

DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors, I am pleased to present the annual report along with the annual audited financial statements and auditors' report thereon of Dubai Islamic Bank Pakistan Limited – DIBPL ('the Bank') for the year ended December 31, 2017.

ECONOMIC CONDITION OF PAKISTAN

The current year came to a close on a positive note in terms of strong economic activity as corroborated by broad-based pick up in industrial output, gains in factors supporting production of major crops and growth in private sector credit. The growth is also evident by higher tax revenue collection, support from continuation of CPEC projects and improved security conditions along with enhanced power supply. Taking all the evidences together, real GDP growth is targeted to grow at 6% for 2018.

Higher international oil prices along with pass-through to domestic petroleum process and the imposition of regulatory duty on non-essential import items are expected to increase inflation in the coming months. However, it is still expected to remain in the range of 4.5-5.5%. The current account deficit widened to USD 5 billion during end of 2017 as compared to USD 2.3 billion during last year. Similarly, remittances recorded a modest increase of 2.3% during end of current year. Nonetheless, the impact of these positive developments on the overall current account was more than offset by growth in imports on account of rising domestic demand for consumption as well as investment and due to recent rise in international oil prices. Amid mounting current account deficit and the speculation that the country may need International Monetary Fund support, the Pakistan's rupee towards the end of the year devalued by over 4% against the US Dollar which the SBP termed as market-driven adjustment in the exchange rate. The SBP has changed the policy rate to 6% in January 2018 based on the recent economic developments and inflation breaching its target rate.

FINANCIAL HIGHLIGHTS

-----Rupees in millions-----

	2017	2016	Growth
Investments	41,474	27,212	52%
Islamic financing and related assets	119,522	93,911	27%
Total assets	182,272	152,133	20%
Deposits and other accounts	149,295	129,265	15%
Net equity	14,912	12,107	23%
Number of branches	200	200	-
Profit before tax	2,564	1,371	87%
Profit after tax	1,602	856	87%
Earnings per share (Rs.)	1.41	1.22	15%

By the Grace of Allah, DIBPL has maintained its growth momentum during 2017 and recorded historic results for the year ended December 2017. The Bank has increased its balance sheet footing through impressive growth in its investments and financing portfolio. The Bank has also recorded robust growth in deposits compared to last year. The Country's banking industry spreads has remained under pressure due to competitive market conditions and SBP's record-low level policy rate of 5.75% during the year. Despite the challenging conditions, DIBPL attained a record level growth of 87% in profit after tax during the year.

The major contributors were net spread earned, which grew by 26.62% while fee and commission income increased by 20.89%, compared to last year. This has been achieved through strong growth in

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commercial & consumer financing portfolio yielding higher returns, and further strengthening of non-funded income streams from trade finance, foreign exchange and corporate advisory services. Whereas the provisioning cost and operating expenses growth has also been effectively contained.

MINIMUM CAPITAL REQUIREMENT

During the year, Alhamdulillah, the Bank was successful in raising share capital to PKR 11.652 billion through a right issue of PKR 1.427 billion. Further, the Bank has announced the successful issuance of its rated, unsecured, subordinated and privately placed tier-II Sukuk. The bank has received an overwhelming response from the market and timely approval from State Bank of Pakistan which resulted in closure of this transaction within a record time. The PKR 4 Billion Sukuk issue was oversubscribed by 1.7 times the issue size, reflecting strong demand and confidence by the investors in one of the leading global brands in Islamic Banking. This Sukuk issuance will provide the much needed impetus to the bank to maintain its growth trajectory. The Sukuk has a 10 year tenor and carries expected profit rate of 0.50% over 6 Month KIBOR. As of December 2017, the Bank is MCR and CAR compliant.

FUTURE OUTLOOK

The economy has performed well on many fronts in the last fiscal year and is likely to expand with stable inflation in 2018. However, maintaining this momentum going forward would largely depend on addressing the challenges faced in external and fiscal accounts. Islamic Banking is growing at a rapid pace and we are thankful to SBP and other regulators for the support given in developing the Islamic Banking industry. DIBPL will continue to play its role in growth of Islamic Banking by offering Sharia compliant products and services in line with customer needs through leveraging its IT platform and quality human resource.

CREDIT RATING

Considering the sound performance indicators of the Bank, the JCR-VIS Credit Rating Company Limited has upgraded the Bank's medium to long-term rating to 'AA-' (AA minus) from 'A+' (A-Plus) and the short term rating as 'A-1' (A one) while the outlook has been assigned as "Stable". The JCR-VIS Credit Rating Company Limited has also assigned Tier II Sukuk rating of "A+" (Single A Plus) with Stable outlook.

AUDITORS

The present auditors, KPMG Taseer Hadi & Co., Chartered Accountants, retired and offered themselves for reappointment. On the recommendation of the Audit Committee of your Bank, the Board has agreed to recommend the appointment of M/s. KPMG Taseer Hadi & Co., Chartered Accountants, to function as auditors for the year ending December 31, 2018.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Prudential Regulations for Corporate/Commercial Banking, issued by the State Bank of Pakistan have been adopted by the Bank and have been duly complied with. Statement to this effect is annexed.

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 & Exchange Commission of Pakistan and adopted by the State Bank of Pakistan. The following statements are a manifestation of its commitment towards high standards of Corporate Governance and continuous organizational improvement.

- The financial statements, prepared by the management present fairly the statement of affairs of the Bank, the result of its operations, cash flows and changes in equity.

- Proper books of accounts of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on prudent and reasonable judgments.
- International Financial Reporting Standards, as applicable in Pakistan and to DIBPL, have been followed in the preparation of financial statements and any departure there-from has been adequately disclosed and explained.
- As a part of the Bank's equity build-up strategy to comply with the Minimum Capital Requirement, it has not declared any dividends nor issued any bonus shares.
- The training requirements for the directors will be complied with as per the code.
- There are no doubts upon Bank's ability to continue as a going concern.
- The system of internal control is sound in design and has been effectively implemented and monitored. The management has made statements relating to internal control and risk management framework to meet the requirements of State Bank of Pakistan and the Code of Corporate Governance. These statements are enclosed with the accounts and are hereby endorsed by the Board.
- The market value of investments of the Bank's Provident Fund and Gratuity Fund based on un-audited accounts as at December 2017 is Nil since the balance of the same has been placed in a deposit account with the Bank.
- The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
- There has been no material departure from the best practices of corporate governance.

Risk Management

The Bank is progressively implementing the guidelines issued by the SBP on risk management while keeping in sight the current and future scale and scope of its activities. Today, for the Bank, Risk Management is a structured approach to manage uncertainty related to an outcome. It is a sequence of activities including: risk assessment, policies, procedures and strategies development which are put in place to identify, measure, monitor and control the risk faced and mitigation of risk using adequate and relevant resources. The overall responsibility of risk management rests with the Board of Directors and it has constituted Board Risk Management Committee (BRMC) comprising of Board members with clear terms of reference. Various Management Committees such as Risk Management Committee (RMC), Operational Risk Management Committee (ORMC), Management Credit Committee (MCC) and Asset and Liability Committee (ALCO) support these goals.

OTHER MATTERS

In line with Circular BSD Circular no. 7 dated May 27, 2004, subsequent guidance and OSED Circular No. 1 dated February 7, 2014 issued by the State Bank of Pakistan; the Bank has an active ICFR program. The Bank has submitted the external auditors' Long Form Report for the period ended December 31, 2016, to the State Bank of Pakistan.

Bank is fully committed to Corporate Social Responsibility and fulfills the responsibility by a wide range of activities. Dubai Islamic Bank Pakistan has always stepped forth in serving the community. During the year, major campaigns in which DIBPL participated includes an awareness and blood donation drive on "Thalassemia", Donation and Zakat drives for SIUT, The Indus Hospital, The Citizen Foundation and other healthcare and educational organizations.

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Pattern of Shareholding as of December 31, 2017

Name of Shareholders	No. of Shares	%
Dubai Islamic Bank, UAE (Sponsor)	1,165,227,976	99.99993
Mohamed Saeed Ahmed Abdulla Al Sharif	100	0.00001
Obaid Khalifa Mohammed Rashed Al Shamsi	100	0.00001
Muhammad Saleem	100	0.00001
Salman Liaqat	100	0.00001
Abbas Saifuddin Bhujwala	100	0.00001
Muhammad Maqbool Alam	100	0.00001
Naved A. Khan	100	0.00001
Aman Aziz Siddiqui	100	0.00001
	1,165,228,776	100

Board and other committee meetings in 2017

The number of meetings of the Board and its Committees attended by each of the respective Director, during the year is shown below:

Number of Meetings held	BOD	Audit Committee	BRMC	REMCO	BCIC
	5	4	4	3	2
NAME					
Mr. Mohamed Saeed Ahmed Abdulla Al Sharif	5	-	-	-	2
Mr. Muhammad Saleem	5	-	4	3	2
Mr. Obaid Khalifa Mohammed Rashed Al Shamsi	4	-	-	3	-
Mr. Abbas Saifuddin Bhujwala	4	-	3	-	2
Mr. Salman Liaqat	5	4	-	-	-
Mr. Muhammad Maqbool Alam	5	4	-	3	-
Mr. Naved A. Khan	5	-	4	2	2
Mr. Aman Aziz Siddiqui	5	4	4	-	-
Mr. Junaid Ahmed, CEO	5	-	4	3	-

SIX YEARS FINANCIAL SUMMARY 2012-2017

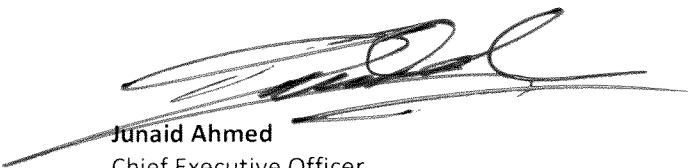
Rupees in 'millions'

	2017	2016	2015	2014	2013	2012
Investments	41,474	27,212	23,822	18,259	25,044	21,335
Islamic financing and related assets-net of provision	119,522	93,911	104,954	58,840	35,540	26,315
Deposits and other accounts	149,295	129,265	136,743	83,844	67,639	53,110
Net Shareholder's equity	14,912	12,107	7,976	7,530	6,930	6,793
Total assets	182,272	152,133	157,131	101,553	80,257	63,510
Number of branches	200	200	200	175	125	100
Profit before tax	2,564	1,371	712	926	212	500
Profit after tax	1,602	856	431	601	137	345
Earnings per share (Rs.)	1.41	1.22	0.62	0.86	0.20	0.50

ACKNOWLEDGEMENT

The Board would like to acknowledge the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and other regulatory authorities for their guidance and cooperation extended to the Bank. At the same time, the Board would also like to express its sincere gratitude and thanks to the Customers, Staff, Stakeholders, Sharia Board, Sukuk investors and other business partners for their continued support and trust.

For & on behalf of the Board of Directors;



Junaid Ahmed

Chief Executive Officer

Dated: January 29, 2018