

# Directors' Report

Directors' Report

It gives me great pleasure to present on behalf of the Board of Directors, annual accounts of the bank for the year ended December 31, 2007. NBP continued its journey of success based on our strategy of serving clients better.... a company agile enough to take advantage of its unique domestic and international footprint, capitalizing on the largest balance sheet and customer base in Pakistan with high cross sell potential. Our standalone AAA rating (the highest in the industry), our ROE, which is amongst the highest in the Asian Banking industry, and our comfortable capital adequacy ratios, position us well in front of our competitors for future growth.

Year 2007 has been yet an outstanding year with the bank recording the highest profit in its history. Our wide range of product offering, large branch network and committed workforce are some of our fundamental strengths that enabled us to achieve exceptional results in a very competitive market.

The pre-tax profit increased to Rs. 28.06 billion, an increase of 6.6% over last year. Earning per share jumped by over 11.6% from Rs. 20.88 in 2006 to Rs. 23.34 in 2007. Pre-tax return on equity stood at 45.9%, whereas pre-tax return on assets stands at 4.1% and cost to income ratio of 0.30 remained one of the highest in the sector. These results were possible despite the fact that NBP had to make additional provision of over Rs.3 billion as a result of withdrawal of Forced Sales Value (FSV). This year NBP also availed the offer by Government of Pakistan to redeem up to 10% of its holding in NIT units held by the bank under Letter of Comfort (LoC) arrangement, this sell off resulted in a Capital gain of Rs. 1.8 billion.

Increase in pre-tax profit was achieved through strong growth in core banking income. Net Interest income

increased by Rs. 3.5 billion (11.5%) due to better yields and volume driven growth spurred by increase in consumer loan portfolio. Dividend income and Capital Gains also made a healthy contribution as it increased by Rs. 371 million and Rs. 1,145 million over 2006 respectively mainly owing to higher dividends from NIT Units as well as Capital gains recorded on sell of 10% NIT Units. Advances increased by Rs. 25 billion due to impressive contribution by all business units. Deposits increased by a healthy Rs. 90 billion or 18% over last year. The bank's NPL provision coverage ratio also stands at an impressive 84%.



# Directors' Report

## NBP'S INITIATIVE IN 2007



### Corporate Banking

#### Corporate & Investment Banking Group (CIBG)

CIBG has achieved excellent results in 2007 with number of land mark transactions in energy, fertilizer, telecommunication, and cement sectors.

#### Corporate Banking

CBG's commitment to the clients is a relationship based on a profound understanding of the clients' business environment. CBG's relationship banking professionals are chosen for their knowledge of the macro issues and trends that affect economy, and for their ability to recommend the most appropriate financial products for the clients backed by our commitment to superior execution and sustainability. CBG provides these clients with a platform to issue the full spectrum of financing instruments and transactions, from plain debt to more structured and solution-driven transactions. CBG continued to provide financial services to corporate customers, multinational companies and to support projects arising from areas of national infrastructure, basic industries of the country such as textile, cement, oil & gas, oil refinery, telecommunications and agriculture related industries.

The corporate banking team has endeavored all its efforts to increase its loans, advances and trade business in the key sectors of our economy, despite the challenges faced by the group in the form of the downturn in the country's textile sector, liquidity in the market and reduction in private credit investment. The strategic direction and the

focus on the business attitude of maintaining and building partnerships with our existing and new corporate clients, helped CBG to overcome the challenges and CBG managed to embark new level of volumes of business along with the yields this year.

#### Investment Banking

NBP investment banking focuses on origination and execution of project finance, corporate finance, divestitures, financial restructurings, mergers & acquisitions assignments and associated financing solutions. This, combined with our corporate banking expertise, ensures that we are able to provide our clients with the full suite of financing including, project and structured financing, debt capital markets & syndication, advisory and leveraged finance.

*CIBG structured, arranged and executed 35 transactions valued at Rs.220 billion which has led to the significant enhancement in the fee earnings of 2007.*

In the year 2007 NBP climbed the ladder to reach the leading position in investment banking despite the challenges and competition in the growing market. It is worthwhile to mention that IBG structured, arranged and executed 35 transactions valued at Rs.220 billion which has led to the significant enhancement in the fee earnings of 2007. We are constantly capitalizing on our resources and expertise in order to anticipate our customer needs and provide them with innovative solutions that are relevant to continuity and growth.

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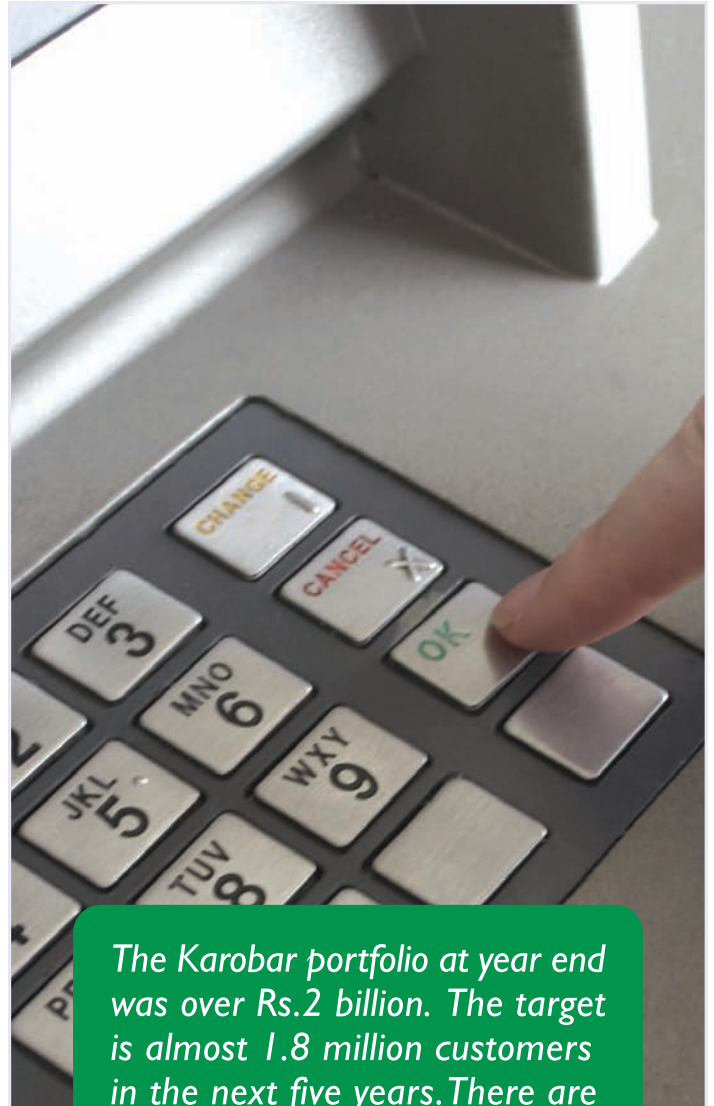
## NBP'S INITIATIVE IN 2007

### Retail Banking

NBP Karobar under the “**President's ROZGAR Scheme**” recorded excellent growth after its full launch in April 2007. This is a unique product launched to tap into the un-banked and actually the so far un-bankable poor people of Pakistan targeted towards the unemployed youths aged between 18 to 45 years. This product not only serves the bank's commercial strategy but is also an effort towards poverty alleviation in the country. It is a unique Public – Private Partnership with GOP paying 50% of the mark-up (the rest is paid by the customers), as well as providing free life and disability insurance to the NBP “Karobar” customers and sharing the losses with the bank. The portfolio at year end was over Rs.2 billion. The target is almost 1.8 million customers in the next five years. There are exciting new income generating products in the pipeline to achieve the targets of NBP. The income generation targeted is in excess of ten thousand rupees net per month for each customer. The bank plans on disbursing almost Rs. 100 billion which will touch the lives of almost thirty million citizens.

Housing is every citizen's birth right. It is a known fact that the Mortgage Business drives approximately 100 different sectors and thus is one of the driving forces in boosting the economy of a country. In line with this, NBP's Mortgage Financing Product, under the brand of **NBP Saibaan**, has been fully launched throughout Pakistan in 2007, catering to both the urban and rural areas of the country. In 2007, NBP Saibaan has been the market leader in housing finance as the overall disbursements were at an average of approximately Rs. 350 million each month, which is by far ahead of the competition. As on December 31<sup>st</sup> 2007 the total NBP Saibaan portfolio stands at Rs. 9.35 billion. Thus NBP Saibaan has become the leader amongst the top five Banks of Pakistan in Mortgages. Pakistan has a massive backlog of over 6 million housing units, where in the country needs about 0.6 million additional units every year. A supply of 0.3 million units per year exists only. A back log of 0.3 million additional units is added to the existing 6 million every year. In 2008, we intend to cater to this housing demand significantly by targeting all segments of the population nationwide.

The flagship **NBP Advance Salary** product continued to grow in 2007 and maintained its position as the single largest product in the country with its accumulated disbursement crossing Rs.115 billion. The number of organizations whose employees are entitled to avail this scheme is gradually being increased ensuring continued growth. The latest addition is the Pakistan Army and the target is almost half a million new customers in the next three years in addition to the existing base of one million satisfied customers approximately. Our retail banking is expanding its reach to its diversified customer base by offering new services and products through new delivery channels so as to minimize counter traffic, increase product offering and reduce administrative costs.



*The Karobar portfolio at year end was over Rs.2 billion. The target is almost 1.8 million customers in the next five years. There are exciting new incomes generating products in the pipeline to achieve the targets of NBP.*

The development of alternate delivery channels, use of I.T. and leveraging large customer base for cross selling potential are the key strategies of NBP for increasing its retail business. NBP holds 16% market share in the consumer loan business and we aim to increase it gradually without compromising on the quality of portfolio.

Our call center is a value addition in customer services and provides overall support to our retail products. It is a unique technology as it is not service provider specific and free calls can be made to the NBP “**Help Line**” on 0800 800 80 from any land or cell phone in the country.



# Directors' Report

## NBP'S INITIATIVE IN 2007



### Commercial Banking

We plan to establish commercial centers across the country looking at the business potential in the area, size of the branch and its capabilities to deliver the desired service in order to attract quality customers. The objective is to target the untapped sectors and provide them professional quality service, through one window operation and Relationship Managers stationed at those centers. We expect and hope to reduce the turn around time and become more competitive and market oriented.

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Further this customer friendly and dedicated set up at convenient locations would help in improving the image of the Bank as well. These Centers would work in conjunction with the existing set-up of Commercial Lending done throughout the NBP branch network. The main purpose of these centers is to generate ancillary business in addition to funded and non-funded facilities, with quick turn around time in decisions for customer satisfaction.

### SME

Small and Medium Enterprises (SMEs) remain the main area of focus for NBP and are considered the future growth driver. The growth of SME is important as they generate higher yields and are expected to be a high growth sector in the near-term. The services available to SMEs are similar to those provided to our Corporate / Commercial customers, including, but not limited to working capital finance, term lending, trade finance, letter of credits and guarantees.

Our growth strategy for SMEs revolves around developing a better understanding of the SME market, increasing market penetration through our existing products and newly tailored ones, and increasing our capacity to provide SME-specific services to our clients.

The bank is engaged with Shore Bank International (SBI) in a technology as well as Technical Assistance agreement. The objective of which is to establish more effective SME lending at a select number of NBP branches. These techniques (including cash-flow based assessment) are institutionalized through an extensive staff training process. The pilot phase of the project (confined to selected Regions of Punjab) culminated in December 2007 and overachieved most of the pre-defined targets. More than PKR 1.6 billion in loans has been disbursed to over 811 undocumented businesses while maintaining an NPL rate of less than 2%. After the success of the pilot project, NBP has decided to engage the services of SBI to roll out the Technical Assistance on a national scale, covering 200 branches in Sindh, Punjab and Balochistan in the next two years.





# Directors' Report

## NBP'S INITIATIVE IN 2007



### Human Resource

For NBP the dedicated, hardworking staff is one of the key strengths of the bank. NBP has been investing in developing this valuable resource through need based training and career growth development. Our HR objective is to become an employer of choice and to maintain complete

*Female employees are being encouraged through female empowerment program under which they are given responsible and challenging assignments. Currently over 60 females are employed as branch managers all over the country and some females hold senior management positions.*

industrial harmony within the institution. Our new hiring of top class MBAs as Management Trainee Officers (MTOs) and search for talent within the bank has helped in preparing second and third tier leadership lines which will shape our succession planning process and at the same time will ensure that with the passage of time our employee refinement and skill enrichment program continues. We also have started new 'Employee Communication Program' and internal organizational magazine to improve the interaction of top and middle level management with the lower management. Female employees are being encouraged through female empowerment program under which they are given responsible and challenging assignments. Currently over 60 females are employed as branch managers all over the country and some females hold senior management positions.

# Directors' Report

## NBP'S INITIATIVE IN 2007

### **Credit and Risk Management**

NBP is continuously upgrading its risk management process to identify, evaluate and manage risk. During the year the bank established an Operational Risk Management Unit to supplement its already established Credit and Market risk units for comprehensive risk management. Our risk management in terms of adoption of Basel II guidelines is on time and is advancing smoothly with completion of internal gap analysis. Our Credit Management System is based on elaborated risk assessment and Credit Rating System to ensure a very objective and timely assessment of each proposal. We have our internal filtration systems and approval hierarchy to ensure that proper authority and responsibility is established and at the same time to reduce the lead processing time of the credit application. We have proper monitoring system and have also setup a separate Credit Administration Department (CAD) to further improve our credit monitoring function.

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### **Special Assets Management**

With a provision coverage of 84% we believe that going forward our Special Assets Management Group will make major contribution towards the Bank's profitability through recoveries and reversal of provision charged as a result of declassification / rescheduling. We have revamped our special assets management business and have coordinated our efforts to expedite recoveries and settlements.

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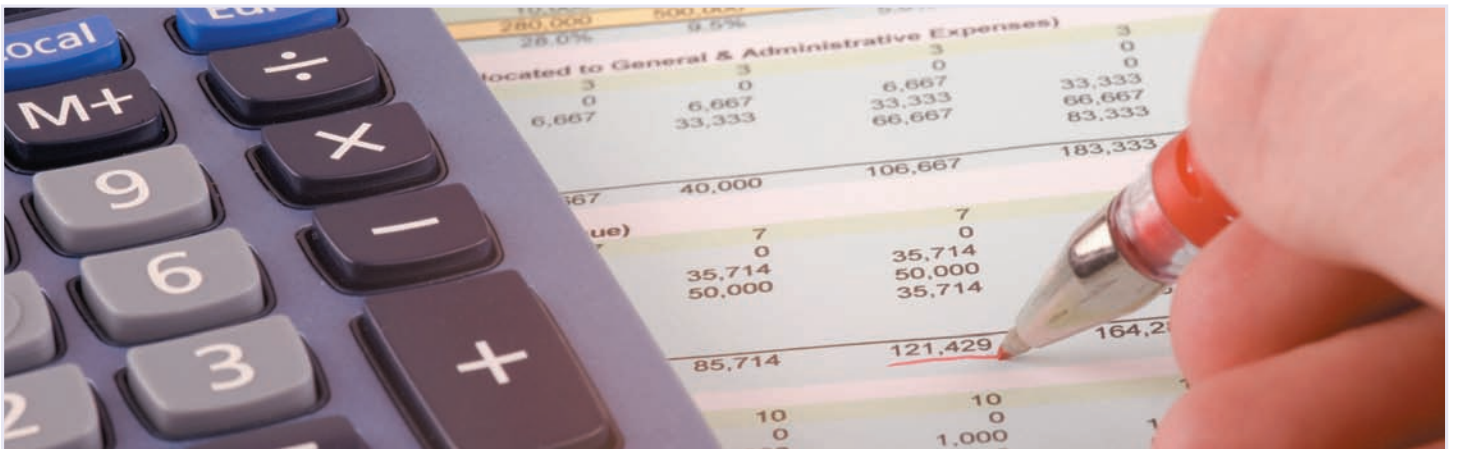
# Directors' Report

## NBP'S INITIATIVE IN 2007



### Treasury

NBP has the largest treasury in terms of size. We are a major player in the foreign exchange and money market and are a primary dealer of government securities. We have the capabilities to offer structured products to our customers as per their needs.



### Financial Institution and Cash Management

NBP offers correspondent banking services through its overseas branches and more than 500 correspondent banks across the globe under the umbrella of Financial Institutions & Cash Management Division. Our strategy is to build strong, long-term, multi-level relationship with financial institutions.

*Our strategy is to build strong, long-term, multi-level relationship with financial institutions. We are optimally utilizing our extensive domestic branch network by offering structured products to our corporate customers.*

We are optimally utilizing our extensive domestic branch network by offering structured products to our corporate customers. NBP has taken various measures to facilitate overseas Pakistanis to bring their home remittance back to the country in a convenient and efficient manner.



# Directors' Report

## NBP'S INITIATIVE IN 2007

### Operations

We are committed and focused towards good quality customer service and in 2007 with the motto of "Putting a smile on our Customer's face." We made concerted efforts and took a number of initiatives. Workshops and seminars were conducted to disseminate the very important message of "Excellent Customer Service".

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We are transforming our branches to give a modern look and convenience. A number of branches have been shifted to prominent and spacious locations. We also have established specialized customer facilitation centers to exclusively cater to pension payments, utility and government collections. These are expected to reduce counter traffic at our branches and will increase our distribution channels for better and convenient services. Business hours have been extended with establishment of customer facilitation offices at the regional levels to help on the spot resolution of customer complaints.



### Information Technology

Today banking is becoming more and more complex with the introduction of new products, services and enhanced regulatory compliance requirements. It is the I.T. support that can improve the customer services and reduce cost at the same time. At NBP we have elaborate plans for transformation of the entire I.T. architecture of the bank by implementing a core banking solution.

*The bank is expanding its ATM network and connectivity to further expand our reach to the customers.*

The said technology will not only increase our distribution capabilities but will also simplify our internal procedures thereby reducing the transactional cost and lead time for services. NBP has started a number of projects in relation to I.T. Infra-structure up-gradation. The bank is expanding its ATM network and connectivity to further expand our reach to the customers. This year we completed our automation of the government's tax collection services thereby opening new opportunities for such services on behalf of other organizations. NBP is also looking into other I.T. products for salary and pension disbursement and E-banking for better services.



# Directors' Report

## NBP'S INITIATIVE IN 2007



### Agriculture

NBP remains the largest agriculture lender in the banking sector in agriculture with approximately 300,000 borrowers and gross disbursement of Rs. 28 billion during the Financial Year 2006-2007. Our vast domestic branch network having 45% branches in rural areas and unique product offering under the banner of **Kisan Dost** provides us competitive edge over our peer banks.

Our specialized Agriculture Field Officers, being agriculture graduates are trained to understand the needs and limitations of our borrowing farmers as well as versed with the latest trends in agriculture production technology providing technical guidance and specialized services to our customers.

### Deposits

NBP is the largest bank in terms of deposit. Our large clientele and confidence of our depositors belonging to all walks of life is a major strength. We have shown appreciable growth of 18% in deposits on YoY basis, which is significant from the view point that with the consolidation in the banking sector, competition for deposits is ever increasing.

*This year we introduced three new liability products; NBP Premium Saver account, NBP Premium Amdani account and NBP Enhanced Saver account...the bank's performance is commendable in increasing its deposits by Rs. 90 billion especially low cost deposits.*

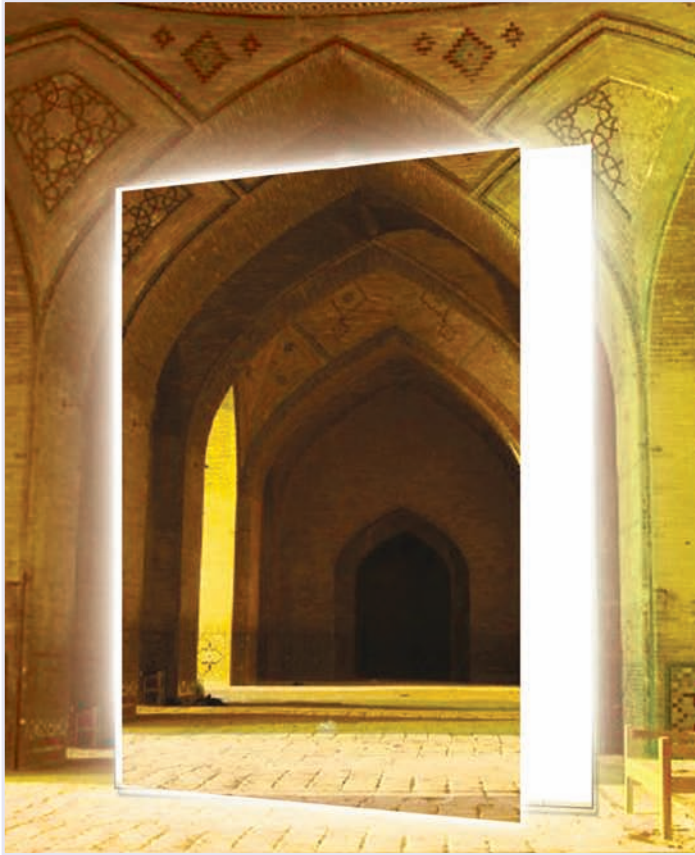
We are branding our liability products and will continue to develop new liability side products for continuing our leadership position in this business. This year we introduced three new liability products; **NBP Premium Saver** account, **NBP Premium Amdani** account and **NBP Enhanced Saver** account. These schemes have received excellent response from the customers and we expect healthy growth in future under these and new products that the bank is going to launch on the liability side. Given the large base and competition in the banking sector, the bank's performance is commendable in increasing its deposits by Rs. 90 billion especially low cost deposits.





# Directors' Report

## NBP'S INITIATIVE IN 2007



### International Operations

NBP has the largest international franchise in terms of Assets. We are present in four continents and have branches in all the countries that are major trading partners of Pakistan. Our unique coverage of Central Asia, Far East and South Asia is incomparable and we will be the major benefactor once the trade business from the Energy rich Central Asian Republics picks up.

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The bank is planning to start its operations in Saudi Arabia (mid 2008) and further expand its branches in Afghanistan and Bangladesh. The bank's international operations strategy is focused towards increasing trade business and expand where the bank has competitive advantage.

### Islamic Banking

The year 2007 marked the first year of Islamic Banking operations. During the year under review, in addition to active participation in various

*...utilizing NBP's existing branch network of 1,200 plus conventional branches and looking into strategic acquisitions for expansion in this field.*

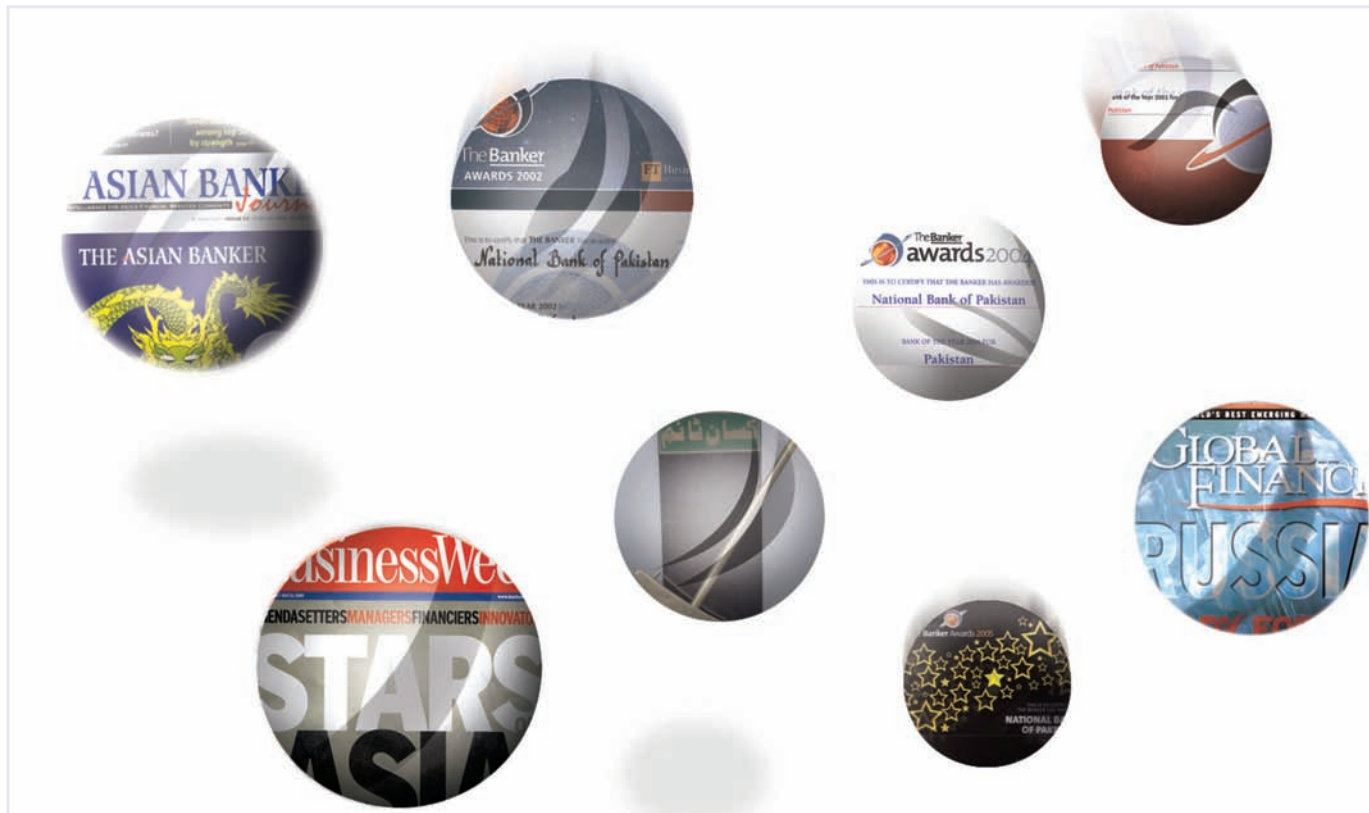
Sukuk transactions, two more Islamic Banking branches at Lahore and Peshawar started operations. NBP's plans for the year 2008 include opening of Faisalabad and Rawalpindi branches with the focus on growing organically by opening more standalone Islamic Banking branches, utilizing NBP's existing branch network of 1,200 plus conventional branches and looking into strategic acquisitions for expansion in this field.





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## NBP'S INITIATIVE IN 2007



### Credit Rating

Moody's maintained NBP's financial strength rating at D-thereby recognizing the internal strength and leadership position of the Bank. In addition, NBP also enjoys the highest Credit Rating amongst Pakistani banks; JCR-VIS Credit Rating Co. Limited awarded highest standalone Credit Rating of AAA to NBP. The JCR-VIS Credit Rating Co. comments about NBP says a lot about the bank:

*NBP also enjoys the highest Credit Rating amongst Pakistani banks; JCR-VIS Credit Rating Co. Limited awarded highest standalone Credit Rating of AAA to NBP.*

*"The organization has been able to strategically manage and build on its competitive advantages which has translated into the strong and well managed improvement in profitability trend observed over the last few years, a substantial balance sheet of sound asset quality, and strong liquidity and capitalization levels."*

### Market Recognition

In addition to the highest Credit Rating in the banking sector NBP is exultant to receive several awards from both local and foreign institutes of repute. NBP in year 2007 received the award for Best Return on Capital for 2006 amongst all banks in Asia by 'Bankers Magazine' in July 2007. Mr. Ali Raza, Chairman & President was awarded "The Asian Banker Leadership Achievement Award 2007" by Asian Banker in 2007. The Asian Banker has adjudged NBP as the Strongest Bank in Pakistan.

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NBP'S INITIATIVE IN 2007



*Our investment in technology and human resource will continue to prepare us for the future challenges. Customer will be the centre of our focus to become the 'Bank of Choice' for customers. We will continue to redesign, improve our existing products and introduce new products / services to better serve our clients.*

## Social Responsibility

NBP fully recognizes its responsibility towards society in general and towards promotion of sports in the country in particular. The organization has always contributed towards worthy causes and have donated generously in case of natural calamities. Our focus is towards the promotion of sporting activities in the country and we are giving our patronage for the promotion of national game of hockey. To promote healthy sports activity in the country NBP has built a state-of-the-art sports complex at Karachi.

**W**hile we concentrated on achieving our financial targets, we did not lose sight of the future and its challenges. We continue to invest in our man power training and up-gradation of I.T. infrastructure. Although in the short run this will result in an increase in our administrative and capital expenditure but in the long run, it will increase our efficiency in terms of real cost reduction and increased product offering. In future we need to invest heavily into I.T. to bring further improvement in our service standards and also to reduce our transaction costs.

Our future envisions expansion in terms of geography, clientele and products. We are setting our eyes towards excelling amongst banks of the South Asian Region and would like to improve even further on our rankings both domestically and regionally. Our investment in technology and human resource will continue to prepare us for the future challenges. Customer will be the centre of our focus to become the 'Bank of Choice' for Customers. We will continue to redesign, improve our existing products and introduce new products / services to better serve our clients.

We are going to capitalize on our strengths of potential to cross sell, introduction of new delivery channels, organic as well as strategic expansion through acquisition. We will focus on effective deployment of our capital to further enhance our earning potential and will continue to tap into un-banked areas through our micro finance and SME products.

We will not only maintain our leadership position in deposits, treasury operations and capital market but will introduce new structured products for our upscale corporate clients. While our front office strategy is penetration and sustenance of our business, our back office strategy is modernization, cost rationalization, strong internal controls and conformity with compliance standards.

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## NBP'S INITIATIVE IN 2007

### Corporate and Financial Reporting Framework (Code of Corporate Governance)

The Board is fully aware of its responsibilities established by the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan (SECP). The Directors are pleased to give the following declarations / statements to comply with the requirements of the Code.

- (a) The financial statements (Balance Sheet, Profit & Loss Account, Cash Flow Statement, Statement of Changes in Equity and notes forming part thereof), prepared by the management of the bank give the information in the manner so required and respectively give a true and fair view of the state of the bank's affairs as at December 31, 2007 and of the results of its operations, changes in equity and its cash flows for the year then ended.
- (b) Proper books of accounts have been maintained.
- (c) Appropriate accounting policies have been consistently applied in the preparation of the financial statements and accounting estimates are based on the reasonable and prudent judgment.
- (d) The International Financial Reporting Standards, as applicable in Pakistan have been followed in preparation of the financial statements and departure there from, if any has been adequately disclosed.
- (e) The system of internal control is sound in design and has been effectively implemented and monitored throughout the year. The Board is responsible for establishing and maintaining the system of internal control in the bank and for its ongoing monitoring. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and provide reasonable but not absolute assurance against material misstatements or loss.

The process used by the Board to review the efficiency and effectiveness of the system of internal control includes the following:

- The Board has formed various committees comprising of non-executive directors.
- Internal audit department of the bank conducts the audit of all branches, regions and groups at Head Office level on ongoing basis to evaluate the efficiency and effectiveness of internal control system and proper follow up of irregularities and control weaknesses is carried out.
- The Board receives confirmations / representations from all group and regional heads on annual basis confirming effectiveness of the internal control system established and maintained by them within their function.

The principal features of the bank's control framework include:

- The bank has clearly defined organizational structure, which supports clear lines of communications and reporting relationships.
- There exists properly defined financial and administrative powers of various committees and key management personnel, which supports delegations of authority and accountability.
- The bank has effective budgeting system in place. Annual budget of the bank is approved by the Board and monthly comparisons of actual results with the budget are prepared and reviewed by the senior management.

The bank has a comprehensive framework of written policies and procedures on all major areas of operations such as Credit, Treasury Operations, Finance, Internal audit and Compliance approved by the Board.

- (f) There are no significant doubts about the bank's ability to continue as a going concern.
- (g) There has been no material departure from the best practices of the corporate governance as detailed in the listing regulations.
- (h) Key operating and financial data is available in the annual report.
- (i) The number of board meetings held during the year were 12 and attended by the directors as follows:

Syed Ali Raza	President / Chairman	12
Dr. Waqar Masood Khan	Director	12
Mr. Iftikhar Ali Malik	Director	2
Mr. Sikandar Hayat Jamali	Director	10
Mr. M. Zubair Motiwala	Director	3
Mr. Azam Faruque	Director	9
Mian Kausar Hameed	Director	9
Mr. Ibrar A. Mumtaz	Director	8



# Directors' Report

## NBP'S INITIATIVE IN 2007

The Board places on record its sincerest appreciation to the outgoing Directors Dr. Waqar Masood Khan, Mr. Iftikhar Ali Malik, and Mr. M. Zubair Motiwala to whom we are indebted for their prudent, professional and diligent guidance that helped in achieving such tremendous performance.

- (j) Value of investments of Employees' Pension Fund and Employees Provident Fund as at December 31, 2007 (un-audited) was as follows:

	Rs. in - `000
Employees Pension Fund	19,503,391
Employees Provident Fund	8,078,395

### Pattern of Share holding

The pattern of share holding as of December 31, 2007 is annexed with the report.

### Earning per share

After tax earning per share for the year 2007 is Rs.23.34.

### Appointment of Auditors

The Board of Directors on the recommendations of Audit Committee has recommended name of Messers Ford Rhodes Sidat Hyder & Co., Chartered Accountants and Yousuf Adil Saleem & Co., Chartered Accountants as statutory auditors for the year ending December 31, 2008. Both the firm being eligible offer themselves for appointment.

### Risk Management Framework

NBP Board of Directors and senior management is fully committed to strengthen the Risk Management structure and practices in NBP. A number of initiatives taken and planned by NBP, in this regard reflects management commitment to upgrade the quality of the risk management process, such as the formation of a Board level Risk Management Committee; Basel – II Gap Analysis Exercises; implementation of Risk Management Software for managing Credit Risk, continuous improvement in the Policies, Procedures and reporting for effective Risk Management and shift from fixed mark-up rate structures to floating rates of mark-up for managing interest rate risk.

### Reporting of Internal Control System

Bank's management has established and is managing an adequate and effective system of internal control which encompasses the policies, procedures, processes and tasks as approved by the Board of Directors that facilitate effective and efficient operations. The management and the employees at all levels within the Bank are required to perform as per these approved Internal Control System components. The Internal Control System ensures quality of external and internal reporting, maintenance of proper records and processes, compliance with applicable laws and regulations and internal policies with respect to conduct of business.

The management ensures that an efficient and effective Internal Control System is in place by identifying control objectives, reviewing existing procedures and policies and ensuring that control procedure and policies are amended for time to time wherever required.

However, Internal Control System is designed to manage rather than eliminate the risk of failure to achieve objectives and provide reasonable but not absolute assurance against material misstatement or loss.

### Evaluation of Internal Control

The Bank has an independent Internal Audit Group that conducts audit of all Branches, Regions and Groups at Head Office on an on-going basis to evaluate the efficiency and effectiveness of Internal Control System. In addition to that Compliance Group is also in place with independent Compliance Officers in 119 Branches and 29 Regional Compliance Chiefs with supporting staff to take care of compliance related issues to strengthen the control environment.

For the year 2007 the bank has made its best efforts to ensure that an effective Internal Control System continues to perform in letter and spirit. The observations made by the external and internal auditors are reviewed and measures are taken by the management to address the Internal Control issues pointed out in those observations.

We assess that the Internal Control environment is showing signs of improvement as compared to previous years in all areas of the bank. The bank is endeavoring to further refine its internal control design and assessment process as per guidelines issued by the State Bank of Pakistan. Accordingly, Bank is making all possible efforts to improve the professional skills and competency level of the staff through need based training programs.

Finally we extend our appreciation to the Bank's staff for their commitment, dedication and hard work in achieving these excellent results. We would like to express our sincere reverence to the Board Members whose valuable guidance has always enlightened us in our decision making. Finally we would like to express our appreciation to our stakeholders, regulators and our valued customers for their support and continued confidence in NBP.

### On behalf of Board of Directors

**S. Ali Raza**  
Chairman & President  
Date: February 29, 2008