

Financial Sector Performance Review

June 2021



This report presents the highlights on the performance of the Bhutanese financial sector on Consoildated basis for the period ended Q2FY'21 in comparison to the previous year's corresponding quarter. This report has been prepared by the Department of Financial Regulation & Supervision 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.

**DEPARTMENT OF FINANCIAL REGULATION & SUPERVISION
ROYAL MONETARY AUTHORITY OF BHUTAN**

This report presents the highlights on the performance of the Bhutanese financial sector for the period ended Q2FY'21 in comparison to the previous year's corresponding quarter and includes five banks, two insurance companies and National Pension and Provident Fund. The main highlights of the Bhutanese financial Sector are as follows:

The capital fund stood at Nu. 23 billion in June 2021 as compared to Nu. 19 billion in June 2020. The CAR stood at 13.5 percent in June 2021 as compared to 12 percent in June 2020. However, the risk of dispersion/distribution of **Capital Levels** among the financial institutions remains high and some institutions that have entered the pandemic with relatively low capital and riskier exposures may face challenge. The release of the **Capital Conservation Buffer (CCB)** built prior to the pandemic have allowed financial institutions to cover for increase in non-performing loans (NPLs) and maintain their financing activities to the economy. The CCB release made available Nu. 2.6 billion of capital across the financial sector, with the potential to support additional lending between Nu. 20 billion to Nu. 25 billion. However, given the overall uncertainty of the scale and duration of the crisis, it is important that the financial sector remains well-capitalized. Financial institutions should ensure that the assessment of their capital positions is forward-looking and that it takes into account current uncertainties.

Non-performing loans (NPLs) in the financial sector has decreased from Nu. 26.6 billion in June 2020 to Nu. 24.2 billion in June 2021. Extensive monetary measures including the temporary deferment facility in place has helped in mitigating the immediate liquidity shock to the affected sectors/businesses and prevent financial institutions from further build-up of NPLs. However, the impact of pandemic on financial sector's **Asset Quality (non-performing loans) is expected to be a key challenge going forward.**

The **profitability** of the financial sector has declined since the onset of the pandemic, driven by increased loan impairment. Weak profitability presents a challenge to future capital resilience as profits are an important element of capital growth. Most of the financial institutions suffered losses during the first three quarters of 2020.

As of June 2021, most of the financial institutions have made profit mainly on account of decrease in NPLs. The profitability (before tax) as of June 2021 stood at Nu. 3.35 billion as compared to a loss of Nu. 155 million in June 2020.

The **Liquidity Position** of the financial sector is expected to remain relatively stable with the implementation of Domestic Liquidity Management Framework to help financial institution with liquidity support. The domestic financial system has already played a significant role in supporting liquidity needs of businesses so far in this pandemic. Deposit's structure has remained stable and largely unaffected since December 2019. The **Cash Reserve Ratio (CRR)** was reduced from 10 percent to 9 percent on 17th March 2020 and further to 7 percent on 27th April 2020, releasing total liquidity of over Nu.4 billion to enable lending. Financial institution's **Statutory Liquidity Ratio (SLR)** as of June 2021 are also above the minimum regulatory requirement of 20 percent for banks and 10 percent for non-banks.

1. Quarterly Financial Soundness Indicators ¹

Quarterly Financial Soundness Indicators					
Indicators	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Capital					
RWCAR (12.5%)	11.65%	12.42%	13.82%	13.31%	13.45%
Core CAR (7.5%)	9.20%	9.77%	10.75%	10.25%	10.11%
Leverage Ratio (5%)	6.16%	6.42%	6.68%	6.43%	6.13%
Asset Quality					
Loan	Nu. 162.93b	Nu. 164.8b	Nu.166.99b	Nu. 169.80b	Nu. 172.14b
NPL	Nu. 26.59b	Nu. 25.5b	Nu.24.40b	Nu. 24.75b	Nu. 24.24b
Gross NPL Ratio	16.35%	15.45%	14.61%	14.58%	14.08%
Net NPL to Net Loan	6.03%	5.20%	5.08%	4.61%	3.90%
Single Largest Borrower	15.63%	17.45%	16.70%	18.67%	20.82%
Provision to NPL	54.90%	57.66%	54.75%	56.77%	58.97%
Ten Largest Borrower	13.66%	14.15%	14.30%	14.69%	16.04%
Earning					
Return on Asset (RoA)	-0.08%	-0.53%	0.92%	0.80%	1.58%
Return on Equity (RoE)	-0.75%	-4.88%	8.73%	7.53%	15.05%
Profit After Tax (PaT)	Nu. -155.01m	Nu. -1.01b	Nu 1.83	Nu.1.63b	Nu. 3.35b
Liquidity					
Loans to Deposits ratio	81.12%	79.23%	78.40%	80.12%	77.51%
Statutory Liquidity Requirement ratio	25.76%	27.04%	30.67%	29.50%	31.29%

¹ The reporting Financial Institution include Banks; BNBL, BoBL, DPNBL, TBank, BDBL, Non-Banks; RICBL, BIL, and NPPF. B stands for billion and M Stands for Million.

1.2 Financial Soundness Indicators - By Banks and Non-Banks

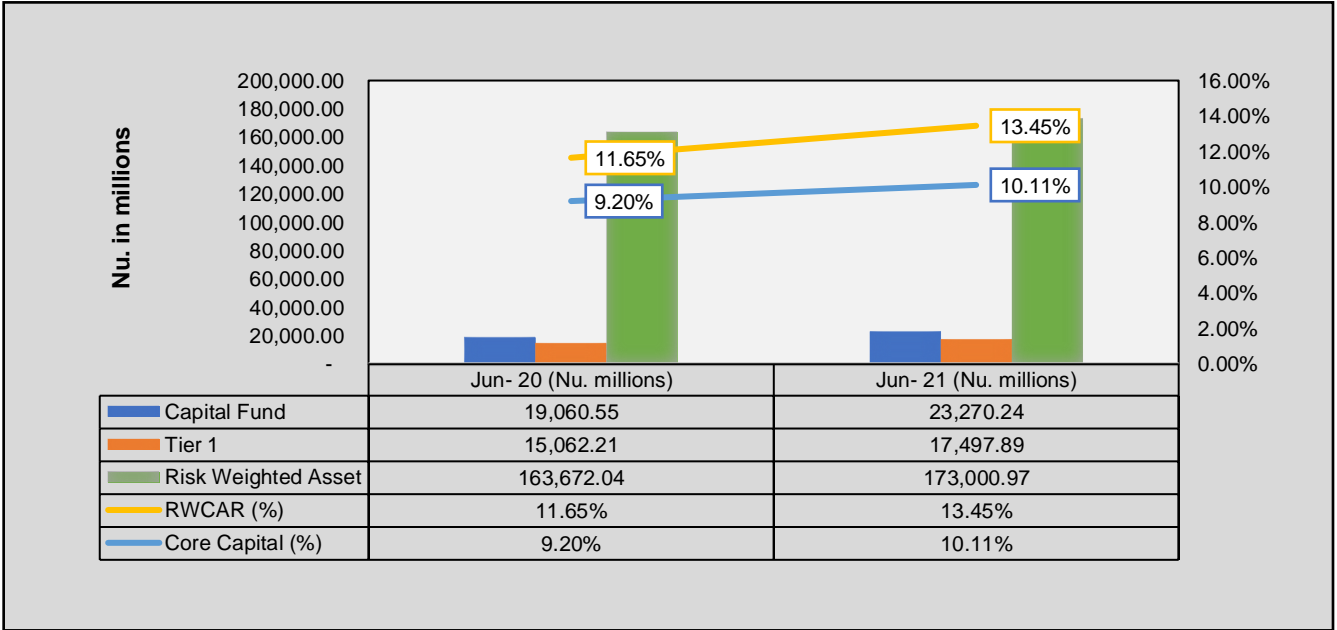
INDICATORS	Jun-21		
	Banks	Non-Banks	Total Fls
CAPITAL			
Core Capital Ratio (7.5%)	10.73%	6.34%	10.11%
Capital Adequacy Ratio (12.5%)	13.87%	10.85%	13.45%
Leverage Ratio(5%)	7.42%	6.32%	6.13%
ASSETS			
Total Assets	Nu. 205.41b	Nu. 69.92b	Nu. 275.33b
Total Loans and Advances	Nu. 130.9b	Nu. 41.24b	Nu. 172.14b
Total Non-performing loans	Nu. 14.99b	Nu. 9.25b	Nu. 24.24b
Provision to NPL Ratio	58.60%	59.59%	58.97%
Ten Largest Exposures	15.38%	19.93%	16.04%
Single Largest Exposure	19.67%	29.30%	20.82%
Gross NPL ratio	11.45%	22.43%	14.08%
EARNINGS			
Profit after tax/Loss	Nu. -0.08b	Nu. 3.43b	Nu. 3.35b
Return on equity	-0.40%	9.44%	15.05%
Return on Asset	-0.04%	1.18%	1.58%
LIQUIDITY			
Statutory Liquidity Requirement (Position) Banks:20%, Nbank:10%	32.88%	17.55%	31.29%
Liquidity position (in Nu.)	Nu. 23.78b	Nu. 1.61b	Nu. 25.39b
Credit to Deposit Ratio	74.99%	86.74%	77.51%

2. Assets/ Liabilities- By Banks and Non-banks

Assets	Banks		Non-Banks		Total	
	Jun- 20 (Nu. millions)	Jun- 21 (Nu. millions)	Jun- 20 (Nu. millions)	Jun- 21 (Nu. millions)	Jun- 20 (Nu. millions)	Jun- 21 (Nu. millions)
Cash & Bank balances	52,191.89	58,967.23	18,960.48	26,402.72	71,152.37	85,369.94
Marketable securities	5,375.78	19,526.77	114.90	439.57	5,490.68	19,966.34
Loans & Advances (net of provisions)	110,215.68	119,843.93	34,610.54	34,033.88	144,826.22	153,877.81
Equity Investment	689.98	645.39	5,407.13	4,871.71	6,097.11	5,517.10
Fixed Assets	2,677.03	2,943.33	1,802.66	1,978.22	4,479.69	4,921.54
Other Assets	1,372.04	3,485.53	2,423.52	2,188.98	3,795.56	5,674.51
Total	172,522.41	205,412.17	63,319.22	69,915.07	235,841.63	275,327.25

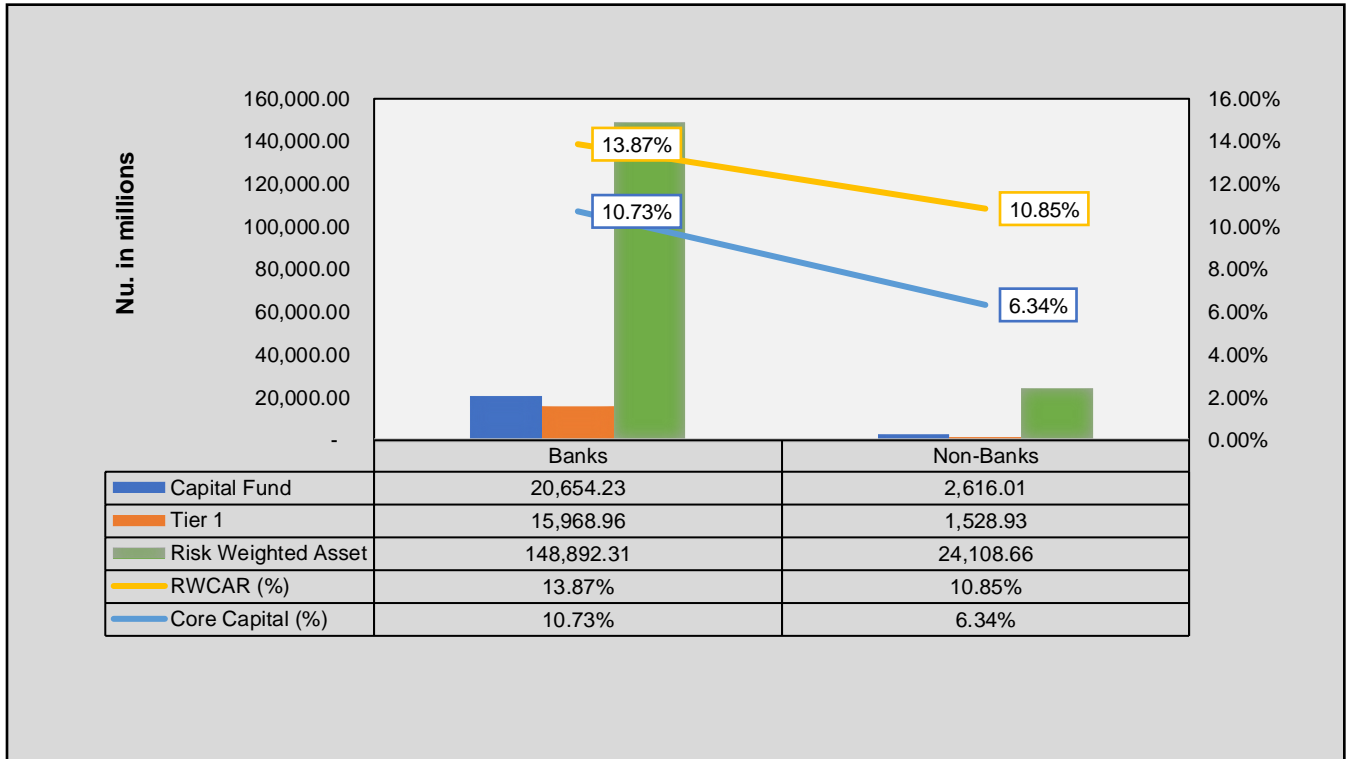
Liabilities	Banks		Non-Banks		Total	
	Jun- 20 (Nu. millions)	Jun- 21 (Nu. millions)	Jun- 20 (Nu. millions)	Jun- 21 (Nu. millions)	Jun- 20 (Nu. millions)	Jun- 21 (Nu. millions)
Paid up capital	8,850.89	8,990.89	1,700.00	1,700.00	10,550.89	10,690.90
Reserves	8,733.12	11,983.10	3,989.65	5,153.27	12,722.77	17,136.38
Deposit Liabilities	150,192.86	174,545.04	-	-	150,192.86	174,545.04
Bonds/Debentures & borrowing	703.61	570.89	2,980.36	1,771.19	3,683.97	2,342.08
Provisions	4,077.89	4,976.63	213.46	37.93	4,291.35	5,014.56
Fund	-	-	50,698.96	57,085.12	50,698.96	57,085.12
Other liabilities	(35.98)	4,345.62	3,736.80	4,167.56	3,700.82	8,513.18
Total	172,522.41	205,412.17	63,319.22	69,915.07	235,841.63	275,327.25

3. Capital and Reserves²

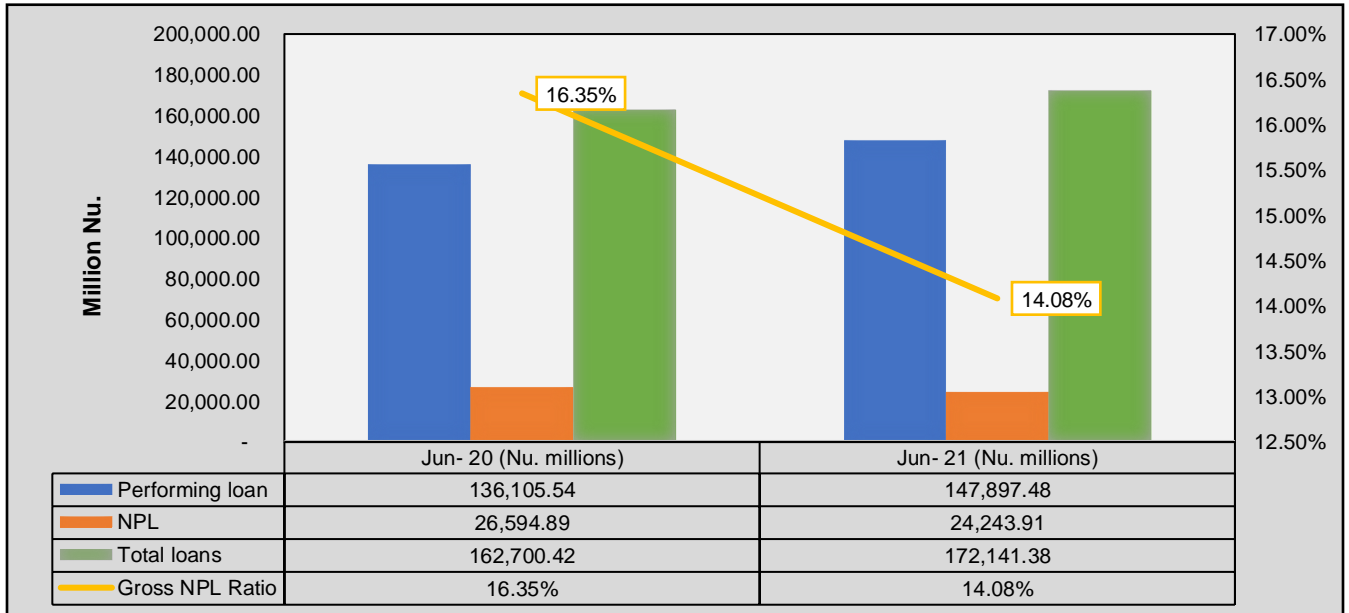


² For computation of RWCAR, related party NPLs are deducted from the Capital Fund.

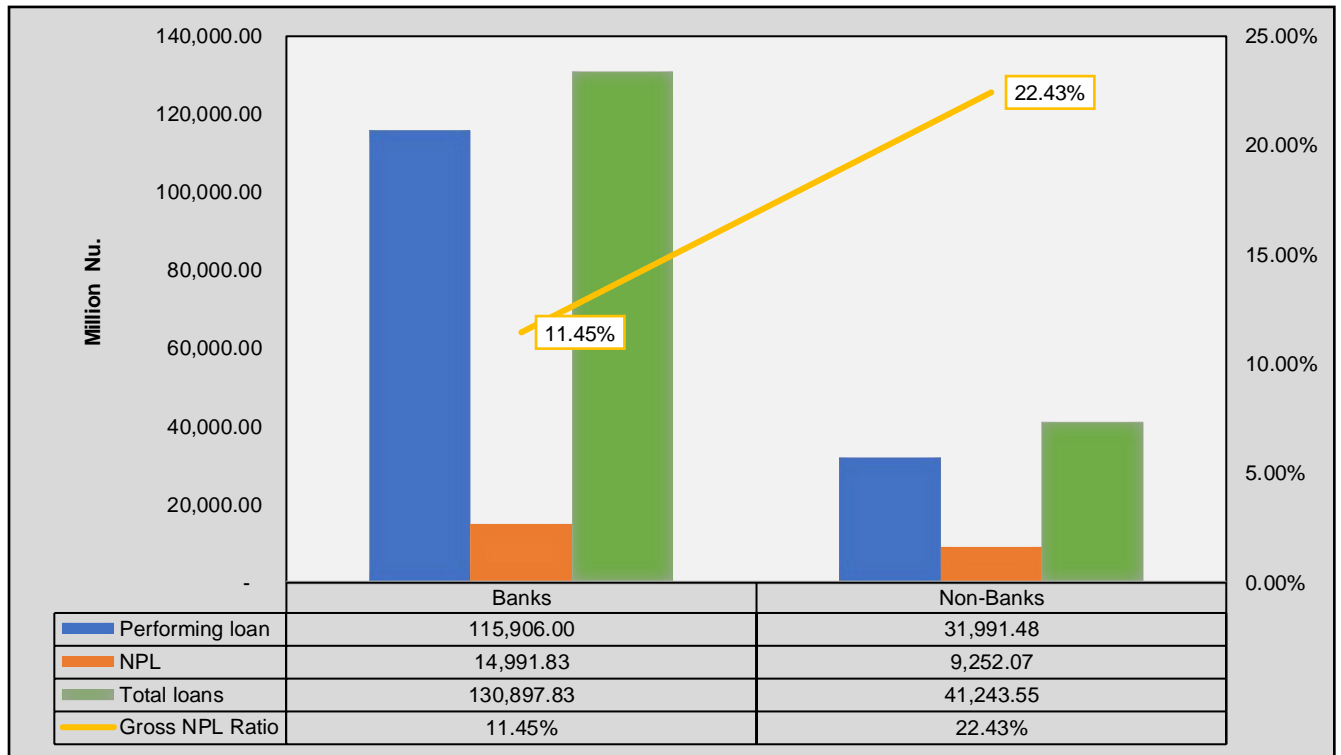
3.1 Capital and Reserves- By Banks and Non-Banks



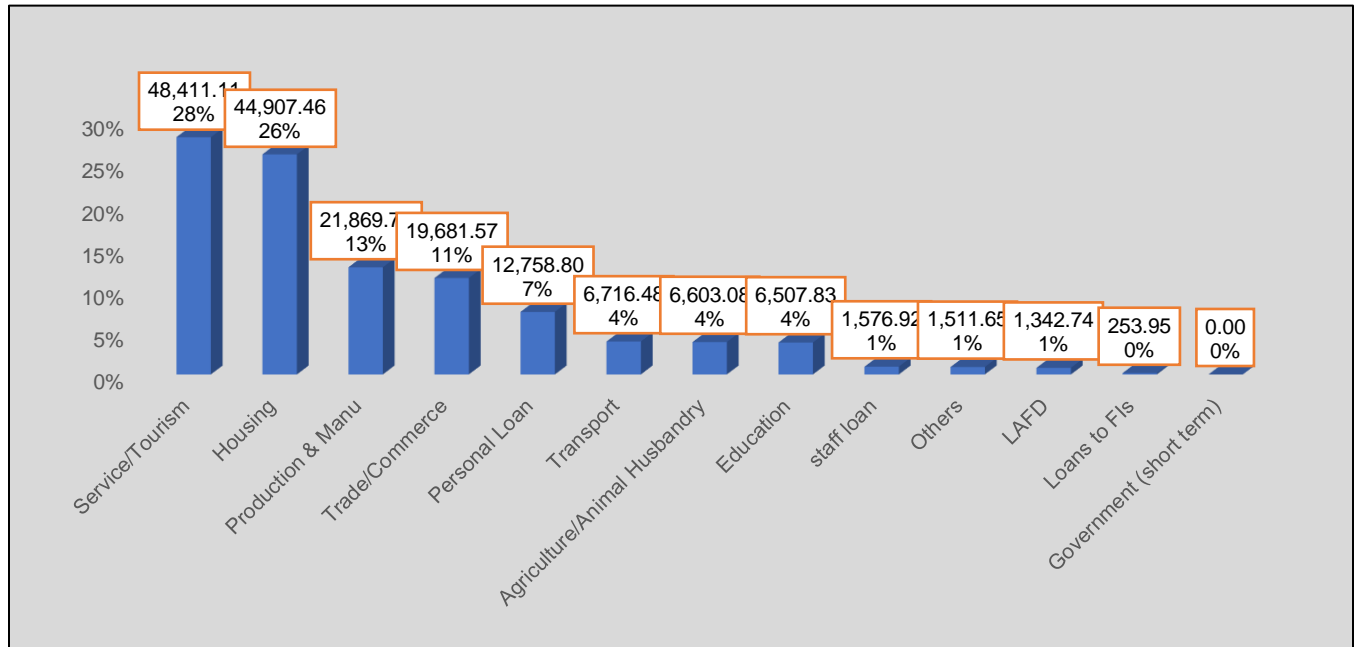
4. Asset Quality



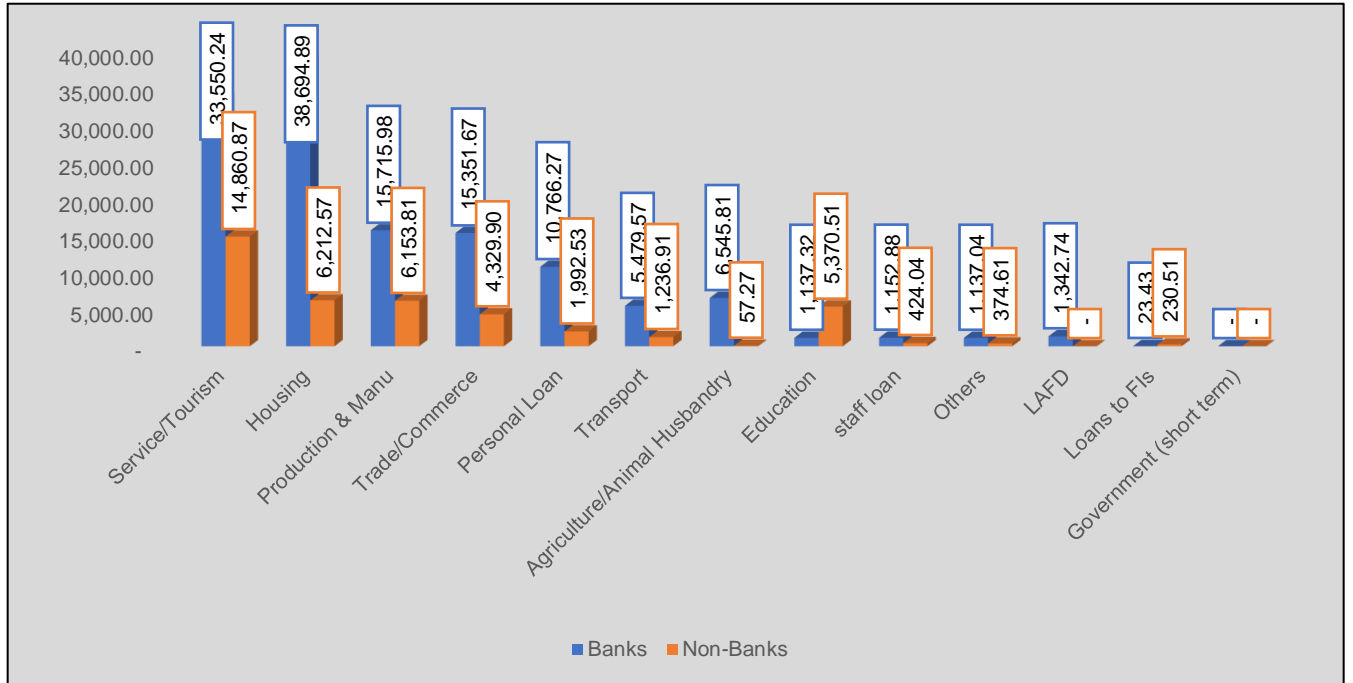
4.1 Asset Quality- By Banks and Non-Banks



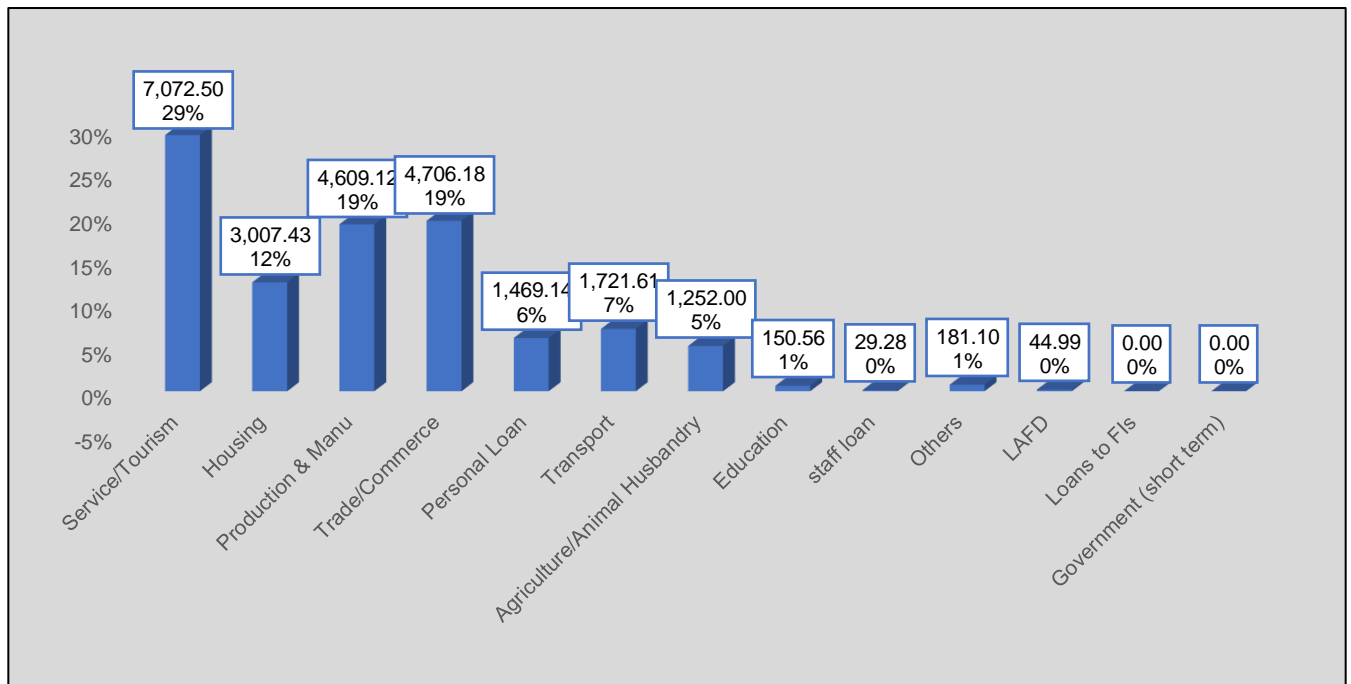
4.2 Sectoral Loans and Advances (Amount in Million)



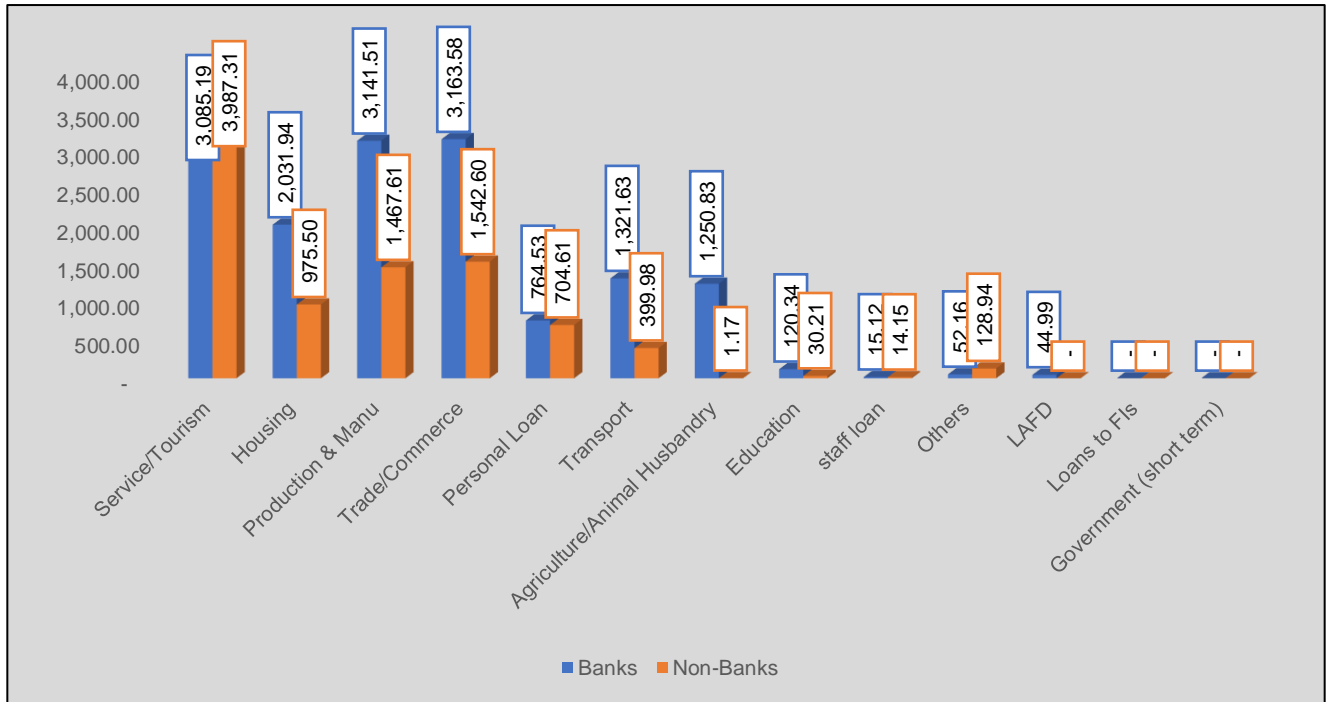
4.2.1 Sectoral Loans and Advances (Amount in Million)-By Banks and Non-Banks



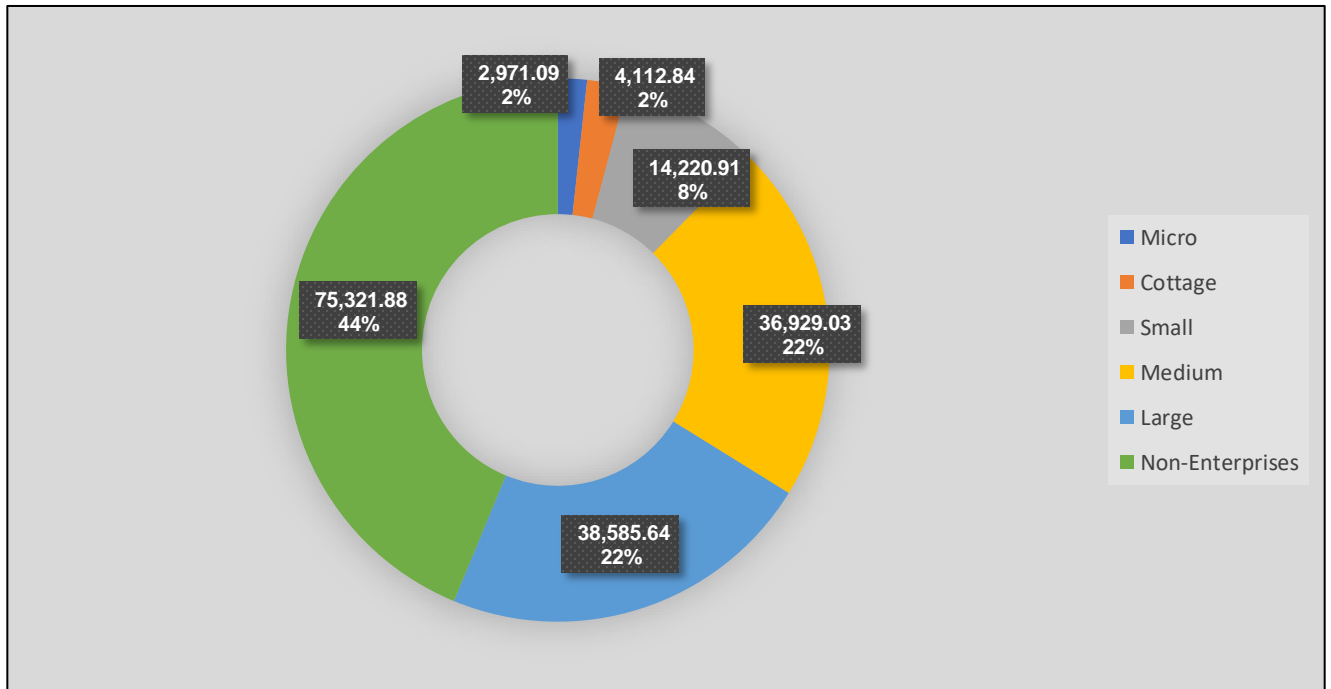
4.3. Sectoral NPL of Financial sector (Amount in Million)



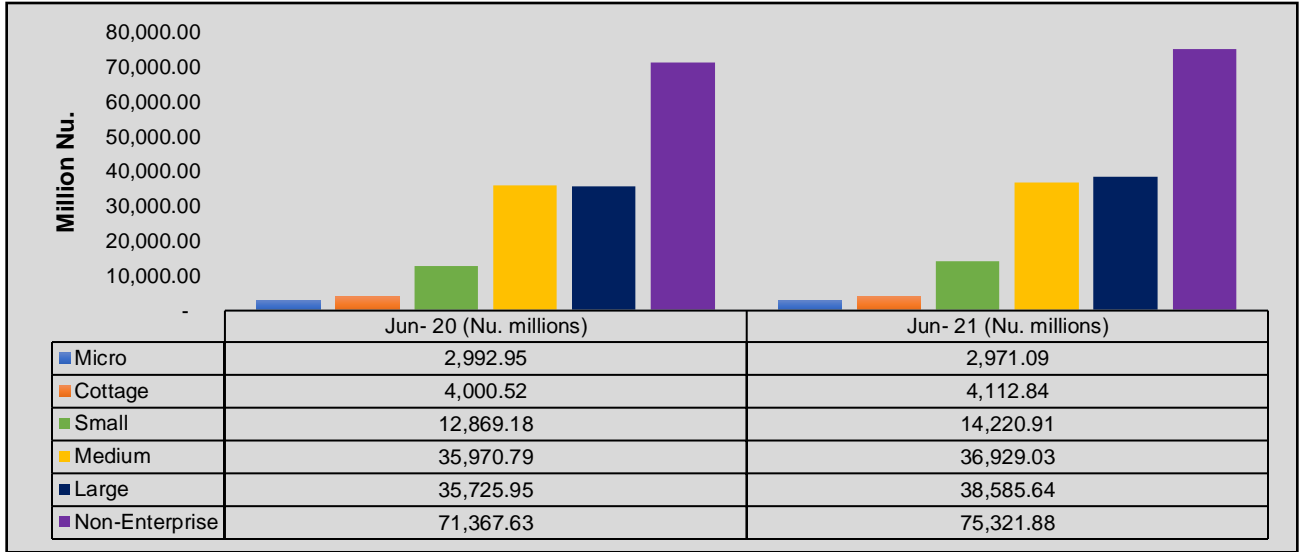
4.3.1 Sectoral NPL of Financial sector- By Banks and Non-Banks (Amount in Million)



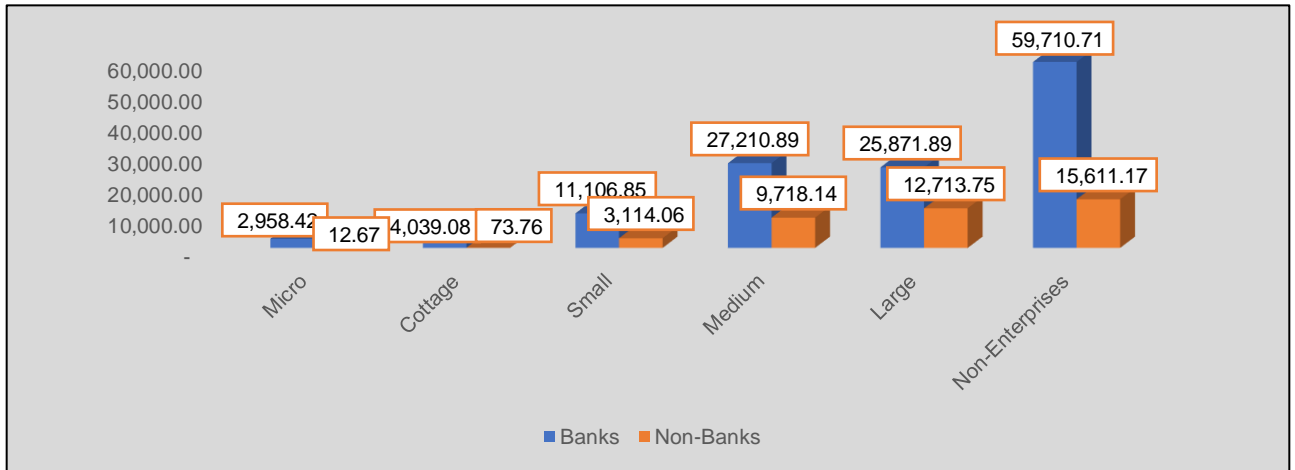
4.4. Share of Loans to Micro, Cottage, Small, Medium, Large & Non-Enterprise (Amount in Million)



4.4.1 Loans to Micro, Cottage, Small, Medium, Large & Non-Enterprise



4.4.2 Share of Loans to Micro, Cottage, Small, Medium, Large & Non-Enterprise- By Banks and Non-Banks (Amount in Million)



4.5 Access to Finance through Micro Finance Institutions (MFIs) and CSI Bank

Loan and NPL of MFIs (Nu. in millions)			
SI no	Particulars	Jun-21	Jun-20
1	Total Loan Sanctioned	Nu. 3,044.71m	Nu. 1,602.29m
2	Total Loan Outstanding	Nu. 2,552.56m	Nu. 1,386.59m
3	Total NPL	Nu. 426.6m	Nu. 467.89m
4	Total no. of loan a/cs	11,345	7,445
5	NPL to loan ratio	16.71%	33.74%

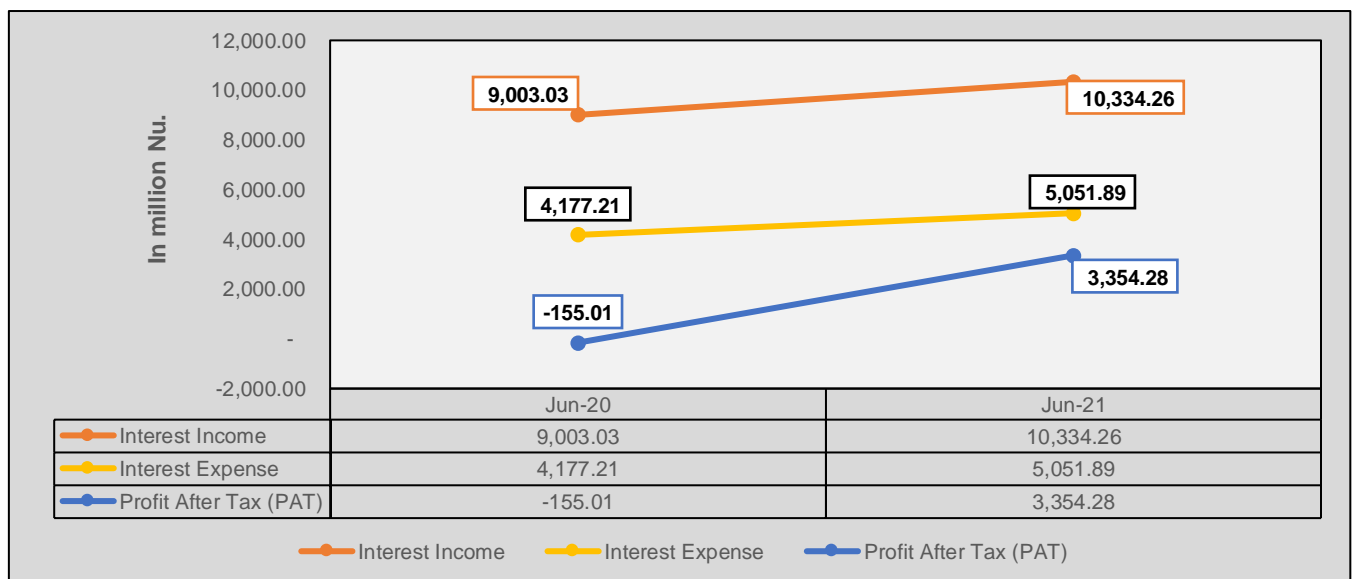
4.6 New Loans data

	Dec-20		Jun-21	
	No. of Accounts	Amount Outstanding (in millions)	No. of Accounts	Loan Outstanding (in millions)
Total New Loan	14,679	10,033	30,476	18,833
New Loan NPL	80	76	799	521
NPL (%)		1%		3%

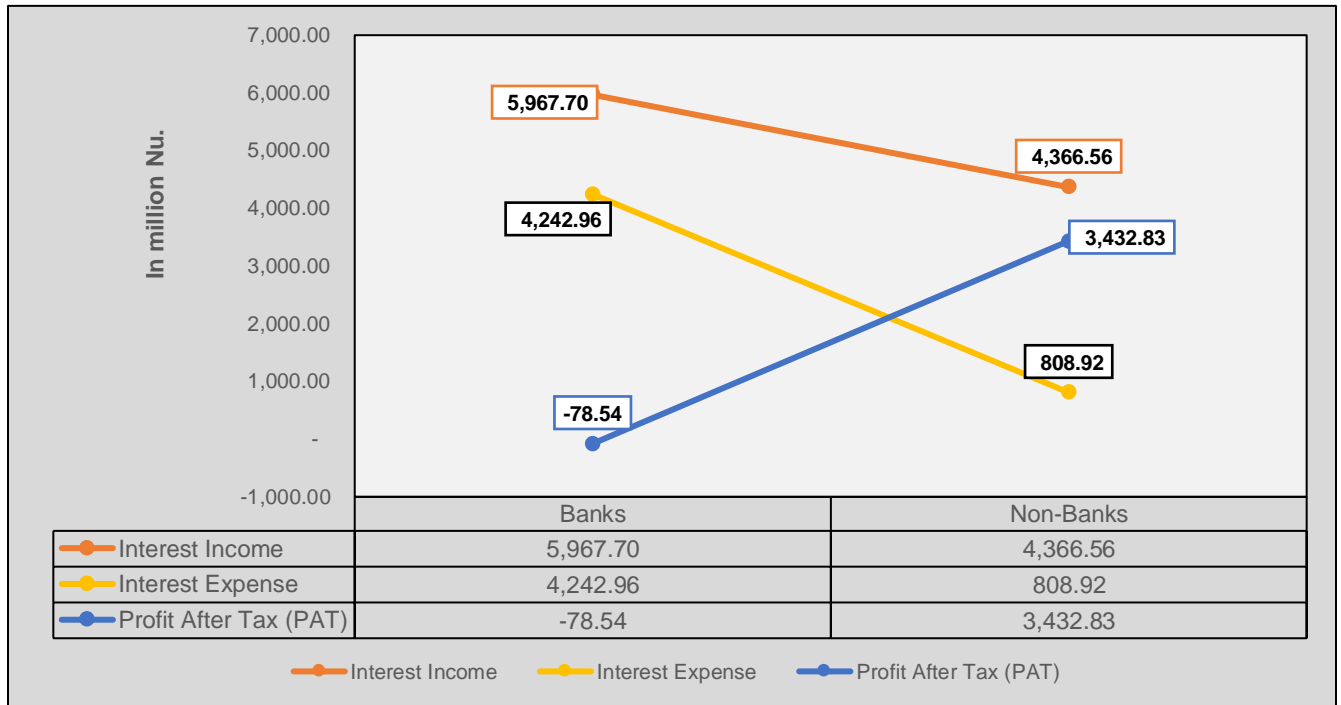
4.6.1 New Loans data- By Sector

Sector	Number of a/cs	Loan outstanding (Nu. In Million)
Agriculture	7,618	1,893.19
Education	761	525.89
Housing	2,659	3,625.19
Loan Against Fixed Deposits	332	555.62
Loans to FI(s)	2	0.16
Others	111	126.86
Personal	13,676	4,345.34
Production & Manufacturing	459	1,735.93
Staff incentive Loans	139	138.30
Service & Tourism	568	2,994.08
Trade and commerce	2,290	1,756.43
Transport	1,861	1,136.70
Grand Total	30,476	18,833.70

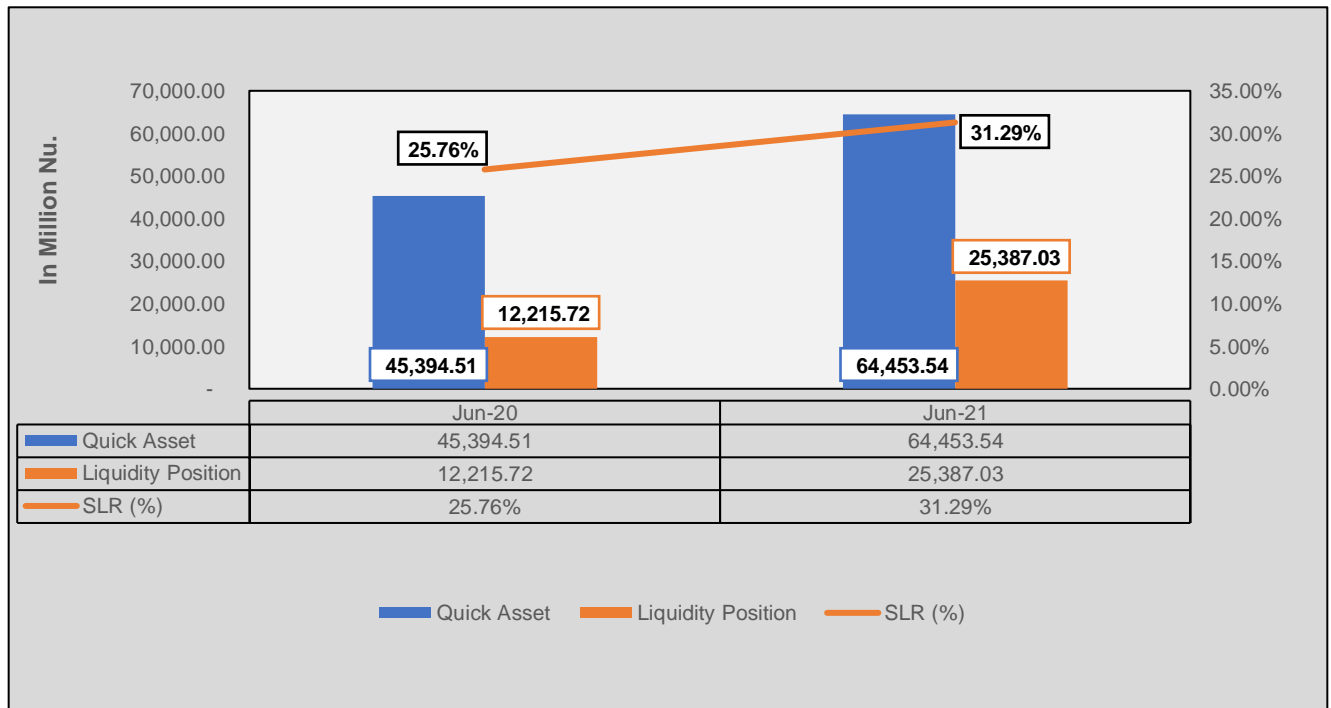
5. Profitability



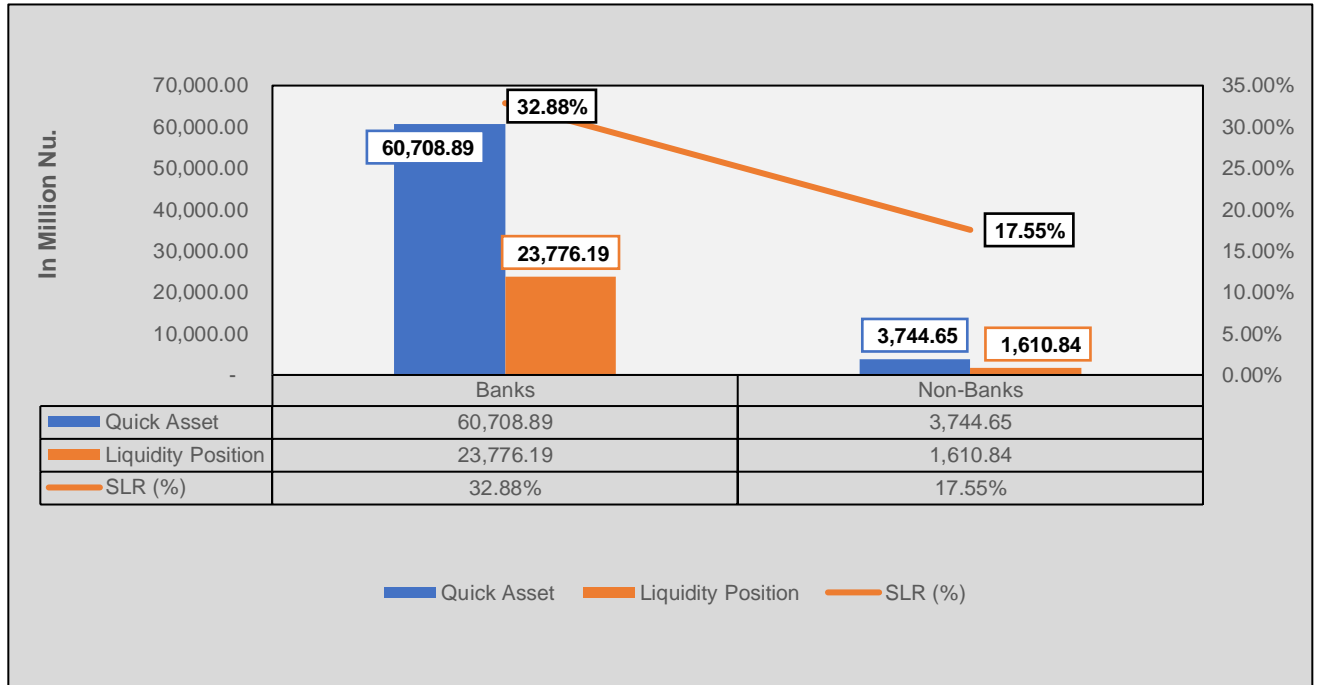
5.1 Profitability-By Banks and Non-Banks



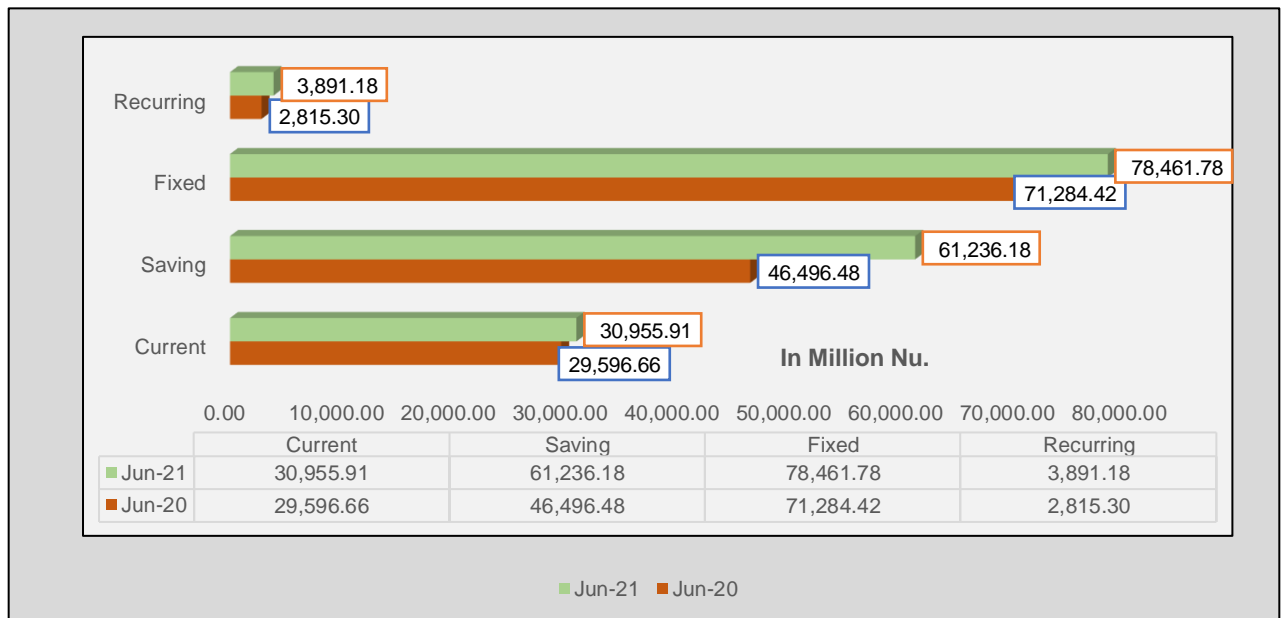
6. Liquidity



6.1 Liquidity- By Banks and Non-Banks



7. Deposits (Banking Sector)



ANNEXURE I

a) Deposit by Customer June 2020- 2021 (figures in million Nu.)- Table 1

Deposits by Customer	Total Deposits (Nu. Millions)			
	Jun-20	Jun-21	% change	% holding
Corporate deposits	68,482.20	69,696.29	1.77%	39.93%
Government	17,274.02	17,126.67	-0.85%	9.81%
Government Corp.	15,415.75	20,565.74	33.41%	11.78%
Public Companies	1,322.97	738.24	-44.20%	0.42%
Private Companies	5,617.17	11,513.48	104.97%	6.60%
Commercial Banks	17,085.24	6,105.54	-64.26%	3.50%
NBFIs	11,767.05	13,646.62	15.97%	7.82%
Retail deposits	81,710.66	104,848.75	28.32%	60.07%
Individuals	81,048.93	104,313.73	28.70%	59.76%
Foreign Currency	661.74	535.01	-19.15%	0.31%
Total	150,192.86	174,545.04	16.21%	100.00%

b) SECTORAL LOAN June 2020- 2021 (figures in million Nu.)- Table 2

Sector	Total Loans		% Change	% Holding
	Jun-20	Jun-21		
Agriculture/Animal Husbandry	6,629.58	6,603.08	-0.40%	3.84%
Trade/Commerce	17,913.58	19,681.57	9.87%	11.43%
Production & Manufacturing	19,947.98	21,869.79	9.63%	12.70%
Service/Tourism	46,546.74	48,411.11	4.01%	28.12%
Housing	42,512.39	44,907.46	5.63%	26.09%
Transport	6,279.66	6,716.48	6.96%	3.90%
Loans to FIs	521.50	253.95	-51.31%	0.15%
Personal Loan	12,622.62	12,758.80	1.08%	7.41%
LAFD	1,057.69	1,342.74	26.95%	0.78%
Education	5,940.46	6,507.83	9.55%	3.78%
Staff Loan	1,542.00	1,576.92	2.26%	0.92%
Government	0.00	0.00	0.00%	0.00%
Others	1,412.81	1,511.65	7.00%	0.88%
Totals	162,927.01	172,141.38	5.66%	100%

c) SECTORAL NPL June 2020- 2021 (figures in million Nu.)- Table 3

Sector	Total NPLs		% Change	% Holding
	Jun-20	Jun-21		
Agriculture/Animal Husbandry	1,836.61	1,252.00	-31.83%	5.16%
Trade/Commerce	4,838.50	4,706.18	-2.73%	19.41%
Production & Manufacturing	3,600.49	4,609.12	28.01%	19.01%
Service/Tourism	8,450.30	7,072.50	-16.30%	29.17%
Housing	3,722.64	3,007.43	-19.21%	12.40%
Transport	1,925.13	1,721.61	-10.57%	7.10%
Loans to FIs	0.00	0.00		0.00%
Personal Loan	1,751.04	1,469.14	-16.10%	6.06%
LAFD	20.41	44.99	120.46%	0.19%
Education	270.57	150.56	-44.36%	0.62%
Staff Loan	52.35	29.28	-44.07%	0.12%
Government (short term)	0.00	0.00	0.00%	0.00%
Others	126.84	181.10	42.77%	0.75%
Totals	26,594.89	24,243.91	-8.84%	100.00%

d) MCSML and Non enterprise Loan as of June 2021 (figures in million Nu.)- Table 4

SI no.	Sector	Total FIs			
		Loan Outstanding	NPL	% share of each category	% share of total outstanding
(1) MICRO	AGRICULTURE	2,467.10	361.56	83.04%	1.43%
	PROD & MANU	67.55	22.52	2.27%	0.04%
	SERVICE	102.07	32.63	3.44%	0.06%
	TRADE&COMMERCE	334.37	94.86	11.25%	0.19%
	LOANS TO FIs	-	-	0.00%	0.00%
	MICRO TOTAL	2,971.09	511.58	100%	2%
(2) COTTAGE	AGRICULTURE	2,899.69	609.33	70.50%	1.68%
	PROD & MANU	95.33	28.86	2.32%	0.06%
	SERVICE	365.68	129.13	8.89%	0.21%
	TRADE&COMMERCE	752.14	200.51	18.29%	0.44%
	LOANS TO FIs	-	-	0.00%	0.00%
	COTTAGE TOTAL	4,112.84	967.83	100%	2%
(3) SMALL	AGRICULTURE	881.90	167.18	6.20%	0.51%
	PROD & MANU	2,096.57	698.92	14.74%	1.22%
	SERVICE	4,479.85	1,470.84	31.50%	2.60%
	TRADE&COMMERCE	6,762.58	1,714.15	47.55%	3.93%
	LOANS TO FIs	-	-	0.00%	0.00%
	SMALL TOTAL	14,220.91	4,051.10	100%	8%
(4) MEDIUM	AGRICULTURE	354.38	113.93	0.96%	0.21%
	PROD & MANU	6,618.70	1,334.14	17.92%	3.84%
	SERVICE	19,815.24	4,580.46	53.66%	11.51%
	TRADE&COMMERCE	10,121.74	2,696.66	27.41%	5.88%
	LOANS TO FIs	18.96	0.00	0.05%	0.01%
	MEDIUM TOTAL	36,929.03	8,725.19	100%	21%
(5) LARGE	AGRICULTURE	-	-	0.00%	0.00%
	PROD & MANU	12,991.65	2,524.68	33.67%	7.55%
	SERVICE	23,648.27	859.43	61.29%	13.74%
	TRADE&COMMERCE	1,710.74	(0.00)	4.43%	0.99%
	LOANS TO FIs	234.98	-	0.61%	0.14%
	LARGE TOTAL	38,585.64	3,384.11	100%	22%
Non-Enterprise	HOUSING	44,907.46	3,007.43	59.62%	26.09%
	TRANSPORT	6,716.48	1,721.61	8.92%	3.90%
	PERSONAL	12,758.80	1,469.14	16.94%	7.41%
	STAFF LOAN	1,576.92	29.28	2.09%	0.92%
	Education Loan	6,507.83	150.56	8.64%	3.78%
	Loan Against Fixed Deposits	1,342.74	44.99	1.78%	0.78%
	Loans to the Govt	-	-	0.00%	0.00%
	Others	1,511.65	181.10	2.01%	0.88%
	Non- Enterprise TOTAL	75,321.88	6,604.10	100%	44%
GRAND TOTAL		172,141.38	24,243.91		