alBaraka Bank

AL BARAKA BANK (PAKISTAN) LIMITED

DIRECTORS' REVIEW

On behalf of the Board of Directors of Al Baraka Bank (Pakistan) Limited (the Bank), we are pleased to present the Bank's condensed interim unaudited financial statements for the half year ended June 30, 2025.

Economic Overview

The global economy continues to grow steadily, with the IMF projecting GDP growth around 3% for both 2025 and 2026. Global inflation growth rate is expected to moderate to 4.2% in 2025 and 3.6% in 2026. While recent shifts in U.S. trade policy initially raised concerns about potential disruptions to global trade flows, ongoing negotiations and temporary tariff suspensions have helped ease immediate risks. The global outlook remains cautiously optimistic, supported by easing financial conditions and improving consumer sentiment in key markets.

Pakistan's economy continued its path toward stabilization during the second half of FY2025. Provisional estimates place real GDP growth at 2.7%, supported by a recovery in industrial and services sectors. Growth rate of inflation remained historically low, with CPI inflation recorded at 3.2% year-on-year in June 2025, continuing the disinflationary trend observed since early FY2025. The State Bank of Pakistan (SBP) maintained the policy rate at 11% in its June meeting, following a cumulative reduction of 1,100 basis points since June 2024, reflecting a more cautious monetary stance amid persistent core inflation.

The external sector showed a marked improvement. Pakistan recorded a current account surplus of USD 2.11 billion in FY2025, a significant turnaround from a deficit of USD 2.07 billion in FY2024. This improvement was driven by record-high workers' remittances of USD 38.3 billion, up from USD 30.25 billion last year. Exports of goods rose to USD 32.3 billion, while imports increased to USD 59.1 billion, widening the trade deficit to USD 26.8 billion. However, the services trade deficit narrowed, and strong secondary income inflows helped offset the goods imbalance. SBP's net foreign exchange reserves stood at USD 14.51 billion by the end of June 2025, up from USD 9.39 billion a year earlier. S&P Global Ratings upgraded Pakistan's sovereign credit rating to "B-" in 2025, citing strengthened external buffers, fiscal consolidation, and reform momentum under the IMF program.

In May 2025, the IMF Executive Board completed the first review under the Extended Fund Facility (EFF) Arrangement, allowing Pakistan to draw approximately USD 1 billion. The IMF also approved a new Resilience and Sustainability Facility (RSF) arrangement, providing access to an additional USD 1.4 billion to support climate resilience and structural reforms.

The Pakistan Stock Exchange (PSX) continued its strong performance, with the KSE-100 Index closing at 125,627 points on June 30, 2025, up from 115,127 points at the end of December 2024, marking a 9% increase over the six-month period. Investor sentiment remained positive, supported by declining interest rates, improved corporate earnings, and expectations of continued structural reforms.

Looking ahead, the economic outlook remains cautiously optimistic. Sustained fiscal discipline, continued reform implementation, and timely realization of external inflows will be critical to maintaining macroeconomic stability. Encouraging developments are emerging regarding US tariffs on Pakistan, particularly in comparison to its regional counterparts.

Credit Rating of the Bank

Alhamdulillah, it gives us immense pleasure to inform you that VIS Credit Rating Company Limited (VIS) has upgraded entity ratings of the Bank to 'AA-/A1'. Medium to long term rating of 'AA-' indicates high credit quality; protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions. Short term rating of 'A1' indicates strong likelihood of timely repayment of short-term obligations with excellent liquidity factors. The rating of the Bank's Basel III compliant Tier-2 Sukuk has also been upgraded to 'A+'. Outlook on the assigned ratings is 'Stable.' The ratings assigned to the Bank are supported by its improving financial risk profile and demonstrated sponsor support in prior years.

Financial Performance of the Bank

The financial highlights of the Bank are given below:

Rs in Millions

Financial Highlights	30-Jun-25 (Un-Audited)	31-Dec-24 (Audited)
Total assets	286,786	273,261
Financing-Net	104,790	101,439
Deposits	234,160	223,402

PROFIT AND LOSS ACCOUNT	January - June 2025	January - June 2024
Average SBP Policy Rate	11.8%	21.8%
	Rs in Millions	
Net spread earned	6,149	7,749
Fee, commission and other non-funded income	1,365	1,154
Total income	**7,514**	**8,903**
Administrative expenses and other charges	(5,125)	(4,546)
Operating profit	**2,389**	**4,357**
Reversal / (provision) and write offs - net	286	25
Profit before tax	**2,675**	**4,382**
Taxation	(1,340)	(2,149)
Profit after tax	**1,335**	**2,233**
Earnings per share (EPS) - Rupees	**0.97**	**1.63**
Branches	**185**	**170**

By the grace of Allah (SWT), the Bank has delivered commendable financial results for the half-year ended June 30, 2025, despite operating in a challenging environment. Key headwinds included a substantial reduction in the average policy rate to 11.8%, down from 21.8% in the corresponding period last year, the imposition of the Minimum Deposit Rate (MDR) on savings accounts on Islamic Banks, and increased taxation rates.

The Bank reported a Profit After Tax (PAT) of Rs. 1.34 billion, translating into Earnings Per Share (EPS) of Rs. 0.97, compared to Rs. 2.23 billion (EPS of Rs. 1.63) in the same period last year.

Total assets grew by 5% to Rs. 286.7 billion as of June 30, 2025, up from Rs. 273.3 billion on December 31, 2024. The financing portfolio maintained its growth momentum, rising to Rs. 104.8 billion from Rs. 101.4 billion at year-end 2024. The Bank remains committed to expanding its client base across all segments, including Corporate, Commercial, and SME sectors.

The Gross Financing to Deposit Ratio remained above the 50% threshold, significantly outperforming the industry's Advances to Deposit Ratio (ADR), which declined to 38% from 53% in December 2024. Deposits increased by 5% to Rs. 234 billion, compared to Rs. 223 billion as of December 2024. The Bank maintained a healthy deposit mix, with current and savings accounts comprising 79% of total deposits. Strategic efforts continue to focus on enhancing the granularity of the deposit base.

Net spread income stood at Rs. 6.1 billion, down from Rs. 7.7 billion in the corresponding period last year, reflecting the 1,000 basis points reduction on an average basis in the SBP policy rate. Other income rose to Rs. 1.4 billion from Rs. 1.2 billion, driven by higher fee and commission income and gains on the sale of securities. Total income for the period amounted to Rs. 7.5 billion, compared to Rs. 8.9 billion in the same period last year.

The Bank continued to expand its physical footprint, adding 15 new branches to its network in 2nd half of 2024. Operating expenses increased to Rs. 5.1 billion from Rs. 4.5 billion in the prior year, in line with the Bank's growth and expansion strategy. In view of recent global trade policy shifts and their potential economic implications, the Bank prudently recognized an additional general provision of Rs. 150 million.

The Bank remained fully compliant with regulatory requirements, maintaining its Capital Adequacy Ratio (CAR) and Minimum Capital Requirement (MCR). As of June 30, 2025, the CAR stood at 19.02%.

Acknowledgement

The Board wishes to place on record 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, subordinated sukuk holders, 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

Azhar Aziz Dogar
Chairman

August 13, 2025
Islamabad