

ROYAL MONETARY AUTHORITY OF BHUTAN

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**BHUTANESE FINANCIAL SECTOR
PERFORMANCE REVIEW
(September 2011 - 2012)**

Financial Regulation & Supervision Department

This report gives comprehensive information on the performance of the Bhutanese financial sector on peer group basis (excluding NPPF) for the period ended Q3FY'12 in comparison to the corresponding quarter of the previous year. This report has been prepared by the Financial Regulation & Supervision Department of the Central Bank, and the information contained in this report is based on the returns submitted by the financial institutions to the Central Bank. *The observations are summarized below:*

1. Business size and growth.

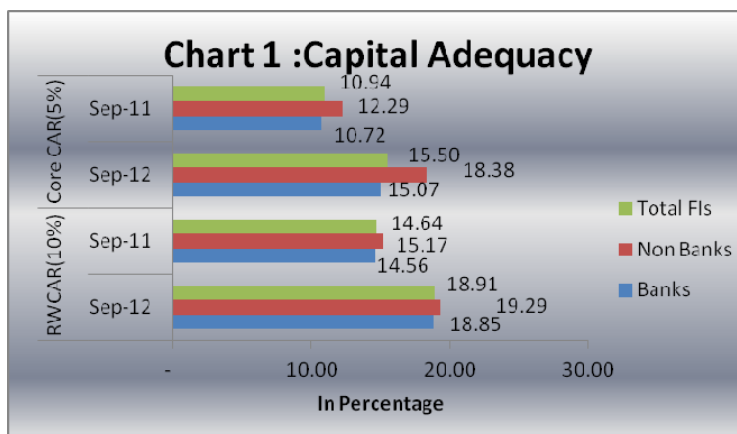
As of September 2012, the total assets of the financial system¹ has expanded to Nu.76.46 billion compared to Nu.69.86 billion in September 2011 indicating a growth of 9.56 percent. The growth has been recorded in the assets of banks² from Nu. 62.78 billion to Nu. 68.28 billion (8.75 percent), and that of non-banks³ from Nu. 7.07 billion to Nu. 8.18 billion (15.75 percent) during the period under review.

The increase in the total assets of the bank was mainly contributed by the increase in the total loans and advances from Nu. 36.12 billion to Nu. 43.50 billion (20.12 percent), and for non-banks although the total loans and advances forms a major part of assets (69 percent), the total loans and advances has slightly increased by 5.21 percent (from Nu. 5.39 billion to Nu. 5.67 billion) during the period under review.

In terms of the asset composition, the banking system constitutes 89.30 percent of the total assets and the remaining 10.70 percent constitutes non-bank's assets.

Out of total liabilities of the financial sector it was observed that the capital and reserves increased by 45.05 percent (from Nu. 8.22 billion in September 2011 to Nu. 11.93 billion in September 2012). However, the deposit liabilities of banks slightly increased by 3.93 percent, from Nu. 50.75 billion in September 2011 to Nu. 52.74 billion in September 2012. The borrowing for non-banks has decreased by 0.09 percent (from Nu. 3.26 billion to Nu. 3.24 billion) during the period under review.

2. Capital & Reserves.



The financial system remained satisfactory with risk weighted capital adequacy ratio (RWCR) of 18.91 percent in September 2012 against the RWCR of 14.64 percent in September, 2011. RWCR were well above the regulatory requirement –both institution wise and a systemic perspective. The paid up capital and reserves of financial system has increased

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.

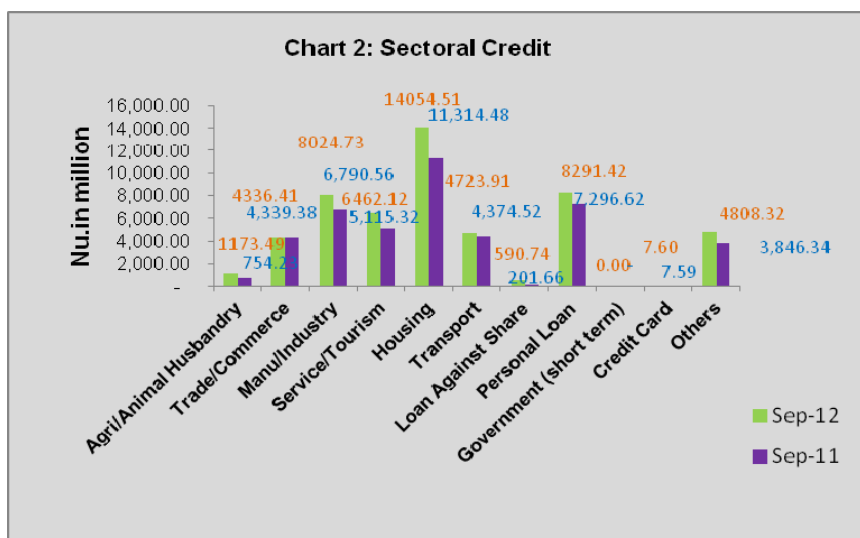
to Nu.11.93 billion from Nu.8.23 billion during fourth quarter 2012. The increase was mainly due to increase in the paid up capital of banks from Nu. 7.03 billion in September 2011 to Nu. 10.33 billion in September 2012, indicating a growth of 47.06 percent. The reserves of the banks also increased by 16.24 percent (from Nu. 5.55 billion to Nu. 6.45 billion) during the period under review. The capital and reserves of the non-banks increased by 33.21 percent, from Nu. 1.21 billion to Nu. 1.60 billion during the period under review. However, the paid up capital fund of non-banks remains unchanged during the period under review

The total risk weighted assets of the financial system stood at Nu. 63.12 billion in September 2012 as compared to Nu. 56.19 billion in September 2011, out of which 86.85 percent of the risk weighted assets are within the banking sector and only 13.14 percent comprises of the non-bank's assets. The core capital ratio of the financial sector has increased to 15.50 percent from 10.94 percent during the period under review.

3. Banking

The balance sheet in the banking sector has increased to Nu. 68.28 billion from Nu. 62.78 billion during the period under review indicating a growth of 8.75 percent. The composition of the balance sheet of the banks continued to be dominated by traditional balance sheet items. The deposits constituted nearly 77.25 percent of the total banking liabilities. Although the deposits constitute major liabilities, the deposit base has slightly increased by 3.93 percent, from Nu. 50.75 billion in September 2011 to Nu. 52.75 billion in September 2012. The capital fund and reserves constitutes 15.14 percent of total banking liabilities. The provision and current & other liabilities accounts for 5.77 percent of the total liabilities. On the asset side, the total loans and advances (net of provision) continue to form majority of the total assets of banks. The loan and advances (net of provision) constitutes 63.71 percent of the total assets followed by cash and bank balances with 30.14 percent. However, the cash and bank balances of the bank decreased from Nu. 23.31 billion to Nu. 20.58 billion during the period under review. The investment (securities and equity) which accounted for 3.01 percent of total bank's assets mostly consisted of Government and RMA securities.

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



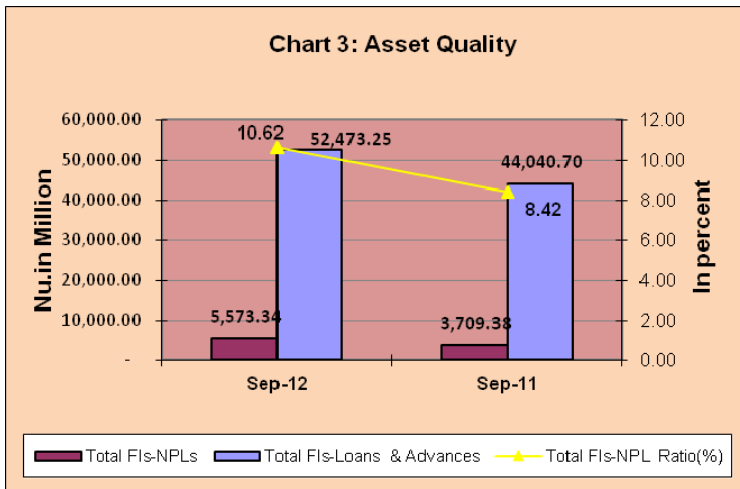
The banking system continued to play an active role in providing financing to both the household and corporate/private sectors. During the period ended September, 2012 the financial sector's total lending (gross) to economy reached to Nu. 52.43 billion from Nu.44.04 billion in September

2011 or an increase by 19.15 percent. The growth in the lending activity was always attributable to strong demand towards the housing and personal sector, as a result leading the other sectoral exposures. The Housing loan increased from Nu. 11.31 billion to Nu. 14.05 billion (Growth of 24 percent) and personal loans increased to Nu. 8.29 billion from Nu. 7.23 billion (Growth of 13.62 percent) during the period under review.

In terms of the sectoral exposures to total loans, housing sector credit continued to lead the sectoral credit concentration with Nu. 14.05 billion (26.78 percent to total loans) followed by the personal loan and manufacturing & industry loan with Nu. 8.29 billion (15.80 percent) and Nu. 8.02 billion (15.30 percent) respectively. However, in terms of growth by sector, loans against shares experienced the highest sectoral growth of 192.92 percent (from Nu. 0.21 billion to Nu. 0.59 billion), followed by the agriculture loans with a growth of 55.59 percent (from Nu. 0.75 billion to Nu. 1.17 billion).

Majority of credit are provided by the banks. Out of total credit of Nu. 52.47 billion, 88.56 percent (Nu. 46.47 billion) are provided by banks and remaining 11.44 percent (Nu. 6.01 billion) are credit provided by non-banks. The total loans and advances provided by the banks increased to Nu. 46.47 billion from Nu. 38.35 billion indicating a growth of 21.15 percent. Similarly, the total loans and advances of non-banks increased by 5.62 percent, from Nu. 5.69 billion to Nu. 6.01 billion during the period under review.

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

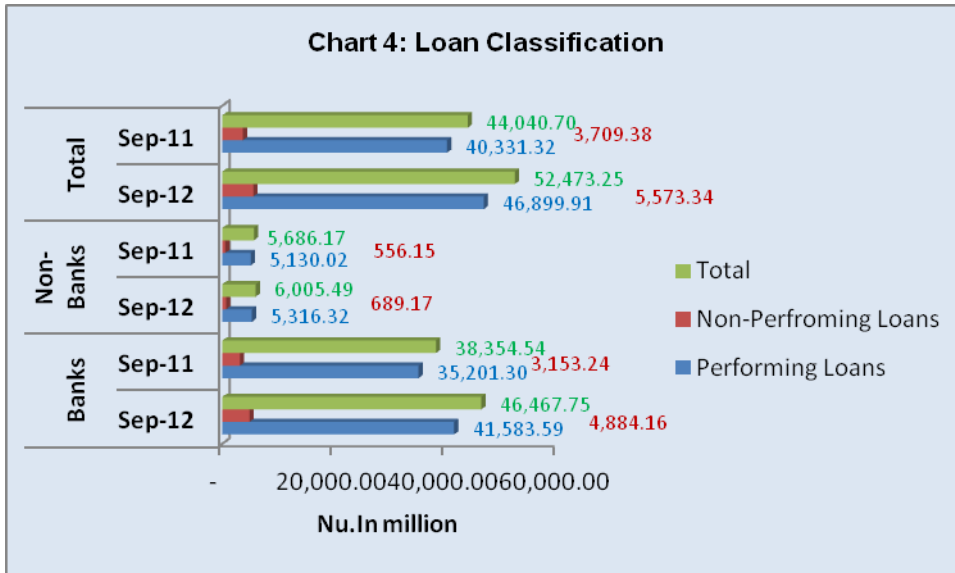


Asset quality continued to pose some concerns as the Non Performing Loans (NPL) of the financial sector grew from Nu. 3.71 billion in September 2011 to Nu. 5.57 billion in September 2012 indicating a deterioration of 50.25 percent. As against the total loans of Nu. 52.47 billion, the NPL to total loans and advances ratio increased from 8.42 percent to 10.62 percent during the period under review. For the period ended September 2012, the

NPL grew at more than 50 percent as against the growth in the total loans and advances by 19.15 percent. Doubtful and loss assets comprised over 56 percent (26.93 percent doubtful and 29.94 percent loss) of the stock of NPLs indicating preponderance of sticky advances, and the remaining 43.14 percent comprised of substandard assets.

Meanwhile, the percentage of provision as a percentage of NPLs provided for impaired loans has decreased from 57.91 percent in September 2011 to 51.61 percent in September 2012. The decrease in the ratio is mainly due to the composition of 70.06 percent of impaired loans into the substandard assets and doubtful assets as of September 2012 as against the composition of 60.91 percent of impaired loans into the substandard assets and doubtful assets as of September 2011 (classification of NPL into the recent buckets of NPL categorization which requires minimal provision requirement). In September 2012 the NPL which requires 100 percent provisioning constitutes of 29.94 percent of the total NPL as compared to 100 percent provisioning requirement of 39.09 percent of the total NPL in September 2011.

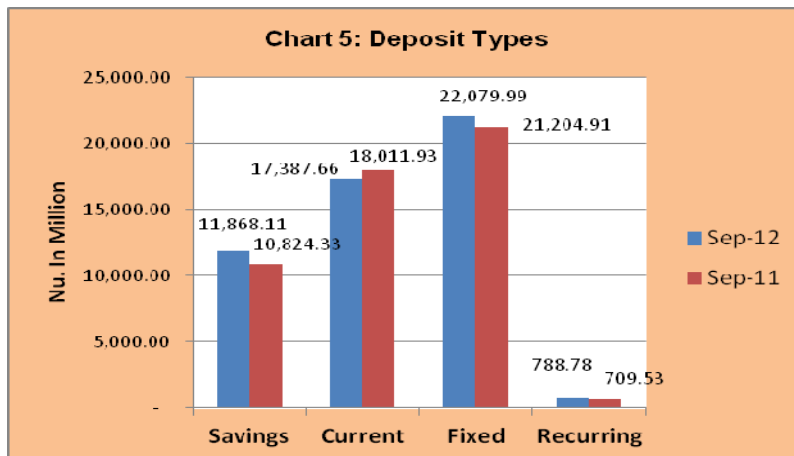
c) Consolidated Loan Classification of the FIs.



The review on asset classification confirms that around 89.38 percent of total loans disbursed by the financial sector are performing and remaining 10.62 percent are non-performing loans. Of the total loans of

Nu. 46.47 billion of banks, 89.49 percent are performing and only 10.51 percent are non-performing. Similarly, 88.52 percent of the total loan outstanding (Nu.5.32 billion) of the non banks are performing loans and the remaining 11.48 percent is non-performing loans. The NPL of banks deteriorated by 54.89 percent and non-bank's NPL by 23.92 percent as a result led to the deterioration of 50.25 percent of total NPL during the period under review.

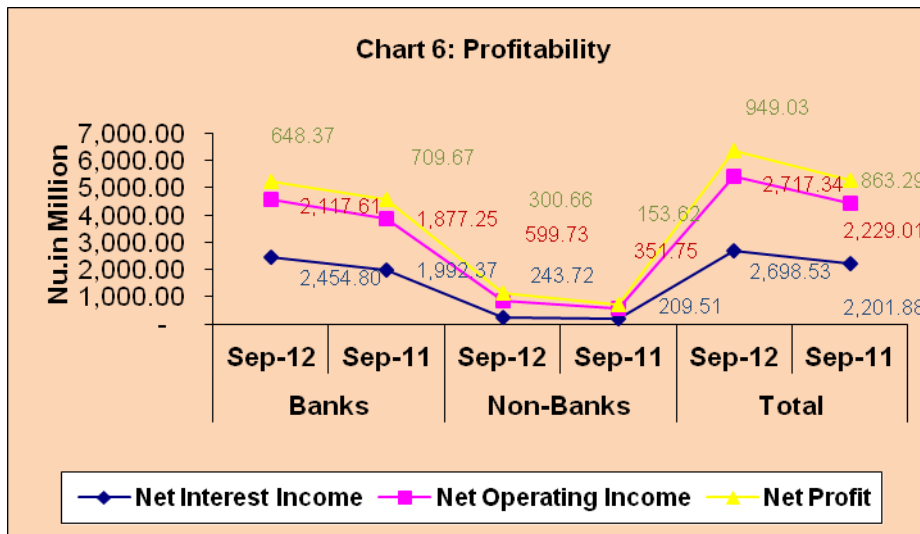
d) Deposits.



The total deposit base of the banking sector increased slightly by 2.71 percent, from Nu. 50.75 billion to Nu. 52.12 billion during the period under review. The demand deposits which comprises of saving account and current account grew only by 1.45 percent,

from Nu. 28.84 billion in September 2011 to Nu. 29.25 billion in September 2012. Similarly, the time deposits comprising of fixed and recurring account grew by 4.35 percent, from Nu. 21.91 billion to Nu. 22.87 billion during the period under review. In terms of customer holdings, corporate deposits accounts for 57.88 percent (Nu. 30.53 billion) of the total deposits and remaining 42.12 percent (Nu. 22.22 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 56.13 percent and time deposits (fixed and recurring) comprised of 43.87 percent.

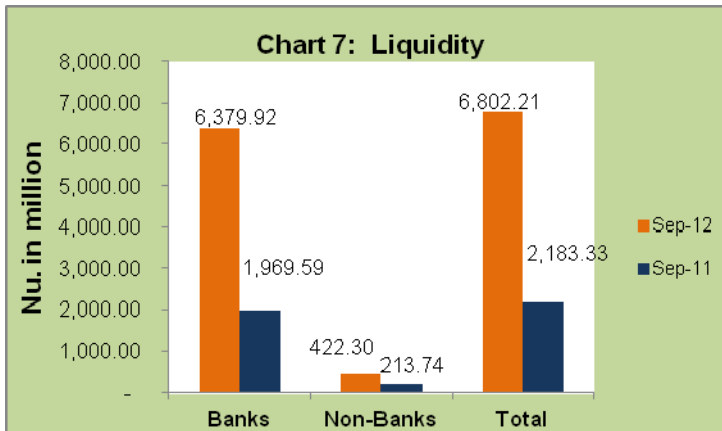
4. Profitability.



During the period ended September 2012, 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.0.95 billion in September 2012 as

compared to a net profit of Nu. 0.86 billion in September 2011, indicating a growth of 9.93 percent. Although the profit grew by 9.93 percent, the profit after tax of banks decreased by 8.64 percent, from Nu. 0.71 billion to Nu. 0.65 billion during the period under review. However, the profit after tax for non-banks increased from Nu. 0.15 billion to Nu. 0.30 billion during the period under review indicating a growth of 95.71 percent. The net interest income of banks increased by 23.21 percent (by Nu. 0.46 billion) and net operating income by 12.80 percent from Nu. 1.87 billion to Nu. 2.12 billion. Similarly the net interest income and net operating income of non-banks increased by 16.33 percent (by Nu. 0.03 billion) and 70.49 percent (by Nu. 0.25 billion) respectively.

5. Liquidity.



On the liquidity front, the excess liquidity of the financial sector has substantially increased to Nu.6.80 billion in September 2012 from Nu.2.18 billion in September 2011 indicating a growth of 211.55 percent. The increase in liquidity is mainly due to increase in the quick assets, cash & bank balance by 19.42 percent from Nu. 6.54 billion to Nu. 7.81 billion, demand deposit balances with banks in

India increased from Nu. 0.12 billion to Nu. 2.14 billion and RGOB/RMA securities increased by 32.27 percent, from Nu. 1.55 billion to Nu. 2.05 billion. The statutory liquidity requirement (SLR) of the banks stood at 30.93 percent as compared to 23.53 percent during the period under review and the increase in the ratio is mainly due to increase in the quick assets by 37.60 percent from Nu. 13.12 billion to Nu. 18.06 billion. Similarly, the statutory liquidity position of non-banks stood at 16.14 percent as compared to 13.64 percent with an increase in quick assets from Nu. 0.08 billion to Nu. 1.11 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.