

RATING REPORT

National Bank of Pakistan

REPORT DATE:

July 4, 2016

RATING ANALYSTS:

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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	28 th June 2016		30 th June 2015	

COMPANY INFORMATION

Incorporated in 1949

External auditors: Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants and KPMG Taseer Hadi & Co. Chartered Accountants

Public Limited Company

Chairman of the Board: Mr. Muneer Kamal

Key Shareholders (with stake 5% or more):

President: Mr. Syed Ahmed Iqbal Ashraf

State Bank of Pakistan – 75.20%

Foreign Companies – 10.18%

APPLICABLE METHODOLOGY(IES)

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

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

Incorporated in 1949 under National Bank of Pakistan Ordinance, National Bank of Pakistan (NBP) is the largest public sector bank in the country in terms of banking sector deposits.

National Bank of Pakistan (NBP) enjoys its position as the largest public sector bank with a market share of 13.1% (CY14: 13.4%) in banking sector deposits.

NBP is making efforts to strengthen Human Resources (HR), specifically training, manpower planning and succession planning. During CY15, the bank has improved its control environment by successfully implementing Core Banking Applications (CBA) across its entire domestic branch network and 82 Islamic Banking (IB) branches; training for the same is ongoing. NBP opened 49 new branches during CY15, taking the total branch network to 1,403 at end-CY15. Branch expansion strategy is expected to continue in the ongoing year with addition of around 66 new branches.

Rating drivers:

- **Sponsor Profile:** Assigned ratings incorporate sound sponsor profile with majority stake vested with Government of Pakistan (GoP). The deposits of the bank are guaranteed by Government under Bank's Nationalization Act.
- **Liquidity:** Assigned ratings derive strength from the bank's position as second highest in the banking sector in terms of domestic deposits. Deposit base increased to Rs. 1.4tr (CY14: Rs. 1.2tr) at end-CY15. Additionally, increase in deposits was driven by growth in remunerative financial institution deposits, current and saving accounts. Going forward, the bank will have a focus on increasing CASA ratio through improved alternative delivery channels and customer services. Liquid assets to total deposits and borrowings ratio improved to a sound level of 64% (CY14: 55%) with higher investment in government securities.
- **Advances:** Overall advances depicted slight decline led by reduction across all business segments, barring corporate banking. Corporate loan book continues to represent major portion of NBP's financing portfolio. Going forward, the bank intends to consolidate its corporate portfolio while fresh lending is planned to be undertaken in high yielding segments including consumer, commercial and SME segments.
- **Asset Quality:** Constrained growth in advances coupled with higher NPLs resulted in higher gross infection of 18.4% (CY14: 16.6%) by end-CY15. However, on account of incremental provisions, net infection in the portfolio declined to 2.8% (CY14: 3.6%). Accounting for overdue government guaranteed exposures, gross infection would be higher at 25.5%. The net infection at 2.8% has room for improvement when compared with peer group median of less than 2.1%.
- **Profitability:** Maturing Pakistan Investment Bonds (PIBs) and declining interest rate environment, narrowed spreads to 3.2% (CY14: 3.4%). However, net interest income grew to Rs. 53.7b (CY14: Rs. 45.8b) on the back of volumetric growth. Internal controls were revised during the year to arrest fraud incidence which depicted a rise. The bank continues to experience delays in repayments against certain State Owned Enterprises (SOEs) leading to a drag on profitability. Given compression in spreads, the bank reported net profit of Rs. 19.2b (CY14: Rs. 15.0b) largely on account of volumetric growth particularly in investments.
- **Capitalization:** Net worth featured reduction on account of decrease in surplus on revaluation of assets. However, reduction in risk weighted assets led to higher capital adequacy ratio (CAR) of 18.38% (CY14: 18.17%). Improvement in capitalization indicators is considered important to maintain volumetric growth at sound capitalization levels.

FINANCIAL SUMMARY			
	<i>(amounts in PKR billions)</i>		
BALANCE SHEET	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Total Investments	829.2	561.8	398.0
Advances	578.1	626.7	615.4
Total Assets	1,706.4	1,543.1	1,364.9
Borrowings	21.9	37.5	22.2
Deposits & other accounts	1,431.0	1,233.5	1,101.1
Subordinated Loans	-	-	-
Tier-1 Equity	116.0	110.4	100.9
Net Worth	168.4	178.3	156.3
INCOME STATEMENT	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Net Mark-up Income	53.7	45.8	38.2
Net Provisioning	11.8	11.1	19.5
Non-Markup Income	35.0	30.4	25.6
Operating Expenses	42.1	40.0	36.3
Profit Before Tax	33.2	22.0	7.1
Profit After Tax	19.2	15.0	5.5
RATIO ANALYSIS	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Market Share (Advances) (%)	14.1%	16.1%	17.3%
Market Share (Deposits) (%)	13.1%	13.4%	13.2%
Gross Infection (%)	18.4%	16.6%	16.3%
Provisioning Coverage (%)	89.4%	83.9%	80.1%
Net Infection (%)	2.8%	3.6%	4.2%
Cost of deposits (%)	4.5%	6.0%	5.5%
Net NPLs to Tier-1 Capital (%)	18.0%	20.0%	25.0%
Capital Adequacy Ratio (C.A.R (%))	18.4%	18.2%	15.2%
Markup Spreads (%)	3.2%	3.4%	4.8%
Efficiency (%)	56.9%	62.8%	64.1%
Basic ROAA (%)	2.2%	4.2%	4.0%
ROAA (%)	1.2%	1.1%	0.4%
ROAE (%)	17.6%	14.4%	5.4%
Liquid Assets to Deposits & Borrowings (%)	64.0%	54.8%	48.9%

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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

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
	<u>RATING TYPE: ENTITY</u>				
	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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