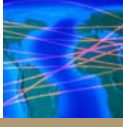


Annual Report of
ASKARI COMMERCIAL BANK LIMITED
for the year ended December 31, 2005



inspiring relationships

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inspiring relationships

“The power to inspire and be inspired”

A Decade of Performance

December 31	1996	1997	1998	1999	2000
Profitability					
Total income	2,306	3,319	4,035	3,889	3,840
Interest income	1,820	2,759	3,475	3,350	3,213
Interest expenditure	1,212	1,910	2,511	2,486	2,274
Fee, commission and exchange income	444	520	509	472	506
Other income	42	39	51	67	122
Spread	608	849	965	864	939
Operating expenses	357	461	569	589	680
Operating profit	737	948	956	814	886
Provision against non-performing assets	155	193	102	102	134
Profit before taxation	582	755	854	712	752
Taxation	344	444	495	430	436
Profit after taxation	238	311	359	282	316
Shareholders' funds					
Total shareholders' funds	1,581	1,775	1,937	2,046	2,155
Share capital	817	939	986	986	986
Reserves	764	836	951	1,060	1,229
Surplus on revaluation of assets	–	–	–	–	(60)
Liabilities					
Customers deposits	14,126	19,482	23,417	24,358	30,360
Refinance borrowings	1,529	1,908	2,194	3,145	2,882
Sub-ordinated loans	–	–	–	–	–
Other liabilities	670	906	1,184	1,477	3,058
Assets					
Advances	7,115	9,137	9,708	13,056	17,893
Investments	6,173	11,774	13,888	8,679	8,651
Cash, short term funds and statutory deposits with SBP	3,321	1,822	3,504	7,210	10,056
Operating fixed assets	288	480	501	536	641
Other assets	812	858	1,130	1,546	1,213
Total assets	17,709	24,071	28,731	31,027	38,454
Business transacted					
Imports	6.2	8.7	11.5	17.5	26.2
Exports	13.1	17.3	20.0	22.8	30.6
Guarantees	4.8	4.0	3.2	5.3	4.8
Ratios					
Return on average shareholders' funds (RoE)	19.2	18.5	19.3	14.2	15.0
Return on average assets (RoA)	1.6	1.5	1.4	0.9	0.9
Rate of cash dividends	–	12.5	20.0	17.5	15.0
Rate of bonus issue	15.0	5.0	–	–	5.0
Price earning ratio (P/E)	8.3	8.8	3.2	5.5	4.7
Advance to deposits (CDR)	50.4	46.9	41.5	53.6	58.9
Operating fixed assets to average shareholders' funds	23.3	28.6	27.0	27.0	30.5
Capital adequacy ratio (CAR)	–	18.4	16.9	13.0	11.9
Share information					
Earnings per share (EPS)*	2.90	3.30	3.60	2.90	3.00
Net assets per share	19.35	18.90	19.64	20.75	21.85
Market value per share	23.98	29.17	11.70	16.12	14.07
Other information					
Number of employees	796	946	996	1,001	1,147
Number of branches	23	26	27	28	29

* based on number of shares outstanding at each year end.

2001	2002	2003	2004	2005
Rupees in million				
5,047	5,704	5,028	6,121	10,333
4,251	4,858	4,074	4,487	8,781
2,902	3,017	1,380	1,117	4,278
677	599	638	708	839
119	247	317	925	713
1,349	1,841	2,694	3,370	4,503
854	1,093	1,438	1,845	2,594
1,291	1,595	2,210	3,158	3,461
283	351	308	315	602
1,008	1,244	1,902	2,843	2,859
458	557	799	920	837
551	687	1,103	1,923	2,022
2,579	4,173	5,047	6,016	8,587
1,036	1,087	1,142	1,256	1,507
1,521	1,940	2,760	4,317	5,862
22	1,146	1,145	443	1,218
41,200	51,732	61,657	83,319	118,795
3,222	3,392	7,329	9,777	9,778
–	–	–	1,000	3,000
3,980	11,016	11,354	7,055	4,940
23,292	30,035	44,778	69,838	85,977
11,706	26,737	22,104	17,239	25,708
13,436	10,061	15,099	15,936	27,489
723	1,663	1,980	2,595	3,193
1,824	1,817	1,426	1,560	2,733
50,980	70,313	85,387	107,168	145,100
Rupees in billion				
32.0	40.2	48.7	75.2	98.3
38.8	47.3	56.8	70.1	92.0
6.2	14.2	14.4	25.3	30.6
Percent				
23.2	20.3	23.9	34.8	27.7
1.2	1.1	1.4	2.0	1.6
20.0	20.0	20.0	20.0	15.0
5.0	5.0	10.0	20.0	33.0
2.5	4.5	5.3	6.1	9.6
56.5	58.1	72.6	83.9	72.4
30.5	49.3	43.0	46.9	43.7
10.7	12.0	9.9	8.5	11.0
Rupees				
5.30	6.32	9.66	15.31	13.42
24.90	38.38	44.21	47.90	56.98
13.25	26.85	51.50	94.00	126.80
Numbers				
1,281	1,456	1,723	2,118	2,754
36	46	58	75	99



Corporate Information

Board of Directors

Lt. Gen. Waseem Ahmed Ashraf
Chairman
Lt. Gen. (R) Zarrar Azim
Chairman Executive Committee
Mr. Kalim-ur-Rahman
President & Chief Executive
Brig. (R) Muhammad Shiraz Baig
Brig. (R) Muhammad Bashir Baz
Brig. (R) Asmat Ullah Khan Niazi
Brig. (R) Shaukat Mahmood Chaudhari
Mr. Kashif Mateen Ansari
Mr. Zafar Alam Khan Sumbal
Mr. Muhammad Afzal Munif, FCA
Mr. Muhammad Najam Ali, FCA
Mr. Tariq Iqbal Khan, FCA
(NIT Nominee)

Audit Committee

Brig. (R) Asmat Ullah Khan Niazi
Chairman
Brig. (R) Muhammad Shiraz Baig
Mr. Kashif Mateen Ansari

Company Secretary

Mr. Saleem Anwar, FCA

Auditors

A. F. Ferguson & Co.
Chartered Accountants

Legal Advisors

Rizvi, Isa, Afridi & Angell

Registered / Head Office

AWT Plaza, The Mall,
P. O. Box No. 1084,
Rawalpindi, Pakistan.
Tel: (92 51) 906 3000
Fax: (92 51) 927 2455
E-mail: webmaster@askaribank.com.pk
Website: www.askaribank.com.pk

Registrar & Share Transfer Office

M/s THK Associates (Private) Limited
Ground Floor, Modern Motors House,
Beaumont Road, Karachi, 75530
P. O. Box No. 8533, Karachi.
Tel: (92 21) 5689021, 5686658, 5685681
Fax: (92 21) 5655595

Corporate & Senior Management

Head Office

Kalim-ur-Rahman	<i>President & Chief Executive</i>
Tariq Mahmood, SEVP	<i>Group Head – Operations & Credit</i>
Shaharyar Ahmad, SEVP	<i>Group Head – Corporate & Investment Banking</i>
M.R. Mehkari, SEVP	<i>Group Head – Treasury and Financial Institutions</i>
Agha Ali Imam, SEVP	<i>Group Head – Retail Banking Group</i>
Hafeez R. Quraishy, EVP	<i>Divisional Head – Islamic Banking</i>
Suhail Rizvi, EVP	<i>Divisional Head – International</i>
Abdul Hafeez Butt, EVP	<i>Divisional Head – Credit</i>
Zahid Mahmood, EVP	<i>Divisional Head – Human Resource</i>
M. Munir Ahmed, EVP	<i>Divisional Head – Electronic Technology</i>
Rehan Mir, EVP	<i>Divisional Head – Treasury</i>
Tahir Aziz, EVP	<i>Divisional Head – Investment Banking</i>
A.J. Mubbashar, EVP	<i>Divisional Head – Risk Management</i>
Khalid M. Khan, SVP	<i>Divisional Head – Compliance & Data Reporting</i>
Saleem Anwar, SVP	<i>Divisional Head – Finance</i>
Farooq Abid Tung, SVP	<i>Divisional Head – Agriculture Credit</i>
Rana Shahid Habib, SVP	<i>Divisional Head – Internal Audit</i>
Hassan Aziz Rana, VP	<i>Legal Affairs</i>
Adil Zaidi, VP	<i>Divisional Head – Systems & Operations</i>
Raja Waheed Zaman, VP	<i>Divisional Head – Credit Cards</i>
Faheem A. Qureshi, VP	<i>Retail Banking Assets</i>
Anwaar Sheikh, VP	<i>Corporate Banking – Lahore</i>
Arshad Ali Khan, VP	<i>Corporate Banking – Karachi</i>
Mohammad Ali Khan, VP	<i>Corporate Banking – Rawalpindi / Islamabad</i>
Khurram Dar, AVP	<i>Offshore Banking Unit, Bahrain</i>
Shahid Siddiqui, AVP	<i>Investment Products</i>

Regions / Areas

Ejaz Ahmed Khan, SEVP	<i>Regional General Manager – Lahore & East</i>
Nazimuddin A. Chaturbhai, EVP	<i>Regional General Manager – South I & II</i>
Saif-ul-Islam, EVP	<i>Regional General Manager – Rawalpindi / Islamabad</i>
Israr Ahmed, EVP	<i>Area Manager – North</i>
Tariq Siddique Ghauri, VP	<i>Area Manager – West</i>

Pakistan's Economic Profile

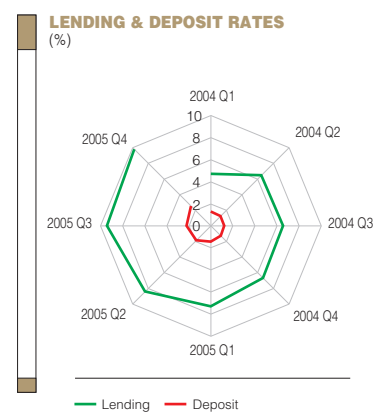
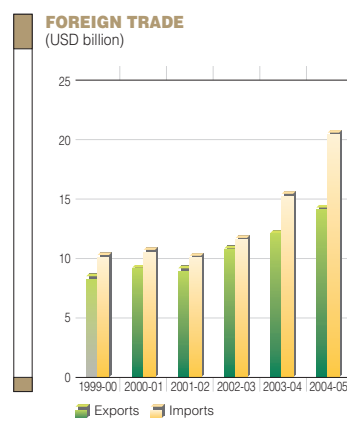
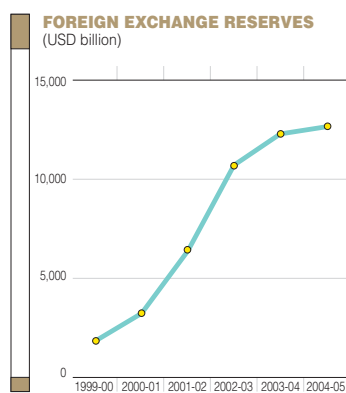
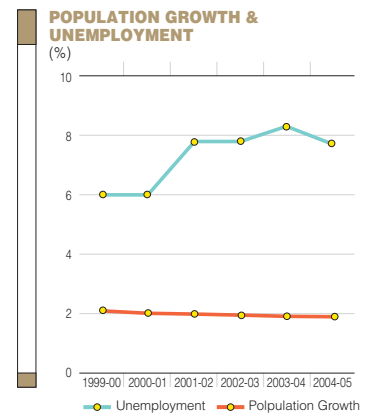
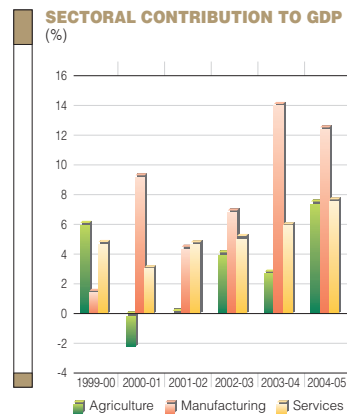
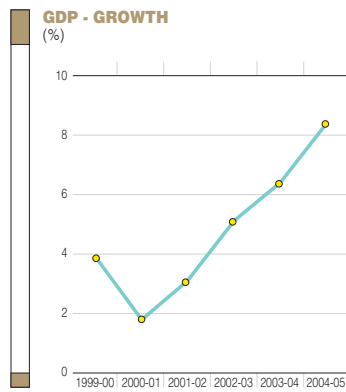


Key country statistics

Land area (sq. km.)	796,100
Population (million)	152.5
Population growth (%)	1.9
Population density (population / sq. km.)	192
Life expectancy (years)	64
Literacy (%)	54

	2002-03*	2003-04*	2004-05*
Major economic indicators			
GDP Growth (%)	5.1	6.4	8.4
GDP - at factor cost (Pak Rs. billion)	3,895	4,144	4,480
GDP - at market prices (Pak Rs. billion)	4,821	5,458	6,673
Inflation (%)	3.1	4.6	9.3
Trade balance (USD million)	(1,060)	(3,279)	(4,515)
Current account balance - ex. official transfers (USD million)	3,165	1,313	(1,811) _{est.}
Foreign currency reserves - fiscal year end (USD million)	10,719	12,328	12,626
Exchnage rate - fiscal year end (USD)	57.81	58.15	59.67
(Euro)	66.10	70.90	72.14
Banking system - at fiscal year end			
Network of commercial banks (Pak Rs. billion)	112	131	195
Total assets of banking system (Pak Rs. billion)	2,540	3,003	3,350
Return on assets (after tax) - % age	1.1	1.2	1.4
Stock market - at fiscal year end			
KSE 100 index	3,402	5,279	7,450
Market capitalization (Pak Rs. billion)	746	1,357	2,013

* Pakistan's fiscal year starts on July 1 and ends on June 30



Brief History



Askari Bank was incorporated in Pakistan on October 9, 1991, as a public limited company. It commenced operations on April 1, 1992, and is principally engaged in the business of banking, as defined in the Banking Companies Ordinance, 1962. The Bank is listed on the Karachi, Lahore and Islamabad Stock Exchanges and currently its share is the highest quoted from among the new private sector banks in Pakistan.

Askari Bank has expanded into a nation-wide presence of 98 branches, and an Off-Shore Banking Unit in Bahrain. A shared network of over 1,100 online ATMs covering all major cities in Pakistan supports the delivery channels for customer service. As at December 31, 2005, the Bank had an equity of PKR 8.6 billion and total assets of PKR 145.1 billion, with over 600,000 banking customers, serviced by our 2,754 employees.

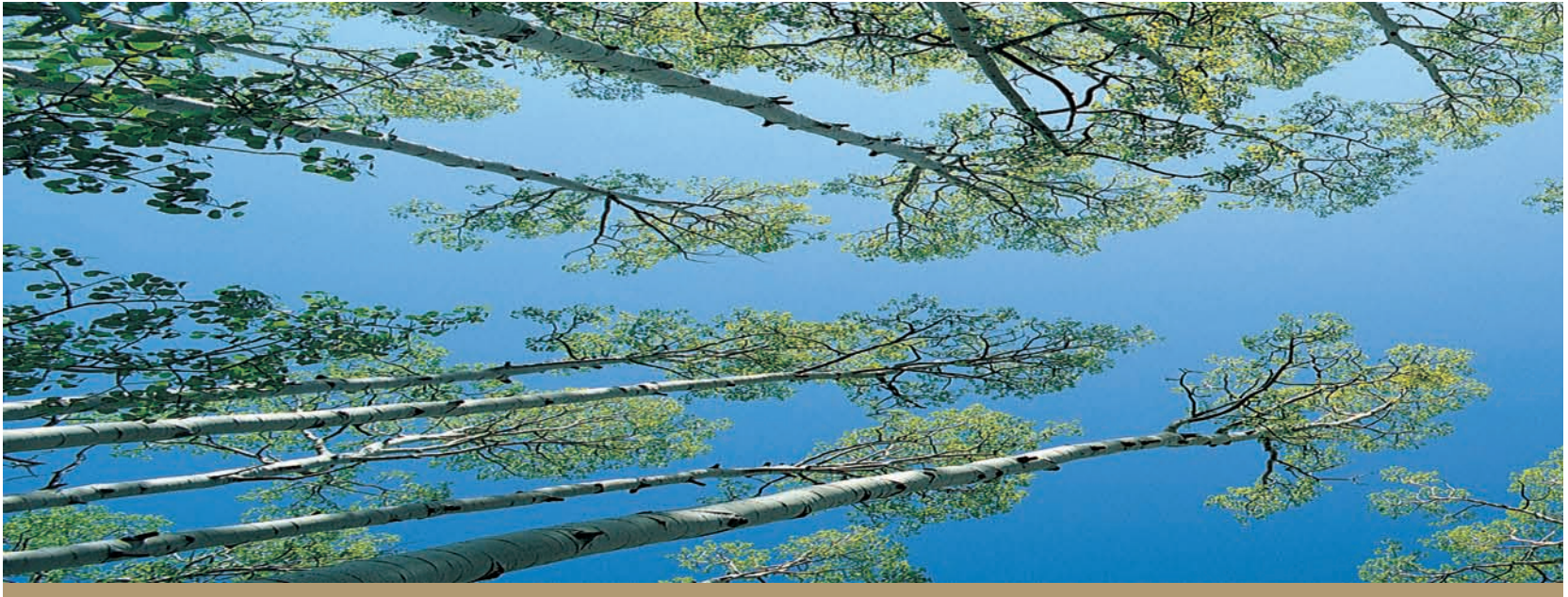


Vision

To be the Bank of First Choice in the Region

Mission

To be the **leading private sector bank** in Pakistan with an **international presence**, delivering **quality service** through **innovative technology** and effective **human resource management** in a **modern** and **progressive organizational culture** of **meritocracy**, maintaining **high ethical** and **professional standards**, while providing **enhanced value** to all our stakeholders, and **contributing to society**.



Objectives

- To achieve sustained growth and profitability in all areas of business.
- To build and sustain a high performance culture, with a continuous improvement focus.
- To develop a customer-service oriented culture with special emphasis on customer care and convenience.
- To build an enabling environment, where employees are motivated to contribute to their full potential.
- To effectively manage and mitigate all kinds of risks inherent in the banking business.
- To maximize use of technology to ensure cost-effective operations, efficient management information system, enhanced delivery capability and high service standards.
- To manage the Bank's portfolio of businesses to achieve strong and sustainable shareholder returns and to continuously build shareholder value.
- To deliver timely solutions that best meet the customers' financial needs.
- To explore new avenues for growth and profitability.

Strategic Planning

- To comprehensively plan for the future to ensure sustained growth and profitability.
- To facilitate alignment of the Vision, Mission, Corporate Objectives and Corporate Philosophy, with the Business Goals and Objectives.
- To provide strategic initiatives and solutions for projects, products, policies and procedures.
- To provide strategic solutions to mitigate weak areas and to counter threats to profits.
- To identify strategic initiatives and opportunities for profit.
- To create and leverage strategic assets and capabilities for competitive advantage.



Business Ethics & Conduct

Askari Bank seeks to maintain high standards of service and ethics enabling it to be perceived as impartial, ethical and independent. In addition to the general guidelines, the following are the salient features of the Bank's code of ethics and conduct.

- Presence of a **corporate culture** that seeks to create an environment where all persons are treated equitably and with respect.
- Employees must carry out their responsibilities in a **professional** manner at all times. They must act in a prudent manner and must avoid situations that could reflect unfavorably on themselves, the Bank or its customers.
- Employees must commit to the continued development of the service culture in which the Bank consistently seeks to exceed customers' expectations. Fairness, Truthfulness and Transparency govern our **customer relationships** in determining the transactional terms, conditions, rights and obligations.
- Employees must safeguard **confidential** information which may come to their possession during the discharge of their responsibilities. Respect for customers' confidential matters, merits the same care as does the protection of the Bank's own affairs or other interests.
- Employees must ensure that **know your customer** principals are adhered by obtaining sufficient information about the customers to reasonably satisfy ourselves as to their reputation, standing and the nature of their business activities.
- Employees must avoid circumstances in which their personal **interest conflicts**, or may appear to conflict, with the interest of the Bank or its customers. Employees must never use their position in the Bank to obtain an advantage or gain.
- Employees must not enter into an agreement, understanding or arrangement with any **competitor** with respect to pricing of services, profit rates and / or marketing policies, which may adversely affect the Bank's business.
- Employees must not accept **gifts, business entertainment or other benefits** from a customer or a supplier / vendor, which appear or may appear to compromise commercial or business relationship.
- Employees must remain alert and vigilant with respect to **frauds, thefts or illegal activities** committed within the Bank premises.

Awards & Achievements

Over the years, we have received several awards for the quality of our banking service to individuals and corporate. These include:

Commercial Bank of the Year

awards for 1994 & 1996
from the Asiamoney magazine

Best Domestic Bank of Pakistan

award for 1995
from the Euromoney magazine

The Best Bank in Pakistan

awards for 2001 & 2002
from the Global Finance magazine

Best Consumer Internet Bank in Pakistan

awards for 2002 to 2004
from the Global Finance magazine

Best Corporate / Institutional Internet Bank in Pakistan

award for 2004
from the Global Finance magazine

Best Retail Bank in Pakistan

awards for 2003 & 2004
from the Asian Banker, Singapore

Corporate Excellence

awards for 2002 to 2004
from the Management Association of Pakistan (MAP)

Bank of First Choice

award for 2004
from the Consumer Association of Pakistan

Best Corporate Report, for the Financial Sector

1st prizes for 2000 to 2004
from the Institute of Chartered Accountants of Pakistan (ICAP)
and the Institute of Cost & Management of Accountants of Pakistan (ICMAP)

Best Presented Accounts

Ranking prizes (2nd or 3rd) for 1997 to 2002 & 2004
from the South Asian Federation of Accountants (SAFA), for
the whole South Asian Region

The Best Presented Annual Report

1st prizes for 1997 to 2004
from the National Council of Culture & Arts (NCCA)

Askari Bank has also proved its strength as a leading banking sector entity, by achieving the following 'firsts' in Pakistani banking:

- i) First Bank to offer on-line real-time banking on a country-wide basis
- ii) First Bank with a nation-wide ATM network
- iii) First Bank to offer internet banking services
- iv) First Bank to offer e-commerce solutions
- v) First Bank to introduce mobile ATM



Mr Kalim-ur-Rahman, President Askari Bank, receiving award for 'Best Retail Bank' for 2004 at Beijing, China.



Mr Kalim-ur-Rahman, President Askari Bank, receiving 'Corporate Excellence' award for 2004



Mr Kalim-ur-Rahman, President Askari Bank, receiving award for 'Bank of First Choice' for 2004.



Mr Saleem Anwar, Chief Financial Officer Askari Bank, receiving ICAP/ICMAP's 'Best Corporate Report' award for 2004.



Mr Saleem Anwar, Chief Financial Officer Askari Bank, receiving SAFA's 'Best Corporate Report' award for 2004 at Katmandu, Nepal.

Entity Ratings

Askari Bank has following entity ratings from Pakistan Credit Rating Agency Limited (PACRA):

Long term **AA+**

Short-term **A1+**

AA+
Long-term

A1+
Short-term



Inspiring Relationships



Inspiring 600,000 relationships:

Knowing our customers and their needs is the key to our business success. Our products and services are as diverse as our market segments. Our client relationship managers are well equipped and well trained to provide the most efficient and personalized service to the customers. We have structured and syndicated financing arrangements, provided working capital and balancing-modernization-replacement (BMR) facilities, financed international trade, provided small business loans and cash management services, and developed innovative investment and loans products for the individual savers and households. Askari Bank is proud of its pioneering role in providing the most modern and technologically advanced services to its 600,000 relationships.

Inspiring employee relationships:

We strongly believe that the interests of the Bank and the employees are inseparable. At Askari, we try to create a 'we' culture where there is mutual trust and respect for each other. We encourage ownership behavior so that everyone feels responsible for the performance and reputation of the Bank. We are committed to develop and enhance each employee's skills and capabilities through extensive in-house and external training programs and job rotation. The strong employee bank relationship is evidenced by the fact that Askari has a low employee turnover. Most of the top management today, have reached their present positions by growing within the organization.

Inspiring technological innovations:

Technology has played a pivotal role in meeting customer expectations, particularly with respect to speed and quality of service. We have fully automated transaction-processing systems for back-office support. Our branch network is connected on-line real-time and our customers have access to off-site as well as on-site ATMs, all over Pakistan. Our Phone Banking Service and Internet Banking Facility allows customers to enjoy routine banking services from anywhere anytime in the world. We also pioneered an e-commerce venture in Pakistan through a major retail distributor. Our mobile ATMs are the first in Pakistan.



Inspiring ethical values:

Integrity is the most valued standard in whatever we do. We understand that our commitment to satisfy customers' needs must be fulfilled within a professional and ethical framework. We subscribe to a culture of high ethical standards, based on the development of right attitudes. The intrinsic values, which are the corner stones of our corporate behavior, are:

- Commitment
- Integrity
- Fairness
- Team-work
- Service

Inspiring growth:

For us the challenge is to build a foundation of strong, consistent financial performance and focus on growing our balance sheet and revenues at low risk. During the year, we opened twenty four fully automated branches, increasing our branch network to 99, including an Offshore Banking Unit in Bahrain. Central to our growth strategy is a focus on specialization and transformation. We are reshaping our portfolio of businesses by investing in higher growth areas, extending and developing our core competencies and moving out of weak and non-core segments.

Inspiring shareholder confidence:

We believe that the bottom line of any business is creating shareholder value. To gain their trust and confidence, we believe in providing our shareholders timely, regular and reliable information on our activities, structure, financial situation and performance. At the same time, we try to give them one of the best earnings per share in the banking industry of the country.

Corporate Social Responsibility



A visual park developed at a roundabout in F-10, Islamabad.



Polo championship sponsored by Askari Bank.



Group photo of Askari Bank's cricket team, winners of Regional SBP Governor's Cricket Tournament.



Askari Bank sponsored Chief of the Army Staff International Squash Tournament.

As a committed corporate citizen, Askari Bank contributes to different areas of the social sector in various ways which help improve the quality of life in our country.

On October 8, 2005, the nation faced its worst natural disaster. Askari Bank responded swiftly through a donation of Rs.30 million to the President of Pakistan's Relief Fund for earthquake victims and also established relief centers at all its branches throughout the country to collect donations in cash and kind. The staff also contributed one to three days' salary for direct relief to the earthquake effectees. Askari Bank thus stood by the nation in its hour of need.

We also co-sponsored different charity events organized within the country for tsunami victims.

We believe in encouraging sports at every level. During 2005, Askari Bank participated in the 'First All Pakistan SBP Governor's Cricket Tournament' and emerged as the winners of the regional tournament and runners-up in the all Pakistan tournament. We were the sole sponsors of the '46th National Swimming Championship' and '6th Water Polo Championship' held in Islamabad. We also sponsored, or co-sponsored, several golf and other tournaments around the country.

Other major contributions to the society include the financing for development of parks, roundabouts, gymnasiums, industrial exhibitions, fundraisers and tourism festivals.

We co-sponsored a quadriplegic for the 'New York City Marathon 2005' where he represented Pakistan in the Special Persons category.

Health issues have been a particular concern to us. Contributing towards the campaign against pollen allergy in the Capital city over the past couple of years, Askari Bank again participated in the campaign during the year. We have been a regular supporter of Pakistan Foundation Fighting Blindness and Al Shifa Eye Trust, to assist in their fight against blindness and eye diseases.

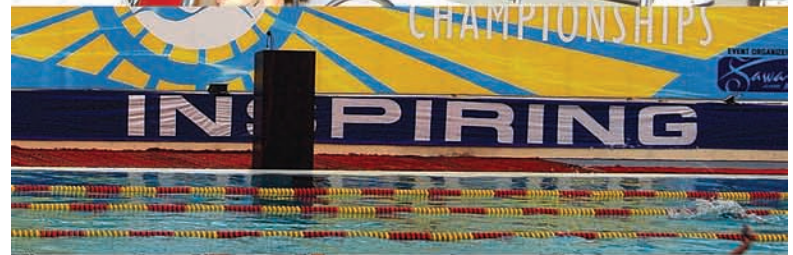
Askari Bank, in its quest for the equal rights and empowerment of women, continued to support NGOs like Behbud Association of Pakistan, which are working on issues related to the welfare of women.



Askari Bank co-sponsored Mr. Sarmad for the New York City Marathon 2005.

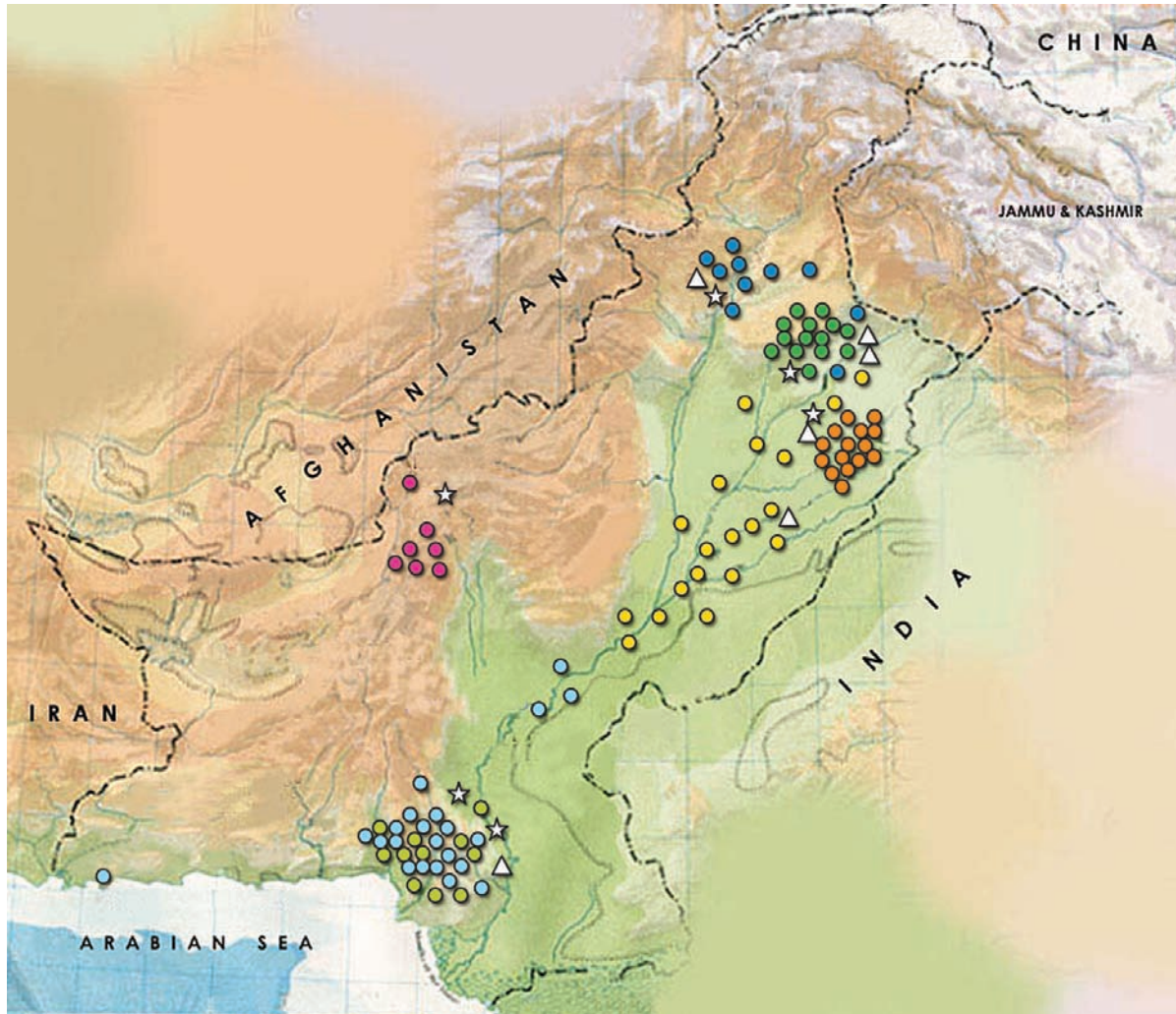


Pakistan's pro-golfer, Mr. Muhammad Muneer in action.



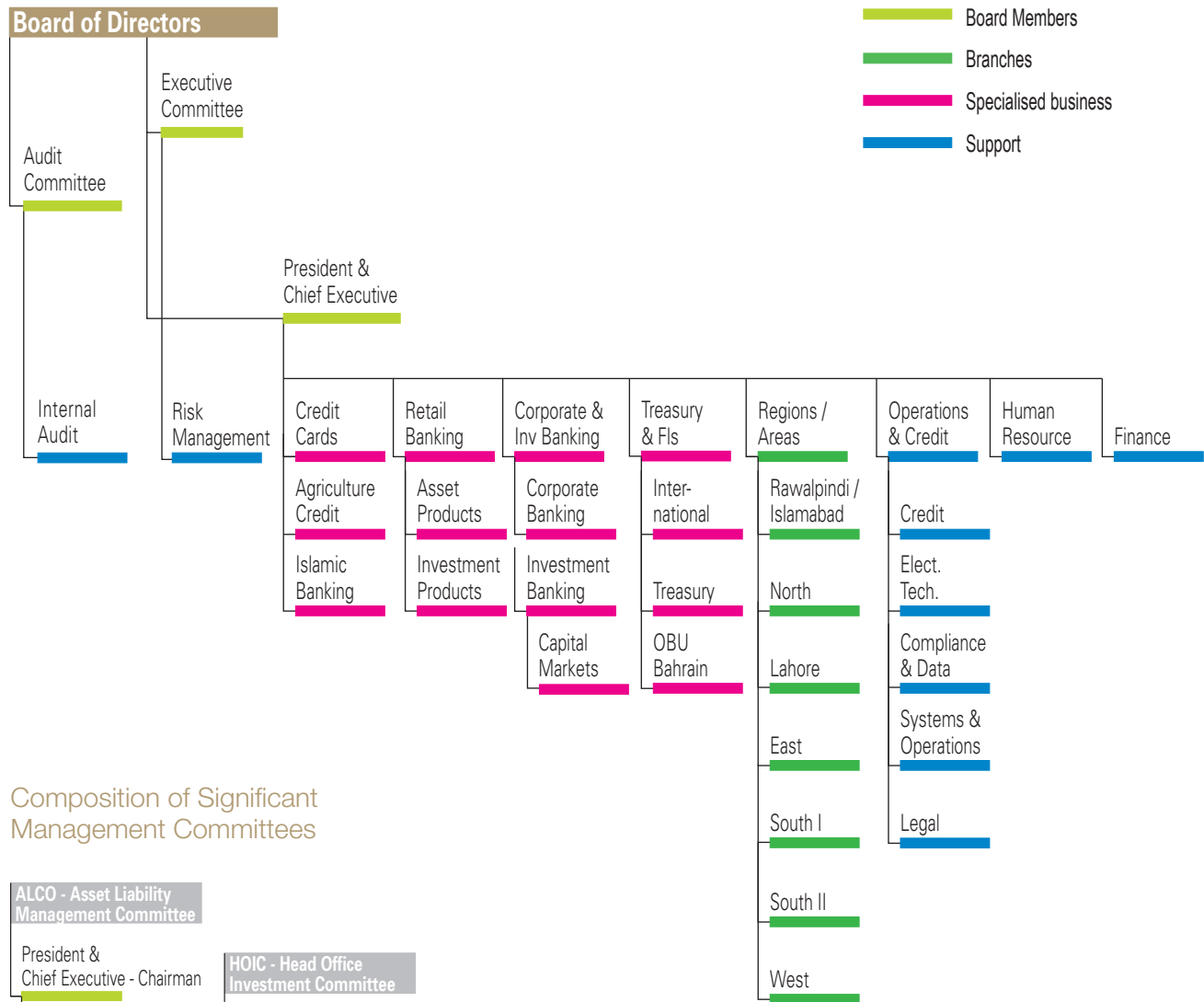
Glimpses of Askari Bank sponsored 46th National Swimming Championship and 6th Water Polo Championship.

Nation-wide Distribution of Branches / Regions / Areas and Operating Units

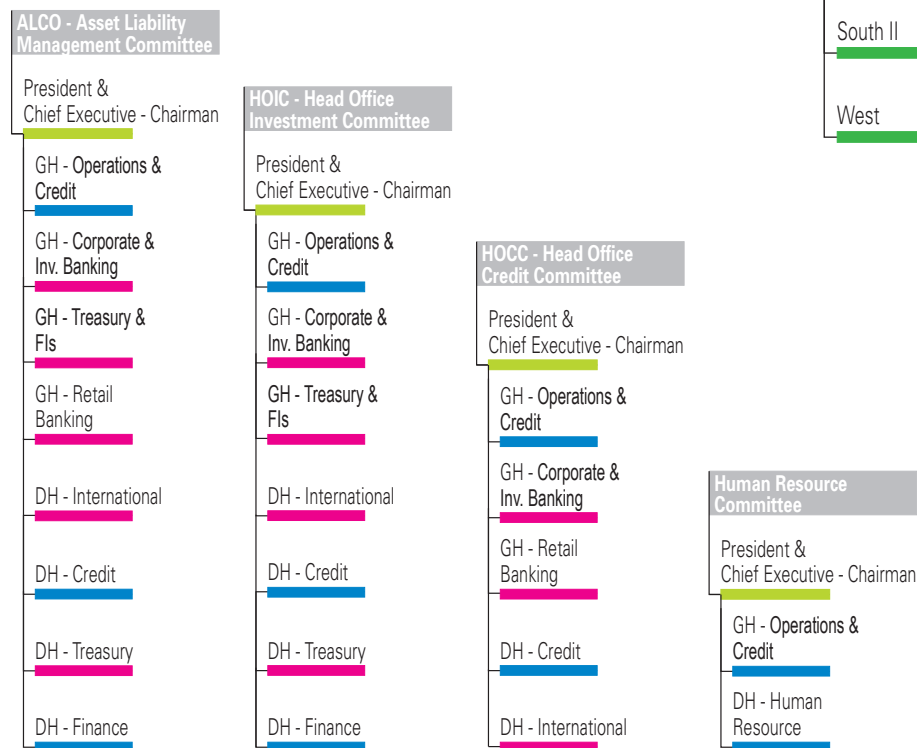


● Rawalpindi/Islamabad Region	14
● North Area	10
● Lahore Region	15
● East Region	19
● South I Region	22
● South II Region	11
● West Area	7
● Offshore Banking Unit in Bahrain	1
○ Total Branches	99
△ Credit Card Centres	6
☆ Retail Banking Centres	6

Organogram



Composition of Significant Management Committees



GH - (Group Head)
DH - (Divisional Head)

President's Message



By the Grace of Allah, 2005 proved to be another record year for Askari Bank. The Operating Profit of the Bank increased by 31%, to Rs.3.461 billion, against the comparable Operating Profit of Rs.2.646 billion – excluding one-off capital gains realized in 2004. The after-tax profit increased to Rs. 2.022 billion from Rs.1.923 billion last year, an increase of 5%, while on a comparable basis, the year on year increase in after-tax profits was 43%. At the same time, it would be relevant to mention that there were unrealised capital gains of over Rs. 1.2 billion in 2005 which have been carried forward to 2006 to meet the additional paid-up capital requirements for this year.

The external factors contributing to this performance include a growing economy, overall positive market sentiment and political stability, while the internal factors continue to be efficient management of assets and liabilities, effective control over operating expenses, introduction of market oriented products, customization of existing products and strategic expansion of branch network.

Askari Bank is consistently focused on building long term shareholders' value, as the primary objective. The strength of our brand name, supported by strategic expansion and the depth of our customer relationships, gives us a strong foundation on which to build and continue growing in the times ahead.

The key elements of our strategy have been to increase our market share, mobilize our resources, develop retail, agriculture and Islamic banking, introduce fresh initiatives for corporate and investment banking, capitalize on new business opportunities and implement various technology initiatives.

The first half of 2005 saw a progressive rise in benchmark rates, which stabilized during the 2nd half of the year. This trend was mainly attributable to the tightening of monetary policy enforced by the Regulator to curb inflationary pressures. Despite the gradual rise in benchmark rates during the year, the net credit to private sector continued to grow well above the estimates. During the year, Askari Bank re-priced its advances and investments in line with the rise in benchmark rates. However, the impact of this re-pricing was marginal on the net spread, due to a corresponding increase in returns to the depositors. The Bank continued its focus on development of retail credit and agriculture credit, where spreads have been better than the conventional credit. Also, significant contribution to the profits of 2005 came from non mark-up revenues that increased by 38% on a comparable basis. While the credit expansion was strong and well diversified, and yielded better returns, the Bank's non-performing loans (NPLs) increased significantly during 2005, mainly on account of three problem accounts. Even so, the gross NPLs were 2.7% of the total loans and advances, which is in line with the industry average. Efforts are nevertheless underway to retrieve the situation by effecting recoveries. Meanwhile, the NPLs remain fully covered by the relative provisions and reserves for contingencies.

Our primary focus remains on improved risk management which we consider to be one of the essentials for sustainable success in our business. Based on the risk management guidelines issued by the State Bank of Pakistan (SBP), a risk management strategy has been developed for assessing, and mitigating / controlling risks. The process involves detailed study of the existing risk review and risk management functions within the Bank and is being jointly carried out with consultants to add market expertise to the in-house experience. The process is planned to be completed within

1st quarter of 2006 and will thereafter be implemented with required changes in the existing risk management framework, as and where warranted. An independent Risk Management Division has already been established to oversee the whole exercise and implement the recommendations. Meanwhile, potential risks are already been monitored using the traditional methods.

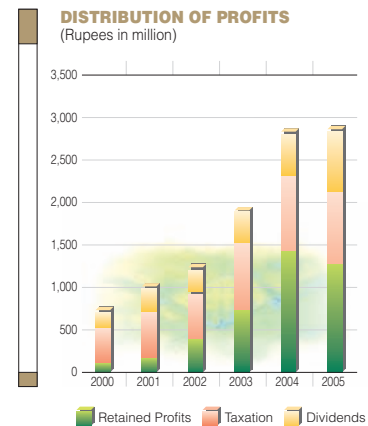
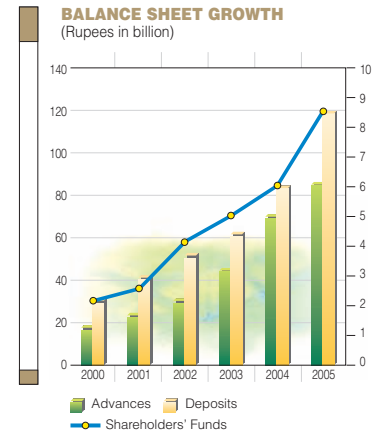
Our Corporate and Investment Banking team has been strengthened and is now well positioned to service large corporates and multinational companies through syndicated finance, advisory services, discretionary investor relations, in addition to trading in debt and equity markets. The Corporate and Investment Banking Group successfully concluded the launch of Bank's first Asset Management Company – Askari Investment Management Limited (AIML), a wholly owned subsidiary of the Bank. After the initial set-up phase, AIML is now geared for full scale operations and has already launched its first open-ended mutual fund – Askari Income Fund.

Our Retail Banking Group gathered further momentum during 2005 and further increased its share in both business volumes and earnings of the Bank. The Group recognizes innovation and service as the real differentiators in the retail banking business and has devised various products and services for its customer base. The Group was also benefited by a dedicated advertising campaign launched during 2005. While new products are being added, the distribution channels are also being increased and currently six customer service centers operate in major cities to serve retail banking customers. We believe that Askari Bank is well poised to increase its share of the retail banking market which still offers opportunities for growth.

Askari's credit card, using the MasterCard brand, had sold more than 200,000 cards by the end of 2005. This unit is run as a Strategic Business Unit (SBU) headquartered in Karachi and is aided by six card centers in major cities. Since its launch, Askari MasterCard has been a source of great convenience to our valued customers, and a substantial contributor to our profits.

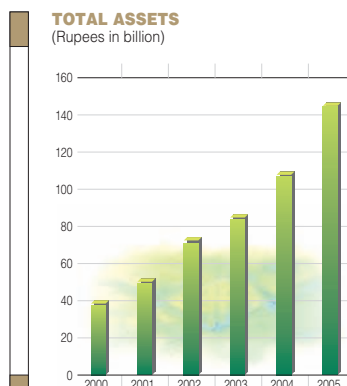
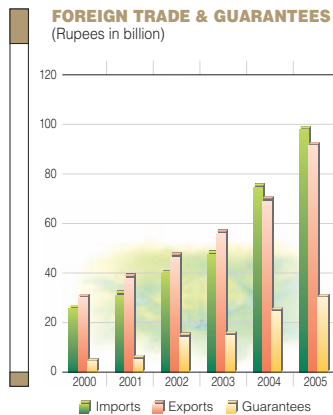
The Bank's Off-shore Banking Unit (OBU) based in the Kingdom of Bahrain, completed two years of operations and continued to make positive contributions to the Bank's overall earnings. Our OBU provides a platform to benefit from the business opportunities available in the international market.

Agriculture Credit Division of the Bank, strategically headquartered in Lahore, continued to serve its customer base through various branches located in the small to medium sized cities of Punjab and a few in Sind. Since its launch in 2004, the division has strengthened its operations and has devised various innovative agriculture credit products under the Askari Kissan Agri Finance Program, which



gained quick market acceptance and penetration. After expanding its reach to most of the agricultural areas of Punjab, the Division is poised to expand agriculture financing in the other provinces of the country.

Continuing with our commitment to offer new and improved services to our customers, Askari Bank will soon be launching Islamic Banking products and services through dedicated Islamic Banking branches. We believe that Islamic Banking will further expand our outreach and capabilities by offering products to suit the preference of some of our valued customers for Shariah based financial transactions.



We continue to strive for the best in offering technology based solutions to our valued customers and maintaining sound control environment. The Askari Customer Care Center - a dedicated customer call center which became operational on an experimental basis during 2004, was formally inaugurated in 2005. It aims at providing one window service to our valued customers in terms of their telephonic enquiries and transactions. Askari Bank co-founded the ATM switch, 'One-Link', the first ATM switch in Pakistan. This switch is now also linked to M-net, the second switch in the country. As a result, the Bank's customers can now access their

accounts through more than 1,100 online ATMs throughout Pakistan. During the year, the Bank launched the first Mobile ATMs in the country. Using wireless GPRS technology, these 'ATMs on wheels' can be placed at strategic locations at peak times to serve the customer needs. The Bank's 'Data Warehouse' has become operational and is being fine tuned for providing the management with accurate, up-to-date information enabling them to make timely and prudent decisions.

Our progress in the field of Retail Banking was also recognized internationally as the Bank won The Asian Banker award for the 'Best Retail Bank in Pakistan' for 2004, after winning the same award for 2003. Your Bank is the first bank in Pakistan to have won these awards. The Bank won 'The Best Corporate / Institutional Internet Bank in Pakistan' and 'The Best Consumer Internet Bank in Pakistan' awards for 2004, from The Global Finance – an international magazine of high repute. The Bank has also won the 'Bank of First Choice' award for 2005 from the Consumer Association of Pakistan.

Askari Bank recognizes its employees as the prime asset and key contributors to the performance of the Bank and places great emphasis on the attraction, development, and motivation of its employees. Operational success requires matching of operational strategies with that of quality human resource. Retention of high quality human resource and maintaining quality recruitment are the fundamentals to good organizational growth. During the year, the compensation package was substantially improved in order to enhance employees' motivation and loyalty. Our human resource management objective remains to increase the contribution from the employees to the Bank's value addition while maintaining high ethical and professional standards. For this purpose, various initiatives are being implemented, including improved training and career development, and stimulating employee initiative, innovation, commitment and work efficiency. We are also focusing on developing an organization culture which will enhance employee synergies for achieving excellence in all we do.

The management and staff worked tirelessly to achieve the tremendous results during 2005. I take this opportunity to thank all members of the management and staff for a job well done.

Whatever we have achieved would not have been possible without the patronage and support of our valued customers, which we greatly appreciate and acknowledge.

Our Board of Directors took keen interest in the affairs of the Bank and in the formulation of policies. I would like to thank them for the guidance and counsel they extended to the management in conducting the affairs of the Bank.

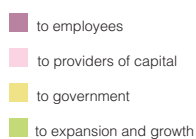
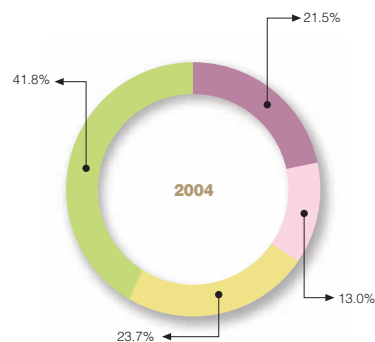
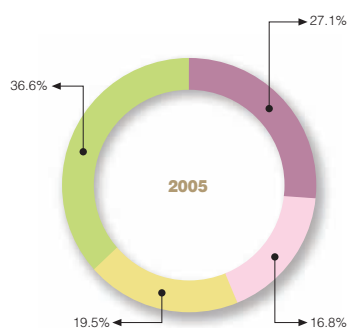


Our entrepreneurial culture, strong brand and highly motivated staff will ensure that we continue to seek out new growth opportunities in pursuit of our stated objectives of adding to the stakeholders' value, and contributing to the economy and the society in which we operate.

Kalim-ur-Rahman
President & Chief Executive

Value Added Statement

	2005		2004	
	Rupees in thousand	Percent	Rupees in thousand	Percent
Value Added				
Income from banking services	9,403,540		5,767,580	
Cost of services	4,548,733		1,614,060	
Value added by banking services	4,854,807		4,153,520	
Non-banking income	43,688		39,176	
Provision against non-performing assets	(601,992)		(315,471)	
	4,296,503		3,877,225	
Value Allocated				
to employees				
Salaries, allowances & other benefits	1,162,232	27.1%	834,574	21.5%
to providers of capital				
Cash dividend	226,053		251,170	
Bonus shares	497,315		251,170	
	723,368	16.8%	502,340	13.0%
to government				
Income tax	837,085	19.5%	919,700	23.7%
to expansion and growth				
Depreciation	275,190		199,911	
Retained in business	1,298,628		1,420,700	
	1,573,818	36.6%	1,620,611	41.8%
	4,296,503	100.0%	3,877,225	100.0%





inspiring relationships

Significant Events in 2005



During February, 2005, Askari Bank launched deposits mobilization campaign titled 'Everybody A Winner'.



Askari Bank won The Best Retail Bank award for 2004 in a ceremony held in Beijing, China.

— Jan —

— Feb —

— Mar —

— Apr —

— May —

— Jun —



13th Annual General Meeting of the Bank was held on March 28, 2005 in which 20% cash dividend and 20% bonus shares were approved.



Askari MasterCard launched the first & only Platinum MasterCard in Pakistan.



Askari Bank led a syndicate financing agreement for Vision Network Television Limited, a company engaged in broadcasting of a 24 hours business news channel under the name of CNBC Pakistan.



Lt. Gen. Waseem Ahmed Ashraf, Chairman of the Board of Directors of Askari Bank, inaugurating the first mobile ATM.



Mr. Kalim-ur-Rahman, President & Chief Executive, Askari Bank receiving 'Bank of First Choice' award from Consumer Association of Pakistan.



Askari Bank received the Islamic Banking license from State Bank of Pakistan. Mr. Hafeez A. Quraishy, Divisional Head Islamic Banking, receiving the Islamic Banking license from Mr. Pervaiz Said, Director, SBP.



Askari MasterCard & Nexus Automotive (distributors of chevrolet cars), signed an agreement of strategic alliance. Under this agreement, Askari MasterCard members can purchase chevrolet cars on their credit card and Nexus offers Askari MasterCard holders certain discounts.

Jul

Aug

Sep

Oct

Nov

Dec



Tele Care Center at Islamabad being inaugurated by ex-Managing Director, Army Welfare Trust, Lt.Gen. (R) Masood Parwaiz.



Annual Planning Conference of the Bank was held on December 9 & 10, 2005 to review performance and plan for the next year.



Launching of Askari MasterCard & Paktel Deal 'Deal Tu Aik Hai'.



Askari Bank's first wholly owned subsidiary, Askari Investment Management Limited, commenced its operations.

Business and Operations Review



During 2005, Askari Bank continued with its growth momentum and posted substantial profits in an environment of good economic growth but highly competitive business conditions.

The economic growth was propelled by the above-target contributions from the three major sectors, i.e., large scale manufacturing, agriculture and services. The low interest rates, particularly during the first half of fiscal 2005, growing demand for consumer credit, increased credit access, revitalization of the construction industry and growth in large scale manufacturing, were the main factors behind the phenomenal expansion in net private sector credit, which increased by Rs. 429 billion during fiscal 2005, against the estimates of Rs.350 billion. The increase in consumer credit also had an expansionary effect on corporate finance, as the demand for automobiles and consumer durables, particularly electronic items, pushed up production in these sectors.



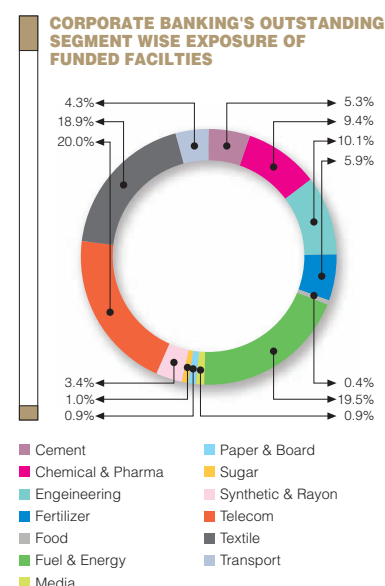
In a highly competitive environment, Askari Bank continually reviewed its policy pertaining to the sectoral exposures to derive optimum competitive advantage, maintain the risk profile and achieve greater customer satisfaction. Accordingly, Askari Bank's corporate / commercial business accounted for 59% of the total credit disbursed during the year, followed by SME at 25%, Retail and Agriculture credit at 10%, and commodity financing at 6%.

Corporate and Investment Banking

The Corporate and Investment Banking business is managed by two Divisions, under the Corporate and Investment Banking Group. The Corporate Banking undertook a number of debt re-pricing swap transactions, aimed at reducing the financial burden of its key client portfolios, while Investment Banking continue to manage advisory and loan arrangement activities and also active trading in bonds and equity markets. During 2005, Corporate Banking further expanded its customer base and new relationships were established in the telecommunications sector including LDI, WLL, fuel and energy, and manufacturing sectors. Corporate Banking has dedicated marketing and support units functioning at Karachi and Lahore, in addition to the base at Rawalpindi. In order to enhance focus on relationship management, and service quality, more dedicated staff is being assigned to the Division.

The Investment Banking activity mainly covers, debt / capital markets, advisory services and trading (both equities and bonds). The Capital Market Desk, based at Karachi, increased the volume of capital market related transactions as a result of the positive stock market sentiment, mostly during the second half of 2005. Investment Banking also participated in various debt and capital raising instruments during the year.

The Corporate and Investment Banking group will continue to play a major role in loan syndications, structured financing and debt / capital raising transactions with the objective of providing entire range of corporate and investment banking solutions to its valued clients, under one umbrella.



Corporate and Investment Banking Group Products

- Loan syndications (arranger / co-arrangers & lead manager)
- Structured finance
- Equity financing
- Working capital financing
- Corporate finance advisory services
- Commercial paper
- Debt swaps
- Balance sheet restructuring
- Debt capital markets
- Capital raising
- Trading activity (equities and derivatives)
- Discretionary portfolio management

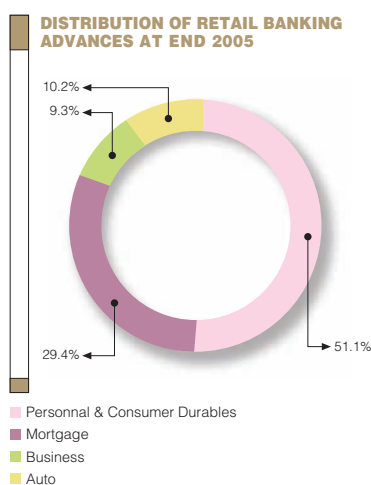
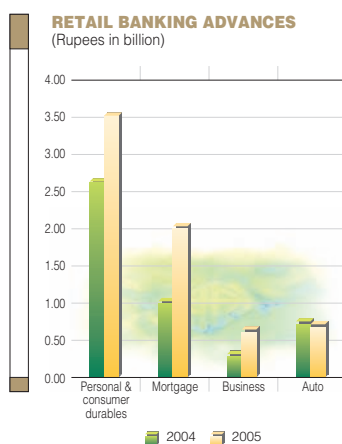


Retail Banking

The Retail Banking Group offers auto, mortgage, personal and business finance as its core products, and was able to grow its asset book by 41% during 2005.

The Group is organized on a hub and spokes basis and its 6 hubs, i.e., Retail Banking Centers (RBC), in Rawalpindi, Peshawar, Lahore, Karachi and Quetta are now supported by 38 spokes, i.e. Retail Banking Units (RBU), which operate from the branches in close proximity of the relevant RBCs.

In addition to the asset book, other retail banking products showed healthy growth. The Bank's debit card with the brand name of ASKCARD registered an increase of 35% in the number of cards issued. Also, the transactional volume of Askari Bank's pioneered product of electronic utility bills payment through ATMs and Internet, increased by 62% during 2005.



Products

- AskCard (Debit / ATM card)
- AskPower (Prepaid card)
- Askari Bank's mortgage finance (Home loans)
- Askari Bank's business finance (Business loans)
- Askari Bank's personal finance
- SmartCash (Running finance facility for consumers)
- i-Net Banking (internet banking solutions)
- Askar (auto loans)
- Askari Touch 'N' Pay (online utility bill payment services)
- Askari Value Plus (flexible deposit accounts)
- Cash Management Services
- Rupee traveler cheques
- Askari investment certificates

Credit Cards

Despite strong competition, the credit card business, under the MasterCard brand, maintained its growth in all areas of the business. Net card issuance increased by 50% during the year and cards in force (CIF) crossed the 150k mark. Transaction volume increased by 37%, while the Credit Cards loan portfolio increased by 13%. NPLs on account of the loans portfolio remained well within the industry norms.

After the successful launch of Pakistan's first 'Platinum Card', Askari MasterCard's rewards program is offering attractive features to our valued customers. Also, various arrangements were made with leading service providers in the market to benefit Askari MasterCard customers with exclusive travel and leisure facilities.



Products

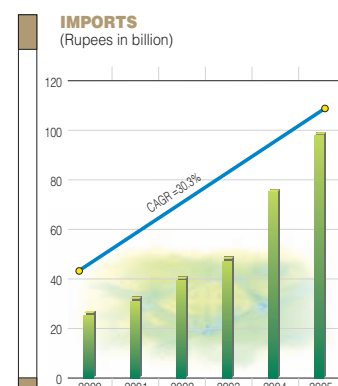
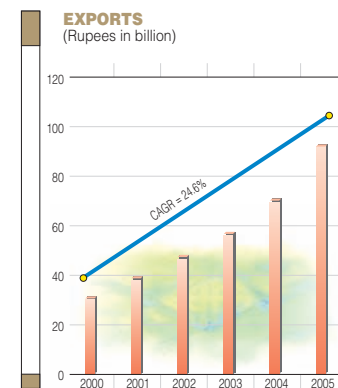
- Askari MasterCard (credit card facility)
- Balance Transfer Facility
- Smart Installment Plan

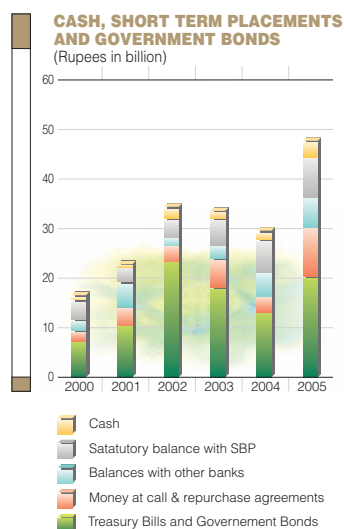
Treasury and International operations

Money market conditions during 2005 were clearly reflective of the Regulators balancing two conflicting objectives – fostering growth and controlling inflationary pressures. The relatively low interest rate environment during the first half of 2005, changed with the rising credit demand in the manufacturing, retail, services and agriculture sectors, and an increase in inflation.

During 2005, the Rupee / US Dollar exchange rate witnessed moderate volatility. During the initial months, the rupee remained under pressure due to the deterioration in the external account. However, during the later part of the year, the rupee recovered some lost ground, mainly due to a rally attributable to SBP's commitment to smooth the oil payments. Accordingly, the Rupee started the year 2005 at 59.46 against US Dollar and ended the year at 59.81.

Money market remained fairly liquid despite gradual rise in interest rates. The weighted average yields of 6 months Treasury Bills rose to 8.25% p.a. in December from 3.73% p.a. in January 2005, thus reflecting a net increase of 451 bps in a single year. The intense competition, along with the deregulation and liberalization of the money and foreign exchange markets, placed the Treasury in a demanding position, and it is now under further pressure to offer more innovation in undertaking arbitrage and derivative transactions to maintain, and increase, its share in the overall earnings of the Bank. The Treasury operations are effectively structured to measure, manage and mitigate the risk elements associated with the Treasury activities, through the





use of IT systems and enhanced human resource skills, so that the Treasury can manage the risk better, and also provide advice and services to the branches and their customers.

The Bank increased its share in the overall foreign trade of the country during 2005. The import business increased to Rs. 98.3 billion, i.e. 31% over last year, while the exports also increased by 31% over last year, to Rs. 92 billion.

Products

- Foreign currency accounts
- Foreign trade services (Import & Export)
- Import & Export financing
- Foreign Currency Travelers Cheque Issuance
- Foreign remittances (Demand Drafts / Telegraphic Transfers) - Inward & Outward
- Sale & Purchase of Foreign Currency Cash
- Issuance of Guarantees & Bid Bonds
- Handling of Securities
- Offshore Banking Services

Offshore Banking Unit

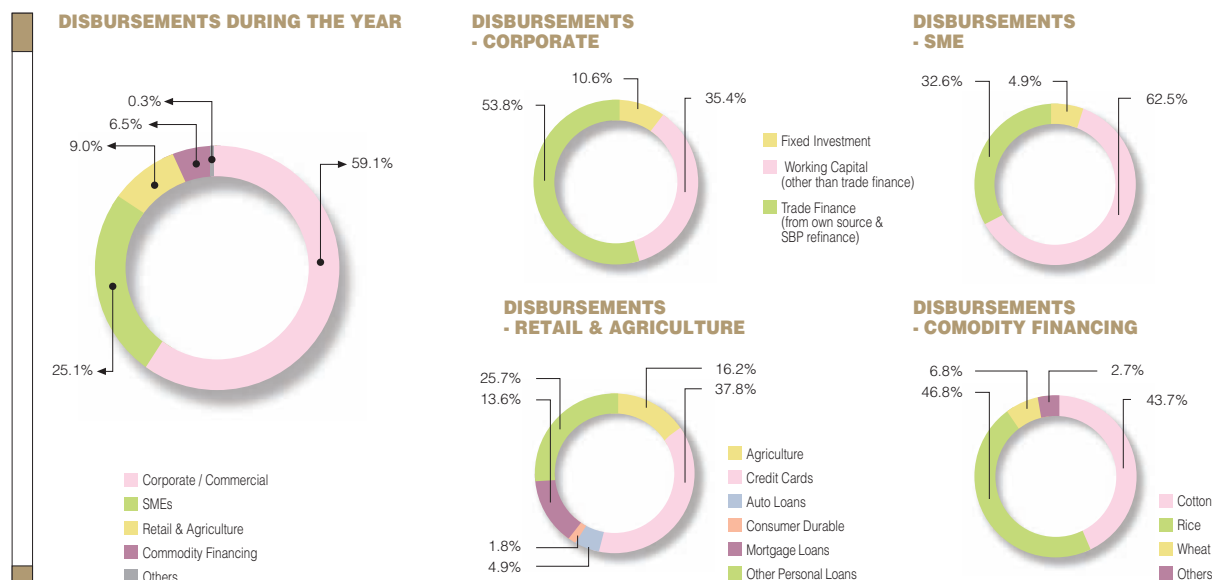
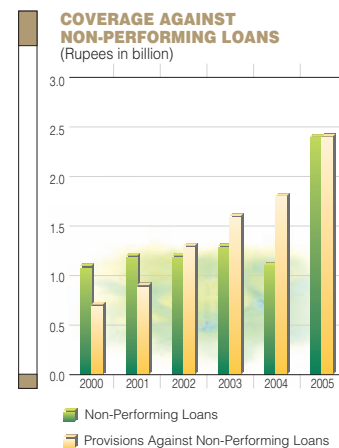
Askari Bank's Offshore Banking Unit (OBU), has now completed two years of operations and has increased its share of contributions to the Bank's overall earnings. The OBU remains on a constant look out for opportunities on the international scene, which are both profitable and provide the Bank with a strategic edge. The OBU enhances our capability in terms of offering a wider range of services to our customers, and also acts as a look-out for new business opportunities and relationships in the international markets.



Advances and Credit

The growing demand for credit, coupled with the marketing efforts of the Regions / Areas, led to a substantial increase in the loans and advances portfolio during the year, despite a steep increase in the benchmark rates.

Askari Bank's funded credit portfolio increased by 23% to close at Rs. 88.40 billion. A review of the securities held against credit limits reveals that the credit portfolio of the Bank is well collateralized, with about 34% of the exposure being covered by securities of liquid nature, such as deposits, trade documents, equity or debt instruments, guarantees from government or financial institutions, etc. During the year, Bank's non-performing advances increased to Rs. 2.3 billion, from Rs. 1.1 billion last year due to addition of certain large exposures. Consequently NPLs ratio as a percentage of gross advances also increased from 1.5% to 2.7%. However, it was still within the industry average.





During 2005, Askari Bank made further provisions of Rs. 639 million which includes specific (Rs. 467 million) and general provisions (Rs. 172 million) including general provisions maintained in terms of the Prudential Regulations for Consumer Finance (Rs. 106 million), bringing the cumulative provisions to Rs. 2.4 billion. These provisions along with the reserve maintained for contingencies, provides 115% coverage to the total NPLs.

Products

• Term Loans
• Overdrafts
• Short term facilities for local trading
• Cheque purchase facility (foreign & local)
• Letters of Credit (Domestic as well)
• Guarantees
• Pledge loans
• Finance Against Trust Receipts
• Stand by letters of credit
• Financing against foreign bills
• Foreign currency financing
• Export re-finance from SBP - Finance Against Packing Credit I & II
• Finance against Imported Merchandise

Information Technology

Our strength in the area of information technology based services has always been an edge in the competition and has been a source of considerable strength in the expansion and management of the customer base of the Bank. Technology support provides alternate service delivery channels and higher customer satisfaction levels.

During 2005, various technology initiatives were successfully implemented. The twenty-four branches opened during the year were operational with on-line banking from day one of their respective operations. After the soft opening during 2004, Askari Customer Care Center - a dedicated customer call center, was formally inaugurated during 2005. Its primary objective is to provide a one window service to our valued customers in terms of their telephonic enquiries. As result of Askari Bank's co-founded ATM switch, 'One-Link', the largest ATM switch in Pakistan, together with M-net, the second switch, the Bank's customers can now access their accounts through more than 1,100 online ATMs throughout Pakistan.

During 2005, Askari Bank achieved yet another 'first' in the banking history of Pakistan with the successful launch of mobile ATM solutions for our valued customers. Using wireless GPRS technology, these 'ATMs on wheels' can be placed at strategic locations at peak times to serve the customer needs.

Making crucial, timely, strategic decisions is a must to stay ahead in today's competitive banking environment. Work continues on the Bank's 'Data Warehouse' which is being equipped for providing the management with accurate, up-to-date information enabling them to make timely and prudent decisions.

The Bank remains focused on using technology for improving customer service standards and expanding the range of products being offered and other technology based solutions.

Agriculture Credit Financing

The Agriculture Credit Division (ACD), a relatively new setup, dedicated to serve the needs of the largest sector of our economy, achieved substantial progress during 2005. ACD's primary focus remained on the development and introduction of agriculture financing products based on the farmer's needs and sound credit management principles and practices.

Since its launch, ACD has introduced a broad range of products, under the 'Askari Kissan' agri finance program, to adequately meet short and long term financing requirements of the farmers for raising crops, dairy farming, poultry, fisheries, forestry and orchids. Agri loans are also provided for farm mechanization, transportation, marketing of agriculture produce, storage, land improvements and irrigation.

The initiation of all proposals is based on sound and well defined criteria for assessing quantitative and qualitative risk profiles of each applicant / transaction within the admissible lending practices of agriculture credit allowed by SBP. All finances are asset based / collateralized and / or secured by other acceptable securities. Appropriate margins on securities are applied where specified by SBP, or determined by the Bank, on the basis of disposal costs and potential prices movements of the underlying assets. Crops / asset and life insurance of borrowers are mandatory for mitigating risks arising from uncertainties.

The Division remains proactively engaged in evolving policies and procedures for strengthening the credit framework for the benefit of all stakeholders, and is determined to make its full contribution towards ensuring that Pakistan is a food and fiber surplus country.

Products

- Askari Kissan Ever Green Agri Finance
- Askari Kissan Tractor Finance
- Askari Kissan Farm Mechanization Finance
- Askari Kissan Aabpashi Finance
- Askari Kissan Farm Transport Finance
- Askari Kissan Livestock Development Finance





Islamic Banking

The Bank, after obtaining approval in principal from the SBP, is in the process of building the infrastructure necessary for dedicated Islamic Banking Branches in major cities of the country. Islamic Banking is going to expand our outreach and capabilities for offering products conforming to the Shariah principles.

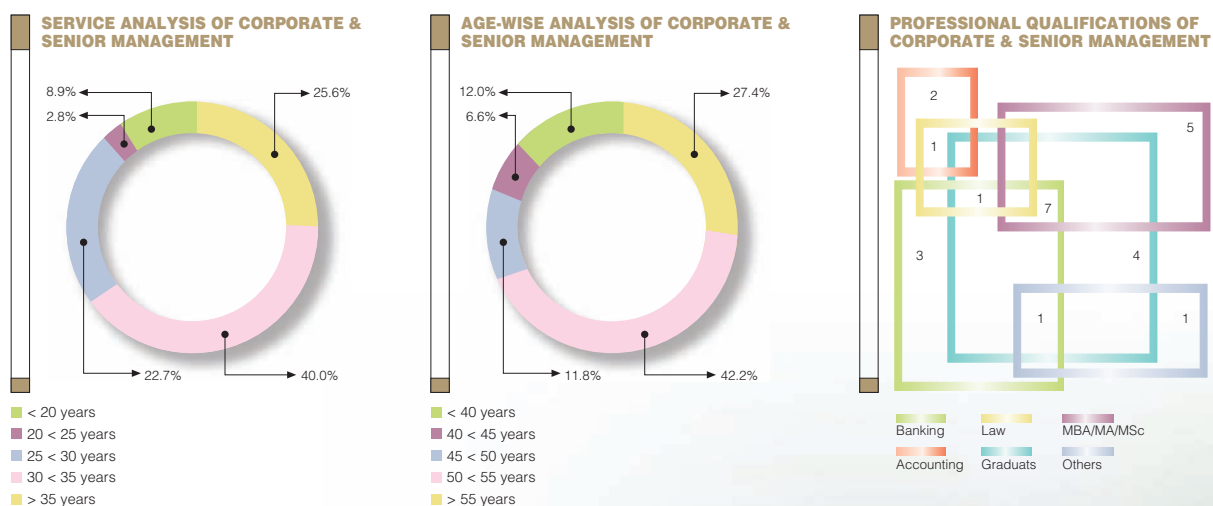
Regulatory environment & minimum capital requirement

During 2005, the State Bank of Pakistan introduced new initiatives on various policy and regulatory fronts which would impact the Bank's business in the years to come. Amongst others, these initiatives include implementation of Basel II, guidelines for stress testing, guidelines for infrastructure project financing, introduction of prudential regulations for agriculture financing and amendments in prudential regulations for provisioning requirements.

The new provisioning requirements, inter alia, resulted in higher provisioning requirements against the NPLs. The Bank fully met the enhanced requirements at the year-end resulting in an additional charge of Rs. 115 million on this count. However, subsequent to the close of 2005, SBP has allowed banks a temporary relaxation for complying with the revised classification and provisioning criteria, in a phased manner, by December 31, 2006. However, the Bank has not availed the benefit of this relaxation and has thus protected the earnings of 2006 from any additional charge on this account.

During the year, SBP enhanced minimum paid-up capital requirement for commercial banks from Rs. 2.0 billion to Rs. 6.0 billion by the year 2009, in a phased manner. The paid-up capital requirement for the year ended December 31, 2005 was Rs. 2.0 billion, which the Bank has complied with through earmarking reserves for issue of bonus shares. Also, the existing fixed Capital Adequacy Ratio is being replaced with variable CAR, to be determined based on the Institutional Risk Assessment Framework.

Askari Bank and its management take full cognizance of the steps being introduced by the SBP to promote good governance practices among banks, and to establish effective anti-money laundering processes in keeping with international requirements.



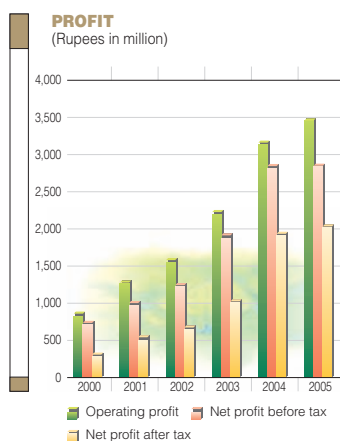
Our People

The Bank fully recognizes its committed and competent work force as the primary asset in providing value addition to its other stakeholders. Human resource functions are accordingly continuously modernized and reviewed in accordance with our strategic direction and objectives. Staff training and motivation is carried out on a continuous basis throughout the year, based on the assessed training needs, particularly in the areas of knowledge enhancement and skills. In-house training courses are conducted at the Bank's training center. During 2005, 2230 staff attended various training courses spread over 420 working days.

Staff at the middle and senior levels are frequently nominated for outside training programs conducted by institutions both locally and abroad. During 2005, 6 staff members attended seminars and workshops overseas. Additionally, 139 staff attended various courses and training programs conducted by local training institutions.

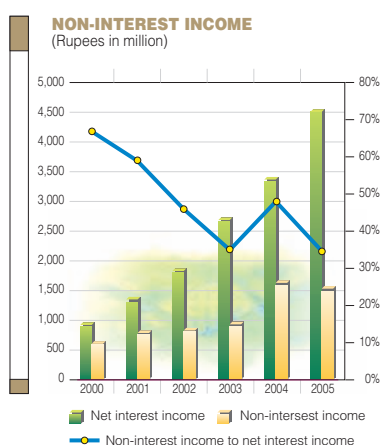


Financial Review



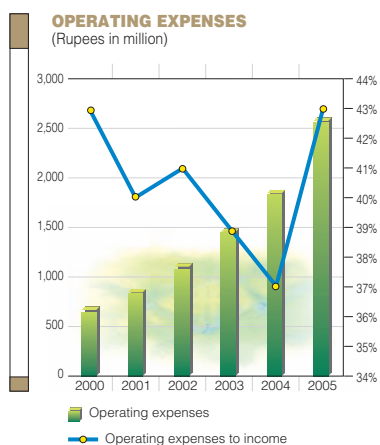
Profit

Askari Bank recorded 10% growth in operating profit over the previous year and excluding one-off tax-exempt gains of Rs.512 million realized during 2004, growth was 31%. On comparable basis, pre-tax profit grew by 23% and after tax profits grew by 43%, over previous year. The effective tax rate reduced from 32% to 29% during the year. The core-banking profits grew by 28%, and net mark-up / interest income increased by 34% during the year, mainly due to slight improvement in spread and substantial increase in business volumes.



Non mark-up / non interest income

The total non mark-up / non interest income recorded a decrease of 5% over last year. This was mainly due to the one-off gains realized upon sale of certain long-term investments, included in last year's figure. Excluding such gains, non-mark-up / non-interest income showed a healthy increase of 38%. Fee, commission and brokerage income increased by 18%, benefited by the substantial increase in foreign trade and guarantees business, while income from dealing in foreign currencies increased by a significant 97% over the previous year.

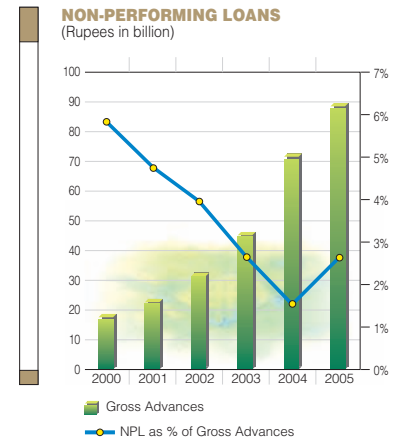


Operating Expenses

During 2005, Askari Bank's operating expenses increased by 40%. The increase was primarily attributable to the expansion plan actively pursued by the Bank. Also, during 2005, the Bank contributed Rs.30 million for the rehabilitation of the victims of October 8, 2005 earthquake.

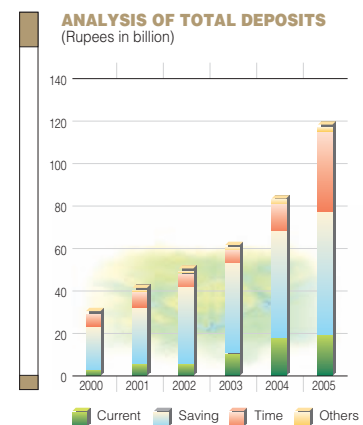
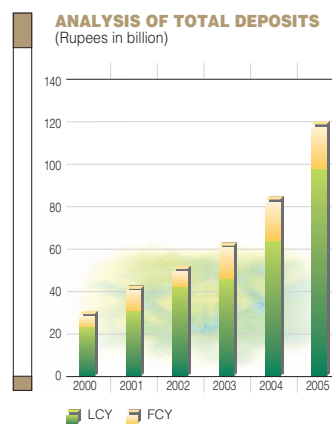
NPLs and provisions against NPLs

During 2005, NPLs increased from Rs. 1,101 million last year to Rs. 2,373 million due to addition of certain large exposures. While these NPLs are being closely monitored for revival / recovery, Askari Bank appropriated Rs. 639 million as provisions against non-performing advances, against previous year's Rs. 277 million. Out of the total provision against NPLs charged during the year, 73% was specific, while the rest 27% was general, including 17% general provision under the SBP prudential regulations for consumer finances.



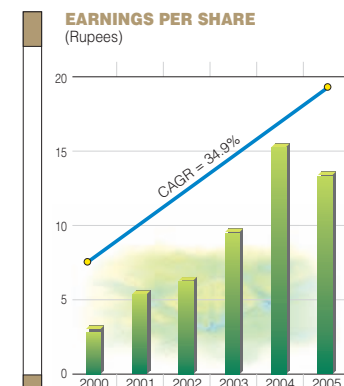
Current, savings and other deposits

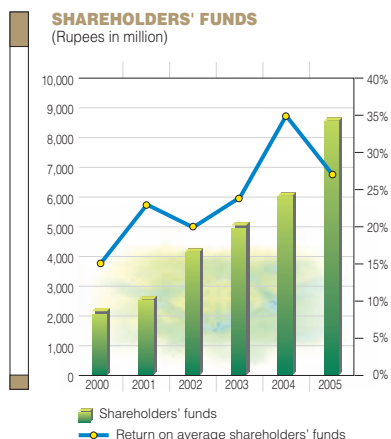
Customer deposits increased to Rs. 118.8 billion by end 2005, an increase of 43% over last year. The main contributors to this growth were fixed deposits, which increased by 186% followed by saving deposit accounts, which increased by 16% over the previous year. The current accounts increased by 9%.



Earnings per share

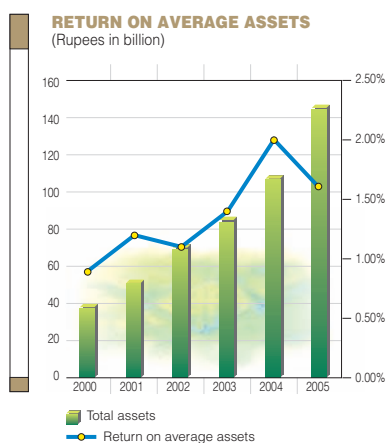
Earnings per share increased by 43.4% to Rs.13.42 as compared to last years' Rs. 9.4 worked out by excluding 2004 non-recurring gains.





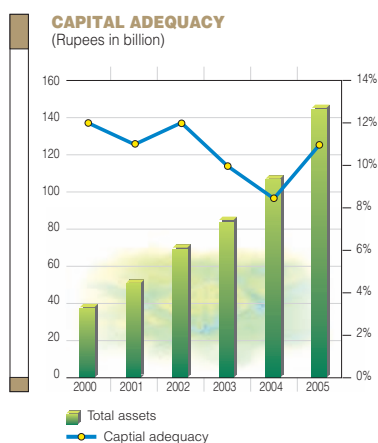
Shareholders' funds

The aggregate shareholders' funds increased to Rs. 8,587 million by end 2005 from Rs. 6,016 million last year. The increase was contributed by the profits earned during the year, and the unrealized surplus on revaluation of investments, mainly equity portfolio, increased from Rs. 443 million last year to Rs. 1,218 million. The return on average shareholders funds decreased to 27.7% from 34.80% last year, mainly due to one-off gains of 2004 not available this year.



Return on average assets

Return on average assets was 2% for 2004, including one-off gains, and 1.5% excluding these gains. It was 1.6% during 2005. The average assets increased by 31% during 2005.



Capital adequacy

The capital adequacy ratio improved to 11% by December 31, 2005 from 8.53% at end 2004. This increase is mainly attributable to increase in Tier II capital on account of unsecured sub-ordinated loans in the shape of Term Finance Certificates, substantial increase in revaluation of equity investment portfolios, and retained earnings.

Financial Calendar

2004

1st Quarter Results issued on	April 22, 2004
2nd Quarter Results issued on	August 11, 2004
3rd Quarter Results issued on	October 26, 2004
13th Annual Report issued on	February 10, 2005
13th Annual General Meeting held on	March 28, 2005
20% cash dividend & 20% bonus shares issued on	April 8, 2005

2005

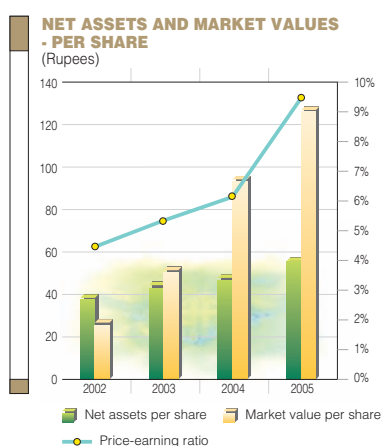
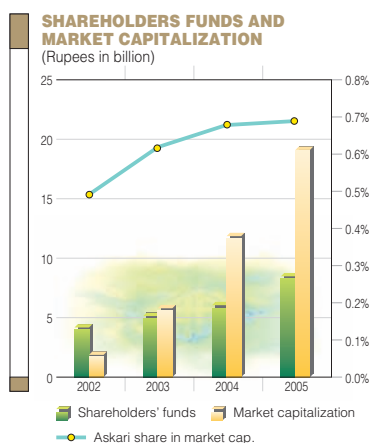
1st Quarter Results issued on	April 21, 2005
2nd Quarter Results issued on	August 10, 2005
3rd Quarter Results issued on	October 24, 2005
14th Annual Report issued on	February 22, 2006
14th Annual General Meeting scheduled for	March 30, 2006
15% cash dividend & 33% bonus shares to be issued by	April 30, 2006

Summarised Quarterly Results - 2004 & 2005

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PROFIT & LOSS - FOR THE QUARTER	Rupees in million							
Total income	1,167	1,852	1,484	1,617	1,988	2,311	2,881	3,153
Mark-up / return / interest earned	949	1,045	1,178	1,316	1,596	1,953	2,477	2,755
Mark-up / return / interest expensed	215	251	309	342	615	858	1,256	1,550
Net mark-up / interest income	734	794	869	974	981	1,096	1,220	1,205
Provisions against non-performing assets	58	58	81	119	146	248	29	179
Non - mark-up / interest income	218	807	306	301	392	358	405	397
Operating expenses	387	433	533	492	534	587	689	783
Operating profit	565	1,168	642	783	839	867	936	819
Profit before tax	507	1,110	561	664	692	619	907	641
Taxation	202	237	227	254	227	220	336	53
Profit after taxation	305	873	334	410	465	399	570	588
BALANCE SHEET - AT QUARTER END								
Assets								
Advances	48,253	55,523	59,835	69,938	71,905	76,388	78,693	85,977
Investments	21,060	20,313	18,584	17,239	15,927	21,990	23,769	25,708
Cash, short term funds & statutory deposits with SBP	16,706	16,441	25,389	15,936	14,822	23,950	19,206	27,489
Operating fixed assets	1,935	2,117	2,112	2,595	2,743	2,985	2,875	3,193
Other assets	1,584	1,622	1,756	1,460	1,806	1,972	2,639	2,733
Total assets	89,538	96,016	107,676	107,168	107,203	127,285	127,182	145,100
Liabilities								
Customers deposits	66,367	73,003	77,889	83,319	80,848	103,646	97,629	118,795
Borrowings from financial institutions	14,717	14,596	20,509	13,782	14,202	10,959	15,069	10,562
Sub-ordinated loans	–	–	–	1,000	1,500	1,500	2,625	3,000
Other liabilities	2,936	2,809	3,490	3,051	4,260	4,467	4,119	4,156
Total liabilities	84,020	90,408	101,888	101,152	100,810	120,572	119,442	136,513
Shareholders' funds								
Share capital	1,256	1,256	1,256	1,256	1,507	1,507	1,507	1,507
Reserves and unappropriated profit	2,951	3,824	4,158	4,317	4,531	4,930	5,501	5,862
Surplus on revaluation of assets	1,311	528	374	443	355	276	732	1,218
Total shareholders' funds	5,518	5,608	5,788	6,016	6,393	6,713	7,740	8,587
RATIOS*	Percent							
Return on average shareholders' funds (RoE)	23.1%	62.8%	23.5%	27.8%	30.0%	24.4%	31.6%	28.8%
Return on average assets (RoA)	1.4%	3.8%	1.3%	1.5%	1.7%	1.4%	1.8%	1.7%

* Annualized

Share & Debt Information



1. Share information:

1.1 The ordinary shares of Askari Commercial Bank are listed on the Karachi, Lahore and Islamabad stock exchanges. The audited financial statements have been submitted to the stock exchanges within the requisite notice periods as required by the relevant regulations. Askari Bank's Central Depository System ID is 05132.

1.2 Market symbols / IDs:

Karachi Stock Exchange	ACBL
Reuters	ACBK.KA
Bloomberg	ACBL PA

1.3 Share price:

	Askari's share price (Rupees)			Number of shares traded during the year
	High during the year	Low during the year	Close at December 31	
2002	27.90	13.50	26.85	37,271,512
2003	53.90	21.30	51.50	96,059,000
2004	98.25	50.00	94.00	1,043,563,300
2005	133.25	70.00	126.80	612,803,600

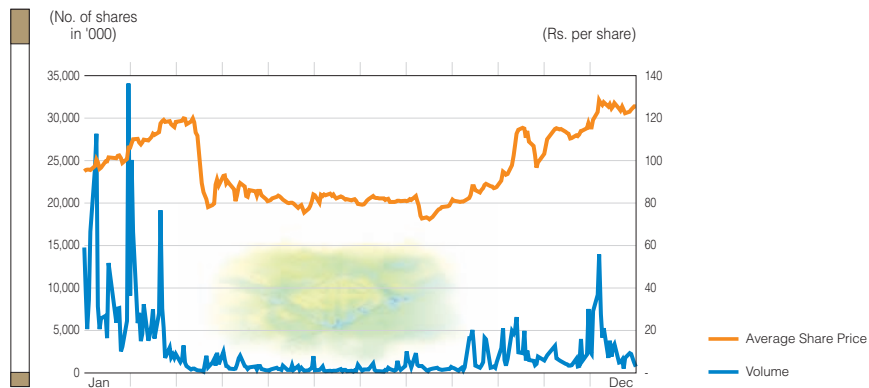
1.4 Market capitalization:

As at December 31	Number of shares	Askari's		KSE's market capitalization	Askari's share in market cap.
		Shareholders' funds	Market capitalization		
		Rs. in billion	Rs. in billion	Rs. in billion	
2002	108,731,375	4.173	2.919	595.206	0.49%
2003	114,167,943	5.047	5.880	951.447	0.62%
2004	125,584,737	6.016	11.805	1,723.454	0.68%
2005	150,701,684	8.587	19.109	2,754.908	0.69%

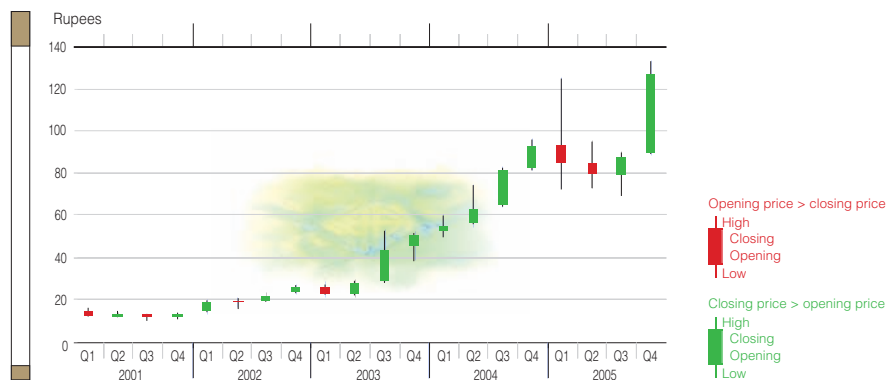
1.5 Record of share issues:

Year	Issue	Number of shares	Share capital (Rs)
	Prior to public issue	15,000,000	150,000,000
1992	Public issue	15,000,000	150,000,000
1993	50% Rights issue @ Rs.10 per share	15,000,000	150,000,000
1995	Bonus @ 15%	6,750,000	67,500,000
1996	50% Rights issue @ Rs.20 per share	22,500,000	225,000,000
1996	Bonus @ 10%	7,425,000	74,250,000
1997	Bonus @ 15%	12,251,250	122,512,500
1998	Bonus @ 5%	4,696,312	46,963,120
2001	Bonus @ 5%	4,931,101	49,311,010
2002	Bonus @ 5%	5,177,712	51,777,120
2003	Bonus @ 5%	5,436,568	54,365,680
2004	Bonus @ 10%	11,416,794	114,167,940
2005	Bonus @ 20%	25,116,947	251,169,474
		150,701,684	1,507,016,844

1.6 Price volume chart during 2005:



1.7 Quarterly analysis of share price:



2. Debt information:

2.1 Askari Bank has issued the following Term Finance Certificates (TFCs) - unsecured sub-ordinated debt, listed on the Lahore Stock Exchange (LSE).

	Rupees in million	
	TFC - I	TFC - II
IPO investors	1,000	1,125
General Public	500	226
Underwriters	—	149
	1,500	1,500

2.2 Market symbols / IDs at LSE:

TFC - I	TFCACBL
TFC - II	TFC2ACBL

2.3 TFCs price:

	As at December 31, 2005	
	Market value*	Interest rate applicable
TFC - I	5,100	10.50%
TFC - II	5,000	10.60%

* based on marketable lot of Rs. 5,000.

Notice of the 14th Annual General Meeting

Notice is hereby given that the 14th Annual General Meeting of the members of Askari Commercial Bank Limited (the Bank) will be held on Thursday, March 30, 2006 at 1000 hours at Blue Lagoon Complex opposite, outward gate of Pearl Continental Hotel, Rawalpindi, to transact the following business:

Ordinary Business

1. To confirm the minutes of the 13th Annual General Meeting (AGM) held on March 28, 2005.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended December 31, 2005 together with Directors' and Auditors' Reports thereon.
3. To consider and approve payment of cash dividend to the shareholders at the rate of Rs.1.50 per share of Rs. 10 each for the year ended December 31, 2005.
4. To appoint Auditors of the Bank for the year ending December 31, 2006 and to fix their remuneration.

Special business

5. To consider and if deemed fit, pass the following resolution with or without modifications:

RESOLVED THAT:

- a. "a sum of Rs. 497,315 thousand out of the profit be capitalized and applied for issue of 49,731,556 ordinary shares of Rs 10/- each and allotted as fully paid bonus shares to those members of the Bank whose names appear in the register of members of the Bank at the close of business on March 20, 2006 in the ratio of thirty three (33) shares for every hundred (100) shares held (i.e. 33%) and that such new shares shall rank pari passu in all respect with the existing shares of the Bank except that they shall not qualify for dividend or any other benefit for the year ended December 31, 2005."
 - b. The members entitled to a fraction of a share shall be given sale proceeds of their fractional entitlement, for which purpose the fractions shall be consolidated into whole shares and sold in the stock market; and
 - c. For the purpose of giving effect to the above resolutions, the Directors be and are hereby authorized to give such directions as may be necessary and to settle any questions or difficulties that may arise in regard to the distribution of the bonus shares or in the payment of the sale proceeds of the fractions as the Directors in their discretion shall deem fit.
6. To consider and if deemed fit, pass the following special resolution under Section 28 of the Companies Ordinance, 1984, with or without modifications:

RESOLVED THAT, pursuant to Section 28 of the Companies Ordinance, 1984, the Articles of Association of the Bank be altered in the following manner:

Contents of Article 106 of the Articles of Association of the Bank be deleted and in its place the following contents be substituted:

The remuneration of a Director for attending meetings of the Board of Directors shall not exceed Rs. 5,000 for each meeting attended by him. A Director who perform extra services or a full time Director shall receive such remuneration (whether by way of salary, commission, participation in profits, allowances, perquisites, etc., or partly in one way and partly in another) as the members may fix. The Bank may also pay to any Director all such reasonable expenses as he may incur in attending and returning from meetings or which he may otherwise incur in or about the business of the Bank.

7. Any other business with the permission of the Chair.

By order of the Board



Saleem Anwar
Company Secretary

February 22, 2006
Rawalpindi

Statement Under Section 160(1)(b) & (c) of the Companies Ordinance, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on March 30, 2006.

Item No. 5 of the notice

The Directors are of the view that the reserves and profits of the Bank are adequate for the capitalization of a sum of Rs. 497,315 thousand for issue of the proposed 33% bonus shares.

The Directors have no interest directly or indirectly except that they are members of the Bank.

Item No. 6 of the notice

Approval of the shareholders of the Bank will be sought for amendment in Article 106 of the Articles of Association of the Bank. The amendment seeks to increase the remuneration payable to a Director from existing limit of Rs. 500 to Rs. 5,000 in view of the general increase in inflationary trends since 1991, when the Bank was established.

Article 106

Present

The remuneration payable to Directors for attending Board Meeting shall not exceed Rs. 500 and a Director who perform extra services or a full time Director shall receive such remuneration (whether by way of salary, commission, participation in profits, allowance, perquisites, etc., or partly in one way and partly in another) as the members may fix, subject to the Federal Government, Finance Division Notification SRO No. 572(i)/82 dated 16 June 1982 or any modification in that behalf for the time being in force. The Company may also pay to any Director all such reasonable expense as he may incur in attending and returning from meetings of Directors or committee of Directors or which he may otherwise incur in or about the business of the Company.

Proposed

The remuneration of a Director for attending meetings of the Board of Directors shall not exceed Rs. 5,000 for each meeting attended by him. A Director who perform extra services or a full time Director shall receive such remuneration (whether by way of salary, commission, participation in profits, allowances, perquisites, etc., or partly in one way and partly in another) as the members may fix. The Company may also pay to any Director all such reasonable expenses as he may incur in attending and returning from meetings or which he may otherwise incur in or about the business of the Company.

Notes

A. General:

1. The Share Transfer Books of the Bank will remain closed from March 21 to March 30, 2006 (both days inclusive). Transfers received at M/s THK Associates (Pvt) Ltd., Ground Floor, Modern Motors House, Beaumont Road, Karachi, the Registrar and Share Transfer Office of the Bank by the close of the business on March 20, 2006 will be treated in time for purpose of the entitlement of cash dividend and bonus shares (DW-9 & B-10) to the transferees.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him/her. No person shall act as a proxy, who is not a member of the Bank except that Government of Pakistan/State Bank of Pakistan/Corporate entity may appoint a person who is not a member.
3. The instrument appointing a proxy should be signed by the member or his/her attorney duly authorized in writing. If the member is a corporation (other than Government of Pakistan and State Bank of Pakistan), its common seal should be affixed on the instrument.
4. The instrument appointing a proxy, together with Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited, with our Registrars/Transfer Agents, M/s THK Associates (Pvt) Ltd, Ground Floor, Modern Motors House, Beaumont Road, Karachi not less than 48 hours before the time of holding the meeting.
5. If a member appoints more than one proxy, and more than one instrument of proxy are deposited by a member with the Bank, all such instruments of proxy shall be rendered invalid.

B. For CDC Account Holders:

1. The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
2. Attested copies of CNIC or the Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
3. The proxy shall produce his/her original CNIC or original Passport at the time of meeting.
4. In case of Government of Pakistan / State Bank of Pakistan / Corporate entity, the Board of Directors' resolution / power of attorney with specimen signatures shall be submitted alongwith proxy form to the Bank.

Directors' Report to the Shareholders

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the 14th Annual Report of Askari Commercial Bank Limited along with the audited financial statements and Auditors' Report thereon, for the year ended December 31, 2005.

The Economy

During fiscal 2005, Pakistan's GDP grew by 8.4%, surpassing the target of 6.6% by a wide margin and achieving the highest growth rate during the last two decades. This record growth was attributable to strong domestic demand and favorable conditions for agriculture, including timely rains, continuity of policies and a robust financial sector. The growth is all the more impressive as it was achieved despite adverse factors including slowdown in major economies around the globe, rise in international oil prices, and tighter monetary policy intended to contain inflationary pressures.

The GDP growth was broad-based with large scale manufacturing posting a growth of 15.4% against the target of 12.2% and last year's 17.1%, strong recovery by agriculture, that grew by 7.5% against the target of 4.4% and last year's 2.6%, mainly on the back of an unprecedented increase in the cotton and wheat crops, and the services sector which grew by 7.9% aided by a remarkable growth in finance and banking sectors.

The monetary policy went through an important transition during fiscal 2005, switching from a broadly accommodative stance, to an aggressive tightening, mainly during the second half of the fiscal 2005. Although the benchmark rates started moving upwards from the beginning of fiscal 2004, the trend was moderate and the rise in benchmark rates was below the inflation rates as the economic managers continued to focus on maintaining the economic growth. Even though the gradual increase in the benchmark rates started to impact the market lending rates, demand for credit continued to grow. Net credit rose by a record Rs 428.8 billion during fiscal 2005, largely benefiting the commercial and industrial activities – the latter also through the availability of consumer financing, which fuelled demand for electronic goods and automobiles. Although the monetary expansion led to increased industrial activity, it also fed a gradual and continuous rise in core inflation which raised the pressure for a significant rise in interest rates. The inflationary expectations hardened further as the increase in oil prices turned out to be a permanent rather than a transient phenomenon. In response to the signs that the economy may overheat in the absence of corrective measures, as well as to curb cost push inflation, State Bank of Pakistan (SBP) raised the discount rate (for the first time after June 2001) in April 2005, by 150 basis points to 9.0% p.a. This rise in interest rates was

accompanied by high liquidity absorptions through OMOs and a slow down in reserve money growth. This, coupled with a higher acceptance ratio in T-bill auctions during the last three months as compared to the initial nine months of the fiscal year, further drained the inter bank liquidity. As a result, the transmission of monetary signal was far more effective during the 2nd half of fiscal 2005. Pakistan's overall foreign exchange reserves during FY05 increased by US\$ 289 million. Importantly, the reserves reached a historic high of US\$ 13 billion in mid-April 2005 before closing the fiscal year at US\$ 12.6 billion. A notable change has been witnessed in the composition of overall reserves. The SBP reserves reduced by US\$ 0.76 billion, while commercial banks' reserves increased by US\$ 1.05 billion. The SBP reserves fell mainly on the back of payments for loan retirements and oil imports. On the other hand, commercial banks' reserves increased due to fresh inflows in FE-25 deposits.

Pakistan's stock market witnessed extra-ordinary volatility during 2005. The KSE 100 index rose by 65% upto March 15, 2005, in a relatively short period of about two and a half months, after which the bearish spell took over and the index dropped to as low as 6,939 points on April 12, 2005, after seeing a peak of 10,303 points. Such a sharp rise in index and a subsequent steep decline was attributed to various factors including excessive buy positions, downward circuit breakers blocking the opportunity of exit, futures hedged from ready markets, withdrawal of COT financings, etc. However, the market has since stabilized and the index has maintained an upward trend with, some minor adjustments, during the second half of calendar 2005.

The banking sector further improved its performance during 2005 on the back of large credit expansion and the rising interest rates. There was also a trend towards more diversified deployment of credit, including the SME, consumer finance and agriculture sector. SBP has been encouraging transparency and improved management of the various risks inherent in the banking business. SBP is also promoting market based pricing and has been encouraging banks to use Karachi Inter Bank Offered Rates (KIBOR) as the benchmark for pricing of all rupee-based corporate and commercial lending to their clients. As a result of the firm monetary policy being followed by the SBP, inflation has been brought to below KIBOR, and lending rates have stabilized. However, KIBOR might come under pressure as and when the Government decides to get loans for commodity operations.

Pakistan's economy is in the midst of an economic upturn. However, there are still challenges of job creation, poverty

alleviation, improving social indicators and most importantly, strengthening the infrastructure to support the growth on a medium to long-term basis. It is therefore important for the Government to carefully prioritise its expenditures, given specifically the increased demand on the exchequer for investment in development, as well as the urgent requirements of re-construction in the earthquake struck regions. The economy is now delicately poised and the continuation of fiscal discipline, sound macroeconomic policies, and focused attention towards the betterment of infrastructure and social sector indicators, are necessary to ensure that the economy maintains its long-term growth trajectory.

Operating results of the Bank

Your Bank was able to achieve yet another milestone by posting an after tax profit of Rs. 2.02 billion during 2005, as against Rs.1.92 billion last year, an increase of 5%. However, on a comparable basis, the effective increase in after tax profits for the year 2005 works out to a noticeable 43% over last year since the Bank's last year's after-tax profits got a substantial boost from the one-off capital gains realized upon selling some listed investments. During the period under review, the operating profit before provisions and taxes increased by 10% while the profit before tax increased by 1%. These percentages translate into 31% and 23% upon exclusion of the impact of one-off gains booked last year, as mentioned above.

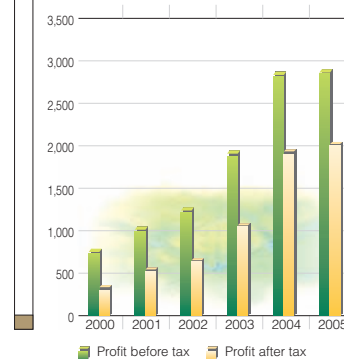
During the year, the deposits grew by 43% to Rs.118.80 billion, from Rs.83.32 billion last year. The increase was largely in local currency deposits, which grew by 53%, to Rs.98.38 billion as of December 31, 2005 from Rs.64.21 billion as of December 31, 2004, while the foreign currency deposits increased by 7% mainly reflecting the strengthening of Pak Rupee and the trend of lower yields on Fcy deposits during 2005.

By the close of 2005, the advances portfolio of the Bank had increased by 23%, to Rs.88.40 billion from Rs.71.62 billion at the close of last year, mainly due to aggressive marketing in an expanding private sector. At the same time, the Bank continued to exercise effective credit risk management and remained watchful of the impact on capital adequacy. The increase in advances, backed by a rise in the yields, was the main reason for increase in mark-up income on advances which almost doubled as compared to the previous year. Similar trend was observed in investments. However, since the yields on investments in government securities and other liquid investments are inherently lower than the yields on advances, the mark-up income in the case of such investments increased by 62% during 2005. The aggregate increase of 96% in total mark income on all earning assets, dilutes to 34% when it comes to net mark-up income, mainly due to a substantial increase in the deposit base and a sharp rise in the cost of deposits, which jumped by almost three times during the year. The aggregate cost of deposits and borrowings increased by 283% during 2005.

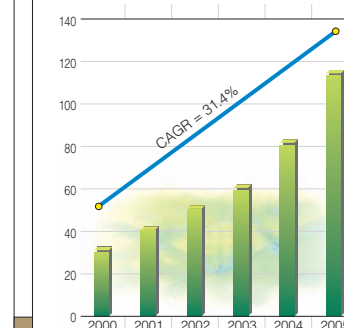
The non-fund income showed a decline of 5% over last year. This is primarily attributable to the one-off capital gains of Rs. 512 million realized in 2004 from selling some of the listed stocks. On a comparable basis, the non-fund income showed YoY growth of 38%.

Administrative expenses increased by 40% over last year mainly due to substantial expansion in the branch operations, credit cards and retail banking businesses, new set-up of Islamic banking and also due to the full year's impact

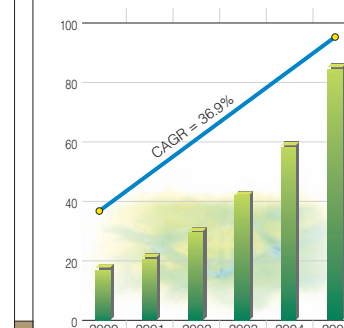
GROWTH IN PROFIT
(Rupees in million)

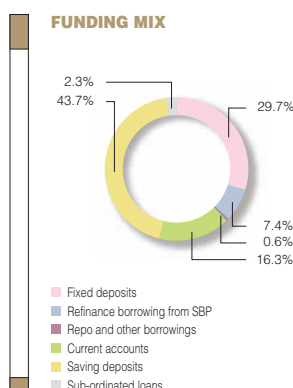
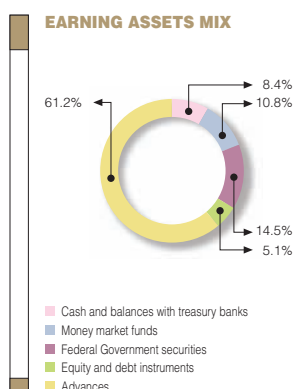
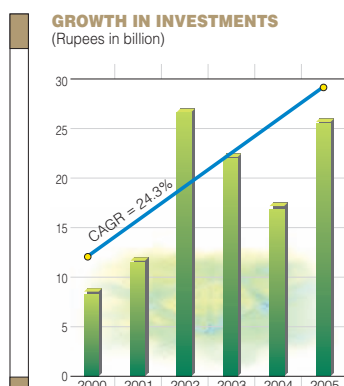


GROWTH IN DEPOSITS
(Rupees in billion)



GROWTH IN ADVANCES
(Rupees in million)





of revision in employees compensation package which was affected during the second half of 2004. Administrative expenses also include the Bank's contribution of Rs. 30 million towards the President of Pakistan's Relief Fund for earthquake victims, which was established to meet the relief and rehabilitation challenge created by the disastrous earthquake of October 8, 2005.

During the year, Bank's non-performing loans increased to Rs.2.37 billion from Rs.1.10 billion as of December 31, 2004. The main reason for this increase was the addition of three large exposures to the classified accounts. As a result, the non-performing loans as a percentage of total advances increased to 2.7% as of December 31, 2005, against last year's 1.5%. Despite this substantial increase, the percentage is in line with the industry average. While the classified accounts are being closely followed up for early revival / recovery, a total amount of Rs.639 million, including Rs.172 million as general provision (of which Rs.106 million is in compliance with the Prudential Regulations of the SBP) has been set aside as additional loan loss provision. The current year's charge for specific provision was thus Rs.467 million, as compared to Rs.126 million last year, mainly due to increase in non-performing loans and the revised classification and provisioning criteria of the SBP.

Subsequent to the close of 2005, SBP has allowed banks a temporary relaxation for complying with the revised classification and provisioning criteria, in a phased manner, by December 31, 2006. However, your Bank has not availed the benefit of this relaxation and thus covered the earnings of 2006 from any additional charge on this account.

The profit after tax has also benefited from the 3% reduction in the income tax rates announced by the Government to eventually bring down the rate in parity with the rest of the corporate sector.

Earnings per share:

The earnings per share increased by 5.17% from Rs.12.76 to Rs. 13.42 per share. However, based on the comparable profits, the earnings per share for the year 2005 increased by 43.38%.

Appropriations:

The Board of Directors recommends the following appropriations of the profits for the year ended December 31, 2005:

(Rupees in thousand)	
Unappropriated profit brought forward	—
Profit after tax for the year 2005	2,021,996
Profit available for appropriation	2,021,996
Appropriations:	
Statutory reserve @ 20%	(404,399)
Proposed cash dividend	(226,053)
Capital reserve (reserve for issue of bonus shares)	(497,315)
Revenue reserve	(894,229)
Unappropriated profit carried forward	—

Risk management framework:

Your Bank fully recognizes that the risk management function is fundamental to the business of banking, and is an essential element of our banking strategy.

Since the issuance of guidelines on risk management and the subsequent Institutional Risk Assessment Framework (IRAF) questionnaire by the SBP, the Bank has adopted a holistic approach and has been engaged in extensive and detailed evaluation and assessment of its risk management framework in all areas of banking activity. Based on the guidelines issued by the SBP, a risk management strategy has been developed that will further expand into a comprehensive formulation of risk management policies and procedures for assessing, and mitigating / controlling risks. The process involves detailed study of the existing risk review and risk management functions within the Bank and is being jointly carried out with consultants to add market expertise to the in-house experience. The process is planned to be completed within 1st quarter of 2006 and will thereafter be implemented with required changes in the existing risk management framework, as and where warranted. An independent Risk Management Division has already been established to oversee the whole exercise and implement the recommendations.

Statement on internal controls:

The management of the Bank endeavors to attain a professional and efficient working environment within the Bank by establishing and maintaining adequate and effective internal control system.

The management of the Bank fully recognizes and appreciates the value and significance of internal controls and ensures the presence of an efficient and effective control system by identifying control objectives, devising pertinent policies / procedures and establishing relevant control procedures covering all areas of activities, after approval from the competent authority.

Also, appropriate test of transactions, observations on control environment, sharing of finding on internal control system and ensuring relevant and appropriate follow-up / corrective measures are also being carried out by the management on a regular basis.

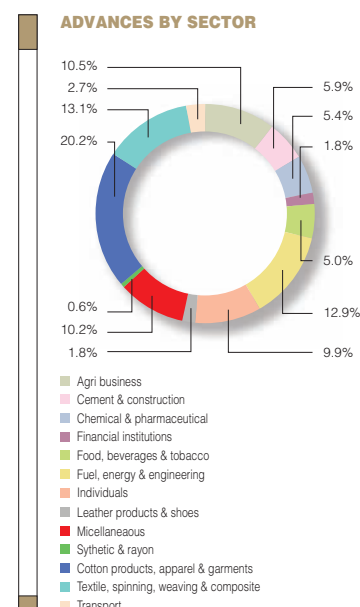
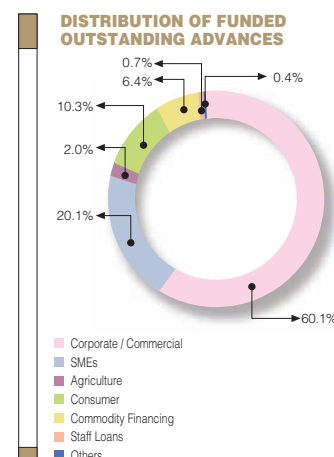
The management of the Bank feels confident that through the adoption of the above measures, Bank's internal control environment is at an adequate level, and is being further strengthened.

Credit rating:

During the year, the Pakistan Credit Rating Agency (Pvt) Limited (PACRA) maintained your Bank's long term rating at 'AA+' and short term rating at 'A1+', the highest possible for this category. According to PACRA, "these ratings reflect sustained ability of revenue growth from core operations while maintaining a low risk profile and also dynamic as well as efficient fund deployment strategy. Going forward, given the strong technological platform and enhanced geographical outreach, the Bank is well positioned to maintain its competitive edge despite an increasingly competitive operating environment".

Capital adequacy:

As of December 31, 2005, your Bank's capital adequacy ratio (CAR) stood at 11.00% as against 8.53% at the close of last year. The increase during the year has come about despite the Bank's investment in the shares of Askari



Investment Management Limited – a wholly owned subsidiary, and is mainly attributable to the issuance of Tier II capital in the form of unsecured subordinated debt, and substantial improvement in the surplus on revaluation of equity investment portfolio. The leverage now enjoyed by the Bank will be utilized with the prime objective of enhancing shareholders' value through a prudent increase in the risk assets.

Term Finance Certificates:

The process of launching of Term Finance Certificates (TFCs) of a total size of Rs.3.0 billion - two issues of Rs. 1.5 billion each, was completed with the receipt of the remaining subscription amounting to Rs. 2.0 billion, during the year. The instrument is unsecured and listed on the Lahore Stock Exchange and has been issued to strengthen the Tier II capital of the Bank, as mentioned above.

Branch network:

During the year, your Bank opened the highest number of branches so far in any year, by adding 24 branches to the nation-wide network to make a total of 98. The worldwide total branch network stood at 99, including the Offshore Banking Unit in Bahrain. Further expansion will continue during 2006 and work is already underway at some proposed locations. Strategic branch expansion remains our priority to cover all important towns and cities and to explore new markets in the smaller towns for our retail and agriculture banking products, supported by our technology based services such as on-line banking and ATMs.

Askari Investment Management Limited (AIML)

As mentioned above, the Bank's first wholly owned subsidiary, AIML was incorporated on May 30, 2005 as a public limited company. AIML is a Non-Banking Finance Company, under license from the Securities and Exchange Commission of Pakistan (SECP) to undertake asset management and investment advisory services as prescribed under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. AIML obtained certificate of commencement of business on September 22, 2005. However, AIML has not rendered any investment advisory services upto December 31, 2005. AIML manages and operates Askari Income Fund, an open ended mutual fund, which is planned to be launched by the first week of March, 2006.

AIML's first financials for the period ended December 31, 2005 mostly comprise of the initial set-up costs. The company is expected to start contributing to the Bank's earnings from 2006.

Consolidated financial statements of the Bank and AIML for the year ended December 31, 2005 are included in this report.

Awards and recognition:

During the year, your Bank, for the second time, won 'The Best Retail Bank in Pakistan' award from The Asian Banker magazine.

The Bank also won, for the second time, the Corporate Excellence Award for the financial category, from the Management Association of Pakistan.

The Bank won 'The Best Corporate / Institutional Internet Bank in Pakistan' and 'The Best Consumer Internet Bank in Pakistan' awards for 2004, from The Global Finance – an international magazine of high repute.

The Annual Report of the Bank for the year 2004 won the 1st prize for 'The Best Annual Report' for the services sector, instituted jointly by The Institute of Chartered Accountants of Pakistan and The Institute of Cost and Management Accountants of Pakistan, for the 5th year running.

The Annual Report of the Bank for the year 2004 was also awarded the 2nd position under the category 'Banking Sector subject to Prudential Regulations' by the South Asian Federation of Accountants (SAFA), an apex body of the SAARC countries.

Pattern of shareholding:

The pattern of shareholding as of December 31, 2005 is included in this report.

Corporate and financial reporting framework:

- The financial statements, prepared by the management of the Bank, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the Bank have been maintained.
- Accounting policies have been consistently applied in preparation of these financial statements except as stated in the notes to the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to banking companies in Pakistan, have been followed in preparation of these financial statements.
- The system of internal control, which is in place, is being continuously reviewed by internal audit department and other such procedures. Such review process will continue and any weakness in controls will be removed.

- Board of Directors is satisfied with the Bank's ability to continue as a going concern.
- There have been no material departures from the best practices of corporate governance as detailed in the Listing Regulation No.37 of the Karachi Stock Exchange (Guarantee) Limited.
- Transactions undertaken with related parties during the year have been ratified by the Audit Committee and have been properly disclosed in the financial statements.
- Key operating data and financial data for the last ten years, in summarized form, is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2005, except as disclosed in these financial statements.
- The following is the value of investment as at December 31, 2005:

Provident Fund Rs. 421.53 million, based on unaudited financial statements (2004: Rs.336.01 million)

Gratuity Fund Rs. 162.77 million, based on unaudited financial statements (2004: Rs.131.87 million)

- During 2005, 5 meetings of the Board of Directors were held. Attendance by each Director was as follows:

Lt. Gen. Waseem Ahmed Ashraf (Chairman)	4
Lt. Gen. (R) Masood Parwaiz (retired)	5
Mr Kalim-ur-Rahman	5
Brig. (R) Muhammad Shiraz Baig	5
Brig. (R) Asmat Ullah Khan Niazi	4
Brig. (R) Muhammad Bashir Baz	4
Brig. (R) Shaukat Mahmood Chaudhari	4
Mr Zafar Alam Khan Sumbal	5
Mr Kashif Mateen Ansari	5
Mr Shahid Hafeez Azmi (retired)	1
Mr Muhammad Afzal Munif	5
Mr Muhammad Najam Ali	2
Mr Tariq Iqbal Khan (NIT Nominee)	3

Auditors:

The Auditors, M/s A. F. Ferguson & Co., Chartered Accountants have completed their assignment for the year ended December 31, 2005 and shall retire at the conclusion of the 14th Annual General Meeting. The Auditors have indicated their willingness to continue in office as Auditors

and the Board, on the proposal of the Audit Committee, recommends appointment of M/s A. F. Ferguson & Co., Chartered Accountants, as the Auditors for the year 2006.

Events after the Balance Sheet date:

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the enclosed financial statements.

Prospects for 2006:

The operating environment for banks in 2006 will be very challenging in the wake of intense competition in the pricing of asset and liability products. Effective asset liability management together with banks' ability to offer improved and innovative products will play a key role in producing better results.

Your Bank continues to pursue strategic expansion of its nation-wide branch network which reached 98 by the end of the year. Further expansion is planned and is in progress. In addition to our existing network which offers conventional banking services, the Bank will be launching dedicated Islamic Banking branches during 2006. The Bank will also be looking at augmenting its existing delivery channels with new IT backed channels to boost customer convenience. The Bank will continue to diversify its credit portfolio with emphasis on consumer, SMEs and agriculture while ensuring credit growth strictly on the basis of quality, risk and pricing, aimed at improving returns on assets and capital.

We will, in 2006, further consolidate our corporate identity and offer our clients a better service and more customized products. Through this more focused approach, we will endeavor to out perform the competition.

Acknowledgments:

On behalf of the Board, I would like to express my sincere appreciation to the State Bank of Pakistan and other regulatory bodies for their guidance and support; to the shareholders and customers of the Bank for their patronage and business; and to the employees of the Bank for their continued dedication and hard work, which has given us these excellent results.

For and on behalf of the Board



Rawalpindi
February 22, 2006

Lt. Gen. Waseem Ahmed Ashraf
Chairman





inspiring relationships



Annual Report of
ASKARI COMMERCIAL BANK LIMITED
for the year ended December 31, 2005