

1. Overview

Performance of the financial sector remained sound with the continued expansion in the business, while the stability of the system was maintained. Both the banking and nonbanking sector performed better in June 2015 than the corresponding period of the previous year. In particular, both the banks and non banks experienced:

- higher profitability,
- larger capital base,
- registered a lower NPL ratio

2. Business size and growth

Asset

The total asset of the financial sector has increased to Nu.107.47 billion in June 2015 compared to Nu. 98.81 billion in June 2014 indicating a growth of 8.77%. The banking sector's asset has increased from Nu.87.14 billion to Nu. 93.62 billion, and similarly, the asset of non-banks increased from Nu.11.66 billion to Nu. 13.86 billion during the period under review. In terms of the percentage growth of the total assets of banks and non-banks, it has increased by 7.43% and 18.80% respectively. In terms of the asset composition, 87.11% of the total assets are held by banks and the remaining 12.89% by the non-banks.

Assets	Banks		Non Banks		Total			
	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	% change	% Holding
Cash & Bank Balances	33,123.51	31,980.42	2,883.18	2,568.04	36,006.70	34,548.46	-4.05	32.15%
RGOB/RMA Securities	853.94	2,491.76	0.00	0.00	853.94	2,491.76	191.80	2.32%
Loans & Advances (net of prov)	51,146.13	57,360.71	7,533.49	9,793.60	58,679.62	67,154.31	14.44	62.49%
Equity Investments	236.14	233.68	115.98	161.31	352.13	394.99	12.17	0.37%
Fixed Assets	778.49	906.98	161.53	175.69	940.03	1,082.67	15.17	1.01%
Other Assets	1,005.29	641.62	968.20	1,096.38	1,973.49	1,738.00	-11.93	1.62%
Total Assets	87,143.51	93,615.17	11,662.39	13,855.02	98,805.90	107,470.18	8.77	100.00%
LIABILITIES								
Paid-up Capital	6,097.47	6,305.11	680.00	1,400.00	6,777.47	7,705.11	13.69	7.17%
Reserves	9,019.54	10,408.60	1,869.76	1,510.00	10,889.29	11,918.60	9.45	11.09%
Deposit Liabilities	66,671.62	71,003.58	0.00	0.00	66,671.62	71,003.58	6.50	66.07%
Borrowings	1,136.88	896.40	1,685.76	1,573.09	2,822.65	2,469.50	-12.51	2.30%
Funds/Grants/Bonds/Deb	0.00	0.00	2,999.97	2,869.63	2,999.97	2,869.63		2.67%
Provisions	1,697.01	2,202.99	3.63	7.20	1,700.64	2,210.19	29.96	2.06%
Current & Other Liabilities	2,520.99	2,798.49	4,423.27	6,495.10	6,944.26	9,293.58	33.83	8.65%
Total Liabilities	87,143.51	93,615.17	11,662.39	13,855.02	98,805.90	107,470.18	8.77	100.00%

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

- ✓ Increase in loans and advances(net of specific provision and interest in suspense) by Nu.8.47 billion.
- ✓ increase in bank's investment in corporate bonds by Nu.1.68 billion

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

- ✓ Increase in Loans and advances (net of provision) by Nu.2.26 billion
- ✓ The increase in equity investments by 39.08%, the equity investment has increased from Nu.115.98 million to Nu. 161.31million

Liability

Out of the total liabilities of Nu.107.47 billion, the following were observed:

- ✓ the capital and reserves of banks has increased from Nu.15.16 billion in June 2014 to Nu.16.71 billion in June 2015.
- ✓ the capital and reserve of non-banks has increased from Nu. 2.55 billion to Nu.2.91 billion.
- ✓ The deposit liabilities of banks has also increased by 6.50%, from Nu.66.67 billion in June 2014 to Nu.71 billion in June 2015 and
- ✓ the bonds/ debentures of non banks stood at Nu. 2.87 billion in June 2015.

3. Capital & Reserves.

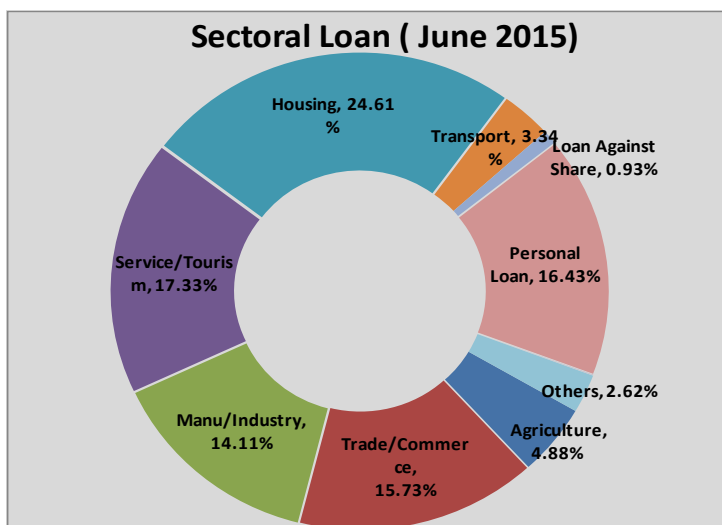
The financial sector's risk weighted capital adequacy ratio (RWCAR) stood at 17.21% (benchmark of 10%) in June 2015 against the RWCAR of 18.86% in June 2014, indicating slight decrease in ratio by 1.64%. The RWCAR of banks decreased from 19.98% to 17.50% during the period under review. The decrease in the

Details	Banks		Non Banks		Total FIs	
	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14
Capital Fund	16532.54	15011.70	2910.00	2434.20	19442.54	17445.90
Total Risk weighted asset	94444.94	75119.54	18516.35	17403.21	112961.29	92522.75
RWCAR(10%)	17.50%	19.98%	15.72%	13.99%	17.21%	18.86%
Tier 1	12653.75	11423.04	2193.85	1967.19	14847.60	13390.24
Total Risk weighted asset	94444.94	75119.54	18368.03	17403.21	112961.29	92522.75
Core CAR	13.40%	15.21%	11.94%	11.30%	13.14%	14.47%

RWCAR was mainly due to increase in risk weighted asset by Nu.16.39 billion. However, the RWCAR for non banks slightly increased to 15.72% in June 2015 from 13.99% in June 2014 mainly because of increase in profit by Nu. 98.91 million which has increased the capital fund of non banks. The core capital ratio of the financial sector has slightly decreased from 14.47% in June 2014 to 13.14% in June 2015 which is also maintained well above the requirement of 5%.

4. Sectoral Credit Analysis

The financial system continued to play an active role in providing financing to both the household and corporate/private sectors. During the period ended June 2015, the financial sectors' total loans (gross) to the economy reached to Nu.71.51billion from Nu.63.19 billion in



June 2014 indicating an increase of 13.17%. The growth in the lending activity was attributable to strong demand towards the housing and service/ Tourism sector, leading the other sectoral exposures.

As depicted in the 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. 17.60 billion (24.61%) followed by

Service/Tourism sector with Nu.12.40billion(17.33%) and Personal sector with Nu.11.75billion (16.43%). However, in terms of percentage growth by sector, loans to agriculture sector experienced the highest sectoral growth of 52.44% followed by loans to trade and commerce sector with 29.28% in June 2015.

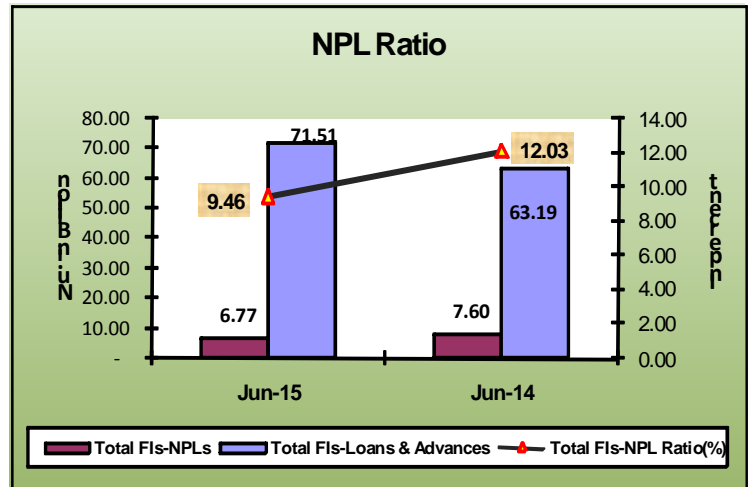
Out of total credit of Nu. 71.51 billion, 85.82% (Nu. 61.37 billion) were provided by banks and 14.18% (Nu. 10.14 billion) by non-banks. The total loans and advances provided by the banks increased from Nu. 55.28 billion to Nu. 61.37 billion indicating a growth of 11.03%. Similarly, the total loans and advances of non-banks increased by 28.16%, from Nu. 7.91 billion in June 2014 to Nu. 10.14 billion during the period under review.

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

Asset quality improved slightly as the total Non Performing Loans (NPL) of the financial sector decreased from Nu. 7.60 billion in June 2014 to Nu. 6.77 billion in June 2015 indicating a decrease of 10.96%. The Decrease in NPL by Nu.832.89 million has led to an improvement in Gross NPL to total loans ratio by 2.57%, the Gross NPL ratio stood at 9.46% in June 2015 as compared to 12.03% in June 2014.

The NPL of the banks decreased from Nu. 6.70 billion to Nu.5.97 billion as against the increase in the total loans from Nu. 55.28 billion in June 2014 to Nu. 61.37 billion during the period under review. The gross NPL ratio of banks stood at 9.72% as compared to 12.13% during the period under review.

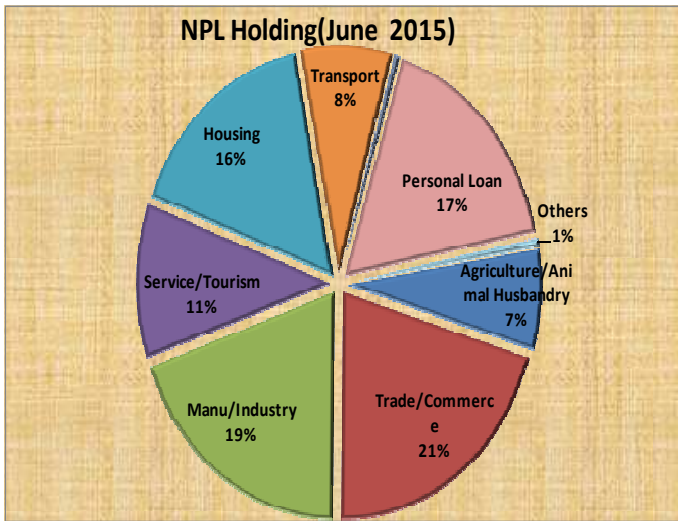
The NPL for non-banks has also decreased from Nu.896.76million to Nu.795.60 million as against the increase in the total loans from Nu.7.91 billion to Nu. 10.14 billion during the period under review. The NPL ratio of non-banks stood at 7.85% in June 2015 as compared to 11.33% in June 2014.



Out of the total NPL of Nu.6.77 billion, loans under doubtful and loss comprises of 67.96% (Nu.1.97 billion under doubtful category loan and Nu.2.63 billion under loss category) and the remaining 32.04%(Nu.2.17 billion) comprises of substandard loans.(Annexure I)

The provision to NPL has slightly increased from 50.68 % in June 2014 to 53.89% in June 2015 mainly due to concentration of loans under doubtful and loss category which requires provisioning of 50% and 100% respectively. The decrease in NPL by Nu.832.89 million has led to decrease in Net NPL to Net loan ratio to 3.59% in June 2015 compared to 5.27% in the corresponding quarter of previous year indicating decrease by 1.68%(Annexure II).

The diagram below represents the sectorwise NPL holding for June 2015. The sectoralexposures to total NPL analysis of the financial sector indicates that out of the total NPL of Nu. 6.77 billion the chronological distribution of Sectoral NPLs are:



of Nu. 6.77 billion the chronological distribution of Sectoral NPLs are:

- ✓ Trade and commerce sector has the highest NPL with Nu. 1.39 billion (20.53%)
- ✓ Manufacturing/Industry Sector with Nu. 1.32 billion (19.46%)
- ✓ Personal sector with Nu.1.15 billion(17.05%) .

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

observations are made:

- ✓ NPL to Agriculture sector experienced the highest sectoral growth of 36.87% (from Nu.354.29 million in June 2014 to Nu. 484.92 million in June 2015)
- ✓ Manufacturing industry by 29.94%
- ✓ Personal sector by 1.33%
- ✓ However, the NPL for all other remaining sectors have contracted during the period under review.

6. Consolidated Loan Classification of the FIs.

The review on loan classification indicates that 90.54% (Nu.64.74 billion) of total loans(Nu.71.51billion) disbursed by the financial sector are performing and remaining 9.46% (Nu.6.77 billion) are non-performing.

Of the total loans of Nu.61.37 billion of banks, 90.27% are performing and only 9.73% are non-performing. Similarly, for non banks, 92.15% of the total loan outstanding (Nu.10.14 billion) are performing and the remaining 7.85% were non-performing during the period under review.

7. Deposit

The table 4 shows the deposit trend by deposit type. The total deposit base of the banking sector increased from Nu. 66.67 billion to Nu.71.00 billion indicating a growth of 6.50% during the period under review.

The increase in the overall deposit base was due to increase in the saving, fixed and recurring deposits by 15.36%, 21.31% and 14.81% respectively. However, for the month of June 2015, the current deposit has decreased by Nu.3.83 billion.

Demand deposits have slightly decreased to Nu. 38.59 billion from Nu. 39.90 billion during the period under review, as detailed below:

- ✓ the current deposit decreased from Nu.23.52 billion in June 2014 to Nu.19.69 billion in June 2014
- ✓ the saving deposit slightly increased from Nu.16.38 billion in June 2014 to Nu. 18.90 billion in June 2015.

The time deposit has increased from Nu. 26.77 billion to Nu. 32.41 billion out of which the fixed deposits increased from Nu. 25.79 billion in June 2014 to Nu. 31.28 billion in June 2015 and the recurring deposits from Nu. 0.99 billion in June 2014 to Nu. 1.13 billion in June 2015.

Deposits by Customer	Total Deposits		Figures in Billion(Nu)	
	Jun-15	Jun-14	% change	% Holding
Corporate deposits	36.02	33.37	7.94	50.73%
Government	10.84	7.51	44.22	15.26%
Government Corp.	5.52	6.98	-20.94	7.77%
Public Companies	0.36	0.52	-31.54	0.50%
Private Co.	3.19	2.86	11.59	4.49%
Commercial Banks	8.61	8.99	-4.26	12.12%
NBFIs	7.51	6.51	15.42	10.58%
Retail deposits	34.98	33.30	5.05	49.27%
Individuals	33.76	31.57	6.95	47.55%
Foreign Currency	1.22	1.73	-29.50	1.72%
Total	71.00	66.67	6.50	100.00%

In terms of customer holdings, out of total deposits of Nu.71.00 billion, retail deposits accounts for 49.27% (Nu. 34.98 billion) and remaining 50.73% (Nu. 36.02 billion) constitutes corporate deposits.

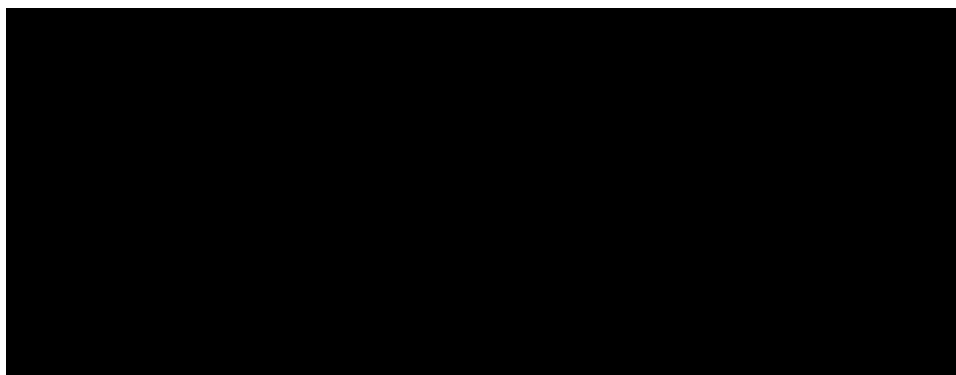
In other words, corporate deposits continued to dominate the deposit holding pattern of the banks for the period ended June 2015. As a share of total deposits, demand deposits accounted for 54.35% and time deposits of 45.65%.

8. Profitability

During the period ended June 2015, the net profit of the financial sector has significantly increased to Nu.582.73million in June 2015 as compared to a net profit of Nu. 106.23million in June 2014. The banks earned a profit of Nu.345.90 million in June 2015 whereas, for the same quarter 2014, the banks incurred a loss of Nu. 31.70million.

Similarly, the net profit of the non banks also increased from

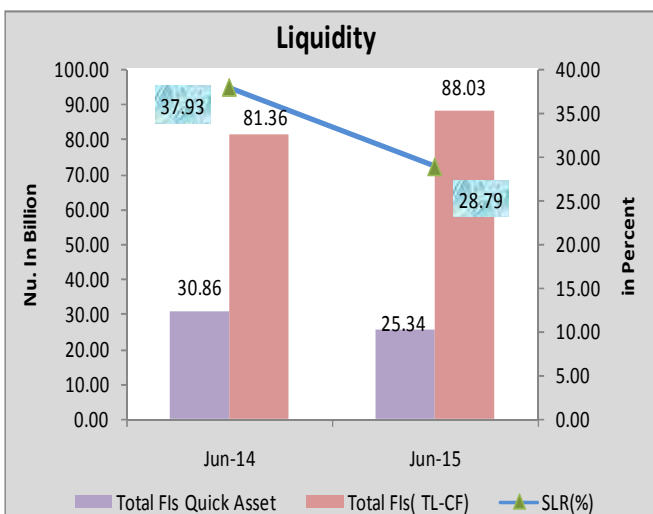
Nu.137.93million in June 2014 to Nu.236.83million in June 2015 indicating a growth of 71.71%.



The increase in the profit of the financial sector can be attributed mainly to the increase in the interest income by 20.02% amounting to Nu.655.01million, out of which 93.86% accounted for interest income from loans and overdrafts amounting to Nu. 3.74 billion. Similarly, the interest expense has also increased by 17.35%. However, the increase in interest income has offset the increase in interest expenses which resulted in the increase in Net interest income by 22.41%. (Annexure I)

9. Liquidity

On the liquidity front, the excess liquidity of the financial sector has decreased by Nu.6.68 billion, from Nu.15.51 billion in June 2014 to Nu. 8.83billion in June 2015. The decrease in liquidity is mainly due to decrease in the quick assets by 17.87%(quick asset of both banks and non banks has decreased by 17.72% and 10.93% respectively). The decrease in the quick asset was mainly due to decrease in the RGoB bonds/securities by Nu.450.91 million followed by balances with RMA and demand deposit with commercial banks in Bhutan by 43.10% and 40.43% respectively.



The statutory liquidity requirement (SLR) of the financial sector stood at 28.79% in June 2015 as compared to 37.93% in June 2014. The SLR of the banks stood at 29.55% in June 2015 as compared to 38.78% in June 2014. Similarly, the non-banks' SLR position for June 2015 stood at 23.46% as compared to 31.24% in June 2014.

The other indicators of fund based liquidity deteriorated as liquid asset to total asset of the financial sector decreased to 13.27% in June 2015 from 22.57% in June 2014. Out of the total asset of Nu. 107.47 billion of the financial sectors, the liquid asset accounts only Nu.14.26 billion during the period under review. Further, Credit to Deposit ratio of the banking sector also increased by 3.53% from 82.91% in June 2014 to 86.43% during the period under review.(Annexure II)

Annexure I

Consolidated Loan Classification June 2014-2015

	Figures in Million(Nu.)						% Change
	Bank		Non Banks		Total FIs		
	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014	
Performing Loan	55398.50	48571.51	9344.27	7014.83	64742.76	55586.34	16.47
<i>Standard</i>	51647.24	45137.17	6385.64	6275.96	58032.88	51413.12	12.88
<i>Watch</i>	3751.25	3434.34	2958.63	738.88	6709.88	4173.22	60.78
NonPerforming Loan	5972.13	6703.85	795.60	896.76	6767.73	7600.61	-10.96
<i>Substandard</i>	1649.01	2331.86	519.53	568.89	2168.54	2900.75	-25.24
<i>Doubtful</i>	1823.63	1753.75	141.48	200.00	1965.11	1953.75	0.58
<i>Loss</i>	2499.49	2618.24	134.59	127.86	2634.08	2746.11	-4.08
Total	61370.63	55275.36	10139.86	7911.60	71510.49	63186.96	13.17

Financial Institutions Interest Income Composition (June 2014-June 2015)

Particulars	Nu. In Million			Interest Income composition (June 2015)
	Total FIs		% Change	
<u>Interest Income</u>	Jun-15	Jun-14		
<i>Loans and Overdrafts</i>	3,742.54	3,117.94	20.03	93.86%
<i>Fixed and Other Deposits</i>	211.65	169.26	25.04	5.31%
<i>RMA Bills</i>	3.07	26.34	-88.33	0.08%
<i>Government Securities</i>	1.62	7.53	-78.47	0.04%
<i>Others</i>	28.45	1.26	2155.69	0.71%
Total	3,987.34	3,322.33	20.02	100.00%

Financial Institutions Interest Expense Composition (June 2014-June 2015)

Particulars	Nu. In Million			Interest Expense composition (June 2015)
	Total FIs		% Change	
<u>Interest Expenses</u>	Jun-15	Jun-14		
<i>Demand Deposits (CD & SD)</i>	404.66	352.59	14.77	10.15%
<i>Time Deposit (RD & FD)</i>	1,040.40	920.49	13.03	26.09%
<i>Bonds</i>	85.67	17.62	386.26	2.15%
<i>Borrowings</i>	99.29	101.63	-2.30	2.49%
<i>Others</i>	214.05	179.06	19.54	5.37%
Total	1,844.07	1,571.39	17.35	46.25%

Annexure II

Financial Soundness Indicators of Financial Institutions (June 2014-2015)

Indicators	June 2015	June 2014
Capital Adequacy		
<i>RWCAR (10%)</i>	17.21%	18.86%
<i>Core CAR(5%)</i>	13.14%	14.47%
Asset Quality		
<i>NPLs to Total Loan</i>	9.46%	12.03%
<i>Provision to NPL</i>	53.89%	50.68%
<i>Net NPL to Net Loan</i>	3.59%	5.27%
Earning		
<i>Return on Asset(ROA)</i>	0.54%	0.67%
<i>Return on Equity(ROE)</i>	3.06%	0.11%
<i>Profit After Tax(PAT)</i>	Nu.582.73million	Nu.106.23million
Liquidity		
<i>Liquid Asset to Total Asset</i>	13.27%	22.57%
<i>Loans to Deposits</i>	86.43%	82.91%
<i>Statutory Liquidity Requirement</i>	28.79%	37.93%

Sectoral Loan and NPL June 2014-2015

Sector	Sectoral Investment and NPLs				Nu. in Million			
	Total Loans		% Change	% Loan Holding (June 2015)	Total NPL		% Change	%NPL Holding(June 2015)
	Jun-14	Jun-15			Jun-14	Jun-15		
Agriculture/Animal Husbandry	2,287.09	3,486.49	52.44	4.88	354.29	484.92	36.87	7.17
Trade/Commerce	8,703.66	11,251.69	29.28	15.73	2,202.17	1,389.49	-36.90	20.53
Manu/Industry	9,914.70	10,088.94	1.76	14.11	1,013.35	1,316.73	29.94	19.46
Service/Tourism	9,896.11	12,395.73	25.26	17.33	845.30	746.12	-11.73	11.02
Housing	15,785.01	17,601.79	11.51	24.61	1,324.12	1,094.31	-17.36	16.17
Transport	2,751.69	2,386.95	-13.25	3.34	633.52	510.37	-19.44	7.54
Loan Against Share	640.48	667.28	4.18	0.93	42.13	28.74	-31.77	0.42
Personal Loan	11,920.80	11,750.40	-1.43	16.43	1,138.51	1,153.61	1.33	17.05
Government (short term)	0.00	0.00		0.00	0.00	0.00		0.00
Credit Card	7.18	8.77	22.25	0.01	3.90	3.15	-19.34	0.05
Others	1,280.24	1,872.46	46.26	2.62	43.32	40.30	-6.97	0.60
Totals	63,186.96	71,510.49	13.17	100.00	7,600.61	6,767.73	-10.96	100.00