RATING REPORT

National Bank of Pakistan

REPORT DATE:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 30, '15*		*June 30, '14*	

COMPANY INFORMATION

Established in 1949	External auditors: **Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants and KPMG Taseer Hadi & Co. Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Muneer Kamal**
Key Shareholders (with stake 5% or more):	President & CEO: **Mr. Syed Ahmed Iqbal Ashraf**
State Bank of Pakistan – 75.20%	
Foreign Companies – 10.28%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: PRIMER – Commercial Banks (December 2001)
http://www.jcrvis.com.pk/images/primercb.pdf

National Bank of Pakistan

OVERVIEW OF THE INSTITUTION

National Bank of Pakistan (NBP) is the largest public sector bank in the country. NBP handles treasury transactions for the Government of Pakistan (GoP) as an agent to the State Bank of Pakistan (SBP). SBP holds 75.2% stake in the Bank while the remaining shares are held by the general public and institutional investors.

RATING RATIONALE

The ratings assigned to National Bank of Pakistan (NBP) 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).

The rating also reflects the bank's positioning as the second largest bank in the country having market share of 13.5% (2013: 13.3%) in domestic deposits. The bank's strategy, going forward, is focused on enhancing the proportion of non-remunerative deposits in the deposit mix, in addition to achieving overall growth in deposit base, to re-capture its positioning as the largest bank in the country. Liquidity profile of the bank remains sound; the bank carries sizeable liquid assets in addition to which reduction in depositor concentration levels has been observed in 2014.

Capitalization indicators feature improvement on a timeline basis; continuation of this trend is considered important in the backdrop of increased CET-1 requirements under Basel 3, higher risk charge on unrated exposures and an additional risk charge for Significantly Important Financial Institutions, that may be applicable to the bank. Enhanced retention levels may facilitate in achieving the same. The bank's Common Equity Tier-1 (CET-1) ratio is currently lower than peer banks and net-NPLs in relation to Tier-1 equity is highest amongst peer banks.

Over the last five years, NBP's exposure to the sovereign by way of advances and investments has grown significantly to 45% (2009: 31%) of the asset base. This includes NBP's exposure against state owned enterprises (SOEs) undergoing financial stress, which has also increased on a timeline basis. The bank has experienced delays in repayments against certain SOEs which have exposed the bank to economic losses with mark-up in suspense more than doubling in 2014. Asset quality indicators of the bank compares less favorably to peers, with net infection median of 1.3% in case of banks rated AAA and AA+ versus NBP's net infection ratio of 3.1%. Size of overseas operations have declined significantly over the last five years and comprised 6.3% (2009: 14.7%) of the bank's asset base at year-end 2014. Asset quality of overseas portfolio is considered weak with gross and net infection of 47% and 20%, respectively. Focus of overseas operations is on recoveries with fresh lending projected to remain limited.

Healthy growth has been witnessed in the bank's retail portfolio which now represents over one fifth of the bank's loan book. Given the product structures, infection in the retail segment has been recorded well below industry norms; though some increase in the same was witnessed in the outgoing year. Going forward, the bank intends to consolidate its corporate portfolio while fresh lending is planned to be undertaken in high yielding segments including consumer, commercial and SME segments where the bank has set aggressive growth targets.

Despite growing NPLs and increase in overdue public sector exposures, operating profits posted by NBP increased by 17% during 2014. Given the high cost base, efficiency ratio (cost to recurring income) of the bank is still the highest amongst peer banks. Overall profitability posted a sizeable jump in 2014 on the back of higher gain on sale of securities and lower provisioning charges. Going forward, spreads may come under pressure with maturity of PIBs in 2016, particularly following the recent cut in discount rate whereby the downward adjustment in cost of saving deposits will be less than the re-pricing of loans. Management plans to pursue aggressive growth in low cost deposits and increase financing in high yielding assets while focusing on recoveries to augment profitability levels.

The bank is in the process of implementing its core banking application across all branches. The same is targeted to be completed by year-end 2015. This along with implementation of an effective fraud risk management framework is considered important to strengthen the control environment at the bank.

National Bank of Pakistan **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	561.764	397.959	343.538
Advances	626.704	615.420	654.690
Total Assets	1,543.054	1,364.926	1,309.528
Borrowings	37.541	22.239	51.297
Deposits & other accounts	1,233.525	1,101.139	1,036.739
Subordinated Loans	-	-	-
Tier-1 Equity	110.356	100.860	104.737
Net Worth	178.329	156.287	139.981
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	44.166	38.205	43.674
Net Provisioning	11.077	19.491	10.688
Non-Markup Income	31.472	25.570	23.849
Operating Expenses	39.425	36.272	34.925
Profit Before Tax	22.001	7.078	21.378
Profit After Tax	15.028	5.500	14.941
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Advances) (%)	12.6%	13.4%	15.1%
Market Share (Deposits) (%)	13.5%	13.3%	13.5%
Gross Infection (%)	16.6%	16.3%	12.6%
Provisioning Coverage (%)	83.9%	80.1%	82.0%
Net Infection (%)	3.6%	4.2%	3.0%
Cost of deposits (%)	5.8%	5.5%	5.6%
Net NPLs to Tier-1 Capital (%)	20.0%	25.0%	18.2%
Capital Adequacy Ratio (C.A.R (%))	17.4%	15.2%	15.5%
Markup Spreads (%)	4.2%	4.8%	5.1%
Efficiency (%)	62.4%	64.1%	56.6%
Basic ROAA (%)	4.2%	4.0%	4.7%
ROAA (%)	1.0%	0.4%	1.2%
ROAE (%)	9.0%	3.7%	11.2%
Liquid Assets to Deposits & Borrowings (%)	57.3%	51.6%	44.3%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 III

Name of Rated Entity	National Bank of Pakistan
Sector	Public Sector Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
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				
6/30/2015	AAA	A-1+	Stable	Reaffirmed
6/30/2014	AAA	A-1+	Stable	Reaffirmed
6/26/2013	AAA	A-1+	Stable	Reaffirmed
7/2/2012	AAA	A-1+	Stable	Reaffirmed
6/30/2011	AAA	A-1+	Stable	Reaffirmed