

Five banks, Moody's confirms 'B3' and 'Caa1' ratings

ISLAMABAD: Moody's Investors Service (Moody's) has confirmed the B3 long-term local-currency and Caa1 foreign-currency deposit ratings of five Pakistani banks including the Allied Bank Limited (ABL), Habib Bank Ltd (HBL), MCB Bank Limited (MCB), National Bank of Pakistan (NBP), and United Bank Ltd (UBL).

The outlook on all Pakistani banks' long-term local currency deposit ratings has changed to stable from ratings under review.

This rating action concludes the review initiated on 19 May 2020.

Moody's stated that the rating actions follow its decision to confirm the government of Pakistan's B3 issuer and senior unsecured ratings on 8 August 2020.

The sovereign action concluded the review for downgrade initiated on 14 May 2020 with a confirmation of Pakistan's B3 ratings with a stable outlook, and is driven by Moody's assessment that, although some uncertainty about the terms of implementation of the bilateral debt service relief from G20 creditors continues to prevail, the absence of significant progress in the discussions about how private sector involvement would be effected and evidence of some debt payments being made to private sector creditors, suggest that the probability of broad-ranging private sector involvement has diminished.

It further stated that Moody's decision to confirm the banks' ratings follows Moody's decision to confirm Pakistan's B3 sovereign ratings, which signals reduced pressure on Pakistan's credit profile, indirectly supporting bank ratings, given their high exposures to government credit risk — at around 7.6x of Tier-1 capital for ABL, 8.3x for HBL, 6.0x for MCB, 9.0x for NBP and 6.5x for UBL as per the latest available data — renders the banks susceptible to event risk at the sovereign level and constrains their Baseline Credit Assessments (BCAs) at the government rating.

Moody's decision to confirm Pakistan's B3 government bond ratings with a stable outlook, also results in the stabilisation of Moody's view of the capacity of the government to support the country's banks in case of need.

The local-currency deposit ratings of two rated banks, the NBP and the HBL, incorporate one notch of support uplift from their Caa1 BCAs.

The stable outlook balances their stable funding and liquidity positions and Moody's assumptions that the government support will be forthcoming in case of need, against a difficult economic environment and renewed pressure on banks' asset quality and profitability metrics.

Improvements in the operating environment and in the sovereign's credit risk profile, combined with improvements in banks' solvency metrics (profitability, asset quality and capital), could place upward rating pressures.

Conversely, downward pressure on banks' ratings would develop following a downgrade of the sovereign rating, reflecting the high inter-linkages between the banks' credit profile and that of the government, and signaling a reduction in the government's capacity to extend financial support to banks in case of need. Downward pressure on the BCAs of individual banks could also develop from a greater-than-expected deterioration in operating conditions from the coronavirus spread, weakening their asset quality, profitability, and capital adequacy.