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, 2020.

ECONOMIC OVERVIEW

COVID-19 continued to challenge the country throughout 2nd quarter, as the government was not only required to deal with growing pandemic cases and casualties, but also had to restart the economic activity which was near a complete halt with nationwide lockdown. Overall businesses continue to struggle and shrinking disposable income indicates increasing drag on the economy.

Encouragingly, the government and the State Bank of Pakistan (SBP) have remained proactive during the period where the former announced a massive relief package of PKR1.2tn in an effort to support the economy, and latter undertook aggressive policy rate cuts coupled with facilitating financing relaxations for consumers. The SBP has directed banks to simplify financial services for exporters and importers, offer concessional financing to companies that do not lay off workers, extension in principal payments including rescheduling of loans, concessional financing for hospitals and medical centers and allowed banks leeway in booking losses.

These measures proved extremely helpful for borrowers and is evident from the fact that Rs. 593 billion (till July 3, 2020) of principal amount of loans were deferred, PKR 126 billion (till July 3, 2020) of loans were restructured and PKR 119 billion (till June 26,2020) financing was approved under SBP refinance scheme for salaries and wages by the banking sector.

The quarter also included the announcement of incumbent government's second annual budget. Considering the overall situation, the government did not extend any new taxes and remains committed in achieving the targets through higher tax collections whilst ensuring slight increase in the development expenditure. The GDP growth rate is targeted at 2 % (FY 20-21) as against the negative growth rate of 0.4% (FY 19-20); and with the fiscal deficit is targeted at 7% (FY 20-21) as against the actual deficit of over 9% (FY 19-20)

In the backdrop of deteriorating growth outlook and especially softer inflation expectations – SBP has cut the policy rates by 625bps cumulatively this year. Inflation for June'20 came in at 8.6% (vs. 8.2% in May on higher food prices) – ending FY20 at 10.8% below the SBP's target of 11-12%. Going forward, SBP expects the inflation to average 7-9% in FY21 in the absence of demand-side pressures and looks comfortable in maintaining real rates to zero given the challenging circumstances.

On the external front, Pakistan continues to witness improvement in its Current Account balance as the trading activity has shrunk and remittances stay strong. The country recorded a surplus of USD13mn in May'20 vs. a Current Account Deficit of USD1bn in May'19 – taking 11MFY20 deficit to USD3.3bn vs. USD12.5bn witnessed last year. Once the trading activity starts to pick pace, we expect uptick in the trading deficit however weaker oil prices (on a year on year basis) and resilient remittances should contain the deficit. Additionally, the country has been able to further attract foreign flows from the IMF, ADB and World Bank which has beefed up the reserves and provides comfort to the currency.

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FINANCIAL HIGHLIGHTS

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

Statement of Financial Position	30-June-20	31-Dec-19	Growth
Investments	65,177	49,157	33%
Islamic financing and related assets	189,014	177,922	6%
Deposits and other accounts	237,252	209,952	13%
Total assets	293,648	264,639	11%
Net equity	23,101	22,163	4%
Number of branches	235	235	-

Profit and Loss Account	30-June-20	30-June-19	Growth
Profit before tax	2,926	2,593	13%
Profit after tax	1,784	1,465	22%
Earnings per share (Rs.)	1.53	1.26	21%

During the period under review, the Bank has recorded impressive results. The Bank posted a notable 22% increase in profit after tax for the half year ended June 30, 2020 over corresponding period. Profit before taxation was recorded at Rs.2.93 billion, an impressive increase of 13% over the corresponding period last year. Earnings per share for the current period were reported at Rs.1.53 as against Rs.1.26 for the corresponding period.

On the revenue side, net revenue over the corresponding period registered a healthy growth of 25% mainly on the back of overall growth in earning assets and improvement in net spreads. Given strong growth in recurring income, the Bank's efficiency ratio has continued to depict improvement, and stands comfortably below the peer median. The Bank also increased its Balance Sheet footing 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. The liquidity position was comfortable as it remained within the targeted level. In view of the prevalent economic conditions, the non-performing portfolio showed an increasing trend as the infection ratio increased to 3.14% an increase of 0.85% over same period last year. However, it is well below the industry average. Further, the Bank has taken an additional General Provision of Rs. 314 million against any potential non-performing financing and stress on the borrowers in view of economic challenges arising due to COVID -19 outbreak.

FUTURE OUTLOOK

The outlook remains tough as COVID-19 continues to keep global economy under significant pressure, and Pakistan is no different. The government aims to strike balance between ensuring control on cases and recovering the economic activity through introduction of smart-lockdown. The severity and duration of the COVID-19 pandemic will shape the economies going forward and the growth estimates now appears to be a moving target. We are cognizant of the evolving situation and foresee that the operating environment will remain challenging in the short / medium term. Our focus, therefore, would remain on protecting the health of our balance sheet, maintaining ample liquidity to fund our assets and ensuring tight control over cost.

CREDIT RATING

During the period, 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.

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 guidance and cooperation extended to the Bank. We also acknowledge the efforts, commitment and dedication of our employees, 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;

Chief Executive Officer

Director

Dated: 20 July, 2020