It’s about creating a balance...
About the Cover

The world is so diverse, full of interesting cultures, people and dreams, that we spend a great deal of time learning how to serve the changing demands of the changing world. Our business is about the people and their unique solve. When people think, millions of opportunities, we think the same. When they think growth, we think multiplication. But it isn't as simple as it looks. It takes a whole lot of knowledge, creativity, innovation, strong relationships, resources, talent and dedication of people to the thoughts and dreams of our customers and clients. And most importantly the balance between them all at all levels. This is what art is and Askari is all about it; it’s about balance and it’s about the art of banking.

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Financial Highlights 2007

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>6,222</td>
<td>4,475</td>
<td>+ 39.02%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>2,380</td>
<td>3,347</td>
<td>– 31.29%</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>2,611</td>
<td>2,250</td>
<td>+ 17.48%</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>12,286</td>
<td>11,053</td>
<td>+ 10.97%</td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>143,017</td>
<td>131,839</td>
<td>+ 8.98%</td>
</tr>
<tr>
<td>Advances to customers</td>
<td>100,780</td>
<td>99,179</td>
<td>+ 1.61%</td>
</tr>
<tr>
<td>Total assets</td>
<td>182,172</td>
<td>166,033</td>
<td>+ 9.72%</td>
</tr>
<tr>
<td><strong>Information per ordinary share</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings (Rs.)</td>
<td>8.92</td>
<td>7.48</td>
<td>+ 20.25%</td>
</tr>
<tr>
<td>Cash dividend (Rs.)</td>
<td>1.50</td>
<td>1.00</td>
<td>+ 50.00%</td>
</tr>
<tr>
<td>Stock dividend (%)</td>
<td>35.00</td>
<td>50.00</td>
<td>– 30.00%</td>
</tr>
<tr>
<td>Net asset value at year end (Rs.)</td>
<td>40.80</td>
<td>55.16</td>
<td>– 26.04%</td>
</tr>
<tr>
<td>Market value at year end (Rs.)</td>
<td>99.75</td>
<td>104.95</td>
<td>– 5.19%</td>
</tr>
<tr>
<td>Capital adequacy ratio (%)</td>
<td>12.25</td>
<td>10.93</td>
<td>+ 12.08%</td>
</tr>
</tbody>
</table>
Pakistan’s Economic Profile

Key country statistics

- Land area (sq. km.): 796,100
- Population (Million): 158.17
- Population growth (%): 1.8
- Population density (people / sq. km.): 199
- Life expectancy (years): 64
- Literacy (%): 54

Major economic indicators

<table>
<thead>
<tr>
<th></th>
<th>2003-04*</th>
<th>2004-05*</th>
<th>2005-06*</th>
<th>2006-07*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$ billion)</td>
<td>25.4</td>
<td>26.0</td>
<td>27.0</td>
<td>29.9</td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>6.6</td>
<td>8.4</td>
<td>6.6</td>
<td>7.0</td>
</tr>
<tr>
<td>GNP - at current factor cost (Pak Rs. billion)</td>
<td>6,251</td>
<td>6,123</td>
<td>7,129</td>
<td>8,226</td>
</tr>
<tr>
<td>GNP - at market prices (Pak Rs. billion)</td>
<td>5,640</td>
<td>6,450</td>
<td>7,594</td>
<td>8,707</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>4.6</td>
<td>9.3</td>
<td>7.9</td>
<td>7.6</td>
</tr>
<tr>
<td>Trade balance (USD million)</td>
<td>(3,279)</td>
<td>(4,515)</td>
<td>(8,442)</td>
<td>(13,564)</td>
</tr>
<tr>
<td>Current account balance - ex. official transfers (USD million)</td>
<td>1,811</td>
<td>(1,534)</td>
<td>(4,999)</td>
<td>(7,094)</td>
</tr>
<tr>
<td>Foreign exchange reserves - year end (USD million)</td>
<td>12,328</td>
<td>11,626</td>
<td>13,137</td>
<td>15,611</td>
</tr>
<tr>
<td>Exchange rate - year end (USD)</td>
<td>57.57</td>
<td>59.34</td>
<td>59.83</td>
<td>60.61</td>
</tr>
<tr>
<td>(Euros)</td>
<td>70.90</td>
<td>72.14</td>
<td>76.47</td>
<td>81.70</td>
</tr>
</tbody>
</table>

Banking system - at fiscal year end

- Net worth of the banking system (Pak Rs. billion) | 131 | 195 | 324 | 493 |
- Total assets of the banking system (Pak Rs. billion) | 3,045 | 3,660 | 4,282 | 4,950 |
- Capital adequacy ratio (%) | 10.5 | 11.3 | 12.7 | 13.3 |
- Advances/Deposits ratio (%) | 65.8 | 70.2 | 74.6 | 67.8 |
- Return on Assets (after tax) (%) | 1.2 | 1.9 | 2.1 | 2.0 |

Stock market - at fiscal year end

- KSE 100 index - points | 5,279 | 7,455 | 8,889 | 13,772 |
- Market capitalization (Pak Rs. billion) | 1,357 | 2,013 | 2,766 | 4,033 |

* Pakistan’s fiscal year starts on July 1 and ends on June 30
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 its share has consistently remained amongst the highest quoted in the banking sector in Pakistan.

Askari Bank has expanded into a nation-wide presence of 149 branches, including 14 dedicated Islamic Banking Branches, and an Off-Shore Banking Unit in Bahrain. A shared network of over 2,670 online ATMs covering all major cities in Pakistan supports the delivery channels for customer service. As at December 31, 2007, the Bank had an equity of Rs. 2.23 billion and total assets of Rs. 182.2 billion, with over 751,000 banking customers, serviced by our 5,896 employees.

View of Askari Bank’s Head Office in 1992.
Vision & Mission

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 organisational 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 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.

Code of Ethics and 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 principles are adhered to 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.
Corporate Information

Board of Directors
Lt. Gen. Imtiaz Hussain
Chairman
Lt. Gen. (R) Zarrar Azim
Brig. (R) Muhammad Shuraz Baig
Brig. (R) Amjad Ullah Khan Niazi
Brig. (R) Muhammad Bashir Bae
Brig. (R) Shaukat Mahmood Chaudhri
Mr. Kashif Mehmood Ansari
Mr. Zafar Alam Khan Sumbal
Mr. Muhammad Afzal Mian, FCA
Mr. Muhammad Najam Ali, FCA
Mr. Tanveer Iqbal Khan, FCA
Mr. Shaukat Mahmood
President & Chief Executive

Audit Committee
Brig. (R) Amjad Ullah Khan Niazi
Chairman
Brig. (R) Muhammad Shuraz Baig
Mr. Kashif Mehmood Ansari

Risk Management Committee
Mr. Kashif Mehmood Ansari
Chairman
Mr. Zafar Alam Khan Sumbal
Brig. (R) Muhammad Shuraz Baig
Mr. Muhammad Afzal Mian

Company Secretary
Mr. A. J. Mahmood, FCA

Auditors
A. F. Ferguson & Co.

Legal Advisors
Barr, Inc., Afzal & Angell

Registered / Head Office
ABN Plaza, The Mall,
P. O. Box No. 1064,
Rawalpindi, Pakistan.
Tel: (92 51) 998399
Fax: (92 51) 9072405
E-mail: webmaster@askarbank.com.pk
Website: www.askarbank.com.pk

Registrar & Share Transfer Office
THK Associates (Private) Limited
Ground Floor, State Life Building # 3,
Dr. Ziauddin Ahmad Road, Karachi 75500
P. O. Box No. 8513, Karachi
Tel: (92 21) 5689021, 5680518, 568581
Fax: (92 21) 5655595

Entity Ratings
Long Term: AA
Short Term: A1 +
by PACRA

Management

Management Committee
President & Chief Executive
Chairman
Chief Risk Officer
Group Head - Treasury & International Banking
Group Head - Consumer Banking Services
Group Head - Corporate & Investment Banking
Group Head - Operations
Chief Financial Officer
Country Head - Research Division
Regional General Managers

Head Office
Shahryar Ahmad
President & Chief Executive
M. R. Mehmood, SEVP
Group Head - Treasury & International Banking
Agha Ali Imran, SEVP
Group Head - Consumer Banking Services
Mohammad Afzal Mian, SEVP
Chief of Staff Office
Tahir Ans, SEVP
Group Head - Corporate & Investment Banking
A. J. Mahmood, EVP
Chief of Staff Office
Yadnya Anwar Khan, EVP
Group Head
Issar Ahmad, EVP
Group Head - Operations
Rahman Mir, EVP
Group Head
Sahid Ullah Khan, EVP
Group Head - Operations
Khaliq Mohammd Khan, EVP
Group Head - Consumer & Retail Banking
Hammad Khan Mir, EVP
Group Head - Consumer Banking Services
Mehran Rehman, EVP
Group Head - Human Resources

Rana Shahid Habib, EVP
Country Head - Islamic & Allied
Mian Muhammad Sharif
Citicl Administration
Shahid Ahmad
Chief Executive Officer
Chauvin & Country Head - Strategic Planning
Farooq Abdul Taing, EVP
Country Head - Agricultural Credit
Hassan Ansar Rana, EVP
Legal Affairs
Syed Haider Sajjad, EVP
Country Head - Operations
Muhammad Ahmad Khan, EVP
Country Head - Information Technology
Nauman Bashir Khan, EVP
Country Head - Electronic Technology

Regions / Areas / OBUs
Ejaz Ahmed Khan, EVP
Regional General Manager - Central
Sajjad Ahmad Qureshi, EVP
Area Manager - Lahore I
Khawar Shahzad Iqbal, EVP
Area Manager - Lahore II
Tahir Yaacob Butt, EVP
Area Manager - Sialkot
Sajjad Ali Sheikh, EVP
Area Manager - Multan
Muhammad Ahmad, EVP
Area Manager - Multan

Namazuddin A. Chaturvedi, SEVP
Regional General Manager - South
M. Jaffar Khanam, EVP
Area Manager - Karachi
Saffar Rohman Khan, EVP
Area Manager - Karachi II
Nisar Ahmed, EVP
Area Manager - Karachi III
Nasir Moinuddin, EVP
Area Manager - Hyderabad

Halqer ir Rahman Qurashi
Area Manager - Quetta
Mizak Ali Ahmad, EVP
Regional General Manager - North
Hasnain Shahid, EVP
Area Manager - Islamabad
Tanveer Mahmood, EVP
Area Manager - Rawalpindi
Mian Shamsul Alam
Area Manager - Peshawar
Qaiser Iqbal Khan
Area Manager - Sukkur

Amin Bismil
Head - Offshore Banking Unit, Lahore
What we stand for

What our VISION is: To be the Bank of First Choice in the Region.

What we THINK: The art of banking is about creating the balance.

What our VALUES are:

<table>
<thead>
<tr>
<th>Values</th>
<th>Customers</th>
<th>Investors</th>
<th>Regulators</th>
<th>Our People</th>
<th>Communities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td>Passionate about our customers' success, delighting them with the quality of our service.</td>
<td>A distinctive investment, delivering outstanding performance, superior returns and value</td>
<td>Exemplary compliance, governance and business ethics</td>
<td>Caring for our people and helping them to grow</td>
<td>Dedication towards social development and improvement in quality of life</td>
</tr>
</tbody>
</table>

Our 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

Our customers:

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. Askari Bank is proud of its pioneering role in providing the most modern and technologically advanced services to its 751,000 relationships.

Our investors:

We believe that the bottom line of any business is creating shareholder value. To gain their trust and confidence, we believe in providing our investors 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.

Our regulators:

We firmly believe in regulatory discipline and harmony of our corporate objectives with regulatory framework. Our business methodologies are designed to ensure compliance with the directives of all our regulators.

Our people:

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.

Our communities:

We fully recognize our corporate social responsibility and our contributions to different areas of the social sector are aimed to help improve the quality of life in our country.

Our vision to be the Bank of first choice in the Region demands continuous strive for creation of business opportunities with innovation while maintaining our core values to meet our commitment to all our stakeholders.

The range of our products aims to serve our diverse customer base that comprises of corporates, SMEs, individual savers, households, farmers. At the same time, our people are constantly engaged in assessing customer needs and market dynamics to re-design our products to attain brand recognition and competitive edge. 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.

Technology has played a pivotal role in meeting customer expectations, particularly with respect to speed and quality of service.
New Corporate Identity

Corporate identity is the business face in the market. The corporate identity creates an impression of the company without a single descriptive term. It is what comes to mind for a customer when they hear the name of the company. A great corporate identity can boost a business from the ground to the stratosphere. The logo serves as the foundation of corporate identity. It is the image that represents company without necessarily displaying the name or product. A quality logo gives the customer the feeling that the business is reliable and worthy of their patronage.

Over the past fifteen years the banking industry has witnessed tremendous growth. During this phase of commercialization Askari Bank’s performance has been remarkable. With the growing competition and changing environment, it became inevitable to change the brand and launch a new corporate identity with an objective to project the bank’s image in a more effective and impressive way on the national and international horizons.

To cope with the market dynamics, the management and board of directors of Askari Bank decided to change the name of brand from Askari Commercial Bank Limited to Askari Bank Limited. The new corporate identity is a milestone which represents the underlying values of the Askari bank resulted in its success to date, as well as its look ahead towards an even brighter future. This entailed adopting best practices, enhancing our products, services and branch network through a customer-centric approach. Our new identity is a firm statement of our pledge to that change and above all our commitment to people. The new identity is thus a living, breathing symbol of a holistic strategy and is based on the pillars of people, relationships, partnership and trust.

The typeface used for the bank’s logo is simple yet elegant. Without being overly stylish, it makes a solid statement about the bank, its approach to business while maintaining the most critical aspect of any logo’s design, readability. This signifies ability of any text to be readable and recognizable at first glance. The new “Askari Bank” logo is distinctive and can be recognized instantly on sight. The use of all lower case letters and the use of “askar” and “bank” as one word gives the logo a unique identity, enabling it to stand out from the crowd. The last two colors, orange and yellow, are used in a combination which is representative of a rising sun. The colours themselves, aside from the positive connotations of a rising sun, carry the joint properties of sunlight, joy, happiness, hope, wealth, energy and enthusiasm. The stylized 3D icon represents a positive link between the past, present and future of the bank.

But the promise that the Bank avowed today is not limited only to its customers, employees and shareholders. Our commitment today is to the nation as a whole, for we realize that our progress and that of the country is inextricably interwoven. We measure our success by the degree to which we make a difference in the lives of all people, our customers, employees, stakeholders, partners, the banking industry at large and the wider social community. The corporate identity, which reflects a vision to significantly touch the lives of each and every person whom the Bank shares a relationship with as every such person plays a key role in steering the Askari Bank towards success. Askari Bank is very serious and committed to translate the values of our new identity into reality. In that sense, this is a very significant moment for us because it represents more than just a change in our corporate image.

The new identity is a living, breathing symbol of a holistic strategy and is based on the pillars of people, relationships, partnership and trust.

Our new identity is a firm statement of our pledge to that change and above all our commitment to people.
Corporate Social Responsibility

Corporate Social Responsibility (CSR) is undertaking the role of ‘corporate citizenship’, ensuring that business values and behaviour are aligned to balance between improving and developing the wealth of the business and contributing towards the improvement of society in an effective manner. This is made possible by joining hands with society through participation in community welfare programmes that may, at times, go beyond the territorial limits of the bank’s operations. Askari Bank is committed both to sustainable business practices and its responsibilities as a corporate citizen. At Askari Bank we believe that Corporate Social Responsibility is primarily about conducting our business in a transparent and ethical way that enhances value for all of our stakeholders but also by giving support to events that enhance the well-being of the community.

As a leading financial institution Askari bank ensures that its business decisions are linked to ethical values, are in compliance with legal requirements and convey respect for people, communities and the environment. Business operations are conducted in a manner that not only meets but exceeds public expectations that society has of business.

Askari Bank is driven by the highest standards of corporate governance and social responsibility. As a leading bank, Askari bank believes in building strong relationships with customers, partners, employees and the communities in which it operates.

The organization’s values are exemplified in a range of corporate initiatives designed to impact positively on the lives of its multiple stakeholders. As a corporate citizen, Askari Bank plays an active role in community development programmes through social services, support for non-profit organizations, medical services for employees, the promotion of sports and educational initiatives. CSR is woven into the fabric of daily operations at Askari bank. Our employees wholeheartedly contribute to our commitment to develop the organization, the communities in which we function and the country.

Each year, Askari Bank contributes significantly to charities and community projects to help bring about a better quality of life to the less privileged in the community and enrich the lives of Pakistanis through support for local arts, education and sports. A caring corporate citizen, Askari Bank has been actively making regular donations to charitable institutions working for the promotion of welfare and health such as the Aga Khan Hospital, Shaukat Khanum Memorial Cancer Research Hospital, World Wildlife Fund (WWF) and Sangolli Spirit Trust.

Sponsorships

Askari bank has demonstrated a leading role in supporting a large number of important activities and significant events. Major activities in which the Bank participated as a key sponsor during 2007 were:

**Sports**

- Pakistan Open Golf Championship 2007 (Asian Tour).
- 9th Ordinance Centre Re-Union Ceremony, inaugurated by the President of Pakistan / Chief of Army Staff & Vice Chief of Army.
- 17th All Pakistan Multan Open Golf Championship 2007.
- 1st Tour of Islamabad Cycle Race 2007.
- The Asia Central Zone Volleyball Championship 2007 (India - Pakistan Test Series).
- Askari Bank Presidents Cup Golf Tournament 2007.
- Polo Team representing Askari Bank in the President of Turkey Polo Cup 2007.
- Pakistan team training for World Games in China 2007.
- All Pakistan Golf Tournament 2007.
- Sponsorship of Punjab Open Tournament, organized by Gujranwala Golf & Country Club, Gujranwala.
- All Pakistan Golf Championship at SRC Golf Club Hyderabad.
- 4th TCF Golf Tournament, organized by The Citizens Foundation.
- International Anti Corruption Day, organized by National Accountability Bureau.

“When individuals change, society will change. And when society changes, the whole world will change. The welfare of the individual is bound up with the welfare of society as a whole.”

(Greek Proverb)
Corporate Social Responsibility

Social
• All Pakistan Music Conference 2007.
• Musical Event organizing by M/s Askari Investment Management Limited.
• Classical Music Heritage Event.
• Kashmir Festival 2007, organized by MDA, Mirpur (AK).
• Sponsorship of fundraiser dinner, organized by NGO Sahil.
• Sponsorship of fundraising program for poor patients, organized by Aga Khan Hospital and Medical College Foundation (AKHMCF).
• Sponsorship of the Emerging Political Map of Asian Conference, organized by The Institute of Strategic Studies.
• Sponsorship of National Mushaira 2007.

Education
• Sponsorship of dramatic production called "DAYAB-E-ISHQ MAIN APNA MAQAM PAIDA KAR" organized by Grammar School.
• Adoption of three schools situated in Jacobabad through Pakistan Corporate Philanthropy.
• Annual Dinner of Old Students Association.
• Sponsorship for event called "Dastam Gost", organized by The Citizens Foundation.
• Sponsorship of Conference on "Glories of Marketing", organized by Bahria University, Islamabad.

Environment
• Campaign for planting of trees, organized by Corps Logistics, Lahore Cantt.
• Fund Raising Programme, organized by Islamabad Floral Art Society.
• Development of Fountain at Garrison Officers Mess, Lahore Cantt.

As the legend leads, Askari Bank’s endeavours serve the crucial purpose of creating an awakening and getting others to start thinking about socially responsible behaviour. This is only possible if more and more companies, and not just the large ones, come forward to do their bit. The corporate sector must take a long-term view of this matter as a prosperous community can only benefit the corporate sector in return.

Entity Ratings

Pakistan Credit Rating Agency Limited (PACRA) has rated Askari Bank Limited as follows:

Long term  AA
Short-term  A1+

Definitions by PACRA:
AA:
• Very high credit quality. AA ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A1+:
• Obligations supported by the highest capacity for timely repayment.
President’s Message

Under the ambit of our new corporate identity, I am confident that Askari’s management team will continue to work with the same zeal to accomplish our collective vision – The Bank of First Choice in the Region and continue to strive for every possible growth opportunity adding value for our stakeholders and for the economy. I would also stress here that whatever we have achieved in 2007 would not have been possible without the patronage and support of our valuable customers, which we greatly appreciate and acknowledge.

Pakistan’s economy continued to maintain the growth momentum it has achieved over the last five years; in fact, GDP growth accelerated to 7% in FY 2006-07. Compared with other large emerging economies in Asia, this puts Pakistan as one of the fastest growing economies in the region along with China, India and Viet Nam. Moreover, on the back of robust growth in agriculture and services Pakistan’s economic momentum should remain on track into the near-term future. The good performance has resulted from a combination of generally sound economic policies, on-going structural reforms and a largely benign international economic environment, notwithstanding the high oil prices and the turbulence in financial markets that began in late 2007.

Over the last few years the performance of the financial sector of Pakistan, too, has been impressive. The assets of the banking system have experienced significant growth and operating performance has also improved substantially. Indeed, with its growth and profitability, banking has been one of the major sectors of the economy attracting significant amounts of foreign direct investment. In the process, large-scale mergers and acquisitions have occurred with several key takeovers by major foreign banks of domestic banks during the last 2–3 years.

Nonetheless, the year 2007 has also been rather tough for the banking industry as the benefit of forced sale value (FSV) of collateral was withdrawn by the State Bank against all non-performing loans (NPLs), except housing finance, for calculating provisioning requirements. As a result, the additional provisioning has eroded a significant portion of the profitability of the banking industry. However, since it is a one-time event, hopefully banks would be able to improve their profitability next year.

With the grace of Almighty Allah, Askari Bank has continued successfully to maintain consistent and sustained growth during the year 2007. The Bank’s operating profit (before provisions against non-performing advances and taxation) for 2007 stood at Rs.6.22 billion against Rs.4.47 billion last year – an increase of 39%. The profit before tax registered a decrease over the corresponding year due to a 24% increase in provisions against non-performing loans and advances (NPLs) as a consequence of the change in SBP’s Prudential Regulations vide BOD Circular No. 7 dated October 12, 2007. However, profit after tax for 2007, increased by 19% over last year from Rs.2.25 billion to Rs.2.681 billion giving earnings per share (EPS) of Rs.8.92 which shows a 19% increase from Rs.7.48 in the previous year.

By the end of 2007, deposits had reached Rs.143.04 billion from Rs.131.84 billion at end 2006, an increase of 8% during the year. Deposits are generally regarded as the life-blood of the banking industry. In order to improve the deposit base of the Bank a Sustainable Long Term Deposit Mobilization Strategy has been devised. For this purpose a team of young and energetic Business Development Officers (BDOs) established last year is functioning very effectively. Gross advances increased by 5% to Rs.108.19 billion as of December 31, 2007 from Rs.102.72 billion at the close of
President’s Message

While socio-economic and macroeconomic stability are key factors in the success of a business enterprise, the role of efficient management and effective internal control systems cannot be ignored. Askari Bank’s management has ensured effective management of the Bank’s assets and liabilities, effective control over operating expenses, introduction of market oriented products, customization of existing products and strategic expansion of the branch network. As a result, Askari Bank’s performance has shown consistent improvement during 2007.

Over the years, change at the organizational level becomes inevitable for keeping abreast with developments in an ever-changing world. At Askari, management had initiated a process of organizational restructuring and change management in order to reposition the Bank with a new look to meet the challenges of the 21st century. The Askari Bank Strategy Conference was held on July 13th to 15th, July 2006 in Sri Lanka in which the senior management of the bank participated to identify and analyze specific gaps in the performance of the Bank. At the end, an action plan for change was finalized around the implementation of ten identified strategies.

Since then, a number of relevant initiatives have been undertaken with regard to the strategic disposition and organizational development of the Bank. In this regard, the 1st Layer of New Organizational Structure was announced in January 2007 wherein some of the groups/divisions were restructured or created for better operational efficiency. The Compensation/Salary Structure has also been aligned with the market. Job Description/Documents for each unique role or position in the Bank have been updated. A performance Management System based on well-defined goals and responsibilities has also been finalized. The new performance appraisal system is expected to become fully effective in the year 2008.

In continuation of the change management process, Askari Bank reached another milestone through the successful launch of its new corporate identity during the year 2007. The change of name presented an excellent opportunity for a fresh start for the Bank, which would be a more apt reflection of the Bank’s desire to continue to evolve with and adapt to the changing environment and dynamic consumer needs. We are hopeful that it will help in projecting the Bank’s image in a more effective and impressive way at both the national and international levels.

In today’s competitive environment, strategic planning driven by quality research is of immense importance to achieve a company’s short, medium and long term goals. Last year, the Strategic Planning Division was established and given a mandate to prepare short, medium and long term business plans of the Bank and give substance to the vision of the Bank. I am pleased to announce that Askari Bank now has a well defined Strategic Plan for 2008-2010 in place to achieve its longer term goals. The plan envisages a shift in strategy from the Bank’s traditional activities towards one that is more in keeping with changes taking place in the industry in the country with a greater accent on consumer, SME, Islamic and agricultural finance.

The banking industry in Pakistan has its own peculiar pattern of risks. The fundamental responsibility of measuring, monitoring and managing those lies with the Bank’s management. To safeguard the stakeholders’ interests Askari Bank’s Risk Management Group is well positioned to design and implement internal control systems for an adequate risk management framework. This Group possesses highly skilled professionals to measure, monitor and manage potential risks like credit risks, market risk, liquidity risk, operational risk and country risk.

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In the present era of information and computer technology, IT risk management is another major challenge faced by the banking industry. Maintaining the availability, integrity and confidentiality of information is critical for continued operational success. Askari Bank has made arrangements for the purchase of a modern, state of the art Core Banking System (CBS) to ensure protection of information assets owned and used by the Bank from all threats, whether internal or external, deliberate or accidental and to meet all regulatory and legislative requirements. In this regard, Askari Bank has also taken a vigorous initiative to achieve compliance with ISO 27001:2005 Information Security Management System (ISMS) that is progressing currently towards an advanced stage and hopefully we will get ISO 27001:2005 certification very soon.

During the year 2006 M/s BDO Ibrahim & Co. – Chartered Accountants were engaged to conduct a full review of the internal control environment of the Bank and gap analysis to evaluate the vulnerabilities of the Bank’s internal systems. The review was completed during the current year and report related thereto was submitted to management. Thanks to Almighty Allah, the Internal Control Systems Review has authenticated the soundness and effectiveness of the internal control systems of the Bank. The Review further establishes that all risk mitigants are in place and there are no material gaps/lapses in the internal control systems of the Bank.

Over the last five years, Pakistan has witnessed phenomenal growth in consumer banking. At Askari, we strongly believe in the most modern, technologically advanced, superior customer services and value added products. Revamping of the Consumer Banking Service Group of the Bank during 2007 has started producing desired results. The consumer banking service portfolio has increased by 47% which is a very healthy growth rate given the level of competition in consumer finance. Askari Bank has signed an MoU with the House Building Finance Corporation to facilitate its customers by offering Askari MasterCard. I am also pleased to inform you that Askari Bank is the only Pakistani bank to launch the first Platinum Master Card, Askari Card and Zara Credit Card in Pakistan.

The agriculture credit schemes introduced by the Bank continue to receive an overwhelming response from the farming community. Askari’s agriculture portfolio has shown impressive growth in terms of disbursements, number of borrowers and outreach. New products for meet and non-farm credit requirements have been introduced. The Zara Credit Card is the first ever credit card facility offered to help the farmers. With the expansion in the branch network in the urban and rural
President’s Message

areas, necessary steps have been taken to increase the scope and functions of agriculture credit operations. 
Islamic Banking is being recognized as the most vibrant financial service in Pakistan, parallel to conventional banking. With the passage of time, Shariah compliant products such as fiqah, salam, murahabah, and Diminishing Mushashkalah are gaining more popularity and acceptability from the community. In a very short span of time, Askari Bank has established 14 full-fledged Askari Islamic Banking branches in the country offering a wide range of viable Islamic financial options to our customers.

Strategic branch expansion and an international presence are vital to exploit comparative advantage in today’s interdependent economy. Presently, in addition to 14 Islamic Banking branches, Askari Bank’s conventional branch network expanded to 135 state of the art branches across the country thereby providing a complete range of customer services. At the international level, our Offshore Banking Unit at Bahrain is flourishing day by day and promoting the brand name of ‘Askari’ in the Middle East market. I am also pleased to inform you that Askari Bank has recently also opened a representative office in Beijing, China. Askari’s management is very keen to open similar representative offices in other highly dynamic centres of international finance to capture business opportunities with our international presence.

Askari Investment Management Company (AIMC), a wholly-owned subsidiary of the Bank, has shown very impressive results during the year 2007. Askari Income Fund (AIF) has been given a 5 star rating - the highest possible rating for any income fund in the country by PACRA. This achievement has put AIMC income fund among the best income funds in the capital market. Net Asset Value (NAV) of the fund has increased from Rs. 3.18 billion to Rs.13.2 billion exhibiting an increase of 415% over the last year.

Quality services rendered to our valued clients have been equally recognised by various renowned national and international organizations. At the national level, during the last three consecutive years Askari Bank has been awarded Consumer Choice Award in the category of Best Bank for Retail Banking by the Consumers Association of Pakistan. Askari Bank’s contribution toward the adoption of best market practices and corporate governance has also been appreciated by the relevant professional bodies. Corporate Excellence Award by the Management Association of Pakistan (MAP) and Best Corporate Report awards from The Institute of Cost and Management Accountants in Pakistan (ICMAP) are a visible recognition of our efforts.

Askari Bank recognizes its employees as a prime asset and key contributors to the performance of the Bank. It places great emphasis on the attraction, development, and motivation of its employees. It is their hard work, dedication and firm commitment which has enabled the Bank to maintain a consistently good performance during the year 2007. In this regard, aligning the compensation/salary structure of the Bank with market standards was an extension of Askari’s management emphasis on its employees’ welfare. The idea of a Service Excellence Award was conceived for the first time in 2007 in the history of the Bank. The feedback received from the employees suggests that this initiative has enhanced the motivational level of Askari’s employees manifold. The management is committed to give due recognition to the efforts that the staff and employees render for the continued progress and prosperity of the Bank. The new Performance Management System should ensure a spirit of resolve and unity while building a robust culture of service, ownership and responsibility that strengthens our organization. HR policies have also been revisited for updating in line with market norms.

To keep abreast with the advancement and technological development in the banking industry human capital enrichment through extensive internal and external training is inevitable. Askari Bank has its fully-equipped Training Academy at Rawalpind and Lahore while a similar academy at Karachi is in the offing. These academies impart quality professional education and skills not only to the Bank’s staff but also nominees from other sister concerns.

During the year 2007, 154 internal training courses were conducted from which 4082 individuals benefited, as compared to last year’s figure of 114 courses with 2,272 participants. To meet the training requirements of the staff, training policies are being revisited with an objective to give every individual ample opportunities to improve his/her skills and professional competence.

Under the ambit of our new corporate identity, I am confident that Askari’s management team will continue to work with the same zeal to accomplish our collective vision – ‘The Bank of First Choice in the Region and continue to strive for every possible growth opportunity adding value for our stakeholders and for the economy. I would also stress here that whatever we have achieved in 2007 would not have been possible without the patronage and support of our valued customers, which we greatly appreciate and acknowledge.

Finally, our Board of Directors has continued to take a keen interest in the affairs of the Bank and in the formulation of its policies. I would like to thank them for the wise guidance and counsel that they have extended to management in conducting the affairs of the Bank.
## Value Added Statement

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>Percent</th>
<th>2007</th>
<th>2006</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td><strong>Value Added</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from banking services</td>
<td>18,311,293</td>
<td>13,551,018</td>
<td></td>
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<tr>
<td>Cost of Services</td>
<td>9,302,913</td>
<td>7,252,354</td>
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<tr>
<td>Value added by banking services</td>
<td>9,008,380</td>
<td>6,298,664</td>
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<tr>
<td>Non-banking income</td>
<td>32,240</td>
<td>30,916</td>
<td></td>
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<td>Provision against non-performing assets</td>
<td>(3,621,741)</td>
<td>(1,128,513)</td>
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<td></td>
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<tr>
<td></td>
<td>5,119,179</td>
<td>5,201,067</td>
<td>29.1%</td>
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<tr>
<td><strong>Value Allocated</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>to employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries, allowances &amp; other benefits</td>
<td>2,407,164</td>
<td>1,544,606</td>
<td>47.0%</td>
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<td></td>
<td></td>
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<tr>
<td>to providers of capital</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cash dividend</td>
<td>430,975</td>
<td>200,433</td>
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<tr>
<td>Bonus shares</td>
<td>1,052,275</td>
<td>1,002,166</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>1,583,250</td>
<td>1,202,590</td>
<td>29.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>(381,227)</td>
<td>(1,996,881)</td>
<td>-7.4%</td>
<td>(339,606)</td>
<td>(1,047,375)</td>
<td></td>
</tr>
<tr>
<td>to expansion and growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>408,250</td>
<td>339,606</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Released in business</td>
<td>1,189,762</td>
<td>1,047,375</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>1,580,012</td>
<td>1,386,981</td>
<td>26.7%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>5,119,179</td>
<td>5,201,067</td>
<td>100%</td>
<td></td>
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</tbody>
</table>
2007 at a Glance

Askari Bank Limited will provide financial facilities to the customers of "Model" to all Regional, Area and Branch Managers of North Region at Blue Lagoon Hotel Rawalpindi.

Learning to win

Mr. A.J. Mehboob, EVP & CEO, addressing the AGM of Askari Bank Ltd at NIB Bank Ltd, Civil Secretariat, Islamabad.

Presentation on "Non Performing Management. Decision" by the directors from Equity Exchange Trust at PC Barelqurd.

Participants in "Risk Management Training Program" training at Training Academy Barelqurd.

Askari Bank Limited will provide financial facilities to the customers of EMAR-504A, Mardan and EMAR-504A, Karachi project.

Learning to win

Mr. A.J. Mehboob, EVP & CEO, delivering a presentation to the international investors at Capital Market Road, London, UK.

Mr. A.J. Mehboob, EVP & CEO, addressing the AGM of Askari Bank Ltd at NIB Bank Ltd, Civil Secretariat, Islamabad.

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Mr. A.J. Mehboob, EVP & CEO, delivering a presentation to the international investors at Capital Market Road, London, UK.
Annually Report 2007

Askiari Bank continued to grow strongly in 2007 and posted substantially higher earnings despite a highly competitive business environment. Although monetary tightening helped in containing inflationary pressures in the economy during fiscal 2006/07, aggregate demand remained high as indicated by the GDP growth.

The acceleration in private sector credit growth during 2007 was mainly due to net retirement of the sugar and cotton spinning sectors and did not affect overall private sector activity in the economy. Against the background of a highly competitive environment, Askiari Bank continually reviewed its policies pertaining to its sector exposures to derive optimum competitive advantage, maintain a conservative risk profile and achieve greater customer satisfaction.

On the operations side, Askiari Bank took various initiatives to improve its ways of doing business. The significant ones included a radical reorganization of its management structure and important information technology initiatives. The primary objective of reorganization was to consolidate and align internal management capacities to best serve each business segment. The information technology initiatives were aimed to improve service quality standards, strengthen the internal control environment and prepare the Bank for future challenges.

Corporate Banking

The Corporate Banking Division (CBD) was streamlined on the basis of clear criteria under which the categorization of existing banking relationships was identified and accordingly relationship management was consolidated from various branches into three regional corporate centres. The key objectives of this restructuring include:

- Adapting a customized business approach through dedicated Relationship Managers, who would be the customers’ primary point of contact within the Bank.
- Improving the depth of business relationships and ability to respond effectively to corporate clients’ financial service needs which continue to grow in complexity.
- Improving the quality of the CBD team through training and external recruitment.
- Improving asset quality though a more focused business approach and enhanced knowledge of the borrower, industry analysis and more accurate reporting.
- Shortening turnaround times.
- Improving synergies between value-added investment banking, cash management, Islamic and treasury products.
- Implementing better risk management measures in line with the Bank’s risk policy and with the help of the risk management function.
- Growing the portfolio of corporate lending in line with the Bank’s asset-writing strategy aimed at optimizing risk, profitability and pace of growth.

Corporate banking will continue to play a vital role in loan syndications and structured financial transactions with the objective of providing a range of corporate banking solutions to the Bank’s valued clients.

Products

- Loan syndications (arranger/co-arranger and lead manager)
- Structured finance
- Equity financing
- Working capital financing
- Corporate finance advisory services
- Debt swap
- Balance sheet restructuring

Investment Banking

The Investment Banking Division (IBD) is responsible for originating, executing and distributing all forms of investment banking transactions ranging from syndicated loans to complex structured and project financing transactions. Some examples of products offered by the IBD include:

- Strategic advisory
- Privatization advisory
- M and A advisory
- Balance sheet restructuring
- Syndications
- Project finance
- Structured finance
- Islamic Finance
- Private placements of debt and equity
- Issuance and distribution of Term Finance Certificates, Sukuk Bonds, and Commerical Paper
- Underwritings
- Capital market hybrid products

Although still a relatively young business, 2007 was an extremely productive year for the Investment Banking Division, as it successfully led and closed several high profile transactions. These included:

- Mandated Adviser and Lead Arranger to raise over Rs 9 billion for a 775 mW power project being set up by the Fauji Foundation.
- Mandated Lead Arranger for a 210 mW power project being set up at Bhihki.
- Mandated Lead Arranger for a US$125 million offshore facility for WAPDA.
- Lead Arranger for a US$50 million syndicated facility for Pakistan International Airlines.
- Lead Arranger for the issuance of a Rs 2.5 billion rated listed Tier II issue for Allied Bank Ltd.
- Mandated Lead Arranger and Advisor on syndicated financing for Eden Housing Limited, a major real estate developer in Lahore.
- Lead Arranger for a Rs 1.6 billion syndicated facility for Essem Hotel Ltd., for the construction of an InterContinental chain hotel in Islamabad.
- Joint Lead Arranger for Rs 4 billion financing that raised by Wateen Telecom (Pvt) Limited, a subsidiary of Wateen telecom.
- Mandated Lead Arranger and Advisor on syndicated financing for Magna Steel, an integrated steel plant located in Sindh. This list is testament to the innovative transactions undertaken by the Investment Banking Division that raise its business profile as well as generate substantial fee income for the Bank.
Business and Operations Review

Consumer Financing

During 2007, the consumer services offered by the bank were reorganized by combining the consumer financing and credit card businesses under one umbrella and were renamed as the Consumer Banking Services Group (CBSG). The reorganization is aimed to bring in business synergies and to enable a more active sale of different products within the same market segment.

Consumer financing offers mortgages, personal loans, credit cards and business finance as the core products. The overall business grew by 36% during 2007. The bank’s debt card with the brand name of ASICARD registered an increase of 26% in the number of cards issued. Also, the rupee traveller cheques float increased by 148% during 2007. The Group is organized on a hub and spoke basis and its hubs i.e. rawalpindi, peshawar, karachi, lahore, faisalabad and multan, are now supported by 132 spokes i.e. consumer banking units (CBU) operating from the branches in close proximity to the relevant CBUs.

**Products**
- Credit Card
  - Platinum, Gold, Silver, Avanti and Zain Card
- Balance transfer facility
- Flexible credit plan
- 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 (on-line utility bill payment services)
- Askari Value Plus (flexible deposit accounts)
- Cash Management Services
- Rupee traveller cheques

Treasury and International Operations

The State Bank of Pakistan in line with a tighter monetary policy during the year increased the discount rate from 9.50% to 10.0% and CRR, SLR requirement in Pak Rupees from 5% to 7% and 15% to 18% respectively. To give incentives to the banking sector to mobilize long term deposits, the State Bank withdrew the requirement of CRR on deposits of one year and above.

To maintain its monetary stance, the State Bank conducted open market operations at regular intervals in order to drain excess liquidity from the financial system. At Askari Bank management took a number of measures to mitigate the risk associated with the movement in interest rates and maintained an adequate level of liquidity to meet any unforeseen events.

The Pakistan rupee started the year at Rs.69.91 to a US dollar and depreciated to Rs.61.75 towards the end of 2007. The depreciation of the rupee was due largely to the demand of foreign currency during 2007 on account of the growing current account deficit.

The weighted average yield on benchmark 6-month TBills increased by 44 basis points from 8.8142% to 9.2594%, while the 6-month KIBOR decreased by 63 basis from 10.63% to 10% during the period under review.

The Bank’s overall trade business during 2007 was mixed. Imports in 2007 were Rs.119.3 billion, almost identical to the level reached in 2006, while exports decreased from Rs.97.3 billion in 2006 to Rs.83 billion in 2007. However, merchandise business increased by 18% to Rs.44.3 billion from Rs.37.3 billion reached in 2006.

During this period, the Bank’s Treasury effectively organized itself to increase its turnover with a view to developing a more comprehensive trade/treasury book; it primarily focused on marketing to its corporate customers to cater to their diverse needs. The corporate desk is equipped to handle both large and medium sized corporate business and can successfully compete with much larger treasuries.

The human resource competency was enhanced by proper training of the Treasury/Trade staff to meet the emerging challenges besides establishing the centralized trade unit to cater to the trade business needs of our valued customers.

Products
- Foreign currency accounts
- Foreign trade services (imports and exports)
- Import and export financing
- Travellers cheque issuance
- Foreign remittances (demand draft/telegraphic transfer) inward and outward
- Sale and purchase of foreign currency cash
- Issuance of guarantees and bid bonds
- Handling of securities
- Offshore banking services

Offshore Banking Unit

The Askari wholesale operation in Bahrain continued to increase its contribution towards the overall earnings of the Bank during the year.

The OBU is on a constant lookout for opportunities to actively participate in syndications and other trade business on the international scene. The assets of the OBU showed a handsome growth of approx. 40% to close at US$ 81.30 million at end-2007 from US$ 58.03 million at end-2006.

The Bahrain operation remains active and also acts as a lookout for new business relationships in the international market.

Advances and Credit Quality

Askari Bank’s funded credit portfolio increased by 5.12% in 2007 to close at Rs.108.19 billion as compared to an increase of 16% in 2006 as the Bank remained watchful of the impact of growth of risk assets on its capital adequacy.

Credit portfolio of the Bank is well collateralized. During the year, the Bank’s non-performing advances increased to Rs.6.9 billion from Rs.3.6 billion in 2006 due to a further downgrade of certain large exposures. Consequently, NPA’s as a percentage of gross advances increased from 3.6% to 6.4%. However, despite this increase, the percentage remains within the overall industry average.

During 2007, Askari Bank made net provisions of Rs.3420 million. Also during the year, the method of making general provisions on its credit portfolio, other than the consumer portfolio, was standardized, as explained in the audited financial statements. In addition, the State Bank of Pakistan has amended prudential regulations for provisioning against advances vide BSD Circular No.7 dated October 12, 2007 thereby withdrawing the benefit of Forced Sale Value (FSV) of collateral against non-performing loans and advances for provision (except for Housing Finance, Agri-Finance and Mortgage Finance). The cumulative provisions at the close of 2007 thus increased to Rs.7.4 billion.

These provisions provide 107% coverage to the total NPA as compared to 97% last year.

Products
- Term loans
- Running finance/overdrafts
- Short term facilities for local trading
- Cheque purchase facility (foreign and local)
- Letters of Credit (local/international)
- Guarantees
- Cash finance/pledge loans
- Finance against Trust Receipts
- Stand by Letters of Credit
- Financing against foreign bills
- Foreign currency financing
- Export to finance from the State Bank-Finance against Packing Credit I and II
- Finance against imported merchan
Business and Operations Review

Agriculture Credit

In its fourth year of launching the Bank’s agriculture credit finance programme continued to receive an overwhelming response from the farming community. The positive outlook was the reflection of credit quality, expertise, and impressive performance in outreach and lending volumes. The customer base increased by 70% and overall portfolio size by 50% as compared to last year. The Bank enhanced its deliverability and presence in the rural sector by increasing its country-wide network of agriculture credit designated branches to 66 and the product range to 16.

The agriculture credit portfolio was diversified adding new products like Zara Credit Card which is the first credit card facility for agricultural purposes in Pakistan. Asan Mali Sahulat is another innovative technique of lending by way of discounting/purchase of cane procurement receipts and deferred payment vouchers. In addition, targeted schemes for agricultural sub-sectors have been introduced for the construction of cold storages, greenhouses and tunnel farming, fisheries, livestock, poultry, orchards and floriculture. To reach the grass root levels, the Bank is organizing farmers into groups/ societies so that they may avail approved agriculture credit facilities effectively or on an individual basis. Necessary measures are also adopted to cover the entire value chain credit requirements of agri-rural market effectively.

The products

- Askari Kisan Evergreen Finance
- Askari Kisan Tractor Finance
- Askari Kisan Transport Finance
- Askari Kisan Livestock Development Finance
- Askari Kisan Farm Mechanization Finance
- Askari Kisan Aapda Finance
- Green House & Tunnal Finance
- Farm Storage Finance
- Model Dairy Finance
- Gold Fish Finance
- White Pearl Finance
- Mungbhun Finance
- Samar Bahnhul Finance
- Gulban Finance
- Asan Mali Sahulat
- Zara Credit Card

Islamic Banking

2007 was effectively the first full year of operation for Islamic Banking. During this year, eight additional Islamic banking branches were opened thereby extending our branch network to four new cities of Faisalabad, Sialkot, Gujranwala, and Multan, in addition to enhancing our coverage in Lahore and Karachi. The total network has now increased to 14 branches covering key cities and all provincial capitals as well as the Federal Capital.

The total assets for Islamic Banking grew from Rs 650 million at end-2006 to Rs 4,556 million at end-2007. This was primarily due to increase in earning assets, including Sukuk investments and advances against ijarah. Profit for 2007 is Rs 15.15 million as compared to a loss of Rs 36.69 million for the previous year.

A comprehensive range of Islamic Banking products and services is being offered in the following areas:

- Islamic corporate banking
- Islamic investment banking
- Islamic trade finance
- Islamic general banking
- Islamic consumer banking

Islamic Consumer Banking facilities include Askari Ijara Bismayyarah, Shariah Compliant Car Financing for new as well as used cars. Askari Home Musharakah Finance provides financing for buying, building and renovating homes, as well as converting conventional house mortgage loans into Shariah compliant financing.

Askari Bank strictly complies with the Shariah principles and guidelines issued by the Bank’s Shariah Advisor and the State Bank of Pakistan, Islamic Banking Department. All product offerings are duly vetted by our Shariah Advisor, Dr. Mohammad Talib Mansoori, an eminent scholar and recipient of the President’s Medal for Pride of Performance, as well as a Professor and Dean of Shariah Law at the International Islamic University.

As awareness about Islamic Banking is spreading, a total of 18 banks have started offering it in Pakistan. The total assets of the Islamic Banking sector have grown to about 3.3% of the banking industry. It is expected that this figure will reach 12% over the next five years. Askari Islamic Banking expects to exceed this market trend.

Operations

Achieving yet another milestone in its “Transform the Organization” campaign, Askari Bank took the initiative of segregating its various support functions from the Business Group, for greater efficiency and clarity in the structure. The Operations Group has been divided into Centralized Foreign Trade Units and Regional Operations Offices established at Rawalpindi (North Region), Karachi (South Region) and Lahore (Central Region) to improve the operations of Foreign Trade & Operational activities through better control and efficiency. Among others, the “Major functions of the Operations Group” include:

- Effective functioning of the branches operations.
- Strengthening internal controls.
- On-the-spot guidance to operations staff on all related issues.
- Improving upon the operational efficiency of branches with ultimate goal to achieve 100% clean audit.
- Ensure compliance with bank’s own standard policies and manuals as well those mandated by the regulators.
- Improvement in customer focus and to provide excellent customer service without compromising on internal controls.
- Re-engineering of various operational processes to remove the redundant steps and improve turnaround time.
- Prepare branches to welcome the “change technology process” and a smooth transition.

Information Technology

Our strength in the area of information technology-based services has always been an edge in competition and has been a source of considerable strength in the expansion and management of the customer base of the Bank. At Askari our focus has been to equip ourselves with the most advanced technology which provides a range of service delivery channels and higher customer satisfaction levels.

In 2007, the Electronic Technology Division embarked upon an ambitious programme of modernizing the IT of Askari Bank. This programme seeks to introduce cutting edge IT best practices, processes, tools, applications and more, enabling IT to be closely aligned with business in terms of growth, efficiency, risk control and compliance, thus creating an agile and lean technology organization.

ETD was also reorganized and reconstituted in 2007, and IT initiatives like a new state of the art Core Banking System and Risk Management Software have been approved for acquisition and implementation. Latest network technologies and solutions including Fiber and WiMax were introduced to the Bank in 2007, contributing to the bottom line by maintaining uptime, efficiency, dynamic application functionality and risk control.

The ETD was also the driving force in 2007 to put the Bank on the path to setting up an Information Security Management System and obtaining the internationally recognized ISO 27001 certification which is expected towards the end of 2008.
Business and Operations Review

Our People

Askari Bank’s management sensing the challenges initiated a comprehensive Change Management Programme with a view to improving the Bank’s operational efficiency, to provide outstanding service to our valued clients. Some of the key areas that required significant changes were organisational restructuring, business augmentation, internal operational controls, human resource management, information technology, branding and service quality.

As a part of the Change Management Programme, the Human Resource Division has introduced several initiatives in the Bank related to compensation management, performance management, job description documents, employees communication, succession planning and staff training and development. With these changes in place the Bank would be able to develop, maintain and retain a highly trained and motivated workforce, capable of achieving the Bank’s strategic short and long term goals.

In order to enable our employees to manage the Bank’s growth without compromising on quality, the training academies at Rawalpindi, Lahore and Karachi proactively developed and conducted training courses on a regular basis throughout the year. These courses were designed on the basis of staff training needs assessment. During the year under review, 249 courses, workshops, skill development clinics and seminars in the disciplines of diverse banking subjects were conducted, where 6,129 employees of the Bank participated.

Furthermore, due to the upward revision in staff compensation and benefits the attrition rate in the year 2007 has shown a downward trend and more former staff members are showing their willingness to rejoin the Bank. These indicators exhibit the increased level of staff motivation and satisfaction and are highly encouraging augurs for the future.

The Regulatory Environment and Minimum Capital Requirements

The year saw many initiatives on various policy and regulatory issues impacting on the Bank’s business. Inter alia, these initiatives include implementation of Basle II, Prudential Regulation for Anti-Money Laundering, revised requirements for cash reserve and statutory liquid assets and limits for significant investments.

The State Bank of Pakistan’s minimum paid-up capital requirement of Rs. 4 billion as at December 31, 2007 has been complied with as the Board of Directors in their meeting held on February 21, 2008 have recommended a 35% bonus issue which will take our existing paid-up capital of Rs. 3 billion to over Rs. 4 billion.

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

Awards and recognition

During the year, Askari bank won The Best Consumer Banking Award 2006 for the third consecutive year from the Consumer Association of Pakistan.
Financial Review

Profit

The profit for the year significantly affected by certain one-off factors, the major ones are a) additional provision of Rs.2.7 billion against non-performing advances due to change in SBI’s Prudential Regulations whereby benefit of forced sale value (FSV) was abolished vide SBI R/O/C Circular No. 7 of October 12, 2007 and b) gain on sale of strategic investment of Rs.2.1 billion. As such, these items should be considered while analyzing the profitability.

The Bank posted 39% increase in operating profit (i.e. profit before provisions and taxation) over last year. Pre-tax profit (after provisions) decreased by 10% entirely due to taking exceptional hit of provisions against NPLs of Rs.3.92 billion, inclusive of above additional FSV effect. However, after tax profits grew by 19%, over the same period last year due to tax credits on above one-off items and prior years’ tax reversals. Core-banking profits also decreased by 12% from last year mainly due to abnormal increase in provisions against NPLs as discussed above and increase in administrative expenses.

Non mark-up / non interest income

The non-mark-up / non interest income recorded an increase of 13.3% over last year. This rise is mainly attributable to rise in investment income from Rs.122 million in 2006 to Rs.2,161 million in 2007 entirely on account of sale of certain strategic investments in shares. Other components of non-fund income show marginal increase, which is due to increase in guarantee business and overall increase in banking operations, except for dividend income which increased by 23%.

Operating Expenses

During the year, the operating expenses increased by 46% over last year. The unprecedented upsurge in operating expenses can be divided into usual and unusual factors. The usual increases (around 27%) are the one emanating from strategic branch expansion, whereas unusual items are referred to cost effects of certain initiatives implemented during the year (19%) such as additional expenses incurred on change in corporate identity and compensation realignment etc. Cost to Income ratio takes a downward plunge. However, on a comparable basis i.e., excluding exceptional items, there is a slight increase in the ratio.

NPLs and provisions against NPLs

During the year the NPLs increased by 89% to Rs. 6.91 billion as against Rs. 3.66 billion last year. This increase is a result of further down grade of few large exposures besides some new classifications. Proportionally, an amount of Rs. 3.92 billion was provided for against NPLs this year as against Rs. 1.13 billion last year. The increase is mainly attributable to additional provisions of Rs.2.7 billion made as a consequence of the change in the Prudential Regulations and overall deterioration in classified portfolio. It is worth mentioning that a quantum leap increase in aggregate provisions has made significant improvement in coverage of NPLs to 107% from previous 97%.

Current, Savings and other deposits

Deposits increased by 8% to Rs. 143.04 billion as at December 31, 2007 as against Rs. 131.84 billion last year. Analysis of deposits show that current and saving deposits increased by 20% and 25% respectively whereas negative growth of 26% recorded in fixed deposits. The aggregate number of accounts grew by 13% from 665,000 to 751,000 as at close of years 2006 & 2007 respectively - thus average deposit size further strengthened.

Earnings per share

Earning per share (EPS) increased to Rs 8.92 per share from Rs.7.48 per share last year – restated for bonus share issued during 2007.
Financial Calendar

2007
1st Quarter Results issued on April 18, 2007
2nd Quarter Results issued on August 16, 2007
3rd Quarter Results issued on October 29, 2007
16th Annual General Meeting scheduled for February 21, 2008
16th Annual General Meeting held on March 28, 2008
Within 45 days of AGM

2006
1st Quarter Results issued on April 25, 2006
2nd Quarter Results issued on August 10, 2006
3rd Quarter Results issued on October 30, 2006
15th Annual Report issued on February 14, 2007
15th Annual General Meeting held on March 29, 2007
April 30, 2007

Summarized Quarterly Results

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Profit &amp; Loss - For the Quarter</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Total income</td>
<td>3,238</td>
<td>3,466</td>
<td>3,278</td>
<td>2,805</td>
<td>3,282</td>
<td>3,362</td>
<td>3,422</td>
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<td>=, 88,891</td>
<td>89,700</td>
<td>90,671</td>
<td>90,518</td>
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<td>Mark-up / return / interest earned</td>
<td>2,805</td>
<td>3,006</td>
<td>2,905</td>
<td>2,705</td>
<td>2,902</td>
<td>2,992</td>
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<td>=, 5,135</td>
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<td>Net mark-up / return / interest income</td>
<td>1,135</td>
<td>1,115</td>
<td>1,135</td>
<td>1,115</td>
<td>1,135</td>
<td>1,115</td>
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<tr>
<td>Provision against non-performing assets</td>
<td>1,135</td>
<td>1,115</td>
<td>1,135</td>
<td>1,115</td>
<td>1,135</td>
<td>1,115</td>
<td>1,115</td>
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<tr>
<td>Non-mark-up / return / interest income</td>
<td>498</td>
<td>500</td>
<td>509</td>
<td>553</td>
<td>605</td>
<td>746</td>
<td>579</td>
<td>2,655</td>
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<tr>
<td>Operating expenses</td>
<td>3,282</td>
<td>3,482</td>
<td>3,570</td>
<td>3,570</td>
<td>3,482</td>
<td>3,482</td>
<td>3,482</td>
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<tr>
<td>Operating profit</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
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<tr>
<td>Profit before tax</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Taxation</td>
<td>176</td>
<td>226</td>
<td>240</td>
<td>254</td>
<td>329</td>
<td>3,006</td>
<td>3,006</td>
<td>3,006</td>
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<tr>
<td>Profit after taxation</td>
<td>414</td>
<td>714</td>
<td>511</td>
<td>542</td>
<td>475</td>
<td>3,030</td>
<td>3,030</td>
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<td>Balance Sheet - At Quarter End</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advances</td>
<td>85,898</td>
<td>90,891</td>
<td>99,179</td>
<td>97,191</td>
<td>97,172</td>
<td>94,879</td>
<td>100,780</td>
<td>97,172</td>
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<td>Investments</td>
<td>23,817</td>
<td>28,132</td>
<td>28,477</td>
<td>30,914</td>
<td>36,236</td>
<td>42,651</td>
<td>39,451</td>
<td>36,236</td>
</tr>
<tr>
<td>Cash, short term funds &amp; statutory deposits</td>
<td>19,141</td>
<td>25,871</td>
<td>27,288</td>
<td>30,605</td>
<td>27,163</td>
<td>38,190</td>
<td>31,255</td>
<td>31,255</td>
</tr>
<tr>
<td>with State Bank of Pakistan</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Operating fixed assets</td>
<td>19,226</td>
<td>3,000</td>
<td>3,261</td>
<td>3,810</td>
<td>4,033</td>
<td>4,033</td>
<td>5,033</td>
<td>5,033</td>
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<tr>
<td>Other assets</td>
<td>32,515</td>
<td>3,001</td>
<td>3,083</td>
<td>3,912</td>
<td>4,537</td>
<td>4,537</td>
<td>4,711</td>
<td>4,711</td>
</tr>
<tr>
<td>Total assets</td>
<td>137,881</td>
<td>150,821</td>
<td>152,484</td>
<td>166,054</td>
<td>183,780</td>
<td>180,847</td>
<td>178,519</td>
<td>182,975</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers deposits</td>
<td>107,381</td>
<td>122,543</td>
<td>122,701</td>
<td>131,839</td>
<td>126,779</td>
<td>142,355</td>
<td>142,416</td>
<td>143,037</td>
</tr>
<tr>
<td>Borrowings from financial institutions</td>
<td>22,162</td>
<td>10,860</td>
<td>10,741</td>
<td>14,994</td>
<td>16,353</td>
<td>15,936</td>
<td>15,318</td>
<td>17,354</td>
</tr>
<tr>
<td>Subordinated loans</td>
<td>2,999</td>
<td>2,999</td>
<td>2,999</td>
<td>2,999</td>
<td>2,999</td>
<td>2,999</td>
<td>2,999</td>
<td>2,999</td>
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<tr>
<td>Other liabilities</td>
<td>4,502</td>
<td>4,520</td>
<td>3,968</td>
<td>3,578</td>
<td>5,804</td>
<td>6,021</td>
<td>6,461</td>
<td>6,318</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>135,044</td>
<td>149,923</td>
<td>149,923</td>
<td>154,964</td>
<td>152,935</td>
<td>155,250</td>
<td>165,335</td>
<td>166,706</td>
</tr>
<tr>
<td>Shareholders’ Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>2,004</td>
<td>2,004</td>
<td>2,004</td>
<td>2,004</td>
<td>3,006</td>
<td>3,006</td>
<td>3,006</td>
<td>3,006</td>
</tr>
<tr>
<td>Reserves and unappropriated profit</td>
<td>5,773</td>
<td>6,483</td>
<td>7,098</td>
<td>7,615</td>
<td>7,121</td>
<td>7,903</td>
<td>8,272</td>
<td>9,093</td>
</tr>
<tr>
<td>Surplus on revaluation of assets</td>
<td>1,285</td>
<td>1,414</td>
<td>1,673</td>
<td>1,454</td>
<td>1,728</td>
<td>2,528</td>
<td>2,048</td>
<td>1,666</td>
</tr>
<tr>
<td>Total shareholders’ funds</td>
<td>9,062</td>
<td>9,003</td>
<td>9,783</td>
<td>10,180</td>
<td>11,936</td>
<td>13,437</td>
<td>13,866</td>
<td>12,906</td>
</tr>
<tr>
<td>(Peesent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on average shareholders’ funds (RoS)</td>
<td>18.5%</td>
<td>29.7%</td>
<td>24.5%</td>
<td>24%</td>
<td>23%</td>
<td>24%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Return on average assets (RoA)</td>
<td>1.7%</td>
<td>2.7%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>
Share 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

<table>
<thead>
<tr>
<th>Karachi Stock Exchange</th>
<th>AKBL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reuters</td>
<td>ACBK KA</td>
</tr>
<tr>
<td>Bloomberg</td>
<td>ACBL PA</td>
</tr>
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</table>

1.3 Askari’s Share price (Rupees)

<table>
<thead>
<tr>
<th>High during the year</th>
<th>Low during the year</th>
<th>Close at December 31</th>
<th>Number of shares traded during the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>16.45</td>
<td>10.35</td>
<td>13.30</td>
</tr>
<tr>
<td>2002</td>
<td>27.90</td>
<td>15.50</td>
<td>26.85</td>
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<tr>
<td>2003</td>
<td>53.90</td>
<td>21.30</td>
<td>51.50</td>
</tr>
<tr>
<td>2004</td>
<td>98.25</td>
<td>30.61</td>
<td>94.00</td>
</tr>
<tr>
<td>2005</td>
<td>133.25</td>
<td>70.00</td>
<td>126.80</td>
</tr>
<tr>
<td>2006</td>
<td>143.00</td>
<td>68.00</td>
<td>104.95</td>
</tr>
<tr>
<td>2007</td>
<td>128.75</td>
<td>78.50</td>
<td>99.75</td>
</tr>
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</table>

1.4 As at December 31

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Shareholders in thousand</th>
<th>Market capitalization</th>
<th>KSE’s market capitalization</th>
<th>Askari’s share in market cap.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>103,553,663</td>
<td>2.58</td>
<td>1.38</td>
<td>297.42</td>
</tr>
<tr>
<td>2002</td>
<td>108,731,400</td>
<td>4.17</td>
<td>2.92</td>
<td>595.21</td>
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<tr>
<td>2003</td>
<td>114,168,000</td>
<td>5.05</td>
<td>5.88</td>
<td>951.45</td>
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<tr>
<td>2004</td>
<td>125,584,800</td>
<td>6.02</td>
<td>11.80</td>
<td>1,723.45</td>
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<tr>
<td>2005</td>
<td>150,755,684</td>
<td>8.81</td>
<td>25.41</td>
<td>2,746.56</td>
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<tr>
<td>2006</td>
<td>200,433,239</td>
<td>11.05</td>
<td>21.04</td>
<td>2,771.11</td>
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<td>2007</td>
<td>300,649,859</td>
<td>12.27</td>
<td>29.99</td>
<td>4,329.91</td>
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1.5 Record of share issues

<table>
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<th>Year</th>
<th>Issue</th>
<th>Number of shares</th>
<th>Share capital (Rs)</th>
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<tr>
<td>1992</td>
<td>Public issue</td>
<td>15,000,000</td>
<td>150,000,000</td>
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<tr>
<td>1993</td>
<td>50% Rights issue @ Rs.10 per share</td>
<td>15,000,000</td>
<td>150,000,000</td>
</tr>
<tr>
<td>1995</td>
<td>Bonus @ 5%</td>
<td>6,706,000</td>
<td>67,060,000</td>
</tr>
<tr>
<td>1996</td>
<td>50% Rights issue @ Rs.20 per share</td>
<td>22,500,000</td>
<td>225,000,000</td>
</tr>
<tr>
<td>1996</td>
<td>Bonus @ 10%</td>
<td>7,425,000</td>
<td>74,250,000</td>
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<tr>
<td>1997</td>
<td>Bonus @ 15%</td>
<td>12,251,250</td>
<td>122,512,500</td>
</tr>
<tr>
<td>1998</td>
<td>Bonus @ 5%</td>
<td>4,966,312</td>
<td>49,663,120</td>
</tr>
<tr>
<td>2001</td>
<td>Bonus @ 5%</td>
<td>4,931,101</td>
<td>49,311,010</td>
</tr>
<tr>
<td>2002</td>
<td>Bonus @ 5%</td>
<td>5,177,712</td>
<td>51,777,120</td>
</tr>
<tr>
<td>2003</td>
<td>Bonus @ 5%</td>
<td>5,436,568</td>
<td>54,165,680</td>
</tr>
<tr>
<td>2004</td>
<td>Bonus @ 10%</td>
<td>11,416,794</td>
<td>114,167,940</td>
</tr>
<tr>
<td>2005</td>
<td>Bonus @ 20%</td>
<td>25,166,947</td>
<td>251,167,474</td>
</tr>
<tr>
<td>2006</td>
<td>Bonus @ 33%</td>
<td>49,731,555</td>
<td>497,315,549</td>
</tr>
<tr>
<td>2007</td>
<td>Bonus @ 50%</td>
<td>100,216,620</td>
<td>1,002,166,190</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Repayment in million</th>
<th>TFC - I</th>
<th>TFC - II</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO investors</td>
<td>1,000</td>
<td>1,125</td>
</tr>
<tr>
<td>General public</td>
<td>500</td>
<td>226</td>
</tr>
<tr>
<td>Underwriters</td>
<td>–</td>
<td>149</td>
</tr>
</tbody>
</table>

1,500 1,500

2.2 Market Symbols / IDs at LSE and rating by PACRA:

<table>
<thead>
<tr>
<th>Symbol / ID</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFC - I</td>
<td>TFCACBL</td>
</tr>
<tr>
<td>TFC - II</td>
<td>TFCACBL</td>
</tr>
</tbody>
</table>

2.3 TFCs prices

<table>
<thead>
<tr>
<th>As at December 31, 2007</th>
<th>Market value</th>
<th>Interest rate applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFC - I</td>
<td>9,000</td>
<td>11.48%</td>
</tr>
<tr>
<td>TFC - II</td>
<td>9,000</td>
<td>11.48%</td>
</tr>
</tbody>
</table>

* Based on marketable lots of Rs. 5,000
A Decade of Performance

<table>
<thead>
<tr>
<th>December 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income</td>
<td>4,035</td>
<td>3,889</td>
<td>3,840</td>
</tr>
<tr>
<td>Interest income</td>
<td>3,475</td>
<td>3,350</td>
<td>3,213</td>
</tr>
<tr>
<td>Interest expenditure</td>
<td>2,511</td>
<td>2,486</td>
<td>2,274</td>
</tr>
<tr>
<td>Tax, commission and exchange income</td>
<td>509</td>
<td>472</td>
<td>506</td>
</tr>
<tr>
<td>Other income</td>
<td>31</td>
<td>67</td>
<td>122</td>
</tr>
<tr>
<td>Spread</td>
<td>965</td>
<td>864</td>
<td>959</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>569</td>
<td>589</td>
<td>680</td>
</tr>
<tr>
<td>Operating profit</td>
<td>956</td>
<td>814</td>
<td>886</td>
</tr>
<tr>
<td>Provision against non-performing assets</td>
<td>102</td>
<td>102</td>
<td>134</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>854</td>
<td>712</td>
<td>752</td>
</tr>
<tr>
<td>Taxation</td>
<td>495</td>
<td>430</td>
<td>436</td>
</tr>
<tr>
<td>Profit after taxation</td>
<td>359</td>
<td>282</td>
<td>316</td>
</tr>
<tr>
<td><strong>Total shareholders’ funds</strong></td>
<td>1,397</td>
<td>2,046</td>
<td>2,155</td>
</tr>
<tr>
<td>Share capital</td>
<td>980</td>
<td>986</td>
<td>986</td>
</tr>
<tr>
<td>Reserves</td>
<td>911</td>
<td>1,060</td>
<td>1,229</td>
</tr>
<tr>
<td>Surplus on revaluation of assets</td>
<td>–</td>
<td>–</td>
<td>(60)</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers’ deposits</td>
<td>23,417</td>
<td>24,356</td>
<td>30,840</td>
</tr>
<tr>
<td>Refinance borrowings</td>
<td>2,194</td>
<td>3,145</td>
<td>2,882</td>
</tr>
<tr>
<td>Subordinated loans</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,184</td>
<td>1,477</td>
<td>3,058</td>
</tr>
<tr>
<td><strong>Advances</strong></td>
<td>9,708</td>
<td>13,056</td>
<td>17,985</td>
</tr>
<tr>
<td>Investments</td>
<td>11,808</td>
<td>8,679</td>
<td>8,651</td>
</tr>
<tr>
<td>Cash, short-term funds and statutory deposits with SBI</td>
<td>3,504</td>
<td>7,210</td>
<td>10,056</td>
</tr>
<tr>
<td>Operating fixed assets</td>
<td>501</td>
<td>536</td>
<td>641</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,130</td>
<td>1,546</td>
<td>1,213</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>28,731</td>
<td>31,027</td>
<td>38,454</td>
</tr>
<tr>
<td><strong>Liabilities Transferred</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>11.5</td>
<td>17.5</td>
<td>16.2</td>
</tr>
<tr>
<td>Exports</td>
<td>20.0</td>
<td>22.8</td>
<td>30.6</td>
</tr>
<tr>
<td>Guarantees</td>
<td>3.2</td>
<td>5.3</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on average shareholders’ funds (RoE)</td>
<td>–%</td>
<td>19.3</td>
<td>14.2</td>
</tr>
<tr>
<td>Return on average assets (RoA)</td>
<td>–%</td>
<td>1.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Profit before tax ratio</td>
<td>–%</td>
<td>24.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Gross spread ratio</td>
<td>–%</td>
<td>27.4</td>
<td>25.8</td>
</tr>
<tr>
<td>Income / expense ratio</td>
<td>–%</td>
<td>34.7</td>
<td>37.9</td>
</tr>
<tr>
<td>Advances to deposits (CDR)</td>
<td>–%</td>
<td>41.5</td>
<td>53.6</td>
</tr>
<tr>
<td>Operating fixed assets to average shareholders’ funds</td>
<td>–%</td>
<td>27.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Capital adequacy ratio (CAR)</td>
<td>–%</td>
<td>16.9</td>
<td>13.0</td>
</tr>
<tr>
<td>Rate of cash dividends</td>
<td>–%</td>
<td>20.3</td>
<td>17.3</td>
</tr>
<tr>
<td>Rate of bonus issue</td>
<td>–%</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Price earning ratio (PE)</td>
<td>–%</td>
<td>3.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Dividend yield ratio</td>
<td>–%</td>
<td>17.1</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Earnings per share (EPS)</strong></td>
<td>–%</td>
<td>3.60</td>
<td>2.90</td>
</tr>
<tr>
<td>Net assets per share</td>
<td>–%</td>
<td>19.64</td>
<td>20.75</td>
</tr>
<tr>
<td>Market value per share</td>
<td>–%</td>
<td>11.70</td>
<td>16.12</td>
</tr>
<tr>
<td><strong>Other information</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees (Regular)</td>
<td>996</td>
<td>1,051</td>
<td>1,147</td>
</tr>
<tr>
<td>Number of branches</td>
<td>27</td>
<td>28</td>
<td>29</td>
</tr>
</tbody>
</table>

**Post balance sheet event**

2,579 4,173 5,047 6,016 8,815 11,053 12,266

2,036 1,087 1,142 1,256 1,507 2,004 3,000

1,521 1,940 2,700 4,317 6,088 7,615 9,594

22 1,146 1,145 445 1,218 1,434 166

41,320 51,732 65,657 88,349 128,795 155,809 143,057

3,222 3,392 7,529 9,777 13,578 9,518

23,829 30,015 44,778 69,838 85,977 99,179 100,780

11,706 26,737 22,104 17,239 25,708 28,626 30,435

13,436 10,061 15,099 15,936 27,489 30,605 31,298

723 1,663 1,980 2,595 3,313 3,810 5,128

1,824 1,817 1,426 1,560 2,733 3,813 5,555

50,990 79,313 85,307 107,168 145,100 160,053 162,172

2,579 4,173 5,047 6,016 8,815 11,053 12,266

2,036 1,087 1,142 1,256 1,507 2,004 3,000

1,521 1,940 2,700 4,317 6,088 7,615 9,594

22 1,146 1,145 445 1,218 1,434 166

41,320 51,732 65,657 88,349 128,795 155,809 143,057

3,222 3,392 7,529 9,777 13,578 9,518

23,829 30,015 44,778 69,838 85,977 99,179 100,780

11,706 26,737 22,104 17,239 25,708 28,626 30,435

13,436 10,061 15,099 15,936 27,489 30,605 31,298

723 1,663 1,980 2,595 3,313 3,810 5,128

1,824 1,817 1,426 1,560 2,733 3,813 5,555

50,990 79,313 85,307 107,168 145,100 160,053 162,172

**Revenue in million**

19,700 14,736 15,143 8,898 12,597 15,143 15,143
Notice of the 16th Annual General Meeting

Notice is hereby given that the 16th Annual General Meeting of the shareholders of Askari Bank Limited (Formerly Askari Commercial Bank Limited) [the Bank] will be held on Friday, March 28, 2008 at 1000 hours at Blue Lagoon Complex, opposite the outward gate of Pearl Continental Hotel, Rawalpindi to transact the following business:

Ordinary Business

1. To confirm minutes of the 15th Annual General Meeting held on 29 March 2007.
2. To receive, consider and adopt the financial statements for the year ended 31 December 2007 together with the Directors’ and Auditors’ reports thereon.
3. To consider and approve cash dividend @ 15%, that is, Rs.1.5 per ordinary share of Rs.10 each for the year ended 31 December 2007 as recommended by the Directors, payable to the members whose names appear in the Register of Members as at 18 March 2008.
4. To appoint the Auditors of the Bank for the year ending 31 December 2008 and to fix their remuneration.
5. To elect nine (9) Directors as fixed by the Board in accordance with the provisions of Section 178 of the Companies Ordinance, 1984, for a period of three years in place of the retiring directors namely:
   • Lt. Gen. Imitiaz Husain
   • Lt. Gen. (R) Ziarat Azim
   • Brig. (R) Muhammad Shireaz Baig
   • Brig. (R) Amat Ullah Khan Niaz
   • Brig. (R) Muhammad Bashir Buz
   • Brig. (R) Shaukat Mahmood Chaudhari
   • Mr. Kashif Mumon Anseri
   • Mr. Zaher Alam Khan Sumbal
   • Mr. Muhammad Afzal Minif
   • Mr. Muhammad Najam Ali
   • Mr. Tariq Ijaz Khan (NIT Nominee)

Special Business

6. To consider and if deemed fit, pass the following Resolution with or without modification(s):

RESOLVED THAT:

i. a sum of Rs. 1,052,275 thousand out of the profit available for appropriations as at 31 December 2007 be capitalized and be applied to the issue of 105,227,451 ordinary shares of Rs. 10 each allotted as fully paid bonus shares to the members whose names appear in the register of members as at the close of business on 18 March 2008 in the proportion of 35 shares for every 1000 shares held that is 3.5%.

ii. the bonus shares shall rank pari passu in all respects with the existing shares except that these shares shall not qualify for the dividend declared for the year ended 31 December 2007.

iii. members entitled to a fraction of a share shall be paid sale proceeds of their fractional entitlement, for which purpose the fractions shall be consolidated into whole shares and sold through stock market.

iv. Directors be and are hereby authorized and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of Bonus Shares.

7. To consider any other business as may be placed before the meeting with the permission of the Chair.

By order of the Board

A.J. Mubbashar
Company Secretary

February 21, 2008

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 28 March 2008.

Item No. 5 of the Notice – Appointment of Directors

Term of office of the present Directors of the Bank will expire on March 24, 2008. The Board of Directors of the Bank will be re-constituted for a fresh term of three years by electing nine Directors including 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 – Issue of bonus shares

The Directors are of the view that the reserves and profits of the Bank are adequate for the capitalization of a sum of Rs. 1,052,275 thousand for issue of the proposed 35% bonus shares and in this regard compliance has been made under Rule 6 of Companies (Issue of Capital) Rules, 1996. Auditors’ certificate in respect of adequacy of reserves has also been obtained.

Notes

1. The Share Transfer books of the Bank will remain closed from March 19 to March 28, 2008 (both days inclusive). Transfers received at M/s THK Associates (Pvt) Ltd, Ground Floor, State Life Building # 9, Dr. Ziauddin Ahmad Road, Karachi #7500, the Registrar and Share Transfer Office of the Bank at the close of the business on March 18, 2008 will be treated in time for the purpose of the entitlement of cash dividend and bonus shares to the transferees.

2. Any person who seeks to contest the election of directors shall file the following with the Bank at its registered office not later than fourteen days before the day of the above said meeting:

(i) His/Her intention to offer himself/ herself as a candidate for election of Directors in terms of Sections 170(3) of the Companies Ordinance, 1984, (the Ordinance) together with (a) consent on Form 28 as prescribed by the Companies (Provisions and Forms) Rules, 1985 (b) a declaration with consent to act as Director in the prescribed form under clause (iii) of the Code of Corporate Governance (the Code) to the effect be in respect of his/ her: he/ she is aware of duties and powers of Directors as mentioned in the Companies Ordinance 1984; the Memorandum and Articles of the Bank and the listing Regulations of the Stock Exchanges and has read the relevant provisions contained therein; and (c) a declaration in accordance with clauses (iii) and (iv) of the Code to the effect that he/ she is not serving as a Director of more than ten listed companies; and he/ she is a registered National Tax Payee (except when he/ she is a non-resident); that he/ she has not been convicted by a court of competent jurisdiction as defaulter in payment of any loan to a banking company, a development financial institution or a non-banking financial institution.

(ii) A specified affidavit as prescribed in the State Bank of Pakistan [SBP] RPBD Circular No. 12 dated 2nd June 2000 together with prescribed Questionnaire in accordance with Prudential Regulation No. 4-G-1 and the ‘Fit and Proper Test’ for the appointment of Directors in terms of SBP RPBD Circular No. 13 dated 17th May 2004 along with two recent photograph and a copy of CNIC (Passport in case of foreign national). Copies of SBP circulars/ announcements may be obtained from the SBP website or from the office of the Company Secretary of the Bank. SBP circulars/ announcements also list various persons who are not eligible to become director of a bank. Any person with these anomalies is considered undesirable, and against the public interest in terms of SBP RPBD Circular No. 12 dated 2nd June 2000.

3. 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 (GoP) or SBP or corporate entity may appoint a person who is not a member:

4. The instrument appointing a proxy should be signed by the member or his/ her attorney duly authorized in writing. If the member is a corporate entity (other than GoP and SBP), its common seal should be affixed on the instrument.

5. 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 the Company Secretary, Askari Bank Limited, 2nd Floor, AWT Plaza, The Mall, F-I, Box No. 1084, Rawalpindi not less than 48 hours before the time of holding the meeting.

6. If a member appoints more than one proxy, and more than one instrument of proxy is deposited by a member, all such instruments of proxy shall be rendered invalid.

7. The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

8. Attached copies of the CNIC or passport of the beneficial owner and the proxy shall be furnished with the proxy form.

9. The proxy shall produce his/ her original CNIC or original passport at the time of meeting.

10. In case of GoP/ SBP/ corporate entity, the Board of Directors’ resolution / power of attorney with specimen signature shall be submitted along with proxy form to the Bank.
Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the 16th Annual Report of Askari Bank Limited along with the audited financial statements and Auditors’ Report thereon, for the year ended December 31, 2007.

The economy

Pakistan’s economy performed well in the fiscal year that ended in June 2007, continuing on the higher growth trajectory of the last four years. Overall GDP growth at 7.7 per cent was on target, agriculture was above target, as were services - led by the financial sector. These broad trends are expected to continue in the fiscal year 2007/08. However, the high rate of GDP growth conceals weaknesses in industrial growth, i.e. manufacturing and utilities. In manufacturing, the problems lie mainly in the textile sector which is passing through a difficult period with low capacity utilization and low profitability in spinning and in weak exports of finished goods. Problems in the power sector have affected the output of utilities, both electricity and gas, as well as cause frequent outages of electricity in Karachi with adverse effects on manufacturing. Within manufacturing cement continues to perform well and construction remains buoyant with a number of large projects initiated, some the result of foreign investment.

Subsequent to June 2007 it is encouraging to note that industrial output has increased by 8.6 per cent on a year-on-year in October 2007 compared to the 6.8 per cent growth achieved in 2006/07 suggesting a pick-up in the pace of industrial growth during January –October 2007. Notwithstanding this improvement in industry, performance of other areas of the economy remains tentative. A significant area of concern in overall economic performance is that overall export growth was below target in 2006/07 (12.1 per cent as opposed to a target of 16-18 per cent) and has deteriorated further in the second half of 2007. This, accompanied by an increase in the prices of imports, specifically oil and oil products, has widened the balance of payments deficit. Side by side with a wider current account deficit inflation remains stubbornly stuck at around 8 per cent.

Despite these developments, overall prospects for the fiscal year 2007/08 remain broadly unchanged though with some obvious downside risks that could arise particularly if the international environment worsens and political uncertainty becomes protracted. As of February 2008, the signs are that there is likely to be only a modest deceleration of GDP growth and this would be mainly concentrated in the industrial sector with services and agriculture continuing to grow at their recent pace.

Assuming that water availability is up to expectations and the country is able to produce a normal or near-normal wheat harvest next year such an outcome should reduce upward pressure on food inflation. However, if the target for M2 growth of around 14 per cent is exceeded substantially – as it was in 2006/07 – overall inflation would again exceed the State Bank’s preferred rate of 6.5 per cent. On the inflationary side it is probable that oil prices could remain stable around $ 60 per barrel or even ease somewhat over the next 6-9 months, especially if global growth loses some of its buoyancy in view of the predicted slowdown in US growth. This could relieve some of the pressure on prices.

On balance, however, interest rates should remain firm with a possible further tightening on the cards as inflationary pressures in the country continue on the high side. For the Pakistan banking sector, these phenomena would pose new challenges for the preservation of the sector’s recent growth and profitability as credit demand from both corporations and consumers loses some of its vim. By and large, the weaker corporate demand for credit is likely to persist over most of 2007/08. Overall, this could result in slightly narrower spreads for banks and also some deterioration in asset quality. In that event, there could be a degree of pressure on banks’ earnings and profits in 2007/08.

As of February 2008, the impact of global stock market volatility has been so far. Pakistani banks are not directly involved but the volatility and heightened uncertainty in the global financial industry could theoretically damage both domestic and foreign investor sentiment in the months ahead. Against this background, preserving the momentum of domestic output growth and corporate revenues and earnings thus pose the main challenges for policy-makers and for corporate decision-makers in the country.

Operating results of the Bank

The profit for the year carries abnormal effects of certain exceptional items, the most significant ones are a additional provision of Rs.2.7 billion against non-performing advances due to change in SBP’s Prudential Regulations whereby benefit of forced sale value (FSV) was abolished vide SBP BSD Circular No. 7 of October 21, 2007 and b) gain on sale of strategic investment of Rs.2.1 billion - the former has significantly more than offsetting impact, as evident. Your Banks operating profit (before provisions against non-performing advances and taxation) for 2007 stood at Rs.6.22 billion against Rs 4.47 billion last year – an increase of 39%, mainly attributable to 15% increase in net mark-up income and 113% increase in non fund income on the back of one-off capital gains. However, the profit before tax registered decrease of 31% over the corresponding year due to 24% increase in provisions against non-performing loans & advances (NPLs) as a consequence of above referred change in SBP’s Prudential Regulations.

The profit after tax for 2007, increased by 19% over last year entirely on account of tax credits recognized on the exceptional items and tax reversals relating to prior years. By the end of 2007, deposits reached Rs.143.04 billion from Rs.131.84 billion at end 2006, an increase of 8% during the year. The increase was mainly in local currency deposits, which grew by 12%, to Rs.123.51 billion as of December 31, 2007 from Rs.110.01 billion as of December 31, 2006, while the foreign advances compared to last year, decreased by 11%, thus reflecting the strengthening of Pak Rupee in the wake of lower yields on FC deposits during 2007.

On the other hand, gross advances increased by 5% to Rs. 108.19 billion as of December 31, 2007 from Rs.102.72 billion at the close of last year. The increase in advances, coupled with strengthening effective rate of return, resulted in 15% increase in mark-up revenues from compared to last year, despite rising NPLs. The investment portfolio registered a growth of 38% over last year which stood at Rs.59.63 billion as of December 31, 2007 against Rs. 28.63 billion at December 31, 2006. The corresponding increase in mark-up on investments income was 36% over last year. However, the aggregate increase of 20% in total mark-up income on all earning assets is reduced to 15% in terms of net interest income, as the aggregate cost of deposits and borrowings increased by 24% in complementarily to butagerronge rate of return of higher deposit base.
Directors’ Report to the Shareholders

The non-fund income registered an increase of 113% over last year, mainly attributable to gain on sale of investments, increase in the volume of trade business handled by the Bank and overall increase in banking operations.

Administrative expenses increased by 46% over last year. The unprecedented upsurge in operating expenses is attributable to both usual and unusual factors. The usual increases (around 27%) are emanating from strategic branch expansion and related hirings, whereas unusual items are referred to costs of certain initiatives implemented during the year (19%) such as additional expenses incurred on change in corporate identity and compensation realignment etc., besides abnormal inflationary upsurge.

As of December 31, 2007, non-performing loans & advances stood at Rs.6.91 billion against Rs.3.66 billion as of December 31, 2006, an increase of 90% mainly due to further downgrade of few large exposures as reported in our earlier communications and new classifications. These exposures are now in the last category of classification of non-performing loans & advances and have been fully provided for upto December 31, 2007. Consequent upon increase in NPLs and above referred change in the Prudential Regulations, the aggregate provision against non-performing advances stood at Rs.7.41 billion, and reflecting increase of 109% over last year – the provision for the year increased by 248% compared to the last year. The ratio of non-performing advances as a percentage of total advances increased to 6.38% as of December 31, 2007 against last year’s 3.56%.

The risk coverage of NPLs improved to 107% as against 97% last year. We would like to mention that the strategies have been developed to enhance effective management of the loan portfolio by streamlining further flow of accounts into NPLs and boosting recovery efforts for overdue amounts, the benefits will be seen in the following years.

Earnings per share

The earnings per share increased by 19.25% from Rs.7.40 per share as at last year to Rs.8.92 per share as at December 31, 2007 after taking into account the number of shares issued during 2007.

The Board of Directors recommends the following appropriations from profits for the year ended December 31, 2007:

- Profit after tax for the year 2007: Rs.2,483,012
- Appropriations:
  - Statutory reserve @ 10% (Rs.248,301)
  - Proposed cash dividend (450,975)
- Capital reserve (reserve for issue of bonus shares): (1,052,275)
- Reserve reserve (61,180)
- Total appropriations: (2,483,012)

The appropriation of capital reserve (reserve for issue of bonus shares), amounting to Rs.1,052,275 thousand will enable the Bank to meet the enhanced Minimum paid-up Capital Requirement of Rs.4.6 billion, as required by SBP (SIDO Circular No:6 dated October 28, 2003).

As per the strategy of the Board, the Bank has increased its capacity to absorb shocks and improve earnings. The Bank has also initiated the process of reducing the NPLs and has taken steps for greater control on the risk-free and non-interest income. The Board of Directors, in the light of these initiatives, are optimistic that the Bank will be able to maintain its growth and profitability.”

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Organizational restructuring

To enable the Bank to cope better with the ever-changing dynamics of the market place, both tangible and intangible, Askari gave itself a new corporate identity in 2007. The Bank’s name was changed from Askari Commercial Bank Limited to Askari Bank Limited, a new logo was chosen that represented better the underlying values of the Bank, its success to date as well as pointing ahead to a brighter future. But, merely having a new corporate identity can never be an end in itself; it must be accompanied by a commitment to achieve the highest standards of integrity, customer service, introducing new and innovative products that genuinely benefit our customers and must, above all, be a living symbol of excellence that encompasses and builds on the tripod of people, relationships and partnerships – crucial pre-requirements for Askari’s long term strength and continued progress – in an atmosphere of reliability, confidence and trust. A new corporate identity is thus a new beginning, a renewal and revitalization, and not an end in itself.

Internally, the process of restructuring has been accompanied by changes in the organizational structure and functional arrangements of the Bank. Apart from changes in the Bank’s organizational, some of the group’s departments, such as EMG (Risk Management Group), CAD (Credit Administration Division), SAMD (Special Assets Management Division), CFTUs (Centralized Foreign Trade Units) have been reorganized, or created anew, for better operational efficiency. From the perspective of staff motivation the overall compensation and salary structure has been aligned with the market at a considerable cost, around Rs.1.3 million in 2007, and job description documents (JDOs) have been updated to reflect more accurately the roles played by these positions.
in the Bank. In this regard, the Performance Management System based on well-defined goals and responsibilities has been finalised and the new performance appraisal system would become effective during 2008. Indeed, all staff policies are being reviewed for market compatibility and relevance. Your Bank being fully aware of its IT related needs of today for Bank’s success, satisfaction of its customers, shareholders and regulators, has made arrangements for the purchase of a modern Core Banking System (CBS) to provide it with the requisite IT support. When fully implemented, the CBS will ensure the integrity and confidentiality of all information available within the Bank, guarantee its protection from all threats, internal or external, and satisfy all regulatory and legal requirements. In this regard, Askari Bank has also taken rigorous steps to achieve compliance with ISO 27001:2005 and it should achieve this certification soon.

Risk management framework

Your Bank fully recognizes that the risk management function is fundamental to the banking 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 (IRA) questionnaire by the State Bank of Pakistan (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.

The Risk Management Committee (RMC) being a subcommittee of the Board of Directors continues to play its role as an effective medium for the implementation of the risk management system of the Bank. The RMC is responsible for maintaining oversight of the identification, measurement, monitoring and control of the Bank’s principal business risks. The RMC’s prime responsibility is adherence to internal risk management policies and compliance with risk related regulatory requirements. 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, mitigating and controlling risk. An independent risk management group ensuring the integrity of the whole exercise and implements the recommendations of RMC, which evaluates the Bank's existing risk review and risk management function. Changes to the existing risk management framework are implemented, as and where warranted. The Bank strengthened the credit initiation and review/approval process by incorporating Credit Risk Rating in the approval process for corporate, commercial and SME proposals while Risk Scoring Model is introduced into lending under Consumer Banking. This has positioned the Bank to build the database required to adopt the Basel II Internal Ratings Based (IRB) approach by January 1, 2010 which is State Bank of Pakistan’s deadline for implementation of the approach.

Askari Bank is fully geared to implement Basel II by adopting the internal rating approach and associated risk management IT tools. The new framework is an improvement on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II framework is intended to promote a more forward-looking approach to capital supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage these risks.

The year 2007 has been very challenging for the banking industry as in addition to slow growth in advances, the benefit of forced sale value (FSV) of collaterals was withdrawn against all non-performing loans (NPLs) except housing finance for calculating provisioning requirement. This additional requirement of provisioning has eroded a significant portion of the profitability of the banking industry. However, it is a one time policy measure and hopefully banks would be in a better position by next year.

Statement on internal controls

We believe that internal controls contribute to more effective management by both the Bank’s Board and management. Assets can be protected and fraud/financial mismanagement can be prevented by a strong internal control culture within the Bank. Internal controls are the means to ensure compliance with external laws and regulations as well as with the Bank’s own internal policies.

The management of Askari Bank endeavours to attain a more professional and efficient working environment 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 mechanisms covering all areas of its activities, after approval from the competent authority. M/s BDO Ibrahim & Co., Chartered Accountants, an outsourced consultants specialized in audit and control procedures who were engaged to conduct a full scope review of the internal control environment of the Bank, have noted out gap analysis to evaluate the vulnerabilities of the Bank’s internal systems and recommending improvements for achieving internal control certification has submitted their reports after over a year’s systematic review of procedures. Following the recommendations of the consultants, the Bank has successfully authenticated and applied an Internal Control Systems Review based on testing requirements. The gaps identified are being filled by amending / formulating the requisite policies / procedures etc. The Review has established that the risk mitigants are in place and there are no material shortcoming in the internal control systems of the Bank.

In addition, appropriate test of transactions, observations on the control environment, sharing of findings on the internal control system and ensuring relevant and appropriate follow-up and corrective measures are also being carried out by management on a regular basis. The management of the Bank feels confident that through the adoption of the above measures, the Bank’s internal control environment is at an adequate level and is being further strengthened.

Credit rating

Credit ratings represent the Bank’s ability to effectively implement its various planned measures to manage the steadily increasing competition in the banking sector, thereby helping to protect its relative standing in the sector.

Askari Bank has been assigned long term rating at ‘AA’ and short term rating at ‘A1’ by the Pakistan Credit Rating Agency (PACRA) Limited (PACRA). The ratings reflect the Bank’s strong capital structure supported by sound profitability. Taking a note of the fast changing banking dynamics, the management has put in place a well conceived strategy to improve the Bank’s performance and strengthen its risk management framework, ensuring its strong standing within the sector.

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 effective fund deployment strategy. Going forward, the strong technological platform and enhanced geographical outreach, the Bank is well positioned to maintain its competitive edge despite an increasingly competitive operation environment.”

Capital adequacy

As of December 31st 2007 your Bank’s capital adequacy ratio (CAR) stood at 12.25% as against 10.93% at the close of last year. The increase reflects higher growth in equity compared to risk weighted assets. Bank’s CAR is at a comfortable level, compared to SBP requirement of a minimum 8% and provides sufficient room for further augmentation in risk assets necessary for the continued growth of the Bank.

Branch network

Your Bank is fully aware that the branch network has direct implications on the services that it provides to its valued customers. During the year, your bank opened 28 new branches including 8 dedicated Islamic Banking branches. We now offer services through a network of 150 branches, including the Offshore Banking Unit in Bahrain. Through this branch network, we are able to present our wide range of products and services to our valued customers. Further expansion will continue during 2008 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, agriculture and Islamic Banking products and services, supported by our technology based services such as on-line banking and ATMs.

Islamic Banking

The year 2007 was effectively the first full year of operations for Islamic Banking. During a very short period since its inception, the total branch network has reached 14 with eight new Islamic banking branches opened during 2007. The branch network now covers all major cities of the country. A comprehensive range of Islamic Banking products and services are being offered by Askari Bank, in order to meet customer’s demand for Shariah-Compliant Banking. In the following areas:

-伊斯兰: Corporate Banking;
-伊斯兰: Investment Banking;
-伊斯兰: Trade Finance;
-伊斯兰: General Banking and
-伊斯兰: Consumer Banking.

In order to realize potential in this sector, the Bank’s concerted efforts for strategic expansion and business development in the area shall remain a priority in the years ahead.

Askari Investment Management Limited (AIML)

Askari Investment Management Limited (AIML) is the first subsidiary of the Bank and is regulated under the Non-Banking Finance Companies (NBFC) Rules 2003 and licensed by the Securities and Exchange Commission of Pakistan (SECP). The primary business of AIML is to launch and manage mutual funds investments. However, AIML also offers advisory services to institutional clients.

AIML’s first open ended income fund, Askari Income Fund (AIF), during the year has achieved many landmarks, fund size reached Rs 3.32 billion with annual yield of around 10%. AIF has been assigned a 5-star performance rating by PACRA, which is the highest rating possible for a mutual fund. This rating reflects the superior risk adjusted performance of the fund for FY07. AIF aims to provide its investors a broad range of asset classes so as to diversify fund risk and optimize potential returns. During the year, AIML also launched another fund i.e., Askari Asset Allocation Fund. Consolidated financial statements of the Bank and AIML for the year ended December 31, 2007 are included in this report.

Askari Securities Limited (ASL)

During the year, the Bank has acquired controlling interest of Askari Securities Limited (ASL) by virtue of purchasing 74% shares of ASL. ASL is an incorporated public limited company and a corporate member of Islamabad Stock Exchange (Guaranteed) Limited, which principally engaged in share brokerage, investment advisory and consultancy services. We believe that this will further expand the scope of our services to valued customers while contributing to the bottom line profits of the Bank. Consolidated financial statements of the
Bank and ASL for the year ended December 31, 2007 are included in this report.

Awards and recognition
During the year, Askari Bank won “The Best Consumer Banking Award 2006” for three consecutive years by Consumer Association of Pakistan.

Pattern of shareholding
The pattern of shareholding at the close of December 31st, 2007 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, changes in its equity and cash flows.
- 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 the internal audit department and other such procedures. Such review processes will continue and any weakness in controls will be removed.
- The 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.
- Key operating data and financial data for the last ten years, in summarised form, are included in this Annual Report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31st, 2007, except as disclosed in these financial statements.
- The following is the value of investment as at December 31, 2007:
  - Provident Fund Rs.694.26 million, based on un-audited financial statements (2006 Rs.535.11 million)
  - Gratuity Fund Rs.249.66, based on un-audited financial statements (2006 Rs. 204.80 million)
- During 2007, 4 meetings of the Board of Directors were held. Attendance by each Director was as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Attended</th>
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<tbody>
<tr>
<td>Lt. Gen. Imtiaz Hussain</td>
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<td>Lt. Gen. Waseem Ahmed Ashraf</td>
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<td>Lt. Gen. (R) Zarrar Azim</td>
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<td>Brig. (R) Muhammad Shariq Bug</td>
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<td>Brig. (R) Amat Ullah Khan Niazi</td>
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<td>Brig. (R) Muhammad Bashir Rizvi</td>
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<td>Brig. (R) Shakil Mahmood Chandkani</td>
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<td>Mr. Rafeel Mateen Amari</td>
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<tr>
<td>Mr. Zafir Alam Khan Sambal</td>
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<td>Mr. Muhammad Afzal Mumtaz FCA</td>
<td>3</td>
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<td>Mr. Mohammad Nazir Ali FCA</td>
<td>3</td>
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<tr>
<td>Mr. Tariq Ijaz Khan FCA</td>
<td>4</td>
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<tr>
<td>Mr. Shafqat Ahmad</td>
<td>4</td>
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<tr>
<td>President &amp; Chief Executive</td>
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Auditors
The Auditors, M/s A.F. Ferguson & Co., Chartered Accountants have completed their assignment for the year ended December 31st, 2007 and shall retire at the conclusion of the 16th Annual General Meeting. Upon recommendation of the Audit Committee, the Board recommends appointment of M/s A.F. Ferguson & Co., Chartered Accountants, as the auditors for the year 2008.

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 2008
It is expected that there would be only a modest slowdown in the pace of growth of Pakistan's GDP in fiscal 2007/08. The main impact of such a slowdown is expected to be felt in the area of foreign trade, both imports and exports, while the demand for private credit could slow further. There is a degree of uncertainty associated with the turbulence in international financial markets but its direct impact on Pakistan's domestic economy is expected to be minimal. Overall prospects for the banking sector suggest a continuation of the trends of the last three years.

Acknowledgment
On behalf of the Board of the Bank, I should 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

Chairman

Rawalpindi
February 21, 2008