

Press Release

VIS Reaffirms Ratings of National Bank of Pakistan


Karachi, June 23, 2023: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of National Bank of Pakistan (NBP) at 'AAA/A-1+' (Triple A/A-One Plus). Outlook on the assigned ratings is 'Stable'. Long-term rating of 'AAA' signifies highest credit quality; risk factors are negligible being only slightly more than for risk-free Government of Pakistan's debt. Short-term rating of 'A-1+' signifies highest certainty of timely payment; short-term liquidity, including internal operating factors and/ or access to alternative sources of funds, is outstanding and safety is just below risk-free Government of Pakistan's short-term obligations. Previous rating action was announced on June 27, 2022.

Assigned ratings continue to take into account NBP's position as the country's second largest commercial bank with systemic importance, strong domestic operations and sovereign sponsorship. The Bank also enjoys its role in handling treasury transactions for GoP as an agent to the State Bank of Pakistan (SBP). On international front, the Bank has advanced further in the process of closing certain overseas branches, which were a drag on profitability. Going forward, closure of 2 overseas subsidiaries along with 3 international branches is planned; regulatory approvals have been sought. Governance environment follows best practices with a well-composed board and its committees.

In 2022, the financing portfolio of NBP experienced a growth of approximately 11%, which was lower than the industry's growth rate. The ratings take into account weakening in asset quality indicators on a timeline during the rating review period. Given infection levels compare unfavorably to peer rated banks, rectification of asset quality will remain important from ratings perspective. Subsequently, the ratings reflect the consolidation strategy opted by the management involving limited new to bank private lending and focus on risk-free government backed lending to avoid potential credit risk headwinds and NPL accretion in the medium-term. Moreover, on the lending side, the concentration risk (funded & unfunded) in terms of Bank's core equity is on the higher side; however, the same remains mitigated as majority exposures pertain to sovereign-backed public accounts.

The ratings incorporate heightened market risk exposure as net deficit on investments increased sizably on a timeline. Given adequate liquidity available, the Bank has no plan to offload fixed tenor securities in the foreseeable future. However, as the weighted duration of fixed PIBs exceeded two and half years at end of the outgoing year, management of mark to market losses in case of further uptick in policy rate will remain challenging. Nevertheless, the Bank aims to consolidate the existing investment portfolio with any repositioning to be made from fixed to floating rate securities in the medium term. Overall, liquidity profile is comfortable with sound liquid asset coverage to deposits and borrowings coupled with sufficient cushion over regulatory requirements for LCR and NSFR. Despite dip in deposit granularity, the withdrawal risk is manageable as around half of the deposits pertained to public sector entities' which tend to be stickier than private sector. The ratings factor in healthy profit generation despite spread compression, high taxation expense and increase in efficiency ratio. Capital Adequacy Ratio remains sound and compliant with the assigned ratings. However, net NPLs to Tier 1 Capital compare adversely vis-à-vis large-sized banks. Going forward, improvement in infection ratios, maintenance of capital and liquidity buffers and market risk management will remain important from the ratings perspective.

For further information on this rating announcement, please contact the undersigned at 35311861-70 (Ext: 201) or Ms. Maham Qasim (Ext: 216) at 042-35723411-13 or email at info@vis.com.pk



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Applicable rating criterion: Financial Institution Methodology – June 2023

<https://docs.vis.com.pk/docs/FinancialInstitution.pdf>

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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