



CONNECTING HOPES SHARING DREAMS

Annual Report
2000



NBP

National Bank of Pakistan

The Nation's
Bank



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VISION

To be recognized as a leader and a brand synonymous with trust, highest standards of service quality, international best practices and social responsibility



MISSION

NBP will aspire to the values that make NBP truly the Nation's Bank, by:

- Institutionalizing a merit and performance culture
- Creating a distinctive brand identity by providing the highest standards of services
- Adopting the best international management practices
- Maximising stakeholders value
- Discharging our responsibility as a good corporate citizen of Pakistan and in countries where we operate





CORE VALUES

- Highest standards of Integrity
- Institutionalising a teamwork and performance culture
- Excellence in service
- Advancement of skills for tomorrow's challenges
- Awareness of social and community responsibility
- Value creation for all stakeholders



GOAL

To enhance profitability and maximisation of **NBP** share through increasing leverage of existing customer base and diversified range of products



CORPORATE INFORMATION

Board of Directors

Qamar Hussain	President
Nazrat Bashir	Director
Tariq Kirmani	Director
Haniya Shahid Naseem	Director

Audit Committee

Tariq Kirmani	Chairman
Nazrat Bashir	Member
Haniya Shahid Naseem	Member

Auditors

Anjum Asim Shahid Rahman
Chartered Accountants

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Legal Advisors

Mandviwala & Zafar
Advocates & Legal Consultants

Registered Office

NBP Building
I.I. Chundrigar Road, Karachi, Pakistan

Registrar & Share Registration Office

Central Depository Company of Pakistan,
CDC House, 99-B, Block-B,
S.M.C.H.S., Main Shara-e-Faisal
Karachi, Pakistan

Website

www.nbp.com.pk

FINANCIAL HIGHLIGHTS

Rupees in Million

2007

Total Assets	762,194
Deposits	591,907
Advances	340,319
Investments	211,146
Shareholders' Equity	69,271
Pre-Tax Profit	28,061
After-Tax Profit	19,034
Earnings Per Share(Rs.)	14.15
Number of Branches	1,261
Number of Employees	14,079

2008

Total Assets	817,758
Deposits	624,939
Advances	412,987
Investments	170,822
Shareholders' Equity	81,367
Pre-Tax Profit	23,001
After-Tax Profit	15,459
Earnings Per Share(Rs.)	11.49
Number of Branches	1,276
Number of Employees	15,441

2009

Total Assets	944,583
Deposits	727,465
Advances	475,243
Investments	217,643
Shareholders' Equity	94,142
Pre-Tax Profit	21,300
After-Tax Profit	17,562
Earnings Per Share(Rs.)	13.05
Number of Branches	1,287
Number of Employees	16,248

2004

Total Assets	553,231
Deposits	465,572
Advances	220,794
Investments	149,350
Shareholders' Equity	24,900
Pre-Tax Profit	11,978
After-Tax Profit	6,195
Earnings Per Share(Rs.)	4.60
Number of Branches	1,226
Number of Employees	13,745

2005

Total Assets	577,719
Deposits	463,427
Advances	268,839
Investments	156,985
Shareholders' Equity	37,636
Pre-Tax Profit	19,056
After-Tax Profit	12,709
Earnings Per Share(Rs.)	9.45
Number of Branches	1,242
Number of Employees	13,824

2006

Total Assets	635,133
Deposits	501,872
Advances	316,110
Investments	139,947
Shareholders' Equity	53,045
Pre-Tax Profit	26,311
After-Tax Profit	17,022
Earnings Per Share(Rs.)	12.65
Number of Branches	1,250
Number of Employees	14,019

2001

Total Assets	415,089
Deposits	349,617
Advances	170,319
Investments	71,759
Shareholder's Equity	11,959
Pre-Tax Profit	3,016
After-Tax Profit	1,149
Earnings Per Share(Rs.)	0.85
Number of Branches	1,245
Number of Employees	15,163

2002

Total Assets	432,803
Deposits	362,866
Advances	140,547
Investments	143,525
Shareholders' Equity	14,279
Pre-Tax Profit	6,045
After-Tax Profit	2,254
Earnings Per Share(Rs.)	1.68
Number of Branches	1,204
Number of Employees	12,195

2003

Total Assets	468,972
Deposits	395,492
Advances	161,266
Investments	166,196
Shareholders' Equity	18,134
Pre-Tax Profit	9,009
After-Tax Profit	4,198
Earnings Per Share(Rs.)	3.12
Number of Branches	1,199
Number of Employees	13,272

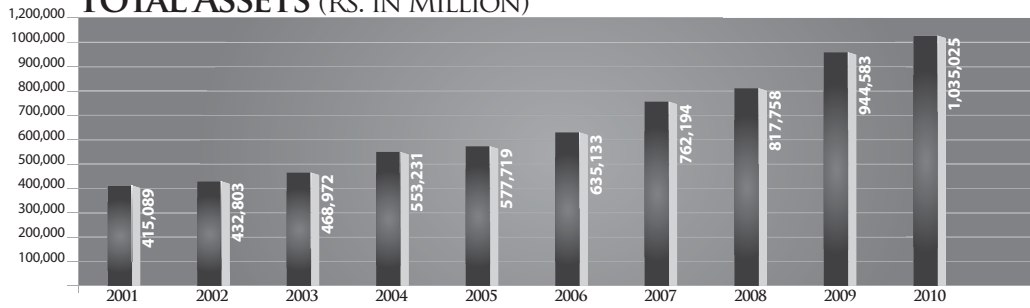
2010

Total Assets	1,035,025
Deposits	832,152
Advances	477,507
Investments	301,324
Shareholders' Equity	103,762
Pre-Tax Profit	24,415
After-Tax Profit	17,563
Earnings Per Share(Rs.)	13.05
Number of Branches	1289
Number of Employees	16457

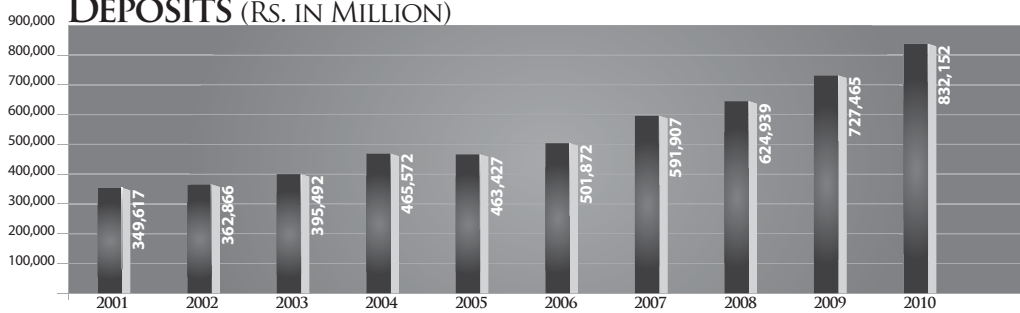


10 YEARS HIGHLIGHTS

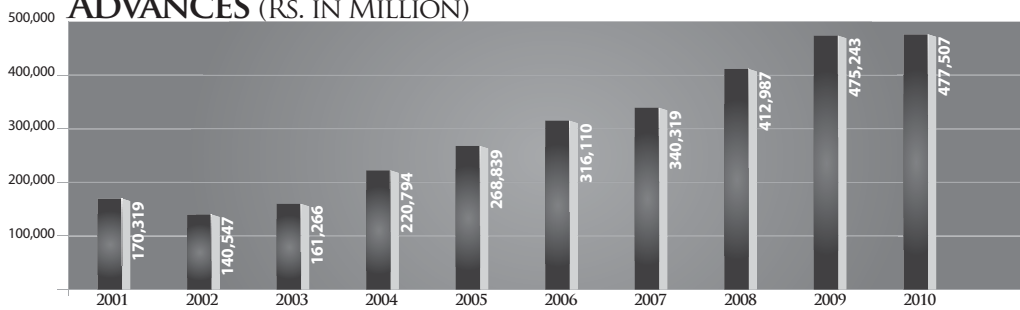
TOTAL ASSETS (RS. IN MILLION)



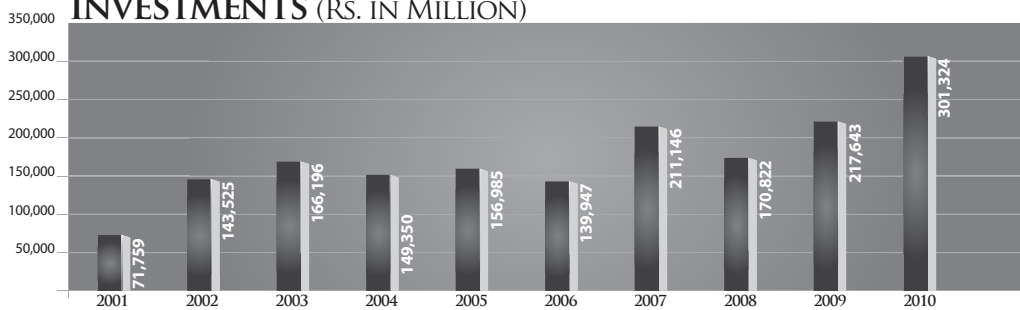
DEPOSITS (RS. IN MILLION)



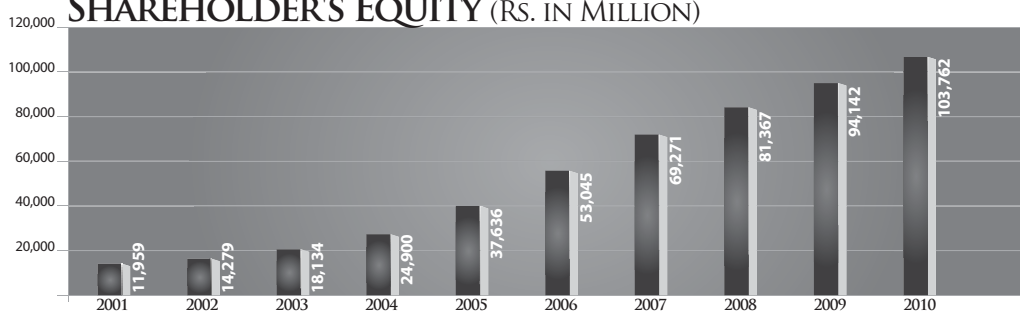
ADVANCES (RS. IN MILLION)



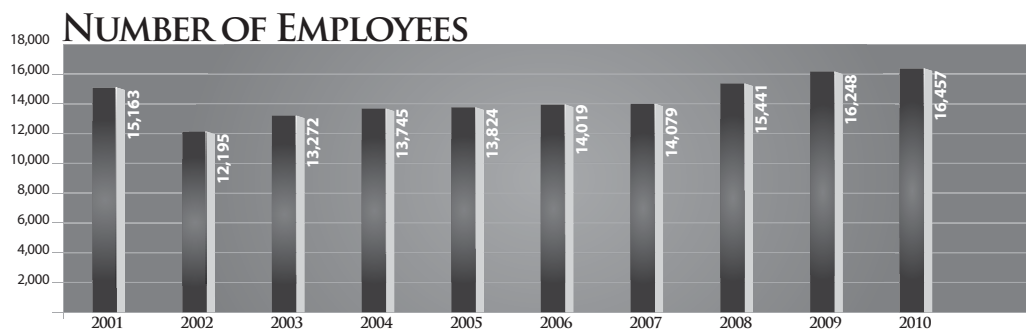
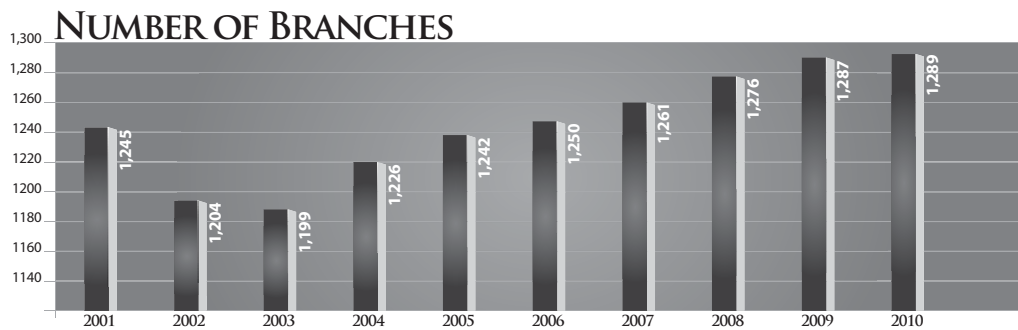
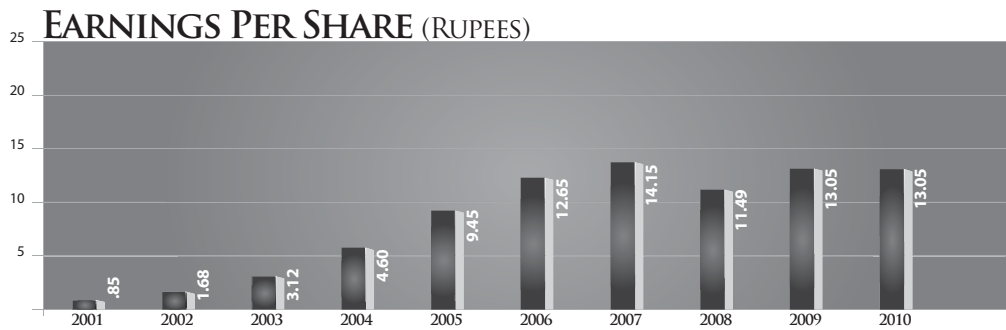
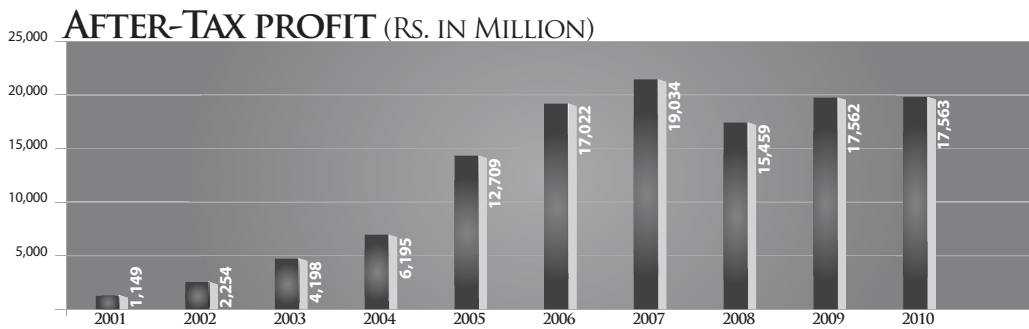
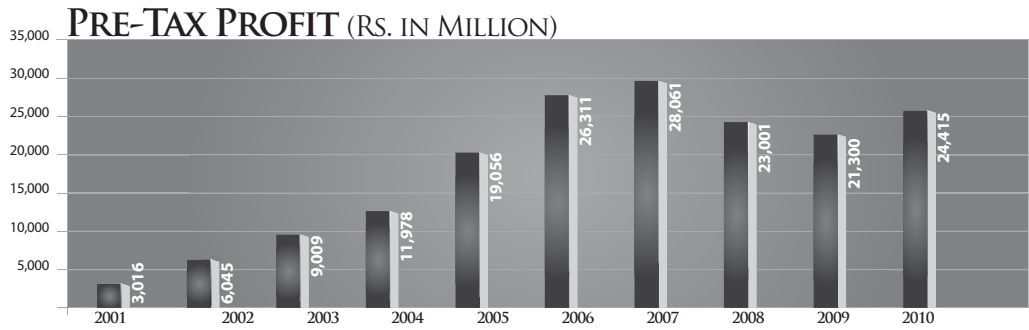
INVESTMENTS (RS. IN MILLION)



SHAREHOLDER'S EQUITY (RS. IN MILLION)



10 YEARS HIGHLIGHTS



BOARD OF DIRECTORS



From left to right (standing): Mr. Tariq Kirmani and Mr. Qamar Hussain
 From left to right (seated): Ms. Nazrat Bashir and Mrs. Haniya Shahid Naseem

Mr. Qamar Hussain

President, NBP

Mr. Qamar Hussain assumed charge on January 17, 2011 as the President of National Bank of Pakistan. He holds an MBA degree in International Business & Finance from McGill University, Montreal, Canada and has undergone extensive training in business leadership abroad.

Mr. Hussain started his banking career from Bank of America N.T. & S.A., Pakistan in 1981. Prior to joining NBP in 2009, he had worked with American Express Bank as Senior Vice President Global Credit, New York and earlier as Senior Director - Country Manager, Bangladesh. He had also been associated with the CHASE MANHATTAN BANK in Pakistan and USA.

Mr. Hussain is a distinguished banker and brings with him rich experience in various aspects of banking particularly in Corporate Finance, Credit/Risk Management, and has excelled in strategic planning and business management.

During his tenure with NBP as Chief Operating Officer, he has made significant contribution in reorganizing the field structure throughout the country, strengthened credit and risk function, reorganized corporate and investment banking, streamlined performance management processes and as a member of banks strategic planning team has initiated business and other changes for further strengthening the organization.

He has expertise in the following fields:-

Leadership and Management Expertise

- Strategic Planning and Profit/Loss Management
- People and business management in a matrix organization
- Corporate Governance and Compliance
Credit and Corporate Banking Expertise
- Credit and risk assessment/approval of corporate, financial institutions and country risk exposures.

Mr. Hussain developed and implemented successful strategies for corporate banking business in both private and public sector including transactions involving multilateral financial institutions.

Ms. Nazrat Bashir

Director

Ms. Nazrat Bashir belongs to District Management Group of Civil Service of Pakistan. She is Masters in Economics from New York University, New York, USA and Masters in Psychology from Peshawar University, Peshawar.

She has extensively traveled abroad and has attended various international seminars and courses including Executive Program from Kennedy School, Harvard, Consolidated Supervision of Banks, Dealing with Banking Crises, Commercialization of Micro Finance, Anti Money Laundering, Instruments of Financial Markets etc. Domestically too she has attended various programs in some of very prestigious institutions of Pakistan.

She possesses 30 years of administrative experience in government service in economic & financial policy and its implementation. At present, she is working as Additional Finance Secretary in Finance Division, Islamabad.

She is a certified Director on the Panel of Pakistan Institute of Corporate Governance (PICG).

Besides NBP, she is also on the Board of Directors of National Investment Trust (NIT), Nadra Technologies Limited and Zarai Taraqiati Bank Limited.

Mr. Tariq Kirmani

Director

Soon after completing his Masters in Business Administration (MBA) Mr. Kirmani embarked upon a rewarding career, starting with a multi-national Oil Company (Caltex later Chevron Pakistan) in 1969 and worked for seven years in the United States of America, United Arab Emirates and Australia in different senior management positions in Marketing, Operations and Finance. In 1991, Mr. Kirmani became the first Pakistani to be elected as a Company Director of the mentioned multi-national company.

In April, 1999 he joined Pakistan State Oil (PSO) as Deputy Managing Director and went on to become the Managing Director in July 2001. He turned around this public sector organization and converted it into a customer focused entity, giving it a new brand image and making it profitable while aggressively competing with other multi national companies.

With PSO's successful turn-around and his 36 years of multi faceted experience in the corporate sector both domestic and international, the Government of Pakistan (GoP) appointed Mr. Tariq Kirmani, as Chairman, Pakistan International Airlines (PIA) in April, 2005. He served the airline for two years until April 2007 during which he introduced customer focus and identified and initiated implementation of programs in three key areas for improvement a) Fleet Renewal b) Employee Rationalization c) Systems & Processes through implementation of IT and Enterprise Resource Planning (ERP).

Mr. Kirmani has served on the Boards of various companies and now is serving as the Chairman of United Bank Fund Managers and Asia Care Health and Life Insurance Company and as Director on the Board of National Bank of Pakistan, Marie Adelaide Leprosy Centre (MALC), Pakistan Sports Trust, National Academy of Performing Arts, Professional Education Foundation, Green Star Social Marketing, Byco Petroleum Pakistan Limited and Byco Oil Pakistan Limited.

Mrs. Haniya Shahid Naseem

Director

Mrs. Haniya Shahid Naseem is an MBA with more than fifteen years experience of working in the education, social, industrial textile and agriculture sectors of Pakistan. She has served for 5 years on the Board of a textile company, having a turnover of more than one Billion Rupees. Presently she is actively involved in the administration of Pakistan Public School Multan. She is a progressive agriculturist and actively participates in the management of her family's agricultural farms. She is a member of the Multan Chamber of Commerce and Industry, and is also on the guest faculty of IBA, Multan.

MEMBERS OF STRATEGIC POLICY COMMITTEE



Mr. Qamar Hussain
President, NBP



Dr. Asif A. Brohi
Member



Dr. Mirza Abrar Baig
Secretary & Member



Shahid Anwar Khan
Member



Mr. Amer Siddiqui
Member

SENIOR MANAGEMENT

Dr. Asif A. Brohi

SEVP & Group Chief
Operations Group

Asif Hassan

SEVP & Group Chief
Small & Medium Assets Recovery
Group

Imam Bakhsh Baloch

SEVP & Group Chief
Audit & Inspection Group

Ziaullah Khan

SEVP & Group Chief
Agriculture Finance Group

Tariq Jamali

SEVP & Group Chief
Compliance Group

Nadeem Anwar Ilyas

SEVP & Group Chief
Assets Recovery Group &
PSO to the President

Tahira Raza

EVP / Chief Risk Officer
Risk Management Division

Ekhlaq Ahmed

EVP & Secretary
Board of Directors

Shafique Ahmed Khan

EVP & Divisional Head
Islamic Banking Division

Amir Shehzad

SVP & Divisional Head
Equity Investment Division

Shahid Anwar Khan

SEVP & Group Chief
Overseas Banking Group / Credit
Management Group

Dr. Mirza Abrar Baig

SEVP & Group Chief
Human Resource Management &
Administration Group

Amer Siddiqui

SEVP & Group Chief
Commercial & Retail Banking Group

Syed Iqbal Ashraf

SEVP & Group Chief
Corporate & Investment
Banking Group

Muhammad Nusrat Vohra

SEVP & Group Chief
Treasury Management Group

Khalid Bin Shaheen

SEVP & Group Chief
Global Home Remittances
Management Group

Nabi Bukhsh Soomro

SEVP
Special Assignments-
President Secretariat

Aamir Sattar

EVP / Financial Controller
Financial Control Division

Raza Mohsin Qizilbash

EVP & Divisional Head
Legal Division

Yasir Ishaq Ansari

SVP & Divisional Head
Information Technology Division

NOTICE OF 62ND ANNUAL GENERAL MEETING

Notice is hereby given that the **62nd Annual General Meeting** of National Bank of Pakistan ("Bank"), will be held on **Wednesday, the 30th March, 2011 at 10:00 A.M (PST), at Ball Room, Pearl Continental Hotel, Karachi.**

The following business will be transacted in the meeting:

Ordinary Business:

1. To confirm the minutes of 61st Annual General Meeting held on 31st March, 2010.
2. To receive and adopt the Audited Accounts of the Bank for the year ended 31st December, 2010, together with the Directors' & Auditors' Reports thereon.
3. To appoint auditors for the year ending 31st December, 2011 and fix their remuneration.
4. To consider and approve Cash Dividend @ 75% and Bonus Shares @ 25% (thereby increasing the Paid-up Capital of the Bank from Rs. 13,454,627,830/- to Rs.16,818,284,790/-) as recommended by the Board of Directors for the year ended 31st December, 2010 (subject to Government of Pakistan approval).
5. To approve that in the event of any member holding shares which were not an exact multiple of his/her entitlement, the President /Secretary Board be authorized to sell such entitlements in the Stock Market and to pay the proceeds of sale when realized to one or more charitable trust(s) / Welfare Association(s) or any other institution / organization engaged in the welfare of human being.
6. To elect one (01) Director from the Private Shareholders against a vacancy as fixed by the Board of Directors in accordance with the Section 178 (1) of the Companies Ordinance, 1984, for a term of three years in place of Mr. Tariq Kirmani who has completed his term of office of Director. The retiring Director is eligible for re-election.

Special Business:

7. To approve donation of Rs.241,193.28 to one or more charitable trust(s) / Welfare Association(s) or any other institution / organization engaged in the welfare of human being, by passing the following ordinary resolution:

"RESOLVED THAT the donation of Rs. 241,193.28, being the net sale proceeds of 3,128 fractional Bonus Shares - 2009 to one or more charitable trust(s) / Welfare Association(s) or any other institution / organization engaged in the welfare of human being, name(s) of which will be approved by the President of the Bank, be and is hereby approved."

8. For the purposes of meeting the requirements of The Banks' (Nationalization) Act, 1974 to ratify the emoluments of Mr. S. Ali Raza, former President of NBP, already approved by the general meetings of NBP as part of the Audited Annual Accounts by passing the following ordinary resolution:

"RESOLVED THAT the salary and benefits admissible to Mr. S. Ali Raza as former President of NBP from 1-07-2003 to 31-12-2010 which were duly approved in previous Annual General Meetings as part of the Audited Annual Accounts of NBP and even otherwise, be and are hereby ratified."

9. To transact any other business with the permission of the Chairman.

By Order of the Board

(QAMAR HUSSAIN)
President

Karachi.
Dated: March 08, 2011

Note:

- i) The Share Transfer Books of the Bank shall remain closed from March 24, 2011 to March 30, 2011 (both days inclusive). Transfers received at Messrs Central Depository Company of Pakistan Limited, CDC House 99-B, Block "B", SMCHS, Main Shahra-e-Faisal, Karachi - 74400, the Bank's Registrar and Share Transfer Agent, at the close of the business on March 22, 2011 (March 23, 2011 being holiday) will be treated in time for purpose of the entitlement of Cash Dividend / Bonus Shares.
- ii) A member who seeks to contest the election for the office of director must hold in his/her own right of unencumbered shares of the Bank to the nominal amount of ten thousand rupees at the least (1000 Shares of Rs.10/= each), and shall file with the Bank, not later than 14 days before the date of the meeting at which election is to be held i.e upto 05:00 PM on March 15, 2011, a notice of his/her intention to offer himself/herself for election as a Director under Section 178(3) of the Companies Ordinance 1984. A declaration in accordance with the listing regulations is also required to be filed.
- iii) In terms of the State Bank of Pakistan ("SBP") circulars, notifications, directions, letters, instructions and other orders issued from time to time ("SBP Directives"), it is expressly required that any person who seeks to contest an election to the office of a director, should file with the Bank not later than 14 days before the date of this meeting, a specified affidavit required by the SBP, stating that he / she (i) is not / has not been associated with any illegal activity, especially related to banking business; (ii) in his / her individual capacity or a proprietary concern or any partnership firm or any private limited company or any unlisted public company or any listed public company (of which he / she has been a proprietor, partner, director or shareholder), has not been in default of payment of dues owed to any financial institution and / or in default of payment of any taxes; (such person to be a director with anomalies stated above is undesirable and against public interest in terms of the SBP Directives). Further he / she should not be a director of any other bank, investment finance company, venture capital company, housing finance company, leasing company or modaraba company and should not be holding substantial interest or working as Chairman, Director, CEO, CFO, Chief Internal Auditor, Research Analyst or trader (by whatever name / designation called) of a (a) moneychanger, (b) member of stock exchanges, (c) corporate brokerage houses and (d) any company / entity owned or controlled by the persons mentioned at (a) to (c) above.
- iv) A candidate must be qualified for election under sub section (1) and not disqualified under sub section (2) of Section 17 of the NBP Ordinance 1949.
- v) A confirmation to the effect that he / she meets the requirements of "Fit and Proper Test" prescribed for Directors under the SBP Prudential Regulations is also required to be filed alongwith Annexure-I & II of SBP, BPRD Circular No.4 dated April 23,2007.
- vi) A member eligible to attend and vote at this Annual General Meeting is entitled to appoint another member as his/her proxy to attend and vote on his / her behalf. The Government of Pakistan, State Bank of Pakistan and any Corporation(s), being a member of the Bank, may nominate any person as its representative to attend the Annual General Meeting under authority of a Power of Attorney or a Board of Directors' Resolution. However, majority shareholders like SBP and other Government shareholders shall not be entitled to cast their votes for election of Private Director(s). Proxies or nominations, in order to be effective and valid, must be received at the office of the Bank's Registrar / Share Transfer Agent, Messrs Central Depository Company of Pakistan Limited, CDC House 99-B, Block "B", SMCHS, Main Shahra-e-Faisal, Karachi - 74400, , not later than 48 hours before the time fixed for holding the Meeting.
- vii) CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26,2000 issued by the Securities and Exchange Commission of Pakistan:
 - a. For Attending the Meeting:
 - In case of individuals, the account holder or sub-account holder shall authenticate his / her identity by showing his / her Original Computerized National Identity Card ("CNIC") or original Passport at the time of attending the meeting,
 - In case of corporate entity, the Original or duly authenticated Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.
 - b. For Appointing Proxies:
 - In case of individuals, the account holder or sub-account holder shall submit the proxy form as per the above requirement.
 - The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be furnished with the proxy form.
 - The proxy shall produce his /her original CNIC or original passport at the time of the Meeting.
 - In case of corporate entity, the Original or duly authenticated Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) along with proxy form to Messrs Central Depository Company of Pakistan Limited.
- viii) Members are requested to immediately notify any change in their addresses to the Bank's Registrar / Transfer Agent, Messrs Central Depository Company of Pakistan Limited.
- ix) All nomination papers after scrutiny shall immediately be submitted to SBP for clearance.
- x) Persons not cleared by SBP to hold office as Bank's director shall not be allowed to contest in the election.

Secretary Board of Directors , National Bank of Pakistan, NBP Head office Building, 2nd floor, I.I. Chundrigar Road, Karachi, Tel: 021-99212224 & 021-99212858 Fax No. 021-99212239 & 021-99212269.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE 1984 FOR THE YEAR ENDED DECEMBER 31, 2010

This statement sets out the material facts concerning the Special Business, given in agenda item Nos. 7 & 8 of the Notice, to be transacted at the 62nd Annual General Meeting of National Bank of Pakistan.

Item No. 7:

DONATION OF NET SALE PROCEEDS AMOUNTING TO RS. 241,193.28 OF 3,128 FRACTIONAL BONUS SHARES-2009 TO ONE OR MORE CHARITABLE TRUST(S) / WELFARE ASSOCIATION(S) OR ANY OTHER INSTITUTION ENGAGED IN THE WELFARE OF HUMAN BEING.

On the basis of operating results for the year ended December 31, 2009, the Bank's Board in its 188th meeting held on March 4, 2010, recommended payment of 75% cash dividend and 25% Bonus Shares to the Bank's Shareholders, which was also approved by the Bank's Shareholders in their 61st AGM held on March 31, 2010.

Accordingly, Dividend Warrants and Bonus Shares were issued to the shareholders as per their entitlement. In this connection, 3,128 Bonus Shares, being fractional shares, could not be distributed to the Shareholders. For disposal of these fractional 3,128 Bonus Shares, a consolidated Share Certificate No. 103033 covering 3,128 fractional bonus shares-2009, bearing distinctive Nos. 1345459656 to 1345462783 in the name of the "Secretary (Board) NBP", was issued with the Board's approval dated March 4, 2010, which was sold, through a Corporate Member of KSE, Messrs JS Global (Private) Limited, against net sale proceeds of Rs. 241,193.28.

On account of high cost of computer printing, distribution / postage and handling charges of the fractional coupons, the Board of the Bank in its 188th meeting held on March, 4, 2010 recommended that with the approval of the Shareholders, the net sale proceeds of the fractional Bonus Shares-2009, be donated to one or more charitable trust(s) / Welfare Association(s) or any other institution/ organization engaged in the welfare of human being.

In this connection, approval of shareholders is being solicited for donating the net sale proceeds amounting to Rs.241,193.28 of 3,128 fractional Bonus Shares - 2009, to one or more charitable trust(s)/ Welfare Association(s) or any other institution / organization engaged in the welfare of human being, name(s) of which will be approved by the President of the Bank.

There is no interest, directly or indirectly, of any of the Nominee Directors of the Bank except as a Director of the Bank and the interest of the elected Director is to the extent of his holding, in the abovementioned item of Special Business.

Item No. 8

The salary and benefits admissible to Mr. S. Ali Raza as President of NBP have been duly approved at the previous Annual General Meetings as part of the Audited Annual Accounts of the Bank and even otherwise. The same are now being ratified to meet the requirements of The Banks' (Nationalization) Act, 1974.



NBP SAIBAAN

Home Finance

NBP Saibaan

- Home Purchase
- Home Construction
- Home Renovation
- Purchase of Land + Construction
- Balance Transfer Facility (BTF)



NBP

National Bank of Pakistan

The Nation's
Bank

DIRECTORS' REPORT TO THE SHAREHOLDERS



DIRECTOR'S REPORT TO THE SHAREHOLDERS



It gives me great pleasure to present to you on behalf of the Board of Directors the 61st Annual Report of the National Bank of Pakistan for the year ended December 31, 2010.

In the first half of 2010, the economy was showing signs of improvement with tamed inflation numbers and gradual increase in the demand for consumer loans, however the high cost of fund and apprehension about rise in NPLs still kept banks on guard and therefore growth in investments outpaced the growth in advances. The deposits throughout the year showed increasing trend as the liquidity pressure eased in the market. The private sector credit appetite was still low whereas public sector borrowed heavily to finance the budgetary deficit. In addition other challenges like power shortages, law & order concerns, higher inflation, dampened international economic sentiments with talks of double dip recession were all exerting pressure on the business growth sentiments. In already challenging environment, historic floods in the country intensified the effects on already fragile economy. The floods affected around 20.0 million people, majority of whom were subsistence farmers, and therefore not only there was a financial impact but also it presented a social and humanitarian challenge. There was large scale damage to infrastructure as well as the irrigation system of the country. In wake of these floods the GDP growth target of the country was also revised from initial 4.5% to best estimates of 2.5% to 3.0%. Similarly the inflation targets were also revised from 9.5% to 14.5%.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Year 2010 was a milestone year for the bank as NBP became the first financial institution in the country to surpass the One Trillion Rupee' mark. Total assets of the bank were at Rs.1.035 trillion at the year end, up by 9.6% from year end 2009, an appreciable growth in a challenging economic environment. Pre- tax profit increased by 15% from Rs. 21.3 billion to Rs. 24.4 billion. The increase is owing to higher core revenues and lower provision charge. Net interest income increased by 15% from last year, while fee income was up by 8% on account of higher trade finance and general banking income. After tax profit, however, remained at last year level of Rs.17.6 billion due to prior years tax reversal of Rs.4.1 billion in 2009.

Pre- tax return on equity stood at 25.4%, pre-tax return on assets at 2.5% while cost to income ratio is at 0.43. Capital adequacy ratio remained strong at 16.9% with core tier 1 capital ratio at 13.8% in 2010.

The top line (operating revenue) increased by 8% from Rs. 56.5 billion in 2009 to Rs. 60.9 billion in 2010. Net interest income increased by 15.3% or Rs. 5.8 billion from the corresponding period last year due to higher balance sheet size and re-profiling of liability side. The interest rates during the year gradually increased whereas increase in money supply eased up the pressure on deposit rates slightly. The bank's total deposits increased by Rs. 105 billion or 14%. The bank also managed to increase its CASA deposit ratio from 56% last year to 62%. Net advances remained at last year level as advances amounting to Rs. 15.0 billion were converted into TFCs and became part of investment portfolio. Investments registered a growth of 38% or Rs. 84.0 billion as the surplus liquidity was invested in Government treasury instruments.

The core revenue from fee business increased by 8% attributable to enhanced focus on trade business and higher revenue from general banking. Income from dealing in foreign currencies decreased mainly on account of lower gains due to less volatility of Pak Rupee in the year under review. Capital gains are lower by 45% mainly due to recording of Rs.3.9 billion capital gain last year on redemption of NIT Units. However, the bank took advantage of higher share prices and was able to realize capital gains of Rs.2.1 billion in 2010 which is higher by Rs. 1.4 billion from 2009 capital gains excluding NIT redemption. Other income is higher by Rs.1.6 billion due to receipt of Rs.1.9 billion as compensation on delayed refunds this year. Dividend income declined by Rs. 821 million in 2010 mainly due to no dividend on NIT units as most of the units were redeemed in 2009.

Staff cost increased by 17% as a result of annual increments, promotions and head count. Other administrative expenses increased mainly due to inflation, I.T infrastructure up gradation and branches renovation.

Provision charge against advances decreased by Rs. 4.0 billion, from Rs. 11.0 billion in 2009 to Rs.7.0 billion in 2010. The decline in provision charge against advances is due to enhanced focus on recoveries and restructuring. Provision against investments increased by Rs.2.3 billion mainly on account of impairment loss recorded on equity portfolio. The said impairment loss is in respect of listed equity securities and mutual funds held under 'Available-for-sale' category of investments in accordance with the applicable International Accounting Standards.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Performance of the various business and support units during the year 2010 is given below:

Corporate & Investment Banking

Within a period of 10 years, the bank's corporate & investment banking has become the leading market player with a consistent growth pattern built on robust relationships with premier corporate clientele. Focusing on leading corporate clients, NBP has built a mutually beneficial partnership over the years. With a wide array of banking facilities, ranging from working capital to project finance, structured and syndicated financing, financial remodeling, mergers, acquisition & divestitures and other tailor-made financing solutions, our corporate and investment banking has remained on the forefront of helping the corporate sector progress.

In cognizance with the ever changing business environment and to keep up with the dynamics of business opportunities that NBP wishes to harness, a number of initiatives were commenced in 2010 which are expected to be implemented by first half of 2011. One of these initiatives is to provide more personalized relationship services by replicating the success of the dedicated corporate branch, Karachi on Pan-Pakistan level by establishing more such dedicated corporate branches in all major cities of the country. Corporate branches of Islamabad, Faisalabad and Multan are already operational while corporate branch in Lahore is expected to be functional by mid 2011. These dedicated branches will be better equipped to maximize our existing relationships as well as for developing new ones. Similarly, we are strengthening our relationship teams and back office support in each of the respective corporate units to improve the turnaround time and further optimize operational efficiencies.



DIRECTORS' REPORT TO THE SHAREHOLDERS

Understanding the dynamics of corporate businesses, their operational environment and providing customized solutions to their financial needs are the fundamentals of our corporate banking. In 2010, the corporate focus was on consolidation and selective growth and despite the odds of unstable political environment, troubled economic conditions and flat private credit off take, we managed to achieve targets while contributing a significant amount of fee income.

With a wide range of facilities within the domains of project finance, debt / equity capital market, M&A, syndications and advisory /agency arrangements, NBP's investment banking has the leadership role in all such transaction. Many landmark transactions, based on out-of-the-box solutions, especially tailored to meet the need of its clients are a testament of superior capabilities of our investment banking team.

A number of high priority transactions, among others, were arranged and executed in the year under review which not only helped in economic growth but also led to the significant fee earning for the bank.

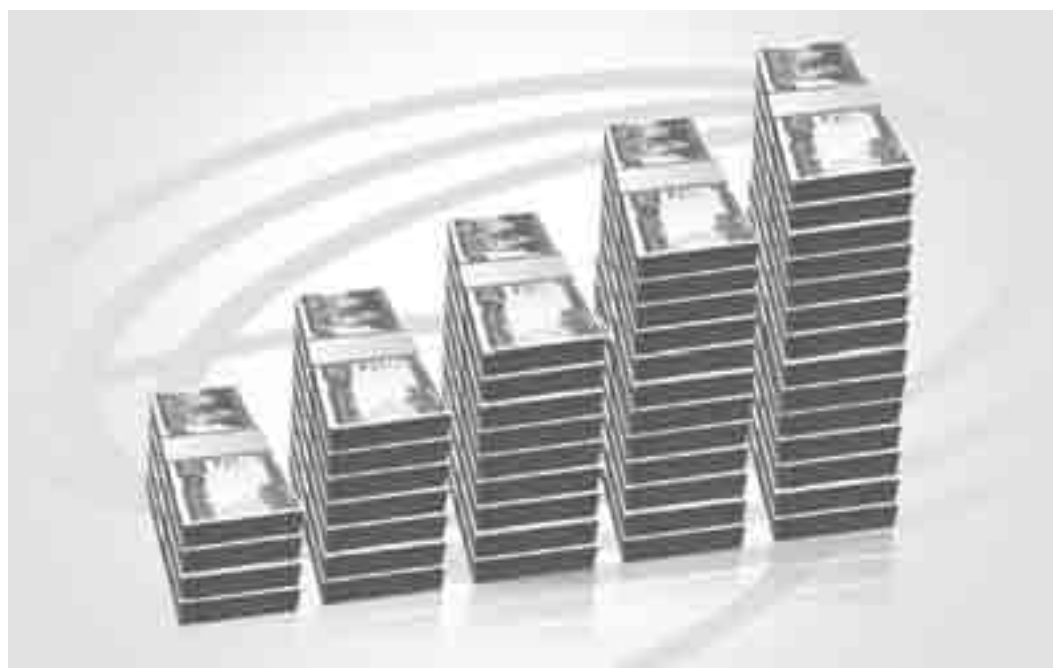
Going forward, corporate & investment banking is all poised to take advantage of its own strengths, bank's balance sheet, brand value and the tremendous growth potential with its existing as well as new corporate accounts and will continue to remain one of the major pillar to the bank's asset base and earnings.

Commercial & Retail Banking

The bank moved cautiously into consumer loan segment and witnessed growth in "advance salary" and "Cash n Gold" products. These products are of low risk and will provide good opportunity in the years ahead.

During 2010 a new "Business Current Account" product was launched with a view to cater to specific needs of business community across various stratas.

Despite adverse macroeconomic factors and competition, the bank increased its deposits by 14% with low cost current & saving deposits increasing by 20%.



DIRECTORS' REPORT TO THE SHAREHOLDERS

Agriculture Finance

NBP considers agriculture to be the back bone of the country and has a separate business unit for the focus it deserves. The unit is responsible to manage the bank's agriculture portfolio with the objective of tapping the untapped markets and increasing awareness amongst farmers to improve yield. With economic challenges facing the country especially in the post flood scenario, agriculture finance has become more critical as fresh disbursement is needed for the affected farmers to re cultivate their inundated land. At the same time, focus on recoveries and rescheduling would be of paramount importance to avoid any future increase in non- performing loans as a result of the devastation of floods.

With concerted efforts agriculture non-performing portfolio decreased from Rs. 2.0 billion in 2009 to Rs.1.5 billion in 2010. The bank arranged/sponsored several zarai melas exhibitions and shows in various districts of the country in order to create awareness among farming community about the bank's financial services and products to improve their production. During the year over 150 Agriculture Field Officers and Management Trainees were appointed having necessary agriculture based qualifications to guide, facilitate and provide financial access to the farmers for enhancing their agriculture produce.



Special Assets

The bank took a number of steps to increase its focus on recoveries. Although the devastating floods and the continued economic challenges did not allow reduction in non-performing loans, but still the bank managed to record some large recoveries/reschedulings during the year. Assets Recovery Group, SME Assets Recovery Group and Legal Division are working for settlement of loans through court and out of court for speedier reduction of non- performing loans. A number of deals are in the pipeline where the bank has adopted a supportive role so as to ensure that the troubled borrower can consolidate their position and start performing.

DIRECTORS' REPORT TO THE SHAREHOLDERS

International Operations

National Bank of Pakistan opened its first branch in Riyadh, Saudi Arabia in August 2010. The said branch will add great value to the overseas franchise of the bank and will focus on capturing the large volume of trade business, home remittances and Hajj/Umrah operations. In addition the bank's subsidiary in Kazakhstan further opened two more branches to increase its coverage of the oil rich Central Asian States. With opening of these branches, NBP's presence in Central Asia increased to 6 branches while having total overseas presence including Almaty subsidiary at 26 branches.



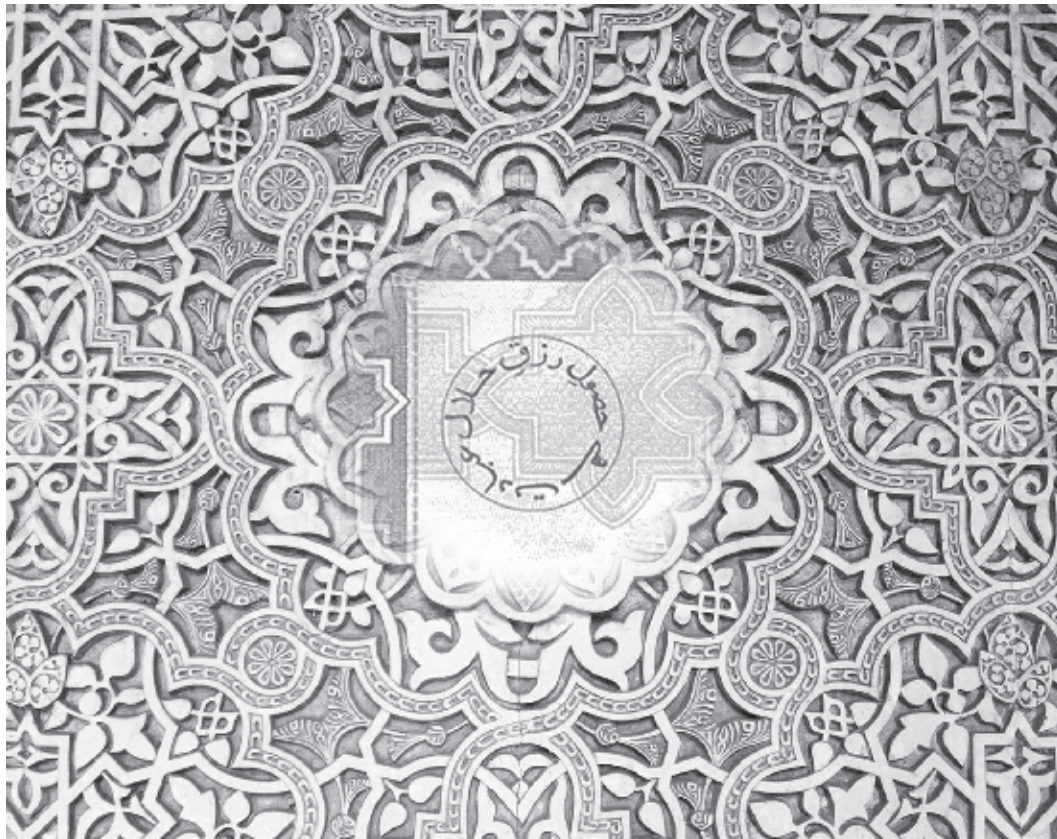
Treasury Management

Treasury is the hub where the local currency and foreign exchange books of the bank are managed. Our treasury plays a pivotal role to ensure optimum profitable utilization of the bank's funds both in foreign exchange and money market. The bank emerged as a leading performer in the foreign exchange market in terms of profitability and maintains the status as one of the best foreign exchange banks and an efficient and active market maker both in foreign exchange and money markets. We were declared the "Number 1" Primary Dealer (PD) by State Bank of Pakistan for the year 2010. The bank is also the recipient of best "Foreign Exchange" award by Global Finance for the year 2008, 2005 and 2004 which is a testament of the bank's superior expertise in this area.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Islamic Banking

Islamic Banking has shown 356% increase in deposits and 148% increase in financing and investments compared with last year. During the year a number of policies and processes were introduced and some existing processes were streamlined and improved. Islamic banking intends to introduce new asset and liability side market competitive products. Non performing loans remain a challenge but we are confident that with improving asset deployment, we will INSHAALLAH soon convert our islamic banking operations into profit.



Equity Investments

The bank has a separate unit to manage its equity and corporate debt portfolio. The main objective is to build and maintain portfolio that provides attractive returns in terms of dividend and capital gains. During the year, the bank acquired 27% holding of NBP Fullerton Assets Management (NAFA) from NIB Bank bringing the bank's total holding to 54% and converting it into a subsidiary. The company manages ten (10) funds of over Rs.10 billion and is one of the premier assets management companies in the country.

Going forward, the bank intends to diversify its investments by actively participating in the primary as well as secondary markets for the corporate debt instruments. The role of equity unit becomes more significant after the redemption of NIT Units which increased our equity portfolio to over Rs. 25 billion. With proper risk management, the unit will ensure a steady stream of income for the bank in the coming years.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Customer Services & Operations

The bank is committed to better customer service, improved physical outlook and effective implementation of systems & controls. To facilitate our customers, we have opened new branches and customer facilitation centers to provide banking facilities in the rural and urban areas. Number of branches have been relocated/shifted to better locations with the view to ensure conducive environment to the customers. Layout and decor of the branches have been maintained in line with the standardized outlook. Customer facilitation department and regional customer facilitation managers have been appointed to handle customer grievances/complaints on top priority. Specialized/customized arrangements were made with organizations like Employees Old Age Benefits Institutions, Pakistan Railways, Capital City Police Authorities and numerous educational institutions to fulfill their banking needs. To facilitate wheat growers', special counters were opened at branches during wheat harvest season. In order to further improve our services and to serve customers in a better way, the bank conducted customer satisfaction survey to have customer feedbacks for improvement in service quality and identification of new products needed to meet their requirements.

NBP is migrating from fee based mode to free of charge remittance services and for this purpose NBP has now 20 corresponding partners across the globe. This helps overseas Pakistanis in hassle free remittances to their loved ones in Pakistan in real time. On the other hand the beneficiaries have the SMS alert facility of their remittances and can collect their payments from any of the NBP's branches in the country. As a matter of recognition, NBP has been awarded the "Certificate for Performance" by SBP/PRI for providing best remittance services. We firmly believe in aggressively marketing strategies and have effectively utilized various marketing moods to promote our remittance services both in overseas and domestic markets. We are continuously striving to join hands with new overseas partners to expand our reach across the globe.



DIRECTORS' REPORT TO THE SHAREHOLDERS

Technology Upgradation

National Bank of Pakistan is embarking on industry leading technology initiatives to upgrade and implement new application solutions to meet the challenges of growing competition and enhanced business requirements. This will be a transformational change which will greatly improve operational efficiency and controls, customer service and facilitate launch of new banking products. During the year, in order to facilitate Pakistan Army, we installed 139 ATMs at various army nominated locations across the country providing automated financial facility to the troops at their own places. Besides this we are expanding our ATM network and new machines are being installed at various locations. The bank also has started nationwide online connectivity program to connect all the branches to communicate with each other. This will be a milestone in establishing online network and a pre requisite for core banking implementation.



Human Resource Management

During the year the bank restructured its field operations and appointed Regional Heads as the in-charge of their respective regions. This restructuring will not only reduce the lead time of processing but will also further strengthen the internal controls of the organization. In order to improve quality of human resources, about 1200 management trainees have been inducted so far since 2001. Initiating talent pool scheme - over 500 employees have been identified so far on merit and posted in positions of higher responsibility. In order to establish top-down and bottom-up communication, dialogue sessions with field functionaries and regular publication of "NBP NEWSLINE" on quarterly basis and "MANAGEMENT BRIEF" on monthly basis has been introduced. To encourage females, about 30% inductees are females. NBP is striving to become an employer of choice through improved HR policies and competitive remuneration.

DIRECTORS' REPORT TO THE SHAREHOLDERS

NBP runs a quality banking training institution. The bank has training centers in major cities of the country, with the object to impart leadership and banking training to the existing & incoming employees and equip them to face the challenges of modern banking. The bank is in the process of establishing world class training center to serve the banking and financial sector of the country and the region.

Compliance & Audit

At NBP, audit is an independent and objective activity designed to add value and improve organizational operations. It helps the bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In order to restructure the audit function in line with international best practices, a detailed strategic plan has been evolved to implement multi pronged strategy to bring about a quality change in the functioning of audit and to change its approach from traditional procedure-based audit to a more sophisticated risk based & value added audit & management consultancy. To achieve these goals, we are hiring qualified staff, arranging appropriate training programs and re-engineering systems and policies.

Compliance is an independent function that identifies, assesses, advises, monitors and reports on the bank's compliance risk, i.e. the risk of legal or regulatory sanctions, financial loss or loss to the reputation which the bank may suffer as a result of its failure to comply with applicable laws, regulations, and codes of conduct and standards of best practices. The bank accelerated its efforts to strengthen compliance culture in the bank. Special emphasis has been placed on development of Anti Money Laundering (AML) & Know Your Customer (KYC) policies.

Credit & Risk Management

Risk management function has been restructured and made independent of all risk taking and approving units. Its functional reporting is to the Board of Directors and administrative reporting to the President of the bank. An executive risk management committee has been established to emphasize on the bank's commitment to a robust risk management process and risk culture. In compliance with the risk management guidelines, issued by SBP, an operational risk management unit has been established. An operational loss database, risk & control self assessment (RCSA) exercise and key risk indicators (KRIs) are being developed and will subsequently be implemented. A separate credit risk architecture unit has also been formed for formulation/ proposition of credit risk strategies, policies, credit assessment methodologies, credit portfolio/sector management. A dedicated Basel II unit is responsible for managing the Basel II project in close coordination with the consultant and with the active support & involvement of other functions across the bank.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Awards & Recognitions

In June 2010 M/s JCR-VIS Credit Rating Company again re-affirmed the bank's standalone rating of "AAA", highest by the company for any bank in Pakistan. The rating derives significant strength from the bank's consistently high capitalization level and nationwide access that has enabled it to secure a diversified deposit base.

The bank was awarded "Bank of the Year" award for the year 2010. This award was given on the back of trust that clients have shown. The recognition of being named "Bank of the year" 2010 is testament to the strong management, sound business model and prudent risk approach. The bank is the highest recipient of this award than any other bank in Pakistan. The bank received this award in 2008, 2006, 2005, 2004, 2002, and 2000 as well. Besides this NBP was also awarded the titles of "Best Domestic Bank in Pakistan" & "Best deal of the year for Pakistan" for the year 2010 by the "Asset" magazine. The bank was ranked in "Top 500 banks" in the world by "The Banker Magazine" in its July 2010 edition.



Corporate & Social Responsibility

The massive floods that ravaged the country in July-August 2010 were indeed an unprecedented natural disaster which required urgent and immediate attention. Realizing its social responsibility, NBP was the first bank to immediately start donation collection campaign. It donated very generously towards the plight of the people affected by these floods. In addition to the financial contribution by the bank and its employees, the bank also distributed over 43,000 bags of ration each sufficient for a family of six for one month.

In recent years, NBP has emerged as leader in the promotion and development of sports in Pakistan. NBP sportsmen have been and continue to form Pakistan's lineup for major sports.

DIRECTORS' REPORT TO THE SHAREHOLDERS



NBP has always cared for the talented sports persons, nurturing and polishing the skill by inducting them in its fold. NBP has sponsored and organized various international sports events. At national level, the bank sponsored Pakistan Hockey Federation (PHF) in the years 2005 to 2007 & 2010. On a yearly basis approximately 45 to 50 events are sponsored / organized by the bank in various parts of the country. As a commitment to the society, NBP had constructed a world class cricket ground and a state of the art sports complex in Karachi. The sports complex comprises of cricket ground, cricket academy and sports club.

The bank has been promoting cultural activities in the country in various manners including holding of Mushairas and literary events. NBP launched literary awards of “the best books of the year” in national and regional languages. The first literary award-2008 was announced and winners of various categories were awarded handsome cash prizes. The second award will be launched in near future.

Future Outlook

Going forward the bank shall continue to focus on increasing its deposits with emphasis on increasing Current & Saving (CASA) deposit ratio. Efforts will be diverted towards recoveries and negotiated settlements will be speeded up to avoid lengthy litigations thereby achieving visible reduction in the overall NPLs and resultant provision charge. Increase in non- mark up income with particular focus on to fee income shall be a high priority. Improvement in customer services and strengthening of internal systems & controls shall remain a key area of work. Capacity building in terms of human resources shall continue. Technology up gradation in the form of ongoing implementation of core banking, online connectivity and allied projects will be performed with commitment to complete the jobs on time.

Despite the challenges of the future in the form of increasing competition, difficult socio economic situation of the country, we remain committed to our vision, mission & core values. Bank is geared up to meet the challenges of tomorrow and leveraging on strengths will continue to capitalize on new opportunities.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Board members express deep appreciation for the invaluable services rendered by the former President/Chairman Mr. S. Ali Raza for NBP during the past 10½ years of his tenure. He was a capable and dynamic person who worked for the progress of the bank with dedication. He introduced several innovative schemes/products and completely turned around the bank and increased its profitability to a very significant level. The Board acknowledges that during the tenure of Mr. S. Ali Raza, NBP received recognitions/awards from reputed international magazines several times and NBP became a Triple-A rated bank on the standalone basis (rated by JCR-VIS) which is the highest rating for any bank in Pakistan.

The Board also places on record its appreciation for the services of the outgoing Directors Mr. Ibrar A. Mumtaz and Mian Kausar Hameed. The Board remains indebted to the guidance and the insight provided by these gentlemen while they were on the Board.

The Board welcomes Mr. Qamar Hussain as the new President. Mr. Hussain has been associated with National Bank of Pakistan since 2009 as Chief Operating Officer. He brings with himself a vast experience of international financial institutions. We are confident that his experience, professionalism and charismatic leadership will further add value and esteem for our stakeholders.

Profit & Loss Appropriation

The Profit for the year 2010 after carry over of accumulated profit of 2009 is proposed to be appropriated as follows: -

	Rs. in Million
Profit before taxation for the year 2010	24,415
Taxation	
-Current year	9,835
-Prior year(s)	(939)
-Deferred	(2,044)
	6,852
After Tax Profit	17,563
Profit Brought Forward-Restated	60,697
Transfer from surplus on revaluation of fixed assets	118
Profit available for appropriation	78,377
Transfer to Statutory Reserve (10% of after tax profit)	1,756
Bonus shares issued	2,691
Cash dividend paid	8,073
	12,520
Profit carried forward	65,857

**DIRECTORS' REPORT
TO THE SHAREHOLDERS**

We extend our appreciation to the bank's staff for their commitments, 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 the Board of Directors

Qamar Hussain

President

Date: March 01, 2011

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 (Statement of Financial Position, Profit & Loss Account, Statement of comprehensive income, 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, 2010 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 an 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 groups 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 a properly defined financial and administrative power 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, duly 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.

The number of board meeting held during the year was 10 and attended by the directors as follows:

Syed Ali Raza	Former President/ Chairman	10
Mrs. Nazrat Bashir (Since 1-3-2010)	Director	8
Mr. Tariq Kirmani	Director	10
Mrs. Haniya Shahid Naseem	Director	10
Mian Kausar Hameed (Retired on 30-3-2010)	Director	4
Mr. Ibrar A. Mumtaz (Retired on 30-3-2010)	Director	4
Mr. Muhammad Ayub Khan Tarin (Replaced by Mrs. Nazrat Bashir on 1-3-2010)	Director	2

- (i) Value of investments of Employees' Pension Fund and Employees' Provident Fund as at December 31, 2010 (un-audited) were as follows:

Employees' Pension Fund	22,382,345
Employees' Provident Fund	8,909,272

Pattern of Shareholding

The pattern of shareholding as at December 31, 2010 is given in Annual Report.

Earnings per share

The basic and diluted after tax earnings per share for the year 2010 is Rs. 13.05.

Appointment of Auditors

M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants have completed their five years of audit and will be retiring on this AGM. The Board of Directors on the recommendation of the Audit Committee, has recommended KPMG Taseer Hadi & Co., Chartered Accountants to be the external auditors of the bank along with M/s. Anjum Asim Shahid Rahman, Chartered Accountants for the year ending December 31, 2011 subject to approval by the share holders at the Annual General Meeting. Both the firms, eligible, have offered themselves for appointment.

Risk Management Framework

National Bank being the largest bank of the country is fully aware of its critical and leading role in the sustainable economic growth of Pakistan. Keeping this in mind, NBP Board of Directors and Senior Management are fully committed to strengthen the Risk Management structures and practices in NBP by establishing following;

1. Fully functional Board Risk Committee (BRC)
2. Executive Risk Management Committee (ERMC)
3. Independence of Risk Management Function from Credit Approvals

Under the umbrella of above, several initiatives are taken and planned by the Bank which includes but not limited to;

- Approval of Risk Management Charter from ERMC & BRC
- Implementation of Internal Rating system & Scorecard for Consumer Credits
- Revision and continuous improvement in policies, procedures
- Escalation of reports to the Senior Management and Board
- Reporting structure for effective Risk Management
- Introduction of Data Checks and validation mechanism

The Bank is committed to the establishment of a robust Risk Management System that caters to the full range of activities that can potentially impact its risk profile i.e. volatility of the global/local markets, technological advancement, innovative new financial products, changing regulatory environment, etc. A significant milestone towards achieving this objective was the hiring of external consultancy services of one of the most reputed and experienced consultant for Bank wide implementation of the Basel II Accord. This consultancy will align NBP to international best practices and the requirements of the Basel II Accord.

Statement of Internal Control

The Board is pleased to endorse the statement made by the management relating to internal control. The Management's Statement on Internal Control is included in the Annual Report.

On behalf of the Board of Directors

Qamar Hussain
 President
 Date: March 01, 2011

REVIEW OF BOARD OF DIRECTORS' COMMITTEES

At NBP, the Board of Directors' have formed various sub committees in order to have better monitoring of the various functional areas of the bank. These committees have well defined terms of reference and they meet at regular intervals to review and make decisions on matters of importance for their respective area of functioning. The following are the committees.

Name of the Committee	Number of Members	Number of Meetings held in 2010	Chairman of the Committee
Board Audit Committee	3	23	Mr. Tariq Kimani
IT Board Committee	3	14	Mr. Tariq Kimani
Board HR Committee	3	19	Mrs. Hania Shahid Naseem
Board Risk Committee	3	12	Mrs. Nazrat Bashir
Board Agriculture Finance Committee	3	10	Mrs. Haniya Shahid Naseem
Board Islamic Banking & Subsidiaries Committee	3	12	Mr. Tariq Kimani

Board Audit Committee

The Board Audit Committee (BAC) is an advisory and assurance committee which has assisted the Board in fulfilling its oversight responsibilities. The BAC has maintained effective working relationships with the Board, the bank's management and the internal and external auditors.

The BAC extended valuable contribution in updation of its Charter, and dedicated to perform its functions independently. It developed calendar of responsibilities for years 2011 and reviewed compliance of calendar of responsibilities for years 2010. The Committee adopted a robust self assessment methodology since 2009 which is based on extensive research of the top international firms and through consultation with the external auditors.



The BAC also recommended the establishment of Management Audit Committee. The committee has enforced the review of legal cases on monthly basis. On the recommendation of BAC a separate legal division has been established responsible for all legal cases of the bank directly reporting to President.

The Committee discusses, monitors and reviews the matters for improvement in internal audit, financial reporting, corporate governance, internal controls, risk management, compliance with laws and regulations & code of conduct, and external audit etc. The committee monitors the progress of Audit & Inspection Group towards the achievements of targets against audit plan and assessment on the internal control system of the bank on quarterly basis

The committee ascertains the adequacy and effectiveness of the accounting systems and controls that could significantly affect the bank's financial statements. In this connection, the committee reviewed the scope of review of the internal audit and external auditors over financial reporting, their significant observations and the management's responses thereto and reports to shareholders, any announcement of financial results prior to submission and approval of the board. The committee undertakes the development, implementation and review of bank's policies relating to internal controls and compliance with corporate governance regulations.

I.T Board Committee

A comprehensive IT strategy for the bank has been designed which encompasses the phase-1 focusing on "Strategy for Systems Quality Assurance & Testing Strategy (Policy, Procedures, Methodology and Framework)." The phase-2 of the strategy will cover the entire bank wide transformation and full spectrum automation, systems and data centre integration, depth and width of IT service portfolio, IT operations and incorporating the "IT internal control framework supported by various international benchmarks.

The committee keeps a proactive oversight of all core banking related projects through monthly meetings. The Committee approved the updated "Information Security Policy" during the year 2009. The Committee also approved the Governance, Risk and Compliance (GRC) Stream / Project.

Board HR Committee

During the year under review, the Board's committee on HR matters reviewed various policies on corporate social responsibility, recruitment of sport persons, providing employment opportunity to the son/daughter of regular deceased and retired/separated employees and presented before the board for its approval. The committee closely monitored the progress of setting up of new state of the art training centre and also approved the memorandum and articles of association of proposed training centre. The committee also reviewed bank's CSR related initiatives.

Board Risk Committee

The committee is responsible to oversight risk related issues at the bank level and took several decisions including the restructuring of risk management department including its revised role and responsibilities, with the help of Basel II consultant. Other tasks executed during the year included designation of Chief Risk Officer, appointment of consultant and monitored progress on Basel II implementation, formation of executive risk management committee, enhancing risk management unit's role, improvement in portfolio reviews and development of Institutional Risk Management Framework (IRAF) improvement plans. In the coming year, steps are being taken to review the gap analysis reports provided by the consultant, to improve the quality of risk rating models through rating review process and introduction of risk strategies and appetite statement.

Board Agriculture Finance Committee

The Board's committee on agriculture finance is responsible to review and formulate agriculture policy/strategy to extend the scope of agriculture credit. It reviewed the feasibility studies conducted by the bank on poultry farming in controlled environment, dairy farming and off-season vegetable farming in tunnels. During the year the committee also revised the agriculture finance policy manual. Emphasis was placed on disbursement of financing to improve yield/output of the agriculture sector while maintaining healthy recovery ratio and reduction in non-performing loans.

Board Islamic Banking & Subsidiaries Committee

The committee is responsible to review performance of islamic banking and subsidiaries. It also provides guidance on strategic matters and recommends initiatives to achieve the objectives of NBP and its subsidiaries.

During the year NAFA became the subsidiary of NBP with the acquisition of entire NIB Bank's shareholding. The Committee oversighted the acquisition process and gave valuable advice on various aspects of the transaction. The committee took the model of REIT (Real Estate Investment Trust) after taking into account detailed research and meetings with industry players.

STATEMENT OF INTERNAL CONTROL

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 procedures and policies are amended from 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 & Inspection function in the name of Audit & Inspection Group with three Audit Offices that conduct audit of 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 set up is also in place with 130 independent Branch Compliance Officers in category III Branches and 28 Regional Compliance Officers and a Branch Compliance Officer in Sub-region Gilgit with supporting staff to take care of Compliance related issues to strengthen the control environment.

For the year 2010 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 / internal auditors and SBP Inspection team in their respective audits / inspections are promptly reviewed and measures are taken by the Board, Board Audit Committee and management for rectification of such observations to safeguard the Bank's interest.

We assess that the internal control environment is showing signs of improvement as compared to previous years. 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 staff through need based training programs.

Imam Bakhsh Baloch
SEVP/ Chief of Audit & Inspection Group

Tariq Jamali
SEVP/ Chief of Compliance Group

Karachi

Date: March 01, 2011

SHARIAH ADVISOR'S REPORT

For the year ended December 31, 2010

Alhamdu Lillah by the grace of Allah Taala, I have reviewed and examined each class of transaction, the relevant documentation and procedure adopted by Islamic Banking Branches/Division (IBB & IBD), and I hereby report that in my opinion;

- I) The business and overall affairs of Islamic banking branches carried out during the year 2010 are in accordance with Shariah principles and also these affairs are in compliance with SBP Shariah guide lines. I found the activities according to the guide lines issued by Shariah Advisor from time to time during the previous years and current year.
- II) A number of new Ijarah, Murabaha and Diminishing Musharika transactions were executed successfully.

The profit and loss sharing scheme (PLS) was launched last year, During current year more categories were added to it. All PLS schemes were managed according to Shariah principles and the Shariah guidelines issued by the State Bank of Pakistan.

During the year, for the first time, special pools were created to match the special profit rates offered to the customers. The special pools were managed properly through proper documentations.

- III) Any earnings that have been realized from prohibited sources or by declaring the transaction void (Fasid) have not been pointed out yet with the grace of Allah Taala. Islamic Banking Division received an amount of three million eight thousand three hundred and fifty rupees (Rs. 3,008,350) in charity account. This amount was distributed equally to the three approved charity organizations as per the policy of the charity.
- IV) Islamic Banking Division appointed a Shariah Compliance Officer, and he carried out a detailed Shariah compliance audit.
- V) NBP also conducted a Shariah Audit during the year.
- VI) The staffs of islamic banking branches were trained during 2010 in islamic banking and finance through comprehensive courses.

May Allah Taala bless us with best tawfeeq to accomplish these cherished tasks, make us successful in this world and in the hereafter, and forgive our mistakes.

Mufti Abdul Sattar Laghari
Shariah Advisor

STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

For the year ended December 31, 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the Regulation No. 35 of Chapter XI of listing Regulations of Karachi, Lahore & Islamabad Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practice of Corporate Governance.

The Bank has complied with the principles contained in the Code in the following manner.

1. The Board of Directors of the Bank is appointed by the Government of Pakistan (GoP) as per the provisions of the Bank's (Nationalization) Act, 1974. At present all the Directors (Except for the President / Chief Executive who is also the Chairman of the Board) are independent non-executive Directors, including the Director representing minority shareholders as required by the Code.
2. Directors have confirmed that none of them is serving as a Director in more than ten listed Companies including the Bank.
3. All the Directors of the Bank are registered as Tax Payers and none of them has defaulted in payment of any loan to Banking Company, a DFI or an NBFIs or being a member of Stock Exchange, has been declared as defaulter by the Stock Exchange.
4. During the year Two Directors Mr. Ibrar A Mumtaz and Mian Kausar Hameed Completed their tenure of directorship of three years on 30th March 2010, who were appointed in terms of Section 11 (III-A) of Banks Nationalization Act, 1974. Federal Government nominated Ms Nazrat Bashir in place of Mr. Muhammed Ayub Khan Tarin on 01-03-2010 as Director on the Board of National Bank of Pakistan.
5. The Directors have confirmed that neither they nor their spouses are engaged in the Business of Stock Brokerage.
6. The Bank has prepared " Statement of Ethics and Business Practice" which is already approved by the Board of Directors.
7. Board has approved the Vision, Mission, Core Values, Objectives and NBP Strategic Plan.
8. The Bank has comprehensive frame work of written policies and procedures on all major areas of Operations such as Credit, Treasury Operations, Finance, Internal Audit and Compliance etc. Many of these policies have been approved by the Board and are being constantly reviewed.
9. There exists in the Bank a framework defining the limit of the authority of various Management levels. All the powers were exercised by the relevant authorities within the materiality thresholds.
10. All the Powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board.
11. The meetings of the Board of Directors were presided over by the Chairman. The Board met 10 times during the year, written notices of the Board meetings, along with Agenda and

working papers were circulated at-least seven days before the meetings. The minutes of the meetings were appropriately recorded.

12. The Bank held orientation session for the directors in the year 2008. Further one Director is attending training course at PICG.
13. The appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment are duly approved by the Board.
14. The Director's Report for the year has been prepared in compliance with the Code of Corporate Governance and fully describes the salient matters enumerated in the Annual Report.
15. The Financial Statements of the Bank were duly endorsed by CEO and Financial Controller before approval of the Board.
16. The Directors, CEO and Executives have confirmed that they do not hold any interest in the shares of the Bank except as mentioned in the report.
17. The Bank has complied with all the Corporate and Financial Reporting requirements of the Code. In accordance with the requirement of clause (xiii a) of the listing regulations, all related party transactions have been reviewed and approved by the Board of Directors.
18. The Board has formed a Board Audit Committee comprising of three Non Executive Directors.
19. The Board Audit Committee held 23 meetings besides one half day session for orientation of two new members of Board Audit Committee as well as meetings held prior to the approval of Interim and Final Results as required by the Code. The Charter of the Board Audit Committee has been duly approved by the Board of Directors and has been advised to the Committee for Compliance.
20. The Board has setup an effective Internal Audit Function. All the Internal Audit Reports are accessible to the Board Audit Committee and important points arising out of audit are reviewed by the Board Audit Committee and important points requiring Board's attention are brought into their notice.
21. The Statutory Auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review Program (QCRP) of the Institute of Chartered Accountants of Pakistan, that they or any partners of the firms, their spouses and minor children do not hold shares of the Bank and that the firms and all of their partners are in compliance with International Federation of Accountants (IFA) on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
22. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the Auditors have confirmed that they observed IFA guidelines in this regard.
23. We confirm that all other material principles contained in the code have been complied.

On behalf of the Board of Directors

Qamar Hussain

President

AUDITORS' REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

M. Yousuf Adil Saleem & Co.

Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Shara-e- Faisal
Karachi 75350, Pakistan

Anjum Asim Shahid Rahman

Chartered Accountants
1st & 3rd Floor, Modern Motors House
Beaumont Road
Karachi 75330, Pakistan

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of National Bank of Pakistan (the Bank) to comply with the Regulation G-1 of the Prudential Regulations for the Corporate / Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 35 of the Karachi Stock Exchange, Chapter XI of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange, where the Bank is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

Further, Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges require the Bank to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code as applicable to the Bank, for the year ended December 31, 2010.

M. Yousuf Adil Saleem & Co.

Chartered Accountants

Karachi.

Date: March 01, 2011

Anjum Asim Shahid Rahman

Chartered Accountants

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

M. Yousuf Adil Saleem & Co.

Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Shara-e- Faisal
Karachi 75350, Pakistan

Anjum Asim Shahid Rahman

Chartered Accountants
1st & 3rd Floor, Modern Motors House
Beaumont Road
Karachi 75530, Pakistan

We have audited the annexed statement of financial position of National Bank of Pakistan (the Bank) as at December 31, 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'the financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 80 branches which have been audited by us and fourteen branches audited by the auditor abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 60% of the total loans and advances of the bank, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;



- (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at the December 31, 2010, and its true balance of profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Engagement Partner
Syed Asad Ali Shah

Karachi.

Date: March 01, 2011

Anjum Asim Shahid Rahman
Chartered Accountants

Engagement Partner
Muhammad Shaukat Naseeb