11 Annual Financial Performance Review

11.1 Overview

The State Bank of Pakistan earned a landmark net profit of Rs204, 212 million posting a 24 percent significant rise over the previous year's profit of Rs164, 793 million. The main factors contributing the increase in profitability include increase in discount rates on Market Treasury Bills (MTBs) with marginal increase in volumes of the MTBs. The Bank also witnessed increase in commission income and dividend income, however, exchange gains on foreign currency assets and liabilities declined as compared to the previous year.

11.1.1 Summary of Profit and Loss Account

A summary of Bank's annual profit and loss account is given in **Table 11.1.** A review of different elements of income and expenditure of the Bank is presented below:

Table 11.1: Summary Statement of Profit and Loss

(million rupees)

Description	2008-09	2007-08
Income		
Discount / interest /markup and/or return earned	183,112	104,883
Less: Interest/mark-up expense	8,085	3,749
Net discount / interest /markup and/or return income	175,027	101,134
Commission income	1,667	720
Exchange gain - net	34,725	61,973
Dividend Income	9,733	6,594
Other operating income - net	1,220	9,631
Gross income	**222,372**	**180,052**
Other income - net	56	-440
Total income	**222,428**	**179,612**
Expenditure		
Bank notes printing charges	4,193	3,098
Agency commission	3,614	2,710
General administrative and other expenses	10,897	8,888
Other charges		
Provisions	-488	123
Total expenditure	**18,216**	**14,819**
Profit for the year	**204,212**	**164,793**

11.2 Income

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

The Bank earned a net discount / interest / markup and/or return income of Rs175,027 million which is 73 percent higher than the income of Rs101,134 million during the corresponding year. An analysis of above increase in net income, encompassing various factors responsible for the rise, is presented as under:

11.2.2 Discount, Interest/Markup and/or Return Earned

The discount income of the Bank is derived from the holdings of Market Treasury Bills (MTBs) and the interest/markup, and return is earned on the foreign and domestic assets held by the Bank. During the current financial year, the gross income under the head showed a significant rise of Rs78,229 million which is 75 percent higher as compared to the income in the previous year. Analysis of components of income reveal that the interest/discount income on domestic assets increased by 152 percent which was offset by decrease in income on Bank's foreign assets by 70 percent over the previous year (**Table 11.2**). Bank witnessed an increase of 26 percent in foreign currency reserves which stood at equivalent to Rs820,643 million as on June 30,2009 as against the balance equivalent to Rs651,080 million at June 30, 2008 (see **Table 11.3**).

The sharp rise in interest/discount income on domestic assets is mainly attributable to increase in average discount rates on Market Treasury Bills coupled with a marginal increase in volume of these MTBs. The discount rates on MTBs remained in the band of 11.47 percent to 14.01 percent as compared to the range of 9.26 percent to 11.9 percent during the previous financial year. The investment in government securities increased by 7 percent and the loans and advances to banks and financial institutions rose by 33 percent during the year (see **Table 11.4**).

Table 11.2: Interest/Discount/Return Income on Foreign and Domestic Assets
(million rupees)

Description	2008-09	2007-08
Discount income on market treasury bills-net	153,268	58,329
Interest/discount income on foreign assets	10,786	36,491
Interest/discount income on other domestic assets	19,058	10,063
Total	**183,112**	**104,883**

Table 11.3: Foreign Currency Reserves
(million rupees)

Description	2008-09	2007-08
Investments	138,835	241,921
Deposit accounts	383,978	355,534
Current accounts	285,394	38,856
Special drawing rights with IMF	12,436	14,769
Total	**820,643**	**651,080**

Table 11.4: Lending to Government, Banks and Financial Institutions
(million rupees)

Description	2008-09	2007-08
Government securities	1,150,918	1,074,618
Overdraft to governments	25,861	22,609
Banks and financial institutions	308,242	232,451
Total	**1,485,021**	**1,329,678**
Yield on treasury bills	**11.47% to 14.01%**	**9.26% to 11.19%**
Markup on export finance	**6.50%**	**6.50%**

11.2.3 Interest/Markup Expense

Main elements of Bank's interest/markup expense include the interest on foreign currency deposits of commercial banks held under Cash Reserves Requirements (CRR), borrowings from International Monetary Fund, deposits of international organizations and foreign central banks. The interest expense increased by Rs4, 336 million during the year which stood at Rs8, 085 million compared to the expense of Rs3, 749 million during the previous year marking an increase of 116 percent over the previous year. The increased interest expense is mainly attributable to increase in the volume of foreign currency deposits of foreign central banks and international organizations which were offset by decline in rate of interest on these deposits compared to the previous year. Foreign currency deposits of foreign central banks and international organizations increased by 20 percent during the year. The rate of interest on foreign currency deposits was between 0.59 percent to 3.46 percent compared to the range of 1.46 percent to 4.72 percent during the previous financial year whereas the rate of interest on deposits of foreign central banks and international organizations ranged between 0.42 percent to 4.82 percent in the current financial year as against the range of 1.60 percent to 7.15 percent in the corresponding year.

11.2.4 Commission Income

The main components of Bank's commission income include commission income from management of public debt, market treasury bills, prize bonds and national saving schemes, government securities as well as issuance of drafts and payment orders. The commission income during the year under review increased by 132 percent and stood at Rs1, 667 million compared to Rs720 million during the previous financial year.

11.2.5 Exchange Gain / (Loss) – Net

Bank holds foreign currency assets and liabilities on its balance sheet. The sale/purchase and revaluation of these assets and liabilities result in exchange gain/ loss for the Bank. The Bank's exchange gain / loss arise mainly due to appreciation/depreciation of PKR vis-à-vis foreign currencies particularly USD and SDR. The foreign currency asset side of the Bank is dominated by USD whereas the net liability exposure is denominated in SDR. In view of the above, the depreciation of PKR vis-à-vis USD results in exchange gain and vice versa while the depreciation of PKR vis-à-vis SDR results in exchange loss and vice versa to the Bank. Appreciation and depreciation of PKR against major currencies is presented in **Table 11.5.**

The income under the head declined by 44 percent over the previous year which amounted to Rs34, 725 million during the year compared to the net gain of Rs61, 973 million in the previous year. The decline in exchange income is mainly attributable to the net exchange loss witnessed on liabilities pertaining to 'Payable to International Monetary Fund (IMF)' and SDRs which amounted to Rs33,376 million compared to Rs14,379 million during the previous year, registering an increase in loss by 132 percent over the previous year. Moreover, the net exchange gain on foreign currency placements, deposits and other accounts also declined by 11 percent during the current financial year. A breakup of Bank's net exchange gain is presented in **Table 11.6.**

Table 11.5: Exchange Gain/(Loss) – Net

Rupees per currency , appreciation/depreciation in percent

Currency	Exchange rate		Appreciation /depreciation	
	30.06.2009	30.06.2008	2008-09	2007-08
US Dollar	81.43	68.01	(16.48)	(11.10)
Pound Sterling	134.33	135.1	0.57	(10.39)
Japanese Yen	0.85	0.64	(24.70)	(23.44)
Euro	114.11	107.23	(6.03)	(24.05)
SDR	126.36	111.55	(11.72)	(17.77)

Table 11.6: Breakup of the Exchange Account

(million rupees)

Description	2008-09	2007-08
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	68,365	76,483
- Open market operations (including currency swap arrangements)	-403	-226
- Forward covers under exchange risk coverage	139	95
- Payable to the International Monetary Fund (IMF) and SDRs	-33,376	-14,379
Total	**34,725**	**61,973**

11.2.6 Dividend Income

The Bank earns dividend income on its holdings of equity investments in banks and financial institutions. Bank's listed and unlisted equity investments stood at Rs20, 087 million as on June 30, 2009 compared to the investments of Rs19.589 billion as at June 30, 2008. The dividend income increased by Rs3, 139 million in current year, which is 48 percent higher than the income in previous financial year.

11.2.7 Other Operating Income - net

Other operating income of the Bank is mainly derived from gain on sale of investments, penalties levied on banks and financial institutions, license / Credit Information Bureau fee recovered, profit on sale of securities, gain / (loss) on re-measurement of securities classified as held for trading, etc. The income under the head sharply declined by Rs8, 411 million during the year under review. The different factors leading to the decline in other operating income included decrease in gain on sale of investment by Rs21, 025 million which was offset by an increase of Rs3, 676 million in gain on remeasurement of securities classified as held for trading. Moreover, income from penalties levied on banks and financial institutions, license / Credit Information Bureau fee and others also declined by Rs1,032 million.

11.2.8 Other Income - net

The net income/(charges) under the head represents gain on disposal of property and equipment, net gain arising on liabilities and provisions written back, amortization of deferred income and income under other miscellaneous heads which are netted against other charges of the bank mainly comprising charges paid to International Monetary Fund on allocations of Special Drawing Rights. The net other income (charges) of the Bank increased by 496 million which amounted to net income of Rs56 million as compared to the net charges of Rs440 million previous year. The increase in net income is mainly attributable to decrease in charges on allocation of SDRs by Rs302 million and decrease of Rs132 million in provisions against reimbursement of agricultural losses during the current financial year.

11.3 Expenditure

The total expenditure (including provisions against impaired assets) of the Bank is computed at Rs18, 216 million as against the expenditure of Rs14, 819 million during previous financial year resulting in an increase of 23 percent over the corresponding year. A review of the main components of the expenditure is presented as under:

11.3.1 Bank Notes Printing Charges

Expenditure under the head represents the amount incurred on printing of fresh currency notes. During the period under review, the Bank's expenditure on printing of currency notes amounted Rs4, 193 million compared to Rs3, 098 million during the previous financial year marking an increase of 35 percent.

11.3.2 Agency Commission

The State Bank of Pakistan, under an agency agreement, pays agency commission charges to National Bank of Pakistan (NBP) on account of government transactions and remittances on behalf of SBP. Expenditure under the head increased by 33 percent, during the year, due to enhanced volume of government transactions handled by NBP.

11.3.3 General Administrative and Other Expenses

The head comprises various expenses including employees' salaries and other benefits, retirement benefits and employees' compensated absences, and other expenses mainly including depreciation, electricity & water charges, repairs 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 11.7**.

Table 11.7: General Administrative and Other Expenses

(million rupee)

Description	2008-09	2007-08
Salaries and other benefits	4,785	4,007
Retirement benefits and employees' compensated absences	3,324	2,419
Other expenses	2,788	2,462
Total	**10,897**	**8,888**

11.3.4 Provisions

The net provisions against doubtful assets showed reversals of Rs488 million compared to net provisions of Rs123 million during the previous financial year. The net reversals comprised reversal of provisions of Rs452 million on account of loans, advances and other assets, reversal of provisions of Rs99 million in respect of diminution in value of investments offset by expenditure for provisions amounting to Rs63 million against other doubtful assets during the year.

11.4 Distribution of Profit

The Bank earned a net profit of Rs204,212 million for the financial year ended June 30, 2009 as compared to the net profit of Rs164, 793 million previous year (see **Table 11.8**). Out of the above profit for the year, an amount of Rs49,026 million is proposed to be transferred to the Bank's Reserve Fund. The dividend payable is Rs10 million which is same as for the previous financial year. After taking into account the above, the surplus profit transferable to the Federal Government is computed at Rs155,176 million compared to the surplus of Rs68,343 million for the previous financial year.

Table 11.8: Distribution of Profit

(million rupee)

Description	2008-09	2007-08
Dividend	10	10
Transfer to reserve fund	49,026	96,440
Surplus profit transferable to Federal government	155,176	68,343
Total	**204,212**	**164,793**