

11 Annual Financial Performance Review

11.1 Overview

The financial year ended 30th June 2008 marked a historic profitability for State Bank of Pakistan with a net profit of Rs. 164,793 million which is 52 percent higher than the previous year's net profit of Rs. 108,733 million. The significant increase is mainly attributable to exchange gain on foreign currency assets arising due to depreciation of PKR against USD and discount income on Market Treasury Bills on account of increase in volume and interest rates on Market Treasury Bills.

11.1.1 Summary of Profit and Loss Account:

A snapshot of Bank's annual profit and loss account is presented in **Table 11.1** below:

An analysis of different components of income and expenditure of the Bank is presented below:

Description	2007-08	2006-07
Income		
Net discount /interest / markup and/or return income	101,134	87,224
Commission income	720	656
Exchange gain - net	61,973	1,958
Dividend income	6,594	4,287
Other operating income - net	9,631	30,181
Gross income	180,052	124,306
Other income - net	296	242
Total income	180,348	124,548
Expenditure		
Bank notes printing charges	3,098	3,087
Agency commission	2,710	2,576
General administrative and other expenses	8,888	9,211
Other charges	736	803
Provisions	123	138
Total expenditure	15,555	15,815
Profit for the year	164,793	108,733

11.2 Income

11.2.1 Net Discount / Interest / Markup and/or Return Income

The net discount / interest / markup and/or return income of the Bank for FY 2007-08 amounted to Rs. 101,134 million as compared to the income of Rs. 87,224 million during the corresponding year resulting in an increase of 16 percent over the corresponding period. The elements of net interest income are analyzed as under:

11.2.2 Discount, Interest/Markup and/or Return Earned

Bank earns discount income on Market Treasury Bills (MTBs), interest/markup and return on domestic assets and foreign assets held by it. The income under these heads showed an increase of Rs. 12,370 million which is 13 percent higher than the previous year's income.

The interest/discount/return earned on Bank's foreign assets witnessed an increase of 5 percent over the last year (see **Table 11.2**) whereas the income under the head on domestic assets increased by 18 percent during the current financial year. The foreign currency reserves of the Bank witnessed a decline of 24 percent which amount to equivalent of Rs. 651,080 million as on 30th June 2008 as compared to the balance of Rs. 861,086 million as on 30th June 2007(see **Table 11.3**).

The interest/discount on domestic assets increased mainly on account of increase in average holdings of Market Treasury Bills (MTBs) and average discount rates. The discount rates on MTBs ranged from 9.26 percent to 11.19 percent during the current financial year as against the band of 8.49 percent to 8.90 percent during the corresponding period. The investments in government securities increased by 133 percent whereas the balance of loans and advances extended to banks and financial institutions decreased by 16 percent during the year under review (see **Table 11.4**).

11.2.3 Interest/Markup Expense

Bank incurs interest expense on foreign currency deposits of commercial banks held under Cash Reserves Requirements (CRR), borrowings from International Monetary Fund, deposits of international organizations and foreign central banks. The interest expense witnessed a decline of 29 percent over the previous year which amounted to Rs. 3,749 million during the current financial year as compared to Rs. 5,289 million previous year. The rate of interest on foreign currency deposits ranged between 1.46 percent to 4.72 percent as compared to the band of 4.11 percent to 4.32 percent during the financial year 2006-07 whereas the rate of interest on deposits of foreign central banks and international organizations ranged between 1.60 percent to 7.15 percent in the current financial year as against the range of 5.18 percent to 7.30 percent in the previous financial year.

11.2.4 Commission Income

The commission income of the Bank is mainly comprised of commission income from management of public debt, market treasury bills, prize bonds and national saving schemes, government securities as well as issuance of drafts and payment orders. Commission income for the current financial year increased by 10 percent which amounted to Rs. 720 million during the year as compared to Rs. 656 million previous financial year.

11.2.5 Exchange Gain / (Loss) – Net

Bank holds foreign currency assets and liabilities on its balance sheet. The sale/purchase and revaluation of these assets and liabilities result in exchange gain/ loss for the Bank. The Bank's exchange gain / loss arises mainly due to appreciation/depreciation of PKR vis-à-vis foreign

Table 11.2: Interest/Discount/Return Income on Foreign and Domestic Assets
(million rupees)

Description	2007-08	2006-07
Interest/discount income on foreign assets	36,491	34,738
Interest/discount income on domestic assets	68,392	57,775
Total	104,883	92,513

Table 11.3: Foreign Currency Reserves

Description	2007-08	2006-07
Investments	241,921	211,329
Deposit accounts	355,534	606,819
Current accounts	38,856	30,136
Special drawing rights with IMF	14,769	12,802
Total	651,080	861,086

Table 11.4: Lending to Government, Banks and Financial Institutions
(million rupees)

Description	2007-08	2006-07
Government securities	1,074,618	461,725
Overdraft to governments	22,609	18,320
Banks and financial institutions	232,451	276,208
Total	1,329,678	756,253
Yield on treasury bills	9.26% to 11.19%	8.49% to 8.90%
Markup on export finance	6.50%	6.50%

currencies particularly USD and SDR. The foreign currency asset side of the Bank is dominated by USD whereas the net liability exposure is denominated in SDR. In view of the above, the depreciation of PKR vis-à-vis USD results in exchange gain and vice versa while the depreciation of PKR vis-à-vis SDR results in exchange loss and vice versa to the Bank. Appreciation and depreciation of PKR against major currencies is presented in **Table 11.5**.

The bank witnessed an exceptional rise in exchange income during the financial year 2007-08 which amounted to Rs. 61,973 million as compared to the exchange gain of Rs. 1,958 million during the previous financial year. The extraordinary increase of Rs. 60,015 million is due to significant depreciation of PKR vis-à-vis other currencies, in which Bank's major foreign currency exposure is denominated, which remained in double digit particularly USD and SDR during the current year. An overview of Bank's net exchange gain is presented in **Table 11.6**.

11.2.6 Dividend Income

Bank's dividend income arises on the equity investments in banks and financial institutions. As on 30th June 2008, Bank has equity investments of Rs. 19,589 million as compared to Rs. 20,379 million as at 30th June 2007. Bank earned a dividend income of Rs. 6,594 million which is 54 percent higher than the previous year's income of Rs. 4,287 million. The increase is mainly attributable to higher rate of dividend paid by National Bank of Pakistan which is 75 percent as compared to the previous year's payout of 40 percent.

11.2.7 Other Operating Income - net

The main components of the other operating income of the Bank are income derived from gain on sale of investments, penalties levied on banks and financial institutions, license / Credit Information Bureau fee recovered, profit on sale of securities, gain / loss on re-measurement of securities classified as held for trading etc. Other operating income of the Bank declined by Rs. 20,551 million which is explained by decline in gain on sale of equity investments by Rs. 12,828 million, loss on re-measurement of securities classified as held for trading Rs. 8,015 million in current financial year as against a gain of Rs. 606 million previous year partly offset by increase in penalties levied on banks and financial institutions by Rs. 659 million.

11.2.8 Other Income - net

Bank's other income mainly include gain on disposal of property and equipment, net gain arising on liabilities and provisions written back, amortization of deferred income and income under other miscellaneous heads. The income under the head of other income net increased by Rs. 54 million from Rs 242 million in last financial year to Rs. 296 million during the current financial year. The increase is mainly due to increase on gain on liabilities and provisions written back and amortization of deferred income.

Table 11.5: Exchange Gain/(Loss) – Net

Rupees per currency , appreciation/depreciation in percent				
Currency	Exchange rate		Appreciation /depreciation	
	30.06.2008	30.06.2007	2007-08	2006-07
US Dollar	68.01	60.46	(11.10)	(0.43)
Pound Sterling	135.1	121.06	(10.39)	(9.78)
Japanese Yen	0.64	0.49	(23.44)	6.12
Euro	107.23	81.44	(24.05)	(7.34)
SDR	111.55	91.73	(17.77)	(2.81)

Table 11.6: Breakup of the Exchange Account

(million rupees)		
Description	2007-08	2006-07
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	76,483	3,872
- Open market operations (including currency swap arrangements)	-226	-8
- Forward covers under Exchange Risk Coverage	95	229
- Payable to the International Monetary Fund (IMF) and SDRs	-14,379	-2,135
Total	61,973	1,958

11.3 Expenditure

Bank's total expenditure (including provisions against impaired assets) amounted to Rs. 15,555 million as compared to the expenditure of Rs. 15,815 million during the previous financial year. An analysis of the banks expenditure is presented below:

11.3.1 Bank Notes Printing Charges

Bank incurs expenditure for printing of fresh currency notes. The expenditures under the head amounted Rs. 3,098 million during the current financial year showing a nominal increase of 0.3 percent over the previous year expenditure of Rs. 3,087 million.

11.3.2 Agency Commission

Agency commission charges are paid to National Bank of Pakistan on account of Government transactions and remittances on behalf of SBP as per agency agreement. During 2007-08, expenditure under the head of agency commission increased by five percent due to enhanced volume of government transactions during 2007-08.

11.3.3 General administrative and other expenses

The expenses under this head include employees' salaries and other benefits, retirement benefits and employees' compensated absences, and other expenses mainly including depreciation, electricity & water charges, repairs and maintenance, legal and professional charges, travelling, postage and telephone charges etc. A summary of Banks general administrative and other expenses is presented in **Table 11.7**.

Table 11.7: General Administrative and Other Expenses

(million rupee)

Description	2007-08	2006-07
Salaries and other benefits	4,007	3,598
Retirement benefits and employees' compensated absences	2,419	3,437
Other expenses	2,462	2,176
Total	8,888	9,211

11.3.4 Other Charges

Other charges of the bank mainly include charges paid to International Monetary Fund on allocations of Special Drawing Rights. Other charges declined by Rs. 67 million during the current financial year due to decline in chares on allocation of SDRs Rs. 43 million and decrease of Rs. 41 million in provisions against reimbursement of agricultural losses.

11.3.5 Provisions

The provisions against doubtful assets stood at Rs. 123 million during the current financial year as against net provisions of Rs. 138 million during the previous year.

11.4 Distributable Profit

As explained above, the Bank earned a profit of Rs. 164,793 million for the year ended 30th June 2008. An amount of Rs. 96,440 million is proposed to be transferred to the Bank's Reserve Fund out of the net profits for the year (see **Table 11.8**). The allocation for dividend is consistent with previous year's amount of Rs. 10 million. Thus after accounting for the above, the surplus profit transferable to the Federal Government amounts to Rs. 68,343 million as against an amount of Rs. 78,301 million for the previous financial year.

Table 11.8: Distribution of profit

(million rupee)

Description	2007-08	2006-07
Dividend	10	10
Transfer to Reserve Fund	96,440	30,422
Surplus profit transferable to Federal Government	68,343	78,301
Total	164,793	108,733