

EMIRATES GLOBAL ISLAMIC BANK LIMITED

Directors' Report

The Board of Directors of the Bank is pleased to present the 3rd annual report along with the audited financial statements and the auditors report for the financial year ended December 31, 2007.

Ongoing Developments

The bank commenced operation on February 16, 2007. During the year, management remained focused on improving customer service, expansion of the business network and establishing firm platform for the bank.

In order to be equipped with the modern banking requirements and for initiating an impressive banking practice, the bank, in a short span of time, successfully launched a range of banking products which include Current, Mudaraba Saving, Rahnuma Umrah Saver and Islamic Term Deposit Accounts, Safe Deposit Lockers, consumer finance facilities which include Auto Ijarah, Al Bait Housing and Rahnuma Travel Finances. Further the bank implemented ATM infrastructure with 1 Link switch offering connectivity, launched 24 hours phone banking service with interactive voice response, developed web portals and established call centers. EGIBL is the first bank in Pakistan that successfully deployed SIEBEL Customer Relationship Management System.

The board of directors in its 15th meeting held on August 22, 2007 approved a right issue of 2:1 to enhance the paid up capital from Rs.3 billion to Rs.4.5 billion to meet the prescribed minimum capital requirements. The State Bank of Pakistan required equity of Rs 4 billion, net of losses, by January end 2008. By the year end an amount of Rs.1.007 billion was injected by the shareholders towards the share subscription money and the process of allotment could not be completed due to political disturbance and extreme law and order situation. As of 17th Board Meeting dated January 29, 2008 a further sum of Rs 232 million had been injected into banks capital. Consequently allotment of shares completed in the board meeting and minimum capital requirement as required by the central bank was accordingly met. Thereafter a sum of Rs 261 million had further been injected by March 12, 2008 for enhancing the paid up capital to Rs 4.5 billion.

With the permission of the State Bank of Pakistan to open four more branches in 2007, the branch network expanded to 10 branches in 2007. Five branches are located in Karachi, two in Lahore and one each in Gujranwala, Peshawar and Quetta. During the year the management has applied to the Central Bank to expand the branch network by 30 branches in year 2008. The Central bank however accorded approval for 15 branches.

Economic Overview

Wide-ranging economic reforms have resulted in a strong economic outlook and accelerated growth especially in the manufacturing and financial services sectors. The pace of the rapid economic development picked up in the recent years continued during 2006-7 as well and Pakistan registered an economic growth rate of 7%, the fourth consecutive year of 7% growth.





Despite the robust growth, Pakistan still faces many challenges like job creation, poverty reduction, social indicators improvement and physical infrastructure strengthening to sustain ongoing growth momentum besides having an environment of macroeconomic stability. Though Pakistan's GDP growth rates have seen a steady increase over the last 5 years, however, inflationary pressures and a low savings rate needs to be managed to ensure that the ability of higher growth rate is sustained in the years to come as well.

The continued GDP growth rate is competitive to other strong and emerging economies of the region. Being direct beneficiary of the economic activities and structural reforms, banking sector maintained its upward graph of growth during the fiscal year 2006-07. Unfortunately social-political issues generated unrest and significant economic losses in December 2007.

Results of operations

Notwithstanding the focus on establishing the platform, Emirates Global Islamic Bank Limited achieved deposits of Rs.4.5 billion, financings Rs 2.62 billion, lending to FIs Rs 1.35 billion and investments of Rs.2.3 billion as at the year end.

Financial Summary

	<u>Rs. in Million</u>
Gross income	381
Return on deposits and provisions	(133)
Net margin / funded income	248
Non fund Income	64
Admin and other expenses	(396)
Pre tax loss	(84)
Taxation	26
Post tax loss	(57)
Accumulated loss brought forward	(131)
Accumulated loss carried forward	(188)

Loss per share

The loss per share of the bank was Re.0.21 based on paid up share capital at 31.12.07.

Shariah Audit

An audit was conducted by external shariah auditors on the advice of the shariah advisor for the purpose of forming an independent opinion. It included on a test basis each type of transactions, the relevant documentation and procedures adopted by the bank. The shariah audit report has not yet been released. Our shariah committee had obtained information and explanation from the shariah auditors, on the basis of which we have been certified by our shariah committee that transactions and dealings entered into by us during the year ended December 31, 2007, are in compliance with Islamic shariah. There are however reservations of the shariah auditors and advisors in respect of certain transactions which in their opinion may not be shariah compliant.



We have accordingly been advised to provide for an amount of Rs 3.494 million in our accounts as charity payable.

Corporate and Financial Reporting Framework

The Board of Directors is fully cognizant of its responsibility under the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and adopted by the State Bank of Pakistan. A statement to this effect is annexed with the report.

The following evidence commitment towards high standards of Corporate Governance and continuous organizational improvement.

1. The financial statements prepared by the management of the Bank present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in the financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards and such other standards as applicable in Pakistan have been followed in preparation of financial statements.
5. The system of internal control is sound and has been effectively implemented and monitored.
6. There are no significant doubts on the Bank's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance.
8. Since the bank has been operational for less than a year, key operating and financial data for the current year has been presented in summarized form.
9. Since there are no surplus profits no dividend has been declared.
10. The bank operates an approved provident fund and gratuity scheme. The value of investments of the Bank's recognized Provident Fund based on un-audited accounts as at December 31, 2007 amounted to Rs.5 million.
11. During the year ended December 31, 2007, six Board meeting were held which were attended by the directors as under:

Name of Director	No of Meetings	
	Held during directorship	Attended
Sheikh Tariq Bin Faisal Al Qassemi	6	4
Syed Tariq Husain	6	6
Abdul Ghaffar Fancy	6	6
Mubarak Balaswad Mubarak Humaid	6	5
Abdulahadi Al Shayif	6	3
Riyadh Mohammad Saeed Al Birdisi	6	3
Zubair Daruwala	6	6



12. Shareholding Pattern as on December 31, 2007

<u>Particulars</u>	<u>Number of Shareholders</u>	<u>Shares held</u>	<u>Percentage</u>
Directors			
Sheikh Tariq Bin Faisal Khalid Al Qassemi	1	103,600,000	34.53%
Syed Tariq Husain	1	2,620,000	0.87%
Mubarak Bulaswad Mubarak Hamid Bulaswad	1	3,240,000	1.08%
Abdul Ghaffar Fancy	1	1,620,000	0.54%
Zubair Daruwala	1	500	0.00%
Abdulahadi A Shayif	1	500	0.00%
Riyadh Mohammad Saeed Al Birdisi	1	500	0.00%
Associated companies, undertakings and related parties			
Emirates Financial Holdings LLC	1	34,917,000	11.64%
Mal Al Khaleej Investments LLC	1	150,000,000	50.00%
Banks, Development Financial Institutions and Non Banking Financial Institutions			
Bank of Punjab	1	2,000,000	0.67%
Orix Leasing	1	2,000,000	0.67%
Others	3	1,500	0.00%
TOTAL	14	300,000,000	100.00%
Shareholders with 10% or more voting interest			
Sheikh Tariq Bin Faisal Khalid Al Qassemi	1	103,600,000	34.53%
Emirates Financial Holdings LLC	1	34,917,000	11.64%
Mal Al Khaleej Investments LLC	1	150,000,000	50.00%
No executive of bank other than President, spouses and minor children of directors or any other person was shareholder of the Bank as of December 31, 2007.			
No trading was done by the directors, CEO, CFO and Company Secretary and their spouses in the shares of the Bank during the period.			

Risk Management Framework

Taken into consideration the global recognition towards need of an effective risk management and control system, the Bank has identified the key pillars which will act as the driving force for establishing a sound risk management framework. Under this framework, a risk management policy framework has been developed strictly in line with Shariah and has been approved by the board. The Bank has established an organizational structure to measure, monitor and control credit, market, liquidity, operational and other associated risks.

The Bank has set up an asset booking function and a credit approval function in which Corporate, SME & Consumer and their related risks are analyzed in the light of credit limits, applicable controls and segment exposures. As an oversight function for managing the overall credit risk, a Central Credit Committee has also been established which is chaired by the President.



To manage credit risk, a Credit Administration Department has been set up to ensure compliance of all the activities with respect to policies & procedures and applicable laws and regulations and also maintain credit files, loan documentation and adherence to loan covenants.

The Asset and Liability Management Committee (ALCO) is headed by the CEO to manage the market & liquidity risk and review day to day liquidity requirement of the bank. A Treasury Middle office between front and back office manage risks relating to treasury operations and report its findings to the senior management for prompt remedial actions.

Simultaneously, the Bank ensures that any liquidity mismatch and gaps are proactively managed by keeping liquidity under control and closely monitored to ensure that liquidity flows are available within the minimum timeframe providing ample cushion to the Bank in case of a liquidity crunch in the market.

Keeping in view the sensitivity of operational risk, separate policy manuals duly approved by the board, have been prepared for every operational area and have been circulated down the line for implementation. Controls have been embodied at every critical activity level. Adequate training has been imparted, limits have been setup, duties have been segregated, proper job descriptions for each level have been devised and financial powers have been delineated at appropriate levels.

Statement of Compliance with the Code of Corporate Governance

The bank has adopted the requirements of the Code of Corporate Governance as set out by the Karachi Stock Exchange in the listing regulations. A statement to this effect is annexed to this report.

Statement of Internal Controls

The management of Emirates Global Islamic Bank Limited is responsible for establishing and maintaining adequate controls and procedures and fully recognizes this responsibility and appreciates its value and significance. A statement to this effect is annexed to this report.

Future Outlook

The yearly growth of Islamic banking is expected to be significantly higher than that of the conventional banking. The growth in the trend of Islamic banking has also been forecasted by the State bank of Pakistan and it is estimated that the existing 3% share of Islamic banking deposits out of total would reach 12 % by 2012.

Emirates Global Islamic Bank is building a visible presence. It is active in the business, commercial and residential circles of the country. The Bank is committed to provide best-in-class products and integrated solutions to meet the financial needs of clients in both corporate and retail markets. Personal attention and due care particularly forms the core of our service through a broad array of riba free finance products. We shall widen our distribution base through a branch network

Credit Rating

PACRA has graded the Bank's long-term entity rating "A-" and short term rating "A2". These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

Auditors

The present auditors M/s A.F. Ferguson & Co., Chartered Accountants are to retire and being eligible have offered themselves for reappointment.



**Emirates Global
Islamic Bank**
See the Light

Emirates Global
إميريشن گلوبل اسلامي بينك

Acknowledgement

The Board expresses its thanks and gratitude to the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and our Shariah advisors for their continued guidance and support. We also take this opportunity to thank our valued customers for their patronage and our employees for their continuous efforts to make Emirates Global Islamic Bank a great success.

On behalf of the Board

Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi
Chairman
16 March, 2008