

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 2021.

Economic Overview

Pakistan's current account surplus has increased to USD 0.88 billion for FY21 (Jul 2020 to Feb 2021) as compared to a deficit of USD 2.74 billion in the same corresponding period last year. The country's exports were recorded at USD 19.88 billion while imports were recorded at USD 37.3 billion during the FY21 (Jul 2020 to Feb 2021). The remittances for FY21 (Jul 2020 to Feb 2021) were recorded at USD 18.74 billion as compared to USD 15.1 billion in the same corresponding period last year.

The GDP growth rate witnessed a decline of 0.38% in FY20 as compared to 1.91% growth in FY19 as an aftermath of global pandemic which has affected the economy severely. It is projected to close in the range of 1.5% to 2.5% for FY21. The Government is utilizing all resources to provide stimulus to the public and taking drastic policy measures to revive industrial and economic growth.

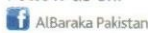
SBP's foreign exchange reserves increased to USD 13.67 billion during March 2021. Further release of third loan tranche as per approved IMF program of USD 0.5 billion and USD 2.5 billion raised through bond issued in the international market has reflected the confidence that foreign investors presently have in the creditworthiness of Pakistan. The total reserves including foreign exchange held by banks reached USD 20.836 billion by March 2021.

The State Bank of Pakistan (SBP) in its latest monetary policy statement, announced in March 2021, has maintained the policy rate at 7%. There has been no change in the policy rate since June 2020.

The average CPI inflation during FY20 stood at 10.7% as compared to 6.8% recorded in FY19. 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. As per the new inflation base of 2015-16, CPI recorded at 9.1% YoY in March 2021 as compared to 10.2% YoY during the same period last year.



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The financial highlights of the Bank are given below:

Financial Highlights	31 March 2021 (Un-audited)	31 December 2020 (Audited)	Growth
Financing (net)	Rs. 99.4 Billion	Rs 90.3 Billion	10.1% ↑
Investments	Rs. 59.8 Billion	Rs.57.1 Billion	4.7% ↑
Total assets	Rs. 196.9 Billion	Rs 192.8 Billion	2.1% ↑
Deposits	Rs. 154.7 Billion	Rs. 159.4 Billion	3% ↓
Equity	Rs. 13.3 Billion	Rs 13 Billion	2.3% ↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	March	March	
	2021	2020	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	3,155	4,050	(22%)
Return on deposits and other dues expensed	(1,553)	(2,775)	(44%)
Net spread earned	1,602	1,275	26%
Fee and commission income	256	188	36%
Foreign exchange income	164	328	(50%)
Gain on securities - net	134	137	(2%)
Dividend and other income	11	30	(63%)
Total other income	565	683	(17%)
Administrative expenses and other charges	(1,370)	(1,393)	(2%)
Operating profit	797	565	41%
Provision against non performing financing, investments and other assets	(179)	(193)	(7%)
Profit before tax	618	372	66%
Taxation	(245)	(149)	64%
Profit after tax	373	223	67%

Financial Performance

Alhamdulillah, the Bank reported operating profit of Rs 797 million depicting an increase of 41% from comparative period last year. The profit after tax of Rs 373 million also showed increase of 67% from comparative period last year. The increase in operating profit is mainly attributable to increase of earning assets by 19% which increased to Rs 153 billion as at March 2021 as compared to Rs 129 billion as at March 2020.

The Bank continued to follow cautious approach in growing financing portfolio and closed its net financing at Rs 99.4 billion as compared to Rs 90.3 billion reported at 31 December 2020.



The increase has mainly come in sovereign and low risk weight financing. The focus of the Bank is to build a high quality and well-diversified financing portfolio.

Deposits of the Bank closed at Rs 154.7 billion as at 31 March 2021 as compared to Rs 159.4 billion at 2020 year end, a decline of 3%.

In profit and loss account, the net spread earned by the Bank increased by 26% and recorded at Rs 1,602 million as compared to Rs 1,275 million in the corresponding period last year. Other income decreased to Rs 565 million as compared to Rs 683 million recorded in corresponding period last year mainly on account of decrease in income from dealing in foreign currencies. The Bank is focusing on increasing its non-funded income from trade and advisory services. Administrative expenses and other charges have decreased to Rs 1,370 million from Rs 1,393 million mainly on account disciplined cost management strategy and enhancing business synergies.

During the period, the Bank recorded net additional provision of Rs 179 million which mainly includes provision of Rs 200 million against financing portfolio and net reversal of provision of Rs 21 million against impairment on investment and other assets. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect reversals to be recorded during remaining period of 2021.

Information Technology

The Bank is committed towards developing high-end technology platforms that will help in improved performance, high efficiencies and offer innovative products and services to its customers. This is in-line with the Digital Transformation Strategy and Al Baraka Banking Group (ABG) guidelines.

During the period, the Bank made following progress in the field of information technology:

- Launch of “CashTrack” which is a web-based cash management solution through which institutional customers can instantly transfer funds for their payroll & vendors payments, pay their utility bills, view their real-time account balance and view / download their account statements.
- Launch of FX Digital Portal through which individual and business customers can submit and manage their foreign exchange transactions securely and easily.
- To facilitate customer in conducting e-commerce transactions, the Bank has enabled e-Commerce facility for its UPI (UnionPay International) cardholders allowing secure online payments.

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Green Banking

The Bank is continuously working on 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.
- Recycling of unused (waste) paper through collaboration with a Waste Management Company certified by Sindh Environmental Protection Agency (SEPA) to reduce carbon footprint.
- Energy efficient air conditioning system has installed to reduce energy consumption.
- 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.
- Creating awareness about Green Banking through different posts on social media, ATMs and through training of staff on regular basis.

COVID-19 Global Pandemic

Amid third wave of COVID-19, Pakistan has raised the daily cases to around 3,500 with 2.2% mortality rate. To cope with the spiraling third wave of COVID-19, the government has started ‘smart and micro lockdown’ and strategy to ensure the public to observe SOPs strictly especially in market places and during traveling.

The ongoing pandemic has adversely impacted on Pakistan’s health system including immunization services. However, the rigorous efforts of National Command Operation Center (NCOC) has minimized the damage. The detailed plan of action for introducing the vaccine in Pakistan has already been formulated by NCOC.

The country vaccinated program for frontline workforce as priority in the first phase. Frontline Healthcare Workers include Medical Staff of (public and private) hospitals, laboratories and vaccinators involved in COVID-19 vaccine supply chain management. From 2 March 2021, second phase has been started to vaccinate citizens with age more than 60 years and the rest will receive the vaccine in the third phase.

Economy Indicators are showing visible signs of improvement as Large Scale Manufacturing Index (LSMI) have posted positive developments to many sector since July 2020. However, the third wave of the pandemic may pose some downward risks.

Future Outlook

At present global economies are facing third wave of COVID 19. Government is utilizing all of its resources to limit the impacts from outbreak of this pandemic. Despite of the ongoing pandemic, Pakistan economy is witnessing the economic recovery as the domestic demand



returns to normal. Timely and effective economic policy measures adopted by Government of Pakistan and SBP, has laid down the foundation for economic recovery. The recovery in economic activities is evident across the agriculture, industry, and services sectors. Real GDP growth is projected to be in the range of 1.5% to 2.5% in FY 2021. Inflation rate is expected to remain within the range of 7%-9% in FY 2021 whereas current account deficit is expected to remain in the range of 0.5% to 1.5% of GDP in FY 2021.

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 2019, 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

Tariq Mahmood Kazim
Chairman (Acting)

22 April 2021
Karachi