Bhutanese Financial Sector Performance Review (September 2009-2010)

Introduction

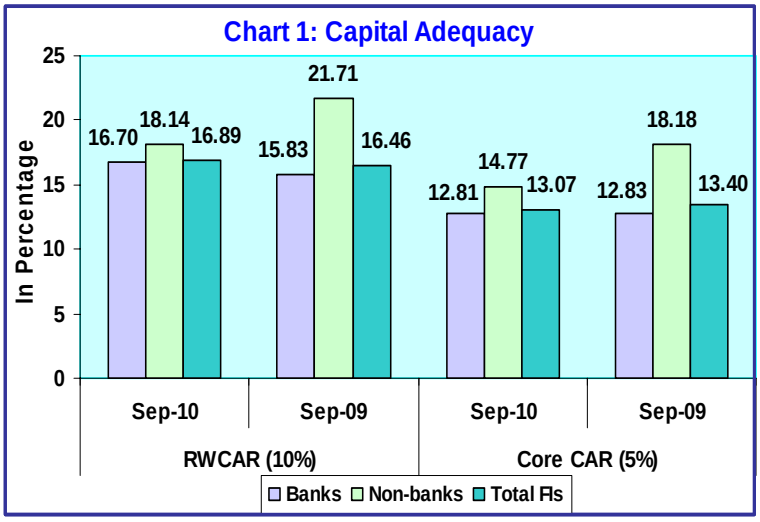
This report contains review about the performance of the Bhutanese financial sector for the Q3FY'10 in comparison to the corresponding quarter of the previous year. However, this report does not reflect the true performance of the financial institutions during the period because the y-o-y assessment 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 balance sheet size of Bhutanese financial system had risen 36.27 percent y-o-y to Nu.67 billion in Q3FY'10, mainly due to an increase in the net loans and advances by 30.62 percent (or by Nu.7.13 billion). The rise was largely led by the banks whose total assets expanded by Nu.15.09 billion (or by 32.84 percent), followed by a relatively smaller expansion in the non-banks'[1] assets by Nu.2.82 billion (or by 82.15 percent). Total deposit liabilities of the banks were Nu.51.10 billion in Q3FY'10, Nu.14.25 billion higher than in Q3FY'09, comprising mostly of corporate deposits (67.74%). Borrowings of the NBFIs (including BDFCL) increased by 50.52 percent during the period and stood at Nu.4.39 billion, which were largely financed from domestic sources (about 93 percent). Meanwhile, the financial sector exposure to the off-balance sheet items such as letters of credit, performance bonds and other form of guarantees, more than doubled to Nu.7.13 billion from Nu.3.17 billion during the period.

2. Capital & Reserves

Capital fund of the Bhutanese financial sector increased to Nu.7.17 billion from Nu.5.05 billion a year ago. The increase is mainly seen in banks with almost 42 percent to Nu.6.15 billion.



The sector's capital adequacy ratio (CAR) in Q3FY'10 (computed as per Basel I) remained strong at 16.89 percent, as against the minimum regulatory requirement of 10 percent. Tier-I CAR was 13.07 percent as against the regulatory minimum of 5 percent.

Banks' capital fund reached to Nu.6.15 billion in Q3FY'10 from Nu.4.33 billion a year ago. The increase is hugely attributable to the increase in reserves (by Nu.46 million)

[1] Non-banks refers to RICBL, BIL & NPPF.

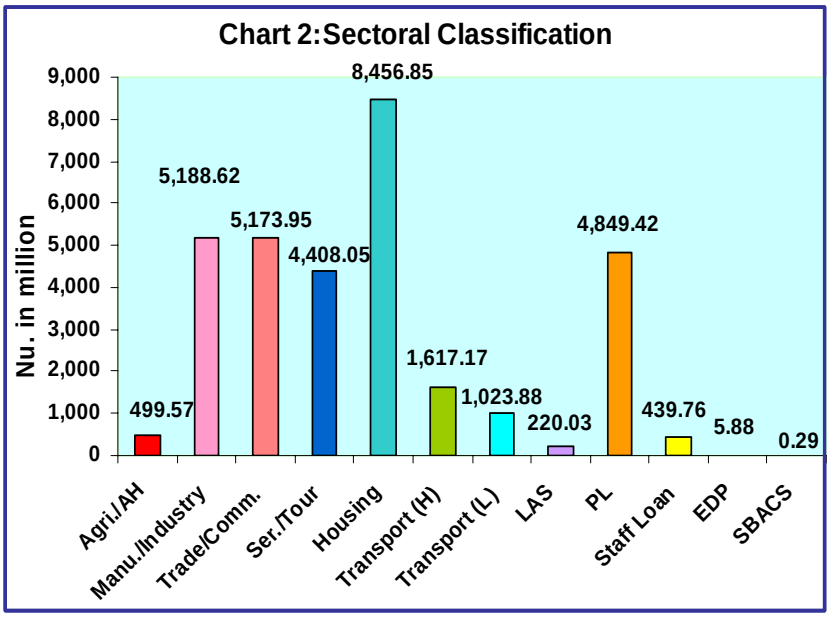
and paid-up capital (By Nu.43 million). Meanwhile, the non-banks' capital base increased from Nu.0.71 billion to Nu.1.03 billion or by 43.78 percent during the period.

3. Total Assets

Financial sector consolidated total assets expanded by 36.27 percent to Nu.67.3 billion from Nu.49.39 billion. This expansion was mainly driven by a huge increase in the assets of the commercial banks (Nu.15.09 billion or by 32.84 percent) and a relatively smaller increase in the assets of non-banks (2.82 billion or by 82.15 percent). Of the total assets, CBs constitute 90.72 percent while the NBFIs hold the remaining 9.28 percent.

In terms of holding, liquid assets (cash & bank balances and securities) form the major component of assets with Nu.34.37 billion (51.08 per cent), followed by loans & advances (net of provisions) with Nu.30.41 (45.19 percent). The remaining assets include equity investments, fixed and others.

4. Credit Distribution by Sector

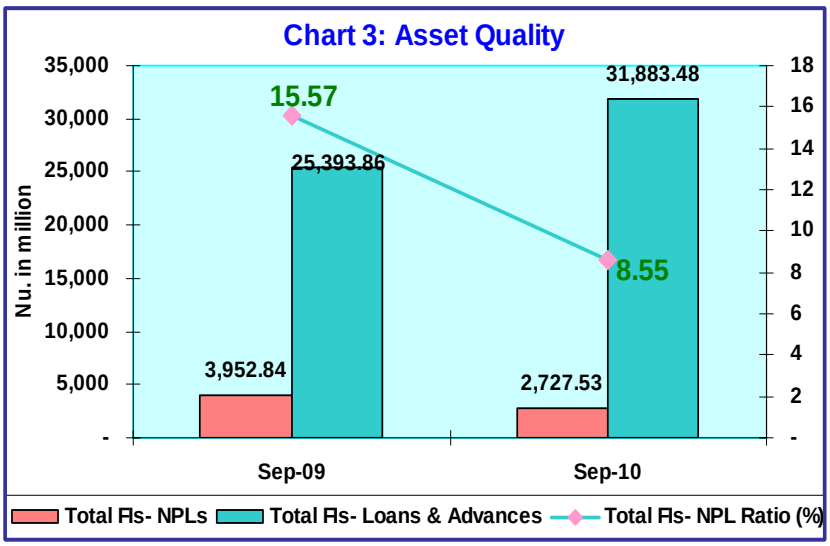


Total Loans and advances of the financial sector under review have increased to Nu.31.88 billion from Nu.25.39 billion or by 25.56 percent, mainly driven by the increase in the demand for housing loans and loans for service & tourism sector. Housing finance provided by the financial institutions has risen by Nu.2.12 billion (or by 33.37 percent), making it an important component of total financial sector credit. Banks' total loans and advances increased by Nu.5.04 billion (or by 22.30 percent) as against about Nu.1.45 billion (52.07 percent) increase in the total loans and advances of the non-banks.

Chart 2 depicts sectoral distribution of loans and advances. From the chart, it can be seen that housing sector credit, which accounts for 26.52 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 16.27 percent and 16.23 percent share respectively. However, the agriculture sector holds very minimal share in the overall total financial sector credit of only 1.57 percent.

5. Asset Quality (Credit Portfolio)

Credit portfolio quality in Q3FY'10 remained healthy with non-performing loans at 8.55 percent of total loans and advances. The non-performing loans of the financial sector improved by 31 percent to Nu.2.73 billion in Q3FY'10. The decrease in the non-performing loans was seen in all the financial institutions (except in one of the non-banks), mainly due to continuous monitoring and recovery of NPLs.

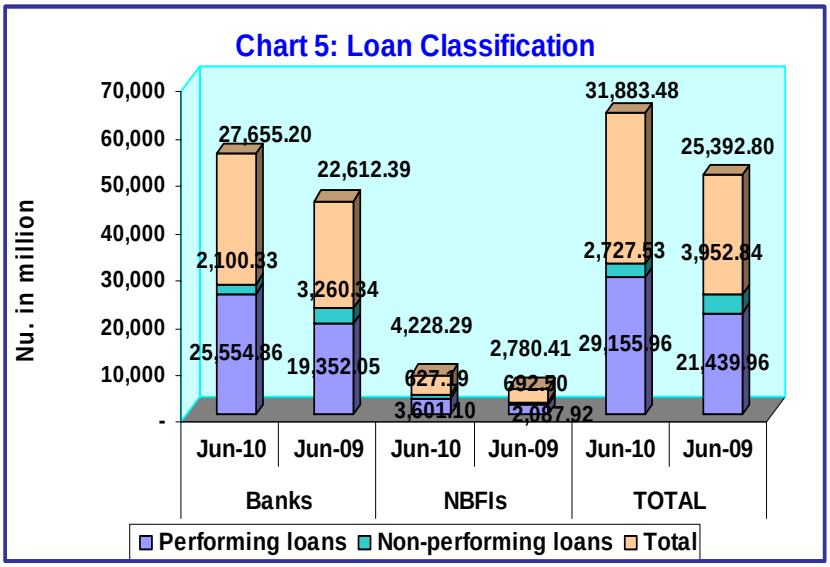


As a result of which, the NPL ratio has improved to 8.55 percent in Q3FY'10 from 15.57 percent a year earlier. Nevertheless, the NPL ratio at 8.55 percent is still high compared to the year end-figure of 2009 (6.99 percent).

The NPLs of both banks and non-banks has decreased from 14.42 percent and 24.91 percent to 7.59 percent and 14.83 percent respectively. Nevertheless, the provisions as a percentage of NPLs of the financial sector have increased from 39.43 percent to 43.56 percent.

6. Consolidated Loan Classification of the FIs

Among the classified loans of the financial sector, bad loans constitute only around 9 percent of the total loans, which was much lower than that of June-2010 (10.15 percent).

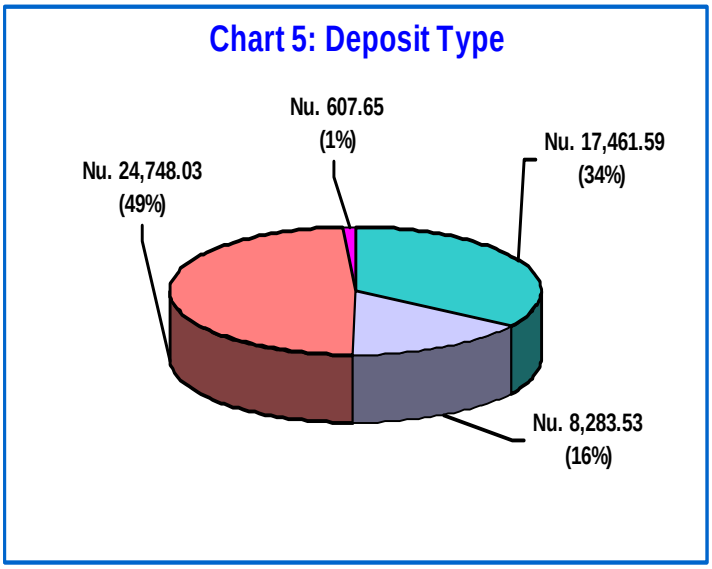


Of the total loans of Nu.27.67 billion of CBs, 92.41 per cent are performing loans and the remaining 7.59 percent are non-performing. Similarly, 85.17 percent of the total loans and advances (Nu.4.23 billion) of the non banks is performing loans and the remaining 14.83 percent is non-performing loans.

7. Liabilities

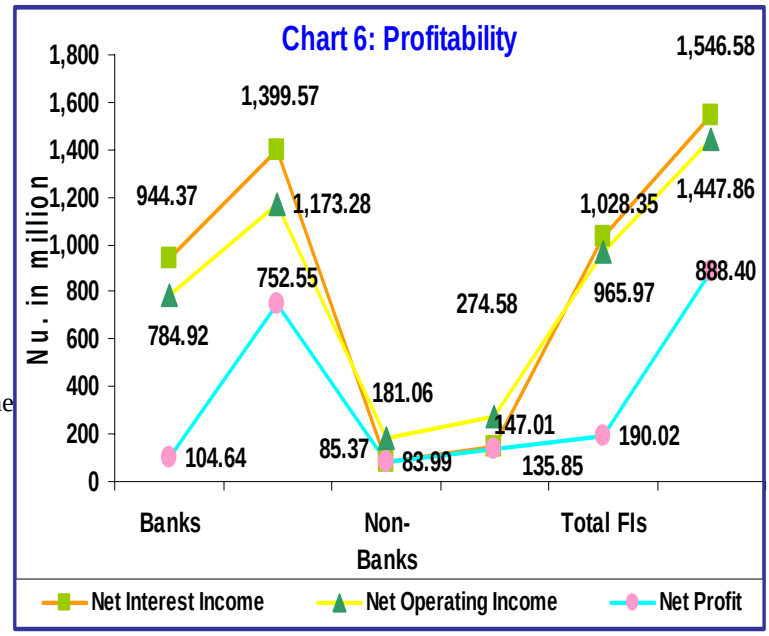
The total liabilities (inclusive of capital and reserves) of the financial sector amounted to Nu.67 billion in Q3FY'10 as compared to Nu.49.39 billion in Q3FY'09. Deposit liabilities of the banks represent the major liabilities with 75.93 percent, followed by capital & reserves with 10.66 percent and borrowings of non-banks with 6.53 percent.

8. Distribution of Deposits by Customer



Total deposits of the banks were Nu.51.10 billion in Q3FY'10, compared to Nu.36.85 billion in Q3FY'09, achieving a growth rate of 38.69 percent. The substantial growth in the deposit base was the result of an increase in the corporate deposits by Nu.9.77 billion or 39.35 percent, particularly in the form of fixed deposits (by 7.54 billion), followed by individual deposits (including foreign currency deposits) by 4.48 billion (by 37.33 percent). Chart 5 shows the types of deposit with the banks in Bhutan. Within deposits, the high-cost term deposits (recurring & fixed deposits) rose by 47.88 percent, from Nu.17.15 billion to Nu.25.36 billion while the low-cost CASA (current & saving accounts) deposits increased by only 30.68 percent to Nu.25.75 billion. Nevertheless, both CASA and long-term deposits have almost equal holding in the total deposits. In terms of deposits by customer holding, corporate deposits[2] accounts for around 68 percent and the remaining 32 percent constitutes the retail deposits. In other words, corporate deposits have dominated the deposit holding pattern of the financial institutions since inception.

9. Profitability



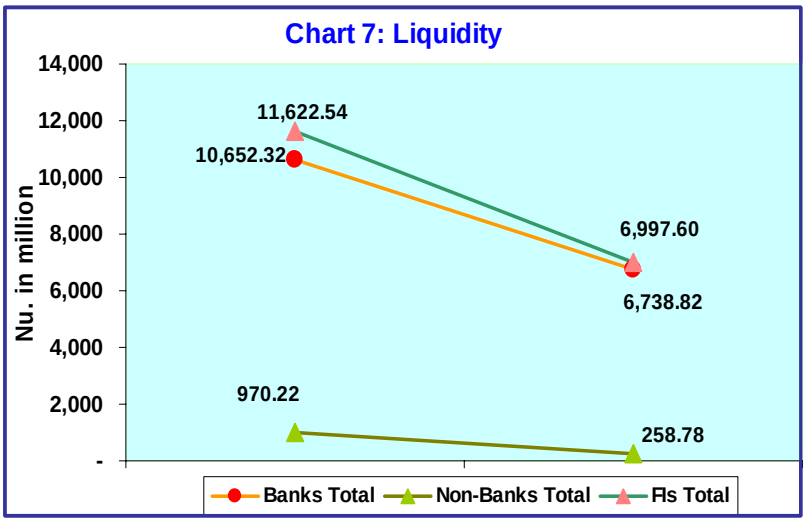
[2] Corporate Deposits – refers to governme .NBFIs and CBs.

Net profit of the Bhutanese financial institutions reached Nu.888.40 million in Q3FY'10 registering 367.54 percent increase over Nu.189.42 million a year ago. The rise in the net profit is mainly attributed to the increase in interest income basically from loan & overdrafts by Nu.0.66 billion. The reduction in funds for delinquencies on loans (by 57.31 percent) also aided the profits of FIs to increase during the period.

Net interest income of the FIs rose to Nu.1.55 billion, up by 50.39 percent from the corresponding quarter of previous year. Similarly, net fee and commission income also grew impressively by 49.89 percent to Nu.1.45 billion.

The net profit of banks has risen to Nu.752.55 million from 104.65 million, majorly from their primary business (loans & overdrafts by Nu.0.55 billion or 37.29 percent) while the non-banks' net profit increased to Nu.135.85 million to Nu.85.37 million.

10. Liquidity



The excess liquidity of financial sector reached all time high in Q3FY'10. The overall excess liquidity of FIs stood at Nu.11.62 billion in Q3FY'10 as against Nu.7 billion in Q3FY'09, reflecting limited investment choices of FIs, besides loans & advances, RMA Treasury Bills and Govt. Treasury Bills. The overall excess liquidity with the commercial banks stood at Nu.10.65 billion, registering 58.07 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 39.40 percent, which is around 19 percent above the regulatory requirement of 20 percent. Meanwhile, the non-banks also experienced an increase in their excess liquidity from Nu.0.26 billion to Nu.0.97 billion during the period. The SLR position of non-banks stood 18.58 percent above the minimum prudential requirement of 10 percent.