

## 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, 2020.

### ECONOMIC OVERVIEW

Pakistan's economy rebounded in the third quarter after encountering the full surge of the COVID-19 pandemic during the first half of 2020. Fortunately, proactive measures by the government did not only help in curtailing the outspread of the disease through smart lockdowns, but also ensured smooth running of the businesses by way of a fiscal stimulus package of PKR1.3trillion. Further, the SBP rolled out historic policy rate cuts - highest within the Frontier and Emerging markets, to support demand, and introduced a series of business supportive measures including loan restructuring, Rozgar Scheme, TERF (Temporary Economic Refinance Facility) etc. Business confidence and outlook for growth has improved considerably, Large Scale Manufacturing (LSM) index have restarted to expand, with impressive demand indicators economy-wide including auto, cement, POL sales amongst others.

The SBP's measures have proved extremely helpful for borrowers and is evident from the fact that PKR657 billion of principal amount of loans were deferred up to 1 year, PKR222 billion of loans were restructured and PKR238 billion financing was approved under SBP refinance scheme for salaries and wages by the banking sector. Inflation for December recorded lower (8% Y-o-Y) as the jump in food prices have started to cool off. As per the SBP, average inflation for FY21 is expected to fall within 7-9%, translating into negative real rates on forward basis. Success with the vaccine and trend of COVID cases will be key in directing the central bank's policy.

Pakistan's external position has continued to improve significantly, with marking the fifth continuous month of Current Account surplus balances. As such, the country has posted a surplus of USD0.45billion in Nov'20 vs. a deficit of USD0.33billion in Nov'19 – surplus for 5MFY21 now stands at USD1.64billion vs. a deficit of USD1.75billion in 5MFY20. Imports have started to pick-up post few months of compression (up 8% Y-o-Y in November, but down 4% in 5MFY21) as economy inches towards pre-COVID level. Therefore strong growth in remittances (up 27% Y-o-Y in 5M) and gradual pick-up in exports (up 7% in November Y-o-Y) are commendable and more importantly necessary for the external balance. Subsequently, the SBP forex reserves have risen to USD13.4 billion (above the pre-pandemic level) by the end of 2020. The SBP have also launched the Roshan Digital Account to encourage the Overseas Pakistanis by providing them access to capital markets and real estate sector (lucrative yielding Naya Pakistan Certificates, quick access to Stock Exchange). The initial response is very encouraging and it is expected to attract further USD inflows – reportedly already over USD200mn has been received under the scheme.

### FINANCIAL HIGHLIGHTS

-----Rupees in millions-----			
	2020	2019	Variance
Investments	66,580	49,157	35%
Islamic financing and related assets	199,416	177,922	12%
Total assets	303,262	264,639	15%
Deposits and other accounts	237,553	209,952	13%
Net equity	24,624	22,163	11%
Number of branches	235	235	-
Profit before tax	4,787	5,688	-16%
Profit after tax	2,894	3,346	-14%
Earnings per share (Rs.)	2.48	2.87	-14%

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The year 2020 has been a challenging year on account of COVID 19 pandemic resulting in negative economic growth. Despite these conditions, the Bank showed an impressive growth in balance sheet through robust growth of 13% in deposits which were deployed in financing portfolio and fresh investment were made in Global Sukuks and Pakistan Energy Sukuk II.

On the revenue side, despite drastic cut in policy rate by SBP, net revenue over the corresponding period registered a healthy growth of 13% mainly on the back of overall growth in earning assets. The operating expenses increase was contained and remained in line with inflation and PKR devaluation. The efficiency ratio remained stable and stands comfortably below the peer median.

The non-performing portfolio showed an increasing trend as the infection ratio increased to 2.78% an increase of 0.27% over same period last year. However, it is well below the industry average. Considering the prevailing economic conditions, the Bank adopted prudent approach by booking an additional general provision of PKR 1 billion in the 4Q on top of PKR 764 million provided in 9M20 in addition to the regulatory requirements. This has improved the overall non-performing financing coverage ratio to 88%.

### **CORPORATE AWARDS & RECOGNITION**

Dubai Islamic Bank Pakistan continues to be recognized locally and globally. This year also the Bank won eight awards from different reputable institutions namely GIFA (Global Islamic Finance Awards), CFA Society Pakistan & IFFSA (Islamic Finance Forum of South Asia). The award categories includes Islamic Finance Entity of the Year, Pakistan's First Shariah compliant long term FX Hedge deal, Islamic Bank of the Year (Large Category) and Islamic Investment Bank of the Year etc.

### **CORPORATE SOCIAL RESPONSIBILITY**

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. COVID-19 pandemic brought multiple challenges; Dubai Islamic Bank Pakistan geared up to the challenges and contributed to reduce the impact of COVID-19 related issues. The Bank contributed funds to various NGOs such as Saylani Welfare Trust International, ARY Services, Prime Minister COVID Fund etc.

### **CREDIT RATING**

During the year, VIS Credit Rating Company Limited has reaffirmed the entity rating at 'AA/A-1+' (Double A/A-one Plus) with stable outlook. The rating assigned to the Bank's Tier II Sukuk and Additional Tier I Sukuk has been reaffirmed at 'AA-' (Double A minus) and 'A+' (Single A Plus) respectively. The assigned ratings incorporate sound performance indicators of the Bank along with strong sponsor support.

### **AUDITORS**

The retiring auditors, being eligible has offered themselves for reappointment. During the year, the External Auditors M/s. Deloitte Yousuf Adil, Chartered Accountants, changed their status from a Member Firm to Independent Correspondent Firm of Deloitte Touche Tohmatsu Limited and as a result of which, the name of the Firm has changed under the new name as Yousuf Adil, Chartered Accountants. As required under Code of Corporate Governance, the Board and the Audit Committee has recommended the appointment of Yousuf Adil, Chartered Accountants as auditors of the Bank for the year ending December 31, 2021.

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## 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. Further, 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.
- The Bank's Capital Adequacy Ratio is at comfortable level and is over and above the minimum regulatory requirement of 11.50% as of December 31, 2020.
- 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 2020 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, 2019, to the State Bank of Pakistan.

## 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 9

Composition:

- (i) Independent Directors: 3
- (ii) Non-executive Directors: 5
- (iii) Executive Director: Nil
- (iv) Female Directors: 1

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
Number of Meetings held	4	4	5	5	-	4
NAME						
Mr. Mohamed Saeed Ahmed Abdulla Al Sharif (Non-Executive)	4	-	-	-	-	-
Mr. Muhammad Saleem (Non-Executive)	4	-	-	5	-	-
Mr. Obaid Khalifa Mohammed Rashed Al Shamsi (Non-Executive)	4	-	-	5	-	-
Mr. Abbas Saifuddin Bhujwala (Non-Executive) - Resigned during the year	1	-	1	-	-	-
Mr. Salman Liaqat (Non-Executive)	4	2	5	-	-	4
Mr. Muhammad Maqbool Alam (Independent Director)	4	4	-	2	-	4
Mr. Naved A. Khan (Independent Director)	4	-	5	2	-	4
Mr. John Stephen Grota Macedo (Non-executive) - appointed during the year	3	2	4	-	-	-
Ms. Shabnam Faqir Mohammad (Independent Director) - appointed during the year	2	2	-	3	-	-
Mr. Junaid Ahmed - CEO	4	-	-	-	-	-

## PATTERN OF SHAREHOLDING AS OF December 31, 2020

Name of Shareholders	No. of Shares	%
Dubai Islamic Bank PJSC, UAE - the Holding Company (Sponsor)	1,165,227,976	99.99993
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. John Stephen Grota Macedo	100	0.00001
Mr. Muhammad Maqbool Alam	100	0.00001
Mr. Naved A. Khan	100	0.00001
Ms. Shabnam Faqir Mohammad	100	0.00001
	1,165,228,776	100



## DIRECTORS' REMUNERATION

Independent 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.

## FUTURE OUTLOOK

Fortunately, government efforts to curtail COVID-19 outbreak and rejuvenate economy is faring well. We remain hopeful that the country does not experience a prolong second wave of the pandemic, the severity and duration of which would be detrimental. We are cognizant of the evolving situation and foresee that the operating environment will thread on the COVID-19. Our focus, therefore, would remain on selectively growing the balance sheet whilst protecting the health of financing & investment portfolio. Further, we will continue our efforts to mobilize low cost deposits to offset the negative impact of policy rate cuts on spreads and to maintain tight control over costs.

## SIX YEARS FINANCIAL SUMMARY



*Rupees in 'millions'*

	2020	2019	2018	2017	2016	2015
Investments	66,580	49,157	45,851	41,474	27,212	23,822
Islamic financing and related assets-net of provision	199,416	177,922	153,306	119,522	93,911	104,954
Deposits and other accounts	237,553	209,952	182,187	149,295	129,265	136,743
Net equity	24,624	22,163	16,750	14,912	12,107	7,976
Total assets	303,262	264,639	231,823	184,994	152,133	157,131
Number of branches	235	235	200	200	200	200
Profit before tax	4,787	5,688	4,120	2,564	1,371	712
Profit after tax	2,894	3,346	2,509	1,602	856	431
Earnings per share (Rs.)	2.48	2.87	2.15	1.41	1.22	0.62

## 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 continued support and confidence. We offer sincere thanks to the State Bank of Pakistan for their proactive measures to support the economy and providing necessary guidance. We would especially like to thank the employees for their efforts, commitment and dedication, under very difficult conditions resulting from COVID 19 pandemic, to serve the customers and contribute towards the growth of DIBPL.

For & on behalf of the Board of Directors;

 Chairman  Chief Executive Officer

Dated: 27 JAN 2021