



inspiring relationships

“ The power to inspire and be inspired”

A Decade of Performance

December 31	1995	1996	1997	1998	1999
Profitability					
Total income	1,606	2,306	3,319	4,035	3,889
Interest income	1,292	1,820	2,759	3,475	3,350
Interest expenditure	664	1,212	1,910	2,511	2,486
Fee, commission and exchange income	292	444	520	509	472
Other income	22	42	39	51	67
Spread	428	608	849	965	864
Operating expenses	265	357	461	569	589
Operating profit	477	737	948	956	814
Provision against non-performing assets	27	155	193	102	102
Profit before taxation	450	582	755	854	712
Taxation	277	344	444	495	430
Profit after taxation	173	238	311	359	282
Shareholders' funds					
Total shareholders' funds	893	1,581	1,775	1,937	2,046
Share capital	517	617	939	986	986
Reserves	376	764	836	951	1,060
Surplus on revaluation of assets	-	-	-	-	-
Liabilities					
Customers deposits	9,651	14,126	19,482	23,417	24,358
Refinance borrowings	1,456	1,529	1,908	2,194	3,146
Sub-ordinated loans	-	-	-	-	-
Other liabilities	543	670	906	1,184	1,477
Assets					
Advances	6,991	7,115	9,137	9,708	13,056
Investments	2,473	6,173	11,774	13,888	8,679
Cash, short term funds and statutory deposits with SBP	2,672	3,321	1,622	3,504	7,210
Operating fixed assets	184	288	480	501	536
Other assets	468	812	858	1,130	1,546
Total assets	12,788	17,709	24,071	28,731	31,027
Business transacted					
Imports	7.7	6.2	8.7	11.5	17.5
Exports	10.2	13.1	17.3	20.0	22.8
Guarantees	2.8	4.6	4.0	3.2	5.3
Ratios					
Return on average shareholders' funds (RoE)	21.5	19.2	18.5	19.3	14.2
Return on average assets (RoA)	1.6	1.6	1.5	1.4	0.9
Rate of cash dividends	-	-	12.5	20.0	17.5
Rate of bonus issue	10.0	15.0	5.0	-	-
Price-Earning Ratio (P/E)	10.63	8.27	8.84	3.25	5.56
Advance to deposits (CDR)	71.0	50.4	46.9	41.5	53.6
Operating fixed assets to average shareholders' funds	22.8	23.3	28.6	27.0	27.0
Capital adequacy ratio (CAR)	-	-	16.43	16.98	13.02
Share information					
Earnings per share (EPS)	3.30	2.90	3.30	3.60	2.90
Net assets per share	17.27	19.35	18.90	19.64	20.75
Market value per share	35.74	23.98	28.17	11.70	16.12
Other information					
Number of employees	664	796	946	896	1,001
Number of branches	19	23	26	27	28

2000	2001	2002	2003	2004
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Rupees in million

3,840	5,047	5,704	5,028	6,121
3,210	4,251	4,858	4,074	4,487
2,274	2,902	3,017	1,380	1,117
506	677	599	636	831
122	119	247	317	602
939	1,349	1,841	2,694	3,370
680	854	1,083	1,438	1,845
886	1,291	1,585	2,210	3,158
134	283	351	308	315
752	1,008	1,244	1,902	2,843
438	458	557	709	920
316	551	687	1,103	1,923

2,155	2,579	4,173	5,047	6,016
988	1,036	1,087	1,142	1,256
1,229	1,521	1,940	2,700	4,317
(60)	22	1,146	1,145	443

30,380	41,200	51,732	61,657	83,319
2,882	3,222	3,392	7,329	9,777
-	-	-	-	1,000
3,058	3,980	11,016	11,354	7,055

17,893	23,292	30,035	44,778	69,938
8,651	11,706	26,737	22,104	17,239
10,056	13,436	10,061	15,099	15,936
841	723	1,663	1,980	2,595
1,213	1,824	1,817	1,426	1,460
38,454	50,980	70,313	85,387	107,168

Rupees in billion

26.2	32.0	40.2	48.7	75.2
30.6	38.8	47.3	56.8	70.1
4.8	6.2	14.2	14.4	25.3

Percent

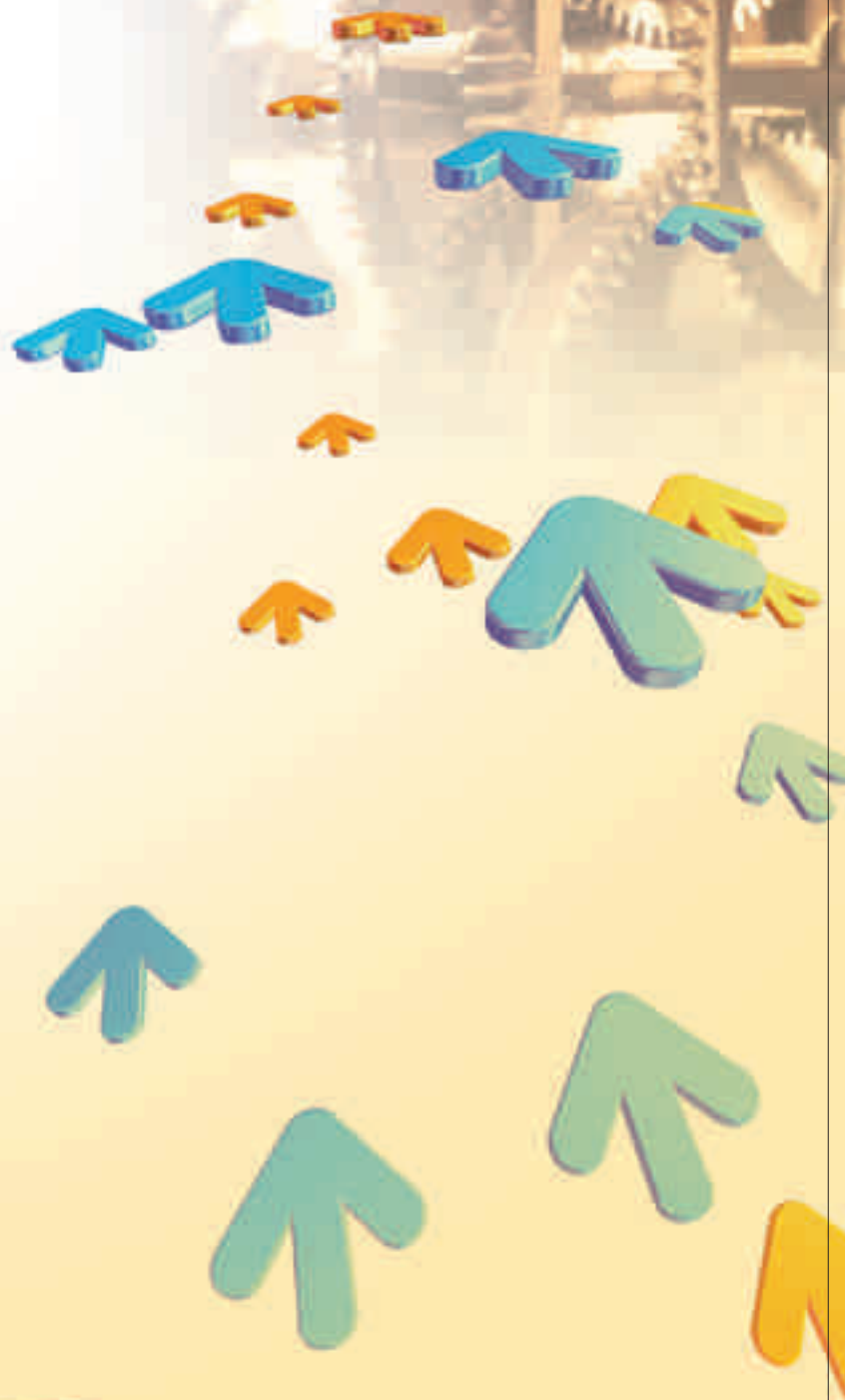
16.0	23.2	20.3	23.9	34.8
0.9	1.2	1.1	1.4	2.0
15.0	20.0	20.0	20.0	20.0
5.0	5.0	5.0	10.0	20.0
4.69	2.50	4.46	5.33	6.14
58.9	56.5	58.1	72.6	83.9
30.5	30.5	49.3	43.0	46.9
11.95	10.78	12.0	9.95	9.91

Rupees

3.00	5.30	6.32	9.66	15.31
21.85	24.90	38.38	44.21	47.90
14.07	13.25	26.85	51.50	94.00

Numbers

1,147	1,261	1,456	1,723	2,118
29	36	46	58	75



Corporate Information

Board of Directors

Lt. Gen. Waseem Ahmed Ashraf
Lt. Gen. (R) Misood Parwiz
Mr. Kalim-ur-Rafiqan
Brig. (R) Muhammad Shiraz Baig
Brig. (R) Muhammad Bashir Baiz
Brig. (R) Asmat Ullah Khan Niazi
Brig. (R) Shaukat Mahmood Choudhri
Mr. Kashif Mubeen Anjan
Mr. Zafar Alam Khan Sumbal
Mr. Shahid Hafeez Azmi
Mr. Muhammad Afzal Munif, FCA
Mr. Tariq Iqbal Khan, FCA

Chairman
Chairman, Executive Committee
President & Chief Executive
Director
Director
Director
Director
Director
Director
Director
Director
Director (NFI Nominee)

Company Secretary

Mr. Zafar Alam Khan Sumbal

Audit Committee

Mr. Muhammad Afzal Munif, FCA
Brig. (R) Muhammad Shiraz Baig
Brig. (R) Asmat Ullah Khan Niazi
Mr. Zafar Alam Khan Sumbal

Chairman
Member
Member
Secretary

Auditors

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Legal Advisors

Rizvi, Isa, Afridi & Angell

Registrar & Share Transfer Office

M/s THK Associates (Private) Limited
Ground Floor,
Modern Motors House,
Baumont Road
Karachi, 75530
Tel: (92 21) 5669021, 5665658, 5665681
Fax: (92 21) 5655595

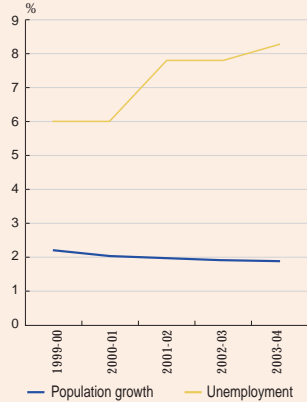
Registered Office / Head Office

AWT Plaza, The Mall,
P. O. Box No. 1384,
Rawalpindi, Pakistan.
Tel: (92 51) 927 2150-53
Fax: (92 51) 927 2455
E-mail: webmaster@askaribank.com.pk
Website: www.askaribank.com.pk

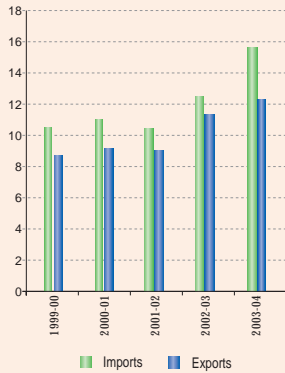


Pakistan's Economic Profile

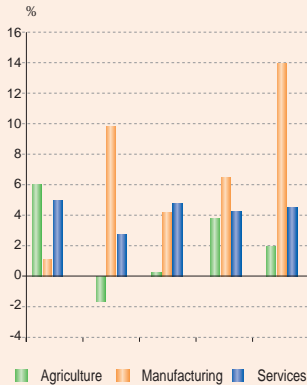
Population growth & unemployment



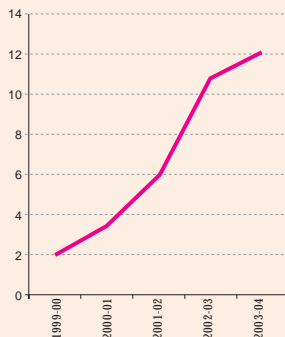
Foreign trade
USD billion



Sectoral contribution to GDP



Foreign exchange reserves
USD billion



Key country statistics

Land area (sq. km.)	796,100
Population (Million)	148.7
Population growth (%)	1.9
Population density (people / sq. km.)	187
Life expectancy (years)	64
Literacy (%)	54

Major economic indicators

	2001-02 *	2002-03 *	2003-04 *
GDP Growth (%)	3.1	5.1	6.4
GDP - at factor cost (Pak Rs. billion)	3,706	3,895	4,144
GDP - at market prices (Pak Rs. billion)	4,402	4,821	5,458
Inflation (%)	3.54	3.10	4.57
Trade balance (USD million)	(1,205)	(1,060)	(3,279)
Current account balance - ex.official transfers (USD million)	1,338	3,165	1,369 ^{est.}
Foreign currency reserves - year end (USD million)	6,432	10,719	12,328
Exchange rate - year end (USD)	60.07	57.81	57.92
(Euro)	59.85	66.10	70.90

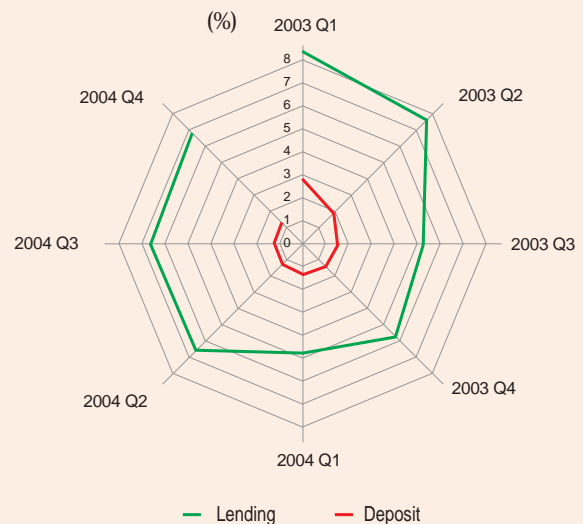
Banking system

Networth of banks at year end (Pak Rs. billion)	86	112	131
Total assets of banks at year end (Pak Rs. billion)	2,301	2,540	3,003

Stock market

KSE 100 index at year end	1,770	3,402	5,279
Market capitalization at year end (Pak Rs. billion)	408	746	1,357

Lending and deposit rates



GDP - growth



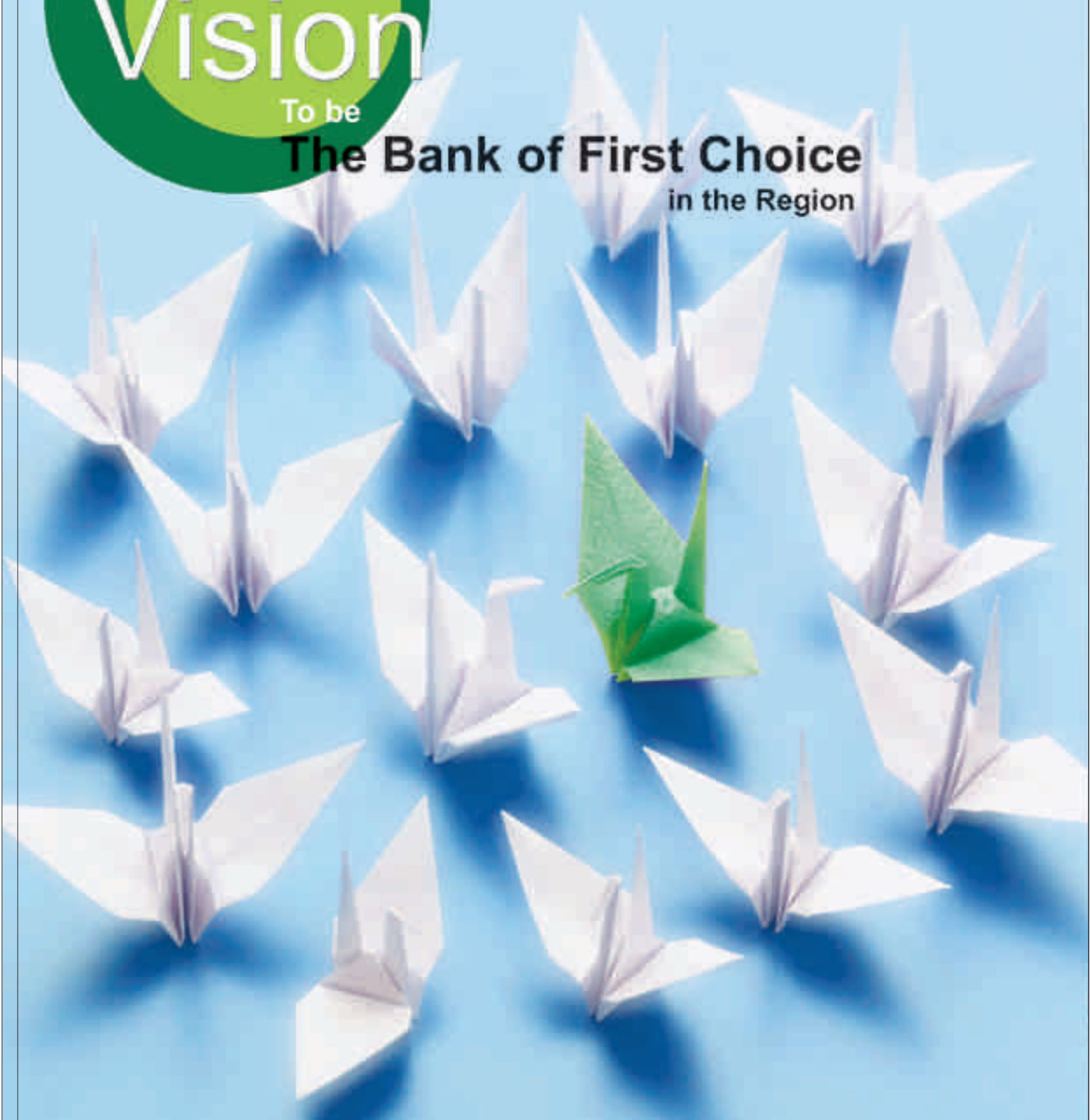
* Pakistan's fiscal year starts on July 1 and ends on June 30.



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.



Brief History

Askari Bank was incorporated in Pakistan on October 09, 1991, as a public limited company. It commenced its 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 & Islamabad Stock Exchanges and its share is currently the highest quoted from among the new private sector banks in Pakistan.

Askari Bank has expanded into a nation wide presence of 74 branches, and an Offshore Banking Unit in Bahrain. A shared network of over 800 online ATMs covering all major cities in Pakistan supports the delivery channels for customer service. As at December 31, 2004, the Bank had an equity of Rs. 6.016 billion and total assets of Rs. 107.168 billion, with over 475,000 banking customers, serviced by a total staff of 2,118.





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.



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
award for 1994 & 96
by *Asiamoney* magazine

Best Domestic Bank of Pakistan
award for 1995
by *Euromoney*

The Best Bank in Pakistan
award for 2001 & 02
by *Global Finance* magazine

Best Consumer Internet Bank in Pakistan
award for 2002, 03 & 04
by *Global Finance* magazine

Best Corporate / Institutional Internet Bank in Pakistan
award for 2004
by *Global Finance* magazine

Best Corporate Report
1st prize award for 2000, 01, 02 & 03
by *Institute of Chartered Accountants of Pakistan (ICAP)*
and *Institute of Cost & Management of Accountants of Pakistan (ICMAP)*

Best Presented Accounts
Ranking prizes award from 1997 to 2002
by *South Asian Federation of Accountants (SAFA)*

The Best Presented Annual Report
1st prize award from 1997 to 2003
by *National Council of Culture & Arts (NCCA)*

Best Retail Bank in Pakistan
award for 2003
by *Asian Banker*

Corporate Excellence
award for 2002 & 03
The Management Association of Pakistan (MAP)

Over the years, Askari Bank has 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



Mr. Agil-ur-Rahman, President Askari Bank, receiving 'The Best Retail Banking in Pakistan' award




Mr. Rahnawaz-Ul-Haq, President Askari Bank, receiving 'Corporate Excellence' award



Mr. Syed Ali Akbar, Chief Financial Officer Askari Bank, receiving 'Best Corporate Report' award

Entity Ratings

Askari Bank has A1+ rating
for short-term obligations and the
long-term rating stands at AA+ from
Pakistan Credit Rating Agency Limited (PACRA)

A close-up photograph of a red ladybug with black spots on its back, perched on the yellow center of a pink, spiky flower. The background is a soft, out-of-focus green.

Inspiring Relationships

Inspiring 475,000 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 475,000 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 rotations. 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 innovation:

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.

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 seventeen new fully automated branches, increasing our branch network to 75, including an Offshore Banking Unit at 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 Citizenship

Conscience, Care and Compassion

Askari Bank understands the need to be more than just a financial friend. Our commitment to the customers, employees and other stakeholders stems from our deep-rooted belief and the sense of responsibility to contribute towards different areas of the social sector. We see it as giving something back to the nation which helps us flourish. In this way, the society and the people we touch, grow with us.

Today, Askari is a conscientious corporate citizen involved in social uplift, welfare, cultural and sporting activities across the country.

Sports

"Play is the only way the highest intelligence of humankind can unfold"
(Joseph Chilton Pearce)

Askari Bank firmly believes in nurturing the physical spirit as well as the spiritual values. We encourage team spirit and sportsmanship by sponsoring various sports like Squash, Golf and National Para Olympics. We are the official kit sponsors of the Pakistan Polo National Team and all the other Polo League teams. As one of the major sponsors of the 9th SAF Games, we helped the national teams in realizing a much-cherished dream of displaying their potential amongst international players.

As a tribute to our sports heritage, we also sponsored a photo exhibition of sports legends. "A Tribute to Pioneers" had some of the rarest sports photographs dating back to the turn of the last century.





Civic Sense of Responsibility

*“Order is the shape upon which beauty depends”
(Pearl Buck)*

The conscious awareness of civic duty has greatly motivated us in helping the local civil authorities of Lahore and Islamabad. We are with them in their drive to give facelift to different intersections within the cities.

Health Sector

*“A wise man should consider that health is the greatest of Human blessing, and learn how by his thought to derive benefit from his illness.”
(Hippocrates)*

The advent of spring may bring joy to many but for some it heralds a time of physical illness, especially those residing in Islamabad. For the past couple of years, Askari Bank is actively helping the Capital Development Authority in its campaign for “Pollen Allergy Relief”.

Pakistan Foundation for Fighting Blindness is also one of our beneficiaries, which has our continuing support.

Social & Development Sector

*“More countries have understood that women equality is prerequisite for development”
(Kofi Annan)*

Askari Bank is strongly committed to the rights and empowerment of women and children. In this regard, we offer our help to NGOs like ROZAN and BEHBUD in their quest for the betterment of women. Rozan in particular is one of the few NGOs working on issues related to violence against women and children.



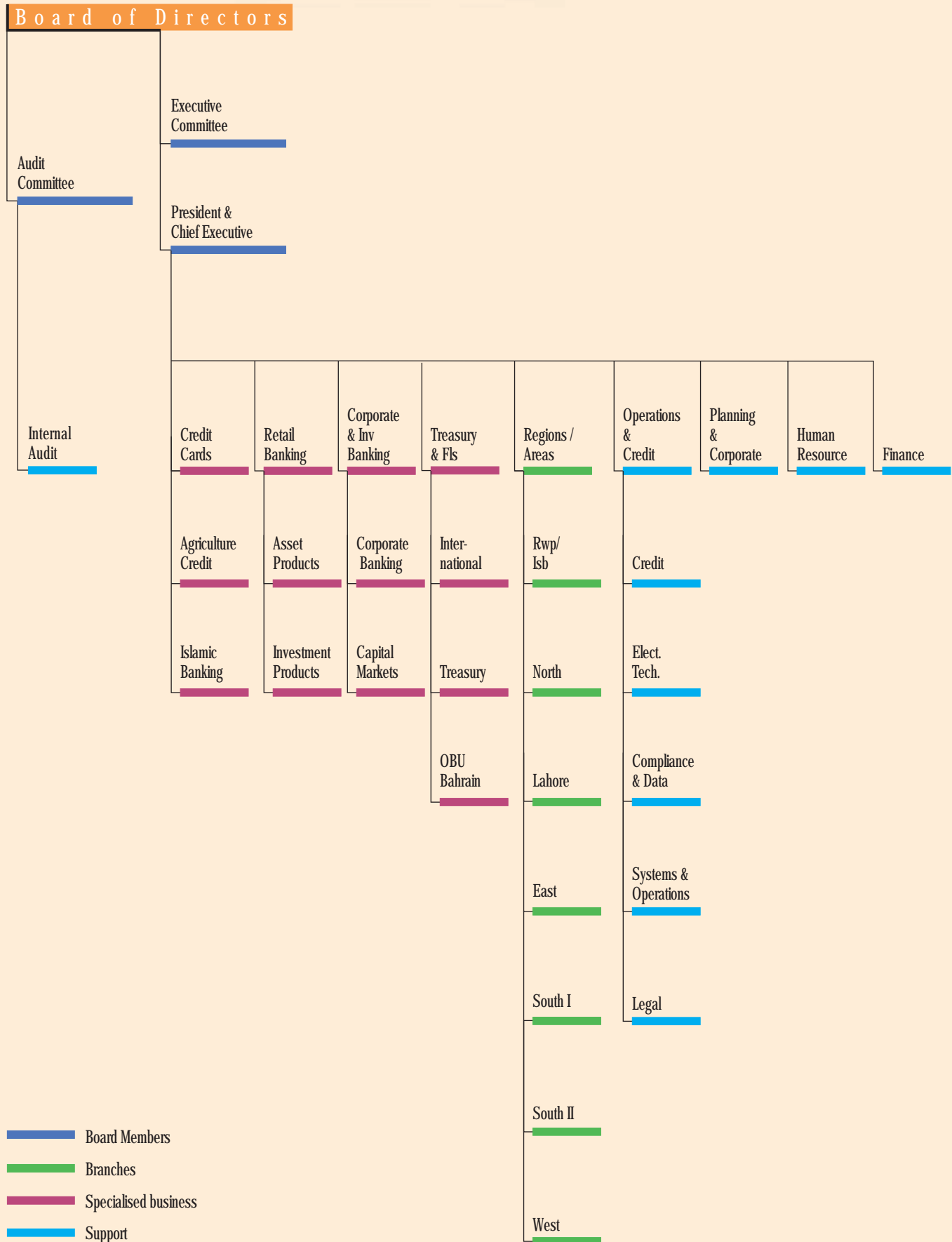
Regional Distribution of Branches / Operating Units



Rwp/Isb Region	11	●
North Area	8	●
Lahore Region	12	●
East Region	15	●
South I Region	15	○
South II Region	9	●
West Area	4	●
Offshore	1	●
Total Branches	75	○
Credit Card Centres	3	△
Retail Banking Centres	5	☆



Organogram



Introduction of Management

Head Office



Kalim-ur-Rahman
President & Chief Executive



Tariq Mahmood, SEVP
Group Head - Operations & Credit



Adnan Afaq, EVP
Divisional Head - Planning & Corporate Affairs



Shaharyar Ahmad, SEVP
Group Head - Corporate & Investment Banking



Zahid Mahmood, EVP
Divisional Head - Human Resource



M. R. Mehkari, SEVP
Group Head - Treasury & Financial Institutions



M. Munir Ahmed, SVP
Divisional Head - Electronic Technology



Agha Ali Imam, EVP
Group Head - Retail Banking



Khalid Mohammad Khan, SVP
Divisional Head - Compliance, Data & Ops.



Hafeez R. Quraishy, EVP
Divisional Head - Islamic Banking



Qaiser Iqbal Khan, SVP
Divisional Head - Credit



S. Suhail Rizvi, EVP
Divisional Head - International



Rehan Mir, SVP
General Manager - Offshore Banking Unit



Abdul Hafeez Butt, EVP
Divisional Head - Corporate Banking



Abdul Jamil Mubbashar, SVP
Divisional Head - Internal Audit

Regions / Areas



Saleem Anwar, SVP
Divisional Head - Finance



Mir Mujahid Ali Khan, SEVP
Regional General Manager - South I



Farooq Abid Tung, SVP
Divisional Head - Agricultural Credit



Shaukat Ali
Regional General Manager - Lahore



Mian Shaukat Ali Arif Sirhindi, SVP
Divisional Head - Credit Cards



Ejaz Ahmed Khan, EVP
Regional General Manager - East



Hassan Aziz Rana, VP
Legal



Nazimuddin A. Chaturbhai, EVP
Regional General Manager - South II



Faheem A. Qureshi, VP
Retail Banking Assets



Saif-ul-Islam, EVP
Regional General Manager - Rawalpindi/ Islamabad



Shahid Siddiqui, AVP
Investment Products



Israr Ahmed, EVP
Area Manager - North



Tariq Siddique Ghauri, VP
Area Manager - West

President's Message



By the Grace of Allah,

Askari Bank was able to achieve another record performance during

2004 by posting the highest-ever operating profit of Rs. 3.158 billion against Rs. 2.210 billion last year, an increase of 43% in one year. The after-tax profit increased by 74%, from Rs. 1.103 billion to Rs. 1.923 billion, giving an earning per share of Rs. 15.31.

The external factors contributing to this performance are the generally better state of Pakistan's economy leading to increased business volumes, overall positive market sentiment, political stability, and visible improvement in Pakistan's sovereign ratings. The internal factors continue to be deft 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. As a result, Askari Bank outperformed all its peers in terms of after-tax profits.

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 and agriculture banking, introduce fresh initiatives for corporate and investment banking, capitalize on new business opportunities and implement various technology initiatives.

Revenue growth remained a critical challenge facing the banking industry during 2004. Declining inflation during most of 2004 and the consequent low yields on assets pushed down banks' interest margins and created stiff competition amongst banks even for retail credit where spreads had earlier been much better than the conventional ones. Also, agriculture credit attracted banks' greater focus. In this scenario, the large banks with greater outreach, and very low cost of funds, had a distinct advantage. Askari Bank, pursuing the key elements of our credit management strategy, well diversified credit expansion and containing non-performing advances, was able to compensate the impact of declining yields by increasing business volumes. Thus, we were able to increase our net mark-up income, though not in the same proportion as the increase in earning assets. Also, the Bank was able to significantly increase non-interest revenues and achieved the highest non-fund based income in the history of the Bank. The profits that we earned enabled us to provide our shareholders with a good return on their investment.

Besides the financial results, we focused our efforts on improving risk management, which we consider to be one of the essentials for sustainable success in our business. A dedicated team, aided by outsourced expertise, has been assigned the task of evaluating and recommending the necessary processes to achieve a comprehensive risk management framework. The exercise will improve our risk taking and managing capabilities. A decision has already been made to create an independent Risk Management Division which will assess and monitor the risk profile of the Bank, and recommend means and methods for improving it, as and where necessary. Meanwhile, all risks are already being monitored very carefully using the traditional methods.

Our Retail Banking Group gathered further momentum during 2004 and increased its share in both business volumes and earnings of the Bank. The Group recognizes innovation as the real differentiator in the retail banking business and has devised various products and services for its customer base. While new products are being added, the distribution channels are also being increased and currently five customer service centers operate in major cities to serve retail banking customers. We believe that Askani Bank is well poised to increase its share of the retail banking market which still offers good opportunities to grow.

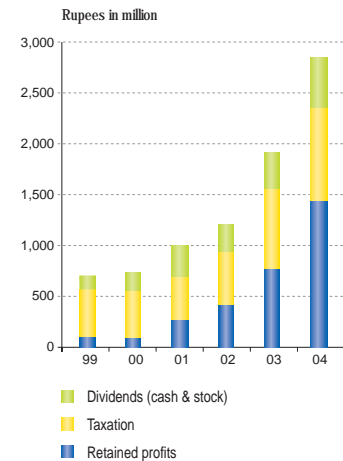
Our progress in the field of retail banking was recognized internationally as the Bank won The Asian Banker award for the 'Best Retail Bank in Pakistan' for 2003. This is the first time any bank in Pakistan has won this award.

Askani's credit card, using the MasterCard brand, remained among the market leaders and crossed the 100,000 cards mark during 2004. The unit runs as a Strategic Business Unit (SBU) headquartered in Karachi and aided by three card centers in the major cities. Keeping in view the growth potential in the credit cards business, four additional card centers have been planned and will become operative in 2005.

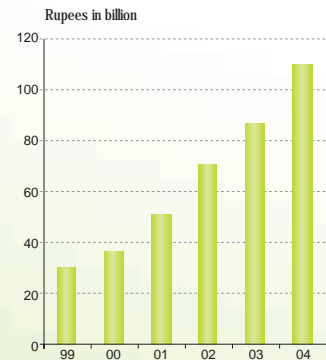
The Bank's first Offshore Banking Unit (OBU) based in the Kingdom of Bahrain, after completion of its first year of operations, came out of the red and is now contributing to the Bank's earnings. It provides us with a platform to benefit from the business opportunities available in the international market.

During 2004, the Bank launched its Agriculture Credit Division. This Division is presently headquartered in Lahore and is strategically placed to serve its customer base through the various branches located in the small to medium sized cities in the Punjab. After the initial start-up phase, the Division has started penetrating in the agriculture credit market through a wide range of innovative and customized products and services, which have been widely acclaimed. In 2005, agriculture financing will be extended to the other provinces of the country.

Distribution of profits

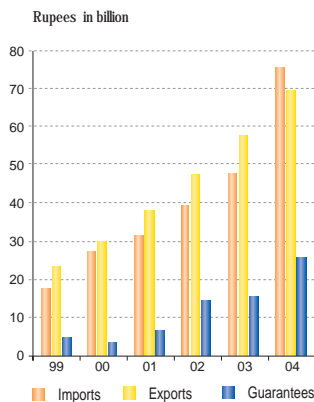


Total Assets



President's Message

Foreign trade & Guarantees



In view of the fast changing market conditions and narrowing of traditional margins on loans, Askari Bank remains committed to seek out new opportunities and making its existing operations more efficient. We continue to strive for the best in offering technology based solutions to our valued customers and maintaining sound control environment. During the year, the Bank relocated its fast expanding Technology Division to a custom built premises in Islamabad, which offers space to grow and much improved communication links with the various branches and units of the Bank. Also, a call center, named as the Askari Customer Care Center, has become operational. It offers round the clock service to our valued customers. Work is already underway to support the call center with an integrated data warehouse which will greatly improve the customer service and enable cross-selling of services and products.

Askari Bank places great emphasis on the attraction, development, and motivation of its employees who are recognized as the prime asset and key contributors to the progress of the Bank. 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. For this purpose, various initiatives are being implemented, including improved training and career development, to stimulate 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 2004. 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 every possible growth opportunity in pursuit of our stated objectives of adding to the stakeholders' value and contributing to the economy and the society in which we operate.

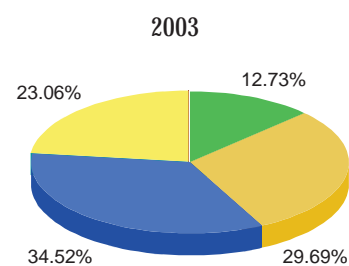
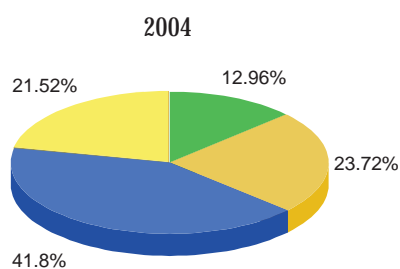
Kalim-ur-Rahman
President & Chief Executive

During
2004 The Bank Launched its

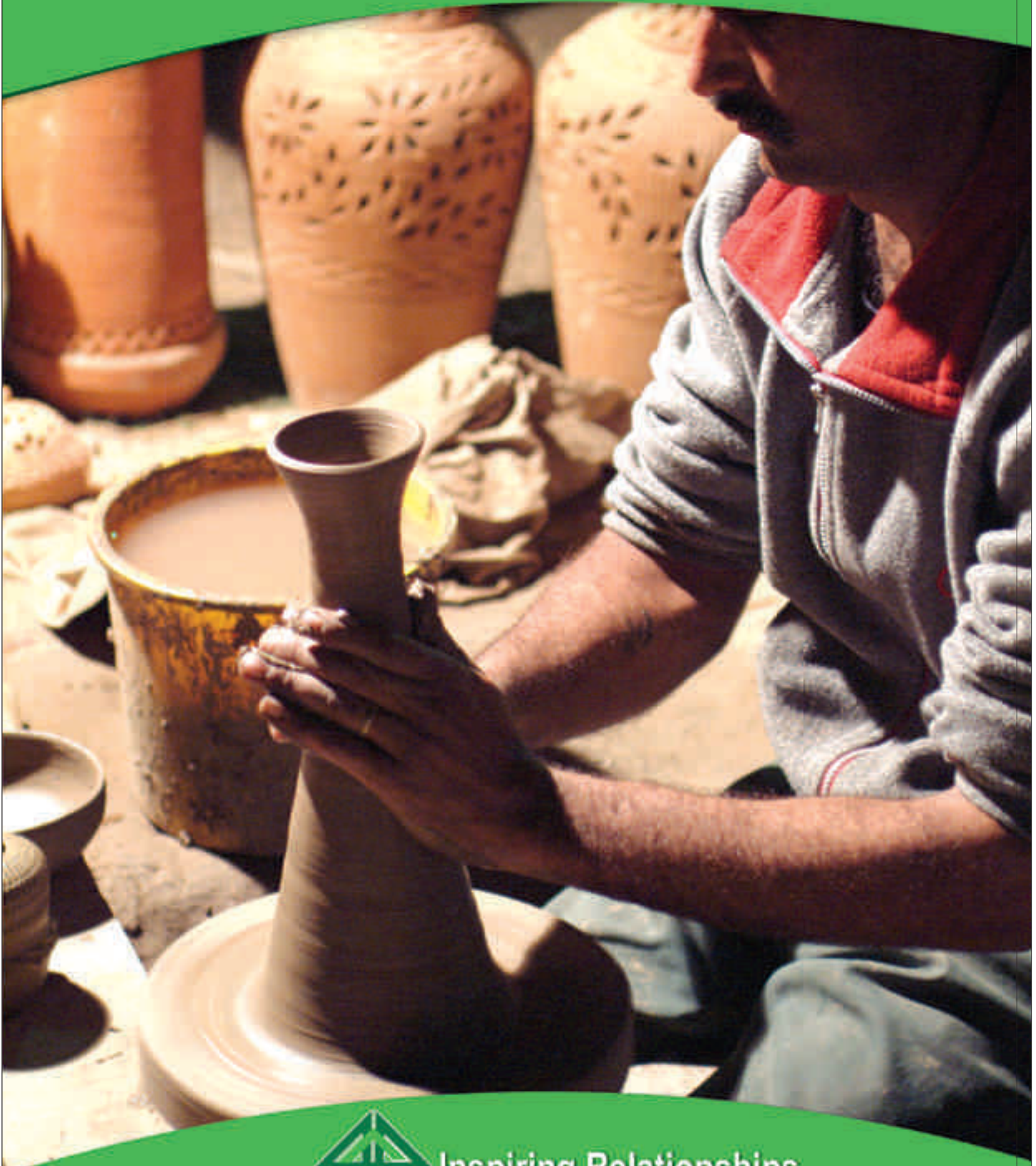
AGRICULTURE CREDIT DIVISION

Value Added Statement

Value Added	2004	Percent	2003	Percent
	Rupees in thousand		Rupees in thousand	
Income from banking services	5,767,580		4,796,370	
Cost of services	1,614,060		1,832,942	
Value added by banking services	4,153,520		2,963,428	
Non-banking income	39,176		35,314	
Provision against non-performing assets	(315,471)		(308,528)	
	3,877,225		2,690,214	
Value allocated				
to employees				
Salaries, allowances & other benefits	834,574	21.52%	620,309	23.06%
to providers of capital				
Cash dividend	251,170		228,336	
Bonus shares	251,170		114,168	
	502,340	12.96%	342,504	12.73%
to Government				
Income tax	919,700	23.72%	798,735	29.69%
to expansion and growth				
Depreciation	199,911		168,105	
Retained in business	1,420,700		760,561	
	1,620,611	41.80%	928,666	34.52%
	3,877,225	100.00%	2,690,214	100.00%



■ Value allocation to employees
■ to providers of capital
■ to Government
■ to expansion and growth



Inspiring Relationships

Business and Operations Review



Benefited by the highly conducive economic environment, Askari Bank continued its growth momentum and posted substantial gains during 2004.

The positive economic trends during the year, particularly the broad based recovery by the manufacturing sector and the low interest rates led to a record growth in the private sector credit demand, which increased by Rs. 325 billion during fiscal 2004. Also, net consumer credit grew strongly by Rs. 75.6 billion during fiscal 2004 as against Rs. 48.6 billion in the previous year, an increase of 56%. The highest growth in consumer credit was financing for consumer durables followed by automobiles and personal loans. 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.

Askari Bank was well poised to take advantage of these positive developments in the country. Corporate business accounted for 59% of the total credit disbursed during the year followed by SME (21%) and commodity financing (13%). Retail and agriculture credit accounted for 7% of the total credit disbursed during 2004. In a highly competitive environment, the Bank continually reviewed its policy pertaining to the sectoral exposures to derive optimum competitive advantage, maintain the risk profile and achieve greater customer satisfaction.



Corporate and Investment Banking

2004 was a challenging year due to historic lows in interest rates, particularly for corporate business. The Corporate Banking Division (CBD) undertook a number of debt re-pricing swap transactions, aimed at reducing the financial burden of its key client portfolios and also managed advisory and loan arrangement activities. The major new relationships cover telecommunication, oil and gas, and chemicals sectors. CBD has dedicated marketing and support units functioning at Karachi and Lahore. In order to enhance focus on relationship management, and service quality, more dedicated staff is being assigned.

The investment banking activity mainly covers, debt / capital markets, advisory services and trading (both equities and derivatives). After the initial start-up phase, the capital market desk, based at Karachi, increased the volume of capital market related transactions. During 2004, as a result of the positive stock market sentiment, the capital market transactions contributed substantially to the Bank's earnings. Investment Banking also participated in various debt and capital raising instruments during the year.

Progress on the setting-up of an Asset Management Company was slow because of delays in receiving statutory approvals. However, we now see the company becoming operational in the third quarter of 2005.

The corporate and investment banking 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.

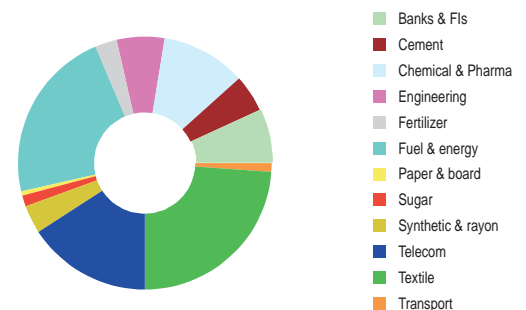
Retail Banking

During the year, the Retail Banking Group registered healthy growth (167%) in its asset book comprising of auto, mortgage, business, personal and household financing.

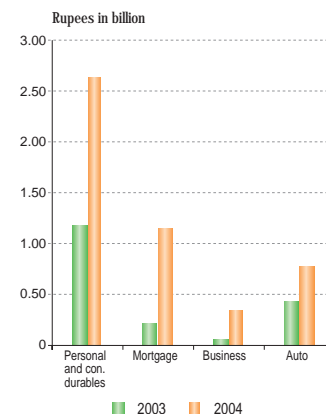
Keeping in view the fast growing operations of retail banking, the Group re-organized its marketing and customer support structure by creating dedicated Retail Banking Units (RBU) in addition to the Retail Banking Centers (RBC). The 5 RBC's, in Rawalpindi, Peshawar, Lahore, Karachi and Quetta are now supported by 19 RBU's which operate from the branches in proximity of the RBCs.



Segmentation of Corporate Facilities



Retail Banking Advances



Business and Operations Review



In addition to the asset book, other retail banking products showed healthy increases. The Bank's debt card with the brand name of ASKCARD registered a growth of 23% in the number of cards issued. Askari Bank pioneered product of electronic utility bills payment service was further expanded and now covers electricity bills for Islamabad and Peshawar, and gas bills for the south regions, in addition to the bills of the largest telephone utility company. The transaction volume on electronic utility bills payment facility increased more than 5 times during 2004.

Credit Cards

Amidst strong competition, the credit card business, under the MasterCard brand, recorded good growth in all areas of operation. Net card issuance increased by 59% during the year and cards in force (CIF) crossed the 100k mark. Transaction volume increased by 39%, while the Credit Cards loan portfolio increased by 34%. NPLs on account of the loans portfolio remained well within the industry norms.

For the first time in Pakistan, Askari Bank introduced the 'Platinum Card' in addition to the existing Gold and Silver. The 'Platinum Card' facility offers certain exclusive leisure and travel related facilities to its members.

Treasury and International operations

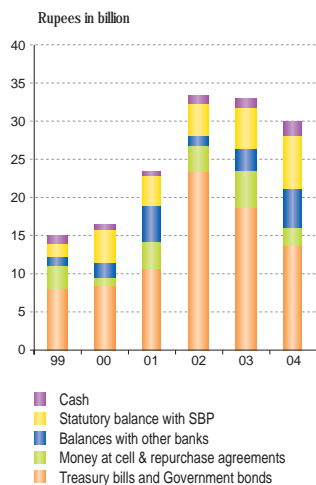
Conditions in the money market and foreign exchange market were very challenging and volatile during 2004. The low interest rate environment that dominated the first half of 2004, changed with the rising credit demand in the manufacturing, retail, services and agriculture sectors, increase in inflation, and rising interest rates in the international market.

Similarly, the Rupee / Dollar exchange rate witnessed a volatile situation, reflected by the fact that the Rupee started the year 2004 at 57.40 against US Dollar, reached 61.00 in October and gradually receded to 59.46 in December. The main reasons for this volatility were the bulging trade deficit, higher oil prices and repayment of expensive foreign debts by the Government of Pakistan (GoP).

Dollar premiums in the forward were negative in the first half of the year; but gradually shifted to positive in the second half due to the weakening of the Rupee.

Money market remained liquid with volatility in interest rates. Weighted average yields of 6 months Treasury Bills rose to 3.73% p.a. in November from 1.64% p.a. in January 2004, thus reflecting a net increase of 209 bps.

Cash, short term placements & Government bonds



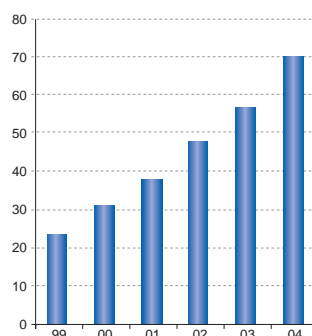
The intense competition along with the deregulation and liberalization of the money and foreign exchange markets, has placed the Treasury in a demanding position, and it is now under pressure to be more innovative in undertaking arbitrage and derivative transactions to maintain (and increase) its share in the overall earnings of the banks.

The Treasury management has established a Mid Office to measure, manage and mitigate the risk elements associated with the Treasury activities. The IT system and the human resource skills have been upgraded so that the Treasury can manage the risk better, and also advice and services to the branches and their customers.

The increase in overall foreign trade of the country during 2004 also enabled the Bank to achieve a healthy growth. Bank's import business increased to Rs. 75.2 billion, i.e. 54% over last year, while the exports increased by 24% over last year, to Rs. 70.1 billion.

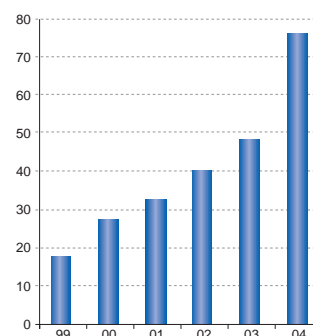
Exports

Rupees in billion



Imports

Rupees in billion



Offshore Banking Unit

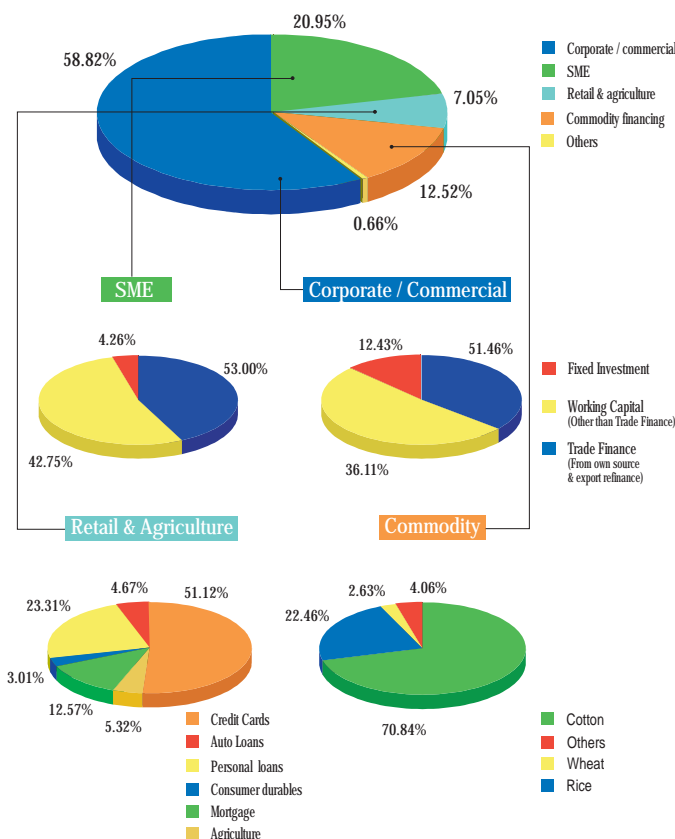
Askari Bank's first Offshore Banking Unit (OBU) has started making a positive contribution to the Bank's overall earnings. During 2004, OBU completed its first year of operations and recorded more than four times increase in its asset base to USD 47 million, from USD 11 million last year. The OBU enhances 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 quality

The low interest rates and the substantial growth in large scale manufacturing were the primary factors behind the tremendous increase in private sector credit during the year.

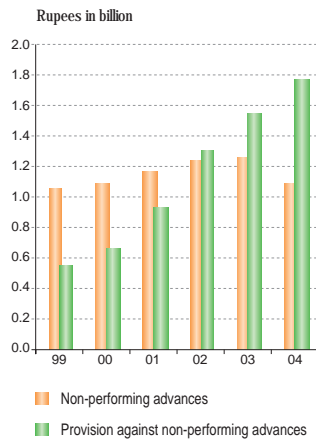
Askari Bank's credit portfolio increased by 55%, to close at Rs. 71.718 billion. A review of the securities held against credit limits reveals that the credit portfolio of the Bank is well collateralized, with about 44% of the exposure being covered by securities of liquid nature, such as deposits, trade documents, equity or debt instruments, guarantees from government or financial institutions, etc.

Disbursements during the year



Business and Operations Review

Coverage against non-performing advances



Consequent to substantial recoveries during the year, Bank's non-performing advances reduced by 14% to Rs. 1.101 billion, from Rs. 1.278 billion last year. The NPLs ratio as a percentage of gross advances also reduced from 2.76% to 1.54%.

During 2004, Askari Bank made further provisions of Rs. 277 million in compliance with the revised provisioning guidelines issued by the State Bank of Pakistan, and also to build up the general provisions as a measure of prudence. The cumulative provisions increased to Rs. 1.780 billion, thereby increasing the coverage of total provisions to total NPLs to 162%, against 122% last year.

Information Technology

In the age of increasing competitive pressures, technology support impacts service delivery standards and customer satisfaction levels. The value addition from this area has made a significant contribution towards successfully expanding and managing the customer base of the Bank.

During 2004, various technology initiatives were successfully implemented. The seventeen new branches opened during the year were operational with on-line banking from day one. A dedicated customer call center, named as the Askari Customer Care Center, became operational during the year. It aims at providing one window service to our valued customers in terms of their telephonic enquiries. During the year, Askari Bank's co-founded ATM switch, 'One-Link', the largest ATM switch in Pakistan, linked up with M-net, the second largest switch. As a result, the Bank's customers can now access their accounts through more than 800 online ATMs throughout Pakistan.

Making crucial, timely, strategic decisions is a must to stay ahead in today's competitive banking environment. The Bank's 'Data Warehouse' is a step towards providing the management with accurate, up-to-date information enabling them to make timely and prudent decisions. The data warehousing project will also assist the already operational customer call center to operate more effectively.

Askari Bank's central Electronic Technology Division was relocated to a custom built premises in Islamabad which offers an excellent environment to work, and much improved communication links with the various branches and operating units of the Bank, countrywide.



Regulatory environment & CAR

The year saw many initiatives on the policy and regulatory front which would have an impact on the Bank's business in the years to come.

The State Bank of Pakistan (SBP) issued revised prudential regulations which became effective from January 1, 2004. The revised prudential regulations have, inter alia, resulted in higher provisioning requirements against the NPLs. At the same time the new regulations provide greater flexibility to banks to meet the credit requirements of the consumer, microfinance and SME sectors.

The scope of the capital adequacy ratio (CAR) has been extended and capital requirement for market risk, in addition to the existing credit risk, has also been introduced.

SBP has enhanced the minimum paid-up capital requirement for banks from Rs. 1.0 billion to Rs. 1.5 billion by December 31, 2004, and Rs. 2.0 billion by December 31, 2005.

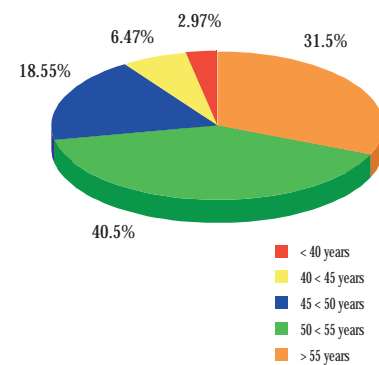
As of year end 2004, Askari Bank is fully compliant with all the above requirements and the management of the Bank is fully cognisant of the steps being introduced to promote good governance practices among banks, and to establish effective anti-money laundering processes in keeping with international requirements.

Our People

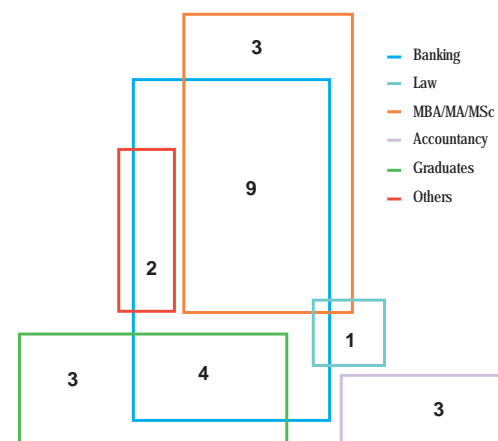
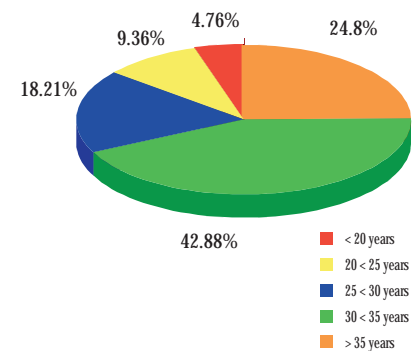
The Bank fully recognizes its committed and competent work force as the primary asset in providing value addition to its other stakeholders. Human resource functions are accordingly being modernized and reviewed in accordance with our strategic direction and objectives. Staff training and motivation 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 2004, 1337 staff attended various training courses spread over 222 working days.

Staff at the middle and senior levels are frequently nominated for outside training programs conducted by institutions both locally and abroad. Overseas training was stepped up during 2004 and as many as 11 staff members attended seminars and workshops overseas. Additionally, 129 staff attended various courses and training programs conducted by local training institutions.

Age-wise analysis of Corporate & Senior Management



Service analysis of Corporate & Senior Management

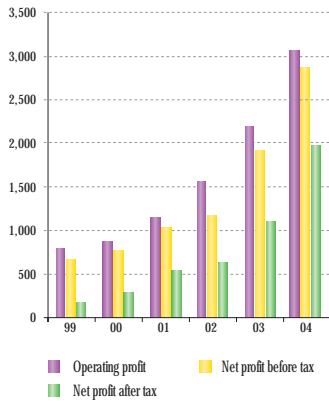


Professional qualifications of Senior Management

Financial Review

Profits

Rupees in million

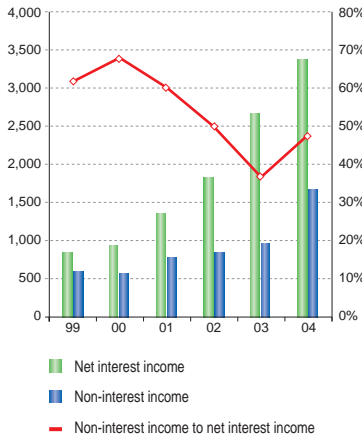


Operating profit & profit before and after tax

Askari Bank recorded significant growth in operating profit (43%) over previous year. Pre-tax grew by 49% and after-tax profits grew by 74%, over previous year. The after-tax profit grew more due to the tax-exempt gains realized during the year. The effective tax rate reduced from 42% to 32% during the year. The core-banking profits grew by 23%, and net mark-up / interest income increased by 25% during the year, mainly due to efficient management of spreads and 55% increase in advances.

Non-interest income

Rupees in million

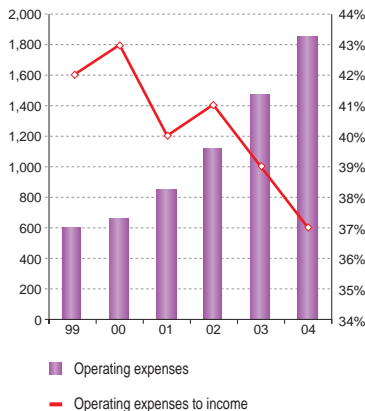


Non mark-up / non interest income

The total non mark-up / non interest income recorded healthy growth during the year, mainly due to the gains realized upon sale of certain long-term investments in equities, mutual fund and government securities, amounting to Rs. 540 million. Fee, commission and brokerage income increased by 24% benefited by the substantial increase in foreign trade and guarantees business, while income from dealing in foreign currencies increased by a healthy 60% over the previous year.

Operating expenses

Rupees in million



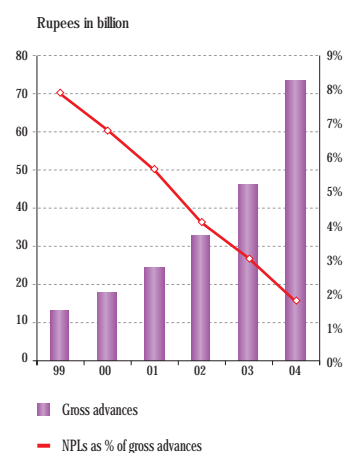
Operating Expenses

Askari Bank's cost to income ratio (CIR) which was at 39% in 2003, improved appreciably to end up at 37%. The significant increase in operating income over operating expense was the main contributory factor for the improvement in the cost to income ratio.

NPLs and provisions against NPLs

During 2004, Askari Bank appropriated Rs. 277 million as provisions against non-performing advances, against previous year's Rs. 309 million. Out of the total provision against NPLs charged during the year, 45% was specific while 55% was general. The cumulative provision increased to Rs. 1.780 billion, thus providing 162% cover to the NPLs as at December 31, 2004. The reduction in additional provisions during the year was in line with the reduction in the aggregate NPLs which reduced by 14% from Rs. 1.278 billion as at December 31, 2003 to Rs. 1.101 billion at the close of December 31, 2004.

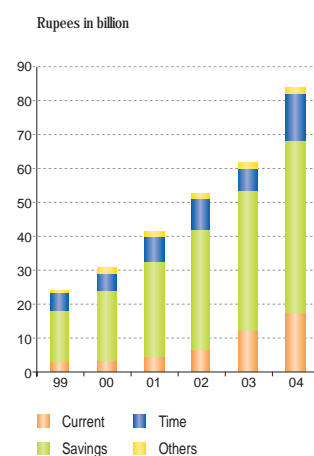
Non-performing advances



Current, Savings and other deposits

Customer deposits increased to Rs. 83.319 billion by the end 2004, an increase of 35% over last year. The increase was achieved despite falling rates. The main contributors to this growth were fixed deposits, which increased by 96% followed by current accounts, which increased by 62% over the previous year. The saving deposits increased by 18%.

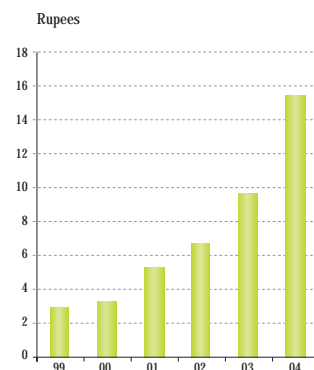
Analysis of total deposits



Earnings per share

Earnings per share increased by 58% from Rs. 9.66 in 2003 to Rs.15.31 in 2004.

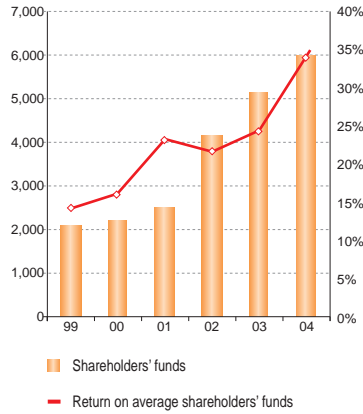
Earnings per share



Financial Review

Shareholders' funds

Rupees in million

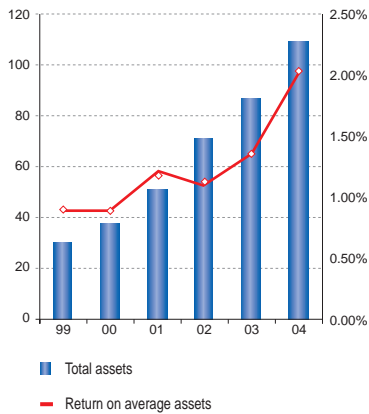


Shareholders' funds

The aggregate shareholders' funds increased to Rs. 6.016 billion by end 2004 from Rs. 5.047 billion last year. The increase was contributed by the profits earned during the year while the unrealized surplus on revaluation of investments, mainly government securities, reduced to Rs. 443 million from Rs. 1.145 billion last year. The return on average shareholders funds increased to 34.80% from 23.90% last year.

Return on average assets

Rupees in billion

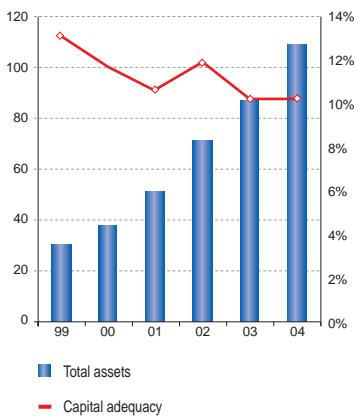


Return on average assets

Return on average assets, which was 1.4% as at end 2003, increased to 2.0% by end 2004. This 43% increase in RoA is primarily attributable to significant increase in after-tax profit. The average assets increased by 24% during 2004.

Capital Adequacy

Rupees in billion



Capital adequacy

The capital adequacy ratio slightly declined to 9.91% by December 31, 2004 from 9.95% at end 2003. The 55% increase in advances was the main reason for increase in risk weighted assets. During the year, Askari Bank issued unsecured subordinated term finance certificates to further strengthen CAR and to provide cushion for future growth.

Share Information

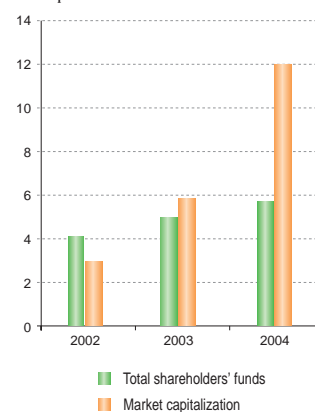
The ordinary shares of Askari Commercial Bank Limited are listed on the Karachi, Lahore and Islamabad stock exchanges. The audited financial statements have been submitted to the stock exchanges within the requisite notice periods as required by the regulations. Askari Bank's Central Depository System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

Askari's share price (Rupees)				
	High During the year	Low During the year	Close at December 31	Number of shares traded During the year
2002	27.90	13.50	26.85	37,271,500
2003	53.90	21.30	51.50	96,059,000
2004	98.25	50.00	94.00	1,043,563,300

As at December 31	Number of shares	Askari's		KSE's market capitalization Rs. bn	Askari's share in market capitalization
		Shareholders' funds	Market capitalization		
		Rs. bn	Rs. bn		
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%

Shareholders funds and market capitalization

Rupees in billion

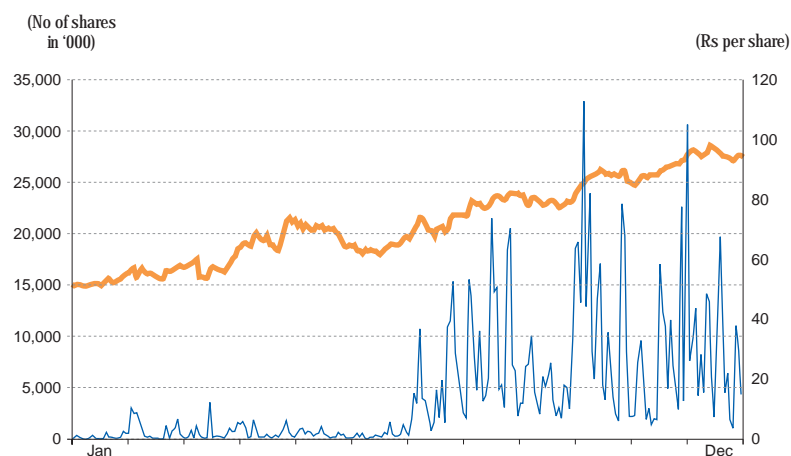
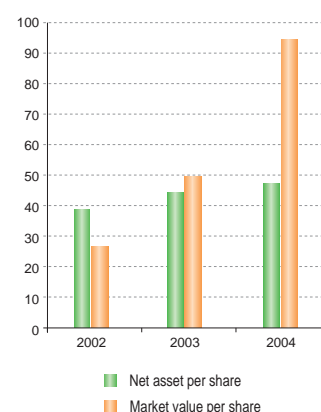


Record of share issues

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
		125,584,737	1,255,847,370

Net asset and market values - per share

Rupees



Price volume chart during 2004

Notice of the 13th Annual General Meeting

Notice is hereby given that the 13th Annual General Meeting of the members of Askari Commercial Bank Limited (the Bank) will be held on Monday, March 28, 2005 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 Extraordinary General Meeting (EOGM) held on December 20, 2004.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended December 31, 2004 together with Directors' and Auditors' Reports thereon.
3. To consider and approve payment of cash dividend to the shareholders at the rate of Rs. 2.00 per share of Rs. 10 each for the year ended December 31, 2004.
4. To appoint Auditors of the Bank for the year ending December 31, 2005 and to fix their remuneration.
5. To elect eleven (11) Directors as fixed by the Board in accordance with provisions of Section 178 of the Companies Ordinance 1984, for a period of three years commencing March 25, 2005 in place of the retiring directors namely:
 - a. Lt. Gen. Waseem Ahmed Ashraf
 - b. Lt. Gen. (R) Masood Parwaiz
 - c. Brig. (R) Muhammad Shiraz Baig
 - d. Brig. (R) Asmat Ullah Khan Niazi
 - e. Brig. (R) Shaukat Mahmood Chaudhari
 - f. Brig. (R) Muhammad Bashir Baz
 - g. Mr. Kashif Mateen Ansari
 - h. Mr. Zafar Alam Khan Sumbal
 - i. Mr. Shahid Hafeez Azmi
 - j. Mr. Muhammad Afzal Munif
 - k. Mr. Tariq Iqbal Khan (NIT Nominee)

Special business

6. To approve issue of bonus shares by passing the following resolution:

RESOLVED THAT:

- a. "a sum of Rs. 251,170 thousand out of the profit be capitalized and applied for issue of 25,117,000 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 18, 2005 in the ratio of one share for every five shares held 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, 2004."
- 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.
7. To approve payments on account of fees to non-executive Directors for attending meetings during the year ended December 31, 2004.
8. Any other business with the permission of the Chair.

By order of the Board



February 10, 2005
Rawalpindi

Zafar Alam Khan Sumbal

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 28, 2005.

Item No. 5 of the notice

Term of office of the present Directors of the Bank will expire on March 24, 2005. The Board of Directors of the Bank will be re-constituted for a fresh term of three years by electing ten Directors and appointing one nominee Director of NIT.

The Directors are interested to the extent that they are eligible for re-election as Directors of the Bank.

Item No. 6 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 251,170 thousand for issue of the proposed 20% bonus shares.

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

Item No. 7 of the notice

In terms of the Para C.2 in Regulation G-1 of the Prudential Regulations of the State Bank of Pakistan for Corporate / Commercial Banking, post facto approval is required on account of payment of fee to non-executive Directors of the Bank for attending meetings, as disclosed in note 27 to the audited financial statements for the year ended December 31, 2004.

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

Notes

A. General:

1. The Share Transfer Books of the Bank will remain closed from March 19 to March 28, 2005 (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 at the close of the business on March 18, 2005 will be treated in time for purpose of the entitlement of cash dividend and bonus shares (DW-8 & B-9) 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 NIC numbers shall be mentioned on the form.
 2. Attested copies of NIC 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 NIC 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 13th Annual Report of Askari Commercial Bank Limited along with the audited accounts and Auditors' Report thereon for the year ended December 31, 2004.

The Economy

Gaining strength from the economic fundamentals of last year, Pakistan's economy gathered further momentum during fiscal 2004. Acceleration in growth, accompanied by a sharp pick up in industrial production, a strong upsurge in investment, and a further strengthening of the external balance of payments, were the hallmarks of this year's performance.

The GDP grew by 6.4% during fiscal 2004 spearheaded by growth in the large-scale manufacturing which grew by 17.1% against the target of 8.8% and last year's 7.2%. The agriculture sector grew by 2.6%, lower than actual growth of 4.1% last year and a target of 4.2%, losing its share to industrial sector in the composition of GDP.

During fiscal 2004, the monetary policy remained easy and accommodative. The lower lending rates, caused by high liquidity, coupled with an improvement in the macroeconomic fundamentals, resulted in accelerated economic activity. The average cost of bank credit came down significantly from 7.58% p.a. to 5.05% p.a., narrowing interest spreads by 200 bps. The private sector availed Rs. 325 billion additional bank credit during fiscal 2004 against the target of Rs. 85 billion and an actual of Rs. 168 billion in the corresponding period last year. The distribution of credit was broad-based and all the important segments of the economy, including the recent

additions of housing, SMEs, consumer durables and agriculture, showed increased utilization. The broad-based distribution of credit enabled the benefits of low interest rates to filter down to a wider segment of the society through consumer and agriculture financing. At the same time the broadening of the client base improved the credit risk profile.

Foreign trade continued to grow on the back of a rebound in the world trade and good economic growth at home. Two notable events during fiscal 2004 were Pakistan's pre-payment of USD 1.17 billion owed to Asian Development Bank and a strategic re-entry into the international capital markets through the floatation of USD 500 million Eurobonds at a fixed rate of 6.75% p.a. These Eurobonds received overwhelming response and the order book swelled to USD 2 billion, a four times over subscription, reflecting a vote of confidence by the international investors in Pakistan's economy and the economic reforms agenda. Subsequently, the response to Pakistan's Sukuk issue of USD 500 million – the largest ever issue of sovereign Islamic Bonds, has also been very encouraging. The offer was able to attract USD 1.2 billion, of which USD 600 million was accepted. The Sukuk Bond has been assigned rating of B+, which indicates that Pakistan's sovereign risk is still under rated, considering the very strong economic fundamentals and performance.

The balance of payments again recorded a surplus in fiscal 2004, though the magnitude was smaller in relation to the previous year, primarily due to a reduction in home remittances, and an increase in the imports on the back of high oil prices in the international market, which reached USD 42 per barrel by the close of fiscal 2004. During the same period, the Rupee depreciated by 0.6% from Rs. 57.81 per USD at the end of fiscal 2003 to Rs. 58.16 per USD at the end

of fiscal 2004, which was beneficial for Pakistan's exporters who were able to regain some of their competitiveness in the international market. During fiscal 2004, both imports and exports registered significant growth: imports grew by 27.6%, to USD 15.59 billion, and exports grew by 10.3%, to USD 12.31 billion.

Another landmark achievement of calendar 2004 was the impressive growth of the share index of the Karachi Stock Exchange (KSE) – rising from 4473 points on December 31, 2003 to 6218 on December 31, 2004 – an increase of 1745 points or 39.01% during the year. This growth was primarily attributable to: strong economic growth, stable exchange rate, a positive privatization process through the capital markets, visible improvement in the Pakistan-India relationship, appropriate reforms initiated by the Securities and Exchange Commission of Pakistan (SECP), the availability of adequate liquidity in the market, good operating and financial results from a majority of the blue chip companies, and the consequent enhancement in the investor confidence.

In the late 1990s, Pakistan lived through a difficult and testing period. Now, after five years of dedicated effort, the complexion of the economy has changed altogether with almost all indicators showing remarkable improvement. The economic policies and reforms programs have not only improved the economy for the present; but have also provided the impetus to propel the economy on a higher growth path. While significant progress has been achieved, maintaining the momentum and building on the gains will be both vital and challenging. Sound and consistent macro economic policies, financial discipline, and political and regional stability will be the keys to sustain the momentum and achieve even greater heights.

Operating results of the Bank

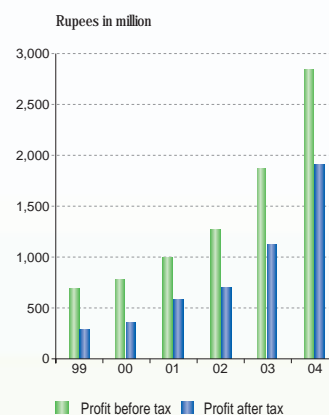
Your Bank was able to make the best use of the improving business environment and posted much improved results for the year 2004. A pre-tax profit of Rs. 2.843 billion has been achieved as against Rs. 1.902 billion last year, an increase of 49%, and the post-tax profit is Rs. 1.923 billion as against Rs. 1.103 billion last year, an increase of 74%.

The deposit base has grown by 35% to Rs. 83.319 billion, from Rs. 61.657 billion last year. All categories of PLS deposits (i.e. savings and time deposit products) have shown improvement. The foreign currency accounts reflect a 42% increase over last year, despite interest rates on most foreign currencies falling further during 2004.

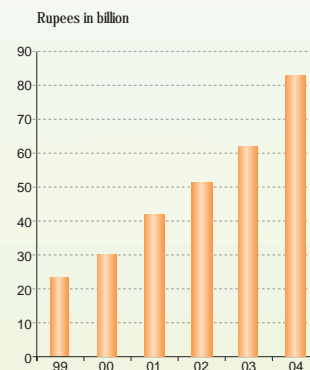
During the year, the advances portfolio reflects a 55% increase to Rs. 71.718 billion from Rs. 46.341 billion last year, mainly due to aggressive marketing in an expanding private sector. At the same time, the Bank continued to exercise effective credit risk management and remained watchful of the impact on capital adequacy. The increase in the advances was funded partly by an increase in the deposits and partly through liquidation of the lower yielding investments. The effect of the substantial increase in advances was off-set by the falling yields, to give a 10% increase in the mark-up over last year. At the same time, however, the cost of funds dropped by 19%. The combined effect of these two factors increased the net mark-up income by 25% over last year.

The non-fund income increased by 71% over last year, mainly due to capital gains realized from selling some of the listed stocks. On a comparable basis, the non-fund income showed YoY growth of 15%.

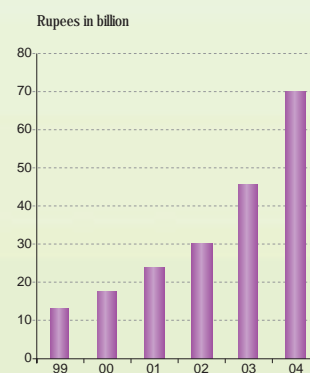
Growth in Profits



Growth in Deposits

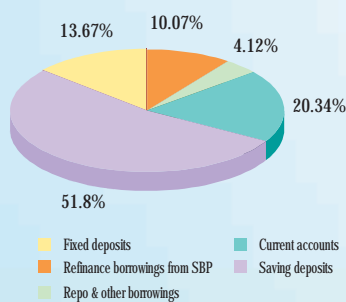


Growth in Advances

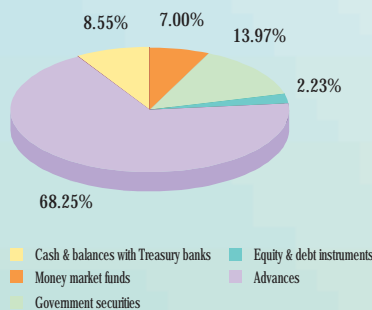


Directors' Report to the Shareholders

Funding mix



Earning assets mix



Administrative expenses increased by 28% over last year mainly due to substantial expansion in the branch operations, credit cards and retail banking, coupled with a revision in the employee compensation package, in an attempt to make it more competitive as compared to other peer banks. However, the cost to income ratio (CIR) of the Bank recorded an improvement. We are confident that most of the strategies adopted by us in the recent past, will further lower CIR in the years ahead.

The Bank's NPLs to gross advances ratio reduced to 1.55% as at end 2004 from 2.75% last year. While this reduction is partly attributable to substantial growth in advances, it also reflects our prudent management of the credit portfolio. During the year, the Bank made a further provision of Rs. 277.398 million in line with its policy of building up general provisions in addition to the requirements of the State Bank of Pakistan's (SBP's) prudential regulations.

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 74% from Rs. 8.78 to Rs. 15.31 per share.

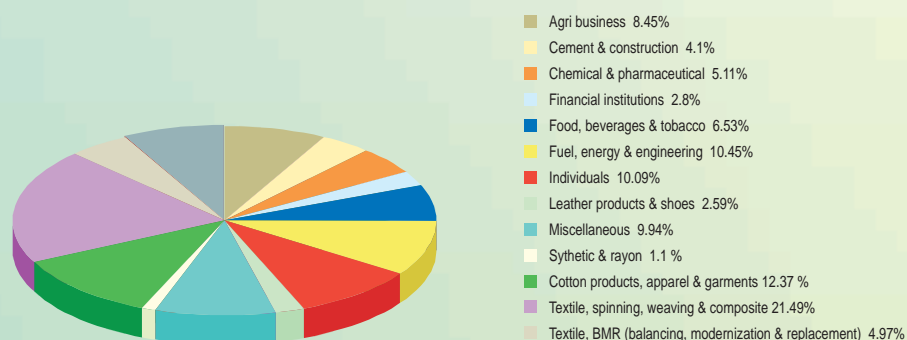
Appropriations
The Board of Directors recommends the following appropriations of the profits for the year ended December 31, 2004:

	Rupees in thousand
Unappropriated profit brought forward	-
Profit after tax for the year 2004	1,923,040
Profit available for appropriation	1,923,040
Appropriations:	
Statutory reserve @ 20%	(384,608)
Proposed cash dividend	(251,170)
Capital reserve (reserve for issue of bonus shares)	(251,170)
Revenue reserve	(1,036,092)
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.

Advances by sector - as at December 31, 2004



Since the issuance of guidelines on risk management and the subsequent Institutional Risk Assessment Framework (IRAF) questionnaire by 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 is being 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 study is planned to be completed by the 2nd quarter, 2005 and will thereafter be implemented with required changes in the existing risk management framework, as and where warranted. A decision has already been made to set up an independent Risk Management Division to oversee the whole exercise and implement the recommendations.

Statement of 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 systems.

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 of the competent authority.

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

The management of the Bank feels confident that through the adoption of above measures, Bank's internal control environment will be maintained at an adequate level.

Credit rating

During the year, the Pakistan Credit Rating Agency (Pvt) Limited (PACRA) upgraded your Bank's long term rating from 'AA' to 'AA+' and maintained the 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, 2004, your Bank's capital adequacy ratio (CAR) stood at 9.91% as against 9.95% at the close of the previous year. The substantial growth in advances recorded during the year resulted in a dilution of CAR, which was compensated by the issue of Tier II capital in the form of unsecured subordinated debt which will also provide sufficient cushion for further growth of risk assets.

Directors' Report to the Shareholders

Term finance certificates

Your Bank launched the first issue of Term Finance Certificates (TFCs) of a total size of Rs. 1,500 million. The subscription towards the pre-IPO of Rs. 1,000 million was received before the year end 2004 and the initial public offering of Rs. 500 million was conducted in early February, 2005. 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 17 branches to the nation-wide network to make a total of 74. The worldwide total branch network stood at 75, including the Offshore Banking Unit in Bahrain. Further expansion will continue during 2005 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.

Awards and recognition

During the year, your Bank, for the first time, won 'The Best Retail Bank in Pakistan' award for the year 2003 from The Asian Banker magazine.

The Bank also won, for the first time, the Corporate Excellence Award for 2002 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 2003 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 4th year running.

Pattern of shareholding

The pattern of shareholding at the close of December 31, 2004 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 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, 2004, except as disclosed in these financial statements.
- The following is the value of investment as at December 31, 2004:

Provident Fund Rs. 336.01 million (2003: Rs. 267.92 million)

Gratuity Fund Rs. 131.87 million (2003: Rs. 110.95 million)

- During 2004, 6 meetings of the Board of Directors were held. Attendance by each Director was as follows:

Lt. Gen. Faiz Jilani (ex-Chairman)	3
Lt. Gen. Waseem Ahmed Ashraf (Chairman)	1
Lt. Gen. (R) Masood Parwaiz	6
Mr. Kalim-ur-Rahman	6
Brig. (R) Muhammad Shiraz Baig	6
Brig. (R) Asmat Ullah Khan Niazi	5
Brig. (R) Muhammad Safdar Ali	5
Brig. (R) Muhammad Bashir Baz	6
Brig. (R) Shaukat Mahmood Chaudhari	4
Mr. Javed Ahmed Noel	2
Mr. Zafar Alam Khan Sumbal	6
Mr. Kashif Mateen Ansari	1
Mr. Shahid Hafeez Azmi	6
Mr. Muhammad Afzal Munif	6
Mr. Tariq Iqbal Khan (NIT Nominee)	4

Auditors

The Auditors, M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountants, have completed their assignment for the year ended December 31, 2004 and shall retire at the conclusion of the 13th Annual General Meeting. With a view to have the same audit firm for all group companies involved in rendering financial services, the Directors recommend appointment of M/s A. F. Ferguson & Co., Chartered Accountants, as the auditors for the year 2005, who are already external auditors of a group company involved in financial services, subject to the approval of the State Bank of Pakistan.

Directors' Report to the Shareholders

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 2005

The operating environment for banks in 2005 will be very challenging in the wake of intense competition in the pricing of asset and liability products. The erosion of banking spreads will force the banks to offer improved and innovative products and services in an effort to produce better results.

Your Bank continues to pursue strategic expansion of its nation-wide branch network which reached 74 by the end of the year. Further expansion is planned and is in progress. 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 monitor the credit growth strictly on the basis of quality, risk and pricing aimed at improving returns on assets and capital.

We will, in 2005, 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 of the Bank, 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



Lt. Gen. Waseem Ahmed Ashraf
Chairman

Rawalpindi
February 10, 2005