VIS Credit Rating Company Limited

# Press Release

## VIS Reaffirms Entity Ratings of National Bank of Pakistan

Karachi, June 26, 2024: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of National Bank of Pakistan ('NBP' or the 'Bank') at 'AAA/A-1+' (Triple A/A-One Plus). Medium to long term rating of 'AAA' indicates highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt. Short-term rating of 'A-1+' indicates strongest likelihood of timely repayment of short-term obligations with outstanding liquidity factors. Outlook on the assigned ratings is 'Stable.' Previous rating action was announced on June 23, 2023.

The ratings assigned to NBP reflect its strong domestic franchise, along with its role in managing treasury transactions for Government of Pakistan (GoP) as an agent to SBP. In 2023, NBP's asset base grew, although slightly below the industry's YoY increase, primarily reflected in growing investment holdings, as credit offtake remained slow throughout the sector. Deposits grew faster than the industry's, raising the Bank's market share to 13.2% (CY22: 11.9%). With strong market access, liquidity ratios remained well above regulatory requirements.

The Bank's Non-Performing Loans (NPLs) increased by Dec'23; however, NBP reported a lower gross infection ratio due to higher growth in gross advances. A larger proportion of lending to the corporate group, which had a lower infection rate, contained overall infection. The implementation of IFRS-9 in early 2024 resulted in higher reserves for Expected Credit Losses (ECL) against stage 1 and stage 2 assets, while ECLs against stage 3 assets remained comparable to the specific provisions held against NPLs as of Dec'23, thereby increasing total provisioning coverage and mitigating asset loss risks. The significant presence of international exposures renders portfolio trends more susceptible to currency valuation effects.

Investments rose significantly as of Dec'23, with federal government securities accounting for ~95.2% of the total investments, giving the portfolio a low credit risk profile. By end-Dec'23, around 80.0% of the Bank's PIB holdings were in floating rate securities, and the average duration of the entire investment portfolio was maintained below one year, reducing the risk of MTM losses.

The Bank's profitability improved in 2023 due to higher net markup and non-markup income. The administrative expenses also rose amid inflationary pressure, yet the efficiency ratio improved owing to relatively greater increase in recurring income over recurring expenses. The outlook for profitability remains favorable, backed by expected expansion in the spread in the short term along with non-interest income growth and potential gains from the investment book. The Capital Adequacy Ratio (CAR) rose to 25.5% by Dec'23 but slightly dipped to 24.6% by Mar'24. CAR is well-above regulatory requirements. The quality of capital also remained sound, with tier-1 capital comprising 75.4% of total capital, leaving sufficient room for tier-2 issuances as needed.
For further information on this ratings announcement, please contact at 021-35311861-64 or email at info@vis.com.pk.

Applicable Rating Criteria:

Financial Institutions
https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf
VIS Issue/Issuer Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf