



Creating opportunities with innovation



Annual Report of
ASKARI COMMERCIAL BANK LIMITED
for the year ended December 31, 2006



About the Cover

Opportunities never come served on fine china plates. These are acts of innovation, presented only to those who think out of the box and embrace them wherever they might be.

At Askari Bank, we have the courage to collect and act upon our dreams, because this is what innovation is. Not only this, we believe in creating opportunities through innovation, in uniting and identifying them for a sustainable competitive advantage.

Askari Bank's culture of innovation and creative thinking provides us with resources and new capacities that create more value for our stakeholders.

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Financial Highlights 2006

Rupees in million	2006	2005		Change
Profits				
Operating profit	4,475	3,461	+	29.30%
Profit before taxation	3,347	2,859	+	17.07%
Profit after taxation	2,250	2,022	+	11.28%
Balance Sheet				
Shareholders' funds	11,053	8,813	+	25.42%
Deposits from customers	131,839	118,795	+	10.98%
Advances to customers	99,179	85,977	+	15.36%
Total assets	166,033	145,100	+	14.43%
Information per ordinary share				
Earnings (Rs.)	11.23	10.09	+	11.30%
Cash dividend (Rs.)	1.00	1.50	-	33.33%
Stock dividend (%)	50.00	33.00	+	51.52%
Net asset value at year end (Rs.)	55.16	43.98	+	25.42%
Market value at year end (Rs.)	104.95	126.80	-	17.23%
Capital adequacy ratio (%)	10.93	11.18	-	2.24%

Making the best use of our potentials
and letting our performance speak
for itself





Pakistan's Economic Profile

Key country statistics

Land area (sq. km.)	796,100
Population (Million)	155.4
Population growth (%)	1.9
Population density (people / sq. km.)	195
Life expectancy (years)	64
Literacy (%)	54

Major economic indicators

	2002-03*	2003-04*	2004-05*	2005-06*
GDP Growth (%)	5.1	6.4	8.4	6.6
GDP - at current factor cost (Pak Rs. billion)	4,534	5,251	6,204	7,295
GDP - at market prices (Pak Rs. billion)	4,876	5,641	6,581	7,713
Inflation (%)	3.1	4.6	9.3	7.9
Trade balance (USD million)	(1,060)	(3,279)	(4,515)	(8,442)
Current account balance - ex. official transfers (USD million)	4,070	1,811	(1,534)	(4,999)
Foreign currency reserves - year end (USD million)	10,719	12,328	12,626	13,137
Exchange rate - year end (USD)	57.81	58.15	59.67	60.18
(Euro)	66.10	70.90	72.14	76.47

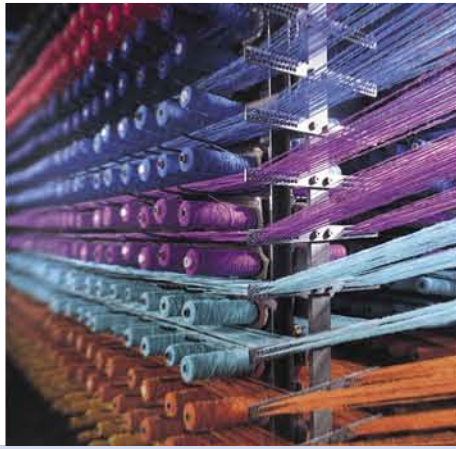
Banking system - at fiscal year end

Networth of the banking system (Pak Rs. billion)	112	131	195	324
Total assets of the banking system (Pak Rs. billion)	2,540	3,003	3,350	3,559
Capital adequacy ratio - %	8.5	10.5	11.3	11.9
Advances / Deposits ratio - %	56.4	65.8	70.2	69.9
Return on Assets (after tax) - %	1.1	1.2	1.9	2.1

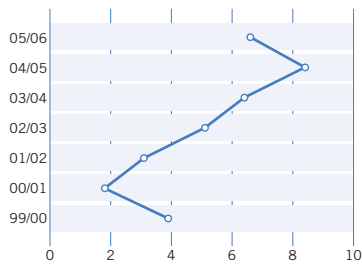
Stock market - at fiscal year end

KSE 100 index - points	3,402	5,279	7,450	9,989
Market capitalization (Pak Rs. billion)	746	1,357	2,013	2,766

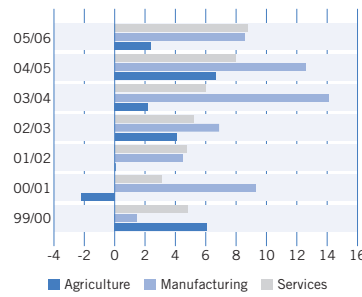
* Pakistan's fiscal year starts on July 1 and ends on June 30



GDP - Growth (%)



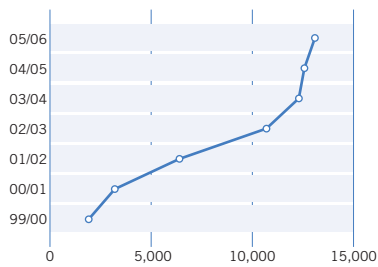
Sectoral contribution to GDP (%)



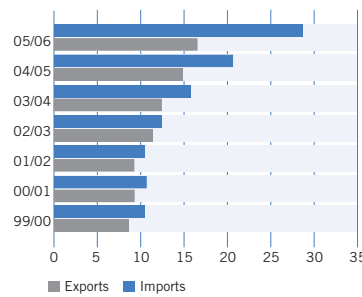
Population growth & unemployment (%)



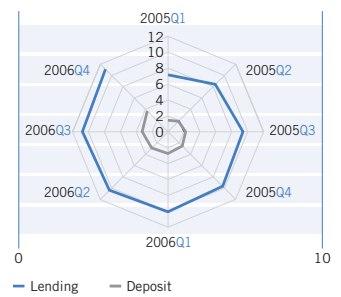
Foreign exchange reserves (USD billion)



Foreign trade (USD billion)



Lending & deposit rates (%)



15 Years of banking



Askari Bank's existing Head Office - the journey continues.



Where it all began - view of Askari Bank's Head Office in 1992.

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 121 branches, including 6 dedicated Islamic Banking Branches, and an Off-Shore Banking Unit in Bahrain. A shared network of over 1,300 on-line ATMs covering all major cities in Pakistan supports the delivery channels for customer service. As at December 31, 2006, the Bank had an equity of Rs. 11.1 billion and total assets of Rs. 166.0 billion, with over 665,000 banking customers, serviced by our 4,585 employees.

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 organizational culture of meritocracy**, maintaining **high ethical** and **professional standards**, while providing **enhanced value** to all our stakeholders, and **contributing to society**.



Objectives

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

Strategic Planning

- To comprehensively plan for the future to ensure sustained growth and profitability.
- To facilitate alignment of the Vision, Mission, Corporate Objectives and 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.



Circle of unity -
Askari Bank's management

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** principals are adhered by obtaining sufficient information about the customers to reasonably satisfy ourselves as to their reputation, standing and the nature of their business activities.
- Employees must avoid circumstances in which their personal **interest conflicts**, or may appear to conflict, with the interest of the Bank or its customers. Employees must never use their position in the Bank to obtain an advantage or gain.
- Employees must not enter into an agreement, understanding or arrangement with any **competitor** with respect to pricing of services, profit rates and / or marketing policies, which may adversely affect the Bank's business.
- Employees must not accept **gifts, business entertainment or other benefits** from a customer or a supplier / vendor, which appear or may appear to compromise commercial or business relationship.
- Employees must remain alert and vigilant with respect to **frauds, thefts or illegal activities** committed within the Bank premises.



Corporate Information

Board of Directors

Lt. Gen. Waseem Ahmed Ashraf
Chairman

Lt. Gen. (R) Zarrar Azim

Brig. (R) Muhammad Shiraz Baig

Brig. (R) Asmat Ullah Khan Niazi

Brig. (R) Muhammad Bashir Baz

Brig. (R) Shaukat Mahmood Chaudhari

Mr. Kashif Mateen Ansari

Mr. Zafar Alam Khan Sumbal

Mr. Muhammad Afzal Munif, FCA

Mr. Muhammad Najam Ali, FCA

Mr. Tariq Iqbal Khan, FCA
(NIT Nominee)

Mr. Shaharyar Ahmad
President & Chief Executive

Audit Committee

Brig. (R) Asmat Ullah Khan Niazi
Chairman

Brig. (R) Muhammad Shiraz Baig

Mr. Kashif Mateen Ansari

Company Secretary

Mr. Saleem Anwar, FCA

Auditors

A. F. Ferguson & Co.
Chartered Accountants

Legal Advisors

Rizvi, Isa, Afridi & Angell

Registered / Head Office

AWT Plaza, The Mall,

P. O. Box No. 1084,

Rawalpindi, Pakistan.

Tel: (92 51) 906 3000

Fax: (92 51) 927 2455

E-mail: webmaster@askaribank.com.pk

Website: www.askaribank.com.pk

Registrar & Share Transfer Office

THK Associates (Private) Limited

Ground Floor, State Life Building # 3,

Dr. Ziauddin Ahmad Road, Karachi-75530

P. O. Box No. 8533, Karachi.

Tel: (92 21) 568 9021, 568 6658, 568 5681

Fax: (92 21) 565 5595

Entity Ratings

Long Term: AA+

Short Term: A1+

by PACRA

Management

Head Office

Shaharyar Ahmad
President & Chief Executive

M. R. Mehkari, SEVP
Group Head - Treasury & International Banking

Agha Ali Imam, SEVP
Group Head - Consumer Banking Services

Mohammad Arif Mian, SEVP
Chief Risk Officer

S. Suhail Rizvi, EVP
Group Head - Operations

Abdul Hafeez Butt, EVP
Country Head - Credit

Israr Ahmed, EVP
Country Head - Establishment

Rehan Mir, EVP
Country Head - Treasury

Tahir Aziz, EVP
Group Head - Corporate & Investment Banking

Abdul Jamil Mubbashar, EVP
Country Head - Risk Management

Khalid Mohammad Khan, EVP
Country Head - Compliance & Data

Saleem Anwar, EVP
Chief Financial Officer

Rana Shahid Habib, EVP
Country Head - Inspection & Audit

Hashim Khan Hoti, EVP
Country Head - Islamic Banking Services

Vadiyya Asif Khan, EVP
Country Head - Corporate Banking

Mian Muhammad Sharif
Credit Administration

Shahid Ahmed
Chief Economist & Country Head - Strategic Planning

Farooq Abid Tung, SVP
Country Head - Agricultural Credit

Hassan Aziz Rana, SVP
Legal Affairs

Mohammad Ehsan Qadir, SVP
Country Head - Operations

Muhammad Ahmad Khan, SVP
Acting Country Head - International

Riaz Khan Bangash, SVP
Acting Country Head - Human Resource

Nauman Bashir Khan, SVP
Country Head - Electronic Technology

Regions / Areas / OBU

Ejaz Ahmed Khan, SEVP
Regional General Manager - Central

Sajjad Ahmed Qureshi, EVP
Area Manager - Lahore-I

Khawaja Shaukat Iqbal, EVP
Area Manager - Lahore-II & Acting Area Manager - Gujranwala

Tahir Yaqoob Bhatti, EVP
Area Manager - Faisalabad

Sajjad Ali Sheikh, SVP
Area Manager - Multan

Nazimuddin A. Chaturbhai, SEVP
Regional General Manager - South

M. Jaffer Khanani, EVP
Area Manager - Karachi-I

Saifur Rehman Khan, EVP
Area Manager - Karachi-II

Nehal Ahmed, EVP
Area Manager - Karachi-III

Niaz Mohammad, SVP
Area Manager - Hyderabad

Tariq Siddique Ghauri, SVP
Area Manager - Quetta

Malik Asad Ali Noon, EVP
Regional General Manager - North

Haseeb Saulat, EVP
Area Manager - Islamabad

Tariq Mahmud, SVP
Area Manager - Rawalpindi North

Mian Shamim Ahmed
Area Manager - Peshawar

Shahid Amir, SVP
Area Manager - Rawalpindi East

Khurram Dar, VP
Offshore Banking Unit, Bahrain

What We Stand For



What our VISION is	To be the Bank of First Choice in the Region				
What we THINK	Creating opportunities with innovation				
What our VALUES are	Commitment	Integrity	Fairness	Team-work	Service
What is our COMMITMENT to stakeholders	Customers Passionate about our customers' success, delighting them with the quality of our service	Investors A distinctive investment, delivering outstanding performance, superior returns and value	Regulators Exemplary compliance, governance and business ethics	Our People Caring for our people and helping them to grow	Communities Dedication towards social development and improvement in quality of life

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. We have fully automated transaction-processing systems for back-office support. Our branch network is connected on-line real-time and our customers have access to off-site as well as on-site ATMs, all over Pakistan. Our Phone Banking Service, Askari TeleCare, and Internet Banking Facility allows customers to enjoy routine banking service from anywhere anytime in the world. We also pioneered an e-commerce venture in Pakistan through a major retail distributor. Our mobile ATMs are the first in Pakistan.

Exploring new opportunities around the globe
It is our endeavour to help our clients successfully navigate in
an increasingly complex and changing market place

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 665,000 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.



*Learning the art of corporate harmony
(Askari Bank's management during strategy
conference in Bentota, Sri Lanka).*

Entity Ratings

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

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.

A plus (+) appended to a rating, denotes relative status within major rating categories.

A1+:

Obligations supported by the highest capacity for timely repayment.



Askari Bank sponsored the 1st National Talent Exhibition for special persons.



Prize distribution ceremony of 46th National Amateur Golf Championship sponsored by Askari Bank.



Glimpse of 23rd Federal Cup National Ranking Tennis Championship 2006, sponsored by Askari Bank.

Corporate Social Responsibility

“A society grows great when old men plant trees whose shade they know they shall never sit in.” Greek Proverb

Community investment is the substantial time given by our staff in supporting the work of community organizations, whether raising money, organizing sporting or educational events, providing business expertise or simply providing another willing pair of hands.

At Askari bank we believe in giving back to society that has blessed us with an environment to thrive in. Just like our ancestors who fought great wars so that we may live in peace and harmony. Corporate Responsibility for Askari Bank is embodied by the concept of “Privileged”. Everything that we must take from this society is taken as privilege, not a right. This is why we believe in giving back to others who have accorded us with this “Privilege” of being a part of this society.

Askari bank believes in taking utmost care of its customers and society – of which we are all part of. This is how we do business, and is the core of our overall strategy to make Askari Bank the Bank of First Choice in the Region. It requires us to make informed, reasoned and ethical decisions about how we conduct our business, how we treat our employees and how we behave towards our customers and clients and how we act as a corporate citizen.

Having the right culture and working environment is a key part, and it can also go a long way towards creating a sense of one unified organization. A lot of work has been done in this area over the years, and we have set five central ‘Guiding Principles’ to describe the Askari Bank’s ethos. These are Commitment, Integrity, Fairness, Teamwork, and Service. These five principles describe how we expect our employees to behave with external stakeholders and each other.

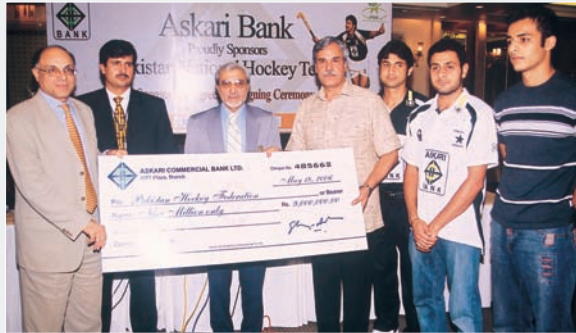
Health and safety is an integral part of being a responsible employer. At Askari Bank proper working conditions are put in place to allow the employees to perform effectively and efficiently without causing any harm to them.



Mr. Shaharyar Ahmad, President & Chief Executive Askari Bank, with the participants of International Mountain Bike Race "Tour of Karakorum" - sponsored by Askari Bank.



Event coverage of Golf Tournament sponsored by Askari Bank at Karachi.



Askari Bank was the official sponsor of Pakistan's National Hockey Team of 2006.



A snap shot from Askari Bank's co-sponsored 1st Health Expo.

Spring brings with it joy to many but for some it heralds a time of physical illness, especially those residing in Islamabad. For the past couple of years Askari Bank is actively helping Capital Development Authority (CDA) in its campaign for "Pollen Allergy Relief".

Askari Bank supports the community in which we operate both through the involvement of our employees and through sponsorships. Persons with physical, sensory, or mental impairments, that can make performing an everyday task more difficult, have special needs. They are a part of us and we at Askari Bank enthusiastically promote functions organized for them. We sponsored the 1st National Talent Exhibition of Persons with Disabilities, where special persons from around Pakistan attended and displayed their extraordinary talent.

We support charitable organizations working for the promotion of health and welfare, the major ones being Agha Khan Hospital and Medial College Foundation, Shaukat Khanum Memorial Trust, World Wildlife Fund (WWF), Sargodian Spirit Trust and Masud Khaddar Posh Trust.

In addition, Askari Bank has sponsored the first ever Health Expo 2006 held in Islamabad and also sponsored the international conference on Disaster Management attended by leading doctors and disaster management specialist from around the world. We believe specific themes in education and environment that have the potential to benefit individuals, communities and the planet — and also enhance our business in the long term. Therefore we have been actively sponsoring The Citizen Foundation a trust promoting education.

Sports is a recreational activity to most and a career to others, we at Askari Bank promote both. Askari Bank has been the leading sponsor of major sports events and teams. We have during the year 2006 sponsored International and National level games.

We encourage team spirit and sportsmanship by sponsoring various sports like Squash, Golf and National Paralympics. We were the official sponsors of the Pakistan National Hockey Team for 2006, and in addition, we are also Sponsors of National Polo Team in the World Cup Play Offs. Askari Bank has been keenly participating in sponsoring Golf events both national and international events held in Pakistan. We also sponsored the 23rd Federal Cup National Ranking Tennis Championships 2006 held at Islamabad.

We not only participate in events through which we get promotional mileage but we also sponsor events which are for the development and uplift of the society. Askari Bank sponsored "Tour of the Karakorum's" International Mountain Bike Race organized for the cause of October 2005 Earthquake Victims, in which leading international cyclist participated.

President's Message



By the grace of Almighty Allah, Askari Bank successfully maintained the growth pattern during 2006. The Bank's operating profit was recorded at Rs.4.47 billion compared to last year's Rs.3.46 billion, an increase of 29%.

The strong growth momentum that the Pakistan economy has achieved in the last few years has been underpinned by dynamism in industry, agriculture and services. This dynamism has stimulated the emergence of a new investment cycle in the economy supported by strong credit growth. The country's banking sector has risen to the challenge of catering to the needs of a more dynamic economy. Indeed, new growth opportunities in banking have attracted large flows of direct foreign investment in the sector, a phenomenon reflected in the acquisition of local banks by major international banks as well as in the entry of new foreign banks in the country.

In this business environment, Askari Bank's deposit-base by the end of year 2006 reached Rs. 131.84 billion as compared to previous year end figure of Rs.118.80 billion showing an increase of 12%. In order to strengthen 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 (BDO)" has been organized which is functioning very effectively. On the other hand, gross advances also grew by 16% to Rs. 102.72 billion as of December 31, 2006 from Rs. 88.40 billion at the close of last year. While the credit expansion was strong as well as diversified and yielded better returns, bank's non-performing loans (NPLs) increased from Rs. 2.37 billion to Rs. 3.66 billion mainly due to further downgrading of a few large exposures as reported in our earlier communications. These loans have been fully provided for up-to December 31, 2006. Nevertheless, concrete efforts are being made for regularization/ recovery of the NPLs.

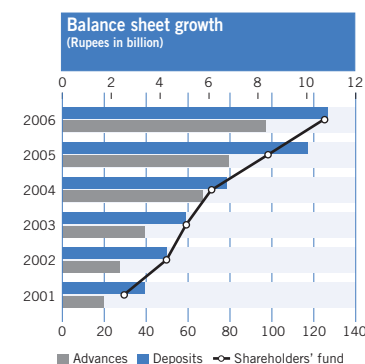
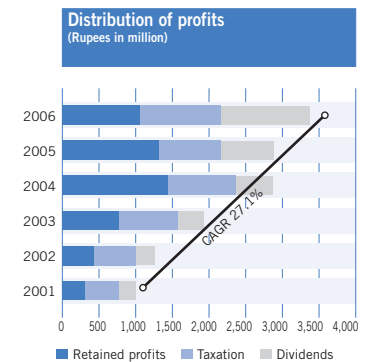
The principal factors contributing to the Bank's continued good performance include an environment of macroeconomic stability in Pakistan economy and consistency in overall government policies. These, in turn, have been supported by strong leadership from the State Bank of Pakistan in regulation and supervision of banking system. Its leadership has enabled banks to respond to the increasing financial needs of key sectors of the economy with development of new products and services.

However dynamic the overall environment, an organization cannot respond to opportunities it faces without effective internal management control systems. Askari Bank's management has ensured the efficient management of its assets and liabilities through diversification of

portfolios, minimizing risk-return tradeoffs, improved control over operating expenses, reviving consumer banking services and a strategic expansion of branch network.

Effective internal controls also require an ability to plan for the future. 2006 was a milestone for the Bank in respect of change management and corporate governance. To prepare and equip ourselves for more specialized avenues of business in both conventional and Islamic banking, as well as to meet future challenges a restructuring of the bank is underway. The aim is to realign the existing setup with modern banking norms and practices. Consequently, some of the Bank's previous committees have been integrated into two new committees – the Management Committee and the Administrative Committee, for improved transparency and better decision making. Other organizational changes are also under consideration.

For developing a forward-looking perspective, strategic planning driven by quality research is essential. Strategic planning helps to set short-medium and long-term business plans in order to achieve the Bank's longer-term goals, objectives and vision. I am pleased to report that a dedicated Strategic Planning Division headed by an experienced economist has been established. It is mandated





to conduct economic research and present detailed sectoral analyses of Pakistan economy. It will also make assessments of the overall outlook for the banking sector that should assist senior management in decision-making process.

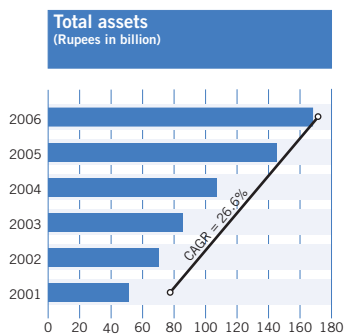
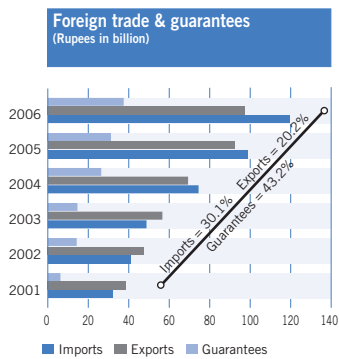
In recent years, consumer banking has emerged as a major engine of growth for banks in Pakistan. At Askari Bank, the entire setup dealing with consumer banking is being reorganized for greater innovation. While improving the quality of human resource and IT infrastructure, distribution channels are also being increased in all major cities to expand the customer base. Askari Bank is now well positioned to penetrate more strategically in the market for consumer banking services in the country.

Driven by the requirements of Basel II, risk management at every level of banking has gained much greater importance than before in Pakistan. Accordingly, in compliance with State Bank guidelines a Risk Management Group has been established in the Bank to develop strategies and approaches for risk assessment and risk mitigation.

During 2006, the Askari Islamic Banking Division successfully launched its operations across the country, initially through the opening of Islamic banking branches in the federal and provincial capitals. Shari'ah compliant products such as Ijarah, Salam, Murabaha, Diminishing Musharakah and others are being offered through dedicated Islamic banking branches.

Agriculture remains the backbone of the Pakistan economy. We are providing financing support to farmers under the Askari Kissan Agri Finance Programme since 2004 through our branches. This segment of our credit portfolio has gained market acceptance in a short span of time. Askari Bank has signed an MoU with the Pakistan Dairy Development Company (PDDC) for the development of the dairy industry in Pakistan. According to the MoU, Askari Bank will provide financing facilities to farmers, milk-collecting agents and corporate entities for the purchase of equipment and machinery recommended by PDDC.

I am also pleased to report that Askari Investment Management Company (AIML), a wholly-owned subsidiary of the Bank, has made good progress since it began its operations. Askari Income Fund (AIF) is growing steadily and its Net Asset Value (NAV) has touched the figure of Rs. 3.18 billion as at December 31, 2006. Since the fund management business is expanding rapidly in Pakistan, we hope that AIML will soon emerge as one of the top fund management companies of Pakistan, Insha'Allah.





With the increasing role of emerging financial markets and developing economies in the global economy, so visible in the enormous increase in global trade and cross-border investment flows, the importance of increasing Askari Bank's international presence has been duly recognized by its management. After successful operations of the Bank's Off-shore Banking Unit in Bahrain, the management is keen to open representative offices in the most vibrant centres of international finance and trade to promote both the brand name of Askari Bank and to capture the business opportunities emanating from our international presence.

In recognition of quality service to valued customers, we have received several awards from renowned national and international organizations. Our performance in the field of consumer banking is being acknowledged consistently at international level as Askari Bank has won the "Best Retail Bank in Pakistan" Award by The Asian Banker during last three consecutive years. We have also received "2nd Consumer Choice Award 2005" in the category of Best Bank for Retail Banking in Pakistan in the year 2006 by the Consumer Association of Pakistan. In addition to ensuring quality service, Askari bank has also been very successful in uplifting of corporate values in the banking industry. "Corporate Excellence Award" by Management Association of Pakistan (MAP) and "Best Corporate Report" awards from The Institute of Cost and Management Accountants in Pakistan (ICMAP) for the year 2005 are a token of admiration thereof.

All members of the Askari family deserve the highest appreciation for the results achieved in 2006. They have worked with firm commitment and dedication throughout the year to ensure quality services to our valued clients. Management highly values the contribution made by them. Here, I report that we are working to revise and adapt our human resource policies in accordance with market norms and practices and a number of initiatives are being taken

to enhance the value input by our employees such as the Service Excellence Awards and monetary rewards. A Performance Management System based upon openness, transparency and fairness is being introduced to ensure a spirit of resolve and unity while building a robust culture of service, ownership and responsibility that strengthens our organization.

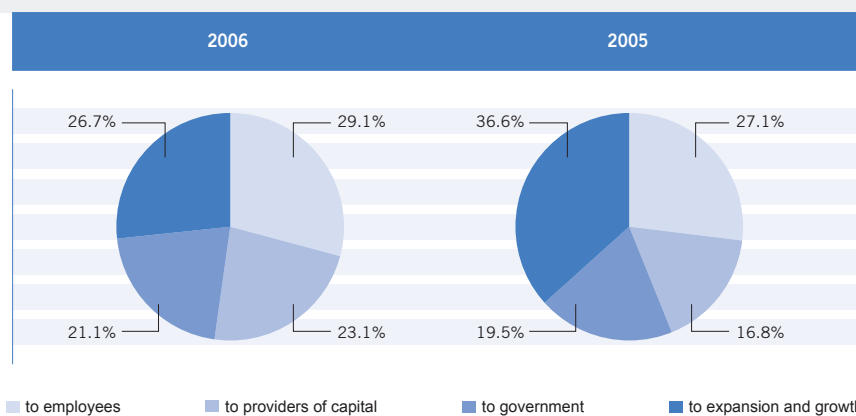
Ultimately, quality human capital is a key element in the operational success of any organization. Every effort is therefore being made to recruit and retain quality human resource and extensive training programmes are being arranged internally and externally to enrich our human capital. Our entrepreneurial culture, strong brand recognition in the market and highly motivated staff ensures that we continue to seek out every possible growth opportunity in the pursuit of our objectives of adding value for all our stakeholders and contributing to the economy and society in which we operate. Whatever we have achieved in 2006 would not have been possible without the patronage and support of our valuable 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 they have extended to management in conducting the affairs of the Bank.

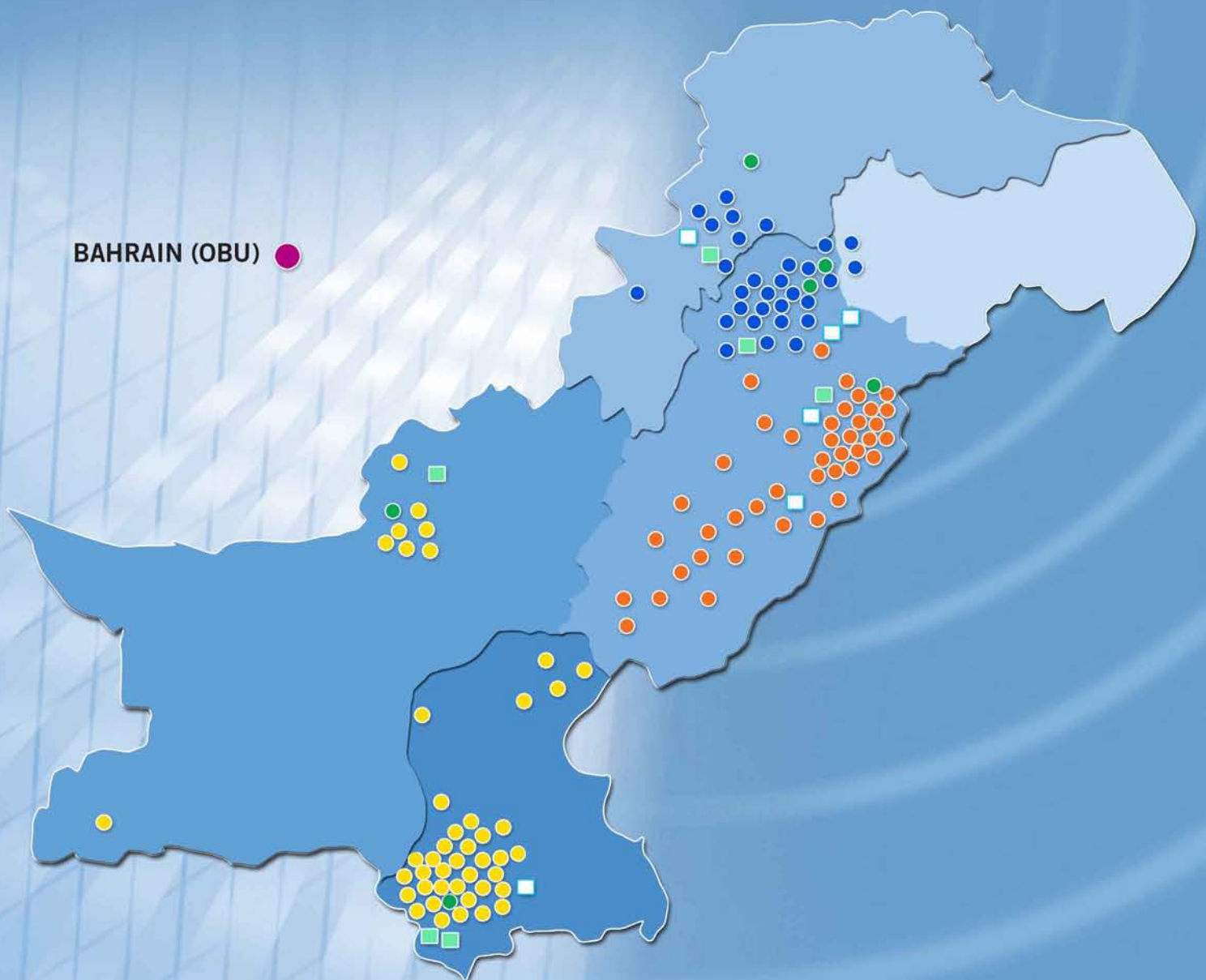
Shaharyar Ahmad
President & Chief Executive

Value Added Statement

	2006		2005	
	Rupees in thousand	Percent	Rupees in thousand	Percent
Value Added				
Income from banking services	13,551,018		9,403,540	
Cost of Services	7,252,354		4,548,733	
Value added by banking services	6,298,664		4,854,807	
Non-banking income	30,916		43,688	
Provision against non-performing assets	(1,128,513)		(601,992)	
	5,201,067		4,296,503	
Value Allocated				
to employees				
Salaries, allowances & other benefits	1,514,606	29.1%	1,162,232	27.1%
to providers of capital				
Cash dividend	200,433		226,053	
Bonus shares	1,002,166		497,315	
	1,202,599	23.1%	723,368	16.8%
to government				
Income tax	1,096,881	21.1%	837,085	19.5%
to expansion and growth				
Depreciation	339,606		275,190	
Retained in business	1,047,375		1,298,628	
	1,386,981	26.7%	1,573,818	36.6%
	5,201,067	100.0%	4,296,503	100.0%



Askari Bank's Presence



BAHRAIN (OBU) ●

● North Region	30
● Central Region	41
● South Region	44
● Islamic Banking Branches	6
● Offshore Banking Unit	1
Total Branches	122
□ Credit Card Centers	6
□ Retail Banking Centers	6

Significant Events in 2006



AIML successfully completed launch of Askari Income Fund; its first open-ended income fund which at present has a fund size of over Rs. 5 billion.



Mr. Shaharyar Ahmad assumed charge as president and CE of Askari Bank.



14th Annual General Meeting of the shareholders of the Bank was held on March 30, 2006 in which payouts of 15% cash and 33% bonus shares were approved.



Mr M.R. Mahkari, Group Head (T&I) receiving 23rd Corporate Excellence Award in the Financial Sector by Management Association of Pakistan.

January



April



June



March



May



February



Askari MasterCard and AVIS rent a car, sign a MoU for strategic Alliance by which Askari MasterCard holders will be given certain benefits.



Mr Shaharyar Ahmad, President & Chief Executive, inaugurating first dedicated Islamic banking branch at Chandani Chowk, Rawalpindi.



Mr. Shaharyar Ahmad, President & Chief Executive, Askari Bank and Mr. Agha Ali Imam, Group Head - Consumer Banking Services, Askari Bank, receiving award for 'Best Retail Bank' for 2005.



Mr Shaharyar Ahmad, President & Chief Executive of Askari Bank receiving memento from Mr Shaukat Aziz, Prime Minister of Pakistan at the prize distribution ceremony of the 46th National Amateur Golf Championship sponsored by Askari Bank.



Annual Planning Conferences of the Bank were held in November 2006 to review performance and set next year targets



Askari Bank strategy conference was held in Sri Lanka.



Mr Shaharyar Ahmad, President & Chief Executive, inaugurating 100th branch of Askari Bank at Johar Town, Lahore.

July

August

November

December

September

October



Askari Bank extended its business hours upto 4:30 pm for its valued customers w.e.f January 1, 2007



Business & Operations Review

During 2006, Askari Bank continued with its growth momentum and posted substantial earnings despite highly competitive business environment. Although monetary tightening helped in reducing inflationary pressures in the economy during fiscal 2006, aggregate demand remained high as indicated by the strong GDP growth, high growth in private sector credit, sluggish decline in core inflation and large external account deficit.

The year on year growth in private sector credit remained strong, although down from the phenomenal growth witnessed last year. The slowdown in private sector credit was not broad based and was mainly due to net retirement by sugar and cotton spinning sectors. During the year, SBP announced debt swap option under long-term finance export oriented projects (LTF-EOP) to provide relief to the borrowers of textile sector who were adversely affected by the sharp rise in KIBOR due to monetary tightening. The increase in consumer credit also has an expansionary effect on corporate finance,

as the demand for automobiles and consumer durables, particularly electronics remained high.

In a highly competitive environment, Askari Bank continually reviewed its policy pertaining to the sectoral exposures to derive optimum competitive advantage, maintain the risk profile and achieve greater customer satisfaction.



On the operations side, during the year under review, Askari Bank's has taken various initiatives to improve the ways of doing business. The significant ones include re-organization of management structure and technology initiatives. The primary objective of re-organization is to consolidate and align internal capacities to best serve each business segment. The technology initiatives are aimed to improve the service quality standards and strengthen control environment and to prepare the Bank for the future challenges.

Corporate Banking

This business is managed by a central corporate banking division based at head office Rawalpindi and supported by dedicated marketing and back office units in Karachi, Lahore and Rawalpindi. The division maintains a diverse portfolio and primarily offers structured financing solutions to cater for the business needs of its clients. During 2006, corporate banking further expanded its customer base and new relationships were established in telecommunications sector, fuel and energy, and fertilizer sectors. In order to enhance focus on relationship management and service quality, more dedicated and experienced staff is being assigned to this division.

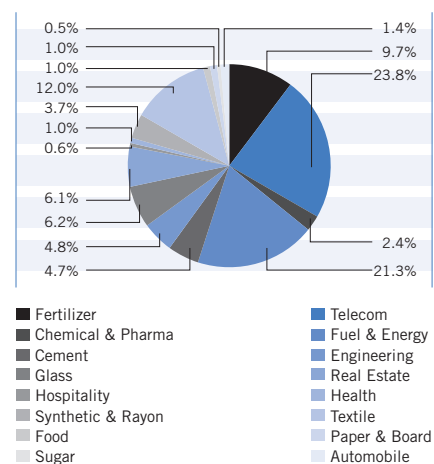
The Corporate Banking will continue to play a major role in loan syndications and structured financing transactions with the objective of providing a range of corporate banking solutions to its valued clients.

Products

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



Corporate Banking's outstanding segment wise exposure of funded facilities



Investment Banking

The investment banking activity mainly covers, debt / capital markets, advisory services and trading (both equities and bonds). This division also offers advisory and loan syndication services. Equity Market transactions are handled by Capital Market Desk, based at Karachi, which include equity portfolios segregated into trading, investment and futures, and continuous funding system (CFS). Investment banking participated in various debt and capital raising instruments during the year.

Products

- Commercial paper
- Debt capital markets
- Capital raising
- Trading activity (equities and derivatives)
- Discretionary Portfolio management

Consumer Banking Services

During 2006, the consumer banking services offered by the Bank were reorganized by combining consumer financing business and credit card business under one umbrella and were renamed as consumer banking services group. The reorganization is aimed to bring in business synergies and to enable active cross sale of different product to the same market segment.

Consumer financing

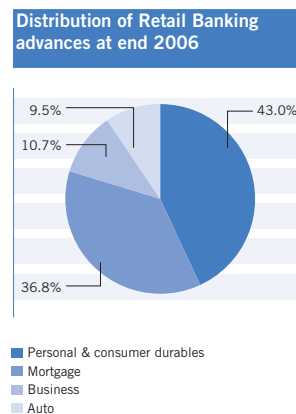
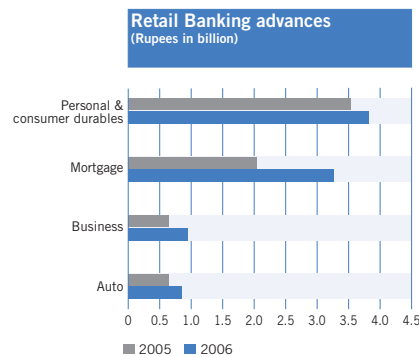
Consumer financing offers auto, mortgage, personal and business finance as the core products. This business grew by 28% during 2006. The Bank's debit card with the brand name of ASKCARD registered an increase of 25% in the number of cards issued. Also, Rupee Traveler Cheques float increased by 55% during 2006.



The Group is organized on a hub and spokes basis and its 6 hubs i.e., Rawalpindi, Peshawar, Lahore, Karachi (2) and Quetta which are now supported by 73 spokes i.e., Consumer Banking Units (CBU), operating from the branches in close proximity of the relevant CBCs.

Products

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





Credit Cards

Despite strong competition, the credit card business, under the MasterCard brand, maintained its growth in all areas of the business. Net card issuance increased by 59% during the year, cards in force (CIF) crossed 230k and its loan portfolio increased by 36%, while NPLs remained well within the industry norms.

Askari MasterCard's rewards program continues to offer attractive features to our valued customers. Also, strategic alliances with leading service providers in the market benefit Askari MasterCard customers with exclusive travel and leisure facilities.

Products

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

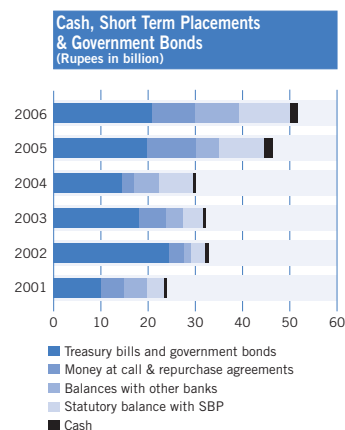
Treasury and International operations

The monetary tightening aimed at reducing inflationary pressures and fostering economic growth was reflected in the money market conditions throughout the year. In order to manage the money market liquidity, SBP used the combination of Overnight Moneymarket Operations (OMOs) and increased cash reserve requirement. During the year, discount rate was also increased by 50 bps. As a result the overnight rates remained under pressure during most of 2006.

Pak Rupee started the year at Rs.59.81 to a US Dollar and depreciated to Rs.60.89 towards the end of 2006. The depreciation of Pak Rupee against US Dollar was continuous and was mainly attributable to deterioration

in external account. During 2006, weighted average yield of benchmark 6 months TBs increased by 57 bps to close at 8.81% p.a., while 6 months KIBOR increased by 161 bps from 8.80% to 10.41%.

The intense money market competition placed the Treasury in a demanding position, to offer more innovation in undertaking arbitrage and derivative transactions to maintain, and increase, its share in the overall earnings of the Bank. The Treasury operations are effectively structured to measure, manage and mitigate the risk elements associated with the Treasury activities, through the use of IT systems and enhanced human resource skills, so that the Treasury can manage the risk better, and also provide advice and services to the branches and their customers.



The Bank increased its overall foreign trade business during 2006. The import business increased to Rs. 119.3 billion, i.e. growth of 11% over last year, while the exports increased by 6% over last year, to Rs. 97.3 billion.

Products

- Foreign Currency Accounts
- Foreign Trade Services (Import & Export)
- Import & Export Financing
- Travelers Cheque Issuance
- Foreign remittances (Demand Draft/Telegraphic Transfer)-Inward & Outward
- Sale & Purchase of Foreign Currency Cash
- Issuance of Guarantees & Bid Bonds
- Handling of Securities
- Offshore Banking Services



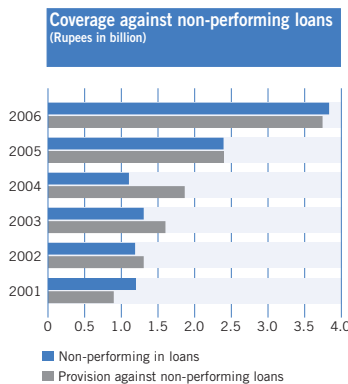
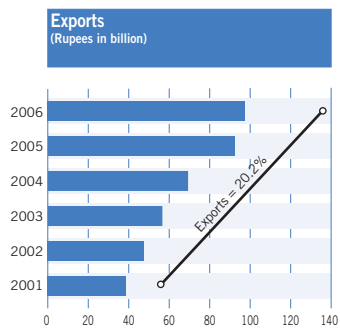
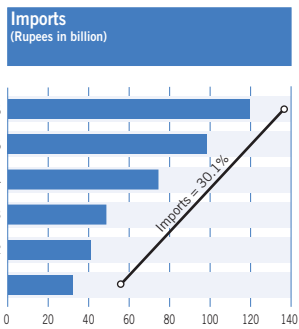
Offshore Banking Unit

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

Advances and Credit quality

Askari Bank's funded credit portfolio increased by 16% to close at Rs. 102.73 billion as compared to 23% last year as the Bank remained watchful of the impact of growth of risk assets on capital adequacy.

A review of the securities held against credit limits reveals that the credit portfolio of the Bank is well collateralized, with adequate exposure being covered by securities of liquid nature, such as deposits, trade documents, equity or debt instruments, guarantees from government or financial institutions, etc. During the year, Bank's non-performing advances increased to Rs. 3.6 billion, from Rs. 2.3 billion last year due to further downgrade of certain large exposures. Consequently





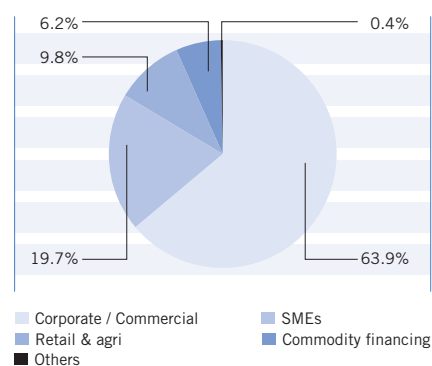
NPLs as a percentage of gross advances increased from 2.7% to 3.6%. However, despite this increase, the percentage is well within the industry average.

During 2006, Askari Bank made net provisions of Rs. 1,128 million. Also during the year, the method of making general provisions, on credit portfolio other than consumer portfolio, was standardized, as explained in audited financial statements. General provisions against consumer finance portfolio continue to be made in accordance with the guidelines provided in SBP Prudential Regulations for Consumer Finance. The cumulative provisions at the close of 2006 increased to Rs. 3.5 billion. These provisions provide 97% coverage to the total NPLs as compared to 102% last year.

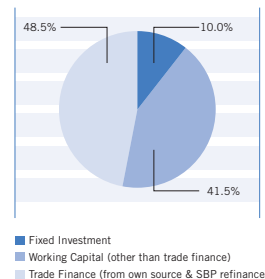
Products

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

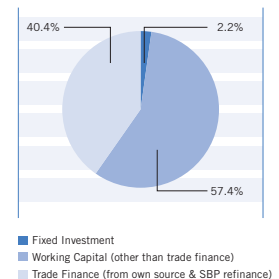
Disbursements during the year



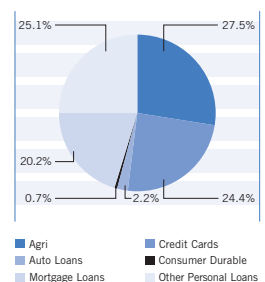
Corporate / Commercial



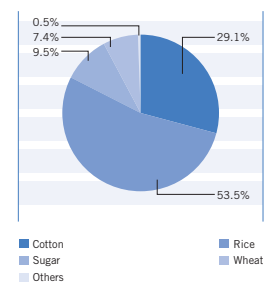
SME

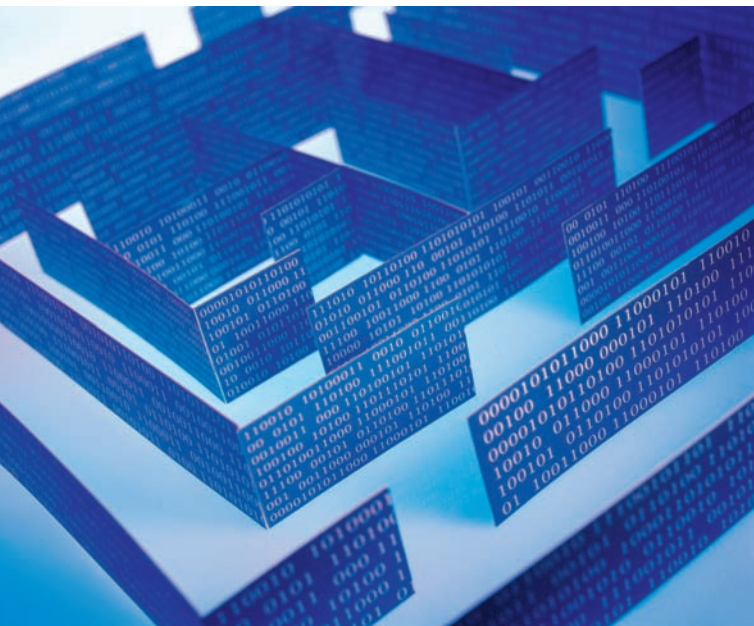


Retail & Agri



Commodity Financing





Information Technology

Our focus has been to equip ourselves with most advanced technology which provides alternate service delivery channels and higher customer satisfaction levels.



During the year, various technology initiatives were successfully implemented. The twenty-three branches opened during the year were operational with on-line banking from day one. Askari Customer Care Center - a dedicated

customer call center, continued to provide one window service to our valued customers in terms of their telephonic enquiries. Askari Bank's co-founded ATM switch, 'One-Link', the largest ATM switch in Pakistan, together with M-net, the second switch, the Bank's customers can now access their accounts through more than 1,300 on-line ATMs throughout Pakistan. Askari Bank's mobile ATMs - first in the banking history of Pakistan, now three in number, continued to serve customer needs.

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

Agriculture Credit Financing

Askari Bank's Agriculture Credit Schemes which were launched in June 2004, under the umbrella of Agriculture Credit Division (ACD) continue to be an attractive product for meeting ON Farm and OFF Farm financial requirements of the farmers. The credit schemes were introduced under the title of "Askari Kissan Agri Finance Program (AKAFP)" with the objective of:

- a) Providing financial assistance to small farmers.
- b) Ensuring adequate & timely availability of credit.
- c) Facilitating effective water management system.
- d) Encouraging & promoting mechanized farming.
- e) Providing means for better access to markets.
- f) Promoting livestock development.
- g) Providing inputs finance for effective crop management.

The Bank is extending short, medium and long-term loans to the farmers for Crops, Dairy farming, Poultry, Fisheries, Forestry and Orchids. Loans are also provided for farm mechanization, transportation, marketing of agriculture produce, storage, land improvement and aabpashi.

Our agri business philosophy is in line with SBP strategy for increasing the outreach and flow of agriculture credit coupled with product changes, delivery alternatives, risk management, loan pricing and strategic presence.

During the period under review, the growth and performance of the portfolio remained encouraging. The number of designated branches for agriculture credit increased from 12 to 46 and customer base by 90 % as compared to last year. New dairy farming schemes were introduced for establishment of model dairy farms, milk collection centers, installation of milk cooling tanks and purchase of cattle etc.





The Bank proactively participated at various Provincial and National forums for the development and capacity building for the agriculture sector. We are working as partner with National Reconstruction Bureau (NRB) for implementation of e-passbook system with National

Reconstruction Bureau (NRB) and providing platform for integration of the system for the benefit of all stakeholders.

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

Products

- Askari Kissan Ever Green Finance.
- Askari Kissan Tractor Finance.
- Askari Kissan Farm Mechanization Finance.
- Askari Kissan Aabpashi Finance.
- Askari Kissan Farm Transport Finance.
- Askari Kissan Livestock Development Finance.
- Model Dairy Farm Scheme.
- Model Milk Cooling tank Scheme.

Islamic Banking



During the year, Islamic Banking was launched under the brand 'Askari Islamic Banking', by opening 6 dedicated Islamic Banking branches in major cities of the country. Further expansion is planned with improved capabilities for offering products conforming to the Shariah principles.

Askari Islamic Banking opens the doors for Halal banking solutions. Our objective is to put in place an efficient banking system supportive to economic justice and welfare of society in line with Shariah standards.

A comprehensive range of Islamic Banking products and services is being offered, in order to meet Customer's

demand for Shariah Compliant Banking, in the following areas:

- Islamic Corporate Banking
- Islamic Investment Banking
- Islamic Trade Finance
- Islamic General Banking
- Islamic Consumer Banking

Islamic Banking products have been approved by the Bank's Shariah Advisor. As per Shariah requirements, funds and products of Islamic Banking are managed separately from the Conventional Banking side. All funds obtained, invested and shared in Halal modes & investments, under supervision of the Shariah Advisor.

Our People

The Bank fully recognizes its committed and competent work force as the primary asset in providing value addition to its other stakeholders. Human resource functions are accordingly modernized and reviewed in accordance with our strategic direction and objectives. Askari Bank houses well equipped and highly advanced training academies in Rawalpindi, Lahore and Karachi – the later two being the new additions. Staff training and motivation is carried out on a continuous basis throughout the year, based on the assessed training needs, particularly in the areas of knowledge enhancement and skills.

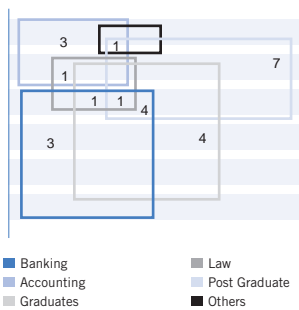
In-house training courses are conducted at the Bank's training center. During 2006, 2,926 staff attended 154



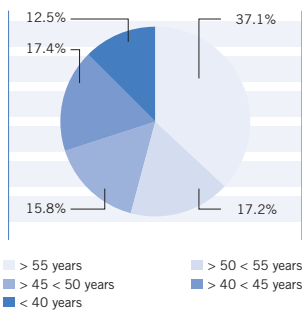
various in-house training courses spread over 563 working days.

Staffs in the middle and senior levels are frequently nominated for outside training programs conducted by institutions both locally and abroad. Overseas training was stepped up during 2006 and as many as 9 (2005: 6) staff members attended seminars and workshops overseas. Additionally, 256 (2005: 139) staff attended various courses and training programs conducted by local training institutions.

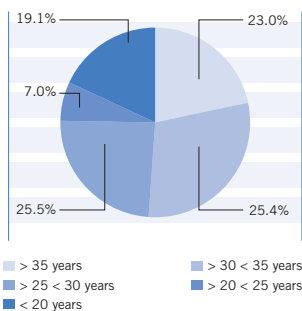
Professional qualifications of senior management



Age-wise analysis of senior management



Service analysis of senior management



During the year, as a motivational campaign, staff members completing 10 years of service with the Bank were awarded loyalty shields.

Regulatory environment and minimum capital requirement

The year saw many initiatives on various policy and regulatory fronts impacting Bank's business. Amongst others, these initiatives include implementation of Basel II, Prudential Regulation for Anti Money Laundering, revised requirements for cash reserve and statutory liquid assets and limits for significant investments.

SBP minimum paid-up capital requirement of Rs. 3 billion as at December 31, 2006 has been complied with as the Board of Directors in their meeting held on February 14, 2007 have recommended 50% bonus issue which will take our existing paid up capital of Rs. 2 billion to over Rs. 3 billion.

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



Mr. Saleem Anwar, Chief Financial Officer, Askari Bank receiving ICAP / ICMAP's 'Best Corporate Report' Award for 2005.



Mr. Agha Ali Imam, Group Head - Consumer Banking Services, Askari Bank receiving award for 'Bank of First Choice' for 2005.



Mr. M. R. Mehkari, Group Head - Treasury & International Banking, Askari Bank receiving 'Corporate Excellence' award for 2005.



Mr. Shaharyar Ahmad, President & Chief Executive, Askari Bank and Mr. Agha Ali Imam, Group Head - Consumer Banking Services, Askari Bank, receiving award for 'Best Retail Bank' for 2005.

Awards and recognition

Askari Bank continued to make mark among its competitors and won following awards and recognitions during the year:

- The annual report of the Bank for the year 2005 won the 1st prize for "The Best Annual Report" for the financial sector, instituted jointly by The Institute of Chartered Accountants of Pakistan and The Institute of Cost and Management Accountants of Pakistan, for the 6th consecutive year.
- The Annual Report of the Bank for the year 2005 also won the award under the category 'Banking Sector subject to Prudential Regulations' by the South Asian Federation of Accountants (SAFA), an apex body of the SAARC countries.
- 'Corporate Excellence' award for 2005 from the Management Association of Pakistan.
- 'Bank of First Choice' award for 2005 from Consumer Association of Pakistan.
- 'Best Retail Bank in Pakistan' award for 2005 from the Asian Banker, Singapore.
- The annual report of the Bank for the year 2005 also won the first price from the National Council of Culture and Arts (NCCA).

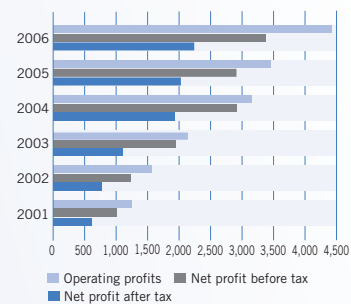
Financial Review



Profit

The Bank posted 29% increase in operating profit (i.e. profit before provisions and taxation) over last year. Pre-tax profit grew by 17% while profit after tax increased by 11%, over last year. Core banking profits increased by 29% over last year and continue to be the primary source of Bank's profits. The decline in percentage increase between operating profit and pre / post tax profits is mainly attributable to substantial rise in provisions against NPLs, as explained in the following paras.

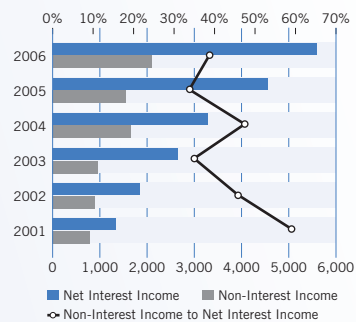
Profit
(Rupees in million)



Non mark-up / non interest income

The non mark-up / non interest income recorded an increase of 38% over last year. Analysis of components of non mark-up / non interest income reveals that 'fee, commission and brokerage income' increased by 21%, benefited by the substantial increase in foreign trade and guarantees business and overall increase in banking operations, while 'income from dealing in foreign currencies' increased by a significant 64% over the previous year.

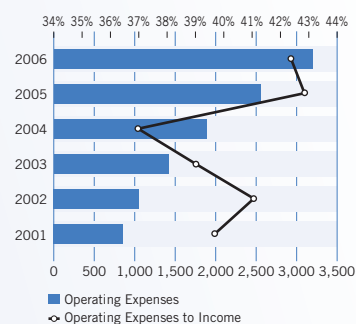
Non-Interest Income
(Rupees in million)



Operating Expenses

During the year, the operating expenses increased by 26% over last year. The increase was primarily attributable to the expansion plan actively pursued by the Bank. Although, the operating expenses increased, cost to income ratio (CIR) registered slight improvement confirming that the increase in income was more than the increase in operating expenses.

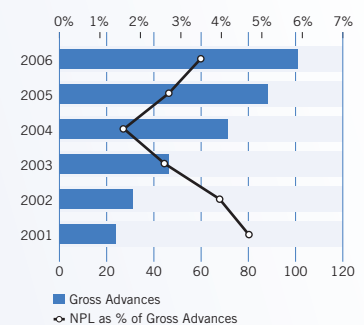
Operating Expenses
(Rupees in million)



NPLs and provisions against NPLs

NPLs increased by 54% during the year to Rs. 3,656 million from Rs. 2,373 million from last year due to further downgrade of few large exposures. While these NPLs are being closely monitored for revival / recovery, Rs. 1,128 million have been appropriated as provisions against non-performing advances, against previous year's Rs. 639 million. During the year, the basis of general provision was revised from judgmental to consistent basis and now general provision is maintained @ 0.5% on all performing advances except consumer advances – general provision on consumer advances is maintained as per SBP prudential regulations for consumer finances.

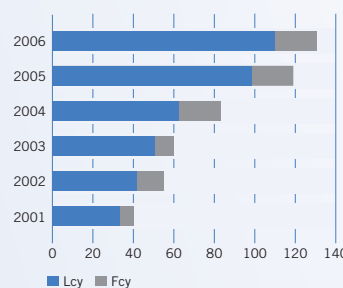
Non-Performing Advances
(Rupees in billion)



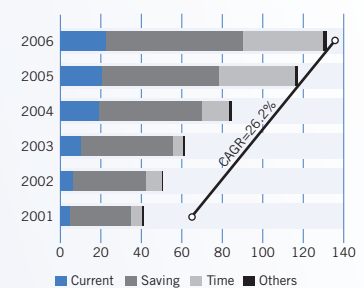
Current, Savings and other deposits

Customer deposits increased to Rs. 131.8 billion by end 2006, an increase of 11% over last year. A comparison of deposits by type reveals that current accounts i.e. non-remunerative accounts increased by 19% followed by saving deposit accounts, which increased by 11% over the previous year. The fixed deposits increased by 6%.

Analysis of total deposits
(Rupees in billion)



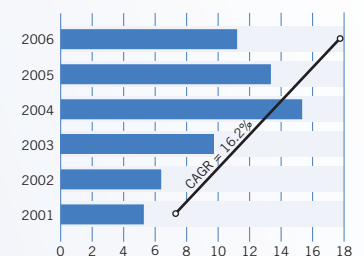
Analysis of total deposits
(Rupees in billion)



Earnings per share

Earnings per share increased by 11% from Rs. 10.09 last year – restated for issue of bonus shares during the year, to Rs.11.23 at the close of year.

Earning Per Share
(Rupees)



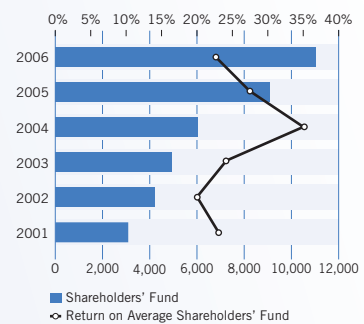


Shareholders' funds

The aggregate shareholders' funds increased to Rs. 11,053 million by end 2006 from Rs. 8,813 million last year – restated for change in appropriation policy more fully explained in note 5.1 of the audited financial statements. The increase was contributed by the profits earned during the year, and the unrealized surplus on revaluation of investments, mainly equity portfolio. The return on average shareholders funds decreased to 22.6% from 27.7% last year, mainly 77% increase in provisions for non-performing advances.

Shareholders' Fund

(Rupees in million)

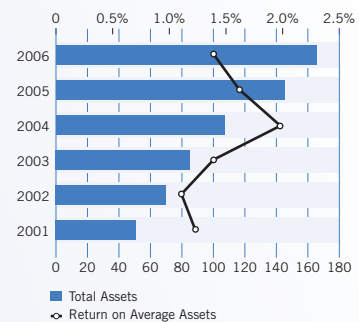


Return on average assets

Return on average assets was 1.4% at the close of 2006, showed 13% decrease from 1.6% last year due to increase in average assets by 23% as compared to last year in which average assets increased by 31%.

Return on Average Assets

(Rupees in billion)

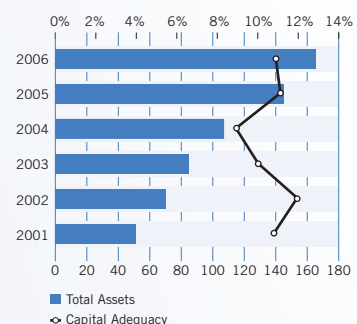


Capital adequacy

The capital adequacy ratio at 10.93% showed decline at the close of 2006 as against 11.18% at the close of 2005. This fall was mainly attributable to increase in risk weighted assets and change in accounting policy for recognition of dividends (more fully explained in note 5.1 of the audited financial statements). CAR at current levels is considered as comfortable over the minimum requirements of 8% and for further expansion in risk assets.

Capital Adequacy

(Rupees in billion)



Financial Calendar

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 scheduled for	March 29, 2007
10% cash dividend & 50% bonus shares to be issued by	Within 45 day of AGM

2005

1st Quarter Results issued on	April 21, 2005
2nd Quarter Results issued on	August 10, 2005
3rd Quarter Results issued on	October 24, 2005
14th Annual Report issued on	February 22, 2006
14th Annual General Meeting held on	March 30, 2006
15% cash dividend & 33% bonus shares issued on	April 8, 2006

Summarized Quarterly Results

Rupees in million	2005				2006			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Profit & Loss - For the Quarter								
Total income	1,988	2,311	2,881	3,153	3,328	3,556	3,817	4,036
Mark-up / return / interest earned	1,596	1,953	2,477	2,755	2,830	3,006	3,258	3,504
Mark-up / return / interest expensed	615	858	1,256	1,550	1,648	1,579	1,777	1,973
Net mark-up / interest income	981	1,096	1,220	1,205	1,181	1,427	1,481	1,531
Provisions against non-performing assets	146	248	29	179	330	260	152	387
Non - mark-up / interest income	392	358	405	397	498	550	559	533
Operating expenses	534	587	689	783	759	787	933	805
Operating profit	839	867	936	819	920	1,190	1,107	1,258
Profit before tax	692	619	907	641	590	930	955	871
Taxation	227	220	336	53	176	226	340	354
Profit after taxation	465	399	570	588	414	704	615	517
Balance Sheet - At Quarter End								
Assets								
Advances	71,905	76,388	78,693	85,977	85,588	89,811	89,780	99,179
Investments	15,927	21,990	23,769	25,708	25,817	28,152	28,477	28,626
Cash, short term funds & statutory deposits with SBP	14,822	23,950	19,206	27,489	19,140	25,871	27,298	30,605
Operating fixed assets	2,743	2,985	2,875	3,193	3,226	3,300	3,261	3,810
Other assets	1,806	1,972	2,639	2,733	3,315	3,693	3,668	3,813
Total assets	107,203	127,285	127,182	145,100	137,086	150,827	152,484	166,034
Liabilities								
Customers deposits	80,848	103,646	97,629	118,795	107,381	122,543	122,701	131,839
Borrowings from financial institutions	14,202	10,959	15,069	10,562	13,162	10,860	10,741	14,964
Sub-ordinated loans	1,500	1,500	2,625	3,000	2,999	2,999	2,999	2,999
Other liabilities	4,262	4,467	4,120	4,156	4,502	4,520	5,568	5,178
Total liabilities	100,812	120,571	119,442	136,512	128,044	140,922	142,009	154,980
Shareholders' Funds								
Share capital	1,507	1,507	1,507	1,507	2,004	2,004	2,004	2,004
Reserves and unappropriated profit	4,531	4,930	5,501	5,862	5,779	6,483	7,098	7,615
Surplus on revaluation of assets	354	276	732	1,218	1,259	1,418	1,373	1,434
Total shareholders' funds	6,393	6,713	7,740	8,587	9,042	9,905	10,475	11,053
Ratios*								
Return on average shareholders' funds (RoE)	30.0%	24.4%	31.6%	28.8%	18.5%	29.7%	24.2%	19.2%
Return on average assets (RoA)	1.7%	1.4%	1.8%	1.7%	1.2%	2.0%	1.6%	1.3%

* Annualized

Share & Debt Information

1. Share information

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

1.2 Market symbols:

Karachi Stock Exchange	ACBL
Reuters	ACBK.KA
Bloomberg	ACBL PA

1.3 Share price:

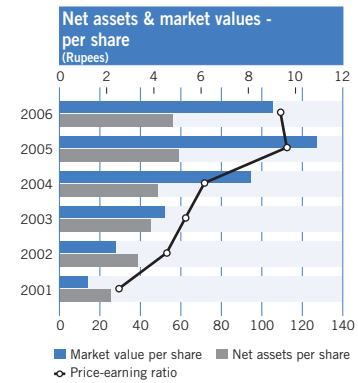
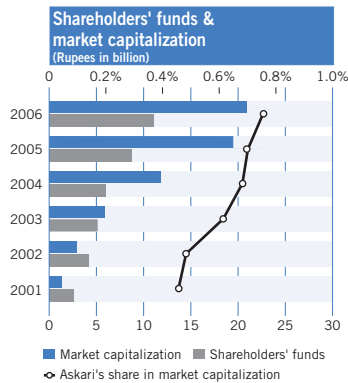
	Askari's share price (Rupees)			Number of shares traded during the year
	High during the year	Low during the year	Close at December 31	
2001	16.45	10.35	13.30	51,396,000
2002	27.90	13.50	26.85	36,984,000
2003	53.90	21.30	51.50	96,059,000
2004	98.25	50.61	94.00	1,043,563,300
2005	133.25	70.00	126.80	612,803,600
2006	145.00	68.00	104.95	444,476,500

1.4 As at December 31

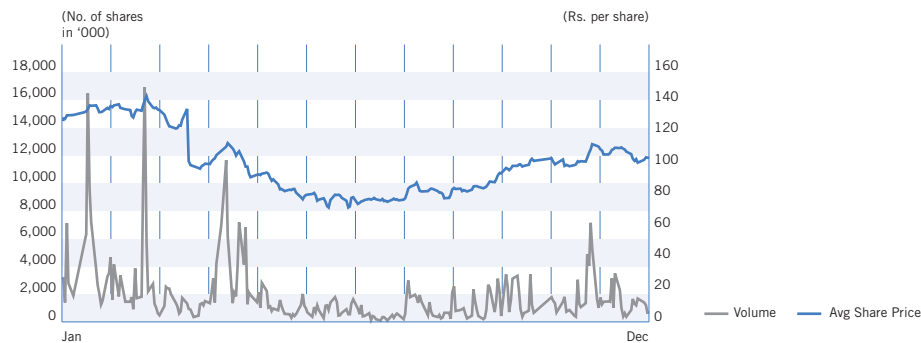
	Number of shares	Askari's Shareholders' funds		Market capitalization	KSE's market capitalization	Askari's share in market cap.
		Rs. in billion	Rs. in billion			
2001	103,553,663	2.58	1.38	297.42	0.46%	
2002	108,731,400	4.17	2.92	595.21	0.49%	
2003	114,168,000	5.05	5.88	951.45	0.62%	
2004	125,584,800	6.02	11.80	1,723.45	0.68%	
2005	150,701,684	8.81	19.11	2,754.91	0.69%	
2006	200,433,239	11.05	21.04	2,771.11	0.76%	

1.5 Record of share issues

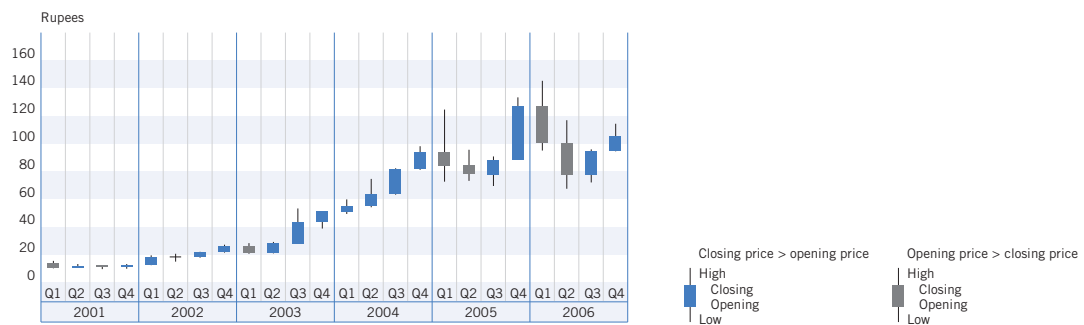
Year	Issue	Number of shares	Share capital (Rs)
	Prior to public issue	15,000,000	150,000,000
1992	Public issue	15,000,000	150,000,000
1993	50% Rights issue @ Rs.10 per share	15,000,000	150,000,000
1995	Bonus @ 15%	6,750,000	67,500,000
1996	50% Rights issue @ Rs.20 per share	22,500,000	225,000,000
1996	Bonus @ 10%	7,425,000	74,250,000
1997	Bonus @ 15%	12,251,250	122,512,500
1998	Bonus @ 5%	4,696,312	46,963,120
2001	Bonus @ 5%	4,931,101	49,311,010
2002	Bonus @ 5%	5,177,712	51,777,120
2003	Bonus @ 5%	5,436,568	54,365,680
2004	Bonus @ 10%	11,416,794	114,167,940
2005	Bonus @ 20%	25,116,947	251,169,474
2006	Bonus @ 33%	49,731,555	497,315,549
		200,433,239	2,004,332,393



1.6 Price Volume chart during 2006:



1.7 Quarterly analysis of share price:



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).

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

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

	Symbol / ID	Rating
TFC - I	TFCACBL	'AA'
TFC - II	TFC2ACBL	'AA'

2.3 TFCs prices

	Market value *	As at December 31, 2006 Interest rate applicable
TFC - I	5,100	11.94%
TFC - II	5,000	12.05%

* based on marketable lots of Rs. 5,000

A Decade of Performance

December 31	1997	1998	1999	
Profitability				
Total income	3,319	4,035	3,889	
Interest income	2,759	3,475	3,350	
Interest expenditure	1,910	2,511	2,486	
Fee, commission and exchange income	520	509	472	
Other income	39	51	67	
Spread	849	965	864	
Operating expenses	461	569	589	
Operating profit	948	956	814	
Provision against non-performing assets	193	102	102	
Profit before taxation	755	854	712	
Taxation	444	495	430	
Profit after taxation	311	359	282	
Shareholders' funds				
Total shareholders' funds	1,775	1,937	2,046	
Share capital	939	986	986	
Reserves	836	951	1,060	
Surplus on revaluation of assets	–	–	–	
Liabilities				
Customers deposits	19,482	23,417	24,358	
Refinance borrowings	1,908	2,194	3,145	
Sub-ordinated loans	–	–	–	
Other liabilities	906	1,184	1,477	
Assets				
Advances	9,137	9,708	13,056	
Investments	11,774	13,888	8,679	
Cash, short term funds and statutory deposits with SBP	1,822	3,504	7,210	
Operating fixed assets	480	501	536	
Other assets	858	1,130	1,546	
Total assets	24,071	28,731	31,027	
Business transacted				
Imports	8.7	11.5	17.5	
Exports	17.3	20.0	22.8	
Guarantees	4.0	3.2	5.3	
Ratios				
Return on average shareholders' funds (RoE)	- %	18.5	19.3	14.2
Return on average assets (RoA)	- %	1.5	1.4	0.9
Profit before tax ratio	- %	27.4	24.6	21.2
Gross spread ratio	- %	30.8	27.8	25.8
Income / expense ratio	- times	1.3	1.3	1.2
Advances to deposits (CDR)	- %	46.9	41.5	53.6
Operating fixed assets to average shareholders' funds	- %	28.6	27.0	27.0
Capital adequacy ratio (CAR)	- %	18.4	16.9	13.0
Rate of cash dividends	- %	12.5	20.0	17.5
Rate of bonus issue	- %	5.0	–	–
Price earning ratio (PE)	- times	8.8	3.2	5.5
Dividend yield ratio	- %	4.3	17.1	10.9
Dividend payout ratio	- %	37.9	55.6	60.3
Share information				
Earnings per share (EPS)**	3.30	3.60	2.90	
Net assets per share	18.90	19.64	20.75	
Market value per share	29.17	11.70	16.12	
Other information				
Number of employees (Regular)	946	996	1,001	
Number of branches	26	27	28	

* *post balance sheet event*** *based on number of shares outstanding at each year end*

2000	2001	2002	2003	2004	2005	2006
<i>Rupees in million</i>						
3,840	5,047	5,704	5,028	6,121	10,333	14,736
3,213	4,251	4,858	4,074	4,487	8,781	12,597
2,274	2,902	3,017	1,380	1,117	4,278	6,977
506	677	599	638	708	839	1,014
122	119	247	317	925	713	1,125
939	1,349	1,841	2,694	3,370	4,503	5,620
680	854	1,093	1,438	1,845	2,594	3,283
886	1,291	1,595	2,210	3,158	3,461	4,475
134	283	351	308	315	602	1,129
752	1,008	1,244	1,902	2,843	2,859	3,347
436	458	557	799	920	837	1,097
316	551	687	1,103	1,923	2,022	2,250
2,155	2,579	4,173	5,047	6,016	8,813	11,053
986	1,036	1,087	1,142	1,256	1,507	2,004
1,229	1,521	1,940	2,760	4,317	6,088	7,615
(60)	22	1,146	1,145	443	1,218	1,434
30,360	41,200	51,732	61,657	83,319	118,795	131,839
2,882	3,222	3,392	7,329	9,777	9,778	13,378
-	-	-	-	1,000	3,000	2,999
3,058	3,980	11,016	11,354	7,055	4,714	6,764
17,893	23,292	30,035	44,778	69,838	85,977	99,179
8,651	11,706	26,737	22,104	17,239	25,708	28,626
10,056	13,436	10,061	15,099	15,936	27,489	30,605
641	723	1,663	1,980	2,595	3,193	3,810
1,213	1,824	1,817	1,426	1,560	2,733	3,813
38,454	50,980	70,313	85,387	107,168	145,100	166,033
<i>Rupees in billion</i>						
26.2	32.0	40.2	48.7	75.2	98.3	119.3
30.6	38.8	47.3	56.8	70.1	92.0	97.3
4.8	6.2	14.2	14.4	25.3	30.6	37.3
15.0	23.2	20.3	23.9	34.8	27.7	22.6
0.9	1.2	1.1	1.4	2.0	1.6	1.4
23.4	23.7	25.6	46.7	63.3	32.5	26.6
29.2	31.7	37.9	66.1	75.1	51.3	44.6
1.2	1.2	1.3	1.6	1.9	1.4	1.3
58.9	56.5	58.1	72.6	83.9	72.4	75.2
30.5	30.5	49.3	43.0	46.9	43.7	38.4
11.9	10.7	12.0	9.9	8.5	11.0	10.9
15.0	20.0	20.0	20.0	20.0	15.0	10.0*
5.0	5.0	5.0	10.0	20.0	33.0	50.0*
4.7	2.5	4.5	5.3	6.1	9.6	9.3
10.7	15.1	7.4	3.9	2.1	1.2	1.0
50.0	37.7	31.6	20.7	13.1	11.2	8.9
<i>Rupees</i>						
3.00	5.30	6.32	9.66	15.31	13.42	11.23
21.85	24.90	38.38	44.21	47.90	58.48	55.16
14.07	13.25	26.85	51.50	94.00	126.80	104.95
<i>Numbers</i>						
1,147	1,281	1,456	1,723	2,118	2,754	3,241
29	36	46	58	75	99	122

Notice of the 15th Annual General Meeting

Notice is hereby given that the 15th Annual General Meeting of the Shareholders of Askari Commercial Bank Limited (the Bank) will be held on Thursday March 29, 2007 at 1000 hours at Blue Lagoon Complex Opposite outward gate of Pearl Continental Hotel, Rawalpindi to transact the following business:

Ordinary Business:

1. To confirm the minutes of the 14th Annual General Meeting held on March 30, 2006.
2. To receive, consider and adopt the financial statements for the year ended December 31, 2006 together with the Directors' and Auditors' reports thereon.
3. To consider and approve cash dividend @ 10%, that is, Re. 1 per ordinary share of Rs. 10 each for the year ended December 31, 2006 as recommended by the Directors, payable to the members whose names appear in the Register of Members as at March 19, 2007.
4. To appoint the Auditors of the Bank for the year ending December 31, 2007 and to fix their remuneration

Special Business:

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

RESOLVED THAT

- i. a sum of Rs. 1,002,166 thousand out of the profit available for appropriations as at December 31, 2006 be capitalized and be applied to the issue of 100,216,620 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 March 19, 2007 in the proportion of 50 shares for every hundred shares held, i.e. 50%.
 - 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 December 31, 2006.
 - iii. members entitled to 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.
6. To consider and if thought fit, approve the increase in authorized capital of the Bank and pass the following resolution with or without modification(s):

RESOLVED THAT the authorized capital of the Bank be and is hereby increased from Rs. 4,000,000,000 divided into 400,000,000 ordinary shares of Rs. 10 each to Rs. 7,000,000,000 divided into 700,000,000 ordinary shares of Rs. 10 each and the figures in Clause V of the Memorandum of Association and Article 4 of the Articles of Association of the Bank be and are hereby amended accordingly.

FURTHER RESOLVED THAT the President and Chief Executive and / or the Company Secretary of the Bank be and is hereby authorized to complete the necessary corporate and legal formalities in respect of the above.

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

By order of the Board



Saleem Anwar
Company Secretary

Rawalpindi
February 14, 2007

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

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on March 29, 2007.

Item No. 5 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. 1,002,166 thousand for issue of the proposed 50% 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.

Item No. 6 of the notice – Increase in authorized capital

It is proposed to increase the authorized capital of the Bank from Rs. 4,000,000,000 to Rs. 7,000,000,000 divided into 700,000,000 ordinary shares of Rs. 10/- each to facilitate further issue of capital as and when required by the Bank as well as to meet the State Bank of Pakistan's minimum capital requirement.

Notes

A. General

1. The Share Transfer books of the Bank will remain closed from March 20 to March 29, 2007 (both days inclusive). Transfers received at M/s THK Associates (Pvt) Ltd. Ground Floor, State Life Building # 3, Dr. Ziauddin Ahmad Road, Karachi-75530, the Registrar and Share Transfer Office of the Bank at the close of the business on March 19, 2007 will be treated in time for the purpose of entitlement of cash dividend and bonus shares (DW-10 & B-11) to the transferees.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him / her. No person shall act as a proxy, who is not a member of the Bank except that Government of Pakistan / State Bank of Pakistan / corporate entity may appoint a person who is not a member.
3. The instrument appointing a proxy should be signed by the member or his / her attorney duly authorized in writing. If the member is a corporate entity (other than Government of Pakistan and State Bank of Pakistan), its common seal should be affixed on the instrument.
4. The instrument appointing a proxy, together with power of attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited, with our Registrar and Share Transfer Office, M/s THK Associates (Pvt) Ltd. Ground Floor, State Life Building # 3, Dr. Ziauddin Ahmad Road, Karachi-75530 not less than 48 hours before the time of holding the meeting.
5. If a member appoints more than one proxy, and more than one instrument of proxy are deposited by a member, all such instruments of proxy shall be rendered invalid.

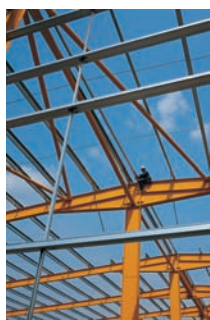
B. For CDC Account Holders

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

Directors' Report to the Shareholders

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the 15th Annual Report of Askari Commercial Bank Limited along with the audited financial statements and Auditors' Report thereon, for the year ended December 31, 2006.



The economy

Pakistan's economy remained buoyant during fiscal 2006 despite the impact of a sharp rise in international oil prices and massive spending on rehabilitation and reconstruction activities after the earthquake of October 2005. The economic growth was underpinned

by dynamism in industry, agriculture and services sectors, wide range of structural reforms, macro economic stability, consistency and continuity of policies, a solid pace of economic expansion and a sharp pick-up in overall investment.

Fiscal 2006 successively maintained robust growth of 6.6%. Agriculture grew by 2.5% against a target of 4.2% and 6.7% of last year while large scale industry grew by 9% against a target of 14.5% and 15.6% of last year. The services sector emerged as a new conduit to economic growth evident from its outstanding performance during recent years. During fiscal 2006, services sector recorded highest ever growth of 8.8% as against 8% of last year, providing a compensatory flip to the economy. The services sector contributed 4.5 percentage points to the overall GDP growth of 6.6 percent, primarily attributable to strong growth in the finance and insurance sectors at a pace of 23% during fiscal 2006 – though slightly lower than 29.7% of last fiscal. The average growth of Pakistan's economy has now remained around 7% during the last four years – thus positioning itself amongst the fastest growing economies in the Asian region.

State Bank of Pakistan (SBP) maintained a tight monetary policy stance during fiscal 2006 and was able to strike a balance between growth and controlling inflation while maintaining stable exchange rate environment, without raising the policy rate; the discount rate and benchmark 6 month T-bill rate remained almost unchanged during fiscal 2006. SBP opted to drain excess liquidity through frequent

OMOs. As a result, the short term inter bank interest rates remained fairly close to the discount rate and contributed to increase in weighted average lending rates during most of fiscal 2006. In an attempt to curb domestic demand, SBP made upward revision in both cash reserve requirements ratio and statutory liquidity requirement. However, inflationary pressures prevailed during fiscal 2006 mainly due to exchange rate stability, escalation in international oil prices and most importantly due to upsurge in domestic demand fostered by the momentum of dynamic growth, and increased credit availability, particularly housing and personal credit – thus reflecting increase in average income of people.

Pakistan's external account remained under pressure during fiscal 2006 due to 31.3% growth in imports and 14% growth in exports. Cost of oil imports leaped by over 64%, accounting for nearly one third of the rise in the import bill. The increase in non-oil imports also increased reflecting the large expansion in domestic demand. Accordingly, the trade deficit deteriorated sharply from USD 4.5 billion of last year to USD 8.4 billion during fiscal 2006. Resultantly, the current account deficit rose to USD 5.0 billion as compared to deficit of USD 1.5 billion in fiscal 2005. An overall payment surplus raised foreign exchange reserves of the country to USD 13.1 billion at end fiscal 2006, registering net increase of USD 520 million – SBP reserves increased by USD 969 million, partially offset by a decline of USD 449 million in the commercial bank reserves.

The privatization of state-owned enterprises accelerated during fiscal 2006 and with the privatization of 26% of Pakistan Telecommunication Company Limited, the entire telecom sector is now in private hands. As a result of privatization and reforms in telecom and banking sector during recent years, these two have emerged as the most vibrant sectors of Pakistan's economy.

During fiscal 2006, the stock market demonstrated mixed trend despite KSE 100 index touching the historic height of 12,274 points on April 17, 2006. Out of 52 weeks, market closed in the positive territory 30 times on a weekly closing basis leaving the bulls to bears ratio of 3:2 in 2006. The sanguine performance of KSE was attributable to strong economic growth, successful privatization process attracting foreign investments, sound monetary policy of SBP, fiscal discipline and the capital market reforms.



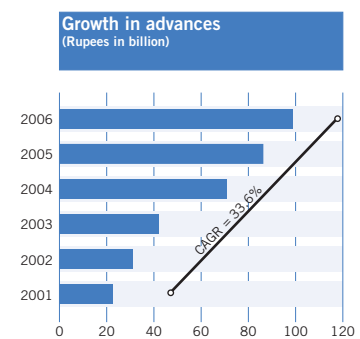
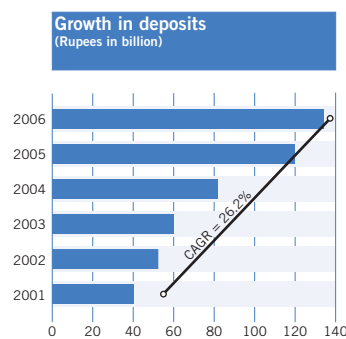
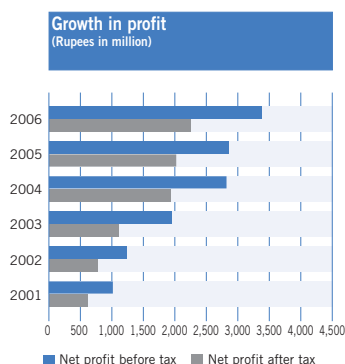
Focusing on the possibilities of tomorrow
 Our clients take great comfort in knowing that we are
 addressing the next generation of needs and opportunities.

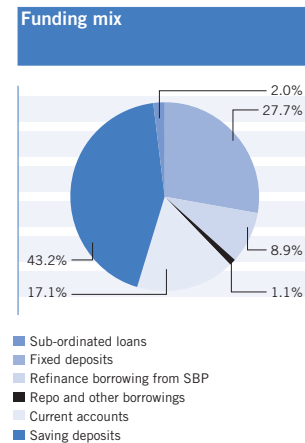
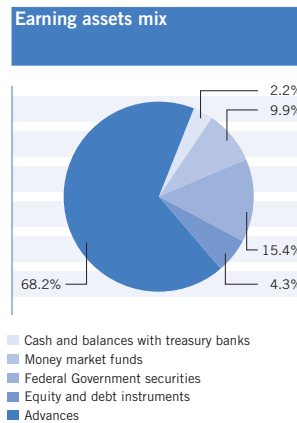
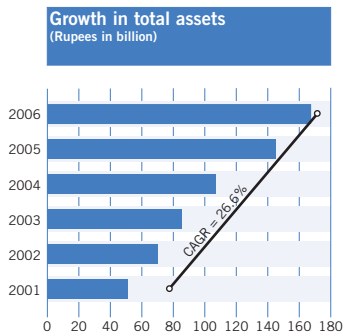
Notwithstanding the glaring achievements of fiscal 2006, the economy of Pakistan is still vulnerable to the economic and political developments emerging globally and internally. Year 2007 has many challenges and risks at the forefront. Most important ones are alarmingly high trade and current account deficit due to rise in imports more than rise in exports in the wake of hike in international oil prices coupled with burgeoning domestic demands, latent water and energy shortages, continuing high inflation, weaker growth in commodity producing sector i.e., agriculture and industry, growing fiscal deficit, unemployment, poverty etc. However, the continuity of prudent economic policies pursued during recent years will address the macroeconomic stresses to achieve the target of 7% GDP growth in fiscal 2007 as well.

Operating results of the Bank

Your Bank's operating profit (before provisions against non-performing advances and taxation) for 2006 amounted to Rs.4.48 billion against Rs.3.46 billion last year – an increase of 29%, mainly attributable to 25% increase in net mark-up income and 38% increase in non-fund income. The profit after tax for 2006, however, increased by 11% over last year mainly due to 87% increase in provisions against non-performing advances.

By the end of 2006, deposits reached Rs.131.84 billion from Rs.118.80 billion at end 2005, an increase of 11% during the year. The increase was mainly in local currency deposits, which grew by 12%, to Rs.110.01 billion as of December 31, 2006 from Rs.98.38 billion as of December 31, 2005, while the foreign currency deposits increased by 7%, thus reflecting the strengthening of Pak Rupee and the





trend of lower yields on Fcy deposits during 2006. On the other hand, gross advances increased by 16%, to Rs.102.72 billion as of December 31, 2006 from Rs.88.40 billion at the close of last year. The increase in advances, funded by increase in deposits, coupled with rise in yields, was the main reason behind 42% increase in mark-up revenues from advances compared to last year. The investment portfolio registered a growth of 11% over last year which stood at Rs.28.63 billion as at December 31, 2006 against Rs.25.71 billion at December 31, 2005. The corresponding increase in mark-up on investments income was 40% over last year. However, the aggregate increase of 43% in total mark-up income on all earning assets reduced to 25% as the aggregate cost of deposits and borrowings increased by 63% during 2006.

The non-fund income registered an increase of 38% over last year, mainly attributable to increase in the volume of trade business handled by the Bank and overall increase in banking operations.

Administrative expenses increased by 26% over last year mainly due to expansion in branch network, credit cards and retail banking businesses, new set-up of Islamic banking and inflationary impact. However, administrative expenses to income ratio registered an improvement over last year.

As of December 31, 2006, non-performing advances stood at Rs.3.66 billion from Rs.2.37 billion as of December 31, 2005, an increase of 54% mainly due to further downgrade of a few large exposures as reported in our earlier communications. These exposures are now in the last category of classification of non-performing advances and have been fully provided for upto December 31, 2006. Also,

during 2006, the basis of general provision were revised and a general provision @ 0.5% is now maintained on all performing advances except consumer advances – general provision on consumer advances is maintained as per the requirements of SBP Prudential Regulations. Consequently, the aggregate provision against non-performing advances increased by 77% over last year. The ratio of non-performing advances as a percentage of total advances increased to 3.56% as of December 31, 2006, against last year's 2.7%. However, despite this substantial increase, the percentage remained within the industry average. Nonetheless, all classified accounts are being closely followed up for early revival / recovery.

Earnings per share:

The earnings per share increased by 11.30% from Rs.10.09 to Rs.11.23 per share after taking into account the number of shares issued during 2006.

Appropriations:

The Board of Directors recommends the following appropriations from profits for the year ended December 31, 2006:

Rupees in thousand	
Profit after tax for the year 2006	2,249,974
Appropriations:	
Statutory reserve @ 20%	(449,995)
Proposed cash dividend	(200,433)
Capital reserve (reserve for issue of bonus shares)	(1,002,166)
Revenue reserve	(597,380)
Total appropriations	(2,249,974)

The appropriation of capital reserve (reserve for issue of bonus shares), amounting to Rs.1,002,166 thousand will enable the Bank to meet the enhanced Minimum Paid-up Capital Requirement of Rs.3.0 billion, as required by SBP BSD Circular No.06 dated October 28, 2005.

Risk management framework:

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

Since the issuance of guidelines on risk management and the subsequent Institutional Risk Assessment Framework

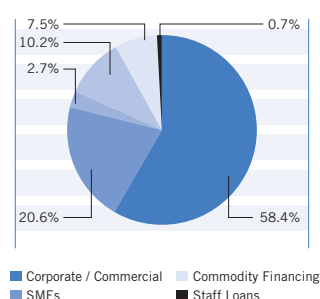
(IRAF) questionnaire by the State Bank of Pakistan (SBP), the Bank has adopted a holistic approach and has been engaged in extensive and detailed evaluation and assessment of its risk management framework in all areas of banking activity. During the year under review, a risk management committee (RMC) has been formed as a sub-committee of the Board of Directors. The RMC is responsible for maintaining oversight of the identification, measurement, monitoring and controlling of the Bank's principle business risks, 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, and mitigating / controlling risks. An independent risk management Group ensures the whole exercise and implements the recommendations of RMC, which is currently in the process of evaluating Bank's existing risk review and risk management function and changes to the existing risk management framework are being implemented, as and where warranted.

Statement on internal controls:

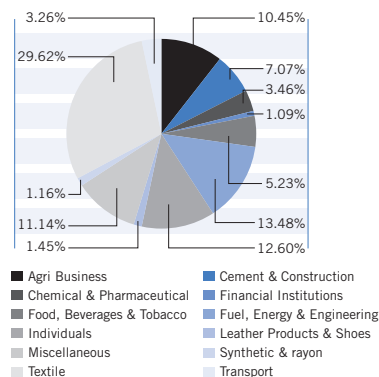
The management of the Bank endeavors to attain a professional and efficient working environment within the Bank by establishing and maintaining adequate and effective internal control system.

The management of the Bank fully recognizes and appreciates the value and significance of internal controls and ensures the presence of an efficient and effective control

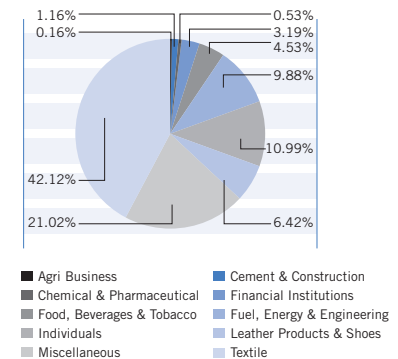
Distribution of funded outstanding advances



Advances by sector



Non-performing loans by sector



system by identifying control objectives, devising pertinent policies / procedures and establishing relevant control procedures covering all areas of activities, after approval from the competent authority.

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

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

Credit rating:

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

Capital adequacy:

As of December 31, 2006, your Bank's capital adequacy ratio (CAR) stood at 10.93% as against 11.18% at the close of last year. The decline reflects the difference between the increase in risk assets and earnings of 2006 and was also due to change in policy of recognizing dividends (as explained in Note 5.1 to the audited financial statements). Bank's CAR is at a comfortable level, compared to SBP requirement of a minimum 8%, and provides sufficient room for further improvement in risk assets necessary for further growth of the Bank.

Branch network:

During the year, your bank opened 23 new branches, including 6 dedicated Islamic Banking branches, taking the total nation-wide branch network to 121 at end 2006 against 98 at the end of last year. The total branch network stood at 122 as at December 31, 2006, including the Offshore Banking Unit in Bahrain. Further expansion will continue during 2007 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

As mentioned above, the Bank, after obtaining necessary regulatory approvals, opened 6 new dedicated Islamic Banking branches during 2006 covering all provinces of the country. Your Bank is now offering a comprehensive range of Sharia'a compliant structured solutions through an increasing network of dedicated Islamic Banking branches.

Askari Investment Management Limited (AIML)

Askari Investment Management Limited (AIM) is the first subsidiary of Askari Commercial Bank Limited 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 AIM is mutual funds investments. However, AIM also offers advisory services to institutional clients.

During 2006, AIM successfully launched its first open-ended income fund, Askari Income Fund (AIF) which in a short span, has been able to demonstrate tremendous growth both in terms of size and yields. In terms of size, AIF is currently amongst the top income funds in Pakistan. AIF aims to provide its investors a broad range of asset classes so as to diversify fund risk and to optimize potential returns.

Consolidated financial statements of the Bank and AIM for the year ended December 31, 2006 are included in this report.

Awards and recognition:

During the year, the annual report of the Bank for the year 2005 won the 1st prize for "The Best Annual Report" for the financial sector, instituted jointly by The Institute of Chartered Accountants of Pakistan and The Institute of Cost and Management Accountants of Pakistan, for the 6th consecutive year. The Annual Report of the Bank for the year 2005 also won the award under the category 'Banking Sector subject to Prudential Regulations' by the South Asian Federation of Accountants (SAFA), an apex body of the SAARC countries.

Pattern of shareholding:

The pattern of shareholding at the close of December 31, 2006 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 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 internal audit department and other such procedures. Such review process will continue and any weakness in controls will be removed.
- Board of Directors is satisfied with the Bank's ability to continue as a going concern.
- There have been no material departures from the best practices of corporate governance as detailed in the Listing Regulation No.37 of the Karachi Stock Exchange (Guarantee) Limited.
- Key operating data and financial data for the last ten years, in summarized form, is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2006, except as disclosed in these financial statements.
- The following is the value of investment as at December 31, 2006:
 - Provident Fund Rs.535.11 million, based on un-audited financial statements (2005: Rs.421.53 million)
 - Gratuity Fund Rs.204.80 million, based on un-audited financial statements (2005: Rs.162.77 million)
- During 2006, 4 meetings of the Board of Directors were held. Attendance by each Director was as follows:

Lt. Gen. Waseem Ahmed Ashraf <i>Chairman</i>	3
Lt. Gen. (R) Zarrar Azim	3
Brig. (R) Muhammad Shiraz Baig	4
Brig. (R) Asmat Ullah Khan Niazi	4
Brig. (R) Muhammad Bashir Baz	4
Brig. (R) Shaukat Mahmood Chaudhari	4
Mr Zafar Alam Khan Sumbal	4
Mr Kashif Mateen Ansari	4
Mr Muhammad Afzal Munif	2
Mr Muhammad Najam Ali	2
Mr Tariq Iqbal Khan (NIT Nominee)	2
Mr Shaharyar Ahmad, President & CE	3
Mr Kalim-ur-Rahman <i>(outgoing President & CE)</i>	1

Auditors:

The Auditors, M/s A. F. Ferguson & Co., Chartered Accountants have completed their assignment for the year ended December 31, 2006 and shall retire at the conclusion of the 15th 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 2007.

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 2007:

The operating environment for banks during 2007 will be very challenging in the wake of intense competition both in terms of product pricing and offering. The innovative products, search for un-explored segments of the economy and effective asset liability management will be the key drivers for producing better results.

Your Bank continues to pursue strategic expansion of its nation-wide branch network, including Islamic Banking, which reached 121 by the end of the year. Further expansion is planned and is in progress. The Bank will also be looking at augmenting its existing delivery channels with new IT backed channels to boost customer convenience. The Bank

will continue to diversify its credit portfolio with emphasis on consumer, SMEs and agriculture while ensuring credit growth strictly on the basis of quality, risk and pricing, aimed at improving returns on assets and capital.

We will, in 2007, further consolidate our corporate identity and offer our clients a better service and more customized products. Through this more focused approach, we will endeavor to out perform the competition.

Acknowledgments:

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

For and on behalf of the Board



Rawalpindi
February 14, 2007

Lt. Gen. Waseem Ahmed Ashraf
Chairman