

## Bhutanese Financial Sector Performance Review (June 2009-2010)

### Introduction

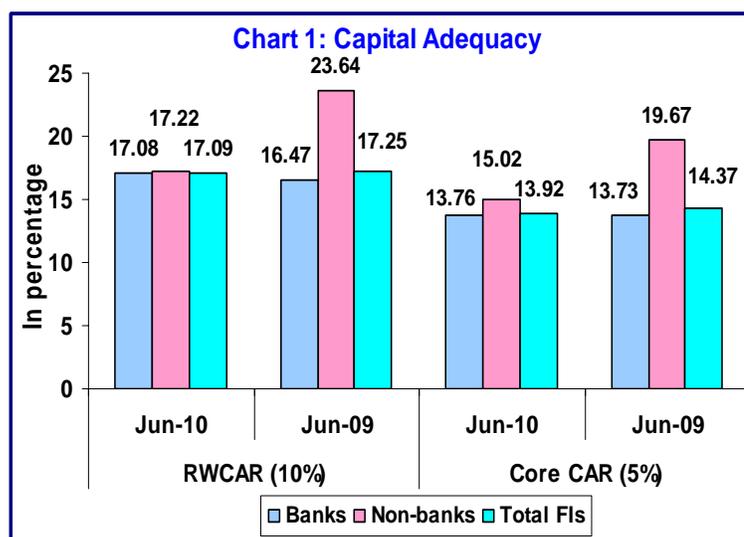
This report presents in general the performance of the Bhutanese financial sector for the second quarter of 2010 in comparison to the corresponding quarter of the previous year. However, this report does not reflect the true performance of the financial institutions during the period because the y-o-y assessment includes the data of newly licensed financial institutions (DPNB Bank Ltd, T-Bank Ltd. & BIL), excluding the NPPF. The information contained in this report is based on the RMA returns submitted by the financial institutions. The observations are summarized below:

### 1. Business size and growth.

Total assets of the financial system<sup>1</sup> increased by 32.17 percent to Nu.55.29 billion at the end of June 2010, compared to Nu.41.83 billion in June 2009 mainly due to increase in the net loans and advances by Nu.5.9 billion. The total assets of the banks<sup>2</sup> expanded by Nu.11.09 billion (or by 28.42 percent) during the period under review where as Non-banks<sup>3</sup> assets rose by Nu.2.37 billion (or by 83.88 percent). Deposit liabilities of the banks were Nu.39.61 billion at 30 June, 2010, Nu.9.67 billion higher than at the end of June 2009, comprising mostly of corporate deposits (63.05%). Borrowings of the NBFIs (including BDFCL) increased by 48.11 percent during the period and stood at Nu.2.43 billion, which were largely financed from domestic sources (about 87 percent). Meanwhile, the off-balance sheet exposures such as letters of credit, performance bonds and other form of guarantee of the financial sector more than doubled to Nu.5.88 billion from Nu.2.55 billion.

### 2. Capital & Reserves

At the end of the second quarter of 2010, the Bhutanese financial sector is well capitalized with the capital adequacy ratio and core capital ratio at 17.09 percent and 15.02 percent respectively. These ratios indicate strong intrinsic strength of the FIs with adequate capital. The capital fund reached to Nu.6.53 billion in June 2010 from Nu.4.86 million a year ago. The increase is mainly seen in banks with almost 1.56 billion (by 37.67 percent) and is hugely attributable to the increase in the core capital by 1.14 billion (paid-up capital of new banks by 0.34 billion) and 0.44 billion increase in the net



<sup>1</sup> Bhutanese financial system consists of BOBL, BDFCL, DPNBL, TBL, BDFCL, RICBL, BIL & NPPF

<sup>2</sup> Banks refers to BOBL, BNBL, DPNBL, TBL & BDFCL

<sup>3</sup> Non-banks refers to RICBL, BIL & NPPF.

profit. Meanwhile, the non-banks' capital base increased from Nu.0.72 billion to Nu.0.82 billion or by 14.72 percent during the period.

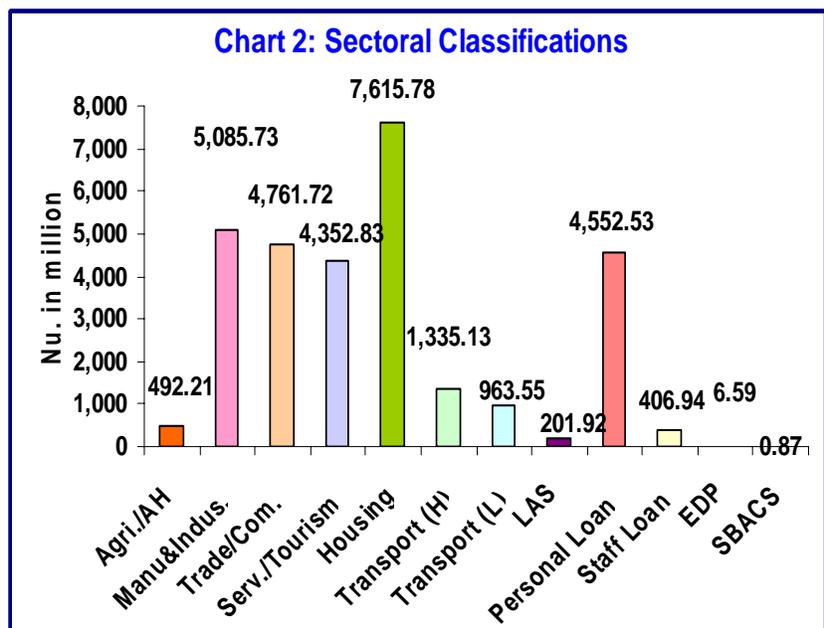
### 3. Total Assets

Financial sector total assets have expanded by 32.17 percent, to Nu.55.29 billion from Nu.41.83 billion. This expansion was mainly driven by a huge increase in the assets of the commercial banks (Nu.11.09 billion or by 28.42 percent) and a relatively smaller increase in the assets of non-banks (2.34 billion or by 83.88 percent). Of the total assets, CBs constitute 90.60 percent while the NBFIs hold the remaining 9.40 percent.

In terms of holding, loan asset (net of provision) forms the major component of assets with Nu.28.28 billion (51.15 per cent), followed by liquid assets with Nu.24.77 (44.80 percent). The remaining assets include equity investments, fixed and others.

### 4. Credit Distribution by Sector

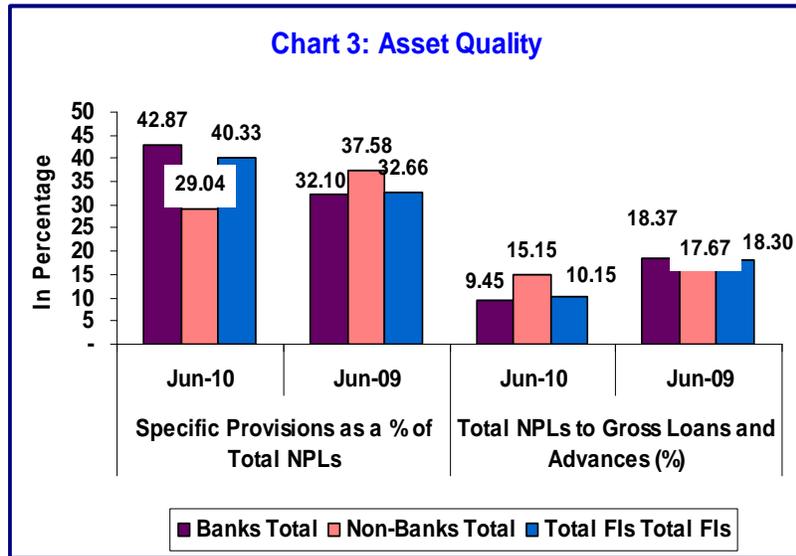
During the end of the second quarter of 2010, the financial sector credit portfolio increased to Nu.29.78 billion from Nu.24.26 billion or by 22.75 percent, mainly driven by the increase in the demand for housing loans. Housing finance provided by the financial institutions has risen by Nu.1.23 billion (or by 25.41 percent), making it an important component of total financial sector credit. Banks' total loans and advances increased by Nu.4.42 billion (or by 20.36 percent) as against about Nu.1.10 billion (43 percent) increase in the total loans and advances of the non-banks.



Housing sector credit, which accounts for 25.58 percent of overall total loans and advances, continues to lead the sectoral credit concentration, followed by the Manufacturing & Industry sector and Trade & Commerce Sector with 17.08 percent and 15.99 percent share respectively. However, the Agriculture sector credit abated by 25.20 percent, reflecting the inability of the FIs to penetrate the agriculture sector.

## 5. Asset Quality (Credit Portfolio)

The non-performing loans of the Bhutanese financial sector improved by 31.92 percent to Nu.3.02 billion in June 2010. The decrease in the non-performing loans was seen in all the financial institutions (except in one of the non-banks), mainly due to reviving of manufacturing & industry sector and also due to continuous monitoring and recovery of NPLs.



As a result of which, the NPL ratio has improved to 10.15 percent in June 2010 from 18.30 percent a year earlier. Nevertheless, the NPL ratio at 10.15 percent is still high compared to the year end-figure of 2009 (6.99 percent).

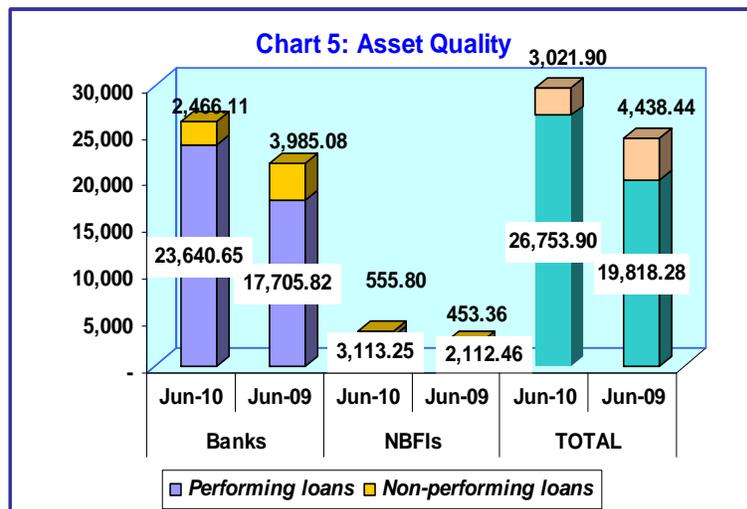
The NPLs of both the banks and non-banks has decreased from 18.37 percent and 17.67 percent to 9.45 percent and 15.15 percent respectively. Nevertheless, the provisions as a percentage of NPLs of the financial sector have increased from 32.66 percent to 40.33 percent.

## 6. Consolidated Loan Classification of the FIs

Among the classified loans of the financial sector, bad loans constitute only around 10 percent of the total loans, which was much lower than that of June-2009 (18.37 percent).

Of the total loans of Nu.26.11 billion of CBs, 92.41 per cent are performing loans and the remaining 7.59 percent are non-performing. Similarly, 86.05 percent of the total loans and advances (Nu.3.67 billion)

of the non banks is performing loans and the remaining 13.95 percent is non-performing loans.

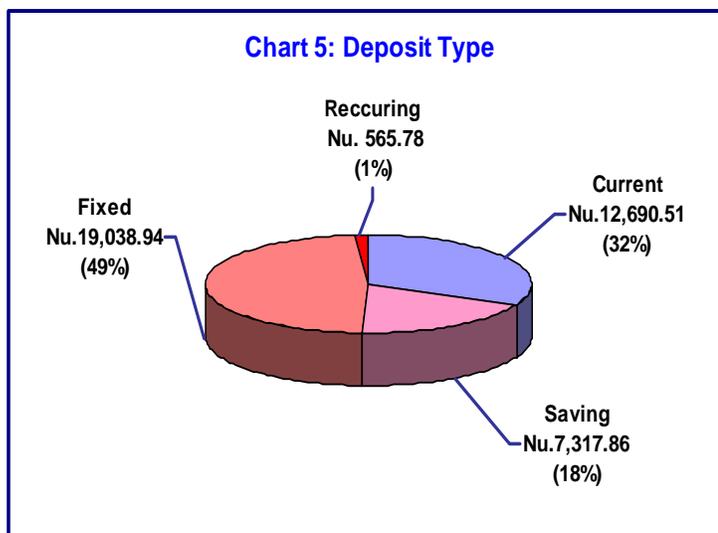


## 7. Liabilities

The total liabilities of the financial sector amounted to Nu.55.29 billion in June 2010 as compared to Nu.41.83 billion in June 2009. Majority of the liabilities comprised of deposit liabilities of the banks with 71.64 percent, followed by capital & reserves with 12.09 percent and borrowings of non-banks with 6.52 percent.

## 8. Distribution of Deposits by Customer

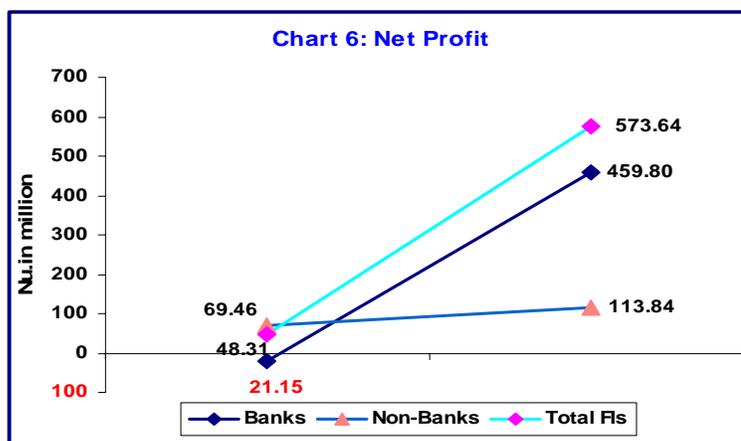
Total deposits liabilities of the banks rose considerably to Nu.39.16 billion in June 2010 from Nu.29.94 billion in June 2009, achieving a growth of 32.31 percent. The substantial growth in the deposit base was the result of an increase in the corporate deposits by Nu.6.34 billion or 34 percent, particularly in the form of fixed deposits (by 4.62 billion), followed by individual deposits (including foreign currency deposits) by 3.34 billion (by 29.53 percent). Chart 5 shows the types of deposit with the banks in Bhutan.



While the long-term deposits (recurring & fixed deposits) rose by 43.04 percent, from Nu.13.71 billion to Nu.19.60 billion, the short-term deposits (current & saving deposits) increased by only 23.25 percent to Nu.20 billion. Nevertheless, demand and time deposits have almost equal holding in the total deposits. In terms of deposits by customer holding, corporate deposits<sup>4</sup> accounts for around 63 percent and the remaining 37 percent constitutes the retail deposits. In other words, corporate deposits have dominated the deposit holding pattern of the financial institutions since inception

## 9. Profitability

Net profit of the financial institutions for the second quarter of 2010 was Nu.573.64 million compared with a loss of Nu.48.31 million for the second quarter of 2009. Despite 28.71 percent (0.16 billion) increase in the interest expense of the financial institutions mainly on account of corporate deposits, net interest income



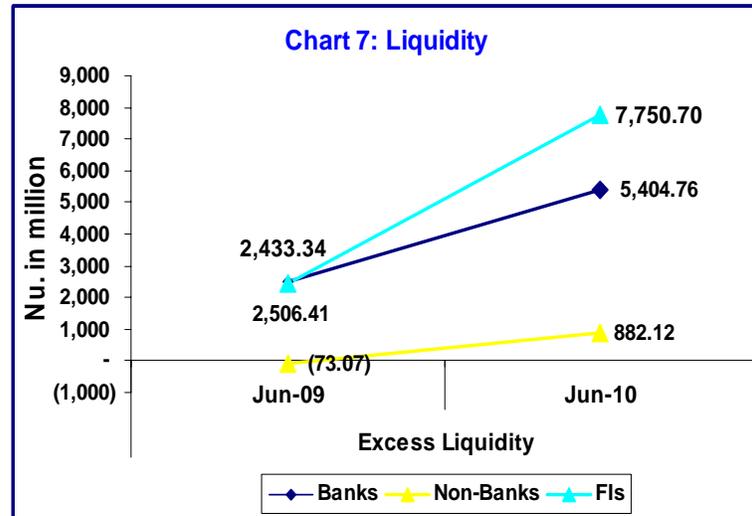
<sup>4</sup> Corporate Deposits – refers to government, government corporations, joint corporations, private companies, NBFIs and CBs.

was up 39.87 percent to Nu.967.39 million, driven mainly by the increase in the return from inter-bank deposits (328.33 million). Similarly, the non-interest income also increased by 12.43 percent, mainly due to a rise in fees and commission earned by financial institutions from their respective retail business.

The net profit of banks has risen to Nu.46 million from negative 11 million, majorly from their retail banking business (loans & overdrafts by Nu.0.33 billion) while the non-banks' net profit increased from Nu.0.07 billion to Nu.0.11 billion.

## 10. Liquidity

Although the amount of the Government Treasury Bills which replaced the RMA bills doubled, it did not have much effect in absorbing the excess liquidity of the financial sector. The excess liquidity of financial sector remained substantial at Nu.7.75 billion in 2010 as against Nu.2.43 billion in 2009, reflecting sluggish trend in investment avenues that is still persisting. The overall excess liquidity with the commercial banks stood at



Nu.6.87 billion, registering 107.04 percent growth over that of the same period of previous year. As a result, the statutory liquidity requirement of the banks stood at a very comfortable position at 35.47 percent, which is around 15 percent above the regulatory requirement of 20 percent. Meanwhile, the non-banks also experienced an increase in their excess liquidity from negative Nu.0.73 billion to Nu.0.88 billion during the period. The SLR position of non-banks stood 20.92 percent above the minimum prudential requirement of 10 percent.