

On behalf of the Board of Directors of the Al Baraka Bank (Pakistan) Limited (the Bank), we are pleased to present the condensed interim unaudited financial statements of the bank for the quarter ended 31 March 2023.

Economic Overview

Pakistan's challenges in recent times have remained significant. The external front has been mainly impacted by rising commodity prices and debt repayments, exacerbated by delays in the IMF program; while the domestic economy came under severe pressure, compounded by a lack of political clarity. These factors have led to an overall slowdown in the economy. In March 23, inflation surged to high of 35.4%, on account of higher fuel and energy prices, food inflation and currency depreciation.

During FY23, the current account deficit decreased to USD 3.9 billion from USD 12 billion in FY22 due to restrictions on imports which contracted by 23%, fiscal and monetary tightening and an overall slowdown in demand in economy. The trade deficit for 8MFY'23 also declined by 36% to USD 19 billion. With the gap between the interbank and the kerb rates widening, remittances decreased to USD 18 billion during FY23 as compared to USD 20 billion in FY22.

Pakistan's foreign exchange reserves have depleted further from USD 10.8 billion in December 2022 to USD 9.8 billion in March 2023 amid delays in the IMF review. Most external financing avenues are now linked to the IMF Board approval. The deteriorating external account dragged the currency, which remained volatile throughout the first quarter of 2023 and ended at Rs. 283.8 per USD as compared to Rs. 226.4 per USD, representing a decline of 25%.

The SBP has continued to tighten monetary policy and has raised the policy rate by 500 basis points to 21% in April 2023 from 16% in December 2022. As the core inflation is on a rising trend for the past one year, the SBP is of the opinion that current monetary tightening policy stance is appropriate to keep the real interest rate in positive territory on a forward-looking basis. This will help achieve the medium-term inflation target over the next 8 quarters.

The financial highlights of the Bank are given below:

Financial Highlights	31 March 2023 (Un-Audited)	31 December 2022 (Audited)	Growth
Deposits	Rs. 189.8 Billion	Rs. 185.1 Billion	2.5% ↑
Investments	Rs. 110.0 Billion	Rs. 109.9 Billion	0.1% ↑
Financing-Net	Rs. 80.2 Billion	Rs. 86.1 Billion	(6.9%) ↓
Total assets	Rs. 240.5 Billion	Rs. 233.7 Billion	2.9% ↑
Equity	Rs. 15.1 Billion	Rs. 14.6 Billion	3.4% ↑





PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	March	March	
	2023	2022	
	<i>Rs. in million</i>		
Profit/return earned	7,771	4,312	80%
Profit/return expensed	(4,969)	(2,669)	86%
Net spread earned	2,802	1,643	71%
Fee and commission income	238	258	(8%)
Foreign exchange income	344	158	118%
Gain on securities	3	19	(84%)
Dividend and other income	3	11	(73%)
Total other income	588	446	32%
Administrative expenses and other charges	(1,791)	(1,558)	15%
Operating profit	1,599	531	201%
Provision and write offs - net	(285)	51	659%
Profit before tax	1,314	582	126%
Taxation	(570)	(258)	121%
Profit after tax	744	324	130%

Financial Performance

By the Grace of Allah, the Bank has witnessed a decent growth trajectory during the first quarter of 2023. The focus remained on increasing efficiencies and strengthening of Bank's key financial indicators. The deposit of the Bank closed at Rs 190 billion as at March 2023 as compared to Rs 185 billion recorded last year. The focus during the period has remained on mobilizing current accounts, which increased to Rs. 50 billion from Rs. 38 billion as of December 2022 (growth of 32%).

The investment portfolio stands at Rs 110 billion as at March 2023 which is almost at the same level as of December 2022. The Financing portfolio has seen certain reduction on account of settlement of seasonal financing and closed at Rs. 80 billion at March 2023 from Rs 86 billion as at last year end.

In profit and loss account, the net spread earned were recorded at Rs 2,802 million as compared to Rs 1,643 million in corresponding period last year, showing a considerable increase of 71%. Other income stood at Rs 588 million as compared to Rs 446 million recorded in corresponding period mainly on account of higher foreign exchange income booked in current period.

The Bank recorded healthy net profit after tax of Rs. 744 million registering an increase of 130% from corresponding period last year. The Bank remained compliant on its Capital Adequacy Ratio (CAR) and Minimum Capital Requirement (MCR). The CAR of the Bank has been recorded at 16.98% as of 31 March 2023 as compared to 15.80% as of 31 December 2022. The increase in CAR is mainly due to improved profitability during 2023 and Bank's cautious approach to manage its Risk Weighted Assets.

Administrative expenses have increased 15% mainly on account of inflationary pressure in 2023. The Bank continues to follow disciplined cost management strategy and enhancing business synergies.



During the quarter, the Bank recorded incremental provision of Rs 285 million and has further strengthened asset quality of the Bank. The Bank is actively working on recovery of non-performing accounts and is hopeful of their recovery which will further improve profitability of the Bank.

The Bank recorded Earnings per share (EPS) of Re 0.54 per share, up from Re 0.24 per share recorded corresponding period last year.

Future Outlook

From the start of 2023, Pakistan faces perhaps the most challenging economic conditions in its history. While the country has faced serious crises in previous eras, the current situation is complicated by the sheer magnitude of the fiscal and monetary challenges. The low level of foreign exchange reserves has led to a de-facto rationing, resulting in supply bottlenecks across the economy, now even affecting exports. Companies are responding by cutting production and announcing layoffs, which will further depress demand and affect lives and livelihoods. This has also resulted in down gradation of Pakistan's sovereign ratings by foreign rating agencies.

It is quite clear that the only pathway out of this situation is to revive the IMF programme. The government has belatedly agreed to many of the major conditionalities required by the Fund, including concessions on revenues (mostly indirect), and a reversion to a floating exchange rate regime. A resolution is likely to be accompanied by difficult social and political conditions, although we should see a gradual return of investor appetite, leading to a normalization of conditions over the next 12 - 18 months.

Meanwhile, the Bank will continue to adopt cautious approach, remaining liquid as much as possible and safeguarding Sponsors and depositors money in these unprecedented times.

Credit Rating

Based on the financial statements of the Bank for the year ended 31 December 2021, VIS 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


Muhammad Atif Hanif
Chief Executive Officer

15 April 2023
Karachi


Dr. Jehad El-Nakla
Chairman