.61	126975.74
Total Deposits	93168.59	17.61%	16403.10	109571.69
Total NPLs	5726.43	44.00%	2519.38	8245.81
Total Performing Loan	82682.21	15.01%	12406.48	95088.68
Total Loans	88408.639	16.88%	14925.85	103,334.49

Consolidated Deposit by customer for Dec 2016 – 2017 (figures in Million Nu.)

Consolidated Deposit by Customer - December 2017				
Deposits by Customer	Total Deposits		% Change	% Holding(Dec 2017)
	Dec-16	Dec-17		
Corporate deposits	40696.97	40058.53	-1.57%	36.56%
Government	4954.06	3536.28	-28.62%	3.23%
Government Corp.	11762.40	13168.25	11.95%	12.02%
Public Companies	2228.55	997.96	-55.22%	0.91%
Private Co.	4923.23	6021.78	22.31%	5.50%
Commercial Banks	7806.81	8317.87	6.55%	7.59%
NBFIs	9021.92	8016.39	-11.15%	7.32%
Retail deposits	52471.62	69513.16	32.48%	63.44%
Individuals	50066.78	66240.33	32.30%	60.45%
Foreign Currency	2404.84	3272.84	36.09%	2.99%
Total	93168.59	109571.69	17.61%	100.00%

Financial Sector Performance Review Report

Annexure III

Micro, Cottage, Small, Medium, Large (MCSML) and Non-enterprise loan for December 2017(in Nu.million)

Sl no.	Sector	Banks			Non Banks			Total FIs		
		Loan Outstanding	% share of each category	% share of total outstanding	Loan Outstanding	% share of each category	% share of total outstanding	Loan Outstanding	% share of each category	% share of total outstanding
(1) MICRO	AGRICULTURE	2,548.96	86.18%	3.02%	0.13	1.32%	0.00%	2,549.09	85.90%	2.47%
	PROD & MANU	46.74	1.58%	0.06%	0.41	4.26%	0.00%	47.15	1.59%	0.05%
	SERVICE	64.79	2.19%	0.08%	2.27	23.66%	0.01%	67.06	2.26%	0.06%
	TRADE&COMMERCE	297.29	10.05%	0.35%	6.78	70.77%	0.04%	304.07	10.25%	0.29%
	LOANS TO FIs	-	0.00%	0.00%	-	0.00%	0.00%	-	0.00%	0.00%
	MICRO TOTAL	2,957.78	100.00%	3.50%	9.58	100.00%	0.05%	2,967.36	100.00%	2.87%
(2) COTTAGE	AGRICULTURE	2,196.12	69.18%	2.60%	1.71	2.30%	0.01%	2,197.83	67.65%	2.13%
	PROD & MANU	73.80	2.32%	0.09%	2.88	3.88%	0.02%	76.68	2.36%	0.07%
	SERVICE	300.16	9.46%	0.36%	17.41	23.41%	0.09%	317.57	9.78%	0.31%
	TRADE&COMMERCE	604.26	19.04%	0.72%	52.35	70.41%	0.28%	656.61	20.21%	0.64%
	LOANS TO FIs	-	0.00%	0.00%	-	0.00%	0.00%	-	0.00%	0.00%
	COTTAGE TOTAL	3,174.35	100.00%	3.76%	74.35	100.00%	0.39%	3,248.70	100.00%	3.14%
(3) SMALL	AGRICULTURE	619.85	7.39%	0.73%	1.95	0.06%	0.01%	621.80	5.30%	0.60%
	PROD & MANU	1,602.37	19.11%	1.90%	244.70	7.33%	1.29%	1,847.07	15.76%	1.79%
	SERVICE	2,069.19	24.68%	2.45%	1,483.14	44.45%	7.83%	3,552.33	30.30%	3.44%
	TRADE&COMMERCE	4,094.25	48.82%	4.85%	1,606.92	48.16%	8.48%	5,701.17	48.63%	5.52%
	LOANS TO FIs	-	0.00%	0.00%	-	0.00%	0.00%	-	0.00%	0.00%
	SMALL TOTAL	8,385.66	100.00%	9.94%	3,336.71	100.00%	17.62%	11,722.38	100.00%	11.34%
(4) MEDIUM	AGRICULTURE	317.35	2.01%	0.38%	4.19	0.06%	0.02%	321.55	1.40%	0.31%
	PROD & MANU	3,339.73	21.18%	3.96%	1,388.33	19.35%	7.33%	4,728.06	20.61%	4.58%
	SERVICE	8,235.82	52.23%	9.76%	3,747.08	52.22%	19.79%	11,982.90	52.22%	11.60%
	TRADE&COMMERCE	3,860.40	24.48%	4.57%	2,035.60	28.37%	10.75%	5,896.00	25.70%	5.71%
	LOANS TO FIs	16.46	0.10%	0.02%	-	0.00%	0.00%	16.46	0.07%	0.02%
	MEDIUM TOTAL	15,769.76	100.00%	18.69%	7,175.20	100.00%	37.89%	22,944.96	100.00%	22.20%
(5) LARGE	AGRICULTURE	-	0.00%	0.00%	-	0.00%	0.00%	-	0.00%	0.00%
	PROD & MANU	6,098.04	39.49%	7.23%	565.01	56.53%	2.98%	6,663.05	40.52%	6.45%
	SERVICE	6,590.50	42.68%	7.81%	347.95	34.72%	1.83%	6,937.56	42.19%	6.71%
	TRADE&COMMERCE	1,552.96	10.06%	1.84%	87.40	8.74%	0.46%	1,640.36	9.98%	1.59%
	LOANS TO FIs	1,201.03	7.78%	1.42%	-	0.00%	0.00%	1,201.03	7.30%	1.16%
	LARGE TOTAL	15,442.54	100.00%	18.30%	999.47	100.00%	5.28%	16,442.00	100.00%	15.91%
Non-Enterprise	HOUSING	20,312.17	52.53%	24.07%	3,109.82	42.35%	16.42%	23,421.99	50.91%	22.67%
	TRANSPORT	4,372.41	11.31%	5.18%	1,138.11	15.50%	6.01%	5,510.52	11.98%	5.33%
	PERSONAL	9,316.39	24.09%	11.04%	2,441.72	33.25%	12.89%	11,758.11	25.56%	11.38%
	STAFF LOAN	1,317.90	3.41%	1.56%	466.77	6.36%	2.46%	1,784.67	3.88%	1.73%
	Education Loan	1,271.99	3.29%	1.51%	43.39	0.59%	0.23%	1,315.39	2.86%	1.27%
	Loan Against Fixed Deposits	788.30	2.04%	0.93%	-	0.00%	0.00%	788.30	1.71%	0.76%
	Loans to the Govt	469.33	1.21%	0.56%	-	0.00%	0.00%	469.33	1.02%	0.45%
	OTHERS	817.36	2.11%	0.97%	143.43	1.95%	0.76%	960.79	2.09%	0.93%
	Non- Enterprise TOTAL	38,665.85	100.00%	45.81%	7,343.24	100.00%	38.77%	46,009.09	100.00%	44.52%
GRAND TOTAL LOANS & NPL		84,395.93			18,938.56			103,334.49		

