

RATING REPORT

First National Bank Modaraba (FNBM)

REPORT DATE:

July 13, 2015

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	Negative		Stable	
Rating Date	July 6, '15		Dec 31, '13	

COMPANY INFORMATION

Incorporated in 2003**External Auditors:** M/s Riaz Ahmad & Co., Chartered Accountants**Public Listed Company****Chairman of the Board:** Mr. Wajahat Baqai**Key Shareholders (with stake 5% or more):****Chief Executive Officer:** Mr. Khaqan Hasnain Ibrahim

National Bank Modaraba Management Company Limited – 30%

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

First National Bank Modaraba (FNBM)

OVERVIEW OF THE INSTITUTION

FNBM is a multi-purpose Modaraba operating since 2003. Working under the principles of Islamic Shariah, the modaraba is engaged in the provision of financing including ijarah, diminishing musharakah and murabaha. FNBM is listed on the Karachi and Lahore stock exchanges with the head office situated in Lahore.

RATING RATIONALE

First National Bank Modaraba (FNBM) is managed by National Bank Modaraba Management Company Limited (NBMMCL), a wholly owned subsidiary of National Bank of Pakistan. The modaraba management company continues to hold 30% of certificates in the modaraba. Over the past few years, the modaraba has encountered problems in terms of increasing infection leading to higher provisioning charge. Moreover, financing portfolio of the modaraba has declined on a timeline basis resulting in lower operating revenue. The aforementioned factors have led to increasing losses on a YoY basis. Resultantly, equity base of the modaraba stood considerably eroded at Rs. 156.8m (end-FY14: 263.7m) at end-9MFY15. Sufficient injection of equity along with improvement in asset quality is considered essential for the modaraba to sustain its risk profile.

Financing portfolio has shrunk on a timeline basis largely on account of curtailment in Murabaha financing and lately also due to limited disbursements in Ijarah. Total financing portfolio declined to Rs. 870.3m (FY14: 1.21b; FY13: Rs. 1.42b) by end-9MFY15 as the primary focus remained on recoveries and regularization of non performing accounts. Disbursements have declined on a timeline basis that amounted to Rs. 104.4m (FY14: Rs. 491m; FY13: 638m) during 9MFY15. In Ijarah financing, the management's focus remained on vehicles and equipment & machinery related to existing clientele. Ijarah of vehicles was 64% of total disbursements during 9MFY15. The management plans to concentrate on small leases unless the client has a good repayment history.

The funding mix comprises bank borrowings and Certificates of Musharaka. Total borrowings decreased to Rs.0.78b (FY14: Rs. 1.04b; FY13: Rs. 1.34b) by end-9MFY15, on account of both retirement of long-term funds and repayment of short-term credit lines. Given relatively lower rates, the management's focus remained on mobilizing short-term certificates of Musharaka which witnessed 23% increase during 9MFY15. Aggregated un-availed credit lines of Rs. 339m were available at end-9MFY15. Un-utilized credit lines provide some comfort to the liquidity profile.

With the reduction in financing portfolio along with increase in non-performing loans, total revenues generated (net of depreciation) have been declining on a timeline basis. Finance costs reduced on account of a fall in average borrowings and a downward trend in discount rate. Operating expenses, mainly comprising employee related costs, remained largely stagnant. The company posted a net loss of Rs.106.9m (FY14: loss Rs. 34.2m, FY13: loss 16.9m) during 9MFY15.

Since November 2014, the management team had been led by Head of Credit Management till the process of hiring a permanent CEO was completed. In this context, the modaraba has inducted Mr. Khaqan Hasnain Ibrahim as a CEO in May 2015. Mr. Ibrahim is a seasoned banker and has an extensive financial sector and Islamic finance experience. Before joining FNBM, he was CEO of another Modaraba company. With induction of new CEO, strategic plan and course of action for business growth will be evident over time.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

First National Bank Modaraba (FNBM)

Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	Mar 31, 2015	Jun 30, 2014	Jun 30, 2013
Total Financing	870	1,214	1,424
Total Assets	1,022	1,383	1,719
Borrowings*	784	1,038	1,336
COMs	315	259	446
Net Worth	157	264	298
INCOME STATEMENT	Mar 31, 2015	Jun 30, 2014	Jun 30, 2013
Net Mark-up Income	284	432.8	424
Net (Provisioning) / Reversal	(109.7)	(32.5)	(45.6)
Operating Expenses	17.2	23.5	23.0
Profit (Loss) Before Tax	(106.9)	(34.2)	(16.9)
Profit (Loss) After Tax	(106.9)	(34.2)	(16.9)
RATIO ANALYSIS	Mar 31, 2015	Jun 30, 2014	Jun 30, 2013
Gross Infection (%)	40.4	20.3	16.5
Provisioning Coverage (%)	39.8	37.3	29.6
Net Infection (%)	29	13.8	12.2
Efficiency (%)	86.3	107.5	45.0
ROAA (%)	(11.9)**	(2.2)	(1)
ROAE (%)	(67.8)**	(12.2)	(5.3)
Current Ratio (x)	0.60	0.69	0.74

* including COMs ** Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix

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.

JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	First National Bank Modaraba				
Sector	Modaraba				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	06-Jul-15	A	A-1	Negative	Maintained
	02-Jan-14	A	A-1	Stable	Downgrade
	14-Nov-12	A+	A-1	Negative	Maintained
	08-Jul-11	A+	A-1	Stable	Reaffirmed
	20-May-10	A+	A-1	Stable	Reaffirmed
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.				
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