

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 quarter ended 31 March 2022.

Economic Overview

Pakistan's GDP growth is recorded at 4.7% in FY21 as compared to a deficit of 0.9% in FY20. This growth represented a recovery following the Covid - induced contraction last year. The growth mainly came from agriculture, industry and service sectors, which expanded by 2.8%, 3.6% and 4.4% respectively. The supportive policies of the Government and State Bank of Pakistan (SBP) helped in economic turnaround and in mitigating the health and economic fall-out of COVID on the economy.

Current account stood at a deficit of USD 12.1 billion in FY22 (Jul 21 to Feb 22) as compared to a surplus of USD 1 billion in corresponding period last year. The country's exports were recorded at USD 25.1 billion in FY22 (Jul 21 to Feb 22), while imports were recorded at USD 55.0 billion during FY22 (Jul 21 to Feb 22). Further the total remittances have increased to USD 20.1 billion during July 2021 to February 2022 as compared to USD 18.7 billion in same corresponding period last year.

SBP's foreign exchange reserves stood at USD 12 billion on March 2022. The total reserves including foreign exchange held by banks were recorded at USD 18.5 billion on the same date.

As per the new inflation base of 2015-16, CPI increased to 12.7% YoY in March 2022. There is a pressure on inflation because of higher government borrowing from SBP, adjustments in the administered prices of electricity, gas and fuel, significant increase in perishable food prices, along with the devaluation of rupee against major currencies. The State Bank of Pakistan (SBP) in its latest monetary policy statement announced in April 2022, has increased the policy rate to 12.25%, up by 250 BPS from 9.75% held since start of 2022.

The financial highlights of the Bank are given below:

Financial Highlights	31 March 2022 (Un-audited)	31 December 2021 (Audited)	Variance
Deposits	Rs. 172.4 Billion	Rs. 178.9 Billion	4% ↓
Financing (net)	Rs. 97.3 Billion	Rs 96.2 Billion	1% ↑
Investments	Rs. 74.4 Billion	Rs.76.6 Billion	3% ↓
Total assets	Rs. 216 Billion	Rs 218 Billion	1% ↓
Equity	Rs. 13.7 Billion	Rs 13.4 Billion	2% ↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	March	March	
	2022	2021	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	4,312	3,155	37%
Return on deposits and other dues expensed	(2,669)	(1,553)	72%
Net spread earned	1,643	1,602	3%
Fee and commission income	258	256	1%
Foreign exchange income	158	164	(4%)
Gain on securities - net	19	134	(86%)
Dividend and other income	11	11	-
Total other income	446	565	(21%)
Administrative expenses and other charges	(1,558)	(1,370)	14%
Operating profit	531	797	(33%)
Provisions and write offs - net	51	(179)	128%
Profit before tax	582	618	(6%)
Taxation	(258)	(245)	5%
Profit after tax	324	373	(13%)

Financial Performance

The Bank is on a steady growth trajectory. We are growing our financing book which now stands at Rs 97.3 billion.

The investment portfolio of the Bank decreased from Rs 76.6 billion as of December 2021 to Rs 74.4 billion as of March 2022.

Deposit of the Bank closed at Rs 172.4 billion as at 31 March 2022 as compared to Rs 178.9 billion as at December 2021.

In profit and loss account, the net spread earned by the Bank improved by 3% and was recorded at Rs 1,643 million as compared to Rs 1,602 million in the corresponding period last year. Other income stood at Rs 446 million as compared to Rs 565 million recorded in corresponding period last year mainly on account of higher capital gain booked in comparative period.

Administrative expenses and other charges have increased to Rs 1,558 million from Rs 1,370 million which is on account of staff annual increments, contractual increase in rents of branch premises, high electricity and other operational expenses. The Bank continues to follow disciplined cost management strategy and enhancing business synergies.

During the quarter, the Bank recorded provision reversal of Rs 51 million on its non-performing assets portfolio which includes reversal of provision of Rs 4 million on non-performing financing portfolio and a reversal of provision of Rs 47 million on investment portfolio. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect further reversals to be recorded during the remaining period of 2022.

Information Technology

The Bank is committed towards rolling out high-end technology platforms and efficient project deliveries to ensure overall improved performance, high efficiencies and offering of innovative products and services to its customers.

Recently, the Bank made following progress in the field of Information Technology & Digital Transformation:

- The Bank successfully implemented various projects including Pakistan Single Window Solution and NFC Card Certification Mastercard. The implementation of these projects have enabled the Bank to provide digital services to its customers
- The Bank has successfully implemented new and improved Home Remittance Solution.
- The Bank has successfully implemented new features in Mobile Application and Internet Banking Platform for improved customer experiences.
- The Bank is in implementation phase of various projects including AML / Compliance Screening Solution, Loan Origination System (Corporate/SME) and Image Based Clearing Module.

Corporate Social Responsibility (CSR)

During the quarter ended March 2022, the Bank received the “Sustainability Initiatives” award at the 11th Annual Corporate Social Responsibility Summit.

Green Banking

The Bank is active in its sustainability goals and ensuring environmental, social and governance considerations, such as climate change mitigation and climate change adaptation.

The Bank has been continuously working on the following initiatives to promote sustainable use of resources including usage of energy, water and paper.

- Promoting renewable energy financing by launching solar product which specifically focusing financing on solar projects.
- The Bank has also taken the initiative of “Reduce, Reuse & Recycling” of paper by creating awareness via emails and caution notes on the printers to conserve paper usage.
- In head office, we have installed energy efficient air conditioning system to reduce energy consumption of the Bank.
- Creating awareness about Green Banking through different posts on social media, ATMs and through training of staff on regular basis.

Future Outlook

Pakistan economic recovery is underway however, the domestic and international scenario are still changing over the course of time creating inflationary pressure and macroeconomic developments. The government is taking a various policy, administrative and relief measures to counter the downside risks for the economy. The recent geopolitical situation, in particular the Ukraine crisis, present the most important external risk factor for economy. A further escalation of these risks could jeopardize the positive outlook for Pakistan’s economy and may also aggravate the macroeconomic imbalances.

The Bank is keenly aware of its responsibilities towards its customers, staff and other stakeholders. We intend to maintain sufficient liquidity to meet our business and customers’ needs without compromising on our credit discipline. Efforts are being 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.

Credit Rating

Based on the financial statements of the Bank for the year ended 31 December 2020, VIS has maintained the long-term rating to ‘A+’ and the short-term rating at ‘A1’.

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

Mohammed Zahid Ahmed
Acting Chief Executive Officer

Dr. Jehad El-Nakla
Chairman

29 April 2022
Karachi