



Commercial Banks to lose more than 4 Arba in profits due to new NRB guideline

As Per the monetary review published in Mangsir 11, 2079, NRB has directed commercial banks to maintain their interest rate spread at 4%. Previously, the interest rate spread limit was 4.4%.

Net Interest spread is basically the difference between the interest banks receive from loan holders and the interest paid to the deposit holders. In Nepal, Net interest income accounts for a huge portion of commercial banks' income. The reduction in net interest spread will significantly impact the total income generated by these banks and reduce their profitability.

We have tried to calculate the impact of the new regulation on the profitability of banks.

Key assumptions used:

1. Banks will have to reduce the interest rate spread to 4% which will impact the Net interest income earned and in turn impact their profitability.
2. 3-month average interest spread rate is considered (instead of the Ashwin end interest spread rate)
3. Reduction in Net interest income will reduce tax implication

Impact on the profitability of Commercial Banks in Nepal due to reduction in Interest Rate Spread

NPR in Million

SN	Ticker	Q1 Average	% Spread to be reduced by	Q1 79-80 Net Interest Income	Impact on Net Interest Income	Q1 79-80 Net Profit	Revised Profit	% Change in Profit
1	NICA	4.4%	-8.9%	3,410	(303)	1,757	1,545	-12%
2	CBL	4.4%	-8.3%	1,153	(95)	415	348	-16%
3	MBL	4.3%	-7.5%	1,470	(110)	451	374	-17%
4	EBL	4.3%	-7.3%	1,885	(138)	862	765	-11%
5	NABIL	4.3%	-7.0%	3,677	(259)	1,572	1,390	-12%
6	SRBL	4.3%	-6.8%	1,435	(97)	166	98	-41%
7	CCBL	4.3%	-6.3%	1,076	(67)	319	271	-15%
8	SBI	4.3%	-6.1%	1,298	(79)	627	572	-9%
9	KBL	4.3%	-6.0%	1,972	(119)	1,001	918	-8%
10	PRVU	4.2%	-5.8%	1,973	(115)	705	625	-11%
11	PCBL	4.2%	-5.4%	1,885	(103)	874	802	-8%
12	MEGA	4.2%	-5.3%	1,800	(95)	509	443	-13%
13	SCB	4.2%	-5.2%	1,414	(74)	811	760	-6%
14	LBL	4.2%	-5.1%	1,512	(78)	503	449	-11%
15	SBL	4.2%	-4.8%	2,129	(103)	498	426	-14%
16	CZBIL	4.1%	-3.5%	1,456	(51)	501	465	-7%
17	GBIME	4.1%	-3.4%	3,203	(108)	1,190	1,114	-6%
18	BOKL	4.1%	-3.2%	1,226	(40)	281	253	-10%
19	HBL	4.1%	-1.4%	1,807	(25)	532	515	-3%
20	SANIMA	4.1%	-1.3%	1,601	(21)	548	533	-3%
21	ADBL	4.0%	-1.0%	1,840	(18)	221	208	-6%
22	NCCB	4.0%	0.0%	1,127	-	517	517	0%
23	NMB	4.0%	0.0%	2,054	-	904	904	0%
24	NBL	3.9%	0.0%	1,907	-	604	604	0%
25	NIB	3.9%	0.0%	2,130	-	1,141	1,141	0%
					Total	17,510	16,041	-8%



Key Takeaways

- Commercial Bank's Net Profit at the end of the Q1 79-80 was ~17.5 billion. After the implementation of the new policy, the bank's Net profit will reduce by 8.4% amounting to ~16 billion in the next quarter. Other things remain the same, the sole impact of the reduction of Interest spread from 4.4% to 4 %, commercial banks are on estimated to lose approximately 4.5 billion (1.5 billion in 3 quarters)
- Currently, only 4 out of 25 commercial banks (NBL, NCCB, NIB, and NMB) have an interest rate spread of less than 4% spread rate. The remaining 21 commercial banks are earning an Interest Rate Spread of more than 4%. The new regulation will reduce their profitability.
- As shown in the table above, the net profit of SRBL, MBL, and CBL will be impacted by more than 15%. Similarly, the net profit of CCBL, SBL, MEGA, NICA, NABIL, PRVU, EBL, and LBL will be impacted by more than 10%.
- NICA has the highest average interest spread (4.39%) in comparison to other banks, whereas NBL has the lowest average interest spread (3.90%).