

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 half year ended 30 June 2022.

Economic Overview

Pakistan's GDP growth for FY22 is recorded at 5.97% as compared to a 5.74% in FY21. 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 4.4%, 7.2% and 6.2% 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 17.4 billion in FY22 as compared to a deficit of USD 2.8 billion in corresponding period last year. The country's exports were recorded at USD 39.4 billion in FY22, while imports were recorded at USD 84.1 billion during FY22. Further the total remittances have increased to USD 31.2 billion during FY22 as compared to USD 29.5 billion in same corresponding period last year.

SBP's foreign exchange reserves stood at USD 9.8 billion as at June 2022. The total reserves including foreign exchange held by banks were recorded at USD 15.5 billion on the same date.

As per the new inflation base of 2015-16, CPI increased to 24.9% YoY in July 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 July 2022, has increased the policy rate to 15%, up by 525 BPS from 9.75% held since start of 2022.



Financial Highlights

Despite challenging economic times, the Bank has performed reasonably well as indicated by following major financial highlights;

	30 June 2022 (Un-audited)	31 December 2021 (Audited)	Variance
Deposits	Rs. 179.8 Billion	Rs. 178.9 Billion	1% ↑
Financing (net)	Rs. 94.2 Billion	Rs 96.2 Billion	2% ↓
Investments	Rs. 103.5 Billion	Rs.76.6 Billion	35% ↑
Total assets	Rs. 245 Billion	Rs 218 Billion	12% ↑
Equity	Rs. 14 Billion	Rs 13.4 Billion	4% ↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	June	June	
	2022	2021	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	9,984	6,411	56%
Return on deposits and other dues expensed	(6,377)	(3,240)	97%
Net spread earned	3,607	3,171	14%
Fee and commission income	503	472	7%
Foreign exchange income	423	415	2%
Gain on securities - net	18	152	(88%)
Dividend and other income	19	13	46%
Total other income	963	1,052	(8%)
Administrative expenses and other charges	(3,153)	(2,744)	15%
Operating profit	1,417	1,479	(4%)
Provisions and write offs - net	(243)	(694)	(65%)
Profit before tax	1,174	785	50%
Taxation	(373)	(574)	(35%)
Profit after tax	801	211	280%

As evident from above, the Bank is on a steady growth trajectory. Deposit of the Bank closed at Rs 179.8 billion as at 30 June 2022 as compared to Rs 178.9 billion as at December 2021. We are steadily growing our investment portfolio which now stands at Rs 103.5 billion, growth of 35%. The financing portfolio of the Bank decreased from Rs 96.2 billion as of December 2021 to Rs 94.2 billion as of 30 June 2022.

In profit and loss account, the net spread earned by the Bank increased by 14% and was recorded at Rs 3,607 million as compared to Rs 3,171 million in the corresponding period last year. Other income stood at Rs 963 million as compared to Rs 1,052 million recorded in corresponding period last year mainly on account of lower capital gain booked in current period.

Administrative expenses and other charges have increased to Rs 3,153 million from Rs 2,744 million which is on account of inflationary pressure, 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 period, the Bank recorded additional provision of Rs 243 million on its non-performing assets portfolio which includes provision of Rs 266 million on non-performing financing portfolio and a reversal of provision of Rs 46 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 updated 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 half year ended June 2022, the Bank received the “Sustainability Initiatives” award at the 11th Annual Corporate Social Responsibility Summit.

During the half year ended June 2022, the Bank supported following CSR activities:

- The Bank staff visited Children Cancer Ward of Shaukat Khanum Memorial Cancer Hospital, Lahore to distribute giveaways to children.
- The Bank joined hands with Sahulat Dastarkhan in Lahore to distribute subsidized meals for the underprivileged members of the society.

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

Post Russia-Ukraine war, economies of many developing countries including Pakistan are facing economic challenges mainly related to rising inflation, currency depreciation, declining foreign exchange reserves and current account deficits. To counter these challenges Government is taking several steps. The State Bank of Pakistan has increased its policy rate by 5.25% in 2022 to take it to stands at 15% with a prime objective to curtail inflation and slow down business and economic growth. We expect remaining part of 2022 to be a consolidation period where many business players will stay cautious until the time economic and political situation of the country normalizes.

The Bank is keenly aware of its responsibilities towards its customers, staff and other stakeholders. We continue 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 2021, VIS has maintained the long-term rating to 'A+' and the short-term rating at 'A1'.

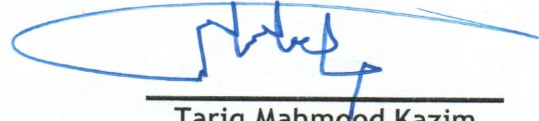
Acknowledgement

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



Tariq Mahmood Kazim
Vice Chairman

17 August 2022
Karachi