

Date

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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

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PACRA Maintains Entity Ratings of National Bank of Pakistan

Rating Type	Entity	
	Current (23-Jun-23)	Previous (25-Jun-22)
Action	Maintain	Maintain
Long Term	AAA	AAA
Short Term	A1+	A1+
Outlook	Stable	Stable
Rating Watch	-	-

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.

About the Entity

National Bank of Pakistan – the second largest public sector commercial bank - operates with a network of over 1,512 branches in Pakistan and 19 overseas branches at end-Dec22. NBP maintains a total deposit share of ~12.0% at end-Dec22. NBP is majority (~75.6%) owned by GoP, mainly through the State Bank of Pakistan (SBP) (75.2%). The remaining shareholding is widely spread. The Bank acts as an agent of SBP and manages treasury operations for GoP. NBP's eight members GoP nominated board includes the President, and one independent director, while others are non-executives. Mr. Rehmat Ali Hasnie, the CEO/ President (acting) since May 2022, is an experienced banker with over 27 years of experience primarily in Investment Banking and Risk Management.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

