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EQUITY RESEARCH FF-ER-2083-02 • NEPSE BANKING & NFRS ANALYSIS

The Rs. 28 Arba Accounting Gap: NEPSE Commercial Bank Q1 Net Profit vs. NRB Distributable Profit Briefing (FY 2083/84)

By **FreeFin Research Desk** • Updated Mangsir 2083 (November 2026) • 11 min forensic briefing

✓ **Primary-Source Checked:** Rates, statutory references, and worked examples cross-checked against official FY 2083/84 (2026/27) public documents.

Rs. 19.14 Arba
20 Class 'A' Banks Combined Q1 Net Profit (+45.4% YoY)

- Rs. 9.07 Arba
Cumulative Sector Distributable Pool (Q1 FY 2083/84)

Rs. 26.87
Top Non-Annualized Q1 DPS (Everest Bank — EBL)

1. The Retail Investor Paradox in Mangsir–Poush AGM Season

Every autumn during **Q1 quarterly report releases and AGM Book Closure announcements**, thousands of retail NEPSE investors screen banking stocks using a single headline ratio: **Earnings Per Share (EPS)** derived from NFRS Net Profit.

In **Q1 FY 2083/84**, Nepal's 20 Class 'A' commercial banks delivered an eye-catching headline rebound, generating **~Rs. 19.14 Arba in combined Net Profit** (up ~45.4% YoY from ~Rs. 13.04 Arba), fueled by moderating quarterly impairment charges and loan recoveries. Yet right beneath the income statement, the sector's aggregate **Distributable Profit pool sat at roughly negative Rs. 9.07 Arba** — creating an over **Rs. 28 Arba divergence** between accounting earnings and legally payable dividend capacity.

> **Core Statutory Rule for NEPSE Bank Analysis:** Under BAFIA and Nepal Rastra Bank (NRB) Unified Directives, a commercial bank *cannot* declare bonus shares or cash dividends out of raw NFRS Net Profit. Dividends are paid strictly out of **Distributable Profit** after mandatory statutory appropriations and Regulatory Reserve transfers.

2. Forensic Bridge: How NFRS Net Profit Turns Into NRB Distributable Profit

Why does a bank reporting positive Net Profit end up with zero or deeply negative Distributable Profit? Beneath the Statement of Profit or Loss lies the **Statement of Distributable Profit** mandated by NRB Directive 4:

STEP IN NRB APPROPRIATION BRIDGE	DIRECTION	ACCOUNTING & REGULATORY MECHANISM
1. Opening Retained Earnings	Baseline (+/-)	Accumulated unappropriated surplus (or deficit drag from prior-year NPL absorption)
2. Current Period NFRS Net Profit	**Add (+)**	Accrual net profit after NFRS 9 Expected Credit Loss (ECL) impairment & corporate tax
3. Statutory General Reserve (BAFIA)	**Deduct (-20%)**	Mandatory 20% transfer of Net Profit until General Reserve reaches 2x Paid-Up Capital (then 10%)
4. CSR (1%), Staff Training & Exchange Fluctuation	**Deduct (-)**	1% CSR Fund + 25% of foreign exchange revaluation gain locked in Exchange Fluctuation Fund
5. Regulatory Reserve: Excess Loan Loss Provision	**Deduct (-) [Major Drag]**	Whenever rule-based **NRB Directive 2 Loan Loss Provision** (1% Pass, 5% Watchlist, 25% Substandard, 50% Doubtful, 100% Bad) exceeds model-based **NFRS 9 Impairment**, the shortfall must be carved out of Retained Earnings into a non-distributable Regulatory Reserve.
6. Regulatory Reserve: Accrued Uncollected Interest (AIR)	**Deduct (-) [Major Drag]**	NFRS recognizes accrued interest revenue, but NRB forbids distributing interest not yet collected in cash (net of tax/bonus). Rising overdue installments immediately lock profit inside Regulatory Reserves.
7. Non-Banking Assets (NBA) & Deferred Tax Assets	**Deduct (-)**	Auctioned collateral taken onto bank books (NBA) & net Deferred Tax Assets are 100% locked from payout
= Net Distributable Profit / (Deficit)	**True Dividend Pool**	Divided by total shares = **Distributable Profit Per Share (DPS)**

3. Selected Class 'A' Bank Scorecard (Q1 FY 2083/84 Snapshot)

Notice how ranking banks by **Headline Net Profit** versus **Non-Annualized Distributable Profit Per Share (DPS)** reveals two completely different tiers of balance-sheet health:

BANK (TICKER)	Q1 NET PROFIT	REPORTED NPL	Q1 DISTRIBUTABLE DPS	BALANCE-SHEET READ
Everest Bank (EBL)	~Rs. 1.25 Arba	~0.50%	▲ +Rs. 26.87	Cleanest loan book; minimal Regulatory Reserve leakage converts earnings directly to dividend power.
Standard Chartered (SCB)	~Rs. 67.14 Cr	~1.83%	▲ +Rs. 22.19	Conservative underwriting & high capital adequacy preserve superior cash/bonus payout capacity.
Siddhartha Bank (SBL)	~Rs. 85.16 Cr	~3.70%	▲ +Rs. 21.96	Sharp provisioning recovery (+163% YoY profit) lifted both earnings and retained distributable cushion.
Nabil Bank (NABIL)	~Rs. 2.56 Arba	Moderate	▲ Positive	Industry #1 in absolute earnings and fee income; watch quarterly AIR collection pace.
Global IME Bank (GBIME)	~Rs. 2.31 Arba	~4.79%	▲ Positive	Industry #2 profit & massive post-merger scale; NPL containment remains key swing factor.
Himalayan Bank (HBL)	~Rs. 65–70 Cr	~7.39%–7.98%	▼ -Rs. 43.39	Elevated post-merger NPLs & Regulatory Reserves prioritize capital rebuilding over near-term dividends.
NIC Asia Bank (NICA)	~Rs. 12.74 Cr	~7%+	▼ -Rs. 103.21	Classic illustration of why positive quarterly Net Profit does not imply near-term dividend eligibility.

Data Note: Figures reflect unaudited Q1 FY 2083/84 public financial disclosures published by respective institutions. Quarterly unaudited numbers are subject to NRB annual inspection and external statutory audit adjustments. Not buy/sell advice.

4. 4-Point Due-Diligence Checklist Before Buying Any Bank Stock Ahead of Book Closure

1. **Check Capital Adequacy (Core Capital / Tier-1 Ratio) First:** Even with positive Distributable Profit, NRB restricts cash dividends and forces retention/bonus conservation if Tier-1 or Total Capital Adequacy hovers near the regulatory floor (including Countercyclical / Capital Conservation Buffers).
2. **Compare Impairment Charge vs. Gross NPL Movement:** Did Q1 Net Profit jump because core Net Interest Income grew, or solely because impairment write-backs occurred? Core NII + fee growth is durable; one-off recoveries are cyclical.
3. **Inspect Non-Banking Assets (NBA) Footnotes:** Rapidly ballooning NBA balances signal borrowers defaulting and banks absorbing illiquid land/building collateral — locking up 100% of equivalent profit in Regulatory Reserves until sold for cash.

4. **Model Post-Tax Yield Using Revised CGT Rates:** Before chasing short-term "dividend rally" trades, calculate exact net after-tax return using the revised September 2026 CGT rates (**3.75%** long-term >365 days vs. **5%** short-term) in our **NEPSE Share & CGT Calculator**.

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