

## Everest Bank Limited

### Ratings

Facilities*	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Issuer Rating	-	-	Revised to CARE-NP A+ (Is) and Withdrawn

CARE Ratings Nepal Limited (CRNL) has revised the issuer rating assigned to Everest Bank Limited (EBL) to 'CARE-NP A+ (Is)' from 'CARE-NP AA- (Is)' and has removed the rating from credit watch with negative implications. CRNL has also subsequently withdrawn the issuer rating upon the bank's request to withdraw the rating. The withdrawal has been done in line with CRNL's policy and regulations on the withdrawal of rating.

### Key Updates

The revision in rating assigned to Everest Bank Limited (EBL) factors in the continuous moderation in the bank's capitalization profile over FY21-9MFY23 (FY refers to the twelve-months period ending mid-July; 9M refer to the nine months period ending mid-April), resulting in thin cushion above regulatory requirements. Overall Capital Adequacy Ratio (CAR) of EBL had declined to 11.89% (minimum regulatory requirement of 11%) at the end of FY22 from 12.48% at the end of previous fiscal year. This was mainly on account of relatively higher growth in the bank's risk weighted assets vis-à-vis capital accretion during the same period. Although, following issue of subordinated debentures of Rs. 2,000 Mn during 9MFY23, EBL's overall CAR slightly improved to 12.22% as on mid-April 2023. Nonetheless, the bank's capitalization levels remained well below the industry average of 13.01% as on mid-April 2023. Furthermore, the bank's tier 1 capitalization also has been on a declining trend over FY22-9MFY23 as it declined to 10.78% as on mid-July 2022 from 11.24% as on mid-July 2021. Tier 1 capitalization has further declined to 10.15% as on mid-April 2023. Lower capitalization levels could limit a bank's ability to absorb losses, should they materialize, especially given the increasing uncertainty surrounding credit recovery in the country. Hence, a declining trend in capitalization levels with thin cushion, particularly in overall CAR, from regulatory minimum requirement remains a key rating constraint for the bank.

Furthermore, the rating also factors in the decline in asset quality reflective in the sharp increase in Gross Non-Performing Loans (GNPL) ratio of the bank at the end of 9MFY23. GNPL ratio of EBL elevated to 0.70% as on mid-April 2023 as compared to 0.12% as on mid-July 2023. Although EBL's GNPL ratio still remains on the lower side vis-a-vis peers, a substantial deterioration in asset quality in a short period could harbingers further slippages over the near term and remains a key rating constraint. These slippages can be attributed to the substantial growth in unseasoned credit of the bank over FY20-FY22, facilitated to some extent by the various relaxations/concessions provided by NRB amid the covid19 pandemic which expired in mid-July 2022. More slippages in asset quality over the near term remains high for the Nepalese banking sector, particularly in light of the restrictive Working Capital Loan Guideline introduced by Nepal Rastra Bank (NRB) with more stringent NPL recognition norms coupled with slower than expected pace of economic growth impacting repayment abilities of borrowers across the spectrum. Also given the likelihood of increased provisioning requirements amid higher delinquent loans, downward pressure on capitalization levels remain concern from credit perspective.

The bank has reported satisfactory financial performance in FY22 and sequential improvement in 9MFY23. Total income of the bank grew 33% year-on year in FY22. The growth trend continued in 9MFY23 with 48% y-o-y growth supported mainly

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

by higher interest income amid increasing yields on advances. Similarly, net income of the bank also has been on a rebound trail over FY22 and 9MFY23. The bank achieved net interest income of Rs. 5,587 Mn in 9MFY23 compared to Rs. 3,506 Mn in FY22. However, the profitability still remained lower than the pre-pandemic levels. Amid increasing GNPL levels and corresponding increase in impairment charges, the banks' distributable profits could remain checked over the near term.

### **About the bank**

EBL is an "A" Class Licensed Institution from Nepal Rastra Bank (NRB) and listed on Nepal Stock Exchange. It was incorporated on October 16, 1994. EBL has a Technical Service Agreement (TSA) with PNB which provides management support from Punjab National Bank (PNB) on deputation. As on July-16, 2022, 59.23% of the shares (including PNB's 20.03%) is held by the promoters and remaining 40.77% is held by the public.

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