

Citizens Bank International Limited

ICRA Nepal assigns [ICRANP] LBBB rating to subordinated bonds of Citizens Bank International Limited

	Amount (NRs million)	Rating Action
Subordinated Bonds	NRs 500 million	[ICRANP] LBBB (Assigned)

ICRA Nepal has assigned rating of [ICRANP] LBBB (pronounced ICRA NP L triple B) to subordinated bonds of NRs 500 million of Citizens Bank International Limited (CBIL). Instruments with [ICRANP] LBBB Rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

The rating of CBIL factors in the bank's adequate franchise (33 branches spread across 14 zones of Nepal), adequate capitalisation (CRAR of 12.69% as of mid-April-2013) and experienced management team. The rating is however constrained by CBIL's limited track record (it started commercial operations in Apr-2007), relatively lower proportion of low cost deposits¹, relatively higher exposure to real estate sector though remains within limit prescribed by Nepal Rastra Bank (NRB), deterioration in asset quality indicators in last two years (gross NPLs increased from 1.18% as of mid-Jul-11 to 3.6% as of mid-Jan-13 though reduced to 2.45% as of mid-Apr-13) and lower profitability vis-a-vis larger banks in Nepal. CBIL's profitability and asset quality indicators shown improvement in Q3 2012-13, however the sustainability of same is yet to be seen. The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

CBIL is a medium size bank with market share of around 2.4% in terms of credit portfolio in Nepal's banking system as on mid-Jul-12. CBIL's credit portfolio grew by 15% in 2011-12 lower than Nepal's banking industry average of 18% for the same period; earlier the bank grew at rapid pace in 2008-09 and 2009-10 while credit growth moderated in 2010-11 due to tight liquidity conditions and lower deposits growth. CBIL has relatively higher exposure to real estate sector though remains within ceiling prescribed by NRB; higher exposure to real estate sector increases bank's portfolio vulnerability and could impact its asset quality profile in case property prices decline significantly. CBIL's asset quality profile deteriorated during last 1-2 years, gross NPL's increased from 1.18% as of mid-Jul-11 to 3.6% as of mid-Jan-2013, though declined to 2.45% as of mid-April-2013, primarily as a result of sharp increase in fresh slippages (fresh slippages were NRs 179 million in 2011-12 and NRs 469 million in H1 2012-13); going forward CBIL's ability to arrest fresh slippages and maintain asset quality indicators would be a key rating sensitivity. Further, CBIL's moderate provisioning cover (60%² as of mid-April-13) and adequate standard asset provisioning (1% of credit portfolio) in Nepalese banking system provides some cushion. CBIL, started its operations in April-2007, has limited track record and as a result its deposits profile remain inferior to larger banks in Nepal and as a result its cost of deposits was also higher; it would be important for CBIL to reduce its cost of deposits to improve its competitiveness. CBIL's low cost deposits accounted for around 30% of total deposits as of mid-Jul-2012 as against Nepalese banking industry average of around 46% as of same date.

CBIL's capitalisation levels are adequate with CRAR of 12.69% and tier I capital of 11.83% as of mid-April-2013 against minimum regulatory requirement of 10% and 6% respectively. However

¹ Current, Saving and Margin Deposits

² Excluding standard asset provisioning



CBIL's internal capital generation has been low due to relatively lower return on net worth and higher dividend distribution and as a result it would need to raise capital for future growth. The ability of the bank to raise capital from existing promoters or external investors will have a strong bearing on CBIL's capitalisation profile. As for profitability, CBIL's profitability has been inferior to larger banks in Nepal due to relatively lower NIMs and non-interest income; CBIL's profitability shown improvement in Q3 2012-13, led by improvement in NIMs, however the sustainability of same is yet to be seen. Going forward, bank's ability to maintain NIMs and strict control on asset quality would be critical for its profitability profile.

Bank Profile

Citizens Bank International Ltd (CBIL) started its commercial operation from April 20, 2007 and is registered as "A" class Commercial Bank with Nepal Rastra Bank (NRB). Its head office is located at Sharada Sadan, Kamaladi, Kathmandu. The bank is promoted by individual/ business and industrial houses and is managed by a team of experienced bankers and professionals. Mr. Rajan Singh Bhandari is the Chief Executive Officer of the bank. The bank's equity share is listed in Nepal stock exchange.

CBIL has presence throughout the country through its 33 branches spread across 14 zones and 31 ATMs. CBIL is a medium size bank with market share of about 2.2% in terms of deposit base and 2.4% in terms of credit portfolio in Nepal's banking system as on mid-Jul-12. CBIL reported a profit after tax of NRs 225 million during 2011-12 over an asset base of NRs 20,069 million as on mid-Jul-12 against profit after tax of NRs 198 million during 2010-11 over an asset base of NRs 16,816 million as on mid-Jul-11. During 9M 2012-13, CBIL reported profit after tax of NRs 229 million. CBIL's CRAR was 12.69% and gross NPLs were 2.45% as on mid-April-2013.

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For further details please contact:

Analyst Contacts:

Mr. Mohan Raj Lamsal (Tel No. +977-1-4169088)
mohan@icranepal.com

Relationship Contacts:

Mr. Deepak Raj Kafle (Tel. No. +977-1-4169088)
drkafle@icranepal.com

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