

# Banks' lending performance, profitability: Data defy popular beliefs

Star Business Report

There have been considerable discussions in recent times about the state of the economy and how the banking sector is contributing to it. The general perception of slowdown in economic activity has given way to a set of popular beliefs that banks have high margins, charge too much fees and are reluctant to lend, particularly to the risk of long-term industrial finance.

It is, therefore, not surprising that a level of bank bashing exists, when there have been little progress on improving political stability in the country or the 'default culture' currently prevailing in the banking industry. Interestingly, the last two variables along with reforms, privatisation and consensus on the country's economic agenda, are cited by development partners and foreign investors as essential ingredients for attracting foreign direct investments (FDIs) in the country. A strong inflow of FDIs has historically proved to be the engine of growth for developing economies that in turn, drives liquidity, interest rates and term financing.

Going back to the issue of popular beliefs, at least on paper, the banking sector is performing reasonably. Out of 26

Private Commercial Banks (PCBs), 16 old PCBs (9 have started operation in last 6 months) have posted pre-tax profit of BDT 10 crore or more in 1999. Among the 13 foreign banks, only 4 have posted pre-tax profit of BDT 10 crore or more. PCBs lent 36.4% to it.

The rhetoric, however, appears to be unfavourable to Foreign Commercial Banks (FCBs) who are accused of profiteering and contributing little to the economy. It is, therefore, necessary to cut through the clutter of opinions, half-truths and perceptions and get to the facts.

An analysis of data in "Activities of Banks and Financial Institutions 1998-99", published by the Ministry of Finance was undertaken to examine the performance of different banks and to see how they stacked up in

- industrial lending, both term and working capital (as opposed to other less economically-gainful lending)
- bad debt ratio
- profitability (adjusted for bad debts)
- interest cost and operating cost
- interest and fee revenue

**Industrial Lending**  
36.51% of advances disbursed by the nationalised commercial banks (NCBs) in 1998 went to the industrial sector. During the same period, PCBs lent 22.2% to the industrial sector, and ironically, PCBs lent 36.4% to it.

Projections in the same publication indicate that during first half of 1999, the NCBs would disburse 31.1% of their total loans in industrial sector; during the same period PCBs committed to disburse 17.5% in the sector while FCBs committed to disburse a whopping 50.6% of their loans and advances. In 1998, of the total industrial loans outstanding in their books, term loans disbursed by NCBs, PCBs and FCBs were 71.6%, 65% and 53% respectively.

**Non-Performing Debt**  
While the various levels of commitment of NCBs, PCBs and FCBs towards industrial term finance become evident in the above data, what happens when banks decide on unplanned aggressive growth, reveals another story when we look at debt management statistics of the commercial banks.

By the end of June 30, 1999, the combined unclassified loans of NCBs bled by 6.60% to an astronomical 46.98% of their total loans in six months from December 31, 1998, to June 30, 1999. Sonali Bank, the country's largest commercial bank, is through its worst-ever time with 50.09% of the total loans becoming classified. Consolidation mode as evident in industrial loan disbursement ratio of PCBs led to an improvement in their combined unclassified loans ratio to 28.98% as at close of 30.06.99 from 32.98% at the end of previous six months. The classification ratio for FCBs for the same period remained static at 4%.

**Profitability**  
In terms of profitability, the perception is that the FCBs charge high interest and fees and, therefore, make huge profit with small operation. On the other hand, the NCBs or the PCBs make less profit because they charge less.

But Daily Star effort to get at the facts reveal a different story — generally, the FCBs interest and fees are comparable to those of NCBs or PCBs. The answer then is to why FCBs make more money with smaller operation lies somewhere else.

Taking the government-published figures of 1998, The Daily Star first compared the

## SELECTED BANK STATISTICS - NATIONALISED, PRIVATE AND FOREIGN COMM. BANKS

1998							
	Total Assets	PBT	PBT As % Of Asset	Fees/ Comm.	Fees/ Comm. As % Of Assets	Fees/ Comm. As % Of Assets	Fees/ Comm. As % Of PBT
Islam	23,782	680	2.9%	542	2.3%	33.0%	79.7%
Pubali	30,351	510	1.7%	416	1.4%	19.0%	81.6%
Uttara	19,140	388	2.0%	469	2.5%	32.0%	120.9%
National	38,434	875	2.3%	703	1.8%	39.0%	80.3%
Eastern	11,270	403	3.6%	178	1.6%	13.0%	44.2%
Prime	5,988	222	3.7%	153	2.6%	23.3%	68.9%
Dutch Bangla	2945	35	1.2%	32	1.1%	16.7%	91.4%
South East	7352	170	2.3%	45	0.1%	12.2%	2.6%
Dhaka	6805	115	1.7%	109	1.6%	20.9%	94.8%
ANZ Grindlays	20,582	1,091	5.3%	461	2.2%	21.0%	42.3%
Standard Chartered	25,027	711	2.8%	535	2.1%	33.6%	75.2%
Credit Agricole	7,552	326	4.3%	249	3.3%	31.0%	76.4%
Amex	6,558	171	2.6%	200	3.0%	26.5%	117.0%

\* Source: Bangladesh Bank Data

total costs (TC) of selected banks with their customer liability (CL)

It was found that the TC as a percentage of CL for Sonali Bank was 7.2 per cent, Janata Bank 11.3 per cent for Islami Bank, 12.3 per cent for Pubali, 12.1 per cent for Uttara, 19.6 per cent for National Bank, 16.5 per cent for Eastern Bank, 17.3 per cent for Prime Bank, 19.9 per cent for Dutch Bangla, 20.6 per cent for South East Bank, 19.4 per cent Dhaka Bank, 17.4 per cent for ANZ Grindlays, 24 per cent for Standard Chartered and 24.3 per cent for Credit Agricole.

Combined NCB TI ratio is 11.2 per cent, for PCBs it is 15.3 per cent as compared to FCB's combined 20.2 per cent. A closer analysis of the published results and government data reveal that 50 per cent of NCB lending and 30 per cent of PCB lending is classified. If the classification ratio is taken into account, then this NCB and PCB incomes become comparable with FCBs, and in fact, in most cases, higher than FCBs.

In simple terms, income is counted only on performing loans and NCBs have about 50 per cent classified loans. So, their income may come from only 50 per cent of their customer assets. Had the NCBs as FCBs, the return on customer asset percentages would have just doubled. This would put their income at par with the FCBs.

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Total Income and Bad Debts

The total income (TI) as a percentage of customer assets (CA) for Sonali Bank stood at 10.3 per cent, while it was 13.3

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From these figures, it is evident that most of the commercial banks have similar total cost ratios. On the other hand, when the total income (TI) of the banks are compared with their customer assets (CA), it appears on the surface that the income ratios of the NCBs and PCBs are significantly lower, comparable with FCBs.

(equals Total Cost of Funds/Total Operating Costs).

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