

## CI Affirms National Bank of Pakistan Ratings

**Capital Intelligence Ratings (CI Ratings)**, the international credit rating agency, today announced that it has affirmed the ratings of National Bank of Pakistan (NBP), headquartered in Karachi, Pakistan. NBP's Financial Strength Rating (FSR) is affirmed at 'BB'. The rating is supported by the Bank's very good liquidity, very solid capital position, improved profitability, and higher loan loss provisioning coverage. The rating is constrained by the high level of non-performing loans (NPLs) and certain concentration risk towards Pakistan government paper. The Outlook for the FSR remains 'Stable'. NBP's Long- and Short-Term Foreign Currency Ratings (FCRs) are affirmed at 'B-' and 'B', respectively. The Outlook for the Bank's FCR is 'Stable'. The FCRs are constrained by CI's internal assessment of sovereign credit risk for Pakistan. The Pakistan economy has continued to improve but the operating environment remains challenging. Based on NBP's systemic importance, as well as its majority government ownership, the Bank's Support Rating is affirmed at '2'. The government of Pakistan maintains a majority stake in the Bank and, accordingly, would be expected to support NBP.

NBP is the second largest bank in Pakistan by capital and controls a dominant market position in customer deposits in particular. The Bank's performance in 2015 was again stronger with higher operating and net profit, driven by increased net and non-interest income and a well maintained expense base. NBP's returns improved year-on-year. The cost of risk remains high, although against operating profit, it has continued to decline. Margins widened slightly in 2015, aided by a much reduced cost of funds as interest rates fell notably during the year. Non-interest income saw strong capital gains from the securities portfolio but core fee income continue to rise.

Loan asset quality remains an issue, with the Bank displaying a very high NPL ratio. This was exacerbated by the fall in net loans in 2015. Loan loss coverage continued to rise in 2015 and is at a satisfactory level. The accretion rate of new NPLs remains low and steady. Although the NPL ratio is high, loans represent a relatively small proportion of the balance sheet. Loan asset quality remained steady in 1H 2016.

NBP's liquidity profile continues to be extremely good, driven by a deep base of customer deposits and large portfolio of liquid assets, including local treasury bills, government bonds and Central Bank placements, which currently form around one-half of the balance sheet. NBP's capital adequacy is also at a strong level, rising moderately in 2015 through reduced risk weighted assets.

NBP was wholly state-owned until end 2001. Since then, the government has sold 23.2% of its shareholding to the general public through the country's stock exchange. NBP is the only commercial bank in the country with a majority (75.2%) federal government ownership through the central bank. By law the government must maintain a minimum 51% shareholding in the Bank. NBP operates a network of 1,377 domestic and 23 overseas branches. Total assets at end 2015 stood at PKR1,712 billion (USD16.8 billion).

### CREDIT RATINGS

Foreign Currency		Financial Strength	Support	Outlook	
LT	ST			FC	FSR
<b>B-</b>	<b>B</b>	<b>BB</b>	<b>2</b>	<b>Stable</b>	<b>Stable</b>

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The ratings have been initiated by CI. However, the issuer participated in the rating process. The information sources used to prepare the credit ratings are the rated entity and public information. CI had access to the published financial statements of the issuer for the purpose of the rating and had access to one or more of the following: the internal accounts; management; and other relevant internal documents of the issuer. CI considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released in December 1993. The ratings were last updated in September 2015.

The principal methodology used in determining the ratings is Bank Rating Methodology. The methodology, the meaning of each rating category, the time horizon of rating outlooks and the definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at [www.ciratings.com](http://www.ciratings.com). CI's policy on unsolicited ratings including an explanation of the colour coding of credit rating symbols can be found at the same location. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at <http://cerrep.esma.europa.eu>.