

AL BARAKA BANK (PAKISTAN) LIMITED
DIRECTORS' REVIEW

The Board of Directors is pleased to present the condensed interim unaudited financial statements of Al Baraka Bank (Pakistan) Limited (the Bank) for the nine months period ended 30 September 2022.

Economic Overview

The economy of Pakistan has witnessed repeated volatile cycles in recent years. Continuing with this trend, the economy achieved GDP growth of 5.74% and 5.97% in FY2021 and FY2022 respectively. In FY2022, all major sectors performed well. The industrial sector grew by 7.2%, followed by services sector and agricultural sector at 6.2% and 4.4% respectively. However, post flood and rains, economy has again faced severe challenges owing to rising inflation, current account deficit and political instability.

High commodity prices disrupted supply chain especially after the Russia-Ukraine conflict has created global inflationary pressure during the year 2022, thus also raising inflation in Pakistan to its highest level in several decades, spiking to over 27% in August 2022, mainly due to higher food and energy costs. High commodity prices also resulted in sharp increase in current account deficit which necessitated the Government to negotiate with the International Monetary Fund (IMF) on tough conditions.

Another issue faced by Government due to increasing current account deficit and political instability was freefall of the rupee against major currencies. Pak Rupee has depreciated by 44% against US Dollar since July 2021; reaching Rs. 223 per USD in September 2022. SBP's foreign exchange reserves have reduced to USD 8 billion in September 2022 whereas total reserves including foreign exchange held by banks now stood at USD 14 billion.

The SBP has taken a number of steps to control inflation and rupee depreciation, including raising the policy rate from 7% in September 2021 to 15% in July 2022. Other measures included tightening of consumer financing regulations and import curtailments through higher margin requirements.



Financial Highlights

Despite challenging economic times, the Bank has performed reasonably well as indicated by following major financial highlights;

	30 September 2022 (Un-audited)	31 December 2021 (Audited)	Variance
Deposits	Rs. 181.8 Billion	Rs. 178.9 Billion	2% ↑
Investments	Rs. 104.2 Billion	Rs.76.6 Billion	36% ↑
Total assets	Rs. 236 Billion	Rs 218 Billion	8% ↑
Equity	Rs. 14.3 Billion	Rs 13.4 Billion	7% ↑
Capital Adequacy Ratio (CAR)	14.73%	12.97%	1.76%↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	September 2022	September 2021	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	17,006	9,932	71%
Return on deposits and other dues expensed	(11,199)	(5,133)	118%
Net spread earned	5,807	4,799	21%
Fee and commission income	729	762	(4%)
Foreign exchange income	712	571	25%
Gain on securities - net	21	167	(87%)
Dividend and other income	31	29	7%
Total other income	1,493	1,529	(2%)
Administrative expenses and other charges	(4,843)	(4,139)	17%
Operating profit	2,457	2,189	12%
Provisions and write offs - net	(579)	(966)	(40%)
Profit before tax	1,878	1,223	54%
Taxation	(734)	(787)	(7%)
Profit after tax	1,144	436	162%

The Bank is on a steady growth trajectory. Deposit of the Bank closed at Rs 181.8 billion as at 30 September 2022 as compared to Rs 178.9 billion as at 31 December 2021. The investment portfolio of the Bank has increased by 36% and stands at Rs 104.2 billion as of 30 September 2022.



In profit and loss account, the net spread earned by the Bank increased by 21% and was recorded at Rs 5,807 million as compared to Rs 4,799 million in the corresponding period last year. Other income stood at Rs 1,493 million as compared to Rs 1,529 million recorded in corresponding period last year mainly on account of lower capital gain booked in current period.

During the period ended 30 September 2022, the Bank recorded healthy net profit of Rs. 1,144 million. The net profit of the Bank increased by 162% during the period ended 30 September 2022 as compared to same period last year.

The Capital Adequacy Ratio (CAR) of the Bank significantly improved to 14.73% as of 30 September 2022 as compared to 12.97% as of 31 December 2021. The increase in CAR is mainly due to increased profitability during the year 2022 and Bank's cautious approach to control its Risk Weighted Assets.

Administrative expenses and other charges have been challenging owing to inflationary pressure, staff annual increments, contractual increase in rents of branch premises, high electricity and other operational expenses. The Bank continues to follow disciplined cost management strategy and enhancing business synergies.

During the period, the Bank recorded additional provision of Rs 555 million on its non-performing assets portfolio which includes provision of Rs 600 million on non-performing financing portfolio and a reversal of provision of Rs 45 million on investment portfolio. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect further reversals to be recorded during the remaining period of 2022.

Future Outlook

The challenging economic environment is expected to continue through the current fiscal year ending June 2023. Pakistan has been hit with devastating climate change triggered flooding. This flooding has come at times when economies of many developing countries including Pakistan are facing economic challenges post Russia-Ukraine war.

Looks like that in near term, the commodity prices will continue to show upward trend driven by geopolitical challenges and concurrent fiscal/monetary measures taken by the government looks will suppress local demand. The difficult economic decisions taken by government have already started impacting some businesses negatively. A lower GDP growth of 3% to 4% has been projected by SBP for FY2023. Going forward, the Country's political direction will play a major role in the overall economic outlook.

For Al Baraka Bank (Pakistan) Limited, we expect remaining part of 2022 to be a consolidation period where many business players will stay cautious until the time economic and political situation of the country normalizes.



The Bank remains committed to contribute towards the economic growth and stability of the country by strengthening the Islamic Banking landscape, and assisting the Government to shift towards Shariah-compliant banking solutions in line with the SBP's strategic vision of growth in Islamic Banking.

The Bank is also aware of its responsibilities towards its customers, staff and other stakeholders. We continue to maintain sufficient liquidity to meet our business and customers' needs without compromising on our credit discipline. Efforts are being made to target new market segments, widening of customer base and improving efficiency and productivity by leveraging on the investment in technology made by the Bank in recent years.

Credit Rating

Based on the financial statements of the Bank for the year ended 31 December 2021, VIS Credit Rating Company Limited has maintained the long-term rating to 'A+' and the short-term rating at 'A1'.

Acknowledgement

The Board wish to place on records its sincere thanks and gratitude to the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and the Shariah Board for their continued guidance and support. We would also like to thank our valued customers, shareholders and business partners for their continued patronage and confidence as well as staff members for their commitment and devotion.

On behalf of the Board

Mohammed Zahid Ahmed
Acting Chief Executive Officer

Dr. Jehad El-Nakla
Chairman

20 October 2022
Karachi