Review of the Bhutanese Financial Sector Performance (June 2009)

Introduction

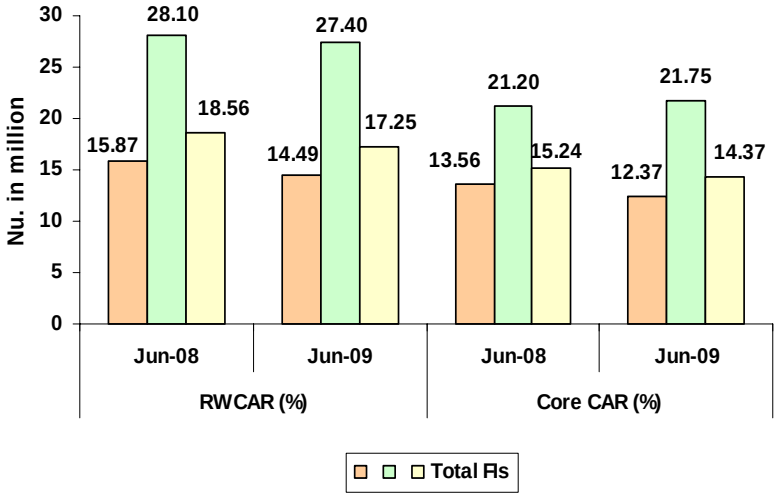
This report presents in general the review of the Bhutanese financial sector for Q2FY'09, in comparison to the corresponding quarter of the previous year. The information contained in this report is based on the RMA returns submitted by the financial institutions to the RMA for the quarter ended June 2009. The observations are summarized below:

1. Business size and growth.

Balance sheet size of the financial system [1] expanded by 23.58 percent during the period under review and stood at Nu.49.42 billion as of Q2FY2'09 compared to Nu.39.99 billion a year ago. The growth has been mainly contributed by an increase in the assets of the CBs[2] by Nu.7.54 billion, followed by NBFIs[3] with Nu.1.89 billion. Total deposit liabilities of the banking sector rose to Nu.29.94 billion as on Q2FY'09, reflecting a significant growth of 27.09 percent during the period. The rise in deposits was largely due to a record 200 percent increase in deposits by private companies. Similarly, borrowings of the NBFIs increased slightly by 5.47 percent during the period and stood at Nu.2.43 billion, which were largely financed from domestic sources, accounting for 87.71 percent of the total borrowings. Meanwhile, the off-balance sheet exposures (OBS) of the financial sector rose by 15.62 percent from Nu.2.20 billion in Q2FY'08 to Nu.2.55 billion in Q2FY'09.

2. Capital & Reserves

The total capital fund of the financial institutions achieved a growth of 21.49 percent during the period, from Nu.4 billion to Nu.4.86 billion, which was mainly due to the upward revision in the capital requirement by the RMA. However, both the risk-weighted capital adequacy ratio (RWCAR) and core capital ratio (CCAR) decreased from 18.56 percent to 17.25 percent and from 15.24 percent to 14.37 percent respectively during the period under review due to the 27.64 percent growth in the loan assets.



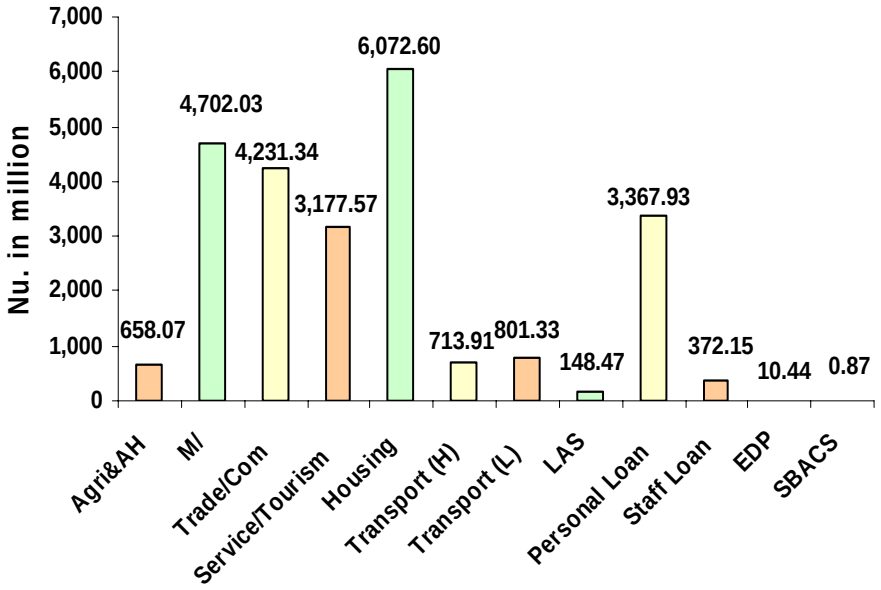
[1] Financial System includes BOBL, BNBL, BDFCL, RICBL & NPPF.
[2] CBs refer to Commercial Banks (BNBL and BOBL)
[3] NBFIs refer to Non-bank Financial Institutions (BDFCL, RICBL & NPPF).

3. Total Assets

Total assets of the financial sector have increased to Nu.49.42 billion from Nu.39.99 billion, reflecting an increase of 23.58 percent. Of the total assets, the CBs constitute 86.48 percent while the NBFIs hold 13.52 percent. The CBs experienced a growth of 26.35 percent from Nu.28.64 billion in Q2FY'08 to Nu.36.18 billion in Q2FY'09 with the main contributing factor being the loans and advances (28 per cent). The NBFIs experienced a growth of 16.61 percent from Nu.11.36 billion in Q2FY'08 to Nu.13.24 billion in Q2FY'09 mainly due to increase in the loan assets (22.18 per cent) as well.

In terms of holding, loans and advances (net of provisions) forms the major component of assets with Nu.22.38 billion (54 per cent), followed by liquid assets (including RGOB bonds, RMA bills and others) with Nu.17.05 billion (37 per cent).

4. Credit Distribution by Sector

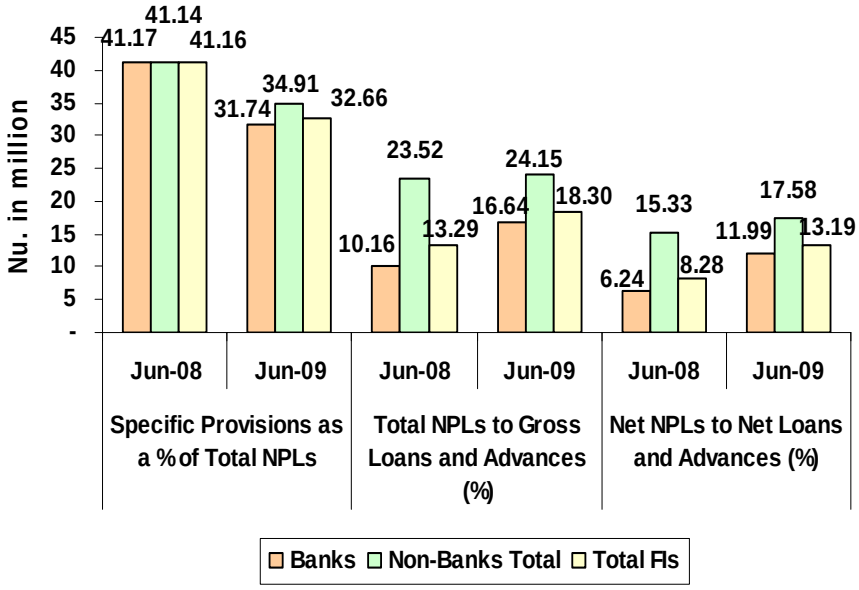


Financial sector's total credit portfolio stood at Nu.28.46 billion in Q2FY'09, which represents 23.09 percent increase over the Nu.23.12 billion recorded in same period in 2008. The growth was mainly due to an increase in the personal credit which increased by Nu.1.51 billion (80.87 percent) during the period. Banks' total loans and advances increased by Nu.4.35 billion (29.90 percent) as against Nu.2.77 billion (11.52 percent) increase in the total loans and advances of the non-banks.

Housing sector credit, with 25.03 percent share in overall total loans and advances, leads the sectoral credit concentration, followed by the Manufacturing & Industry sector and Trade & Commerce with 19.38 percent and 17.44 percent share respectively.

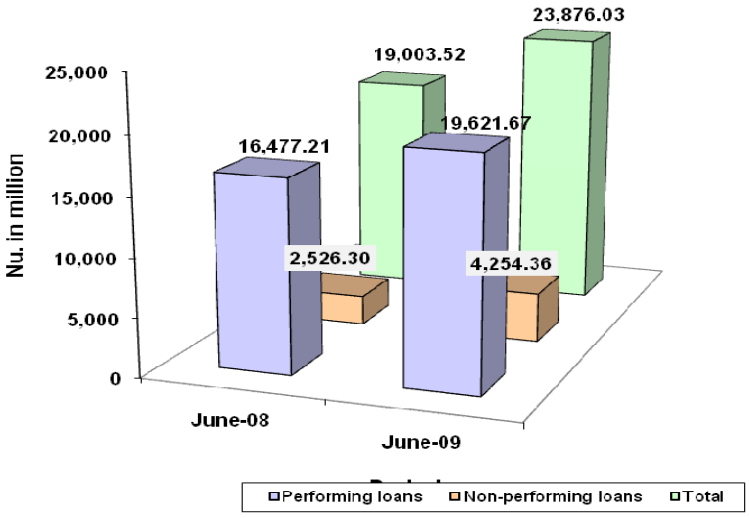
5. Asset Quality (Credit Portfolio)

The total non-performing loans has almost doubled from 2.53 billion to Nu.4.44 billion during the period under review. The rise in the NPL is mainly seen in one of the banks with around 313.23 percent increase in its NPL. Percentage of total NPLs to total loans and advances has increased from 13.29 percent to 18.30 percent due to considerable increase in NPL by 75.69 percent as against 27.64 percent increase in total loans and advances. However, the percentage of provisions provided for such default has substantially declined from Nu.41.16 percent to 32.66 percent.



6. Consolidated Loan Classification of the FIs

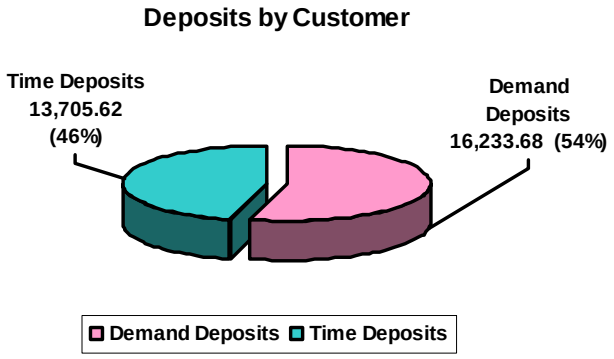
Analysis on debt consolidation confirm that 83.36 per cent of the total loans outstanding of the CBs comprise of performing loans and only 16.64 percent constitutes non-performing loans while 75.85 percent of the total loan outstanding of the NBFIs constitutes performing loans and 24.15 percent is non-performing.



7. Liabilities

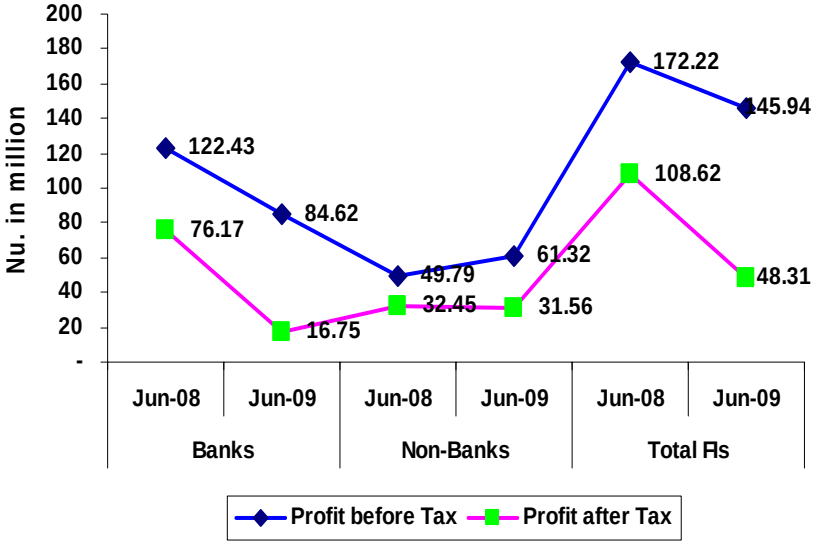
The total liabilities of the financial sector amounted to Nu.49.42 billion in Q2FY'09 as compared to Nu.39.99 billion in Q2FY'08. Majority of the liabilities comprised of deposit liabilities with 71.57 percent, followed by capital & reserves with 8.87 percent and borrowings with 5.82 percent.

8. Distribution of Deposits by Customer



Deposits of the banking sector (including Bhutan Development Finance Corporation) rose considerably to Nu.29.94 billion in Q2FY'09 from Nu.23.56 billion in Q2FY'08, achieving a growth of 27.09 percent. The growth in deposits base was mainly driven by an increase in the short term deposits by 34.09 percent. In terms of deposits by customer holding, corporate deposits[4] accounts for around 62 percent and the remaining 38 percent constitutes the retail deposits. In other words, corporate deposits have dominated the deposit holding pattern of the financial institutions. As a share of total deposits, short term deposits (current and saving) accounted for 54.22 percent and long term deposits (fixed and recurring) comprised of 45.78 percent.

9. Profitability



In Q2FY'09, the financial sector has a net profit of Nu.0.05 billion, 55.53 percent decrease from the same quarter of last year of Nu.0.11 billion. The main cause for the decrease was due to an increase in provisions provided for bad loans. Net interest income grew by 12.78 percent from Nu.0.61 billion to Nu.0.69 billion. On expenses side, operating expenses slightly increased by 23.64 percent from 0.25 billion to Nu.0.31 billion mainly due to increase in the staff cost during the period.

[4] Corporate Deposits – refers to government, government corporations, joint corporations, private companies, NBFIs and CBs.

10. Liquidity

During the period under review, the excess liquidity decreased to Nu.2.62 billion in Q2FY'09 from Nu.3.26 billion in Q2FY'08, reflecting the effectiveness of the RMA's monetary policy in sterilizing excess funds.

Details	Period	Banks	Non-Banks	FIs
Capital Fund	Jun-08	2,672.00	1,332.18	4,004.18
	Jun-09	3,213.99	1,650.57	4,864.55
Total Liabilities	Jun-08	28,635.01	4,865.82	33,500.83
	Jun-09	36,178.99	5,654.69	41,833.67
Quick Asset	Jun-08	8,311.83	492.90	8,804.73
	Jun-09	9,191.12	425.44	9,616.56
Statutory Liquidity Requirement (Position in %)	Jun-08	32.01	13.95	29.85
	Jun-09	27.88	10.63	26.01
Excess/shortfall Liquidity (in Nu.)	Jun-08	3,119.23	139.53	3,258.76
	Jun-09	2,598.12	25.03	2,623.15

Excess liquidity of banks and non-banks decreased from Nu.3.12 billion to Nu.2.60 billion and from Nu.0.14 billion to Nu.0.025 billion respectively. Similarly, the SLR ratio or the amount that the commercial banks require to maintain in the form of cash or government securities decreased from 29.85 percent to 26.01 percent, reflecting an improvement in their financial intermediation function.