

Kamana Sewa Bikas Bank Limited

Rating

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BBB- (Is) [Triple B Minus (Issuer Rating)]	Revised from CARE-NP BB+(Is)

CARE Ratings Nepal Limited (CRNL) has revised the issuer rating of Kamana Sewa Bikas Bank Limited (KSBBB) to 'CARE-NP BBB-(Is)' from 'CARE-NP BB+ (Is)'. 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 revision of the issuer rating assigned to KSBBB factors in the bank's strengthened credit profile in FY26, with improved capitalization and solvency profile, earnings quality and funding structure, and with asset quality holding up better than the wider industry, despite falling interest rates that compressed lending yields sector-wide and persistent repayment stress among borrowers. Stronger internal capital generation and additional Tier I issuance in FY26 provide adequate headroom for growth and shock absorption. The bank's profitability indicators continue to remain healthy, even as income contracted, underpinned by lower funding costs aided by a decisive shift toward low-cost deposits, which mitigated the contracted lending yields and resulted in a fairly stable net interest margin. Furthermore, lower credit costs and higher non-interest income lifted returns above earlier periods. Nonetheless, the earnings gain reflects funding management and contained credit costs rather than revenue growth and so remains sensitive to the interest rate cycle and asset quality. KSBBB also continues to maintain superior asset quality indicators vis-à-vis industry peers: while the Gross Non-Performing Loan (GNPL) ratio increased marginally on a year-on-year basis, partly reflecting the impact of recently introduced regulatory guidelines, the reported GNPL level remained materially below the industry average as of FY26 end; declining early-stage delinquency and watchlist exposure point to moderating slippages; discretionary provisions above requirements and one of the lowest net NPL burdens relative to net worth among peers provide improved balance sheet cushion. The rating also continues to factor in the bank's long operating track record, its experienced and professional management team responsible for a strong internal control framework, sustained growth in deposits and advances, comfortable liquidity profile, and a healthy low-cost deposit mix that supports a relatively lower cost of funds. Notwithstanding the above strengths, the rating, however, remains constrained by the KSBBB's elevated, albeit manageable, GNPL ratio. The rating further factors in structural challenges facing the banking sector, including inherently competitive nature of Nepal's banking sector, concentration and credit risks associated with lending activities, and the susceptibility of the sector's performance to changes in regulatory requirements and macroeconomic conditions.

Going forward, the ability of the bank to profitably grow scale of operations, improve asset quality profile, 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

Experienced board members and management team supported by moderate geographical coverage

KSBBB is a national level class "B" Development bank formed after the merger of Kamana Bikas Bank and Sewa Bikas Bank on August 4, 2017 (Pre-merger, both entities operating since 2007). KSBBB has a reasonable geographic presence

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

in Nepal with 123 branches, including one extension counter and 66 ATMs covering all 7 provinces as on mid-July 2026. It is a professionally managed bank under the overall guidance of the Board of Directors (BoD) led by Chairman Mr. Sudeep Acharya, who has banking sector experience for more than one decade. The senior management team is also composed of seasoned bankers and is led by Mr. Dinesh Thakali, CEO, who has more than one decades of banking experience.

Improved capitalization level

KSBBL has consistently maintained adequate capitalization levels to meet regulatory requirements and support sustained credit growth. It has demonstrated steady credit expansion while continuing to distribute cash dividends over the years. Despite these outflows, the bank maintained adequate capital buffers, with overall Capital Adequacy Ratio (CAR) exceeding regulatory requirements by 3.16% as of mid-July 2026. Both Tier I and overall capital adequacy ratio improved as compared to previous period. This capital strength is supported by robust internal capital generation, reflected in the bank's relatively healthy Return on Total Assets (ROTA). The capital position strengthened further during FY26, driven by earnings accretion and the successful issuance of Rs. 350 Mn perpetual non-cumulative preference shares qualifying as Additional Tier I capital. Consequently, the overall CAR improved from 12.58% during FY25 to 14.16% during FY26, while Tier I ratio showed marked improvement, reflected by 177 bps rise to 11.68% during FY26. The current capital position provides adequate headroom to support the bank's growth strategy and withstand potential asset quality pressures. Going forward, KSBBL's ability to maintain comfortable capital buffers while supporting balance sheet expansion and preserving asset quality will remain key rating monitorable.

Improved earnings performance supported by lower credit costs despite margin pressures

KSBBL demonstrated resilient earnings performance during FY26 despite operating in a declining interest rate environment that exerted pressure on lending yields and overall revenue generation. During FY26, KSBBL's total income stood at Rs. 5,678 Mn, declining from Rs. 6,361 Mn in FY25. This was mainly owing to lower interest rates in the market leading to lower interest income despite growth in advances y-o-y. Yield on advances declined by ~170 bps y-o-y in FY26. The impact of lower lending yields was partly mitigated by an improvement in funding costs. Cost of deposits decreased y-o-y by ~140 bps in FY26 amid decrease in interest rate in the industry and also by material increase in proportion of low cost deposits compared to previous year. The decline in asset yields was mostly mitigated by lower funding costs, resulting in fairly steady profitability indicators. KSBBL's Net Interest Margin (NIM) stood at 3.32% in FY26, compared to 3.34% in FY25, reflecting a steady spread, even in a declining interest rate regime. Furthermore, net profitability was also supported by lower impairment charges and improved operational efficiency. Impairment charges declined to Rs. 142 Mn during FY26 from Rs. 418 Mn during FY25, reflecting relatively contained asset quality stress compared with the broader industry. Consequently, the company's profit after tax increased to Rs. 909 Mn during FY26 from Rs. 670 Mn during the previous year. The improvement in earnings translated into healthy return indicators, with Return on Total Assets (ROTA) increasing to 1.24% in FY26 from below unity in FY25. While profitability metrics may witness pressure over the near term owing to muted lending yields, KSBBL's ability to maintain healthy earnings generation, supported by a lower cost of funds, controlled credit costs, and stable business growth, remains a key rating strength.

Improvement in solvency position and comfortable liquidity profile

KSBBL's tangible networth base strengthened following the successful issuance of Tier I instruments of Rs. 350 Mn in FY26, along with its strong profitability level. Further, the bank's improving risk profile was further reflected in the moderation of overdue bucket in bank's 30 days past due loans to 13.15% at FY26 end from 13.97% at FY25 end (16.9% at FY24 end). KSBBL's liquidity profile remained healthy during FY26, as reflected by comfortable liquidity metrics and

sizeable regulatory buffers. The bank maintained an SLR of 23.22% as of July 16, 2026 (FY25: 22.79%), more than twice the prescribed regulatory requirement of 10%. Similarly, the CRR stood at 4.20% (FY25: 4.12%), remaining marginally above the stipulated minimum requirement of 4%. The bank's liquidity position is further evidenced by its Net Liquidity Ratio of 25.12% at FY26-end, improving from 24.49% in FY25 and remaining comfortably above the regulatory threshold of 20%. The sustained maintenance of liquidity buffers reflects the bank's conservative treasury and asset-liability management practices amid a challenging operating environment.

Growth in loans & advances and deposits with decent market share and diversified credit portfolio

KSBBBL's credit profile derives strength from its established market franchise, consistent business growth, and diversified credit exposure. The bank recorded credit growth of 6.29% during FY26, surpassing the industry average growth of 5.69%. Simultaneously, deposit mobilization remained steady with a growth of 5.10%, indicating sustained depositor confidence and supporting funding stability.

The bank's growing penetration within the Class-B banking segment is evidenced by the improvement in its market shares across both loans and deposits. KSBBBL has 10.08% and 10.45% market share in terms of deposit base and loan portfolio respectively of Class-B financial industry at the end of FY26 (10.03% and 10.34% respectively in FY25), based on monthly data published by NRB. Furthermore, the loan book exhibits reasonable granularity and diversification, reducing susceptibility to adverse developments in any specific sector. The diversified credit profile is expected to aid the bank in navigating cyclical fluctuations and preserving earnings resilience during periods of economic stress.

Improved CASA deposits

KSBBBL continues to demonstrate a healthy funding profile, characterized by a high proportion of granular and low-cost deposits. During FY26, the bank reported an improvement in its CASA ratio to 53.79% from 36.43% a year earlier. Consequently, the bank's deposit mix improved, strengthening funding stability and lowering the blended cost of deposits. The bank's total deposit base expanded by 5.10% y-o-y to Rs. 66,744 Mn as of FY26, broadly comparable with industry growth levels. The healthy CASA accretion highlights the bank's ability to deepen customer relationships and leverage its franchise strength to mobilize relatively stable and low-cost funding. This remains a key competitive advantage, particularly in an operating environment where funding costs continue to influence lending spreads and profitability.

The improved funding profile is expected to support margins, strengthen liquidity buffers, and enhance the bank's capacity to fund future loan growth through internally generated liabilities. Nonetheless, the sustainability of the CASA ratio and the bank's ability to maintain a favourable funding mix amid intensifying competition for deposits will remain monitorable from a credit perspective.

Key Rating Weaknesses

Moderate asset quality indicators amid sectoral stress, albeit remaining superior to industry benchmarks

KSBBBL continues to maintain better asset quality indicators vis-à-vis the industry average, notwithstanding the moderation observed over the last few years amid a challenging operating environment. The bank's GNPL ratio increased to 3.78% as of mid-July 2026 from 3.49% as of mid-July 2025. Nevertheless, the reported GNPL remained materially lower than the industry average of 5.77% at FY26 end, indicating the bank's comparatively prudent underwriting practices and risk management framework. Additionally, the bank's slightly higher GNPL ratio at FY26 end on a y-o-y basis is also partly owing to the recently introduced guideline by the central bank wherein a loan categorized as a non-performing loan remains in the NPL category until the borrower completes six consecutive months of continuous principal and interest repayments after clearing past dues. Adjusting for this curing requirement, the bank's GNPL ratio at FY26 end was 3.31%,

which is better than 3.49% reported at FY25 end (no such curing in practice in FY25. During FY25, such loans would be moved to watchlist category with 5% provisioning). Further, Total delinquency ratio (30+ days past due) improved to ~13.15% as on mid-July 2026, with around 9.37% in the watchlist category (31 to 90 days). This has decreased from mid-July 2025 levels wherein total delinquency ratio was 13.97% and 10.48% of the total portfolio was in the watchlist category. The improvement in early-stage delinquency indicators provides some comfort on the potential moderation of future slippages.

Competition from other banks and finance companies

Currently there are 17 Development Banks, operating with total 1,112 branches all over Nepal (based on monthly statistics published by NRB for mid-July 2026). KSBBL has 123 branches along with head office as on same date. Industry (Class B Development Banks) had achieved total interest income of Rs. 50,937 Mn during FY26 with Rs. 24,482 Mn net interest income; KSBBL's share on interest income is 10.19% and 9.87% share on net interest income for the same period. Nevertheless, the operating environment remains highly competitive, characterized by the presence of numerous development banks, commercial banks, and finance companies offering comparable financial products and services. Commercial banks, in particular, benefit from larger balance sheets, broader product offerings, and relatively lower funding costs, enabling them to compete aggressively on pricing.

Despite these competitive pressures, KSBBL has demonstrated resilience in maintaining a notable share of industry earnings, underpinned by its established regional presence, diversified customer relationships, and familiarity with local markets. The bank's ability to preserve its market position while sustaining growth amid intense competition will remain a key monitorable from a credit perspective.

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 level 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, subdued growth in loans and advances, reduced interest rate spread and increase in credit cost due to rising NPL levels and tightening of provisioning requirements by NRB is likely to put downward pressure on the bank's profitability indicators.

Industry Outlook

The operating environment for Nepalese Class B development banks remains stable, supported by comfortable liquidity, declining funding costs and improving external-sector indicators. Nevertheless, elevated credit risk, subdued credit demand, compressed lending spreads and uneven capital buffers across institutions continue to constrain the sector's overall credit profile. As of mid-July 2026, development banks reported aggregate deposits and loans of Rs. 661.91 Bn and Rs. 551.46 Bn, respectively, with a credit-to-deposit ratio of 84.10%. Sector liquidity remained comfortable, as

reflected in net liquidity and SLR ratios of 28.06% and 25.95%, respectively, both remaining above the regulatory minimum. Asset quality, however, remains a key monitorable. The sector's aggregate NPL ratio increased to 5.77% as of mid-July 2026 from 4.63% as of mid-July 2025, indicating continued stress in borrower repayment capacity despite the improving macroeconomic environment. The rise in delinquencies is likely to sustain elevated credit costs, restrict profitability and limit internal capital generation. Nonetheless, the aggregate capital adequacy ratio improved to 14.57% at mid-July 2026, while the core capital adequacy ratio stood at 11.73%, providing a reasonable sector-level cushion. Capitalization remains uneven across individual institutions, however, with weaker entities remaining more vulnerable to further asset-quality deterioration.

Declining interest rates have moderated borrowing costs but have also intensified pressure on margins. The sector's average base rate declined to 6.12% as of mid-July 2026 from 7.57% a year earlier, while the average spread narrowed to 4.15% from 4.06%. The combination of weak credit absorption, competitive loan pricing and higher interest reversals on stressed accounts is expected to keep core profitability under pressure in the near term.

The broader macroeconomic environment offers some support. Nepal's economy grew by an estimated 3.85% in FY26, while average inflation remained contained at 3.08%. Remittance inflows increased by 37.1%, gross foreign-exchange reserves rose to Rs. 3,897.67 Bn, equivalent to 19.6 months of merchandise and services imports, and the balance of payments recorded a surplus of Rs. 1,027.04 Bn. Deposits across banks and financial institutions expanded by 13.9%, whereas private-sector credit grew by a comparatively modest 6.5%, underscoring the continued weakness in credit demand despite abundant system liquidity. Furthermore, the larger fiscal outlay, increased capital spending, reconstruction-led activities and income-tax relief announced for FY27 are expected to provide impetus to domestic demand and economic growth. Effective implementation of these measures could support credit expansion and improve borrower repayment capacity, thereby facilitating a gradual moderation in asset-quality pressure over the medium term.

Applicable Criteria

[Rating Methodology - Banks](#)

[Rating Methodology - Issuer Rating](#)

About the Company

Kamana Sewa Bikas Bank Limited (KSBBBL) is a national level class "B" Development bank formed after the merger of Kamana Bikas Bank Limited (established in FY07) (National level development bank) and Sewa Bikas Bank Limited (established in FY07) (10 district level development bank) on August 04, 2017. At the end of FY26, KSBBBL has Rs. 3,682 Mn paid up capital, which is distributed among promoters and public shareholders in the ratio of 51:49.

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