RATING REPORT

National Bank of Pakistan

REPORT DATE:
June 28, 2021

RATING ANALYSTS:

Asfia Aziz
asfia.aziz@vis.com.pk

Sundus Qureshi
sundus.qureshi@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 28, 2021*		*June 29, 2020*	

COMPANY INFORMATION

Incorporated in 1949	**External auditors:** Yousuf Adil Chartered Accountants and Grant Thornton Anjum Rahman Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Zubyr Soomro
Key Shareholders (with stake 5% or more):	**President & CEO:** Mr. Arif Usmani
State Bank of Pakistan – 75.2%	
Foreign Companies – 5.92%	
Public Sector Companies- 6.05%	

APPLICABLE METHODOLOGY(IES)

Commercial Banks Methodology – June'2020
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks202006.pdf

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 CEO

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

RATING RATIONALE

National Bank of Pakistan (NBP) was incorporated as a public limited company under the National Bank of Pakistan Ordinance, 1949. NBP is the largest public sector bank in the country with an additional mandate to handle treasury transactions for the Government of Pakistan (GoP) by serving as an agent to the State Bank of Pakistan (SBP). Shareholding pattern of the bank is majorly vested with SBP (direct and indirect) holding 75.6% stake while remaining shares are primarily held by foreign companies, public sector companies and the general public.

In 2020, declining interest rates and weakening in currency resulted in sluggish lending growth in the banking industry. Owing to the same, NBP also adopted a conservative lending stance and registered a meager growth of ~1% in gross financing portfolio being lower vis-à-vis industry growth. Asset quality indicators of the Bank weakened in 2020 with projected improvement in the same being considered important. Given the revival noted in the overall macroeconomic environment, the management targets growth during 2021 at rates similar to inflation levels. Achievement of the same depends upon duration and breadth of the pandemic.

Gross loan portfolio of the bank increased steadily from to Rs. 1.16tr (2019: Rs. 1.15tr) at-end'20. Around 4% of the gross financing portfolio amounting Rs. 40b was deferred/restructured against SBP relief. Of total advances, a large chunk of the bank constitutes private credit while the remaining belongs to the public sector. Gross lending to the private sector amounted Rs. 822.3b (2019: Rs. 774.2b) as at end-December 2020. Credit risk on advances is considered manageable given a significant proportion of around 20% is maintained in the public sector, on a timeline basis. Proportion of domestic advances has increased to 93% of total gross advances given decline noted in the international portfolio. Given nature of business segments, corporate and investment banking (CIBG) represented around one-half of overall advances followed by commercial and retail portfolios. Analysis of sector-wise exposures indicates that additional advances have mainly been increased towards textile, cement, rice trading and engineering sectors. Higher exposure in engineering, cement and services sectors is a function of the GoP's relief package announced for the construction sector.

On the international front, management plans to consolidate its international operations by closing loss making branches which are creating a drag on the bank's overall profitability. During the year, the Board has decided to close its overseas subsidiaries in Kazakhstan and Tajikistan, close three overseas branches and limit operations in Afghanistan and Bangladesh.

Asset quality indicators weakened on account of higher NPLs booked amidst macroeconomic uncertainty. Comfort is drawn from higher general provisions booked in view of possible credit impairments. Higher NPLs in the review period were concentrated in oil and gas, sugar, textile and metal products sectors. The bank has provided for most of these exposures with specific provisioning coverage reported at 90.0% (2019: 90.2%), and higher general provisioning coverage recorded at 13.1% (2019: 6.1%) at end-2020. Going forward, with weak macroeconomic indicators and lagged impact of COVID-19 pandemic on certain industries, enhanced monitoring and prudent underwriting will be the focus area of the management. Going forward, the Bank's focus is towards consumer based lending and structured lending under housing finance may increase due to the government initiatives under the "Naya Pakistan Housing Scheme".

Credit and market risk emanating from investment portfolio is considered manageable.

Investment portfolio of the bank increased to Rs. 1.5tr (2019: Rs. 1.4tr) at end-Dec'20. Growth in investment portfolio was largely tilted towards building its long term government paper (Sukuk and PIB), higher listed equity portfolio due to unrealized gains on the same, during 2020. Investment mix witnessed a shift towards PIBs in view of the expectation of declining interest rates. While T-bills portfolio of the bank declined to Rs. 626b (2019: Rs. 735.9b), quantum of PIBs increased to Rs. 641b (2019: Rs. 514.3b) at end-2020. The bank also holds exposure in GoP foreign currency bonds amounting to Rs. 10.8b (2019: Rs. 26.6b) along with GoP Ijarah Sukuk of Rs. 6.0b (2019: Rs. 2b) at end-2020. Credit risk emanating from the portfolio is considered low as majority of investments are deployed in government securities including international sovereign securities.

Liquidity profile is considered healthy as evident from its cost effective & strong retail deposit mix. Significant liquidity buffer carried on the balance sheet also supports assessment of liquidity profile of the Bank.

Total deposit base of the bank witnessed a net increase to Rs. 2.4tr (2019: Rs. 2.2tr) at end-2020 with the growth emanating from domestic businesses. Core focus of the bank entailed a strategy of growing low cost deposits. Current account mix of the bank stands at 54% (2019: 55%) and CASA increased to 84% (2019: 82%) at end-2020.

Out of the aggregate deposit base, majority (around 96%) of the same pertain to domestic operations while the remaining are deposits from its international branches. Growth in deposit base of the industry outpaced the growth in domestic deposit base of the bank, consequently, market share of the bank in terms of domestic advances declined to 13.5% (2019: 15%) at end-2020. On the retail front, NBP Choice Current Account was re-launched in 2020 with increased features catering to the needs of small to medium-sized businesses. Concentration in deposits is considered to be on the higher side as top-20 accounted for 20% of the total deposit base at end-2020 and 1Q21. Improvement in the same is considered important.

Liquidity profile of the bank is supported by the presence of sizeable liquid assets in relation to deposits and borrowings. Furthermore, adequate liquidity is available through Liquidity Coverage Ratio and Net Stable Funding Ratio over the regulatory requirements as the same amounted to 180% and 256% at end-2020, respectively vis-à-vis regulatory requirement of 100% for each.

Going forward, management envisages deposit base to grow as evident from significant financial inclusion efforts, and higher attraction of FDIs. Increase in physical branches will remain slow relative to banking through digital channels given need of the hour to continuously digitize banking transactions.

Sound Capitalization Indicators

Capitalization indicators of the Bank are considered sound. Given the higher increase in eligible capital as compared to RWAs on account of SBP relaxation in CCB, total CAR of the bank increased 21.9% (2020: 19.8%, 2019: 15.5%) at end-Mar'21. Leverage ratio of the bank remained in compliance with the regulatory requirement reporting at 34.1% and 3.92%, at end-2020 and 1Q21, respectively. Net NPLs to Tier 1 Capital of the bank increased to 12% (2020: 8.8%, 2019: 9.6%) at end-Mar'21, primarily owing to increase in absolute NPLs.

Profitability indicators of the bank improved during 2020 on account of higher spreads and capital gains on federal government securities.

NBP's overall profitability profile has depicted sizeable improvement in 2020 despite higher provisioning expense. Greater profitability levels were a function of improving spreads as a result of immediate re-pricing of liabilities vis-à-vis assets, and higher capital gains on federal government securities. With a 28% growth in recurring income and 4% decline in operating expenses (due to absence of one-off provision in the preceding year), efficiency ratio of the bank improved to 49% (2019: 66%) in 2020. With expectation of possible credit impairments, the bank increased its provisioning charge to Rs. 30.9b (2019: Rs. 14.3b) for the year 2020. Profit after tax of the bank was reported greater at Rs. 30.5b (2019: Rs. 15.8b) in 2020. Going forward, management expects profitability levels to increase in comparison to 2020, however, the growth will be limited on account of lower quantum of capital gains. Consequently, elevation in profitability levels shall be a function of volumetric growth in average earning assets of the bank.

National Bank of Pakistan Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*				
BALANCE SHEET	**2018**	**2019**	**2020**	**1Q21***
Investments	1,284,319	1,449,555	1,463,398	1,836,497
Net Advances	926,007	1,008,139	983,255	947,741
Total Assets	2,798,566	3,124,389	3,008,527	3,340,330
Borrowings	392,739	471,757	138,539	603,265
Deposits & other accounts	2,011,385	2,198,049	2,418,966	2,280,375
Subordinated Loans	-	-	-	-
Tier-1 Equity	146,882	162,370	193,859	199,435
Net Worth	206,869	232,614	267,559	269,813
Paid- up Capital	21,275	21,275	21,275	21,275
INCOME STATEMENT				
Net Spread Earned	60,666	71,907	104,155	21,594
Net Provisioning / (Reversal)	11,300	14,250	30,896	3,112
Non-Markup Income	36,249	36,199	36,077	8,492
Administrative expenses	55,687	65,705	62,797	14,334
Profit/ (Loss) Before Tax	29,683	28,003	46,224	12,637
Profit / (Loss) After Tax	20,015	15,810	30,559	7,708
RATIO ANALYSIS				
Market Share (Domestic Advances)	13.4%	14.1%	13.7%	13.1%
Market Share (Domestic Deposits)	15.1%	15.0%	13.5%	12.7%
Gross Infection	12.6%	12.9%	14.8%	16.2%
Provisioning Coverage	100.1%	96.3%	103.1%	97.2%
Net Infection	0.76%	1.43%	1.71%	2.53%
Cost of deposits	NA	0.06	0.05	0.04
Gross Advances to Deposits Ratio	52%	51%	46%	47%
Net NPLs to Tier-1 Capital	5%	10%	9%	12%
Capital Adequacy Ratio (CAR)	16.25%	15.48%	19.78%	21.91%
Markup Spreads	3.25%	3.49%	4.20%	3.49%
Efficiency	62%	66%	49%	53%
ROAA	0.8%	0.5%	1.0%	1.0%
ROAE	14.7%	10.2%	17.2%	15.7%
Liquid Assets to Deposits & Borrowings	59%	60%	68%	68%

** Annualized*

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	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-21	AAA	A-1+	Stable	Reaffirmed
29-Jun-20	AAA	A-1+	Stable	Reaffirmed
28-Jun-19	AAA	A-1+	Stable	Reaffirmed
29-Jun-18	AAA	A-1+	Stable	Reaffirmed
30-Jun-17	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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Due Diligence Meetings Conducted

	Name	Designation	Meeting Date
1	Wahid Sethi	Chief Financial Officer	June 11, 2021
2	Umair Wasti	Head of Internal Audit	June 11, 2021
3	Ali Mansoor	Chief Credit Officer	June 11, 2021
4	Tauqeer Mazhar	Retail Banking	June 11, 2021
5	Ismail Usuf	Head of Treasury	June 11, 2021