

Global IME Bank Limited

ICRA Nepal reaffirms [ICRANP-IR] A-@¹ rating to Global IME Bank Limited.

Facility	Amount	Rating Action (September 2015)
Issuer Rating	NA	[ICRANP-IR] A- /rating under watch with negative implications (Reaffirmed)

ICRA Nepal has reaffirmed the rating of **[ICRANP-IR] A-@** (pronounced ICRA NP Issuer Rating A-@) to Global IME Bank Limited (GIBL). The rating is under watch with negative Implications. 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 under watch with negative implications for GIBL is on account of the expected stress in GIBL's asset quality indicators in the post-earthquake scenario. Although bank has been able to manage overall delinquencies post-earthquake, delinquencies in the schedule loan has been significantly increase in Jul-15 compared to Apr-15 which indicates deterioration in the borrower repayment capacity. Maintaining of the asset quality, going forward would remain a key rating sensitivity and any significant deterioration in the asset quality could lead to a downward pressure on the assigned rating.

The assigned rating factors in GIBL's healthy asset base relative to its moderate track record of around 9 years, adequate franchise² leading to good market positioning with 3.73% share in Nepalese banking sector credit on mid-June-15 and moderate capital base compared to revised regulatory capital framework (NPR 5,012 million as on mid-Jul-15³ vs. NPR 8,000 million to be met by FY17); which were aided mainly by a series of mergers that the bank went through over past few years. The rating also factors in bank's adequate capitalisation profile (CRAR⁴ of 12.99% as on mid-Jul-2015), moderate asset quality indicators (Gross NPLs⁵ were 2.19% as of mid-Jul-15) though the same remains to be tested in a post-quake scenario, healthy deposit profile (CASA⁶ deposits were 48% of total deposits on mid-Jul-15, comparable to industry average) resulting in moderate cost of funds (4.14% on mid-Jul-15) vs. peers, and an experienced management team. These positives are however offset to an extent by GIBL's relatively higher operating expenses (2.34% of ATA as of mid-Jul-15) which dilutes part of the advantage of good net interest margins (NIMs were 3.54% as of mid-Jul-15) resulting into moderate profitability profile (PAT/ATA⁷ of 1.56% and return on net worth of ~14% as on mid-Jul-15), unstable political conditions and uncertain operating environment that banks in Nepal are currently facing.

Reported assets quality of GIBL witnessed some improvement during FY15 with Gross NPLs decreasing from 2.55% as of Jul-14 to 2.19% as of Jul-15. However, the bank witnessed significant increase in delinquency levels in the schedule loans in Jul-15 compared to Apr-15, indicating deterioration in the borrower repayment capacity in the post earthquake scenario. The reported assets quality were also benefitted by book write offs and NBA⁸ bookings in FY15 amounting to 0.41% of the credit book, disregarding which the NPLs would have been 2.61% for FY15. Solvency position of GIBL, deteriorated marginally over last one year with Net NPA/Net worth of ~4.58% on Jul-15 compared to 4.48% on July-14. GIBL's delinquency levels remain moderate at 1.64% on Jul-15. ICRA Nepal expects that asset quality would further come under pressure going forward due to damages caused by earthquake, impacting borrowers' ability to make repayments in a timely manner which is likely to surface in FY16 in the form of incremental slippages.

¹ Rating under watch with negative implications

² Franchise includes 88 Branches, 4 Extension Counters, 35 branchless banking centres, 90 ATMs and 1 representative office in Australia as on mid-Jul-15.

³ Mid-Jul-2015 data are unaudited; all calculations are based on management provided data

⁴ Capital to Risk (Weighted) Assets Ratio

⁵ Non-Performing Loans

⁶ Current & Savings accounts

⁷ Profit after Taxes as a percentage of Average Total Assets

⁸ Non-Banking Assets



As for impact of earthquake on operations of the bank, GIBL branches' portfolio in the earthquake affected areas accounted for ~70% of the credit portfolio and ~80% of the deposits as on April-15. Although several of these businesses (end users of loans) are situated outside the earthquake affected areas, the bank witnessed increase in delinquent accounts by around 162% during May-15 (first month post-earthquake) compared to mid-Apr-15. However, as on Jul-15 the bank has been able to reduce the delinquent accounts which still remains slightly higher to pre earthquake levels (1.16% of principal loans were delinquent as of mid-April-15 which moved up to 3.04% as of mid-May-15 and has subsequently come down to 1.64% as of mid-Jul-15). Further, although GIBL able to manage its overall principal delinquencies in pre-earthquake range with some increment of about 43%, overdue on schedule loan (viz. term loan, home loan, HP loan & other term loan) has been increased substantially by around 225% compared to mid-Apr-15. The increment in the delinquencies on account of schedule loan indicates deterioration in the borrower repayment capacity post-quake. The bank's ability to maintain the asset quality in light of its exposure to sectors/segments⁹ impacted by earthquake and the expected stress in exposures in unaffected geographies/segments due to overall moderation in economic activity as well as linkage among businesses/borrowers remains to be seen. Going forward, ICRA Nepal will closely monitor the extent of damages on GIBL's financial and solvency profile; which could have a bearing on the rating assigned.

GIBL's credit portfolio of NPR 50,227 million on mid-Jul-15 accounted for ~4% of Nepalese banking industry credit. GIBL's portfolio growth CAGR¹⁰ over past 5 years (ending FY15) remains higher at 33%, mainly due to the fact that the bank underwent three consecutive mergers from FY12-FY14, the last one in FY14 being with another Class A commercial bank. Such frequent mergers have increased its scale of operations compared to its track record of around 9 years. However, the credit growth over next 1-2 years is likely to get stunted on account of lack of credit demand following recent earthquake and moderation in economic activity. However, network of 54 branches in unaffected regions and reconstruction drive post-quake would support credit growth to some extent. The credit portfolio of the bank was primarily composed of large corporate loans (~42%), followed by Business/SME loans (~34%) and Retail loans (~24%). GIBL's portfolio remains concentrated towards trading/manufacturing loans in corporate segments accounting for ~47% of portfolio, rest being towards various loan categories including real estate, construction, consumption loans, deprived sector lending etc. Due to portfolio concentration towards retail and SME loans, credit portfolio concentration remains lower among peers with top 20 borrowers accounting for 16% of credit as on mid-Jul-15.

ICRA Nepal has also noted that earthquake has not caused significant stress on GIBL's deposits/liquidity profile¹¹. However, sustainability of inflow in deposits post-quake (increased by ~NPR 2.5 bn in ~3 months post-quake) easing CCD¹² position of the bank (~76% as of Jul-15 compared to ~79% as of Apr-15 against a regulatory maximum of 80%), remains to be seen. The bank's funding profile remains comparable to Nepalese banking industry average; as reflected in proportion of low cost CASA deposits at around 48% of total deposits as of mid-Jul-15 as against industry average of around 47%. As a consequence, GIBL's cost of deposits at 4.14% as of Jul-15 remains moderate among peers; however higher than larger, established private sector banks of Nepal which lowers its competitive positioning among top tier banks. Furthermore, deposit concentration of top 20 depositors remains higher at around 29% as of Jul-15.

GIBL's reported CRAR was 12.99% on Jul-15 (vs. 12.38% in July-14) as against regulatory requirement of 10%. The banks' comfortable capitalisation profile as of now could help it absorb damages arising out of earthquake and maintain comfortable solvency profile compared to most of its peers. Probable deterioration in profit levels over next 2-3 years following the earthquake remains a challenge in internal capital generation. GIBL would also need to increase its paid-up capital to NPR 8 bn (from existing NPR 5.01 bn) by FY17 as required by Monetary Policy of FY16/17. Over the long term, the ability of the bank

⁹ Tourism, hydropower, real estate/construction, consumer loans, housing loans and loan book of micro finance entities

¹⁰ Compounded Annual Growth Rate

¹¹ GIBL's deposits were NPR 60.18 billion as of mid-July, 2015 vs. NPR 57.74 billion as of mid-April, 2015

¹² Credit to Core Capital and Deposits



to raise capital from existing promoters or external investors will have a strong bearing on GIBL's capitalisation profile.

GIBL's profitability profile, though inferior to larger banks in Nepal, have remained adequate over past few years despite increase in net worth over these years through mergers and internal capital generation. Bank has reported a PAT/Net-worth of ~15% over last three years (~14% for FY15) while its PAT/ATA was ~1.6% for these years. GIBL's profitability remains supported by healthy NIMs (3.5-4%) benefitted by higher yield on advances among peers (due to higher exposure to retail and SME segment) and adequate fee based income (1.36% of ATA as of Jul-15), though higher operating expense (~2.3-2.4% of ATA) act as a drag to profitability. In the aftermath of April-2015 earthquake, ICRA Nepal expects GIBL's profitability profile to remain under pressure over next 2-3 years owing to likely decline in credit demand affecting growth and rise in provisioning expenses following incremental slippages.

Bank Profile

Global IME Bank Limited (GIBL), previously Global Bank Limited, was incorporated in 2007 as A class Commercial Bank. Following the merger with IME finance Ltd and Lord Buddha Finance Ltd (both "C" class finance institutions) in July 2012, the name of the Bank was changed to Global IME Bank Limited. In the year 2013, 2 banks viz. Social Development Bank (National level development bank) & Gulmi Bikas Bank (regional –one district level development bank) merged with Global IME. The Bank completed merger with a Class A Commercial Bank viz. Commerz and Trust Bank Nepal Limited on April 2014. Current shareholding pattern of the Bank constitutes of the promoters holding 70% of the shares while 30% is floated for the public. Among the promoter's holding, ~24% shares are held by institutional promoters and ~46% by individual promoters. The shares of the Bank are listed in Nepal Stock Exchange with current market capitalization of about NPR 15,976 million (based on August 31, 2015 prices). The registered and Corporate Office of the Bank is located at Panipokhari, Kathmandu.

GIBL has presence throughout the country through its 88 branches, 4 extension counters, 35 branchless banking centres and 90 ATMs (Also 1 representative office in Australia) making it one of the largest private sector bank in terms of geographical coverage. GIBL has market share of about 3.57% in terms of deposit base and 3.73% of total advances in Nepal as on mid-June 2015. GIBL reported a profit after tax of NPR 1,006 million during 2014-15 over an asset base of NPR 69,370 million as on Jul-15 against NPR 974 million during 2013-14 over an asset base of NPR 60,018 million as on Jul-14. As of mid-Jul-2015, GIBL's CRAR was 12.99% and gross NPLs were 2.19%. In the technology frontier, GIBL is using FINACLE Banking software for the day to day operations which is linked to a Management Information System. A disaster recovery system (DRS) of the Bank has also been established in the Bhairahawa (Western Region of Nepal).

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