



**Date**

25-Jun-21

**Analyst**

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**Applicable Criteria**

- Methodology | FI | Jun-20
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-20
- Criteria | Rating Modifier | Jun-20

**Related Research**

- Sector Study | Commercial Bank | Jun-21

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**PACRA Maintains Entity Ratings of National Bank of Pakistan**

Rating Type	Entity	
	Current (25-Jun-21)	Previous (26-Jun-20)
<b>Action</b>	Maintain	Maintain
<b>Long Term</b>	AAA	AAA
<b>Short Term</b>	A1+	A1+
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	-	-

The ratings continue to factor in formidable strength of National Bank of Pakistan (NBP) in the domestic commercial banking industry. The Bank’s strong financial risk profile, characterized by firm risk absorption capacity and systemic importance provides strength to the ratings. NBP’s strong domestic franchise along with extended outreach and high customer confidence 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 strong ownership structure (Government of Pakistan (GoP) holds majority stake) and healthy resource profile, with a high proportion of current and savings account (CASA) deposits. Advances, however, observed a slight contraction during CY20, mainly due to the nationwide lockdown to contain the spread of the COVID-19 pandemic. NBP has provided moratorium to its borrowers in line with the relief measures provided by the State Bank of Pakistan (SBP). Any delay in return to normalcy will put further pressure on recovery and asset quality metrics of the industry players. However, the management is confident that the infection will be curtailed in future. The Bank has developed a system for early warning pertaining to the risks of NPLs, wherein some refinement may also be beneficial. In terms of absolute equity, the Bank stands at the first position in the industry. Furthermore, profitability of the Bank has also witnessed an improvement, with the Bank reporting profit after tax (PAT) of PKR 30.6bln for CY20 on the back of well managed and diversified earning asset mix. With focused efforts, NBP has managed to bring volumes in Islamic banking (Aitemaad) though limited; it is targeted to contribute towards growth. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge. 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 is important as it will improve the 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 largest public sector commercial bank - operates with a network of over 1,514 branches in Pakistan and 21 overseas branches at end-Dec20. NBP maintains a total customer deposit share of ~12.0% at end-Dec20. NBP is majority (~75.6%) owned by GoP, mainly through 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, one independent director, while others are non-executives. Mr Arif Usmani, the CEO/ President since Feb 2019, is an experienced banker with over 38 years of experience primarily with Citi and Mashreq Bank and is supported by an experienced and qualified team.

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.