



## Rating Action

Lahore : 30-Jun-2016

## Analyst

Saira Rizwan  
(+92-42-35869504)  
saira.rizwan@pacra.com  
www.pacra.com

## Applicable Criteria and Related Research

- Banking Sector - Viewpoint | Dec-15
- Bank Rating Methodology

## Disclaimer

This press release is being transmitted for the sole purpose of dissemination through print/electronic media. The press release may be used in full or in part without changing the meaning or context thereof with due credit to PACRA.

## PACRA Maintains Ratings of National Bank of Pakistan

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of National Bank of Pakistan (NBP) at 'AAA' (Triple AAA) and 'A1+' (Single A one Plus) respectively. These ratings denote the lowest expectation of credit risk emanating from an exceptionally strong capacity for timely payment of financial commitments.

The ratings reflect NBP's strong ownership structure (Government of Pakistan (GoP) holds major stake) and also a significant contribution (37% at end-Dec15) in the bank's deposit base. NBP maintains a strong financial risk profile, characterized by firm risk absorption capacity and healthy liquidity. The bank's diversified deposit base benefits from its strong franchise and extended outreach, particularly in remote areas. Lately, the bank has enhanced the pace of its deposit growth, which was little behind the peers in recent years. This has helped in holding deposits. A focussed strategy remains important to manage spreads, in turn, earning profile of the bank. During CY15, asset mix changed in favor of government securities with slight decline in the advances book. Meanwhile, capital gains on government securities - an outcome of interest rate easing - boasted the bottom-line. However, asset quality remained the key challenge as NPLs accretion continued to impact the core performance. Overseas operations and domestic private credit are key contributors to overall infection. Thus strengthening of related risk management systems is important. Going forward, the bank is keen to strengthen its lending portfolio; entering into profitable avenues may pose a challenge. With focused efforts, NBP has managed to bring volumes in Islamic banking (Aitemaad) though limited; it is targeted to contribute towards growth.

In a recent development, the Senate has passed Depositor Protection Act. Accordingly, Depositor Protection Corporation (DPC) would be established as a wholly owned subsidiary of SBP. This is to provide protection to small depositors and maintain trust in financial system. Once implemented, protection available to NBP depositors under the Banks (Nationalization) Act, 1974 (clause 4 of section 5) would be removed.

The ratings are dependent on the bank's ability to hold its existing position in the banking sector while remaining abreast with changing operating environment. At the same time, maintaining cost structure at current level whilst improving on the asset quality is considered important. Given public sector banking institution, upholding a strong governance framework is critical; any deterioration may negatively impact the ratings.

**About the Bank** National Bank of Pakistan - the largest public sector commercial bank - operates with a network of over 1,400. NBP maintains a total deposit share of 13% at end-CY15. NBP is majority (~75%) owned by GoP, through State Bank of Pakistan (SBP). The bank acts as an agent of SBP and manages treasury operations for GoP.

NBP's eight member GoP nominated board including the President is chaired by Mr. Muneer Kamal the Chairman, since 2014, is a seasoned banker. Syed Ahmed Iqbal Ashraf, the President since Jan14, is supported by an experienced team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.