

ROYAL MONETARY AUTHORITY OF BHUTAN

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BHUTANESE FINANCIAL SECTOR PERFORMANCE REVIEW

(June 2012 - 2013)

Financial Regulation & Supervision Department

This report presents an objective assessment of the performance of the Bhutanese financial sector on peer group basis for the quarter ended June 2013 in comparison to the corresponding quarter of the previous year. The information contained in this report is based on the returns submitted by the financial institutions to the RMA. The observations are summarized below:

1. Overview

The performance of the financial sector has improved with the continued expansion in the business. The credit growth accelerated during the period and the performance of financial institutions improved with enhanced growth in assets and healthy profitability.

2. Business size and growth.

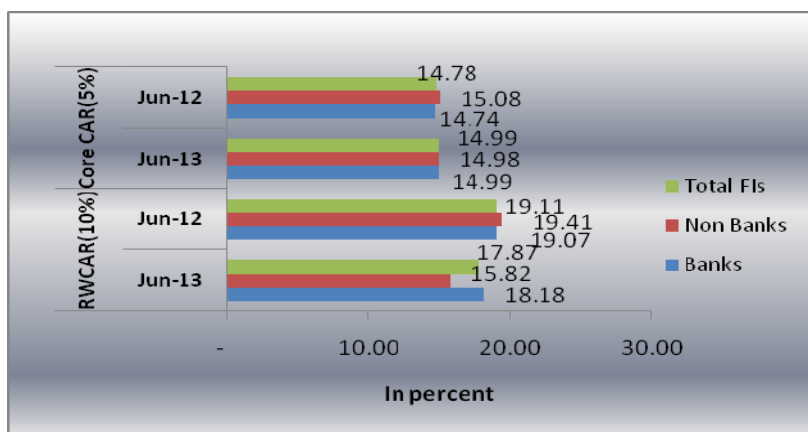
The total assets of the financial system¹ has expanded by 24.84 percent during the period under review and stood at Nu.88.44 billion as of June 2013 compared to Nu.70.85 billion during corresponding quarter of the previous year.

Assets of both banks and the non-bank financial institutions (NBFIs) expanded during the second quarter, 2013. The total assets of the banks² grew by 26.27 percent (from Nu. 62.83 billion to Nu. 79.34 billion) during the period under review whereas the total assets for non-banks³ (excluding NPPF) grew by 13.58 percent (From Nu. 8.02 billion to Nu. 9.12 billion). The main increase in the total assets of the banks was mainly contributed by the increase in the cash and bank balances by 53.01 percent, from Nu. 17.23 billion to Nu. 26.46 billion. Similarly, for the non-banks the increase in the total assets was mainly due to increase in cash & bank balances by 40.50 percent, from Nu. 1.25 billion to Nu. 1.76 billion.

In terms of the asset composition, the banking system constitutes 89.70 percent of the total assets and the remaining 10.30 percent constitutes non-bank's assets.

Out of total liabilities of the financial sector it was observed that the capital and reserves increased by 27.54 percent (from Nu. 11.84 billion in June 2012 to Nu. 15.10 billion in June 2013). Deposit liabilities of banks increased by 24.52 percent, from Nu. 47.61 billion in June 2012 to Nu. 59.23 billion in June 2013. The borrowing for non-banks also increased by 11.26 percent, from Nu. 1.24 billion to Nu. 1.38 billion during the period under review.

3. Capital & Reserves



The risk weighted capital adequacy ratio (CAR) of the financial system decreased from 19.11 percent in June 2012 to 17.87 in June 2013 although CAR were well above the regulatory requirement. The total risk weighted assets of the financial sector increased by 32.40 percent, from Nu. 61.86 billion in 2012 to Nu.

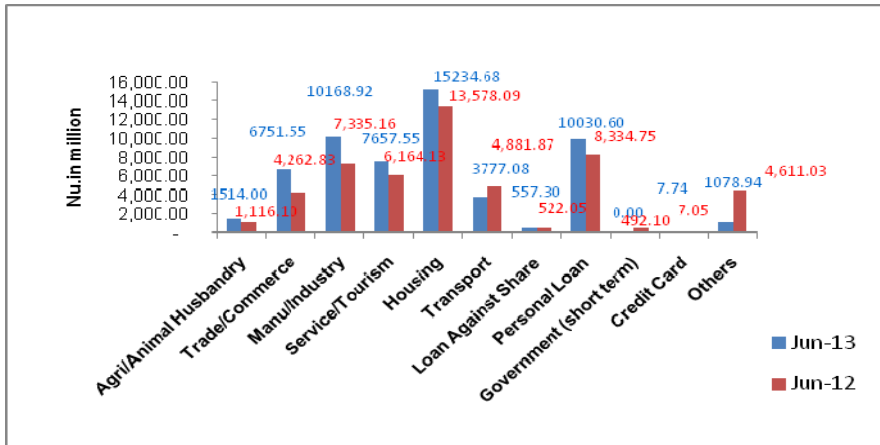
¹ The financial system comprises of BNBL, BOBL, DPNBL, Tbank, BDBL, RICBL & BIL

² Banks refers to BNBL, BOBL, DPNBL, Tbank & BDBL

³ Non-banks refers to RICBL & BIL

81.91 billion in June 2013. With the increase in the risk weighted assets of the banks by 32.17 percent (from Nu. 53.83 billion to Nu. 71.15 billion), the CAR of banks decreased from 19.07 percent to 18.18 percent during the period under review. The RWCAR of non-banks also decreased from 19.41 percent to 15.82 percent. The risk weighted assets of non-banks had increased from Nu. 8.04 billion to Nu. 10.76 billion during the period under review. The core capital ratio of the financial sector has increased to 14.99 percent from 14.78 percent during the period under review.

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

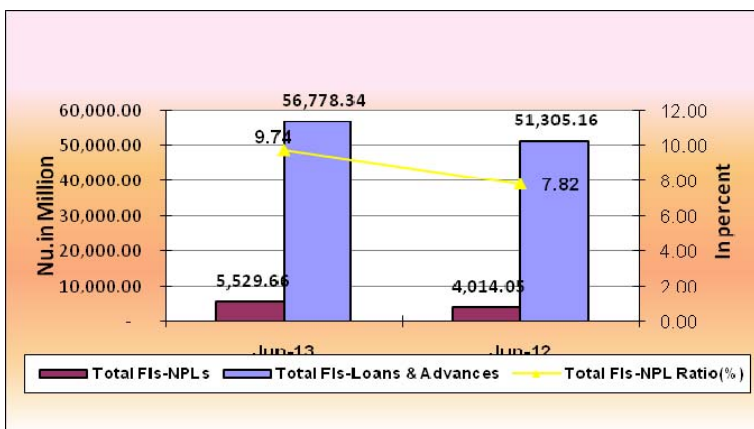


The financial institutions continued to play an active role in providing financing to both the household and corporate/private sectors. During the period ended June 2013, the financial sector's total credit increased to Nu. 56.78 billion from

Nu.51.30 billion in June 2012, or by 10.67 percent. The lending activity was attributable to the strong demand to the housing, manufacturing and personal sector. In terms of the sectoral exposures to total loans, 27 percent constitutes housing loan, followed by manufacturing/industry and personal with 17.91 percent and 17.07 percent respectively. The housing sector's credit increased from Nu. 13.58 billion to Nu. 15.23 billion (12.20 percent). Credit to manufacturing and personal sector increased from Nu. 7.33 billion to Nu. 10.17 billion (38.63 percent) and from Nu. 8.33 billion to Nu. 10.03 billion (20.35 percent) respectively during the period under review. In the case of the sectoral growth during the period under review, the loans to trade and commerce grew by 58.38 percent (from Nu. 4.26 billion to Nu. 6.75 billion).

Majority of credit are provided by the banks. Out of total credit, 88.64 percent (Nu. 50.33 billion) are provided by banks and remaining 11.36 percent (Nu. 6.45 billion) are credit provided by non-banks.

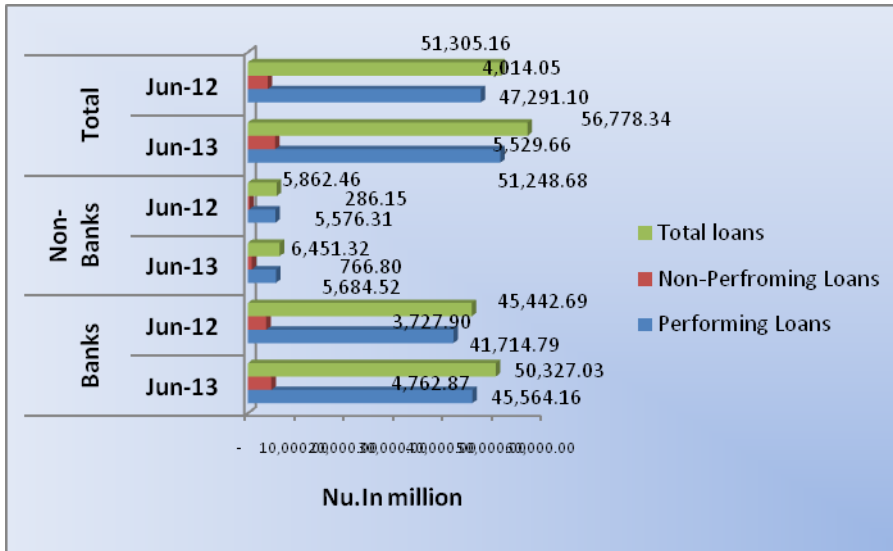
5. Credit Quality (Loans and Advances including the non-banks)



Asset quality continued to pose some concerns as the Non Performing Loans (NPL) of the financial sector deteriorated by 37.76 percent. As against the total loans of Nu. 56.78 billion within the financial sector, the NPL increased from Nu. 4.01 billion in June 2012 to

Nu. 5.53 billion in June 2013. The NPL to loan ratio stood at 9.74 percent as compared to 7.82 percent during the period under review. The increase in the NPL ratio is due to the increase in the NPL by 37.76 percent as against the increase in the total loans by 10.67 percent. Out of the total NPL of Nu. 5.53 billion, doubtful and loss assets comprises of 58 percent (Nu. 3.23 billion) and the remaining 42 percent comprises of substandard assets (Nu. 2.30 billion)

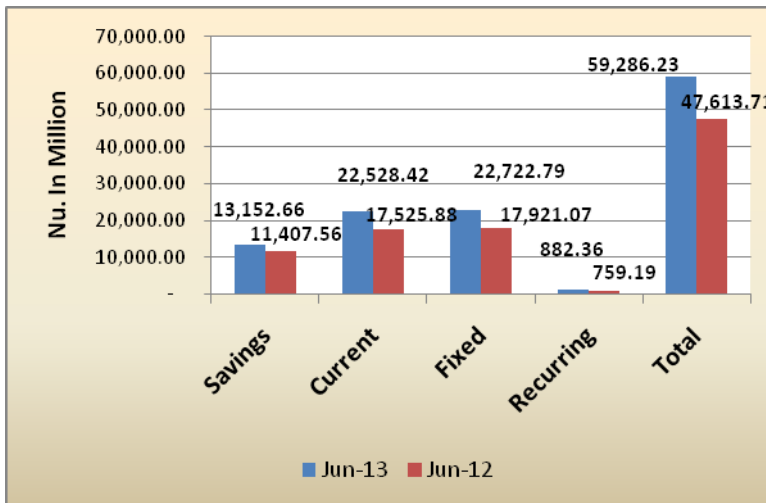
6. Consolidated Loan Classification of the FIs



Analysis on asset classification indicates that 90 percent of total loans disbursed by the financial sector are performing loans. As against the total loans of Nu. 50.33 billion for banks, 91 percent (Nu. 45.56 billion) are performing and remaining 9 percent (Nu. 4.76 billion) are non-

performing. The NPL for banks increased by 27.76 percent, from Nu. 3.73 billion in June 2012 to Nu. 4.76 billion in June 2013. Similarly, 88 percent of the total loans and advances (Nu.5.68 billion) of the non banks are performing loans and the remaining 12 percent are non-performing loans. The NPL of non-banks has also increased from Nu. 0.29 billion to Nu. 0.77 billion during the period during review.

7. Deposits

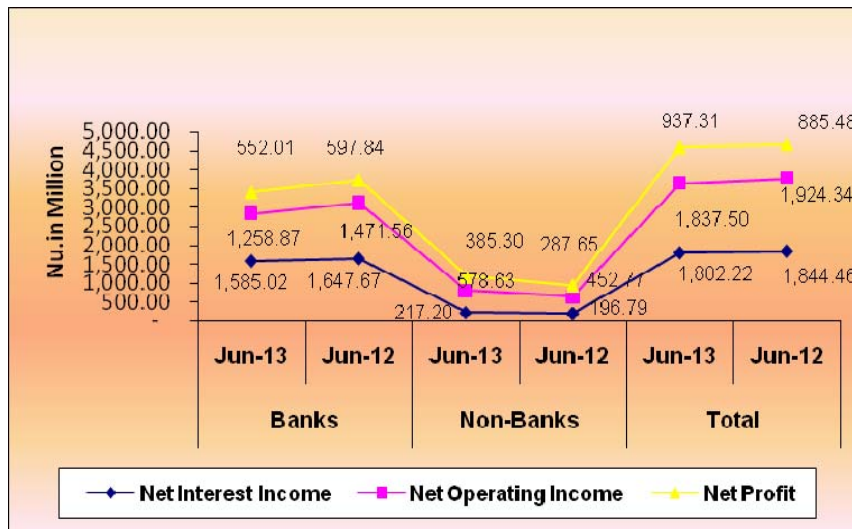


The total deposit base of the banking sector (including Bhutan Development Bank Ltd.) has increased significantly by 24.52 percent, from Nu. 47.61 billion in June 2012 to Nu. 59.23 billion in June 2013. The increase in the overall deposit base is mainly due to increase in both the demand and time deposits by 23.32 percent and 26.36 percent respectively. Demand deposits increased from

Nu. 28.93 billion to Nu. 35.68 billion and time deposits from Nu. 18.68 billion to Nu. 23.61 billion during the period under review.

In terms of customer holdings, corporate deposits accounts for 54.37 percent (Nu. 32.23 billion) of the total deposits and remaining 45.63 percent (Nu. 27.05 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 60.18 percent and time deposits (fixed and recurring) comprised of 39.82 percent.

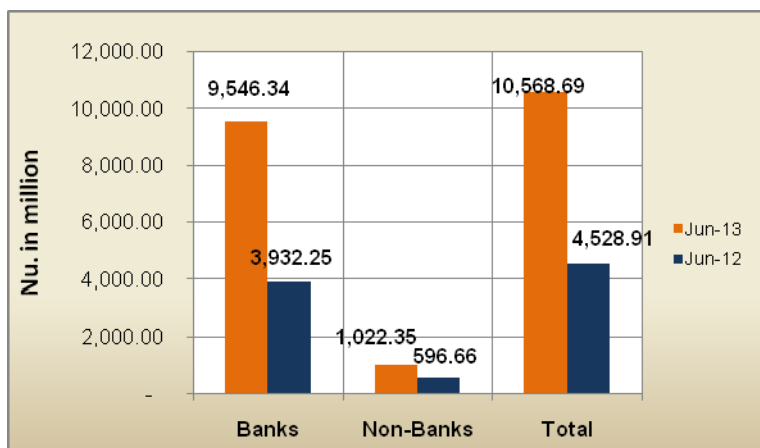
8. Profitability



During the quarter under review, 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.0.94 billion in June 2013 as compared to a net profit of Nu. 0.88 billion in June 2012. The net profit of banks decreased to Nu. 0.55 billion as

compared to the net profit of Nu. 0.59 billion in June 2012. However, the net profit for non-banks increased to Nu. 0.38 billion in June 2013 from Nu. 0.29 billion in June 2012. The net interest income of banks decreased by 3.80 percent (from Nu.1.65 billion to Nu. 1.58 billion) and net operating income also decreased by 14.45 percent (from Nu. 1.47 billion to Nu. 1.26 billion). However, the net interest income of non-banks increased by 10.37 percent (from Nu. 0.20 billion to Nu. 0.22 billion). The net operating income also increased from Nu. 0.45 billion to Nu. 0.59 billion during the period under review.

9. Liquidity



On the liquidity front, the financial sector has an excess of Nu.10.57 billion in June 2013 as against the excess of Nu. 4.53 billion in June 2012. The statutory liquidity position of the banks stood at 34.38 percent (14.38 percent above the regulatory

requirement of 20 percent) in June 2013 as compared to 27.48 percent in June, 2012. The increase is due to increase in the quick assets of the banks by 58.02 percent (from Nu. 14.44 billion to Nu. 22.83 billion). Similarly, the non-banks' SLR position stood at 23.81 percent as compared to 19.07 percent in June 2012. The quick assets of non-banks have increased by 40.51 percent (from Nu1.25 billion to Nu. 1.76 billion).