Dubai Islamic Bank بنك دبي الإسلامي

DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors' of Dubai Islamic Bank Pakistan Limited (DIBPL), we are pleased to present the condensed interim un-audited financial statements for the period ended June 30, 2019.

ECONOMIC OVERVIEW

Post robust phase of economic growth between 2013 and 2018, Pakistan has had a tough run in the outgoing fiscal year. While expansionary fiscal policy in the backdrop of government leveraging on CPEC and favorable inflation environment, stable FX and strong investment growth allowed a sturdy episode of growth, unsustainable policies meant economic rebalancing, leading to aggressive macro-tightening by the incumbent government and another bailout package from the IMF.

Growth will remain subdued as the impact of high inflation, fiscal consolidation, and monetary tightening will continue to weigh on economic activity. Coming off from high base 5.5% in FY18, economy slowed down in FY19 (GDP growth of 3.3%) and the government expects a further slowdown in FY20 (est. GDP growth 2.4%). CPI inflation almost doubled in FY19 to average 7.3% Y-o-Y vs. 3.9% in FY18 on the back of PKR depreciation translating into higher prices, utility tariff hikes and higher food index. Headline inflation is expected to further accelerate in FY20 (targets at 11-13% Y-o-Y) as utility tariffs are expected to inch up further, while budgetary measures will also be implemented. In this regard, SBP is expected to continue with monetary tightening.

The present government in its first full-year budget has set ambitious revenue targets (+33% Y-o-Y tax revenues) as it attempts to increase the tax base which is currently uninspiring (12.6% of GDP in FY19). On the back of higher projections, govt. has also increased the spending budget, thus targeting a flattish Y-o-Y fiscal deficit at 7.2%.

On external front, things have improved considerably, however challenges still stand strong. Substantial decline in imports and support from remittances helped rescue the current account deficit balance which was down 29% Y-o-Y in 11MFY19 to USD12.7bn but dwindling exports remain a major concern for the country. Despite disbursements, reserves continue to burn out, now standing at USD7.2bn implying an import coverage of less than 2 months. The IMF agreement will help to stabilise the FX situation in the short term as it provides the opportunity to build foreign reserves.

Pakistan stays in transition phase where aggressive macro measures have started to reap results, however economy will face slowdown and further macro tightening can't be ruled out. But, it will help place country on a more sustainable footing.

FINANCIAL HIGHLIGHTS

--------------Rs. in millions ------------

Statement of Financial Position	30-Jun-19	31-Dec-18	Growth
Investments	57,645	45,851	26%
Islamic financing and related assets	171,040	153,306	12%
Deposits and other accounts	205,219	182,187	13%
Total assets	283,611	231,823	22%
Net equity	18,627	16,750	11%
Number of branches	200	200	-
Profit and Loss Account	**30-Jun-19**	**30-Jun-18**	**Growth**
Profit before tax	2,593	1,975	31%
Profit after tax	1,465	1,202	22%
Earnings per share (Rs.)	1.26	1.03	22%

The Bank posted a notable 22% increase in profit after tax for the half year ended June 30, 2019. Profit before taxation was recorded at Rs. 2.59 billion, an impressive increase of 31% over the corresponding period last year. Earnings per share for the current period were reported at Rs. 1.26 as against Rs. 1.03 for the corresponding period last year.

On the revenue side, net profit earned and other income registered a healthy growth of 25% mainly on the back of growth in overall investment and financing portfolio and its re-pricing pursuant to increase in the policy rate. Trade and transaction related fee and commission income increased by 4% while income from foreign exchange increased by 59% during the period under review. Although, operating expenses increased by 9% mainly reflecting the inflationary upsurge and impact of PKR devaluation, the cost to income ratio improved from 60% to 53% over the corresponding period last year.

The Bank also increased its Balance Sheet footing by 22% through robust growth in deposits which were deployed in financing portfolio resulting in increased by 12% and fresh investment were made in SLR eligible Energy Sukuk. In the backdrop of challenging economic conditions and high policy rate, the financing portfolio will come under stress & require close monitoring.

FUTURE OUTLOOK

The near term challenges to Pakistan's economy continue to persist with the rising inflation, an elevated fiscal deficit and low foreign exchange reserves which have impacted the economic growth. Going forward we expect fiscal and monetary policies to work in tandem in order to contain overall balance of payment and currency crisis. With the recent signing of IMF agreement, we expect investment flows to materialize which will further strengthen country's reserve position and thus create more sustainable basis for economic growth.

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.

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;

Chief Executive Officer **Director**

Dated: July 11, 2019