

# ROYAL MONETARY AUTHORITY OF BHUTAN

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## **BHUTANESE FINANCIAL SECTOR PERFORMANCE REVIEW (March 2014 – 2015)**

### **Financial Regulation & Supervision Department**

This report presents in general the performance of the Bhutanese financial sector on peer group basis (excluding NPPF) for the period ended Q1FY'15 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 financial sector has expanded in the last couple of years, registering an asset growth of 15.44% as of March 2015 mainly contributed by increase in loans and advances, cash and bank balances and investment in corporate bonds. However, financial sector has incurred loss in March 2015 compared to corresponding quarter of the previous year. In particular, both the banks and non banks experienced:

- decrease in profitability ,
- decrease in statutory liquidity requirement position and
- improvement in the asset quality

## 2. Business size and growth (Financial Sector)

As of March 2015, the total assets of the financial system have increased to Nu.103.88 billion from Nu. 89.99 billion in March 2014 indicating a growth of 15.44%. The growth has been recorded in the assets of both banks and non banks which have increased by Nu. 11.67 billion and 2.23 billion respectively. The composition of the balance sheet of the

banks continued to be dominated by traditional balance sheet items. The deposits constituted about 66.71% of liabilities and loans and advances (net of provision) comprised about 60.64% of total assets. The cash and bank balances constitute about 31.46% of total assets and the investments (RGOB/RMA securities) accounted for 5.15% during the period which ended in March 2015.

In terms of asset composition, 87.78% of the total assets are held by banks and the remaining 12.22% by non-banks.

Table 1. Total number of Asset March 2014-March 2015)										
ASSETS	Banks			Non Banks			Total			
	Mar-15	Mar-14	Change	Mar-15	Mar-14	Change	Mar-15	Mar-14	Change	Holding
Cash & Bank Balances	30,317.00	26,445.42	14.64	2,364.68	1,951.35	21.18	32,681.68	28,396.77	15.09	31.46
Cash & Bank Balances(Nu.)	10,299.13	8,512.34	20.99	2,357.12	1,944.57	21.22	12,656.25	10,456.91	21.03	12.18
Balances with Banks in India	1,287.97	455.35	182.86	4.72	4.03	17.26	1,292.70	459.37	181.40	1.24
Balances with Banks abroad	3,440.51	3,921.71	-12.27	2.70	2.63	2.83	3,443.22	3,924.34	-12.26	3.31
Balances with RMA	15,289.39	13,566.02	12.79	0.13	0.13	0.00	15,289.52	13,566.15	12.79	14.72
RGOB/RMA Securities	5,340.13	3,056.40	74.72	0.00	0.00		5,340.13	3,056.40	74.72	5.14
RMA Bills	4,298.37	1,987.60	116.26	0.00	0.00		4,298.37	1,987.60	116.26	4.14
RGOB Bills/ Bonds	0.00	808.87	-100.00	0.00	0.00		0.00	808.87	-100.00	-
Corporate Bonds	1,041.76	259.93	300.78				1,041.76	259.93	300.78	1.00
Others	0.00	0.00		0.00	0.00		0.00	0.00		-
Loans & Advances (net of prov)	53,938.63	47,921.90	12.56	9,056.53	7,187.64	26.00	62,995.15	55,109.54	14.31	60.64
Equity Investments	228.39	236.14	-3.28	159.22	115.98	37.28	387.61	352.13	10.08	0.37
Fixed Assets	799.23	741.58	7.77	170.39	278.74	-38.87	969.62	1,020.32	-4.97	0.93
Other Assets	562.76	1,117.48	-49.64	948.14	934.40	1.47	1,510.89	2,051.87	-26.37	1.45
<b>Total Assets</b>	<b>91,186.14</b>	<b>79,518.91</b>	<b>14.67</b>	<b>12,698.95</b>	<b>10,468.11</b>	<b>21.31</b>	<b>103,885.08</b>	<b>89,987.02</b>	<b>15.44</b>	<b>100.00</b>

The increase in the total assets of the banks during the period under review was mainly contributed by the following

- ✓ Increase in loans and advances(net of specific provision and interest in suspense) by Nu.6.02 billion indicating a growth of 12.55%
- ✓ the increase in cash and bank balances by Nu. 3.87 billion, from Nu.26.45 billion in 2013 to Nu.30.32 billion in 2014

- ✓ increase in bank's investment in corporate bonds and RMA bills by Nu.2.29 billion.

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

- ✓ increase in loans and advances( net of provisions) by 26%
- ✓ increase in cash and bank balances by Nu.413.32 million from Nu. 1.95 billion in March 2013 to Nu.2.36 billion in March 2014.
- ✓ The increase in equity investments by Nu.43.24 million during the period under review.

### **Liability**

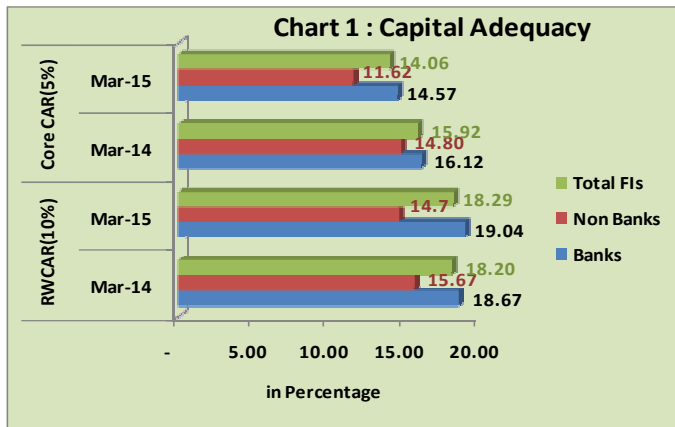
Out of total liabilities of Nu.103.88 billion, it was observed that the paid up capital increased from Nu. 5.52 billion March 2014 to Nu.7.49 billion in March 2015 indicating an increase of 35.74% .The deposit liabilities of banks increased by 13.51%, from Nu.61.06 billion in March 2014 to Nu.69.30 billion in March 2015. The bonds and debentures stood at Nu. 2.5 billion in March 2015.

LIABILITIES	Banks			Non Banks			Total			% Holding
	Mar-15	Mar-14	% Change	Mar-15	Mar-14	% Change	Mar-15	Mar-14	% Change	
Paid-up Capital	6,097.79	5,083.77	19.95	1,400.00	440.00	218.18	7,497.79	5,523.77	35.74	7.22
Reserves	9,979.04	8,251.25	20.94	1,188.92	1,693.55	-29.80	11,167.96	9,944.80	12.30	10.75
Deposit Liabilities	69,303.42	61,057.07	13.51	0.00	0.00		69,303.42	61,057.07	13.51	66.71
Bonds/Debentures	0.00	0.00		2,500.00	2,999.97	(16.67)	2,500.00	2,999.97	(16.67)	2.41
Borrowings/Funds/Grants	948.19	1,193.51	-20.55	1,443.68	1,547.02	-6.68	2,391.88	2,740.53	-12.72	2.30
Provisions	2,147.14	1,691.75	26.92	9.23	4.89	88.59	2,156.37	1,696.65	27.10	2.08
Current & Other Liabilities	2,710.55	2,241.55	20.92	6,157.11	3,782.67	62.77	8,867.66	6,024.23	47.20	8.54
<b>Total Liabilities</b>	<b>91,186.14</b>	<b>79,518.91</b>	<b>14.67</b>	<b>12,698.95</b>	<b>10,468.11</b>	<b>21.31</b>	<b>103,885.08</b>	<b>89,987.02</b>	<b>15.44</b>	<b>100.00</b>

### 3. Capital & Reserves

During the period under review, the capital fund has increased by 21.61% as against the increase in total risk weighted asset of 21%.

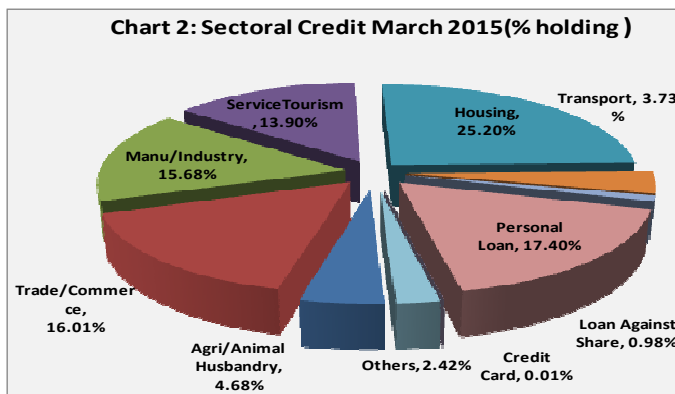
The risk weighted capital adequacy ratio (RWCAR) of the financial sectors stood at 18.29% in March 2015 against the RWCAR of 18.20% in March 2014. The RWCAR of banks increased from 18.67% to 19.04% during the period under review. However, for non-banks it has decreased from 15.67% to 14.7% in March 2015. RWCAR were well above the regulatory requirement –both institution wise and a systemic perspective.



The core capital ratio of both the banks and non banks stood at 14.57% and 11.62% respectively which is maintained well above the regulatory requirement of 5%.

### 4. Sectoral Credit Analysis

During the period ended March 2015, the total loans increased to Nu. 67.08 billion from Nu.58.98 billion in March 2014 indicating an increase of 13.76%. The growth in the lending activity can be attributed to strong demand for loans in the housing and personal sector, leading the other sectoral exposures.



As depicted in the figure 2, the sectoral exposures to total loans and advances analysis reveal that the Housing Sector still dominated the sectoral exposure with the highest loan followed by Personal Sector and Trade & Commerce Sector amounting to Nu. 16.91 billion (25.20%), Nu.11.67 billion (17.40%), and Nu.10.73 billion

(16.01%) respectively. These three sectors constitute 58.61% of the total loans and advances for the 1st Quarter 2015. Therefore, the Financial sector need to be very cautious about the quality of these sectors since there can be a negative impact on its asset quality and profitability in case of default. In terms of percentage growth by sector, loans to

Agriculture sector experienced the highest sectoral growth of 54.29% followed by Trade and Commerce sector with 40.39%.

Out of total credit of Nu. 67.08billion, 85.86% (Nu. 57.59 billion) are provided by banks and remaining 14.14%(Nu. 9.49 billion) are provided by non-banks. The total loans and advances provided by the banks has increased from Nu. 51.47 billion in March 2014 to Nu.57.59 billion in March 2015 indicating a growth of 11.89%. Similarly, the total loans and advances of non-banks have also increased by26.58%, from Nu. 7.49 billion in March 2014 to Nu. 9.49 billion during the period under review.

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

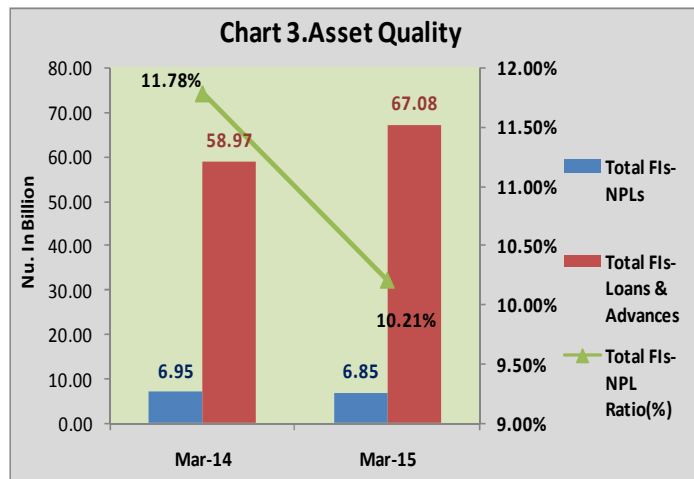
The total Non Performing Loans (NPL) of the financial sector slightly decreased from Nu. 6.95 billion in March 2014 to Nu. 6.85 billion in March 2015. The NPL to total gross loans ratio stood at 10.21% in March 2015 as compared to 11.78% in March 2014.

The NPL of the banks decreased from Nu. 5.93billion in March 2014 to Nu.5.85 billion in March 2015 as against the increase in the total loans from Nu. 51.47 billion in March 2014 to Nu. 57.59 billion during the period under review. The gross NPL ratio of banks stood at 10.16% in March 2015as compared to 11.53% in March 2014.

Similarly, the NPL of non-banks has also decreased from Nu.1.01 billion in March 2014 to Nu.993.87 million in March 2015 as against the increase in the total loans from Nu.7.49 billion in March 2014 to Nu. 9.49 billion during the period under review. The NPL ratio of non-banks stood at 10.48% in March 2015 as compared to 13.53% in March 2014.

Out of the total NPL of Nu.6.85 billion, doubtful and loss assets category comprises of 55.25% (Nu.1.24billion under doubtful category and Nu.2.54 billion under loss category) and the remaining 44.74%(Nu.3.06 billion under substandard loans.

Table 3 represents the sectoral NPL holding for March 2015. The sectoral NPL to total NPL analysis of the financial sector indicates that out of the total NPL of Nu. 6.85 billion the



Sectoral NPL	Nu. In million			% Change
	Mar-14	Mar-15	% Holding	
Agriculture/Animal Husbandry	329.50	443.33	6.48%	34.55%
Trade/Commerce	2,005.50	1,838.36	26.85%	-8.33%
Manu/Industry	736.19	855.29	12.49%	16.18%
Service/Tourism	819.93	685.98	10.02%	-16.34%
Housing	877.88	1,141.30	16.67%	30.01%
Transport	716.94	591.75	8.64%	-17.46%
Loan Against Share	35.49	31.55	0.46%	-11.08%
Personal Loan	1,055.67	1,227.41	17.93%	16.27%
Government (short term)	0.00	0.00	0.00%	
Credit Card	3.36	4.52	0.07%	34.74%
Others	367.19	26.59	0.39%	-92.76%
<b>Totals</b>	<b>6,947.64</b>	<b>6,846.08</b>	<b>100.00%</b>	<b>-1.46%</b>

chronological distribution of sectoral NPLs are:

- ✓ Trade and commerce sector has the highest NPL with Nu. 1.84 billion (26.85%)
- ✓ Personal Sector with Nu. 1.23 billion (17.93%)
- ✓ Housing sector with Nu.1.14 billion(16.67%) .

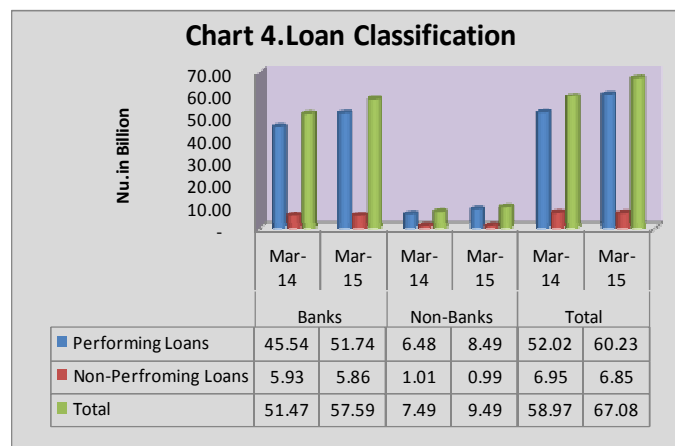
However, in terms of percentage increase in NPL by sector;

- ✓ Credit card experienced the highest sectoral growth of 34.74% (from Nu.3.36million to Nu. 4.52 million)
- ✓ Agriculture sector with 34.55%
- ✓ Housing sector with 30.01%
- ✓ NPL in Trade/commerce, Service /Tourism and Transport sectors contracted for the period ended March 2015 by Nu.167.14 million(8.33%), Nu.133.95million(16.34%) and Nu. 125.19 million (17.46%) respectively.

#### 6. Consolidated Loan Classification of the FIs.

The review on asset classification reveals that around 89.79% (Nu.60.23 billion) of total loans (Nu.67.08 billion) disbursed by the financial sector are performing loans and remaining 10.21% (Nu.6.85 billion) are non-performing loans.

Of the total loans of Nu. 57.59 billion of banks, 89.83%(Nu.51.74 billion) are performing loans and only 10.17% (Nu.5.86 billion) are non-performing. Similarly, out of the total loans of Nu.9.49 billion of non banks, 89.52%(Nu.8.49 billion) are performing loans and the remaining 10.48%(Nu.993 million) were non-performing loans for the period under review.



#### 7. Deposit

The total deposit base of the banking sector increased from Nu. 61.06 billion in March 2014 to Nu.69.30 billion indicating a growth of 13.51% during the period under review.

The increase in the overall deposit base was mainly due to increase in both the demand and time deposits by

Table 4. Deposit by Type			
Total FIs	Figures in billion		
Deposits by Type	Mar-15	Mar-14	% Holding
<b>Demand Deposits</b>	<b>37.76</b>	<b>34.55</b>	<b>54.49%</b>
Current	20.41	19.32	29.44%
Saving	17.36	15.23	25.05%
<b>Time Deposits</b>	<b>31.54</b>	<b>26.51</b>	<b>45.51%</b>
Fixed	30.45	25.55	43.94%
Recurring Deposits	1.09	0.96	1.57%
<b>Total</b>	<b>69.30</b>	<b>61.06</b>	<b>100.00%</b>

9.31% and 18.98% respectively.

Demand deposits has increased to Nu. 37.76 billion from Nu. 34.55 billion during the period under review ( the current deposit increased from Nu19.32 billion in March 2014 to Nu. 20.41billion in March 2015 and the saving deposit grew from Nu.15.23 billion in March 2014 to Nu. 17.36 billion in March 2015).

Similarly, the time deposit has also increased from Nu. 26.51 billion to Nu. 31.54 billion (Fixed Deposits has increased from Nu. 25.55 billion in March 2014 to Nu. 30.45 billion in March 2015 and Recurring Deposits from Nu. 0.96 billion in March 2014 to Nu. 1.09 billion in March 2015). As a share of total deposits, demand deposits (current and saving) accounted for 54.49% and time deposits (fixed and recurring) for 45.51%.

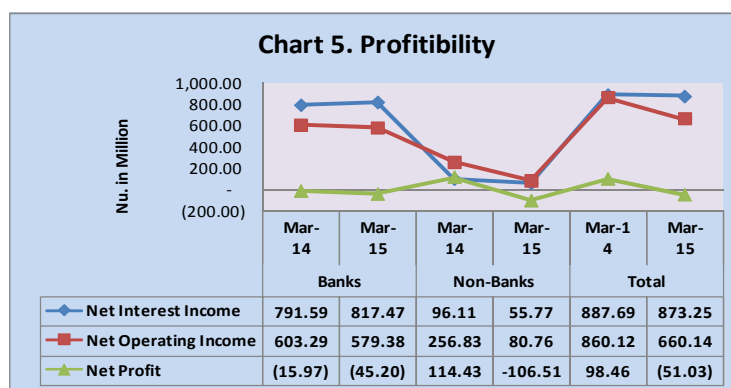
Table 5. Deposits by Customer( Nu. in Billion)			
Particulars	Mar-15	Mar-14	% Holding (March 2015)
<b>Corporate deposits</b>	<b>39.18</b>	<b>30.95</b>	<b>56.53%</b>
Government	10.95	8.23	15.79%
Government Corp.	11.36	6.89	16.39%
Public Companies	0.25	0.35	0.36%
Private Co.	3.02	3.48	4.36%
Commercial Banks	7.43	7.10	10.73%
NBFIs	6.18	4.88	8.91%
<b>Retail deposits</b>	<b>30.12</b>	<b>30.11</b>	<b>43.47%</b>
Individuals	28.91	27.51	41.71%
Foreign Currency	1.22	2.60	1.76%
<b>Total</b>	<b>69.30</b>	<b>61.06</b>	<b>100.00%</b>

In terms of customer holdings, out of total deposits of Nu.69.30 billion, corporate deposits accounts for 56.53% (Nu. 39.18 billion) and remaining 43.47% (Nu. 30.12 billion) constitutes retail deposits.

In other words, corporate deposits continued to dominate the deposit holding pattern of the banks for the period ended March 2015.

## 8. Profitability

During the 1st quarter 2015, the financial sector incurred net loss of Nu.51.03 million as compared to net profit of Nu. 98.46 million in March 2014. For the first quarter 2015, both the banks and non banks has incurred a loss of Nu. 45.20 million and Nu.106.51 million respectively.



The net interest income of the financial sector has

decreased from Nu.887.69 million in Q1FY'14 to Nu. 873.25 million in Q1FY'15. Similarly, the net operating income of the financial sector has also decreased from Nu.860.12 million in March 2014 to Nu.660.14 million in March 2015. The decrease in net interest income and net operating income by Nu.14.45 million and Nu.199.97 million respectively has led to the decrease in net profit after tax of the financial sector during the period under review.

## 9. Liquidity

On the liquidity front, the excess liquidity of the financial sector has decreased by 5.11%, from Nu.10.18 billion in March 2014 to Nu. 9.66 billion in March 2015.

The statutory liquidity requirement (SLR) of the financial sector stood at 30.15% in March 2015 as compared to 32.52% in the corresponding quarter of the previous year. The SLR of the banks stood at 31.10% in March 2015 as compared to 20.40% in March 2014. Similarly, the non-banks' SLR position for the March 2015 stood at 23.38% as compared to 23.21% in March 2015.

