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 September 30, 2021.

ECONOMIC OVERVIEW

The pace of Pakistan's economic recovery performed beyond expectations with all major macroeconomic indicators showing positive trend amid the Covid-19 pandemic. This robust recovery in domestic demand, coupled with higher international commodity prices, is leading to a strong pick-up in imports and a rise in the current account deficit. With growing signs that the latest Covid wave in Pakistan remains contained, continued progress in vaccination, and overall deft management of the pandemic by the Government, the economic recovery now appears less vulnerable to pandemic-related uncertainty. As a result, at this more mature stage of the recovery, a greater emphasis is needed on ensuring the appropriate policy mix to protect the longevity of growth, keep inflation expectations anchored, and slow the growth in the current account deficit.

The current account deficit rose to $0.8 billion in July and $1.5 billion in August, reflecting both vigorous domestic demand and high global commodity prices. While remittances remained strong, growing by 10.4 percent (y/y) during July-August and exports also performed reasonably well (averaging $2.3 billion per month), they were outstripped by imports. In response, with the flexible market-based exchange rate regime, the rupee has moved in an orderly manner in both directions and has depreciated by only 4.8 percent to date, much less than many other emerging market currencies over the same period. Since the rupee was floated, SBP's gross foreign exchange reserves have nearly tripled to a record $20 billion, while net international reserves have risen by nearly $16 billion between end-June 2019 and end-August 2021.

In FY21, prudent management of the public finances facilitated fiscal consolidation for the second year in a row despite Covid, with the primary deficit declining by around ½ percentage points to 1.4 percent of GDP. This improvement largely stemmed from strong growth in tax and petroleum development levy (PDL) revenues, together with significant deceleration in non-interest expenditures. On the real sector, with a supportive FY22 budget and accommodative monetary policy, most high-frequency domestic demand indicators such as automobiles, POL (petroleum, oil and lubricants) sales, cement sales, electricity generation and service sector continue to depict robust growth post Covid relaxations.

Inflation fell from 9.7 percent (y/y) in June to 8.4 percent in both July and August. Nevertheless, the momentum of prices remains relatively elevated, with month-on-month increases of 1.3 percent in July and 0.6 percent in August. As a result, at this more mature stage of the recovery, a greater emphasis is needed on ensuring the appropriate policy mix to protect the longevity of growth, keep inflation expectations anchored, and slow the growth in the current account deficit. In line with this shift in the economic outlook, Monetary Policy Committee (MPC) in its recent meeting decided to raise the policy rate by 25 basis points to 7.25 percent

FINANCIAL HIGHLIGHTS

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

Statement of Financial Position	30-Sep-21	31-Dec-20	Variance
Islamic financing and related assets	224,515	199,416	13%
Total assets	321,509	303,262	6%
Net equity	27,151	24,624	10%
Number of branches	235	235	-

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

Profit and Loss Account	30-Sep-21	30-Sep-20	Variance
Profit before tax	4,346	4,097	6%
Profit after tax	2,656	2,499	6%
Earnings per share (Rs.)	2.28	2.14	7%

The Corporate and Consumer financing portfolio showed strong growth on the back of robust economic recovery duly supported by both monetary and fiscal stimulus provided by State Bank of Pakistan (SBP) and the Government. The bank extended financing to its customer under various SBP refinance schemes.

Despite recoveries made during the period, the non-performing portfolio showed an increasing trend as the infection ratio increased to 2.95% an increase of 0.16% compared to Dec 20, however, it is far better than the overall banking sector infection ratio of over 8%. The bank continued its strategy of improving its NPL coverage by taking additional specific and general provision of PKR 946 M during the nine months ended September 30, 2021. Accordingly, the coverage ratio stood at 87.53%.

The net profit/return on earning assets declined during the period as the asset book was fully repriced during the period on account of policy rate cuts last year. Whereas the non-funded income showed impressive growth of 57% compared to corresponding period with healthy increase in commission from Trade and Consumer finance, branch banking commission and exchange income. In addition, healthy capital gain on disposal of investments was also realized during the period.

Despite high inflationary impact, the increase in operating expenses were contained and remained in line with inflation.

FUTURE OUTLOOK

The accommodative financial conditions have provided significant support to the growth recovery since the start of FY21. Considering the recent demand indicators, increase in international commodity prices and rise in current account deficit, the SBP measures of increasing the policy rate and macroprudential tightening of consumer finance to moderate demand growth are part of the move towards gradually normalizing monetary conditions. Looking ahead, the bank will focus on mobilizing low-cost deposits and targeting high growth sectors to grow its financing portfolio an generate incremental Funded and non-funded income.

CREDIT RATING

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. These ratings were assigned in 2021 and represents 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 proactive measures to support the economy and providing necessary guidance. We also acknowledge the efforts, commitment and dedication of our employees, under 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: Oct 18, 2021