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 period ended 31 March 2019.

Economic Overview

The Pakistan economy is in stabilization phase post general elections in 2018. The GDP growth target revised to 3.5% in FY19 as compared to 5.8% in financial year ended June 2018 (FY-18). The reduced GDP growth is on account of decline in Large Manufacturing Scale growth by 2.3% as compared to 7.2% growth recorded in same period last year, low Kharif crop production, restricted capital investments owing to cut in public sector development programs (PSDP) and rising energy and financing costs which has resulted in slower growth in commodity producing sector.

As of Feb FY19, Pakistan's current account deficit has decreased to USD 8.8 billion as compared to USD 11.4 billion last year, which helped ease pressures on SBP's foreign exchange reserves. This reduction in the external balance was mainly driven by a 29.7% decline in the trade deficit in goods and services as well as a strong growth in remittances. The country's exports were recorded at USD 15.9 billion while imports were recorded at USD 35.3 billion during the period from July 2018 to March 2019.

The average CPI inflation reached 6.5% in Jul-Feb FY19 compared to 3.8% recorded in the same period last year. These pressures on inflation are explained by adjustments in the administered prices of electricity and gas, significant increase in perishable food prices, and the continued unfolding impact of exchange rate depreciation.

On account of rising inflation, the State Bank of Pakistan (SBP) in its latest monetary policy statement raised the policy rate by 50 bps to 10.75% and discount rate to 11.25%. Discount rates have now been raised by 75bps since the start of the year 2019, and are now at their highest level since 2015.

It is expected that the government will enter into the IMF program by the end of April 2019. Post IMF program, the government may explore possibilities of hiking tax rates, especially the GST, removing exemptions and slashing down expenditures in budget 2019-20 to cover up revenue shortfalls.

The financial highlights of the Bank are given below:

Financial Highlights	31 March 2019 (Un-audited)	31 December 2018 (Audited)	Growth
Deposits	Rs. 98 Billion	Rs. 99.9 Billion	1.9% ⬇
Financing (net)	Rs. 73.9 Billion	Rs 75 Billion	1.5% ⬇
Investments	Rs. 24.9 Billion	Rs.21.3 Billion	17% ⬆
Total assets	Rs. 129.3 Billion	Rs 128.8 Billion	0.5% ⬆
Equity	Rs. 10.7 Billion	Rs 10.7 Billion	-

PROFIT AND LOSS ACCOUNT	January - March 2019	January - March 2018	Variance
	Rs. In million		
Profit/return on financing, investments and placements	2,542	1,739	46%
Return on deposits and other dues expensed	(1,288)	(797)	62%
Net spread earned	**1,254**	**942**	**33%**
Fee and commission income	203	167	22%
Foreign exchange income	58	74	(22)%
Gain on securities	24	17	41%
Dividend and other income	7	7	-
Total other income	**292**	**265**	**10%**
Administrative expenses and other charges	(1,247)	(1,185)	5%
Operating profit	**299**	**22**	**12.6 times**
Provision against non performing financing, investments and other assets	(160)	(369)	(57%)
Profit / (loss) before tax	**139**	**(347)**	**140%**
Taxation	(69)	126	(155%)
Profit / (loss) after tax	**70**	**(221)**	**132%**

Financial Performance

Deposit of the Bank closed at Rs 98 billion as at 31 March 2019 as compared to Rs 100 billion at 2018 year end. The Bank continued its focus on mobilizing low cost saving accounts. The CASA deposit mix was recorded at 75%. Despite of fact that discount rate increased by 75 BPS, the Bank is managing its net spread efficiently by increasing its focus on mobilization of current accounts.

The Bank continued to follow cautious approach in growing financing portfolio and closed its net financing at Rs 74 billion as compared to Rs 75 billion reported at 31 December 2018. The focus of the Bank is to build a high quality and well-diversified financing portfolio.

In profit and loss account, the net spread earned by the Bank increased significantly by 33% over corresponding period last year and was recorded at Rs 1,254 million as compared to Rs 942 million in the corresponding period last year.

Other income increased to Rs 292 million as compared to Rs 265 million recorded in comparative period last year. Administrative expenses and other charges have increased to Rs 1,247 million from Rs 1,185 million. The Bank had planned various cost optimization strategies last year which are now resulting in substantial cost savings to the Bank. The Bank continues to follow disciplined cost management strategy and enhancing business synergies.

The Bank is focusing on increasing its non-funded income from trade and advisory business. Despite of challenging conditions, the Bank recorded operating profit of Rs 299 million during the period ended 31 March 2019 as compared to Rs 22 million in comparative period last year.

During the period, the Bank recorded additional provision on non performing portfolio amounting to Rs 160 million. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect the reversals to be recorded in second quarter.

Corporate Social Responsibility (CSR)

During the period ended 31 March 2019, the Bank won two CSR awards at the "8th Annual Corporate Social Responsibility Summit & Awards 2019" for "Collaboration & Partnership" and "Education/Scholarship Program".

Future Outlook

Our focus will be on maintaining the growth momentum without compromising on net spreads and asset quality. Efforts will also be 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. The merger synergies will be more evident in forthcoming periods and the Bank will save substantial operational costs resulting in improvement in overall Bank's profitability.

Credit Rating

Based on the financial statements of the Bank for the year ended 31 December 2017, JCR-VIS, has maintained the long-term rating to 'A+' and the short-term rating at 'A1'. Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank's long-term rating at 'A' and short term rating at 'A1'.

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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

Adnan Ahmed Yousif
Chairman

1st May 2019
Karachi

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