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# Provisioning charges haunt NBP

National Bank of Pakistan's first half CY13 result provides enough credence to the sector's reluctance to lend aggressively .
NBP, amongst the country 's top-five Banks, is only one with an ADR in excess of 50 percent. The state owned bank is ,in effect ,the only one among the top five with advances in absolute terms higher than investment .
Hence, It is ended up paying the price in the form of a massive hike in provisioning against advances .
The 30 percent year-on year drop in earnings was a result of a massive 122 percent hike in provision charges against advances .Being a state owned lender, NBP has historically had higher ADR than its peers ; but 300 bps downward revision in discount rate during the period yielded little top line growth .The 21 percent growth in deposit over last year was healthier than the peer, and was evenly parked in advances and government papers higher interest paid on average deposits meant lower Spreads, squeezing the net interest income. NBP continues to have the lowest CASA ratio among Peers banks as saving deposits continue to grow briskly hurting the Nil

NBP key Indicators

| | IHCY 13 | IHCY 12 |
|---|---|---|
| Infection Ratio | 14% | 16% |
| Coverage Ratio | 85% | 74% |
| Spread Ratio | 41% | 43% |
| Capital Ratio | 11% | 12% |
| IDR | 35% | 32% |
| ADR | 57% | 61% |
| CASA | 58% | 61% |
| ROA | 0.5% | 0.8% |
| ROE | 5% | 7% |

Source : Company /Accounts

National Bank of Pakistan (Consolidated P&L)

| (Rs mn ) | 1HCY13 | 1HCY 12 | chg |
|---|---|---|---|
| Marked up Earned | 50,113 | 50,532 | -1% |
| Marked up expenses | 29,586 | 28,993 | 2% |
| Net markup income | 20,527 | 21,538 | -5% |
| Provisioning/(Reversal) | 7,438 | 3,349 | 122% |
| Net markup income after provisions | 13,089 | 18,190 | -28% |
| Non markup interest income | 14,127 | 11.776 | 20% |
| Operating Revenues | 27,216 | 29,965 | -9% |
| Non markup /interest Expenses | 18,253 | 16,378 | 11% |
| Profit before Taxation | 8,963 | 13.587 | -34% |
| Taxation | 2.047 | 3,752 | -45% |
| Profit after Taxation | 6,916 | 9,835 | -30% |
| EPS(Rs.) | 3.25 | 4.62 | |

Source: Company Accounts

The biggest bolt on the bank's P&L was provision on advances advances which was more than doubled over last year. Even a heavy reliance on non –mark-up income from free commission income could not halt the free fall in earning in earning drop as non- interest expenses hiked considerably to mitigate the good work done on the non –mark-up Income front. Going forward, an expected reversal in monetary cycle could turn fortune for NBP given in its reliance on advances as earning assets. The NPLs too have stayed flat in comparison to the last year and aggressive provisioning this time around could yield better results in near future