

8 Financial Performance

8.1 Overview

The SBP profit reduced by over 43 percent during the year to Rs 229,353 million from Rs 401,751 million last year. After accounting for the onetime non recurring profit on sale of ABL and HBL shares of Rs 103,121 million in FY 15, the reduction in the current year's profit was Rs 69,277 million or 23 percent. This decline is primarily attributable to reduction in the discount income by approximately Rs 90,367 million partly offset by increase of Rs 42,682 million in income on reverse repo transactions.

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY16 and FY15.

Description	2016	2015
Income		
Discount / interest /markup and/or return earned	252,831	304,368
Less: Interest/mark-up expense	25,454	21,000
Net discount / interest /markup and/or return income	227,377	283,368
Commission income	1,909	1,629
Exchange gain – net	25,779	36,419
Dividend Income	12,226	15,429
Other operating income/(loss) – net	2,756	103,343
Other income – net	161	237
Total income net of interest expenses	270,208	440,425
Expenditure		
Bank notes printing charges	7,731	6,691
Agency commission	8,969	7,243
General administrative and other expenses	24,250	23,871
(Reversal of Provisions) / Provisions - net	(95)	869
Less: Total expenditure- net of reversal of provisions	40,855	38,674
Profit for the year	229,353	401,751
Less: Loss on re-measurement of defined retirement benefits	15,327	4,061
Surplus Profit for the year after charge of re-measurement of defined retirement benefits	214,026	397,690

8.2 Income

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

The discount income earned on the government borrowings from the Bank through market related treasury bills (MRTBs) has been the major source of income of the Bank. Besides this, the interest/markup earned on: i) short term lending to banks under reverse repo arrangements, ii) FCY investments and placements, and iii) loans to banks under export finance and related schemes of the central bank, also contribute significantly in the Bank's profits.

Description	2016	2015
Discount, interest / mark-up on:		
- Government Securities	150,313	240,680
-Securities purchased under agreement to resell	80,713	38,031
-Others (EFF etc)	9,164	16,716
-Foreign assets	12,641	8,941
Total	252,831	304,368

The discount income registered a steep decline of over Rs 90 billion, which is attributed to reduced quantum of government borrowings from the Bank coupled with 75 bps reduction in the policy rate. The average government borrowings from the Bank for FY16 and average yields on MRTBs during the year were Rs 2,216 billion and 5.89 to 6.24 percent respectively as compared to the borrowings and MRTBs yields of Rs 2,542 billion and 6.64 to 8.39 percent in FY15 (Table 8.2 and 8.3).

Similarly the interest earned on Export Finance (EFF) and other related refinance facilities declined to Rs 9,164 million from Rs 16,716 million last year primarily due to reduction in the interest/mark-up rates. The average outstanding loans to banks under the schemes were Rs 199,188 million and average interest/mark-up rate was 3.50 percent in FY16 as compared to the loans of Rs 191,206 million and interest mark-up rates of 6.20 percent during FY15. The significant reduction in discount earned on government borrowings and interest mark-up income on loans to banks under various schemes was partly off-set by Rs 43 billion increase in interest earned on lending to banks under reverse repo arrangements. The steep rise in the interest earned on the reverse repo based lending to banks is attributed to more than 180 percent rise in average balance under the facility during the year; the average rate on the facility though reduced to 6.18 percent from 8.77 percent last year. The increase in interest income on FCY assets is largely attributed to the increase in reserves, improvement in interest rate environment in US market and modest depreciation of PKR against USD.

The Bank incurs interest/ markup expense on FCY and domestic liabilities. FCY liabilities include deposits of international organizations and central banks, International Monetary Fund liabilities and currency swap arrangements. The domestic liabilities include *Sukuk* purchased under *Bai Muajjal* agreement and repo transactions. The interest/ markup expense of the Bank increased by 21 percent during the year primarily due to increase in expense on currency swap arrangement, expenses on SDR allocation and *bai muajjal* transactions.

8.2.2 Commission Income

The Bank earns commission income through management of public debt, market treasury bills, prize bonds, national saving schemes and government securities as well as issuing drafts and payment orders. The commission income increased by 17 percent as compared with the previous year.

Table 8.3: Lending to Government, Banks and Financial Institutions

	(million rupees)	
Description	2016	2015
Government securities	2,050,957	2,326,471
Overdraft /loans to Governments	955	3,431
Securities purchased under agreement to resell	1,533,574	662,580
Banks and financial institutions	335,244	335,037
Total	3,902,730	3,327,519
Yield on Treasury Bills	5.89% to 6.24%	6.64% to 8.39%
Mark-up on Loans to Banks and FIs	0 to 9.75	0 to 9.75

Table 8.4: Foreign Currency Reserves

	(million rupees)	
Description	2016	2015
At fair value through Profit or Loss	269,943	291,639
Unrealized loss on -derivative financial instruments	-3,905	-1,015
Held to maturity	238,549	165,568
Loans and receivables		
Deposit accounts	26,378	76,772
Current accounts	6,690	26,790
Securities purchased under agreement to resale	569,237	129,545
Money market placements	870,192	753,990
Total	1,977,084	1,443,289

8.2.3 Exchange Gain – Net

The exchange gains/ (losses) arise on the FCY assets and liabilities of the Bank. The exchange account includes both the realized and the unrealized gains and losses. Major part of the foreign currency assets of the bank is USD denominated whereas the foreign currency liability exposure is mainly SDR denominated. Accordingly, the movement in the PKR/ SDR and PKR/USD exchange rates directly affects the exchange account i.e. the depreciation of PKR *vis-à-vis* USD and appreciation of PKR *vis-à-vis* SDR results in exchange gain to the bank.

The bank earned net exchange gain of Rs 25,676 million during the current year as against exchange gain of Rs 36,418 million during the previous year, registering a decline of 29 percent. The PKR depreciated by Rs 3.056 per USD during the year resulting in an exchange gain of Rs 38,323 million on FCY assets as compared to the gain of Rs 12,837 million earned last year (see **Table 8.5**). The PKR depreciated against SDR by Rs 3.071 that caused an exchange loss of Rs 12,596 million on SDR denominated liabilities; the PKR had appreciated by Rs 9.36 in FY15 and thus an exchange gain of Rs 23,524 million.

Table 8.5 Breakup of the Exchange Account

(million rupees)		
Description	2016	2015
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	38,323	12,837
Forward covers under Exchange Risk Coverage	0	1
	-	-
Payable to the IMF	10,985	19,075
Special Drawing Rights of the IMF	-1,611	4,449
Exchange risk fee income	52	56
Total	25,779	36,418

8.2.4 Dividend Income

The SBP holds equity investment in banks and financial institutions under section 17 6(A) of SBP Act 1956 and dividends earned on these investments is also one of the sources of its income. The breakup of dividend income on listed and unlisted shares held by SBP is given in **Table 8.6**. The decline of Rs 3,203 million in the dividend income as compared to the previous year is attributed to the divestment of ABL and HBL shares partly offset by increase in the dividend income from NBP.

Table 8.6 Breakup of the Dividend Income

(million rupees)		
Description	2016	2015
Listed	11,999	15,129
Unlisted	227	300
Total	12,226	15,429

8.2.5 Other Income - net

The income recorded under this head was Rs 161 million against Rs 237 million earned last year thus registered a decline of 32%. The decrease was mainly due to decline in the heads 'liabilities and provisions written back' and grant income.

8.2.6 Other Operating Income – net

The other operating income witnessed a massive decline of Rs 100,587 million during the year as it decreased to Rs 2,756 million in FY16 against Rs 103,343 million in FY15. The decline was due to the onetime gain of Rs 103,121 million on sale of ABL & HBL shares in FY15 and decline in penalties' income by Rs 2,438 million partly offset by increase in income on fund managers' portfolio.

8.3 Expenditure

The total expenditure during the year (including reversal of provisions against impaired assets) was Rs 40,855 million as against Rs 38,674 million in FY15, thus registering an increase of 5.6 percent

over the previous year's expenditure. An analysis of major components of Bank's expenditure is given as under:

8.3.1 Bank Notes Printing Charges

The banknotes printing charges and the agency commission paid to NBP and the BOP, on account of banking services provided to the Federal and Provincial governments are the two major corporate expenses of the Bank¹. During FY16, the banknotes printing charges increased by 16 percent to Rs 7,731 million from Rs 6,690 million in FY15. The increase is partly attributed to increase in quantity (Rs 815 million) and partly to price escalation (Rs 225 million).

8.3.2 Agency Commission

The Agency commission paid to NBP and BOP increased by 24 percent during the year to Rs 8,969 million from Rs 7,243 million in FY15. The increase is attributable to rise in the government receipts and payments handled by the agent banks (particularly NBP) during the year.

8.3.3 General Administrative and Other Expenses

The general administrative expenses include employees' salaries and benefits, retirement benefits and other operating expenses i.e. fund managers and custodians' expenses, training expenses, postage and telephone charges, legal and professional expenses, depreciation, repair and maintenance, etc. A summary of the general administrative and other expenses is given in **Table 8.7**. The increase of Rs 379 million in general, administrative and other expenses is attributable to increase in repairs & maintenance, training, depreciation and fund managers' expense partly offset by decrease in retirement benefits.

Table 8.7: General, Administrative and other expenses

(million rupees)		
Description	2016	2015
Salaries & other benefits	9,752	8,691
Retirement benefits	9,827	11,107
Repair and maintenance	638	521
Fund managers' and custodian expenses	495	376
Training	102	44
Depreciation	1,498	1,370
Others	1,927	1,762
Total	24,250	23,871

8.3.4 (Reversal of Provision) / Provision / Write-off

During the period under review, there was net reversal of provision amounting Rs 95 million as against reversal amounting to Rs 869 million made during previous financial year. The reversal was made against receivables from India, employee loans and certain FCY securities.

8.4 Net Profit

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

Table 8.8: Net Profit

(million rupees)		
Description	2016	2015
Net Profit for the year	229,353	401,751
Less: Loss on re-measurement of Staff retirement defined benefit plans	15,327	4,061
Profit before appropriations	214,026	397,690

8.5 Balance Sheet Summary

During the year, the balance sheet footing of the Bank increased from Rs 5,234 billion to Rs 6,450 billion, registering an increase of 23 percent. The causative factors for the increase are reverse repo balances, foreign currency accounts and investments balances and the value of the gold reserves held by the bank. The reverse repo balance increased due to significantly large liquidity injections by SBP in the interbank market. The balance under this head increased to Rs 1,534 billion at the close of year from Rs 663 billion last year on the same date. The increase of Rs 534 billion in the balances of foreign currency accounts and investments was mainly due to increase in the foreign currency reserves of the country. The Rs 40

¹ Bank of Punjab (BOP) was appointed SBP agent during FY16 for collecting Government of Punjab taxes and receipts

billion increase in the value of the gold reserves held by the bank was due to spike in the gold rate in the London Bullion Market. The increase in these assets was partly offset by reduction in the government borrowing from the central bank.

The increase in the assets was mainly funded by 31 percent increase in the banknotes in circulation which increased to Rs 3,555 billion at the end of the year and 41 percent (Rs 225 billion) increase in the borrowing from IMF. A comparative analysis of SBP assets and liabilities for FY2015 and FY2016 are given in the **Figure 8.1 to 8.4.**

