

Directors' Review

I am pleased to present on behalf of the Board of Directors, the unaudited unconsolidated condensed interim financial information of Saudi Pak Industrial and Agricultural Investment Company Limited for the period ended June 30, 2023 together with Directors' Review thereon.

During the period under review, the economy faced challenges of macroeconomic imbalances, supply chain shocks which has dampened the economic growth. The overall balance of payments position continues to remain under stress with foreign exchange reserves at low levels of US\$4.47 billion at June-2023. The Rupee lost 26% of its value against the Dollar since the start of the year.

Average CPI inflation in FY`23 stood at 29.2% compared to 12.2% during the same period last year. The policy interest rate increased to 22% as of June 30, 2023 to 13.75% as of last half year end. The rise of interest rate in curbing inflation along with import restrictions to correct the balance of payment have created headwinds for business, consumer & investment.

The real GDP posted a growth of 0.29% in FY`23. The economic impact of the last year floods has been unprecedented and the agricultural sector grew by 1.55% in FY`23 in comparison to 4.27% last year. Large scale manufacturing contracted by 9.87% during Jul-May FY`23. Exports for the period Jul-Jun FY`23 stood at US\$27.91 billion as compared to US\$32.49 billion during Jul-Jun FY`22, declined by 14%. During July to May FY`23, the private sector credit stood at Rs.75.4 Billion as compared to Rs.1,345 Billion last year. Capital markets remain volatile and bearish due to economic and political uncertainty. KSE-100 opened at 41,540.8 points on 1st July 2022 and closed at 41,453 as of June 30, 2023.

During these challenging conditions, focus was maintained on managing credit risk and diversify exposure. Introducing funded and unfunded credit solutions for target customers, managing treasury assets, increasing SAM recoveries and enhancing long term commercial borrowing to bring stability in balance sheet.

During the current year, the Company proactively opted for an early adoption of IFRS-9 and prepared its accounts as per the requirements to remain compliant and competitive in the industry.

The salient features of financial statements for the period ended June 30, 2023 are as under:



	Period ended June 30			
	Actual			
	<u>2023</u>	<u>2022</u>	<u>Variance</u>	<u>%Change</u>
	<u>Rupees in Million</u>			
Net mark up/interest Income	76.177	181.07	(104.889)	(58.0)
Non markup interest income	226.938	337.2	(110.265)	(33.0)
ECL / provisions	-80.102	167.46	(247.558)	(148.0)
Profit before tax	138.945	105.32	33.626	32.0
Profit after tax	91.487	63.88	27.607	43.0

Net interest margin decreased by 58% mainly due to drag on fixed rate PIBs upon increase in interest rates. Non markup interest income was 33% down as loss of Rs.167 Million was realized upon divestment of Rs. 600 Million fixed rate PIBs portfolio in line with strategy. Healthy increase in dividend income and fee & commission positively contributed to the non markup interest income. There was net ECL reversal of Rs.81.102 Million in comparison to net provision charge of Rs.167.456 Million as of last half year end. Administrative expenses were incurred judiciously to close below the comparable period despite of rampant inflation. Profit before tax increased by 32% while profit after tax by 43% due to ECL reversal & other factors mentioned above.

Going forward, Company plans to remain focused on the core business activities and capitalize on available business opportunities which satisfy risk and reward criteria, while maintaining concerted efforts on SAM recoveries and process improvements.

On behalf of the Board, I would like to express our gratitude to the Governments of the Islamic Republic of Pakistan and the Kingdom of Saudi Arabia for their support and State Bank of Pakistan for professional guidance. I thank the management and staff for their achievement despite the considerable challenges and urge the management to continue with the same positive intent.



Chairman