

9 Annual Financial Performance Review

9.1 Overview

The surplus profit of the Bank during the year stood at Rs 397,690 million, which was 48 percent higher than the last year's surplus profit of Rs 268,634 million. The increase is mainly attributable to gain on sale of shares of Habib Bank Limited and Allied Bank Limited, rise in exchange gains and reduction in loss on re-measurement of defined retirement benefits from Rs 43,181 million to Rs 4061 million.

Table 9.1 gives a comparative summary of Bank's annual profit and loss account for FY15 and FY14.

Table 9.1: Summary Statement of Profit and Loss		(million rupees)	
Description	2015	2014	
Income			
Discount / interest / markup and/or return earned	304,368	306,035	
Less: Interest/mark-up expense	21,000	15,338	
Net discount / interest / markup and/or return income	283,368	290,697	
Commission income	1,629	1,727	
Exchange gain – net	36,419	11,394	
Dividend Income	15,429	12,128	
Other operating income/(loss) – net	103,343	31,221	
Other income – net	237	119	
Gross income	440,425	347,286	
Expenditure			
Bank notes printing charges	6,691	6,146	
Agency commission	7,243	6,463	
General administrative and other expenses	23,871	22,978	
(Reversal of Provisions) / Provisions - net	869	(116)	
Less: Total expenditure- net of reversal of provisions	38,674	35,471	
Profit for the year	401,751	311,815	
Less: Loss on re-measurement of defined retirement benefits	4,061	43,181	
Surplus Profit for the year after charge of re-measurement of defined retirement benefits	397,690	268,634	

9.2 Income

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

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

The gross income under the head decreased by Rs 1,667 million, posting decrease of 1percent

Table 9.2: Interest/Discount/Return Income on Foreign and Domestic Assets			(million rupees)	
Description	2015	2014		
Discount, interest / mark-up on:				
- Government Securities	240,680	267,882		
-Securities purchased under agreement to resell	38,031	10,586		
-Others	16,716	20,117		
-Foreign assets	8,941	7,450		
Total	304,368	306,035		

compared to the last year. The decrease is mainly attributable to decrease in quantum of Government borrowings and decline in lending rates partly offset by increase in securities purchased under agreement to resell as given in the **Table 9.2** and **Table 9.3**.

Interest/markup expenses are incurred on borrowings from International Monetary Fund, deposits of international organizations and foreign central banks, payable currency swap arrangement, *Ijara Sukuk* and securities sold under agreement to repurchase. Expenditure under this head increased by 37 percent as compared to previous year mainly due to expense on *Sukuks* purchased under *Bai-muajjal* agreement partly offset by decrease in expense on securities sold under agreement to repurchase.

9.2.2 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 FY15 decreased by 6 percent and stood at Rs 1,629 million compared to Rs 1,727 million during the previous financial year.

9.2.3 Exchange Gain – Net

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

The net exchange gain during the year was Rs 36,418 million as against Rs 11,394 million during the previous financial year. The increase is attributable to hefty appreciation of Rupee against SDRs by Rs 9.36 per SDRs as against depreciation of Rs 3.99 last year. The appreciation of Rupee against SDRs resulted in an exchange gain of Rs 23,580 million on SDRs denominated liabilities as compared to exchange loss of Rs 7,748 million last year. This was partly offset by decrease in exchange gain from foreign currency placements, deposits and other accounts by Rs 6,320 million (Rs 12,837 million as compared to Rs 19,157 million last year) due to relatively lesser depreciation of Rupee against the USD during the year.

Table 9.3: Lending to Government, Banks and Financial Institutions

(million rupees)		
Description	2015	2014
Government securities	2,326,471	2,937,404
Overdraft /loans to Governments	3,431	4,068
Securities purchased under agreement to resell	662,580	-
Banks and financial institutions	335,037	292,797
Total	3,327,519	3,234,269
Yield on Treasury Bills	6.64% to 8.39%	8.92% to 10%
Mark-up on Loans to Banks and FIs	0 to 9	0 to 11

Table 9.4: Foreign Currency Reserves

(million rupees)		
Description	2015	2014
At fair value through Profit or Loss	267,936	170,981
Unrealized gain / (loss) on -derivative financial instruments	(1,016)	(712)
Held to maturity	165,568	105,807
Loans and receivables		
Deposit accounts	104,599	62,394
Current accounts	26,790	19,605
Securities purchased under agreement to resale	125,422	269,904
Money market placements	753,990	330,655
Total	1,443,289	958,634

Table 9.5 Breakup of the Exchange Account

(million rupees)		
Description	2015	2014
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	12,837	19,157
Forward covers under Exchange Risk Coverage	1	(15)
Payable to the IMF	19,075	(5,914)
Special Drawing Rights of the IMF	4,449	(1,920)
Exchange risk fee income	56	86
Total	36,418	11,394

9.2.4 Dividend Income

The SBP holds the equity investments in banks and financial institutions under section 17(6A) of SBP Act 1956. The breakup of dividend income on Bank's listed and unlisted equity investments as at June 30, 2015 is given in **Table 9.6**. The dividend income of the Bank increased by Rs 3,301 million during the current financial year which is 27 percent higher than the income in the previous financial year.

Table 9.6: Dividend Income on Investments in Shares of Banks and Financial Institutions

(million rupees)		
Description	2015	2014
Listed	15,129	11,790
Unlisted	300	338
Total	15,429	12,128

9.2.5 Other Operating Income / (loss) - net

The other operating income during the year registered an impressive rise of over 330 percent to Rs 103,343 million from Rs 31,221 million last year. The increase is attributed to the gain on sale of shares of Habib Bank Limited and Allied Bank Limited amounting to Rs 90,686 million and Rs 12,253 million respectively (previous year gain on sale of United Bank Limited share was Rs 31,186 million).

9.2.6 Other Income - net

The net income under this head was recorded amounting Rs 237 million against the amount of Rs 119 million as compared with the previous year resulting an increase of 99 percent.

9.3 Expenditure

The total expenditure during the year (including reversal of provisions against impaired assets) was Rs 38,674 million as against Rs 35,471 million during last year, thus registering an increase of 9 percent over the previous year's expenses. An analysis of main elements of Bank's expenditure is given as under:

9.3.1 Bank Notes Printing Charges

During FY15, expense under this head stood at Rs 6,690 million compared to the expense of Rs 6,146 million during the previous year resulting in an increase of 9 percent. The increase is partly attributed to increase in quantity (Rs 284 million) and partly to price escalation (Rs 260 million).

9.3.2 Agency Commission

Agency commission is paid to National Bank of Pakistan (NBP) for handling government banking business as an agent of SBP. During the year agency commission amounted to Rs 7,243 million was paid to NBP, which was 12 percent higher than the agency commission of Rs 6,463 million paid last year. The increase is attributable to rise in the government receipts and payments handled by NBP during the year¹.

Table 9.7: General administrative and other expenses

(million rupee)		
Description	2015	2014
Salaries and other benefits	8,691	8,856
Retirement benefits	11,107	10,025
Other Expenses	4,073	4,097
Total	23,871	22,978

9.3.3 General Administrative and Other Expenses

The expenses under the head, inter alia, include employees' salaries and other benefits, retirement benefits and other expenses mainly including repairs and maintenance, postage and telephone charges,

¹ The rate of agency commission is .12 percent for the total receipts and payments of Federal and Provincial governments handled by NBP as an agent of SBP

legal and professional expenses etc. A summary of the general administrative and other expenses of the Bank is presented in Table 9.7. The reduction in salaries and benefits expense is attributable to reduction in SBP-BSC salary bill due to retirement of its 293 employees, including 269 retired under early retirement scheme.

9.3.4 (Reversal of Provision) / Provision / Write-off:

During the FY 2014-15, the provisions amounting Rs 869 million were made against impaired assets on net basis as compared net reversal of Rs 116 million during previous financial year.

9.4 Distributable Profit

A summary of the distributable profits of the Bank is presented in Table 9.8.

Table 9.8: Distribution of profit		
	(million rupees)	
Description	2015	2014
Net profit for the year	401,751	311,815
Less: Loss on re-measurement of defined retirement benefits	4,061	43,181
Total distributable profit	397,690	268,634
<i>Breakup of above:</i>		
Dividend	10	10
Surplus profit transferable to the Federal Government	397,680	268,624