National Bank of Pakistan

Chairman & President: Dr. Asif A. Brohi

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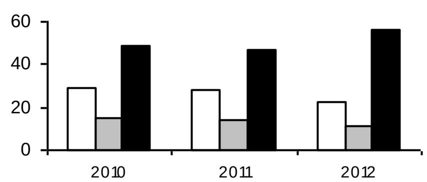
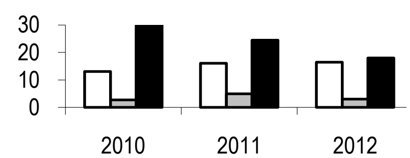
Category	Latest	Previous
Entity	AAA/A-1+	AAA/A-1+
	June 26,'13	*June 29, '12*
Outlook	Stable	Stable
	June 26,'13	*June 29, '12*

Key Financial Trends



*Basic ROAE% ROAE% Efficiency%
** Based on recurring profit before provision and taxation*



CAR (%) Net Infection (%)
Net NPL%Tier 1 Capital

	2010	2011	2012
Net Advances (Rs. in b)	478	525	657
Deposits (Rs.b)	832	927	1038
Market Share	14.3	13.7	13.6
Deposit Cost (%)	5.8	5.7	6.0
Profit (Rs.in b)	17.6	17.6	16.2
Equity* (Rs. in b)	128.5	132.7	151.3
CAR (%)	16.9	16.1	16.5
Liquid Assets % Deposits & Borrowings	44	51	44
Net Infection (%)	7	5	3

Rating Rationale

Ratings assigned to NBP are driven by the bank's prominent position in the Pakistani banking sector, as reflected in sizeable market share of deposits which stood at 13.6% at year-end 2012. Ratings also draw support from the bank's healthy capitalization levels and adequate liquidity profile. The bank is owned to the extent of 75% by the Government of Pakistan (GoP) through the State Bank of Pakistan in addition to which security of deposits is also guaranteed under the Banks' Nationalization Act. The bank's high cost base, deteriorating spreads and weaker portfolio quality as compared to peer banks act as constraints to the bank's standalone financial risk profile. On a timeline basis, liquid reserves carried on balance sheet in relation to outstanding obligations have declined while deposit concentration levels have increased further. Almost 40% of the total deposits have been mobilized from public sector entities.

Given the limited demand for private sector credit, the bank's exposure (in terms of financing and investments) to the government and government guaranteed institutions has been on the rise. Increase in financing to the public sector was particularly noteworthy in 2012, which also resulted in sharp rise in portfolio concentration levels. The latter includes exposure against state-owned enterprises and power sector concerns which are guaranteed by the GoP and comprises almost one-fourth of the gross financing portfolio. With few of these companies under financial stress, NBP has experienced delays in repayments which have exposed the bank to economic losses. In view of the same, further exposure to these entities may not be considered prudent. By virtue of these being government guaranteed financings, such exposures are exempted from classification criteria and portfolio quality is weaker than reported numbers. Exposure to the energy sector at 65% of the bank's equity is also on the higher side in relation to peer banks. Alongside corporate exposures, the bank's consumer portfolio has now obtained a reasonable size representing 18% of the bank's performing loan book. Given the enhanced limit in two of the three major products, the management expects sizeable growth from the segment in 2013. Given the product structures, infection for the segment has been recorded well below industry norms.

With a significant increase in government guaranteed exposures, NBP continues to benefit from lower capital requirements against credit exposures. In view of this, tier-1 CAR witnessed only a slight decline to 13.1% (2011: 13.8%) despite considerable increase in loan portfolio. Overall risk adjusted capitalization levels improved as Tier 2 capital increased on account of revaluation reserves on investment. Almost 15% of the capital is deployed in overseas operations. Lending activities in overseas markets are fairly restricted. Credit losses in overseas loan book may translate into market risk for the bank.

In line with the trend in the banking sector, spreads have marginalized on account of 250 bps discount rate cut and imposition of a 6% floor on savings deposits. Furthermore, the rate on savings deposits will now be applicable on monthly average balance which is likely to push up cost of saving deposits, which comprise a significant proportion of the bank's deposit mix. In order to mitigate the impact of declining spreads, management plans to enhance focus on low cost deposits and on retail lending where margins are significantly higher as compared to corporate loans.

Efficiency indicators of the bank do not compare favorably to peers. Surplus resources from the existing employee pool will be utilized to staff the new branches being set up during the on-going year, in order to improve staff productivity. While so far Islamic banking had not been an area of focus, the bank plans to rapidly expand its Islamic foot print by opening 100 new Islamic branches over the course of the next three years.

Developments are on-going on the self regulation front including Information Technology, Risk Management and Internal Controls. Timely implementation of these initiatives is expected to strengthen the overall control environment and risk management framework at the bank.

Overview of the Institution

National Bank of Pakistan was incorporated under the National Bank of Pakistan Ordinance, 1949. Government of Pakistan holds 75% shares in the bank through State Bank of Pakistan. Bank operates with a network of 1,317 branches and staff strength of 16,921. NBP has nine subsidiaries including two overseas subsidiaries. Financial statements of the bank were audited by Ms. Anjum Asim Shahid Rahman and M/s KPMG Taseer Hadi and Company JCR-VIS