

## **VISION**

*To be the pre-eminent financial institution in Pakistan and achieve market recognition both in the quality and delivery of service as well as the range of product offering*

## **MISSION STATEMENT**

*To be recognized in the market place by Institutionalizing a merit & performance culture, Creating a powerful & distinctive brand identity, Achieving top-tier financial performance, and Adopting & living out our core values.*

# **FINANCIALS / HISTORY OF NATIONAL BANK OF**

## **PAKISTAN**

National Bank of Pakistan maintains its position as Pakistan's premier bank determined to set higher standards of achievements. It is the major business partner for the Government of Pakistan with special emphasis on fostering Pakistan's economic growth through aggressive and balanced lending policies, technologically oriented products and services offered through its large network of branches locally, internationally and representative offices.<sup>1</sup>

NBP is looked forward to meet the expectations through Market-based products and solutions, by rewarding entrepreneurial efforts and creating value for stockholders.

### **National Bank of Pakistan- Financial and Market Leader:**

In the domestic banking industry of Pakistan National Bank of Pakistan possesses a unique position. National Bank of Pakistan was established under the National Bank of Pakistan Ordinance 1949 in Pakistan. National Bank of Pakistan is providing every possible facility to nation's socio-economic development. It also undertakes Government Treasury operations. It is the largest contributory agent of Government and Semi-Government requirements. It acts as an agent of the Central Bank wherever the State Bank does not have its own branch. It is the largest commercial bank in the country and an agent of GOP, NBP provides a wide range of services, including collection of taxes and deliveries of salaries, pensions to public sector employees. It has lowest rates on exports and other borrowings. NBP occupies a unique position in the financial sector of Pakistan.

It is the only domestic bank of the country, which has been awarded "*The Best Domestic Bank*" consecutively in 2001 and 2002 by the renowned journal "*The Banker UK*". It is also the only domestic bank of the country which had has been compared and included by prestigious Journal "The Asia Week" with other banks in the region. The National Bank of Pakistan is also the first bank which has started a "Foreign Exchange Company" in order to facilitate the general masses, regularize the inflows of foreign money and control the undesirable blackmailing of private foreign exchange companies in the country.

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<sup>1</sup> [www.nbp.com.pk](http://www.nbp.com.pk)

## Credit Ratings of National Bank of Pakistan (2003-04)<sup>2</sup>

Category	Latest	Pervious
<b>Entity</b>	AAA/A-I	AAA/A-I
<b>Date /Period</b>	April 30,2003	September 20,2002
<b>Out Look</b>	Stable	Stable
<b>Stand Alone</b>	AA-/A-I	AA-/A-I+
<b>Out Look</b>	Positive	Positive

The above data confirms the financial superiority, unmatched managerial skills, strategic vision, comprehensive marketing policies, and above all immaculate leadership of Ali Raza the President of NBP in the whole domestic banking industry of the country. It has been achieved with giant and joint team effort of all the workers from top to bottom under the unparalleled supervision of the President of the bank who has made NBP a role model to all the domestic banks of the country and rest of the region.

## Main Financial Data of National Bank of Pakistan (Rs. in Million)<sup>3</sup>

Financial Highlights of National Bank of Pakistan					(Rupees in million)
	1999	2000	2001	2002	2003
Total Assets	350,406	371,636	415,089	432,803	471,866
Deposits	294,754	316,493	349,617	362,866	395,568
Shareholders' Equity	10,358	11,378	11,959	14,279	18,134
Profit (Pre-Tax)	520	1,032	3,016	6,045	9,009
Return on Assets (Pre-Tax)	0.2%	0.3%	0.8%	1.4%	2.0%
Return on Equity (Pre-Tax)	5.1%	9.5%	25.9%	45.3%	55.6%
Earning per share (After-Tax Profit)	0.1	1.2	3.0	5.5	10.2
Earning per share (Pre-Tax Profit)	1.4	2.8	8.0	14.7	21.9
Book Value per share (including revaluation surplus)	43	46	47	58	67

The above table reflects NBP's overall financial strength, greater availability of credit facilities and investment opportunities in the domestic banking industry of the country. Indeed National Bank of Pakistan is customer's friendly and industrial's facilitator.

<sup>2</sup> Source: (Japan Credit Rating Agency Credit Rating, 2003)

<sup>3</sup> <http://www.bluechipmag.com/pi/1004/pf02.html>

## Major Loans Sanctioned By National Bank of Pakistan in 2003-04

Name of the Borrowers	Nature of Financing	Amount Sanctioned
<i>PSO</i>	Project Financing	US\$ 100
<i>Ibrahim Fibers Limited</i>	Offshore Financing	US\$ 50
<i>Mobilink</i>	Trade & Funded	Pak Rs. 2100 M
<i>ORIX Leasing Pak Limited</i>	Term Loan	Pak Rs. 2000 M
<i>Atlas Group of Companies</i>	Investment & Project	Pak Rs. 2000 M
<i>Chenab Limited</i>	Financing Facility	Pak. Rs. 900 M

It is evident from the above table that National Bank of Pakistan is facilitating the process of industrialization in the country.

## Comparative Analysis of profitability of NBP ((Rs. in Million)

Year	Pre-tax	Post-tax	Earnings per share	Return on assets (%)	No. of branches	No. of employees
<b>1999</b>	520	31	0.21	0.2	1431	15541
<b>2000</b>	1032	461	1.24	0.3	1428	15351
<b>2001</b>	3016	1149	3.08	0.8	1245	15163
<b>2002</b>	6045	2253	5.49	1.4	1204	12195
<b>2003</b>	9009	4199	10.23	2.0	1199	13272

The above table shows that NBP's profit and income is on the increase from 1999 to 2003. Due to better administrative control and financial discipline in the affairs of NBP, the administrative expenses have been reduced.

National Bank of Pakistan is achieving high standards of customer services and ratios of profitability. Many scientific management techniques are being used to enhance the productivity and good will of the bank in the eyes of common people. National Bank of Pakistan is also introducing corporate culture, risk management tactics, total quality management traditions, and above all concept of good governance in each and every department of National Bank of Pakistan.

## Comparative Analysis of Domestic Banking Industry of Pakistan (Rs. million)

Bank	Deposit	Advances	Investments
ACB	51,732	30,035	26,759
BAH	34,240	23,775	18,831
Bop	23,767	6,621	8,295
BB	7,761	3,298	1,328
FB	24,554	21,935	6,842
HBL	328,182	167,523	142,877
KB	2,640	490	2,118
MCB	182,706	78,924	89,610
<b>NBP</b>	<b>362,866</b>	<b>140,547</b>	<b>143,525</b>
PCB	21,155	10,876	10,306
PB	14,640	9,016	7,534
SB	20,545	11,378	9,844
UB	37,760	28,890	11,822
UBL	154,915	74,117	69,385

## Gross Assets of Different Domestic Banks of the Country (Rs. in Million)

Bank	2002	2003
ACB	70,313	85,387
BAH	49,437	58,148
BOP	29,525	43,621
BB	10,595	11,726
FB	36,671	47,606
KB	4,037	8,990
MCB	235,139	272,324
<b>NBP</b>	<b>432,803</b>	<b>471,860</b>
PCB	27,982	40,134
PB	21,637	29,566
Total	955,907	1,139,446

## Total Equity of Different Domestic Banks (Rs. Million)

Bank	2003
BB	1,113
FB	4,120
KB	593
MCB	6,314
<b>NBP</b>	<b>14,279</b>
PCB	1,323
PB	1,380

It is great opportunity for NBP to monopolize the huge potential market of common consumers in the country and to increase the profitability of the bank. It will enhance the overall economic activity, industrial productivity in the country and reduce slackness in the consumer market. Insurance & Pension Funds, Sales Finance, Mortgages, and Affinity Loans are very common in many ASEAN countries and National Bank of Pakistan can be benefited from the successful experiences of other countries in order to grab the local markets.<sup>4</sup>

KASB securities recommend banks as key winners in the upcoming budget due to corporate tax savings as quoted:

***“Reduction in tax rates of banking companies by 300bps to 38% is a net positive for the banking sector. Sustainable economic growth and higher trade volumes also bode well for the banking sector.”***<sup>5</sup>

<sup>4</sup> All facts and figures taken from [www.mediamonitors.net/biopakbymuhkhan.html](http://www.mediamonitors.net/biopakbymuhkhan.html)

<sup>5</sup> ***In-depth Report Pakistan Pre Budget*** 29 May 2006 Pakistan Research Team, [research@kasb.com](mailto:research@kasb.com)

## Cost of Capital

National Bank of Pakistan has following operations:

- ✧ Engaged in providing commercial banking and related services in Pakistan and overseas
- ✧ Handles treasury transactions for the Government of Pakistan as an agent to the State Bank of Pakistan.
- ✧ Provides services as trustee to National Investment Trust (NIT)
- ✧ Introduced “*Foreign Exchange Company*” in order to facilitate the general masses, regularize the inflows of foreign money and control the undesirable blackmailing of private foreign exchange companies in the country.

National Bank should have a single cost of capital because majority of its revenue comes from commercial banking. Its other operations constitute a very small percentage in revenues. According to an estimate only 2-3 percent of NBP’s total revenue comes from other operations.<sup>6</sup>

## Cost of Equity

Using CAPM for calculating cost of equity:

$$R_f = 9.25\% \text{ (3-months T-bills)}$$

$$R_m = 15.25 \%$$

$$\text{Beta} = 0.8 \text{ (company specific)}$$

*(Values taken from Mr. Farhan Mahmood, GM Analyst, Jahangir Siddique & Co. Karachi)*

$$R_e = R_f + \text{Beta} (R_m - R_f)$$

$$R_e = 14.05 \%$$

## Cost of Debt

Cost of debt was calculated by dividing the long term debt by average debt balance.

$$R_d = \text{long term debt} / \text{avg debt balance (in Rupees 000s)}$$

$$R_d = 30.48\%$$

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<sup>6</sup> Information provided by Mr. Bilal Sethi, Senior Associate, Investment Banking Group North, KASB securities.

## **Determining WACC**

Tax rate = 42.5% (average), Debt to Equity Ratio = 0.31,

Weighted average cost of capital can be calculated by:

$$WACC = \frac{\text{Debt} \times R_d \times (1 - T_c)}{\text{Debt} + \text{Equity}} + \frac{\text{Equity} \times R_e}{\text{Debt} + \text{Equity}}$$

$$WACC = 15.1\%$$

## **Forecast Assumptions**

In year 2005, there was a radical increase in revenues and profits because of the measures taken by Mr. Ali Raza. His tasks included structural reforms and changes in administration system.

*“The bank has been restructured with the objective of empowering people, reducing decision making layers and creating a business focus. In other words, trying to transform a public services institution into a commercial one.”<sup>7</sup>*

This resulted in an efficient and strong foundation for future operations. When a system goes through a major change, the results change immensely. However, same growth and development is not expected in future because the bank will follow the new system in future and there will be no major change. Instead the revenues will grow in a bit stagnant manner. Our forecast assumptions are based on the above mentioned facts.

## **Forecast Future Cash Flows**

Terminal Value (Yr9) = CF in (Yr10)/Terminal Capitalization Rate

$$\text{Terminal Capitalization Rate} = R = R(t) = r - g$$

Where g = growth in cash flows, r = required rate of return or discount rate

**Here g = 9.7%**

***We have calculated the value of “g” by our own analysis of past cash flows and the analysis of the banking industry.***

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<sup>7</sup> Flying High - Ali Raza by Mashaal Gauhar <http://www.bluechipmag.com/pi/1004/pf02.html>



## **Present Value of Cash Flows**

By using WACC (15.1%) to discount all the cash flows to the most recent times, we got the total value of the company:

Value of enterprise = Rs. 165,746,855 (000s)

## **Estimated Price Per Share**

By subtracting the outstanding debt from the value of firm and then dividing it with the number of shares outstanding we calculated the price per share. ( all values are in 000s)

Enterprise value = 165,746,855  
 Less: Outstanding debt = 33,731,297  
 Equals: Value of equity = 132,015,558  
 Divide: No. of shares = 590,893  
 Equals: Equity value/share                      **223**

## **Cross Check**

From our analysis:

Share value = 223

From market:

Share value = 220.05 (on 5<sup>th</sup> June 2006)

## **Sensitivity Analysis**

*Difference in share price = 223-220.05 = 2.95*

Since there is a difference in share price so according to the sensitivity analysis:

<b>Sensitivity analysis</b>	
<i><b>Discount rate (%)</b></i>	<i><b>Share price(Rs.)</b></i>
14.0	226.12
15.1	223.0
16.0	221.24
16.5	220.05

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