

ROYAL MONETARY AUTHORITY OF BHUTAN

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BHUTANESE FINANCIAL SECTOR PERFORMANCE REVIEW (March 2012 - 2013)

Financial Regulation & Supervision Department

This report presents in general the performance of the Bhutanese financial sector on peer group basis for the period ended Q1FY'13 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. The observations are highlighted below:

1. Overview

The performance of the financial sector has improved with the continued expansion in the business, while the stability of the system was maintained. The credit growth accelerated during the year and the performance of financial institutions improved with enhanced growth in assets, healthy profitability and higher capitalization. The banking, non-bank and insurance sectors expanded their branch network around the country, thereby increasing access to financial services.

2. Business size and growth (Financial Sector)

As of March 2013, the total assets of the financial system¹ has expanded to Nu. 82.06 billion as compared to Nu.72.38 billion in March 2012 indicating a growth of 13.38 percent. The growth has been recorded in the assets of banks² which have increased from Nu. 64.82 billion to Nu. 73.24 billion, and that of non-banks³ from Nu. 7.55 billion to Nu. 8.22 billion during the period under review. However, in terms of the percentage growth of the total assets of banks and non-banks, the bank's total assets increased by 13.90 percent and non-banks increased by 16.87 percent.

The increase in the total assets of the banks was mainly contributed by bank's investment in Government securities and RMA bills. The total investment in Government securities and RMA bills increased from Nu. 3.03 billion to Nu. 5.52 billion during the period under review. The loans and advances also increased from Nu. 42.09 billion to Nu. 45.32 billion, and the Cash and bank balances increased from 18.07 billion to Nu. 20.73 billion. For non-banks the total loans and advances had increased from Nu. 5.39 billion to Nu. 6.08 billion (12.90 percent). In terms of percentage growth, the cash and bank balances of non-banks increased by 34.34 percent (from Nu. 1.13 billion to Nu. 1.53 billion).

In terms of the asset composition of financial sector, the banking system constitutes 89.25 percent of the total assets and the remaining 10.75 percent constitutes non-bank's assets.

ASSETS	Banks		Non Banks		Total	
	Mar-13	Mar-12	Mar-13	Mar-12	Mar-13	Mar-12
Cash & Bank Balances	20,731.23	18,077.39	1,528.68	1,137.94	22,259.91	19,215.33
RGOB/RMA Securities	5,524.01	3,033.74	0.00	0.00	5,524.01	3,033.74
Loans & Advances (net of prov)	45,318.08	42,094.53	6,087.48	5,392.06	51,405.56	47,486.59
Equity Investments	242.14	211.14	83.98	83.98	326.13	295.13
Fixed Assets	628.58	618.10	163.89	139.20	792.47	757.30
Other Assets	793.56	792.11	958.93	796.48	1,752.50	1,588.59
Total Assets	73,237.60	64,827.02	8,822.96	7,549.66	82,060.56	72,376.68

Out of total liabilities of the financial sector it was observed that the paid up capital more than doubled from Nu. 2.13 billion in March 2012 to Nu. 5.01 billion March 2013 (by 134.37 percent in terms of percentage growth). The increase in the paid up capital was mainly due to injection of fresh capital by the banks. However, the deposit liabilities of banks slightly increased by 8.37 percent, from Nu. 50.27 billion in March

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

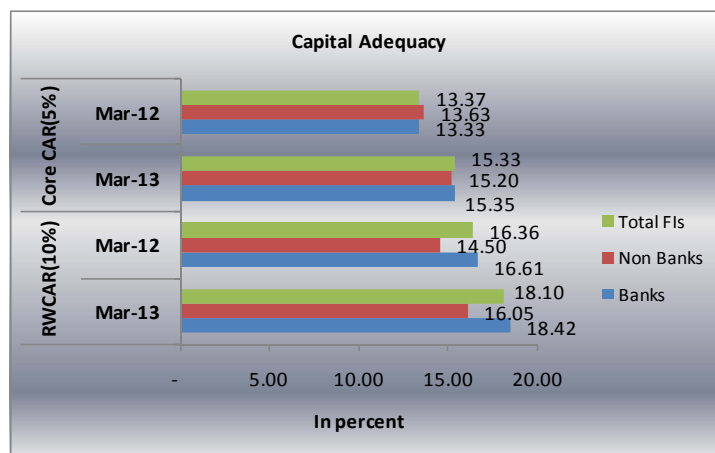
² Banks refers to BNBL, BOBL, DPNBL, Tbank & BDBL.

³ Non-banks refers to RICBL & BIL.

2012 to Nu. 54.48 billion in March 2013. The borrowing for non-banks has decreased from Nu. 4.67 billion to Nu. 2.71 billion during the period under review.

LIABILITIES	Banks		Non Banks		Total	
	Mar-13	Mar-12	Mar-13	Mar-12	Mar-13	Mar-12
Paid-up Capital	4,565.85	1,795.83	440.00	340.00	5,005.85	2,135.83
Reserves	7,875.58	7,376.36	1,441.17	773.46	9,316.75	8,149.83
Deposit Liabilities	54,482.46	50,274.85	0.00	0.00	54,482.46	50,274.85
Bonds						
Borrowings	1,271.80	1,603.93	1,433.32	3,082.97	2,705.12	4,686.90
Funds/Grants	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	1,321.47	1,233.31	5.06	2.89	1,326.52	1,236.20
Current & Other Liabilities	3,720.43	2,542.74	3,503.45	3,350.34	7,223.88	5,893.07
Total Liabilities	73,237.60	64,827.02	8,822.96	7,549.66	82,060.56	72,376.68

3. Capital & Reserves.

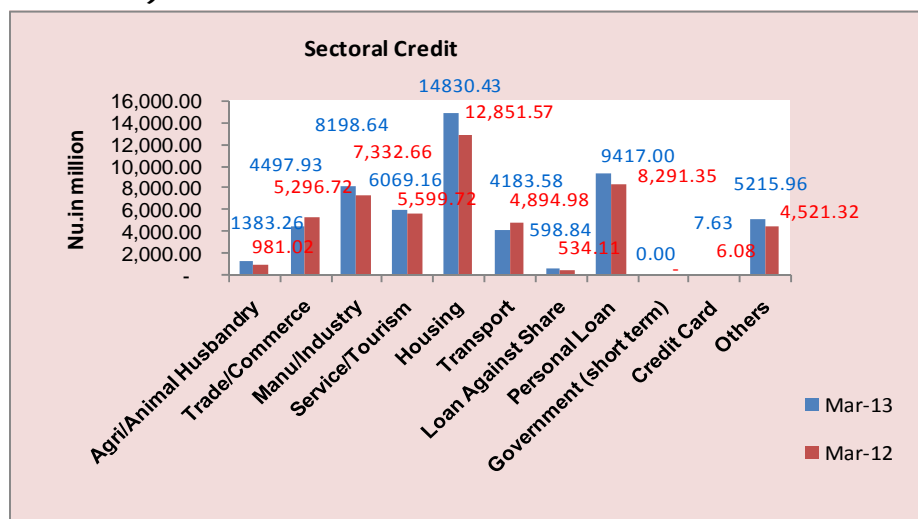


The financial system remained satisfactory with risk weighted capital adequacy ratio (RWCAR) of 18.10 percent in March 2013 against the RWCAR of 16.36 percent in March 2012. RWCAR were well above the regulatory requirement. The total risk weighted assets of the financial sector increased from Nu. 62.77 billion in 2012 to Nu. 78.15 billion in March 2013. The RWCAR of banks increased from 16.61 percent to 18.42 percent during the period under review. The RWCAR of non-banks also increased from 14.50 percent to 16.05 percent.

The core capital ratio of the financial sector has increased to 15.33 percent from 13.37 percent during the period under review.

The RWCAR of non-banks also increased from 14.50 percent to 16.05 percent.

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



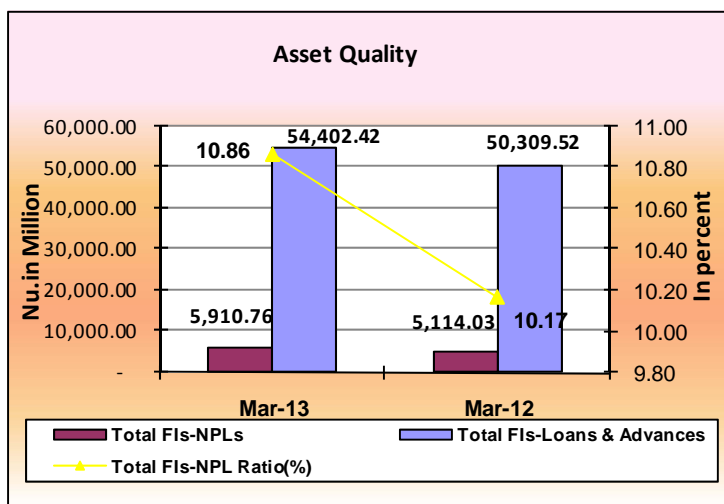
The financial system continued to play an active role in providing financing to both the household and corporate/private sectors.

During the period ended March, 2013 the financial sectors total lending (gross) to the economy reached to Nu. 54.4 billion from Nu.50.31 billion in March, 2012 or an increase by 8.14 percent. The growth in the lending activity was always attributable to strong demand towards the housing and personal sector. The Housing loan increased from Nu. 12.85 billion to Nu. 14.83 billion (Growth of 15.40 percent) and personal loans increased from Nu. 8.23 billion to Nu. 9.42 billion (Growth of 13.58 percent) during the period under review.

In terms of the sectoral exposures, housing sector continued to lead with Nu. 14.83 billion (27.26 percent to total loans), followed by personal loan and manufacturing & industry loan with Nu. 9.42 billion (17.31 percent) and Nu. 8.19 billion (15.07 percent) respectively. However, in terms of growth by sector, loans to agriculture sector experienced the highest sectoral growth of 41 percent (from Nu. 0.98 billion to Nu. 1.38 billion).

Majority of credit are provided by the banks. Out of total credit of Nu. 54.40 billion, 88.29 percent (Nu. 48.03 billion) are provided by banks and remaining 11.71 percent (Nu. 6.37 billion) are provided by non-banks. The total loans and advances provided by the banks increased to Nu. 48.03 billion from Nu. 44.49 billion indicating a growth of 7.96 percent. Similarly, the total loans and advances by non-banks increased by 9.45 percent, from Nu. 5.82 billion to Nu. 6.37 billion during the period under review.

5. Credit Quality

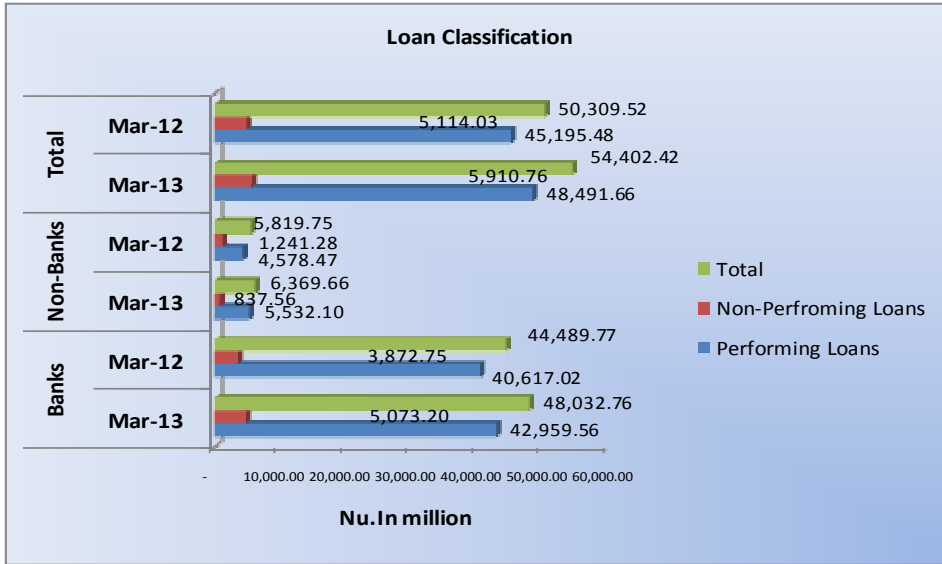


Asset quality continued to pose some concerns as the Non Performing Loans (NPL) of the financial sector grew from Nu. 5.11 billion in March 2012 to 5.91 billion in March 2013 indicating a deterioration by 15.58 percent. As against the total loans of Nu. 54.40 billion, the NPL to total loans ratio stood at 10.86 percent as compared to 10.17 percent during the period under review. For the period ended March 2013, the NPL grew by 15.58 percent as against the

growth in the total loans and advances of 8.14 percent. The NPL of the banks increased from Nu. 3.87 billion to Nu. 5.07 billion as against the increase in the total loans from Nu. 44.49 billion to Nu. 48.03 billion during the period under review. The gross NPL to loans ratio of banks stood at 10.56 percent as compared to 8.70 percent during the period under review. However, the NPL for non-banks decreased from Nu. 1.24 billion to Nu. 0.84 billion as against the increase in the total loans to Nu. 6.37 billion from Nu. 5.82 billion (9.45 percent). The NPL ratio of non-banks stood at 13.15 percent as compared to 21.33 percent during the period under review.

Doubtful and loss assets comprised over 47.62 of NPLs indicating preponderance of sticky advances, and the remaining 52.38 percent comprised of substandard assets.

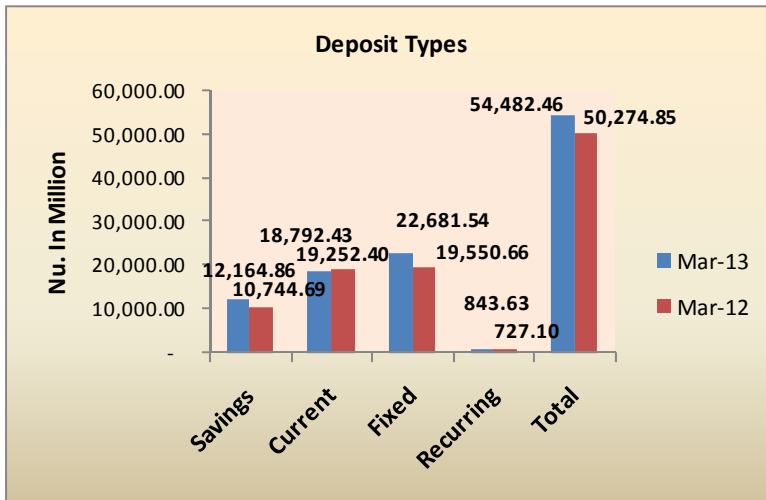
6. Consolidated Loan Classification of the FIs.



The review on asset classification indicates that around 89 percent of total loans disbursed by the financial sector are performing loans and remaining 11 percent are non-performing loans. Of the total loans of

Nu. 48.03 billion of banks, 89.44 percent are performing loans and only 10.56 percent are non-performing. Similarly, 86.85 percent of the total loan outstanding (Nu.6.37 billion) of the non-banks are performing loans and the remaining 13.15 percent are non-performing loans.

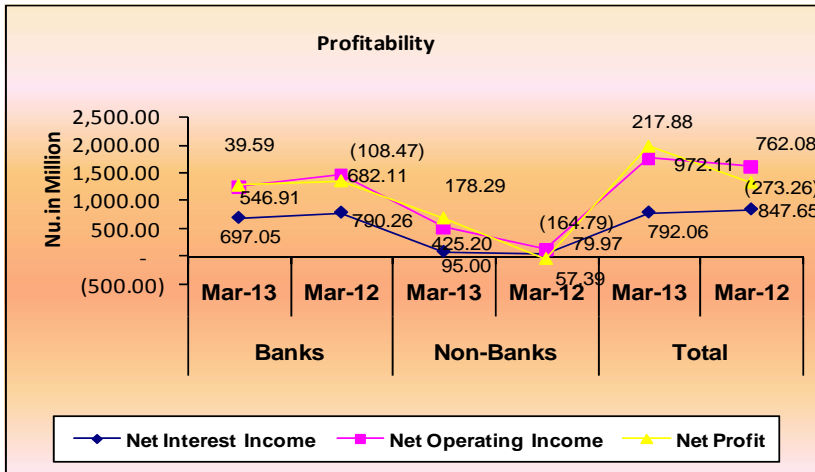
7. Deposits.



The total deposit base of the banking sector increased slightly by 8.37 percent, from Nu. 50.27 billion to Nu. 54.48 billion during the period under review. Demand deposits which grew only by 3.20 percent, from Nu. 29.99 billion to Nu. 30.96 billion during the period under review. Time deposits grew by 16 percent, from Nu. 20.28 billion to Nu. 23.53 billion during the period under review.

In terms of customer holding, corporate deposits accounts for 56.11 percent (Nu. 30.57 billion) of the total deposits and remaining 43.89 percent (Nu 23.10 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 56.82 percent and time deposits (fixed and recurring) comprised of 43.18 percent.

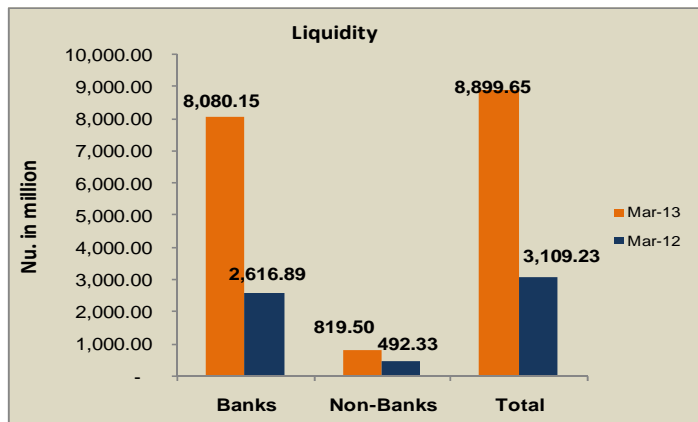
8. Profitability.



During the 1st quarter 2013, 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.0.22 billion in March 2013 as compared to a net loss of Nu. 0.27 billion in March 2012. The profit after tax of banks stood at Nu. 0.03 billion as compared to

the loss of Nu. 0.11 billion in March 2012. The profit after tax for non-banks also increased to Nu. 0.18 billion in March 2013 from a loss of Nu. 0.16 billion in March 2012. The net interest income of banks decreased by 11.79 percent (from Nu.0.79 billion to Nu. 0.69 billion) and net operating income also decreased by 19.82 percent (from Nu. 0.68 billion to Nu. 0.55 billion). However, the net interest income of non-banks increased by 65.53 percent (from Nu. 0.06 billion to Nu. 0.09 billion). The net operating income also increased from Nu. 0.08 billion to Nu. 0.43 billion during the period under review.

9. Liquidity.



On the liquidity front, the excess liquidity of the financial sector has substantially increased to Nu.8.89 billion in March 2013 from Nu.3.11 billion in March 2012 indicating a growth of 186.23 percent. The increase in liquidity is mainly due to increase in the quick assets from Nu. 14.83 billion to Nu. 21.77 billion (cash & bank balance by 15.84 percent from Nu. 19.22 billion to Nu. 22.26 billion, and RGOB/RMA

securities increased by 82.09 percent, from Nu. 3.03 billion to Nu. 5.52 billion) during the period under review. The statutory liquidity requirement (SLR) of the banks stood at 33.29 percent as compared to 24.73 percent during the period under review and the increase in the ratio is mainly due to increase in the quick assets by 47.82 percent from Nu. 13.69 billion to Nu. 20.24 billion. Similarly, the statutory liquidity position of non-banks stood at 21.56 percent as compared to 17.63 percent with a slight increase in quick assets from Nu. 1.14 billion to Nu. 1.53 billion during the period under review. The SLR position of both banks and non-banks is above the minimum prudential requirement of 20 percent and 10 percent respectively.