

Press Release

VIS reaffirms ratings of National Bank of Pakistan at AAA/A-1+

Karachi, June 28, 2021: 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). The 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. The 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. Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on June 29, 2020.

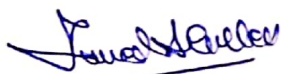
Assigned ratings take into account the sovereign sponsorship of NBP and its role in handling treasury transactions for the GoP as an agent to the State Bank of Pakistan (SBP) along with holding system importance (Systemically Important Financial Institution) in the country. The rating also reflects the bank's positioning as one of the largest banks in the country having a market share of 13.5% (2019: 15%) in domestic deposits at end-Dec 20.

Current ratings also incorporate healthy capitalization indicators and adequate liquidity profile. Overall liquidity profile of the bank is considered adequately aligned with the assigned ratings in view of sizeable liquid assets in relation to deposits and borrowings. Credit and market risk emanating from the investment portfolio is considered low as the majority comprises government securities.

In 2020, on-going pandemic and weakening in currency resulted in sluggish lending growth in the banking industry. Owing to the same, NBP also adopted a conservative lending stance and registered a meager growth of ~1% in gross financing portfolio being lower vis-à-vis industry growth. Asset quality indicators of the Bank weakened in 2020; however comfort is drawn from higher provisions booked. Given the revival noted in the overall macroeconomic environment, the management targets growth during 2021 at rates similar to inflation levels. Achievement of the same depends upon duration and breadth of the pandemic. Improvement in asset quality indicators would be an important rating driver going forward.

NBP's overall profitability profile depicted sizeable improvement in 2020 despite higher provisioning expense. Greater profitability levels were a function of improving spreads as a result of immediate re-pricing of liabilities vis-à-vis assets, and higher capital gains on federal government securities. With a 28% growth in recurring income and 4% decline in operating expenses (due to absence of one-off provision in the preceding year), efficiency ratio of the bank improved to 49% (2019: 66%) in 2020. Going forward, management expects profitability levels to increase in comparison to 2020, however, the growth will be limited on account of a lower quantum of capital gains. Consequently, elevation in profitability levels shall be a function of volumetric growth in average earning assets of the bank.

For further information on this rating announcement, please contact Ms. Asfia Aziz or the undersigned (Ext. 201) at 021-35311861-71 or fax to 021-35311872-3.



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Applicable Commercial Banks Methodology – June'2020

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Meth-CommercialBanks202006.pdf>

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