

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 period ended 30 June 2019.

Economic Overview

The GDP growth recorded at 3.3% in FY19 as compared to 5.8% in financial year ended June 2018 (FY-18). The reduced GDP growth is on account of decline in Large Manufacturing Scale growth by 2.1% as compared to 5.1% growth recorded in same period last year, low Kharif crop production, restricted capital investments owing to cut in public sector development programs (PSDP) and rising energy and financing costs which has resulted in slower growth in commodity producing sector.

Pakistan's current account deficit has decreased to USD 13.4 billion as of FY19 as compared to USD 19.9 billion last year, which helped ease pressures on SBP's foreign exchange reserves. This reduction in the external balance was mainly driven by a 29.5% decline in the trade deficit in services as well as a strong growth in remittances. The country's exports were recorded at USD 29.5 billion while imports were recorded at USD 61.9 billion during the FY19.

SBP's foreign exchange reserves have risen to about USD 8 billion during July 2019 with the disbursement of the first tranche of the IMF's Extended Fund Facility. Reserves are expected to rise further in FY20 on account of additional financial inflows from other international creditors including those related to the Saudi oil facility and continued improvement in current account deficit.

The average CPI inflation reached 7.3% in FY19 compared to 3.9% recorded in FY18. These pressures on inflation are explained by 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.

On account of rising inflation, the State Bank of Pakistan (SBP) in its latest monetary policy statement announced in July 2019 has raised the policy rate by 100 bps to 13.25% and discount rate to 13.75%. Discount rates have now been raised by 325bps since the start of the year 2019, and it stands at their highest level since 2012.



The financial highlights of the Bank are given below:

Financial Highlights	30 June 2019 (Un-audited)	31 December 2018 (Audited)	Growth
Deposits	Rs. 111.2 Billion	Rs. 99.9 Billion	11% ↑
Financing (net)	Rs. 76.3 Billion	Rs 75 Billion	2% ↑
Investments	Rs. 24.2 Billion	Rs.21.3 Billion	14% ↑
Total assets	Rs. 142.9 Billion	Rs 128.8 Billion	11% ↑
Equity	Rs. 10.7 Billion	Rs 10.7 Billion	-

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	June	June	
	2019	2018	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	5,467	3,660	49%
Return on deposits and other dues expensed	(3,007)	(1,705)	76%
Net spread earned	2,460	1,955	26%
Fee and commission income	386	365	6%
Foreign exchange income	235	187	26%
Gain on securities	10	20	(50%)
Dividend and other income	20	25	(20%)
Total other income	651	597	9%
Administrative expenses and other charges	(2,552)	(2,381)	7%
Operating profit	559	171	227%
Provision against non performing financing, investments and other assets	(446)	(582)	(23%)
Profit / (loss) before tax	113	(411)	127%
Taxation	(57)	141	(140%)
Profit / (loss) after tax	56	(270)	121%

Financial Performance

Deposit of the Bank closed at Rs 111 billion as at 30 June 2019 as compared to Rs 100 billion at 2018 year end. Despite of fact that discount rate increased by 225 BPS, the Bank is managing its net spread efficiently by increasing its focus on mobilization of current accounts and low cost saving accounts.



The Bank continued to follow cautious approach in growing financing portfolio and closed its net financing at Rs 76 billion as compared to Rs 75 billion reported at 31 December 2018. The focus of the Bank is to build a high quality and well-diversified financing portfolio.

The investment portfolio of the Bank grew from Rs 21 billion as of December 2018 to Rs 24 billion as of June 2019. The major investment was made in risk free government securities during the period.

In profit and loss account, the net spread earned by the Bank increased significantly by 26% over corresponding period last year and was recorded at Rs 2,460 million as compared to Rs 1,955 million in the corresponding period last year.

Other income increased to Rs 651 million as compared to Rs 597 million recorded in comparative period last year. Administrative expenses and other charges have increased to Rs 2,552 million from Rs 2,381 million. The Bank had planned various cost optimization strategies last year which are now resulting in substantial cost savings to the Bank. The Bank continues to follow disciplined cost management strategy and enhancing business synergies.

The Bank is focusing on increasing its non-funded income from trade and advisory business. Despite of challenging conditions, the Bank recorded operating profit of Rs 559 million during the period ended 30 June 2019 as compared to Rs 171 million in comparative period last year.

During the period, the Bank recorded additional provision on non performing portfolio amounting to Rs 213 million. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect the reversals to be recorded in third quarter.

Green Banking

The Bank understands its responsibility in protecting the environment and conserving natural resources. In line with the State Bank suggested framework, the Bank has established a Green Banking Office with Chief Risk Officer also taking the responsibility of Chief Green Banking Manager. The Bank has also established a policy approved by Board of Directors and necessary procedures for Environmental Risk Management.

Corporate Social Responsibility (CSR)

During the period ended 30 June 2019, the Bank won following CSR awards:

- "Collaboration & Partnership" and "Education/Scholarship Program" at the "8th Annual Corporate Social Responsibility Summit & Awards 2019".
- "Social Responsibility Award 2018" by Shaukat Khanum Memorial Cancer Hospital & Research Center.
- "Health & Safety Award 2019" at 5th International Environment Health & Safety Awards 2019.



Future Outlook

Our focus will be on maintaining the growth momentum without compromising on 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. The merger synergies will be more evident in forthcoming periods and the Bank will save substantial operational costs resulting in improvement in overall Bank's profitability.

Credit Rating

Based on the financial statements of the Bank for the year ended 31 December 2018, JCR-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

28 August 2019
Islamabad

