RATING REPORT

National Bank of Pakistan

REPORT DATE:
June 27, 2022

RATING ANALYST:
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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 27, 2022*		*June 28, 2021*	

COMPANY INFORMATION	
Incorporated in 1949	**External auditors:** Yousuf Adil CA & A.F. Ferguson & Co. CA
Public Limited Company	**President & CEO:** Mr. Rehmet Ali Hasnie
Key Shareholders (with stake 5% or more):	
Govt. of Pakistan (through SBP) ~75.6%	
Foreign Companies ~6.3%	
Public Sector Companies ~0.4%	
General Public ~12.1%	

APPLICABLE METHODOLOGY(IES)
Commercial Banks Methodology – June'2020
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-CommercialBanks202006.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 Acting President

Mr. Rehmet Ali Hasnie was previously serving as Senior Executive Vice President and Group Chief of Corporate & Investment Banking for the last 6 years. He holds over 20 years of diverse experience in the financial sector and has BA in Economics and MA in Development Banking.

RATING RATIONALE

Second largest commercial bank with systemic importance and sovereign sponsorship.

National Bank of Pakistan (NBP) is the second largest commercial bank in the country, based on domestic deposits and financing. NBP, along with its role in managing treasury transactions for GoP as an agent to State Bank of Pakistan (SBP), enjoys robust domestic operations and franchise with systemic significance to the financial sector. Branch network encompasses 1,513 domestic and 19 overseas branches; 189 domestic branches are dedicated to Islamic banking.

Asset quality indicators compare adversely to peers but provisioning coverage continues to remain sound.

Gross financing portfolio of NBP grew by ~13% in 2021, trailing the industry growth which resulted in slight decline of market share. Corporate and investment banking continues to constitute nearly one-half of loan portfolio, followed by commercial and retail segments while overall client and sectoral exposures are diversified. Power, textile and oil & gas continue to account for more than one-third of loan book while top 10 exposures concentration in funded portfolio stands at ~33%. Lending to private sector has averaged at ~69% over the last 3 years. The management continues to take a cautious approach toward loan portfolio growth in light of high interest environment and weak economic indicators.

Asset quality indicators have depicted weakening, as reflected by increasing trend in non-performing loans (NPLs) and second highest gross infection in the industry. However, provisioning coverage (inclusive of general provisions) continues to remain sound. As per management, quantum of NPLs is sizeable due to legacy portfolio carried on the balance sheet. In 2021, average obligor risk rating of overall performing portfolio stands at 5 out of 12.

NBP has advanced further in the process of closing certain overseas branches, which are a drag on profitability.

As of Dec'21, NBP has closed down operations in Tashkent (Uzbekistan), Jalalabad (Afghanistan) and Sylhet (Bangladesh). Going forward, closure of 2 overseas subsidiaries in Kazakhstan and Tajikistan along with 3 international branches located in Azerbaijan, Kyrgyzstan and Turkmenistan is planned; regulatory approvals have been sought. In addition, management plans to limit country operations to only one branch in Afghanistan and Bangladesh located in Kabul and Dhaka, respectively.

In line with the industry, liquidity was directed toward sovereign securities.

Investment portfolio registered a sizeable growth of ~32% in 2021. Around 90% of the portfolio is invested in sovereign securities, which are considered lowest credit risk in domestic context. In addition, with ~59% exposure in floating rate PIBs, market risk is also limited. As at end-Mar'22, cumulative deficit on fixed income portfolio stands at Rs. 10.7b. Equity portfolio is diversified and stands at ~14% in relations to Bank's equity.

Liquidity profile derives strength from sizable coverage of deposits and borrowings by liquid assets. Room for improvement exist in terms of deposit granularity.
Deposit base crossed the Rs. 3tr mark in 2021, with a 25% annual growth rate surpassing industry growth. However, the quantum fell during 1Q'22, which management believes is cyclical and relates to public sector deposits. These deposits reappear in the following period. Deposit granularity has weakened over time; nevertheless, comfort is drawn from cost effective & strong retail deposit mix. Going forward, adoption of a single treasury account system will have a significant impact on NBP's government deposits, which have averaged at ~29% over the past 3 years.

Overall liquidity profile is strong as reflected from sizable coverage of deposits and borrowings by liquid assets. The Bank maintains sufficient cushion over regulatory requirement for LCR and NSFR.

Capitalization indicators have improved on a timeline basis.
On a timeline basis, the Bank's CAR has improved significantly from 16.25% (as of Dec'18) to 21.78% (as of Mar'21), maintaining a sizeable cushion over regulatory requirements. With no dividend payout, equity base continue to witness an increasing trend. However, net NPLs to Tier 1 Capital have increased in 2021 and compares adversely vis-à-vis large-sized banks.

Overall profitability profile was impacted by sizeable civil penalty and higher effective tax rate.
In line with the industry trend, wherein average prevailing benchmark rate stood lower by 130bps in 2021 vis-à-vis 2020, NBP's spreads depicted contraction of nearly 100bps resulting in ~6% decrease in net interest income while non-markup income largely remained flat. Due to elevated administrative overheads in previous years, NBP's efficiency ratio remained above average; however, it has improved from 66% in 2019 to 50% in 1Q'22, comparing favorably to peers.

Despite a reduction of more than one-half in provisioning charges, profitability profile was impacted by fine paid (due to delays in compliance-related improvements in NY branch) and significantly higher effective tax rate (super tax of 2.5% for ADR ranging from 40% to 50% and inadmissibility of civil penalty).

National Bank of Pakistan (NBP) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**2018**	**2019**	**2020**	**2021**	**1Q'22**
Investments	1,284,319	1,449,555	1,463,398	1,938,171	1,997,334
Net Advances	926,007	1,008,139	983,255	1,113,392	1,188,226
Total Assets	2,798,566	3,124,389	3,008,527	3,846,684	3,740,921
Borrowings	392,739	471,757	138,539	312,925	607,680
Deposits & other accounts	2,011,385	2,198,049	2,418,966	3,019,155	2,634,546
Tier-1 Equity	124,818	142,716	172,896	199,752	217,264
Paid- up Capital	21,275	21,275	21,275	21,275	21,275
Net Worth	206,869	232,614	267,559	286,203	298,350
INCOME STATEMENT					
Net Spread Earned	60,666	71,907	104,155	96,618	25,791
Net Provisioning charge	11,300	14,250	30,896	11,916	1,069
Non-Markup Income	36,249	36,199	36,077	36,941	8,093
Administrative expenses	55,687	65,705	62,797	59,657	16,733
Profit/ (Loss) Before Tax	29,683	28,003	46,224	52,860	16,060
Profit / (Loss) After Tax	20,015	15,810	30,559	28,008	9,837
RATIO ANALYSIS					
Market Share (Domestic Advances) (%)	13.4%	14.1%	13.7%	12.9%	13.4%
Market Share (Domestic Deposits) (%)	15.1%	15.0%	13.5%	14.4%	12.9%
Advances to Deposits Ratio (%)	51.2%	50.9%	45.9%	41.0%	49.6%
Liquid Assets to Deposits & Borrowings (%)	66.0%	62.6%	69.9%	74.0%	67.0%
NPLs	133,360	148,752	171,294	197,938	203,932
Gross Infection (%)	12.6%	12.9%	14.8%	15.2%	14.7%
Provisioning Coverage (%) *(incl. general provisions)*	100.1%	96.3%	103.1%	96.9%	95.4%
Net Infection (%)	0.8%	1.4%	1.7%	1.7%	1.9%
Cost of deposits (%)	4.2%	6.3%	5.2%	4.0%	*n/a*
Net NPLs to Tier-1 Capital (%)	5.4%	9.6%	8.8%	8.8%	10.3%
Tier 1 CAR (%)	12.10%	12.11%	14.99%	15.42%	16.40%
Capital Adequacy Ratio (CAR) (%)	16.25%	15.48%	19.78%	20.39%	21.78%
LCR (%)	169%	148%	180%	164%	141%
NSFR (%)	321%	233%	256%	278%	246%
Markup Spreads (%)	3.25%	3.49%	3.85%	2.90%	2.60%
Efficiency (%)	61.7%	65.6%	48.9%	47.1%	50.0%
ROAA (%)	0.8%	0.5%	1.0%	0.8%	1.0%
ROAE (%)	10.5%	7.2%	12.2%	10.1%	13.5%

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 (NBP)				
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				
	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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meeting Conducted	**Name**	**Designation**	**Meeting Date**		
	Abdul Wahid Sethi	Chief Financial Officer	June 15, 2022		
	Muhammad Ismail Usuf	Head of Treasury			
	Syed Shamim Bukhari	Head of Investor Relations & Policy Review			