

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 nine months period ended 30 September 2021.

Economic Overview

The GDP growth has been recorded at 4.7% in FY20-21 as compared to a deficit of 0.9% in FY19-20. Domestic economic activity gained traction throughout the third quarter of FY21. In particular, industrial activity gathered momentum, as large-scale manufacturing posted a broad-based growth, especially in second quarter of FY21. Also, high frequency demand indicators, such as auto sales, cement dispatches, petroleum products sales, and electricity consumption, indicated a sustained recovery.

Pakistan's current account deficit has decreased to USD 1.827 billion in FY20-21 as compared to a deficit of USD 4.449 billion in FY19-20. The country's exports were recorded at USD 31.555 billion, while imports were recorded at USD 61.554 billion during FY21. Further as of FY20-21, the total remittances have been recorded at USD 29.371 billion as compared to USD 23.132 in same corresponding period last year.

SBP's foreign exchange reserves have increased to about USD 20.074 billion during August 2021. The total reserves including foreign exchange held by banks reached to USD 27.068 billion by August 2021.

The average CPI inflation reached 8.9% in FY21 as compared to 10.7% recorded in FY20. There is still pressure on inflation on account 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. As per the new inflation base of 2015-16, CPI increased by 9% YoY in September 2021. The State Bank of Pakistan (SBP) in its latest monetary policy statement, announced in September 2021, has increased the policy rate to 7.25%, up by 25 BPS from 7% held since start of 2021.



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UAN : +92 -21-111-113-442
Tel: +92-21-34315851 Ext: 500-352
Fax: +92-21-34530981
www.albaraka.com.pk

Al Baraka Bank (Pakistan) Limited
162, Bangalore Town,
Main Shahra-e-Faisal, Karachi,
Pakistan.

The financial highlights of the Bank are given below:

Financial Highlights	30 September 2021 (Un-audited)	31 December 2020 (Audited)	Growth
Deposits	Rs. 168.3 Billion	Rs. 159.4 Billion	5.6% ↑
Financing (net)	Rs. 108.3 Billion	Rs 90.3 Billion	19.9% ↑
Investments	Rs. 61.2 Billion	Rs.57.1 Billion	7.2% ↑
Total assets	Rs. 209.3 Billion	Rs 193.0 Billion	8.4% ↑
Equity	Rs. 13.5 Billion	Rs 13.0 Billion	3.8% ↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	September	September	
	2021	2020	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	9,932	10,804	(8.1%)
Return on deposits and other dues expensed	(5,133)	(6,184)	(17%)
Net spread earned	4,799	4,620	3.9%
Fee and commission income	762	509	49.7%
Foreign exchange income	571	688	(17%)
Gain on securities - net	167	166	0.6%
Dividend and other income	29	35	(17.1%)
Total other income	1,529	1,398	9.4%
Administrative expenses and other charges	(4,139)	(4,140)	(0.02%)
Operating profit	2,189	1,878	16.6%
Provisions and write offs - net	(966)	(641)	50.7%
Profit before tax	1,223	1,237	(1.1%)
Taxation	(787)	(571)	37.8%
Profit after tax	436	666	(34.5%)

Financial Performance

The Bank reported operating profit of Rs 2,189 million depicting an increase of 16.6% from comparative period last year. The increase in operating profit is mainly attributable to increase of average earning assets by 16% which increased to Rs 161 billion as at September 2021 as compared to Rs 139 billion as at September 2020.

Deposits of the Bank closed at Rs 168.3 billion as at 30 September 2021 as compared to Rs 159.4 billion at 2020 year end.



The Bank steadily grew its financing portfolio and closed its net financing at Rs 108.3 billion as compared to Rs 90.3 billion reported at 31 December 2020. The major increase has come in sovereign and low risk weight financing. 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 3.9% and was recorded at Rs 4,799 million as compared to Rs 4,620 million in the corresponding period last year. Other income increased to Rs 1,529 million as compared to Rs 1,398 million recorded in corresponding period last year mainly on account of income earned from fee and commissions. The Bank is focusing on increasing its non-funded income from trade and advisory services.

Administrative expenses and other charges have been maintained almost at the same levels as of comparative period last year at Rs 4,139 million. This is on account of disciplined cost management strategy and enhancing business synergies.

During the period, the Bank recorded additional provision of Rs 945 million on its non-performing assets portfolio which includes provision of Rs 1,029 million on non-performing financing portfolio and a reversal of provision of Rs 84 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 quarter of 2021.

Green Banking

The Bank is active in determining sustainability approach and ensuring environmental, social and governance considerations, such as climate change including ensuring minimization of environmental risk to the customers. In light of the very fluid situation in the past year, the Bank has actively pursued due diligence of customers with respect to environmental risk as per SBP Green Banking guidelines.

The Bank has established a Green Banking Office and has designated 'Chief Green Banking Manager'. In this respect the Bank has established a policy approved by Board of Directors and Environmental procedures for Environmental Risk Management. The Bank has also established environmental risk mitigation mechanism through Environmental Risk Avoidance List, Environmental Improvement Plans, Environmental General and Specific Checklists and Environmental Risk Rating (ERR) Mechanism for the customers. The Bank also regularly performs due diligence process while extending financial services to customers dealing in hazardous substances.

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.



- Installation of energy efficient air conditioning system 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 and training of staff on regular basis.
- The Bank is continuously working on mitigating environmental risk of non-consumer portfolio through environmental laws and regulations of Environmental Protection agencies of Pakistan (EPA's).

Corporate Social Responsibility (CSR)

During the period ended 30 September 2021, the bank won the following CSR award:

- “Sustainability Initiatives” at the “10th Annual Corporate Social Responsibility Summit”.
- “Support for Health Care Organizations” at the “7th International Awards on Environment, Health & Safety 2021”.

During the period, the Bank also arranged the below CSR activities:

- Created Awareness about COVID-19 pandemic through different Social Media Mediums.
- The staff of Bank visited Indus Hospital’s Pediatric ward to distribute giveaways and participate in various activities with the children.
- Supported the event “Learn To Win” of Deaf Welfare Awareness Foundation (DWAF) held in Lahore on independence day.

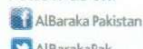
Furthermore, the Bank signed a MOU with The United Nations Development Program towards achieving Sustainable Development Goals (SDGs) through various initiatives.

Future Outlook

Government has been phenomenal in utilizing all of its resources to limit the impact of pandemic. Vaccination drives have been undertaken all over the country which has resulted in reduction in positivity rate of Covid 19. The local currency has sharply declined and still depicts a declining trend in future due to high demand of imports. Whereas, 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.



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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'. Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank's long-term rating at 'A' and short term rating at 'A1'.

Acknowledgement

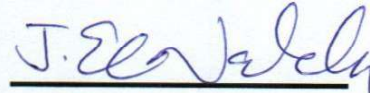
The Board wish to place on records its sincere thanks and gratitude to the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and the Shariah Board for their continued guidance and support. We would also like to thank our valued customers, shareholders and business partners for their continued patronage and confidence as well as staff members for their commitment and devotion.

On behalf of the Board



Ahmed Shuja Kidwai
Chief Executive Officer

28 October 2021
Karachi



Dr. Jehad El-Nakla
Chairman



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