www.askaribank.com.pk

Annual Report for the year ended December 31, 2008

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Consolidating... on the wings of change

askaribank LIMITED

Consolidating... on the wings of change

In times of change, learners inherit the future. We are learning to carry on in challenging times through consolidation – by becoming lean, mean and efficient for the benefit of all moving forward with us.

Consolidation isn't new... it is a major factor which ensures that there is a solid path for everyone who is willing to lead the change. At Askari, a palette of resources is realigned to serve you better in every season and for us to explore opportunities even in the ebbs of time.

A bunch of paint brushes on the cover of this year's Annual Report, and a feel carried throughout the report with hand-picked colour palette and strategically rendered layout, depicts resources and their application, life, change, people and businesses... and you with us.

Contents

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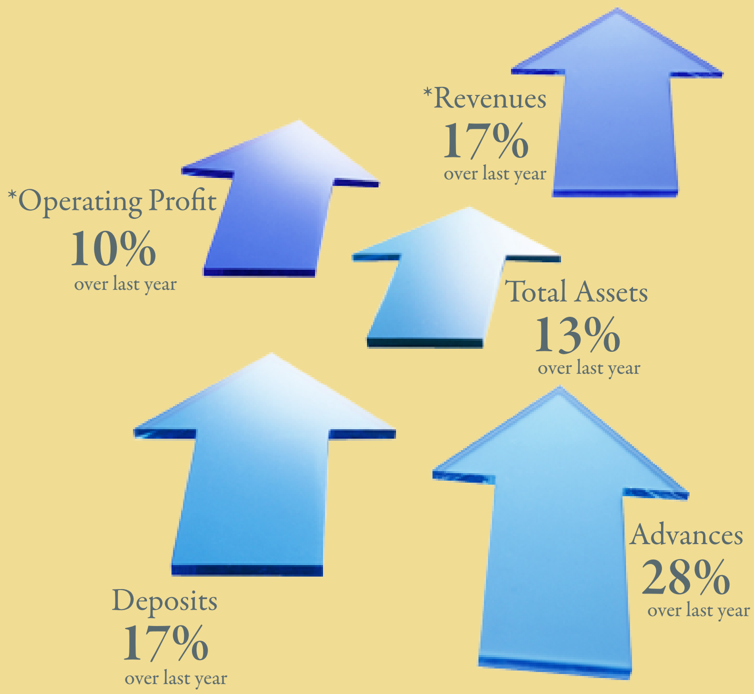
Financial Highlights 2008

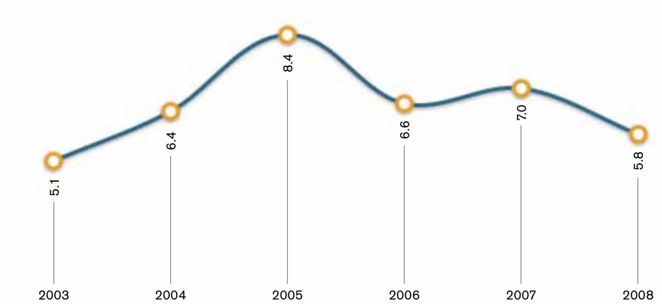


** excluding one-off gain amounting to Rs. 2.1 billion recognised last year*

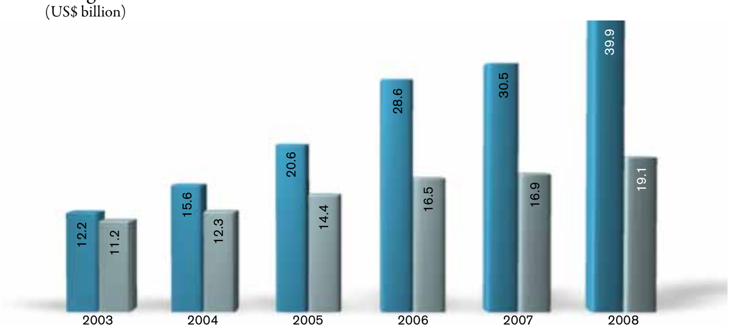
Rupees in million	*2008*	*2007*	*Change*	*Percent*
Profits				
Operating profit	4,534	6,222	–	27.13
Profit before taxation	461	2,300	–	79.96
Profit after taxation	386	2,681	–	85.60
Balance Sheet				
Shareholders' funds	12,971	12,266	+	5.75
Customer deposits	167,677	143,037	+	17.23
Advances – net	128,818	100,780	+	27.82
Total assets	206,191	182,172	+	13.18
Information per ordinary shares				
Earnings (Rs.)	0.95	6.61	–	85.63
Cash dividend (Rs.)	–	1.50	–	–
Stock dividend (%)	25.00	35.00	–	28.57
Net assets value at year end (Rs.)	31.96	40.80	–	21.67
Market value at year end (Rs.)	14.57	99.75	–	85.39
Capital adequacy ratio (%)	**9.22**	**9.35**	**–**	**1.39**

Pakistan's Economic Profile

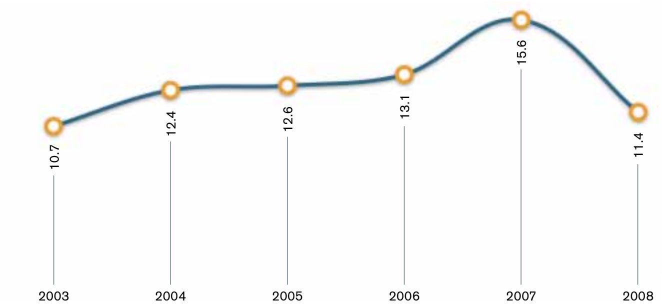
GDP–Growth
(Percent)



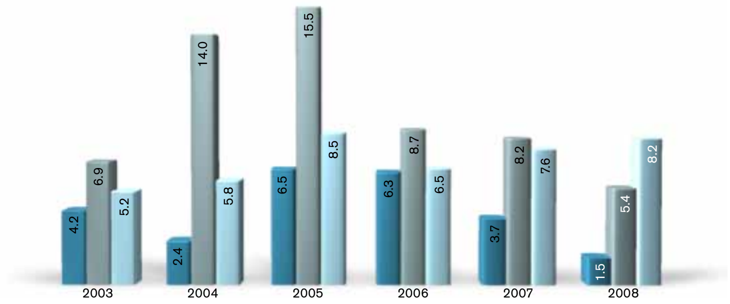
Foreign Trade
(US$ billion)



Foreign Exchange Reserves
(US$ billion)



Sectoral Contribution to GDP
(Percent)



	*2003–04**	*2004–05**	*2005–06**	*2006–07**	*2007–08**
Economic indicators					
GDP Growth (%)	6.4	8.4	6.6	7.02	**5.8**
GDP at current factor cost (Pak Rs. in billion)	5,251	6,123	7,159	8,259	**9,906**
GDP – at market prices (Pak Rs. in billion)	5,640	6,500	7,623	8,723	**10,478**
Inflation (%)	4.6	9.3	7.9	7.8	**12.0**
Trade balance deficit (USD million)	(3,279)	(6,207)	(12,130)	(13,564)	**(20,914)**
Current account balance – ex. official transfers surplus / (deficit) (USD million)	1,811	(1,534)	(4,999)	(7,403)	**(14,463)**
Foreign currency reserves – at year end (USD million)	12,389	12,598	13,122	15,647	**11,369**
Exchange rate (USD)	58.15	59.67	60.18	60.37	**68.40**
Exchange rate (Euro)	70.90	72.14	76.47	81.70	**108.20**

Banking system –at fiscal year end	*CY04*	*CY05*	*CY06*	*CY07*	*CY08*
Networth of banking system (Pak Rs. in billion)	131	191	315	484	**548**
Total assets of banking system (Pak Rs. in billion)	3,003	3,624	3,884	4,785	**5,074**
Capital adequacy ratio (%)	10.5	11.3	12.7	13.2	**12.1**
Advances deposits ratio (%)	65.8	70.2	74.6	69.8	**69.8**
Return on Assets (%)	1.2	1.9	2.1	1.5	**1.7**

Stock market – at fiscal year end					
KSE 100 index points	5,279	7,450	9,989	13,772	**12,289**
Market capitalization (Pak Rs. in billion)	1,403	2,037	2,766	3,981	**3,744**

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

Country statistics

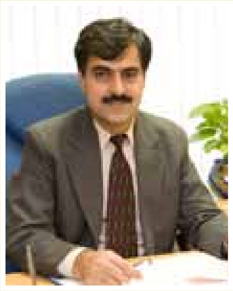
Land area (sq. km)	796,100
Population (Million)	163.42
Population growth (%)	1.80
Population density (people/sq. km.)	205
Life expectancy (years)	64
Literacy (%)	53

17 Years of Banking

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 Karachi, Lahore and Islamabad Stock Exchanges.

Askari Bank has expanded into a network of 200 branches / sub-branches, including 20 dedicated Islamic banking branches, and a wholesale bank branch in Bahrain. A shared network of 2,991 online ATMs covering all major cities in Pakistan supports the delivery channels for customer service. As at December 31, 2008, the Bank had equity of Rs. 12.97 billion and total assets of Rs. 206.19 billion, with 816,629 banking customers, serviced by our 6,496 employees.

Askari Investment Management Limited and Askari Securities Limited are subsidiaries of Askari Bank engaged in managing mutual funds and shares brokerage, respectively.



'ability to offer value' and 'service excellence' propels our quest to lead.

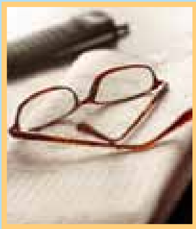
What we stand for

Our vision	**To be the bank of first choice in the region**
Our thinking	**Consolidation and creating opportunities with innovation**
Our values	**Commitment** **Integrity** **Fairness** **Teamwork** **Service**

Our commitment to stakeholders

Customers

Passionate about our customers' success, delighting them with the quality of our service

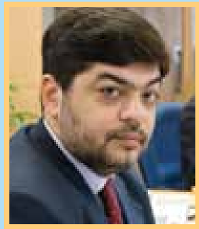


Investors

A distinctive investment, delivering outstanding performance, superior returns and value

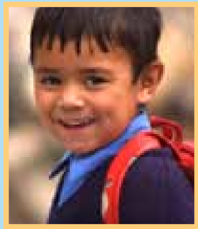
Regulators

Exemplary compliance, governance and business ethics



Employees

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 and realign priorities 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.

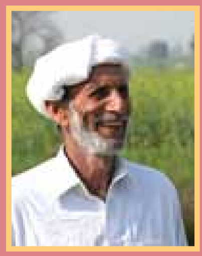
We have fully automated transaction–processing systems for back–office support. Our branch network is connected on–line real–time and our customers have access to off–site as well as on–site ATMs, all over Pakistan. Our phone banking service, Askari TeleCare, and internet banking facility allows customers to enjoy routine banking service from anywhere, anytime in the world. We also pioneered an e–commerce venture in Pakistan. Our mobile ATMs are the first in Pakistan.

To further strengthen and enhance our technology platform, the Bank has started the process of replacing the existing technology with a comprehensive state of the art IT solution. The successful completion will greatly improve our product delivery and service abilities.

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**
- **Teamwork**
- **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 816,629 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.

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 employees

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.

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.

Corporate Objectives

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

Strategic Planning

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

Code of Ethics and Conduct

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

- Presence of a corporate culture that seeks to create an environment where all employees are treated equitably and with respect.
- Employees must carry out their responsibilities in a professional manner at all times. They must act in a prudent manner and must avoid situations that could reflect unfavorably on themselves, the Bank or its customers.
- Employees must commit to the continued development of the service culture in which the Bank consistently seeks to exceed customers' expectations. Fairness, Truthfulness and Transparency govern our customer relationships in determining the transactional terms, conditions, rights and obligations.
- Employees must safeguard confidential information which may come to their possession during the discharge of their responsibilities. Respect for customers' confidential matters, merits the same care as does the protection of the Bank's own affairs or other interests.
- Employees must ensure that 'know your customer' principles are adhered 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. Javed Zia
Chairman

Lt. Gen. (R) Imtiaz Hussain

Mr. Kashif Mateen Ansari, FCMA

Mr. Zafar Alam Khan Sumbal

Mr. Muhammad Riyazul Haque

Mr. Shahid Mahmud

Mr. Ali Noormahomed Rattansey, FCA

Dr. Bashir Ahmad Khan

Mr. Tariq Iqbal Khan, FCA
(NIT Nominee)

Mr. M.R. Mehkari
President & Chief Executive

Audit Committee

Dr. Bashir Ahmad Khan
Chairman

Mr. Ali Noormahomed Rattansey, FCA

Mr. Zafar Alam Khan Sumbal

Company Secretary

Mr. Saleem Anwar, FCA

Auditors

A. F. Ferguson & Co
Chartered Accountants

Legal Advisors

Rizvi, Isa, Afridi & Angell

Shariah Advisor

Dr. Muhammad Tahir Mansoori

Registered / Head Office

AWT Plaza, The Mall,
P.O. Box No. 1084
Rawalpindi, Pakistan.
Tel: (92 51) 9063000
Fax: (92 51) 9272455
E-mail: webmaster@askaribank.com.pk
Website: www.askaribank.com.pk

Registrar & Share Transfer Office

THK Associates (Pvt) Limited
Ground Floor, State Life Building No. 3,
Dr. Ziauddin Ahmad Road,
Karachi-75530
P.O. Box: 8533, Karachi.
Tel: (92 21) 5689021, 5686658, 5685681
Fax: (92 21) 5655595

Entity Ratings

Long Term: AA
Short Term: A1 +
by PACRA

Management

Head Office

M. R. Mehkari
President & Chief Executive

Agha Ali Imam, SEVP
Group Head, Consumer Banking Services

Tahir Aziz , SEVP
Group Head, Corporate & Investment Banking

Muhammad Arif Mian
Chief Risk Officer

S. Suhail Rizvi , EVP
Group Head, Operations

Javed Iqbal
Chief Information Officer

Moghis Bokhari, EVP
Country Head, Human Resource

Rehan Mir , EVP
Acting Group Head, Treasury & International Banking

Saleem Anwar , EVP
Country Head, Strategic Planning & Corporate Affairs

Khalid Mohammad Khan, EVP
Country Head, Compliance & Data

M. Farooq Abid Tung, EVP
Country Head, Agriculture & Rural Business

Rana Shahid Habib, EVP
Country Head, Audit & Inspection

Hashim Khan Hoti, EVP
Country Head, Islamic Banking Services

Tariq Maqbool, EVP
Country Head, Risk Management

Mian Shaukat Ali Arif Sirhindi, EVP
Country Head, Consumer Banking Services

Mohammad Munir Ahmed, EVP
Country Head, Electronic Technology

Muhammad Ahmed Khan, SVP
Country Head, International

Lubna Azam, SVP
Chief Credit Officer

Adil Zaidi , SVP
Country Head, Centralized Foreign Trade Unit

Masood Qadir , SVP
Country Head, Credit Administration

Brig. (R) Muhammad Ifzal
Country Head, Establishment

Hassan Aziz Rana, SVP
Country Head, Legal Affairs

Syed Hasan Sajjad
Country Head, Operations

Bilal Bin Zaheer
Special Asset Management

Mahmood Ahmad Nasir, VP
Acting Chief Financial Officer

Iftikhar Baloch, VP
Acting Chief Information Security Officer

Regions / Areas / Off-shore Branch

Central Region

Ejaz Ahmed Khan, SEVP
Regional General Manager, Central

Sajjad Ahmed Qureshi
Area Manager, Lahore – I

Khawaja Shaukat Iqbal, EVP
Area Manager, Lahore – II

Tahir Yaqoob Bhatti, EVP
Area Manager, Faisalabad

Saulat Hameed , SVP
Area Manager, Lahore – III

Sajjad Ali Sheikh, SVP
Area Manager, Multan

Mushtaq Ahmed , SVP
Area Manager, Gujranwala

North Region

Haseeb Saulat , EVP
Regional General Manager, North

Tariq Mahmud Khan, EVP
Area Manager, Rawalpindi – I

Syed Tauqir Haider Rizvi, SVP
Area Manager, Rawalpindi – II

Inamullah Khan Niazi, SVP
Area Manager, Azad Kashmir

Tanveer Afzal Khan, SVP
Area Manager, Peshawar

Qaiser Iqbal Khan
Area Manager, Islamabad

South Region

Muhammad Jaffer Khanani, EVP
Regional General Manager, South

Saif-ur Rehman Khan, EVP
Area Manager, Karachi – II

Nehal Ahmed, EVP
Area Manager, Karachi – III

Mirajuddin Aziz, SVP,
Area Manager, Karachi – I

Qazi A.M. Khalid, SVP
Area Manager, Karachi - IV

Niaz Mohammad, SVP
Area Manager, Hyderabad

Hafeez Ur Rahman Quraishy
Area Manager, Quetta

Wholesale bank branch, Bahrain

Muhammad Naim Ilyas
Wholesale Bank Branch, Bahrain

Risk Management Framework

Strategy, Oversight and Business Management	Business Support, Monitoring and Compliance	Independent Assurance
Board	Credit Approval Process	Internal Audit
Board Committees	Credit Risk Review & Monitoring	External Audit / Inspection
President & Chief Executive	Operational / Market Risk Review & Monitoring	
Management Committees	Credit Admin and Credit MIS	
Man Com; Risk Mgmt; ALCO; Credit	New Product Review	

Entity Ratings

Long term AA
Short term A1+

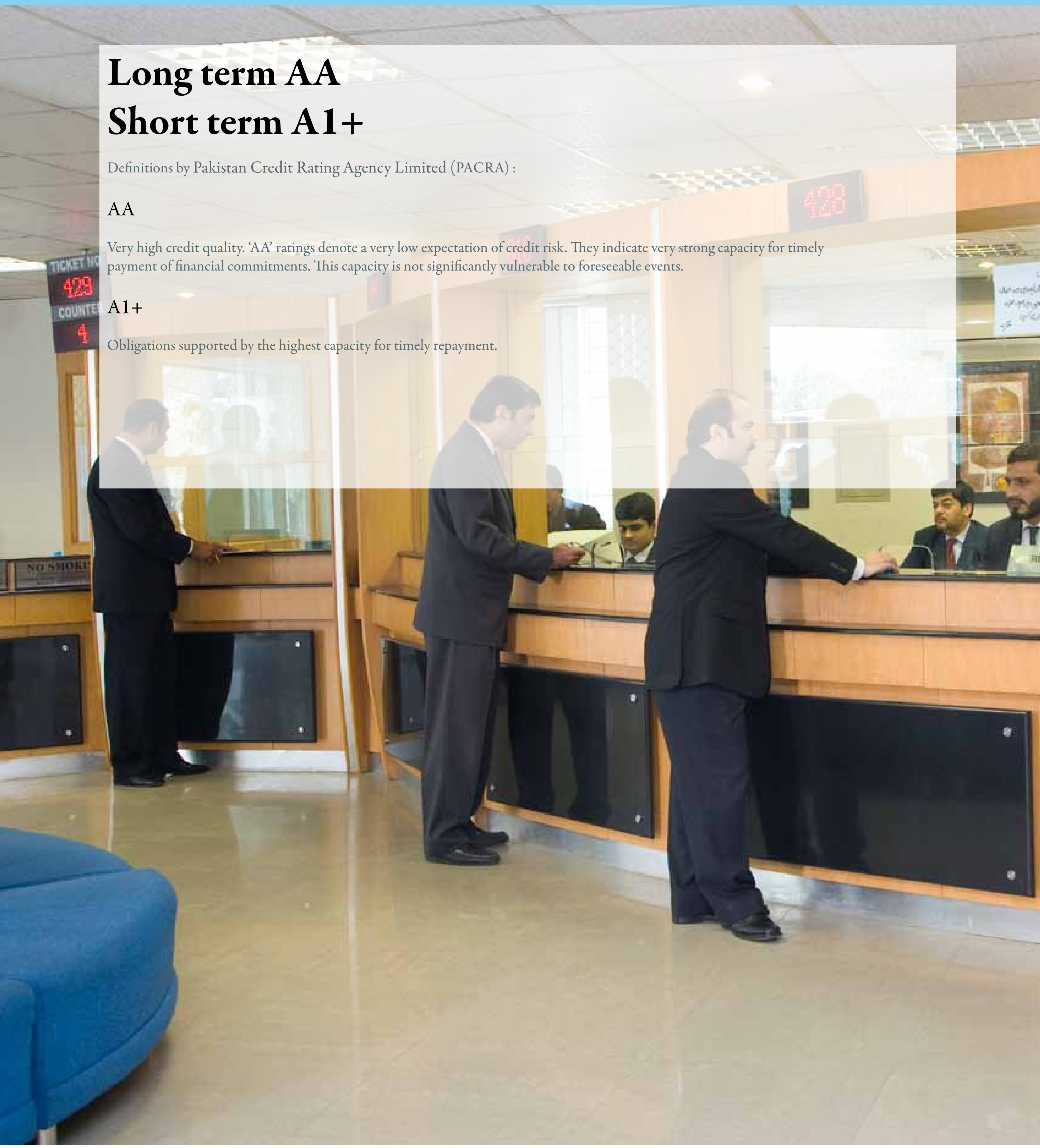
Definitions by Pakistan Credit Rating Agency Limited (PACRA) :

AA

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

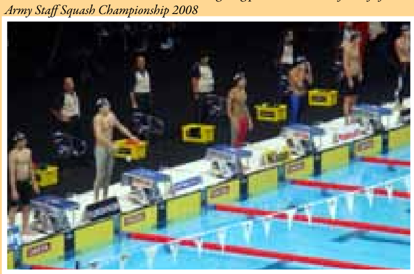
A1+

Obligations supported by the highest capacity for timely repayment.



Corporate Social Responsibility

Mr. M. R. Mehkari, President Askari Bank giving prize to a winner of Chief of the Army Staff Squash Championship 2008



Askari Bank sponsored Pakistan Team that participated in FINA World Swimming Championship held at Manchester, UK

Askari Bank sponsored Volley Ball Championship held for SAARC countries

"A nation as a society forms a moral person, and every member of it is personally responsible for his society"

(Greek Proverb)

Askari Bank strongly believes that the success of an entity is directly connected with the well being of a society in which it operates as business could not exist or prosper in isolation. It is thus giving something back to the society in recognition of the benefits and advantages drawn from it. Therefore it is our belief that it's a privilege, not a right, which the Bank ought to pay back as a responsible corporate citizen.

The business ethics of the Bank are built on the philosophy of care of both the customers and the society, of which we are all part of. Our core values for doing business circle round the five pillars of commitment, integrity, fairness, teamwork and service towards our customers, employees and communities.

We believe in encouraging sports at every level as nurturing the physical spirit gives rise to healthy, spiritual and moral values. During 2008, Askari Bank sponsored various sporting events to promote healthy activities, which include Badminton, Swimming, Squash, Tennis, Golf, Polo, Volleyball, Shooting and Squash across the country.

During the year, Askari Bank has contributed to charities and community projects, not only to bring about a better quality of life to the less privileged in the community, but also to enrich the lives of Pakistani citizens. Major contributions to the society include the financing for development of parks, roundabouts, gymnasiums, industrial exhibitions, fundraisers and tourism festivals.

Health issues have been a particular concern to us. During 2008, Askari Bank sponsored various programs related to health. As a caring corporate citizen, Askari Bank has also been actively making regular donations to charitable institutions working for social welfare.

Askari Bank, in its quest for the equal rights and empowerment of women, continued to support Non Governmental Organizations (NGOs), which are working on issues related to the welfare of women.

Sponsorships

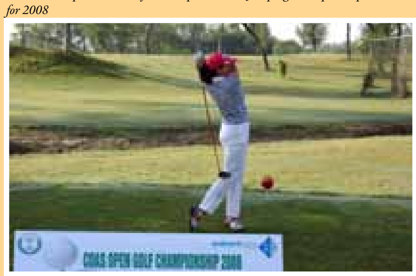
Askari Bank has demonstrated a leading role in supporting a large number of important activities and significant events. Major activities during 2008 were:

Sports

- Sponsorship of 4th TCF Golf Tournament 2008
- Sponsorship of All Pakistan Multan Open Golf Championship 2008
- Sponsorship of Badminton Championship, organized by NUST
- Sponsorship of 9th FINA World Swimming Championships held at Manchester, UK, 2008
- Sponsorship of Askari Bank Polo Team representing Askari Bank in the Pakistan Cup and Punjab Polo Cup 2008
- Sponsorship of 6th Chief of the Army Staff International Squash Championship 2008. (March 31 to April 5th, 2008)

Askari Bank sponsored Army Polo Cup and Show Jumping Championship for 2008

Askari Bank sponsored Under 18 ITF Tournament Islamabad



A golfer in action at the Chief of the Army Staff Open Golf Championship 2008 sponsored by Askari Bank

Prize distribution ceremony of the Chief of the Army Staff Open Golf Championship 2008

Askari Bank sponsored Badminton Championship organized by NUST

- Sponsorship of Army Polo Cup and Show Jumping Championship 2008 (April 7 to 12, 2008)
- Sponsorship of President of Pakistan Polo Trophy 2008
- Sponsorship of the President Cup Golf Championship 2008 held on April 25-27, 2008
- Sponsorship of Golf & Polo matches organized by 106 Air Defence & Officer 29 Cavalry Kharian Cantt
- Sponsorship of ITF Pakistan International Junior U-18 (Boys & Girls) Aug 11-30, 2008 Islamabad
- Sponsorship of Pakistan Army Hockey Team for Donghae Mayor Cup 2008, South Korea
- Sponsorship of COAS Open Golf Championship 2008 at Rawalpindi Golf Club
- Sponsorship of Punjab Open Golf Tournament 2008 played at Rawalpindi Golf Club
- Sponsorship of Medium to High Goal Polo Tournament 2008
- Sponsorship of 4th South Asian Shooting Championships 2008 at Gun Club Islamabad
- Sponsorship of Punjab Open Squash Championship 2008 held in Lahore

Social

- Sponsorship of Special Program for Mentally ill Patients organized by The Agha Khan University Hospital, Karachi
- Sponsorship of SBP Agricultural Workshop held at Lahore
- Sponsorship of Askari Rawal Festival 2008, organized by Trance Media Communications
- Sponsorship of NUST's SEECS Festival 2008
- Sponsorship of Musical Function 2008 organized by DHA Creek Club
- Sponsorship of 1st International Conference on Psycho trauma, Islamabad
- Sponsorship of Fundraising Program for development work in Katchi Abadies of Karachi
- Sponsorship of Puppet Show held on August 30, 2008 at DHA Islamabad
- Sponsorship of Horticulture Drive in Lahore
- Sponsorship of Foliage Exhibition organized by Flora Care, Lahore
- Sponsorship of "Black Pearl" on opening of Chamalang Coal Mines" An International Film Festival held in Rome
- Sponsorship of SBP Agri Seminar / Mela in Hyderabad
- Sponsorship of a Commercial Theatre Play at PNCA, Islamabad

Education

- Sponsorship of 1st International Conference on Business and Technology" at Margalla Hotel, Islamabad
- Sponsorship of annual program of CFA Association of Pakistan for 2008-09
- Sponsorship of three days exhibition i.e. "Mega Industrial & Trade Fair" at Convention Centre Islamabad
- Sponsorship for 3rd South Asian Capital Markets Conference 2008 held in Mumbai, India
- Sponsorship of Annual Sports Festival 2008 arranged by Multan Public School & College, Multan
- Sponsorship of ICMAP Convocation 2008 at PC Karachi on Dec 14, 2008

Environment

- Sponsorship of special campaign "Telephone a Tree", Lahore
- Sponsorship of 150 annual spring flower show, Bara Dari, Bagh-e-Jinnah, Lahore 2008
- Development of fountain at F-10 Roundabout, Islamabad

President's Message

M.R. Mehkari
President & Chief Executive

The macroeconomic stabilization program to support medium-term reforms under the aegis of the International Monetary Fund (IMF) and Government's timely move to address the most immediate risks has eased the pressure on Pakistan's economy. The IMF program has helped in preventing the immediate risk of default on external obligations with the improvement in foreign exchange reserves. Also, the recent positive trends in imports and exports and workers' remittances have helped stabilized the Pak Rupee and may have contributed to some reduction of inflationary pressure.

The improvement in fiscal deficit appears largely attributable to the reduction in Government borrowing from the State Bank of Pakistan (SBP), and in development spending and the elimination of some major subsidies. In the medium term, such measures must be supplemented by policies to discipline growth in non-development expenditures and broaden the revenue base to provide the necessary fiscal space to ensure an appropriate level of public spending on social and development projects in the future. Also, fiscal planning process must be kept consistent with a realistic assessment of revenues, with appropriate adjustments as the year progresses. This will help provide the banking sector the space to meet the requirements of private sector credit. The Government has already committed to zero budgetary borrowings from the SBP. The decline in international commodity prices, especially oil, will also shrink the large current account deficit.

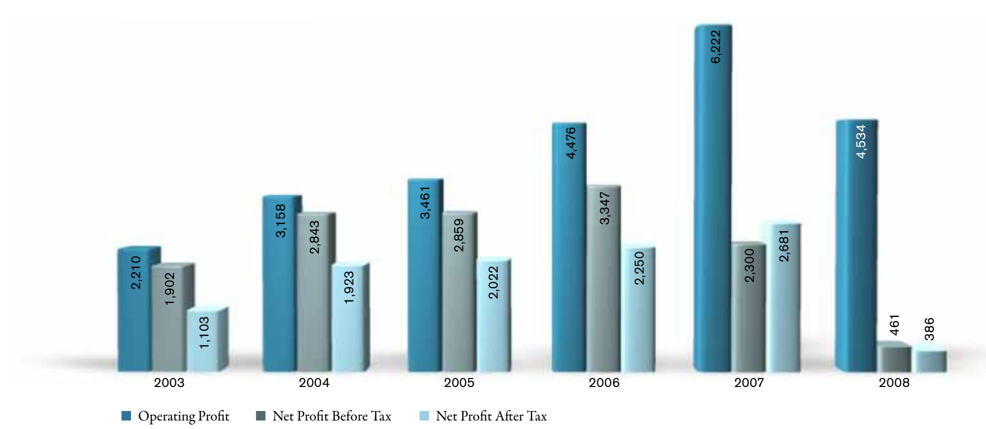
It is evident that Pakistan's economy demands effective policies and implementation of reforms to regain macroeconomic stability in the midst of a challenging year. The GDP growth is likely to be revised downwards to 2.5 percent for financial year 2009 and inflation is likely to breach its target. On a positive note, both fiscal and current account deficits are estimated to decline in fiscal 2009. Amongst the biggest challenges for the Government will be to ensure the pass through of decline in international commodity and oil prices to the consumers.

The liquidity problems for the financial market during the first half of fiscal 2009 were largely attributable to the deterioration in external balances, circular debt-influenced withdrawals, foreign currency deposit withdrawals, and higher rates offered by national savings schemes. Also, temporary liquidity shortages with the commercial banks were perceived as a financial crisis triggered by the global financial and liquidity turmoil, with which it coincided. The SBP has taken a number of positive measures to ease liquidity in the financial system and stabilize the domestic currency.

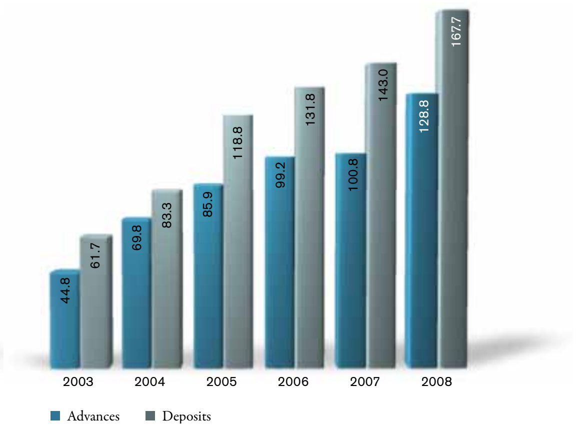
The slide in commercial banks' deposits continued throughout the second half of 2008 after peaking in June 2008. Consequently, the advances to deposits ratio hit an unprecedented high during this period. The consolidated banking sector data confirms escalating asset quality pressures where the NPL to gross advances ratio reached almost 9 percent during the first quarter of fiscal 2009 with consequent increase in provisions against NPLs thus indicating decline in recoveries.

For Askari Bank, 2008 was a tough year in terms of distributable earnings owing to a substantial increase in provisions against non-performing loans which resulted in the erosion of most of the profits for the year. During the year, certain large credit exposures which had shown signs of problems in previous years and had remained under close monitoring were finally classified by the Bank. Also, the economic downturn compounded the impact and was a reason for increase in problem accounts and related provisions. The benefit of forced sale value (FSV) of collaterals, which was withdrawn by the State Bank of Pakistan in 2007, was partially reinstated for certain types of

Profits
(Rs million)



Balance Sheet Growth
(Rs billion)



collaterals and subject to certain conditions, for the purposes of computation of loan loss provisions for 2008. This relaxation was accounted for while computing loan loss provisions for 2008.

The Bank's profit after tax declined to Rs. 386 million from Rs. 2.68 billion last year mainly due to a one off gain amounting to Rs. 2.12 billion recognized last year, as depicted in the above chart.

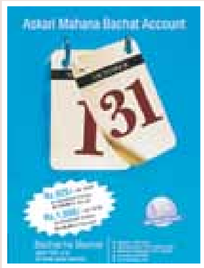
The Bank's non-performing loans stood at Rs.11.69 billion as of December 31, 2008 compared to Rs.6.91 billion the previous year, an increase of 69 percent. Aggregate provisions as of December 31, 2008 increased to Rs.11.01 billion, thus providing a coverage of 94 percent against non-performing loans as of December 31, 2008.

During 2008, the Bank's gross advances increased by 29 percent, to Rs.139.83 billion from Rs.108.19 billion at end 2007. The Bank has been very cautious and selective in taking credit exposures and is focused on effective risk management and portfolio diversification. The efforts for effective loan portfolio diversification have started yielding results and during 2008, the Bank's exposure in textiles, which sector has largely remained under pressure owing to various internal and external developments, was reduced to 20.47 percent of the total portfolio compared to 24.26 percent in the previous year. Also, the Bank preferred financing against collateral which improved our capital adequacy in compliance with Basel II.

To expedite recovery of non-performing and classified loans, a Special Asset Management (SAM) division was set-up in 2007 and has started the process of aggressive monitoring and follow-up of problem accounts. During 2008, the Bank's efforts resulted in substantial improvement in the recovery position over the previous year. SAM will continue to actively pursue recovery from defaulting customers.

Despite weakening banking industry deposit growth owing to liquidity pressures and concerns over the stability of local banks in the backdrop of the international financial crisis, Askari Bank's deposits registered a healthy increase of 17 percent and reached Rs.167.68 billion as at December 31, 2008 against Rs.143.04 billion in the previous year. Growth in foreign currency deposits remained higher than Pak Rupee deposits.

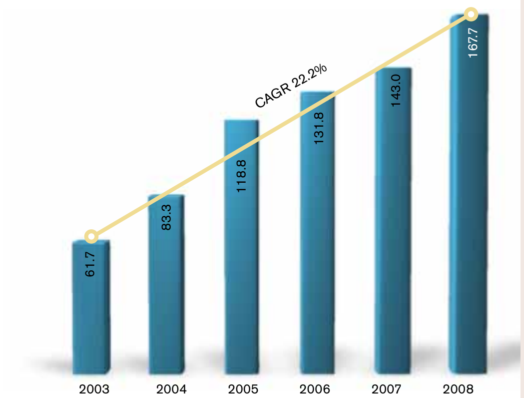
During the year, the deposit mobilization strategy was re-organized and four new deposit products were launched. These products, namely, one year Mahana Bachat Account, three year Mahana Bachat Account, Askari Roshan Mustaqbil Deposit, and Askari Deposit Multiplier Account were intended for individuals and household savers and offered market based returns on deposit tenures ranging from one to ten years. These products were launched towards the end of 2008 and have been well received by our customers. Mobilization of core deposits, always a focus area, is being aggressively pursued as growth of core deposits has been identified as a priority for 2009.



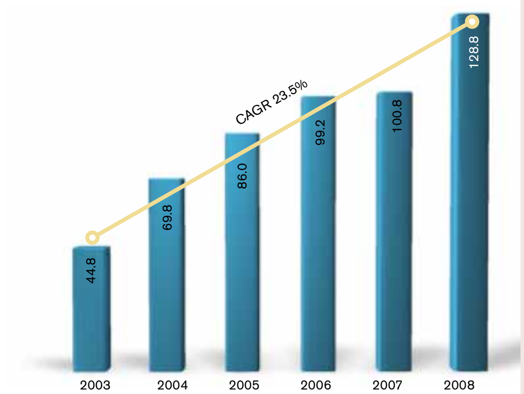
The valuations of our investment portfolio, which primarily comprise of SLR (statutory liquidity requirement) eligible securities and other equity and debt securities, were adversely affected by the trends in money and stock markets resulting from a steep rise in discount rate from 10 percent to 15 percent during the year. SBP's timely steps including reduction in cash reserve requirement and open market operations addressed the liquidity problem faced by the banks. In this situation, our Treasury management remained prudent and operated competitively in the prevailing severe liquidity crisis.

President's Message

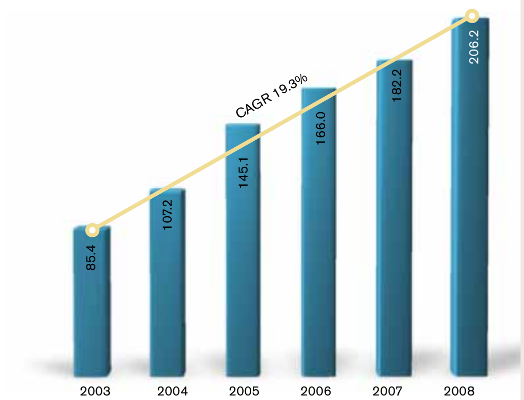
Deposits
(Rs billion)



Advances
(Rs billion)



Total Assets
(Rs billion)



The agriculture banking services offered by the Bank strengthened during 2008 on the back of innovative offerings, capacity and awareness building, and increased market penetration. Askari Zarai Credit Card launched in the previous year as the first ever credit card for agriculture purposes is gaining popularity. Also, group-based lending methodology has been adopted to facilitate small farmers availing agriculture credit.

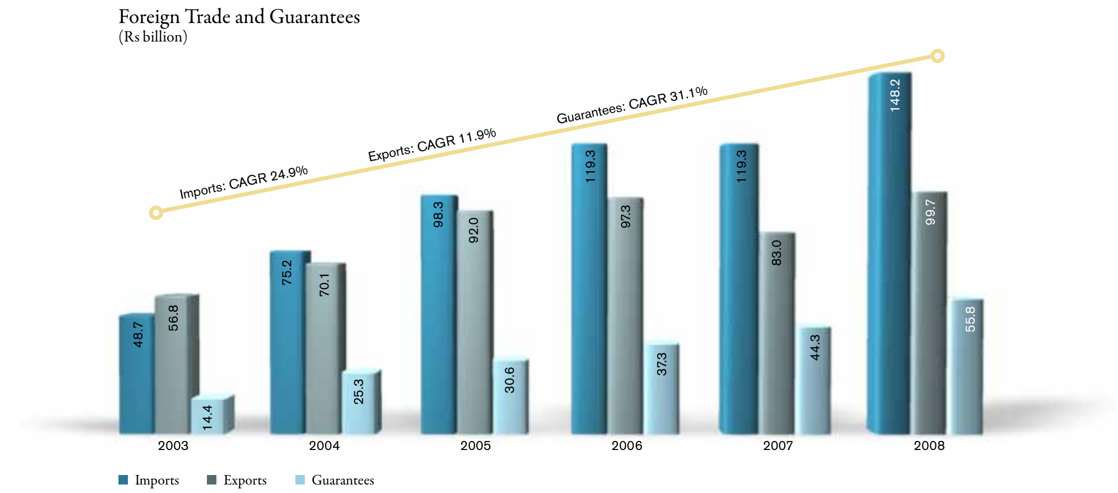
Askari Islamic banking further expanded its outreach during 2008 by adding four new branches. A comprehensive range of Shariah compliant banking products and services are now available at twenty Islamic banking branches. Despite the strain on earnings attributable to network expansion, Askari Islamic's contributions to the bottom line increased while its asset base almost doubled during 2008.

During the year under review, the Bank has embarked upon one of the most ambitious projects in its history by undertaking to upgrade its entire technology platform. The Bank has acquired Oracle Financial Services Software (OFSS) (previously I-flex) as the core banking software and its implementation has already commenced. The key objectives of this project are to (a) improve business management, (b) upgrade customer service, (c) strengthen the internal control environment, and (d) improve quality and timing of financial and non-financial information. In addition to OFSS, the Bank has also signed-up for acquisition of Oracle Financial as finance and MIS software, PeopleSoft as human resource management software, and Siebel as customer relationship management software. These softwares will be fully integrated with OFSS and collectively strengthen our product and service delivery capacity while improving the overall operational and internal control standards. We take full cognizance of the fact that the implementation of a program of this magnitude poses a huge challenge and is perhaps unprecedented in our financial sector. As such, this program is given the highest priority. We have deployed the required means and resources for a timely and successful implementation, which will be under close watch for further support.

Another major initiative on the technology front is compliance with ISO 27001 Information Security Management System (ISMS). Major work on this project has been completed and it is in an advanced stage of implementation. We are confident that the Bank will achieve full compliance during the ensuing year.

Our organizational development program which mainly comprised of various human resources related initiatives is nearing completion, although work in certain areas will continue as improvement in employee satisfaction and motivation is an ongoing process. In the first phase, all human resource policies were reviewed and revised to attain alignment of compensation and benefits with the market. After announcing the first layer of revised organization structure which included restructuring of certain divisions / units for better operational efficiency, the process was cascaded to all groups / divisions / units during the year under review. An exercise to identify unique jobs has been completed and job description documents have been developed. On one hand this will ensure effective placement of staff, standardization and rightsizing, and on the other, it will enable employee goal setting which is a prime requisite for an effective performance management system. A comprehensive performance management system based on well defined goals and responsibilities has been implemented across the Bank. Going forward, compensation and benefits will be based entirely on employee performance.

In today's competitive environment, employees' professional development remains one of the key elements of our human resource strategy. To keep abreast with technological developments and other



advancement, human capital enrichment through extensive in-house and external training is indispensable. During the year, 238 in-house training programs were conducted in which 4,365 employees participated. Also, a third training academy was opened in Karachi to cater for the training needs of employees based in South Region i.e. Sindh and Baluchistan. With the three training academies at Karachi, Lahore and Rawalpindi and the increased allocation for external training, we are equipped to provide ample opportunities for in-house and external training that will enable our employees to improve their skills and professional competence.

During 2008, a total of 50 branches / sub-branches were added to our nation-wide network, increasing our presence to 200 branches / sub-branches, including 20 Islamic banking branches and a wholesale bank branch in Bahrain. The strategic branch expansion will continue; however the process will be gradual and selective, as under the current economic and business conditions, our emphasis will be on consolidation of recent expansion, which was the highest since the inception of the Bank.

The performance of Askari Investment Management Limited (AIML), which is a wholly owned subsidiary of the Bank, was subdued mainly due to adverse market conditions. As the stock exchange index remained frozen for almost four months, mutual funds faced huge withdrawals and consequently asset management companies came under severe stress. The return on Askari Income Fund declined by around 9 percent while, Askari Asset Allocation Fund posted negative return during the year. It is anticipated that the recent relative stability in stock exchange index will lead to gradual turnaround for mutual funds industry.

Observing the trends at the close of 2008, inflation and interest rates scenario will continue to be among the major deterrents to the country's development agenda. The impact of inflation and energy shortfalls will certainly stress the domestic manufacturing and export oriented industries in terms of competitiveness vis-à-vis other emerging economies. Given the situation and challenges faced by the Bank, certain areas have been identified as key strategic priorities for 2009 and have been cascaded down the line. Also, a comprehensive review and monitoring mechanism has been put in place for timely identification of gaps and corrective measures. I am confident that Askari's management team will continue to work with dedication and hard work to accomplish our collective vision – to become the bank of first choice in the Region, and continue to strive for every possible opportunity to add value for our stakeholders.

My sincere appreciation to the Board of Directors for their unstinted co-operation over the year. They have taken keen interest in the affairs of the Bank and in formulation of policies and had been an immense source of support and guidance to me during the year. I thank them for the wise guidance and counsel extended to me in managing the affairs of the Bank. Also, I thank the State Bank of Pakistan for providing guidance on policy and operational matters which in fact enhanced the professional capabilities of the Bank.

The loyalty of our customers has been very encouraging despite intense competition. This situation has helped us maintain a competitive edge and market share over the years. I thank them for the confidence they continue to place in us.

I have had the honor and privilege to serve Askari Bank in a number of positions over the years, most recently as the President. I am humbled and sincerely thankful for the opportunity and the trust reposed in me.

I would like to thank our staff for their commitment, hardwork and dedication and to all stakeholders for the trust and confidence they continue to place in Askari Bank.

M. R. Mehkari
President & Chief Executive

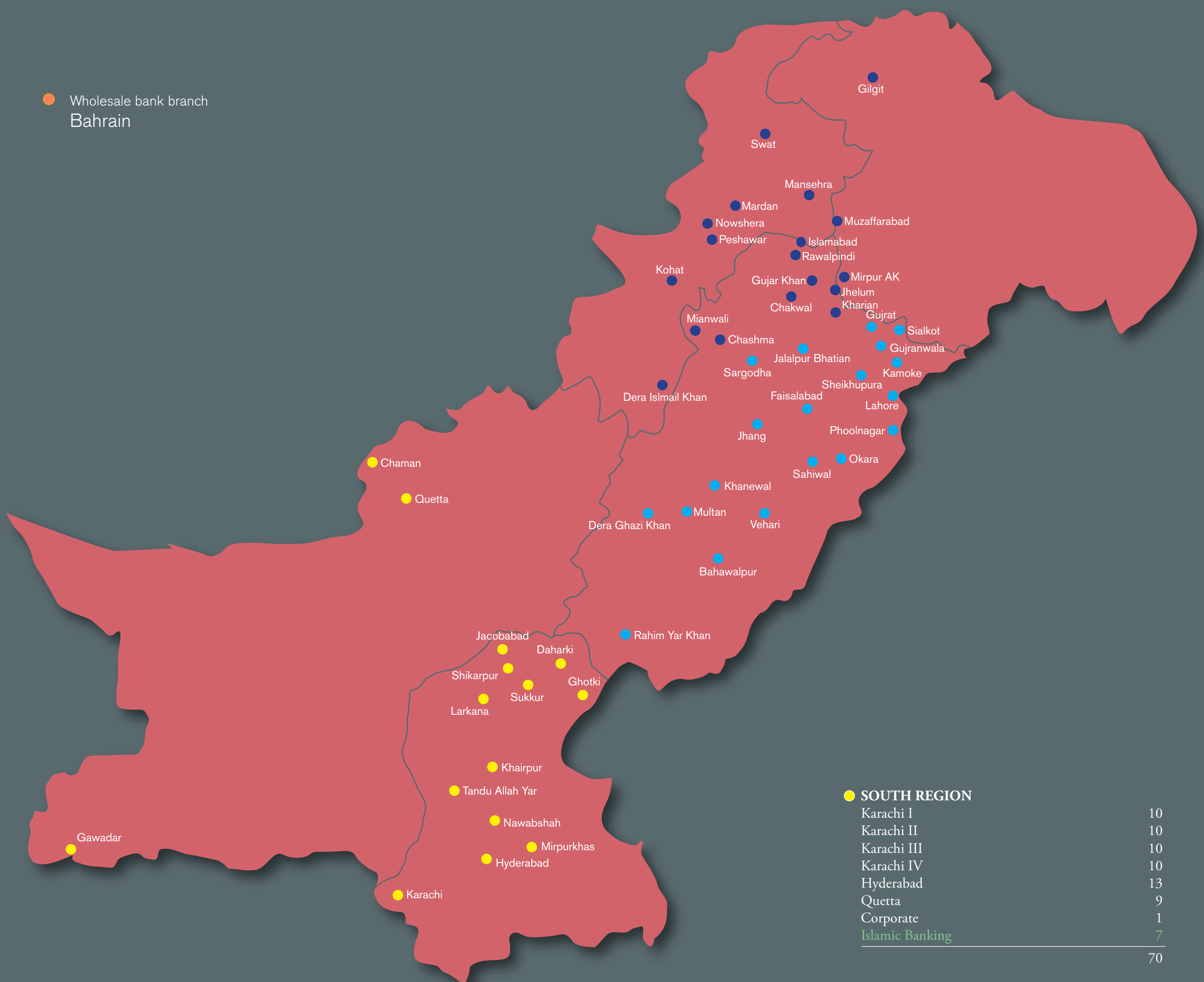
February 21, 2009

Value Added Statement

	2008		2007	
	Rupees in '000	*Percent*	*Rupees in '000*	*Percent*
Value Added				
Income from banking services	18,951,365		18,311,293	
Cost of services	10,763,100		9,314,913	
Value added by banking services	8,188,265		8,996,380	
Non–banking income	26,548		32,540	
Provision against non–performing assets	(4,072,597)		(3,921,741)	
	4,142,216		5,107,179	
Value Allocated				
to employees				
Salaries, allowances & other benefits	3,169,771	76.5%	2,407,164	47.2%
to providers of capital				
Cash dividend	–		450,975	
Bonus shares	–		1,052,275	
	–	0.0%	1,503,250	29.5%
to government				
Income tax	75,157	1.8%	(381,227)	–7.6%
to expansion and growth				
Depreciation	511,063		400,230	
Retained in business	386,225		1,177,762	
	897,288	21.7%	1,577,992	30.9%
	4,142,216	100%	5,107,179	100%

Askari Bank's Presence

Wholesale bank branch
Bahrain



SOUTH REGION	
Karachi I	10
Karachi II	10
Karachi III	10
Karachi IV	10
Hyderabad	13
Quetta	9
Corporate	1
Islamic Banking	7
	70
CENTRAL REGION	
Lahore I	10
Lahore II	10
Lahore III	9
Faisalabad	11
Gujranwala	10
Multan	10
Corporate	1
Islamic Banking	8
	69
NORTH REGION	
Islamabad	15
Rawalpindi I	12
Rawalpindi II	10
Peshawar	12
Azad Kashmir	6
Islamic Banking	5
	60
WHOLESALE BANK BRANCH	1
Total branches /sub-branches	**200**

Our presence, in all corners of Pakistan, is more than just being there

Branch contact details are given on page 179 to 185

Business and Operations Review

Corporate and Investment Banking

Despite a difficult 2008 in terms of economic and business conditions, Askari Bank was able to improve its financial performance over last year. 2008 witnessed monetary tightening, inflationary pressures and liquidity shortfalls. In a highly volatile business environment, Askari Bank acted in a prudent manner and swiftly aligned business strategies to market conditions in order to derive optimal competitive advantage, maintain conservative risk profile and earn higher returns.

On the operations side, while certain initiatives are nearing completion, new initiatives have been launched thus depicting Askari's continuous desire to improve the ways of doing business. The most prominent being the information technology initiative which is aimed to improve quality offerings, customer service, controls and prepare the Bank for future challenges.

Corporate & Investment Banking Group (CIBG) provides financial services to the Bank's large corporate and institutional customers, including public sector entities. These include products for meeting operational funding requirements, as well as a suite of structured finance solutions relating to strategic expansions, divestments, syndications, project finance, underwriting, cash management, and trade related services. The Group operates through a Corporate Banking Division (CBD) and an Investment Banking Division (IBD) based upon a client-centric and distribution-focused business model, supported by a culture that prioritises relationships and economic returns through a structure that enables an integrated, multi-product service offering.

The combination of CIBG's industry expertise, strong balance sheet and innovative product structuring allow us to meet the evolving needs of our ever-growing client base. Our Corporate and Investment Banking teams work hand in hand to identify and deliver through a combination of basic and structured product offerings including but not limited to:

- Term Finance Facilities;
- Working Capital Financing;
- Structured Trade Finance Facilities;
- Guarantees;
- Letters of Credit;
- Fund Transfers / Remittances;
- Bill Discounting;
- Export Financing;
- Receivable Discounting;
- Corporate and strategic advisory services;
- Loan Syndications;
- Project Finance transactions;
- Equity financing;
- Debt swaps;
- Balance sheet restructuring services;
- Debt and equity financing options through Capital Markets.

Corporate Banking Division (CBD) works on a long-term relationship based business model to provide a single point within the Bank for meeting all business requirements of large size customers, with the primary objective of enhancing customer service, whilst improving quality of portfolio.

As planned, all CBD relationships were centralized from various branches into three corporate centers/regions in Karachi, Lahore and Islamabad. In addition, dedicated corporate branches have been established in the South and Central regions to enhance service and monitoring, by providing a closer liaison between the branch/distribution point and the relationship managers/clients point-of-contact, thereby improving the overall response time for servicing customers' financial needs, as well as enhancing the depth of business relationships.

CBD, in conjunction with the Investment Banking Division and Treasury Divisions showed strong growth in income from effective cross selling, bundling of products using knowledge and experience in targeted sectors.

Given the recessionary trends CBD activities centred around consolidation and effective management of portfolio, while achieving targeted growth in the Power, Energy, Fertilizer and Cement sectors that are most critical to the domestic economy. Active risk management techniques were also implemented under Basel II guidelines through development and cultivation of relationships with externally rated entities/ corporations thus enabling the Bank to maximise risk adjusted returns on capital deployed through CBD.

Investment Banking Division (IBD) provides a full range of financial advisory and capital raising services to corporate and institutional clients. With special emphasis on the ability to initiate and execute complex transactions, IBD team provides innovative solutions based on our clients' requirements. IBD also actively manages the Bank's proprietary investments in the equity and debt markets through:

- Strategic equity investment in group and listed companies in primary and secondary market offerings and building and management of the Bank's corporate bond book with the objective of maximising return on capital while closely monitoring business and credit risk;
- Investments and divestments in various equity and money-market mutual funds in line with the Bank's overall risk appetite and changing economic and interest rate outlook;
- Supporting the local equity market by offering and managing various financing products including the Continuous Funding System.

2008 was a prolific year for the IBD team, which was involved in the arrangement and structuring of a number of high profile debt arrangement and project finance transactions.

Business and Operations Review

Consumer Banking Services

Consumer Banking Services Group (CBSG) offerings include auto, mortgage, personal and business finance and, credit cards under the MASTERCARD brand. The Group is organized on a hub and spokes basis where hubs are located in Rawalpindi / Islamabad, Lahore, Faisalabad, Multan and Karachi, with 144 spokes, Consumer Banking Units (CBUs) spread in all major cities across the country. 2008 witnessed a general decline in consumers' debt servicing capacity, mainly due to high inflation and general slowdown in economic activity. In this situation, CBSG's asset portfolio registered a modest growth of 2 percent during the year 2008 while Askari Debit Card under the brand name ASKCARD, registered a growth of 5 percent in the number of cards issued over previous year. Also, sales of Rupee Travelers Cheques increased by 9 percent during 2008. During the year, CBSG has initiated measures to for improved risk management of CBSG's portfolio. These include implementation of credit-scoring model for consumer asset products and enhancing the scope of the Credit Information Bureau, to ensure prudent growth of the portfolio. CBSG's offerings include:

- Credit Cards (Platinum, Gold, Silver, & Corporate)
- Askari Personal Finance.
- Smart Cash (Running Facility for customers)
- Askari Mortgage Finance (Home loans)
- Askari Business Finance (Business loans)
- Askar (Auto loans)
- Flexible Credit Plan
- AskCard (Askari Debit Card)
- i-Net Banking (Internet Banking Services)
- Askari Touch 'N' Pay (Electronic Bill Payment Services)
- Cash Management Services.
- Rupee Traveler Cheques
- Askari Value Plus Deposits

We believe in building, nurturing and strengthening relationships – from one generation to the next.

Business and Operations Review

Treasury and International Banking

The recessionary trends and rising inflation coupled with deteriorating law & order situation and power shortages made 2008 challenging and difficult. The State Bank of Pakistan in line with the tighter monetary policy, cumulatively increased the discount rate from 10 percent to 15 percent during the year. The banks faced severe liquidity shortfalls especially in the mid of the year. The liquidity shortfalls prompted the SBP to reduce the Cash Reserve Requirement (CRR) from 9 percent to 5 percent. Also, Liquidity Requirements (SLR) on deposits of one year and above maturity was withdrawn.

These measures resultantly increased liquidity and the rates moved to acceptable levels.

SBP conducted Open Market Operations (OMOs) both ways to keep the liquidity in equilibrium. Furthermore, due to worsening of external account situation, rupees depreciated by almost 28 percent during year 2008.

Treasury division prudently managed the liquidity and enabled the Bank to operate competitively despite severe liquidity crisis. In addition, treasury operations increased turnover with a view to developing a more comprehensive trade/treasury book due to increase in branch network and effective utilization of corporate desk, established at the treasury. Furthermore, treasury operations are structured in such way to measure, mitigate and manage the risks associated with its activities.

The efficiency and effectiveness of treasury operation are being enhanced by relevant and appropriate training of the human resource available with the treasury and updating of its system software to meet the new challenges and be more competitive in the market.

International Division primarily manages correspondent banking arrangements to facilitate banking for our customers' trade finance businesses. During the year, while maintaining focus on the core trade finance business, the Division made concerted efforts to rationalize nostro accounts and enhance the volume of workers' inward remittances.

Presently, Askari Bank enjoys multi-faceted correspondent banking arrangements with 229 banks at over 800 locations around the globe. Effective management and optimum utilization of business reciprocity with correspondent banks enables us to manage the returns and trade business flows.

Wholesale Bank Operations (Bahrain)

Askari Bank Bahrain operation's contribution towards the earning of the Bank have shown improvement during 2008. Net interest margin recorded growth of 47 percent whereas net profit for the year increased by 51 percent over last year.

As a wholesale bank branch, our Bahrain operations serve as an outlet to utilize our foreign currency resources to generate better returns. It always endeavors to participate in appropriate and viable syndication and other trade business opportunities in the international market.

Agriculture Banking

The credit portfolio of this business achieved a growth of 42 percent during the year, increasing its share in total Bank's advances to 3.38 percent at end 2008 from 3.1 percent, last year.

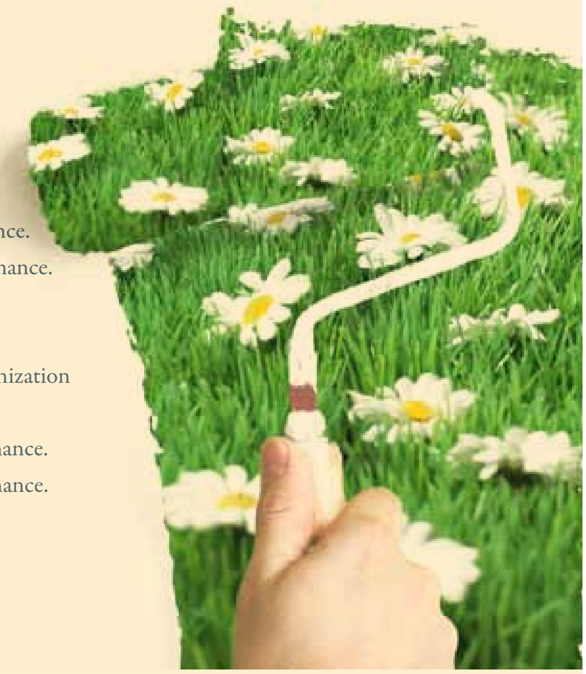
Agriculture & Rural Business Division (ARBD) has taken several initiatives in the last 5 years to increase penetration in agri-rural market through product innovations, capacity & awareness building and developing linkages with stakeholders.

A broad range of products have been introduced for meeting financial needs of the farming community for crop cultivation, dairy farming, poultry, fisheries, forestry, floriculture and orchids. In order to synergize all agri-rural financing needs, products for greenhouses and tunnel farming, farm mechanization, transportation, marketing, storage and aabpashi have also been developed. The launch of Zarai Credit Card - the first ever credit card facility introduced for agricultural purposes in Pakistan, and Asan Mali Sahulat being innovative technique of lending by way of discounting / purchase of cane procurement receipts / deferred payment vouchers are some of the innovations to provide full variety of services to agri-community of the country. Also, grouped based lending methodology has been adopted to facilitate small farmers in availing agriculture financing.

Thematically, as a member of SBP task force, the Bank remained proactively engaged in developing , a) framework for crop loan insurance scheme, b) guidelines for Islamic agriculture financing, c) innovative lending techniques for agriculture financing and d) revision of agri credit estimates.

Our agriculture credit brand includes:

- Askari Kissan Evergreen Finance.
- Askari Kissan Tractor Finance.
- Askari Kissan Transport Finance.
- Askari Kissan Livestock Development Finance.
- Askari Kissan Farm Mechanization Finance.
- Askari Kissan Aabpashi Finance.
- Green House & Tunnel Finance.
- Farm Storage Finance.
- Model Dairy Finance.
- Gold Fish Finance.
- White Pearl Finance.
- Murghban Finance.
- Samar Bahisht Finance.
- Gulban Finance.
- Asan Mali Sahulat, and
- Zarai Credit Card.



Islamic Banking

2008 was effectively the second full year of operations for Askari Bank's Islamic Banking Services. During the year, the management remained focused on improving customer service, expansion of the business network and establishing a firm platform for Islamic banking. The Islamic banking branch network increased to 20 (including 2 sub-branches) from 14 of last year, new premises added in Hyderabad, SITE in Karachi, GT Road in Peshawar and PECO Road in Lahore, as well as sub-branches in F–10 Markaz in Islamabad and on main Shahrah-e-Faisal in Karachi. Despite the difficult economic environment, Islamic Banking plans to continue with the branch expansion.

By the Grace of Allah, Askari Islamic Banking Division has performed well during the period under review. In a very short span, it is now amongst the top players in its peer group, despite being one of the last entrants in Islamic banking business, out of the 12 conventional banks with separate stand alone Islamic banking branches.

Despite a strain on profitability due to ongoing set-up of new branches, the profit stood at Rs. 77.22 million in 2008 compared to Rs 15.15 million in the previous year. The balance sheet footing more than doubled, from Rs. 4,554 million, as at December 31, 2007 to Rs. 10,033 million, as at December 31, 2008. This was primarily due to increase in deposits and correspondingly in earning assets, including Sukuk investments which doubled during the year under review.

An eminent scholar, and recipient of the President of Pakistan's Medal for Pride of Performance (in Academics), Dr. Muhammad Tahir Mansoori is the Shariah Advisor of the Bank. He is currently the Professor and Dean of the faculty of Shariah and Law at the International Islamic University, Islamabad.

As per Shariah requirements, Askari Islamic ensures that the funds and

Business and Operations Review

products of Islamic banking are explicitly managed without any intermingle with the conventional banking business. All funds obtained, invested and shared are in Shariah compliant modes of investments.

To implement Islamic banking products in their true spirit, training in Islamic banking is given great importance; over 80 percent of staff has undergone Islamic banking training; more than two third of all executives, have undergone intensive NIBAF certification, which is considered a premium certification, with widespread acceptability - in the last course, held in November / December 2008, the top two positions were fetched by Askari Islamic participants.

Islamic Asset Financing Products include Islamic Corporate, Investment, syndications, structured and trade finance needs of the customers. Whereas, Islamic Consumer Banking products include Askari Vehicle Ijarah and Askari Home Musharakah solutions for buying, building and renovating homes.

Askari Islamic Banking offers a wide range of Halal Deposit products on Shariah based modes, such as Mudarabah, Musharakah, Qard and Wakal-tul-Istismar. Our branded range includes AHSAN (Askari Halal Savings and Notice Accounts), AHIA (Askari Halal Investment Accounts) range of term deposit accounts, including AKIDA (Askari Khas Islamic Deposit Accounts), AHCAMM (Askari Halal Certificates of Aasan Monthly Mudarabah), AIIC (Askari Islamic Investment Certificates), AITQAD, and Askari Wakalah tul Istismar etc.

Operations

The primary aim of Operations Group is to provide a supporting platform to all business segments on operational matters across branches and business units, by strengthening internal control environment, while contributing towards effective decision making and extended guidance on operational matters.

During the year, the following improvements were achieved by this Group:

- Inculcation of compliance culture at the branches thereby ensuring minimum policy deviations and their prompt identification and resolution.
- Formalization of policies and procedure manuals for various areas of banking operations.
- Prompt resolution of customer complaints through implementation of a more effective monitoring mechanism.
- Introduction of various MIS / exception reports to mitigate operational risks.
- Use of alternative means of communication such as e-mail / intranet to enforce efficiency and minimize communication costs.
- To provide continued support to business units and to ensure smooth operations at branches, the following initiatives are in the pipeline.
- Complete centralization of 'critical operational processes' including account opening, clearing, remittances and data archiving and quick retrieval.
- Continuous reviews of operations manual for up-gradation of existing processes, commensurate with modern banking practices
- Expansion of outreach of Centralized Foreign Trade Units (CFTUs) to all branches dealing in foreign trade
- Ensuring smooth transition to the new technology platform through active participation in its implementation.

Credit & Asset Quality

During the year, the Bank registered a growth of 29 percent in gross advances which increased from Rs. 108.19 Billion to Rs. 139.83 Billion. Non performing loans as percentage of gross advances were 8.36 percent, compared to 6.38 percent at end 2007. During the year, certain large accounts were classified as non-performing loans (NPL's) and provisions as required by SBP prudential regulations were made. The aggregate provisions upto December 31, 2008 covered 94 percent of NPL's as of that date.

The Bank has endeavored to be the strong market player and has build market share through offering superior services, competitive pricing, and a wide product range to its valued clients. The Bank caters to the needs of small, medium, SME, Commercial & large corporate, multinational companies including private and public sector entities.

The key objective has been to make risk management a core competency of the organization to ensure that risks are accurately identified & assessed, properly documented and approved, and adequately monitored & managed in order to safely enhance long term earnings.

On one hand, the focus has been to improve the early warning system to timely identify the problem accounts to address the issues pro-actively, on the other, systems/procedures have been developed through rigorous efforts for recovery of classified advances.

The Bank has strived to maintain a well collateralized and diversified optimal mix of loan portfolio relative to its capital, customer deposit base, and risk appetite.

Basel-II framework is being implemented which will help in further strengthening the credit risk management practices at the bank, offering following products:

- Term Loans
- Running Finance/overdrafts.
- Short term facilities for local trading.
- Cheque purchase facility (foreign & Local)
- Letter of credit (local/International)
- Guarantees
- Cash finance/pledge loans.
- Finance against trust receipt.
- Stand by letter of credit
- Financing against foreign bills.
- Foreign currency financing.
- Export refinance from State Bank
- Finance against packing credit-I & II.
- Finance against imported merchandized.

Risk Management

Risk Management is a core function that performs critical activities of measuring, monitoring, controlling and reporting credit, market, operational and other risks in order to ensure sustained performance of the Bank. The risk management framework of the Bank covers

(i) risk policies and limits structure,
(ii) risk infrastructure and
(iii) risk measurement methodologies.

Risk policies are the main drivers of creating risk culture and it recognizes the commitment of management to promote the risk based decisions. In 2008 the risk policies were reviewed and revised and relevant manuals introduced to facilitate implementation of these policies.

Business and Operations Review

The risk infrastructure at the Bank includes human resources with defined hierarchy of roles and responsibilities, risk culture, systems and procedures and management oversight. The Bank has strengthened its risk management abilities to proactively manage market, credit and operational risks by creating awareness of risk culture through organizing series of training sessions on capital adequacy and computation of risk adjusted return. Every employee is expected to be a risk manager at his workplace and can appreciate the basic concepts of risk based capital structure of the Bank.

The Bank is at an advanced stage of implementing Credit Risk Environment Administration Management (CREAM) software; whereas implementation of a more wide-ranging software i.e., Reveleus is in process. The complete execution of these softwares will enable the Bank to automate credit approval and risk rating system processes and to implement Basel II Foundation Internal Risk Based (FIRB) approach for managing credit risk and VaR model for market risk. In the first phase of implementation Basel II standardized approach of credit risk, basic indicator approach of operational risk and standardized approach of market risk will be automated; while Asset Liability Management (ALM) module and FIRB approach for credit risk will be achieved in the second phase.

During the year, the Risk Management Committee (RMC) of the Board was reconstituted as a management committee. The RMC assists the Board in fulfilling its responsibilities of approving risk policies and strategies and performance risk reviews.

The Bank is exposed to various financial risks, including changes in interest rates, currency rate, equity prices and the creditworthiness of Bank borrowers. Risk Management function has introduced VaR to measure market risk and credit risk rating methodologies for credit risk management, the latter will enable us to determine probability of default (PD) and quantify expected credit loss as required by Basel II. The credit risk is further controlled by system of limits by counterparty, by type of facilities/transactions, geographic area, internal credit rating in order to disperse the risk and to avoid concentration in a particular area.

The Bank has also established a comprehensive operational risk management framework based on appropriate risk management architecture. The framework assesses and measures the operational risk arising from system, people and processes.

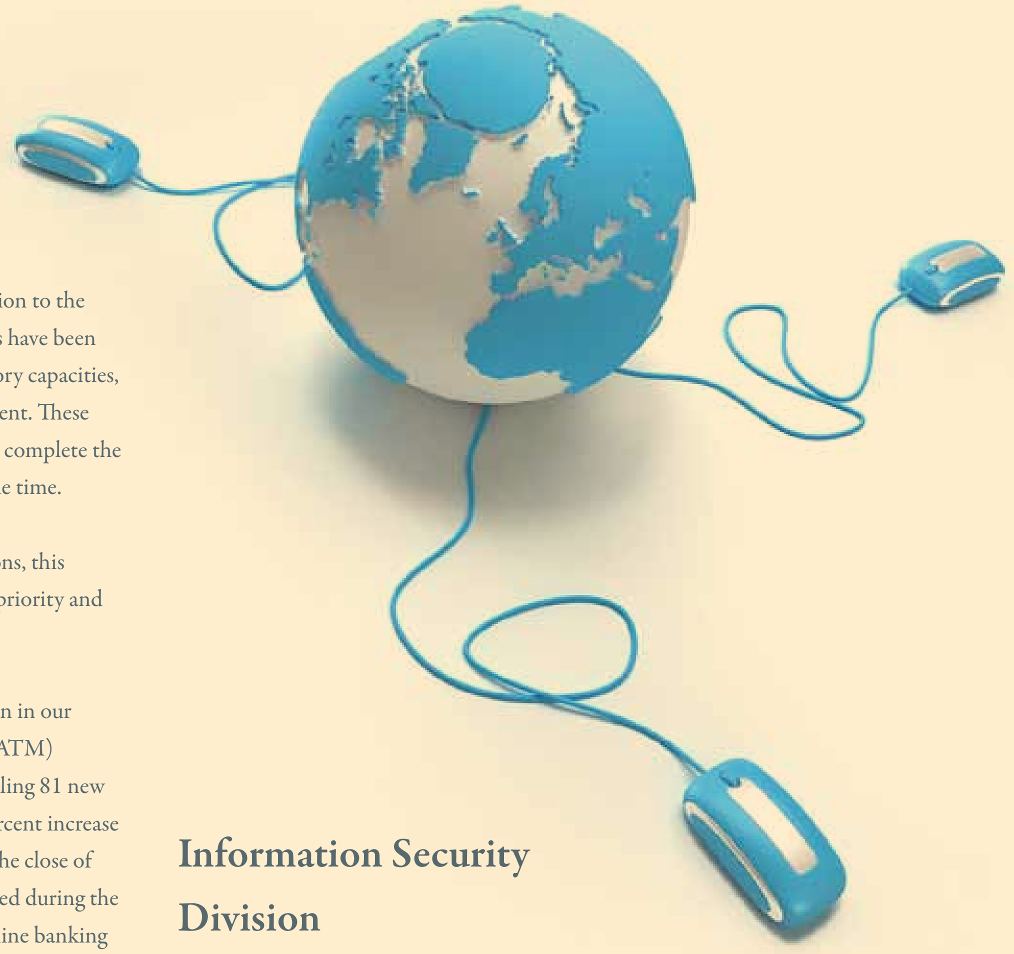
In 2008 Risk Management Group organized various training workshops to create awareness among the staff for Basel II, capital adequacy ratio. It also organized training sessions for staff and internal auditors on credit risk, consumer risk and risk & control self assessment. Risk impact calculator was also introduced during the year. The training sessions were designed and delivered to create awareness, ownership and buy in risk management at the Bank.

Information Technology

Our strength in the area of information technology (IT) based services has always been an edge in the competition and has been a source of considerable strength in the expansion and management of the customer base of the Bank.

In line with our policy of providing the most modern and convenient banking services, Askari Bank acquired Oracle Financial Software System (OFSS) (previously I-flex) in 2007, along with other support softwares including Oracle Financial (finance and MIS software), PeopleSoft (human resource management software), Reveleus (risk management software) and Siebel (customer relationship management software).

Implementation of these softwares is a colossal task which commenced during 2008, after detailed planning process involving all business and operational units. Also,



to achieve smooth transformation to the new softwares, dedicated teams have been formed in execution and advisory capacities, comprising of senior management. These teams are diligently working to complete the task within the shortest possible time.

Given the scope and implications, this project is assigned the highest priority and commitment at all levels.

During 2008, a major expansion in our Automated Tellers Machines (ATM) network was achieved by installing 81 new ATMs, which represents 97 percent increase over the cumulative figure till the close of 2007. Fifty new branches opened during the year were operational with on-line banking from day one of their respective operations. Some of the other IT projects which are currently under implementation include corporate email facility, centralized MIS and Consumer Asset Management System (CAMS).

Our IT function plans to bring improvement in our internet banking services offered through i-net accounts by introducing some more vibrant features for security and financial transactions for which work is in progress. Also, arrangements with respect to issuance of VISA debit card have been made and the product would be launched within the first half of 2009.

Information Security Division

The exponential growth of banking sector during the last decade warrants securer platform for exchanging and maintaining corporate information / data with stronger IT support in order to bring transparency in operations. The Bank established Information Security Management System (ISMS), as a part of overall management system based on business risk approach and provide model for establishing, implementing and improving the Information Security (IS). The IS signifies the preservation of confidentiality, integrity and availability of information.

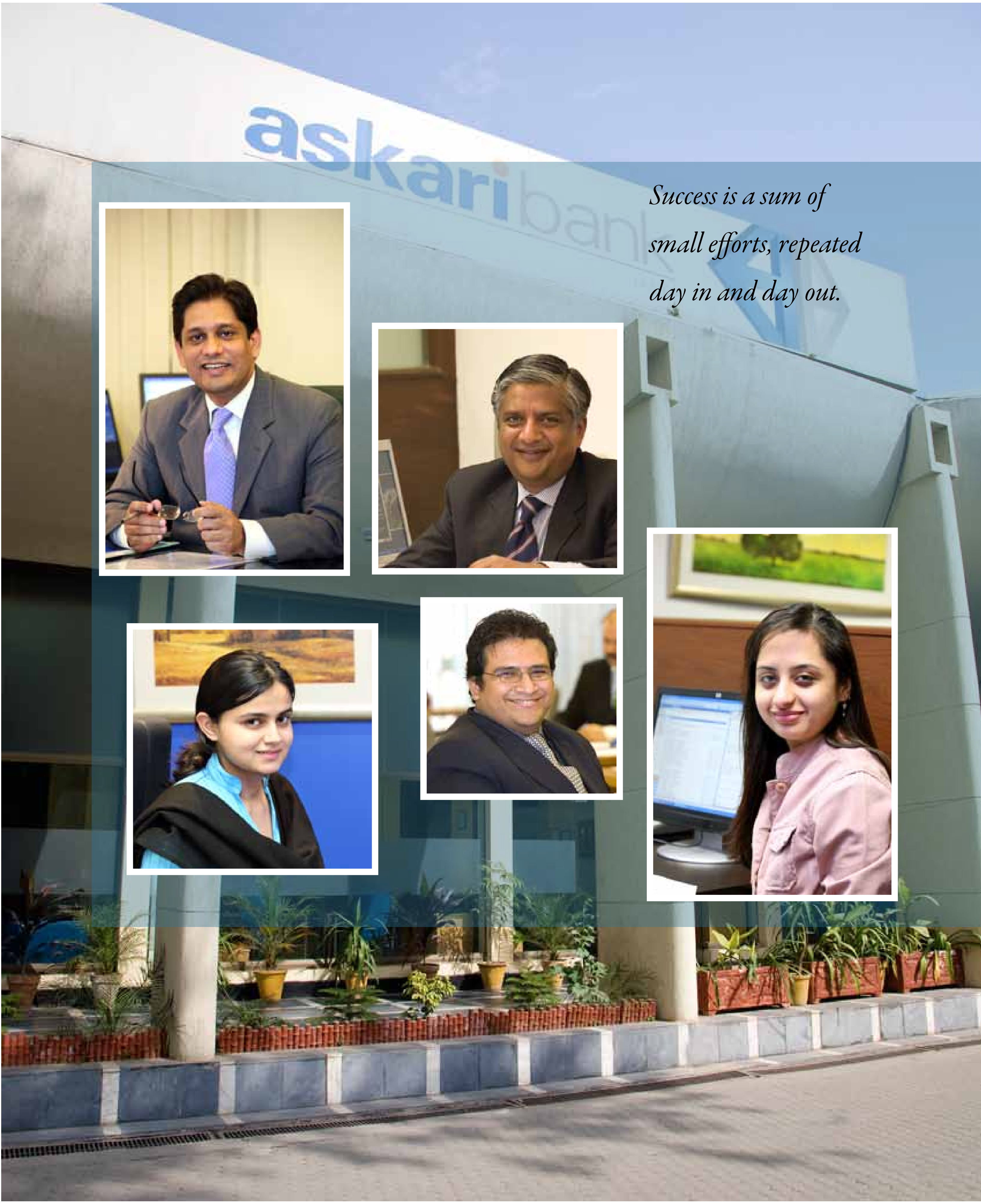
The management has decided to obtain ISO 27001 Certification, which is the only auditable standard and acceptable global certification in the field of ISMS. The ISO 27001 Certification will enable the Bank to maintain a competitive edge among peers and explore new horizon in quest of building investor's confidence, attracting / enhancing relationships with customers and strengthening ties with foreign correspondents.

Business and Operations Review

Our People

The Bank fully recognizes its committed and competent work force as the primary asset in providing value addition to its other stakeholders. Continuing with the policy to modernize human resource (HR) function in accordance with our strategic direction and, to increase employee satisfaction and motivation, all HR policies dealing with employee compensation and benefits were reviewed during the year for alignment with competition. Also, a comprehensive performance management system, based on management by objectives was launched towards the end of 2008, aimed at an objective evaluation of employee performances. In order to automate processing in HR function, Bank has acquired PeopleSoft, specialized human resource management software. This automation will ensure efficient recruitment, employee's rotation, succession planning, career progression and development.

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 mostly at the Bank's training academies. During 2008, 4365 employees participated in 238 training courses. These courses were designed on the basis of training need assessment. The Bank has opened its 3rd training academy at Karachi in addition to existing two academies at Rawalpindi and Lahore. The Karachi academy will cater to the training needs of the employees of the South Region (Sindh & Baluchistan) of the Bank. Staff rationalization and standardization in accordance with units' business needs is a continuous process and, will be aggressively pursued in the ensuing year.

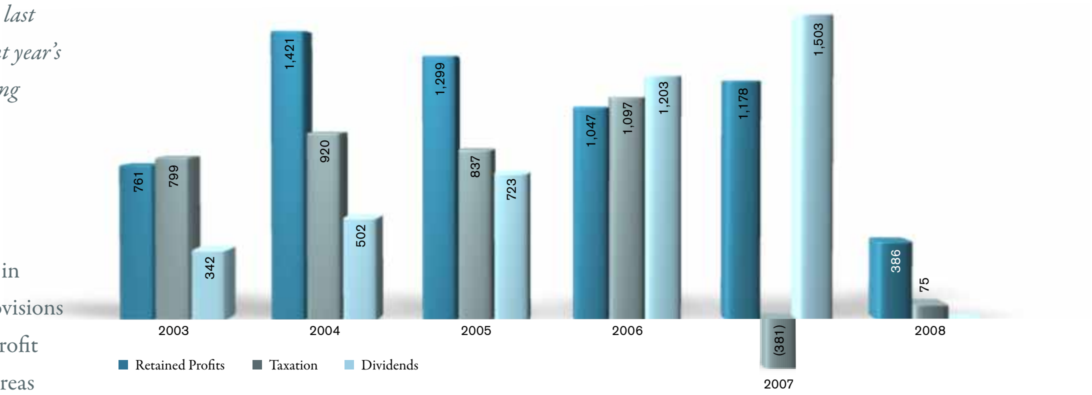


Success is a sum of small efforts, repeated day in and day out.

Financial Review

The last year's profit include a one-off capital gain of Rs. 2.12 billion. In order to maintain the comparison on like wise basis, the effect of this gain has been excluded from the last year's profit while analyzing the current year's performance of the Bank in the following paragraphs.

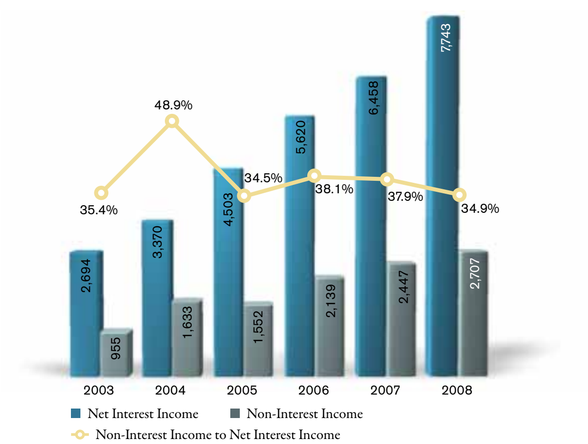
Distribution of Profits
(Rs million)



Profit

The Bank posted 10 percent increase in operating profit (i.e. profit before provisions and taxation) over last year. Pre-tax profit recorded growth of 154 percent, whereas profit after tax declined by 31 percent compared to the corresponding year mainly due to tax credits recognized last year. The net interest income registered an increase of 20 percent, despite surging NPLs. Non-interest income grew by 11 percent while administrative expenses increased by 23 percent.

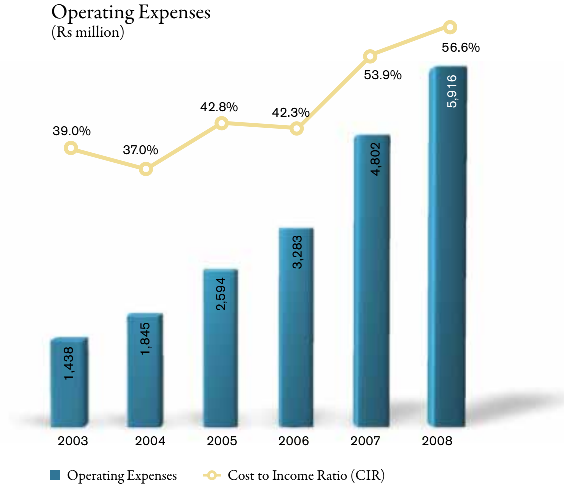
Non-Interest Income
(Rs million)



Non Mark-up / Interest Income

The non-mark-up / interest income, showed an increase of 11 percent, which was attributable mainly to income derived from dealing in foreign currencies that registered significant growth of 33 percent. The fee, commission and brokerage income also increased by 17 percent over last year. Gain on sale of investment declined considerably due to downturn of the bourses.

Operating Expenses
(Rs million)



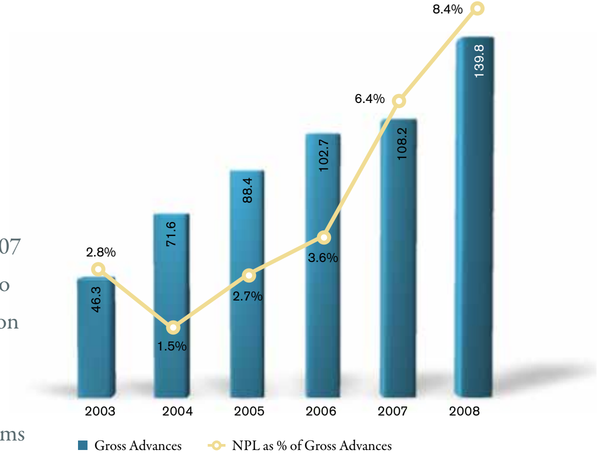
Operating Expenses

Administrative expenses have increased by 23 percent over last year. This rise is mainly due to 33 percent increase in number of branches/ sub-branches from 150 to 200 and general rise in inflation. Cost to income ratio (CIR) registered negative trend, as on the other hand revenues remain under pressure due to rising NPLs.

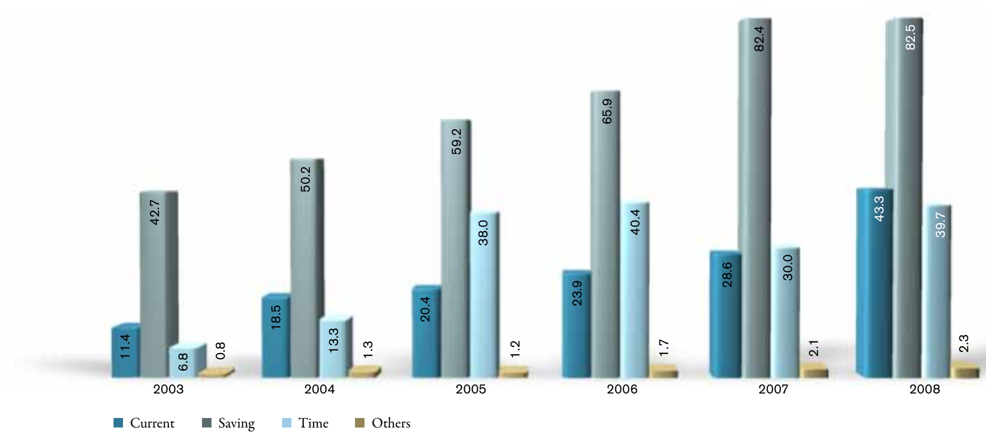
NPLs and Provisions against NPLs

During the year the NPLs increased by 69 percent to Rs. 11.69 billion as against Rs. 6.91 billion last year. This increase is a result of further down grade of few large exposures besides some new classifications. Consequently aggregate provision of Rs. 4.07 billion was made against NPLs compared to Rs. 3.92 billion of the last year. The provision for the year includes direct write-offs of Rs. 247 million and a benefit of 30 percent forced sale value of certain collaterals in terms of the SBP BSD Circular No. 02 of 2009 dated January 27, 2009.

Non-Performing Advances



Analysis of Deposits
(Rs billion)



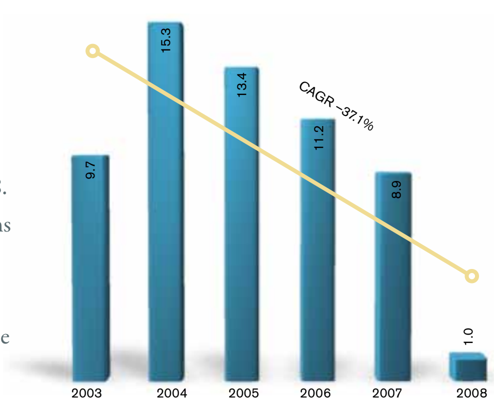
Current, Savings and Other Deposits

Deposits increased by 17 percent to Rs. 167.68 billion as at December 31, 2008 as against Rs. 143.04 billion last year. Analysis of deposits show a healthy growth of 52 percent in current accounts over last year and 32 percent in fixed deposits, while saving deposits remained almost unchanged. The aggregate number of deposit accounts reached 611,323 at end 2008.

Earnings Per Share

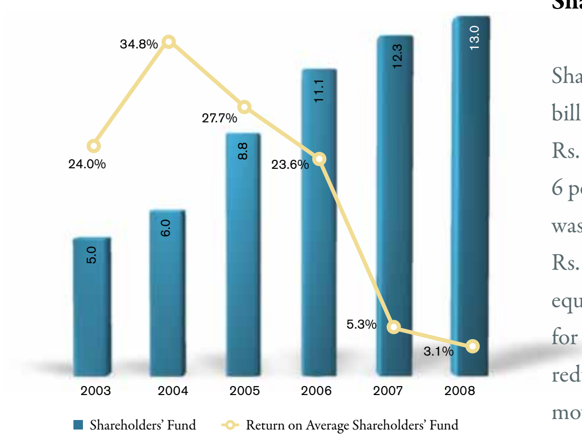
Earning per share (EPS) decreased from Rs 6.61 per share to Rs. 0.95 per share – restated for bonus shares issued during 2008. The decrease is mainly due to high provisions and write off. The last year's EPS excluding one-off gain works out to be Rs. 1.39 per share, thus on a comparable basis, the decline in EPS is 31 percent.

Earnings Per Share
(Rupees)



Financial Review

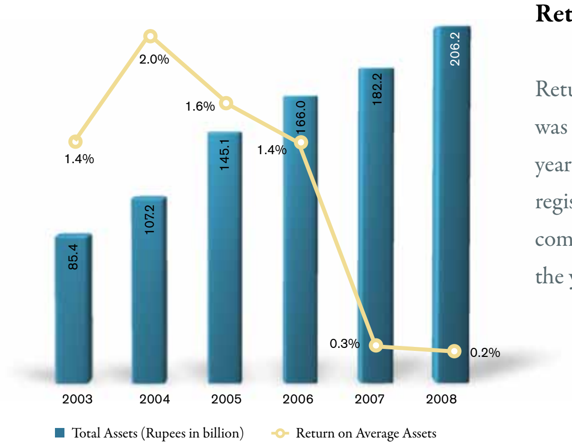
Shareholders' Funds
(Rs billion)



Shareholders' Funds

Shareholders' funds increased to Rs. 12.97 billion at December 31, 2008 from Rs. 12.27 billion, registering an increase of 6 percent. During the year, Bank owned land was revalued and resulting surplus of Rs. 1.86 billion was recognized as part of equity. Also, revaluation deficit on Available for Sale investments was recognized as reduction from equity, due to adverse movement of bourses.

Return on Average Assets
(Percent)



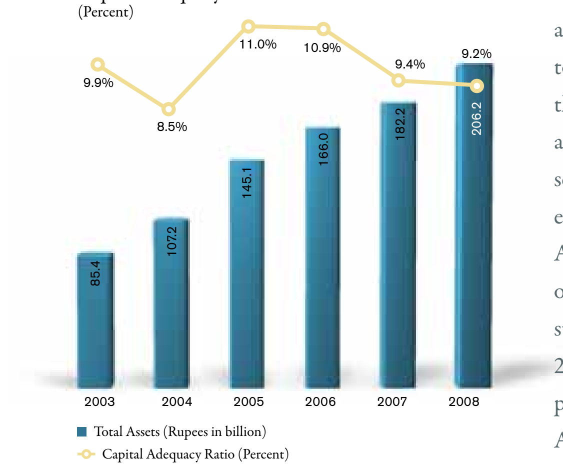
Return on Average Assets

Return on average assets at the close of 2008 was 0.20 percent as against 1.54 percent last year (0.32 percent excluding one-off gain), registering a decrease of 134 bps (12 bps on comparable basis) due to decrease in profit for the year as against increase in total assets.

Capital Adequacy

During the year, the SBP whilst implementing Basel-II enhanced the minimum capital adequacy requirement (CAR) from 8 percent to 9 percent. Additionally, the capacity of the Bank to meet the CAR was hampered affected by the adverse capital market sentiments, which resulted in erosion of equity due to heavy mark-to-market loss on Available for Sale portfolios. In the backdrop of these developments, the CAR of the Bank stood at 9.22 percent as at December 31, 2008 against the minimum requirement of 9 percent and last year's CAR of 9.35 percent. At this level, the Bank is pursuing a very cautious approach for increasing the risk based assets.

Capital Adequacy
(Percent)



Financial Calendar

2008	
1st Quarter Results issued on	April 28, 2008
2nd Quarter Results issued on	August 28, 2008
3rd Quarter Results issued on	October 23, 2008
17th Annual Report issued on	February 21, 2009
17th Annual General Meeting scheduled for	March 28, 2009
Nil cash dividend & 25% bonus shares to be issued by	Within 45 day of AGM

2007	
1st Quarter Results issued on	April 18, 2007
2nd Quarter Results issued on	August 16, 2007
3rd Quarter Results issued on	October 29, 2007
16th Annual Report issued on	February 21, 2008
16th Annual General Meeting scheduled for	March 28, 2008
15% cash dividend & 35% bonus shares to be issued by	Within 45 day of AGM

Quarterly Results - 2007 & 2008

	2007				*2008*			
Rupees in million	*1st Qtr*	*2nd Qtr*	*3rd Qtr*	*4th Qtr*	*1st Qtr*	*2nd Qtr*	*3rd Qtr*	*4th Qtr*
Profit & loss - for the quarter								
Total income	4,178	4,438	4,476	6,598	4,567	4,789	5,767	5,977
Mark-up / return / interest earned	3,591	3,692	3,897	3,963	3,988	3,904	4,983	5,519
Mark-up / return / interest expensed	2,102	2,195	2,254	2,135	2,164	2,324	2,994	3,169
Net mark-up / interest income	1,489	1,497	1,643	1,828	1,824	1,580	1,989	2,350
Provisions against non-performing assets	97	608	187	3,030	826	822	1,154	1,271
Non - mark-up / interest income	587	746	579	2,653	579	886	784	459
Fee, commission and exchange income	393	463	429	600	422	754	616	339
Other income	194	283	150	2,053	156	132	168	120
Operating expenses	924	1,073	1,470	1,334	1,328	1,381	1,605	1,601
Operating profit	1,152	1,170	752	3,147	1,074	1,085	1,168	1,207
Profit before tax	1,055	561	565	117	248	263	14	(64)
Taxation	329	(203)	197	(704)	66	36	(4)	(23)
Profit / (loss) after taxation	726	765	368	821	182	227	19	(41)
Balance sheet - at quarter end								
Assets								
Advances	97,191	97,172	94,877	100,780	102,111	114,036	124,630	128,818
Investments	30,767	36,236	42,703	39,431	39,788	40,775	36,691	35,678
Cash,short term funds & statutory deposits with SBP	27,160	38,190	31,243	31,297	23,980	26,258	27,027	24,464
Operating fixed assets	4,061	4,503	4,985	5,128	5,499	5,886	6,360	8,266
Other assets	4,623	4,546	4,690	5,535	6,140	7,256	8,215	8,964
Total assets	163,803	180,647	178,498	182,172	177,517	194,212	202,923	206,191
Liabilities								
Customers deposits	126,781	142,255	142,436	143,037	134,867	153,324	161,108	167,677
Borrowings from financial institutions	16,353	15,936	11,338	17,554	21,368	19,715	19,856	15,190
Sub-ordinated loans	2,998	2,998	2,998	2,997	2,997	2,997	2,996	2,996
Other liabilities	5,798	6,021	8,441	6,318	6,325	6,441	7,666	7,357
Total liabilities	151,930	167,210	165,213	169,906	165,557	182,476	191,627	193,220
Shareholders' funds								
Share capital	3,006	3,006	3,006	3,006	4,059	4,059	4,059	4,059
Reserves and unappropriated profit	7,138	7,903	8,271	9,093	7,772	7,999	8,017	7,976
Surplus on revaluation of assets	1,728	2,528	2,008	166	129	(322)	(779)	936
Total shareholders' funds	11,873	13,437	13,285	12,266	11,960	11,736	11,297	12,971
Ratios *(percent)*								
Return on average shareholders' funds (RoE)	25.3%	24.2%	11.0%	25.7%	6.0%	7.7%	0.6%	-1.4%
Return on average assets (RoA)	1.8%	1.8%	0.8%	1.8%	0.4%	0.5%	0.0%	-0.1%

Share & Debt Information

1. Share Information

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

1.2 Market Symbols

Karachi Stock Exchange	AKBL
Reuters	ASBK.KA
Bloomberg	AKBL:PA

1.3 Askari's share price *(Rupees)*

	High During the year	*Low During the year*	*Close at December 31*	*Number of shares traded during the year*
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
2007	128.75	75.50	99.75	1,628,929,400
2008	106.20	14.57	14.57	382,990,000

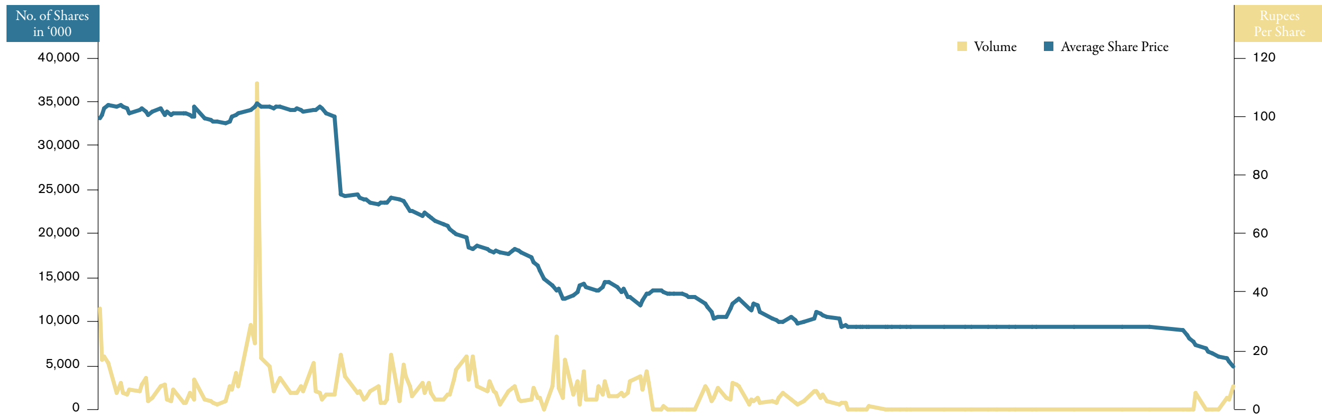
1.4 As at December 31 *(Askari's)*

	Number of shares	*Shareholders' funds Rs. bn*	*Market capitalization Rs. bn*	*KSE's market capitalization Rs. bn*	*Askari's share in market cap. %*
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	25.41	2,746.56	0.93%
2006	200,433,239	11.05	21.04	2,771.11	0.76%
2007	300,649,859	12.27	40.49	4,329.91	0.94%
2008	405,877,308	12.97	5.91	1,857.18	0.32%

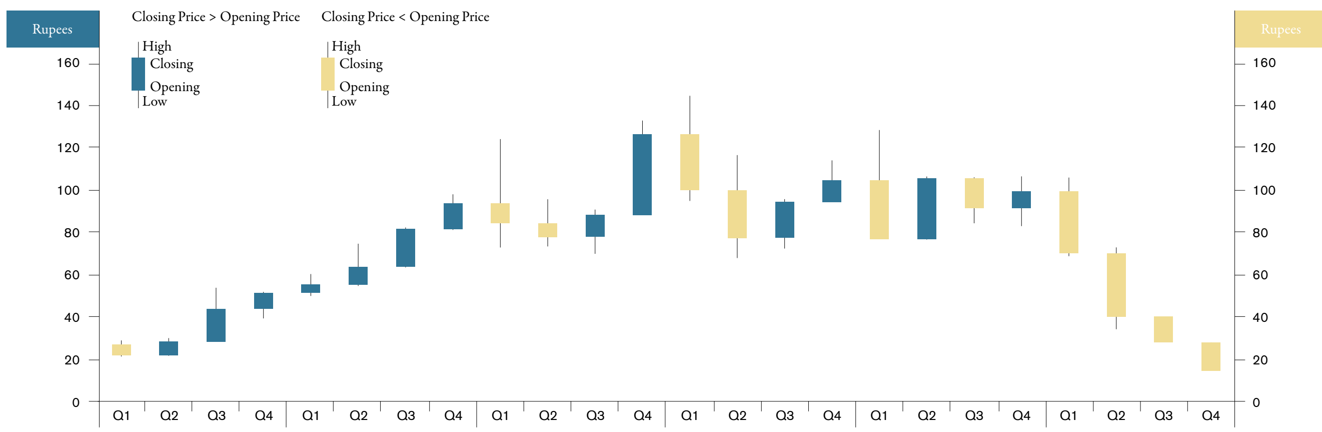
1.5 Record of share issues

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
2007	Bonus @ 50%	100,216,620	1,002,166,196
2008	Bonus @ 35%	105,227,450	1,052,274,496
		405,877,308	4,058,773,085

Price Volume Chart during 2008



Price Volume Chart during 2008



2. Debts Information

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

(Rupees in millions)	*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 rating by PACRA

	Symbol/ID	*Rating*
TFC – I	TFCACBL	AA
TFC – II	TFC2ACBL	AA

2.3 TFCs prices

	Market Value *	*As at December 31, 2008 Interest Rate Applicable*
TFC – I	5,000	14.95%
TFC – II	5,000	16.60%

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

A Decade of Performance

* *post balance sheet event*

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

2002	2003	2004	2005	2006	2007	2008
						Rupees in million
5,704	5,028	6,121	10,333	14,736	19,709	21,100
4,858	4,074	4,487	8,781	12,597	15,143	18,394
3,017	1,380	1,117	4,278	6,977	8,686	10,651
599	638	708	839	1,014	1,073	1,258
247	317	925	713	1,125	3,493	1,449
1,841	2,694	3,370	4,503	5,620	6,458	7,743
1,093	1,438	1,845	2,594	3,283	4,802	5,916
1,595	2,210	3,158	3,461	4,476	6,222	4,534
351	308	315	602	1,129	3,922	4,073
1,244	1,902	2,843	2,859	3,347	2,300	461
557	799	920	837	1,097	(381)	75
687	1,103	1,923	2,022	2,250	2,681	386
9,772	(675)	(452)	12,269	8,356	8,370	2,597
(13,965)	3,810	3,036	(8,319)	(3,715)	(13,527)	155
(235)	(253)	749	1,736	(226)	(203)	(446)
(4,428)	2,882	3,333	5,686	4,415	(5,359)	2,306
7,396	10,278	13,611	19,297	23,712	18,353	20,659
4,173	5,047	6,016	8,813	11,053	12,266	12,971
1,087	1,142	1,256	1,507	2,004	3,006	4,059
1,940	2,760	4,317	6,088	7,615	9,093	7,976
1,146	1,145	443	1,218	1,434	166	936
51,732	61,657	83,319	118,795	131,839	143,037	167,677
3,392	7,329	9,777	9,778	13,378	9,918	13,902
-	-	1,000	3,000	2,999	2,997	2,996
11,016	11,354	7,055	4,714	6,764	13,954	8,645
30,035	44,778	69,838	85,977	99,179	100,780	128,818
26,737	22,104	17,239	25,708	28,626	39,431	35,678
10,061	15,099	15,936	27,489	30,605	31,297	24,464
1,663	1,980	2,595	3,193	3,810	5,128	8,266
1,817	1,426	1,560	2,733	3,813	5,535	8,965
70,313	85,387	107,168	145,100	166,034	182,172	206,191
						Rupees in billion
40.20	48.70	75.20	98.30	119.30	119.27	148.24
47.30	56.80	70.10	92.00	97.30	82.98	99.70
14.20	14.40	25.30	30.60	37.30	44.31	55.77
						Percent
20.30	23.90	34.80	27.70	22.60	22.99	3.06
1.10	1.40	2.00	1.60	1.40	1.54	0.20
25.61	46.69	63.36	32.56	26.57	15.19	2.51
37.90	66.13	75.11	51.28	44.61	42.64	42.10
1.28	1.61	1.87	1.38	1.29	1.13	1.02
58.10	72.60	83.90	72.40	75.23	70.46	76.83
49.30	43.00	46.90	43.70	38.36	43.98	65.51
12.00	9.90	8.50	11.00	10.90	9.35	9.22
20.00	20.00	20.00	15.00	10.00	15.00	- *
5.00	10.00	20.00	33.00	50.00	35.00	25.00 *
4.50	5.30	6.10	9.60	9.30	11.19	15.32
7.45	3.88	2.13	1.18	0.95	1.50	-
31.65	20.70	13.06	11.18	13.37	16.82	-
						Rupees
6.32	9.66	15.31	13.42	7.48	8.92	0.95
38.39	44.19	47.90	58.48	55.15	40.80	31.96
26.85	51.50	94.00	126.80	104.95	99.75	14.57
27.25	53.00	97.35	131.90	142.70	127.25	104.25
13.75	21.60	50.50	71.15	71.45	77.10	14.57
						Numbers
1,456	1,723	2,118	2,754	3,241	3,834	4,252
46	58	75	99	122	150	200

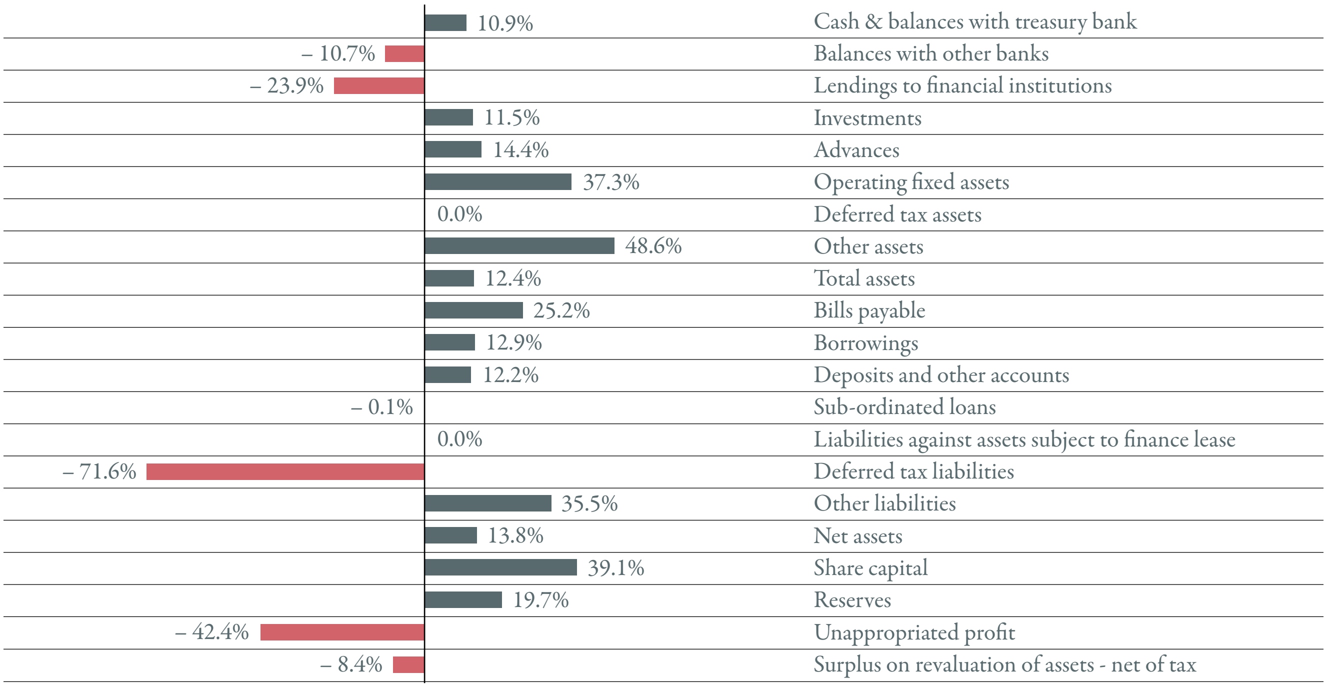
Horizontal & Vertical Analysis

BALANCE SHEET	Horizontal Analysis						Vertical Analysis					
	2008	2007	2006	2008 Vs 2007	2007 Vs 2006	2006 Vs 2005	2008	2007	2006	2008	2007	2006
	Rupees in millions			*Variance*			*Rupees in millions*			*Composition*		
Assets												
Cash and balances with treasury banks	16,030	13,356	14,879	20%	-10%	26%	16,030	13,356	14,879	8%	7%	9%
Balances with other banks	3,955	3,497	7,333	13%	-52%	32%	3,955	3,497	7,333	2%	2%	5%
Lendings to financial institutions	4,480	14,444	8,393	-69%	72%	-17%	4,480	14,444	8,393	2%	8%	5%
Investments	35,678	39,431	28,626	-10%	38%	11%	35,678	39,431	28,626	18%	22%	17%
Advances	128,818	100,780	99,179	28%	2%	15%	128,818	100,780	99,179	62%	55%	60%
Operating fixed assets	8,266	5,129	3,810	61%	35%	19%	8,266	5,129	3,810	4%	3%	2%
Other assets	8,964	5,535	3,813	62%	45%	40%	8,964	5,535	3,813	4%	3%	2%
	206,191	182,172	166,033	13%	10%	14%	206,191	182,172	166,033	100%	100%	100%
Liabilities												
Bills payable	2,585	2,627	1,839	-2%	43%	40%	2,585	2,627	1,839	1%	1%	1%
Borrowings	15,190	17,553	14,964	-13%	17%	42%	15,190	17,553	14,964	7%	10%	9%
Deposits and other accounts	167,677	143,037	131,839	17%	8%	11%	167,677	143,037	131,839	81%	78%	79%
Sub-ordinated loans	2,996	2,997	2,999	-	-	-	2,996	2,997	2,999	2%	2%	2%
Deferred tax liabilities	13	472	736	-97%	-36%	30%	13	472	736	-	-	-
Other liabilities	4,759	3,220	2,603	48%	24%	27%	4,759	3,220	2,603	3%	2%	2%
	193,220	169,906	154,980	14%	10%	14%	193,220	169,906	154,980	94%	93%	93%
Net assets	12,971	12,266	11,053	6%	11%	25%	12,971	12,266	11,053	6%	7%	7%
Represented by												
Share capital / Head office capital account	4,059	3,007	2,004	35%	50%	33%	4,059	3,007	2,004	2%	2%	1%
Reserves	7,667	6,948	5,815	10%	19%	30%	7,667	6,948	5,815	4%	4%	4%
Unappropriated profit	309	2,145	1,800	-86%	19%	11%	309	2,145	1,800	-	1%	1%
	12,035	12,100	9,619	-1%	26%	27%	12,035	12,100	9,619	6%	7%	6%
Surplus on revaluation of assets - net of tax	936	166	1,434	464%	-88%	18%	936	166	1,434	-	-	1%
	12,971	12,266	11,053	6%	11%	25%	12,971	12,266	11,053	6%	7%	7%

PROFIT & LOSS ACCOUNT	Horizontal Analysis						Vertical Analysis					
	2008	2007	2006	2008 Vs 2007	2007 Vs 2006	2006 Vs 2005	2008	2007	2006	2008	2007	2006
	Rupees in millions			*Variance*			*Rupees in millions*			*Distribution*		
Mark-up / return / interest earned	18,394	15,143	12,597	21%	20%	43%	18,394	15,143	12,597	100%	100%	100%
Mark-up / return / interest expensed	10,651	8,686	6,977	23%	24%	63%	10,651	8,686	6,977	58%	57%	55%
Net mark-up / interest income	7,743	6,457	5,620	20%	15%	100%	7,743	6,457	5,620	42%	43%	45%
Provision against non-performing loans and advances	3,825	3,920	1,128	-2%	248%	77%	3,825	3,920	1,128	21%	26%	9%
Provision for impairment in the value of investments	1	1	1	-	-	-103%	1	1	1	-	-	-
Bad debts written off directly	247	-	-	100%	-	-	247	-	-	1%	-	-
	4,073	3,921	1,129	4%	247%	88%	4,073	3,921	1,129	22%	26%	9%
Net mark-up / interest income after provisions	3,670	2,536	4,491	45%	-44%	15%	3,670	2,536	4,491	20%	17%	36%
Non mark-up/interest income												
Fee, commission and brokerage income	1,258	1,073	1,014	17%	6%	21%	1,258	1,073	1,014	6.9%	7.1%	8.0%
Dividend income	174	137	109	27%	26%	114%	174	137	109	1%	0.9%	0.9%
Income from dealing in foreign currencies	873	655	584	33%	12%	64%	873	655	584	4.8%	4%	4.6%
Gain on sale of investments - net	37	2,361	112	-98%	2008%	12%	37	2,361	112	0.2%	16%	0.9%
Unrealised gain on revaluation of investments classified as held for trading - net	22	2	(2)	1000%	200%	-100%	22	2	(2)	0.1%	-	-
Other income	343	337	322	2%	5%	56%	343	337	322	2%	2%	2.6%
Total non-markup / interest income	2,707	4,565	2,139	-41%	113%	38%	2,707	4,565	2,139	15%	30%	17%
	6,377	7,101	6,630	-10%	7%	22%	6,377	7,101	6,630	35%	47%	53%
Non mark-up/interest expenses												
Administrative expenses	5,904	4,789	3,277	23%	46%	26%	5,904	4,789	3,277	32%	32%	26%
Other charges	12	12	6	-	100%	200%	12	12	6	-	-	-
Total non-markup / interest expenses	5,916	4,801	3,283	23%	46%	27%	5,916	4,801	3,283	32%	32%	26%
Profit before taxation	461	2,300	3,347	-80%	-31%	17%	461	2,300	3,347	3%	15%	27%
Taxation - current	17	99	984	-83%	-90%	19%	17	99	984	0.1%	1%	8%
- prior years'	(50)	(234)	-	79%	-100%	100%	(50)	(234)	-	-0.3%	-2%	-
- deferred	108	(246)	113	144%	-318%	-43%	108	(246)	113	0.6%	-2%	1%
	75	(381)	1,097	120%	-135%	31%	75	(381)	1,097	0.4%	-3%	9%
Profit after taxation	386	2,681	2,250	-86%	19%	11%	386	2,681	2,250	2.6%	18%	18%
Basic / diluted earnings per share - Rupees	0.95	6.61	5.54	-86%	19%	11%						

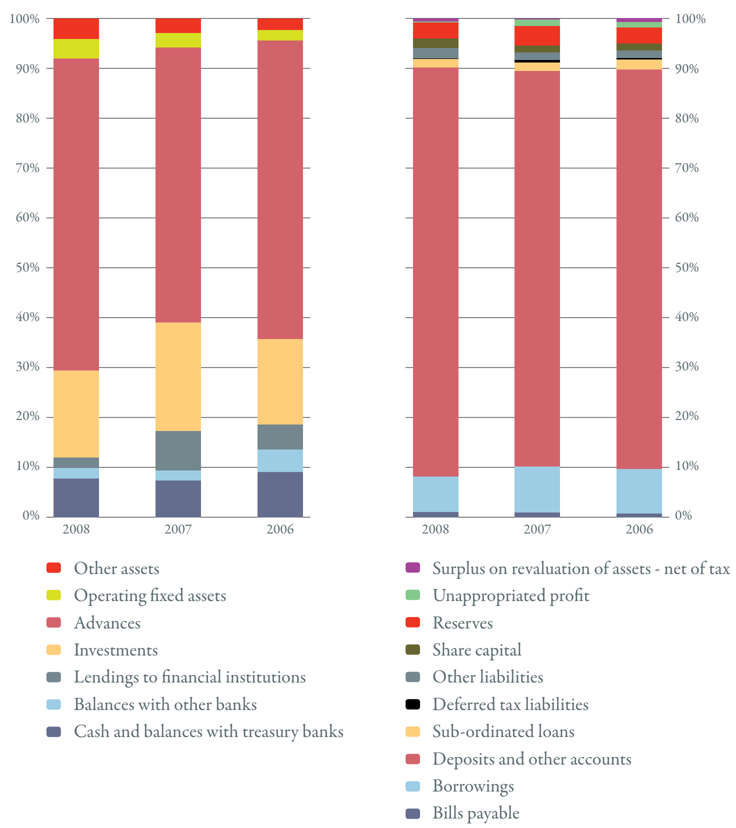
Balance Sheet Horizontal Analysis

Cumulative average growth rate for the last three year - annualised



Balance Sheet Vertical Analysis

Composition for the last three year



Notice of 17th Annual General Meeting

Notice is hereby given that the 17th Annual General Meeting of the shareholders of Askari Bank Limited (the Bank) will be held on Monday, March 30, 2009 at 10:00 am 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 16th Annual General Meeting held on March 28, 2008.
2. To receive, consider and adopt the financial statements for the year ended December 31, 2008 together with the Directors' and Auditors' reports thereon.
3. To appoint Auditors of the Bank for the year ending December 31, 2009 and to fix their remuneration.

Special business:

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

RESOLVED THAT

i. a sum of Rs. 1,014,693 thousand out of the general reserve as at December 31, 2008 be capitalized and be applied to the issue of 101,469,327 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 20, 2009 in the proportion of 25 shares for every hundred shares held that is 25%.

ii. the bonus shares shall rank pari passu in all respects with the existing shares.

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

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

5. 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 21, 2009

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

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on March 30, 2009.

Item No. 4 of the notice – Issue of bonus shares

The Directors are of the view that the reserves / profits of the Bank are adequate for the capitalization of a sum of Rs. 1,014,693 thousand for issue of the proposed 25% bonus shares and in this regard compliance has been made under Rule 6 of Companies (Issue of Capital) Rules, 1996. Auditors' certificate in respect of adequacy of reserves has also been obtained.

Notes

A. General

The share transfer books of the Bank will remain closed from March 21 to March 30, 2009 (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 20, 2009 will be treated in time for the purpose of the entitlement of bonus shares B-13) to the transferees.

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.

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.

The instrument appointing a proxy, together with Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited, with the Company Secretary, Askari Bank Limited, 1st Floor, AWT Plaza, The Mall, P.O. Box No. 1084, Rawalpindi not less than 48 hours before the time of holding the meeting.

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 the CNIC or 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 form to the Bank.

People deliver best customer service when they like what they do.

Directors' Report to the Shareholders

On behalf of the Board of Directors, I am pleased to present the 17th Annual Report of Askari Bank along with the audited financial statements and Auditors' Report thereon, for the year ended December 31, 2008.

The Economy

The global recession coupled with adverse internal developments pushed down the strong economic growth witnessed in the last five years averaging 7.0 percent; the growth in Gross Domestic Product (GDP) reduced to 5.8 percent against the target of 7.2 percent in fiscal 2008. Although the growth slowed down, it demonstrates Pakistan economy's resilience as it was achieved amid major internal and external shocks including hike in oil and food prices, energy shortages, rising interest rates, weak performance of agriculture sector, political uncertainty and deteriorating law and order situation.

The lackluster performance of agriculture and manufacturing sectors played a significant role in economic disruption of the country during 2008. The output of major crops remained below expectations due to adverse weather, incompatible pricing mechanism of agri-products, lack of standards and regulations for quality input, and weak infrastructure. The dismal performance of manufacturing sector is attributable to many factors i.e., price hikes in international resource market, severe energy shortages, political scenario, and upsurge in interest rates,. The recent data shows positive growth in cotton and rice; while negativity in manufacturing sector persists.

The performance of services sector remained exceptionally good at 8.2 percent against the target of 7.1 percent, which partly compensated for the sluggish performance of commodity producing sectors. The services sector contributed almost three-fourth in the overall economic growth during fiscal 2008. The whole-sale retail and trade and social services sectors also showed above the mark performance.

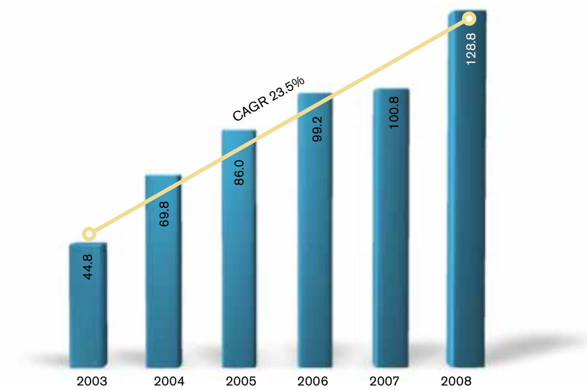
The foreign exchange reserves of the country steeped to US$11.3 billion at the end of fiscal 2008 from a peak of US$16.0 billion in September 2007. Foreign investments decreased to US$5.2 billion after hitting US$8.4 billion mark; positive trend on worker remittances continued, reaching all time high of US$6.3 billion during fiscal 2008. On the fiscal side, despite healthy increase of over 18 percent in tax collection, hitting the benchmark of a trillion rupees, the fiscal deficit hovered around 6.7 percent of GDP in fiscal 2008 against target of 4.0 percent. Continuing with tight monitory stance, the State Bank of Pakistan (SBP) has taken a number of measures to control the macroeconomic imbalances; on a cumulative basis 500 bps increase in policy rate was witnessed during the year 2008. The SBP also made various temporary measures to address liquidity shortfalls that had aggravated due to heavy government borrowings, pressure on external accounts and media hearsay panic withdrawals.

With somewhat erratic movement of rupee-dollar parity, the rupee shed its value by almost 28 percent during 2008; longtime stable rate at around Rs. 60=1US$ (Rs. 62 at December 31, 2007) reached Rs. 68.7 at the close of fiscal 2008 and was at Rs. 79.1 on December 31, 2008. During the fiscal 2008, the trade deficit surged to a record level of US$20.1 billion mainly due to unprecedented price hike of oil and other import commodities; this also influenced the current account deficit which widened to around US$14.0 billion.

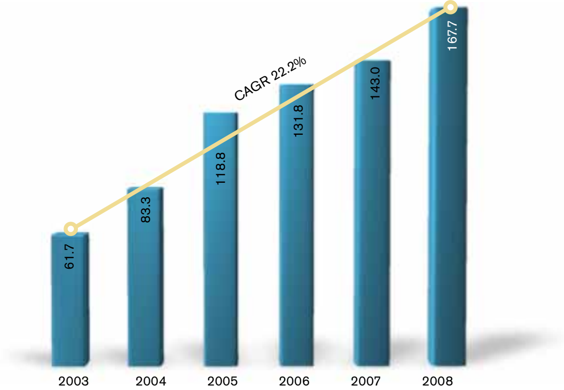
The global financial meltdown together with restive investors' confidence on the back of deteriorating country ratings, resulted in the benchmark Karachi Stock Exchange index plunging to a sharp decline from a peak of 15,676 points of April 18, 2008 to 5,865 points on December 31, 2008 – a decline of 63 per cent. The imposition of floor at 9,144 points on August 27, 2008 for about four months, which was lifted on December 15, 2008 was unprecedented and created uncertainty that shook investors confidence, both local and foreign.

The economic slowdown witnessed towards the end of 2008 may further intensify unless the power crises and worsening law and order situation improves during 2009. With the enormous economic challenges still at the forefront for which the International Monetary Fund (IMF) support has been sought for stabilization, the betterment of economic fundamentals can be forecast but with many austere strings. However, inflationary and liquidity pressures in-play would keep credit and business growth under stress. Investment in power generation sector is expected during 2009, however it may not immediately resolve the energy crises. The recent improvement in fiscal and current account deficit, stabilization in rupee-dollar parity, some reduction in inflation, and foreign exchange build-up are some of the positive signs that the economy is currently exhibiting.

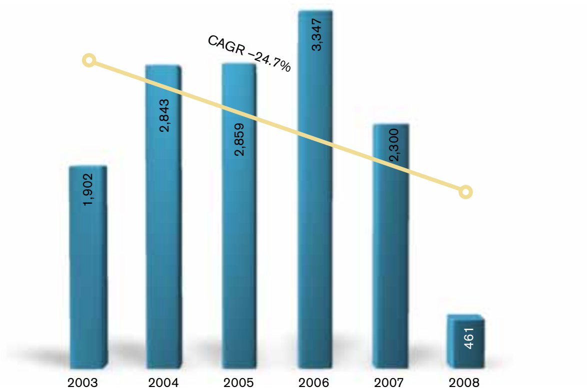
Advances
(Rs billion)



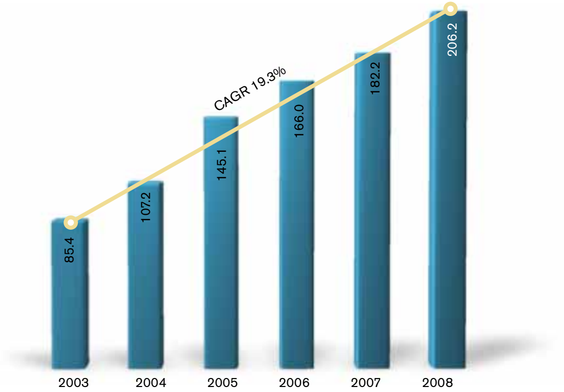
Deposits
(Rs billion)



Profit before Tax
(Rs million)



Total Assets
(Rs billion)



Operating Results of the Bank

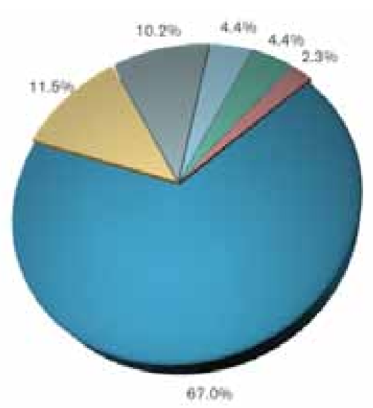
At the very outset, it is important to mention that the last year's profit include a one-off gain amounting to Rs. 2.12 billion. In order to maintain the comparison on like-wise basis, the effect of this one-off gain has been excluded in the review enumerated in the ensuing paragraphs.

Your Bank's operating profit (before provisions against non-performing advances and taxation) for 2008 stood at Rs. 4.53 billion against Rs. 4.10 billion of last year – an increase of 11 percent, mainly attributable to a 20 percent increase in net mark-up income – despite a substantial amount of revenue which was suspended on non-performing loans (NPLs); the non-fund income grew by 11 percent. On the other side, administrative expenses surged by 23 percent. The profit before tax registered and increase of 154 percent over the corresponding year while the profit after tax declined by 31 percent during 2008.

By the end of 2008, deposits reached Rs. 167.68 billion from Rs. 143.04 billion at end 2007, an increase of 17 percent during the year. The increase in local currency deposits was 15 percent to Rs. 141.89 billion as of December 31, 2008 from Rs. 123.51 billion as of December 31, 2007, while the foreign currency deposits surged to Rs. 25.79 billion, increased by 32 percent over last year. On the other hand, gross advances increased by 29 percent, to Rs. 139.83 billion as of December 31, 2008 from Rs. 108.19 billion at the close of last year. The increase in advances, coupled with strengthening effective rate of return, resulted in 30 percent increase in mark-up revenues from advances compared to last year, despite rising NPLs. The investment portfolio decreased by 10 percent over last year which stood at Rs. 35.68 billion as at December 31, 2008 against Rs. 39.43 billion at December 31, 2007. Mark-up income on investments, however, recorded an increase of 25 percent over last year - the aggregate increase of 21 percent in total mark up income reduced marginally to 20 percent in terms of net interest income, as the aggregate increases in mark-up income and cost of deposits and borrowings were almost in reciprocity.

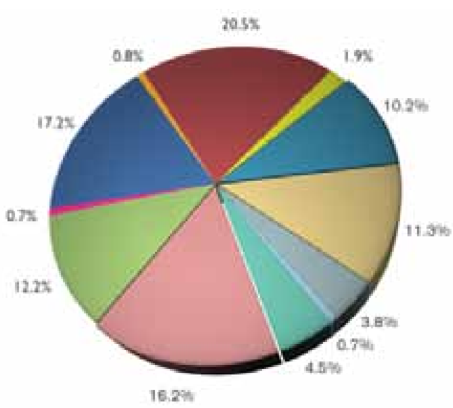
Directors' Report to the Shareholders

Advances by Segment
(Percent)



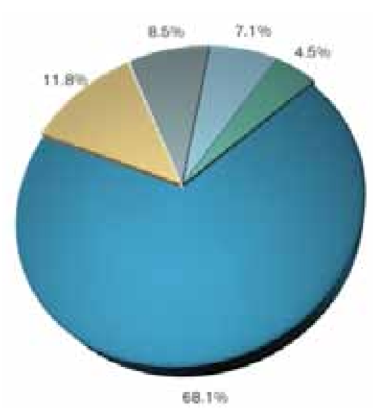
- Corporate Sector
- SMEs Sector
- Consumer Sector (Other than Staff Loans)
- Agricultural Sector
- Commodity Financing
- Staff Loans

Advances by Sector
(Percent)



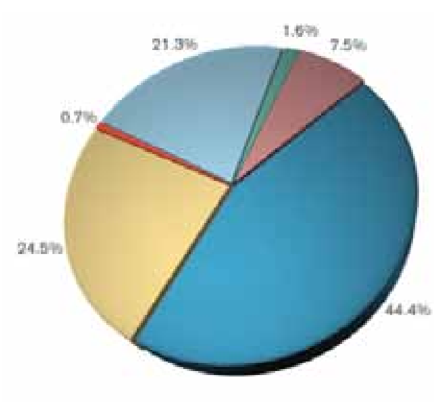
- Agri business
- Cement & construction
- Chemical & pharmaceutical
- Financial institutions
- Food, beverages & tobacco
- Fuel, energy & engineering
- Individuals
- Leather products & shoes
- Miscellaneous
- Synthetic & rayon
- Textile
- Transport

Assets Mix – Earning
(Percent)



- Advances
- Federal Government Securities
- Cash and balances with treasury banks
- Equity and Debt Instruments
- Money Market Funds

Liability Mix – Cost Bearing
(Percent)

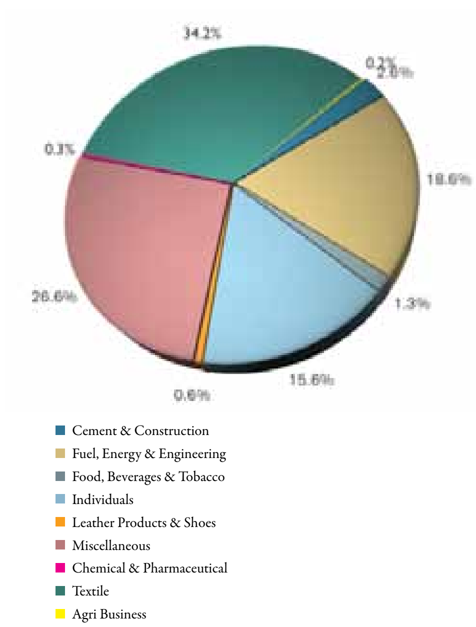


- Saving Deposits
- Current Accounts
- Repo and other borrowings
- Fixed Deposits
- Sub-ordinated loans
- Refinance borrowing from SBP

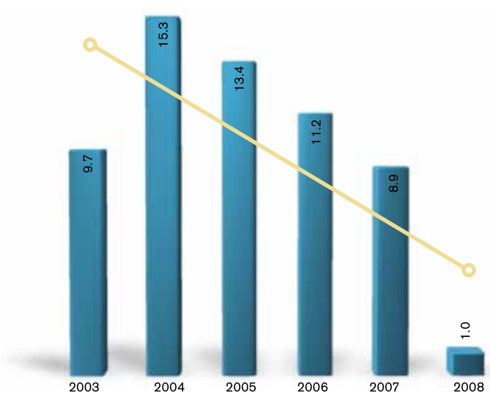
The non-fund income registered an increase of 11 percent over last year, mainly attributable to income derived from dealing in foreign currencies and increase in the volume of trade business handled by the Bank. Administrative expenses increased by 23 percent over last year owing to increase in branch net work to 200 from 150 as of last year and corresponding increase in staff, besides overall cost escalations due to unprecedented inflationary upsurge during 2008.

As of December 31, 2008, non-performing loans and advances stood at Rs. 11.69 billion against Rs. 6.91 billion as of December 31, 2007, an increase of 69 percent mainly due to further downgrade of few large exposures as reported in our earlier communications and new classifications – 82 percent in 'loss' and 14 percent in 'doubtful' categories of classification. These have been provided for in compliance with Prudential Regulations (PR) of the SBP. Consequent upon increase in NPLs and further downgrade, the aggregate provision against non-performing advances stood at Rs. 11.01 billion, and reflecting increase of 49 percent over last year – the provision / write-off for the year registered increase of 4 percent compared to the last year. The ratio of non-performing advances as a percentage of total advances increased to 8.36 percent as of December 31, 2008, against last year's 6.38 percent. The risk coverage of NPLs was 94 percent as against 107 percent last year. We would like to mention that the strategies have been developed to enhance effective management of the loan portfolio by stemming further flow of accounts into NPLs and boosting recovery through concerted efforts for overdue amounts; the benefits will be seen in the following years.

NPLs by Sector
(Percent)



Earnings Per Share
(Rupees)



Earnings Per Share:

The earnings per share for the year ended December 31, 2008 was Re. 0.95 per share against last year's Rs. 6.61 per share – the ratio worked out after taking into account the number of shares issued during 2008. The decrease is entirely attributable to provision / write-off of Rs. 4.1 billion made against NPLs.

Appropriations:

The Board of Directors recommends the following appropriations from profits for the year ended December 31, 2008:

	Rupees in thousands
Un-appropriated profit	
for the year 2008	386,225
Appropriations:	
Statutory reserve	(77,245)
General reserve	(308,980)
	–
Transfer from general reserve to	
reserve for issue of bonus shares	1,014,693

Reserves as at December 31, 2008 include Rs. 685.843 million (2007:Rs. Nil) in respect of benefit of 30 percent of forced sale value of pledged stocks, mortgaged commercial and residential properties against provision for non-performing advances allowed under BSD Circular No 02 of 2009 dated January 27, 2009. Reserves to that extent are not available for payment of cash or stock dividend in terms of above referred circular.

In terms of the SBP BSD Circular No. 4 dated February 13, 2009 the banks have option to adopt Securities and Exchange Commission of Pakistan's (SECP) notification SRO 150(1)/2009 dated February 13, 2009 allowing that the impairment loss, if any, recognized as on December 31, 2008 due to valuation of listed equity investments held as available for sale (AFS) to quoted market prices may be shown under the equity. The impairment loss taken to equity including any adjustment/effect for price movements shall be taken to profit and loss account on a quarterly basis during the year ending December 31, 2009. The impairment loss taken to equity at December 31, 2008 shall be treated as a charge to profit and loss account for the purpose of distribution as dividend. The impairment loss as at December 31, 2008 has been determined at Rs. 440.866 million.

The aforementioned directives have been taken into account in appropriations shown above.

The appropriation of capital reserve (reserve for issue of bonus shares), amounting to Rs. 1,014,694 thousand will enable the Bank to meet the enhanced minimum paid-up capital requirement of Rs. 5.0 billion, as required by SBP BSD Circular No. 06 dated October 28, 2005.

Organizational Restructuring

After completion of major organizational restructuring initiatives in 2007 that comprised of changing Bank's corporate image and logo along with the creation of certain new functions, and realignment of staff compensation. An organizational development team (ODT) was formed during 2008 to monitor and ensure complete transformation, which met regularly. The organogram of each business / operating unit is being reviewed and finalized; job description documents (JDDs) based on functional titles are being competed for all tiers. The whole organizational restructuring task will be completed during 2009.

Also, a comprehensive performance management system based on well-defined goals and responsibilities has been finalized and made effective with the new performance appraisal system.

IT Solutions:

Your Bank has embarked upon the implementation of state of the art information technology (IT) solutions for the Bank which include changing the core banking software (CBS) to Oracle Financial Services Software (OFSS) (previously I-flex) along with Oracle Financial, Peoplesoft, Reveleus and Siebel. The process has started and it is the most ambitious activity both in terms of cost and commitment the Bank has ever undertaken, hence extremely important.

The implementation of these softwares is being done through M/s Techlogics Pakistan (Pvt) Limited and M/s IBM Italia S.P.A – the implementation partners, who are resourced

Directors' Report to the Shareholders

with expertise to carry out implementation as planned. In order to ensure success, dedicated teams both from business and technical side have been formed to review and monitor the overall progress of the implementation. In the first phase implementation will be effected to a select group of branches, which will then be extended to all branches in the next phase. The objective of this exercise is an improvement in quality and timing of financial and non-financial information for effective decision making, improvement in the internal control environment, minimization of manual work / processes, process efficiencies and above all, improvement in our products and customer service standards.

Simultaneously, the Bank has also initiated an exercise with the objective of studying the new systems capabilities and aligning the business and operations for optimal utilization of CBS in terms of efficiencies and revenue generations.

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 activities.

The Bank has in place a risk management framework encompassing risk policies and limits structure, risk infrastructure and risk measurement methodologies / tools. In 2008 the risk policies were reviewed and revised and relevant manuals were developed to facilitate implementation of these policies. The Bank has strengthened its risk management abilities to proactively manage market, credit and operational risks, by creating an awareness of risk culture through training sessions; every employee is expected to be a risk manager at his workplace and can appreciate the basic concepts of risk based capital structure of the Bank. The Bank is exposed to various financial risks. To counter these risks concept of value at risk (VaR) and credit risk rating methodologies were introduced, the latter enables us to determine probability of default (PD) and quantify expected credit loss as required by Basel II. The credit risk is further controlled by system of limits by counterparty, by type of facilities / transactions, geographic area, internal credit rating thus dispersing the risk and avoids concentration in a particular area.

The Bank is at an advanced stage of implementing credit risk environment administration management 'Cream' and 'Reveleus' risk management software that will enable the Bank to automate credit approval and risk rating system processes and assist with implementing Basel II foundation internal risk based (FIRB) approach for managing credit risk and VaR model for market risk.

The Bank has also established a comprehensive operational risk management framework based on appropriate risk management architecture. The framework assesses and measures the operational risks arising from system, people and processes.

In 2008 risk management group organized various training workshops to create awareness among the staff of Basel II, capital adequacy ratio and introduction of risk impact calculator, it also organized training sessions for internal auditors on credit and consumer risk and internal control assessment. The training sessions were designed and delivered to create awareness, ownership and buy in risk management at the Bank.

Statement on Internal Controls

Internal controls contribute to effective management by both the Bank's Board and management. Internal controls are the means to ensure compliance with external laws and regulations as well as with the Bank's own internal policies. Also, assets can be protected and fraud and financial mismanagement can be minimize by a strong internal control culture within the Bank.

Askari Bank endeavors to attain a more professional and efficient working environment by establishing and maintaining adequate and effective internal control systems. The management of the Bank fully recognizes and appreciates the value and significance of internal controls and ensures the presence of an efficient and effective control system by identifying control objectives, devising pertinent policies / procedures and establishing relevant control mechanisms covering all areas of its activities.

Based on the review and recommendations of a consultant specialized in audit and control procedures, the Bank has successfully authenticated and applied an internal control systems review based on testing requirements; most of the gaps identified have been filled in by amending / formulating the requisites policies / procedures etc. The review has established that all risk mitigants are in place and there are no material shortcomings in the internal control systems of the Bank.

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

Credit Rating

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

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

According to PACRA "these ratings reflect sustained ability of revenue growth from core operations while maintaining a low risk profile and also dynamic as well as 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 operation environment."

Capital Adequacy

During 2008, SBP enhanced capital adequacy requirement (CAR), by raising the minimum requirement to 9 percent from previous 8 percent to be achieved by December 31, 2008 – BSD circular No. 30 of 2008 dated November 25, 2008. Also, SBP implemented Basel-II replacing Basel-I effective December 31, 2008 – BSD circular No. 1 of 2009 dated January 6, 2009.

In addition to the above directives, the unrealized loss on available-for-sale (AFS) portfolio due to adverse market sentiment during most of 2008 and increase in provisions against NPLs further aggravated your Bank's CAR, which stood at 9.22 percent at end 2008, against comparable 9.35 percent. At this level, your Bank is pursuing a very cautious approach for increasing the risk based assets.

Also during 2008, SBP raised the minimum capital requirements (MCR) through BSD circular No. 19 of 2008 dated September 05, 2008 for banks from Rs. 6.0 billion to Rs. 23 billion to be met in a phased manner.

Meeting the above requirements is another challenge for the Bank under the burgeoning NPLs and overall economic conditions. While the issue is common for the banking industry, especially our peers, the Board has full cognizance of these developments and assures that all regulatory directives shall be fully complied with by the Bank.

Branch Network

During the year, your bank opened 50 new branches including 4 Islamic Banking branches and 11 sub-branches. We now offer services through a network of 200 branches, including the wholesale bank branch in Bahrain. Through this branch network, we are able to present our wide range of products and services to our valued customers. Further expansion will continue during 2009 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. But given the current economic conditions, there would be an emphasis on the consolidation of recent expansion and operations and future expansion will be more gradual and incremental.

Directors' Report to the Shareholders

Islamic Banking

This was effectively the second full year of operations for the Bank's Islamic banking services. The focus remained on customer service, branch expansion, and on availability of wherewithal for Shariah compliant Islamic banking services.

The Islamic branch network has reached 20, including 2 sub-branches (6 new Islamic branches including 2 sub-branches opened during 2008). The branch network covers major cities of the country. A comprehensive range of Islamic banking products and services are being offered by Askari Bank, in order to meet the customers' demand for Shariah compliant banking, including Islamic corporate banking, investment banking, trade finance, general banking and Islamic consumer banking.

In order meet the growing needs of this sector, the Bank's concerted efforts for strategic expansion and business development shall remain a priority in the years ahead.

Askari Investment Management Limited (AIML)

AIML is the first subsidiary of the Bank and is regulated under the Non-Banking Finance Companies (NBFC) Rules 2003 and Notified Entities Regulation, 2007 and licensed by the Securities and Exchange Commission of Pakistan (SECP). The primary business of AIML is to launch and manage mutual funds and also to offer advisory services to institutional clients.

AIML operates two open-end funds, Askari Income Fund and Askari Asset Allocation Fund. The size of the two funds as on December 31, 2008 was Rs. 3.46 billion and Rs. 250 million, respectively. During the year, AIML has launched two Islamic Funds, Askari Islamic Income Fund and Askari Islamic Asset Allocation Fund, both are in the pre-IPO phase.

Consolidated financial statements of the Bank and AIML for the year ended December 31, 2008 are included in this report.

Askari Securities Limited (ASL)

ASL is incorporated as a public limited company and a corporate member of Islamabad Stock Exchange (Guarantee) Limited, which principally engaged in share brokerage, investment advisory and consultancy services. Askari Bank owns 74 percent of ASL. The performance of ASL remained under pressure owing to the situation of bourses; however, it is expected that it will show better results with the improvement in stock market index.

Consolidated financial statements of the Bank and ASL for the year ended December 31, 2008 are included in this report.

Awards and Recognition

During the year, the annual report of the Bank for the year 2007 won the runners up prize for the "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.

Pattern of Shareholding

The pattern of shareholding at December 31, 2008 is included in this report.

Corporate and Financial Reporting Framework

- The Bank's 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 the internal audit department and other such procedures. Such review processes will continue and any weakness in controls will be removed.
- The Board of Directors is satisfied with the Bank's ability to continue as a going concern.
- There have been no material departures from the best practices of corporate governance as detailed in the Listing Regulation No.37 of the Karachi Stock Exchange (Guarantee) Limited.
- Key operating data and financial data for the last ten years, in summarized form, are included in this Annual Report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2008, except as disclosed in these financial statements.
- The following is the value of investment as at December 31, 2008:

- » Provident Fund Rs. 936.68 million, based on un-audited financial statements (2007: Rs. 694.26 million)
- » Gratuity Fund Rs. 337.21 million, based on un-audited financial statements (2008: Rs. 249.66 million)
- During 2008, 6 meetings of the Board of Directors were held. Attendance by each Director was as follows:

Lt. Gen. Javed Zia *(Chairman)*	1
Lt. Gen.(R) Imtiaz Hussain *(outgoing Committee)*	2
Lt. Gen. (R) Zarrar Azim *(Chairman Executive Committee)*	6
Brig.(R) Muhammad Shiraz Baig *(Retired)*	5
Brig.(R) Asmatullah Khan Niazi *(Retired)*	5
Brig.(R) Muhammad Bashir Baz *(Retired)*	2
Brig.(R) Shaukat Mahmood Chaudhari *(Retired)*	5
Mr. Muhammad Afzal Munif *(Retired)*	2
Mr. Muhammad Najam Ali *(Retired)*	1
Mr. Kashif Mateen Ansari	4
Mr. Zafar Alam Khan Sumbal	6
Mr. Ali Noormahomad Rattansey	1
Dr. Bashir Ahmad Khan	3
Mr. Shahid Mehmud	1
Mr. Muhammad Riyazul Haque	1
Mr. Tariq Iqbal Khan *(NIT Nominee)*	2
Mr. M. R. Mehkari *(President & Chief Executive)*	4
Mr. Shaharyar Ahmad *(ex - President & Chief Executive)*	2

Auditors

The Auditors, M/s A.F. Ferguson and Co., Chartered Accounts have completed their assignment for the year ended December 31, 2008 and shall retire at the conclusion of the 17th Annual General Meeting. Upon recommendation of the Audit Committee, the Board recommends appointment of M/s A.F. Ferguson and Co., Chartered Accountants, as the auditors for the year ending December 31, 2009.

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 2009

With Pakistan's opting IMF stabilization program, some early signs of improvement in economic fundamentals such as inflation, foreign exchange reserves, reduction in imports, decline in GoP borrowings from the SBP, have started emerging. The trend is likely to continue with accelerated pace in 2009 giving the stimulus in restoring the confidence of internal and external stakeholders. The pressure on monetary, fiscal and exchange rate policy is expected to be subsided by keeping them at the sustainable level through corrective measures as envisaged in the stabilization program. The revenue collection targets, export target, negative growth of large-scale manufacturing sector are some real challenges with better hopes for agriculture growth. In view of these factors, the economy is likely to produce growth of 3.7 percent during fiscal 2009 ending on June 30, 2009.

Acknowledgments

On behalf of the Board of the Bank, I 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.

For and on behalf of the Board

Rawalpindi: February 21, 2009

Lt. Gen. Javed Zia
Chairman


*Teamwork divides the task
and multiplies success.*