Review of the Bhutanese Financial Sector Performance (March 2008-2009)

Introduction

This report presents in general the review of the Bhutanese financial sector for period ended March 2009 in comparison to the corresponding period of the previous year. The information contained in this report is solely based on the information submitted to the RMA by the financial institutions. The observations are summarized below:

1. Business size and growth.

The balance sheet size of the financial sector [1] expanded by 18.41 percent and stood at Nu.40.26 billion in March 2009, compared with Nu.34.00 billion during the corresponding month of the previous year. The increase is mainly attributed to a marginal growth in the assets of the CBs[2] by Nu.5.46 billion and that of NBFIs[3] by Nu.0.8 billion. An increase in short-term deposits has directly contributed to a significant climb in the overall deposit base of the banking sector (inclusive of BDFCL), from Nu.24.77 billion to Nu.29.86 billion or by 20.58 percent. Borrowings of the NBFIs increased by 11.38 percent and stood at Nu.2.35 billion in March 2009, of which 89.03 percent was financed through domestic sources. The off-balance sheet exposures (OBS) of the financial sector also rose by 21.70 percent from Nu.2.41 billion to Nu.29.30 billion during the period, of which banks registered a growth of 80.76 percent and the non-banks with 19.24 percent.

2. Capital & Reserves

(Nu. in million)

Details	Period	Banks	Non-Banks	Total FIs
		Total	Total	
Capital Fund	Mar-08	2,478.46	1,283.72	**3,762.18**
	Mar-09	2,877.49	686.99	**4,441.85**
Total Risk Weighted Asset	Mar-08	16,224.65	4,610.16	**20,834.81**
	Mar-09	21,306.61	5,539.33	**26,845.94**
RWCAR (8%)	**Mar-08**	**15.28**	**27.85**	**18.16**
	Mar-09	**13.51**	**28.24**	**16.55**
Tier I	Mar-08	2,177.35	998.38	**3,175.73**
	Mar-09	2,422.30	1,265.69	**3,687.98**
Core CAR (%)	**Mar-08**	**13.42**	**21.66**	**15.24**
	Mar-09	**11.37**	**22.85**	**13.74**

The capitalization of the financial sector continued to improve as the total capital fund increased from Nu.3.78 billion in Q1FY'08 to Nu.4.44 billion in Q1FY'09. However, both risk weighted capital adequacy ratio (RWCAR) and core capital adequacy ratio (CCAR) have dropped slightly during the period. The decrease in RWCAR, from 18.16 percent to 16.55 percent, was due to the increase in high risk weighted assets such as off-balance sheet items (up by 21.70 percent) and loans and advances (up by 29.40 percent). The increase in risk-weighted assets, which went up by 28.79 percent, more than off sets the Tier 1 capital surge causing the CCAR to decrease by 1.50 percent.

3. Total Assets

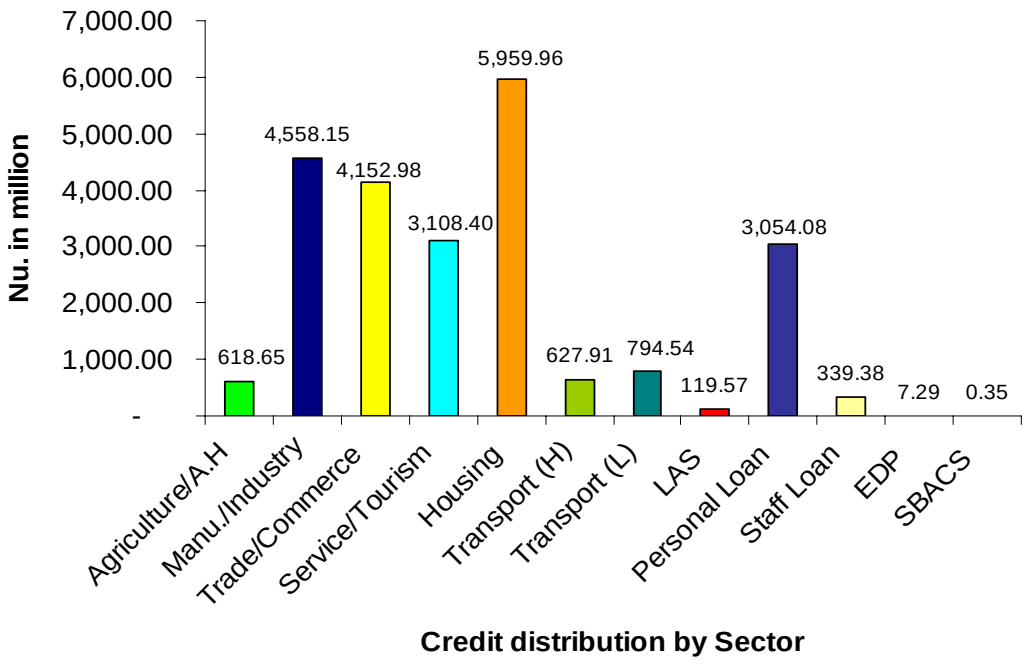
During the period ended Q1FY'09, the total assets of the financial sector increased by 18.41 percent, from Nu.34 billion to Nu.40.26 billion. Of the total assets, 34.91 billion (constituting 86.71 percent) pertains to two banks while the remaining 5.35 billion belongs to NBFIs.

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

In terms of composition, liquid assets amounted to Nu.17.21 billion (including RGOB bonds, RMA bills and others) accounting for 42.75 percent of the total assets, and the total loan portfolio (net of provisions) of the financial sector amounted to Nu.21.69 billion accounting for 53.86 percent of the total assets.

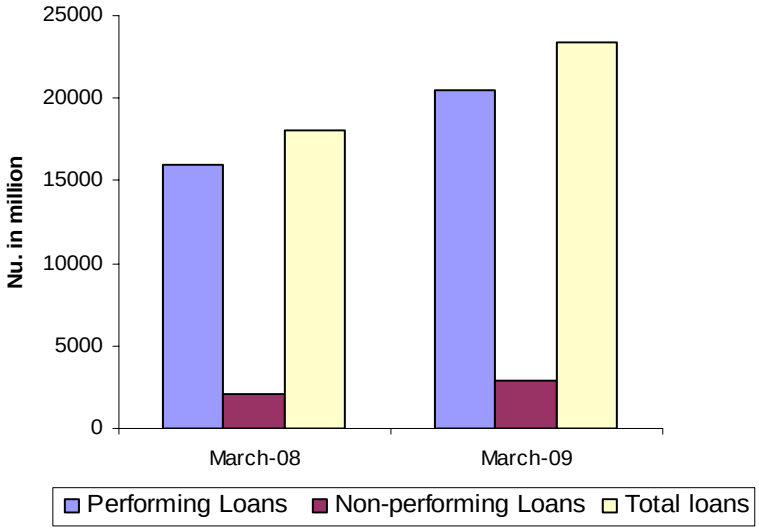
4. Credit Distribution by Sector

The total gross loan portfolio of the financial sector increased to Nu.23.34 billion in Q1FY'09, compared with Nu.18.04 billion during the corresponding period of the previous year, reflecting an increase of 29.40 percent. Banks' total loans and advances shot up by 32.75 percent to Nu.18.29 billion during the period. Similarly, the NBFIs's credit portfolio rose by 18.57 percent, from Nu.4.26 billion to Nu.5.05 billion. The sector-wise break down of the total loans outstanding shows that the Housing Sector constituted the highest share of 25.53 percent, followed by Manufacturing Sector with 19.53 percent and Trade/Commerce Sector with 17.79 percent.



5. Asset Quality

Financial Sector's total non-performing loans (NPLs) increased significantly from Nu.2.08 billion to Nu.2.89 billion during the period. This increase was mainly seen in the banks with 70.75 percent, whereas NBFIs' NPL increased by only 2.20 percent. The provisions (specific provisions) held against risks arising from NPL increased from Nu.1 billion in Q1FY'08 to Nu.1.32 billion in Q1FY'09. Provisions as a percentage of the total NPLs decreased to 45.68 percent from 48.38 percent during the period. The Net NPL ratio to



net loans and advances of the financial sector deteriorated from a ratio of 6.30 percent to 7.14 percent during the period.

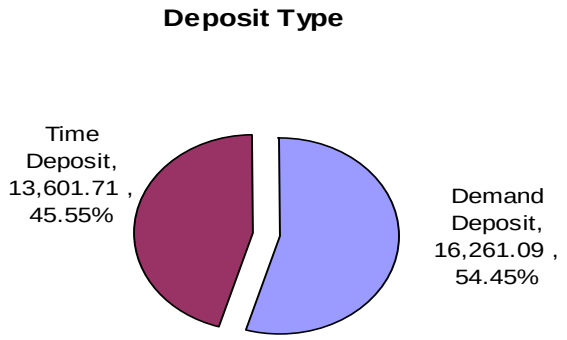
Analysis on loan repayments confirms that 87.60 percent of total loan portfolio of the financial sector comprises of performing loans and the remaining 12.40 percent constitute non-performing loans. Of the total NPLs of Nu.2.89 billion, banks' non-performing loans accounts for 66.17 percent whilst non-banks' non-performing loans accounts for 33.83 percent.

6. Liabilities

As of Q1FY'09, the total liabilities of the financial sector amounted to Nu.40.26 billion, an increase of 18.41 percent from the corresponding period last year. Majority of the liabilities comprised of deposit liabilities with 74.17 percent, followed by capital & reserves with 11.04 percent and borrowings of NBFIs with 5.84 percent.

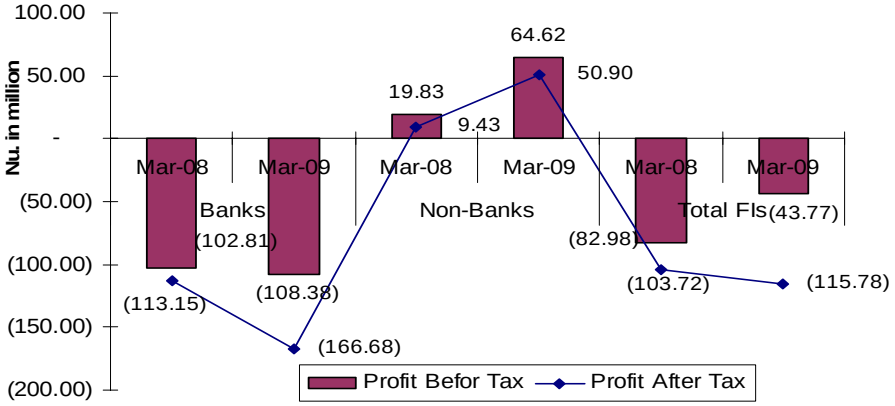
7. Composition of Deposits Liabilities

During the period ended Q1FY'09, the deposit liabilities of banks (inclusive of Bhutan Development Finance Corporation) expanded by 20.58 percent. Demand deposits, which accounted for 54.45 percent of the total deposit liabilities, rose by 17.84 percent from Nu.13.80 billion to Nu.16.26 billion. The time deposits (which accounted for the remaining 45.55 percent of the total deposit liabilities) also increased by 24.01 percent. In terms of deposits by customer holding, corporate deposits[4] still continues to lead with 65.47 percent.



8. Profitability

During the period under review, net returns of commercial banks worsened to Nu.-166.69 million from Nu.-113.15 million. However the net profit of non-banks rose to Nu.50.90 million in Q1FY'09 from Nu.9.43 million a year earlier. The increase in the profit of the non-banks was mainly due to an increase in the interest income (by 27.64 percent) and other operating income by 22 percent. The decrease in the profit of the banks was mainly due to a huge increase in the operating expenses from Nu.93.95 million in Q1FY'08 to Nu.111.05 million in Q1FY'09



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

followed by huge provision amounting to Nu. 73.24 million.

9. Liquidity

The surplus or excess liquidity declined to Nu.3.45 billion in Q1FY'09 from Nu.4.84 billion in Q1FY'08, mainly brought about by a decrease in the quick assets in one of the banks. Nevertheless, there is still a liquidity overhang in the system. Banks' liquidity decreased to Nu.3.05 billion from Nu.4.64 billion a year ago. Similarly, the NBFIs' liquidity position decreased from Nu.200.61 million in Q1FY'08 to Nu.49.52 million in Q1FY'09, this is mainly due to a short fall in liquidity in one of the NBFI.

Details	Period	Banks	Non-Banks	FIs
Capital Fund	**Mar-08**	2,478.46	1,307.98	3,786.44
	Mar-09	2877.49	1,564.35	4441.85
Total Liabilities	**Mar-08**	29,451.42	4,549.70	34,001.12
	Mar-09	34,909.01	5,352.30	40,261.31
Quick Asset	**Mar-08**	10,034.79	524.78	10,559.57
	Mar-09	9,805.71	428.32	10,234.02
Statutory Liquidity Requirement (Position in %)	**Mar-08**	37.20	16.19	53.39
	Mar-09	30.61	11.31	41.92
Excess/shortfall Liquidity (in Nu.)	**Mar-08**	4,640.19	200.61	4,840.80
	Mar-09	3399.40	49.52	3,448.93