

## 8 Financial Performance

### 8.1 Overview

The stability in the exchange rate allowed SBP to return to profitability after incurring loss in the preceding year. The profit so earned by the Bank in the year ended June 30, 2020 is highest in its history. The high interest rate prevalent in the first three quarters of the year allowed the Bank to accrue significant amount of interest income from the interest sensitive assets, particularly lending to the Government and income from the Bank's open market operations. Further, during the year, the liquidity mopping up operations were relatively on reduced scale and hence the interest expense registered a substantial decline. The total expenses registered 17 percent increase during the year due to increased volume of banknote printing and general & administrative expenses.

**Table 8.1** gives a comparative summary of Bank's annual profit and loss account for FY20 and FY19.

<b>Table 8.1: Summary Statement of Profit and Loss</b>		(rupees in million)	
<b>Description</b>	<b>FY 20</b>	<b>FY 19</b>	
<b>Income</b>			
Discount / interest /markup and/or return earned	1,218,680	656,953	
Less: Interest/mark-up expense	73,346	110,763	
<b>Net interest /markup and/or return income</b>	<b>1,145,334</b>	<b>546,190</b>	
Loss on fair valuation of COVID relief loans and advances	(4,194)	-	
Commission income	4,648	4,136	
Exchange loss – net	66,402	(506,131)	
Dividend Income	461	390	
Share of profit from associates	580	702	
Other operating income/(loss) – net	8,604	4,347	
Other income – net	1,425	319	
<b>Total income net of interest expenses</b>	<b>1,223,260</b>	<b>49,953</b>	
<b>Expenditure</b>			
Banknotes' printing charges	13,325	11,419	
Agency commission	10,669	10,643	
General administrative and other expenses	35,168	27,909	
(Reversal of Provisions) / Provisions - net	(73)	496	
<b>Less: Total expenditure- net of reversal of provisions</b>	<b>59,089</b>	<b>50,467</b>	
<b>Profit / (Loss) for the year</b>	<b>1,164,171</b>	<b>(514)</b>	
<b>Taxation</b>	738	529	
<b>Net Profit / (Loss) for the year after tax</b>	<b>1,163,433</b>	<b>(1,043)</b>	

Details of major heads of income and expenses are appended below:

## 8.2 Income

### 8.2.1 Net Discount / Interest / Markup

The interest / markup income increased by Rs. 562,612 million to Rs.1,208,621 million, registering an increase of 87 percent. The lending to the Government of Pakistan (GoP) by SBP remained the major source of income of the Bank during the year. Although, there was no further lending to the GoP after June 30, 2019, however, the income on lending to the GoP increased by 84 percent due to increase in average volume of lending as well as increase in average interest rate during the year. The income earned on lending to commercial banks through OMO injections increased by 194 percent due to increase in average interest rate and larger volumes of monetary injections during the year.

The interest earned on refinance facilities to priority sectors increased to Rs.12,837 million in FY20 from Rs.11,945 million in FY19 primarily due to increase in lending to banks under various refinance schemes.

The income on FCY deposits registered 15 percent decrease during the year. Although, foreign exchange reserves increased significantly during the year; however, the return on the reserves decreased due to lower interest rates in the international market. **(Table 8.2 and 8.3).**

The Bank incurred interest/ markup expense on FCY and domestic liabilities. FCY liabilities include deposits of international organizations and central banks, borrowings from 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 decline of Rs. 37,418 million primarily due to decrease in expense on repurchase transactions by Rs. 46,478 million. Further expense on FCY deposits increased during the year, which resulted in additional interest expense of Rs.14,136 million. **(Table 8.4)**

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

Description	FY20	FY19
Discount, interest / mark-up on:		
- Government Securities	1,048,157	568,489
-Securities purchased under agreement to resell	128,764	43,833
Income from loans to financial institutions	12,837	11,945
Foreign currency deposits	13,603	16,085
Others	5,260	5,657
<b>Total</b>	<b>1,208,621</b>	<b>646,009</b>

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

Description	FY20	FY19
Government securities	7,276,174	7,762,812
Overdraft /loans to Governments	30,157	28,200
Securities purchased under agreement to resell	917,540	782,918
Banks and financial institutions	785,897	577,872
<b>Total</b>	<b>9,009,768</b>	<b>9,151,802</b>
<b>Yield on Government Securities</b>	<b>8.23%</b>	<b>6.83%</b>
	<b>to</b>	<b>to</b>
	<b>14.02%</b>	<b>13.88%</b>
<b>Mark-up on Loans to Banks and FIs</b>	<b>0%</b>	<b>0% to</b>
	<b>to 14.49%</b>	<b>12%</b>

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

Description	FY20	FY19
Deposits	29,582	15,446
Interest on bilateral currency swap	20,560	21,818
Interest on special drawing rights of IMF	13,718	18,813
Securities sold under agreement to repurchase	1,500	47,978
Expense on sukuks purchased under Bai-muajjal agreement	6,728	4,636
Charges on allocation of special drawing rights of IMF	1,255	2,070
Others	3	3
<b>Total</b>	<b>73,346</b>	<b>110,764</b>

### 8.2.2 Fair valuation adjustment of COVID loans

In order to neutralize the adverse impacts of COVID-19 pandemic on economy, SBP introduced certain interest free/subsidized refinancing schemes. As per the requirements of IFRS-9, the subsidized loans are required to be recorded at fair value. Accordingly, an amount of Rs.4,194 million has been recognized as fair valuation adjustment against these loans. This fair valuation adjustment will be amortized and recorded as income over the period of loans.

### 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 earned a net exchange gain of Rs.66,402 million during FY20 as against exchange loss of Rs. 506,131 million during FY19 (**Table 8.5**). The PKR depreciated against USD and SDR during the period however, exchange gain arose due to improvement in net FCY liability exposure as compared to previous year. The details of FCY assets and liabilities are given in the Table 8.6.

### 8.2.4 Other Operating Income – net

Other operating income include penalties levied on banks/financial institutions, licenses and e-CIB fee, gains/(losses) on sale and remeasurement of investments and other income. The other operating income increased to Rs.8,604 million in FY20 from Rs.4,347 million in last year. The increase is primarily attributed to increase in income on penalties levied on banks and financial institutions, licenses fee, e-CIB fee and gain on disposal of foreign investments classified as “fair value through profit or loss”.

## 8.3 Operating Expenditure

The total expenditure during the year was Rs.59,089 million as against Rs.50,467 million in FY19. The increase was due to 26 percent increase in general administrative & other expenses and 17 percent increase in banknote printing charges. An analysis of major components of Bank’s expenditure is given as under:

### 8.3.1 Banknotes Printing Charges

The banknote printing charges increased to Rs.13,325 million in FY20 from Rs.11,419 million

**Table 8.5 Breakup of the Exchange Account**

(Rupees in million)		
Description	FY20	FY19
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	83,567	(233,065)
IMF Fund facilities	(10,475)	(232,360)
Special Drawing Rights of the IMF	(6,683)	(40,486)
Others	(7)	(220)
<b>Total</b>	<b>66,402</b>	<b>(506,131)</b>

**Table 8.6 FCY Assets and Liabilities**

(Rupees in million)		
Description	FY20	FY19
<b>FCY Assets</b>		
Investments	501,176	205,337
Deposit / Current Accounts	595,729	387,089
Securities purchased under agreement to resale	891,609	336,209
Money market placements	218,466	447,219
Earmarked FCY balances	62,010	72,703
SDR of IMF	29,537	55,461
Reserve tranche position with IMF	28	27
Others	8,637	6,068
<b>Total FCY assets</b>	<b>2,307,192</b>	<b>1,510,113</b>
<b>FCY Liabilities</b>		
Deposits of banks/FIs	236,979	282,453
Other deposits and accounts	983,607	1,033,757
Bilateral currency swap agreement	476,723	469,398
Payable to IMF	1,045,944	1,150,064
<b>Total FCY liabilities</b>	<b>2,743,253</b>	<b>2,935,672</b>
<b>Net FCY Liabilities</b>	<b>(436,061)</b>	<b>(1,425,559)</b>

in FY19, thereby registering an increase of 17 percent mainly due to larger volumes of printing and increase in printing rates.

### 8.3.2 Agency Commission

The Agency commission paid to National Bank of Pakistan and Bank of Punjab increased by only 0.24 percent during the year to Rs.10,668 million from Rs.10,643 million in FY19. The marginal increase in the agency commission is due to gradual shifting of collection of duties and taxes to Alternate Delivery Channels (ADC), which entails nominal cost for SBP. The agency commission is likely to show declining trends due to shifting of larger volumes of tax collection to ADC mechanism.

### 8.3.3 General Administrative and Other Expenses

The general administrative expenses include employees' salaries and other benefits, retirement benefits, fund managers and custodians' expenses, training expenses, legal and professional expenses, depreciation, repair and maintenance, etc. The overall general and administrative expenses increased to Rs. 35,168 million in FY20 from Rs.27,909 million in FY19, thus registering an increase of Rs. 7,259 million. The major increase was witnessed in retirement benefits, which is attributable to higher interest cost during the year due to increase in interest rate. A summary of the general, administrative and other expenses is given in **Table 8.7**.

<b>Description</b>	<b>FY20</b>	<b>FY19</b>
Salaries & other benefits	11,448	10,996
Retirement benefits	16,939	9,796
Repair and maintenance	852	867
Fund managers' and custodian expenses	298	346
Training	83	101
Depreciation	2,069	2,482
Legal & professional	240	93
Others	3,239	3,228
<b>Total</b>	<b>35,168</b>	<b>27,909</b>

### 8.4 Balance Sheet Summary

The total assets stood at Rs.12,273 billion as at June 30, 2020 as compared to Rs.11,467 billion on June 30, 2019, registering an increase of Rs.806 billion primarily due to increase in foreign currency accounts and investments. The increase in total assets is also contributed by the increase in value of gold, increase in loans and advances to banks and financial institutions to promote the economic activities in the priority sectors, and increase in securities purchased under agreement to resell.

The total liabilities of the bank stood at Rs.11,219 billion as at June 30, 2020 as compared to Rs.10,761 billion as at June 30, 2019, registering an increase of Rs.458 billion. This rise was primarily led by increase in currency in circulation. A comparative analysis of SBP assets and liabilities for FY20 and FY19 are given in the **Figure 8.1 to 8.4**.

Figure 8.1: SBP Assets 2020

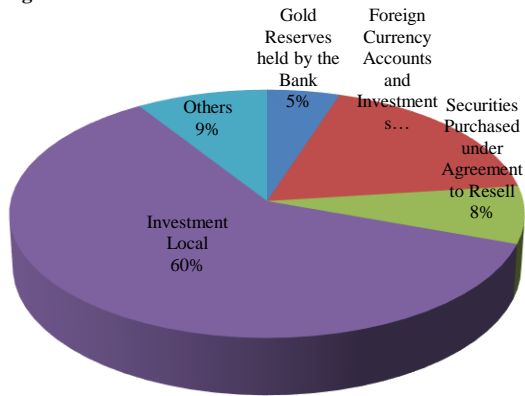


Figure 8.2: SBP Assets 2019

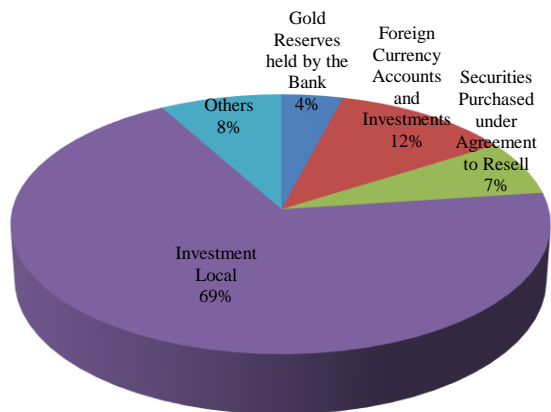


Figure 8.3: SBP Liabilities 2020

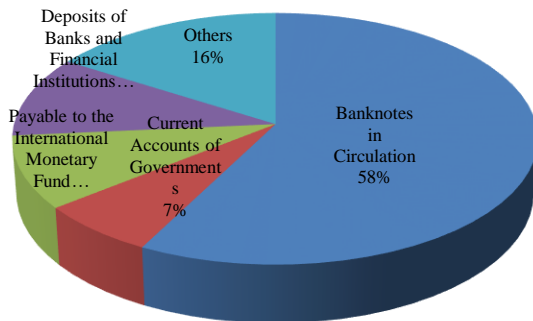


Figure 8.4: SBP Liabilities 2019

