

Everest Bank Limited

Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings ¹	Rating Action
Issuer Rating	NA	CARE-NP AA (Is) [Double A (Issuer)]	Assigned

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP AA (Is)' to Everest Bank Limited (EBL). Issuers with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry very low credit risk.

Detailed Rationale & Key Rating Drivers

The rating assigned to EBL derives strength from its long track record of operations, strong promoter group backed by institutional promoter along with experienced and seasoned management team. The rating also factors in comfortable capitalization levels of the bank as on mid-April 2025 backed by strong internal capital generation, which is expected to be sufficient to meet the regulatory limits as well as support its projected credit growth trajectory. The rating particularly takes note of the bank's ability to maintain superior asset quality vis-à-vis industry peers on a sustained basis and comfortable solvency profile reflective in its low net NPL to net worth ratio as on mid-April 2025. The rating factors in healthy earning and profitability profile of the bank in FY24 (Audited, FY refers to the twelve-month period ending mid-July) and 9MFY25 (Unaudited, refers to the nine-month period ended mid-April 2025), comfortable liquidity profile, diversified geographical presence and coverage of branch network, improving CASA deposits and relatively lower cost of funds.

The rating, however, is constrained by high portfolio concentration in borrowers and depositors, intense competition and exposure to regulatory risk related to industry.

Going forward, the ability of the bank to maintain its asset quality while managing growth in operations, maintain adequate cushion in capital adequacy indicators from the minimum regulatory requirement levels, and manage the impact of any other regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Long track record, strong promoter group backed by institutional promoter and experienced management team

Established in 1994, EBL has operational track record of over three decades. As of mid-April 2025, EBL has a diversified presence across Nepal, operating 132 branches, 167 ATMs, 4 extension counters, 32 revenue collection counters, and 49 branchless banking units nationwide.

EBL is a joint venture with Punjab National Bank Limited (PNB; rated 'CARE AAA; Stable' for Tier II Bonds by Care Ratings Limited (CARE Ratings)) with 20.02% equity stake held by PNB. EBL has entered into Technical Service Agreement (TSA) with PNB, which is renewed every five years and under which PNB provides for management support on deputation of higher management executives. One of the six board of directors of EBL is nominated from PNB and two upper-level executives, DCEO and DGM, are deputed from PNB. In terms of asset size, PNB is the second largest in terms of total business (advances + deposits) in India as on September 30, 2024. Post amalgamation of the erstwhile Oriental Bank of

¹Complete definition of the ratings assigned are available at <https://www.careratingsnepal.com/> and other CARE publications

Commerce and the erstwhile United Bank of India with PNB on April 01, 2020, the pan-India presence of PNB has risen substantially, furthering its existing strong franchise with branch network and customer base.

EBL is a professionally managed bank under the overall guidance of the Bank's Board of Directors (BoD) and seasoned management team. Dr. Bal Gopal Baidya, Chairman, is a former member of National Planning Commission. The bank is led by Sudesh Khaling, Chief Executive Officer (CEO), who has experience of over three decades in banking sector. He is supported by an experienced management team.

Comfortable capitalization levels supported by internal accruals

EBL has consistently maintained comfortable levels of capitalization supported by strong internal capital generation resulting in sufficient cushion over the regulatory requirements. CET-I ratio of the bank stood at 9.81% as on mid-April 2025 with buffer of 2.81% over the regulatory requirement of 7%. Slight moderation in CET-I ratio in recent quarters as compared to prior levels of more than 10% was on account of credit growth of ~11% y-o-y in FY24 and much higher pace of credit expansion of ~21% at the end of 9MFY25 (over FY24 level), while the bank continued to pay cash dividends in both fiscals. Overall CAR stood at 12.67% as on mid-April 2025, well above the regulatory requirement of 11%. This improved from 12.37% at the end of FY24 amid recent issuance of Tier II debentures amounting to Rs. 3 Bn in March 2025. The capitalization levels of the bank have remained adequate over the years and are likely to be supported by steady internal accruals over the medium term.

Healthy earning and profitability profile

EBL's earning and profitability profile stood healthy supported by its growing scale, controlled operating cost and relatively lower credit cost. Over FY21-FY24, EBL's total income grew at a compounded annual growth rate (CAGR) of ~24%, supported by steady growth in loans and advances driven by its continued expansion of branch network. Despite the moderation in Net Interest Margin (NIM) in the recent period, net profit of the bank increased by ~10% y-o-y to Rs. 3,703 Mn in FY24, mainly resultant from rationalized operating cost and low impairment charges aided by its ability to maintain low GNPL ratios. EBL's ROTA stood strong vis-a-vis peers at 1.36% in FY24. Net profit surged ~32% y-o-y to Rs. 3,458 Mn during 9MFY25 and ROTA strengthened to 1.49% (annualised) in 9MFY25, reflecting improved operational efficiency and stable asset quality.

Sustained superior asset quality vis-à-vis industry

Robust risk management practices implemented by EBL including proper risk assessment and credit sanctioning, credit scoring model and periodic monitoring of credit portfolio has aided EBL to sustain superior asset quality vis-a vis peers. EBL's GNPL ratio peaked at 0.79% as on FY23 end. This has sequentially improved since and improved to 0.64% at the end of 9MFY25. The bank reported lowest GNPL ratio among 20 commercial banks consecutively at the end of FY23, FY24 and 9MFY25. Controlled historical asset quality profile maintained by the bank is indicative of the bank's relatively efficient risk management ability and robust recovery policy. Also, the bank's low exposure towards construction sector (~1.5% advances at the end of 9MFY25) has aided bank to maintain asset quality better than industry average even during period of challenges related to elevated GNPL levels faced by the industry. Supported by lower GNPL levels, the bank's solvency profile stood robust reflected by its low net NPL to net worth ratio of 1.80% as on mid-April 2025, in similar lines as FY24 level. Also, Overall delinquencies (30+ days past due) of EBL stood relatively low at ~5% at the end of FY24 and 9MFY25, considerably better than peers. Going forward, the ability of the bank to limit slippages and maintain its asset quality at envisaged levels will be a key rating monitorable.

Comfortable liquidity profile

EBL maintained comfortable liquidity profile with SLR of 24.35%, average CRR of 4.60% and net liquidity of 27.81%, well above the regulatory requirement of 12%, 4% and 22% respectively as on mid-April 2025.

Improving CASA deposits and relatively lower cost of funds

The industry's CASA deposits have shown an upward trend, rising from 35.55% at the end of FY23 to 41.98% by the end of 9MFY25. In comparison, the bank's CASA ratio stood relatively lower at 36.35% as of 9MFY25 end. However, this was offset by a higher proportion of fixed deposits i.e. ~72% with maturities of less than one year, where the weighted average interest rate ranges from 4.08-4.25%, contributing to a lower cost of funds. This cost advantage supports the bank's competitiveness under "base rate plus" lending model in terms of bank's pricing power and profitability in a highly competitive environment. As of mid-April 2025, the bank reported one of the lowest base rates in the industry, ranking 3rd overall.

Key Rating Weaknesses

Higher portfolio concentration among top borrower groups and depositors

Deposit concentration by top 20 institutional depositors stood high at ~27% and ~31% of total deposits respectively as on mid-July 2024 and mid-April 2025. However, the comfort is taken from strong institutional depositors of the bank which include government enterprises and prominent businesses. The bank has high concentration on loan portfolio as top 20 single borrower accounts for ~21% of total advances as on mid-July 2024 and mid-April 2025. Top 20 group borrowers' exposure accounted for ~32% and ~35% of total advances respectively at the end of FY24 and 9MFY25. A higher concentration in the corporate sector (~53% of the advances portfolio as of mid-April 2025) heightens the risk of non-performing advances due to potential slippages in a few accounts. Therefore, a more diversified portfolio concentration is preferable to mitigate such risks.

Intense competition and exposure to regulatory risk related to industry

Currently there are 20 Commercial Banks (as on mid-April 2025), including three major state-owned banks, operating with total 5,083 branches all over Nepal (based on monthly statistics published by NRB for mid-April 2025). EBL had 132 branches along with head office as on same date. Industry (Class A Commercial Banks) had achieved net interest income of Rs. 139 Bn during 9MFY25, where EBL's share on net interest income was 4.83%. Intense competition in the banking industry results in a highly dynamic market with volatile market shares. Unhealthy competition in the interest rates remains a prominent challenge. New technology-based services and its growing demand among customers adds on to the challenges for the Nepalese banking sector.

The banking industry of Nepal is exposed to changes in various regulatory measures issued by NRB from time to time. During last couple of years, NRB had changed to CD ratio mechanism from previous Credit to Core Capital plus Deposit (CCD) ratio measures, increased the minimum requirement of liquid assets that the BFIs must hold and implemented working capital guidelines. Cumulatively these led to muted credit growth in FY23 and FY24. NRB capped interest rate spread of commercial banks at 4% from 4.4%, which has also added to the lower profitability of banks in FY23, FY24 and 9MFY25 apart from increased impairment.

Industry Outlook

The major challenges currently faced by the banking sector in Nepal is centred around declining asset quality. High and rising GNPLs are leading to stressed profitability and adding downward pressure on banks' capitalization. CARs of Class A banks declined from 13.37% as on mid-July 2023 to 12.35% as on mid-April 2025 against the backdrop of deterioration in GNPL ratio from 2.98% to 5.05% over the same period. Credit expansion in Nepal took off substantially and in more

aggressive manner during the pandemic era with loans & advances portfolio of Class A banks growing by a compounded annual growth rate of ~19% over FY19-FY22, leading to a higher proportion of unseasoned credit in their books. Introduction of contractionary policies helped check credit growth in FY23. The enforcement of stringent working capital guidelines, combined with a high-interest rate environment adversely affected the repayment capacity of borrowers across the credit spectrum. Also, muted GDP growth in the country (real GDP growth of 2% and 3.90% in FY23 and FY24 as compared to 4.8% and 5.60% in FY21 and FY22 respectively) and lower than expected government expenditures has prolonged the difficult road to recovery for various sectors including construction, steel, cement, automobiles, retail and SME sectors. Robust remittance inflows and revival of tourism has supported the growth in private consumption levels evident from credit growth of 8.42% during 9MFY25 compared to 4.53% during the comparative period. Capacity utilization of manufacturing units has shown a slight improvement compared to the corresponding period. This coupled with softened interest rates has benefitted repayment ability among the borrowers, however the impact of the same at root level consumers particularly retail and SME sectors is yet to be seen as indicated by rising GPNL ratio.

Net Interest Margin (NIM) of the banking sector has contracted owing to credit check amid reduced cushion in capitalization levels and rise in interest suspense accounts due to increasing share of advances overdue by more than 365 days. Additionally, deposit growth has outpaced credit growth, leading to excess liquidity being parked in lower-yielding Treasury bills and government securities. Credit costs have also trended upward, reflected in higher impairment charges and loan write-offs with a growing share of Non-Banking Assets. These factors have collectively dampened profitability and reduced distributable earnings, thereby constraining internal capital generation. To partially mitigate these pressures, the central bank has introduced several regulatory relaxations under its FY25 Monetary Policy and subsequent reviews regarding 0% countercyclical buffer applicable for FY24 and FY25, inclusion of portion of accrued interest receivable on pass loan in Tier-II capital, reduction of loan loss provisioning on pass loan and approval for issuances of perpetual non-cumulative preference shares to support capitalization levels of bank to an extent.

About the Bank

Everest Bank Limited (EBL), an "A" Class Licensed Institution from Nepal Rastra Bank (NRB), listed on Nepal Stock Exchange, was incorporated on October 16, 1994 and obtained license to operate as an "A" class commercial bank from NRB on April 26, 2006. EBL is a joint venture with PNB with 20.02% equity stake held by PNB. EBL also has a Technical Service Agreement (TSA) with PNB, which is renewed every five years and was recently renewed on Nov, 2021. The bank has an asset size of Rs. 324,077 Mn as on April 13, 2025.

(Rs. in Mn)

Brief Financials	FY22 (A)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total Income	17,356	24,025	24,700	17,152
PAT	2,480	3,362	3,703	3,458
Total Assets	225,381	250,689	295,744	324,077
GNPL (%)	0.12	0.79	0.71	0.64
NNPL (%)	0.04	0.37	0.26	0.24
ROTA (%)	1.13	1.41	1.36	1.49

A: Audited; UA: Unaudited

About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over three decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

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