ROYAL MONETARY AUTHORITY OF BHUTAN

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# BHUTANESE FINANCIAL SECTOR PERFORMANCE REVIEW

## (September 2012 - 2013)

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'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 Central Bank. *The observations are summarized below:*

## 1. Overview

The performance of the financial sector has improved with the continued expansion in the business. There has been a growth in credit during the period and the performance of financial institutions had improved with enhanced growth in assets. However, the net profit of the banks has slightly decreased as compared to previous quarter.

## 2. Business size and growth.

As of September 2013, the total assets of the financial system[1] has expanded to Nu.84.79 billion compared to Nu.76.46 billion in September 2012 indicating a growth of 10.90 percent. The growth has been recorded in the assets of banks[2] from Nu. 68.28 billion to Nu.75.04 billion (9.90 percent), and that of non-banks[3] from Nu. 8.18 billion Nu.9.75 billion (19.22 percent) during the period under review.

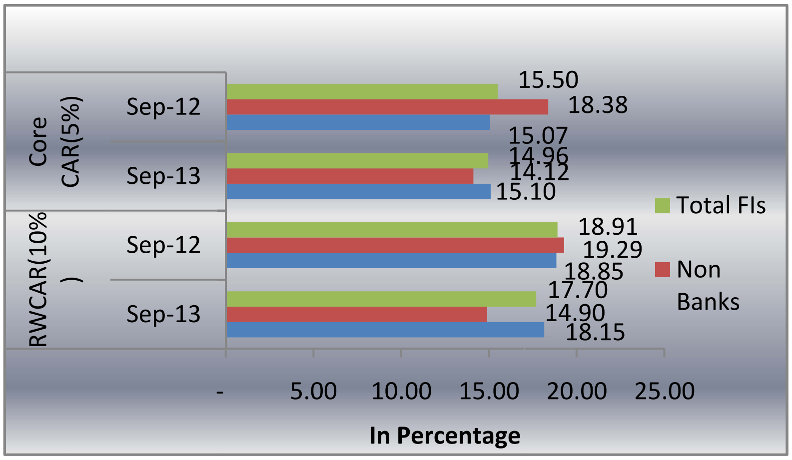
The increase in the total assets of the banks was mainly contributed by bank's investment in Government securities and RMA bills. The total investment in Government securities and RMA bills increased by 72.29 percent (from Nu.2.05 billion to Nu.3.53 billion) during the period under review. The loans and advances also increased from Nu. 43.49 billion to Nu. 45.77 billion, and the Cash and bank balances increased from 20.58 billion to Nu. 24.15 billion. For non-banks the total loans and advances had increased from Nu. 6.50 billion to Nu. 5.67 billion (14.52 percent). In terms of percentage growth, the cash and bank balances of non-banks increased by 56.96 percent.

In terms of the asset composition, the banking system constitutes 88.50 percent of the total assets and the remaining 11.50 percent constitutes non-bank's assets.

Out of total liabilities of the financial sector it was observed that the capital and reserves increased from Nu. 11.93 billion in September 2012 to Nu. 14.94 billion in September 2013 with percentage growth of 25.40 percent. However, the deposit liabilities of banks increased by 9.08 percent, from Nu. 52.74 billion in September 2012 to Nu. 57.53 billion in September 2013. The borrowing for non-banks has decreased from Nu. 3.24 billion to Nu. 1.18 billion) during the period under review.

[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.

### 3. Capital & Reserves.

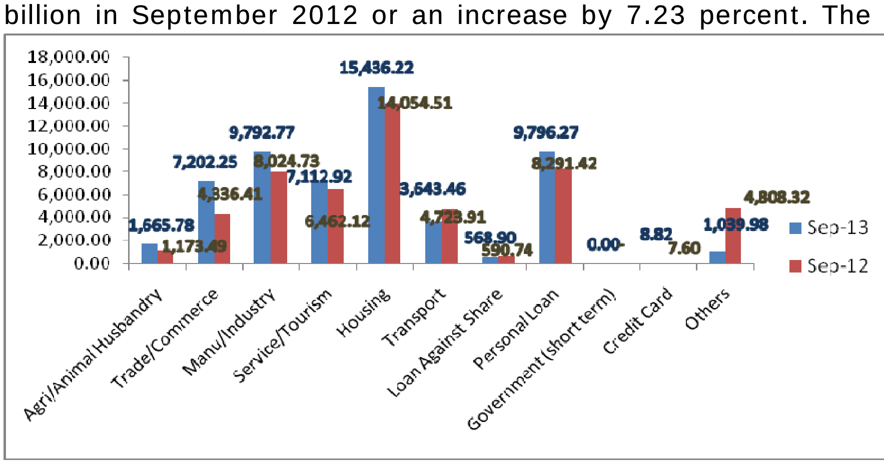



The financial system remained satisfactory with risk weighted capital adequacy Ratio of 17.7 percent in September 2013 against the RWCAR of 18.91 percent in September, 2012. RWCAR were well above the regulatory requirement– both institution wise and system as a whole. The paid up capital and reserves of financial system has increased to Nu.14.96 billion from Nu.11.93 billion during the period under review. The increase was mainly due to rights issue by the banks and non-banks and also equity investment by an international agency in one of the commercial banks. The reserves of the banks also increased by 19.55 percent (from Nu. 6.45 billion to Nu.7.71 billion). The capital and reserves of the non-banks increased by 36.67 percent, from Nu. 1.60 billion to Nu.2.18 billion during the period under review.

The total risk weighted assets of the financial system stood at Nu.81.83 billion in September 2013 as compared to Nu.63.12 billion in September 2012, out of which 85.48 percent of the risk weighted assets are within the banking sector and only 14.52 percent comprises of the non-bank's assets. The core capital ratio of the financial sector has slightly decreased to 14.96 percent from 15.50 percent during the period under review.

### 4. 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, 2013 the financial sector's gross lending to economy reached to Nu.56.26 billion from 52.43 billion in September 2012 or an increase by 7.23 percent. The growth in the lending activity was attributed to strong demand towards the housing and manufacturing and personal loan sector, as a result leading the other sectoral exposures. The Housing loan increased from Nu. 14.05 billion to 15.43 billion (Growth of 9.83



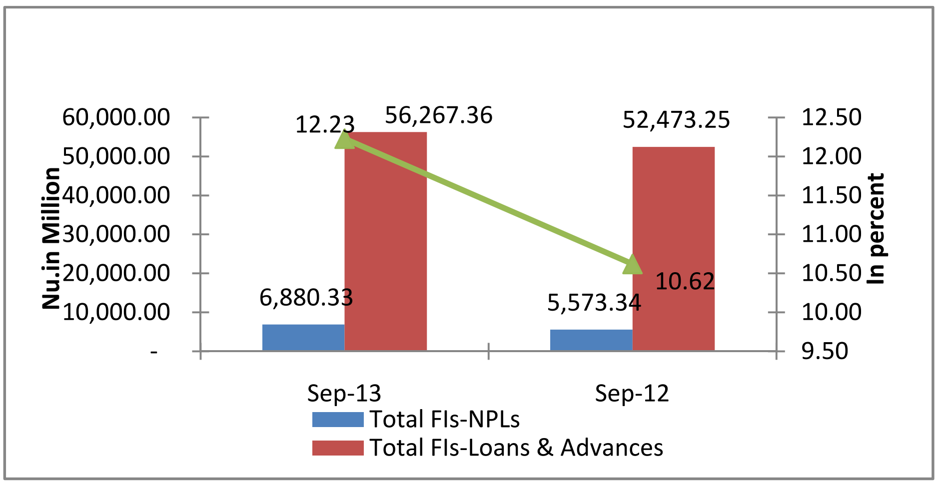
percent) and manufacturing/ industry loans increased from Nu.8.02 billion to Nu. 9.79 billion (22 percent). The personal loan increased from Nu.8.29 billion to Nu.9.79 billion (growth of 18.01 percent) during the period under review.

In terms of the sectoral exposures to total loans, housing sector credit continued to lead the sectoral credit concentration with Nu. 15.43 billion (27.43 percent to total loans), followed by personal loan and manufacturing & industry loan with Nu. 9.79 billion (17.41 percent) and Nu. 9.79 billion (17.40 percent) respectively.

Majority of credit are provided by the banks. Out of total credit of Nu. 56.26 billion, Nu.49.46 billion(87.91 percent) are provided by banks and remaining Nu.6.80 billion(12.09 percent) are credit provided by non-banks. The total loans and advances provided by the banks increased to Nu. 49.46 from Nu.46.47 billion indicating a growth of 6.45 percent. Similarly, the total loans and advances of non-banks increased by 13.25 percent, from Nu. 6.01 to Nu.6.80 billion during the period under review.

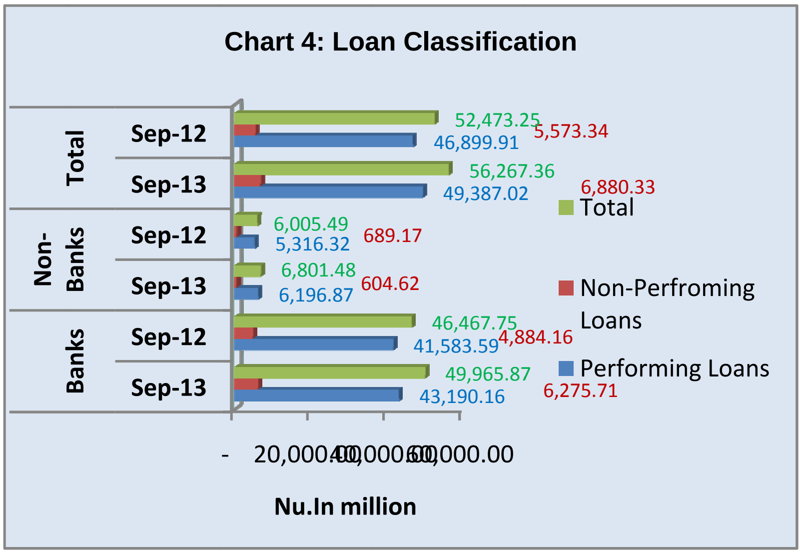
## 5. Credit Quality (Loans and Advances including the non-banks)

Asset quality continued to pose some concerns as the Non Performing Loans (NPL) of the financial sector grew from Nu.5.57 billion in September 2012 to Nu.6.88 billion in September 2013 indicating a deterioration of 23.45 percent. As against the total loans of Nu. 56.26 billion, the NPL ratio (against loans and advances) ratio stood at 12.23 percent during the period under review with an increase of 1.61 percent as compared to September 2012. The increase in the NPL ratio is due to the increase in the NPL by 23.45 percent as against the increase in the total loans by 7.23 percent. Out of the total NPL of Nu.6.88 billion , doubtful and loss assets comprised over 60 percent (22.81 percent doubtful and 38.81 percent loss) and remaining 38.37 percent comprised of substandard assets.



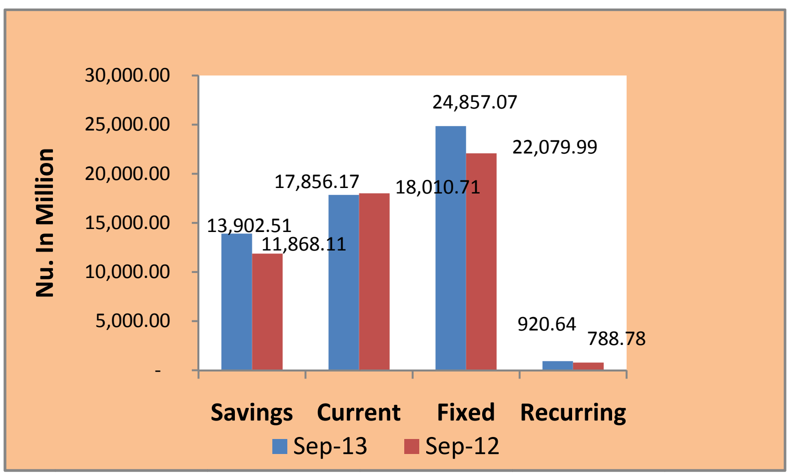

Meanwhile, the percentage of provision as a percentage of NPLs provided for impaired loans has decreased from 51.61 percent to 49.94 percent in September 2013. The NPL ratio of banks stood at 12.69 percent as compared to 10.51 percent during the period under review. The NPL of the banks in absolute figure increased from Nu. 4.88 billion to Nu. 6.28 billion as against the increase in the total loans from Nu. 46.47 billion to Nu. 49.46 billion during the period under review. However, the NPL for non-banks improved from Nu. 0.69 billion to Nu. 0.60 billion. The NPL ratio of non-banks stood at 8.89 percent as compared to 11.48 percent during the period under review.

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




The review on asset classification confirms that around 87.77 percent of total loans disbursed by the financial sector are performing and remaining 12.22 percent are non-performing loans. Of the total loans of Nu. 49.46 billion of banks, 87.31 percent are performing and only 12.69 percent are non-performing. Similarly, 91.11 percent of the total loan outstanding of the non banks is performing loans and the remaining 8.88 percent is non-performing loans. The NPL of banks deteriorated by 28.49 percent and non-bank's NPL improved by 12.27 percent.

### 7. Deposits.

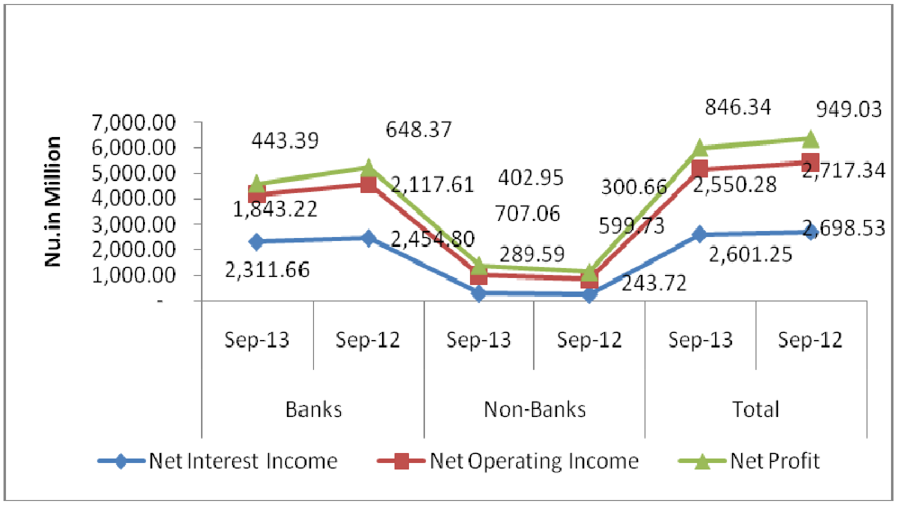



The total deposit base of the banking sector increased by 9.08 percent, from Nu. 52.75 billion to Nu. 57.54 billion during the period under review. The demand deposits which comprises of saving account and current account grew by 6.29 percent, from Nu. 29.87 billion in September 2012 to Nu.31.75 billion in September 2013. Similarly, the time deposits comprising of fixed and recurring account grew by 12.72 percent, from Nu. 22.87 billion to Nu. 25.78 billion during the period under review.

In terms of customer holdings, corporate deposits accounts for 52.59 percent (Nu. 30.26 billion) of the total deposits and remaining 47.41 percent (Nu. 27.28 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 55.20 percent and time deposits (fixed and recurring) comprised of 44.80 percent.

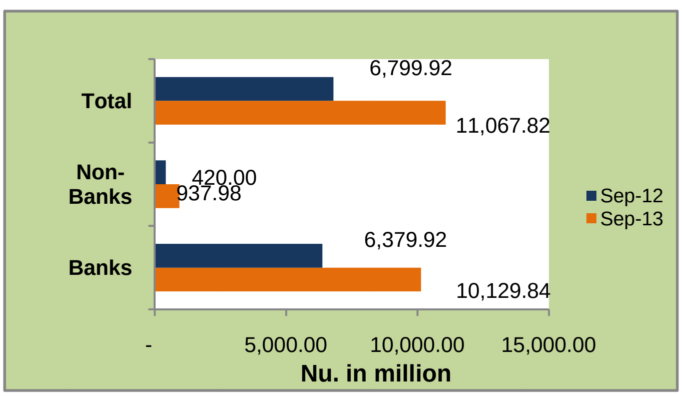
## 8. Profitability.

During the period ended September 2013, the net profit of the financial sector has slightly decreased when compared to the corresponding quarter of the previous year.




The net profit stood at Nu.0.85 billion in September 2013 as compared to a net profit of Nu. 0.95 billion in September 2012, indicating a reduction of 10.82 percent. The profit after tax of banks also decreased from Nu. 0.65 billion to Nu. 0.44 billion during the period under review. However, the profit after tax for non-banks increased from Nu. 0.30 billion to Nu.0.40 billion during the period under review indicating a growth of 34.02 percent. The net interest income of banks decreased by 5.83 percent and net operating income also decreased by 12.96 percent from Nu. 2.12 billion to Nu.1.84 billion. Whereas, the net interest income and net operating income of non-banks increased by 18.82 percent and 17.90 percent respectively.

## 10. Liquidity.




On the liquidity front, the excess liquidity of the financial sector has substantially increased to Nu.11.07 billion in September 2013 from Nu.6.79 billion in September 2012 indicating a growth of 62.76 percent. The increase in liquidity is mainly due to increase in the quick assets from Nu.19.17 billion to Nu. 24.33 billion(cash & bank balance by 19.38 percent from Nu.21.69 billion to Nu.25.89 billion and RGOB/RMA securities increased by 72.29 percent, from Nu. 2.05 billion to Nu.3.53 billion). The statutory liquidity requirement (SLR) of the banks stood at 36.27 percent as compared to 30.93 percent during the period under review. The increase is due to increase in the quick assets of the banks by 25.03 percent (from Nu. 18.06 billion to Nu. 22.58 billion). Similarly, the statutory liquidity position of non-banks stood at 21.65 percent as compared to 16.50 percent with an increase in quick assets from Nu. 1.10 billion to Nu. 1.74 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.