RATING REPORT

NBP Leasing Limited (NBPL)

REPORT DATE:
May 2, 2016

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Rating Watch Developing		Rating Watch Developing	
Rating Date	*May 2, '16*		*Nov 25, '15*	

COMPANY INFORMATION

Incorporated in 1995	**External Auditors:** M/s Ernst & Young Ford Rhodes Sidat Hyder – Chartered Accountants
Unlisted Public Company	**Chairman of the Board**: Mr. Tariq Jamali
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. M. Rizwan Masood
National Bank of Pakistan – 99.9%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies *http://jcrvis.com.pk/Images/NBFC.pdf*
Linkages between Parent and Subsidiary companies *http://jcrvis.com.pk/Images/criteria_parent.pdf*

NBP Leasing Limited

OVERVIEW OF THE INSTITUTION

Incorporated in November 1995, NBPL is a wholly owned subsidiary of NBP. Since acquiring their leasing license in 2005, the company has been principally engaged in the business of leasing, comprising finance lease only. Financial statements for 2015 were audited by Ernst & Young Ford Rhodes Sidat Hyder – Chartered Accountants.

RATING RATIONALE

NPB Leasing Limited (NBPL), a wholly owned subsidiary of National Bank of Pakistan (NBP), is principally engaged in the business of leasing. Around 113 clients are being served with more than 400 leases as at end-2015.

In the ongoing year, the company is expected to merge into NBP's Islamic Banking Group subject to approvals from regulatory bodies.

Key Rating Drivers

- Ratings of NBPL derive strength from its association with NBP, which is one of the largest commercial banks operating in the country. The bank has the highest achievable rating of AAA.
- Overall governance structure is considered sound, with more than one-third of the Board being represented by independent directors; all Board committees are chaired by independent directors. Both the Board and management team include personnel having experience pertinent to the financial services sector. During 2015, the position of CEO was vacated and filled by Mr. M. Rizwan Masood, who previously served as Chief Operating Officer at NBPL.
- Lease portfolio decreased by 13% during 2015. Most of the diminution in portfolio and disbursements was witnessed in second half of the outgoing year. Lease portfolio features client-wise concentration; exposure against top ten clients represented over one-third of the portfolio. Counterparty concentration is expected to improve post-merger, as the leasing portfolio becomes part of a larger portfolio and new relationships are added to the company's clientele. Sector concentration though significant, is considered manageable.
- Given its merger plans, NBPL follows a prudent disbursement strategy which revolves around generating business from existing clients only. While more than two-third of aggregate lease exposure is in equipment & machinery, credit risk is planned to be mitigated by increased focus on vehicle leasing and geographical exposure being limited to Karachi. Net investment portfolio of NBPL reduced to Rs. 2.3m (2014: Rs. 24.4m), management does not intend to make significant investments going forward.
- Quality of lease portfolio has depicted some improvement on account of recoveries. Non-performing leases (NPLs) carried on books primarily pertain to legacy portfolio and fresh accretion of NPLs in recent years has remained limited. Consequently, infection witnessed slight decrease.
- The company has maintained sound capitalization indicators, with equity growing over time on the back of internal capital generation. A sizeable portion of debt was repaid in 2015; total borrowings amounted to Rs. 50.0m at end of the outgoing year. As a result, gearing and debt leverage ratio of NBPL stood at favorable levels of 0.06x and 0.10x respectively. Funding sources are currently limited to the parent bank, in line with merger plans.
- NBPL reported profit after tax of Rs. 50.7m (2014: Rs. 26.3m) in 2015. Though lease income demonstrated decrease, earnings almost doubled on account of sizeable recoveries from defaulting parties and reversal in provision of PEL preference shares. Given that leverage is low, impact of decline in interest rates on the company's earnings will remain muted; moreover, pricing of both assets and liabilities of NBPL is benchmarked with market rates.

NBP Leasing Limited (NBPL) — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Total Investments	2.3	24.4	25.6
Investment in Finance Lease	779.7	900.8	884.0
Total Assets	894.7	962.0	958.0
Borrowings	50.0	175.0	204.0
COI	-	-	-
Subordinated Loans	-	-	-
Net Worth	816.2	766.1	740.7
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Net Mark-up Income	96.9	100.3	83.6
Net (Provisioning) / Reversal	20.8	0.1	(9.8)
Operating Expenses	61.0	53.7	47.3
Profit (Loss) Before Tax	68.5	46.2	24.8
Profit (Loss) After Tax	50.7	26.3	25.9
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Gross Infection (%)	17.8	20.0	21.0
Provisioning Coverage (%)	69.4	62.9	65.0
Net Infection (%)	6.2	8.5	9.5
Efficiency (%)	56.6	46.2	56.0
ROAA (%)	5.5	2.7	2.9
ROAE (%)	6.4	3.5	3.6
Gearing (x)	0.1	0.2	0.3
Debt Leverage (x)	0.1	0.3	0.3
Current Ratio (x)	2.8	2.8	3.2

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	NBP Leasing Limited
Sector	Non-Bank Financial Institution (NBFC)
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				
2-May-16	A+	A-1	Rating Watch Developing	Reaffirmed on Rating Watch
25-Nov-15	A+	A-1		Rating Watch Developing
19-Jun-15	A+	A-1	Stable	Maintained
24-Jun-14	A+	A-1	Positive	Reaffirmed
16-Jul-13	A+	A-1	Positive	Reaffirmed
24-Jul-12	A+	A-1	Positive	Maintained
30-Jun-11	A+	A-1	Stable	Upgrade