

Annual Report 2012



Committed | Responsive | Diversified



NBP

National Bank of Pakistan

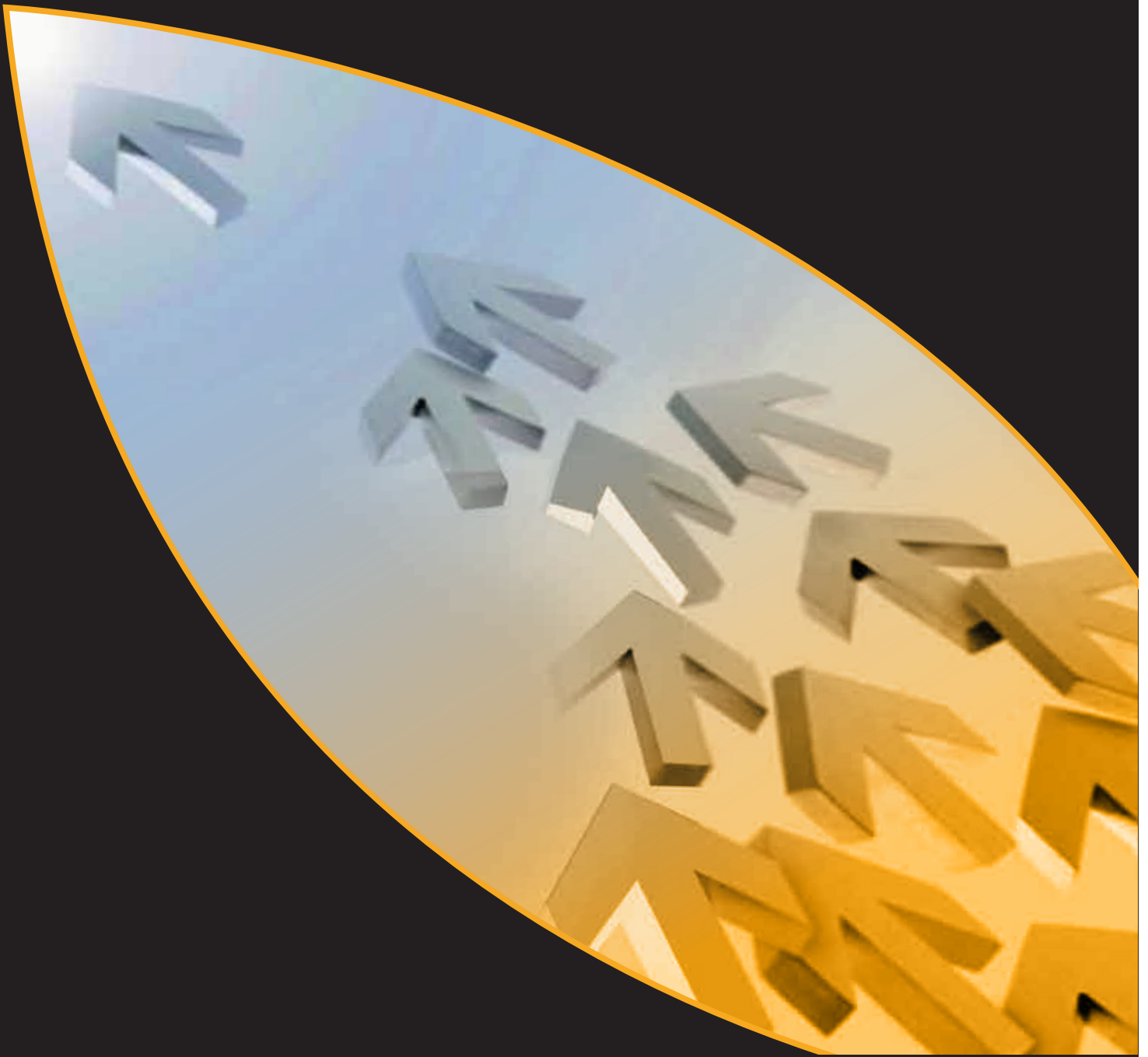
*The Nation's
Bank*

CONTENTS

Vision	02
Mission	03
Core Values	04
Goal	05
Corporate Information	06
Financial Highlights	07
Ten Years Financial Highlights	08
Board of Directors	10
Senior Management	13
Notice of 64 th Annual General Meeting	14
Statement under section 160 of the Companies Ordinance, 1984	16
Directors' Report to the Shareholders	18
Review of Board of Directors' Committees	21
President's Review	23
Corporate Social Responsibility Report	36
Corporate & Financial Reporting Framework	43
Risk Management Framework	45
Statement of Internal Control	46
Shariah Advisor's Report	47
Statement of Compliance with Code of Corporate Governance	48
Auditors' Review Report to the Members on Statement of Compliance with Code of Corporate Governance	51
Independent Auditors' Report to the Members	52
Unconsolidated Financial Statements - 2012	55
Directors' Report on Consolidated Financial Statements	152
Independent Auditors' Report to the Members on NBP & its Subsidiary Companies	153
Consolidated Financial Statements of NBP and its Subsidiary Companies	154
Categories of Shareholders	259
Pattern of Shareholding	260
Form of Proxy	264






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

CORE VALUES

- ④ Highest standards of Integrity
- ④ Institutionalising a teamwork and performance culture
- ④ Excellence in services
- ④ Advancement of skills for tomorrow's challenges
- ④ Awareness of social and community responsibility
- ④ Value creation for all stakeholders





GOAL

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

Corporate Information

Board of Directors

Dr. Asif A. Brohi	Chairman/President*
Aftab Anwar Baloch	Director**
Tariq Kirmani	Director
Haniya Shahid Naseem	Director***
Shahid Aziz Siddiqui	Director
Zahid Hussain	Director

Audit Committee

Tariq Kirmani	Chairman
Aftab Anwar Baloch	Member**
Haniya Shahid Naseem	Member***
Shahid Aziz Siddiqui	Member

Auditors

Anjum Asim Shahid Rahman
Chartered Accountants

KPMG Taseer Hadi & Co
Chartered Accountants

Legal Advisor

Mandviwala & Zafar
Advocates & Legal Consultants

Registered & Head Office

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

Registrar & Share Registration Office

Central Depository Co. of Pakistan (CDC),
CDC House, 99-B, Block-B,
S.M.C.H.S., Main Shara-e-Faisal
Karachi, Pakistan
111-111-500

Website

www.nbp.com.pk

* Mr. Qamar Hussain, President/CEO relinquished charge of the office of the President NBP at close of office hour on 21-1-2013

** GoP vide its Notification No.F.10(3)Bkg-111/2010.332 dated 26-02-2013 has nominated Mr. Muhammad Ayub Qazi as Director on the Board of Directors of NBP in place of Mr. Aftab Anwar Baloch.

*** GoP vide its Notification No.F.10(3)Bkg-111/2010.372 dated 01-03-2013 has nominated Mr. Wasiq Mehmood as Director on the Board of Directors of NBP in place of Mrs. Haniya Shahid Naseem.

Financial Highlights

(Rupees in million)

2012

Total Assets	1,309,339
Deposits	1,037,785
Advances	657,381
Investments	343,538
Shareholders' Equity	116,035
Pre-Tax Profit	23,258
After Tax Profit	16,163
* Earnings Per Share (Rs.)	8.74
Number of Branches	1,317
Number of Employees	16,440

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.)	9.49
Number of Branches	1,287
Number of Employees	16,248

2010

Total Assets	1,037,750
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.)	9.49
Number of Branches	1,289
Number of Employees	16,457

2011

Total Assets	1,149,578
Deposits	927,421
Advances	525,046
Investments	319,531
Shareholders' Equity	110,520
Pre-Tax Profit	26,011
After Tax Profit	17,605
* Earnings Per Share (Rs.)	9.52
Number of Branches	1,300
Number of Employees	16,924

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.)	9.20
Number of Branches	1,250
Number of Employees	14,019

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.)	10.29
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.)	8.36
Number of Branches	1,276
Number of Employees	15,441

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.)	2.27
Number of Branches	1,199
Number of Employees	13,272

2004

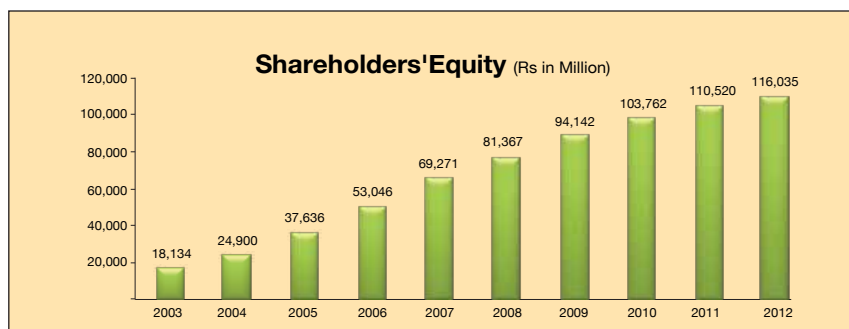
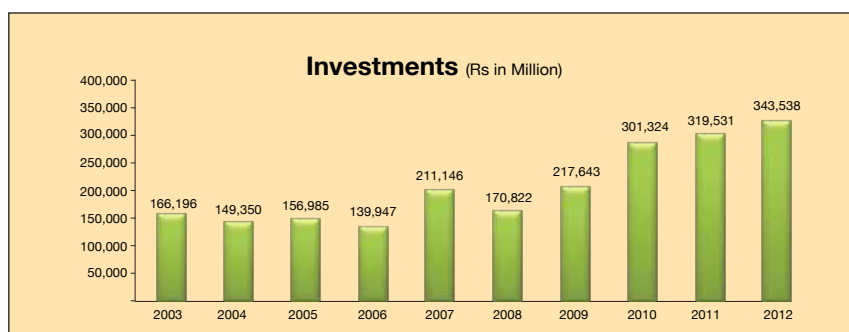
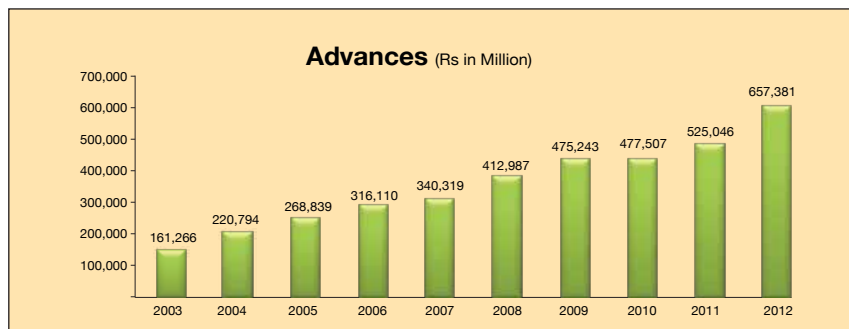
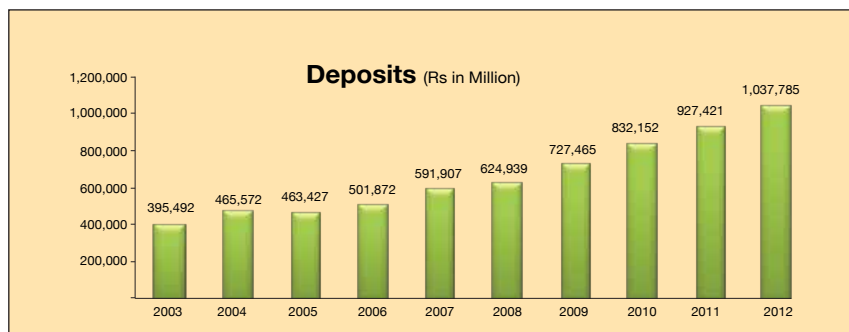
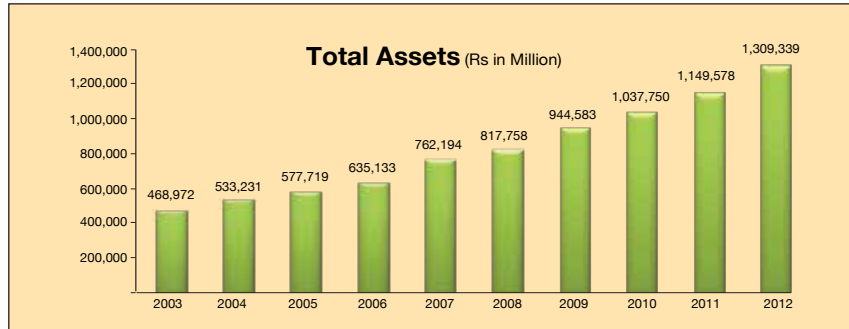
Total Assets	533,231
Deposits	465,572
Advances	220,794
Investments	149,350
Shareholders' Equity	24,900
Pre-Tax Profit	11,978
After-Tax Profit	6,195
* Earnings Per Share (Rs.)	3.35
Number of Branches	1,226
Number of Employees	13,745

2005

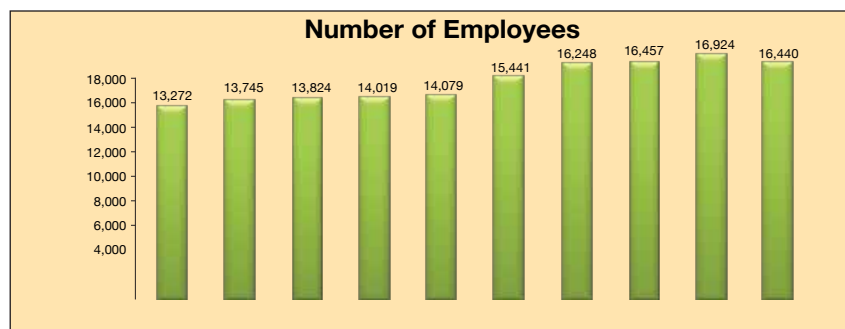
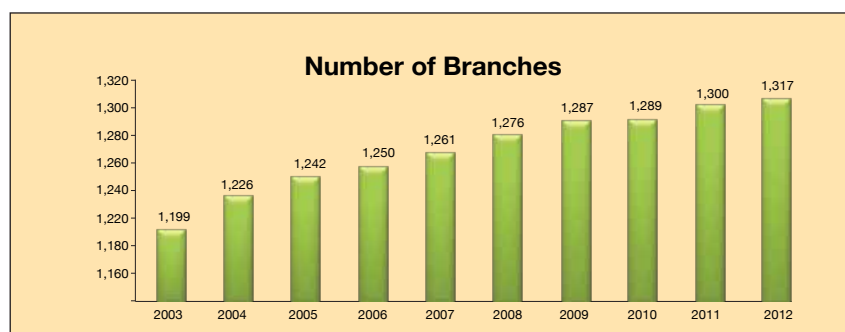
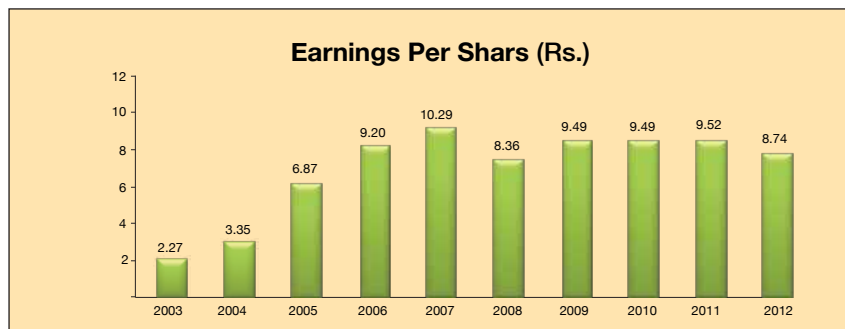
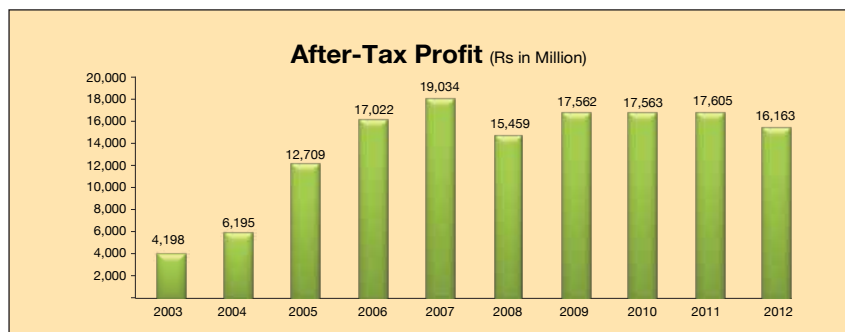
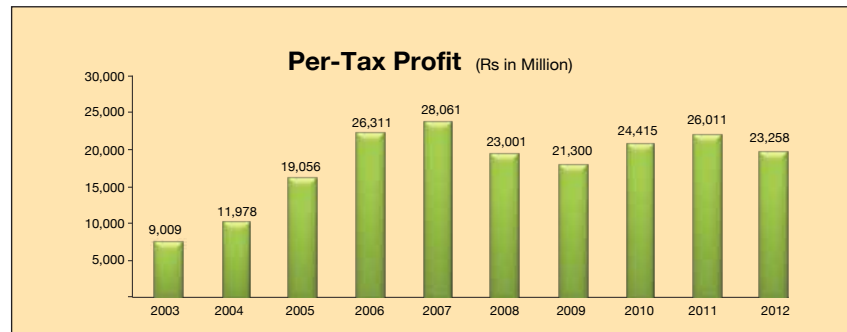
Total Assets	577,719
Deposits	463,427
Advances	268,839
Investments	156,985
Shareholders' Equity	37,636
Pre-Tax Profit	19,056
After-Tax Profit	12,709
* Earnings Per Share (Rs.)	6.87
Number of Branches	1,242
Number of Employees	13,824

* Restated

10 Years Financial Highlights



10 Years Financial Highlights



Board of Directors



From left to right: Mr. Aftab Anwar Baloch, Mr. Tariq Kirmani, Dr. Asif A. Brohi, Mrs. Haniya Shahid Naseem, Mr. Zahid Hussain, Mr. Shahid Aziz Siddiqi

Dr. Asif A. Brohi

President & Chairman Board

Dr. Brohi has rich experience in all disciplines of banking. His dynamism and professional deep insight is a great source to promote the bank's business and to maintain and improve its present position among the domestic banking industry.

He joined the bank in 1984 and held numerous senior management positions at the Regional and Head Office levels. Dr. Brohi prior to becoming President of the Bank, was serving as Chief Operating Officer & Head of Commercial & Retail Banking Group of NBP, and carries rich experience in all spheres of banking spanning over almost three decades. He has in the past headed Bank's Operations Group, Strategic Planning Group, Information Technology Division, Culture Change Programme Division and Training. He was also Regional Chief Executive, Karachi. As on December 31, 2012 Dr. Asif A. Brohi was serving on the Board of Directors of NBP Leasing Limited, Hub Power Company Ltd, Fauji Oil Terminal & Distribution Co. Ltd, First Credit & Investment Bank Limited (FCIB), NBP Fullerton Asset Management Company Limited, NBP Modarba Management Co. Ltd, National Assets Insurance Company Limited and Close Joint Stock Subsidiary, Almaty Kazakhstan.

Prior to joining NBP, he was Assistant Professor of Management, teaching in various universities in the United States of America. He holds a Bachelor's Degree in Law, a Master's Degree in Literature from the University of Sindh, a Masters Degree in Business Administration from USA and a Doctorate in Public Administration from Karachi University.

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 multinational 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 currently 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 and Green Star Social Marketing.

Mrs. Haniya Shahid Naseem

Director

Mrs. Haniya Shahid Naseem has done her Masters in Business Administration with honors in 1995. She is a certified director from the Pakistan Institute of Corporate Governance and has also done various short courses in management and banking.

Mrs. Haniya Shahid has more than 15 years of diversified experience in education, agriculture and corporate sectors. She is currently looking after her own chain of schools and is also an avid agriculturist who is actively involved in progressive farming, dairy and livestock. Previously she has also worked in her family companies in the textile and energy sector.

She is also associated with several charity organizations and is an executive member of SOS Children Village, Multan. She is a good example of women empowerment in the Board Room and has the honor of being the first women director on the Board of NBP.

Mr. Aftab Anwar Baloch

Director

Mr. Aftab Anwar Baloch is an officer of Pakistan Customs Service and belongs to Seventh Common Training Programme. He joined service of Government of Pakistan in 1980 and possesses 32 years of rich experience both in formulation and implementation of fiscal policy relating to levy charge and collection of Federal Taxes i.e. Customs Duty, Sales Tax, Federal Excise Duty etc.

He belongs to Sindh Province and has served on various positions throughout Pakistan under the Federal Board of Revenue. He has also served as Minister (Trade) in the Embassy of Pakistan, Moscow (Russian Federation) during 2005 to 2008 with accreditation to Belarus.

He has extensively travelled abroad and has been instrumental in compilation of WHO Technical Manual on Tobacco Tax Administration published by World Health Organization and has attended various meetings/seminars in Saudi Arabia, Switzerland, America on Tobacco Taxation and FCTC besides attending Seminar on Revised Kyoto Convention in Maldives under World Custom Organization and Course on Tax Administration in USA.

He also possesses research experience in introduction of Sales Tax under VAT Mode and Tobacco Taxation Joint Research Study Project under FBR-WHO Collaboration.

At present he is working as Additional Secretary in the Ministry of Finance looking after Internal Finance and Investment Wing.

Mr. Shahid Aziz Siddiqi

Director

Mr. Shahid Aziz Siddiqi is presently Chairman State Life Insurance Corporation of Pakistan. Mr. Siddiqi holds a Master Degree from the Karachi University and a Post Graduate Degree in Development Studies from the University of Cambridge UK. Mr. Siddiqi topped the Civil Services examination of 1968. He is a Certified Board Director of Pakistan Institute of Corporate Governance (PICG).

He has formerly held the positions of Managing Director Rice Export Corporation of Pakistan, Chairman National Highways Authority, Director General Ports and Shipping and Director Labour, Sindh.

He has also been the Commissioner Karachi Division and Deputy Commissioner of the Districts of Thatta, Sanghar and Larkana. In addition he has held the position of Director Excise & Taxation, Sindh and many other assignments in the Federal and Provincial Governments.

Mr. Zahid Hussain

Director

Zahid Hussain started his career with Pakistan Tobacco Company Ltd., and subsequently worked for British American Tobacco Co. Ltd, London. Later he joined Pakistan Automobile Corporation and served Suzuki, followed by Toyota as General Manager Marketing. He was promoted as Chief Executive MAZDA.

His services were transferred to Pakistan Industrial Development Corporation (PIDC) as Director/Chief Executive Indus Steel Pipes Ltd. He achieved the position of Chairman PIDC, Chairman Cement Corporation of Pakistan and Chairman Petroleum Corporation (PERAC).

He was made High Commissioner/Ambassador based in Kenya, (Grade 22) with accredited assignments of Ambassadorship in Tanzania, Uganda, Rwanda, Krundse, Ethiopia and Eritrea.

Mr. Zahid Hussain held the position of Chairman G-77 and China (UN Nairobi Chapter). He also served as permanent representative of United Nations Environment Program (UNEP) and United Nations, Human Settlement Program (UN-Habitat).

Mr. Zahid Hussain also held the position of MD /Chief Executive, Oil & Gas Development Co. Ltd.

Academically Mr. Zahid Hussain is BSc., LLB and M.A International Relations. He attended Professional Training Programs in Japan, China, England, Malaysia as well from IBA & LUMS in Pakistan. He has represented his school and college cricket, hockey and volley ball teams.

Mr. Zahid Hussain from time to time served as a Director on different Boards including Siemens, Sui Southern Gas Company and Sui Northern Gas Company Limited, Mari Gas Company Limited, General Tyres & Rubber Company Limited, Clariant Pak Limited, Fertiliser Corporation, Nishat Mills Limited, Crescent Steel & Allied Products Limited and many other organizations.

Mr. Zahid Hussain received fellow memberships of The Institute of Management, England, International Biographical Centre, USA and Institute of Marketing Management, Pakistan. Mr. Zahid Hussain was given Excellence Award, Marketing & Sales by the Marketing Association of Pakistan.

Senior Management

Ziaullah Khan

SEVP & Group Chief
Assets Recovery Group

Imam Bakhsh Baloch

SEVP & Group Chief
Audit & Inspection Group

Muhammed Nusrat Vohra

SEVP & Group Chief
Treasury Management Group

Tariq Jamali

SEVP & Group Chief
Compliance Group

Tahira Raza

SEVP & Chief Risk Officer
Risk Management Group

Khalid Mahmood

EVP & Group Chief
Operations Group

Qamar Hussain

EVP & Divisional Head
Human Resources Division

Shaharyar Qaiserani

EVP & Divisional Head
Agriculture Business Division

Aamir Sattar

EVP & Financial Controller

Raza Mohsin Qizilbash

EVP & Divisional Head
Legal Division

Khadim Hussain

EVP & Divisional Head
Corporate Banking Division(North)

Pervaiz Taj Bhatti

SVP & Divisional Head
SME & Commercial Banking Division

Farooq Hassan

SVP & Divisional Head
Business Development Division

Javaid Haider

SVP & Divisional Head
Logistics Support & Engineering Division

Nausherwan Adil

SEVP & Group Chief
Training & Organizational Development Group

M. Rafiq Bengali

SEVP & Group Chief
Overseas Banking Group

Nadeem Anwar Ilyas

SEVP & Group Chief
Small & Medium Assets Recovery Group

Ashraf Mehmood Wathra

SEVP & Group Chief
Credit Management Group

Khalid Bin Shaheen

SEVP & Group Chief
Global Home Remittance Management Group

Muhammad Hassan Khaskheli

EVP & Divisional Head
Personnel & Industrial Relations Division

Iqbal Qasim

EVP & Divisional Head
Corporate Social Responsibility Division

Zaheer Baig

EVP & Divisional Head
HR Planning & Internal Control Division

Mahmood Siddique

EVP & Chief Information Officer

S.M. Ali Zamin

EVP & Secretary Board of Directors

Syed Irtiza Kazmi

EVP & Divisional Head
Corporate Banking Division(South)

Adnan Adil Hussain

SVP & Divisional Head
Consumer & Retail Banking Division

Amir Shezad

SVP & Divisional Head
Capital Markets Division

Mirza Babur Baig

SVP & PSO to the President

Syed Ibne Hassan

VP & Divisional Head(A)
Corporate Communication Division

Notice of 64th Annual General Meeting

Notice is hereby given that the **64th Annual General Meeting (“AGM”)** of National Bank of Pakistan (the “**Bank**”) will be held on **Thursday, March 28, 2013 at 09:30 A.M. (PST), at Crystal Ball Room, Marriott Hotel, Karachi.**

The following business will be transacted in the meeting:

Ordinary Business:

1. To confirm minutes of the Extraordinary General Meeting held on 4th October, 2012, at Karachi.
2. To receive, consider and adopt the Annual Audited Financial Statements of National Bank of Pakistan and Consolidated Accounts of National Bank of Pakistan and its Subsidiaries for the year ended 31st December, 2012, together with the Directors' & Auditors' Reports thereon.
3. To appoint auditors for the year ending 31st December, 2013 and fix their remuneration. The Board of Directors has recommended appointment of Messrs KPMG Taseer Hadi & Company, Chartered Accountants and Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants to be the auditors of the Bank for the year ending 31st December, 2013, in place of the retiring auditors namely Messrs Anjum Asim Shahid Rehman, Chartered Accountants and Messrs KPMG Taseer Hadi & Company, Chartered Accountants at the same fee as paid to the retiring auditors.
4. To consider and approve cash dividend at Rs.7/= per share, i.e. 70% as recommended by the Board of Directors for the year ended 31st December, 2012 (subject to Government of Pakistan's approval).

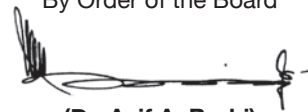
Special Business:

5. To consider and approve issuance of Bonus Shares, as recommended by the Board of Directors, for Rs. 2,775,016,990/= in the proportion of 15 shares for every 100 shares held i.e. 15% (subject to Government of Pakistan's approval).
6. To approve compensation package of Dr. Asif A. Brohi, President of the Bank, as recommended by the Board of Directors.
7. To transact any other business with the permission of the Chairman.

Karachi

Dated: March 07, 2013

By Order of the Board



(Dr. Asif A. Brohi)
Chairman & President

Note:

- i) The Share Transfer Books of the Bank shall remain closed from 22-03-2013 to 28-03-2013 (both days inclusive). Transfers received at Messrs Central Depository Company of Pakistan Limited, CDC House 99-B, Block “B”, SMCHS, Main Shakra-e-Faisal, Karachi – 74400, the Bank’s Registrar and Share Transfer Agent, at the close of the business on 21-03-2013 will be treated in time for purpose of the entitlement of attending the meeting.
- ii) A member eligible to attend and vote at the AGM is entitled to appoint another member as a 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 AGM under authority of a Power of Attorney or a Board of Directors’ Resolution. 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 Shakra-e-Faisal, Karachi – 74400, not later than 48 hours before the time of holding the AGM.
- iii) 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 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.
- iv) CDC Account Holders and Sub-account Holders, whose Registration details are available in Share Book Detail Report shall have to produce respective Original Computerized National Identity Cards (CNICs) or Original Passports for the purpose of identification to participate in the Annual General Meeting. Such Account Holders and Sub Account Holders should know the CNIC Numbers and CDC Account Number of the respective partner and should bring the same along with them. In case of Proxy, the person should positively attach the attested copy of the CNIC or Passport. In case of corporate member’s representative, usual documents should be accompanied for the same purpose.
- v) Members are requested to immediately notify any change in their addresses to the Bank’s Registrar and Share Transfer Agent, Messrs Central Depository Company of Pakistan Limited.

Statement Under Section 160 of The Companies Ordinance, 1984:

This statement sets out the material facts concerning the Special Business given in agenda items No. 5 and 6 of the Notice, to be transacted at the AGM of National Bank of Pakistan's Shareholders.

Item No. 5:

TTO CONSIDER AND APPROVE ISSUANCE OF BONUS SHARES, AS RECOMMENDED BY THE BOARD OF DIRECTORS, FOR RS. 2,775,016,990/= IN THE PROPORTION OF 15 SHARES FOR EVERY 100 SHARES HELD I.E. 15% (SUBJECT TO GOVERNMENT OF PAKISTAN'S APPROVAL).

As recommended by the Board of Directors, it is proposed to pass the following resolution:

“RESOLVED THAT a sum of Rs. 2,775,016,990/= out of the free reserves of the Bank be capitalized and applied towards the issue of 277,501,699 ordinary shares of Rs.10 each as bonus shares in the ratio of 15 ordinary shares for every 100 ordinary shares held (i.e. 15%) by the members whose names appear in the Register of Members on the close of business on 21-03-2013. These bonus shares shall rank pari passu in all respects with the existing shares but shall not be eligible for the dividend declared for the year ended 31st December 2012 and the shares distributed shall be treated for all purposes as an increase in the paid up capital of the Bank.”

Item No. 6

TO APPROVE COMPENSATION PACKAGE OF DR. ASIF A. BROHI, PRESIDENT OF THE BANK, AS RECOMMENDED BY THE BOARD OF DIRECTORS.

Dr. Asif A. Brohi has been appointed President of the Bank on regular basis in terms of Section 11 (3) (a) of the Banks (Nationalization) Act, 1974 by the Federal Government for a term of three (3) years with immediate effect vide Finance Division (GoP) Notification No. F.1 (5) Bkg-III / 2011 dated January 18, 2013. Mr. Brohi has assumed the charge as President, NBP, as at the close of office hours on 21-01-2013.

The Board in its 222nd meeting held on 25-02-2013 recommended the following compensation package of Dr. Asif A. Brohi as President of the Bank in accordance with Section 11(3)a of Banks Nationalisation Act, 1974, and has recommended the same to the general meeting of shareholders for approval.

In terms of Section 11(3) a of Banks Nationalization Act, 1974, the shareholders are requested to approve the following compensation package of Dr. Asif A. Brohi, President of the Bank as recommended by the Board of Directors:

		Amount in Rs.
Basic Pay **		850,000/-
House Rent Allowance (55% of Basic)		467,500/-
Senior Post Allowance		832,500/-
Gross Salary		2,150,000/-
Utilities	Utilities (electricity, gas, water, residence telephone(s) /mobile phone(s) and any other utilities pertaining to his residence) at actual.	
Security	Security arrangements to be provided by the Bank. Deployment of four (04) security guards i.e. two security guards on 12 hours shift basis at residence.	

Vehicles	One Prado Jeep already in his use & One 2500 cc Car - Both vehicles fully maintained by the Bank with an option to purchase any one of them as per the Bank's Policy* or at book value upon cessation of his service with the Bank, whichever is earlier.
Petrol for the Bank's provided two (2) vehicles	At actual.
Drivers	Two (02) Drivers or Salary of Two (02) Drivers in lieu thereof @ Rs.18,000 per month = Rs.36,000 per month (on reimbursement basis).
Official Entertainment	At actual.
Domestic Staff	Salary of Five (05) persons @ Rs.12,500 per month = Rs.62,500 per month (on reimbursement basis).
Business Travel	Business class fare - Hotel expenses at actual. Per diem for overseas with a maximum of US \$ 325/= per day. DA as per Bank's Policy*, in case hotel accommodation is not availed.
Overseas:	
Domestic Travel:	Economy Plus class fare. Hotel expenses at actual.
Annual Leave	As per Bank's Policy*.
Medical/Dental	As per Bank's Policy*.
Life Insurance	Rs.27,000,000 (from Pakistan based insurance Co.) 50% yearly premium to be paid by him and remaining 50% yearly premium to be paid by the Bank.
Other Facilities	House / garden maintenance/repairs at actual.
Furnishing Allowance	As per Bank's Policy* for SEVPs. (Rs.500,000/- to be depreciated over every five years).
Performance Bonus	Performance Bonus to be determined by the Board and approved by the shareholders of the Bank in terms of Section 11(3)(a) of The Banks (Nationalization) Act, 1974 as amended.
Club Membership	He holds membership of 2 clubs extended to him by NBP as per his entitlement as SEVP. Subscription for three clubs (including existing two clubs) will be reimbursed.
House Building Loan	Already availed by him shall continue as per Bank's policy* till the full repayment of the loan.
Generator Facility at Residence	Already availed by him shall continue as per Bank's policy* with upto 350 liters fuel per month).
End Service Benefits	As per Bank's Policy*.

*Bank's Policy means Policy applicable to regular SEVPs of the Bank.

**Annual increment to be decided by the Board of Directors and approved by the shareholders.

No other perquisites and benefits other than mentioned above are admissible.

In this respect, the following resolution is proposed to be passed:

“RESOLVED THAT the compensation package of Dr. Asif A. Brohi President of the bank, as recommended by the Board of Directors of the Bank in its 222nd meeting held on February 25, 2013, with effect from the date he assumed the office of the President, NBP, as mentioned in Statement under Section 160 of the Companies Ordinance, 1984, be and is hereby approved in terms of Section 11 (3) a of the Banks (Nationalization) Act, 1974.”



Directors' Report to the Shareholders

Directors' Report to the Shareholders

On behalf of the Board, I am pleased to present the 63rd annual report of the bank for the year ended December 31, 2012.

The Board of Directors have proposed final cash dividend of Rs.7.0 per share (70%) and 15% bonus shares for the year 2012. This will be approved in the forthcoming annual general meeting of the bank by the shareholders.

During the year under review the bank had to face the challenge of declining interest rate environment. State Bank of Pakistan (SBP) started cutting policy rates in 2011 with 2.0% reduction in last quarter of 2011. SBP further slashed down its policy rate by another 250 bps from 12.0% p.a. to 9.5% p.a. in August and October 2012. In May 2012, SBP increased the minimum profit rate to be paid on all remunerative deposits from 5.00% to 6.00%. This impacted by reducing yield on earning assets as well as increased the cost of funds. Although these measures were seen as a remedy to kick start the slowing economy but fundamental issues of energy shortages, law & order situation in the country, circular debt, budgetary deficit and the sluggish international markets did not yielded the desired results and the private sector remained cautious in their credit uptake. The positive outcomes during the year however were control of non-performing loans and tamed inflation. Low commodity prices and record high worker's remittances improved the overall liquidity position in the country.

The Board continued to guide the management to bring about further improvement in internal controls, risk and compliance functions as well as landed their support for improvement in key performance areas.

Information Technology:

Realizing the importance of new technology and its impact, the Board of Directors has placed great emphasis on the adoption and implementation of new technologies and closely monitored the performance of the ongoing I.T. projects in the bank. In the year 2012, NBP achieved a number of I.T. milestones like online branches network, expansion of ATMs network, enhanced call center features, SMS and email alerts etc.

Strengthening Internal Procedures & Control:

The Board lays great emphasis on further strengthening the bank's systems & internal controls. To insulate the bank against foreseeable risks and challenges and to identify improvements in the existing system and internal controls, two dedicated subcommittees of the Board for risk and compliance are functioning.

Change in the Board of Directors:

We are pleased to welcome Mr. Aftab Anwar Baloch Additional Secretary Ministry of Finance Government of Pakistan, Mr. Shahid Aziz Siddiqi and Mr. Zahid Hussain on the Board of National Bank of Pakistan (NBP) and are confident that the bank will benefit immensely from their rich experience and enlightened leadership. We would like to express our sincere gratitude to Mr. Qamar Hussain, Ex-President and Ms. Nazrat Bashir Ex-Director. Their contribution and support towards the bank's progress is duly recognized.

Future Outlook:

Year 2013 will be a year of new challenges for the banking industry and so as NBP. The bank will continue on its path towards technology and skills improvement, focus on recoveries, low cost deposits and increase its products offering with diversity to generate new revenue streams.

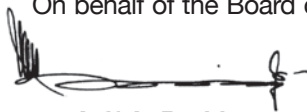
Directors' Report to the Shareholders

Profit & Loss Appropriation:

The profit for the year 2012 after carryover of accumulated profit of 2011 is proposed to be appropriated as follows:-

	Rs. in million
Profit before taxation for year 2012	23,258
Taxation	
- Current year	7,526
- Prior year(s)	-
- Deferred	(431)
	7,095
After Tax Profit	16,163
Profit Brought Forward	68,359
Transfer from surplus on revaluation of fixed assets	106
Profit available for appropriation	84,628
Transfer to statutory reserve (10% of after tax profit)	(1,616)
Issue of bonus shares-2011	(1,682)
Cash dividend-2011	(12,614)
	(15,912)
Profit carried forward	68,716

On behalf of the Board of Directors



Dr. Asif A. Brohi
 Chairman / President
 Date: February 25, 2013

Review of Board of Directors' Committees

A brief overview of the various sub committees of the Board of Directors' is as follows:

Name of the committee	Number of members	Number of meetings held in 2012	Chairman of the committee
Board Audit Committee	4	13	Mr. Tariq Kirmani
IT Board Committee	4	12	Mr. Tariq Kirmani
Board HR Committee	5	13	Mrs. Haniya Shahid Naseem
Board Risk Committee	5	10	Mr. Aftab Anwar Baloch
Board Overseas, Subsidiaries & Agriculture Committee	3	10	Mr. Shahid Aziz Siddiqi
Board Compliance Committee	5	12	Mr. Zahid Hussain

Board Audit Committee:

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

The committee reviewed frauds and forgeries cases on monthly basis and was instrumental in reduction of such cases by updating and implementing a revised Employee Disciplinary Policy (EDP).

The committee discussed, monitored and reviewed 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 monitored 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 extended valuable contribution in reviewing and updating of the Charter of BAC, Audit and Inspection Group charter & audit policy and is committed to perform its functions independently. The committee critically reviewed significant litigation or regulatory proceedings in which the bank is a party on monthly basis.

The committee also reviewed status of NPL recoveries on monthly basis, which enhanced the coordinated efforts in order to reduce the quantum of NPLs by applying restructuring and rescheduling strategies as well as rigorous follow up for recovery by business groups. The Board Audit Committee and Board Risk Committee held joint sessions on various issues such as rating of borrowers, validation of data, proactive approach towards NPLs, criteria defining parameters, selective audit diarized irregularities and fraud & forgery in order to identify issues for effective and timely actions in the interest of the bank.

The committee ensured that the accounting policies are in accordance with financial reporting framework and applied consistently, and examined with the management and the external auditors, the annual and interim financial statements, significant financial reporting issues and judgments, major judgmental areas such as provisioning against bad assets, classification of investments, valuation of assets, taxation, contingencies, any significant legal matters, compliance with financial reporting standards, listing regulations and other statutory requirements including adequate/appropriate disclosures.

The committee recommended the names of the external auditors of the bank to the Board of Directors.

Board I.T Committee

IT Board Committee is a high level steering committee and primarily responsible for reviewing IT related strategies and overseeing their implementation.

The committee played its vital role during 2012 in establishing Business Continuity Resource Services (IT DR site) through outsourcing to a third party vendor, centralized accounts opening with complete NADRA verification to control

Review of Board of Directors' Committees

over accounts opening and generation of computerized receipts for all tax collections. The committee also monitored technology related procurements in the bank and ensured transparency and cost effectiveness therein. The committee closely monitored core banking application (CBA) implementation process in the branches.

The committee will keep playing its pivotal role in 2013 for achieving goal of CBA implementation in 250 branches of the bank and successful CBA implementation in approximately 5 overseas branches. The committee will also play its role for compliance of COSO/COBIT standards.

Board HR Committee

The Committee is primarily responsible for HR related matters in the bank. Various improvements were made in the areas of HR policies and planning, compensation & pension, institutional discipline, overseas and other HR areas.

Board Risk Committee

Board Risk Committee (BRC) played a vital role in improving the risk environment in NBP through active supervision of Basel II implementation, portfolio review/risk alerts etc. BRC is primarily focusing on creation of risk culture across the bank and is regularly monitoring process on various ongoing projects. The committee played active role in the development/ updation of the overall risk management policy, enhancement of TORs of Executive Risk Management Committee (ERMC), development of risk appetite statement 2012, incorporating stressed capital & RWA's on bank-wide basis. Furthermore, the committee was instrumental in development of internal risk rating models, risk tolerance/concentration framework, implementation of remediation plans of the Basel II project & monitoring groups/divisions progress in the implementation of the plans.

Board Overseas, Subsidiaries, Agriculture & Islamic Banking Committee

The Committee is responsible to review financial and operational performance of overseas branches, NBP subsidiaries, Islamic Banking Division and Agriculture Business Division and also to provide guidance on strategic matters and recommends initiative to achieve the objectives of NBP and its subsidiaries. Islamic Banking was included in the purview of the committee in 2012.

During the year the committee reviewed the performance of Overseas Banking Group, NBP subsidiaries, Islamic Banking Division, Agriculture Business Division and held detailed discussions with respective Group Chiefs, Divisional Heads and Chief Executive Officers of NBP Subsidiaries and provided necessary guidance for improvement of the business. The committee also reviewed NBP's role in agriculture sector in the light of current performance and state of affairs of agriculture sector in the country.

Board Compliance Committee

Board Compliance Committee (BCC) was formed in the year 2011 in order to keep the Board of Directors abreast on compliance issues and to ensure continued performance of Compliance Group in different spheres of banking business. BCC contributed with proactive approach towards vitalizing function of compliance and explicating the true scope of the group. The committee also played vital role in revision of compliance policy 2012.

President's Review



Economic Overview:

In the year 2011-12 Pakistan has experienced moderate growth in GDP of around 3.7 % mainly on account of higher growth in agriculture sector. The country faced a challenging environment in 2012. Volatile security conditions, deteriorating law & order situation, ongoing militancy in Khyber Pakhtunkhawa and Balochistan, structural imbalances in the economy, low savings and investments, energy crisis, lower tax to GDP ratio, higher subsidies all constrained GDP growth.

Given growing population in the country, lower growth in the economy will give rise to poverty and other social ailments. In 2012 inflation remained under check. Consumer price index (general) has fallen from 10.2% in November 2011 to 7.9% in the end of December 2012. On the back of controlled inflationary numbers, the State Bank of Pakistan (SBP) in 2012 further slashed down its policy rate by 250 bps from 12.0% p.a. to 9.5% p.a. in 2012. This coupled with the 2.0% reduction in the last quarter of the year 2011 impacted the overall yield on earning assets. In addition, the State Bank of Pakistan also increased its minimum profit rate to be paid on all remunerative deposits from 5.0% to 6.0%. These policies squeezed the net interest margin of the banking sector and to make up the reduced margins the banks had to increase their transaction volumes and found new venues for revenue streams. The government continued to borrow from the banking sector for budgetary support. Imports during July-December 2012 declined by 3.3 % despite the fact that the oil import bill rose slightly compared to corresponding period last year.

President's Review

In 2011-12 the fiscal deficit reached 8.5% of GDP, well above the target of 4.0% because of slippages in both revenue and expenditure targets. For 2012-13 the budget deficit target kept is of 4.7% of GDP. There is a greater need for increasing the tax revenues in the country to improve the overall tax to GDP ratio which remains mundane at around 10% one of the lowest in the region. The IMF requires the government to take steps to increase this tax to GDP ratio to around 14% and at the same time reduce the subsidies allowed to agriculture and power sector.

Although the reduction in rates did provide some relief to the borrowers but challenges like energy shortage, law & order situation, political noise and low foreign direct investment did not allow private sector businesses to grow expeditiously resulted diminutive growth in banking sector as majority of the banks took a conservative approach of investing in treasury papers. The higher rates being offered by the National Saving Centers also made the competition for deposits more severe amongst the banks which did not allow the cost of fund to show similar reduction as was experienced by the yield on earning assets due to reduction in SBP policy rates.

The bank posted after tax profit of Rs.16.1 billion compared to Rs 17.6 billion of last year. The decrease is owing to pressure on net interest margins, higher administrative expenses and conservative provisioning charge. Net interest income decreased by 6.7% due to reduction in discount rate by 4.5% during last 15 months and increase in the minimum profit rate on deposits from 5% to 6%. The reduction in margins was offset by increase in non interest / markup income which was higher by 23% mainly due to higher dividend income, exchange income and capital gains.

Pre-tax return on equity stood at 20.5%, pre-tax return on assets at 2.0% while cost to income ratio is at 0.53. Capital adequacy ratio remained healthy at 16.5%.

Net interest income decreased by 6.7% or Rs. 3.1 billion from the corresponding period last year. The major reason for decline is the reduced yield on earning assets and increased cost of funds as mentioned earlier. The total interest / mark up income increased by Rs. 4.7 billion despite decline in yields on advances, investments and placements mainly due to increase in volumes.

The bank's total deposits increased by Rs. 110 billion or 12%, while advances increased by Rs. 132 billion or 25 %. Despite this sharp increase in advances, the non performing loans remained at the same level as last year. NPL to gross advances ratio improved 12.2% as compare to 14.9% in 2011. Total assets increased by Rs. 159.8 billion or 14% to Rs. 1.31 trillion.

The core revenue from fee based business increased by Rs. 1.1 billion or 12% mainly due to higher commission income & advisory fee. Commission income from dealing in foreign currencies increased by 18% due to increase in volumes. Capital gains are higher by 35% as the bank took advantage of higher stock index. The bank focused on selling ill liquid stocks and continued to build up high yield dividend stocks in its shares portfolio. Dividend income doubled to Rs. 3.6 billion in 2012 from Rs. 1.7 billion in 2011 due to higher dividends from mutual funds.

Administrative expenses increased by Rs. 5.6 billion or 19%, staff cost being the major contributor to the increase. Other administrative expenses increased mainly due to inflation, tariff hike in utilities, advertisement and higher technology related expenses. Provision charge against advances was higher due to conservative approach towards provisioning. Provision against investment decreased mainly due to improvement in stock index.

President's Review

Performance of the various business and support units during the year 2012 is given below:

Corporate & Investment Banking

The bank has sustained its role as a market leader in providing corporate financial solutions in 2012. Taking strength from the strong relationships garnered with the premier corporate clients for over a decade and with a strategy of better wallet sizing along with better focus on trade business for targeted growth, the group has shown considerable improvement in terms of loan growth (34%), trade (47%) and non-fund based income (45%) in the outgoing year. The group focuses on recurring/continuing business opportunities as well as new financing proposals with solo participation, syndication and project/ infrastructure financing, along with mergers, acquisitions etc. In cognizance with the national priorities, the investment banking group once again took the lead in alternative energy projects in addition to traditional power generation, fertilizer and other infrastructure projects. The results of a separate Asset Rehabilitation Wing within the group has already started to emerge with some cash recoveries and restructuring whose full impact would be realized in the coming years.



President's Review

Commercial & Retail Banking

The Commercial & Retail Banking Group contributes major portion towards profitability of the bank. Despite the fact that 2012 was a challenging year for the bank, the group had achieved its targets of deposits and advances. In consumer products, the bank's performance was above the industry's performance. During 2012, the main focus was on increasing share of CASA deposits in total deposits. During the year, the bank's deposit grew by 12%, whereas the CASA deposits grew by 22%, which helped in improving cost of funds.



NBP advance salary product is a major contributor in the bank's advances and profits therefore its limit was enhanced from Rs 500,000 to Rs 1.0 million. The product is the largest consumer product with lowest rate of default and excellent rate of return over the years. Other consumer loans including gold loan grew by 51% while agriculture lending increased by 30%. With the increase in the global prices of gold and low default ratio, the bank concentrated on further expanding this product. Due to more than average rainfall in the last 3 years, the agriculture sector is showing rapid growth. The bank increased its agriculture exposure to tap this segment and support rural uplift.

SME financing is an area of good future potential. Due to negative impact of law & order situation, power shortages and reduction in export orders, this sector suffered during 2012. The bank increased its SME portfolio by 8% in the year under review.

President's Review

International Operations

The bank provides services through its 29 overseas locations in 19 countries across the globe. With its efficient, value added services, a model for sustained growth, consistent profitability and investment in new technologies, NBP is providing services to the Central Bank (SBP), National & International financial institutions, corporate sectors and individuals. The year 2012 was a year where the global markets remained in recession but despite the global turmoil, the bank's overseas operations shown growth. Bank's Overseas Banking Group is looking towards increasing contribution from our international business therefore, we plan to grow organically within our existing presence in 19 countries while seeking opportunities in new regions to leverage existing synergies. In the next 18 months NBP plans to establish operations in India, Sri Lanka and UAE. During the year bank successfully participated in many syndicated FI transactions outside Pakistan with key FI partners. We have provided USD 65 million of trade finance for Tuwariqi Steel Mills and Posco (Korea). Escrow account of BP Petroleum in NBP New York has been established to facilitate a major transaction with United Energy Pakistan Limited and Ministry of Petroleum & Natural Resources. We are a key partner of Pakistan State Oil for oil imports in the country. The bank was upgraded to 3rd position from 13th position in Saudi Basic Industries Corporation (SABIC) list of preferred banks. Our special tie with Bank of China (BOC) was evident in BOC's visit to Pakistan in June 2012 where NBP was the only commercial bank called upon for extensive business discussions in addition to SBP.



Non-performing loans

Despite the economic challenges bank's gross NPL ratio improved to 12.2% from 14.9% last year with provision coverage at 82% as against 76% last year. The bank has two dedicated assets recovery groups namely Assets Recovery Group & SME Assets Recovery Group to monitor and handle non-performing portfolio. NPL recovery is a major area and we believe with focused approach can contribute significantly to the bank's bottom line.

President's Review

Treasury Management & Capital Markets

Treasury Management Group is the hub where all local currency and foreign exchange books of the bank are managed. NBP treasury plays a vital role in ensuring optimum utilization of the bank's funds while managing risks. The bank has upheld its reputation as an efficient and active market maker in both money market and foreign exchange. It is a testament to the bank's superior expertise in the area that NBP has been rated amongst the top primary dealers in the country by SBP for the last three consecutive years. The contribution of the group is not limited to fixed income side only, 2012 was one of the most rewarding years in terms of non-funded income generated by treasury, and especially income from dealing in foreign exchange, a testament to bank's superior expertise in this area and strong client relationship. Implementation of the state of art treasury system is in process. With the implementation of this new system treasury will be well equipped to apply for the Authorized Derivative Dealer status and undertake new businesses and become a one stop solution provider for its diverse client base.



NBP is a major player in the capital market and the bank fully capitalized on the opportunity of the bull run in the Karachi stock exchange, not only the bank managed to dispose off some of its ill liquid stocks but also increased the high dividend yielding stocks in its shares portfolio. The bank also increased its investment in various mutual funds that yielded higher dividends and tax benefits.

Islamic Banking

The Islamic Banking unit has shown 92% increase in deposits as compared to last year. Going forward, strategy is to grow Islamic banking by opening new branches and connecting Islamic branches with conventional branches across Pakistan to facilitate customers for their banking needs.



President's Review

Operations and Customer Services

For better customer service a number of initiatives have been undertaken. System to facilitate direct credit of pensions into pensioners' accounts has been developed due to which monthly visit to branch to claim pension will not be required. Finalization of standard operating procedure (SOP) for automation of pension payments is under negotiation with Employee Old aged Benefit Institution (EOBI). The same web-based utility will later be replicated for payment to Pakistan Railways retired employees, which will further benefit more than 100,000 pensioners and reduce workload at the branches.



Our Call Centre is facilitating in providing account information, status of ATM application, e-remittances and products information. Call Centre also receives and processes complaints lodged by bank customers. More than 30,000 calls a month are being received and the numbers are increasing day by day.

Under the branch expansion plan 43 new branches along with 5 Customer Facilitation Centers (sub-branches) will be opened during the year 2013 in urban as well as rural areas. System based account opening process has been developed to facilitate customers. For minimizing turn-around-time (TAT) in dealing with customer complaints, all 29 regional offices are now linked with Customer Facilitation Centre at Head Office to route customer complaints and their follow-up till resolution.

President's Review

Home Remittances

Home Remittances is the second largest source of recurring foreign exchange for the country and are considered sustainable source of foreign exchange. National Bank of Pakistan has deployed extensive resources in remittance business in the entire Pakistani banking industry by establishing Global Home Remittances Management Group, a dedicated group to support government initiative of bringing in home remittances through official channel. NBP made significant investments in establishing a dedicated setup, developing/acquiring cutting edge technology, training of staff, international/domestic marketing with an aim to enhance service quality for facilitation of overseas Pakistanis.

With advanced technology, enhanced global coverage, widest domestic network of over 1290 branches and improved service quality at branch level, NBP is now becoming the bank of choice for receiving over the counter payments of home remittances and resultantly secured the leading position in making highest number of cash payments to beneficiaries.



NBP has played a pivotal role in implementing Pakistan Remittances Initiative (PRI) systems and worked in collaboration with PRI and State Bank of Pakistan. NBP has posted phenomenal growth in free of charge remittances in the last three years, which was over 93% in 2012. In pursuit of the national cause and by providing fast, convenient, secured, reliable and absolutely free of charge remittance services, NBP has encouraged the home remittance customers to use legal channels in a hassle free and cost effective manner, thus supporting government initiatives in true spirit. In this context, NBP has introduced "NBP Foree Cash" through which customers can get the money sent from their loved ones within minutes without the requirement of having a bank account and "NBP Foree Transfer" which allows remittances to credit directly into the customers' accounts without visiting a branch.

President's Review

Information Technology

The year 2012 witnessed several achievements in technology and project deployments. One of the biggest achievements in the year under review is the online conversion and connectivity of almost all the domestic branches. With this accomplishment NBP has become the largest bank with online branch network. NBP has embarked on an endeavor to implement its core banking automation across all key areas of its business including consumer, corporate, treasury, trade, HR and finance which shall enable the bank to provide quality customer services as well as bringing more efficiency across its attributed business functions. NBP has been able to complete its first phase of internet banking solution, which has already been rolled out. SMS alert services project has also been activated. To improve I.T. related services at the bank and compete with the industry, implementation of Core Banking Applications (CBA) is in process and the bank is targeting implementation of CBA in 250 branches in 2013. SAP-HCM system has been deployed to process its countrywide payroll as well as perform other HR related functions within the bank including personal administration, provident fund, pension etc. with efficiency and control across all regions. Interbank Fund Transfers (IBT) facility with CBA platform and legacy platform was tested and launched. Local remittances like DD, MT, PO for every branch have been centralized that has enhanced security and reliability of system and improved efficiency by removing the need of manual file transfer in branches. NBP has increased its number of ATMs to over 360 in 2012 that was 254 in 2011. Further installation of 100 ATMs is in process which is expected to be completed by year end 2013.



President's Review

Human Resource Development

The bank conducted a comprehensive Training Need Analysis (TNA) for the three years (2012, 2013 & 2014) for all its employees and issued a training calendar in January 2012. During the preceding year more than 15,000 employees were trained in the areas of operations, credit, compliance, IT, customer services etc.

The Human Resources department has started strategize training plans for effective training to improve competencies and skills in the relevant areas of all employees. We have initiated necessary strategies for ensuring culture change in NBP to improve its competencies through higher customer satisfaction. Specialized training programs were also launched for General Managers to enhance their professional knowledge and skills in their respective functional areas.



Meeting with Collective Bargaining Agents (CBAs) from all over the country was held and Charter of Demand was signed in a record time with positive response from all stakeholders.

The bank formulated and approved various HR policies on job rotation policy, revised overseas posting policy, performance incentive etc. The entire structure of internships at NBP was reconstructed with an aim to transform the interns into bank's ambassador through a project-based approach. A web-based performance appraisal application system at bank level was developed and deployed.

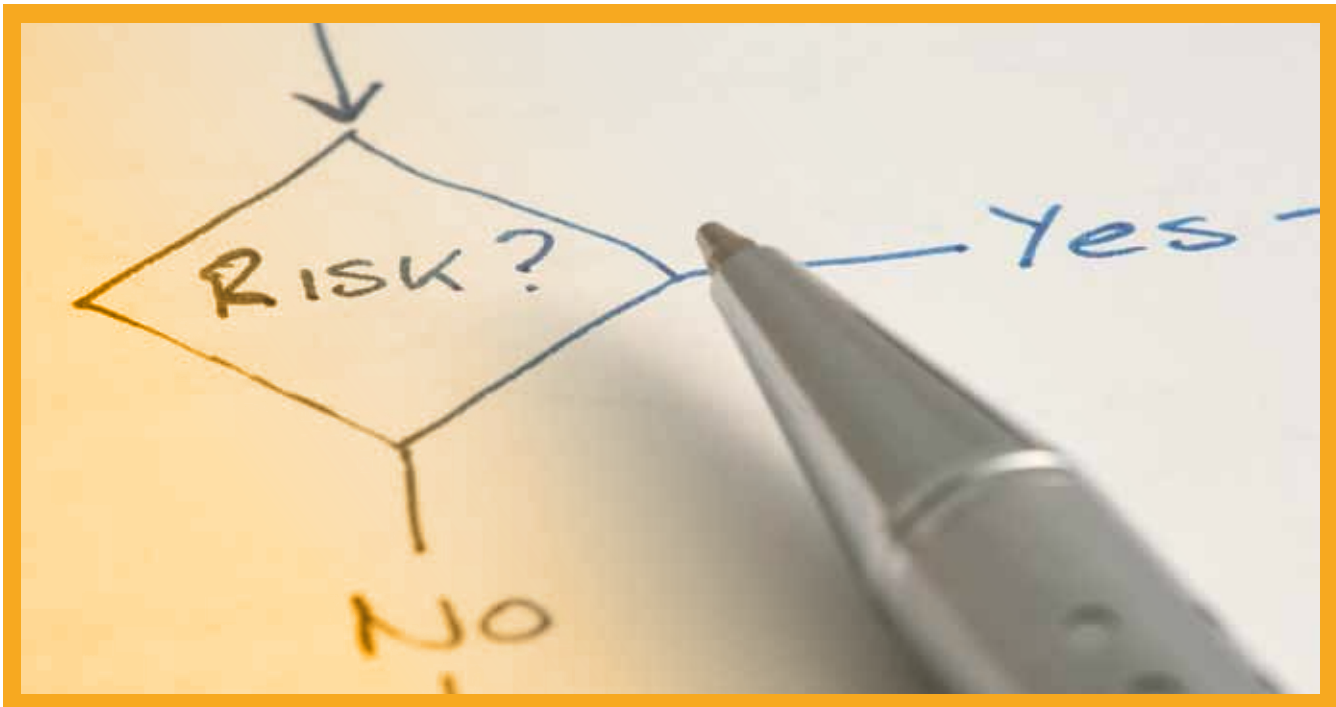


President's Review

Credit & Risk Management

The bank has pursued its policy of institutionalizing an environment and culture conducive to quality credit decisions. In line with the regulatory framework and to support bank's business strategy the bank has developed a comprehensive credit policy & procedure document which is regularly revamped and enriched to formulate necessary credit rules & procedures. The bank has separate wings and departments for efficient and specialized handling of credit requests of corporate, commercial, SME & retail category clients of our bank. We aim at quality credit decisions through identification, mitigation and approval of credit risks in line with the bank's credit policy. Industry Research & Analysis Wing analyzed and rated thirty four key industrial sectors of the economy in terms of relative risks and attractiveness, which has helped our business groups to set their priorities. Our Economic Research Wing keeps track of national & global economic indicators and events which have helped us adjust our strategies accordingly.

Development of a risk charter and an updated risk management policy has led to the clear identification of roles and responsibilities for Risk Management Group (RMG) and support standards for other functions within the bank to eliminate any ambiguity and conflict of interest between responsibilities. The bank has developed, updated and approved risk tolerance/concentration framework for the better risk governance, Risk appetite statement for the year 2012 was developed incorporating stressed capital & RWA's on a bank-wide basis. We have developed management action triggers and management action plans corresponding to stress limits.



It is important to mention that the bank is in process of engaging the services of a top consultant to undertake a comprehensive BPR and COSO exercise aimed at overall business process improvement, advanced risk management and strengthening of the overall control environment. We have initiated the process of development of procedural/ desktop manual for effective implementation of all policies.

Compliance is an independent function that identifies, assesses, advises, monitors and reports on the bank's compliance risk i.e. legal or regulatory sanctions, financial loss or reputation loss to the bank as a result of its failure to comply with applicable laws and regulations. The bank accelerated its efforts to strengthen compliance culture in the bank. Special emphasis has been placed on anti money laundering (AML) and know your customers (KYC) by strengthening customer due diligence and enhanced due diligence concepts.

President's Review

Corporate Social Responsibility

NBP is fully aware of its social obligations and has integrated its social welfare and community development initiatives to achieve sustainable growth in the social and economic sectors of Pakistan. Under a well-planned CSR program, NBP has undertaken a number of projects to benefit communities all over the country. These welfare initiatives are directed towards promotion of education, health, woman & child welfare, special persons, culture, sports and relief for affectees of natural disasters. In recognition to the CSR programs undertaken, the bank was also awarded the National Forum for Environment & Health (NFEH) CSR Business Excellence Award 2012. NBP has always been the first corporate entity to come forward and help the nation whenever a calamity hits the country.



Awards & Recognitions

In July 2012 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 bank was also awarded NBP is the Top bank in Pakistan appearing in "Top 1000 world banks 2012" in "The Banker" magazine owned by Financial Times Group, London. NBP received "Max Factor of the year 2011/12" Award from Xpress Money Services Limited, which is the third largest money transfer services provider in the world.



President's Review

Future Outlook

Going forward the bank will emphasize on reducing administrative and manpower cost, improving Current & Saving (CASA) deposit ratio, reduction in NPLs, increase in agriculture, SME & consumer advances, capturing more trade business, expansion of branch network and further improvement of I.T. infrastructure etc.



With the adoption of new technology, best practices and professional attitude the bank shall improve its revenues through new streams and further control on costs. Lastly in a challenging and competitive environment we are confident that our employees through their commitment and hard work will maintain bank's leadership position. We would like to express our appreciation to our stakeholders, regulators and our valued customers for their support and sustained level of trust in NBP.



Dr. Asif A. Brohi
Chairman / President
Date: February 25, 2013



Corporate Social Responsibility

CSR Initiatives-2012

NBP has taken various initiatives that clearly depict its dedication towards its Corporate Social Responsibility mission. The focus of the bank is on achieving commercial success in a manner that honors ethical values, respects society and communities in meeting their needs in such a manner that the ability of future generations to meet their needs with pride and dignity is not compromised.

The bank truly realizes its agenda and thus has formalized strategic areas of focus for the accomplishment of its corporate-social goals. The Bank is running a full-fledged CSR Program to benefit the community at large mainly by investing in projects related to development of critical socio-economic sectors. Additionally, the bank is also active in extending support to a number of recognized charitable institutions for the uplift of underprivileged members of our society. To serve the purpose, the bank selects initiatives that are sustainable and have a meaningful impact on society and a strong connection with the business and core competencies.

The foremost area of focus for CSR initiatives are directed towards promotion of education, health, woman and child welfare, special persons, culture, sports and relief for affectees of natural disasters. Various steps have been taken in this regard and the bank is investing significant amount for bringing positive change and improving the quality of life of members of the society.

It is truly a matter of pride that National Forum for Environment and Health recognized the efforts of NBP and awarded the CSR Business Excellence Award 2012. Also, NBP has been recently awarded the “Gold Medal on CSR” by the President of Pakistan on the basis of overall contributions and donations for charitable, social, educational and public welfare efforts.

Following were few significant projects that were undertaken during the period 2012.

Education

NBP believes education plays a vital role in economic development and poverty alleviation. Some significant activities undertaken by NBP in supporting the cause of education were development of Computer Training Centre and Library in Lyari, improvement of Computer Lab of Shaikh Zayed Islamic Centre, Karachi and repairs/refurbishment of Degree College at Khairpur Nathan Shah (Sindh).

NBP sponsored Motivational Volunteer Empowerment (MOVE), a training program for students of IBA at Hyderabad & Sukkur, Work shop on Entrepreneurships for fresh business graduates in Karachi, Project Management Conference in Karachi and Youth Training Centre at Kamalia.



CSR Initiatives-2012

NBP made donations to reputed educational institutions such as The Citizen Foundation, The Jinnah Foundation, The Hub School, Institute of Business Administration (IBA), and School of Business & Leadership (KSBL). NBP also renamed its Regional IT Centre at Lahore as Arfa Karim Regional IT Centre to commemorate late Arfa Karim.

NBP organized debate competitions in Government Frontier College for Women Peshawar, Bagh-e-Lyari Government School, Technical High School Jamrud (FATA), Garage School, Kids University and Public School Karachi to celebrate Pakistan Day & Independence Day.

Besides above, the following events in Education were also held.

- Repair & Renovation of Govt. Boys Secondary School Korangi K Area, Karachi
- Donation to Society for promotion of Arabic
- Donation of Books, Uniforms, Shoes etc to Ujala Welfare Society, KPK
- Provided Computers and Printer to Pakistan Foundation High School, Lahore
- Donation to Progressive Education Network (PEN), Lahore
- Sponsorship to Professional Education Foundation, Karachi
- Provided Sheds facilities to Shaheed Benazir Bhutto University, Nawabshah
- Donation to Benazir Public School for Girls, Nawabshah

Health

NBP Refurbished Civil Hospital Usta Muhammad (Baluchistan) and developed Operation Theater in Emergency Care Unit of Civil Hospital Mirpurkhas. Latest medical equipment was provided to Cardiology Care unit of GMC Hospital Sukkur, Thalassemia Centre of Nawabshah, Burns Ward of Civil Hospital Karachi, Siksa Hospital Siachin, and Wajeeha Thalassemia Centre, Malakand Division. Furthermore, it helped in setting up of maternity & child words of Khuda ki Basti through an NGO HELP, Karachi, and sponsored treatment & rehabilitation of disabled persons at Subh-e-Nau, Lahore.

NBP also organized 20 Medical and Eye Camps in Villages in Rajunpur, Umerkot, Manga Mandi, Kasur, Gilgit, Fort Abbass, Nathiagali, Budni, Chamkani, Jhagra, Juma Vah, Garhi Doodou, Vehari, Gaddani and Winder. About 9,000 patients visited these camps and more than 6,000 received free medicines, eyeglasses and 350 cataract operations were performed.

NBP associated with various health institutions provided donation / equipments to:

- Marie Adelaide Leprosy Centre
- Memon Hospital
- Afzal Thalassemia Centre
- Carvan of life Pakistan Trust
- Medical Aid Foundation (Cancer Centre)
- Layton Rehmatullah Benevolent Trust (LRBT)
- Sundas Foundation
- Bin Qutub Foundation Chakwal
- Sindh Medical Institute of Urology Transplant (SIUT)
- Sir Ganga Ram Hospital, through Patients Aid Society
- Safina Welfare Hospital, Hangu-KPK
- Mayo Hospital, Lahore
- Ghulam Nabi Rind Development organization, Nawabshah
- Mukhtaran Rafiq Welfare Foundation, Lahore
- Fatimid Foundation (Kidney Centre), Quetta-Balochistan

CSR Initiatives-2012



Women, Child Welfare & Culture

NBP considers women empowerment essential and useful for the development of Pakistan. If women are provided education, economic independence and freedom to speak for themselves then they will be better mothers to their children and manage to add good citizens to our country.

NBP conducted vocational training program of stitching & embroidery for the women of flood affected families camped at Karachi and each participant was given sewing machine and training kits at the conclusion of training session. Similar sewing training programs were conducted for women of Darul Aman Abbottabad, Women Welfare organization of Sheikhpura, Balochi Training Centre in Lyari, District Industrial Home, Bahawalpur, Women Empowerment (WE) Gymkhana, Quetta and at Social Ittehad Centre, Mangopir, Karachi.

NBP sponsored Children Benefit Concert at PAF Museum, Awami Bus Service Benazir Transport scheme for Sialkot, Fund raising for literacy program of APWA and ASEAN Women & Friends. The bank sponsored sporting events for women like Benazir Hockey Tournament, Inter Club Women Football Championship. Women coaching camps of Hockey & Football at Quetta and Bait-ul-Mal Orphanage Sports Week.



CSR Initiatives-2012

Flood Relief

NBP is always the first corporate entity to come forward and help the nation whenever a calamity hits the country. In the recent floods of 2011-12 National Bank contributed Rs. 25 Million to the Prime Minister's Flood Relief Fund.

About Rs. 50 Million were spent by the Bank for establishment of medical camps in villages affected by the floods. Every medical camp treated around 1400-1700 affected persons per day. Further, NBP distributed 10,000 ration bags to flood affectees. NBP also provided tents & shelters worth Rs. 66.5 Million for the relief of flood affected people.



CSR Initiatives-2012

Special Persons

NBP also held the following various programs in association with various institutes/NGOs for special persons and provided following donations/equipments:

- Sports event for special children organized by Iqbal Memorial, Karachi
- Sponsored Wheelchair user's cricket tournament, Mirpurkhas,
- All Pakistan Blind Cricket Tournament, Bahawalpur.
- NBP T-20 Pentangular Cup 2012 at Karachi
- Provided auto riskshaws to NOWPDP through Network organizations
- Provided Wheelchairs through Society for Special Person Multan, Rajanpur, and Nawabshah Disability Forums
- Donation to Darul Sukun, Karachi
- Donation to Hayat-e-Nau, an NGO for special persons, Hyderabad



CSR Initiatives-2012

Sports

NBP emerged as the leading institution for promotion of sports in the country. The Bank has been patronizing various sports to create platform that encourages the youth of Pakistan to use their energy positively and raise image of the country all over the world. NBP provided employment to various national sports heroes, under whose guidance promising sportsmen have been sponsored, nurtured and trained. NBP enlarged its role by raising junior under-19 cricket, hockey and football teams under the stipend scheme.

During the year NBP Cricket team won the T-20 Corporate Cup while our Hockey team won the National Hockey Championship title.

The Bank sponsored about 55 events of Cricket, Hockey, Football, Squash, Badminton, Boxing, Soft-Ball, Rugby, Snooker, Golf and etc. throughout the country.



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, 2012 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 has been effectively implemented and monitored throughout the year. 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 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 11 and attended by the directors as follows:

Mr. S. Ali Raza (Till 5-3-2012)	Chairman	2
Mr. Qamar Hussain	As Chairman/President	7
	President	2
Ms. Nazrat Bashir (Till 21-5-2012)	Director	5
Mr. Tariq Kirmani	Director	11
Mrs. Haniya Shahid Naseem	Director	11
Mr. Aftab Anwar Baloch (From 21-5-2012)	Director	6
Mr. Shahid Aziz Siddiqi (From 23-7-2012)	Director	4
Mr. Zahid Hussain (From 23-7-2012)	Director	5

- (i) Value of investments of Employees' Pension Fund and Employees' Provident Fund as at December 31, 2012 (un-audited) were as follows:

(Rupees in '000)

Employees' Pension Fund	28,269,780
Employees' Provident Fund	12,448,399

Pattern of Shareholding

The pattern of shareholding as at December 31, 2012 is given in Annual Report.

Earnings per share

The basic and diluted after tax earnings per share for the year 2012 is Rs. 8.74.

Appointment of Auditors

The Board of Directors on the recommendation of the Board Audit Committee, has recommended M/s. KPMG Taseer Hadi & Co., Chartered Accountants and M/s. Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants to be the external auditors of the bank for the year ending December 31, 2013 in place of retiring auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants and M/s. Anjum Asim Shahid Rahman, Chartered Accountants at the fee being paid to the retiring auditors subject to approval by the share holders in the Annual General Meeting. Both the firms, eligible, have offered themselves for appointment.



Dr. Asif A. Brohi
Chairman / President

Date: February 25, 2013

Risk Management Framework

Risk Management in any business entity is a critical function which formulates risk policies to keep exposures within manageable limits in conformity to the institutions risk taking appetite.

Risk Management Group at NBP has been suitably structured, with the required independent reporting, a well defined risk charter, staffed with professionals having the requisite technical skills. Simultaneously, a Basel II Implementation Project is being executed under the guidance of external professional consultants, to significantly enhance risk management capacity across the full spectrum of the institution. This has enabled Risk Management Group to play a more effective role in the achievement of its objectives and assisting the Board and Senior Management to fulfill their responsibilities from the risk perspective. Risk management is viewed holistically, including Credit Risk, Market Risk, Liquidity Risk and Operational Risk.

National Bank of Pakistan is fully aware of its systemic and critical leading role in the sustainable economic development of Pakistan. Keeping this in mind, NBP's Board of Directors and Senior Management are fully committed to strengthening the risk management practices in NBP and an enabling risk structure as below:

- Board Risk Committee (BRC)
- Executive Risk Management Committee (ERMC)
- Independence of Risk Management Function from approvals.
- Representation of Risk Management in Asset Liability Committee (ALCO).
- Representation of Risk Management in Credit Committee (CC) is mandatory while discussing any policies, product plans, programs and portfolio reviews.

Under the umbrella of above, various initiatives were undertaken and achieved, some of which are listed below:

- Development and updating of the overall Risk Management Policy.
- Reviewing, refining and updating a wide range of policies and product programs.
- Regular periodic reporting and analytics of diversified facets to apprise and facilitate Senior Management and Board in decision making and strategy formulation.
- Facilitation of timely implementation of the remediation plan for the Basel II implementation project in NBP.
- Refining, developing and updating models for Internal Risk Ratings, scorecards, Duration, PVBP and Liquidity risk.
- Developing and updating Risk Tolerance/Concentration Policy Framework.
- Ensuring identification and incorporation of enhanced data fields to support a broad range of analytics and models, such as VAR, Duration, Liquidity Management, Stress Testing, ICAAP, Portfolio analytics etc.
- Refinement and cleansing of data for Basel-II, portfolio management, analytical reports and MIS for senior management and BoD.
- Broadening the scope of Credit Risk Review.
- Development of over 40 remediation plans with the assistance of external consultant for the implementation of Basel II in the bank.
- Revision and continuous improvement in policies and procedures.
- Development of Operational Risk Management Framework.
- Creating risk awareness culture by conducting workshops/training sessions.

To strengthen the risk management practices in the bank, NBP organized various orientation and discussion sessions during the year. In this regard, an orientation/ discussion session with members of the Board Risk Committee and Director- BSD, SBP was held during the year. Risk management has also been conducting discussion sessions across disciplines & training on loss data collection, RCSA for developing key risk indicators and data collection exercise for credit modeling and for improving the quality of data.

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 Regional Audit & Inspection 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 154 independent branch compliance officers in category III Branches and 29 Regional Compliance officers with supporting staff to take care of compliance related issues to strengthen the control environment.

For the year 2012 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 of Directors' Board Audit Committee, Board Compliance 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, the 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

Dated: February 25, 2013

Shariah Advisor's Report

For the year ended December 31, 2012

Alhamdulillah with the grace of Allah Taala, I have reviewed/examined on detailed basis, each class of transaction, the relevant documentation and procedures adopted by Islamic Banking Branches/Division (IBB & IBD NBP), and I hereby report that in my opinion;

- I) The business and overall affairs of IBBs-NBP carried out during the year 2012 are in accordance with Shariah principles and also these affairs are in compliance with SBP Shariah Guidelines. I have found the activities/transactions executed are in compliance with the guidelines issued by SBP and undersigned from time to time during the previous years and current year.
- II) The Islamic banking reported a loss of Rs 78 million as compared to the profit of Rs 72 million last year. Net Financing and investments have increased to Rs 3,297 million from Rs 3,119 million in last year. Increase in financing and investments were due to investment in deposit schemes with other Islamic Banks/Divisions during the year.

The profit and loss sharing scheme (PLS) was got audited by the external auditors to comply the SBP requirement. However, the PLS scheme was managed according to Shariah principles and the Shariah guidelines issued by the State Bank of Pakistan.

- III) There were no earnings pointed out during the year that have been realized from prohibited sources or void transaction (Fasid).
- IV) The staffs of IBBs were trained during 2012 in Islamic Banking and Finance as they were nominated to attend NIBAF and outsourced courses on Islamic banking and finance within the country.

May Allah Taala bless us with best "taawfeeq" 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

Karachi
Dated: February 25, 2013

Statement of Compliance with Code of Corporate Governance

For the year ended December 31, 2012

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 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 as per the provisions of the Bank's (Nationalization) Act, 1974. All the Directors (Except President /CEO) are non-executive Directors, including one independent Director representing minority shareholders as required by the Code. As at the year ended December 31, 2012 the Board includes : -

Category	Names
Independent Director	Mr. Tariq Kirmani
Executive Director	Mr. Qamar Hussain
Directors appointed by the Federal Government under section 11(3)(a) of The Bank's Nationalization Act 1974	Mrs. Haniya Shahid Naseem Mr. Aftab Anwar Baloch Mr. Zahid Hussain Mr. Shahid Aziz Siddiqui

2. The Directors have confirmed that none of them is serving as a Director in more than seven listed Companies including the Bank except Mr. Shahid Aziz Siddiqui who has been granted relaxation vide SECP's letter No. SLIC/INV/CCG/2012.
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, DFI or NBFIs or being a member of Stock Exchange, has been declared as defaulter by the Stock Exchange.
4. During the year Federal Government appointed Mr. Aftab Anwar Baloch in place of Ms. Nazrat Bashir on 21-5-2012 as Director on the Board of National Bank of Pakistan vide GOP, Finance Division, Notification No.F1(11Bkg-III/2000-1127 dated 11-5-2012.

Mr. Shahid Aziz Siddiqui & Mr. Zahid Hussain were appointed as Directors in terms of Section 11(3) (a) of Banks (Nationalization) Act, 1974 for a period of three years vide GoP, Finance Division, Notification No. F.10(31) Bkg-III/2010-1480 dated 23-07-2012.

Resignation of Mr. S. Ali Raza as Chairman Board of Directors was accepted by the GoP, Finance Division vide its Notification No.F.1(8) Bkg.III/2000-517 dated 05-03-2012.

Dr. Asif A. Brohi assumed the charge as President in terms of GoP, Finance Division, Notification No.F.1(5) Bkg.III/2011 dated 18.01.2013 vice Mr. Qamar Hussain who relinquished charge as President NBP as at close of office hours on 21-01-2013.

5. The Bank has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Bank as a guiding principle.

6. The Directors have confirmed that neither they nor their spouses are engaged in the Business of Stock Brokerage.
7. The Bank has prepared “Statement of Ethics and Business Practice” which is already approved by the Board of Directors.
8. The Board has approved the Vision, Mission, Core Values, Objectives and NBP Strategic Plan.
9. The Bank has comprehensive framework of written policies and procedures on all major areas of Operations such as Credit, Treasury Operations, Finance, Risk, Internal Audit and Compliance etc. Many of these policies have been approved by the Board and are being constantly reviewed.
10. 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.
11. All the Powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board.
12. The meetings of the Board of Directors were presided over by the Chairman. The Board met Eleven (11) times during the year. Written notices including agenda of the Board meetings were sent 7 days before the meeting except for emergent meetings and two meetings where agenda was sent within 7 days. The minutes of the meetings were appropriately recorded. After resignation of Mr. S. Ali Raza, the Federal Government has not appointed any Chairman of the Bank, in accordance with section 11(8) of Banks (Nationalization) Act, 1974, thus the President serves as the Chairman.
13. The CFO and the Company Secretary attended all meetings of the Board of Directors except for two meetings where leave of absence was granted to the CFO by the Board.
14. The Bank held orientation session for the directors in the year 2008 and two directors have completed their Corporate Governance Skill Programme prescribed by PICG.
15. The appointment of Financial Controller, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment are duly approved by the Board. According to the Bank’s organization chart, the Financial Controller is the top position in the finance department and therefore he performs the functions of Chief Financial Officer.
16. 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.
17. The Financial Statements of the Bank were duly endorsed by CEO and Financial Controller before approval of the Board.
18. 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.
19. The Bank has complied with all the Corporate and Financial Reporting requirements of the Code. In accordance with the requirement of 35 (x) of the listing regulations, all related party transactions have been reviewed and approved by the Board of Directors.

20. The 'closed period' prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).
21. Material /price sensitive information has been disseminated among all market participants at once through stock exchanges(s).
22. There is Board Audit Committee which comprises of four Non-Executive Directors and the chairman of the committee is an independent director.
23. The Board Audit Committee held 13 meetings as well as held meetings prior to the approval of Interim and Final Results as required by the Code. The minutes of each meeting were confirmed in the next meeting prior to circulation of the same to all members, directors, Head of Internal Audit and the CFO. 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.
24. 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.
25. There is Board HR Committee which comprises of four members of whom three are non-executive directors and the chairman of the committee is a non-executive director.
26. 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 (IFAC) on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
27. 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.
28. We confirm that all other material principles contained in the code have been complied.

On behalf of the Board of Directors



Dr. Asif A. Brohi
Chairman & President

Karachi

Dated: February 25, 2013

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

Anjum Asim Shahid Rahman

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

KPMG Taseer Hadi & Co.

Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi 75530, Pakistan


We have reviewed the Statement of Compliance with the Code of Corporate Governance (the Statement) prepared by the Board of Directors of National Bank of Pakistan ("the Bank") to comply with the 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 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.

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 prevailed in arm's length transactions and transactions which are not executed at arm's length price 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 31 December 2012.



Anjum Asim Shahid Rahman
Chartered Accountants



KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

Date: February 25, 2013

Independent Auditors' Report to the Members

Anjum Asim Shahid Rahman

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

KPMG Taseer Hadi & Co.

Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi 75530, Pakistan

We have audited the annexed unconsolidated statement of financial position of **National Bank of Pakistan** (“the Bank”) as at December 31, 2012 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the ‘financial statements’) for the year ended December 31, 2012, in which are incorporated the unaudited certified returns from the branches except for 80 branches which have been audited by us and 14 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 the 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 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 statement of financial position and the related 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 the 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 unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated 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, 2012 and its true balance of profit, its cash flows and its 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.



Anjum Asim Shahid Rahman
Chartered Accountants

Engagement Partner:
Muhammad Shaukat Naseeb



KPMG Taseer Hadi & Co.
Chartered Accountants

Engagement Partner:
Syed Iftikhar Anjum

Karachi
Date: February 25, 2013