

**Date**

26-Jun-20

**Analyst**

Muhammad Noor ul Haq  
 noorulhaq@pacra.com  
 +92-42-35869504  
 www.pacra.com

**Applicable Criteria**

- PACRA\_Methodology\_FI | Jun-19
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-19
- Criteria | Rating Modifier | Jun-19

**Related Research**

- Sector Study | Commercial Bank | Jun-20

**Disclaimer**

This press release is being transmitted for the sole purpose of dissemination through print/electronic media. The press release may be used in full or in part without changing the meaning or context thereof with due credit to PACRA

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

Rating Type	Entity	
	Current (26-Jun-20)	Previous (27-Dec-19)
<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>	-	YES

The ratings reflect the formidable strength of the Bank 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. Additionally, CASA mix improved; especially the CA side of it; benefiting in the spreads. The bank has continued its growth strides. The bank crossed a trillion mark in terms of advances as well as on end-2019. In terms of absolute equity, the bank stands at the first position. The profits took a dip in 2019 and same percentage drop is visible 1Q2020, due provisioning and high administration cost. NBP booked PKR 15.4bln of NPLs during CY19. 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. With focused efforts, NBP has managed to bring volumes in Islamic banking (Aitemaad) though limited; it is targeted to contribute towards growth. The ratings are driven by strong ownership structure (Government of Pakistan (GoP) holds majority stake) also. From the start of current year 2020, Covid-19 has posed challenges to the banking sector, almost all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed. The central bank has taken well-tailored and comprehensive actions including reduction in key policy rates (~525bps down since January 2020) and deferment of repayment obligations for a defined period. While reduction in interest rates would determine the Bank's profitability, these measures have cushioned the allied risks surrounding the credit exposures.

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 1,509 branches in Pakistan and 21 overseas branches at end-Dec21. NBP maintains a total customer deposit share of ~12.4% at end-Dec19. NBP is majority (~75.6%) owned by GoP, through State Bank of Pakistan (SBP). The bank acts as an agent of SBP and manages treasury operations for GoP.

NBP's nine 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.

