Muktinath Bikas Bank Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Issuer Rating	NA	CARE-NP BBB (Is) [Triple B (Issuer Rating)]	Reaffirmed

CARE Ratings Nepal Limited (CRNL) has reaffirmed the issuer rating of 'CARE-NP BBB (Is)' [Triple B (Issuer Rating)] assigned to Muktinath Bikas Bank Limited (MNBBL). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to MNBBL derives strength from its established track record of operations, experienced board and management team supported by diversified geographical coverage. The rating also positively factors in the bank's adequate capitalization levels backed by steady internal capital generation, which is expected to be sufficient to meet the regulatory limits as well as support its projected credit growth trajectory over the medium-term. The rating also takes note of satisfactory earning profile of the bank in FY25 (FY refers to the twelve-month period ending mid-July 2025) and H1FY26 (FY refers to six-month period ending Mid- Jan 2026), satisfactory uptick in CASA ratio and moderate liquidity profile.

The rating, however, is constrained by weekend asset profile with relatively high Gross Non-Performing Loans (GNPL) ratio and overall delinquencies. The banking industry of Nepal has been reporting sequentially higher GNPLs over the past three fiscals amid a myriad of factors notwithstanding the lingering impact of relaxations provided during the pandemic era coupled with the relatively sluggish pace of economic growth over this period. The persistence of a challenging macroeconomic and operating environment for the banking sector amid a turbulent political scenario further heightens concerns regarding the sector's incremental asset quality trajectory, exerting further pressure on profitability and capitalization levels. Additionally, the recent riots following nationwide protests on September 8–9, 2025, resulted in widespread damage to both public and private properties. The financial losses incurred by business establishments, along with the potential disruption to the broader economic operating environment, could exert pressure on banks' asset quality in the near term which remains a key monitorable from credit risk perspective. The rating also factors in intense competition and exposure to regulatory risk related to industry. Nonetheless, MNBBL's performance over the past three years has been relatively steady and satisfactory factoring industry headwinds. Consequently, the bank's return indicators, albeit moderated as compared to historical trend, remain favourable as compared to industry peers.

Going forward, the ability of the bank to manage growth while maintaining profitability levels and without compromising on asset quality would be critical for the bank's earning profile. The bank's ability to improve capital adequacy indicators with comfortable cushion 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.

[1]Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established track record, experienced board and management team and diversified geographical coverage

Operating since 2007, MNBBL has more than 18 years of operational history and an established market presence in Nepal. MNBBL is a professionally managed bank under the overall guidance of the Board of Directors (BoD) which includes professionals with wide experience in the financial and economic sector. Mr. Khim Prasad Malla is the Chairman of MNBBL. The management team is led by Mr. Pradyuman Pokharel, Chief Executive Officer, who has around three decades of experience in banking sector and is aptly supported by an experienced management team.

MNBBL has diversified geographical presence in Nepal with 179 branches and 22 ATMs as on mid-January 2026 across the country. The branches are spread over all seven provinces of Nepal.

Adequate capitalization levels

Tier I ratio of the bank improved to 10.84% as on mid-July 2025 compared to 9.46% as on mid-July 2024 amid higher internal capital generation visa-vis increase in risk weighted assets. Consequently, overall capital adequacy ratio also improved to 12.88% as on mid-July 2025 (minimum requirement of 11%) from 11.69% as on mid-July 2024. The bank has decent cushion in the capitalization levels as compared to the regulatory capital requirement of 8.5% and 11% for Tier I and total CAR, respectively. As on Mid-Jan 2026, however, overall CAR moderated to 12.59% following distribution of cash dividend of ~5% amounting to Rs. 329 Mn in September 2025. The bank's ability to manage asset quality and growth in business while maintaining enough cushion in its capitalization levels will remain critical from credit perspective. The bank is in process of issuing perpetual preference shares of Rs. 1,000 Mn, which is expected to provide additional cushion to its capitalization levels.

Satisfactory earning profile and profitability levels

MNBBL's financial performance remained fairly steady in FY25 and H1FY26. The bank continues to demonstrate strong earnings resilience and balance-sheet adaptability in spite of a softer interest-rate environment and higher credit costs. Total income declined by 18% y-o-y to Rs. 11,757 Mn, largely reflecting lower yields on advances as interest rates eased. Notably, the impact of reduced interest income was effectively mitigated by a sharp ~32% reduction in interest expenses, resulting in a 7.98% y-o-y growth in net interest income and a contained moderation in NIM to 3.50% (FY24: 3.30%), underscoring the bank's pricing discipline and liability-side management. While impairment charges slightly increased to Rs. 794 Mn in FY25 in response to asset quality pressures, the bank's proactive provisioning approach reflects a prudent and forward-looking risk management framework, strengthening balance-sheet buffers against potential stress. Despite elevated credit costs, MNBBL sustained healthy absolute profitability, reporting PAT of Rs. 1,350 Mn during FY25 which continues to support internal capital generation. Return indicators slightly increased with ROTA at 1.03% and RONW at 12.29% as on FY25; nevertheless, these metrics remain reasonable and supportive of the bank's credit profile, particularly in the context of a normalization phase following a cyclical upturn. Operating efficiency remained stable, aided by a modest improvement in the cost-to-income ratio, reflecting continued focus on cost rationalization and operational discipline. Overall, MNBBL's FY25 performance highlights its capacity to absorb earnings volatility, maintain core profitability, and strengthen provisioning coverage during a challenging operating environment. The bank's demonstrated ability to manage margin pressures, sustain operating efficiency, and reinforce asset-quality buffers is viewed as a credit positive, supporting its rating profile despite near-term moderation in return indicators.

Satisfactory CASA ratio

MNBBL maintained 40.78% CASA deposits in FY25, improvement from 33.40% in FY24 compared to industry average of 42.43% and 34.23%, respectively. The higher CASA ratio led to decreased cost of funds at 4.90% in FY25 resulting into base rate of 6.91% in FY25. Lower cost of funds against its peers imposes competitive advantage for the bank, especially in the "base rate plus lending rate" regime. MNBBL's CASA proportion further improved in H1FY26 to 52.88% (better than industry average of 51.75%). The bank's ability to maintain the improving trend in CASA mix leading to favourable cost of funds vis-à-vis peers for a sustained period remains to be seen.

Moderate liquidity profile

MNBBL has a moderate liquidity profile marked by Cash Reserve Ratio (CRR) of 4.27%, Statutory Liquidity Ratio (SLR) of 21.49% and Net Liquidity Ratio of 24.17% as on mid-January 2026 (CRR: 4.19%, SLR: 24.26% and Net Liquidity Ratio: 25.57 as on Mid-July, 2025) against regulatory requirement of 4%, 10% and 22% respectively which remain satisfactorily above the regulatory norms. Furthermore, the bank's liquidity profile remains moderate from the asset-liability mismatch perspective with positive cumulative mismatches as of mid-January 2026.

Key Rating Weakness

Weak asset quality

MNBBL continues to exhibit increasing trend in GNPL ratio, in line with the banking sector of Nepal over the past 2 years or so. However, MNBBL's GNPL ratio continues to remain better vis-à-vis industry peers. Its Gross Non-Performing Loans (GNPL) levels have spiked to 3.75% as on mid-Jan 2026 compared to 2.97% as on mid-July 2025 amid lower-than-expected economic growth and government expenditure, despite sequential revival of economy as compared to previous periods. SME and retail sector continue to face major challenges in terms of repayment ability. However, MNBBL has historically maintained a relatively better asset quality profile vis-à-vis the industry reflective of the bank's more efficient risk management setup. MNBBL had better GNPL ratio of 3.75% as on mid-Jan 2026, compared to the industry average of 5.75% for class B financial institutions. MNBBL's ability to improve the asset quality indicators going forward would remain a key rating monitorable aspect.

Competition from other banks and financial institutions

Currently there are 17 Development Banks, operating with total 1,128 branches all over Nepal (based on monthly statistics published by NRB for mid-January 2026). MNBBL has 179 branches along with head office as on same date. Industry (Class B Development Banks) had achieved total interest income of Rs. 25,674 Mn during H1FY26 with Rs. 11,635 Mn net interest income; MNBBL's share on interest income is ~19.56% (Rs. 5,022 Mn) and 20.39% share on net interest income (Rs. 2,373 Mn) for the same period. MNBBL's share on net interest income increased to 20.39% during H1FY26 from 19.59% in FY25. Despite being established national development bank in the industry, it is challenging for MNBBL to maintain current market share and expand its business, due to high competition among bank and finance companies, existence of large number of Development bank along with Commercial banks and finance companies conducting similar kind of businesses and they lend at lower interest rate as well as they offer wider banking services than development banks.

Exposure to regulatory risk related to industry

The Banking and Finance industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. In past, finance companies faced pressure from NRB for capital increment to Rs. 800 Mn from Rs. 200 Mn. NRB had changed the minimum regulatory capital of national level development banks from FY24 end onwards. National levels development banks are required to maintain tier 1 capital adequacy ratio of 8.5% and overall, CAR of 11% from mid-July 2024 onwards, which is in line with the requirement for Class A commercial banks in Nepal. Furthermore, NRB had changed to CD ratio mechanism from existing Credit to Core Capital plus Deposit (CCD) ratio measures. CD ratio needs to maintain below 90% from mid-July 2022 from earlier provision of 85% for CCD. Risk weights of certain loans including personal overdrafts, TR loans, hire purchase loans for personal purpose, margin lending, etc. have been fluctuating between 100% to 150% via interim changes in monetary policies by the NRB. Unfavourable changes depending on the bank's exposures are likely to put downward pressure on capital adequacy ratios of the MFIs and limit their ability for significant credit expansion, at least over the near term. Furthermore, increased interest rates will likely put upward pressure on both lending and deposit interest rates of the MFIs over the near term.

Applicable Criteria

Rating Methodology - Banks

Rating Methodology - Issuer Rating

About the Bank

Muktinath Bikas Bank Limited (MNBBL) is a national level class "B" Development bank and started its commercial operations from January 07, 2007. MNBBL was upgraded into a national level development bank in July 2015 after acquisition of Civic Development Bank. The bank is listed on Nepal stock exchange and promoter and public shareholding was in the ratio of 51:49 as on Mid-July, 2022.

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