



The Pakistan Credit Rating Agency Limited

Rating Report

National Bank of Pakistan

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	AAA	A1+	Stable	Maintain	-
25-Jun-2022	AAA	A1+	Stable	Maintain	-
25-Jun-2021	AAA	A1+	Stable	Maintain	-
26-Jun-2020	AAA	A1+	Stable	Maintain	-
27-Dec-2019	AAA	A1+	Stable	Maintain	Yes
28-Jun-2019	AAA	A1+	Stable	Maintain	Yes
28-Dec-2018	AAA	A1+	Stable	Maintain	Yes
30-Jun-2018	AAA	A1+	Stable	Maintain	-
30-Dec-2017	AAA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the formidable strength of the National Bank of Pakistan (NBP) in the domestic commercial banking industry. The Bank's strong financial risk profile, characterized by, its share in the deposit base of the country, its firm risk absorption capacity, and systemic importance provides strength to the ratings. NBP's strong domestic franchise along with extended outreach and high customer penetration aids the Bank in sustaining its position. NBP fortified its position as the second-largest bank in the country in terms of advances and deposits. The ratings are also driven by a strong ownership structure (the Government of Pakistan (GoP) holds a majority stake) and a healthy resource profile. The Bank boasts of a high proportion of current and savings account (CASA) deposits. Advances observed an increase during CY22. There was substantial growth in investments during CY22, with investment in Pakistan Investment Bonds (PIBs) accounting for 70% of the total investment book. Investment book enhanced over the year is majorly vested with PIB floaters with relatively short duration. The Bank has developed a system for early warning pertaining to the risks of NPLs, as a rise in NPLs is a concern, which must be managed via prudent exposure taking. In terms of absolute equity, the Bank stands at the first position in the industry. Furthermore, the profitability of the Bank has also witnessed improvement, with the Bank reporting profit after tax (PAT) of PKR 30.4bln for CY22 (CY21: PKR 28bln). With focused efforts, NBP Aitemaad Islamic Banking's balance sheet footings increased by 8.3% to PKR 109bln (CY21: PKR 101bln). Islamic Banking portfolio has also been well diversified to ensure better growth. The banking sector continued to flourish with high profitability. Going forward, the macroeconomic environment is beset with myriad challenges due to heightened interest rates, tightening of demand, rupee depreciation, and higher inflation. This has repercussions for all segments of the economy.

The ratings are dependent upon the management's ability to maintain the relative standing of the Bank in the industry in all key parameters. Cost optimization and sustenance in the asset quality are important as they will improve profitability. Moreover, the Bank in a case related to pension benefits to retired employees has filed a review petition against the Supreme Court judgment and has also moved an application for the constitution of the larger bench which has been accepted.

Disclosure

Name of Rated Entity	National Bank of Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Financial Institution Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Commercial Bank(Jun-23)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504



Profile

Structure National Bank of Pakistan (NBP) was incorporated as a public limited company, under NBP Ordinance 1949 and is listed on Pakistan Stock Exchange (PSX)

Background NBP is the second-largest lending institution in the country and provides banking services to all types of consumers in all fields of the economy. NBP is authorized to act as an agent of the State Bank of Pakistan (SBP) and handles treasury operations for the Government of Pakistan (GoP)

Operations With 1,512 branches – including 188 Islamic branches – the Bank has the second largest branch network in Pakistan with all branches online with Core Banking Application (CBA). NBP also operates 18 overseas branches to cater to the needs of locals as well as expatriates.

Ownership

Ownership Structure NBP is majorly owned (75.6%) by the Government of Pakistan (GoP), mainly through the SBP (75.2%). Other major shareholders include Foreign Companies (5.4%), Public Sector Companies (5.8%), and the general public (6.4%).

Stability Being the largest public sector commercial Bank, NBP is of strategic importance to the GoP. An implicit guarantee is provided against liabilities (deposits) of NBP under the Bank's (Nationalization) Act, 1974

Business Acumen SBP, which has a major stake in NBP on behalf of GoP, provides it with industry-specific working knowledge and strategic capability as it has a holistic view of the entire industry

Financial Strength The GoP has assisted the Bank in the past and shall continue to support it as an implicit guarantee is provided against liabilities (deposits) of NBP under The Bank's (Nationalization) Act, 1974. Apart from NBP, the parent bank (SBP) has a fully owned subsidiary with the name SBP Banking Services Corporation (SBP-BSC), the operational arm of the central bank with branch offices in 16 cities across Pakistan.

Governance

Board Structure According to BNA, 1974, the Bank is required to have a minimum of five members on board at any point in time. The President / CEO is only Executive Director. The remaining Board consists of one non-executive director and seven independent directors including one independent director representing minority shareholders as required by the Code of Corporate Governance. With directors nominated by the GoP, the risk of political intervention remains

Members' Profile The board carries diversified experience including the financial sector, particularly banking, civil services, and other businesses. The majority of the directors have above two decades of experience. The directors having requisite experience and education are exempt from, SECP's Code of Corporate Governance

Board Effectiveness During CY22, 29 board meetings (CY21: 11) were held; the attendance of directors remained high. Relatively, a large number of meetings reflect continuous monitoring of affairs of overseeing operations.

Financial Transparency The Bank has joint External Auditors; Deloitte Yousaf Adil Chartered Accountants and A.F Ferguson and Co. chartered accountants. The Joint auditors expressed an unqualified opinion on the Bank's financial statements for the year ended December 31, 2022.

Management

Organizational Structure NBP has a lean organizational structure that clearly defines responsibilities, authority, and reporting lines with proper monitoring and compliance mechanism. NBP has divided its functions into 20 departments, each of which reports directly to the President, except the Audit & Inspection, which reports to the Board Audit Committee.

Management Team NBP's senior management team comprises experienced bankers. Mr. Rehmat Ali Hasnie is the acting president and CEO of the bank. He is serving in NBP since 2010 and has been the group chief of the Inclusive Development Group (IDG) since 2019.

Effectiveness NBP has an effective mix of management committees that are established to monitor performance and assure adherence to the policies and procedures.

MIS NBP uses "Profile" as its core banking application (CBA). The Bank is using Misys Kondor for Treasury functions while SAP is used for Financial General Ledger and Human Resources Management. The Bank has established a Payment Services & Digital Banking Group to develop business through alternate delivery channels

Risk Management Framework NBP's risk management framework resides with Risk Management Group (RMG). RMG develops risk management policies and tools in line with SBP guidelines while ensuring implementation by respective departments.

Business Risk

Industry Dynamics The country's economy faces challenges like political instability, high-interest rates, and inflation affecting all sectors. The GDP growth rate was 1.69% in 9MFY23 and 4.71% in FY22. The banking sector remains profitable, with assets growing by 18.5% YoY, and investments surging by 25% YoY to PKR 18.0 trillion. Gross Advances increased by 16% to PKR 12.6 trillion, and NPLs rose to PKR 924 billion.

Relative Position NBP maintained its position as the second largest commercial bank in the country in terms of customer deposits with a market share of 11.7% at end-Dec22 (end-Dec21: 12.6%).

Revenues During CY22, the gross mark-up income of the Bank witnessed an increase and was reported at PKR 503.3bln (CY21: PKR 231.8bln), mainly due significant increase in the income from investment and debt instruments to PKR 361.9bln (CY21: PKR 144.5bln)

Performance The bank's asset yield increased to 12.4% (CY21: 7.8%). The spread of the bank reduced to 2.7% (CY21: 3.3%) due to the high cost of funds (CY22: 9.7%, CY21: 4.5%).

Sustainability Moving forward, NBP will prioritize the expansion of its lending book, with a particular focus on the LSM sectors of textiles, power and gas, and metal products. In addition, the management intends to explore opportunities in international operations to grow the deposit base, trade business, and FI lending resulting in improvements in both funded and non-funded income

Financial Risk

Credit Risk The Bank's earning assets – mainly comprising advances and investments – constitute 90.9% of total assets. Given the increase in loan demand in the private sector, gross advances of the Bank geared up marginally by 10.8% to PKR 1,233mln (CY21: PKR 1,113mln) as compared to industry growth of 14% YoY.

Market Risk The Bank's investment portfolio constituted 71.9% of the total earning assets at end-Dec22 (end-Dec21: 55.2%). The mix of government securities in overall investments marginally increased at (96.4%). This was followed by mutual funds portfolio, equity, and strategic investments.

Liquidity And Funding The Bank's liquidity ratio marginally increased to 66.1% at end-Dec 22 (62.8% at end-Dec 21), on account of relatively high growth in deposits and borrowings. Deposits are the key source of funding for the Bank; contributing 57.7% to the total funding base at end-Dec22. The customer deposits base of the Bank registered an increase of PKR 118.8bln (grew by 4.8% YoY) as against an average industry growth of 5%, representing 98.1% of the total deposit amounting to PKR 2,666bln.

Capitalization The Bank's capitalization remained healthy with equity to total assets at 6% at end-Dec22 (end-Dec21: 7%); in line with peers. The Bank has not paid dividends in CY22 (CY21: nil) to strengthen its capital. NBP as a D-SIB is required to maintain higher capital in the form of additional common equity at 2.0%. During CY22, the RWAs of the Bank increased to PKR 1,418.5bln from PKR 1,295.1bln in CY21. Consequently, both the Tier 1 ratio and total capital ratio stood at 16.3% and 21.59% respectively as of end-Dec 22, where the industry average CAR stood at 18.3%.



PKR mln

**National Bank of Pakistan
Listed Public Limited**

Dec-22	Dec-21	Dec-20
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	1,280,325	1,158,463	1,044,379
2 Investments	3,430,171	1,886,946	1,407,530
3 Other Earning Assets	56,825	368,145	158,507
4 Non-Earning Assets	475,724	426,976	403,367
5 Non-Performing Finances-net	(2,621)	6,154	(5,257)
Total Assets	5,240,424	3,846,684	3,008,527
6 Deposits	2,666,184	3,019,155	2,418,966
7 Borrowings	1,948,754	320,819	146,073
8 Other Liabilities (Non-Interest Bearing)	324,639	220,508	175,929
Total Liabilities	4,939,576	3,560,482	2,740,968
Equity	300,848	286,203	267,559

B INCOME STATEMENT

1 Mark Up Earned	503,310	231,883	257,811
2 Mark Up Expensed	(386,484)	(134,265)	(153,656)
3 Non Mark Up Income	36,683	36,942	36,077
Total Income	153,510	134,559	140,232
4 Non-Mark Up Expenses	(78,173)	(60,004)	(63,112)
5 Provisions/Write offs/Reversals	(12,601)	(21,695)	(30,896)
Pre-Tax Profit	62,737	52,860	46,224
6 Taxes	(32,327)	(24,852)	(15,665)
Profit After Tax	30,410	28,008	30,559

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	2.6%	2.8%	3.4%
Non-Mark Up Expenses / Total Income	50.9%	44.6%	45.0%
ROE	10.4%	10.1%	12.2%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	5.7%	7.4%	8.9%
Capital Adequacy Ratio	21.6%	20.4%	19.8%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	66.1%	62.8%	63.5%
(Advances + Net Non-Performing Advances) / Deposits	46.2%	36.9%	40.6%
CA Deposits / Deposits	49.1%	56.9%	54.4%
SA Deposits / Deposits	30.3%	25.4%	29.4%

4 Credit Risk

Non-Performing Advances / Gross Advances	14.3%	15.2%	14.8%
Non-Performing Finances-net / Equity	-0.9%	2.2%	-2.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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