



**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 2021.

**Economic Overview**

The GDP growth has been recorded at 3.9% in FY20-21 as compared to a deficit of 0.5% in FY19-20. Domestic economic activity gained traction throughout the first half 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 1.852 billion as of June 2021 as compared to a deficit of USD 4.449 billion in same corresponding period last year. The country's exports were recorded at USD 31.567 billion, while imports were recorded at USD 61.597 billion during FY21. Further as of June 2021, the total remittances have been recorded at USD 29.370 billion as compared to USD 23.131 in same corresponding period last year.

SBP's foreign exchange reserves have increased to about USD 17.298 billion during June 2021. The total reserves including foreign exchange held by banks reached to USD 24.397 billion by June 2021.

The average CPI inflation reached 8.9% in FY21 compared to 10.7% recorded in FY20. 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, along with the devaluation of rupee against major currencies. As per the new inflation base of 2015-15, CPI increased by 9.7% YoY in June 2021, compared to 8.6% YoY during the same period last year. The State Bank of Pakistan (SBP) in its latest monetary policy statement, announced in July 2021, has maintained the policy rate at 7%. There has been no change in the policy rate since June 2020.



The financial highlights of the Bank are given below:

Financial Highlights	30 June 2021 (Un-audited)	31 December 2020 (Audited)	Growth
Deposits	Rs. 173.4 Billion	Rs. 159.4 Billion	8.8% ↑
Financing (net)	Rs. 105.9 Billion	Rs 90.3 Billion	17.3% ↑
Investments	Rs. 62.2 Billion	Rs.57.1 Billion	8.9% ↑
Total assets	Rs. 210.0 Billion	Rs 193.0 Billion	8.8% ↑
Equity	Rs. 13.3 Billion	Rs 13.0 Billion	2.3% ↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	June	June	
	2021	2020	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	6,411	7,727	(17%)
Return on deposits and other dues expensed	(3,240)	(4,722)	(31.4%)
<b>Net spread earned</b>	<b>3,171</b>	<b>3,005</b>	<b>5.5%</b>
Fee and commission income	472	338	39.6%
Foreign exchange income	415	476	(12.8%)
Gain on securities - net	152	142	7%
Dividend and other income	13	32	(59.4%)
<b>Total other income</b>	<b>1,052</b>	<b>988</b>	<b>6.5%</b>
Administrative expenses and other charges	(2,744)	(2,727)	1%
<b>Operating profit</b>	<b>1,479</b>	<b>1,266</b>	<b>16.8%</b>
Provisions and write offs - net	(694)	(484)	43.4%
<b>Profit before tax</b>	<b>785</b>	<b>782</b>	<b>0.4%</b>
Taxation	(574)	(338)	69.8%
<b>Profit after tax</b>	<b>211</b>	<b>444</b>	<b>(52.5)%</b>

### Financial Performance

The Bank reported operating profit of Rs 1,479 million depicting an increase of 16.8% from comparative period last year. The increase in operating profit is mainly attributable to increase of earning assets by 26% which increased to Rs 174 billion as at June 2021 as compared to Rs 138 billion as at June 2020.

Deposits of the Bank closed at Rs 173.4 billion as at 30 June 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 105.9 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.

In profit and loss account, the net spread earned by the Bank increased by 5.5% and was recorded at Rs 3,171 million as compared to Rs 3,005 million in the corresponding period last year. Other income increased to Rs 1,052 million as compared to Rs 988 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 slightly increased to Rs 2,744 million from Rs 2,727 million mainly on account of staff annual increments, high electricity, contractual increase in rent 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 674 million on its non-performing assets portfolio which includes provision of Rs 706.9 million on non-performing financing portfolio and a reversal of impairment of Rs 33 million on account of 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 half 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.

### **Corporate Social Responsibility (CSR)**

During the half year ended 30 June 2021, the Bank received following CSR award:

- “Sustainability Initiatives” at the “10th Annual Corporate Social Responsibility Summit”.

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

- Iftar distribution drives were held in 5 major cities.
- 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.

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

### **Future Outlook**

At present global economies are facing another wave of COVID 19 known as the Delta variant. 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.

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

Chairman

26 August 2021  
Karachi