

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 quarter ended 31 March 2020.

Economic Overview

The GDP growth has been recorded at 3.3% in FY19-20 as compared to 5.5% growth in FY18-19. This slowdown is led by the global pandemic which led to drastic policy measures taken in response to the crisis situation to overcome current account deficit. The agriculture sector remained subdued with water shortages and increased cost of major inputs, which constrained the production of important crops. The services sector also faced fallout from weak performance of commodity-producing sectors, with its growth slowing down visibly compared to last year.

Pakistan's current account deficit has decreased to USD 3.3 billion as of April 2020 as compared to USD 11.5 billion in same corresponding period last year. The country's exports were recorded at USD 24.32 billion while imports were recorded at USD 43.38 billion during FY20. As of April 2020, the total remittances for FY20 amounts to USD 18.78 billion as compared to USD 17.80 in same corresponding period last year.

SBP's foreign exchange reserves have risen to about USD 12.33 billion during April 2020. The total reserves including foreign exchange held by banks reached to USD 18.74 billion by April 2020.

The average CPI inflation reached 7.3% in FY19 compared to 3.9% recorded in FY18. These pressures on inflation are on account of higher government borrowing from SBP, adjustments in the administered prices of electricity, gas and fuel, significant increase in perishable food prices, and the continued unfolding impact of exchange rate depreciation. As per the new inflation base of 2015-16, CPI increased by 8.5% YoY in April 2020, compared to 8.3% YoY during the same period last year. The State Bank of Pakistan (SBP) in its latest monetary policy statement, announced in May 2020, has reduced the policy rate to 8%. The cumulative policy rate reduction since start of 2020 stands at 525 BPS.

The financial highlights of the Bank are given below:

Financial Highlights	31 March 2020 (Un-audited)	31 December 2019 (Audited)	Growth
Deposits	Rs. 132.8 Billion	Rs. 129.7 Billion	2.4% ↑
Financing (net)	Rs. 76.2 Billion	Rs 75.4 Billion	1.1% ↑
Investments	Rs. 23.4 Billion	Rs.24.2 Billion	3.3% ↓
Total assets	Rs. 165.2 Billion	Rs 162.0 Billion	2.0% ↑
Equity	Rs. 12.7 Billion	Rs 12.7 Billion	No change

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	March	March	
	2020	2019	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	4,050	2,542	59%
Return on deposits and other dues expensed	(2,775)	(1,316)	111%
Net spread earned	1,275	1,226	4%
Fee and commission income	188	203	(7%)
Foreign exchange income	328	86	281%
Gain on securities - net	137	24	471%
Dividend and other income	30	7	329%
Total other income	683	320	113%
Administrative expenses and other charges	(1,393)	(1,247)	12%
Operating profit	565	299	89%
Provision against non performing financing, investments and other assets	(193)	(160)	21%
Profit before tax	372	139	168%
Taxation	(149)	(69)	116%
Profit after tax	223	70	219%

Financial Performance

The Bank reported healthy operating profit of Rs 565 million with an increase of 89% from comparative period last year. The profit after tax of Rs 223 million also showed increase of 219% from last year. The increase in operating profit is attributable to increase of 33% in earning assets which increased to Rs 134 billion as at March 2020 as compared to Rs 101 billion as at March 2019.

Deposits of the Bank closed at Rs 132.8 billion as at 31 March 2020 as compared to Rs 129.7 billion at 2019 year end.

The Bank continued to follow cautious approach in growing financing portfolio and closed its net financing at Rs 76.2 billion as compared to Rs 75.4 billion reported at 31 December 2019. The focus of the Bank is to build a high quality and well-diversified financing portfolio.

In profit and loss account, the net spread earned by the Bank increased by 4% over corresponding period last year and was recorded at Rs 1,275 million as compared to Rs 1,226 million in the corresponding period last year. The Bank is focusing on increasing its non-funded income from trade and advisory services.

Other income increased to Rs 683 million as compared to Rs 320 million recorded in comparative period last year mainly on account of gain realized on sale of securities. Administrative expenses and other charges have increased to Rs 1,393 million from Rs 1,247 million. The increase is attributable 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 period, the Bank recorded additional provision of Rs 193 million on its non-performing assets portfolio which includes provision of Rs 176.9 million on non performing financing portfolio. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect the reversals to be recorded during the current year.

COVID-19 Outbreak

The coronavirus (Covid-19) outbreak is causing widespread concern and economic hardships for consumers, businesses and communities across the globe. The financial sector particularly the banking industry is facing many unique challenges in this crisis situation, with most businesses across the country almost to a halt, regulatory compliance efforts such as maintaining capital levels, continuous supervision and surveillance, anomaly reporting and cyber security breach being some of the upmost priorities in this current situation have become a real concern for the industry.

The bank in line with guidelines issued by SBP, Government of Pakistan, Provincial Government and World Health Organization have initiated a number of measures to reduce the potential impacts of this pandemic on the economy, the measures adopted include but not limited to:

- Implementation of standard safety protocols / guidelines of WHO at all branches / workplaces to ensure safety of employees and customers.
- Ensuring uninterrupted availability of ATM services, digital and alternate delivery channels for facilitation of customers.
- Timely supervision, surveillance and awareness campaigns for staff and customers to proactively mitigate cyber security risk associated with all digital banking channels.

- Providing additional financing facility by increasing the debt burden ratio in line with SBP guidelines.
- Option of rescheduling / restructuring of existing finance facilities.
- Option of deferring the principal part of the financing for a maximum period of one year.
- Providing financing against shares provided the facility do not exceed one year.
- Waiver of funds transfer fee to encourage branchless banking

Corporate Social Responsibility (CSR)

During the period ended 31 March 2020, the Bank won following CSR award:

- “Collaboration & Partnership” at the “9th Annual Corporate Social Responsibility Summit & Awards 2020”.

During the period, the Bank also participated in a children’s event organized by Shukat Khanam Memorial Cancer Hospital and Research Centre Lahore. Members representing the Bank, distributed giveaways and participated in various fun activities with cancer survivor patients.

Future Outlook

During the first quarter of 2020, SBP has aggressively pursued monetary policy easing in order to provide support to businesses as economic activities in the country have come to a near halt amid the ongoing global pandemic caused by COVID-19. Considering the changing economic environment we expect lower banking activities hence our focus will be on maintaining 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.

Credit Rating

Based on the financial statements of the Bank for the year ended 31 December 2018, 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’.

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

30 May 2020
Karachi