

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 2020.

Economic Overview

The slowdown led by the global pandemic has affected the economy severely. GDP growth rate has been adversely impacted which reduced the overall tax and non-tax revenues; whereas government spending has witnessed overrun. The Government is utilizing all resources to provide stimulus to the public and taking drastic policy measures to revive industrial and economic growth.

Pakistan's current account deficit has decreased by 78% YoY to USD 2.97 billion in FY19-20 as compared to USD 13.4 billion in same corresponding period last year. The current account balance for the two months in FY 20-21 stands at a positive of USD 0.805 Billion. The country's exports were recorded at USD 27.947 billion while imports were recorded at USD 50.684 billion during FY20. Further as of August 2020, the total remittances have been recorded at USD 23.131 billion as compared to USD 21.740 in same corresponding period last year.

SBP's foreign exchange reserves have increased to about USD 12.74 billion during August 2020. The total reserves including foreign exchange held by banks reached to USD 19.91 billion by 31 August 2020.

The average CPI inflation during FY20 stood at 10.7% as 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 recorded at 9.0% YoY in September 2020 as compared to 11.4% YoY during the same period last year. The State Bank of Pakistan (SBP) in its latest monetary policy statement, announced in September 2020, has kept the policy rate unchanged to 7%. The cumulative policy rate reduction since start of 2020 is 625 BPS.

The benchmark PSX-100 Index had touched a high of 43,468 in January 2020. However, following news of the first confirmed Covid-19 case in Pakistan on 25 February 2020, the index gradually dropped to 27,046 by 26 March 2020 (the duration in which lockdowns had started to be imposed). The stock market depicted an improved performance during third quarter of 2020 with the PSX index closed at 40,571 points in September 2020. PSX 100 Index also becomes second best performer globally as per Bloomberg data.

The financial highlights of the Bank are given below:

Financial Highlights	30 September 2020 (Un-audited)	31 December 2019 (Audited)	Growth
Deposits	Rs. 146.2 Billion	Rs. 129.7 Billion	12.7% ↑
Financing (net)	Rs. 81.2 Billion	Rs 75.4 Billion	7.7% ↑
Investments	Rs. 42.4 Billion	Rs.24.2 Billion	75.2% ↑
Total assets	Rs. 179 Billion	Rs 162 Billion	10.5% ↑
Equity	Rs. 12.9 Billion	Rs 12.7 Billion	1.6% ↑

PROFIT AND LOSS ACCOUNT	January -	January -	Variance
	September	September	
	2020	2019	
	<i>Rs. In million</i>		
Profit/return on financing, investments and placements	10,804	8,957	21%
Return on deposits and other dues expensed	(6,184)	(5,275)	17%
Net spread earned	4,620	3,682	25%
Fee and commission income	509	556	(8%)
Foreign exchange income	688	436	58%
Gain on securities - net	166	2	82 times
Dividend and other income	35	33	6%
Total other income	1,398	1,027	36%
Administrative expenses and other charges	(4,140)	(3,912)	6%
Operating profit	1,878	797	136%
Provision against non performing financing, investments and other assets	(641)	(567)	13%
Profit before tax	1,237	230	438%
Taxation	(571)	(130)	339%
Profit after tax	666	100	566%

Financial Performance

The Bank reported operating profit of Rs 1,878 million depicting an increase of 136% from comparative period last year. The profit after tax of Rs 666 million also showed increase of 566% from last year. The increase in operating profit is mainly attributable to increase of earning assets by 30% which increased to Rs 139 billion as at September 2020 as compared to Rs 107 billion as at September 2019.

Deposits of the Bank closed at Rs 146 billion as at 30 September 2020 as compared to Rs 130 billion at 2019 year end, a growth of 13%.

The Bank continued to follow cautious approach in growing financing portfolio and closed its net financing at Rs 81.2 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 25% and recorded at Rs 4,620 million as compared to Rs 3,682 million in the corresponding period last year. Other income increased to Rs 1,398 million as compared to Rs 1,027 million recorded in corresponding period last year mainly on account of increase in 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 4,140 million from Rs 3,912 million mainly on account of high electricity cost, 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 641 million on its non-performing assets portfolio which mainly includes provision of Rs 664 million on non-performing financing portfolio, reversal of provision of Rs 34 million on account of impairment on investment portfolio and provision of Rs 11 million on other assets. The Bank is making concrete efforts to regularize certain old chronic accounts and we expect reversals to be recorded during last quarter of 2020.

COVID-19 Global Pandemic

COVID-19 reached Pakistan in February 2020 and started to spread rapidly in Pakistan. Till 18 March 2020, cases had been registered in all four provinces and by 17 June 2020, each district of Pakistan had recorded at least one confirmed case of COVID 19. In response, both the federal and provincial governments have implemented a range of measures to contain and mitigate the spread of the virus which include quarantines in localized areas, border closures with neighboring countries, international travel restrictions, school and university closures, cancellation and banning of public events, social distancing measures, and varying levels of lockdown in cities and provinces across the country.

The collective efforts from the platform of National Command and Operation Centre, Pakistan not only proved all international estimates regarding the number of cases wrong but also minimized the death rate and cases. Number of confirmed cases as at 12 October 2020 stands at 319,317 with death cases of 6,580. World Health Organization (WHO) praised Pakistan by saying that International community should learn from Pakistan how to deal with COVID 19 pandemic. Government has also now ordered to reopen all educational institutions across Pakistan with SOPs implemented after closure of almost 6 months due to COVID 19. As a result of Pandemic, the near-term economic outlook has worsened notably and growth is estimated at negative (0.4%) in FY 2020.

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 2.4 billion in Q3 2020 against Rs 1.9 billion in Q2 2020, recording a hefty growth of 26.3% quarter on quarter. Financial transactions conducted through Mobile Banking increased by 25% in the third quarter of 2020, whereas Internet Banking transactions rose by 11% during the same period.
- 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 nine months period ended 30 September 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 economy is projected to recover in FY 2021 as the pandemic recedes and domestic demand returns. However, uncertainty regarding the evolution of the virus and pace of revival in external demand for Pakistani products is a key risk. Mounting debt and geopolitical tensions further cloud the outlook. The expected GDP growth in FY 2021 is 1.4% and 4.1% in FY 2022. Inflation rate is expected to remain at 8% in FY 2021. Moreover, the country's unemployment rate is projected at 5.1pc in the next fiscal year. The gross debt, according to the IMF estimates, will start declining from FY2021 when it will be reduced to at 76.1% from current 78.6% of GDP in FY 2020. The IMF data shows that Pakistan's budget deficit would gradually reduce from 7.4% of GDP in ongoing FY 2020 to 2.6% of GDP by FY 2024.

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

28 October 2020
Karachi