RATING REPORT

National Bank of Pakistan

REPORT DATE:
July 6, 2018

RATING ANALYSTS:
Jazib Ahmed, CFA
jazib.ahmed@jcrvis.com.pk

Narendar Shankar Lal
narendar.shankar@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 29, 2018*		*June 30, 2017*	

COMPANY INFORMATION

Incorporated in 1949	**External auditors:** Ernst & Young Ford Rhodes Sidat Hyder Co. Chartered Accountants and Grant Thornton Anjum Rahman Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Saeed Ahmad
Key Shareholders (with stake 5% or more):	**President:** Mr. Saeed Ahmad
State Bank of Pakistan – 75.2%	
Foreign Companies – 9.6%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks Rating Methodology (March 2018)
http://jcrvis.com.pk/docs/Meth-CommercialBanks201803.pdf

National Bank of Pakistan

OVERVIEW OF THE INSTITUTION

Incorporated in Pakistan under the National Bank of Pakistan Ordinance, 1949, National Bank of Pakistan (NBP) is the largest public sector bank in the country. Shares of the bank are listed and traded on Pakistan Stock Exchange (PSX).

Profile of Chairman & CEO

Mr. Saeed Ahmad has extensive banking, finance and management experience of spanning over 45 years. Prior to joining NBP, he served as Deputy Governor at SBP from 2014-17. During this period, he also served as Chairman of the BoD at House Building Finance Company Limited, Pakistan Mortgage Refinance Company and EXIM Bank. Mr. Ahmad is a Fellow member of the Institute of Actuaries, London. He also holds a Master's degree in Accounting & Finance from London School of Economics and a Bachelor's of Science (Hons) degree from Punjab University. Additionally, he has attended the senior management program at Harvard Business School.

RATING RATIONALE

Largest public sector bank with sound sponsor profile

National Bank of Pakistan (NBP) is the largest public sector bank in the country, the bank handles treasury transactions for the Government of Pakistan (GoP), acting as an agent to the State Bank of Pakistan (SBP). Market share of NBP was 11.9% (2016: 13.0%) in domestic advances and 13.2% (2016: 14.0%) at end-2017. The assigned ratings are underpinned by majority stake (75.2%) of Government of Pakistan (GoP), which has guaranteed the deposits of the bank and demonstrated financial support to the same.

Growth in financing portfolio persists, while asset quality indicators also remain sound

Gross advances portfolio of the bank increased to Rs. 856.9b (2016: Rs. 781.5b) at end-2017, thereby depicting a growth of 9.7%. Growth in financing portfolio primarily emanated from corporate, Islamic banking and overseas portfolio. Corporate banking continues to remain the mainstay of the bank as the same constituted 50.2% (2016: 51.6%) of the total portfolio. Although the bank remains the market leader in terms of public sector lending, growth was primarily manifested in the private sector advances during the outgoing year. For 2018, growth in financing portfolio is planned with particular emphasis on increasing commercial, consumer, SME and Islamic portfolio. Total non-performing loans (NPLs) stood higher at Rs. 120.8b (2016: 119.4b) at end-2017. However, due to impact of increase in overall portfolio size, gross and net infection ratios decreased to 14.1% (2016: 15.3%) and 1.4% (2016: 1.5%). Further improvement in the asset quality indicators is desired to align with the assigned rating benchmarks.

Credit and market risk emanating from the investment portfolio is considered manageable

Net investment portfolio stood at Rs. 1.3tr (2016: Rs. 897.1tr) at year-end'2017. Credit risk of the portfolio is considered low with more than 90% of the investment portfolio comprising sovereign exposure. Given the anticipation of increasing interest rate scenario, excess liquidity was deployed in short term government securities. Resultantly, modified duration of portfolio has witnessed a noticeable decline, reducing interest rate risk of the portfolio.

Liquidity profile remains manageable with cost effective deposit mix. However, concentration in deposits has room for further improvement.

During 2017, deposit base of the bank depicted growth of 4%, which was lower than the industry average. Granularity in deposit base continued to decrease during the outgoing year as top 25 depositors accounted for accounted for 19.6% (2016: 15.1%) at end-2017. However, presence of sizeable liquid assets (2017: 62.3%; 2016: 64.0%) in relation to deposits and borrowings at end 2017 provides comfort to the liquidity profile of the bank. Furthermore, adequate cushion is available in both Liquidity Coverage Ratio and Net Stable Funding Ratio over the regulatory requirements.

Volume driven growth was observed in profitability. Future growth is contingent upon outcome of legal case related to pension and any unforeseen additional costs to ensure compliance in overseas branches

Growth in the operating profitability of the bank continued with increase in the quantum of average earning assets and higher fee based income. Spreads of the bank were reported lower at 3.3% (2016: 4.1%) on account of lower yielding advances and investment portfolio. Efficiency ratio (cost to income) ratio income of the bank improved slightly to 62.5% (2016: 62.7%) on account of relatively higher growth in recurring income vis-à-vis the growth in expenses. Volumetric growth in earning assets with particular focus on increasing commercial, consumer and SME advances assets is expected to bode well for overall revenues in 2018. Presently, considerable proportion of fee, commission and brokerage income is derived from government transactions. Moreover, overall profitability is highly dependent upon the outcome of the pending legal case related to pension benefits and any unforeseen additional costs to ensure compliance in overseas branches. As per the disclosure in the financial statements, management of the bank expects a favorable outcome in the pension case. Moreover, NBP signed a written agreement with the Federal Reserve Bank of New York in March 2016 for compliance and risk management matters which the Bank is in the process of addressing. The bank is of the view that while it seeks to comply with all the regulatory requirements, there is no indication of any financial impact or penal consequences.

Capitalization indicators remain sound, however, the same may come under pressure in case of an unfavorable outcome in the NBP pension case

Despite decreasing on year-on-year basis, capitalization indicators, including Capital Adequacy Ratio (CAR) and leverage ratio, remain sound at 15.95% (2016: 16.54%) and 3.42% (2016: 3.84%) respectively. Net NPL to Tier I Capital of the bank decreased to 9.4% (2016: 9.8%) primarily on account of growth witnessed in Tier I Capital of the bank on the back of retention of profits. In case of unfavorable outcome in the pension case, capitalization indicators may come under pressure and will require further strengthening in order for the aforementioned indicators to remain commensurate with the outstanding ratings.

National Bank of Pakistan — Appendix II

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Total Investments	1,295,719.6	897,130.7	829,245.9
Advances	739,772.0	667,389.5	578,122.2
Total Assets	2,369,885.5	1,975,705.8	1,706,361.4
Borrowings	360,105.7	44,863.9	21,911.2
Deposits & other accounts	1,727,102.0	1,657,312.1	1,431,036.6
Subordinated Loans	-	-	-
Tier-1 Equity	101,302.6	95,539.8	91,751.1
Net Worth	175,382.1	176,732.8	168,351.5
INCOME STATEMENT	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Net Mark-up Income	54,252.9	54,824.4	53,720.9
Net Provisioning	(675.3)	(701.3)	11,821.4
Non-Markup Income	31,065.9	29,966.6	34,983.4
Operating Expenses	48,224.8	46,943.4	42,120.4
Profit Before Tax	35,599.3	37,141.2	33,215.6
Profit After Tax	23,028.0	22,752.3	19,218.9
RATIO ANALYSIS	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Market Share (Advances) (%)	11.3%	13.0%	14.1%
Market Share (Deposits) (%)	13.2%	14.0%	13.1%
Gross Infection (%)	14.1%	15.3%	18.4%
Provisioning Coverage (%) (based on total provisions)	97.0%	95.5%	89.4%
Net Infection (%)	1.4%	1.5%	2.8%
Cost of deposits (%)	3.9%	4.1%	4.5%
Net NPLs to Tier-1 Capital (%)	9.4%	9.8%	17.4%
Capital Adequacy Ratio (C.A.R (%))	16.0%	16.5%	17.6%
Markup Spreads (%)	3.3%	4.1%	3.2%
Efficiency (%)	62.5%	62.7%	56.9%
ROAA (%)	1.1%	1.2%	1.2%
ROAE (%)	18.7%	19.3%	17.6%
Liquid Assets to Deposits & Borrowings (%)	62.3%	64.0%	65.9%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix IV

Name of Rated Entity	National Bank of Pakistan
Sector	Public Sector Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
29-Jun-18	AAA	A-1+	Stable	Reaffirmed
30-Jun-17	AAA	A-1+	Stable	Reaffirmed
28-Jun-16	AAA	A-1+	Stable	Reaffirmed
30-Jun-15	AAA	A-1+	Stable	Reaffirmed
30-Jun-14	AAA	A-1+	Stable	Reaffirmed
26-Jun-13	AAA	A-1+	Stable	Reaffirmed
2-Jul-12	AAA	A-1+	Stable	Reaffirmed
30-Jun-11	AAA	A-1+	Stable	Reaffirmed