

# **EMIRATES GLOBAL ISLAMIC BANK LIMITED**

## **Directors' Report**

The Board of Directors of the Bank is pleased to present the 4<sup>th</sup> annual report along with the audited financial statements and the auditors' report for the financial year ended December 31, 2008.

### **Ongoing Developments**

During the year, management remained focused on growing business volumes and achieved a impressive growth of over 100% for the year. Focus was also accorded on the support functions to achieve efficiencies and improve customer service.

With the permission of the State Bank of Pakistan to open 30 more branches in 2008, the branch network expanded to 40 branches in 2008. 8 branches are located in Karachi, 6 in Lahore, 2 each in Islamabad, Peshawar, Gujranwala and Sialkot and 1 branch each in 18 cities of the country.

The expansion in network is reflected in the widening and deepening of EGIBL's account base, where deposits increased by 139% to reach Rs.10.9 billion (Rs.4.5 billion in 2007). The number of customers increased by 272% to 13,502 (3,631 customers in 2007).

Under the Annual Branch Expansion Plan policy the management applied to the State Bank of Pakistan to open 60 new branches and 23 sub-branches in 2009. We are pleased to inform that the State Bank of Pakistan has accorded approval for this expansion.

In February 2009, your bank has signed Memorandum of Understanding (MOU) with Alzamin Leasing Modaraba, Alzamin Leasing Corporation Limited and Saudi Pak Leasing Company Limited to merge these listed companies into the bank. Approval to conduct due diligence has been received from the State Bank of Pakistan and the process has been initiated. Acquisition would be by way of an equity swap. The combination will enhance EGIBL's business base at an attractive valuation.

The paid up capital of the bank is Rs.4.5 billion, and net of losses it is Rs.4.05 billion, which is short of Rs.0.95 billion of the minimum capital requirement of State Bank of Pakistan for the year ended December 31, 2008. In view of the development of merging the three NBFCs the bank had applied to State Bank of Pakistan for extension in enhancement of paid-up capital till March 31, 2009. We are grateful that the State Bank of Pakistan has accorded approval to the request.

The Bank continues to focus on investments in technology and human capital, which are essential for the growth of the bank; these resources have to be consistently developed in order to remain competitive. In line with the need a total of 71 training sessions and workshops were organized where training was imparted to 1279 participants. We also continue to strengthen our service quality division to cater to the needs of our customers.

### **Economic Overview**

Pakistan's economy is passing through a challenging phase. It is an uphill task to manage high inflation, wide budgetary and trade deficits and the weakening rupee. Government of Pakistan's new economic team is actively addressing the issues to ease out the macro economic imbalances. The increase in oil and



food prices, rising imports and the consequent higher borrowings have resulted in overall deteriorating economic conditions.

Going forward, EGIBL intends to take all possible measures to address the expect impact of the slowdown in economic growth by ensuring strict monitoring of the asset portfolio. In this scenario, asset growth will be very closely monitored. Furthermore allocation of resources, (liquidity and credit) reflects in pricing. These initiatives will play a critical role in continuing to build up a high quality advances portfolio and keeping future delinquencies at a minimum.

### **Results of operations**

During the period under review, your bank posted an after tax loss of Rs.260.1 million, as on December 31, 2008 the equity (net of losses) of the bank stood at Rs.4.05 billion and total assets grew to Rs.16.5 billion from Rs.8.9 billion as at December 31, 2007.

Deposits rose to Rs.10.9 billion (Rs.4.5 billion in 2007), while advances stood at Rs.9.9 billion (Rs.2.6 billion in 2007). Investments have increased to Rs. 2.7 billion (Rs.2.2 billion in 2007).

Profit/return on financings, investments and placements was Rs.1,060 million (Rs. 381.1 million in 2007) whereas return on deposits and other dues stood at Rs.598 million (Rs.125 million in 2007).

The Bank has been working on reducing the cost of deposit by focusing on core branch banking customers and reducing reliance on high cost larger deposits. However given the liquidity crunch and the subsequent quest by banks to increase their deposits not withstanding a reduction in overall sector's deposit base increased the cost of attracting new customers and retaining existing customers.

### **Financial Summary**

	<b>Rupees in Million</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Gross income	1,060	381
Return on deposits and provisions	(596)	(133)
Net margin / funded income	464	248
Non fund Income	95	64
Admin and other expenses	(950)	(396)
Pre tax loss	(391)	(84)
Taxation	131	26
Post tax loss	(260)	(57)
Accumlated loss brought forward	(188)	(131)
Accumlated loss carried forward	(448)	(188)

### **Loss per share**

The loss per share of the bank was Re.0.60 based on weighted average paid up share capital during the year.

### **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 2 years, key operating and financial data for that period has been presented in summarized form.
9. Since there are no 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, 2008 amounted to Rs.35.8million.
11. During the year ended December 31, 2008, 6 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	3
Syed Tariq Husain	6	6
Abdul Ghaffar Fancy	6	6
Mubarak Balaswad Mubarak Humaid	6	5
Abdulahdi Al Shayif	6	3
Riyadh Mohammad Saeed Al Birdisi	6	5

## 12. Shareholding Pattern as on December 31, 2008

SHARE HOLDER CATEGORY	NO OF SHAREHOLDERS	SHARES HELD	%AGE
<b>Directors</b>			
Sheikh Tariq Bin Faisal Khalid Al Qassemi	1	157,401,500	34.98%
Syed Tariq Husain	1	5,930,000	1.32%
Mubarak Bulaswad Mubarak Hamid Bulaswad	1	4,860,000	1.08%
Abdul Ghaffar Fancy	1	2,430,000	0.54%
Abdul Hadi A Shayif	1	500	0.00%
Riyadh Mohammad Saeed Al Birdisi	1	500	0.00%
<b>Associated companies, undertakings and related parties</b>			0.00%
Mal Al Khaleej Investments LLC	1	225,000,000	50.00%
Emirates Financial Holdings LLC	1	52,375,500	11.64%
<b>Banks, Development Financial Institutions and Non Banking Financial Institutions</b>			0.00%
Bank of Punjab	1	2,000,000	0.44%
<b>Others</b>	4	2,000	0.00%
	<b>13</b>	<b>450,000,000</b>	<b>100.00%</b>
<b>Shareholders with 10% or more voting interest</b>			
Sheikh Tariq Bin Faisal Khalid Al Qassemi	1	157,401,500	34.98%
Mal Al Khaleej Investments LLC	1	225,000,000	50.00%
Emirates Financial Holdings LLC	1	52,375,500	11.64%

No executive of the Bank other than President, spouses and minor children of Directors or any other person was shareholder of the Bank as of December 31, 2008.

No trading was done by the Directors, CEO, and Company Secretary and their spouses in the shares of the Bank during the period

### Risk Management Framework

To establish an effective risk management and control system, the Bank has identified the key pillars which will act as drivers 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.

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) manages 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 4% 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.

Your bank has carried out portfolio reviews and stress tests to anticipate the risks that are likely to arise in the current environment. The prevailing economic slow down, entails a greater focus towards the borrowers industry and its relative vulnerability to inflation, energy cost, as well as management, planning and competitive positioning. Furthermore, in allocating resources, liquidity is reflected in pricing and loan size is limited to avoid concentration. Likewise, longer term deals are being avoided to control maturity mismatches and are allowed only for the best names only. These initiatives will play a critical role in building up a high quality advances portfolio and keeping future delinquencies at a minimum.

### **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.

**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



**Syed Tariq Husain**  
**President & CEO**  
**March 9, 2009**  
**Sharjah, United Arab Emirates**