

ROYAL MONETARY AUTHORITY OF BHUTAN

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BHUTANESE FINANCIAL SECTOR PERFORMANCE REVIEW

(September 2013 - 2014)

Financial Regulation & Supervision Department

This report presents an objective assessment of the performance of the Bhutanese financial sector on peer group basis for the quarter ended September 2014 in comparison to the corresponding quarter of the previous year. The information contained in this report is based on the returns submitted by the financial institutions to the RMA. The observations are summarized below:

1. Overview

The performance of the financial sector remained stable with the continued expansion in the reserves of capital and liquidity. The credit growth grew during the year and the performance of financial institutions improved with enhanced growth in assets during the period under review. A number of regulatory measures were announced with a view to enhance the resilience of financial sectors.

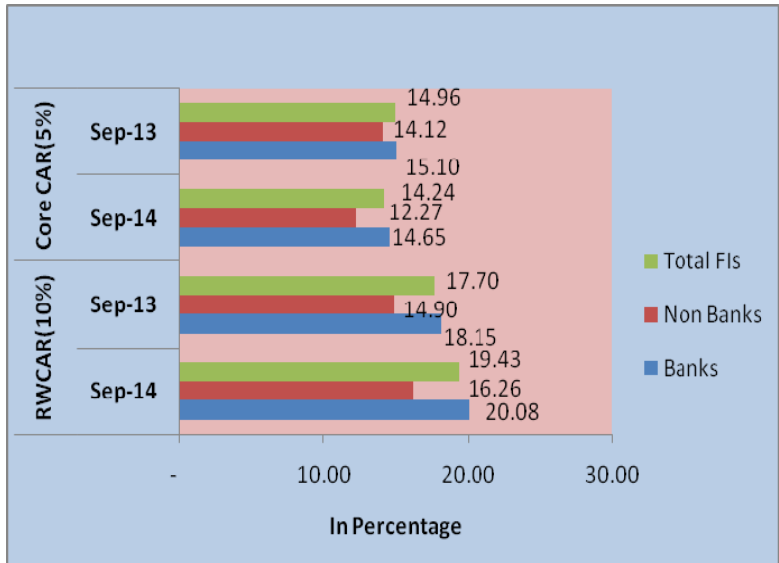
Business size and growth.

As of September 2014 the total asset of the financial sectors stood at Nu. 104.37 billion as compared to Nu. 84.80 billion in September 2013 indicating a growth of 23.08%. The growth has been recorded in the assets of banks which have increased from Nu. 75.04 billion to Nu.92.38 billion, and that of non-banks from Nu. 9.75 billion to Nu. 11.99 billion. However, in terms of the percentage growth of the total assets, banks and non-banks total assets has increased by 23.10% and 22.94% respectively.

The increase in the total assets of the banks was mainly contributed by the increase in the cash and bank balances by 52.68%, from Nu. 24.15 billion in September 2013 to Nu. 36.88 billion in September 2014, followed by the increase in loans and advances (net of Provision) from Nu. 45.77 billion to Nu.50.02 billion indicating a growth of 9.28%. Similarly, for the non-banks the increase in the total assets was mainly due to increase in cash & bank balances by 51.19%, from Nu.1.74 billion to Nu. 2.63 billion, which was followed by increase in equity investments by 46.88%. The loans and advances for non-banks has increased by 21.90%. In terms of the asset composition of the financial sector, the banking sector constitutes 88.51% of the total assets and the remaining 11.49% constitutes assets of the non-banks.

Out of total liabilities of the financial sector, it was observed that the capital and reserves increased by 21.62% from Nu. 14.97 billion in September 2013 to Nu.18.21 billion in September 2014. Deposit liabilities of banks increased by 23.36%, from Nu. 57.54 billion in September 2013 to Nu. 70.98 billion in September 2014. The borrowing for non-banks has slightly increased from Nu.3.81 billion to Nu. 4.06 billion during the period under review.

2. Capital & Reserves



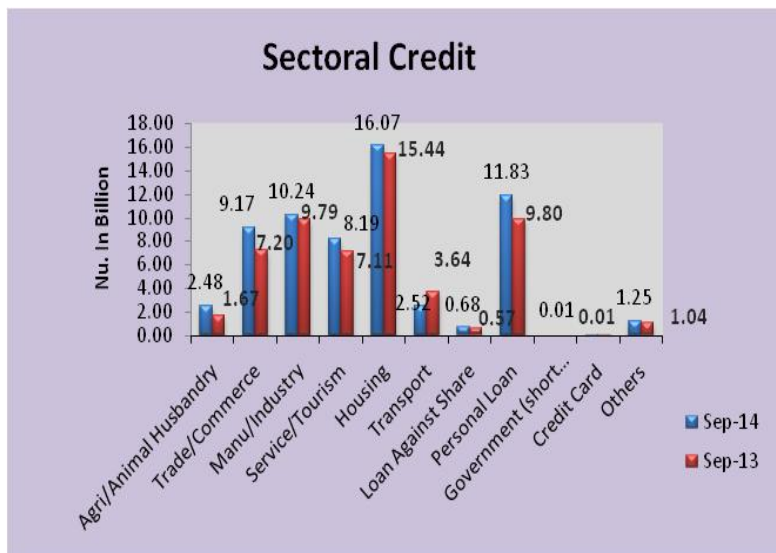
The risk weighted capital adequacy ratio (CAR) of the financial system has increased to 19.43% in September 2014 from 17.70% in September 2013 which is maintained well above the regulatory requirement of 10%. The total risk weighted assets of the financial sector increased by 14.52%, from Nu.81.83 billion in September 2013 to Nu.93.71 billion in September 2014. The increase in the paid up capital fund from Nu. 5.51

billion to Nu. 6.78 billion and increase in reserves and surplus from Nu. 9.4 billion to Nu. 11.43 billion has led to the increase in the qualifying capital fund in the financial sector during the period under review. The RWCAR of banks increased from 18.15% to 20.08% during the period under review. Similarly, the RWCAR of non-banks has also increased from 14.90% in September 2013 to 16.26% in September 2014.

The core capital ratio of the financial sector has slightly decreased from 14.96% in September 2013 to 14.24% in September 2014 which is also maintained well above the requirement of 5%.

3. Sectoral Credit Analysis (including the credit extension by the insurance companies)

The financial institutions continued to play an active role in providing financing to both the household and corporate/private sectors. The total credit of the financial sector has increased to Nu. 62.45 billion in September 2014 from Nu.56.27 billion in September 2013 indicating a growth of 10.98%.



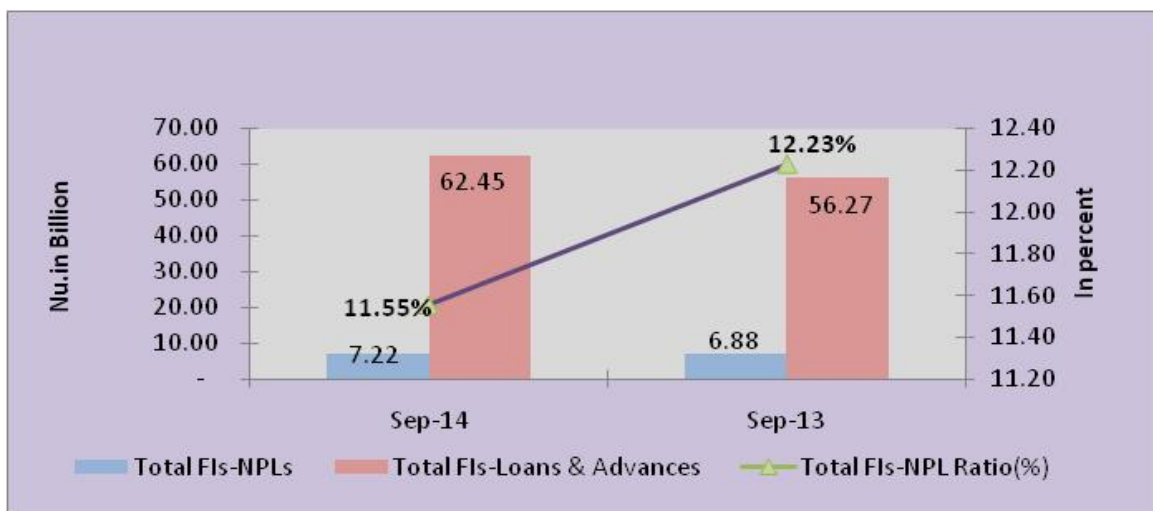
The lending activity was attributable to the strong demand in the housing, personal, manufacturing and trade/commerce sector. In terms of the sectoral exposures to total loans, housing sector constituted the highest exposure with 25.74%

followed by personal sector with 18.95%, manufacturing and trade/commerce sector with 16.39% and 14.69% respectively. However, in the case of the sectoral growth during the period under review, loans to agriculture sector experienced the highest sectoral growth of 48.63% (from Nu. 1.67 billion to Nu. 2.48 billion) during the period under review.

Majority of credit are provided by the banks. Out of total credit of Nu.62.45billion, 86.70% (Nu. 54.14 billion) are provided by banks and remaining 13.30% (Nu. 8.30 billion) are credit provided by non-banks.

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

As against the total loans of Nu. 62.45 billion in the financial sector, the Non

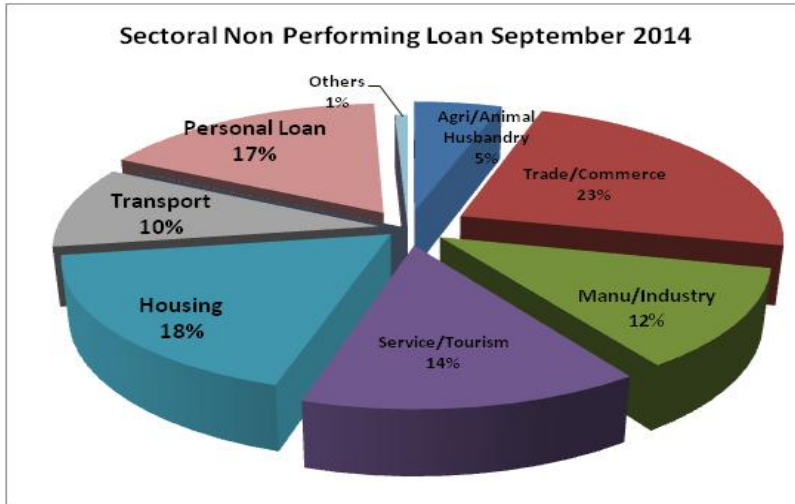


Performing Loans (NPL) in absolute term has increased from Nu.6.88 billion in September 2013 to Nu.7.22 billion in September 2014. The NPL to loan ratio stood at 11.55 % as compared to 12.23% during the period under review.

The slight decrease in the NPL ratio by 0.68 % is mainly due to the increase in the total loans and advances by 10.98% which has offset the increase in the NPL by 4.87% .Out of the total NPL of Nu.7.22 billion, doubtful and loss assets comprises of 68% (Nu. 4.91 billion) and the remaining 32%(Nu.2.31 billion) comprises of substandard assets.

Meanwhile, the percentage of provision as a percentage of NPLs provided for impaired loans has increased from 49.94% in September 2013 to 53.81% in September 2014. The NPL of the banks increased from Nu. 6.28 billion to Nu.6.39 billion as against the increase in the total loans from Nu. 49.47 billion to 54.14 billion during the period under review. The gross NPL ratio of banks stood at 11.81% as compared to 12.69% during the period under review. The NPL for non-banks has also increased from Nu.0.60 billion to Nu.0.82 billion as against the increase in the total loans to Nu. 8.30 billion from Nu.6.80 billion during the period under review. The NPL ratio of non-banks stood at 9.89% as of September 2014.

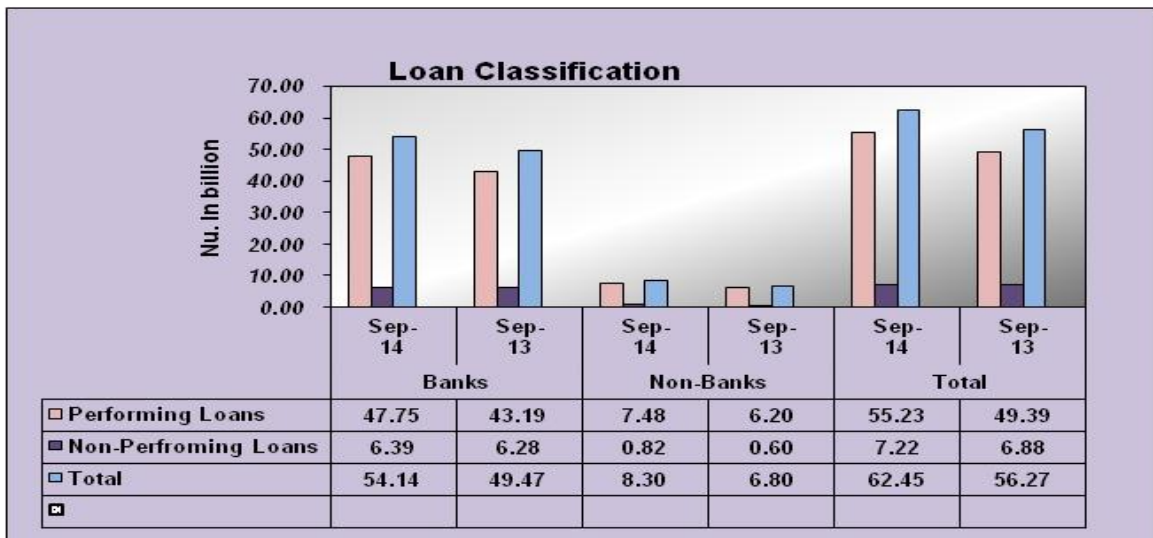
Out of the total NPL of Nu. 7.22 billion as of September 2014, Trade and commerce



sector represented the highest NPL with 23% (Nu. 1.69 billion). Housing and Personal sector has also the highest NPL amongst others and constitutes around 18% (Nu. 1.29 billion) and 17% (Nu.1.21 billion) respectively of total NPL. The gross NPL ratio of financial sectors as of September is 11.55%.

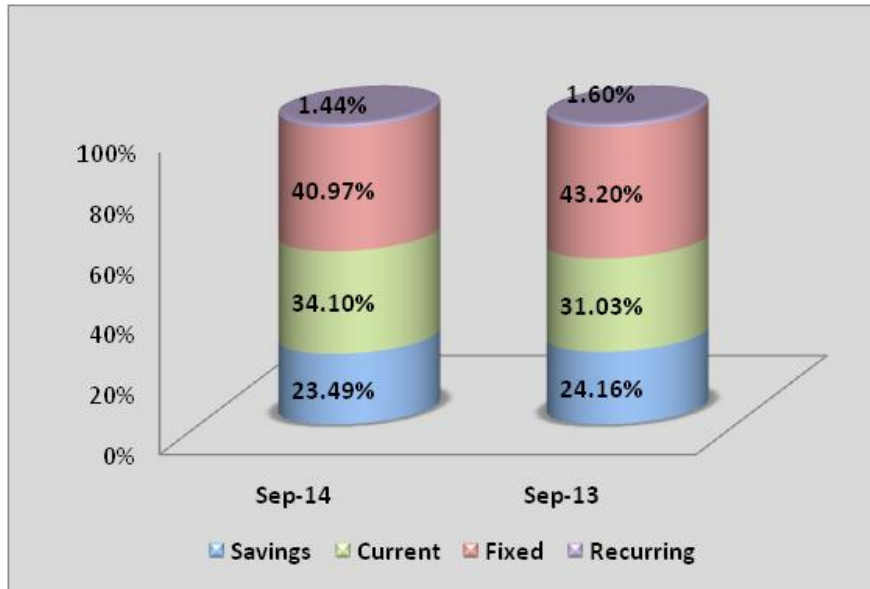
5. Consolidated Loan Classification of the FIs

Analysis on asset classification indicates that 88.45% of total loans disbursed by the financial sector are performing loans. As against the total loans of Nu.62.45 billion for



the financial sectors, 88.45% (Nu. 55.23 billion) are performing and remaining 11.85% (Nu. 7.22 billion) are non-performing loans. In the banking sector, with the total loans of Nu. 55.14 billion, 88.19% are performing loans and 11.81% are non-performing. Similarly, out of the total loans of Nu.8.30 billion of nonbanks 90.11% are performing loans and the remaining 9.89% were non-performing loans for the period under review.

6. Deposits



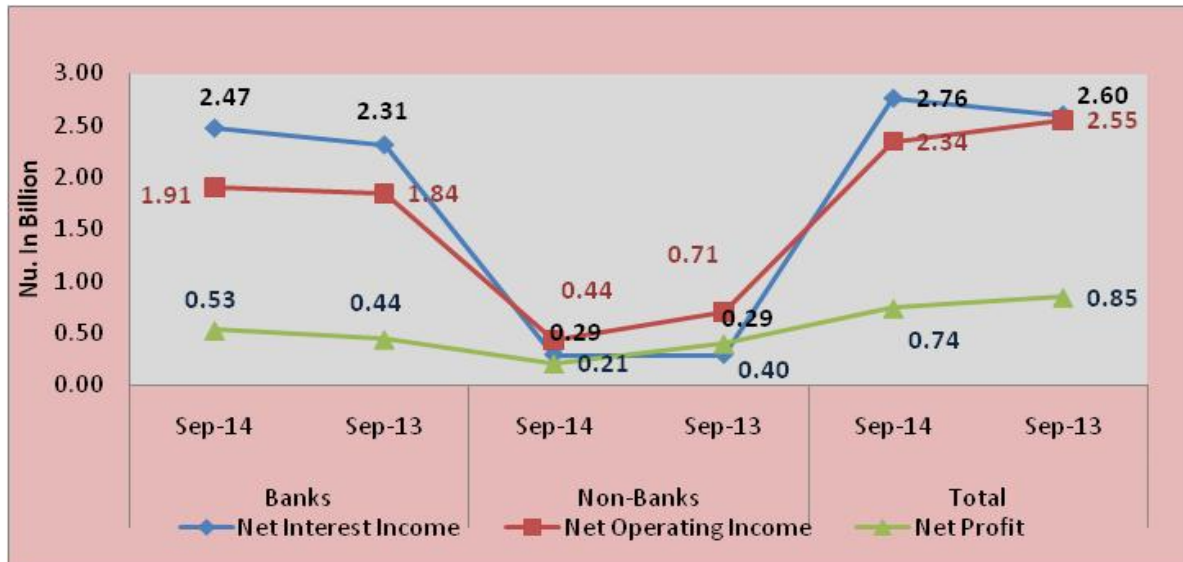
The total deposit base of the banking sector has increased significantly to Nu. 70.98 billion in September 2014 from Nu. 57.54 billion in September 2013 indicating a growth of 23.36%. The increase in the overall deposit base is mainly due to increase in both the demand and time deposits by

28.70% and 16.79% respectively. Demand deposits has increased from Nu. 31.76 billion to Nu. 40.87 billion during the period under review (From Nu. 17.86 billion in September 2013 to Nu. 24.20 billion in September 2014 for Current Account and from Nu. 13.90 billion in September 2013 to Nu. 16.67 billion in September 2014 for Saving Account) and time deposits has increased from Nu. 25.78 billion to Nu. 30.11 billion (from Nu. 24.86 billion in September 2013 to Nu. 29.08 billion in September 2014 for Fixed Account and from Nu. 0.92 billion in to Nu. 1.02 billion in Recurring Account) during the period under review.

In terms of customer holdings, retail deposits accounts for 51.72 % (Nu. 36.71 billion) of the total deposits and remaining 48.28% (Nu. 34.27 billion) constitutes the corporate deposits accounts as compared to 47.41% of retail deposits and 52.59% of Corporate deposits in September 2013. Out of the total deposits of Nu.70.98 billion in September 2014, demand deposits (current and saving) accounted for 57.59%(Nu.40.87 billion) and time deposits (fixed and recurring) comprised of 42.41% (Nu.30.11 billion).

7. Profitability

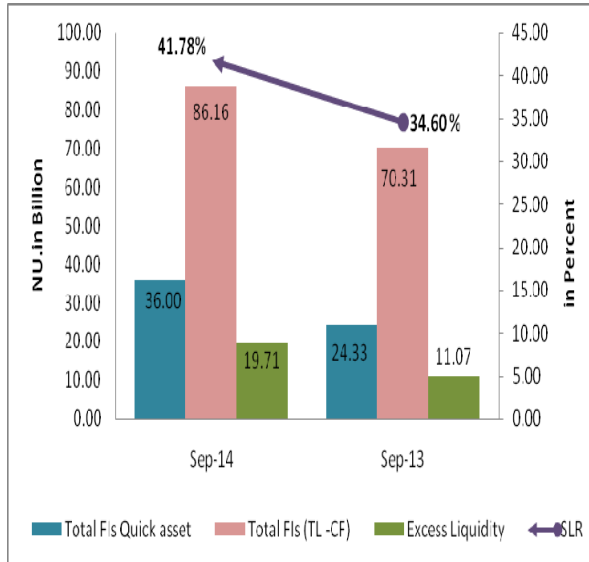
During the quarter under review, the net profit of the financial sector has slightly decreased when compared to the corresponding quarter of the previous year.



The net profit of the financial sectors stood at Nu.0.74 billion in September 2014 as compared to a net profit of Nu. 0.85 billion in September 2013. For the period ended September 2014, the banks profit increased by Nu.85.16 million, however, the profit of non banks has decreased significantly by Nu.191.31 million.

Although the net interest income of the financial sector has increased by 6.17%, the net operating income has decreased by 8.06% for the period ended in September 2014. This decrease in net operating income has led to slight decrease in net profit from Nu.0.85 billion to Nu.0.74 billion during the period under review.

8. Liquidity



On the liquidity front, the financial sector has an excess liquidity of Nu.19.71billion as of September 2014. For the period ended in Q3FY'14, the total quick asset of the financial sector has also increased from Nu.24.33 billion to Nu.36.00 billion. (quick asset of the banks and non banks has increased by Nu.10.78 billion and Nu.0.89 billion respectively).

The statutory liquidity Requirement (SLR) position of the financial sectors stood at 41.78% in September 2014 as compared to 34.60% in September 2013. The SLR of the banks stood at 43.45% (23.45% above the regulatory requirement of 20 percent) in

September 2014 as compared to 36.27% in September, 2013. The increase is due to increase in the quick assets of the banks by 47.75% (from Nu. 22.58 billion in September 2013 to Nu. 33.36 billion in September 2014). Similarly, the non-banks' SLR position for the September 2014 stood at 28.09% as compared to 21.65% in September 2013. The quick assets of non-banks have also increased by 51.20% (from Nu.1.74 billion in September 2013 to Nu. 2.64 billion in September 2014).