

ROYAL MONETARY AUTHORITY OF BHUTAN

༄༅། །། ཀྲུལ་གཞུང་དངུལ་ལས་དབང་འཛིན། །།

Financial Regulation & Supervision Department



FINANCIAL SECTOR PERFORMANCE REVIEW REPORT (March 2017)

This report presents the performance of the Bhutanese financial sector on peer group basis (excluding NPPF) for the period ended Q1FY'17 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. Further, RMA issued revised Prudential Regulations 2016 for compliance by all the financial institutions with effect from September 2016. The FRSD has also revised the new reporting formats (monthly returns) of the financial institutions in line with PR 2016.

Overview

Financial sector continued to expand business by 11.42% (Nu.14.91billion) during the period ended March 2017. The total assets in the financial sector stood to Nu. 145.49 billion in March 2017 as compared to Nu. 130.57 billion in March 2016. In terms of asset composition, 86.14% (Nu.125.32billion) of the total assets are held by banks and the remaining 13.86%(Nu. 20.17billion) by the non-banks

With regard to the performance of financial sector in terms of profitability, it has incurred losses amounting to Nu.801million during the period under review. Banking sector incurred a loss of Nu.863million while the non banking sector registered a profit of Nu.61.50million.

Loan provisioning has rapidly increased due to the deterioration in the loan quality (Non-Performing Loans) by Nu.2.39billion. As a result, the provision provided for the NPLs has almost doubled, from Nu.971million in March 2016 to Nu.1.61billion in March 2017.

Financial sectors' total loans to the economy have increased by 16.42%, from Nu. 79.02billion in March 2016 to Nu. 91.99billion in March 2017. In terms of lending by sectors, Housing Sector has the highest loan outstanding with Nu. 20.86billion (22.67%) followed by Service and Tourism Sector with Nu.18.24billion (19.83%) and Trade/ Commerce Sector with Nu.13.09billion (14.23%). The loan exposures of these three sectors constituted 56.74% of the total loans for March 2017. Similarly, in terms of Non-Performing Loans (NPL) composition, NPL of these three sectors constituted 63.56% of the total NPL. Gross NPL ratio in the financial sector stood at 12.38% in March 2017. Gross NPL ratio of banks and non bank stood at 11.57% and 15.80% respectively.

Of the total loans of Nu. 91.99billion, the loans to medium enterprises accounted for 21.80% (Nu.20.06 billion) while loans to large enterprises accounted for 14.15% (Nu.13.02 billion). However, the loans to micro, cottage and small enterprises accounted for only 18.07 % of the total loans.

Capital Adequacy Ratio (CAR) and Statutory Liquidity Requirement (SLR) were also maintained above the minimum regulatory requirements.

1. Business Size and Growth

1.1. Assets of financial sector

Total asset of the financial sector amounted to Nu.145.49billion in March 2017 as compared to Nu.130.58 billion in March 2016, registering a growth of 11.42%. In terms of asset composition, 86.14% of the total assets are held by banks and the remaining 13.86% by the non-banks. The increase in total assets was mainly attributed to the increase in loans and advances (net of specific provision and interest in suspense) by Nu.11.20billion.

ASSETS	Figures in million (Nu.)										
	Banks			Non Banks			Total				
	Mar-17	Mar-16	% Variation	Mar-17	Mar-16	% Variation	Mar-17	Mar-16	% Variation	% Holding (March 2017)	Absolute Change
Cash & Bank Balances	37,417.86	42,770.12	-12.51%	1,734.69	1,800.25	-3.64%	39,152.55	44,570.37	-12.16%	26.91%	-5,417.82
<i>Cash & Bank Balances(Nu.)</i>	13,509.53	13,320.81	1.42%	1,624.56	1,776.78	-8.57%	15,134.08	15,097.59	0.24%	10.40%	36.49
<i>Balances with Banks in India</i>	1,589.14	2,843.68	-44.12%	80.00	20.50	290.29%	1,669.14	2,864.18	-41.72%	1.15%	-1,195.04
<i>Balances with Banks abroad</i>	3,756.20	2,597.16	44.63%	30.00	2.84	954.81%	3,786.21	2,600.00	45.62%	2.60%	1,186.21
<i>Balances with RMA</i>	18,562.99	24,008.47	-22.68%	0.13	0.13	0.00%	18,563.12	24,008.60	-22.68%	12.76%	-5,445.48
Marketable securities	16,442.87	8,565.17	91.97%	60.00	60.00	0.00%	16,502.87	8,625.17	91.33%	11.34%	7,877.70
<i>RMA securities</i>	12,480.71			0.00	0.00		12,480.71	5,486.89	1.27	0.09	6,993.82
<i>RGOB Bills/ Bonds</i>	0.00	0.00		0.00	0.00		0.00	0.00			0.00
<i>Corporate Bonds</i>	3,337.69	3,078.29	8%	60.00	60.00		3,397.69	3,138.29	0.08	0.02	259.40
<i>Others</i>	624.48	0.00		0.00	0.00		624.48	0.00		0.00	624.48
Loans & Advances (net of prov)	68,367.15	60,715.90	12.60%	16,894.60	13,345.25	26.60%	85,261.74	74,061.16	15.12%	58.60%	11,200.59
Equity Investments	326.80	307.55	6.26%	305.82	189.68	61.23%	632.63	497.23	27.23%	0.43%	135.39
Fixed Assets	1,416.74	1,153.43	22.83%	219.36	189.54	15.73%	1,636.10	1,342.97	21.83%	1.12%	293.13
Other Assets	1,348.78	879.62	53.34%	953.56	598.53	59.32%	2,302.34	1,478.15	55.76%	1.58%	824.18
Total Assets	125,320.20	114,391.80	9.55%	20,168.03	16,183.25	24.62%	145,488.23	130,575.05	11.42%	100.00%	14,913.18

The assets of the banking sector have increased by 9.55%, from Nu. 114.39billion in March 2016 to Nu.125.32billion in March 2017. This increase was on account of increase in loans and advances as well as banks' investment in the marketable securities especially RMA T-bills and investment in commercial papers.

Similarly, the non-banking sector also continued to grow with an increase of its assets by 24.62% (Nu.3.98billion). The total assets increased from Nu. 16.13billion in March 2016 to Nu.20.17billion in March 2017. The increase in asset size was mainly due to the increase in loans and advances (net of specific provision and interest in suspense) and also due to increase in equity investments.

1.2. Liabilities of financial sector

Total liabilities in the financial sectors amounted to Nu.145.49billion; out of which bank's liability consists of Nu.125.32billion and non bank liability consist of Nu.20.17billion during the period under review. The increase in the liability of the financial sector was mainly due to increase in bank deposits by Nu.5.17billion followed by expansion of borrowings by Nu. 689 million by the non-banking sector.

LIABILITIES	Banks			Non Banks			Total				
	Mar-17	Mar-16	% Variation	Mar-17	Mar-16	% Variation	Mar-17	Mar-16	% Variation	% Holding (March 2017)	Absolute Change
Paid-up Capital	7,549.25	6,305.39	19.73%	1,400.00	1,400.00	0.00%	8,949.25	7,705.39	16.14%	6.15%	1,243.86
Reserves	10,122.67	11,216.23	-9.75%	2,144.01	1,621.70	32.21%	12,266.68	12,837.93	-4.45%	8.43%	-571.24
Deposit Liabilities	96,164.51	90,992.91	5.68%	0.00	0.00		96,164.51	90,992.91	5.68%	66.10%	5,171.60
Bonds/Debentures	0.00	0.00		2,500.00	2,500.00	0.00%	2,500.00	2,500.00	0.00%	1.72%	0.00
Borrowings/Funds	565.67	809.79	-30.15%	3,840.76	2,907.31	32.11%	4,406.43	3,717.10	18.54%	3.03%	689.33
Provisions	3,150.53	2,462.39	27.95%	15.40	14.16	8.77%	3,165.93	2,476.54	27.84%	2.18%	689.39
Funds (*Applicable only for Insurance Companies)				7,933.34			7,933.34			5.45%	7,933.34
Current & Other Liabilities	7,767.56	2,605.08	198.17%	2,334.52	7,740.09	-69.84%	10,102.08	10,345.17	-2.35%	6.94%	-243.09
Total Liabilities	125,320.20	114,391.80	9.55%	20,168.03	16,183.25	24.62%	145,488.23	130,575.05	11.42%	100.00%	14,913.18

Major component of the liabilities of the banking sector is the deposit liabilities with 76.74% (Nu.96.16billion). Likewise, the major component of non-banking sector is the insurance fund with 39% followed by borrowing of 19.04%. The increase in the liability of Nu.3.98billion of non-banking sector was contributed by the increase in the borrowing from both the commercial banks and non banks by Nu.933million. As of March 2017, the non-banking sector had an Insurance Fund of Nu.7.93 billion which comprises of the Life Insurance Fund, General Insurance Fund, Group Insurance Fund and other funds.

1.3. Off-balance sheet exposure of financial sector

For March 2017, the off-balance sheet (OBS) exposure of the financial sector accounted for Nu.9.93billion. The share of financial guarantees against total off-balance sheet exposure of the financial sector comprised the highest with 67.29% amounting to Nu.6.68billion, followed by letters of credit with 28.17% (Nu.2.79billion) and other guarantees with 4.54% (Nu.450million). The OBS of banking sector accounted for Nu.9.44 billion and the remaining Nu.494million accounted for non-banking sector.

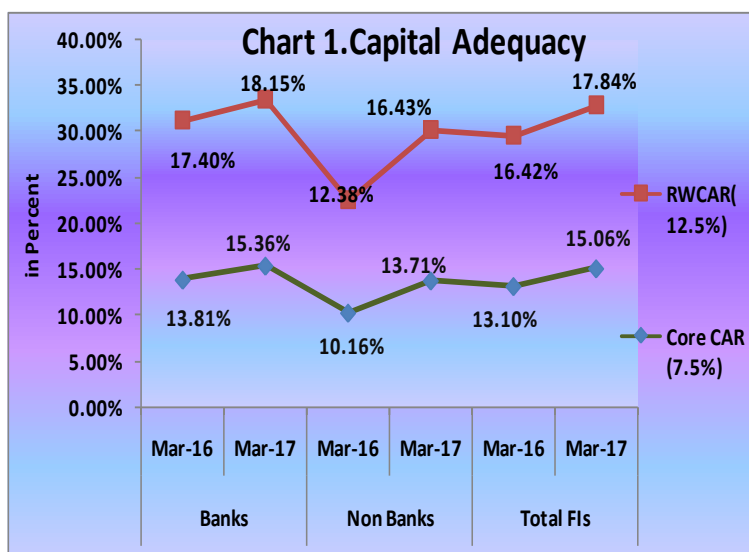
2. Capital and Reserves

Capital is a main source of financial support and act as a buffer that enables financial institutions to absorb a level of losses without the interest of creditors and depositors being adversely affected, and thus protects the interest of the creditors and depositor in the event of liquidation. Besides absorbing the unanticipated shocks, it also signals that the institution will continue to honor its obligations.

Capital fund¹ of the financial sector for the period ended March2017 amounted to Nu.22.06billion, as compared to Nu.20.54 billion in March 2016, indicating an increase of Nu.1.54million. The capital fund of banking sector amounted to Nu. 18.51billion and for non- banking sector, it amounted to Nu.3.54billion during the period under review. In terms of the capital composition, Tier 1 capital consisted of 82.09 % (Nu.18.09billion) and remaining 17.91% (Nu.3.95billion) consisted of Tier 2 capital.

2.1 Capital Adequacy

Risk Weighted Capital Adequacy Ratio (RWCAR) of the financial sector for March 2017 stood at 17.84% as compared to 16.42% in March 2016 showing an increase of 1.42% (chart 1). The reason for an increase in the RWCAR was mainly due to the decrease in total risk weighted assets which was brought about by the change in the regulatory norms (risk-weights) for loans and advances. Under the new risk-weight framework, financial institutions are required to assign 100% risk weight for performing loans and 150% for non-performing loans (risk weight for loans prior to the new regulatory norms ranges from 100% to 300% based on the sector exposure).



¹In this case, the capital fund is the total capital fund without deducting the NPL of related party. The total capital fund and the capital fund for calculating the CAR ratio will not tally since the NPL of related party has been deducted from the capital fund while assessing the RWCAR as required by the section 2.4.7 of PR 2016.

Core capital ratio² of the financial sector, which measures the minimum value of personal risk undertaken by shareholders, has also increased from 13.10% in March 2016 to 15.06% in March 2017.

2.2 Banking sector

RWCAR³ of the banking Sector has improved slightly from 17.40% in March 2016 to 18.15% in March 2017, which is above the minimum regulatory requirement of 12.5% including the capital conservation buffer. This increase was mainly due to the decrease in

	Banks		Non Banks	
	Mar-16	Mar-17	Mar-16	Mar-17
Capital fund	17,521.62	17,903.29	3,014.38	3,534.57
Total Risk Weighted Asset	100,716.42	98,640.41	24,345.56	21,513.72
Tier 1	13,907.63	15,147.90	2,473.63	15,147.90
Core CAR (7.5%)	13.81%	15.36%	10.16%	13.71%
RWCAR(12.5%)	17.40%	18.15%	12.38%	16.43%

total risk weighted assets⁴ by Nu.2.08billion. Similarly, the Core Capital Ratio of the banking sector has slightly increased from 13.81% in March 2016 to 15.36% in March 2017. The ratio is observed to be maintained well above the minimum regulatory requirement of 7.5%.

2.3 Non-Banking sector

Capital fund of the non-banking sector has increased by Nu.520million, from Nu.3.01billion in March 2016 to Nu.3.53billion in March 2017. Conversely, the risk weighted asset of non-banking sector has decreased by Nu.2.83billion, from Nu.24.35billion in March 2016 to Nu.21.51billion in March 2017. This decrease in risk weighted asset has led to increase in RWCAR by 4.05%. The Core Capital Ratio of the non-banking sector stood at 13.71% which is maintained well above the regulatory requirement of 7.5%.

² With effect from September 2016, financial institutions are required to maintain a minimum core capital of 7.5%., including a capital conservation buffer of 2.5% from Tier 1 capital.

³ The RWCAR signifies the availability of capital to support the business of the financial institutions. The NPL of related parties has been deducted from the capital fund when assessing RWCAR as required by the section 2.4.7 of PR 2016.

⁴ From September 2016, the Risk weighted asset is computed as per Section 1.8 of the Prudential Regulation 2016 i.e., a risk weight of 100% for performing loans and 150% for non-performing loans

2.4 Leverage Ratio

Leverage ratio⁵ acts as a supplementary measure to capital adequacy ratio by ensuring that the financial institutions maintain adequate levels of capital at all times. The Leverage ratio for the financial sector for the period ended March 2017 stood at 11.60%, maintaining 6.64% higher than the regulatory requirement of 5%. The Leverage ratio of Banking and non-banking sector stood at 11.24% and 14.28% respectively during the period under review.

3. Asset Quality

Asset quality is one of the most critical areas in determining the overall condition of financial institutions. The primary factor affecting overall asset quality is the quality of the loan portfolio and the credit administration program. Loans typically comprise majority of financial sector's assets and carry the greatest amount of risk to their capital. The deterioration in the quality of assets has negative impact on the profit, liquidity and capital of the financial sector, therefore, assessing asset quality is essential to ensure that assets are stated at reasonable values in relation to the associated risk.

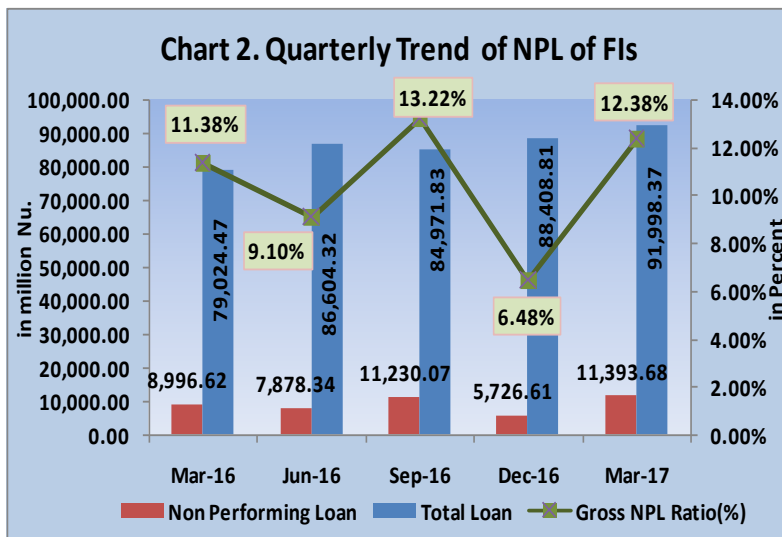
Analysis on the loan classification of the financial sector indicated that both loans and NPL have increased by Nu. 12.97billion and Nu. 2.40 billion respectively. Financial sectors' total loans⁶ to the economy have increased by 16.42%, from Nu. 79.02 billion in March 2016 to Nu. 91.99billion in March 2017. The NPL of the financial sector has also increased by 26.64% from Nu. 8.99million in March 2016 to Nu.11.39billion in March 2017. However, from the period ended December 2016 to March 2017, the loan has increased by Nu.3.59billion and the NPL has significantly increased by Nu. 5.67billion.

Gross NPL ratio (NPL to total loans) of the financial sector increased to 12.38% in March 2017 as compared to 11.38% in March 2016. For the period ended March 2017, the specific provisions of Nu.5.62billion grew at a much lower rate than NPL of Nu.11.39billion, resulting in a provision coverage ratio of 49.32%. However, the provision coverage ratio has increased by 3.54% when compared to March 2016. Net NPL to net loan of the financial sector for March 2017 stood at 5.46% as compared to 5.45% in March 2016.

⁵ From September 2016, the minimum Leverage ratio is raised from 3% to 5%

⁶ With effect from 3rd quarter 2016, Financial institutions are required to submit the monthly returns based on the new PR 2016, i.e., the age days/ bucket has been reduced for doubtful and loss category. The loans and advances whose principal and interest payment has been overdue by 181days to 365days has been included under doubtful category and principal and interest overdue above 365 days has been categorized into loss category.

As shown in chart 2, the NPL depicts surging pattern, as the NPL ratio is always observed to be the highest in the first three quarters and decreases significantly in the last quarter.



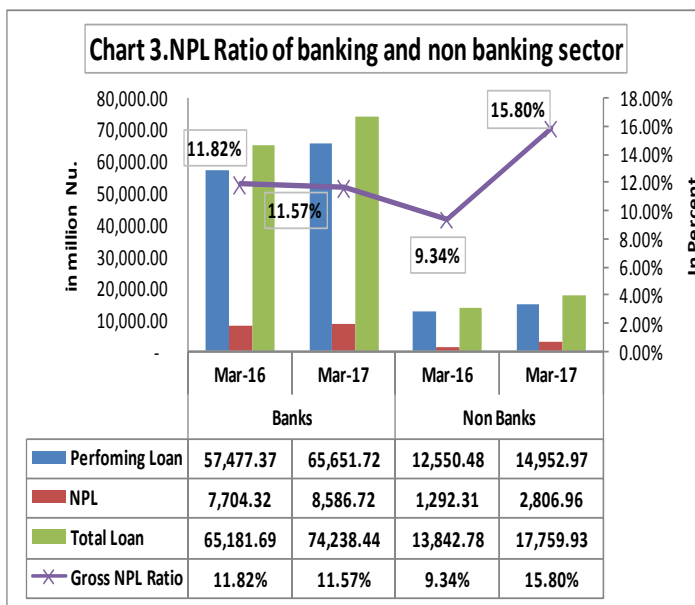
As evident from chart 2, NPL ratio of the financial sector stood at 11.38% in March 2016 and declining thereafter to as low as 6.48% December 2016. The ratio has again increased to 12.38% for the period ended March 2017.

Single Largest borrower’s (SLB) exposure at 14.61% and Ten Largest Borrower (TLB) exposure at 16.82% were also

maintained within the limit of 30% (of capital fund) and 30% (of the total loans) respectively. The SLB of banking sector stood at 14.66% and for non-banking sector, it stood at 14.30%. Similarly, the TLB of banking and non-banking sector stood at 17.51% and 13.68% respectively. TLB and SLB for both Banking and non-banking sector were within the regulatory requirement (Annexure I)

3.1. Asset Quality: banking and non-banking sector

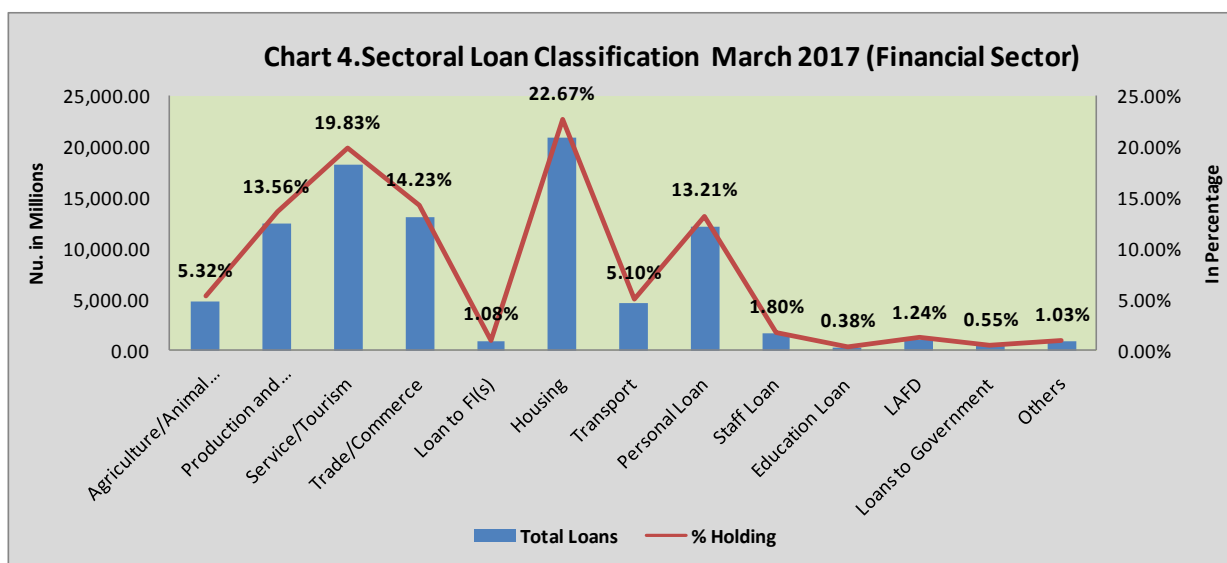
Gross NPL ratio of banking sector has decreased slightly by 0.25%, from 11.82% to 11.57% during the period under review. However, the NPL of Banking Sector for March 2017 amounted to Nu.8.59 billion, as compared to Nu.7.70billion in March 2016. The substantial increase in the total loans and advances of banking sector by 13.89% (Nu. 9.06 billion) during the quarter has helped to reduce the gross NPL ratio. Of the total loan outstanding of Nu. 74.24billion in the banking sector, 88.43% (Nu.65.65billion) constitutes regular loans and 11.57% (Nu.8.59billion) constitutes non-performing loans.



Gross NPL ratio of non-banking sector has increased by 6.46%, from 9.34% in March 2016 to 15.80% in March 2017. The ratio has significantly increased from the last preceding three months for non-banking sector. It stood at 3.38% in December 2016 and has more than doubled to 15.80% in March 2017. The total loan outstanding for the non-banking sector accounted for Nu. 17.76 billion, out of which 15.80% (Nu.2.81million) constitutes non-performing loans and 84.20% (Nu. 14.95billion) constitutes regular loans.

4. Sectoral Loans and Advances

Loans and advances of the financial sector increased by Nu.12.97billion during the period under review. The growth in the loans was attributable towards a strong demand for the



Housing sector, Service and Tourism sector and Trade and Commerce sector.

The above diagram shows the analysis on sectoral⁷ exposure to total loans and advances of the financial sector and indicates that out of the total loans of Nu.91.99 billion, Housing sector has the highest loan with Nu. 20.86billion (22.67%) followed by Service and Tourism sector with Nu.18.24billion (19.83%) and Trade and Commerce sector with Nu.13.09billion (14.23%).

In terms of absolute increase in loans for the period ended March 2017, the loans to Service and Tourism sector experienced the highest sectoral increase by Nu.6.85 billion followed by loans to Production and Manufacturing sector by Nu.2.27billion and Housing sector by Nu.2.10billion. However, the loans to Trade and Commerce sector and Loans

⁷ For the purpose of this report, Govt. Employee loan (GE), Credit Card are included in the Personal sector and loan against fixed deposits (LAFD) is reflected as a separate sector. LAS have been included under other sectors. Further, Minimum Lending Rate (MLR) was implemented by all FIs in the month of December 2016.

against Fixed Deposit (LAFD) have decreased by Nu.3.06billion and Nu.116million respectively.

The loan exposures under the Housing, Trade and Commerce, and Service and Tourism sectors jointly constituted 56.74% of the total loans for March 2017.

From the total loan outstanding of Nu. 91.99 billion for the period ended March 2017, 80.70% (Nu.74.24billion) comprises of loans provided by the banking sector and remaining 19.30% (Nu. 17.76 billion) comprises of loans provided by non-banking sector. The total loans and advances provided by banks and non-banks have increased by Nu. 9.06billion (13.89%) and Nu.3.92 billion (28.30%) respectively.

Sector	Banks				Non Banks			
	Mar-17	% Share (March 2017)	Mar-16	% share(March 2016)	Mar-17	% Share (March 2017)	Mar-16	% share(March 2016)
Agriculture/Animal	4,887.61	6.58%	4,344.84	6.67%	6.66	0.04%	2.21	0.02%
Production and	10,438.49	14.06%	8,643.05	13.26%	2,038.21	11.48%	1,557.33	11.25%
Service/Tourism	13,488.08	18.17%	10,672.97	16.37%	4,754.12	26.77%	715.50	5.17%
Trade/Commerce	9,404.26	12.67%	10,578.34	16.23%	3,689.42	20.77%	5,579.75	40.31%
Loan to FI(s)	992.52	1.34%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Housing	17,824.08	24.01%	15,939.78	24.45%	3,035.52	17.09%	2,818.12	20.36%
Transport	3,669.28	4.94%	2,604.83	4.00%	1,020.97	5.75%	1,074.15	7.76%
Personal Loan	9,593.52	12.92%	9,437.77	14.48%	2,555.48	14.39%	1,543.91	11.15%
Staff Loan	1,158.36	1.56%	23.31	0.04%	497.79	2.80%	0.00	0.00%
Education Loan	352.39	0.47%	67.59	0.10%	0.00	0.00%	0.00	0.00%
LAFD	1,142.89	1.54%	1,259.04	1.93%	0.00	0.00%	0.00	0.00%
Loans to Government	502.65	0.68%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Others	783.35	1.06%	1,610.16	2.47%	161.76	0.91%	551.82	3.99%
Totals	74,237.50	100.00%	65,181.69	100.00%	17,759.93	100.00%	13,842.78	100.00%

Sectoral loan analysis for banking sector for the period ended March 2017 reveals that the highest loan was seen in Housing sector amounting to Nu.17.82billion(24.01%) followed by Service and Tourism sector with Nu.13.49billion(18.17%) and Trade and Commerce with Nu.9.40billion (12.67%).

For non-banking sector, the highest loan was seen in Service and Tourism sector with 26.77% amounting to Nu.4.75billion, followed by Trade and Commerce sector and Housing sector with 20.77%(Nu.3.69billion) and 17.09%(Nu.3.04billion) respectively.

5. Consolidated Loan Classification

Analysis on loan classification based on number of overdue days, revealed that the highest NPL in the financial sector for the March 2017 was classified under the Substandard category followed by NPL in Loss category. Out of the total NPL of Nu.11.39billion, NPL classified under Substandard category⁸ comprised of 52.90% amounting to Nu.6.03 followed by Loss category (which also includes the term expired loans and loans under litigation cases) of 39.35% (Nu.4.48billion) and Doubtful category⁹ of 7.75% (amounting to Nu.883.11million). For banking sector, the highest NPL classification was seen under Loss category with Nu.4.27billion and for non-banking sector, the highest NPL was seen under Substandard category with Nu.2.55billion.(Annexure II)

6. Sectoral NPL Holding against Sectoral Loan

Analysis on the sectoral NPL against respective sectoral loan of the financial sector indicates that the Trade and Commerce sector has the highest NPL to loan ratio of 23.11% (NPL against sectoral loan) followed by Agriculture sector with 19.16% and Transport Sector with 13.95% for March 2017.

Sectoral	Banks			Non Banks			Total		
	Loan	NPL	NPL Ratio	Loan	NPL	NPL Ratio	Loan	NPL	NPL Ratio
Agriculture/Animal Husbandry	4,887.61	935.69	19.14%	6.66	1.82	27.29%	4,894.28	937.51	19.16%
Production and Manufacturing	10,438.49	1,006.70	9.64%	2,038.21	436.79	21.43%	12,476.70	1,443.49	11.57%
Service/Tourism	13,488.08	1,727.05	12.80%	4,754.12	701.24	14.75%	18,242.20	2,428.29	13.31%
Trade/Commerce	9,404.26	2,361.90	25.12%	3,689.42	663.52	17.98%	13,093.69	3,025.42	23.11%
Loan to FI(s)	992.52	0.00	0.00%	0.00	0.00	0.00%	992.52	0.00	0.00%
Housing	17,824.08	1,270.21	7.13%	3,035.52	518.12	17.07%	20,859.59	1,788.33	8.57%
Transport	3,669.28	426.15	11.61%	1,020.97	228.19	22.35%	4,690.25	654.34	13.95%
Personal Loan	9,593.52	807.07	8.41%	2,555.48	247.80	9.70%	12,149.00	1,054.86	8.68%
Staff Loan	1,158.36	10.56	0.91%	497.79	9.44	1.90%	1,656.15	20.01	1.21%
Education Loan	352.39	8.81	2.50%	0.00	0.00	0.00%	352.39	8.81	2.50%
LAFD	1,142.89	13.57	1.19%	0.00	0.00	0.00%	1,142.89	13.57	1.19%
Loans to Government	502.65	-	0.00%	0.00	0.00	0.00%	502.65	-	0.00%
Others	783.35	19.01	2.43%	161.76	0.03	0.02%	945.11	19.04	2.01%
Total	74,237.50	8,586.72	11.57%	17,759.93	2,806.96	15.80%	91,997.43	11,393.68	12.38%

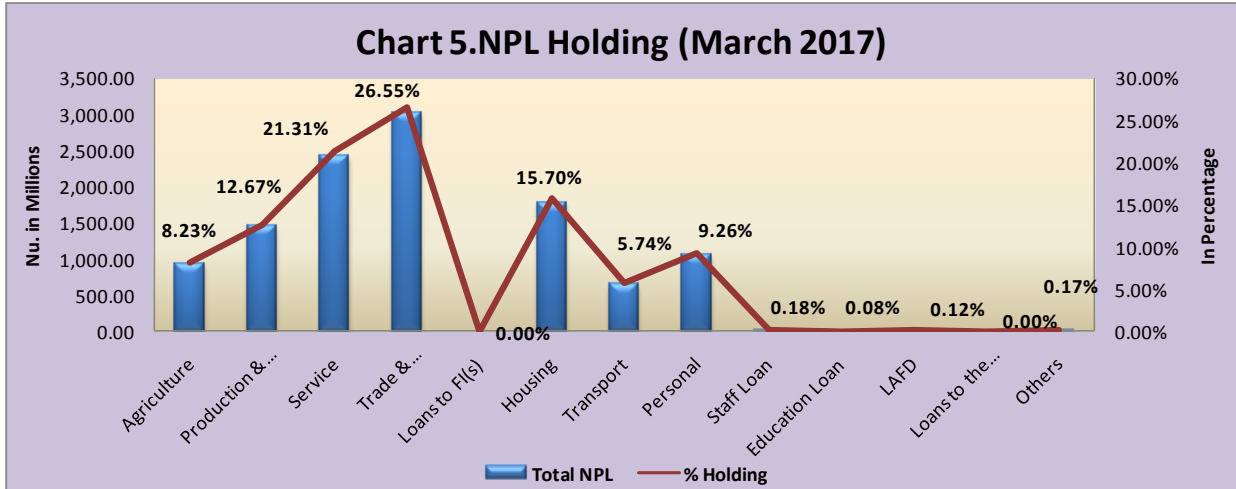
Similarly, for the banking sector, the Trade and Commerce has the highest NPL ratio of 25.12% followed by Agriculture sector of Nu.19.14% and Service and Tourism sector of 12.80%. However, for non-banking sector, the Agriculture sector represented the highest NPL ratio of 27.29%. Agriculture sector has a NPL of Nu.1.82million as against the Agriculture loan of Nu.6.68million. Transport sector and Production and Manufacturing sectors also have the highest NPL ratio with 22.35% and 21.43% respectively.

⁸ Loans in default by 91 to 180 days

⁹ Loans in default from 181 to 365days

7. Sectoral NPL to Total NPL

The diagram below represents the NPL of different sectors against the total NPL in financial sector for the period ended March 2017. From the total NPL of Nu.11.39billion in

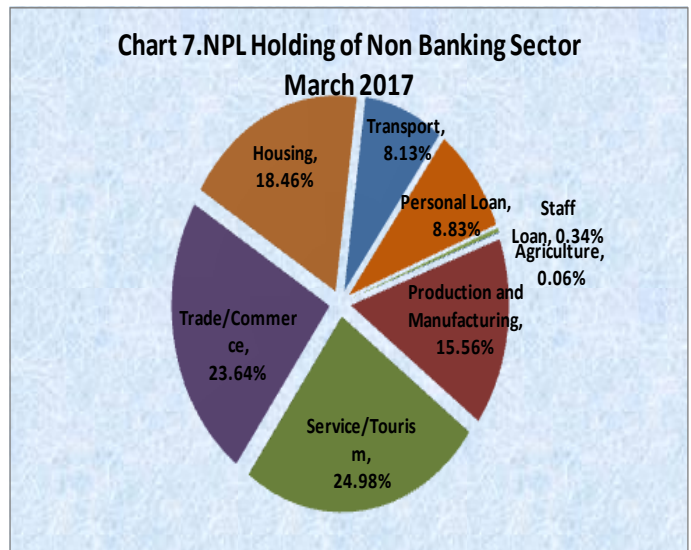
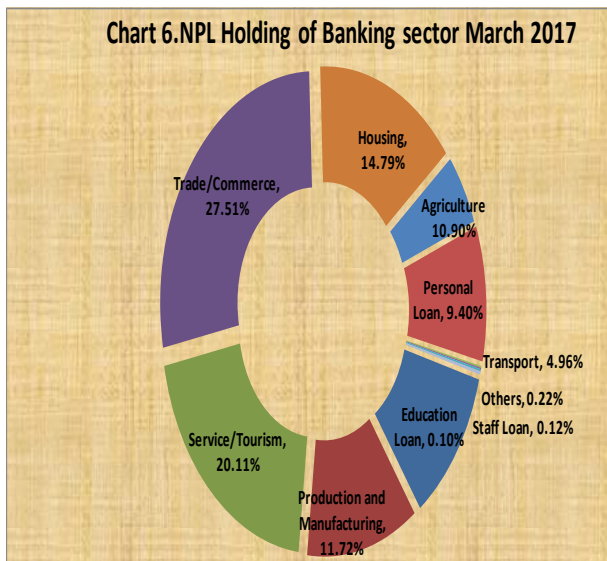


the financial sector, it revealed the following:

- ✓ Trade and Commerce sector has the highest NPL with Nu.3.03billion (26.55%)
- ✓ Service and Tourism sector with Nu. 2.43billion (21.31%).
- ✓ Housing sector with Nu.1.79billion (15.70%).

7.1 Sectoral NPL holding of banking and non-banking Sector

As shown in the chart 6, in the case of banking sector, the highest NPL was seen in Trade and Commerce sector with 27.51%(Nu.2.36billion), followed by Service and Tourism

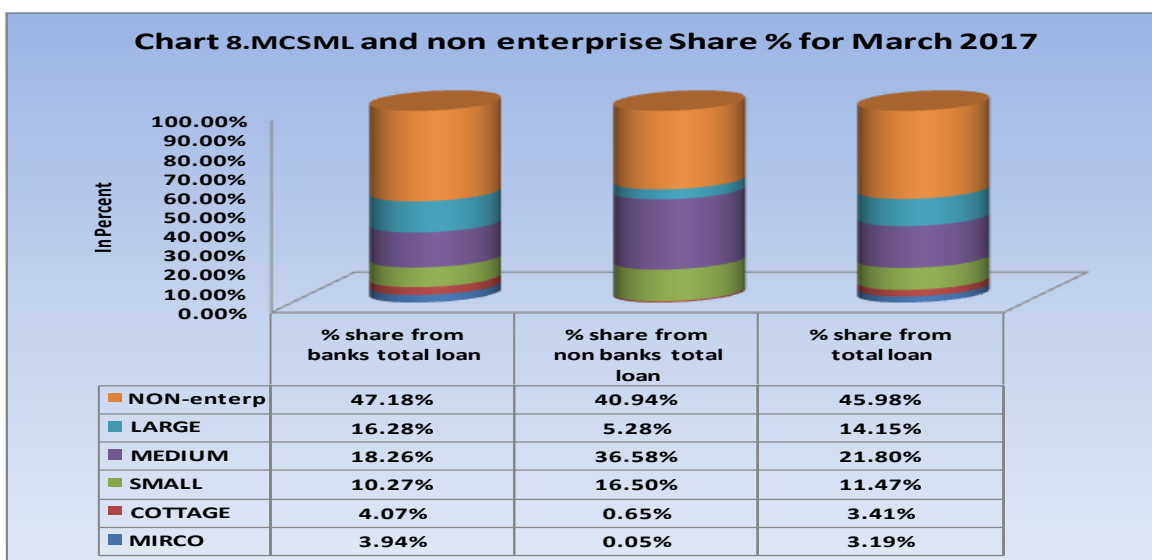


sector and Housing sector with 20.11%(Nu.1.73billion) and 14.79%(Nu.1.27billion) respectively. Similar trend was also noticed in the March 2016, with Trade & Commerce sector comprising 26.53% followed by Housing sector with 18.40% and Production and Manufacturing sector with 13.79%.

The NPL of non-banking sector has increased by Nu.1.51billion, from Nu.1.29 billion to Nu.2.81billion. When compared to December 2016, the NPL has increased by Nu.2.25billion. Out of total NPL of Nu.2.81billion in March 2017, the highest NPL during the period under review was seen in Service & Tourism with 24.98%(Nu.701.24million) followed by Trade and Commerce sector with 23.64% (Nu.663million) and Housing with 18.46% (Nu.518million).

8. Loans and Advances to Micro, Cottage, Small, Medium and Large enterprises (MCSML)

With effect from November 2016, all financial institutions were required to submit the information to the RMA based on the new reporting format, of which one of information required is the loans to Micro, Cottage, Small, Medium and Large (MCSML)¹⁰ enterprises and loans to the non-enterprise sector¹¹. As depicted in the diagram (chart 8), from the total loans of Nu. 91.99billion in the financial sector, the share of loan to medium enterprises constitutes of 21.80%(Nu.20.06billion) followed by large enterprises with



¹⁰ MCSML comprise of Agriculture. Production & Manufacturing, Trade & commerce, Service and Loans to FIs sector.

¹¹ Non Enterprise sector comprise of Housing, Personal, Transport, staff loan, Education loan, Loan against fixed deposits, Loans to Government and others.

14.15%(Nu.13.02billion). The loan to micro, cottage and small enterprises comprised of only 18.07 % (Nu.16.62billion) of the total loans.

Out of the total loan of Nu. 74.24billion in the banking sector, for the period ended March 2017, the loan to medium enterprises constituted 18.26% (Nu.13.56billion)while loan to large enterprises constituted 16.28%(Nu.12.08billion). The loans to micro, cottage and small enterprises constituted of only 18.28% (Nu.13.57billion)

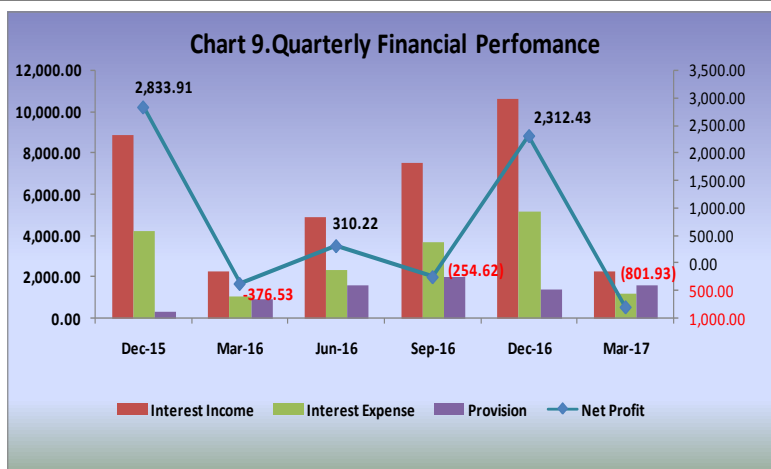
Similarly, for non-banking sector, loan to medium and large enterprises constituted of 36.58% (Nu. 6.49billion) and 5.28% (Nu. 936 million) respectively, while loan to small enterprises constituted 16.50% (Nu. 2.93million). The loan to micro and cottage enterprise by the non-banking sector has the minimum share of 0.05% (Nu.9.19million) and 0.65% (Nu.115 million) respectively.

9. Financial Performance

One of the important parameters to assess the performance of the financial sector is the earning trend. The continued viability of financial institutions depends on its ability to earn an appropriate return on its assets, which enables the institutions to fund business expansion and remain competitive.

For the period ended March 2017, the interest income has decreased by Nu.18.10million while interest expense has increased by Nu. 102million. The loan provisioning has rapidly increased due to the deterioration of NPL by Nu.2.39billion. This increase in NPL has led to increase in Provision which subsequently affected the earning of the financial institutions. Most banks have incurred losses during the period ended March 2017 that has led to overall losses in the financial sector. The Financial sector has incurred a loss of Nu. 801million during the period ended March 2017. The banking sector suffered a loss of Nu.863million, while, the non-banking sector performed well registering a profit of Nu.61.50million during the period under review.

Return on Assets (RoA) ratio stood at -0.61 % and Return on Equity (RoE) stood at -3.85% for March 2017. The RoA and RoE of the banking sector stood at -0.75% and -4.82% respectively. However, the RoA and RoE of the non-banking sector stood at 0.35% and 2.08% respectively.



Looking at the trend (chart 9) of net profit on a quarterly basis, it was observed that net profit of the financial sector depicts an undulating movement. The financial sector usually earns profit in the year end and incurs losses during the first three quarters.

9.1. Financial Performance: banking and non-banking sector

Banking sector has incurred a loss of Nu.863 million in March 2017 as compared to the profit of Nu.437 million in March 2016. The drastic increase in NPL by Nu.882 million and provision by Nu.588.03 million has contributed significantly towards the deterioration of earnings of the banking sector. The interest income has increased by Nu.8 million while the interest expense has increased by Nu.207 million during the period under review. This huge increase in the interest expense has also affected the performance of the banking sector.

Non-banking sector has performed well as compared to the banking sector. The net profit of non-banking sector has increased by Nu.27.80 million. Though the NPL of non-banking sector has increased by Nu.1.5 billion, it was observed that majority of the NPL was substandard loans that requires a provisioning of only 20%. The interest income of the non-banking sector has decreased by Nu.26 million, while, the interest expense has drastically decreased by Nu.105 million. The interest income from loans and advances amounted to Nu.351 billion and fixed and other deposits accounted to Nu.8.69 million. The interest expense for bond and borrowings amounted to Nu.54.31 million and the remaining Nu.39.50 million amounted to the expenses incurred for the insurance fund during the period under review.

10. Deposit (Banking Sector)

Total deposit base of banking sector has increased by Nu.5.17billion, from Nu.90.99billion in March 2016 to Nu.96.16 billion in March 2017.

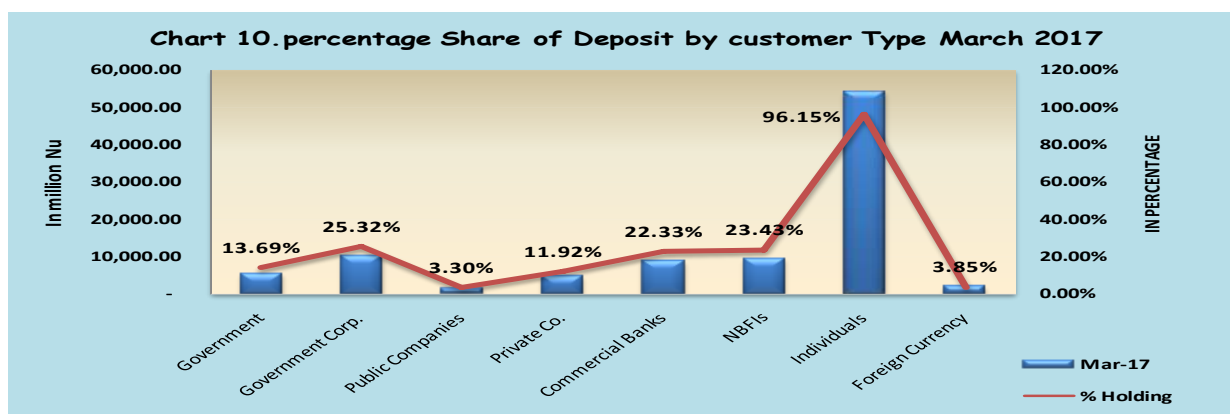
For the period ended March 2017, current and saving account (CASA) deposits has decreased by 5.46%, from Nu.53.32billion in March 2016 to Nu.50.41billion in March 2017. However, when compared to December 2016, the CASA deposits have increased by Nu.3.01billion, a growth of 6.36%. The Individual and Government companies constituted the highest CASA accounts of Nu.36.79billion (73% of the total CASA Deposit) and Nu.2.98billion (5.92% of the total CASA deposit) respectively for March 2017. Time Deposits have increased from Nu.37.67 billion in March 2016 to Nu.45.75 billion in March 2017.

Deposit by Type (Nu in million)					
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Demand Deposits	53,323.03	42196.84	43841.23	47,395.20	50409.76
Current Deposits	34,332.69	20934.19	21871.22	23,332.05	25,528.03
Savings Deposits	18,990.34	21262.65	21970.01	24,063.15	24,881.73
Time Deposits	37,669.88	40277.55	42522.86	45,773.38	45754.76
Fixed Deposits	36,424.65	39026.45	41246.21	44,417.16	44,389.02
Recurring Deposits	1,245.23	1251.10	1276.64	1,356.22	1,365.73
Total	90,992.91	82,474.39	86,364.09	93,168.59	96164.51

As a share of total deposits, Demand Deposits (Current and Saving) accounted for 52.42% and Time Deposits (Fixed and Recurring) accounted for 47.58%. Of the total deposit of Nu.96.16billion

in March 2017, the Current Deposit accounted for 26.55% while the Saving Deposit accounted for 25.87%. The share of fixed deposit accounted for 46.16% and Recurring Deposit accounted for 1.42%.

In terms of deposits by customer, out of the total deposits of Nu.96.16 billion in March 2017, Retail Deposits accounted for 58.85% (Nu.56.59billion) and remaining 41.15% (Nu. 39.57billion) comprises of Corporate Deposits. Out of the total Retail Deposits of

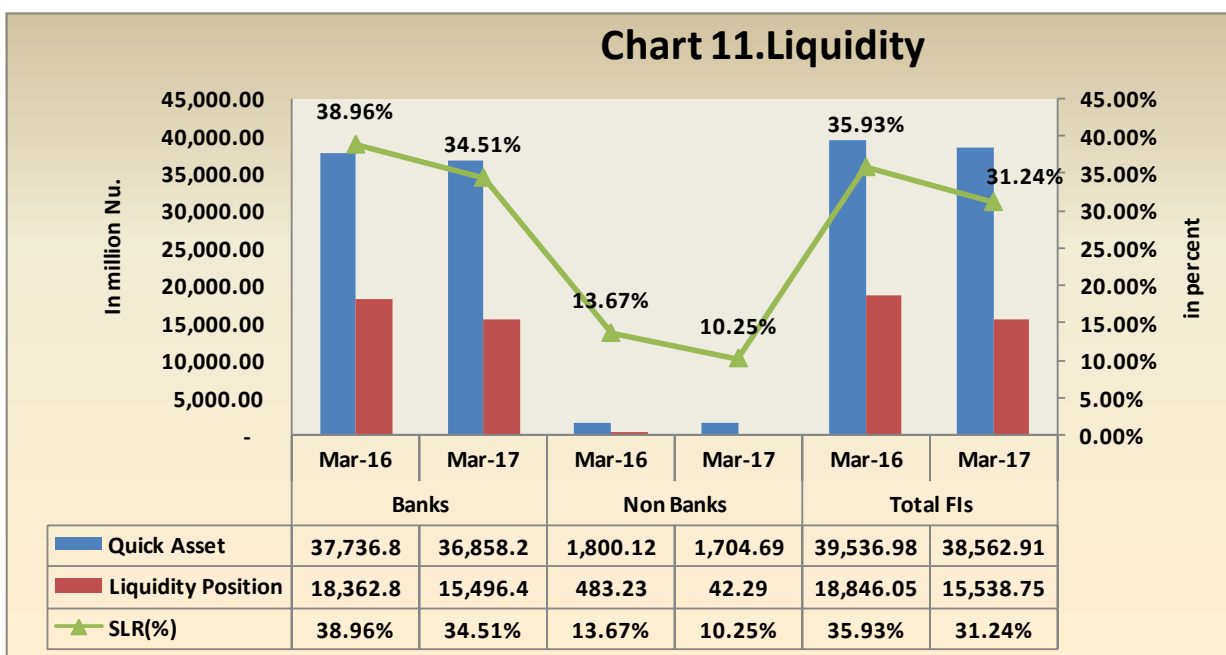


Nu.56.59billion, individual deposits consists of 96.15%(Nu.54.42billion) and remaining 3.85% amounting to Nu.2.18billion is in the form of foreign currency deposits. Similarly, out of the total Corporate Deposits of Nu.39.57billion, deposits by Government Corporation constituted the highest with 25.32% amounting to Nu. 10.02billion followed by the deposits of Non-bank financial institutions with 23.43% (Nu.9.27billion) and commercial banks with 22.33% (Nu.8.84billion)

Credit to Deposit ratio of the banking sector slightly increased by 5.57%, from 71.63% in March 2016 to 77.20% in March 2017. (Annexure I)

11. Liquidity

Financial institutions with access to reliable funding sources are likely to expose to low liquidity risk than those having to depend on volatile sources of fund. Banks and non-banks are required to maintain a minimum statutory liquidity ratio in the form of quick



assets of 20% and 10% respectively.

During the period ended March 2017, financial sector has maintained Statutory Liquidity Ratio (SLR) at 31.24%. However, as compared to the previous corresponding quarter, SLR position of financial sector has decreased by 4.69%. The decrease in the quick asset of the financial sector by Nu.974million has led to decrease in SLR position. However, the overall liquidity position of the financial sector remained comfortable by maintaining liquidity in

the form of quick assets¹² in excess of the actual requirement. The quick assets amounted to Nu.38.56 billion against the minimum requirement of Nu.23.02 billion during the period under review.

SLR position of the banking sector stood at 34.51% in March 2017 as compared to 38.96% in March 2016. The decrease in the ratio is mainly due to decrease in quick asset by Nu.878 million which was specifically attributed by the decrease in balances with RMA and decrease in demand deposits with commercial banks in Bhutan by Nu.7.16 billion and Nu.1.25 billion respectively.

Similarly, the non-banking sector's SLR position as of March 2017 decreased to 10.25% as compared to 13.67% in March 2016, mainly due to decrease in quick asset by Nu.95.43 million which was brought about by the decrease in demand deposit in commercial banks in Bhutan by Nu.144 million and decrease in time deposit with commercial banks in Bhutan with remaining maturity less than 180 days by Nu.40 million.

Although the SLR of banks and non-banks has decreased by 4.45% and 3.42% respectively, it is still maintained within the minimum SLR requirement of 20% and 10% respectively.

¹² With effect from 2016, as a transitional stipulation, financial institutions can include time deposits with the remaining period to maturity not exceeding 180 days as a part of quick asset for period of one year

[Annexure I](#)

Financial Soundness Indicators of Financial institutions

Indicators	Mar-16	Dec-16	Mar-17
Capital			
RWCAR(12.5%)	16.42%	18.99%	17.84%
Core CAR(7.5%)	13.10%	15.58%	15.06%
Leverage Ratio	11.37%	11.60%	11.65%
Asset Quality			
Gross NPL Ratio	11.38%	6.48%	12.38%
Net NPL to Net Loan	5.45%	1.12%	5.46%
Single Largest Borrower	14.58%	15.42%	14.61%
Ten Largest Borrower	16.45%	16.64%	16.82%
Earning			
Return on Asset(ROA)	-1.83%	1.82%	-0.61%
Return on Equity(ROE)	-0.31%	11.31%	-3.85%
Profit After Tax(in million)	Nu.(376.53)	2,312.43	Nu.(801.93)
Liquidity			
Loans to Deposits ratio	71.63%	77.23%	77.20%
Statutory Liquidity Requirement	35.93%	29.30%	31.24%
liquidity Position(Nu. In billion)	Nu.18.85b	12.52b	Nu.15.54b
Statutory Liquidity Requirement(in Nu.billion)	Nu.20.69b	Nu.21.64	Nu.23.02b
Note**** with effect from September 2016, the minimum requirement on RWCAR has been increased to 12.5% from 10% and the minimum requirement on core capital ratio has also increased from 5% to 7.5%			

Annexure II

Quarterly Trend of the financial institutions

Quarterly Trend (Financial sector)					Figures in Million Nu.
Particulars	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Total Capital Fund	20536.00	21003.04	19816.16	21402.73	22055.39
Total Assets	130575.05	124361.56	125963.83	137,992.20	145,488.23
Total Risk-Weighted Assets	125061.97	122609.22	110679.55	112391.13	120,154.13
Total Deposits	90992.91	82474.39	86364.09	93168.59	96164.51
Total NPLs	8996.62	7878.34	11230.07	5726.43	11393.68
Total Performing Loan	70027.85	78725.98	73741.76	82682.21	80603.75
Total Loans	79024.47	86604.32	84971.83	88,408.64	91,997.43

Consolidated Loan Classification March 2016- March 2017

	Banks		NBFIs		TOTAL		% Change
	Mar-17	Mar-16	Mar-17	Mar-16	Mar-17	Mar-16	
Performing loans	65,651.72	57,477.37	14,952.97	12,550.48	80,604.69	70,027.85	15.10%
Standard	59,185.69	51,469.44	13,279.61	10,821.37	72,465.29	62,290.82	16.33%
Watch (up to 90 days)	6,466.03	6,007.93	1,673.37	1,729.10	8,139.39	7,737.03	5.20%
Non-performing loans	8,586.72	7,704.32	2,806.96	1,292.31	11,393.68	8,996.62	26.64%
Substandard (91 to 180 days)	3,474.64	3,753.98	2,552.71	829.61	6,027.35	4,583.59	31.50%
Doubtful (181 to 365 days)	847.01	1,104.56	36.11	55.87	883.11	1,160.43	-23.90%
Loss (365 days & above)	4,265.08	2,845.78	218.14	406.83	4,483.21	3,252.61	37.83%
Total	74,238.44	65,181.69	17,759.93	13,842.78	91,998.37	79,024.47	16.42%
Gross NPL Ratio	11.57%	11.82%	15.80%	9.34%	12.38%	11.38%	1.00%

Annexure III

Micro, Cottage, Small, Medium, Large (MCSML) and Non enterprise loan for March 2017 (in Nu.million)

Sl no.	Sector	Banks			Non Banks			Total Fis		
		Loan Outstanding	% share of each category	% share of total outstanding	Loan Outstanding	% share of each category	% share of total outstanding	Loan Outstanding	% share of each category	% share of total outstanding
(1) MICRO	AGRICULTURE	2,446.58	83.72%	3.30%	0.17	1.82%	0.00%	2,446.74	83.47%	2.66%
	PROD & MANU	48.42	1.66%	0.07%	0.00	0.00%	0.00%	48.42	1.65%	0.05%
	SERVICE	70.59	2.42%	0.10%	2.11	22.99%	0.01%	72.71	2.48%	0.08%
	TRADE&COMMERCE	356.58	12.20%	0.48%	6.91	75.19%	0.04%	363.49	12.40%	0.40%
	LOANS TO Fis	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%
	MICRO TOTAL	2922.17	100.00%	3.94%	9.19	100.00%	0.05%	2931.36	100.00%	3.19%
(2) COTTAGE	AGRICULTURE	2,047.51	67.76%	2.76%	2.23	1.92%	0.01%	2,049.74	65.33%	2.23%
	PROD & MANU	72.08	2.39%	0.10%	2.38	2.06%	0.01%	74.47	2.37%	0.08%
	SERVICE	310.50	10.28%	0.42%	53.61	46.23%	0.30%	364.11	11.60%	0.40%
	TRADE&COMMERCE	591.54	19.58%	0.80%	57.74	49.79%	0.33%	649.28	20.69%	0.71%
	LOANS TO Fis	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%
	COTTAGE TOTAL	3,021.64	100.00%	4.07%	115.96	100.00%	0.65%	3,137.59	100.00%	3.41%
(3) SMALL	AGRICULTURE	353.06	4.63%	0.48%	0.00	0.00%	0.00%	353.06	3.35%	0.38%
	PROD & MANU	1,491.40	19.56%	2.01%	153.15	5.23%	0.86%	1,644.55	15.58%	1.79%
	SERVICE	1,930.51	25.32%	2.60%	1,199.94	40.96%	6.76%	3,130.45	29.66%	3.40%
	TRADE&COMMERCE	3,848.40	50.48%	5.18%	1,576.43	53.81%	8.88%	5,424.83	51.41%	5.90%
	LOANS TO Fis	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%
	SMALL TOTAL	7,623.37	100.00%	10.27%	2,929.52	100.00%	16.50%	10,552.89	100.00%	11.47%
(4) MEDIUM	AGRICULTURE	40.47	0.30%	0.05%	4.27	0.07%	0.02%	44.73	0.22%	0.05%
	PROD & MANU	3,311.51	24.42%	4.46%	1,336.99	20.58%	7.53%	4,648.50	23.18%	5.05%
	SERVICE	6,830.19	50.37%	9.20%	3,199.16	49.24%	18.01%	10,029.35	50.01%	10.90%
	TRADE&COMMERCE	3,376.82	24.90%	4.55%	1,956.48	30.11%	11.02%	5,333.30	26.59%	5.80%
	LOANS TO Fis	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%
	MEDIUM TOTAL	13,558.98	100.00%	18.26%	6,496.90	100.00%	36.58%	20,055.88	100.00%	21.80%
(5) LARGE	AGRICULTURE	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%
	PROD & MANU	5,515.08	45.64%	7.43%	545.69	58.25%	3.07%	6,060.77	46.54%	6.59%
	SERVICE	4,346.29	35.96%	5.85%	299.30	31.95%	1.69%	4,645.58	35.68%	5.05%
	TRADE&COMMERCE	1,230.93	10.19%	1.66%	91.86	9.81%	0.52%	1,322.79	10.16%	1.44%
	LOANS TO Fis	992.52	8.21%	1.34%	0.00	0.00%	0.00%	992.52	7.62%	1.08%
	LARGE TOTAL	12,084.82	100.00%	16.28%	936.85	100.00%	5.28%	13,021.67	100.00%	14.15%
Non-Enterprise	HOUSING	17,824.08	50.89%	24.01%	3,035.52	41.75%	17.09%	20,859.59	49.32%	22.67%
	TRANSPORT	3,669.28	10.48%	4.94%	1,020.97	14.04%	5.75%	4,690.25	11.09%	5.10%
	PERSONAL	9,593.52	27.39%	12.92%	2,555.48	35.14%	14.39%	12,149.00	28.72%	13.21%
	STAFF LOAN	1,158.36	3.31%	1.56%	497.79	6.85%	2.80%	1,656.15	3.92%	1.80%
	Education Loan	352.39	1.01%	0.47%	0.00	0.00%	0.00%	352.39	0.83%	0.38%
	Loan Against Fixed Deposits	1,142.89	3.26%	1.54%	0.00	0.00%	0.00%	1,142.89	2.70%	1.24%
	Loans to the Govt	502.65	1.44%	0.68%	0.00	0.00%	0.00%	502.65	1.19%	0.55%
	OTHERS	783.35	2.24%	1.06%	161.76	2.22%	0.91%	945.11	2.23%	1.03%
	Non- Enterprise TOTAL	35,026.53	100.00%	47.18%	7,271.52	100.00%	40.94%	42,298.04	100.00%	45.98%
GRAND TOTAL		74,237.50			17,759.93			91,997.43		

Annexure IV

Sectoral Loan Trend March 2016- 2017 (Figures in Million Nu)

Sectoral Loan	Mar-16	Dec-16	Mar-17	Holding(March 2017)
Agriculture/Animal Husbandry	4,347.05	4,630.06	4,894.28	5.32%
Production and Manufacturing	10,200.38	11,043.60	12,476.70	13.56%
Service/Tourism	11,388.47	16,677.38	18,242.20	19.83%
Trade/Commerce	16,158.08	15,241.71	13,093.69	14.23%
Loan to FI(s)	0.00	1,394.05	992.52	1.08%
Housing	18,757.90	20,307.53	20,859.59	22.67%
Transport	3,678.97	4,231.09	4,690.25	5.10%
Personal Loan	10,981.68	10,585.63	12,149.00	13.21%
Staff Loan	23.31	1,610.91	1,656.15	1.80%
Education Loan	67.59	384.90	352.39	0.38%
LAFD	1,259.04	907.48	1,142.89	1.24%
Loans to Government	0.00	513.63	502.65	0.55%
Others	2,161.98	880.85	945.11	1.03%
Total	79,024.47	88,408.81	91,997.43	100.00%

***For the purpose of this report, the sectoral loan classification is based on the new reporting format submitted by FIs, where the LAFD is deducted from Personal and shown as a separate sector. LAS is added under other Sectors. Education loan and staff loan is reflected as a new sector instead of clubbing it under other sectors. The same adjustment has been made for March 2016, however, staff and education loan could not be segregate for March 2016 from the old reporting format

Sectoral NPL Trend March 2016 -2017(figures in Nu. Million)

Sectoral NPL	Mar-16	Dec 2016	Mar-17	Holding (March 2017)
Agriculture/Animal Husbandry	711.16	542.35	937.51	8.23%
Production and Manufacturing	1,090.85	533.38	1,443.49	12.67%
Service/Tourism	1,093.02	1,156.07	2,428.29	21.31%
Trade/Commerce	2,529.81	1,434.79	3,025.42	26.55%
Loan to FI(s)	0.00	0.00	0.00	0.00%
Housing	1,628.42	921.70	1,788.33	15.70%
Transport	638.35	320.59	654.34	5.74%
Personal Loan	1,222.78	777.83	1,054.86	9.26%
Staff Loan	0.00	25.42	20.01	0.18%
Education Loan	5.74	8.32	8.81	0.08%
LAFD	6.86	3.67	13.57	0.12%
Loans to Government	0.00	0.00	0.00	0.00%
Others	69.63	2.31	19.04	0.17%
Total NPL	8,996.62	5,726.43	11,393.68	100%
Total Loan	79,024.47	88,408.81	91,997.43	
Gross NPL Ratio	11.38%	6.48%	12.38%	

