

## CHAIRMAN'S REVIEW & DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors, we are 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, 2018.

### ECONOMIC OVERVIEW

2018 was a challenging year for Pakistan, both on political and economic front. While smooth transition between governments did address the political uncertainty that hovered during the first half, economic worries continue to test business and consumer confidence. In the backdrop of sizable twin deficits, Pakistan is set to witness macro tightening in 2019, which will slow down growth in the short-run. However, it will help place country on a more sustainable footing.

The headline CPI inflation increased to 6.2% yoy in Dec-18. The average headline inflation is expected to fall in the range of 6.5-7.5 percent. While effect of weaker PKR and hike in utility tariffs are tailwinds for inflation, subdued international oil prices on expected slowing of global economies will keep inflation in check.

The economic activity is likely to slowdown in 2019 in the backdrop of aggressive macro measures including monetary tightening by 425 bps (in 2018) and currency devaluation. Additionally, talks with the IMF is set to resume, which will indicate how the imbalances are addressed in 2019. The GDP growth for FY19 is now projected at around 4% as against 5.8% for FY18.

Current account deficit declined 4.4% yoy to USD 8.0bn during 6MFY19 owing to increased remittances. However, despite considerable currency devaluation, exports have lagged behind as they decreased by 0.4%. While the country has been able to finance the deficit through funds from Friend countries, coupled with drawdown on foreign reserves, major challenge for the incumbent government remains arrangement of funds for the deficit going forward.

### FINANCIAL HIGHLIGHTS

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

	2018	2017	Growth
Investments	45,851	41,474	11%
Islamic financing and related assets	153,306	119,522	28%
Total assets	231,823	184,994	25%
Deposits and other accounts	182,187	149,295	22%
Net equity	16,750	14,912	12%
Number of branches	200	200	-
Profit before tax	4,120	2,564	61%
Profit after tax	2,509	1,602	57%
Earnings per share (Rs.)	2.15	1.41	53%

DIBPL had notable achievements during 2018. Bank recorded excellent results and growth in the overall banking industry and was ranked as the "Best Emerging Bank" in 2018.

The Bank posted profit after tax of Rs 2.5 billion compared to Rs 1.6 billion in the previous year, showing a healthy growth of 57%. Earnings per share for the year 2018 stood at Rs. 2.15 per share compared to Rs. 1.41 per share for 2017. The Bank's net spread before provisions also increased by 26%, primarily due to impressive growth in its financing portfolio by 28% from previous year. The growth was witnessed across the Corporate, SME Commercial and Consumer financing portfolio.

Asset quality indicators of the bank are very healthy and the Bank has one of the lowest non-performing financing ratios in the banking industry. Despite, PKR devaluation and rising inflation the expenses were tightly controlled as they only increased by 4.8%. The Bank has also recorded robust growth in deposits by 22% as compared to last year.

### **Additional Tier I Sukuk**

Alhamdulillah, Bank has also successfully issued additional Tier I capital of Rs 3.120 billion in December 2018, in form of perpetual, unsecured and sub-ordinated Sukuk that has further strengthened the Bank's Capital Adequacy Ratio and will support the future growth strategy of the Bank. The Sukuk has been rated "A" (Single A), by JCR-VIS Credit Rating Company Limited. The Bank is MCR and CAR compliant as of December 31, 2018.

### **Corporate Awards & Recognition**

In 2018, Dubai Islamic Bank Pakistan has also achieved major feat by winning six awards globally including the coveted Pakistan Banking Awards in the "Best Emerging Bank" category. Other three awards were received from Islamic Finance Forum of South Asia (IFFSA) & two awards from Cambridge IFA, UK in the category of Best Islamic Retail Bank in Pakistan & Best Islamic Retail Banking Brand in Pakistan respectively.

### **FUTURE OUTLOOK**

Going forward we expect fiscal and monetary policies to work in tandem in order to contain overall balance of payment and currency crisis. We remain hopeful that new political landscape and materialization of any investment flows will further strengthen country's reserve position and thus create more sustainable basis for growth which will help Islamic Banking in maintaining its growth trajectory. DIBPL will continue to play its role in growth of Islamic Banking by offering Sharia compliant products and services in line with customer needs.

### **CREDIT RATING**

JCR-VIS Credit Rating Company Limited has reaffirmed the Bank's medium to long-term rating as 'AA-' (AA minus) and the short term rating as 'A-1' (A one) with stable outlook. 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 have retired. The Board of Directors and the Audit Committee place on record their appreciation for the services rendered by the retiring Auditors.

On the recommendation of the Audit Committee, the Board has decided to keep the same external auditors as that of the Holding Company. Since the Holding Company is yet to appoint their external auditors, as such the Board decided to recommend the appointment subsequent to the appointment of external auditors of the Holding Company for the year ending December 31, 2019.

### **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 is complied as per the requirements.
- 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 2018 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.
- The Bank has prepared the remuneration policy in accordance with the applicable regulations for due approval by the Board of Directors.
- 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 Monitoring Committee (BRMC) comprising of Board members with clear terms of reference. Various Management Committees such as Risk Management Committee (RMC), 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, 2017, to the State Bank of Pakistan.

DIBPL recognizes its responsibility as a conscientious corporate citizen and keeps Corporate Social Responsibility as an integral element of its value system. The Bank remains committed to its objective of paying back to the society – both directly and indirectly, and in this regard have contributed through various ways and means.

## Pattern of Shareholding as of December 31, 2018

Name of Shareholders	No. of Shares	%
Dubai Islamic Bank PJSC, UAE - the Holding Company (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
	<b>1,165,228,776</b>	<b>100</b>

## Board and other committee meetings in 2018

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	5	4	5	-
<b>NAME</b>					
Mr. Mohamed Saeed Ahmed Abdulla Al Sharif (Non-Executive)	5	-	-	-	-
Mr. Muhammad Saleem (Non-Executive)	4	-	3	3	-
Mr. Obaid Khalifa Mohammed Rashed Al Shamsi (Non-Executive)	5	-	-	5	-
Mr. Abbas Saifuddin Bhujwala (Non-Executive)	5	-	4	-	-
Mr. Salman Liaqat (Non-Executive)	4	4	-	-	-
Mr. Muhammad Maqbool Alam (Independent Director)	5	5	-	5	-
Mr. Naved A. Khan (Independent Director)	4	-	3	4	-
Mr. Aman Aziz Siddiqui (Independent Director)	5	5	4	2	-
Mr. Junaid Ahmed, CEO	5	-	-	-	-

(\*) During 2018, SECP issued a regulation wherein the companies were directed to appoint female director till October 2019.

## SIX YEARS FINANCIAL SUMMARY 2013-2018

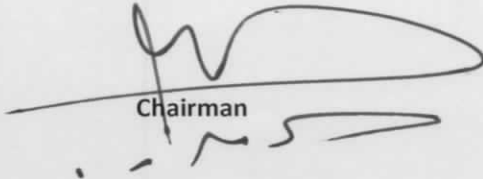
*Rupees in 'millions'*

	2018	2017	2016	2015	2014	2013
Investments	45,851	41,474	27,212	23,822	18,259	25,044
Islamic financing and related assets-net of provision	153,306	119,522	93,911	104,954	58,840	35,540
Deposits and other accounts	182,187	149,295	129,265	136,743	83,844	67,639
Net Shareholder's equity	16,750	14,912	12,107	7,976	7,439	6,962
Total assets	231,823	184,994	152,133	157,131	101,553	80,257
Number of branches	200	200	200	200	175	125
Profit before tax	4,120	2,564	1,371	712	926	212
Profit after tax	2,509	1,602	856	431	601	137
Earnings per share (Rs.)	2.15	1.41	1.22	0.62	0.86	0.20

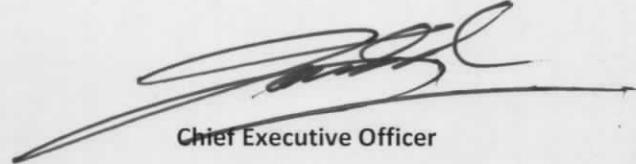
## ACKNOWLEDGEMENT

We take this opportunity to express our gratitude to our customers and business partners for entrusting us with their business and to our Shareholders for its support and confidence. We offer sincere thanks to the State Bank of Pakistan for their guidance and cooperation extended to the Bank. We also acknowledge the efforts, commitment and dedication of our employees towards the growth of DIBPL.

For & on behalf of the Board of Directors;



Chairman



Chief Executive Officer

9

Dated: January 29, 2019