RATING REPORT

National Bank of Pakistan

REPORT DATE:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 30, 2017*		*June 28, 2016*	

COMPANY INFORMATION

Incorporated in 1949	**External auditors:** Ernst & Young Ford Rhodes Sidat Hyder Co. Chartered Accountants and Grant Thornton Anjum Rahman Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Saeed Ahmad (Acting)
Key Shareholders (with stake 5% or more):	**President:** Mr. Saeed Ahmad
State Bank of Pakistan – 75.2%	
Foreign Companies – 10.5%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks Rating Methodology (November 2015)
http://www.jcrvis.com.pk/Images/Meth-CommercialBanks201511.pdf

National Bank of Pakistan

OVERVIEW OF THE INSTITUTION

Incorporated in Pakistan under the National Bank of Pakistan Ordinance, 1949, National Bank of Pakistan (NBP) is the largest public sector bank in the country. Shares of the bank are listed and traded on Pakistan Stock Exchange (PSX).

Profile of CEO

Mr.Saeed Ahmad has extensive banking, finance and management experience of spanning over 45 years. Prior to joining NBP, he served as Deputy Governor at SBP from 2014-17. During this period, he also served as Chairman of the BoD at House Building Finance Company Limited, Pakistan Mortgage Refinance Company and EXIM Bank. Mr. Ahmad is a Fellow member of the Institute of Actuaries, London. He also holds a Master's degree in Accounting & Finance from London School of Economics and a Bachelor's of Science (Hons) degree from Punjab University. Additionally, he has attended the senior management program at Harvard Business School.

RATING RATIONALE

Ratings assigned to NBP derive strength from the Government of Pakistan's (GoP) majority shareholding in the bank, its role in handling treasury transactions for the GoP as an agent to the State Bank of Pakistan (SBP) in addition to which security of deposits is guaranteed under the Banks' Nationalization Act.

The bank expanded its footprint further in 2016, with inauguration of 45 new branches including 39 Islamic branches taking the total branch network to 1,448. In line with its strategic vision, NBP aims to grow its Islamic banking (NBP-Aitemaad) network to 192 branches till end of the ongoing year.

Sponsor & Management Profile: Assigned ratings factor in majority stake being vested with GoP. During the ongoing year, there was a change at the helm of organization with Mr. Saeed Ahmad appointed as President and Chief Executive Officer (CEO). With appointment of a new CEO, a business plan has been formulated with key focus on improving functional efficiency of NBP; developments in this regard would emerge over time.

Advances: Gross financing portfolio depicted growth on the back of incremental lending to existing low-risk borrowers belonging to energy and textile sectors. Corporate lending remained the forte of the bank. Going forward, management envisages further growth in advances with specific focus on Islamic banking.

Asset Quality: Asset quality indicators depicted improvement in 2016 vis-à-vis preceding year on account of lower quantum of non-performing loans (NPLs). Despite recoveries in the outgoing year, infection levels remain high and compare less favorably with peers. In order to improve asset quality, management has formulated a recovery strategy for the coming two years, as approved by the Board.

Liquidity: NBP is the second largest bank in Pakistan in terms of domestic deposits. While depositor concentration continues to be on the higher side vis-à-vis peers, liquidity profile continues to be supported by sizeable liquid assets in relation to deposits and borrowings. Deposits of the bank depicted growth in 2016. However, proportion of CASA remains on the lower side in comparison to peers and may need to be improved, going forward.

Profitability: Despite volumetric growth in earning assets, spreads depicted a decline during 2016. However, the bank reported an improved bottom line on the back of growth in fee based income. Going forward, NBP plans to capitalize on cross sell opportunities to offset the expected impact of spread compression on the bottom line. In the backdrop of forecasted mid-term economic scenario and policy rate regime along with maturity of PIBs and low lending rates due to excess liquidity, spreads and profitability growth of the banking sector are expected to remain under pressure during 2017.

Capitalization: Equity base depicted (excluding surplus on revaluation) improvement on the back of internal profit generation. Accounting for surplus on revaluation of assets, net equity increased to Rs. 176.7b (2015: Rs. 168.4b). Given increase in risk weighted assets, capital adequacy ratio (CAR) of the bank witnessed a decline to 16.54% (2015: 17.59%). Despite having the highest advances to deposits ratio amongst peer banks, NBP's CAR benefits from sizeable exposure to the public sector entities where exposures are guaranteed by the government and where risk charge is zero.

National Bank of Pakistan — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Total Investments	897,130.7	829,245.9	561,764.1
Advances	667,389.5	578,122.2	626,704.1
Total Assets	1,975,705.8	1,706,361.4	1,543,054.3
Borrowings	44,863.9	21,911.2	37,541.5
Deposits & other accounts	1,657,312.1	1,431,036.6	1,233,525.5
Subordinated Loans	-	-	-
Tier-1 Equity	120,014.6	116,011.4	110,355.6
Net Worth	176,732.8	168,351.5	178,328.9

INCOME STATEMENT	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Net Mark-up Income	54,824.4	53,720.9	45,804.0
Net Provisioning	(701.3)	11,821.4	11,077.1
Non-Markup Income	29,966.6	34,983.4	30,377.3
Operating Expenses	46,943.4	42,120.4	39,967.1
Profit Before Tax	37,141.2	33,215.6	22,000.7
Profit After Tax	22,752.3	19,218.9	15,028.2

RATIO ANALYSIS	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Market Share (Advances) (%)	13.0%	14.1%	16.1%
Market Share (Deposits) (%)	14.0%	13.1%	13.4%
Gross Infection (%)	15.3%	18.4%	16.6%
Provisioning Coverage (%)	95.5%	89.4%	83.9%
Net Infection (%)	1.5%	2.8%	3.6%
Cost of deposits (%)	3.9%	4.5%	6.0%
Net NPLs to Tier-1 Capital (%)	9.8%	17.4%	20.0%
Capital Adequacy Ratio (C.A.R (%))	16.5%	17.6%	18.2%
Markup Spreads (%)	3.0%	3.2%	3.4%
Efficiency (%)	62.7%	56.9%	62.8%
ROAA (%)	1.2%	1.2%	1.1%
ROAE (%)	13.2%	11.1%	14.4%
Liquid Assets to Deposits & Borrowings (%)	67.1%	65.9%	54.8%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	National Bank of Pakistan
Sector	Public Sector Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Jun-17	AAA	A-1+	Stable	Reaffirmed
28-Jun-16	AAA	A-1+	Stable	Reaffirmed
30-Jun-15	AAA	A-1+	Stable	Reaffirmed
30-Jun-14	AAA	A-1+	Stable	Reaffirmed
26-Jun-13	AAA	A-1+	Stable	Reaffirmed
2-Jul-12	AAA	A-1+	Stable	Reaffirmed
30-Jun-11	AAA	A-1+	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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