



## 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, 2019.

### ECONOMIC OVERVIEW

Macro rebalancing remained the major highlight for 2019, where the country further witnessed aggressive monetary tightening, currency devaluation, coupled with certain fiscal consolidation measures. While things still remain challenging in 2020, the measures have helped in toning down the imbalances and recover overall confidence. Curtailment of Balance of Payment outruns amid external financing support is helping reserve accumulation which in turn has provided stability to PKR. On fiscal front, despite revenue target misses, government is steering towards more sustainable footing through augmenting the tax base and addressing the undocumented economy. Also the entry into IMF's standby arrangement, not only adds scrutiny to economic measures but it also provides access to country to tap international money.

During the year, country has also moved to a new base for inflation (2015/16) which came in at 12.6% year on year (12.4% on old base) on the back of higher food prices during December 2019. Government targets inflation of 11-12% for FY20. On the external front, things continued to improve considerably with a sizeable reduction in Current Account Deficit (CAD) which narrowed c73% year on year to USD 0.32bn in Nov'19 taking 5MFY20 CAD to USD1.82bn vs. USD 6.73bn in 5MFY19. The encouraging growth in exports and a contraction in imports, together with the disbursement of program related inflows and activation of the Saudi oil facility, helped to build SBP's foreign exchange reserves. Exports will have to continue with its improving performance as imports will eventually bottom out, thus expected Eurobond issue will be of significant importance. Recent rally in oil price in the backdrop of increasing geo-political tension stands as a major challenge for the country as a prolonged rally could impair the external improvement seen thus far.

Pakistan stays in transition phase where aggressive macro measures have started to reap results, however economy will face slowdown and escalation on regional tensions might delay the easing cycle. In the long run, however, the measures are to place country on a more sustainable footing.

### FINANCIAL HIGHLIGHTS

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

	2019	2018	Growth
Investments	49,157	45,851	7%
Islamic financing and related assets	177,922	153,306	16%
Total assets	264,639	231,823	14%
Deposits and other accounts	209,952	182,187	15%
Net equity	22,163	16,750	32%
Number of branches	235	200	18%
Profit before tax	5,688	4,120	38%
Profit after tax	3,346	2,509	33%
Earnings per share (Rs.)	2.87	2.15	33%

DIBPL had notable achievements during 2019. The Bank posted profit after tax of Rs. 3.35 billion compared to Rs. 2.51 billion in the previous year, showing a healthy growth of 33%. Earnings per share for the year 2019 stood at Rs. 2.87 per share compared to Rs. 2.15 per share for 2018.

Aggregate net revenues for the year are reported at Rs.13.28 billion, improving by 28% from Rs.10.37 billion last year. The increase in net profit / return was contributed by higher spreads in line with policy rate increases as well as growth in balance sheet. Further, other income also increased by an impressive 23% during the year on account of gain on sale of securities and foreign exchange revenues. Although, operating expenses increased by 12% mainly reflecting the impact of Rupee devaluation and inflationary upsurge, the cost to income ratio improved from 58% to 52% as compared to last year.

The Bank also increased its Balance Sheet footing by 14% through robust growth in deposits which were deployed in financing portfolio which increased by 16% and fresh investment were made in SLR eligible Energy Sukuk. Consequently, advances to deposits ratio stood at 85% at the year end. In the backdrop of challenging economic conditions and high policy rate, the banking sector financing portfolio showed signs of stress as reflected in the increase in Non-performing portfolio which grew by PKR 78 billion as at September 30, 2019 from December 31, 2018. Accordingly there was an increasing trend in non-performing portfolio of the Bank. Necessary steps have been taken to proactively manage the financing portfolio and reduce the non-performing financing.

### **CORPORATE AWARDS & RECOGNITION**

In 2019, Dubai Islamic Bank Pakistan has also achieved major feat by winning seven awards globally including the coveted CFA Society Pakistan Excellence Award in the “Best Islamic Bank” category. Other three awards were received from Islamic Finance Forum of South Asia (IFFSA) & three awards from Cambridge IFA, UK in the category of Best Islamic Retail Bank in Pakistan & Best Islamic Retail Banking Brand in Pakistan.

### **CREDIT RATING**

We are pleased to inform you that VIS Credit Rating Company Limited (formerly JCR-VIS Credit Rating Company Limited), has upgraded the Bank's long-term and short term entity rating from 'AA-/A-1'(Double A Minus / A-One) to 'AA/A-1+' (Double A/A-one Plus) with stable outlook. The VIS Credit Rating Company Limited has also upgraded the rating of the Bank's Tier II Sukuk from 'A+' (Single A Plus) to 'AA-'(Double A minus). Rating of Bank's ADT-1 Instrument has also been upgraded from 'A' (Single A) to 'A+' (Single A Plus). The rating indicates sound performance indicators of the Bank along with strong sponsor support.

### **AUDITORS**

The retiring auditors, Deloitte Yousuf Adil, Chartered Accountants, being eligible has offered themselves for reappointment. As required under Code of Corporate Governance, the Board and the Audit Committee has recommended the appointment of Deloitte Yousuf Adil, Chartered Accountants as auditors of the Bank for the year ending December 31, 2020.

### **CORPORATE AND FINANCIAL REPORTING FRAMEWORK**

The Board of Directors is fully cognizant of its responsibility under the Listed Companies (Code of Corporate Governance) Regulations, 2019 issued by Securities and Exchange Commission of Pakistan. The compliance statement to this effect is annexed.

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 except for the change in accounting policy, duly disclosed in the financial statements. The accounting estimates are based on prudent and reasonable judgments.

- International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure from these has been adequately disclosed, if any.
- 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 funds of the Bank's Provident Fund and Gratuity Fund based on un-audited accounts as at December 2019 have been mainly placed in term deposits 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 FRAMEWORK**

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, 2018, 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.

## **BOARD COMPOSITION & MEETINGS**

In line with the requirements of the CCG, the Bank encourages representation of independent and non-executive directors on the Board. The current composition of the Board is as follows:

Total number of Directors 8

**Composition:**

- (i) Independent Directors: 2
- (ii) Non-executive Directors: 5
- (iii) Executive Director: Nil
- (iv) Female Directors: Nil

*We are in the process of appointing an independent director to fill in the vacancy.*

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

	BOD	BAC	BRMC	REMCO	BCIC	BITC
<b>Number of Meetings held</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>2</b>
<b>NAME</b>						
Mr. Mohamed Saeed Ahmed Abdulla Al Sharif (Non-Executive)	5	-	-	-	-	-
Mr. Muhammad Saleem (Non-Executive)	5	-	1	4	-	-
Mr. Obaid Khalifa Mohammed Rashed Al Shamsi (Non-Executive)	5	-	-	4	-	-
Mr. Abbas Saifuddin Bhujwala (Non-Executive)	5	-	4	-	-	-
Mr. Salman Liaqat (Non-Executive)	5	5	3	-	-	2
Mr. Muhammad Maqbool Alam (Independent Director)	5	5	-	4	-	2
Mr. Naved A. Khan (Independent Director)	4	-	3	4	-	2
Mr. Junaid Ahmed, CEO	5	-	-	-	-	-

**PATTERN OF SHAREHOLDING AS OF December 31, 2019**

Name of Shareholders	No. of Shares	%
Dubai Islamic Bank PJSC, UAE - the Holding Company (Sponsor)	1,165,228,076	99.99994
Mr. Mohamed Saeed Ahmed Abdulla Al Sharif	100	0.00001
Mr. Obaid Khalifa Mohammed Rashed Al Shamsi	100	0.00001
Mr. Muhammad Saleem	100	0.00001
Mr. Salman Liaqat	100	0.00001
Mr. Abbas Saifuddin Bhujwala	100	0.00001
Mr. Muhammad Maqbool Alam	100	0.00001
Mr. Naved A. Khan	100	0.00001
	<b>1,165,228,776</b>	<b>100</b>

**DIRECTORS' REMUNERATION**

Independent directors and non-executive directors are entitled for the fee for attending the Board and its sub-committee meetings. The levels of remuneration are appropriate and commensurate with the level of responsibility and expertise required to govern in the best interest of the Bank and its Shareholders. Formal remuneration policy will be submitted for due approval by the Board.

**FUTURE OUTLOOK**

The Bank is cognizant of the fact that the operating environment would remain challenging in the short / medium term. Our strategy would therefore have a strong focus on improving the quality of financing

portfolio, ensuring sustainable revenue generation through booking high quality assets, generating low cost deposits and stringent control over costs.

## SIX YEARS FINANCIAL SUMMARY

*Rupees in 'millions'*

	2019	2018	2017	2016	2015	2014
Investments	49,157	45,851	41,474	27,212	23,822	18,259
Islamic financing and related assets-net of provision	177,922	153,306	119,522	93,911	104,954	58,840
Deposits and other accounts	209,952	182,187	149,295	129,265	136,743	83,844
Net equity	22,163	16,750	14,912	12,107	7,976	7,439
Total assets	264,639	231,823	184,994	152,133	157,131	101,553
Number of branches	235	200	200	200	200	175
Profit before tax	5,688	4,120	2,564	1,371	712	926
Profit after tax	3,346	2,509	1,602	856	431	601
Earnings per share (Rs.)	2.87	2.15	1.41	1.22	0.62	0.86

## ACKNOWLEDGEMENT

We take this opportunity to express our gratitude to our customers and business partners for entrusting us with their business and to our Shareholder 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

Dated: January 20, 2020