

Finances of SBP and its Subsidiaries

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11 Annual Budget Review

2009-10

11.1 Overview

Total expenditures of SBP and its subsidiaries are classified into three broad categories, namely; corporate expenses, establishment expenses, and operating expenses. A brief comparison of actual versus budgeted expenditures of the SBP and its subsidiaries is given in **Figure 11.1** and **Table 11.1**.

The relative size of each of these heads in total expenditures is shown in **Table 11.2**.

The total consolidated expenditure of SBP and its subsidiaries amounted to Rs 23,577 million against budget of Rs 21,612 million; showing negative variance of Rs 1,965 million or 9.1 percent. The variance of actual results against budget, in terms of major heads is shown in **Table 11.3**.

11.2 Corporate Expenses

Corporate expenses of the Bank comprise three components, i.e., agency commission to National Bank of Pakistan (NBP), currency notes printing charges, and charges on allocation of Special Drawing Rights (SDRs) of IMF. Head- wise

Fig.11. 1 Budget vs. Actual Expenditure (million rupees)

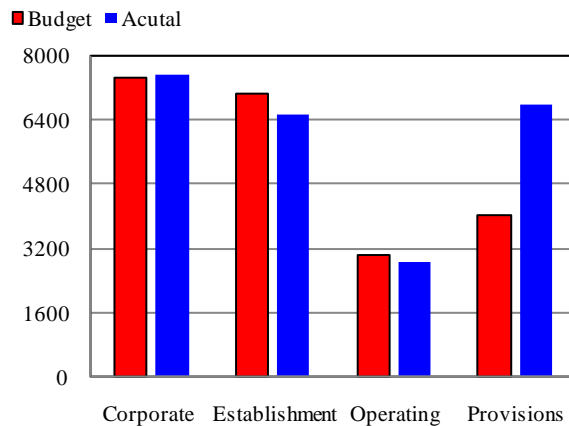


Table 11.1: SBP Annual Review for FY10

(Rs in million)

S.N.	Head of Account	Consolidated			
		Budget	Actual	Variance	Variance % age
1	Corporate	7,453	7,518	-65	-0.9
2	Establishment	7,063	6,507	556	7.9
3	Operating	3,049	2,807	242	7.9
4	Provisions	4,047	6,745	-2,698	-66.7
Grand Total		21,612	23,577	-1,965	-9.1

Table 11.2: Breakup of Revenue Expenditure during FY10

Description	Budget	Actual
Corporate	34	32
Establishment	33	28
Operating	14	12
Provisions	19	28
Total	100	100

Table 11.3: Head wise Variance of Actual from Budget (percentage)

Description	Budget
Corporate	- 0.9
Establishment	7.9
Operating	7.9
Provisions	-66.7
Total	- 9.1

analysis of corporate expenses is given **Table 11.3**:

- 1. Agency Commission Charges.** 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. Agency commission exhibits a negative variance of Rs 241 million or 6.4 percent due to enhanced volume of government transactions.

2. **Currency notes printing charges.** Positive variance of Rs 241 million or 6.9 percent has been witnessed in note printing charges, attributable to the price variance.
3. **Charges on Allocation of SDRs.** The charges on allocation of SDRs resulted in negative variance of Rs 65 million, or 30.5 percent, mainly due to higher exchange rate (Rs 16) million and increase in allocation (Rs 223) million which is partially offset by lower rate of SDR charges Rs 174 million.

In corporate expenses, negative variance in 'Agency Commission Charges' and 'Charges on Allocation of SDRs' were to a large extent offset by the positive variance in 'Note Printing Charges'. Consequently overall variance in 'Corporate Expenses' resulted in overall negative variance of Rs 65 million or 0.9 percent.

11.3 Establishment Expenses

Establishment expenses include employees' salaries, medical, benefits, and training expenditures. The establishment expenditures showed positive variance of Rs 556 million or 7.9 percent. The positive variance is mainly attributable to delay in recruitment of new employees.

11.4 Operating Expenses

Operating expenses include rent, rates and taxes, legal and professional charges, stationery and publications, communication, traveling expenditure, repair and maintenance, depreciation, including NIBAF. On overall basis, operating expenses have shown positive variance of Rs 242 million or 8.6 percent owing primarily to lower expenses in legal and professional charges, EDP maintenance, depreciation, repair and maintenance, traveling expenditures, and misc expenses, as against the budgeted amount.

11.5 Provisions

Provisions include allocations for staff retirement benefits, agriculture bonafied losses and other miscellaneous expenses. Actual provisions recorded against budgetary allocation have shown negative variance of Rs 2,698 million or 66.7 percent owing primarily to staff retirement benefits. Provision for staff retirement benefits is based as per actuarial advice; however, negative variance is attributable to subsequent changes in the salaries and compensation during the year.

12 Annual Financial Performance Review

12.1 Overview

For the financial year ended June 30, 2010, net profit of the Bank stood at Rs 186,736 million resulting in a decrease of 7 percent compared to the profit of Rs 201,698 million during the previous financial year (previous year profit figures have been restated in view of change in accounting policy of the Bank regarding allocation of Special Drawing Rights of IMF). The decrease is mainly attributable to decrease in net exchange gains on Bank's foreign currency assets and liabilities coupled with a marginal decline in discount income on Market Treasury Bills (MTBs). The above decrease was partly offset by gain on remeasurement of securities classified as held for trading. Further, the Bank witnessed a marginal decline in commission income and dividend income during the year.

12.1.1 Summary of Profit and Loss Account

A summary of Bank's annual profit and loss account is given in **Table 12.1**. A review of different elements of income and expenditure of the Bank is presented below:

Table 12.1: Summary Statement of Profit and Loss

(million rupees)

Description	FY10	FY09
Income		
Discount / interest /markup and/or return earned	185,282	183,112
Less: Interest/mark-up expense	9,698	8,085
Net discount / interest /markup and/or return income	175,584	175,027
Commission income	1,453	1,667
Exchange gain - net	11,711	32,211
Dividend Income	9,513	9,733
Other operating income - net	10,465	1,231
Gross income	208,726	219,869
Other income - net	67	56
Total income	208,793	219,925
Expenditure		
Bank notes printing charges	3,259	4,193
Agency commission	3,981	3,614
General administrative and other expenses	15,082	10,908
Other charges		
Provisions	(265)	(488)
Total expenditure	22,057	18,227
Profit for the year	186,736	201,698

12.2 Income

The net income under the head showed a modest increase of 0.3 percent to reach Rs 175,584 million as against an income of Rs 175,027 million during the previous year. A review of different elements of net discount / interest / markup and/or return income is presented as under:

12.2.1 Discount, Interest/Markup and/or Return Earned

The Bank earns discount income on its holdings of Market Treasury Bills (MTBs) whereas the income under interest/markup and return is derived on the foreign and domestic assets held by the Bank. The gross income under the head increased by Rs 2,170 million, posting a marginal increase of 1 percent compared to the last year.

A review of components of income reveal that interest/discount income on domestic assets increased by Rs 5,750 million resulting in an increase of 3 percent over the previous year. This increase in income on domestic assets was offset by decrease in interest/discount income on foreign assets by Rs 3,580 million (**Table 12.2**). Moreover, the lending to the government and Banks and financial institutions marginally increased by 1 percent during the year under review (**Table 12.3**).

Foreign currency reserves of the Bank increased by 46 percent during the year reaching Rs 1,202,551 million as at June 30, 2010 as against Rs 820,643 million on June 30, 2009 (**Table 12.4**).

12.2.2 Interest/Markup Expense

The Bank pays interest markup 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. Expenditure under the head sharply increased by 20 percent reaching Rs 9,698 million compared to Rs 8,085 million during the corresponding year. The rise was mainly due to increased borrowings from IMF which stood at Rs 694,770 million compared to the balance of Rs 440,479 million ;marking a rise of 58 percent over the previous financial year. Further, foreign currency deposits of foreign central banks and international organizations marginally decreased by 1 percent during the year.

An analysis of interest rate profile on above foreign currency deposits and borrowings during the current year shows that the rate of interest on deposits of foreign central banks and international organizations ranged from 0.35 percent to 3.52 percent compared to the band of 0.42 percent to 4.85 percent during previous financial year. The interest rate on IMF fund facilities ranged from 1.22 percent to 1.37 percent as against the range of 1.38 percent to 4.18 percent during the corresponding year.

12.2.3 Commission Income

The Bank earns commission income mainly on management of public debt, market treasury bills, prize bonds and national saving schemes, government securities as well as issuance of drafts and

Table 12.2: Interest/Discount/Return Income on Foreign and Domestic Assets
(million rupees)

Description	FY10	FY09
Interest/discount income on domestic assets	178,076	172,326
Interest/discount income on foreign assets	7,206	10,786
Total	185,282	183,112

Table 12.4: Foreign Currency Reserves
(million rupees)

Description	FY10	FY09
Investments	223,302	138,835
Deposit accounts	478,633	383,978
Current accounts	392,078	285,394
Special drawing rights with IMF	107,538	12,436
Total	1,201,551	820,643

Table 12.3: Lending to Government, Banks and Financial Institutions
(million rupees)

Description	FY10	FY09
Government securities	1,165,455	1,150,918
Overdraft/loans to governments	76,048	76,777
Banks and financial institutions	316,703	308,242
Total	1,558,206	1,535,937
Yield on treasury bills	11.89% to 12.27%	11.47% to 14.01%

payment orders. The commission income during the current financial year decreased by 13 percent which totaled Rs 1,452 million compared to Rs1,667 million during the previous financial year.

12.2.4 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 arise mainly due to appreciation/depreciation of PKR vis-à-vis foreign 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 12.5**.

Table 12.5: Exchange Gain/(Loss) – Net

Rupees per currency, appreciation/depreciation in percent

Currency	Exchange rate		Appreciation /depreciation	
	30.06.2010	30.06.2009	FY10	FY09
US Dollar	85.40	81.43	(4.65)	(16.48)
Pound Sterling	128.33	134.33	4.68	0.57
Japanese Yen	0.96	0.85	(11.46)	(24.70)
Euro	104.14	114.11	(9.57)	(6.03)
SDR	125.91	126.36	0.38	(11.72)

The net exchange income amounted to Rs 11,711 million marking a decline of 64 percent as against the income of Rs 32,211 million during the previous financial year. The decline was mainly due to decrease in exchange gain on foreign currency placements, deposits and other accounts – net by Rs 58,620 million partly offset by increase in exchange gain on Payable to the International Monetary Fund (IMF) and SDRs by Rs 37,780 million. It may be observed that PKR depreciated by 4.65 percent against USD compared to the depreciation of 16.48 percent previous year thereby resulting in a decrease in exchange gain on foreign currency denominated assets. Moreover, PKR appreciated by 0.38 percent against SDR compared to the depreciation of 11.72 percent during the corresponding year resulting in exchange gain of SDR denominated liabilities, i.e., payable to IMF. A breakup of Bank's net exchange gain is presented in **Table 12.6**.

Table 12.6: Breakup of the Exchange Account

(million rupees)

Description	FY10	FY09
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	9,745	68,365
- Open market operations (including currency swap arrangements)	(45)	(403)
- Forward covers under Exchange Risk Coverage	121	139
- Payable to the International Monetary Fund (IMF) and SDRs		1,890
Total	11,711	32,211

12.2.5 Dividend Income

The Bank holds the equity investments in banks and financial institutions. As at June 30, 2010, the breakup of Bank's listed and unlisted equity investments is given in **Table 12.7**. The dividend income of the Bank decreased by Rs 220 million during the current financial year which is 2 percent lower than the income in previous financial year.

12.2.6 Other Operating Income - Net

Main components of Bank's other operating income include 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 remeasurement of securities classified as held for trading etc. During the year under review,

Table 12.7: Investments in Shares of Banks and Financial

Institutions

(million rupees)

Description	FY10	FY09
Listed	15,564	15,564
Unlisted	188	252
Other investments with holding less than or equal to 50%	4,770	4,270
Total	20,522	20,087

the income under the head increased significantly by 750 percent over the income of previous financial year reaching Rs 10,465 million compared to Rs 1,231 million during the previous year. The sharp rise in income was mainly due to increase in gain on Gain on remeasurement of securities classified as held for trading by Rs 4,979 million coupled with decrease in loss on sale of investments by Rs 3,758 million. Further, income from penalties levied on banks and financial institutions, license / Credit Information Bureau fee showed a modest increase of 124 million during the year.

12.2.7 Other Income - Net

The Bank earns net income under the head on 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 which are netted against other charges of the bank mainly comprising charges paid to International Monetary Fund on allocations of Special Drawing Rights. The income under the head increased by 19 percent during the year which stood at Rs 67 million as against the income of Rs 56 million during the last year. The increase was mainly due to increase in income on liabilities and provisions written back by Rs 40 million offset by decline in amortization of deferred income by Rs 29 million.

12.3 Expenditure

The total expenditure (including provisions against impaired assets and reversal of provisions against doubtful assets) amounted to Rs 22,057 million as against the expenditure of Rs 18,227 million during corresponding year showing a rise of 21 percent over the previous year. An analysis of main elements of Bank's expenditures is given as under:

12.3.1 Bank Notes Printing Charges

The Bank incurs expenditure on printing of fresh currency notes for their circulation. During the current financial year, the expense under the head decreased by 22 percent and stood at Rs 3,259 million compared to the expense of Rs 4,193 million during the previous year.

12.3.2 Agency Commission

Agency commission is paid to the National Bank of Pakistan (NBP) under an agency agreement on account of handling government transactions and remittances on behalf of SBP. The expenditure on agency commission amounted to Rs 3,981 million as against the expenditure of Rs 3,614 million posting an increase of 10 percent over the previous year.

12.3.3 General Administrative and Other Expenses

The expenses under the head, inter alia, 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 the general administrative and other expenses of the Bank is presented in **Table 12.8**.

Description	FY10	FY09
Salaries and other benefits	6,282	4,785
Retirement benefits and employees' compensated absences	5,863	3,324
Other expenses	2,937	2,799
Total	15,082	10,908

12.3.4 Provisions

During the under review financial year, the net reversals of provisions held against doubtful assets were Rs 265 million compared to the reversals of Rs 488 million during the previous financial year resulting in a decrease of 45 percent compared to the last year.

12.4 Distribution of Profit

The net profit of the Bank was Rs 186,736 million showing a decline of 7 percent compared to the previous year's net profit of Rs 201,698 million (see **Table 12.9**). An amount of Rs 27,838 million has been proposed to be transferred to the Reserve Fund during the current year. Consistent with the previous years, the dividend payable amounts was Rs 10 million. After the above transfers and payments, the surplus profit transferable to the Federal Government was Rs 158,888 million compared to the surplus profit of Rs 201,698 million in the previous financial year. Further, an amount of Rs 52,599 was transferred back from the Reserve Fund to the distributable profits. Accordingly, total distributable surplus amounted to Rs 239,335 million.

Table 12.9: Distribution of Profit
(million rupee)

Description	FY10	FY09
Net profit for the year	186,736	201,698
Transferred from the reserve fund	52,599	-
Total distributable profit	239,335	201,698
Breakup of above:		
Dividend	10	10
Transfer to reserve fund	27,838	49,026
Impact of change in policy relating to allocation of SDRs	-	(2,514)
Surplus profit transferable to the federal government	211,487	155,176
Total	239,335	201,698