



## Director's Report

It gives me great pleasure to present on behalf of the Board of Directors 60th annual report of the bank for the year ended December 31, 2008.

The year 2008 has been exceptionally challenging year from a number of perspectives witnessing extreme volatility in commodity prices, the near collapse of international finance, and the impact of the deepest recession since 1933. Virtually every country has faced hitherto unforeseen challenges and the greater the country's integration with the global economy, the larger the impact.

Net interest income increased by 10.2 % to Rs. 37.1 billion from the corresponding period last year owing mainly to volume growth.

Domestically, the Pakistan economy also faced several issues the law & order, power shortages, record high inflation, liquidity in the banking system, steep rise in interest rates, increase in Government borrowing from the central bank, rising import bill and resulting growth in fiscal deficit. The significant turmoil in the global financial markets and slowdown in the domestic economy posed many challenges

to the Pakistan banking sector including a steep rise in non-performing loans.

In this backdrop NBP's top line (operating revenue) increased by 13% from Rs. 47.2 billion in 2007 to Rs. 53.5 billion in 2008. Pre-tax profit has reduced to Rs. 23.0 billion, a decrease of 18.9% over last year mainly on account of higher provision charge which increased due to the bank's policy of prudently providing for against non-performing loans. Earnings per share reduced by 18.9% to Rs. 17.23 in 2008. Pre-tax return on equity stood at 30.5%, whereas pre-tax return on assets stands at 3.0% while cost to income ratio at 0.35 remained one of the highest amongst the Pakistani banks.

Net interest income increased by 10.2 % to Rs. 37.1 billion from the corresponding period last year owing mainly to volume growth. The increase in lending and assets yield was partially offset by increase in deposit rates mainly on account of a 4% mandatory increase in the rate on saving deposits and an overall increase in bank's funding cost. Non-interest income shows growth of 21.2 % mainly due to increase in fee, commission, exchange and other income. This growth is impressive since the contribution of capital gains on sale of securities declined from Rs. 2.3 billion in 2007 to Rs. 0.4 billion in 2008.



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Fee income increased by 17%. Income from dealing in foreign currencies increased mainly on account of revaluation gains due to volatility of Pak Rupee. During the year the bank succeeded in getting compensation on delayed refunds for various years from the taxation authorities to the tune of Rs. 988 million which increased other income by Rs. 1.1 billion.

Administrative expenses increased due to increase in staff cost and other administrative expenses by 20.0 %. Staff cost increased on account of inflation linked increase in salaries and promotions announced in 2008. Record inflation also increased our other administrative expenses.

Provision charge against advances & other assets increased by Rs. 6.8. billion from Rs. 4.9 billion in 2007 to Rs.11.7 billion in 2008 reflecting the greater stress on some sectors in our portfolio. Record inflation, high interest rates, power shortages coupled with political environment were the factors for increase in NPLs which occurred across the banking system as evident from the increase in NPLs in the system by 47 %. Net NPL's were at 3.3 % and provision coverage stood at 76%, one of the highest in the banking system.

2008 also saw unprecedented fall in equity prices and KSE 100 index declined by 58% in 2008. During the year, the stock exchanges introduced a 'floor mechanism' in respect of prices of equity securities based on the closing price as prevailing on August 27, 2008. Under the 'floor mechanism', the individual security price of equity securities could vary within normal circuit breaker limits, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. During this period trading of securities effectively remained suspended on the stock exchanges. The bank's revaluation surplus on securities including Bank Al- Jazira and mutual funds was hit by this abnormal decline in equity prices and showed reduction of Rs. 22.7 billion or 86 %. This decline was mainly led by Bank Al-Jazira and NIT units, however the market value of these shares still exceeds the bank's cost.

As of the balance sheet date, the impairment loss on listed equity securities and mutual fund investments held under 'Available-for-sale' category amounted to Rs. 2.4 billion. SBP has allowed banks that the impairment loss resulting from the valuation of listed equity securities / mutual funds held under 'Available-for-sale' category of investments as of December 31, 2008 may be held under 'surplus on revaluation of asset' account as shown on the balance sheet. The impairment loss is required to be taken to the profit and loss account in the year 2009 on quarterly basis. The bank on a prudent basis decided to recognize Rs. 0.4 billion in P & L in the current year representing 25% of impairment loss on the shares portfolio.

Advances increased by Rs. 72.7 billion or 21.3% mainly in corporate sector on account of financing related to energy and power.

During the year, the bank, on a prudent basis carried out a desktop revaluation of major properties to ascertain the current market value and to adjust revaluation surplus accordingly. This resulted in reduction of Rs.2.7 billion from previously assessed values of 2007.

Despite the difficult environment, NBP managed to pose an appreciable growth in deposits and advances. Advances increased by Rs. 72.7 billion or 21.3% mainly in corporate sector on account of financing related to energy and power. 2008 was a very difficult year in terms of liquidity and deposit mobilization. The bank's challenge for deposit mobilization was tested by the government's decision to withdraw some of its deposits from the banking system. Hence a major effort was required to maintain deposit levels. By year end, the deposits increased by 6% or Rs.33 billion. Bank's current and saving accounts ratio stands at 58% and remains one of the highest in the banking sector.



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Performance of the various business and support units during the year 2008 is given below:

### **Corporate & Investment Banking Group**

The bank's corporate banking strategy evolves around providing comprehensive and customized financial solutions to our corporate customers. The bank offers products from working capital financing to infrastructure/ project, structured and syndicated financing. Our corporate banking has strong relationships with the country's top business houses. Corporate loans showed an impressive increase of more than 28% in 2008. The increase was mainly in financing for energy and power. Advisory fee on corporate finance was a major contributor as the bank executed a number of large transactions in the energy and infrastructure projects. The bank also focused on increasing trade finance income by leveraging the bank's relationship with the clients.

### **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. In 2008 NBP's corporate team managed a number of large transactions where NBP was the lead manager.

On equity investment the freezing of KSE index for four months and fall in KSE index by 58% limited opportunities. The 'floor mechanism' in the KSE brought activities to a halt for a period of around four months from August 2008 to December 2008. Despite these difficult times the bank managed to record capital gain of Rs. 0.4 billion.

### **Retail Banking**

NBP has the largest retail client base in the country and its retail portfolio is one of the largest. The period between 2003-2007 witnessed the growth in retail loan book across the banking system. However, due to steep rise in interest rates due to inflationary pressure, the growth in retail portfolio has turned into reduction in 2008.

The flagship NBP 'Advance Salary' product showed signs of maturity and consolidation in 2008. In 2008 property price volatility, high interest rates, economic conditions of the country and rising defaults discouraged house mortgage loans. NBP was largely insulated from increase in non performing loans in retail sector due to very nature of its major product 'NBP Advance Salary' where the bank exercises control over the salary cash flows of the borrower. We continue to believe that retail credit has strong long term growth potential. However, in the short term it may face challenges given the high interest rates and rising default levels. The bank's retail strategy focuses on its extensive branch network and leveraging the customer base. When the new core banking system comes on stream, the bank expects to launch new fee based retail banking products to increase its product suite. We believe that the bank's large customer base provides it an excellent opportunity to cross sell new products to its existing customers and will allow us to further deepen and strengthen relationships.

The bank's retail strategy focuses on its extensive branch network and leveraging the customer base.

The bank is focusing on strengthening its retail deposit franchise to have a stable funding base. Bank's current and saving deposit is 58% of the total deposits and is one of its key strengths. The plan is to have 300 ATMs in place by 2010.

### **Small & Medium Enterprises (SME)**

SME financing is an area of good future potential. Due to the negative impact of high inflation & interest rates, power shortages, fluctuation in commodity prices and reduction in export orders (SMEs) sector suffered considerable pressure that reduced the repayment capacity of the borrowers for existing loans and also their willingness to go for fresh financing. Due to these aforementioned factors SME loans registered a decline.

## Director's Report

### Agriculture

We believe that Pakistan's rural economy has high growth potential and offers attractive opportunities. The bank's product and services are offered to address the needs of both the farm and non farm sectors. NBP's large rural coverage of the country is second to none and is one of the major strengths of the bank.

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The importance of agriculture financing cannot be over emphasized as agriculture is key to Pakistan's future. Rural banking in Pakistan is in nascent stages and deployment of technology and modern banking channels continue to be an evolving process. During 2008 due to higher commodity support prices, financing under government operations increased by 118%. These loans are fully backed by GoP guarantees.

### Deposits

In the back drop of some of the worst financial and liquidity crunch faced by virtually all economies, Pakistan also faced issues of liquidity albeit at a much lower level. In addition to contraction in liquidity in the banking system, NBP also faced challenges due to major withdrawals by public / government departments during the year. Despite all these negative developments, NBP managed to close the year higher in terms of deposits compared to last year.

### Treasury Operations

The treasury management function at the bank comprises the liquidity, exchange and interest rate management. 2008 saw volatility in interest rates, varying liquidity conditions, global credit tightening, depreciation of Pak Rupee and high inflation resulting in significant movements in yield curve. Treasury Management Group actively managed the government securities portfolio and optimized yields. The group also provides foreign exchange and derivative products to its clients.

### Non Performing Loans

Rise in non performing loans has been an industry wide phenomenon and because of the negative factors present in the economy mentioned earlier, NPLs increased by 47% or Rs. 18 billion. We believe that most of the NPLs are the result of normal business cycle / circumstantial defaults and with the economy picking up and reduction in interest rate, the quantum of non-performing loans is expected to decline. With provision coverage at 76% NBP is well positioned to absorb any deterioration in advances quality. We are keeping our staunch focus on recovery and reduction in non performing loans is the area of greatest attention. Hopefully a sizeable percentage of the provisions will be written back to earnings in the coming years.

### Domestic Branches Network

We expanded our operations in 2008 and 11 more branches across Pakistan were opened in 2008 taking the branch network to 1254. NBP has a well defined strategy for branch expansion to enter the untapped markets and to strike a balance between its rural and urban coverage.

### International Operations

Our international strategy is focused on capturing trade business and increasing bi-lateral investment flows.

In year 2008 NBP increased its number of overseas branches from 18 to 22.

Despite the fact that 2008 was the year of recession in almost all major economies across the globe, NBP's overseas operations managed to register growth in deposits, advances as well as profits. In 2008 NBP increased its number of overseas branches from 18 to 22. The new branches were opened in Herat (Afghanistan), Mazar-e-Sharif (Afghanistan), Gulshan (Bangladesh) and Sylhet (Bangladesh). We are in our final stages of opening up our first branch in Riyadh (Saudi Arabia) which is expected to increase our trade related income.



## Islamic Banking

With the increase in the popularity of Islamic banking, NBP's Islamic banking operations have good potential for growth in future.

NBP's Islamic banking operations have gathered momentum and have registered impressive growth in Deposits (75%), Advances (237%) and total Assets (84%). In 2008 we further opened two more branches in Faisalabad and Rawalpindi. With the increase in the popularity of Islamic banking both in Pakistan and overseas, NBP's Islamic banking operations have good potential for growth in future.

## Operations

Improving operational efficiency is getting more focus given the challenges being faced by the industry in last one year. With opening customer facilitation centers for the collection of utility bills and making payments to pensioners, NBP expects to reduce its counter traffic at branches thereby focusing more on its customer's business needs. Customer care is a key area of the bank and we conducted various training programs for employees to improve customer handling and interaction.

## Information Technology

Year 2008 has been a historic year for NBP's I.T. infrastructure point as the bank started its implementation program of 'Core Banking Application (CBA) Software'. This is state of the art software providing a complete banking solution covering all areas. This will be a transformation which will greatly improve operational efficiency and controls, customer service and facilitate launching of new banking products. The implementation process has been started and is planned to be completed within next 18-20 months in 250 branches covering about 80% business of the bank.

Besides, the following capacity building projects have also been initiated:

- ATM Expansion Project: by mid of 2010 NBP will have a network of 300 ATMs.

- Core WAN Link Enhancement is being made from 64 to 512 mbps
- All Branches Connectivity project is also under way

By completion of the above capacity building projects the bank's infrastructure between branches, regional centers and Head office with backup connectivity will effectively be utilized for the implementation of the core banking project.

## Human Resource

The bank has worked on the philosophy of 'Higher pay for higher performance' and with this view have started a number of incentives including creation of talent pool, hiring of top class MBAs as Management trainees, women empowerment as well as overall welfare of the employees. In 2008 NBP was among the very few organizations that realized the growing pressure of higher inflation on its employees' salaries and therefore allowed a 15% increase as dearness allowance. Inflation linked salary adjustment was given to employees which though increased the staff cost slightly but has greatly motivated the Bank's work force. In addition the bank also confirmed 1,600 employees into permanent cadre who were already working in the bank as temporary outsourced employees. This action has resolved one of the biggest demands of the Bank's union and has further strengthened the union management good relations.

## Credit and Risk Management

Risk management remains a critical area. Our focus includes analysis, evaluation and management of all risks, credit, liquidity, market, operational and reputation risks. The bank's risk management policies and procedures are subject to high degree of supervision and guidance to ensure that all risk categories are systematically identified, measured, analyzed and proactively managed.

Market risk is measured and monitored using value at risk (VaR) framework. Operational Risk Management Unit has been established that supplements Credit and Market risk units for comprehensive risk management respectively.



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Our risk management in terms of adoption of Basel II guidelines is advancing smoothly. The team manages this risk with the help of control oriented environment wherein processes are documented, transactions are reconciled and monitored. 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 aligned as Credit Administration Department (CAD) to further improve our risk management function.

### Credit Rating

NBP enjoys the highest rating of 'AAA' in the industry assigned by M/s JCR-VIS Credit Rating Company Limited on a standalone basis i.e. without the benefit of the 75% government ownership.

### Market Recognition

In addition to the highest credit rating in the banking sector NBP has received several awards from both local and foreign institutions of repute during 2008 including 'Bank of the Year' award given by the 'The Banker' magazine and the 'Best Foreign Exchange Bank in Pakistan' awarded by 'Global Finance'

### Social Responsibility

In 2008 NBP inaugurated its own built Sports club at Clifton Karachi offering state of the art sports facilities

NBP has a strong commitment towards the betterment of society and is fully aware of its social obligations and responsibilities. NBP has always shown great generosity in times when a natural calamity strikes like the 2008 devastating earthquake in Balochistan or when it comes to rural development, children education and promotion of Sports. In 2008 NBP inaugurated its own built Sports club at Clifton

Karachi offering state of the art sports facilities. This has been much appreciated by the sport fans and general public at large.

### Profit & Loss Appropriation

The Profit for the year 2008 after carry over of accumulated profit of 2007 is proposed to be appropriated as follows:

	Rupees in '000
Profit before taxation for year 2008	23,000,998
Taxation	
- Current year	11,762,650
- Prior year (s)	-
- Deferred	(4,220,242)
	7,542,408
After Tax Profit	15,458,590
Profit Brought Forward	45,344,188
Transfer from surplus on revaluation of fixed assets	130,456
Profit available for appropriation	60,933,234
Transfer to Statutory Reserve (10% of after tax profit)	(1,548,859)
Issue of Bonus Shares @10%	(815,432)
	(6,115,739)
	(8,480,030)
Cash Dividend @ Rs. 7.5 per share	52,456,204



### **Future Outlook**

NBP remains committed to the interest of all stake holders including its employees, owners, regulators and Pakistani nation. We have well defined strategy on where and how we want to proceed in the years to come. With the implementation of the new 'Core Banking Package', NBP will completely automate its functions which in turn will appreciably enhance work efficiency. We will continue to diversify our customer segments thereby increasing our product offering. Our commitment towards the employee's empowerment / development will continue as we believe that a motivated and well trained work force is necessary to ensure sustenance and growth. On the business side our main focus would be to reduce non-performing loans and increase deposits.

We remain committed to our Vision, Mission & core values and our strategy for the future

We remain committed to our Vision, Mission & core values and our strategy for the future includes recovery efforts and revival of non performing loans, deposit mobilization, consolidation of loans, expense management and tapping into untapped markets by increasing our network both domestically and internationally. Customer service will remain our main focus of Operations management.

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.



## REVIEW OF BOARD OF DIRECTOR'S COMMITTEES AT NBP

At NBP, the Board of Director's have an active role in providing their able guidance and support to the Bank's management. For this purpose a number of Board's sub committees have been constituted in the bank. These sub 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 areas of functioning. The following are the sub committees:

Name of the Committee	Number of Directors	Number of Meetings held in 2008	Chairman of the Committee
Audit Committee	3	23	Mr. Ibrar A. Mumtaz
I.T Committee	3	08	Mr. Tariq Kirmani
HR Management Committee	3	20	Mian Kauser Hameed
Risk Management Committee	3	06	Mr. Ayub Khan Tarin
Agriculture Finance Committee	3	12	Mr. Sikander Hayat Jamali
Islamic Banking & Subsidiaries Committee	3	10	Mr. Tariq Kirmani
Sports & Culture Committee	3	11	Mr. Sikander Hayat Jamali

### Audit Committee

This committee has the oversight monitoring/assurance responsibility mainly relating to the effectiveness of the Bank's internal audit function, integrity of the Bank's financial statements, system of internal control, safeguarding of Bank's assets and associated risks, compliance with the applicable legal and regulatory requirements, corporate governance and Bank's 'Code of Conduct' and co-ordination with external auditors, making recommendations with respect to other matters relating to their independence, performance, appointment and remuneration and approval of provision of other than audit services. The major achievement of the committee includes conducting a Quality Assurance Review of the bank's internal audit function through independent consultants to align the internal audit function with international standards/best practices of corporate governance. The Committee ensured independence of the Internal Audit function and further strengthened it in line with the requirements of International Standards on Internal Auditing, IIA USA, regulators and best practices of corporate governance.

The Committee adopted a multi-disciplinary approach to effectively execute its fiduciary, advisory, oversight and assurance responsibilities entrusted by the

Board of Directors and enshrined under the legal and regulatory framework/International Standards and best practices of Corporate Governance.

### I.T Committee

I.T. Committee is a high level committee that is responsible for identifying areas of the bank requiring automation, reviews and decides strategic technology implementation plans for the bank and provides guidance and approves selection of appropriate technology solution both for software, hardware, infrastructure and outsourcing. During the year 2008 the committee finalized and signed contract for core banking application (CBA) with M/s Fidelity.

### HR Management Committee

The committee is an advisory and assurance committee which assists the board in fulfilling its responsibilities relating to all HR policy matters. It reviews and formulates human resource policies for attraction, retention, succession, motivation, training and development policies to achieve corporate objectives. It also recommends to the board the compensation, annual increase, performance bonuses, and perquisites of the CEO, Chief Internal Auditor, Secretary to the Board, CFO and all positions reporting





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to the CEO. It suggests strategies for negotiations with training and educational institutions both nationally & internationally for collaborating in training activities. It is also responsible for improvements in training methodology and identifying areas relevant to the needs of the organization. During 2008 several decisions were taken for improvement in the areas of HR policies, planning, training & development, compensation & pension, institutional discipline, and other HR related areas.

### **Risk Management Committee**

The functional scope of the Risk Management Committee is to develop the risk management role by identifying the relevant/new risk management tools as per Basel guidelines and developing the road map for SBP's Basel II. It also works for Risk & Exposure Reporting by development of Basel II's economic capital management frame work. This committee also provides the reporting and research for senior management and BOD and also reviews the Credit Policy. It also reviews the liquidity position, forecasting and projections and portfolio of the Bank. In 2008 the committee approved rating model for corporate & commercial borrowers.

The functional scope of the Risk Management Committee is to develop the Risk Management Role by identifying the relevant/new risk management tools

### **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. Besides this it reviews and monitors agriculture financing. It also reviews the current position, performance and state of affairs of agriculture sector in the country. The committee also approved creation of 'Agriculture research & development Wing'. The

goal of such unit will be to provide timely input and equip NBP with market intelligence, product and industry specific knowledge, areas of innovation and opportunity etc. During 2008 the committee undertook detailed study of possibilities for development of new products targeted to high potential and neglected areas such as dates and fisheries. Committee met regularly and discussed and reviewed the short term and medium term strategies/ objectives of Agriculture Division of the bank.

### **Islamic Banking & Subsidiaries Committee**

The committee is responsible to review, in detail, all operations and performance of all the subsidiaries and Islamic banking operations. It also provides guidance on the strategies, merger and acquisitions. A major focus of this committee is the Islamic banking operations of the bank and how NBP can leverage its strengths to increase its share in the area.

### **Sports & Culture Committee**

The functional scope of the Committee is to devise strategies to promote sports and cultural activities in the bank as well as in the country. During 2008 the Committee reviewed the progress of various activities undertaken by the Sports, Culture & Corporate Social Responsibility Division and also approved various incentive and cash award policies for sportspersons working for NBP. The Committee also finalized the fee structure and membership rules & regulations of NBP Sports Club.

The Committee also reviewed the performance of the Bank's sports teams and provided guidance and support to enhance their performance. The Committee also approved NBP Award for Excellence in Literature and devised modalities for evaluation of books. The Award ceremony was held in February-2009. During the year NBP Sports Club was inaugurated by the Prime Minister of Pakistan. This club is now functional and offers state of the art facilities to its members including Health Club, Swimming Pool, Indoor Tennis, Badminton, Squash, Table Tennis and Snooker.



### 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, 2008 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.



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- 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 meeting held during the year was 15 and attended by the directors as follows:

Syed Ali Raza	President / Chairman	15
Dr. Waqar Masood Khan	Director	2
Mr. Muhammad Ayub Khan Tarin	Director	10
Mr. Sikandar Hayat Jamali	Director	14
Mr. Muhammad Arshad Chaudhry	Director	6
Mr. Tariq Kirmani	Director	12
Mr. Azam Farooque	Director	5
Mian Kausar Hameed	Director	14
Mr. Ibrar A. Mumtaz	Director	14

The Board places on record its sincerest appreciation to the outgoing Directors, Dr. Waqar Masood Khan, and Mr. Azam Faruque 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, 2008 (un-audited) was as follows:

	Rs. in thousand
Employees Pension Fund	17,738,992
Employees Provident Fund	8,507,300



## Director's Report

### **Pattern of Share holding**

The pattern of share holding as at December 31, 2008 is annexed with the report.

### **Earning per share**

After tax earning per share for the year 2008 is Rs.17.23.

### **Appointment of Auditors**

The Board of Directors on the recommendation of the Audit Committee recommends M/s Anjum Asim Shahid Rehman & Co. Chartered Accountants & M/s M. Yousuf Adil Saleem & Co. Chartered Accountants to be the external Auditors of the bank in place of retiring auditors M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants and M/s M. Yousuf Adil Saleem & Co. Chartered Accountants for the year ending December 31, 2009 subject to approval by the share holders at the Annual General Meeting.

### **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 138 independent Compliance Officer in Branches and 28 Regional Compliance Chiefs with supporting staff to take care of compliance related issues to strengthen the control environment.



For the year 2008 the bank has made its best efforts to ensure that an effective Internal Control System continues to perform in letter and spirit. The observation made by the external and internal auditors are reviewed and measures are taken by the management to address the Internal Control.

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 effort to improve the professional skills and competency 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 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: March 18, 2009

Sixty Years  
of Excellence  
ANNUAL REPORT  
2008



## NBP Corporate Banking

*NBP further consolidated its position as one of the top players in corporate and investment banking of the country in 2008 and has built a strong customer relationship with premier corporate clients.*



**NBP**

National Bank of Pakistan

The Nation's  
Bank

# Sha'ria Advisor Report

For the year ended December 31, 2008



Excellence in Value

By the grace of Almighty Allah, I have examined on test check basis , each class transaction, the relevant documentation and procedures adopted by Islamic Banking Branches/ Division of National Bank of Pakistan (IBB-NBP), and I hereby report that in my opinion;

The affairs of IBB-NBP have been carried out in accordance with rules and principles of Sha'ria, SBP regulations and guidelines related to Sha'ria compliance and other rules as well as with specific fatwa and rulings issued by me from time to time; As there was no PLS deposit product in the year 2008 but it was launched in January 2009, its product policy document was approved by me and also I have checked up till the preparation of this report the allocation of funds, weight ages, profit sharing mechanism, its ratios and allocation, it was found to be confirmed on the basis approved and vetted by me in accordance with Shariah rule and SBP guidelines.

Any earnings that have been realized from sources or by means prohibited by Shar'ia rules and principles have not been yet pointed out therefore we have no amount in charity.

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

ABDUL SATTAR LEGHARI  
Sharia Advisor  
NBP / Islamic Banking Division  
Head Office.

Karachi: March 18, 2009



# Statement of Compliance with Code of Corporate Governance

For the year ended December 31, 2008

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the Regulation No. 36 and 37, XIII of listing Regulations of Karachi, Lahore & Islamabad Stock Exchanges (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 banks' (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. In terms of amended Section 11(3) (a) of the Banks' (Nationalization) Act 1974, Mr. Tariq Kirmani has been inducted on the Board of NBP with effect from 16th February 2008 (the date of election representing the private shareholders, in accordance with the Section 178 (I) of the Companies Ordinance 1984
- 2 The 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 a NBFIs or being a member of Stock Exchange, has been declared as defaulter as defaulter by that Stock Exchange.
- 4 No casual vacancy on the Board occurred during the year.
- 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 Practices" which is already approved by the Board of Directors.
- 7 The Board has approved the Vision, Mission, Core Values, Objective and NBP Strategic Plan - 2007 - 2011.
- 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 frame work 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 Board of Directors were presided over by the Chairman, Board met 15 times during the year. Written notices of the Board meetings, alongwith 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 course for the Directors in BoD's 168th Meeting held on 7th July 2008.
- 13 The appointment of CFC, Company Secretary and Head of internal Audit, 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 of Corporate Governance.
- 18 The Board has formed a Board Audit Committee comprising of four Non Executive Directors.
- 19 The Board Audit Committee held 23 Meetings besides two full days orientation for the directors 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 have been framed and advised to the Committee for compliance.



# Statement of Compliance with Code of Corporate Governance

For the year ended December 31, 2008



- 20 The Board has setup an effective Internal Audit function. All the Branches, Regions, Staff Colleges, Subsidiaries and Groups are subject to Audit. 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 (QCRR) of the Institute of Chartered Accountants of Pakistan, that they or any of partners of the firm, 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 have 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

S. ALI RAZA  
Chairman & President

Excellence in  
Value



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Chartered Accountants  
Progressive Plaza, Beaumont Road  
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M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Shahra-e-Faisal,  
Karachi 75350, Pakistan

**Auditors' Review Report to the Members on Statement of Compliance with Best Practices of the Code of Corporate Governance**

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-I of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan, Listing Regulations No. 37 of the Karachi Stock Exchange, Chapter XIII 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 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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, 2008.

FORD RHODES SIDAT HYDER & CO.  
Chartered Accountants  
Karachi

Date: March 18, 2009

M. YOUSUF ADIL SALEEM & CO.  
Chartered Accountants  
Karachi



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## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Bank of Pakistan (the Bank) as at December 31, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for eighty branches which have been audited by us and fifteen branches audited by auditors 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 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 sixty percent of the total loans and advances of the Bank, we report that:

- (a) in our opinion proper books of account 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 balance sheet 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 balance sheet, profit and loss account, 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 December 31, 2008 and its true balance of the profit, 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.

**FORD RHODES SIDAT HYDER & CO.**  
Chartered Accountants

Karachi

Date: March 18, 2009

**M. YOUSUF ADIL SALEEM & CO.**  
Chartered Accountants

Karachi