

Nepal Investment Bank Limited

ICRA Nepal reaffirms [ICRANP-IR] A rating assigned to Nepal Investment Bank Limited

	Amount Outstanding	Rating Action
Issuer Rating	NA	[ICRANP-IR] A (Reaffirmed)

ICRA Nepal has reaffirmed issuer rating of [ICRANP-IR] A (pronounced ICRA NP Issuer Rating A) assigned to Nepal Investment Bank Limited (NIBL). Instruments with [ICRANP-IR] A Rating are considered as adequate-credit-quality Rating assigned by ICRA Nepal. The rated entity carries average credit risk. The Rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

The rating of NIBL factors in the bank's good market position in Nepal, adequate capitalisation levels (CRAR of 11.51% as on mid-Jan-13), adequate earning profile and its experienced management. These positives are however offset to an extent by the relatively high proportion of real estate exposures in its loan book (19% of total credit portfolio as of mid-Jul-2012), deterioration in asset quality indicators (gross NPLs increased from 0.95% as of mid-Jul-11 to 3.17% as of mid-Jan-13), higher concentration of top depositors in its deposit mix, and the limited Government support that ICRA thinks would be available to the bank in case of need. ICRA's concern on the availability of Government support would have been higher had it not been for the presence of two state-owned entities in NIBL as shareholders: Rastriya Banijya Bank (RBB), and Rastriya Beema Sansthan (RBS), an insurance company. The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

NIBL followed a cautious approach in 2010-11 and 2011-12 and as a result its credit portfolio growth was negligible, however credit portfolio grew by 12% in H1 2012-13, going forward also management intends to grow cautiously till political scenario stabilises. NIBL has relatively higher exposure to real estate sector which accounted for around 16% of NIBL's total credit portfolio as of mid-Jan-13, though declined from 19% as of mid-Jul-2012, against Nepalese banking sector average of 9.5% of total credit portfolio; higher exposure to real estate sector increases bank's portfolio vulnerability and could impact its asset quality profile in case property prices decline significantly. The risk of higher proportion of real estate portfolio is mitigated to some extent by adequate security coverage norms of the bank and management efforts to reduce the proportion of real estate portfolio. NIBL's asset quality profile deteriorated during last 1-2 years, gross NPL's increased from 0.95% as of mid-Jul-11 to 3.17% as of mid-Jan-2013; going forward NIBL's ability to maintain asset quality indicators would be a key rating sensitivity. Further, NIBL's adequate provisioning cover (59% as of mid-Jan-13) and adequate standard asset provisioning (1% of credit portfolio) in Nepalese banking system provides some cushion. As for deposits profile, NIBL has been able to improve the proportion of low cost deposits from 36% as of mid-Jul-11 to 43% as of mid-Jul-12 though still remains marginally lower than Nepalese banking industry average of around 46% as of same date.

NIBL's capitalisation levels are adequate with CRAR of 11.51% and tier I capital of 9.94% as of as on mid-Jan-2013 against minimum regulatory requirement of 10% and 6% respectively. The capitalisation may need strengthening if its asset quality were to deteriorate or if the pace of its expansion were to increase significantly though NIBL had lower credit growth in 2010-11 and 2011-12 and intends to maintain lower growth in short to medium term. The ability of the bank to raise capital from existing promoters or external investors will have a strong bearing on NIBL's capitalisation profile.

As for profitability, NIBL's profit after tax (PAT) declined by 12% in 2011-12 to NRs 1,039 million during 2011-12 from NRs 1,177 million during 2010-12. The decline in profit in 2011-12 was due to significant increase in credit provisioning (as a result of increase in NPLs) and marginal decline in NIMs; bank's



profitability improved in H1 2012-13 with improvement in NIMs and control on credit provisioning. Going forward, bank's ability to maintain its NIMs and control credit provisioning will have strong bearing on its profitability profile.

Bank Profile

Nepal Investment Bank Limited, formerly Nepal Indosuez Bank Limited, was established in 1986 as a joint venture (JV) between Nepalese and French partners. In April 2002, the French partner, Credit Agricole Indosuez, which had a 50% shareholding in the JV, sold off its entire stake in the bank to a group consisting of bankers, professionals, industrialists and businessman, all based in Nepal. At this time, the name of the bank was also changed to the current Nepal Investment Bank Limited. Currently, Mr. Prithvi Pande, Chairman, NIBL, controls, directly and indirectly, 50% of the voting rights of the bank. Two Government institutions, namely Rastriya Banijya Bank and Rastriya Beema Sansthan, hold 15% equity stake each in NIBL, while the remaining 20% is held by the general public.

NIBL, one of the largest private sector banks in Nepal, has a good presence via 42 branches and 68 ATMs. As of mid-July 2012, NIBL has a market share of about 6.1% in terms of deposit base and 6.6% in terms of total advances of banking system in Nepal. NIBL reported a profit after tax (PAT) of NRs 1,039 million during 2011-12 over an asset base of NRs 65,756 million as on mid-Jul-12 against profit after tax of NRs 1,177 million during 2010-11 over an asset base of NRs 58,357 million as of mid-Jul-11. During H1 2012-13 NIBL reported PAT of NRs 891 million. As of mid-Jan-2013, NIBL's CRAR was 11.51% and gross NPLs were 3.17%.

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