

8 Annual Financial Performance Review

8.1 Overview

For the financial year ended June 30, 2014, surplus profit of the Bank stood at Rs 268,634 million, showing 14 percent increase compared to the profit of Rs 235,892 million in the preceding year. The increase is mainly attributable to higher discount, interest/markup and/or return earned and increases in other operating income partly offset by the accumulated loss on re-measurement of defined retirement benefits (due to revision in International Accounting Standard 19 - Employee Benefit).

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY14 and FY13.

Description	2014	2013
Income		
Discount / interest /markup and/or return earned	306,035	250,755
Less: Interest/mark-up expense	15,338	7,705
Net discount / interest /markup and/or return income	290,697	243,050
Commission income	1,727	1,759
Exchange gain – net	14,112	6,703
Dividend Income	12,128	16,481
Other operating income/(loss) – net	28,502	(1,020)
Other income – net	120	173
Gross income	347,286	267,146
Expenditure		
Bank notes printing charges	6,146	5,635
Agency commission	6,463	6,344
General administrative and other expenses	22,978	20,197
(Reversal of Provisions) / Provisions - net	(116)	(922)
Less: Total expenditure- net of reversal of provisions	35,471	31,254
Profit for the year	311,815	235,892
Less: Loss on re-measurement of defined retirement benefits	43,181*	-
Surplus Profit for the year after charge of re-measurement of defined retirement benefits	268,634	235,892

*The impact of loss on re-measurement of retirement benefits due to revision in International Accounting Standards 19 (Employee Benefits)

8.2 Income

8.2.1 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.

Table 8.2: Interest/Discount/Return Income on Foreign and Domestic Assets

(million rupees)		
Description	2014	2013
Interest/discount income on domestic assets	298,585	243,386
Interest/discount income on foreign assets	7,450	7,369
Total	306,035	250,755

The gross income under the head increased by Rs. 55,280 million, posting an increase of 22 percent compared to the last year. The increase is mainly attributable to increase in quantum of lending as given in the **Table 8.2** and **Table 8.3**.

Interest/markup expenses are incurred on borrowings from International Monetary Fund, deposits of international organizations and foreign central banks and payable currency swap arrangement. Expenditure under the head increased by 100 percent as compared to previous year due to increases in borrowings under currency swap arrangements and expense on securities sold under agreement to repurchase. This increase is partly offset by decrease in expense on IMF borrowings.

Table 8.3: Lending to Government, Banks and Financial Institutions

(million rupees)		
Description	2014	2013
Government securities	2,937,404	2,323,578
Overdraft /loans to Governments	4,068	24,715
Banks and financial institutions	292,797	308,397
Total	3,234,269	2,656,690
Yield on Treasury Bills	8.92% to 10%	8.92% to 11.94%

8.2.2 Commission Income

The Bank derives 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 FY14 decreased by 2 percent and stood at Rs 1,727 million compared to Rs 1,759 million during the previous financial year.

Table 8.4: Foreign Currency Reserves

(million rupees)		
Description	2014	2013
At fair value through Profit or Loss	170,982	284,637
Unrealized gain / (loss) on -derivative financial instruments	4,334	2,311
Held to maturity	105,807	104,421
Loans and receivables		
Deposit accounts	29,599	31,716
Current accounts	52,399	45,973
Securities purchased under agreement to resale	269,905	80,296
Money market placements	330,655	92,604
Total	963,681	641,958

8.2.3 Exchange Gain – Net

The net exchange gain / (loss) arise from Bank's foreign currency assets and liabilities. The exchange gain mainly arises due to depreciation of PKR vis-à-vis foreign currencies particularly US\$ and SDR. Specifically, the foreign currency assets of the Bank are mainly denominated in US\$ whereas the foreign currency liability exposure is mainly denominated in SDRs. Accordingly, the depreciation of PKR vis-à-vis US\$ 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.

Table 8.5 Breakup of the Exchange Account

(million rupees)		
Description	2014	2013
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	21,876	25,856
Forward covers under Exchange Risk Coverage	(15)	6
Payable to the IMF	(5,914)	(16,233)
Special Drawing Rights of the IMF	(1,920)	(3,020)
Exchange risk fee income	85	94
Total	14,112	6,703

The net exchange gains amounted to Rs. 14,112 million during the FY 2013-14 as against the income of Rs 6,703 million during the previous financial year marking increase of Rs. 7,409 million. The increase was mainly due to decline

in exchange loss payable to IMF amounting to Rs. 10,319 million and SDR amounting to Rs. 1,100 million due to strengthening of PKR vis-à-vis SDR. However, this is partly offset by decrease in exchange gain from foreign currency placements, deposits and other assets amount to Rs. 3,980 million, forward covers under Exchange Risk Coverage to Rs. 21 million during the current year from previous year again due to strengthening of PKR.(see **Table 8.5**).

8.2.4 Dividend Income

The State Bank holds the equity investments in banks and financial institutions. The breakup of dividend income on Bank's listed and unlisted equity investments as of June 30, 2014 are given in **Table 8.6**. The dividend income of the Bank decreased by Rs 4,353 million during the current financial year which is 26 percent lower than the income in the previous financial year.

Table 8.6: Dividend Income on Investments in Shares of Banks and Financial Institutions

Description	(million rupees)	
	2014	2013
Listed	11,790	16,256
Unlisted	338	225
Total	12,128	16,481

8.2.5 Other Operating Income / (loss) - net

During the year under review, the gain of Rs 28,502 million was recorded under this head against the loss of Rs 1,020 million in the previous financial year. The main reason for increase in Bank's net other operating income in the current year as compared to previous year is the gain on sale of shares of UBL i.e. Rs. 31,186 million.

8.2.6 Other Income - net

The net income under this head was recorded amounting Rs. 120 million against the amount of Rs. 173 million as compared with the previous year resulting a decrease of 31 percent.

8.3 Expenditure

The total expenditure (including reversal of provisions against impaired assets) amounted to Rs. 35,471 million as against the expenditure of Rs 31,254 million during corresponding year; an increase 4,217 million. An analysis of main elements of Bank's expenditure is given as under;

8.3.1 Bank Notes Printing Charges

During FY14, expense under this head stood at Rs 6,146 million compared to the expense of Rs 5,635 million during the previous year ; an increase of 9 percent.

8.3.2 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 6,463 million as against the expenditure of Rs 6,344 million posting an increase of 2 percent over the previous year.

8.3.3 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

Table 8.7: General administrative and other expenses

Description	(million rupee)	
	2014	2013
Salaries and other benefits	8,856	7,638
Retirement benefits and employees' compensated absences	10,025	8,606
Other Expenses	4,097	3,953
Total	22,978	20,197

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 8.7**.

8.3.4 (Reversal of Provision) / Provision:

During the FY 2013-14, the provisions amounting Rs. 116 million against impaired assets were reversed on net basis as compared net reversal of Rs. 922 million during previous financial year.

Table 8.8: Distribution of profit

(million rupees)		
Description	2014	2013
Net profit for the year	311,815	235,892
Less: Loss on re-measurement of defined retirement benefits	43,181	-
Total distributable profit	268,634	235,892
<i>Breakup of above:</i>		
Dividend	10	10
Surplus profit transferable to the Federal Government	268,624	235,882
Total	268,634	235,892

8.4 Distributable Profit

A summary of the distributable profits of the Bank is presented in **Table 8.8**.