

11 Annual Financial Performance Review FY11

11.1 Overview

For the financial year ended June 30, 2011, net profit of the Bank stood at Rs 180,976 million, showing 3 percent decrease compared to the profit of Rs 186,736 million in the preceding year. The decrease is mainly attributable to lower exchange gains on foreign currency exposures, and mark-to-market losses on the foreign currency securities held for trading. Table 11.1 gives a comparative summary of Bank's annual profit and loss account for FY11 and FY10.

Table 11.1: Summary Statement of Profit and Loss

(million rupees)

Description	FY11	FY10
Income		
Discount / interest /markup and/or return earned	215,741	185,987
Less: Interest/mark-up expense	13,394	10,402
Net discount / interest /markup and/or return income	202,347	175,585
Commission income	1,958	1,453
Exchange gain - net	1,927	11,711
Dividend Income	11,923	9,513
Other operating income - net	(11,598)	10,465
Gross income	206,558	208,727
Other (loss)/income - net	(368)	67
Total income	206,190	208,794
Expenditure		
Bank notes printing charges	4,576	3,259
Agency commission	4,210	3,981
General administrative and other expenses	15,668	15,083
Provisions	760	(265)
Total expenditure- net of reversal of provisions	25,214	22,058
Profit for the year	180,976	186,736

11.2 Income

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

The Bank earns discount income on its holdings of Market Treasury Bills (MTBs), whereas interest/markup and return is derived on the foreign and domestic financial assets held by the Bank.

The gross income under the head increased by Rs 29,754 million, posting an increase of 16 percent compared to the last year. The increasing is

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

Description	FY11	FY10
Interest/discount income on domestic assets	206,729	178,781
Interest/discount income on foreign assets	9,012	7,206
Total	215,741	185,987

attributable to increase in yield in T-Bills as well as the quantum of lending as given in the **Table 11.2** and **Table 11.3**.

Interest/markup expenses are incurred on account of 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 increased by 29 percent as compared to previous year, mainly reflecting impact of depreciation of PKR against SDR.

11.2.2 Commission Income

The Bank drives commission income from management of instruments of public debt: Market treasury bills; prize bonds; national saving schemes; and government securities as well as issuance of drafts and payment orders. The commission income during FY11 increased by 35 percent and stood at Rs 1,958 million compared to Rs 1,453 million during the previous financial year.

11.2.3 Exchange Gain / (Loss) -Net

The net exchange gain / (loss) arise on Bank's foreign currency assets and liabilities. The exchange gain/ (loss) mainly arise due to appreciation/depreciation of PKR vis-à-vis foreign currencies particularly USD and SDR. Specifically, the foreign currency assets of the Bank are mainly denominated in USD whereas the net foreign currency liability exposure is denominated in SDRs. Accordingly, the depreciation of PKR vis-à-vis USD results in exchange gain to Bank and vice versa, while the depreciation of PKR vis-à-vis SDR results in exchange loss and vice versa.

The net exchange gains amounted to Rs 1,927 million marking a decline of 84 percent as against the income of Rs 11,711 million during the previous financial year. The decline was mainly due to exchange loss of Rs 51,392 million during current year (as compared to exchange gain of Rs 1,891 million in previous year) on Payables to the International Monetary Fund (IMF) and SDRs assets. However, this loss was partly offset by the increase in exchange gain of Rs 53,319 million on foreign currency placements, deposits and other assets (see **Table 11.5**).

11.2.4 Dividend Income

The State Bank holds the equity investments in banks and financial institutions. The breakup of Bank's listed and unlisted equity investments as at June 30, 2011 are given in **Table 11.6**. The

Table 11.3: Lending to Government, Banks and Financial Institutions

(million rupees)		
Description	FY11	FY10
Government securities	1,366,951	1,165,455
Overdraft /loans to Governments	56,668	76,048
Banks and financial institutions	319,633	316,703
Total	1,743,252	1,558,206
Yield on Treasury Bills	13.41 percent to 13.68 percent	11.89 percent to 12.27 percent

Table 11.4: Foreign Currency Reserves

(million rupees)		
Description	FY11	FY10
Investments	257,861	223,302
Deposit accounts	429,736	515,849
Current accounts	56,275	21,797
Securities purchased under agreement to resale	544,908	333,065
Special drawing rights with IMF	102,188	107,538
Total	1,390,968	1,201,551

Table 11.5 Breakup of the Exchange Account

Description	FY11	FY10
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	53,170	9,745
Open market operations (including currency swap arrangements)	-	(45)
Forward covers under Exchange Risk Coverage	149	121
Payable to the International Monetary Fund (IMF) and SDRs	(51,392)	1,890
Total	1,927	11,711

Table 11.6: Investments in Shares of banks and Financial Institutions

Description	FY11	FY10
Listed	15,564	15,564
Unlisted	188	188
Other investments with holding less than or equal to 50 percent	4,770	4,770
Total	20,522	20,522

dividend income of the Bank increased by Rs 2,410 million during the current financial year which is 25 percent higher than the income in the previous financial year.

11.2.5 Other Operating Income-Net

Main components of Bank's other operating income include gain on sale of investments and securities, penalties levied on banks and financial institutions, license / Credit Information Bureau fee recovered, gain / (loss) on revaluation of securities classified as held for trading, etc. During the year under review, the loss Rs 11,598 million was recorded under this head over the income of Rs 10,465 million in the previous financial year. The significant loss was mainly due to re-measurement of securities classified as held for trading, which was partially offset by increase in income from penalties levied on banks and financial institutions, and license / Credit Information Bureau fee.

11.2.6 Other Income/Charges-Net

The charges under the head increased to Rs 368 million during the year as against the income of Rs 67 million in the previous year. The substantial increase was mainly due to higher charges on allocation of SDRs of IMF which was partially offset by increase in income on account of disposal of property and equipment.

11.3 Expenditure

The total expenditure (including provisions against impaired assets net of reversals, if any) amounted to Rs 25,214 million as against the expenditure of Rs 22,058 million during corresponding year, showing a rise of 14 percent. An analysis of main elements of Bank's expenditure is given as under:

11.3.1 Bank Notes Printing Charges

During FY11, expense under the head increased by 40 percent and stood at Rs 4,576 million compared to the expense of Rs 3,259 million during the previous year.

11.3.2 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 4,210 million as against the expenditure of Rs 3,981 million posting an increase of 6 percent over the previous year.

11.3.3 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 11.7.

11.3.4 Provisions

During the financial year, the net provisions created against doubtful assets and claims amounted to Rs 760 million as compared to the reversals of Rs 265

Table 11.7: General Administrative and Other Expenses
(million rupee)

Description	FY11	FY10
Salaries and other benefits	6,587	6,282
Retirement benefits and employees' compensated absences	6,002	5,863
Other Expenses	3,079	2,938
Total	15,668	15,083

Table 11.8: Distribution of Profit

Description	FY11	FY10
Net profit for the year	180,976	186,736
Transferred from the Reserve Fund	-	52,599
Total distributable profit	180,976	239,335
Breakup of above:		
Dividend	10	10
Transfer to Reserve Fund	-	27,838
Surplus profit transferable to the Federal Government	180,966	211,487
Total	180,976	239,335

million during the previous financial year. The above represents reversal of provisions amounting to Rs 510 million in respect of loans, advances and other assets, offset by additional provisions of Rs 1,106 million against claims and Rs 81 million against other doubtful assets.

11.4 Distributable Profit

A summary of the distributable profits of the Bank is presented in **Table 11.8**.