Review of the Bhutanese Financial Sector Performance (September 2009)

Introduction

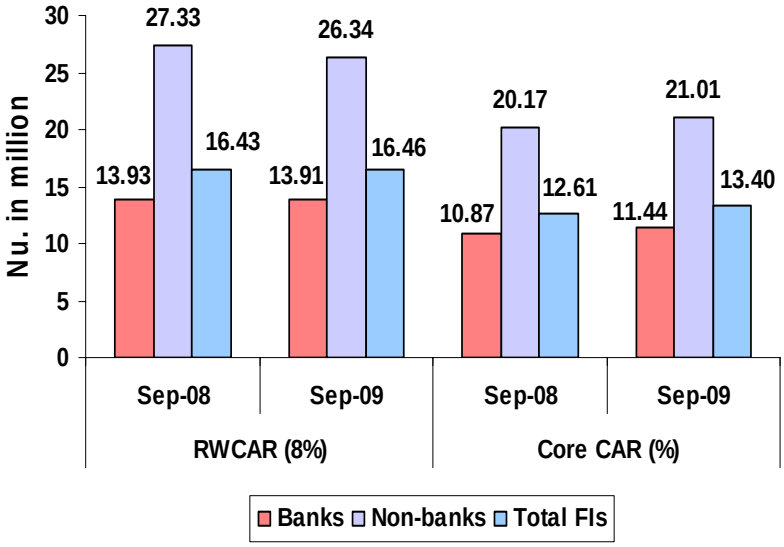
This report presents in general the review of the Bhutanese financial sector for September 2009, in comparison to the corresponding quarter of the previous year. The information contained in this report is based on the RMA returns submitted by the financial institutions to the RMA for the quarter ended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

1. Business size and growth.

Balance sheet size of the financial system [1] expanded by 20 percent during the period under review and stood at Nu.57.23 billion as of September 2009 compared to Nu.47.64 billion a year ago. The growth has been mainly contributed by an increase in the assets of the CBs[2] by Nu.7.15 billion, followed by NBFIs[3] with Nu.2.44 billion. Total deposit liabilities of the banking sector rose to Nu.36.85 billion as on September 2009, reflecting a significant growth of 16.39 percent during the period. The rise in deposits was largely due to a huge 243.92 percent increase in deposits by private companies. Similarly, borrowings of the NBFIs increased modestly by 27.24 percent during the period and stood at Nu.2.92 billion. Of the total borrowing, about 90 percent was financed from domestic sources and the remaining 10 percent from external sources. Meanwhile, the off-balance sheet exposures (OBS) of the financial sector rose by 4.55 percent from Nu.2.45 billion in September 2008 to Nu.2.56 billion in September 2009.

2. Capital & Reserves

Total capital fund of the financial institutions achieved a growth of 14.52 percent during the period, from Nu.4.41 billion to Nu.5.05 billion mainly due to an enhancement in the banks' capital base to Nu.300 million and non-banks to Nu.200 million. As a result, both the risk-weighted capital adequacy ratio (RWCAR) and core capital ratio (CCAR) has increased from 16.43 percent and 12.61 percent to 16.46 percent and 13.40 percent respectively during the period under review.



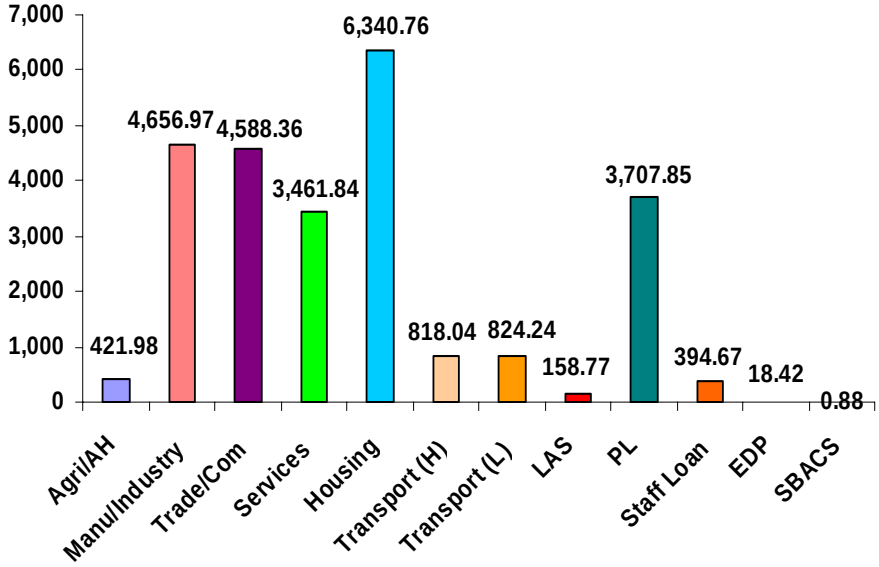
[1] Financial System includes BOBL, BNBL, BDFCL, RICBL & NPPF.
[2] CBs refer to Commercial Banks (BNBL and BOBL)
[3] NBFIs refer to Non-bank Financial Institutions (BDFCL, RICBL & NPPF).

3. Total Assets

Total assets of the financial sector have increased to Nu.57.23 billion from Nu.47.64 billion, reflecting an increase of 20 percent. Of the total assets, the CBs constitute 75.25 percent while the NBFIs hold 24.75 percent. The CBs experienced a growth of 19.91 percent from Nu.35.91 billion in September 2008 to Nu.43.06 billion in September 2009 with the main contributing factor being the loans and advances (by 17.33 per cent). The NBFIs experienced a growth of 20.78 percent from Nu.11.73 billion in September 2008 to Nu.14.16 billion in September 2009 mainly due to increase in the loan assets (by 20.64 per cent) as well.

In terms of holding, loans and advances (net of provisions) forms the major component of assets with Nu.23.28 billion (40.68 per cent), followed by liquid assets (including RGOB bonds, RMA bills and others) with Nu.22.46 billion (39.25 per cent).

4. Credit Distribution by Sector

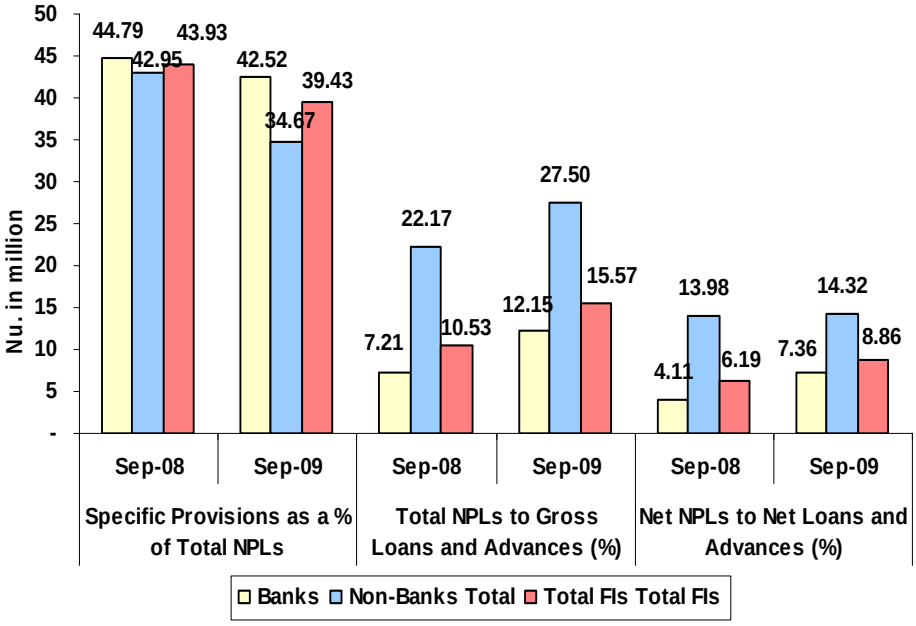


At the end of September 2009, the financial sector's total credit portfolio (including NPPF) stood at Nu.29.66 billion, up slightly from Nu.25.07 billion in September 2008, an increase of 18.33 percent. The growth was mainly due to an increase in the personal loan which increased by Nu.1.34 billion (56.75 percent) during the period. Banks' total loans and advances increased by Nu.3.44 billion (21.09 percent) as against about Nu.1 billion (21.56 percent) increase in the total loans and advances of the non-banks.

Housing sector credit, which accounts for 24.97 percent of overall total loans and advances, continues to lead the sectoral credit concentration, followed by the Manufacturing & Industry sector and Trade & Commerce with 18.34 percent and 18.07 percent share respectively. However, the Agriculture sector credit abated by 28.97 percent during the period.

5. Asset Quality (Credit Portfolio)

Bhutanese financial sector has started showing the effects of global economic slowdown, especially in the Manufacturing & Industry sector. Slower export and moderating demand has led to dampening of industrial activity at the Pasakha Industrial Estate. As a result, majority of the credit to these industries went bad thereby increasing the non-performing loans of the FIs during the period.

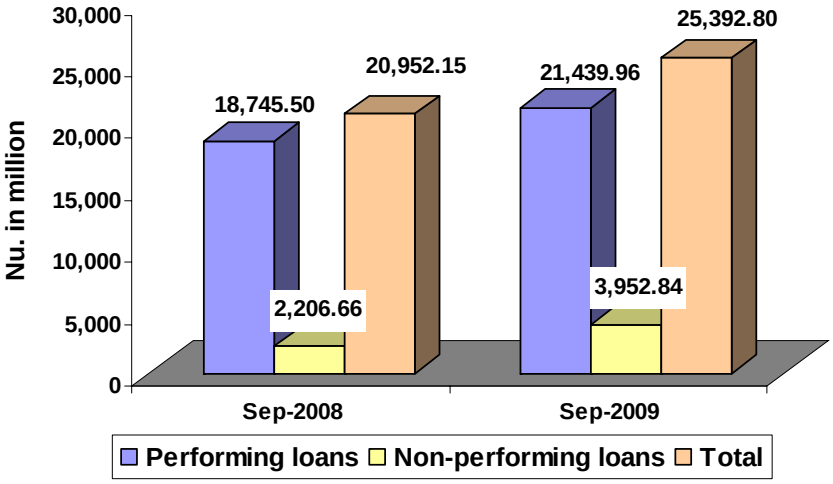


Total non-performing loans of the financial sector reached at Nu.3.95 billion at the end of September 2009, up from Nu.2.21 billion in September 2008, a growth of 79.13 percent, indicating an impairment in the asset quality. The rise in the NPL is seen in both the banks with an average growth of about 103 percent. As a result, percentage of total NPLs to total loans and advances has increased from 10.53 percent to 15.57 percent.

Meanwhile, the percentage of provisions provided for such default has noticeably declined from Nu.43.93 percent to 39.43 percent.

6. Consolidated Loan Classification of the FIs

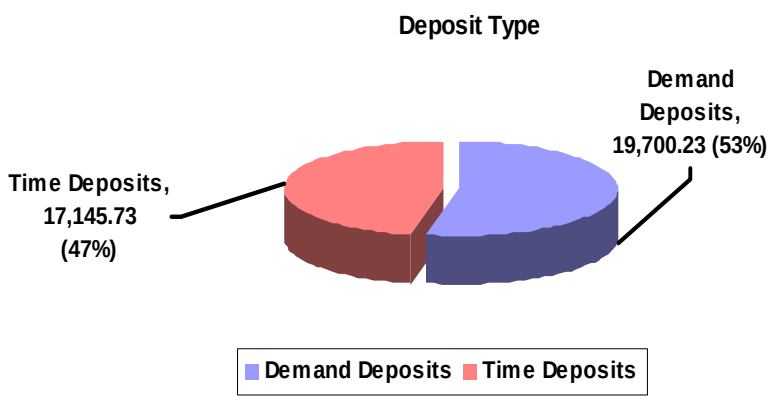
Analysis on debt consolidation confirm that 87.85 per cent of the total loans outstanding of the CBs comprise of performing loans and only 12.15 percent constitutes non-performing loans while 72.50 percent of the total loan outstanding of the NBFIs constitutes performing loans and the remaining 27.50 percent is non-performing.



7. Liabilities

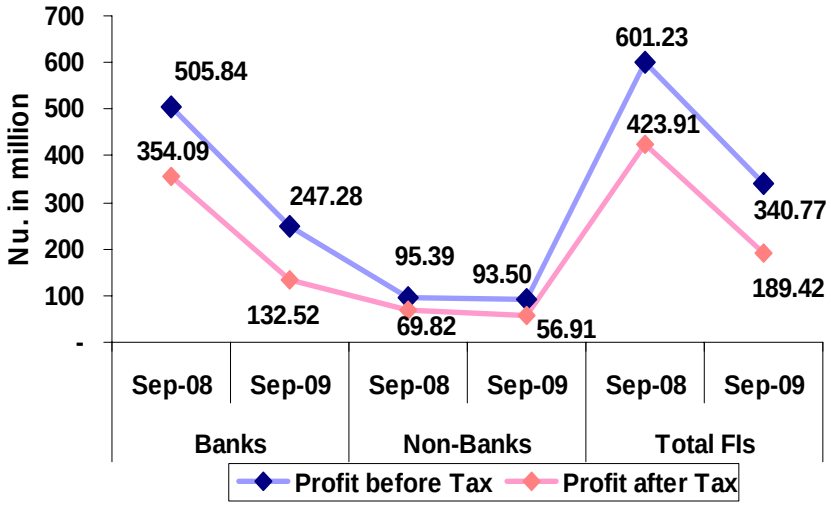
The total liabilities of the financial sector amounted to Nu.57.23 billion in September 2009 as compared to Nu.47.64 billion in September 2008. Majority of the liabilities comprised of deposit liabilities with 64.38 percent, followed by capital & reserves with 8.82 percent and borrowings with 5.10 percent.

8. Distribution of Deposits by Customer



Deposits of the banking sector (including Bhutan Development Finance Corporation) rose considerably to Nu.36.85 billion in September 2009 from Nu.31.66 billion in September 2008, achieving a growth of 16.39 percent. The growth in deposits base was mainly driven by an increase in the demand deposits by 30.31 percent. In terms of deposits by customer holding, corporate deposits[4] accounts for around 67.42 percent and the remaining 32.58 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, demand deposits (current and saving) accounted for 53.47 percent and time deposits (fixed and recurring) comprised of 46.53 percent.

9. Profitability

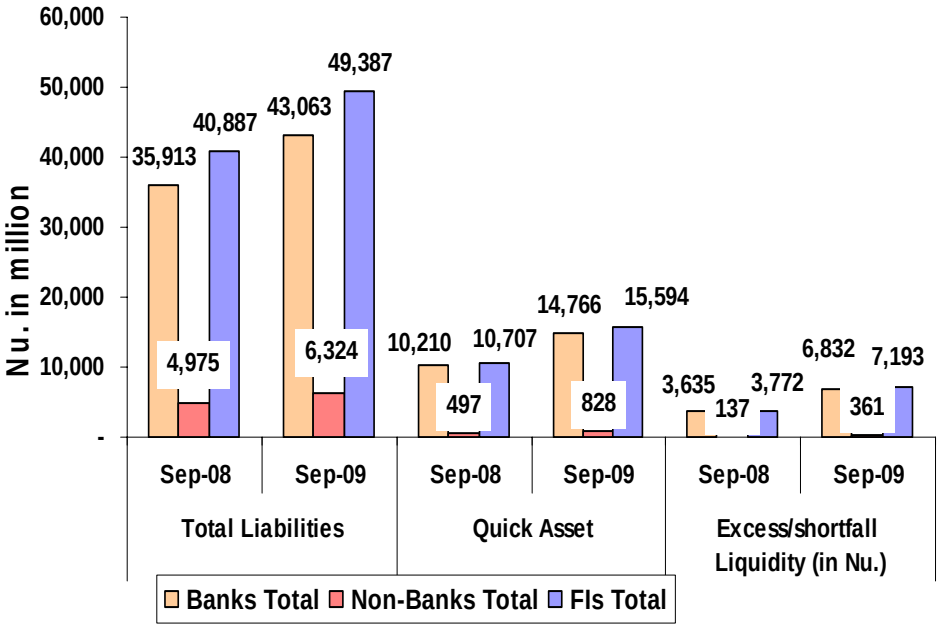


Profit of the financial sector dropped to 0.19 billion in September 2009, from Nu.0.42 billion in September 2008. Substantial increase in the non performing assets has resulted an increase in the provisions provided for such bad loans (by 0.67 billion). As a result, the revenue of the commercial banks decreased to Nu.0.13 billion or by 62.58 percent while the non-banks' net profit decreased to Nu.0.06 billion

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

or by 18.50 percent. Financial institutions' interest income grew by 11.44 percent relative to 32.41 percent increase in the interest expenses thereby leading to a decrease in the net interest income by about 1 percent.

10. Liquidity



Despite RMA's effort to sterilize excess fund in the financial system, the excess liquidity of financial sector more than doubled from Nu.3.77 billion to Nu.7.19 billion during the period under review. This increase was mainly due to an increase in quick assets by 45.70 percent, which was in turn expanded by a rise in demand deposits of the banks. Excess liquidity of banks and non-banks increased from Nu.3.63 billion and Nu.0.14 billion to Nu.6.83 billion and Nu.0.36 billion respectively. Similarly, the SLR ratio of the financial institutions increased from 31.06 percent to 37.22 percent, indicating a significant lack of investment demand/avenues.