ROYAL MONETARY AUTHORITY OF BHUTAN

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Financial Regulation & Supervision Department

FINANCIAL SECTOR PERFORMANCE REVIEW REPORT

(September 2016)

This report presents the performance of the Bhutanese financial sector on peer group basis (excluding NPPF) for the period ended Q3FY'16 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.

Overview

During the period ended September 2016, the total asset of the financial sector reached to Nu.125.96billion (an increase by Nu.16.59billion) as compared to the total assets of Nu.109.38billion in September 2015. In terms of the asset composition, 85.26% of the total assets are held by banks and the remaining 14.74% are held by the non-banks. With regard to the profitibality, the financial sector incurred a loss of Nu.254.62 million in September 2016 as compared to a profit of Nu.969million in September 2015. When it comes to the performance of banks and non-banks, the banking sector has incurred a loss of Nu.594.12million while the non-banks registered a net profit of Nu.294.90 million during the period under review.

Financial sectors' total loans to the economy have increased by 18.02%, from Nu. 71.99billion in September 2015 to Nu. 84.97billion in September 2016. In terms of lending by sectors, Housing sector has the highest loan exposure followed by the Trade &Commerce sector and Service/Tourism Sector. For the period ended September 2016, the loan to Housing Sector stood at Nu. 19.99billion (23.54%) followed by Trade and Commerce Sector with Nu.18.11billion (21.31%) and Service/Tourism Sector with Nu. 11.65billion(13.71%).

Regarding the loan quality, the financial sector registered a gross NPL ratio of 13.22% in September 2016 as compared to 11.00% in September 2015, an increase of 2.22% during the period under review. Capital Adequacy ratio and Statutory Liquidity ratio were also maintained above the minimum regulatory requirement of 12.5% and 20% (10% for non-banks and 20% for banks) respectively.

Capital and Reserves

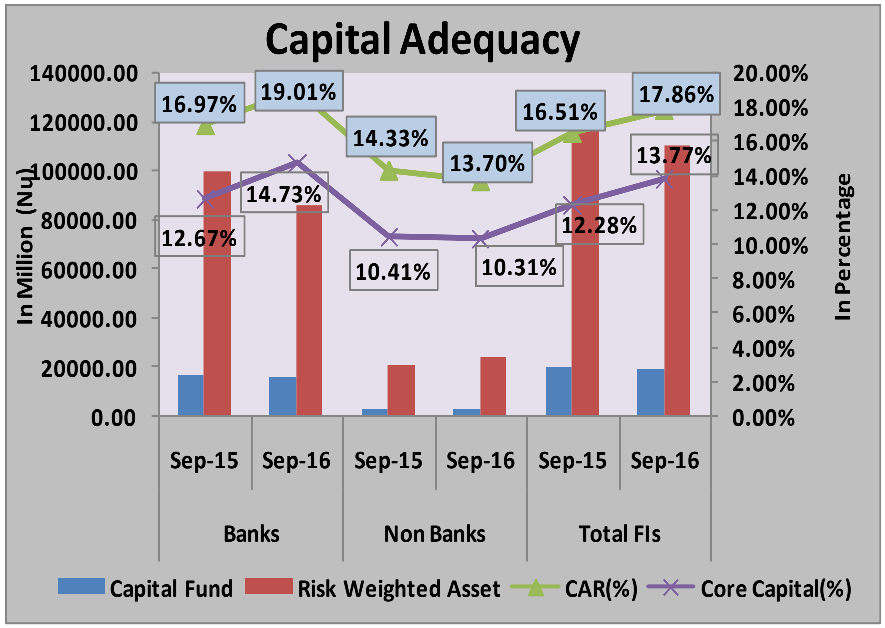
Capital serves as a reserve against unexpected losses and is the foundation of sound financial system. Capital base of the financial institution facilitates depositors in forming their risk perception about the institution. Besides absorbing the unanticipated shocks, it also signals that the institution will continue to honor its obligations.

Qualifying capital fund is composed of Tier I and Tier II capitals. Tier I capital is the financial sector's core capital which comprises of paid-up capital and accumulated reserves. Tier II capital is a supplementary capital to Tier 1 capital and it is impermanent in nature.
Capital fund[1] of the financial sector for the period ended September 2016 amounted to Nu.19.82 billion, as compared to Nu.19.97 billion in September 2015, showing a decrease of 0.79%. The decrease in the capital fund during the period under review is mainly due to the losses incurred by some of the financial institutions, whereby the capital fund has to be reduced to the extent of

[1]In 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.

loss incurred by the financial institutions. In terms of the capital composition, Tier 1 capital (consisting of paid up capital, general reserves and retained earnings), which can absorb the unexpected losses without the financial institution being required to cease operation consists of 76.90% and remaining 12.1% consists of Tier 2 capital.

Total Risk Weighted Capital Adequacy Ratio (RWCAR)[2] of the financial sector has increased from 16.51% in September 2015 to 17.86% in September 2016. This increase was mainly due to the decrease in total risk weighted assets[3] by Nu.10.33billion(8.55%), resulting from the change in the regulatory norms (risk-weights) for loans and advances. Under the new risk-weight system, 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), which has led to the decrease in risk weighted asset by 8.55%. The RWCAR of 17.86% in financial sector is 5.36% above the minimum regulatory requirement of 12.5% (starting September 2016, financial institutions are required to maintain a minimum Capital Adequacy Ratio of 12.5%including the capital conservation buffer requirement of 2.5%)



Decrease in the risk weighted asset of banks by Nu.13.32billion, from Nu.99.89billion to Nu.86.57billion has led to increase in RWCAR by 2.04%. RWCAR of banks stood at 19.01% in September 2016 as compared to 16.97% in September 2015. However, the RWCAR of non-banks has slightly decreased to 13.70% in September 2016 as compared to 14.33% in the previous year's corresponding quarter indicating a decrease of 0.63%. The increase in risk weighted asset of non-banks by Nu. 2.98billion was mainly due to increase in NPL by Nu.493billion which has resulted in assigning higher risk weight of 150%.

[2] The RWCAR signifies the availability of capitalto 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.

[3] 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

Core capital ratio[4] of the financial sector, which measures the minimum value of personal risk undertaken by shareholders has slightly increased to 13.77% in September 2016 from 12.28% in September 2015. The core capital ratio of banks and non-banks stood at 14.73% and 10.31% respectively. The ratio is observed to be maintained well above the minimum regulatory requirement of 7.5%. (With effect from September 2016, minimum requirement on core capital ratio is also increased from 5% to 7.5% including a capital conservation buffer requirement of 2.5%.)

Further, the Leverage ratio[5] for September 2016 stood at 10.60%, maintaining 5.60% higher than the regulatory requirement of 5%.

Asset

One of the main risk in the financial sector is the risk of loan losses (credit risk), that is the risk of loss from a borrower's failure to repay the amount owed to the financial institution on a timely manner based on the previously agreed payment schedule. Since major portion of the total assets of financial sector are in the form of loans and advances, active management of assets is vital in order to avoid potential losses. Quality of asset is one of the most important factor and determinants of the performance and profitability of the financial sector. Since deterioration in the quality of assets has negative impact on the profit, liquidity and capital of financial institutions, assessing asset quality is essential to ensure that assets are stated at reasonable values in relation to the associated risk.

Total asset of the financial sector has increased by Nu. 16.59 billion, from Nu. 109.38billion in September 2015 to Nu. 125.96 billion in September 2016.

Increase in the total assets is mostly attributed to the increase in loans and advances of both banks and non-banks. During the period under review, the banking sector's asset has increased to Nu. 107.39 billion from Nu. 95.09 billion, indicating a growth of 12.94%. Similarly, the asset of non-banks has also increased from Nu. 14.29 billion in September 2015 to Nu. 18.57 billion in September 2016, indicating a growth of 29.96%. In terms of the asset composition, 85.26% of the total assets are held by banks and the remaining 14.74% by the non-banks.

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[4] 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.

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

Table I : Consolidated statement of condition - September 2016									Figures in Million Nu.	
ASSETS	Banks			Non Banks			Total			
	Sep-15	Sep-16	Absolute Change	Sep-15	Sep-16	Absolute Change	Sep-15	Sep-16	Absolute Change	% Holding
Cash & Bank Balances	30,745.55	33,790.52	3,044.97	1,625.53	1,708.82	83.29	32,371.07	35,499.33	3,128.26	28.18
Marketable Securities	5,790.36	8,045.21	2,254.85	60.00	60.00	0.00	5,850.36	8,105.21	2,254.85	6.43
Loans & Advances (net of prov)	56,110.94	62,591.46	6,480.52	10,951.60	15,408.79	4,457.19	67,062.54	78,000.25	10,937.72	61.92
Equity Investments	272.68	327.30	54.62	182.37	253.48	71.11	455.05	580.78	125.73	0.46
Fixed Assets	1,034.04	1,245.58	211.54	189.12	194.87	5.75	1,223.16	1,440.45	217.29	1.14
Other Assets	1,135.29	1,395.40	260.11	1,279.17	942.39	-336.78	2,414.46	2,337.80	-76.67	1.86
Total Assets	**95,088.86**	**107,395.47**	**12,306.61**	**14,287.78**	**18,568.35**	**4,280.57**	**109,376.64**	**125,963.83**	**16,587.19**	**100.00**

LIABILITIES	Banks			Non Banks			Total			
	Sep-15	Sep-16	Absolute Change	Sep-15	Sep-16	Absolute Change	Sep-15	Sep-16	AbsoluteChange	% Holding
Paid-up Capital	6,305.11	7,549.25	1,244.15	1,400.00	1,400.00	0.00	7,705.11	8,949.25	1,244.15	7.10
Reserves	10,642.76	9,174.64	-1,468.12	1,626.86	1,903.01	276.16	12,269.62	11,077.65	-1,191.96	8.79
Deposit Liabilities	72,967.29	86,364.09	13,396.80	0.00	0.00	0.00	72,967.29	86,364.09	13,396.80	68.56
Borrowings	880.50	688.19	-192.30	1,629.24	3,771.39	2,142.15	2,509.74	4,459.59	1,949.85	3.54
Funds/Grants/bonds/debentures	0.00	0.00	0.00	2,500.00	2,500.00	0.00	2,500.00	2,500.00	0.00	1.98
Provisions	1,983.90	2,726.83	742.93	13.57	25.56	11.99	1,997.47	2,752.39	754.92	2.19
Current & Other Liabilities	2,309.31	892.46	-1,416.84	7,118.12	8,968.39	1,850.28	9,427.42	9,860.86	433.43	7.83
Total Liabilities	**95,088.86**	**107,395.47**	**12,306.61**	**14,287.78**	**18,568.35**	**4,280.57**	**109,376.64**	**125,963.83**	**16,587.19**	**100.00**

The increase in 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.6.48billion
- ✓ Increase in cash and bank balances by Nu.3.04billion
- ✓ increase in investment in marketable securities by Nu.2.25 billion.

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

- ✓ Increase in loans and advances (net of specific provision and interest in suspense) by Nu.4.46 billion, from Nu.10.95billion to Nu.15.41billion.
- ✓ increase in cash and bank balances by Nu.83.29million.

Liability

Total liabilities of the financial sector amounted to Nu.125.96 billion; out of which bank's liability consists of Nu.107.39 billion and non-bank's liability consist of Nu.18.57 billion during the period under review. The increase in the total liabilities of the banking sector was mainly due to increase in deposit liabilities by Nu. 13.40billion, from Nu.72.97 billion in September 2015 to Nu.86.36billion in September 2016.

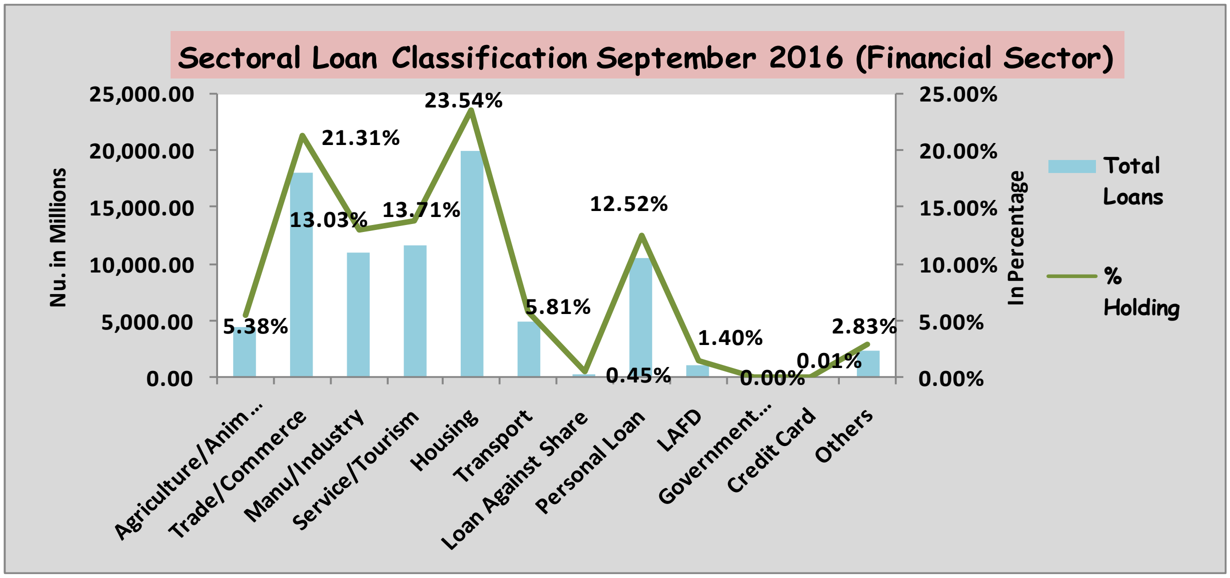
Similarly, the increase in the total liability by Nu.16.59billion of the non-banks was mainly contributed by the following:

- ✓ Increase in borrowing from both commercial banks and non-banks by Nu.2.14billion
- ✓ Increase in current and other liabilities by Nu.1.85 billion during the period under review.

Sectoral Credit Analysis

Financial sectors' total loans[6] to the economy have increased by 19.28%, from Nu. 71.99billion in September 2015 to Nu. 84.97billion in September 2016. The growth in the total loans was attributable to a strong demand towards the Housing sector, Trade &Commerce sector and Service/Tourism Sector.

As depicted in the diagram, the analysis on[7]sectoral exposure to total loans and advances of



the financial sector depicts that the Housing Sector has the highest loan outstanding with Nu. 19.99billion (23.54% of total loans) followed by Trade and Commerce Sector with Nu.18.11billion (21.31% of total loans) and Service/Tourism Sector with Nu. 11.65billion(13.71% of total loans).

However, in terms of absolute figure, the loans to Trade and Commerce Sector experienced the highest sectoral increase by Nu.5.32billion followed by loans to Housing Sector by Nu.2.08billion and Transport Sector byNu.1.99billion in September 2016.

From the total loan outstanding of Nu. 84.97 billion for the period ended September 2016, 81.73%(Nu.69.06billion) comprises of loans provided by the banking sector and remaining 18.73% (Nu. 15.92billion) comprises of loans provided by non-banks. The total loans and advances provided by banks and non-banks have increased by Nu. 8.41 billion and Nu.4.57 billion respectively.

[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.

[7] For the purpose of this report, Govt. Employee loan (GE) is included in the Personal sector and loan against fixed deposits (LAFD) is reflected as a separate sector. Further, Minimum Lending Rate(MLR) was implemented by two banks in the month of September 2016.

Credit Quality of Financial sector

Non-Performing Loans (NPL) of the financial sector have increased to Nu.11.23billion in September 2016 from Nu. 7.29 billion in September 2015, indicating a increase of 41.86%. The review on loan classification of the financial sector indicated that both loans and NPL have increased by Nu. 12.97billion and Nu. 3.31billion respectively during the period under review.

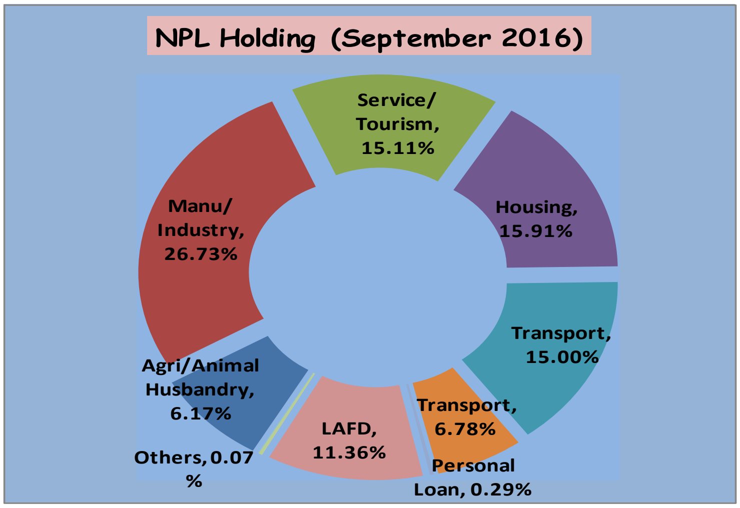
Table 2: Consolidated Loan Classification of the FIS - September 2016					Figures in Million(Nu.)		
Details	Banks		NBFIs		TOTAL		% Change
	Sep-15	Sep-16	Sep-15	Sep-16	Sep-15	Sep-16	
Performing loans	53,454.99	59,043.01	10,626.72	14,698.74	64,081.72	73,741.76	15.07%
Non-performing loans	7,192.11	10,012.51	724.19	1,217.56	7,916.30	11,230.07	41.86%
Total	60,647.10	69,055.53	11,350.91	15,916.30	71,998.01	84,971.83	18.02%
Gross NPL Ratio	11.86%	14.50%	6.38%	7.65%	11.00%	13.22%	2.22%

The gross NPL ratio (NPL to total loans) of the financial sector stood at 13.32% in September 2016 as compared to 11.00% in the previous year's corresponding quarter.

Gross NPL ratio of both banks and non-banks has increased during the period under review. The gross NPL ratio of banks stood at 14.50% in September 2016 as compared to 11.86% in September 2015, an increase of 2.64%. Of the total loan outstanding of Nu. 69.06billion in the banking sector, only 14.50% (Nu. 10.01billion) was non-performing loans and remaining 85.50% (Nu.59.04billion) was all regular loans. The increase in non-performing loans of banks from Nu.7.19billion to Nu. 10.01billion as against the increase in total loans from Nu. 60.65billion to Nu. 69.06billion has led to the increase in gross NPL ratio of the banking sector.

Similarly, the gross NPL ratio of non-banks has also increased to 7.65% in September 2016 as compared to 6.38% in September 2015, an increase of 1.27%. An increase in non-performing loans of non-banks from Nu.724.19 million to Nu. 1.22billion as against the increase in the total loans from Nu.11.35billion to Nu. 15.92billion has led to the increase in the gross NPL ratio. Of the total loan outstanding of Nu. 15.92billion of non-banks, only 7.65% (Nu.1.22billion) was non-performing loans and remaining 92.53% (Nu. 14.69billion) was regular loans.

The diagram represents the sectorwise NPL holding for the period ended September 2016. The analysis on the sectoral NPL to total NPL of Nu. 11.23billion in the financial sector are as follows:



- ✓ Trade and Commerce sector has the highest NPL with Nu. 3.00billion (26.73% of the total NPL)
- ✓ NPL under the Service and Tourism sector stood at Nu. 1.79 billion (15.91% of the total NPL)
- ✓ NPL under the Manufacturing/ Industry sector stood at Nu.1.70billion(15.11% of the total NPL)

Sectoral increase in NPL in terms of absolute figure revealed the following;

- ✓ NPL under Trade and Commerce Sector represented the highest increase of Nu.1.17billion (from Nu. 1.83billion to Nu. 3billion)
- ✓ NPL under the Service and Tourism Sector also increased by Nu.901 million (from Nu. 885million to Nu. 1.8billion)
- ✓ NPL under the Agriculture Sector increased by Nu.439.14million (from Nu. 488million to Nu. 927million)

However, the NPL as of September 2016 for the following sectors have contracted as compared to the NPL as of September 2015;

- ✓ NPL under the Loan Against Share decreased by Nu.38.46million(from Nu.71.14million in September 2015 to Nu.32.69million in September 2016)
- ✓ NPL under Personal Sector has decreased by Nu.19.45million(from Nu.1.30billion in September 2015 to Nu.1.28billion in September 2016).

For the period ended September 2016, the loan exposures under the Housing, Trade & Commerce and Service/Tourism Sectors constituted 58.56% of the total loans. Similarly, the highest NPL exposure was also observed in Trade & Commerce, Service/Tourism and Manufacturing Industry sectors constituting 57.75% of total NPL of the financial sector.

Consolidated Loan Classification of the Financial Sector

In terms of NPL classification by overdue days, the highest NPL in the financial sector for the period ended September 2016 was classified under the Substandard category followed by NPL classified under the Loss category. NPL classified under Substandard category[8] comprises of 38.98% (Nu.4.38billion) of the total NPL of Nu. 11.23billion, followed by NPL classified under

Details	Banks		NBFIs		TOTAL		Absoulte Change
	Sep-15	Sep-16	Sep-15	Sep-16	Sep-15	Sep-16	
Performing loans	**53,454.99**	**59,043.01**	**10,626.72**	**14,698.74**	**64,081.72**	**73,741.76**	**9,660.04**
Standard	49,410.30	55,504.63	9,527.36	13,173.96	58,937.66	68,678.59	**9,740.93**
Watch (up to 90 days)	4,044.69	3,538.39	1,099.36	1,524.78	5,144.05	5,063.17	**(80.89)**
Non-performing loans	**7,192.11**	**10,012.51**	**724.19**	**1,217.56**	**7,916.30**	**11,230.07**	**3,313.77**
Substandard (91 to 180 days)	2,286.62	3,489.05	360.59	888.31	2,647.22	4,377.36	**1,730.14**
Doubtful (181 to 365 days)	2,184.49	2,430.75	155.57	151.41	2,340.07	2,582.16	**242.09**
Loss (366 days & above)	2,720.99	4,092.72	208.02	**177.83**	**2,929.02**	**4,270.56**	**1,341.54**
Total	**60,647.10**	**69,055.53**	**11,350.91**	**15,916.30**	**71,998.01**	**84,971.83**	**12,973.81**

the Loss category (which also includes the term expired loans and loans under litigation cases) comprising of 38.03% (amounting to Nu.4.27billion) and NPL classified under the Doubtful category [9]comprising of 22.99% (amounting to Nu.2.58billion) of total NPL.

For banks, the highest NPL categorization was seen under the Loss category and for non-banks the highest NPL categorization was seen under the Substandard category. In terms of absolute increase in NPL of financial sector by category based on the number of overdue days, NPL classified under the Substandard category has increased by Nu.1.73billion (from Nu.2.65billion in September 2015 to Nu.4.38billion in September 2016) and NPL classified under the Doubtful and Loss category has increased by Nu.242.09 million(from Nu.2.34billion in September 2015 to Nu.2.58billion in September 2016) and Nu.1.34billion (from Nu.2.93billion in September 2015 to Nu.4.27 billion in September 2016)respectively. The huge increase in the NPL classified under the Loss category was due to the change in loan classification system under the revised prudential regulations.

Provision to NPL ratio has slightly increased to 52.91% in September 2016 as compared to 52.02% in September 2015, which was mainly due to the increase in NPL by Nu.3.31billion with major proportion of NPL being classified under the Loss category requiring 100% provisioning.The Net NPL to Net loan ratio stood at 5.64% for the period ended September 2016(Annexure I).

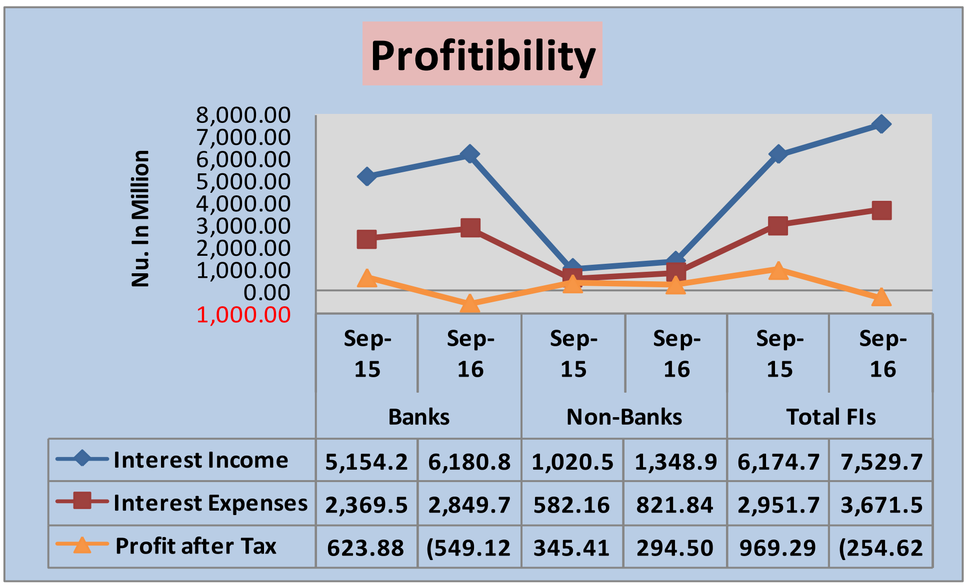
In terms of the credit concentration exposure's limit, aggregate Single Largest borrower's exposure of the financial sector for the period ended September 2016 stood at 15.16%, with all

[8] Loans in default by 91 to 180 days
[9] Loans in default from 181 to 365days

financial institutions maintaining its exposure within the regulatory limit of 30% of the capital fund. Similarly, the aggregate Ten Largest Borrower's exposure[10] of the financial sector stood at 16.08%, with none of the financial institution violating the maximum allowable limit of 30% of total loan portfolio. (Annexure I).

Earnings

One of the important parameters to assess the performance of the financial sector is the earning trends. The continued viability of the 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 September 2016, financial sector incurred a loss of Nu.254.62 million as compared to net profit of Nu.969.29million as of September 2015.

The reason for incurring loss by the financial sector was mainly due to the increase in NPL by Nu.3.31billion during the period under review and also due to the higher provisioning requirement resulting from the change in the regulatory norm with regard to the NPL classification system. The total provision against the loans and advances amounted to Nu.2 billion for the period ended September 2016. Moreover, the operating expense of the financial sector has also increased by 18.72% (by Nu.244million) while the operating income has decreased by 2.95% (by Nu.28.06million). Therefore, the new NPL classification system, decrease in operating income and increase in operating expenses all together has led the financial sector to incur losses during the period under review. (Annexure II)

Banking sector has incurred a loss of Nu.549.12 million in September 2016 as compared to the profit of Nu. 623.88million in September 2015. The new loan classification system

[10] For the calculation of Ten Largest Borrower(TLB), the off balance sheet(OBS) has been included in the denominator

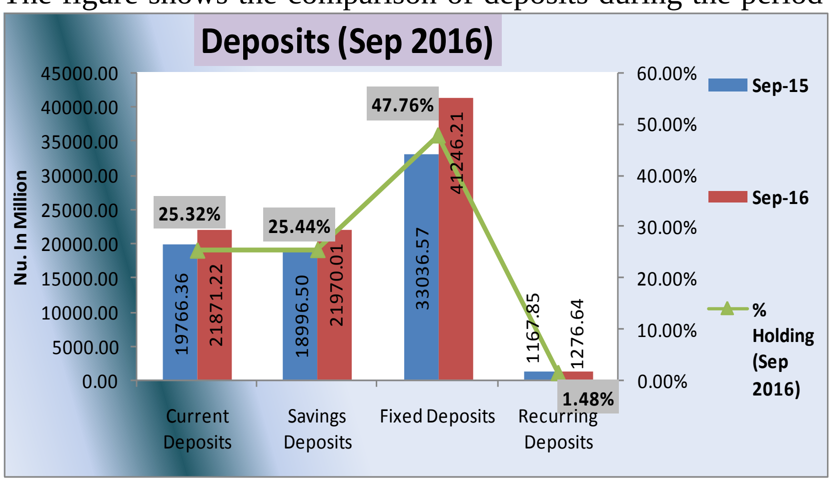
(specifically the NPL classification system),increase in operating expense by Nu.96.93million and decrease in operating income by Nu.80.35million has led the banking sector to incur loss.

On the contrary, non-banks have performed better in comparison to the banking sector, recording a net profit of Nu.294.50 million during the period under review. However, the net profit of non-banks has decreased by Nu.50.92million that is from Nu.345.41million in September 2015 to Nu.294.50 million in September 2016. The increase in NPL by Nu.493million and increase in operating expense by Nu.147.60million has resulted in the decrease of net profit.

Deposit (Banking Sector)

Deposits are the main source of fund for the banks. The total deposit base of banking sector have increased by Nu.13.40billion (growth of 18.36%), from Nu.72.97billion in September 2015 to Nu.86.36 billion in September 2016.

The figure shows the comparison of deposits during the period under review by deposit type.



The increase in the overall deposit base was mainly due to increase in both the Demand Deposits and Time Deposits by 13.10% (Nu.5.08billion) and 24.32% (Nu.8.32billion) respectively.

As a share of total deposits, Demand Deposits (Current and Saving) accounted for 50.76% and Time Deposits (Fixed and Recurring) accounted for 49.24%. The share of Demand Deposit in September 2016 has decreased by 2.36% (from 53.12% in September 2015 to 50.76% in September 2016). Of the total deposit of Nu.86.36billion in September 2016, the Current Deposit accounted for 25.32% while the Saving Deposit accounted for 25.44%.

However, the share of Time Deposit has increased by 2.36% (from 46.88% in September 2015 to 49.24% in September 2016). The Fixed Deposits accounted for 47.76% of the total deposits while the Recurring Deposit accounted for 1.48% for the period ended September 2016.

Demand Deposits which have increased from Nu.38.76 billion to Nu. 43.84 billion during the period under review are detailed below:

- ✓ Current Deposit increased from Nu.19.77billion to Nu.21.87 billion indicating an increase of Nu.2.10billion(growth of 10.65%)
- ✓ Savings Deposit increased from Nu.19.00billion to Nu. 21.97billion in September 2016 indicating an increase of Nu.2.97billion.

Similarly, Time Deposit which have increased by Nu.8.32billion, from Nu.34.20billion to Nu.42.52billion(growth of 24.32%) are detailed below:

- ✓ Fixed Deposits have increased by Nu.8.21billion, from Nu.33.04 billion to Nu.41.23 billion.
- ✓ Recurring Deposits has marginally increased from Nu. 1.17 billion to Nu.1.28billion showing an increase by Nu. 108million.

In terms of deposits by customer type, out of the total deposits of Nu.86.36 billion in September 2016, Retail Deposits accounts for 52.71% (Nu. 45.52billion) and remaining 47.29% (Nu. 40.84billion) comprises of Corporate Deposits. Out of the total Retail Deposits of Nu.45.52billion, individual deposits consists of Nu.43.42billion(95.38%) and remaining Nu.2.10billion(4.62%) is in the form of foreign currency deposits. Similarly, out of the total Corporate Deposits of Nu.40.84billion, deposits by Government Corporation constituted the highest with 24.90% amounting to Nu. 10.17billion followed by the deposits of commercial banks with 24.16%(Nu.9.87illion) and deposits by Non-bank Financial Institutions(NBFI) with 17.87% (Nu.7.30 billion) during the period under review. (Annexure I)

Liquidity

It is very important for all financial institutions to have adequate liquidity in order to meet its obligation as and when they fall due. 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. Further, the Prudential Regulations 2016 requires all banks and non-banks to maintain a minimum statutory liquidity ratio in the form of quick assets of 20% and 10% respectively.

For the period ended September 2016, financial sector has maintained Statutory Liquidity Ratio (SLR) of 25.89%. However as compared to September 2015 the SLR of financial sector has slightly decreased by 2.54%. The increase in total liabilities by Nu.16.59billion which was mostly attributed by increase in deposit liabilities by Nu.13.40billion has off-set the increase in quick asset byNu.2.06billion, that has ultimately resulted in the overall decrease of SLR position of the financial sector. Nevertheless, the financial sector has maintained liquidity in the form of quick assets in excess to the actual requirement of quick asset[11] (which can be easily converted into cash and use during the liquidity shortage), amounting to Nu.7.78billion against the minimum requirement of Nu.19.70million.

[11] With effect from 2016, as a transitional stipulation, financial institutions has included time deposits with the remaining period to maturity not exceeding 180 days as a part of quick asset for period of one year

SLR of the banks stood at 28.40% in September 2016 as compared to 30.46% in September 2015. The decrease in the ratio is mainly due to increase in liabilities by Nu.12.31billion which was mostly contributed by increase in deposit liabilities by 18.36% during the period under review.

Similarly, the non-banks' SLR position as of September 2016 decreased to 10.98% as compared to 14.43%in September 2015 mainly due to increase in liabilities (specifically attributed by the increase in borrowings by Nu.2.14billion).Although the SLR of banks and non-banks has decreased by 2.06% and 3.45% respectively, it is still maintained within the minimum SLR requirement of 20% and 10% respectively.

Table 3: Regulatory Compliance Indicators (SLR)-September 2016				(Nu in Million)
Detail		Banks	Non-Banks	Total FIs
Quick Asset	Sep-15	23798.70	1625.40	25424.10
	Sep-16	25807.78	1678.82	27486.60
Statutory Liquidity Requirement (Position in %)	Sep-15	30.46	14.43	28.44
	Sep-16	28.40	11.00	25.89
Statutory Liquidity Requirement (Limit in Nu.)	Sep-15	15628.20	1126.09	16754.29
	Sep-16	18176.46	1526.53	19703.00
Liquidity Position (in Nu.)	Sep-15	8170.50	499.31	8669.81
	Sep-16	7631.32	152.28	7783.60

Further, the Credit to Deposit ratio of the banking sector slightly decreased by 3.16%, from 83.12% in September 2015 to 79.96% during the period under review.(Annexure I)

Annexure I

Financial Soundness Indicators of Financial institutions (September 2015-2016)

Indicators	Sep-15	Sep-16
Capital		
Core capital(7.5%)	**12.28%**	**13.77%**
RWCAR(12.5%)	**16.51%**	**17.86%**
Leverage Ratio	**12.14%**	**10.60%**
Asset Quality		
Goss NPL Ratio	**11%**	**13.22%**
Net NPl to Net Loan	**4.44%**	**5.64%**
Singe Lragest Borrower	**16.31%**	**15.16%**
Ten Lowerargest Bor	**16.13%**	**16.08%**
Earning		
Return on Asset(ROA)	**0.90%**	**-0.21%**
Return on Equity(ROE)	**5.03%**	**-1.24%**
Profit after Tax(in million Nu.)	**969.29**	**(254.62)**
Liquidity		
Loans to Deposit Ratio	**83.12%**	**79.96%**
Statutory Liquidity Ratio	**28.44%**	**25.89%**
Statutory Liquidity Requirement(in Nu.million)	**16754.29**	**19703.00**
Liquidity Position(in Million Nu.)	**8669.81**	**7780.76**

Note* with effect from September 2016, the minimum requirment on RWCAR has been increased to 12.5% from 10% and the minimum requirement on core capital ratio has also increased from 5% to***

Consolidated Deposit by customer for September 2015 - 2016(figures in Million Nu.)

Deposits by Customer	Total Deposits		% Change	% Holding(Sept 2016)	% Holding (Sept 2015)
	Sep-15	Sep-16			
Corporate deposits	**37575.60**	**40844.61**	**8.70**	**47.29%**	**51.50%**
Government	10650.55	6703.68	-37.06	7.76%	14.60%
Government Corp.	8523.68	10171.54	19.33	11.78%	11.68%
Public Companies	517.40	2264.47	337.66	2.62%	0.71%
Private Co.	3717.43	4535.79	22.01	5.25%	5.09%
Commercial Banks	8851.63	9868.42	11.49	11.43%	12.13%
NBFIs	5314.91	7300.71	37.36	8.45%	7.28%
Retail deposits	**35391.68**	**45519.48**	**28.62**	**52.71%**	**48.50%**
Individuals	33832.18	43417.57	28.33	50.27%	46.37%
Foreign Currency	1559.50	2101.91	34.78	2.43%	2.14%
Total	**72967.29**	**86364.09**	**18.36**	**100.00%**	**100.00%**

Annexure II

Year to year (September 2015 to September 2016) growth of Total financial sector

Sept 2015 to September 2016 Growth(Financial sector)			Figures in Million Nu.	
Particulars	**Sep-15**	**% Growth**	**Sep-16**	**Absolute growth**
Total Capital Fund	19974.72	**-0.79%**	19816.16	-158.56
Total Assets	109,376.64	**15.17%**	125,963.83	16587.19
Total Risk-Weighted Assets	121013.40	**-8.54%**	110679.55	-10333.85
Total Deposits	72967.29	**18.36%**	86364.09	13396.80
Total NPLs	7916.30	**41.86%**	11230.07	3313.77
Total Performing Loan	64081.72	**15.07%**	73741.76	9660.04
Total Loans	71998.015	**18.02%**	84,971.83	12973.81

Summary of Consolidated Profit/Loss account of Financial Institutions for Sept 2015 &Sept 2016 (figures in Nu. Million)

Particulars	Banks		Non-Banks		Total FIs		% Change	Absolute Change
	Sep-15	Sep-16	Sep-15	Sep-16	Sep-15	Sep-16		
Interest Income	5,154.24	6,180.84	1,020.56	1,348.95	6,174.79	7,529.79	**21.94**	1,355.00
Interest Expenses	2,369.59	2,849.70	582.16	821.84	2,951.75	3,671.55	**24.39**	719.80
Net Interest Income	2,784.65	3,331.14	438.40	527.11	3,223.05	3,858.24	**19.71**	635.20
Operating income	540.58	460.23	411.63	463.92	952.21	924.15	**-2.95**	-28.06
Operating Expenses	1,105.62	1,202.55	200.69	348.29	1,306.31	1,550.84	**18.72**	244.53
Provisions	1,239.19	1,750.81	181.15	247.72	1,420.33	1,998.53	**40.71**	578.20
Profit after Tax	**623.88**	**(549.12)**	**345.41**	**294.50**	**969.29**	**(254.62)**	**126.27**	-714.67

Sectoral Loan Trend Sept 2015-sept 2016 (Figures in Million Nu.)

Sector	Banks		Non-Banks		Total Loans		Absolute Change	% Loan Exposure Sept 2016	% Loan Exposure Sept 2015
	Sep-15	Sep-16	Sep-15	Sep-16	Sep-15	Sep-16			
Agriculture/Animal Husbandry	3,721.07	4,566.72	0.00	4.96	3,721.07	4,571.68	850.61	5.38%	5.17%
Trade/Commerce	**8,689.47**	**11,118.59**	**4,096.57**	**6,990.37**	**12,786.04**	**18,108.96**	**5322.92**	**21.31%**	**17.76%**
Manu/Industry	9,084.73	9,401.61	1,389.42	1,670.90	10,474.15	11,072.51	598.36	13.03%	14.55%
Service/Tourism	**9,831.38**	**10,812.17**	**464.23**	**837.62**	**10,295.61**	**11,649.80**	**1354.19**	**13.71%**	**14.30%**
Housing	**15,377.84**	**16,916.07**	**2,544.44**	**3,082.82**	**17,922.28**	**19,998.89**	**2076.61**	**23.54%**	**24.89%**
Transport	2,082.85	3,635.72	861.12	1,304.39	2,943.97	4,940.10	1996.13	5.81%	4.09%
Loan Against Share	545.60	274.05	136.13	107.65	681.73	381.70	-300.03	0.45%	0.95%
Personal Loan	9,247.76	9,225.52	1,529.08	1,410.76	10,776.84	10,636.28	-140.56	12.52%	**14.97%**
LAFD	758.35	1,192.44	0.00	0.00	758.35	1,192.44	434.09	1.40%	1.05%
Government (short term)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
Credit Card	12.07	10.94	0.00	0.00	12.07	10.94	-1.13	0.01%	0.02%
Others	1,295.98	1,901.71	329.94	506.82	1,625.91	2,408.53	782.62	2.83%	2.26%
Totals	**60,647.10**	**69,055.53**	**11,350.91**	**15,916.30**	**71,998.01**	**84,971.83**	**12973.81**	**100.00%**	**100.00%**

Sectoral NPL Trend September2015 - September 2016 (figures in Nu. Million)

Sector	Banks		Non-Banks		Total NPLs		Absolute Change	% NPLExposure Sept 2016	% NPL Exposure Sept 2015
	Sep-15	Sep-16	Sep-15	Sep-16	Sep-15	Sep-16			
Agriculture/Animal Husbandry	488.42	927.56	0.00	0.00	488.42	927.56	439.14	8.26%	6.17%
Trade/Commerce	**1,534.11**	**2,433.36**	**298.17**	**567.95**	**1,832.28**	**3,001.30**	**1169.02**	**26.73%**	**23.15%**
Manu/Industry	**1,491.66**	**1,676.97**	**0.45**	**20.28**	**1,492.11**	**1,697.25**	**205.14**	**15.11%**	**18.85%**
Service/Tourism	**883.46**	**1,770.76**	**2.44**	**16.16**	**885.90**	**1,786.92**	**901.01**	**15.91%**	**11.19%**
Housing	1,215.80	1,633.76	43.45	51.10	1,259.25	1,684.86	**425.61**	**15.00%**	15.91%
Transport	361.11	442.45	175.46	270.36	536.58	712.81	176.23	6.35%	6.78%
Loan Against Share	58.64	31.06	12.51	1.63	71.14	32.69	-38.46	0.29%	0.90%
Personal Loan	1,105.62	1,014.88	189.90	261.19	1,295.52	1,276.07	-19.45	11.36%	16.37%
LAFD	7.46	31.68	0.00	0.00	7.46	31.68	24.22	0.28%	0.09%
Government (short term)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
Credit Card	4.79	7.68	0.00	0.00	4.79	7.68	2.89	0.07%	0.06%
Others	41.04	42.36	1.81	28.89	42.85	71.25	28.40	0.63%	0.54%
Total NPL	**7,192.11**	**10,012.51**	**724.19**	**1,217.56**	**7,916.30**	**11,230.07**	**3313.77**	**100.00%**	**100.00%**
Total Loan	**60,647.10**	**69,055.53**	**11,350.91**	**15,916.30**	**71,998.01**	**84,971.83**	**12,973.81**		
Gross NPL Ratio(%)	**11.86%**	**14.50%**	**6.38%**	**7.65%**	**11.00%**	**13.22%**	**2.22%**		