

8 Financial Performance

8.1 Overview

SBP incurred net loss of Rs 1,043 million (consolidated) in the FY 19 as compared to a profit of Rs 175,673 million in the FY 18. The decline is primarily attributed to exchange loss of Rs 506,131 million during the current year as compared to exchange loss of Rs 72,280 million in previous year. The decrease was, however, partly offset by increase of Rs 254,351 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. These major income streams are offset by the increase in interest expense on liquidity mop-up from domestic financial market and increase in interest expense on international deposits. The expenses also witnessed a growth of 5 percent during the year. The note printing charges and General administrative and other expenses are the major expense heads that witnessed growth while agency commission paid to agent commercial banks for undertaking government banking business on behalf of the Bank witnessed slight decrease during the year.

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY19 and FY18.

Table 8.1: Summary Statement of Profit and Loss		(Rupees in million)	
Description	FY19	FY18	
Income			
Discount / interest /markup and/or return earned	656,953	323,679	
Less: Interest/mark-up expense	110,764	31,840	
Net discount / interest /markup and/or return income	546,190	291,839	
Commission income	4,136	4,083	
Exchange loss – net	(506,131)	(72,280)	
Dividend Income	390	415	
Share of profit from associates	702	691	
Other operating income/(loss) – net	4,347	(775)	
Other income – net	318	797	
Total income net of interest expenses	49,953	224,771	
Expenditure			
Bank notes and Prize Bonds printing charges	11,419	9,362	
Agency commission	10,643	10,945	
General administrative and other expenses	27,909	27,706	
(Reversal of Provisions) / Provisions - net	496	37	
Less: Total expenditure- net of reversal of provisions	50,467	48,050	
(Loss) / Profit for the year	(514)	176,721	
Taxation			
	529	1,048	
Net (loss)/ Profit for the year after tax	(1,043)	175,673	

8.2 Income

8.2.1 Net Discount / Interest / Markup

The interest / markup income increased by Rs 331,471 million to Rs 646,009 million, registering an increase of over 105 percent. The borrowings by the Government from SBP during FY19 remained the major sources of income of the Bank during the year. The discount/interest income earned on lending to the Federal Government increased by 171 percent due to increase in volume of borrowing as well as increase in interest rate. The interest earned on lending to commercial banks through OMO injections decreased by 41 percent due to smaller volumes of liquidity injections during the year. (Table 8.2 and 8.3).

The income on FCY assets registered 6 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 refinance facilities to priority sectors increased to Rs 11,945 million in FY19 from Rs 10,232 million in FY18 primarily due to increase in lending to banks under various refinance schemes.

The Bank incurred interest/ markup expense on FCY and domestic liabilities. FCY liabilities include deposits of international organizations and central banks, International Monetary Fund and currency swap arrangements. The domestic interest/markup bearing liabilities include repurchase transactions and sukuks purchased under Bai-muajjal agreement. The interest/ markup expense witnessed a rise of Rs 78,922 million primarily due to increase in expense on repurchase transactions by Rs 46,830 million. Further, FCY deposits increased during the year which resulted in additional expense of Rs 23,141 million. (Table 8.4).

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

Description	FY19	FY18
Discount, interest / mark-up on:		
- Government Securities	568,489	209,210
-Securities purchased under agreement to resell	43,833	74,135
Income from export loans	11,945	10,232
Foreign assets	16,815	15,872
Others	4,927	5,089
Total	646,009	314,538

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

Description	FY19	FY18
Government securities	7,762,812	3,671,013
Overdraft /loans to Governments	28,200	33,104
Securities purchased under agreement to resell	782,918	1,562,310
Banks and financial institutions	577,872	435,555
Total	9,151,802	5,701,982
Yield on Government Securities	10.96% to 13.88%	5.91% to 6.49%
Mark-up on Loans to Banks and FIs	0% to 12%	0% to 9.75%

Table 8.4: Interest/mark-up expense (Rupees in million)

Description	FY19	FY18
Deposits	37,264	14,123
Interest on special drawing rights of IMF	18,813	14,215
Securities sold under agreement to repurchase	47,978	1,148
Expense on sukuks purchased under Bai-muajjal agreement	4,636	1,168
Charges on allocation of special drawing rights of IMF	2,070	1,185
Others	3	3
Total	110,764	31,842

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 orders. The commission income increased by 1 percent largely due to increase in commission on market treasury bills.

8.2.3 Exchange Gain – Net

The exchange gains/ (losses) arise on 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 and USD 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 506,131 million during FY19 as against exchange loss of Rs 72,280 million during FY18 (see **Table 8.5**). The PKR depreciated against USD by Rs 38.56 and SDR by Rs 80.82; accordingly, the net exchange loss increased significantly during the year.

Table 8.5 Breakup of the Exchange Account

(Rupees in million)

Description	FY19	FY18
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	(233,101)	51,992
Forward covers under Exchange Risk Coverage	(4)	(3)
IMF Fund facilities	(232,360)	(109,359)
Special Drawing Rights of the IMF	(40,486)	(14,946)
Exchange risk fee income	40	37
Others	(220)	(2)
Total	(506,131)	(72,280)

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 detail of dividend income on equity investments held by SBP is given in **Table 8.6**.

Table 8.6 Breakup of the Dividend Income (Rupees in million)

Description	2019	2018
Unlisted	390	415
Total	390	415

8.2.5 Other Operating Income – net

Other operating income include penalties levied on banks/financial institutions, licenses and e-CIB fee, gains/(losses) on sale and re-measurement of investments and other income. The other operating income increased to Rs 4,347 million in FY19 from loss of Rs 775 million in last year. The increase is primarily attributed to increase in income on penalties levied on banks and financial institutions and gain on re-measurement of securities classified as “fair value through profit or loss”.

8.3 Expenditure

The total expenditure during the year was Rs 50,467 million as against Rs 48,050 million in FY18, registering an increase of 5 percent over the previous year’s expenditure. The increase was due to 22 percent increase in banknote printing charges whereas agency commission expenses decreased by 3 percent. An analysis of major components of Bank’s expenditure is given as under:

8.3.1 Bank Notes Printing Charges

The bank note printing charges increased to Rs 11,419 million in FY19 from Rs 9,362 million in FY18, thereby registering an increase of 22 percent mainly due to larger volumes of printing.

8.3.2 Agency Commission

The Agency commission paid to National Bank of Pakistan and Bank of Punjab decreased by 3 percent during the year to Rs 10,643 million from Rs 10,945 million in FY18. The decrease is attributable to automation of tax collection through alternative delivery channels 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. The overall general and administrative expenses increased to Rs 27,909 million in FY19 from Rs 27,706 million in FY18, thus registering an increase of Rs 203 million. A summary of the general, administrative and other expenses is given in **Table 8.7**.

Description	2019	2018
Salaries & other benefits	10,996	10,970
Retirement benefits	9,796	9,743
Repair and maintenance	867	747
Fund managers' and custodian expenses	346	554
Training	101	121
Deprecation	2,482	2,422
Legal & professional	93	46
Others	3,228	3,101
Total	27,909	27,706

8.4 Balance Sheet Summary

The total assets stood at Rs 11,467 billion as at June 30, 2019 as compared to Rs 7,733 billion on June 30, 2018, registering an increase of Rs 3,734 billion primarily due to increase in government borrowings from the central Bank. The increase in total assets is also contributed by the increase in value of gold and increase in loans and advances to banks and financial institutions to promote the economic activities in the priority sectors.

The total liabilities of the bank stood at Rs 10,761 billion as at June 30, 2019 as compared to Rs 7,198 billion as at June 30, 2018, registering an increase of Rs 3,563 billion. This rise was led by increase in currency in circulation, bank deposits, payable under bilateral currency swap agreement and payable to IMF. A comparative analysis of SBP assets and liabilities for FY19 and FY18 are given in the **Figure 8.1 to 8.4**.

Figure 8.1: SBP Assets 2019

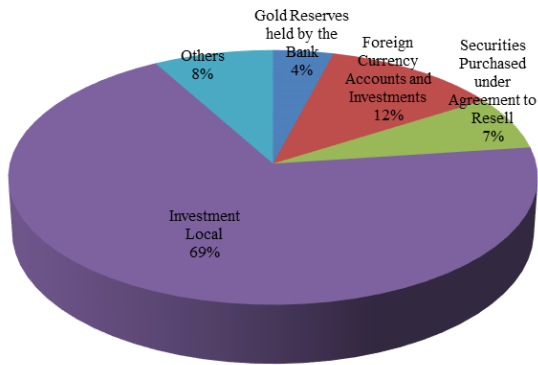


Figure 8.2: SBP Assets 2018

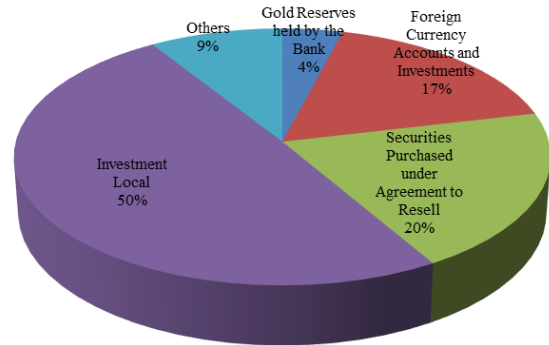


Figure 8.3: SBP Liabilities 2019

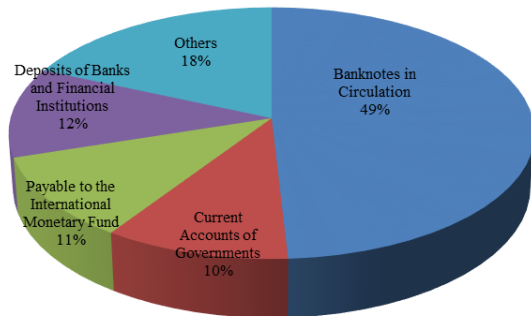


Figure 8.4: SBP Liabilities 2018

