

## 8 Financial Performance

### 8.1 Overview

The SBP's profit for FY18 witnessed a significant decline of 26 percent over the last year's profit and decreased to Rs 175,673 million from Rs 238,064 million in FY17, registering a decrease of Rs 62,391 million. The decline is primarily attributed to exchange loss of Rs 72,280 million during the year as compared to exchange gain of Rs 24,570 during the previous year, registering a substantial decline of Rs 96,850 million. The decrease was, however, partly offset by increase of Rs 50,263 million in the net interest income. The lending to the Federal Government remained the major source of SBP's profit followed by earnings on the OMO injections. The growth in expenses also witnessed a 15 percent increase during the year. The note printing charges, agency commission paid to agent commercial banks for undertaking government banking business on behalf of the Bank and General administrative and other expenses are the major expense heads.

**Table 8.1** gives a comparative summary of Bank's annual profit and loss account for FY18 and FY17.

<b>Table 8.1: Summary Statement of Profit and Loss</b>			(Rupees in million)
<b>Description</b>	<b>2018</b>	<b>2017</b>	
<b>Income</b>			
Discount / interest /markup and/or return earned	321,607	260,871	
Less: Interest/mark-up expense	31,842	21,369	
<b>Net discount / interest /markup and/or return income</b>	<b>289,764</b>	<b>239,502</b>	
Commission income	4,083	2,591	
Exchange (loss)/ gain – net	(72,280)	24,570	
Dividend Income	415	12,249	
Share of profit from associates	691	26	
Other operating (loss) / income – net	1,298	574	
Other income – net	797	302	
<b>Total income net of interest expenses</b>	<b>224,769</b>	<b>279,814</b>	
<b>Expenditure</b>			
Bank notes printing charges	9,362	9,128	
Agency commission	10,945	9,679	
General administrative and other expenses	27,704	22,942	
Provisions/ (Reversal of Provisions) - net	37	(4)	
<b>Less: Total expenditure- net of reversal of provisions</b>	<b>48,048</b>	<b>41,745</b>	
<b>Profit for the year</b>	<b>176,721</b>	<b>238,069</b>	
<b>Taxation</b>	<b>(1,048)</b>	<b>(5)</b>	
<b>Surplus Profit for the year after tax</b>	<b>175,673</b>	<b>238,064</b>	

## 8.2 Income

### 8.2.1 Net Discount / Interest / Markup

The interest / markup income increased by Rs 60,736 million to Rs 321,607 million, registering an increase over 23 percent. The borrowings by the Government from SBP during FY18 remained the major sources of income of the Bank during the year. The discount income earned on lending to the Federal Government increased by 22 percent and interest earned on lending to commercial banks through OMO injections increased by 17 percent due to larger volumes of reverse repurchases during the year (Table 8.2 and 8.3).

The income on FCY assets registered 27 percent increase during the year. Although, foreign exchange reserves reduced significantly during the year; however, the return on the reserves increased due to hike in the international interest rates.

The interest earned on Export Finance Facility and other related refinance facilities increased to Rs 10,232 million in FY18 from Rs 6,400 million in FY17 primarily due to increase in the outstanding loans to banks under various 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 repurchase transactions and Sukuk purchased under Bai Muajjal agreement. The interest/ markup expense witnessed a rise of Rs 10,474 million primarily due to rise in the interest rate and depreciation of PKR against SDR and CNY on IMF and CNY related liabilities respectively.

### 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 as issuing drafts and payment

Table 8.2: Interest/Discount/Return Income on Foreign and Domestic Assets (Rupees in million)		
Description	2018	2017
<b>Discount, interest / mark-up on:</b>		
Government Securities	209,210	171,400
Securities purchased under agreement to resell	74,135	63,194
Income from export loans	10,232	6,401
Foreign assets	22,941	18,006
Others	5,089	1,870
<b>Total</b>	<b>321,607</b>	<b>260,871</b>

Table 8.3: Lending to Government, Banks and Financial Institutions (Rupees in million)		
Description	2018	2017
Government securities	3,671,013	2,522,216
Overdraft /loans to Governments	33,104	36,798
Securities purchased under agreement to resell	1,562,310	1,533,373
Banks and financial institutions	433,425	345,352
<b>Total</b>	<b>5,699,852</b>	<b>4,408,220</b>
<b>Yield on Treasury Bills</b>	<b>6.01% to 6.35%</b>	<b>5.90% to 6.01%</b>
<b>Mark-up on Loans to Banks and FIs</b>	<b>0 to 9.75</b>	<b>0 to 9.75</b>

Table 8.4: Foreign Currency Reserves (Rupees in million)		
Description	2018	2017
<b>At fair value through Profit or Loss</b>	<b>568,777</b>	<b>379,452</b>
Unrealized gain / (loss) on -derivative financial instruments	2,086	2,689
<b>Held to maturity</b>	<b>341,082</b>	<b>337,120</b>
<b>Loans and receivables</b>		
Deposit accounts	29,509	90,761
Current accounts	35,107	20,926
Securities purchased under agreement to resale	349,904	178,482
Money market placements	7,355	773,108
<b>Total</b>	<b>1,333,820</b>	<b>1,782,539</b>

orders. The commission income increased by 58 percent 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. 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.

The bank incurred a net exchange loss of Rs 72,278 million during FY18 as against net exchange gain of Rs 24,569 million during FY17, registering a substantial decline of Rs 96,847 million (see **Table 8.5**). The PKR depreciated against USD by Rs 16.643 and SDR by Rs 25.095; accordingly, the depreciation against USD resulted in exchange gain of Rs 49,854 million, while the depreciation against SDR resulted in exchange loss of Rs 124,305 million. The remaining net exchange gain of Rs 2,173 million is due depreciation of against other reserve currencies.

<b>Table 8.5: Breakup of the Exchange Account</b> (Rupees in million)		
<b>Description</b>	<b>2018</b>	<b>2017</b>
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	51,992	21,802
Forward covers under Exchange Risk Coverage	(3)	-
IMF fund facilities	(109,359)	2,643
Special Drawing Rights of the IMF	(14,946)	80
Exchange risk fee income	37	44
<b>Total</b>	<b>(72,278)</b>	<b>24,569</b>

### 8.2.4 Dividend Income

The SBP holds equity investment in banks and financial institutions under section 17 (6A) of SBP Act 1956 and dividends earned on these investments is also one of the sources of its income. The significant dip in the dividend income is due to non-receipt of dividend from National Bank of Pakistan during FY18.

The breakup of dividend income on listed and unlisted shares held by SBP is given in **Table 8.6**.

<b>Table 8.6: Breakup of the Dividend Income</b> (Rupees in million)		
<b>Description</b>	<b>2018</b>	<b>2017</b>
Listed	-	11,999
Unlisted	415	250
<b>Total</b>	<b>415</b>	<b>12,249</b>

### 8.2.5 Other Operating Income – net

The other operating income increased to Rs 2,095 million in FY18 from Rs 876 million last year. The increase is primarily attributed to gain on sale of FCY investments and increase in income on penalties levied on banks, which was partly offset by decrease in one time gain of Rs 3,311 million on conversion of debts into shares.

## 8.3 Expenditure

The total expenditure during the year was Rs 48,048 million as against Rs 41,745 million in FY17, thus registering an increase of 15 percent over the previous year's expenditure. The increase was due to 21 percent, 13 percent and 3 percent rise in the general and administrative expenses, agency commission and bank note printing charges respectively. An analysis of major components of Bank's expenditure is given as under:

### 8.3.1 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. The overall general and administrative expenses increased to Rs 27,704 million in FY18 from Rs 22,942 million in FY17, thus registering an increase of Rs 4,762 million. A summary of the general, administrative and other expenses is given in **Table 8.7**.

<b>Table 8.7: General, Administrative and other expenses</b>		
(Rupees in million)		
<b>Description</b>	<b>2018</b>	<b>2017</b>
Salaries & other benefits	10,970	9,380
Retirement benefits	9,743	7,692
Repair and maintenance	747	647
Fund managers' and custodian expenses	554	476
Training	121	123
Depreciation	2,422	2,273
Legal & Professional	46	54
Others	3,101	2,297
<b>Total</b>	<b>27,704</b>	<b>22,942</b>

### 8.3.2 Agency Commission

The Agency commission paid to National Bank of Pakistan and Bank of Punjab increased by 13 percent during the year to Rs 10,945 million from Rs 9,679 million in FY17. The increase is attributable to rise in the government receipts and payments handled by the agent banks during the year.

### 8.3.3 Bank Notes Printing Charges

The bank note printing charges increased to Rs 9,362 million in FY18 from Rs 9,128 million in FY17, thereby registering a modest increase of 3 percent.

## 8.4 Net Profit

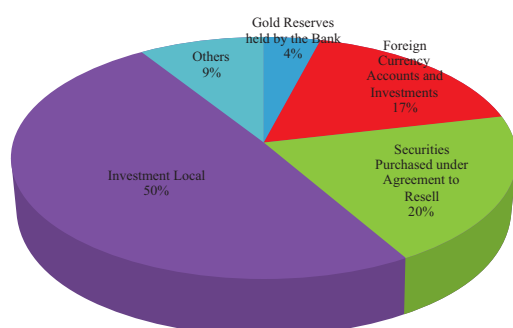
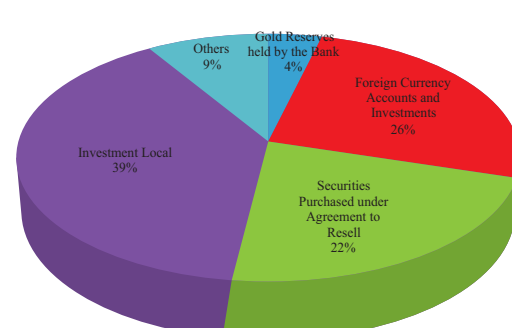
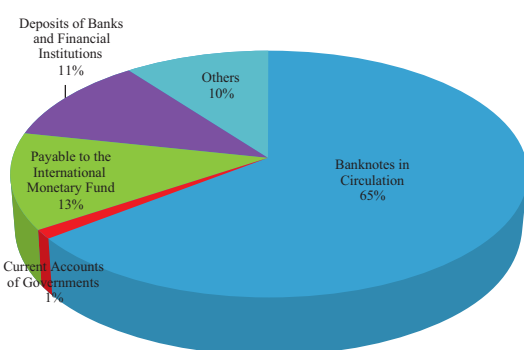
A summary of the distributable profits of the Bank is presented in **Table 8.8**.

### 8.5 Balance Sheet Summary

The assets stood at Rs 7,733 billion as at June 30, 2018 as compared to Rs 6,895 billion as at June 30, 2017, registering an increase of Rs 838 billion primarily due to increase in government borrowings from the central Bank. The increase is further augmented due to increase in export related loans to banks and financial institutions.

<b>Table 8.8: Net Profit</b>		
(Rupees in million)		
<b>Description</b>	<b>2018</b>	<b>2017</b>
Net Profit for the year	175,673	238,064
<b>Less: Loss on re-measurement of</b>		
Staff retirement defined benefit plans	3,541	3,806
<b>Profit before appropriations</b>	<b>172,132</b>	<b>234,258</b>

The liabilities of the bank stood at Rs 7,198 billion as at June 30, 2018 as compared to Rs 6,325 billion as at June 30, 2017, registering an increase of Rs 873 billion. This rise was led by increase in currency in circulation, bank deposits, payable under bilateral currency swap agreement and payable to IMF. This increase was, however, partly offset by decrease in government balances. A comparative analysis of SBP assets and liabilities for FY18 and FY17 are given in the **Figure 8.1 to 8.4**.

**Figure 8.1: SBP Assets 2018****Figure 8.2: SBP Assets 2017****Figure 8.3: SBP Liabilities 2018****Figure 8.4: SBP Liabilities 2017**