

8 Financial Performance

8.1 Overview

SBP earned a profit of Rs.760,859 million (consolidated) in FY21 as compared to a profit of Rs.1,163,433 million in FY20. The decline in profit is primarily attributed to lower income from lending to the government. Pakistan Investment Bonds (PIBs) worth Rs.569,000 million matured during the year and no fresh lending was made by the Bank to the Federal Government, resulting in lower income under this head. Moreover, decrease in average interest rate during FY21 also impacted adversely on income from lending to Government. Income from reverse repo transactions and foreign currency deposits also witnessed a decline while charge on account of fair value adjustment on COVID loans significantly increased during the year. The decline in income from these major income/expense streams is partly offset by decrease in interest / mark up expense and operating expenses. SBP group also earned higher net exchange gain during FY21 as compared to the previous year due to appreciation of PKR against other currencies particularly USD during the year.

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY21 and FY20.

Table 8.1: Summary Statement of Profit and Loss		
	(million rupees)	
Description	FY 21	FY 20
Income		
Discount / interest /markup and/or return earned	768,378	1,218,680
Less: Interest/mark-up expense	52,695	73,346
Net discount / interest /markup and/or return income	715,683	1,145,334
Fair valuation adjustment on COVID loans - net	(45,732)	(4,194)
Commission income	5,245	4,648
Exchange gain – net	135,328	66,402
Dividend Income	520	461
Share of profit from associates	1,338	580
Other operating income/(loss) – net	3,672	8,604
Other income – net	396	1425
Total income net of interest expenses	816,450	1,223,260
Expenditure		
Bank notes and Prize Bonds printing charges	15,762	13,325
Agency commission	9,281	10,669
General administrative and other expenses	29,321	35,168
(Reversal of Provisions) / Provisions - net	(88)	(73)
Less: Total expenditure- net of reversal of provisions	54,276	59,089
Profit for the year	762,174	1,164,171
Taxation	1,315	738
Surplus Profit/(loss) for the year after tax	760,859	1,163,433

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 decreased by Rs. 453,033 million to Rs. 755,588 million, registering a decrease of 37 percent. For SBP, lending to the Government of Pakistan (GoP) remained the major source of income during the year, which dropped by 39 percent due to maturity of PIBs worth Rs. 569 billion and no further lending to the GoP during the year. Income under this head also declined due to decrease in average interest rate on PIBs during the year. The income earned on lending to commercial banks through OMO injections decreased by 30 percent due to decline in average interest rate despite larger volumes of monetary injections during the year.

The interest earned on refinance facilities to priority sectors increased to Rs. 17,892 million in FY21 from Rs. 12,837 million in FY20 primarily due to increase in lending to banks under various refinance schemes.

The income on FCY deposits registered 59 percent decrease during the year. Although foreign currency placements increased during the year, however, the return on investments decreased due to lower interest rates in the international market. (Table 8.2 and 8.3).

On the expenditure side, 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. 20,651 million primarily due to decrease in expense on deposits held by the Bank, expense on sukuks purchased under bai-muajjal agreements and interest on SDR of IMF. (Table 8.4)

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

Description	FY 21	FY 20
Discount, interest / mark-up on:		
- Government Securities	637,110	1,048,157
-Securities purchased under agreement to resell	90,251	128,764
Income from loans to financial institutions	17,892	12,837
Foreign currency deposits	5,520	13,603
Others	4,815	5,260
Total	755,588	1,208,621

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

Description	FY 21	FY 20
Government securities	6,685,409	7,276,174
Overdraft /loans to Governments	33,794	30,157
Securities purchased under agreement to resell	1,792,952	917,540
Banks and financial institutions	1,168,174	785,897
Total	9,680,329	9,009,768
Yield on Treasury Bills	7.92% to 13.88%	8.23% to 14.02%
Mark-up on Loans to Banks and FIs	0% to 9.70%	0% to 14.49%

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

Description	FY 21	FY 20
Deposits	16,512	29,582
Interest on bilateral currency swap	26,107	20,560
Interest on special drawing rights of IMF	7,833	13,718
Securities sold under agreement to repurchase	692	1,500
Expense on sukuks purchased under Bai-muajjal agreement	1,379	6,728
Charges on allocation of special drawing rights of IMF	170	1,255
Others	2	3
Total	52,695	73,346

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. 58,418 million has been recognized as fair valuation adjustment against these loans, whereas amortization of fair valuation adjustment of Rs.12,686 million has been recorded as income during FY21.

8.2.3 Exchange Gain – Net

The exchange gains/ (losses) arise on FCY assets and liabilities of the Bank. A 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 rate account.

The bank earned a net exchange gain of Rs.135,328 million during FY21 compared to an exchange gain of Rs.66,402 million during FY20 (**Table 8.5**). There is a net FCY liability position (including off balance sheet commitments) that resulted in net exchange gain as PKR appreciated against USD, SDR and other currencies during the period. 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 re-measurement of investments and other income. Income under this head decreased to Rs 3,672 million in FY21 from Rs.8,604 million in last year. The decrease is primarily due to a decline in income on penalties levied on banks and financial institutions, licenses fee, e-CIB fee which is partly offset by increase in 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. 54,276 million as against Rs. 59,089 million in FY20. The decrease is due to 17 percent decline in general administrative & other expenses and 13 percent decrease in agency commission. An analysis of major components of the Bank’s expenditure is given as under:

Table 8.5 Breakup of the Exchange Account
(million rupees)

Description	FY 21	FY 20
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	107,397	83,567
IMF Fund facilities	21,337	(10,475)
Special Drawing Rights of the IMF	6,615	(6,683)
Others	(21)	(7)
Total	135,328	66,402

Table 8.6 FCY Assets and Liabilities (million rupees)

Description	FY 21	FY 20
FCY Assets		
Investments	1,024,583	501,176
Deposit / Current Accounts	376,363	595,729
Securities purchased under agreement to resale	423,792	891,609
Money market placements	1,034,107	218,466
Earmarked FCY balances	20,708	62,010
SDR of IMF	60,771	29,537
Reserve tranche position with IMF	27	28
Others	25,169	8,637
Total FCY assets	2,965,520	2,307,192
FCY Liabilities		
Deposits of banks/FIs	234,791	236,979
Other deposits and accounts	442,148	983,607
Bilateral currency swap agreement	748,494	476,723
Payable to IMF	845,359	1,045,944
Total FCY liabilities (On Balance Sheet)	2,270,792	2,743,253
Off Balance Sheet Commitments	767,134	957,576
Total FCY liabilities	3,037,926	3,700,829
Net FCY Liabilities	(72,406)	(1,393,637)

8.3.1 Banknotes Printing Charges

The banknote printing charges increased to Rs. 15,762 million in FY21 from Rs 13,325 million in FY20, thereby registering an increase of 18 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 decreased by 13 percent during the year to Rs 9,281 million from Rs 10,668 million in FY20. The decrease in the agency commission expense is due to impact of higher government receipts through Alternate Delivery Channels (ADC) mechanism, which entails nominal cost for SBP. The agency commission is likely to show further declining trends due to shifting of government payments to online settlement modes in the future.

8.3.3 General Administrative and Other Expenses

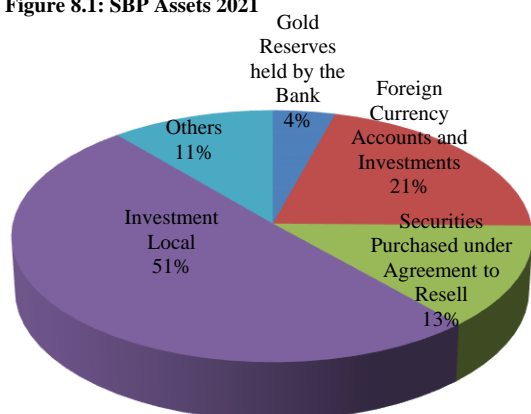
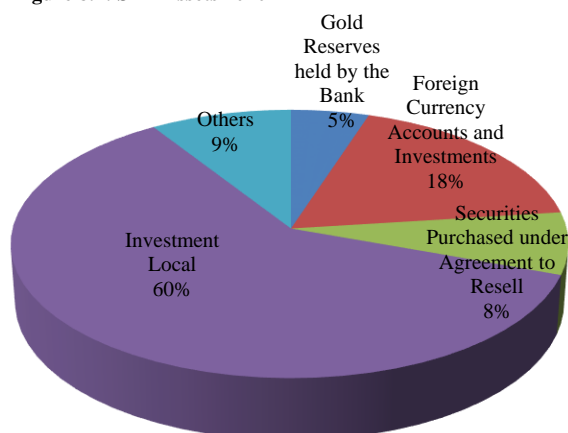
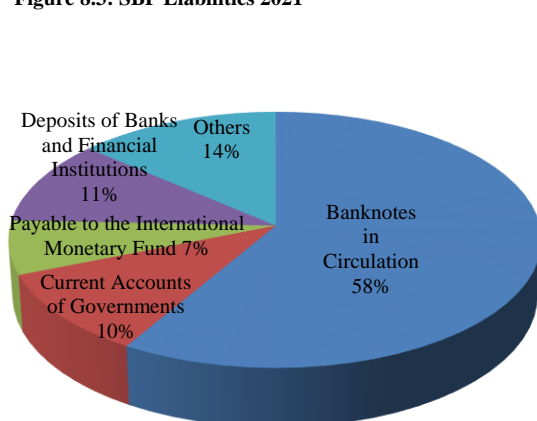
The general administrative expenses include employees' salaries and other benefits, retirement benefits, fund managers and custodians' expenses, training expenses, legal and professional expenses, depreciation, repair and maintenance, etc. The overall general and administrative expenses decreased to Rs. 29,320 million in FY21 from Rs. 35,168 million in FY20, thus registering a decrease of Rs.5,848 million. The major decrease was witnessed in retirement benefits, salaries and other benefits and legal and professional expenses during the period. A summary of the general, administrative and other expenses is given in **Table 8.7**.

Description	FY 21	FY 20
Salaries & other benefits	11,277	11,448
Retirement benefits	11,652	16,939
Repair and maintenance	946	852
Fund managers' and custodian expenses	310	298
Training	2	83
Deprecation	2,162	2,069
Legal and professional	74	240
Others	2,897	3,239
Total	29,320	35,168

8.4 Balance Sheet Summary

The total assets stood at Rs. 13,603 billion as at June 30, 2021 as compared to Rs. 12,273 billion on June 30, 2020, registering an increase of Rs. 1,330 billion primarily due to increase in securities purchased under agreement to resell. The increase in total assets can also be attributed to the increase in foreign currency accounts and investments, loans and advances to banks and financial institutions in order to promote the economic activities in the priority sectors and increase in SDRs of IMF.

The total liabilities of the bank stood at Rs. 12,446 billion as at June 30, 2021 as compared to Rs. 11,219 billion as at June 30, 2020 registering an increase of Rs. 1,227 billion. This rise was primarily led by increase in currency in circulation. A comparative analysis of SBP assets and liabilities for FY21 and FY20 are given in the **Figure 8.1 to 8.4**.

Figure 8.1: SBP Assets 2021**Figure 8.2: SBP Assets 2020****Figure 8.3: SBP Liabilities 2021****Figure 8.4: SBP Liabilities 2020**