RATING REPORT

National Bank of Pakistan

REPORT DATE:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 28, 2019*		*June 29, 2018*	

COMPANY INFORMATION

Incorporated in 1949	**External auditors:** M/s Deloitte Yousuf Adil Chartered Accountants and M/s Grant Thornton Anjum Rahman Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Zubyr Soomro
Key Shareholders (with stake 5% or more):	**President:** Mr. Arif Usmani
State Bank of Pakistan – 75.2%	
Foreign Companies – 9.6%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks Rating Methodology (March 2018)
http://vis.com.pk/kc-meth.aspx

National Bank of Pakistan

OVERVIEW OF THE INSTITUTION

Incorporated in Pakistan under the National Bank of Pakistan Ordinance, 1949, National Bank of Pakistan (NBP) is the largest public sector bank in the country. Shares of the bank are listed and traded on Pakistan Stock Exchange (PSX).

Profile of Chairman & CEO

Mr. Usmani is a seasoned professional with over 35 years of professional experience encompassing financial institutions in various geographical locations.

RATING RATIONALE

Largest public sector bank with sound sponsor profile

National Bank of Pakistan (NBP) is the largest public sector bank in the country, the bank handles treasury transactions for the Government of Pakistan (GoP), acting as an agent to the State Bank of Pakistan (SBP). It operates at a domestic deposit base of a Rs 1.9 trillion at market share of 14.3% (2017: 13.2%) and domestic advances base of Rs 974b at a market share of 12.3% (2017: 12.0%) at end-2018. NBP operates with a branch network of 1,525 (2017: 1,519) branches at end-2018.

Growth in financing portfolio continues along with improvement in asset quality

Gross advances portfolio of the bank increased to Rs. 1,059.5b (2017: Rs. 856.9b) at end-2018, thereby depicting a growth of 23.6% which was primarily driven by growth in the domestic portfolio from its corporate & commercial segments. Corporate advances remain the mainstay of the total portfolio. Total non-performing loans (NPLs) stood higher at Rs. 133.4b (2017: 120.8b) at end-2018. Nonetheless, with an increase in the overall portfolio size, gross and net infection ratios improved to 12.6% (2017: 14.1%) and 0.8% (2017: 1.4%) at end-2018.

Liquidity profile remains adequate along with improvement in cost effective deposit mix

During 2018, deposit base of the bank depicted a growth of 16.5%, significantly higher than the industry average. Core focus of the bank, during the outgoing year, entailed a strategy of growing low cost deposits. As a result of the same, retail based current and savings accounts have depicted a modest growth during 2018. Moreover, concentration in deposits trended upwards slightly as top-25 accounted for 21% (2017: 19%) of the total deposit base at end-2018. Liquidity profile continued to remain adequate on account of sizeable liquid assets in relation to deposits and borrowings (2018: 60.8%; 2017: 63.8%). Furthermore, adequate cushion is also available in both Liquidity Coverage Ratio and Net Stable Funding Ratio over the regulatory requirements.

Profitability remained subdued on the back of stable spreads, moderate increase in non-markup income along with higher operating expenses and provisioning charge

Operational profit of the bank continued to increase with higher average earning assets along with fee based & foreign exchange income. However, with increasing employee related costs and a one-off provision charge, bottom line of the bank was adversely impacted. Moreover, spreads of the bank remained stable at 3.3% on account of lower yielding advances & investment portfolio. Efficiency ratio of the bank improved slightly to 61.7% (2017: 62.5%) on account of relatively higher growth in recurring income vis-à-vis growth in expenses. Currently, a large chunk of fee, commission and brokerage income is derived from government transactions. Along with earning assets mix, overall profitability of NBP is highly dependent upon any future provision charge on the advances portfolio, along with the contingent pension charge owing to the legacy pension case.

Developments related to compliance being undertaken on the international front

The management is currently working towards enhancing the vigilance of transactions against a sanctioned list defined under Office of Foreign Assets Control (OFAC) Regulations. Current IT systems are also being strengthened in order to integrate core data with an international database to comply with regulatory requirements. Operating costs are expected to increase on account of the same.

Capitalization indicators remain sound, however, the same may come under pressure in case of an unfavorable outcome in the NBP pension case

Capital Adequacy Ratio (CAR) and leverage ratios remain sound at 16.35% (2017: 15.95%) and 3.42% (2016: 3.42%), respectively at end-2018. Management anticipates CAR levels to improve, going forward, given their ongoing consolidation strategy on its books. At end-December 2018, net NPLs to Tier 1 Capital of the bank also decreased to 5.4% (2017: 9.4%) primarily on account of growth witnessed in Tier 1 capital on the back of profit retention. In case of unfavorable outcome in the pension case, capitalization indicators will come under pressure and subsequently require further strengthening in order for aforementioned indicators to remain commensurate with the outstanding ratings.

National Bank of Pakistan Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**DEC 31, 2018**	**DEC 31, 2017**	**DEC 31, 2016**
Total Investments	1,284,319.4	1,295,719.6	897,130.7
Advances	926,007.0	739,772.0	667,389.5
Total Assets	2,798,566.2	2,505,321	2,008,854.9
Borrowings	392,739.4	360,105.7	44,863.9
Deposits & other accounts	2,011,385.2	1,727,102.0	1,657,312.1
Subordinated Loans	-	-	-
Tier-1 Equity	124,818.2	101,303.6	95,539.8
Net Worth	206,868.5	175,382.1	176,732.8
INCOME STATEMENT	**DEC 31, 2018**	**DEC 31, 2017**	**DEC 31, 2016**
Net Mark-up Income	60,666.2	54,252.9	54,824.4
Net Provisioning	11,300.3	1,191.9	397.3
Non-Markup Income	36,248.9	31,065.9	29,966.6
Operating Expenses	55,687.4	48,224.8	46,943.4
Profit Before Tax	29,683.4	35,599.3	37,141.2
Profit After Tax	20,015.1	23,028.0	22,752.3
RATIO ANALYSIS	**DEC 31, 2018**	**DEC 31, 2017**	**DEC 31, 2016**
Market Share (Advances) (%)	12.3%	12.0%	13.0%
Market Share (Deposits) (%)	14.3%	13.2%	14.0%
Gross Infection (%)	12.6%	14.1%	15.3%
Provisioning Coverage (%)	100.1%	97.0%	95.1%
Net Infection (%)	0.8%	1.4%	1.5%
Cost of deposits (%)	4.2%	3.7%	3.3%
Net NPLs to Tier-1 Capital (%)	5.4%	9.4%	9.8%
Capital Adequacy Ratio (C.A.R (%))	16.4%	16.0%	16.5%
Markup Spreads (%)	3.3%	3.3%	4.1%
Efficiency (%)	61.7%	62.5%	62.7%
ROAA (%)	0.8%	1.0%	1.2%
ROAE (%)	14.7%	18.7%	19.3%
Liquid Assets to Deposits & Borrowings (%)	60.8%	63.8%	64.0%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28-Jun-19	AAA	A-1+	Stable	Reaffirmed
29-Jun-18	AAA	A-1+	Stable	Reaffirmed
30-Jun-17	AAA	A-1+	Stable	Reaffirmed
28-Jun-16	AAA	A-1+	Stable	Reaffirmed
30-Jun-15	AAA	A-1+	Stable	Reaffirmed
30-Jun-14	AAA	A-1+	Stable	Reaffirmed
26-Jun-13	AAA	A-1+	Stable	Reaffirmed
02-Jul-12	AAA	A-1+	Stable	Reaffirmed
30-Jun-11	AAA	A-1+	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	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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