

NMB Bank Limited

ICRA Nepal assigns Issuer Rating of [ICRANP-IR] BBB and [ICRANP] LBBB rating to subordinated Debentures of NMB Bank Limited

| | Amount (NPR) | Rating Action |
|-----------------------------------|--------------|----------------------------|
| Issuer Rating | NA | [ICRANP-IR] BBB (Assigned) |
| Subordinated Debentures Programme | 500 million | [ICRANP] L BBB (Assigned) |

ICRA Nepal has assigned rating of [ICRANP-IR] BBB (pronounced ICRA NP Issuer Rating triple B) to NMB Bank Limited (hereinafter referred to as NMB). Instruments with [ICRANP-IR] BBB Rating are considered as moderate-credit-quality Rating assigned by ICRA Nepal. The rated entity carries higher than 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.

ICRA Nepal has also assigned rating of [ICRANP] LBBB (pronounced ICRA NP L triple B) to subordinated bonds of NRs 500 million of NMB. 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 ratings of NMB factors in the bank's experienced senior management, adequate capitalisation level (CRAR of 11.63% as on mid-Jan-14), control on asset quality profile (Gross NPL of 1.59% as on Jan-14), adequate earnings profile (PAT/ATA of 1.65% during FY13 and 1.54% during H1FY14), established network in terms of geographical presence. These positives are however offset in part by inferior deposit profile compared to industry average (NMB's CASA deposit of around 31% as on Jan-14), high top depositors & credit concentration (top 20 depositors accounting for 44% of total deposits and top 20 borrowers accounting 30% of total credit as on Jan-14), low seasoning of significant credit book as the bank's credit book grown significantly over last two years (credit book from NPR. 12,071 million as on Jul-12 to NPR. 17,413. million as on Jan-14). The rating is also constrained by unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

Following the up gradation to Class A status, NMB's portfolio has grown at higher pace over past 4-5 years (albeit on a smaller base) with a CAGR¹ of ~30% (July 2009 to Jan 2014). However, the CD² ratio (adjusted for net worth) of NMB continues to remain well under the regulatory limit (68% as on Jan-14) because of healthy growth on deposit as well. As of Jan-14, NMB's credit portfolio was dominated by large ticket size Corporate³ around 36%, Mid-market⁴ & SME around 43%, Retail loan around 16% and deprived sector loan around 4%. Sector wise, NMB's portfolio as on Jan-14 is diversified across loans to manufacturing sector (around 26% of the credit portfolio), trading sector (21%), Construction (including residential home loan) sector (15%), Hospitality and service sector (12%), real estate sector (7%) and others. NMB's exposure to the real estate sector stood at par with Nepalese Commercial Banking Industry average of ~7% as on January 2014. Going forward, the management of NMB has projected a healthy growth rate of ~18-20% over the medium term (next 3 years) with focus on infrastructure and hydropower sector. Further, the management intends to increase the proportion of SME and retail loans in the overall credit portfolio. On asset quality front, NMB has been able to control on asset quality with Gross NPL of 1.59% (Jan-14), recovering from deterioration in FY12 (gross NPL 2.47% on July-12). The Gross NPA generation rate for H1 2013-14 stood at a low 0.23%. Going forward, NMB's ability to maintain assets quality indicators in the increased scale of operations would be a key monitorable.

¹ Compounded annual growth rate

² Credit to Deposit ratio, maximum 80% as per NRB regulations

³ Loan more than 50 million to a single obligor group

⁴ Loan in between 20-50 million to a single obligor group



NMB's capitalisation level is adequate with CRAR of 11.63% as of mid-Jan-2014 against minimum regulatory requirement of 10%⁵. In order to support the future growth plans, NMB is coming out with its maiden tier II bonds⁶ issuance of NPR 500 million. The rate of internal capital generation (PAT/Net worth) has remained low despite healthy profitability (PAT/Net worth around 15% over past 1-2 years) owing to high rate of dividend pay-out to investors in past. As per ICRA estimates, current level of capital⁷ will support the modest growth plans of management (CAGR 20%) over medium term (next 3 years); maintaining overall capitalization in the range of around 11-13% with solvency indicators range bound at 3-5%, if the bank is able to maintain the NPLs at present level. In the long run, the ability of NMB to raise additional capital from its existing/ external investors will have a strong bearing on NMB's growth prospects and overall capitalization profile.

NMB has adequate earning profile as reflected in PAT/ATA of ~1.5% and return on net worth of ~15% during last 1-2 years. The profitability is supported by healthy NIMs (around 3-3.5%), primarily a result of lower cost of deposits (less than 6% as on January 2014), and adequate non-interest income (around 1.2% in H1 2013-14). It is also supported by relatively lower operating expense (around 1.75% of ATA). Going forward, bank's ability to maintain its NIMs in a competitive landscape and maintaining asset quality profile would be critical for earnings profile.

As on Jan-2014, promoters own 52% and public shareholding was 48%. NMB has an 8 members Board of Director (4 representing promoter groups, 3 from among public shareholders and 1 independent director) & top level management with significant experience across Banking & Financial Institutions. NMB has outsourced its internal audit function with the provision of quarterly audits and is in the process of setting up in-house internal audit department for strengthening internal control.

Bank Profile

NMB Bank Ltd (previously Nepal Merchant & Banking Finance, a class C finance company established in 1996), a class A commercial bank, has been in operation for over fifteen years. It was upgraded from a Class 'C' status to Class A status in May 2008 and has been functioning as a Commercial Bank since then. It was registered as joint –Venture Company with foreign promoter M/s Young Leon Real Estate, Malaysia holding 12.67% stake. Shareholding pattern of the Bank constitutes of 52% promoter holding and 48% public shareholding. Similarly, individual/institutional shareholding ratio of NMB stands at 70:30 as of July 2013. The major institutional promoters of the bank include Employees Provident Fund, Nepal and Young Leon Real Estate Company, Malaysia while the major individual promoters include representation from Rathi Group, Golyan Group, Vishal (Agarwal) Group and Murarka Group. These groups are all major industrial houses in Nepal with involvement in manufacturing businesses.

NMB has presence throughout the country through its 28 branches and 30 ATMs. NMB has market share of about 1.71% in terms of deposit base and 1.29% of total advances of Nepalese Banking Industry as on January 2014. NMB reported a profit after tax of NPR 361 million during 2012-13 over as assets base of NPR. 25,126 million as on Jul-13 against profit after tax of NPR. 52.22 million over assets base of NPR 18,495 million as on Jul-12. During H1 2013-14, NMB reported a profit after tax NPR. 198 million over an asset base of NPR 26,129 million as at Jan-14. As of July 2013, NMB's CRAR was 12.71% and gross NPLs were 1.82%. As regards technology, NMB is using Pumori banking software. A disaster recovery system (DRS) of the Bank has also been established in Rupandehi district.

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⁵ Minimum regulatory CRAR required for dividend payment is 11%

⁶ 5.5 years bond with 6.5% p.a. interest rate.

⁷ Including proposed tier II bonds of NPR 500 million



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