



The Pakistan Credit Rating Agency Limited

NATIONAL BANK OF PAKISTAN

	NEW [JUNE-16]	PREVIOUS [JUNE-15]
Entity		
Long Term	AAA	AAA
Short Term	A1+	A1+
Outlook	Stable	Stable

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Profile & Ownership

- National Bank Limited (NBP), incorporated in 1949, under National Bank of Pakistan Ordinance, is second largest commercial bank – system share: ~13%
- Operates with a network of over 1,400 branches including 79 Islamic branches across the country
- Government of Pakistan (GoP), through SBP, holds controlling stake (~76%), followed by Financial Institutions (20%), while rest is spread across general public

Governance & Management

- GoP nominated eight-member board of directors including the President & the CEO; one executive, seven non-executive including one independent director
- With directors nominated by the GoP, the risk of political intervention remains
- Syed Ahmed Iqbal Ashraf, President, is supported by an experienced team
- Seventeen management functions; large number of direct reportees to the President

Risk Management

- NBP is the second largest lender in the country with ~11% share in commercial banking industry’s advances; During CY15, gross advances declined despite sizable growth (15%) in deposits. Hence, ADR dropped to 40% (CY14: 51%). Contribution of top-3 sectors’ exposure was largely maintained
- Top-20 private performing clients’ concentration inched up (CY15: 28%); warrants management’s attention
- NBP’s asset quality remained under pressure and is considered weak; infection ratio increased (end-1QCY16: 20%). The bank added ~PKR 14bln to NPLs (end-1QCY16: PKR 135bln) in 15months period mainly in domestic portfolio
- During CY15, investment portfolio, constituting 57% of the total earning assets at end-CY15 reported significant increase; dominated by government securities; mix tilted towards T-bills
- The bank achieved deployment of its core banking application (CBA) – Profile; now all branches are online. Likely improvement in MIS reporting

Performance

- During CY15, asset yield decreased – a factor of decline in benchmark lending rates. However, spreads slightly improved (CY15: 3.6%); benefiting from reduction in cost of funds on the back of growth in demand deposits
- Significant contribution from non-markup income, mainly emanating from gain on sale of PIBs, augmented the revenue base
- Limited increase in operational expenses; hence, cost to total net revenue reported significant decline from 59% in CY14 to 50% in CY15
- Despite significant increase in provisioning (PKR 12bln) and tax expense, the benefit of healthy revenue base helped the bank in posting healthy profits
- Going forward, NBP’s key focus would be to enhance its lending book mainly through infrastructure lending; though it remains a challenge. The management intends to tap Islamic Banking Avenue by establishing an independent subsidiary operations. Asset quality remains a challenge; needs management attention. Strategy includes branch network augmentation and creating a customer service culture

Funding & Capital

- Customer deposits with 84% contribution remained the key source of funding for the bank. CASA deposits remained at 73%; lower than other large banks
- Top-20 deposits’ concentration increased (end-CY15: 21%, end-CY14: 18%)
- Overall liquidity position strengthened on account of relatively high growth in govt. securities in comparison to the deposits and decrease in borrowings
- Capitalization remained healthy with CAR standing at 17.6% at end-Dec15; though declined at end-Mar16 (14.7%) – on account of decrease in Tier-1 capital

RATING RATIONALE

The ratings reflect NBP’s strong ownership structure (Government of Pakistan (GoP) holds major stake) and also a significant contribution (37% at end-Dec15) in the bank’s deposit base. NBP maintains a strong financial risk profile, characterized by firm risk absorption capacity and healthy liquidity. The bank’s diversified deposit base benefits from its strong franchise and extended outreach, particularly in remote areas. Lately, the bank has enhanced the pace of its deposit growth, which was little behind the peers in recent years. This has helped in holding deposits. A focussed strategy remains important to manage spreads, in turn, earning profile of the bank. During CY15, asset mix changed in favor of government securities with slight decline in the advances book. Meanwhile, capital gains on government securities - an outcome of interest rate easing - boosted the bottom-line. However, asset quality remained the key challenge as NPLs accretion continued to impact the core performance. Overseas operations and domestic private credit are key contributors to overall infection. Thus strengthening of related risk management systems is important. Going forward, the bank is keen to strengthen its lending portfolio; entering into profitable avenues may pose a challenge. With focused efforts, NBP has managed to bring volumes in Islamic banking (Aitemaad) though limited; it is targeted to contribute towards growth.

KEY RATING DRIVERS

The ratings are dependent on the bank’s ability to hold its existing position in the banking sector while remaining abreast with changing operating environment. At the same time, maintaining cost structure at current level whilst improving on the asset quality is considered important. Given public sector banking institution, upholding a strong governance framework is critical; any deterioration may negatively impact the ratings.



The Pakistan Credit Rating Agency Limited

National Bank of Pakistan (NBP)

	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
PKR mln				
BALANCE SHEET				
Earning Assets				
Advances (Net of NPL)	536,070	564,572	607,223	592,398
Debt Instruments	26,624	20,204	7,519	4,614
Total Finances	562,694	584,776	614,742	597,012
Investments	817,046	806,287	551,294	385,937
Others	20,441	24,266	129,703	79,181
	1,400,181	1,415,328	1,295,738	1,062,131
Non Earning Assets				
Non-Earning Cash	135,316	154,457	92,165	148,145
Deferred Tax	11,462	9,669	9,878	10,955
Net Non-Performing Finances	26,911	16,306	22,433	30,429
Fixed Assets & Others	106,907	110,601	122,840	112,681
	280,595	291,033	247,316	302,211
TOTAL ASSETS	1,680,776	1,706,361	1,543,054	1,364,341
Interest Bearing Liabilities				
Deposits	1,273,911	1,431,037	1,233,525	1,101,139
Borrowings	151,528	21,947	37,554	22,019
	1,425,439	1,452,984	1,271,080	1,123,157
Non Interest Bearing Liabilities	101,787	85,026	93,646	84,897
TOTAL LIABILITIES	1,527,226	1,538,010	1,364,725	1,208,055
EQUITY (including revaluation surplus)	153,552	168,351	178,329	156,287
Total Liabilities & Equity	1,680,778	1,706,361	1,543,054	1,364,341
INCOME STATEMENT				
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	Quarterly	Annual	Annual	Annual
Interest / Mark up Earned	26,970	113,662	114,174	99,028
Interest / Mark up Expensed	(14,945)	(59,941)	(70,007)	(60,823)
Net Interest / Markup revenue	12,025	53,721	44,166	38,205
Other Income	6,539	34,983	31,472	25,570
Total Revenue	18,565	88,704	75,639	63,774
Non-Interest / Non-Mark up Expensed	(11,391)	(43,667)	(42,561)	(37,205)
Pre-provision operating profit	7,174	45,037	33,078	26,569
Provisions	(1,003)	(11,821)	(11,077)	(19,491)
Pre-tax profit	6,171	33,216	22,001	7,078
Taxes	(2,134)	(13,997)	(6,973)	(1,578)
Net Income	4,037	19,219	15,028	5,500
Ratio Analysis				
	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	Quarterly	Annual	Annual	Annual
Performance				
ROE	14.8%	17.0%	14.2%	5.4%
Cost-to-Total Net Revenue	62.7%	50.4%	59.1%	61.5%
Provision Expense / Pre Provision Profit	14.0%	26.2%	33.5%	73.4%
Capital Adequacy				
Equity/Total Assets	6.1%	6.8%	7.2%	7.4%
Capital Adequacy Ratio as per SBP	14.7%	17.6%	17.4%	15.2%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	66.3%	67.2%	59.4%	54.2%
Advances / Deposits	43.6%	40.4%	50.8%	55.9%
CASA deposits / Total Customer Deposits	73.0%	73.1%	72.8%	69.6%
Intermediation Efficiency				
Asset Yield	7.9%	8.7%	10.1%	9.9%
Cost of Funds	4.7%	5.1%	6.7%	6.4%
Spread	3.2%	3.6%	3.4%	3.5%
Outreach				
Branches	1,403	1,403	1,377	1,365



Name of Issuer
Sector
Type of Relationship

National Bank of Pakistan Limited
Banking
Solicited

Purpose of the Rating

Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Jun-16	AAA	A1+	Stable	Maintain
30-Jun-15	AAA	A1+	Stable	Initial

Related Criteria and Research

Rating Methodology
Sector Research

Bank Rating Methodology
Banking Sector - Viewpoint | Dec-15

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[Rating Team Statement](#)

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[Probability of Default \(PD\)](#)

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