

AHL Brief Note: Commercial Banks

National Bank of Pakistan

Corporate Briefing Takeaways

Management Conference Call

NBP senior management held an analyst briefing today to discuss financial performance of 2QCY24 and the future outlook

Brief Takeaways

- To recall, NBP reported a loss of PKR 9.12bn (LPS: PKR 4.28) for 2QCY24, in contrast to a profit of PKR 15.8bn (2QCY23: PKR 7.42). For 1HCY24, total earnings stood at PKR 833mn, significantly down from PKR 27bn in the same period last year. The sharp decline in profitability in 2QCY24 was primarily due to the booking of an extraordinary item of PKR 49bn related to the pension fund case.
- The bank recorded a PKR 49bn pension expense, following a Supreme Court ruling and actuarial consultation. This charge is final, and details on future recurring expenses will be disclosed in due course. There is also one pending pension case, where employees are seeking increases based on past federal government announcements. However, the bank remains optimistic about a favorable outcome, citing previous rulings that NBP employees are not classified as federal employees.
- Management mentioned that with the pension liability case now settled, NBP is in a position to consider resuming dividends. However, they stressed the importance of considering other factors, such as balance sheet growth, while ensuring the bank doesn't become overcapitalized. Ultimately, the final decision on dividends rests with the board. To highlight, according to the NBP Act, the bank can only announce dividends along with the year-end results.
- The bank's Capital Adequacy Ratio (CAR) is currently at 24.72%, up from 22.50% in 1HCY23, and significantly exceeds the existing regulatory requirement of 14% (11.5% plus a 2.5% D-SIB surcharge). Effective August 1, 2024, the regulatory requirement has been reduced to 13%. The management aims to maintain a buffer of 200-250bps above this minimum requirement.
- Regarding the implementation of the Treasury Single Account, management highlighted that the bank is in compliance with all aspects of the TSA that have been implemented so far. Last year, an impact of ~PKR 100bn was recorded on deposits. The bank remains fully compliant in this regard and will continue to take periodic actions in consultation with the relevant ministries and the SBP.
- NBP has divested its 45% stake in United National Bank Limited UK (UNBL UK), with the anticipated gain from this sale expected to be reported in the quarter ending Sep'24.

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Corporate Briefing Takeaways

- Gross advances declined by 6% to PKR 1.54trn, whereas deposits surged past PKR 4trn, reaching PKR 4.1trn by Jun'24 end. Consequently, the bank's Advances to Deposit Ratio (ADR) stood at 37.5% as of Jun'24. Commenting on ADR compliance, the management informed that it is focused on increasing the ratio to 50% to avoid additional taxes by year-end and is confident that reaching a ratio between 40% and 50% is achievable.
- In 1HCY24, floating PIBs account for 80% of the total PIBs, down from 81% at Dec'23. The T-Bill portfolio has risen to 24% of the total portfolio in 1HCY24, up from 22% at Dec'23. Additionally, the yield on investments increased to 20.55% in 1HCY24, compared to 18.20% in 1HCY23.
- NBP has undertaken several key strategic measures and plans to continue them moving forward. The bank has made significant investments in technology, focusing on upgrading its IT systems, including the Core Banking Application, expanding Digital Offerings, enhancing Cybersecurity, and improving Equipment and Peripherals. Additionally, NBP is dedicated to enhancing branch ambiance, with 200 branches already revamped across Pakistan. The bank is also committed to strengthening customer relationships and effectively managing risks.
- **Recommendation:** We have a buy call on the scrip with a target price of PKR 80.1/share (Dec'25).

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In order to avoid any conflict of interest, we hereby disclosed that;
Arif Habib Limited (AHL) has a shareholding in NBP.