

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 2020.

Economic Overview

The GDP growth has been recorded at negative 0.4% in FY19-20 as compared to 1.9% growth in FY18-19. This slowdown is led by the global pandemic which has affected the economy severely. The slowdown left adverse impact on tax and non-tax revenues; whereas government spending has witnessed overrun. However, drop in crude oil prices has reduced the current account deficit and eased out inflationary pressure. The Government is utilizing all resources to provide maximum relief to the public and taking drastic policy measures to revive industrial and economic growth.

Pakistan's current account deficit has decreased to USD 3.3 billion as of May 2020 as compared to USD 12.5 billion in same corresponding period last year. The country's exports were recorded at USD 25.99 billion while imports were recorded at USD 46.63 billion during FY20. Further as of May 2020, the total remittances have been recorded at USD 20.654 billion as compared to USD 20.104 billion in same corresponding period last year.

SBP's foreign exchange reserves have decreased to about USD 10.36 billion during May 2020. The total reserves including foreign exchange held by banks reached to USD 16.94 billion by May 2020.

The average CPI inflation reached 10.7% in FY20 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 along with the devaluation of rupee against major currencies. As per the new inflation base of 2015-16, CPI increased by 8.6% YoY in June 2020, compared to 8.0% YoY during the same period last year. The State Bank of Pakistan (SBP) in its latest monetary policy statement, announced in June 2020, has reduced the policy rate to 7%. The cumulative policy rate reduction since start of 2020 stands at 625 BPS.

The financial highlights of the Bank are given below:

Financial Highlights	30 June 2020 (Un-audited)	31 December 2019 (Audited)	Growth
Deposits	Rs. 142.9 Billion	Rs. 129.7 Billion	10.2%↑
Financing (net)	Rs. 84.0 Billion	Rs 75.4 Billion	11.4%↑
Investments	Rs. 37.6 Billion	Rs.24.2 Billion	55.4%↑
Total assets	Rs. 174.8 Billion	Rs 162.0 Billion	7.9%↑
Equity	Rs. 12.6 Billion	Rs 12.7 Billion	0.8%↓

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	June	June	
	2020	2019	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	7,727	5,467	41%
Return on deposits and other dues expensed	(4,722)	(3,007)	57%
Net spread earned	3,005	2,460	22%
Fee and commission income	338	386	(12%)
Foreign exchange income	476	235	103%
Gain on securities - net	142	11	1191%
Dividend and other income	32	20	60%
Total other income	988	652	52%
Administrative expenses and other charges	(2,727)	(2,552)	7%
Operating profit	1,266	560	126%
Provision against non performing financing, investments and other assets	(484)	(446)	9%
Profit before tax	782	114	586%
Taxation	(338)	(58)	483%
Profit after tax	444	56	693%

Financial Performance

The Bank reported operating profit of Rs 1,266 million depicting an increase of 126% from comparative period last year. The profit after tax of Rs 444 million also showed increase of 693% from last year. The increase in operating profit is mainly attributable to increase of earning assets by 31% which increased to Rs 135 billion as at June 2020 as compared to Rs 103 billion as at June 2019.

Deposits of the Bank closed at Rs 143 billion as at 30 June 2020 as compared to Rs 130 billion at 2019 year end.

The Bank continued to follow cautious approach in growing financing portfolio and closed its net financing at Rs 84 billion as compared to Rs 75.4 billion reported at 31 December 2019. 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 22% and was recorded at Rs 3,005 million as compared to Rs 2,460 million in the corresponding period last year. Other income increased to Rs 988 million as compared to Rs 652 million recorded in corresponding period last year mainly on account of income from dealing in foreign currencies and gain realized on sale of securities. The Bank is focusing on increasing its non-funded income from trade and advisory services.

Administrative expenses and other charges have increased to Rs 2,727 million from Rs 2,552 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 484 million on its non-performing assets portfolio which mainly includes provision of Rs 379 million on non-performing financing portfolio and Rs 104 million on account of impairment on investment portfolio. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect reversals to be recorded during the remaining half of 2020.

COVID-19 Global Pandemic

The coronavirus (Covid-19) has been spreading rapidly in the past couple of months in Pakistan, with 267,472 confirmed cases claiming 5,677 deaths, as of 22 July 2020. In response, both the Federal and Provincial governments have implemented a range of measures to contain and mitigate the spread of the virus. The near-term economic outlook has worsened notably and growth is estimated at -0.4 percent in FY 2020. A gradual recovery is expected in FY 2021 as the economy reopens.

The Bank is constantly assessing the Covid-19 situation and implementing number of measures to ensure the continuity of banking services during these difficult times as under:

- Alternative Distribution Channels (ADC) services are being promoted to limit the use of currency notes and restrict customers' branch visits for routine transactions. Financial transactions from Digital Banking (Internet and Mobile Banking) reached Rs 1.9 billion (US\$ 11.3 million) in Q2 2020, recording a hefty growth of 52% as compared to Q1 2020.
- Providing Free IBFT (Inter Bank Funds Transfer) facilities to all customers.

- Restructuring and deferment of the existing financing facilities as per directives of SBP, On customers request, principal repayment amount is deferred for one year, However, profit due is continued to be received / collected during the grace period.
- Adding new financing (refinance) scheme for the ease of payment of 3 months wages and salaries for the employees of the businesses in our product suits, to be repaid by December 2022. This facility is being provided as per directives of SBP.
- Communicate with our employees and customers to take all necessary precautions to help prevent the spread of this deadly virus.
- Promoting culture of online training to keep staff operating from branches in different geographical location abreast with recent changes in banking regulations.

Corporate Social Responsibility (CSR)

During the half year ended 30 June 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 Shuakat 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

The outbreak of COVID-19 has adversely affected Pakistan’s economic growth for FY2020. Pakistan’s domestic production and exports declined due to decrease in global demand and commodity prices. Further reduction in local demand has been caused due to lockdown related disruption of industrial activities in the country. This will contract GDP growth for rest of 2020. 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 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 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

Adnan Ahmed Yousif
Chairman

26 August 2020
Karachi