AL BARAKA BANK (PAKISTAN) LIMITED
DIRECTORS' REPORT TO MEMBERS

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 half year ended 30 June 2023.

Economic Overview

Pakistan's economy has faced significant challenges in recent times mainly due to rising commodity prices, high debt repayments and delay in finalization of International Monetary Fund (IMF) program. These pressures on economy were further compounded on account of lack of political clarity on domestic front. These factors have led to an overall slowdown in the economy. However, under the new agreement with the IMF, the fund will disburse USD 3 billion over nine months beginning from June 2023. This agreement is being taken very positively by local and foreign stakeholders and has paved a way for long term economic sustainability of the country.

The annual inflation rate in Pakistan eased for the first time in seven months to 29.4% in June 2023 from record high of 38% in the previous month, mainly attributed to reduced demand caused by high borrowing costs and a slowdown in price gains due to lower commodity prices.

The country posted a current account surplus of USD 334 million in June 2023 compared to USD 220 million in May 2023, marking the fourth consecutive monthly surplus. The sequential improvement of USD 114 million in monthly current account balance came on the back of lower imports of goods / services. Cumulatively, during FY23, the current account deficit (CAD) clocked in at USD 2.6 billion compared to USD 17.5 billion during FY22, a sharp reduction of 85% owing to imposition of import restrictions and economic slowdown.

The pressure on external account dragged the currency, which remained volatile throughout the period of 2023 and ended at Rs. 285.9 per USD in June 2023 as compared to Rs. 226.4 per USD in December 2022, representing a decline of 26%. However, due to agreement with IMF, Pakistan's total liquid foreign exchange reserves increased to USD 14 billion by mid July 2023, as the SBP's reserves raised significantly to USD 8.8 billion on account of USD 3.0 billion disbursement from friendly countries (USD 2 billion from Saudi Arabia and USD 1 billion from UAE) and USD 1.2 billion from IMF under Stand-By Arrangement, whereas, Commercial banks' reserves remained at USD 5.3 billion.

SBP has continued to tighten monetary policy and has raised the policy rate by 600 basis points to 22% in June 2023 from 16% in December 2022. As the core inflation is on a rising trend for the past one year, 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.

Financial Highlights

The financial highlights of the Bank are given below:

	30 June 2023 (Un-Audited)	31 December 2022 (Audited)	Growth
Deposits	Rs. 196.3 Billion	Rs. 185.0 Billion	6.1%↑
Investments	Rs. 115.4 Billion	Rs. 109.9 Billion	5.0%↑
Financing-Net	Rs. 84.1 Billion	Rs. 86.1 Billion	2.3%↓
Total assets	Rs. 247.1 Billion	Rs. 233.7 Billion	5.7%↑
Equity	Rs. 16.2 Billion	Rs. 14.6 Billion	11.0%↑
Capital Adequacy Ratio (CAR)	18.59%	15.80%	2.79%↑

PROFIT AND LOSS ACCOUNT	**January - June 2023**	**January - June 2022**	**Variance**
	Rs. In million		
Profit/return on financing, investments and placements	16,960	9,984	70%
Return on deposits and other dues expensed	(10,711)	(6,377)	68%
Net spread earned	**6,249**	**3,607**	**73%**
Fee and commission income	462	503	(8%)
Foreign exchange income	451	423	7%
Gain on securities - net	3	18	(83%)
Dividend and other income	9	20	(55%)
Total other income	**925**	**964**	**(4%)**
Administrative expenses and other charges	(3,736)	(3,154)	18%
Operating profit	**3,438**	**1,417**	**143%**
Provisions	(477)	(242)	97%
Profit before tax	**2,961**	**1,175**	**152%**
Taxation	(1,169)	(374)	**213%**
Profit after tax	**1,792**	**801**	**124%**

Financial Performance

By the Grace of Allah, the Bank has witnessed a decent growth trajectory during the half year ended 30 June 2023. The focus remained on increasing efficiencies and strengthening of Bank's key financial indicators. The deposit of the Bank closed at Rs. 196.3 billion as at June 2023 as compared to Rs. 185.1 billion recorded last year. The focus during the period has remained on mobilizing current accounts, which increased to Rs. 52 billion from Rs. 38 billion as of December 2022 (growth of 37%).

The investment portfolio of the Bank has increased by 5% from December 2022 and stands at Rs. 115.4 billion as of 30 June 2023. The financing portfolio stands at Rs. 84.1 billion as at June 2023 which is almost at the same level as of December 2022.

In profit and loss account, the net spread earned by the Bank increased by 73% and was recorded at Rs. 6,249 million as compared to Rs. 3,607 million in the corresponding period last year. Other income stood at Rs. 925 million as compared to Rs. 964 million recorded in corresponding period last year mainly on account of lower fee and commission and capital gain booked in current period.

During the period ended 30 June 2023, the Bank recorded healthy net profit of Rs. 1,792 million, which has increased by 124% as compared to similar 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 18.59% as of 30 June 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 18% mainly on account of inflationary pressures in 2023. The Bank continues to follow disciplined cost management strategy and enhancing business synergies.

During the period, the Bank recorded incremental provision of Rs. 477 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 Rs. 1.30 per share, up from Re. 0.58 per share recorded corresponding period last year.

Future Outlook

Though FY2023 remained a challenging year, the government succeeded in ensuring the sustainability of the external and fiscal sectors through various tough decisions and stabilization measures. In FY2024, the government is gearing towards achieving higher growth of 3.5% through various measures such as the Kissan package, industrial support, export promotion, encouragement of the IT sector, and resource mobilization, etc.

To achieve higher and sustainable economic growth, it will require prudent and effective economic decisions, political and economic certainty, and continuation of friendly economic policies along with enough foreign exchange financing. The recent IMF approval of the Stand-By Arrangement and other bilateral and multilateral inflows will pave the way to further improve the macroeconomic environment and the confidence of economic stakeholders.

Meanwhile, the Bank will continue to adapt 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 2022, VIS has maintained the long-term rating to 'A+' and the short-term rating at 'A-1'.

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**	**Dr. Jehad El-Nakla** **Chairman**

17 August 2023
Karachi