RATING REPORT

National Bank of Pakistan

REPORT DATE:
June 26, 2024

RATING ANALYST:

Musaddeq Ahmed Khan
musaddeq@vis.com.pk

Muhammad Meeran Siddique
meeran.siddiqui@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+
Outlook/ Rating Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*June 26, 2024*		*June 23, 2023*	

COMPANY INFORMATION	
Incorporated in 1949	**External auditors:** BDO Ebrahim & Co. ; A.F. Ferguson & Co.
Public Limited Company	**Chairman:** Mr. Ashraf Mahmood Wathra
Key Shareholders (with stake 5% or more):	**President & CEO:** Mr. Rehmat Ali Hasnie
Govt. of Pakistan (through SBP) ~75.6%	
General Public ~ 6.5%	
Public Sector Companies ~ 5.3%	
Foreign Companies ~ 7.0%	
Others ~ 5.6 %	

APPLICABLE METHODOLOGY(IES)
VIS Financial Institution https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf
VIS Rating Scale https://docs.vis.com.pk/docs/VISRatingScales.pdf

National Bank of Pakistan (NBP)

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

Mr. Ashraf Mahmood Wathra served as Governor of the State Bank of Pakistan (SBP) from April 29, 2014, until 2017. He represented Pakistan in various international forums. Within Pakistan, he held significant positions. His career began at Grindlays Bank in 1978, and he held leadership roles in international banks before joining SBP as Deputy Governor in March 2013.

Profile of President

Mr. Hasnie, President of NBP since August 2023, has 27 years of financial sector experience, with expertise in economic research, capital

RATING RATIONALE

Banking Sector

The banking sector in Pakistan has been navigating a challenging macroeconomic landscape. Despite facing headwinds such as high inflation, elevated interest rates, and geopolitical uncertainties, the sector has demonstrated resilience and adaptability in supporting economic stability.

One of the important factors contributing to the sector's resilience has been its strong capitalization and liquidity. Banks in Pakistan remain well-capitalized, with an industry-wide CAR of 19.7%. This ensures that banks are equipped to absorb potential shocks and maintain financial stability. Moreover, profitability metrics remain healthy, with a return on equity (ROE) of 27.1% based on CY-23 results, underscoring the sector's ability to generate sustained returns amidst challenging operating conditions.

The government's successful negotiation of the IMF's Stand-By Arrangement (SBA) program, culminating in a Staff-Level Agreement and disbursement of funds, has provided additional support to market confidence and exchange rate stability, with positive implications for the banking sector. In terms of monetary policy dynamics, the State Bank of Pakistan (SBP) has maintained a cautious stance, balancing the imperative of containing inflationary pressures while supporting economic growth. Even as headline inflation has moderated from peak levels, it remains elevated. Nevertheless, the SBP has reduced the policy rate at 20.5% in its latest monetary policy statement. This stance reflects the central bank's commitment to anchoring inflation expectations and safeguarding macroeconomic stability.

Looking ahead, the banking sector faces both challenges and opportunities. Continued vigilance in managing credit quality and liquidity risks will be vital, especially amidst evolving macroeconomic dynamics and policy uncertainties. Moreover, the sector's role in supporting the government's reform agenda, particularly in areas such as taxation, energy, and privatization of state-owned enterprises, will be critical in fostering sustainable economic growth and financial stability.

Rating Drivers:

The largest public sector bank with systemic importance and sovereign sponsorship.

National Bank of Pakistan ('NBP' or the 'Bank') is the largest public sector commercial bank in the country, based on domestic deposits and financing. NBP, along with its role in managing treasury transactions for Government of Pakistan (GoP) as an agent to SBP, enjoys strong domestic franchise with systemic significance to the financial sector. Branch network spans 1,505 (2023: 1,508; 2022: 1,512) domestic and 18 (2023: 18) overseas branches as of Mar'24.

Asset Mix

NBP's asset base grew by 26.9% in 2023, slightly below the industry's 29.5% increase, and reflected mainly in a 26.6% increase in investment holdings, as credit offtake remained slow throughout the sector. NBP's deposits surged by 37.8%, significantly outpacing the industry's 23.9% growth, which raised NBP's market share of deposits to 13.2%. Despite a rise in gross advances, NBP's Advances to Deposits Ratio (ADR) dropped to 42.4% due to the faster growth in deposits. By Mar'24, asset base slightly contracted by 4.6% due to a 6.8% reduction in deposits, and gross advances decreased by 9.5%, reflecting sector-wide lending caution and weak demand. The Liquid Assets to Deposits and Borrowings (LADB) ratio improved to 74.6% from 68.0%, indicating surplus liquidity being available.

markets, and investment banking. He holds an MA in Development Banking and has led NBP's Inclusive Development Group since 2019. He chairs the Pakistan Mortgage Refinance Company and has served on several boards, including First Credit & Investment Bank and Pakistan Mercantile Exchange. He is also a member of key banking associations in Pakistan.

Financing Portfolio

As of Dec'23, NBP's gross advances portfolio rose, with the private sector constituting 60.5% of this portfolio. Significant growth was observed in Corporate and Investment Banking (CIBG) exposures, which rose to 45.6% of the loan book. Sector-wise, increase in lending was seen in Oil & Gas, Public Sector Commodity Operations, and Agriculture, while Engineering and Financial sectors saw reduction. Key sectors like Power, Oil & Gas, Textile, and Individuals represented 62.2% of total advances. The international segment is 8.9% of the portfolio and reported a high GI ratio at 48.5% and contributing 29.4% of total NPLs. Large exposure risk was noted, with 28 exposures exceeding 5% of the Bank's Eligible CET-1 Capital. However, these predominantly represented the Government of Pakistan.

Asset Quality

As of Dec'23, NBP's Non-Performing Loans (NPLs) increased by 7.6%. Despite this rise, the GI ratio decreased to 13.5% from 14.3% due to higher growth in gross advances and a larger proportion of lending to the Corporate and Investment Banking (CIBG) group, which has a lower infection rate. In early 2024, NBP adopted IFRS-9 as per the SBP's directive, reporting Stage-3 assets (NPLs) at Rs. 223.0b. The total provisioning coverage rose by Mar'24, thereby strengthening the Bank's capacity to cover potential asset losses.

Investment Portfolio

As of Dec'23, NBP's investment portfolio increased by 26.6%, primarily comprising federal government securities, which constituted 95.2% of the portfolio. The majority of these federal government securities comprised Pakistan Investment Bonds (PIBs), at 74.6%. Within the PIBs, 80% were floating rate issues, with the weighted average duration of fixed-rate government securities being 2.1 years. Despite the rise in the investment portfolio, the cumulative Mark-to-Market (MTM) losses on PIBs and Ijarah Sukuk were Rs. 25.7b in 2023, down from Rs. 28.9b in 2022, indicating a high yet slightly improving market risk profile.

Profitability

The yield on earning assets increased by 630 basis points due to the State Bank of Pakistan's contractionary monetary policy, although the cost of funds rose similarly, resulting in a slight increase in spreads. In 2023, NBP's profitability improved significantly, with a profit after tax rising to Rs. 51.8b from Rs. 30.4b in 2022, driven by higher net markup income and non-markup income. Despite higher administrative expenses, the efficiency ratio improved to 45.9% from 51.8% in 2022. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) improved to 0.9% and 18.0%, respectively. However, in the first quarter of 2024, recurring income fell while administrative expenses increased, leading to weaker efficiency ratio of 57.8%. Provision reversals helped support profit before taxation, but higher taxes limited bottom line growth to Rs. 0.3b. The outlook for NBP's profitability remains stable, with expected spread expansion due to anticipated lower benchmark rates and increased non-interest income, likely offsetting rising operating expenses and any increase in provision charges.

Capitalization

By the end of Dec'23, NBP's Capital Adequacy Ratio (CAR) rose to 25.5% from 21.6% in Dec'22, primarily due to a Rs. 52.1b increase in Tier-1 capital, driven by a Rs. 46.2b rise in unappropriated profit. Total eligible capital increased by Rs. 70.5b, while Risk-Weighted Assets (RWAs) grew by Rs. 60.4b. As of Mar'24, despite a slight decrease in CAR to 24.6%, NBP's capitalization levels remained strong with total eligible capital at Rs. 399.2b and RWAs at Rs. 1.6tn. The quality of capital also remained sound, with tier-1 capital comprising 75.4% of total capital, leaving sufficient room for tier-2 issuances as needed.

National Bank of Pakistan (NBP) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec'22**	**Dec'23**	**Mar'24**
Total Investments	3,477,354	4,403,364	4,336,332
Gross Advances	1,438,581	1,631,686	1,476,118
Net Advances	1,230,522	1,398,077	1,225,578
Total Assets	5,240,425	6,652,707	6,345,725
Borrowings	1,940,486	2,177,743	2,199,941
Deposits & other accounts	2,666,184	3,674,359	3,424,269
Tier-1 Equity	231,191	283,307	300,827
Paid- up Capital	21,275	21,275	21,275
Net Shareholder Equity (excl. surplus revaluation)	257,931	319,101	325,098
INCOME STATEMENT	**2022**	**2023**	**1QCY24**
Net Spread Earned	116,827	168,748	28,980
Net Provisioning / (Reversal)	12,601	14,469	(665)
Non-Markup Income	36,684	40,606	13,488
Operating expenses	78,173	93,632	21,975
Profit/ (Loss) Before Tax	62,737	101,253	21,159
Profit / (Loss) After Tax	30,410	51,840	10,723
RATIO ANALYSIS	**2022**	**2023**	**1QCY24**
Market Share (Domestic Advances)	12.1%	13.2%	12.3%
Market Share (Domestic Deposits)	11.9%	13.2%	12.1%
Non-Performing Loans (NPLs)	205,307	220,826	223,003
Gross Infection	14.3%	13.5%	15.1%
Total Provisioning Coverage (incl. general prov.)	101.3%	105.8%	112.3%
Net Infection	1.2%	1.2%	1.5%
Cost of deposits	7.2%	11.3%	13.7%
Gross Advances to Deposits Ratio**	50.8%	42.4%	41.0%
Net NPLs to Tier-1 Capital (adj. for general prov.)	5.9%	5.5%	5.6%
Tier 1 CAR	16.3%	19.1%	18.6%
Capital Adequacy Ratio (CAR)	21.6%	25.5%	24.6%
Markup Spreads	2.6%	2.8%	1.9%
Efficiency	51.8%	45.9%	57.8%
Liquid Coverage Ratio (LCR)	147%	176%	194%
Net Stable Funding Ratio (NSFR)	251%	259%	275%
ROAA*	0.7%	0.9%	0.7%
ROAE* (Net Shareholder Equity)	12.7%	18.0%	13.3%
Liquid Assets to Deposits & Borrowings***	68.0%	74.6%	76.0%

**Annualized*

***Adjusted for SBP refinancing schemes*

**** Adjusted for Repo and Collateral*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	National Bank of Pakistan (NBP)
Sector	Public Sector Banks
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
26-Jun-24	AAA	A-1+	Stable	Reaffirmed
23-Jun-23	AAA	A-1+	Stable	Reaffirmed
27-Jun-22	AAA	A-1+	Stable	Reaffirmed
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 Meeting Conducted

Name	Designation	Meeting Date
Mr. Abdul Wahid Sethi	SEVP & Group Chief Financial Control Group	**May 30, 2024**
Mr. Muhammad Ismail Usuf	SEVP and Group Chief, Treasury & Capital Markets Group	
Mr. Haroon Zamir Khan	SEVP & Group Chief/Chief Risk Officer, Risk Management Group	
Mr. Shamim Bukhari	Head of Investor Relations	

	& Policy Review