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.

Other income increased to Rs 855 million as compared to Rs 804 million recorded in comparative period last year. The increase is mainly attributable to income from dealing in foreign currencies. The Bank is focusing on increasing its non-funded income from trade and advisory business. However, the Bank booked lower capital gain earned from equity portfolio in current period due to stressed performance of Pakistan Stock Exchange in current period. Despite of challenging conditions, the Bank recorded operating profit of Rs 323 million during the period ended 30 September 2018 as compared to operating loss of Rs 137 million in comparative period last year.

Administrative expenses and other charges have decreased to Rs 3,585 million from Rs 3,676 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.

During the period, the Bank recorded additional provision on non performing portfolio amounting to Rs 738 million. Significant provisions were booked on non-performing accounts recorded as industry wide defaults. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect the reversals to be recorded in last quarter.

Achievements

During the period ended 30 September 2018, the Bank won two CSR awards at the "7th International CSR Summit Awards & Gallery 2018" for "Collaboration & Partnership" and "Education/Scholarship Program".

In digital Banking spectrum, the Bank achieved a great deal in terms of providing new and innovative digital banking services to its customers. The Bank during the period launched Al Baraka Masterpass QR (Quick Response) facility for its customers. The launch made Al Baraka Bank the first Islamic Bank in Pakistan to have a dedicated QR Payments within its own Mobile Banking Application.

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

28 October 2018
Karachi

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