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 30 September 2018.

Economic Overview

Economic activity is likely to slowdown in FY19 as the general macroeconomic policy mix is focusing towards stabilization. The expected real GDP growth is projected at 5% in FY19 as compared to 5.8% in financial year ended June 2018 (FY-18).

As of FY18, Pakistan's current account deficit has increased to USD 18.1 billion as compared to USD 12.6 billion last year, with the sharp increase in international oil prices and growing imports being the biggest determinant for the higher current account balance. The country's exports were recorded at USD 24.8 billion while imports were recorded at USD 55.9 billion during the period from July 2017 to June 2018. The higher current account deficit was partially financed by country's own sources resulting in a reduction of SBP's liquid foreign exchange reserves by USD 6.3 billion reaching USD 9.8 billion as of June 2018.

The State Bank of Pakistan (SBP) in its latest monetary policy statement raise the policy rate by 100bps to 8.5% and subsequently taking discount rate to 9.0%. Rates have now been raised by 275bps since the start of the year 2018, and are now at their highest level since 2015.

In the first two months of FY 2019, CPI inflation has averaged 5.8% as compared to 3.2% for the corresponding months of FY18, and an average of 3.9% for all of FY18. Pakistan stock index showed little progress as it raise from 40,471 points as at December 2017 to 40,999 points as at September 2018.

The financial highlights of the Bank are given below:

Financial Highlights	30 September 2018 (Un-audited)	31 December 2017 (Audited)	Growth
Deposits	Rs. 103.7 Billion	Rs. 98.6 Billion	5% ↑
Financing (net)	Rs. 72.7 Billion	Rs 71.2 Billion	2% ↑
Investments	Rs. 21.3 Billion	Rs.19.4 Billion	10% ↑
Total assets	Rs. 123.2 Billion	Rs 120.7 Billion	2% ↑
Equity	Rs. 10.3 Billion	Rs 10.6 Billion	3% ↓

PROFIT AND LOSS ACCOUNT	January - September 2018	January - September 2017	Variance
	Rs. In million		
Profit/return on financing, investments and placements	5,720	5,015	14%
Return on deposits and other dues expensed	(2,667)	(2,280)	17%
Net spread earned	**3,053**	**2,735**	**12%**
Fee, commission and brokerage income	504	488	3%
Income from dealing in foreign currencies	284	136	109%
Capital gain on investments	19	120	(84%)
Dividend and other income	48	60	(20%)
Total other income	**855**	**804**	**6%**
Administrative expenses and other charges	(3,585)	(3,676)	(2%)
Operating profit / (loss)	**323**	**(137)**	**336%**
Provision against non performing financing, investments and other assets	(738)	(798)	(8%)
Loss before tax	**(415)**	**(935)**	**(56%)**
Taxation	137	333	(59%)
Loss after tax	**(278)**	**(602)**	**(54%)**

Financial Performance

The deposit of the Bank was closed at Rs 104 billion as at 30 September 2018 as compared to Rs 99 billion at 2017 year end. The Bank continued its focus on mobilizing low cost saving accounts. As a result, the CASA deposit mix has improved to 83.2% as compared to 80.4% as of 31 December 2017. The SBP has increased the policy rate by 275 bps in the monetary policies announced by SBP during the nine months. Accordingly, discount rate now stands at 9%. The Bank is managing its cost of deposit prudently 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 73 billion as compared to Rs 71 billion reported at 31 December 2017. The focus of the Bank is to build a high quality and well-diversified financing portfolio. The Bank's ADR stood at 70.1% as on 30 September 2018.

In profit and loss account, the net spread earned by the Bank increased significantly by 12% over corresponding period last year and was recorded at Rs 3,053 million as compared to Rs 2,735 million in the corresponding period last year.