

11 Annual Financial Performance Review FY12

11.1 Overview

For the financial year ended June 30, 2012, net profit of the State Bank of Pakistan stood at Rs 260,800 million, showing 44 percent increase compared to the profit of Rs 180,976 million in the preceding year. The increase is mainly attributable to the higher discount income, exchange gains on foreign currency exposures, and gains on revaluation of FCY investment (held for trading). **Table 11.1** gives a comparative summary of Bank's annual profit and loss account for FY12 and FY11.

Table 11.1: Summary Statement of Profit and Loss

(million rupees)

Description	FY12	FY11
Income		
Discount / interest /markup and/or return earned	236,277	215,741
Less: Interest/mark-up expense	11,338	13,394
Net discount / interest /markup and/or return income	224,939	202,347
Commission income	1,953	1,958
Exchange gain – net	42,828	1,927
Dividend Income	15,698	11,924
Other operating income/(loss) – net	9,033	(11,598)
Gross income	294,451	206,558
Other (loss) - net	(124)	(368)
Total income	294,327	206,190
Expenditure		
Bank notes printing charges	5,690	4,576
Agency commission	5,954	4,210
General administrative and other expenses	20,160	15,668
Provisions	1,723	760
Total expenditure- net of reversal of provisions	33,527	25,214
Profit for the year	260,800	180,976

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. 20,536 million, posting an increase of 10 percent compared to the last year. The increase is attributable to the rise in quantum of lending as given in the **Table 11.2** and **Table 11.3**.

Table 11.2: Interest/Discount/Return Income on Foreign and Domestic Assets

(million rupees)

Description	FY12	FY11
Interest/discount income on domestic assets	227,426	206,729
Interest/discount income on foreign assets	8,851	9,012
Total	236,277	215,741

Interest/markup expenses are incurred on borrowings from International Monetary Fund, deposits of international organizations and foreign central banks. Expenditure under the head decreased by 15 percent as compared to previous year due to decline in interest rate and fall in payable to IMF.

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 decreased by nominal amount during FY12 and stood at Rs 1,953 million, compared to Rs 1,958 million during the previous financial year.

11.2.3 Exchange Gain–Net

The net exchange gain / (loss) arise on Bank's foreign currency assets and liabilities. The exchange gain mainly arises due to 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 (see **Table 11.4**). 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 42,828 million as against the income of Rs 1,927 million during the previous financial year. The increase was mainly due to decrease in exchange loss on payable to IMF to Rs. 24,876 million during the current year, from Rs. 51,392 million exchange loss in previous year. In addition, the increase in exchange gain stood at Rs 67,585 million as compared to previous year of Rs. 53,170 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 break-up of Bank's listed and unlisted equity investments, as on 30th June 2012, are given in **Table 11.6**. The dividend income of the Bank increased by Rs 3,774 million during the current financial year, which is 32 percent higher than the income in the previous financial year.

Table 11.3: Lending to Government, Banks and Financial Institutions
(million rupees)

Description	FY12	FY11
Government securities	1,806,976	1,366,951
Overdraft /loans to Governments	48,842	56,668
Banks and financial institutions	293,399	319,633
Total	2,149,217	1,743,252
Yield on Treasury Bills	11.63 percent to 13.76 percent	13.41percent to 13.68 percent

Table 11.4: Foreign Currency Reserves
(million rupees)

Description	FY12	FY11
Investments	289,059	257,861
Deposit accounts	454,987	429,736
Current accounts	96,831	56,275
Securities purchased under agreement to resale	197,465	544,908
Special drawing rights with IMF	91,334	102,188
Total	1,129,676	1,390,968

Table 11.5 Breakup of the Exchange Account
(million rupee)

Description	FY12	FY11
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	67,585	53,170
Open market operations (including currency swap arrangements)	-	-
Forward covers under Exchange Risk Coverage	119	149
Payable to the International Monetary Fund (IMF) and SDRs	(24,876)	(51,392)
Total	42,828	1,927

Table 11.6: Investments in Shares of Banks and Financial Institutions
(million rupee)

Description	FY12	FY11
Listed	15,564	15,564
Unlisted	150	188
Other investments with holding less than or equal to 50 percent	4,770	4,770
Total	20,484	20,522

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 income of Rs 9,033 million was recorded under this head against the loss of Rs 11,598 million in the previous financial year.

11.2.6 Other (Charges)/Income-Net

The charges under the head decreased to Rs 124 million during the year, as against the charges of Rs 368 million in the previous year. The substantial decrease of charges was mainly due to lower charges on allocation of SDRs of IMF. Further, an increase of income in other items and gain on disposal of property & equipment etc. was also recorded, which was partially offset by decrease in income on account of amortization of deferred income as compared to previous financial year.

11.3 Expenditure

The total expenditure (including provisions against impaired assets net of reversals) amounted to Rs. 33,527 million as against expenditure of Rs 25,214 million during corresponding year, showing a rise of 33 percent. An analysis of main elements of Bank's expenditure is given as under:

11.3.1 Bank Notes Printing Charges

During FY12, expense under the head increased by 24 percent and stood at Rs 5,690 million, compared to the expense of Rs 4,576 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 5,954 million as against expenditure of Rs 4,210 million, posting an increase of 41 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**.

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

Description	FY12	FY11
Salaries and other benefits	7,595	6,587
Retirement benefits and employees' compensated absences	8,759	6,002
Other Expenses	3,806	3,079
Total	20,160	15,668

11.3.4 Provisions

During the financial year, the net provisions created against doubtful assets and claims amounted to Rs. 1,723 million as compared to the net provision of Rs. 760 million during the previous financial year.

11.4 Distributable Profit

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

Table 11.8: Distribution of Profit
(million rupee)

Description	FY12	FY11
Net profit for the year	260,800	180,976
Transferred from the Reserve Fund	-	-
Total distributable profit	260,800	180,976
Breakup of above:		
Dividend	10	10
Transfer to Reserve Fund	-	-
Surplus profit transferable to the Federal Government	260,790	180,966
Total	260,790	180,976