

press release

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Standard Chartered Bank Nepal receives ICRANP-IR AAA rating by ICRA Nepal

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] AAA (pronounced ICRA NP issuer rating triple A) to Standard Chartered Bank Nepal Limited (SCBNL). The rating is considered to have the highest degree of safety regarding timely servicing of financial obligations. Such issuers carry the lowest credit risk. The issuer rating is only an opinion on the general creditworthiness of the rated entity and not specific to a particular debt instrument.

This is the highest possible rating and Standard Chartered Nepal is the only bank to have received this rating so far.

The rating assignment factors in the bank's strong parentage (70% subsidiary of Standard Chartered Group¹) along with the existence of a technical services agreement (TSA) with SCB-UK. This ensures strong parental support, the Group's oversight and deployment of best practices in SCBNL's operations. The rating is further supported by the bank's healthy deposit profile with high share of low-cost current and savings accounts (CASA, at ~55% in mid-July 2019 compared to ~43% for industry). This reflects the lowest cost of funds among private sector players (4.17% for FY2019, 6.48% for industry) and hence remains its key competitive strength. ICRA Nepal also takes comfort from the bank's strong risk management practices and underwriting controls, resulting in superior asset quality indicators with low non-performing loans (NPLs) of 0.15% as of mid-July 2019 (0+ dpd of ~1.5%). The bank's established track record (since 1987) and healthy capitalisation profile (Capital to risk weighted assets ratio - CRAR of ~20% as of mid-July 2019) also support the rating action.

The rating also takes into consideration the bank's healthy profitability indicators with the return on assets (RoA) and a return on net worth (RoNW) of 2.83% and ~17% for FY2019. This remains primarily supported by healthy net interest margins (NIMs) and strong fee-based income among its peers, along with low credit costs.

SCBNL's association with the Standard Chartered Group and TSA with SCB-UK provides access to management and technology support from the Group. Many of the SCBNL's multinational clients have been banking with the Group globally and hence provided credit facilities in Nepal within their globally sanctioned limits. Further, the SCB Group company has also extended Intra Group Guarantees on a need basis to

SCBNL to support the funding to large corporates that are beyond its risk appetite. This reflects well on the stance of the Group to facilitate future growth and provide requisite support to SCBNL. Moreover, the bank has been following the systems and policies of the Group that ensures prudent underwriting norms and hence extensive customer screening. Representation in SCBNL's board from the Group creates a strong board profile for the bank. Additionally, the management team comprises seasoned bankers whose long banking experience has also been considered while assigning the rating.

The bank is also comfortable in terms of capitalisation to handle any near-term stress in asset quality, which also has been factored positively into the rating.

On the asset quality front, the bank has been consistently reporting one of the lowest NPLs in the industry, with a further improvement in recent years to 0.15% as of mid-July 2019 (industry average of 1.40%) from 0.32% as of mid-July 2016. The improvement was supported by low fresh generation in the last three years (~0.1%) and modest recoveries (~40%). Moreover, overall 0+ days delinquencies also remain much lower at 1.54% as of mid-July 2019 (4.83% a year ago). With a provision cover of ~66% as on the same date, the bank's impact on solvency (net NPA/net worth) also remains low at 0.19%.

The bank fares strong on the deposit front with high share of stable/low-cost CASA deposits (~55% as of mid-July 2019 against ~43% for industry). This leads to the lowest cost of funds among the private sector banks (4.17% in FY2019 against 6.48% for the industry) and hence remains its key competitive strength in the base rate-based lending regime. As for capitalisation, SCBNL reported a CRAR of 19.90% and a tier I capital of 18.52% as of mid-July 2019 (both as per Basel III), much comfortable compared to the regulatory minimum of 11% and 8.5%, respectively (both including capital conservation buffer (CCB) of 2.5%). The bank's capitalisation is also comfortable against the recent increment in tier-I requirement to 10.5% (to be met by mid-July 2020) including the 2% countercyclical buffer requirements for FY2020.

On the profitability front, SCBNL's return indicators, in terms of the RoA, remain strong at 2.83% in FY2019 (1.96% for industry). The profitability remains supported by healthy NIMs of 3.99% for FY2019 (3.82% for industry), backed by its low cost of funds. Given the bank's sizeable non-fund based business, fee-based income also remains strong at 1.92% of the average total assets (ATA) while the operating costs remain moderate at 1.87% in FY2019.

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