

8 Financial Performance

8.1 Overview

The SBP's profit for FY17 registered a modest growth of 4 percent over the last year's profit increasing to Rs 238,064 million from Rs 229,353 million in FY16. This is primarily attributable to increase in the discount income by Rs 21,086 million and interest earned on foreign asset by Rs 5,365 million partly offset by decrease of Rs 17,519 million in income on reverse repo transactions. The lending to the Federal Government and commercial banks remained major sources of SBP's profit followed by earnings on the foreign exchange reserves. The growth in expenses during the year also remained modest with just over 2 percent increase. The note printing charges, agency commission paid to National Bank of Pakistan for undertaking government banking business on behalf of the Bank and establishment cost are the major expense heads constituting over 90 percent of the expenses.

Towards the end of FY17, the Bank added another subsidiary i.e. the Pakistan Security Printing Corporation (PSPC). Accordingly, this financial performance review includes seventeen days operational performance of PSPC also.

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY17 and FY16.

Table 8.1: Summary Statement of Profit and Loss		(million rupees)	
Description	2017	2016	
Income			
Discount / interest /markup and/or return earned	260,871	252,831	
Less: Interest/mark-up expense	21,369	25,454	
Net discount / interest /markup and/or return income	239,502	227,377	
Commission income	2,591	1,909	
Exchange gain – net	24,570	25,779	
Dividend Income	12,249	12,226	
Share of profit from associates	26	-	
Other operating (loss) / income – net	574	2,756	
Other income – net	302	161	
Total income net of interest expenses	279,814	270,208	
Expenditure			
Bank notes printing charges	9,128	7,731	
Agency commission	9,679	8,969	
General administrative and other expenses	22,942	24,250	
(Reversal of Provisions) / Provisions - net	(4)	(95)	
Less: Total expenditure- net of reversal of provisions	41,745	40,855	
Profit for the year	238,069	229,353	
Taxation	(5)	-	
Surplus Profit for the year after tax	238,064	229,353	

8.2 Income

8.2.1 Net Interest / Markup

The interest / markup income increased by just over 3 percent to Rs 260,871 million. However, the interest earned on lending to Federal Government increased by 14 percent due to a significant rise in the government borrowings from the Bank. The interest earned on lending to commercial banks through reverse repos reduced by 22 percent due to significantly lower volumes of reverse repos. The Government borrowings from Bank provided additional space to commercial banks for lending to the private sector during FY17. It also substantially improved liquidity in the interbank market, thus requiring comparatively lower liquidity injections through reverse repos by the Bank (Table 8.2 and 8.3).

The income on FCY assets registered almost 50 percent increase during the year, which is partly attributable to an increase in yield on the reserves due to upward movement of interest rates in international financial markets and partly to an increase in the average volume of foreign exchange reserves during the year¹.

The interest earned on Export Finance Facility (EFF) and other related refinance facilities declined to Rs 6,400 million in FY17 from Rs 7,201 million in FY16 due to reduction in the interest/mark-up rates. Although the average outstanding loans to banks under refinance schemes increased significantly during the year to Rs 287 billion from Rs 199 billion in FY16; the average interest/mark-up rate reduced from 3.5 percent in FY16 to 2.2 percent in FY17 causing a decline of over Rs 2 billion in the interest/mark-up earned on refinance schemes.

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 witnessed a decline of Rs 4,085 million which is

Table 8.2: Interest/Discount/Return Income on Foreign and Domestic Assets (million rupees)

Description	2017	2016
Discount, interest / mark-up on:		
Government Securities	171,400	150,313
Securities purchased under agreement to resell	63,194	80,713
Income from export loans	6,401	8,683
Foreign assets	18,006	12,641
Others	1,870	481
Total	260,871	252,831

Table 8.3: Lending to Government, Banks and Financial Institutions (million rupees)

Description	2017	2016
Government securities	2,522,216	2,050,313
Overdraft /loans to Governments	7,279	955
Securities purchased under agreement to resell	1,533,373	1,533,574
Banks and financial institutions	345,352	335,244
Total	4,408,220	3,902,730
Yield on Treasury Bills	5.90% to 6.01%	5.89% to 6.24%
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	2017	2016
At fair value through Profit or Loss	379,452	269,943
Unrealized gain / (loss) on -derivative financial instruments	2,689	-3,905
Held to maturity	337,120	238,549
Loans and receivables		
Deposit accounts	90,761	26,378
Current accounts	20,926	6,690
Securities purchased under agreement to resale	178,482	569,237
Money market placements	773,108	870,751
Total	1,782,539	1,977,644

¹ The reserves as at close of FY17 were about USD 2 billion lower than the reserves as at close of FY16.

primarily due to reduction in expense on *Sukuks* purchased under *Bai Muajjal* agreement. However, this was partly offset by increase of Rs 3,040 million in the charges on allocation of SDRs.

8.2.2 Commission Income

The Bank earns commission income on management of public debt, market treasury bills, prize bonds, national saving schemes and government securities as well on issuance of drafts and payment orders. The commission income increased by 36 percent year-on-year basis largely due to increase in commission on market treasury bills.

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 are 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.

Table 8.5 Breakup of the Exchange Account

Description	(million rupees)	
	2017	2016
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	21,802	38,323
Forward covers under Exchange Risk Coverage	-	-
IMF fund facilities	2,643	-10,985
Special Drawing Rights of the IMF	80	-1,611
Exchange risk fee income	44	52
Total	24,569	25,779

The Bank earned net exchange gain of Rs 24,569 million during FY17 as against Rs 25,779 million earned during FY16, registering a decline of 5 percent (see **Table 8.5**). The PKR depreciated against USD by Rs 0.020 and appreciated against SDR by Rs 0.366; accordingly, the depreciation against USD resulted in exchange gain of Rs 8,059 million and appreciation against SDR resulted in exchange gain of Rs 2,723 million. The remaining net exchange gain of Rs 12,049 million is due to appreciation and depreciation of PKR against other currencies.

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**.

Table 8.6 Breakup of the Dividend Income

Description	(million rupees)	
	2017	2016
Listed	11,999	11,999
Unlisted	250	227
Total	12,249	12,226

8.2.5 Other Operating Income – net

The other operating income declined to Rs 574 million in FY17 from Rs 2,756 million last year. The reduction is primarily attributed to loss on re-measurement of FCY securities by Rs 4,898 million which was partly offset by gain of Rs 3,311 million on conversion of debts into shares.

8.3 Expenditure

The total expenditure during the year was Rs 41,745 million as against Rs 40,855 million in FY16, thus registering an increase of 2.18 percent over the previous year's expenditure. The increase was due to 18 percent and 8 percent rise in the banknote printing charges and agency commission respectively, impact of which was partly offset by reduction of Rs 2.5 billion in salary cost and retirement benefits. An analysis of major components of Bank's expenditure is given as follows;

8.3.1 Bank Notes Printing Charges

The banknote printing charges increased to Rs 9,128 million in FY17 from Rs 7,731 million in FY16, thereby registering an increase of 18 percent. The increase is largely attributed to increase in quantity of banknotes printed (Rs 1,295 million) and partly to price escalation (Rs 139 million).

8.3.2 Agency Commission

The Agency commission paid to NBP and BOP increased by 8 percent during the year to Rs 9,679 million from Rs 8,969 million in FY16. 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 overall general and administrative expenses decreased to Rs 22,942 million in FY17 from Rs 24,251 million in FY16, thus registering a decline of Rs 1,309 million, which is primarily attributable to reduced salary and retirement expenses, impact of which was partly offset by increase in depreciation expense **Table 8.7**.

Table 8.7: General, Administrative and other expenses

Description	(million rupees)	
	2017	2016
Salaries & other benefits	9,380	9,752
Retirement benefits	7,692	9,827
Repair and maintenance	647	638
Fund managers' and custodian expenses	476	495
Training	123	102
Others	4,624	3,425
Total	22,942	24,250

8.4 Net Profit

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

Table 8.8: Net Profit

Description	(million rupees)	
	2017	2016
Net Profit for the year	238,064	229,353
Less: Loss on re-measurement of		
Staff retirement defined benefit plans	3,806	15,327
Profit before appropriations	234,258	214,026

8.5 Balance Sheet Summary

The assets stood at Rs 6,866 billion as at June 30, 2017 as compared to Rs 6,450 billion on June 30, 2016, registering an increase of Rs 416 billion primarily due to increase in investments in Market Related Treasury Bills. The increase is further augmented due to acquisition and consolidation of PSPC assets which led to an increase of Rs 71 billion in the balance sheet of the Bank.

The liabilities of the Bank stood at Rs 6,296 billion as at June 30, 2017 as compared to Rs 5,830 billion as at June 30, 2016, registering an increase of Rs 466 billion. The increase in GDP growth led to an increase in currency in circulation while banks' deposits also witness a significant growth due to improved liquidity in the market. The increase was partly offset by decrease in government balances at year end. A comparative analysis of SBP assets and liabilities for FY16 and FY17 are given in the **Figure 8.1 to 8.4**.

Figure 8.1: SBP Assets 2017

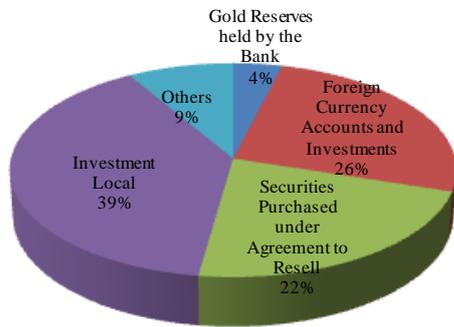


Figure 8.2: SBP Assets 2016

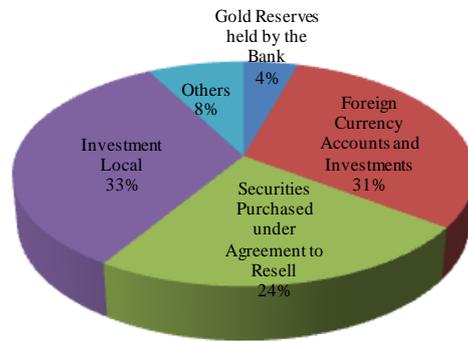


Figure 8.3: SBP Liabilities 2017

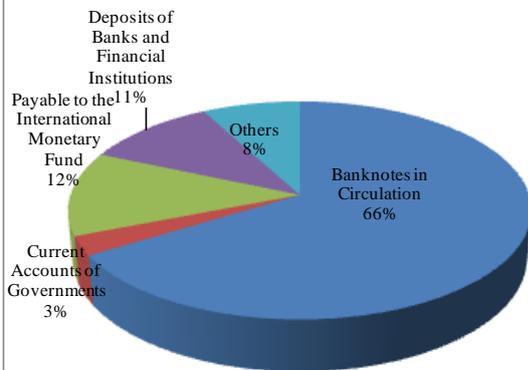


Figure 8.4: SBP Liabilities 2016

