Business Recorder (Brief Recording)
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National Bank of Pakistan (Brief Recording)

Brief introduction: With an asset base of over Rs 1230 billion, NBP is the second largest bank of Pakistan. It has a diversified business portfolio and is a lead player in the debt/equity market, corporate investment banking, retail and consumer banking, agricultural financing, treasury services etc. Besides, the bank making great strides in promoting and developing the country's small and medium enterprises.

NBP is at the forefront of international banking in Pakistan which is proven by the fact that NBP has its branches in all the major financial capitals of the world. NBP has developed a wide range of consumer products, to cater to different segments of society. Some schemes have been specifically designed for the low to middle income segments of population. These include NBP Karobar, NBP Advance Salary, NBP Saiban, NBP Kisan Dost, NBP Cash n Gold etc.

It has implemented special credit schemes like small finance for agriculture, business and industries, Qarz-e-Hasna loans to students, self-employment scheme for unemployed persons, public transport scheme etc. The Bank has also expanded its range of products and services to include Shariah Compliant Islamic Banking products.

FINANCIAL PERFORMANCE, 1QCY13: The first quarter of 2013 was quite sluggish for the second largest bank of the country. Even its heavy concentration in high yielding private sector lending couldn't save its top line from a four percent year-on-year slide. Besides, back-to-back rate cuts since 1QCY12, also took its toll on the bank's markup earnings.

Despite higher concentration in low-cost deposits, mark-up expense grew by three percent year-on-year in 1QCY13 mainly on account of increase in the floor rate of saving deposits. This pushed NBP's spread ratio to the lowest ebb among its big five peers.

What set NBP apart from its peers is its inclination towards risky advances, unlike industry-wide norm of parking funds in government securities. In 1QCY13, its advances-to-deposit ratio (ADR) grew by around nine percentage points as against a growth of less than one percentage point in its investment-to deposit ratio. This bears testament to the fact that the bank is engaged in its core function of feeding private sector instead of being engaged in lazy banking like its counterparts.

During 1QCY13, NBP realised substantial growth in the non mark-up income particularly capital gains on securities and dividend income. Such non mark-up gains largely propelled banking sector's bottom line during the first quarter of 2013 as the lower interest rate augmented the value of debt instruments and booming stock market yielded handsome dividend income. However, in the case of NBP, even high non-mark-up income could shield bottom line from drastic dropdown.

The decline in NBP's bottom line is the highest among the big five banks. However, on the positive note, NBP still deserves recognition among the big banks for having the highest advances-to-deposit ratio (ADR) while still being able to gradually cut its infection ratio from 17 percent in 1QCY12 to 14 percent in 1QCY13.

REVIEWING PAST PERFORMANCE: During CY12, the ADR of NBP picked up considerably while its IDR dropped. Resultantly, despite continuous streams of rate cut that battered the industry at large, NBP was able to boast a modest five percent year-on-year growth in its top line in CY12.

While NBP's exposure in risky high yielding private avenues kept it immune from an exogenous rate cut phenomenon, NBP's low-cost deposits could not protect it from 100 basis points hike in the floor rate of saving deposits imposed by SBP in April 2012. Despite a staggering 21 percent boost in its low-cost deposits, mark-up expenses reared its ugly head that took its toll on the gross spread ratio of NBP.

What deserves recognition is NBP's ability is cutback its infection ratio to bring it close to the average infection ratio of big five banks. Talking about advances, the top sectors receiving NBP funding include individuals (17.85 percent), energy production and transmission (13.45 percent), textiles (9.81 percent) and transportation (8.2 percent). Majority of NBP's nonperforming loans are stemming from textile sector.

Non mark-up income, especially fee, brokerage and commission income lent a helping hand to the bank's bottom line. However, the rise in non mark-up expenses due to network expansion thrashed the bottom line which in turn posted a five percent year-on-year decline in CY12.

FUTURE OUTLOOK: With banks already suffering from SBP mandate of fixing the minimum deposit rate on saving accounts at six percent, it further modified the same to be paid on average balance rather than minimum balance of the month in April 2013, rendering bankers' life more difficult. Any further cut in discount rate is likely to further shrink the banking spreads from the current level of 6.19 percent in April 2013.

Whether or not the positivity induced from augmented investment interest given clarity on the political front will outweigh the negativity of rate cut is yet to be seen.

With a budget to be announced today, an increase in the withholding tax has been proposed on cash withdrawals from banks to 0.3 percent for corporate and 0.4 percent for non-corporate customers. Increase in WHT on cash withdrawals is expected to slightly improve the deposit base as it encourages interbank transfers and discourage cash withdrawal.