The Pakistan Credit Rating Agency Limited

Rating Report

National Bank of Pakistan

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Jun-2024	AAA	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The National Bank of Pakistan (NBP) displays exceptional strength in the domestic commercial banking sector, underpinned by its solid financial risk profile and a substantial share of the national deposit base. Its robust risk absorption capacity and systemic importance significantly support its high ratings. The ratings are also driven by a strong ownership structure (the Government of Pakistan (GoP) holds a majority stake). NBP’s extensive domestic franchise and deep customer penetration secure its position as the second-largest bank in terms of advances and deposits. The bank has further solidified its system share which increased to 12.6% (CY22:11.7%) in terms of deposits and marked growth of 78.8% in CASA deposits; Total deposits at PKR 3.67trln are up by 37.8% over the last year. During CY23, the bank reported a Profit after tax of PKR 51.8bln (CY22: PKR 30.4bln): mainly attributed to an increase in net markup income by 44.4%, amounting to PKR 168.7bln. This impressive growth was predominantly fueled by a significant rise in returns from the bank’s advances and investments. However, it is noteworthy that the net profit margin decreased by 1%, reaching 5.05% (CY22: 6.04%). This decline in net profit margin, despite the substantial increase in profit, suggests that rising Interest expenses, operating costs and provisioning expenses impacted overall profitability, the bank may need to focus on cost control measures and operational improvements to enhance its net profit margin and ensure sustainable growth. The advances portfolio grew by 13.6% to PKR 1,398bln, indicating strong lending activity (majorly in Oil & Gas, Power and Textile). However, there was a notable increase in non-performing loans (NPLs), rising to PKR 220.8bln (CY22: PKR 205.3bln). The Bank has provided sufficient bank loan loss coverage of 105.8% (CY22:101.3%), indicating strengthened provisions against potential credit losses. The bank increased its investments by 26.6% to PKR 4,403.3bln underscoring a strategic allocation towards government securities, particularly floater PIBs with relatively short duration. These securities constitute 95.2% of its investment portfolio. Overall, the liquidity profile is comfortable with sound liquid asset coverage to deposits and borrowings. In terms of absolute equity, the Bank stands at the first position in the industry. As of Dec'23, the Bank's CAR stood at 25.47% (CY22:21.59%). On the Islamic banking side, NBP Aitemaad’s balance sheet footing increased by ~28% during CY23 with total assets standing at PKR 140bln. NBP Aitemaad offers the entire spectrum of banking products, from large-ticket corporate deals to retail deposits and consumer finance.

The bank is currently dealing with a litigation matter related to its pension plan, which is being actively managed. The Board is committed to resolving this longstanding issue. The modalities and entitlements are under consideration, in case the matter is decided unfavorably the bank estimates the net financial impact within a manageable range.

While the bank demonstrated significant revenue growth through effective management of its assets, maintaining or improving profit margins will be crucial for sustainable financial health in the future.

Disclosure

Name of Rated Entity	National Bank of Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Financial Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Commercial Banks(Jun-24)
Rating Analysts	Madiha Sohail | madiha.sohail@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 1,664 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 CY23, 15 board meetings (CY22: 29) 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; BDO 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, 2023.

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 CY23 remained a challenging year for the economy inclusive of a drop in exchange reserves, currency devaluation, and peak inflation. To combat inflation and curb aggregate demand, the Central Bank maintained a tight monetary policy stance. Despite these challenges, CY23 was a remarkably successful year for the banking industry. The sector outperformed historical statistics, with two-thirds of net markup income coming from investments in government securities and the remainder from advances. During the year, Pakistan's banking sector's total assets posted growth of ~30% YoY whilst investments surged by ~42% to PKR ~25.6trln (end-Dec22: PKR ~18trln). Gross Advances of the sector recorded growth of ~4% to stand at PKR ~13.101trln (end-Dec22: PKR ~12.645trln). Non-performing loans witnessed an increase of 8.3% YoY to PKR ~881bln (end-Dec22: ~812bln). The CAR averaged at 21.6% (end-Dec22: 16.9%). Looking ahead, with the expected monetary rate cut, banks are likely to sustain some dilution in profitability by CY24.
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 12 % at end Dec23 (end-Dec22: 12.6%)
Revenues During CY23, the bank's gross mark-up income experienced a substantial YoY growth of 103.6%, reaching PKR 1,024.6bln compared to PKR 503.3bln in CY22. This significant increase reflects the bank's enhanced ability to generate interest income from its lending and investment activities.
Performance In CY23, NBP experienced significant shifts in both its asset yield and cost of funds, reflecting the broader economic environment and its internal financial strategies. The asset yield increased from 12.4% in CY22 to 19.1% in CY23. This sharp rise suggests that NBP effectively capitalized on opportunities to enhance its income through higher-yielding loans and investments. However, this positive development was accompanied by a considerable rise in the cost of funds, which surged to 16.3% in CY23 from 9.6% in CY22. This increase was primarily driven by high-cost deposits and elevated borrowing costs, which were influenced by prevailing high policy rates.
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 66.1% of total assets. Given the increase in loan demand in the private sector, gross advances of the Bank stood at PKR 1,398bln at the end Dec-23 (CY22: 1,230.5bln).
Market Risk In CY23, NBP's investment portfolio grew by 27.4% YoY, reaching PKR 4,430bln (CY22: PKR 3477bln), with 95% invested in government securities. This growth, driven by deposits and focused on T-Bills, PIBs, and Ijara Sukuks, reflects the bank's conservative strategy aimed at minimizing risk and ensuring stable returns.
Liquidity And Funding In CY23, the Bank's liquidity ratio saw a slight increase to 69% from 66.1% in CY22, primarily due to significant growth in deposits and borrowings. The Bank's deposits rose by 37.8% year-over-year, reaching PKR 3,674bln, up from PKR 2,666bln in CY22. The improved liquidity ratio reflects the Bank's strengthened ability to meet its short-term obligations and support further lending and investment activities.
Capitalization The Bank's capitalization remained healthy with equity to total assets at 5.7% at end-Dec23 (end-Dec22: 6%); in line with peers. The CAR of the bank reported at the end of Dec-23 was 25.47% (CY:22 21.59%)

PKR mln

National Bank of Pakistan Listed Public Limited	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	1,458,495	1,280,325	1,158,463	1,044,379
2 Investments	4,355,729	3,430,171	1,886,946	1,407,530
3 Other Earning Assets	248,676	56,825	368,145	158,507
4 Non-Earning Assets	602,590	475,724	426,976	403,367
5 Non-Performing Finances-net	(12,783)	(2,621)	6,154	(5,257)
Total Assets	6,652,707	5,240,424	3,846,684	3,008,527
6 Deposits	3,674,359	2,666,184	3,019,155	2,418,966
7 Borrowings	2,186,008	1,948,754	320,819	146,073
8 Other Liabilities (Non-Interest Bearing)	409,584	324,639	220,508	175,929
Total Liabilities	6,269,952	4,939,576	3,560,482	2,740,968
Equity	382,756	300,848	286,203	267,559
B INCOME STATEMENT				
1 Mark Up Earned	1,024,658	503,310	231,883	257,811
2 Mark Up Expensed	(855,910)	(386,484)	(134,265)	(153,656)
3 Non Mark Up Income	40,606	36,683	36,942	36,077
Total Income	209,354	153,510	134,559	140,232
4 Non-Mark Up Expenses	(93,632)	(78,173)	(60,004)	(63,112)
5 Provisions/Write offs/Reversals	(14,469)	(12,601)	(21,695)	(30,896)
Pre-Tax Profit	101,253	62,737	52,860	46,224
6 Taxes	(49,413)	(32,327)	(24,852)	(15,665)
Profit After Tax	51,840	30,410	28,008	30,559
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	2.8%	2.6%	2.8%	3.4%
Non-Mark Up Expenses / Total Income	44.7%	50.9%	44.6%	45.0%
ROE	15.2%	10.4%	10.1%	12.2%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	5.8%	5.7%	7.4%	8.9%
Capital Adequacy Ratio	25.5%	21.6%	20.4%	19.8%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	69.0%	66.1%	62.8%	63.5%
(Advances + Net Non-Performing Advances) / Deposits	38.0%	46.2%	36.9%	40.6%
CA Deposits / Deposits	53.6%	49.1%	56.9%	54.4%
SA Deposits / Deposits	25.2%	30.3%	25.4%	29.4%
4 Credit Risk				
Non-Performing Advances / Gross Advances	13.5%	14.3%	15.2%	14.8%
Non-Performing Finances-net / Equity	-3.3%	-0.9%	2.2%	-2.0%

Credit Rating

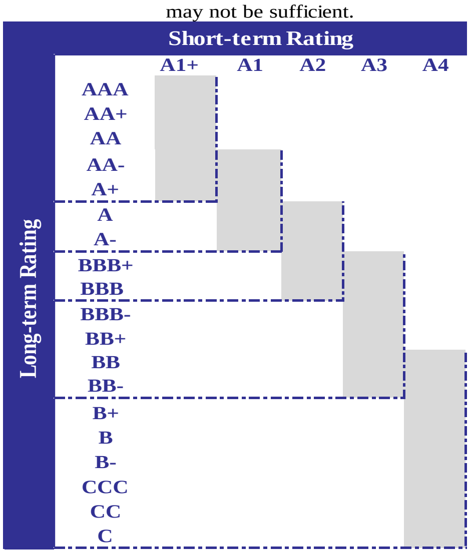
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ BBB 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.
BB+ BB 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.
B+ 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.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. 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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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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(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)

Independence & Conflict of interest
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
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