

# ROYAL MONETARY AUTHORITY OF BHUTAN

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## QUARTERLY PERFORMANCE REVIEW OF THE BHUTANESE FINANCIAL SECTOR

(September 2014-2015)

### 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 2015 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

Performance of the financial sector remained sound with the continued expansion in the business, while the stability of the system was maintained. Both the banking and nonbanking sector performed better in September 2015 than the corresponding period of the previous year. In particular, both the banks and non banks experienced a higher credit growth during the year and the performance of financial institutions improved with enhanced growth in assets, higher profitability and the Gross NPL ratio improved by 0.5% during the period under review.

## 2. Business size and growth.

### Asset

The total asset of the financial sector has increased to Nu.109.38 billion in September 2015 compared to Nu. 104.37 billion in September 2014 indicating a growth of 4.80%. The

banking sector's asset has increased from Nu.92.38 billion to Nu. 95.09 billion, and the asset of non-banks increased from Nu.11.99 billion to Nu. 14.29 billion during the period under review. In terms of the percentage growth of the total assets of banks and non-banks, it has increased by 2.93% and 19.16% respectively. In terms of the asset composition, 86.94% of the total assets are held by banks and the remaining 13.06% by the non-banks.

ASSETS	Banks		Non Banks		Nu. In Million		
	Sep-15	Sep-14	Sep-15	Sep-14	Sep-15	Sep-14	% Holding sep 2015
	Cash & Bank Balances	30,745.55	36,877.52	1,625.53	2,635.53	32,371.07	39,513.05
RGOB/RMA Securities	5,790.36	3,348.43	60.00	0.00	5,850.36	3,348.43	5.35
Loans & Advances (net of prov)	56,110.94	50,022.85	10,951.60	7,925.66	67,062.54	57,948.51	61.31
Equity Investments	272.68	242.27	182.37	140.98	455.05	383.25	0.42
Fixed Assets	1,034.04	788.11	189.12	159.09	1,223.16	947.19	1.12
Other Assets	1,135.29	1,098.72	1,279.17	1,128.87	2,414.46	2,227.59	2.21
<b>Total Assets</b>	<b>95,088.86</b>	<b>92,377.89</b>	<b>14,287.78</b>	<b>11,990.12</b>	<b>109,376.64</b>	<b>104,368.01</b>	<b>100.00</b>
<b>LIABILITIES</b>							
Paid-up Capital	6,305.11	6,097.47	1,400.00	680.00	7,705.11	6,777.47	7.04
Reserves	10,642.76	9,500.64	1,626.86	1,929.04	12,269.62	11,429.68	11.22
Deposit Liabilities	72,967.29	70,979.51	0.00	0.00	72,967.29	70,979.51	66.71
Borrowings	880.50	1,122.81	1,629.24	1,533.06	2,509.74	2,655.87	2.29
Funds/Grants/bonds/debentures	0.00	0.00	2,500.00	2,530.41	2,500.00	2,530.41	2.29
Provisions	1,983.90	1,813.68	13.57	6.33	1,997.47	1,820.01	1.83
Current & Other Liabilities	2,309.31	2,863.78	7,118.12	5,311.29	9,427.42	8,175.07	8.62
<b>Total Liabilities</b>	<b>95,088.86</b>	<b>92,377.89</b>	<b>14,287.78</b>	<b>11,990.12</b>	<b>109,376.64</b>	<b>104,368.01</b>	<b>100.00</b>

The increase in the total assets of the banks was mainly contributed by the following:

- ✓ Increase in loans and advances (net of specific provision and interest in suspense) by Nu.6.09 billion.
- ✓ increase in bank's investment in corporate bonds by Nu.2.39 billion

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

- ✓ Increase in Loans and advances (net of provision) by Nu.3.03 billion
- ✓ Investment in corporate bond by 60 million
- ✓ The increase in equity investments by 29.36%.

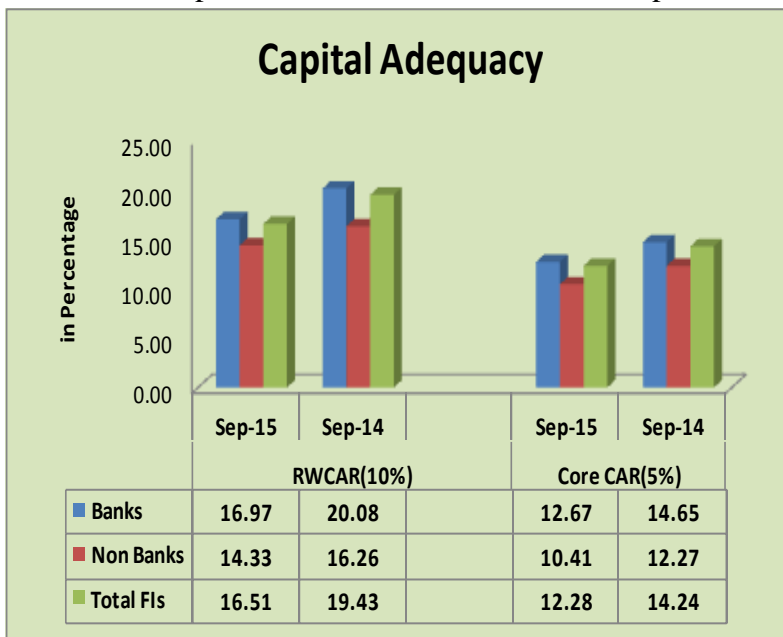
### **Liability**

Out of the total liabilities of Nu.109.38 billion, the following were observed:

- ✓ the capital and reserves of banks has increased from Nu.15.59 billion in September 2014 to Nu.16.95 billion in September 2015.
- ✓ the capital and reserve of non-banks has increased from Nu. 2.61 billion to Nu.3.03 billion.
- ✓ The deposit liabilities of banks has also increased from Nu.70.98 billion in September 2014 to Nu.72.97 billion in september2015 indicating a growth of 2.80% and
- ✓ the bonds/ debentures of non banks stood at Nu. 2.50 billion in September 2015.

### **3. Capital & Reserves**

The risk weighted capital adequacy ratio (CAR) of the financial system has decreased to 16.51% in September 2015 from 19.43% in September 2014 which is maintained well



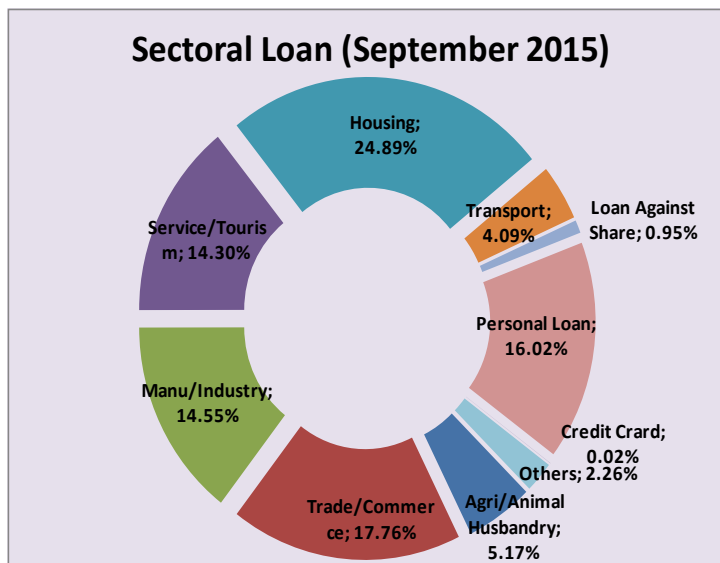
above the regulatory requirement of 10%. The total risk weighted assets of the financial sector increased by 29.14%, from Nu.93.71 billion in September 2014 to Nu.121.01 billion in September 2015 whereas the capital fund of financial institutions increased by only 9.71%. This increase in Risk weighted asset has led to the decrease in the capital adequacy ratio by 2.92% during the period under review.

The RWCAR of banks decreased from 20.08% to 16.97% during the period under review. Similarly, the RWCAR of non-banks has also decreased from 16.26% in September 2014 to 14.33% in September 2015. The core capital ratio of the financial sector has slightly decreased from 14.24% in September 2014 to 12.28% in September 2015 which is also maintained well above the requirement of 5%.

#### 4. Sectoral Credit Analysis

The financial system continued to play an active role in providing financing to both the household and corporate/private sectors. During the period ended September 2015, the financial sectors' total loans (gross) to the economy reached to Nu.71.99billion from Nu.62.45 billion in September 2014 indicating an increase of 15.30%. The growth in the lending activity was attributable to strong demand towards the housing and trade/commerce sector, leading the other sectoral exposures.

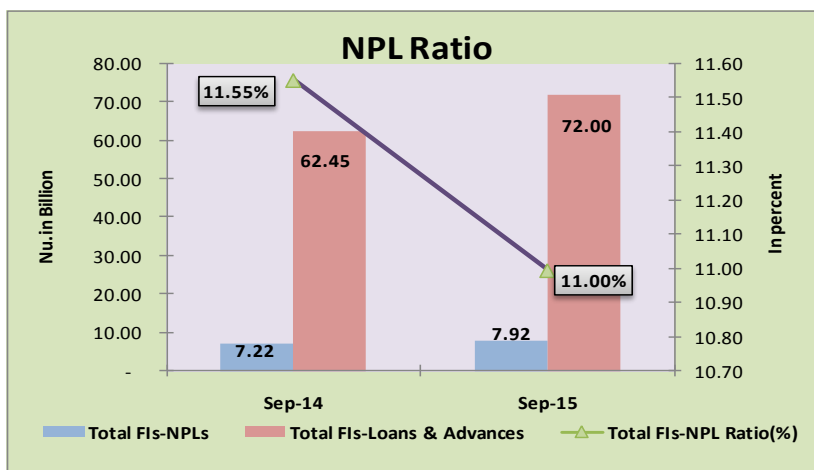
As depicted in the diagram, the sectoral exposures to total loans and advances analysis of the financial sector reveal that the Housing Sector has the highest loan with Nu. 17.92 billion (24.89%) followed by Trade/Commerce sector with Nu. 12.79 billion(17.76%) and Personal sector with Nu.11.54billion (16.02%). However, in terms of percentage growth by sector, loans to agriculture sector experienced the highest sectoral growth of 50.30% followed by loans to trade and commerce sector with 39.40% in September 2015.



Out of total credit of Nu. 71.99 billion, 84.23% (Nu. 60.65 billion) were provided by banks and 15.77% (Nu. 11.35 billion) by non-banks. The total loans and advances provided by the banks increased from Nu. 54.14 billion to Nu. 60.65 billion indicating a growth of 12.01%. Similarly, the total loans and advances of non-banks increased by 15.29%, from Nu. 8.30 billion in September 2014 to Nu. 11.35 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 total Non Performing Loans (NPL) of the financial sector increased from Nu. 7.22 billion in September 2014 to Nu. 7.92 billion in September 2015 indicating an increase of 9.72%. However, the NPL to total loans ratio stood at 11.00% in September 2015 as compared to 11.55% in September 2014.



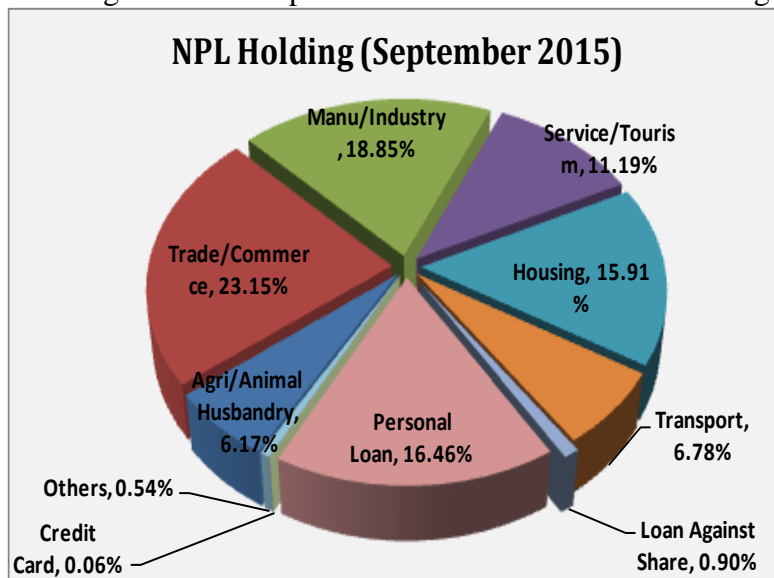
The NPL of the banks increased to Nu. 7.19 billion from

Nu.6.39 billion as against the increase in the total loans from Nu. 54.14 billion in September 2014 to Nu. 60.65 billion in September 2015. The gross NPL ratio of banks stood at 11.86% as compared to 11.81% during the period under review. However, the NPL for non-banks has decreased from Nu.820.99million to Nu.724.29 million as against the increase in the total loans from Nu.8.30 billion to Nu. 11.35 billion during the period under review. The NPL ratio of non-banks stood at 6.38% in September 2015 as compared to 9.89% in September 2014.

Out of the total NPL of Nu.7.92 billion, 66.56% comprises of loans under doubtful and loss (Nu.2.34 billion under doubtful category loan and Nu.2.92 billion under loss category) and the remaining 33.44% (Nu.2.65 billion) comprises of substandard loans.(Annexure I)

The provision to NPL has slightly decreased from 53.81 % in September 2014 to 52.02% in September 2015 mainly due to increase in NPL by Nu.701.07 million.The Net NPL to Net loan ratio stood at 4.44% in September 2015 compared to 4.52% in the corresponding quarter of previous year indicating decrease by 0.08%(Annexure II).

The diagram below represents the sector wise NPL holding for September 2015. Out of the total NPL of Nu. 7.92 billion, the chronological distribution of Sectoral NPLs are:



total NPL of Nu. 7.92 billion, the chronological distribution of Sectoral NPLs are:

- ✓ Trade and commerce sector has the highest NPL with Nu. 1.83billion (23.15%)
- ✓ Manufacturing/Industry Sector with Nu. 1.49billion (18.85%)
- ✓ Personal sector with Nu.1.30 billion(16.46%)

However, in terms of increase in NPL by sector, the following observations are made:

- ✓ NPL in Manufacturing /Industry sector experienced the highest sectoral growth of Nu.633.11 million.
- ✓ NPL in Trade/ Commerce sector increased by Nu.144.99 million
- ✓ NPL in Agriculture sector increased by Nu.114.92 million.
- ✓ NPL pertaining to loan against share increased significantly by Nu. 69.99 million, from Nu.1.15million in September 2014 to Nu.71.14 million in September 2015.
- ✓ However, the NPL for service/ Tourism, housing and transport sector have contracted during the period under review.

## 6. Consolidated Loan Classification of the FIs

Analysis on loan classification indicates that 89.00% (Nu.64.08 billion) of total loans (Nu.71.99 billion) disbursed by the financial sector are performing loans and remaining 11.00% (Nu.7.92 billion) are non-performing.

Table 2: Loan Classification					Figures in Million		
	Banks		NBFIs		TOTAL		
	Sep-15	Sep-14	Sep-15	Sep-14	Sep-15	Sep-14	% Change
<b>Performing loans</b>	<b>53,454.99</b>	<b>47,748.26</b>	<b>10,626.72</b>	<b>7,483.19</b>	<b>64,081.72</b>	<b>55,231.45</b>	16.02
<b>Non-performing loans</b>	<b>7,192.11</b>	<b>6,394.24</b>	<b>724.19</b>	<b>820.99</b>	<b>7,916.30</b>	<b>7,215.23</b>	9.72
<b>Total</b>	<b>60,647.10</b>	<b>54,142.50</b>	<b>11,350.91</b>	<b>8,304.18</b>	<b>71,998.01</b>	<b>62,446.68</b>	15.30

Of the total loans of Nu.60.65 billion of banks, 88.14% are performing and only 11.86% are non-performing. Similarly, for non banks, 93.62% of the total loan outstanding (Nu.11.35billion) are performing and the remaining 6.38% were non-performing during the period under review.

## 7. Deposits

Table 3 shows the deposit trend by deposit type. The total deposit base of the banking sector increased from Nu. 70.98 billion to Nu.72.97 billion indicating a growth of 2.80% during the period under review.

Table 3: Consolidated Deposit by Type -Sep 2014-2015			Figures in Billion(Nu.)	
Deposits by Type	Sep-15	Sep-14	% Change	% Holding
<b>Demand Deposits</b>	<b>38.76</b>	<b>40.87</b>	-5.18	53.11%
Current	19.77	24.20	-18.32	27.09%
Saving	18.99	16.67	13.90	26.03%
<b>Time Deposits</b>	<b>34.20</b>	<b>30.11</b>	13.62	46.88%
Fixed	33.04	29.08	13.60	45.28%
Recurring Deposits	1.17	1.02	14.08	1.60%
<b>Total</b>	<b>72.97</b>	<b>70.98</b>	<b>2.80</b>	<b>100.00%</b>

The increase in the overall deposit base was due to increase in the saving, fixed and recurring deposits by 13.93%, 13.60% and 14.08% respectively. However, for the month of September 2015, the

current deposit has decreased by 18.32%.

Demand deposits have slightly decreased to Nu. 38.76 billion in September 2015 from Nu. 40.87 billion in September 2014, as detailed below:

- ✓ the current deposit decreased from Nu.24.20 billion in September 2014 to Nu.19.77 billion in September 2015.
- ✓ the saving deposit slightly increased from Nu.16.67 billion in September 2014 to Nu. 18.99 billion in September 2015.

The time deposit has increased from Nu. 30.11 billion to Nu. 34.20 billion out of which the fixed deposits increased from Nu. 29.08 billion in September 2014 to Nu. 33.04 billion in September 2015 and the recurring deposits from Nu. 1.02 billion in September 2014 to Nu. 1.17 billion in September 2015.

In terms of customer holdings, out of total deposits of Nu.72.97 billion, retail deposits accounts for 48.50% (Nu. 35.39 billion) and remaining 51.50% (Nu. 37.58 billion) constitutes corporate deposits. ( annexure I)

In other words, corporate deposits continued to dominate the deposit holding pattern of the banks for the period ended September 2015. As a share of total deposits, demand deposits accounted for 53.12% and time deposits of 46.88%.

## 8.Profitability

During the period ended September 2015, the net profit of the financial sector has increased to Nu.969.29 million in September 2015 as compared to a net profit of Nu. 740.83 million in September 2014. The profit of banks increased by Nu.94.69 million, from Nu.529.19 million in September 2014 to Nu.623.88 million in September 2015.

Similarly, the net profit of the non banks also increased from Nu.211.64 million in September 2014 to Nu.345.41million in September 2015 indicating a growth of 63.21%.

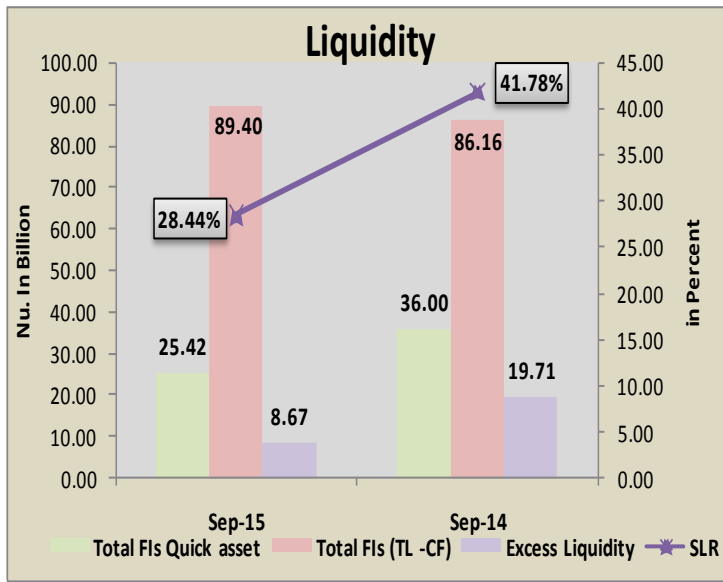
Table 4: Summary of consolidated Profit/Loss account - September 2014 -2015							Nu. In million	
Particulars	Banks		Non-Banks		Total Fls		% Change	
	Sep-15	Sep-14	Sep-15	Sep-14	Sep-15	Sep-14		
Interest Income	5,154.24	4,520.97	1,020.56	727.17	6,174.79	5,248.14	17.66	
Interest Expenses	2,369.59	2,047.76	582.16	438.53	2,951.75	2,486.29	18.72	
Net Interest Income	2,784.65	2,473.21	438.40	288.64	3,223.05	2,761.85	16.70	
Net Operating Income	2,219.61	1,908.86	649.34	435.83	2,868.95	2,344.69	22.36	
Profit before Tax	989.43	852.88	493.45	302.34	1,482.88	1,155.22	28.36	
Tax	365.55	323.69	148.03	90.70	513.59	414.39	23.94	
Profit after Tax	623.88	529.19	345.41	211.64	969.29	740.83	30.84	

The increase in the profit of the financial sector can be attributed mainly to the increase in the interest income by 17.66% amounting to Nu.926.66 million. Similarly, the interest expense has also increased by Nu.465.46 million. However, the increase in interest income has offset the increase in interest expenses which resulted in the increase in Net profit by 30.84%.



## 9. Liquidity

On the liquidity front, the excess liquidity of the financial sector has decreased significantly by Nu.11.04 billion, from Nu.19.71 billion in September 2014 to Nu. 8.67 billion in September 2015. The decrease in liquidity is mainly due to decrease in the quick assets by 10.58%(quick asset of both banks and non banks has decreased by Nu.9.56 billion and Nu.1.01 billion respectively).



The decrease in the quick asset was mainly due to decrease in the balances with RMA by Nu.13.44 billion followed by decrease in demand deposit with commercial banks in Bhutan and decrease in RGoB bonds/securities by Nu.1.67 billion and Nu.450.91 million respectively.

The statutory liquidity requirement (SLR) of the financial sector stood at 28.44% in September 2015 as compared

to 41.78% in September 2014. The SLR of the banks stood at 30.46% in September 2015 as compared to 43.45% in September 2014. Similarly, the non-banks' SLR position for September 2015 stood at 14.43% (4.43% above the regulatory requirement of 10%) as compared to 28.09 % in September 2014.

The other indicators of fund based liquidity deteriorated as liquid asset to total asset of the financial sector decreased to 14.32% in 2015 September from 27.41% in September 2014. Out of the total asset of Nu. 109.38 billion of the financial sectors, the liquid asset accounts only Nu.15.66 billion during the period under review. Further, Credit to Deposit ratio of the banking sector also increased from 76.28% in September 2014 to 83.12% indicating a growth of 6.84% during the period under review.(Annexure II)

*Loan Classification September 2014-2015*

Loan Classification	Figures in Million						
	Banks		NBFIs		TOTAL		% Change
	Sep-15	Sep-14	Sep-15	Sep-14	Sep-15	Sep-14	
<b>Performing loans</b>	<b>53,454.99</b>	<b>47,748.26</b>	<b>10,626.72</b>	<b>7,483.19</b>	<b>64,081.72</b>	<b>55,231.45</b>	<b>16.02</b>
Standard	49,410.30	43,800.29	9,527.36	6,877.54	58,937.66	50,677.83	16.30
Watch (up to 90 days)	4,044.69	3,947.98	1,099.36	605.65	5,144.05	4,553.63	12.97
<b>Non-performing loans</b>	<b>7,192.11</b>	<b>6,394.24</b>	<b>724.19</b>	<b>820.99</b>	<b>7,916.30</b>	<b>7,215.23</b>	<b>9.72</b>
Doubtful (181 to 365 days)	2,184.49	1,833.70	155.57	251.69	2,340.07	2,085.39	12.21
Loss (366 days & above)	2,720.99	2,718.53	208.02	102.08	2,929.02	2,820.61	3.84
<b>Total</b>	<b>60,647.10</b>	<b>54,142.50</b>	<b>11,350.91</b>	<b>8,304.18</b>	<b>71,998.01</b>	<b>62,446.68</b>	<b>15.30</b>

*Deposit by customer Type September 2014-2015*

Deposits by Customer	Total Deposits		% Change	% Holding
	Sep-15	Sep-14		
<b>Corporate deposits</b>	<b>37.58</b>	<b>34.27</b>	<b>9.66</b>	<b>51.50</b>
Government	10.65	8.61	23.65	14.60
Government Corp.	8.52	8.14	4.74	11.68
Public Companies	0.52	0.46	13.39	0.71
Private Co.	3.72	3.32	12.06	5.09
Commercial Banks	8.85	8.47	4.51	12.13
NBFIs	5.31	5.27	0.83	7.28
<b>Retail deposits</b>	<b>35.39</b>	<b>36.71</b>	<b>-3.60</b>	<b>48.50</b>
Individuals	33.83	35.12	-3.65	46.37
Foreign Currency	1.56	1.60	-2.38	2.14
<b>Total</b>	<b>72.97</b>	<b>70.98</b>	<b>2.80</b>	<b>100.00</b>

*Financial Soundness Indicators of Financial institutions (September 2014-2015)*

Indicators	Sep 2015	Sep 2014
<b>Capital Adequacy</b>		
<i>RWCAR (10%)</i>	16.51%	19.43%
<i>Core CAR(5%)</i>	12.28%	14.24%
<b>Asset Quality</b>		
<i>NPLs to Total Loan</i>	11.00%	11.55%
<i>Provision to NPL</i>	52.02%	53.81%
<i>Net NPL to Net Loan</i>	4.44%	4.52%
<b>Earning</b>		
<i>Return on Asset(ROA)</i>	0.90%	0.78%
<i>Return on Equity(ROE)</i>	5.03%	4.43%
<i>Profit After Tax(PAT)</i>	Nu.969.29 million	Nu.740.83million
<b>Liquidity</b>		
<i>Liquid Asset to Total Asset</i>	14.32%	27.41%
<i>Loans to Deposits</i>	83.12%	76.28%
<i>Statutory Liquidity Requirement</i>	28.44%	41.78%

*Sectoral Loan and NPL September 2014-2015*

Sector	Sectoral Investment and NPLs					Nu. In Million				
	Total Loans		% Change	Absolute Growth	% Loan Holding (Sep 2015)			% Change	Absolute Growth	NPL % Holding (Sep 2015)
	Sep-15	Sep-14				Sep-15	Sep-14			
<b>Agriculture/Animal Husbandry</b>	<b>3,721.07</b>	<b>2,475.79</b>	<b>50.30</b>	<b>1,245.29</b>	<b>5.17%</b>	<b>488.42</b>	<b>373.50</b>	<b>30.77</b>	<b>114.92</b>	<b>6.17%</b>
<b>Trade/Commerce</b>	<b>12,786.04</b>	<b>9,172.09</b>	<b>39.40</b>	<b>3,613.95</b>	<b>17.76%</b>	<b>1,832.28</b>	<b>1,687.79</b>	<b>8.56</b>	<b>144.49</b>	<b>23.15%</b>
<b>Manu/Industry</b>	<b>10,474.15</b>	<b>10,235.17</b>	<b>2.33</b>	<b>238.98</b>	<b>14.55%</b>	<b>1,492.11</b>	<b>859.00</b>	<b>73.70</b>	<b>633.11</b>	<b>18.85%</b>
<b>Service/Tourism</b>	<b>10,295.61</b>	<b>8,190.74</b>	<b>25.70</b>	<b>2,104.86</b>	<b>14.30%</b>	<b>885.90</b>	<b>1,026.80</b>	<b>-13.72</b>	<b>-140.89</b>	<b>11.19%</b>
<b>Housing</b>	<b>17,922.28</b>	<b>16,070.73</b>	<b>11.52</b>	<b>1,851.55</b>	<b>24.89%</b>	<b>1,259.25</b>	<b>1,288.51</b>	<b>-2.27</b>	<b>-29.25</b>	<b>15.91%</b>
<b>Transport</b>	<b>2,943.97</b>	<b>2,524.52</b>	<b>16.62</b>	<b>419.45</b>	<b>4.09%</b>	<b>536.58</b>	<b>710.72</b>	<b>-24.50</b>	<b>-174.14</b>	<b>6.78%</b>
<b>Loan Against Share</b>	<b>681.73</b>	<b>683.22</b>	<b>-0.22</b>	<b>(1.49)</b>	<b>0.95%</b>	<b>71.14</b>	<b>1.15</b>	<b>6065.50</b>	<b>69.99</b>	<b>0.90%</b>
<b>Personal Loan</b>	<b>11,535.18</b>	<b>11,834.45</b>	<b>-2.53</b>	<b>(299.26)</b>	<b>16.02%</b>	<b>1,302.97</b>	<b>1,213.43</b>	<b>7.38</b>	<b>89.54</b>	<b>16.46%</b>
<b>Government (short term)</b>	<b>0.00</b>	<b>0.00</b>		<b>-</b>	<b>0.00%</b>	<b>0.00</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00%</b>
<b>Credit Card</b>	<b>12.07</b>	<b>12.04</b>	<b>0.27</b>	<b>0.03</b>	<b>0.02%</b>	<b>4.79</b>	<b>4.86</b>	<b>-1.56</b>	<b>-0.08</b>	<b>0.06%</b>
<b>Others</b>	<b>1,625.91</b>	<b>1,247.93</b>	<b>30.29</b>	<b>377.98</b>	<b>2.26%</b>	<b>42.85</b>	<b>49.47</b>	<b>-13.37</b>	<b>-6.61</b>	<b>0.54%</b>
<b>Totals</b>	<b>71,998.01</b>	<b>62,446.68</b>	<b>15.30</b>	<b>9,551.34</b>	<b>100.00%</b>	<b>7,916.30</b>	<b>7,215.23</b>	<b>9.72</b>	<b>701.07</b>	<b>100.00%</b>