

# National Bank of Pakistan

Chairman: Mr. Muneer Kamal; CEO/President: Syed Iqbal Ashraf

July 4, 2014

**Analysts:** Talha Iqbal  
Moiz Badshah

## Rating Rationale

As the largest public sector bank in the country, National Bank of Pakistan (NBP) commands an important position in the local banking sector as also reflected in sizeable market share in deposits which stood at 13.3% at year-end 2013; despite having declined over the last two years. Liquidity profile of the bank is considered adequate with sizeable liquid assets carried in relation to deposits and borrowing. Capital Adequacy Ratio of the bank was reported at 15.24% at year-end 2013. Asset quality and efficiency level compare less favorably with peers.

The assigned ratings are driven by the bank's ownership structure with majority shares held by the Government of Pakistan (GoP) in addition to which security of deposits is guaranteed under the Banks' Nationalization Act. The assigned ratings also take into account NBP's role in handling treasury transactions for the GoP as an agent to the State Bank of Pakistan (SBP).

Pakistan's economy is showing signs of recovery; however macroeconomic and security challenges may need to be addressed pro-actively in order to bring about sustained improvement. Over the last few years, increasing losses by state-owned enterprises (SOEs) have been observed. As the largest public sector bank, NBP has been compelled to take exposure against SOEs. With few of these companies under financial stress, NBP has experienced delays in repayments which have exposed the bank to economic losses. Asset quality indicators have experienced weakening on a timeline basis; moreover, reported numbers may not be reflective of actual portfolio quality given the exemption in classification against government guaranteed exposures. Asset quality of overseas portfolio, representing 8% of the bank's total asset base, has also deteriorated on account of Bangladesh operations where infection in the portfolio is sizeable. Enhanced controls have been put in place for monitoring of overseas operations with a senior resource at the bank designated to enhance focus on recoveries.

Healthy growth has been witnessed in the bank's consumer portfolio which now represents over one fifth of the bank's loan book. Given the product structures, infection for the segment has been recorded well below industry norms and this has also had a positive impact on the bank's yield on earning assets.

Proportion of investment portfolio in overall asset base has increased to 34% at end-1Q14 due to sizeable increase in exposure to Pakistan Investment Bonds. Resultantly, the bank's exposure to interest rate risk has increased notably. Credit risk emanating from the bank's investment portfolio is limited with around three-fourths deployed in federal government securities. Overall exposure to listed equities and equity related mutual funds is sizeable at around one-third of the bank's equity base. Historically KSE-100 index has been volatile; thus, downside risk on equity exposure is considered on the higher side.

Banking sector spreads remained under pressure in 2013 on account of decline in average KIBOR. Given that minimum deposit rate on saving products has been linked to repo rate, spreads are now likely to remain range bound, unless a change is brought about in asset and/or deposit mix. Profitability of NBP from core operations came under pressure in 2013 on account of spread compression. Proportion of non-remunerative current accounts at 21.5% at year-end 2013 is low; resultantly cost of deposits is the highest amongst peer banks and has increased on a timeline basis, in contrast to the trend observed in other large banks in 2013.

Accounting for other income and sizeable provisions, largely pertaining to operations in Bangladesh, profit before tax was significantly lower at Rs. 7.1b (2012: Rs. 21.4b) in 2013.

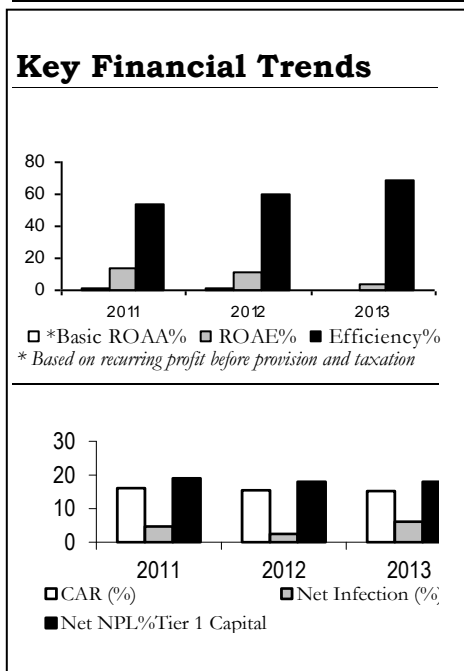
NBP reported Tier 1 and total Capital Adequacy Ratio (CAR) at 10.6% and 15.2%, respectively. While overall CAR of the bank is at a comfortable level, there is a need to closely monitor Tier-1 capitalization levels given the implementation of Basel 3 in a phased manner, which emphasizes on Tier-1 capital to be the predominant form of bank's capital and reduces benefit of Tier-2 capital.

During the on-going year, Syed Ahmed Iqbal Ashraf was appointed as the President of the bank. Some turnover has been witnessed at this position over the past year. Stability at the position of President/CEO is essential for setting strategic direction of the bank and continuity in policies. The bank is in the process of implementing a core banking application. Given the size of the bank's operations, timely completion of roll out across the bank's network is considered essential for improving controls.

## Overview of the Institution

National Bank of Pakistan was incorporated under the National Bank of Pakistan Ordinance, 1949. Government of Pakistan holds 75.2% shares in the bank through State Bank of Pakistan. Bank operates with a network of 1,342 domestic branches and 23 overseas branches. Financial statements of the bank were audited by M/s. Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants and M/s KPMG Taseer Hadi and Company **JCR-VIS**

Category	Latest	Previous
Entity	AAA/A-1+ June 30, '14	AAA/A-1+ June 26, '13
Outlook	Stable June 30, '14	Stable June 26, '13



	2011	2012	2013
Net Advances (Rs. in b)	525	655	615
Deposits (Rs.b)	927	1037	1101
Market Share	13.7	13.6	13.3
Deposit Cost (%)	5.7	5.86	5.94
Profit (Rs.in b)	17.6	15	5.5
Equity (Rs. in b)	132.7	140.0	156.3
CAR (%)	16.1	15.5	15.2
Liquid Assets % Deposits & Borrowings	39	42	50
Net Infection (%)	4.7	3	4.2

## JCR-VIS Credit Rating Company Limited

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

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
30-Jun-14	AAA	Stable	A-1+	Reaffirmed
26-Jun-13	AAA	Stable	A-1+	Reaffirmed
2-Jul-12	AAA	Stable	A-1+	Reaffirmed
30-Jun-11	AAA	Stable	A-1+	Reaffirmed
28-Jun-10	AAA	Stable	A-1+	Reaffirmed