

# Review of the Bhutanese Financial Sector Performance (Q3FY'08)

## Introduction

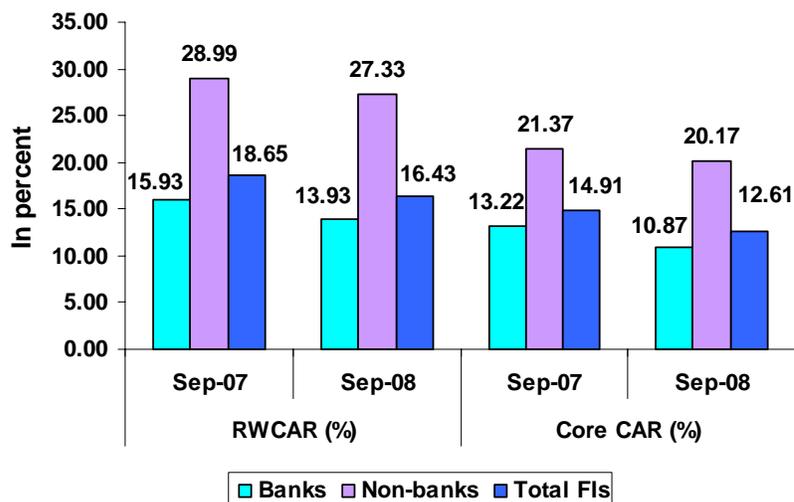
This report presents in general the review of the Bhutanese financial sector performance for Q3FY'08, in comparison to the corresponding quarter of the previous year. The information contained in this report is based on the RMA returns submitted to the Off-site Unit of the FIRD, RMA by the financial institutions for the quarter ended Q3FY'08. The observations are summarized below:

### 1. Business size and growth.

Total assets of the financial system <sup>1</sup> increased by 25.44 per cent during the period under review and stood at Nu.40.89 billion as of Q3FY'08 compared to Nu.32.60 billion a year ago. The growth has been mainly brought about by an increase in the assets of the CBs<sup>2</sup> by Nu.7.09 billion as well as a significant contribution by NBFIs<sup>3</sup> of Nu.1.2 billion. Total deposit liabilities of the banking sector (inclusive of BDFCL) amounted to Nu.31.66 billion as on Q3FY'08, reflecting a significant growth of 25.19 percent during the period. Similarly, borrowings of the NBFIs substantially increased by 47.85 percent during the period and stood at Nu.2.29 billion as of Q3FY'08. However, the borrowings were largely financed from the domestic source, accounting for 89.77 percent of the total borrowings. The off-balance sheet exposures (OBS) of the banks fell by 1.52 percent from Nu.2.48 billion in Q3FY'07 to Nu.2.44 billion in Q3FY'08.

### 2. Capital & Reserves

The regulatory capital fund of the financial institutions achieved a growth of 20.79 percent during the period, from Nu.3.65 billion to Nu.4.41 billion which was mainly contributed by the CBs (with an increase of 0.57 billion) as compared to the NBFIs (with an increase of 0.19 billion). However, the risk-weighted capital adequacy ratio (RWCAR) of the financial institutions marginally decreased from



<sup>1</sup> Financial System includes BOBL, BNBL, BDFCL and RICBL.

<sup>2</sup> CBs refer to Commercial Banks (BNBL and BOBL)

<sup>3</sup> NBFIs refer to Non-bank Financial Institutions (BDFCL and RICBL).

18.65 percent to 16.43 percent due to increase in the risk weighted assets such as loans and advances by 37.05 percent during the period under review. Similarly, the core capital ratio decreased by 2.30 percent during the period.

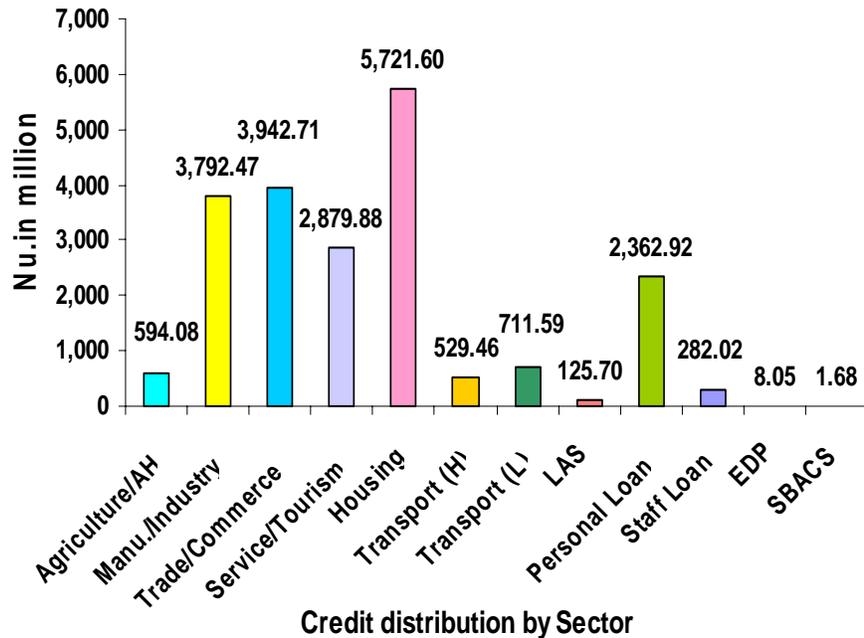
### 3. Total Assets

Total assets of the financial sector have increased to Nu.40.89 billion from Nu.32.60 billion, reflecting an increase of 25.44 percent. The CBs experienced a growth of 24.60 percent from Nu.28.82 billion in Q3FY'07 to Nu.35.19 billion in Q3FY'08 with the main contributing factor being loans and advances. The NBFIs experienced a growth of 31.82 percent from Nu.3.77 billion in Q3FY'07 to Nu.4.97 billion in Q3FY'08 mainly due to increase in the liquid assets. Of the total assets, the CBs constitute 87.83 percent while the NBFIs hold 12.17 percent.

In terms of composition, liquid assets continued to form the major component of assets with Nu.35.84 billion (including RGOB bonds, RMA bills and others). The total loan portfolio (net of provisions) of the financial sector amounted to Nu.19.73 billion accounting for 48.25 percent of the total assets.

### 4. Credit Distribution by Sector

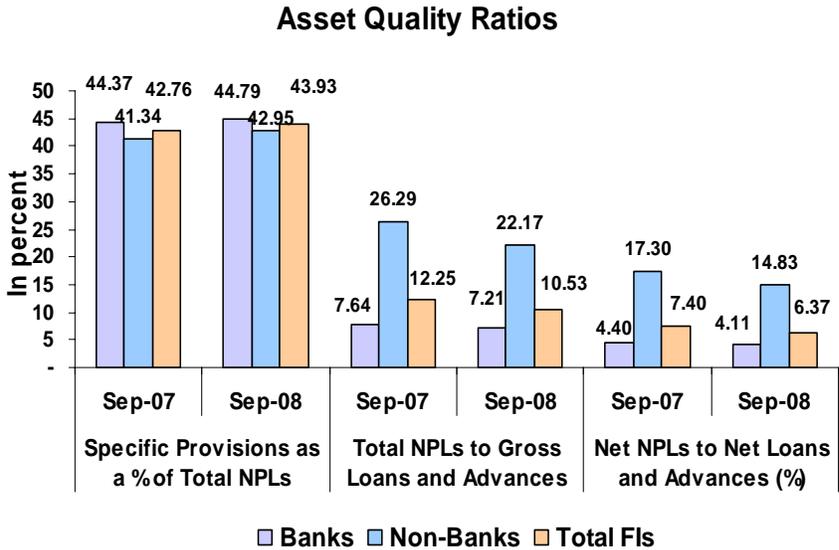
Financial sector credit grew by 35.16 percent from Nu.15.50 billion in Q3FY'07 to Nu.20.95 billion in Q3FY'08, owing to an increase in the demand for Housing credit. Banks' credit portfolio increased by 39.73 percent (Nu.4.63 billion in absolute terms) as against 21.28 percent (Nu.0.82 billion) increase in the credit portfolio of the non-banks.



On the distribution of credit portfolio by sector, Housing sector continues to lead with 27.31 percent of the total credit portfolio followed by the Trade and Commerce Sector with 18.82 and the Manufacturing & Industry sector with 18.10 percent.

## 5. Asset Quality (Credit Portfolio)

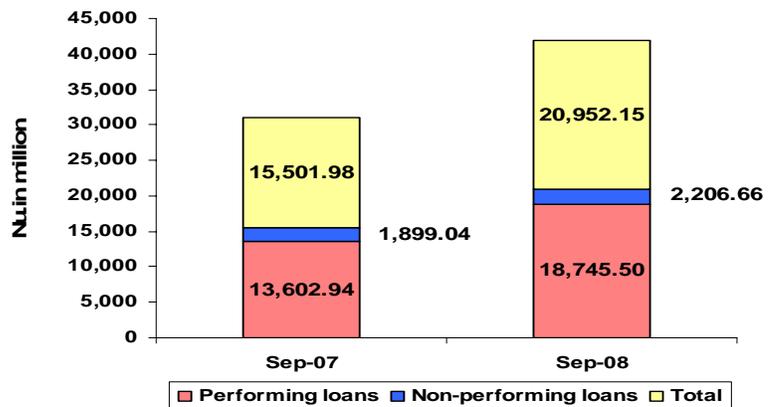
The gross NPL ratio has decreased by 1.72 percent, from 12.25 percent in Q3FY'07 to 10.53 percent in Q3FY'08, reflecting the reduction of the perceived credit risk. However, the total non-performing loans of the financial institutions increased by 16.20 percent from Nu.1.89 billion in Q3FY'07 to Nu.2.21 billion in Q3FY'08. This increase is mainly seen in the banks with 31.95 percent, whereas NBFIs' NPL increased by only 2.27 percent. The provisions (specific provisions) held against risks arising from NPL increased from Nu.0.81 billion in Q3FY'07 to Nu.0.97 billion in Q3FY'08. Provisions as a percentage of the total NPLs increased to 43.93 percent from 42.76 percent during the period.



The Net NPL ratio of the financial sector shows a slight improvement from a ratio of 7.40 percent to 6.37 percent during the period.

## Consolidated Loan Classification of the FIs

Breakdown on loan classification confirm that 92.79 per cent of the total loans outstanding of the CBs comprise of performing loans and only 7.21 percent constitutes non-performing loans while 77.83 percent of the total loan outstanding of the NBFIs constitutes performing loans and 22.17 percent is non-performing.

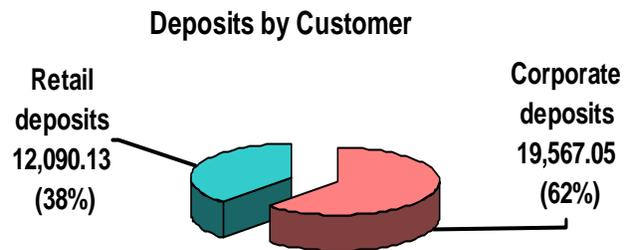


## 6. Liabilities

The total liabilities of the financial sector amounted to Nu.40.89 billion in Q3FY'08 as compared to Nu.32.60 billion in Q3FY'07. Majority of the liabilities comprised of deposit liabilities with 77.43 percent, followed by capital & reserves with 8.95 percent and borrowings with 5.61 percent.

## 7. Distribution of Deposits by Customer

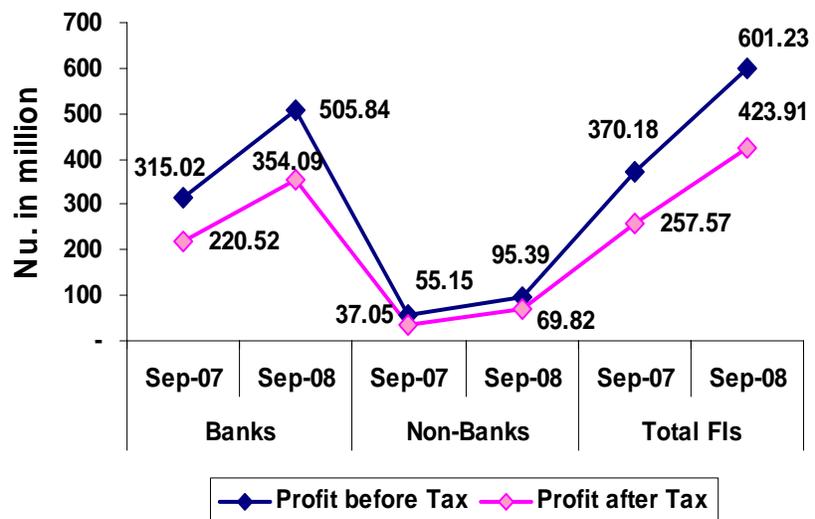
The banking sector (Bank of Bhutan, Bhutan National Bank & Bhutan Development Finance Corporation) mobilized its deposits amounting to Nu.31.66 billion during the period. Deposit base of the financial sector reflected a growth of 25.19 percent, driven by an increase in the short term deposits by 26.41 percent. In terms of deposits by customer holding, corporate deposits<sup>4</sup> 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 58.44 percent and long term deposits (fixed and recurring) comprised of 41.56 percent.



## 8. Profitability

During the period under review, net returns of commercial banks increased to Nu.354.09 million from Nu.220.52 million. Net profit of non-banks rose to Nu.69.82 billion in Q3FY'08 from Nu.37.05 billion a year earlier. The increase in the profit was mainly due to an increase in the interest income (by 24.94 percent) and improvement in the provisions for bad debts (by 18.51 percent).

On the expenditure side, the operating expenses fell by 7.82 percent from Nu.411.66 million to Nu.379.47 million.



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

## 9. Liquidity

The surplus or excess liquidity declined to Nu.3.77 billion in Q3FY'08 from Nu.4.94 billion in Q3FY'07, 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'

Details	Period	Banks	Non-Banks	FIs
<b>Capital Fund</b>	Sep-07	2,469.85	1,181.27	3,651.12
	Sep-08	3,038.06	1,372.30	4,410.36
<b>Total Liabilities</b>	Sep-07	28,821.62	3,773.93	32,595.55
	Sep-08	35,912.55	4,974.61	40,887.16
<b>Quick Asset</b>	Sep-07	10,304.27	168.71	10,472.98
	Sep-08	10,210.17	497.04	10,707.21
<b>Statutory Liquidity Requirement</b> (Position in %)	Sep-07	39.10	6.51	36.18
	Sep-08	31.06	13.80	29.35
<b>Excess/shortfall Liquidity</b> (in Nu.)	Sep-07	5,033.91	(90.55)	4,943.36
	Sep-08	3,635.27	136.81	3,772.08

excess liquidity improved to Nu.3.64 billion from Nu.5.03 billion a year ago. However, the NBFIs' experienced a considerable increase in the liquidity position from 6.51 percent to 13.80 percent, indicating a comfortable position during the period under review.