

**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 nine months period ended 30 September 2019.

**Economic Overview**

The GDP growth has been recorded at 3.3% in FY19 as compared to 5.5% growth in FY18. This slowdown had already been anticipated on account of policy measures taken to overcome current account deficit. The agriculture sector remained subdued with water shortages and increased cost of major inputs, which constrained the production of important crops. The services sector also faced fallout from weak performance of commodity-producing sectors, with its growth slowing down visibly compared to last year.

Pakistan's current account deficit has decreased to USD 13.5 billion as of FY19 as compared to USD 19.9 billion last year. The country's exports were recorded at USD 29.6 billion while imports were recorded at USD 62.1 billion during the FY19. The remittances for FY19 were USD 19 billion as compared to USD 18 billion in FY18. Current account deficit for two months of FY 20 (July - Aug 2020) is USD 1.3 billion which was USD 2.9 billion in comparative period last year.

SBP's foreign exchange reserves have risen to about USD 8.3 billion during August 2019 with the disbursement of the first tranche of the IMF's Extended Fund Facility. The total reserves including foreign exchange held by banks reached to USD 15 billion by September 2019.

The average CPI inflation reached 7.3% in FY19 compared to 3.9% recorded in FY18. 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, and the continued unfolding impact of exchange rate depreciation. As per the new inflation base of 2015-16, CPI increased by 11.4% YoY in September 2019, compared to 5.4% YoY during the same period last year. The State Bank of Pakistan (SBP) in its latest monetary policy statement, announced in September 2019, has maintained the policy rate at 13.25% with discount rate at 13.75%.





The financial highlights of the Bank are given below:

Financial Highlights	30 September 2019 (Un-audited)	31 December 2018 (Audited)	Growth
Deposits	Rs. 114.6 Billion	Rs. 99.9 Billion	15% ↑
Financing (net)	Rs. 74.6 Billion	Rs 75 Billion	0.5% ↓
Investments	Rs. 23.9 Billion	Rs.21.3 Billion	12% ↑
Total assets	Rs. 141.9 Billion	Rs 128.8 Billion	10% ↑
Equity	Rs. 10.8 Billion	Rs 10.7 Billion	0.9% ↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	September 2019	September 2018	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	8,957	5,720	57%
Return on deposits and other dues expensed	(5,275)	(2,714)	94%
<b>Net spread earned</b>	<b>3,682</b>	<b>3,006</b>	<b>23%</b>
Fee and commission income	556	506	10%
Foreign exchange income	436	329	33%
Gain on securities - net	2	19	(89%)
Dividend and other income	33	48	(31%)
<b>Total other income</b>	<b>1,027</b>	<b>902</b>	<b>14%</b>
Administrative expenses and other charges	(3,912)	(3,585)	9%
<b>Operating profit</b>	<b>797</b>	<b>323</b>	<b>147%</b>
Provision against non performing financing, investments and other assets	(567)	(738)	(23%)
<b>Profit / (loss) before tax</b>	<b>230</b>	<b>(415)</b>	<b>155%</b>
Taxation	(129)	136	(195)
<b>Profit / (loss) after tax</b>	<b>101</b>	<b>(279)</b>	<b>136%</b>

### Financial Performance

Deposit of the Bank closed at Rs 114.6 billion as at 30 September 2019 as compared to Rs 99.9 billion at 2018 year end. Despite the fact that discount rate increased by 325 BPS during 2019, the Bank has managed its net spread efficiently.

The Bank continued to follow cautious approach in growing financing portfolio and closed its net financing at Rs 74.6 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 21.3 billion as of December 2018 to Rs 23.9 billion as of September 2019. The increase is mainly due to investment made in Pakistan's first Energy Sukuk duly guaranteed by Government of Pakistan and is eligible for the purpose of meeting Statutory Liquidity Requirements (SLR).

In profit and loss account, the net spread earned by the Bank increased significantly by 23% over corresponding period last year and was recorded at Rs 3,682 million as compared to Rs 3,006 million in the corresponding period last year.

Other income increased to Rs 1,027 million as compared to Rs 902 million recorded in comparative period last year mainly on account of increase in trade income and other fee related banking services. Administrative expenses and other charges have increased to Rs 3,912 million from Rs 3,585 million. The increase is attributable on account of staff annual increments, contractual increase in rents of branch premises, high electricity and other operational expenses. The Bank continues to follow disciplined cost management strategy and enhancing business synergies.

In line with the directives of SBP, the Bank has adopted IFRS 16 'Leases', as fully explained in note 3.2 to the condensed interim unaudited financial statements. Had IFRS 16 not been applied, profit after tax for the period ended 30 September 2019 would have been higher by Rs 129 million. Despite the challenging conditions and initial adoption of IFRS 16, the Bank recorded operating profit of Rs 797 million during the period ended 30 September 2019 as compared to Rs 323 million in comparative period last year (growth of 147%).

During the period, the Bank recorded additional provision of Rs 567 million on its non-performing assets portfolio which includes impairment of Rs 260 million on capital market portfolio on account of depressed performance of stock market. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect the reversals to be recorded in last quarter of 2019.

### **Green Banking**

The Bank understands its responsibility in protecting the environment and conserving natural resources. In line with the SBP suggested framework, the Bank has established a Green Banking Office with Chief Risk Officer also taking the responsibility of Chief Green Banking Manager. As part of an initiative of Government of Pakistan, the Bank has joined hands in sponsoring 30 "Green Bag Stalls" at several prominent locations in Islamabad to promote and sell jute bags as part of commitment towards sustainability and to reduce the use of Plastic bags. 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 September 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.

### **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

25 October 2019  
Karachi