

CHAPTER III

Bank Lending and Profitability

Banks are the commercial organisations. They have organisational objective mix. These objectives are framed by the brain box i.e., top management personnel of a bank. The objective are always dynamic. They are framed within the policy frame, statutory constraints, and political and economic conditions. However, among the objective mix of a bank, profitability, bank lending is the major sensitive parameter of financial performance of a bank. The profitability performance highlights the financial soundness of a bank. It also reflects the utilisation of scarce and high cost financial resources.

The profitability performance of a bank is primarily concerned with collection of public deposits, lending, liquidity, and security of public funds. Bank management with the help of marketing mix and market segmentation makes planned efforts through 'Command Area' approach to increase its total deposits because they are considered like a total output of a bank. The total interest paid to the depositors of a bank constitute a major item in the total cost of a bank.

The total expenses of a bank consist of interest expenses, establishment expenses and other ancilliary expenses. The interest expense is a most sensitive item and it has a direct impact on the total expenses of a commercial bank.

The total income of a bank consists of interest income and non-interest income. The interest income is a major item of the earnings of a bank. Therefore, gross bank lending determines the total income earnings of a bank. Banks have relatively no control

over interest expenses. So only feasible alternative to improve profitability performance is to increase the volume of gross bank lending. The increasing quantum of bank's lending play a crucial key role in the profitability performance of a commercial bank.

Therefore, an attempt is made to evaluate bank's lending through profitability performance. For this the principal factors determining the net profit of the bank are identified. The key factors determining the net profit are as under :

- (I) The 'Interest Surplus' (IS)
- (II) The 'Non-Interest Load' (NIL)

(I) Interest Surplus (IS)

The 'Interest Surplus' is derived by interest incomes minus interest expenses. So 'Interest Surplus' is a major element of interest income. It is a vital item of income of a commercial bank. It is mainly dependent on assets and liabilities of a bank.

The interest income of a bank is derived from lending (i.e. Advances) discounting bills, dividend on financial assets and interest on investment.

The interest expenses consist of interest paid to the depositors and borrowers (in the later case, the interest-paid by banks on borrowing).

The segment of interest earning assets and total interest income equation is as follow.

$$\text{Interest Income} = \sum_{i=1}^n X_i Y_i$$

Where,

- n = total earning assets
 Xi = components of interest earning assets.
 Yi = Interest income earned on n.
 i = 1,2,3,n

In the same manner, the factors of interest expenses give the formula as under :

$$\text{Interest Expenses} = \sum_{i=1}^e d_i t_i$$

Where,

- e = total interest carrying liabilities
 di = components of interest carrying liabilities
 ti = interest paid on liabilities.
 i = 1,2,3,.....e

The profit as an index of financial efficiency is determined by the interest surplus. It can be stated in the form of equation as follow :

$$\text{Interest Surplus} = \sum_{i=1}^n X_i Y_i - \sum_{i=1}^e d_i t_i$$

(II) Non Interest Load (NIL)

The Non Interest Load (NIL) is the difference between non-interest expenses and non-interest income. As a matter of fact, non-interest expenses are burden to a bank. The non-interest items of expenses are the establishment expenses, rents, taxes and insurance. While the non-interest items of income are services provided to the customers of a bank, fees, commissions, exchange arbitrage and brokerage.

The Non Interest Load (NIL) is a critical key factor in determining the profitability of a bank. Therefore, the bank management has to be cost and productivity conscious. The bank management through cost analysis should identify the cost sensitive variables and devise an effective system of controlling expenses of a bank. At the same time it must be conscious of performance and productivity. The bank management must create a high productivity and cost conscious culture among its personnel at work. A strict mechanism of monitoring expenses can help the bank management to control its non-interest expenses.

At the same time the bank management should focus its sole attention on increasing its non-interest earnings. The bank management can increase the non-interest earnings through diversification of financial services and better efficient customer services. In addition to this the bank management through market research should develop the package of new financial services and areas for increasing the non-interest earnings.

The break up of the components of non-interest expenses provides the following equation.

$$\text{Non-interest Expenses} = \sum_{i=1}^m J_i K_i$$

Where,

- m = total non-interest expenses
- J_i = components of non-interest expenses.
- K_i = amount paid on components of m.
- i = 1,2,3,.....m

The split up of the components of non-interest income provides the following formulation.

$$\text{Non-interest Income} = \sum_{i=1}^N L_i P_i$$

Where,

- N = total non-interest income
- L_i = Components of non-interest income
- P_i = amount earned on components of m.
- i = 1,2,3,.....m

So, the non-interest load plays an important role in determining the profitability of a commercial bank. The non-interest load is the second equally important variable in governing the profitability behaviour of a commercial bank.

$$NIL = \sum_{i=1}^m J_i K_i - \sum_{i=1}^N L_i P_i$$

$$P = \left(\sum_{i=1}^n X_i Y_i - \sum_{i=1}^e d_i t_i \right) - \left(\sum_{i=1}^m J_i K_i - \sum_{i=1}^N L_i P_i \right)$$

Therefore

$$P = IS - NIL$$

Where,

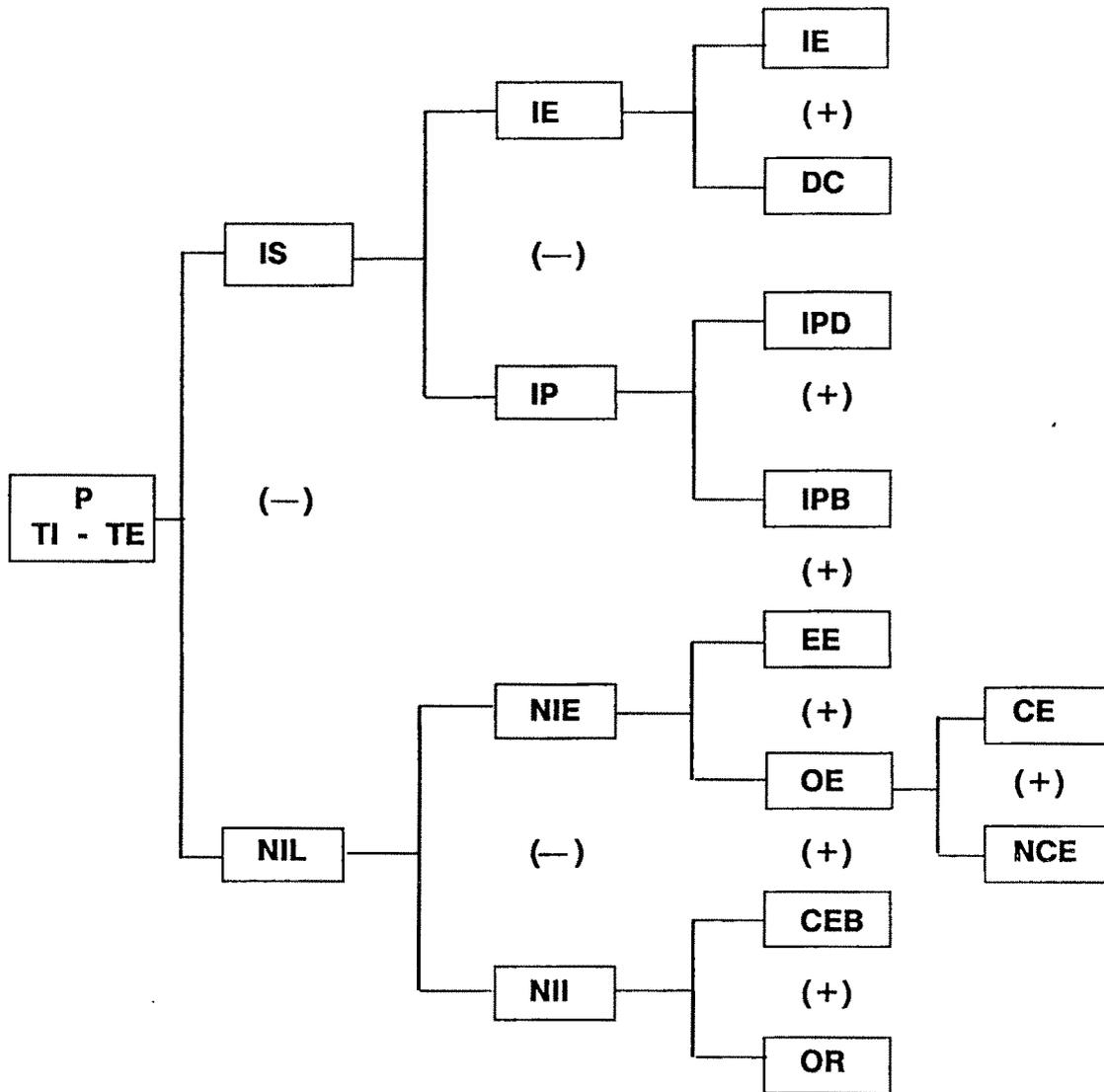
- P = Profit
 IS = Interest Surplus
 NIL = Non-Interest Load.

Frame Work of Bank's Profitability

The gross bank advances (i.e. volume of lending) and profits are positively related. So profit is an index of evaluating a bank's lending portfolio. For this purpose a structural framework of bank's profitability has been developed. The variables of profitability have been identified and an attempt is made to explore the functional relationships between the variables of profitability. In order to provide a transparent, quick and grass root understanding about the profitability variables and their interrelationships Exhibit III.1 and Table III.1 are prepared.

EXHIBIT - III.1

KEY PROFIT FACTORS AND RELATIONSHIP IDENTITIES



WHERE;

P	=	PROFIT
IS	=	INTEREST SURPLUS
NIL	=	NON-INTEREST LOAD
IE	=	INTEREST EARNED
IP	=	INTEREST PAID
NIE	=	NON INTEREST EXPENSES
NII	=	NON INTEREST INCOME
DC	=	DISCOUNT CHARGES
IPD	=	INTEREST PAID ON DEPOSITS
IPB	=	INTEREST PAID ON BORROWINGS
EE	=	ESTABLISHMENT EXPENSES
OE	=	OTHER EXPENSES
CEB	=	COMMISSION EXCHANGE BROKERAGE
OR	=	OTHER RECEIPTS
CE	=	CURRENT EXPENSES
NCE	=	NON CURRENT EXPENSES
TI	=	TOTAL INCOME
TE	=	TOTAL EXPENDITURE
(—)	=	MINUS
(+)	=	PLUS

Table-III.1**Inter Functional Relationships of Bank's Profitability Variables**

Part	Income	Expenses	Difference	Symbols
1.	I. Interest income	E. Interest Expenses	Surplus (I-E)	S.
2.	D. Non-Interest Income	F. Non-Interest Expenses	Load (F-D)	L.
3.	J. Total income	K. Total Expenses	Net Profit (J-K)	P.

The Table III.1 shows the inter functional relationships between the major variables of bank's profitability. Their inter functional relationships have been classified into three parts.

Part 1, explains the inter functional relationship between interest income and interest expenses. The difference between interest incomes and interest expenses is known as interest surplus. It is denoted by 'S'.

Part 2, shows the inter functional relationship between the non-interest expenses and non-interest incomes. It is known as non-interest load. It is denoted by 'L'.

Part 3, depicts the inter functional relationship between total incomes and total expenses. It is known as profit. It is denoted by 'P'.

Therefore,

$$P = (I - E) - (F - D)$$

$$\therefore P = (S - L)$$

Where,

P = Profit

I = Interest Incomes

E = Interest Expenses.

F = Non-Interest Expenses.

D = Non-Interest Incomes.

S = Interest Surplus.

L = Non-Interest Load.

So, interest surplus and non interest load are the key variables determining the profitability of a bank. Further, an attempt is made to develop the relative relationships of each variable of profitability by taking into consideration the gross bank advances. The gross bank advances is denoted by symbol 'V'. The relative functional relationships of profitability variables and gross bank advances is as under.

P/V

I/V

F/V

D/V

S/V

L/V

In order to have an indepth understanding of the bank's lending and profitability performance, the gross bank advances (i.e. volume of business) is further related to each variable of major components of profitability.

An innovative structured frame-work of profitability model is explained in detail. Now a research inquiry is carried further in terms of its applications. The profitability analysis of the five national commercial banks and four foreign commercial banks in Jordan has been done. For this the profitability model is used to analyse the profitability behaviour of the commercial banks in Jordan. The data is collected from the published statements of the concerned commercial banks and analysed. The analysis of profitability behaviour of the commercial banks in Jordan for the period 1979 to 1992 is undertaken.

Net Profit (NP)

Let us examine the Net Profit (NP) performance of the commercial banks in Jordan for the period 1979 to 1992. The Net Profit (NP) performance of each national commercial bank has indicated inconsistency. Similarly, the Net Profit (NP) performance of all the national commercial banks at an aggregate level has also indicated fluctuations. However, the Net Profit (NP) of all the national commercial banks taken together has gone up substantially from 7048 thousands J.D. in 1979 to 14650 thousand J.D. in 1992. The Net Profit of the foreign commercial banks taken together increased considerably from 597 thousand J.D. in 1979 to 6655 thousand J.D. in 1992. Similarly the Net Profit (NP) of all the commercial banks (i.e. national and foreign) in Jordan recorded a phenomenal rise from 7645 thousand J.D. in 1979 to 21305 thousand J.D. in 1992. The graph III.1 depicts the Net Profit (NP) performance of the commercial banks in Jordan.

Table III.2

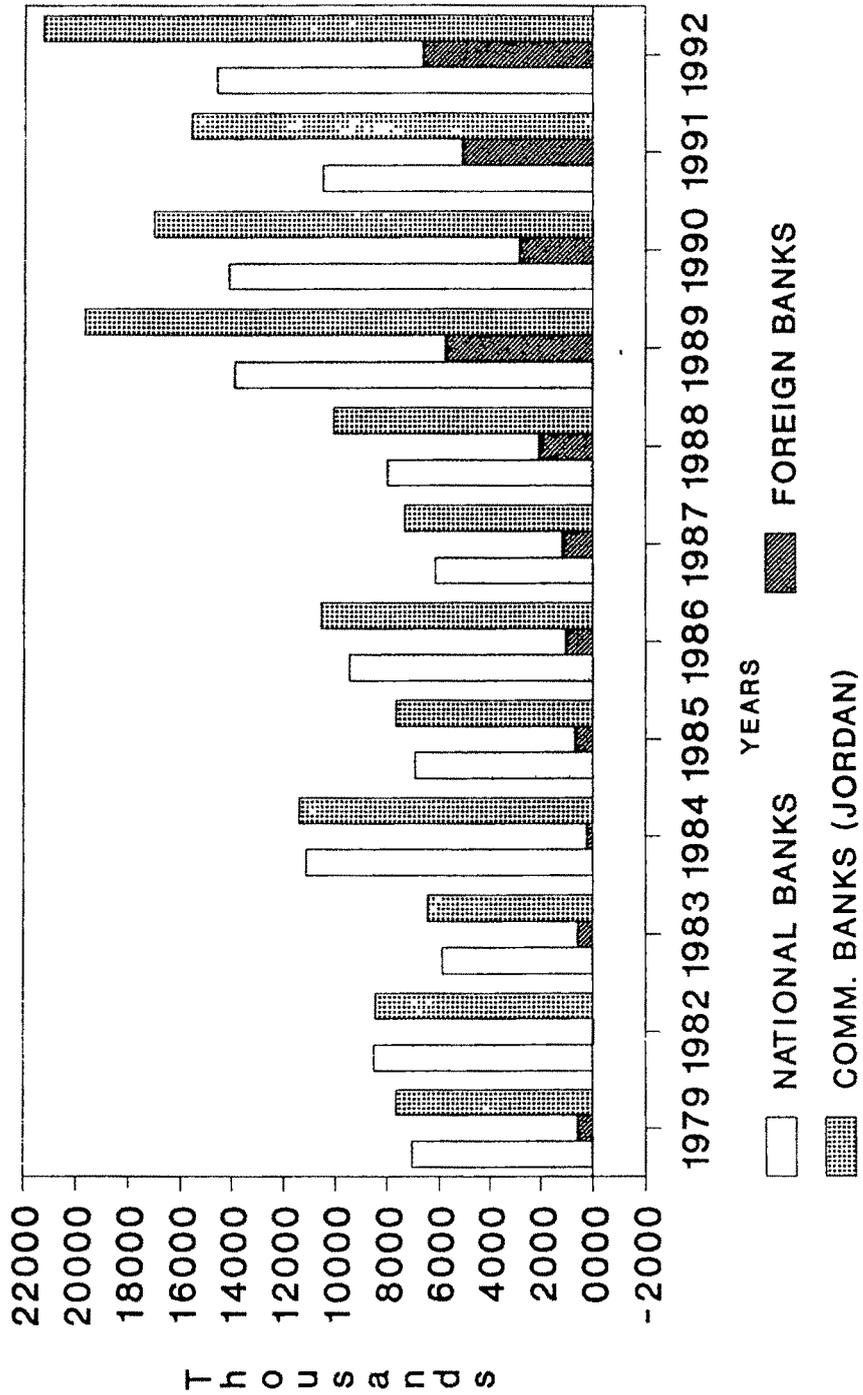
NET PROFIT OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEAR	(THOUSAND JD)											
		1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		4500	3500	300	5300	1500	4800	3000	4400	10400	12100	8200	7500
Jordan National Bank		611	972	1692	1489	1559	1412	1388	1447	1414	1066	1328	2023
Jordan Bank		448	979	1207	1186	1129	1317	713	1172	1029	320	0	1633
Cairo Amman Bank		674	1244	1219	1703	1500	930	855	450	468	430	435	3040
Jordan Kuwait Bank		815	1793	1445	1474	1259	1031	188	530	617	265	555	454
NET PROFIT OF NATIONAL BANKS		7048	8488	5863	11152	6947	9490	6144	7999	13928	14181	10518	14650
FOREIGN BANKS													
Arab Land Bank		124	319	149	71	72	110	102	153	246	291	572	789
British Bank of the Middle East		147	129	281	423	179	363	441	720	998	1118	1533	2131
CitiBank		123	844	989	655	620	551	615	1461	3147	773	930	935
ANZ Grindlays Bank		203	-1334	-819	-891	-152	38	40	-236	1389	680	2083	2800
NET PROFIT OF FOREIGN BANKS		597	-42	600	258	719	1062	1198	2098	5780	2862	5118	6655
NET PROFIT OF COMMERCIAL BANKS IN JORDAN		7645	8446	6463	11410	7666	10552	7342	10097	19708	17043	15636	21305

Source : Al Bunuk Walmuasassat al Maliya al Ukhra fe al Urdun (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

JD = Jordanian Dinar
NP = Net Profit after Taxation

GRAPH NO. III.1
NET PROFIT OF COMMERCIAL BANKS IN JORDAN



Analysis of Volume of Business : (Gross Bank Lendings)

The volume of business (V.B.) is the most important indicator of highlighting the bank managements' performance. Each commercial bank always makes a plan sincerely and target oriented efforts are made to step up its volume of business. The Business Development Plan (BDP) has a thrust areas for increasing the volume of business. The volume of business is also an index of utilisation of human and non-human resources of a commercial bank. It reflects the capacity utilisation of a bank. Therefore, an attempt is made to analyse the trends in the volume of business of the national commercial banks and the foreign commercial banks in Jordan for the period 1979 to 1992.

Table III.3 shows that the Arab Bank PLC has recorded the highest performance in terms of volume of business among the national commercial banks. The volume of business of Arab Bank PLC has gone up from a mere 347.5 millions J.D. in 1979 to a higher level at 2208.5 million J.D. in 1992. The national commercial banks at macro level have recorded consistently upward trend in their volume of business for the period under study. At the micro level (i.e. each individual bank) has also revealed consistently upward trend. The volume of business of all the national commercial banks has increased phenomenally from 597.8 million J.D. in 1979 to 3476.8 million J.D. in 1992. This shows a progressively high performance of the national commercial banks in terms of their volume of business.

Table III.3

VOLUME OF BUSINESS OF COMMERCIAL BANKS IN JORDAN

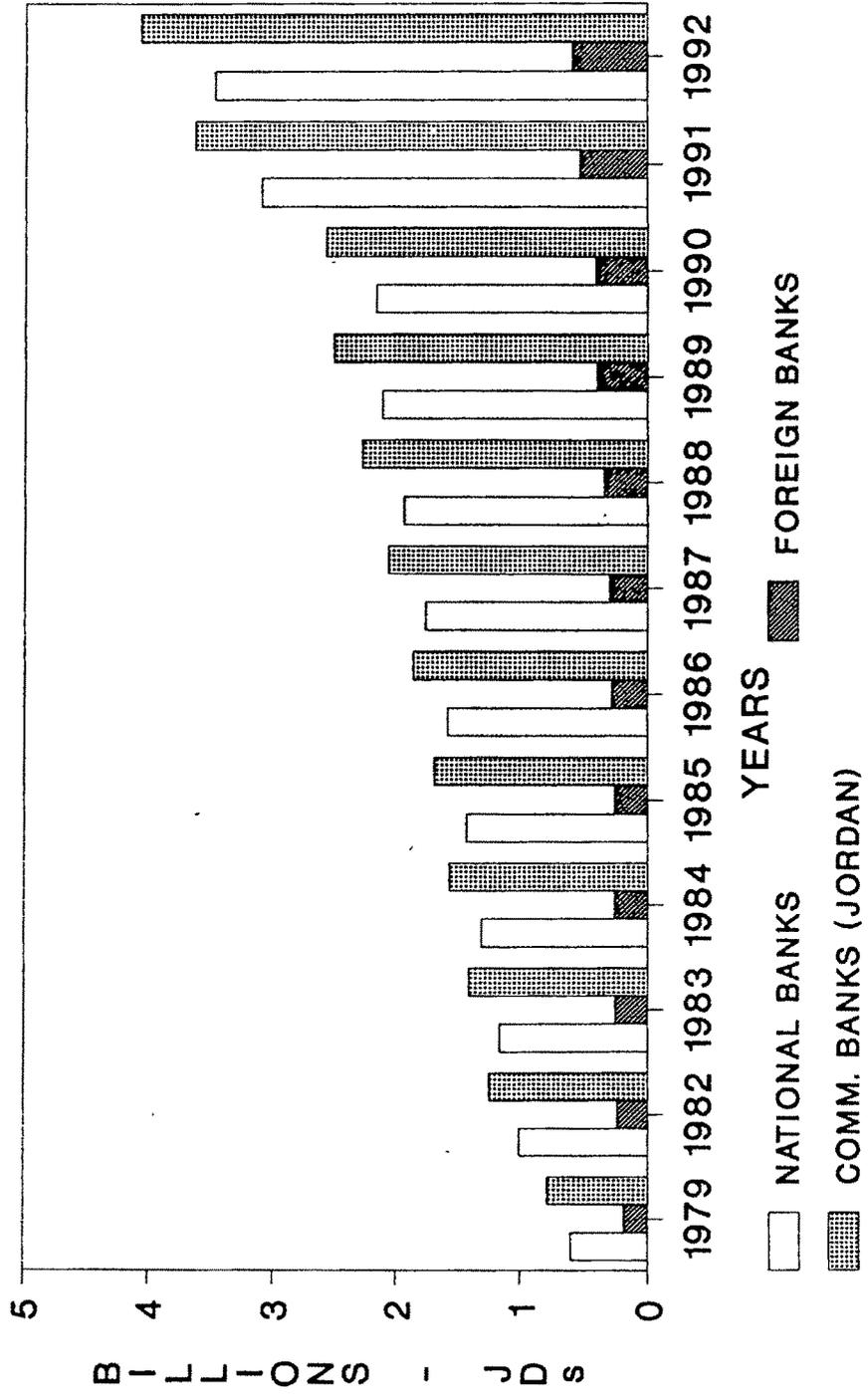
(THOUSAND JD)

NATIONAL BANKS	YEAR	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		347500	527100	611100	707300	783700	842500	959400	1081100	1217600	1298200	1964900	2208500
Jordan National Bank		65668	117334	135955	152424	167051	184896	195669	198142	202426	184970	215235	257807
Jordan Bank		50673	94131	106937	113492	126655	169358	164667	172698	192186	215839	274285	324477
Cairo Amman Bank		84594	147970	157382	164499	171836	191033	229738	261854	274119	277343	373003	401961
Jordan Kuwait Bank		49378	121607	154658	175080	183808	197761	218530	227259	231730	191626	273926	284033
VOLUME OF BUSINESS OF NATIONAL BANKS		597813	1008142	1166032	1312795	1433050	1585548	1768004	1941053	2118061	2167978	3101349	3476778
FOREIGN BANKS													
Arab Land Bank		24930	34402	39045	38537	42833	47695	59337	63188	70662	81781	144036	166372
British Bank of the Middle East		31235	52826	60471	78076	90948	103470	113815	129894	147159	140237	163384	178604
CitiBank		26063	53394	62488	63232	52979	50186	45801	49819	47840	42485	60467	77070
ANZ Grindlays Bank		103975	98442	88853	79468	72088	78428	78204	97825	132338	145083	167869	174394
VOLUME OF BUSINESS OF FOREIGN BANKS		186203	239064	250857	259313	258848	279779	297157	340726	397999	409586	535756	596440
VOLUME OF BUSINESS OF COMMERCIAL BANKS IN JORDAN		784016	1247206	1416889	1572108	1691898	1865327	2065161	2281779	2516060	2577564	3637105	4073218

VOLUME OF BUSINESS = TOTAL DEPOSITS + TOTAL CREDIT

Source for Deposits and Credit - Al Bunuk Walmuasassaat al Maliya al Ukhra fe al Urdun (Imhaysin, 1994)
(Banks and Other Financial Institutions in Jordan)

GRAPH NO. III.2
VOLUME OF BUSINESS



The British Bank of the Middle East and ANZ Grindlays Bank have relatively performed high in terms of the volume of business. At the macro level also, the foreign commercial banks also consistently maintained an upward trend in the volume of business for the period under study. The volume of business of all the foreign commercial banks in Jordan have increased from a low level of 186.2 million J.D. in 1979 to as high as 596.4 million J.D. in 1992. This explains a very high and consistent performance of the foreign commercial banks in Jordan at micro and macro levels.

The total volume of business of all the commercial banks taken together in Jordan has increased substantially from 784.0 million J.D. 1979 to 4073.2 million J.D. in 1992. The volume of business of the national commercial banks has relatively remained very high as compared to the volume of business of the foreign commercial banks in Jordan for the period under study. The graph III.2 depicts the consistently upward trend in the volume of business of the national commercial banks and the foreign commercial banks in Jordan for the period under study.

The performance analysis of net profit and volume of business of the national commercial banks and the foreign commercial banks in Jordan is done for the period 1979 to 1992. It has shown an improvement in net profit performance and volume of business for the selected commercial banks in Jordan for the period under study.

Profitability Behaviour

Further, an attempt is made to analyse the profitability behaviour. The profitability behaviour of selected commercial banks in Jordan is analysed with the help

of profitability ratio for the period under study. The profitability ratio is calculated, net profit divided by the volume of business. Table III.4 shows the behaviour of profitability ratio of each selected commercial bank. It has inconsistency in its behaviour at micro and macro levels. The profitability ratio of selected commercial banks for fixed time frame recorded a fall at micro level. The similar trend has also been revealed at macro level. It may be pointed out that the profitability ratio of the Jordan Bank was highest among the national commercial banks. The profitability ratio of the Jordan Bank increased from 0.88 in 1979 to 1.05 in 1984. Thereafter (i.e., 1985 to 1992), it has recorded a persistent decline. The behaviour of profitability ratio of all the national commercial banks at an aggregate level has shown inconsistency. It has declined sharply from 1.18 in 1979 to 0.42 in 1992.

The profitability ratio of the foreign banks in Jordan at micro (at individual Bank level) and macro (at aggregate level) level remained inconsistent in its trend behaviour for the time frame under study. The Citi Bank has recorded relatively the highest performance in terms of profitability ratio for the period under study. The Arab Land Bank recorded a decline in its profitability ratio. But the remaining three foreign banks have recorded an improvement in their profitability ratio in 1992. The profitability ratio of the foreign banks has increased from a low level of 0.32 in 1979 to as high as 1.12 in 1992.

The profitability ratio of the national commercial banks and the foreign commercial banks taken together has recorded inconsistency in its trend behaviour has been erratic during the time frame under the study. It has declined from 0.98 in 1979 to

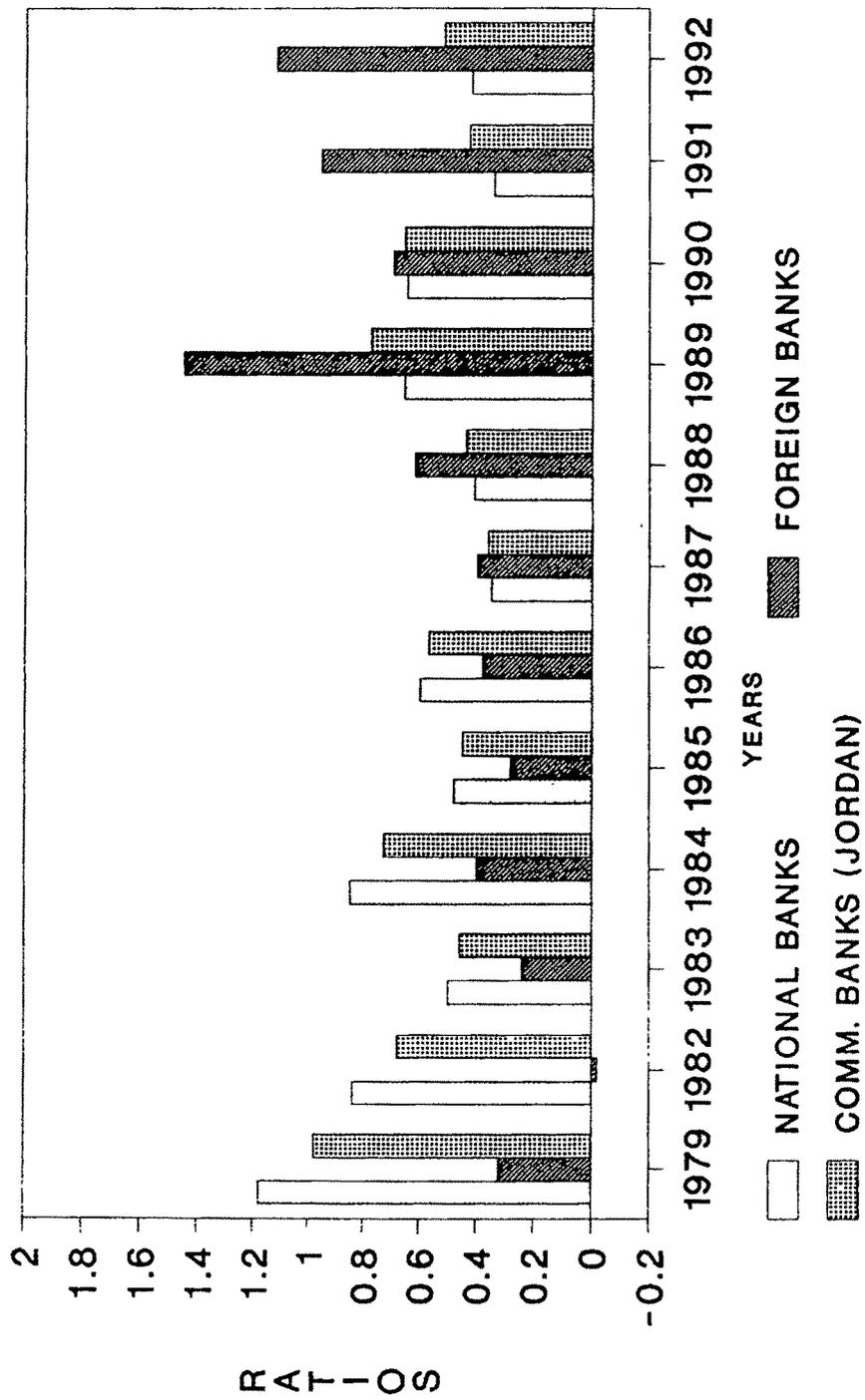
Table III.4

PROFITABILITY RATIOS OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEARS	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		1.29	0.66	0.05	0.75	0.19	0.57	0.31	0.41	0.85	0.93	0.42	0.34
Jordan National Bank		0.93	0.83	1.24	0.98	0.93	0.76	0.71	0.73	0.70	0.58	0.62	0.78
Jordan Bank		0.88	1.04	1.13	1.05	0.89	0.78	0.43	0.68	0.54	0.15	0.00	0.50
Cairo Amman Bank		0.80	0.84	0.77	1.04	0.87	0.49	0.37	0.17	0.17	0.16	0.12	0.76
Jordan Kuwait Bank		1.65	1.47	0.93	0.84	0.68	0.52	0.09	0.23	0.27	0.14	0.20	0.16
PROFITABILITY RATIOS OF NATIONAL BANKS		1.18	0.84	0.50	0.85	0.48	0.60	0.35	0.41	0.66	0.65	0.34	0.42
FOREIGN BANKS													
Arab Land Bank		0.50	0.93	0.38	0.18	0.17	0.23	0.17	0.24	0.35	0.36	0.40	0.47
British Bank of the Middle East		0.47	0.24	0.46	0.54	0.20	0.35	0.39	0.55	0.68	0.80	0.94	1.19
CitiBank		0.47	1.58	1.58	1.04	1.17	1.10	1.34	2.93	6.58	1.82	1.54	1.21
ANZ Grindlays Bank		0.20	-1.36	-0.92	-1.12	-0.21	0.05	0.05	-0.24	1.05	0.47	1.24	1.61
PROFITABILITY RATIOS OF FOREIGN BANKS		0.32	-0.02	0.24	0.10	0.28	0.38	0.40	0.62	1.45	0.70	0.96	1.12
PROFITABILITY RATIOS OF COMMERCIAL BANKS IN JORDAN		0.98	0.68	0.46	0.73	0.45	0.57	0.36	0.44	0.78	0.66	0.43	0.52

$$\text{PROFITABILITY RATIO} = \frac{\text{NET PROFIT}}{\text{VOLUME OF BUSINESS}} \times 100$$

GRAPH NO. III.3
 PROFITABILITY RATIOS



0.52 in 1992. However, the foreign commercial banks in Jordan in terms of profitability ratio have depicted relatively better performance than the national commercial banks. The analysis of profitability ratio of the national commercial banks and the foreign commercial banks in Jordan can be seen in the graphical presentation (Graph III.3).

The above analysis has shown that profitability ratio of the national commercial banks has declined. In order to explain the declining trend behaviour of profitability ratio of the national commercial banks we proceed to analysis the Interest Surplus Ratio (ISR). For this the following hypothesis is framed and the same is tested.

"There is a positive relationship between Interest Surplus (IS) and Profitability of the Banks, other things being equal".

Behaviour of Interest Surplus Ratio (ISR)

The Table III.5 shows that the behaviour of the Interest Surplus Ratio (ISR) has recorded inconsistent trend at micro as well as at macro levels for the period under study. However, the Interest Surplus Ratio (ISR) of the Jordan National Bank increased marginally from 2.46 in 1979 to 2.70 in 1992. In case of the remaining four national banks, the Interest Surplus Ratio (ISR) have recorded a fall in 1992 from the level in 1979. The Interest Surplus Ratio of all the national commercial banks taken together has declined from 1.66 in 1979 to 1.10 in 1992. The behaviour of Interest Surplus Ratio (ISR) at micro and macro levels have remained inconsistent in its behaviour throughout the

Table III.5

INTEREST SURPLUS RATIO OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEARS	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		1.18	1.08	0.67	0.37	-0.03	0.19	0.81	1.15	1.58	1.65	0.43	0.83
Jordan National Bank		2.46	2.79	3.28	2.77	2.42	2.11	2.07	1.93	2.16	2.92	2.08	2.70
Jordan Bank		2.75	2.48	2.51	2.51	2.08	1.83	1.67	1.48	1.54	1.61	0.91	1.44
Cairo Amman Bank		1.85	1.69	1.78	1.65	1.53	1.18	0.95	0.89	0.90	0.75	0.68	1.31
Jordan Kuwait Bank		2.55	2.36	1.69	1.85	1.48	1.21	1.13	1.01	0.93	1.37	0.97	1.08
INTEREST SURPLUS RATIO OF NATIONAL BANKS		1.66	1.65	1.43	1.19	0.83	0.84	1.09	1.21	1.47	1.61	0.67	1.10
FOREIGN BANKS													
Arab Land Bank		2.53	2.98	2.81	2.52	2.11	2.30	1.76	1.45	1.59	2.09	1.29	1.70
British Bank of the Middle East		1.47	1.63	1.99	1.86	1.48	1.35	1.55	1.61	1.56	2.25	1.87	1.95
CitiBank		0.92	2.43	2.37	2.09	2.06	2.27	2.63	2.70	3.44	3.44	2.48	1.96
ANZ Grindlays Bank		0.30	0.67	1.00	0.71	1.68	1.47	1.45	0.71	1.44	2.00	1.56	1.92
INTEREST SURPLUS RATIO OF FOREIGN BANKS		0.88	1.61	1.86	1.66	1.76	1.71	1.73	1.48	1.75	2.25	1.69	1.87
INTEREST SURPLUS RATIO OF COMMERCIAL BANKS IN JORDAN		1.48	1.65	1.51	1.27	0.97	0.97	1.18	1.25	1.52	1.72	0.82	1.22

$$\text{INTEREST SURPLUS RATIO} = \frac{\text{INTEREST SURPLUS}}{\text{VOLUME OF BUSINESS}} \times 100$$

analysis. Among the foreign commercial banks, only the Arab Land Bank has indicated a decline in its Interest Surplus Ratio (ISR) from 2.53 in 1979 to 1.70 in 1992. The remaining three foreign commercial banks have recorded an increase in their Interest Surplus Ratio (ISR) in 1992 as compared to 1979. The Interest Surplus Ratio of all the foreign banks in Jordan taken together increased from a low level of 0.88 in 1979 to a higher level at 1.87 in 1992. The behaviour of Interest Surplus Ratio (ISR) of all the commercial banks in Jordan has remained inconsistent in its behaviour throughout the period under study. It has declined marginally from 1.48 in 1979 to 1.22 in 1992.

The analysis of Interest Surplus Ratio of all the commercial banks taken together has declined for the period under study. Therefore, the hypothesis is sustained.

Further, in order to explain the profitability, behaviour, we proceed to analyse the 'Load Ratio' (LR). For this the following hypothesis is framed and the same is tested.

"There is an inverse relationship between profitability and load, other things being equal".

Behaviour of Load Ratio (LR) :

Table III.6 shows the behaviour of Load Ratio (LR) of the national commercial banks at micro as well as at macro levels. It remained inconsistent throughout the analysis for the period under study. The Load Ratio (LR) of Jordan Bank and Cairo Amman Bank have, indeed, recorded a fall during the period 1979 to 1992. The remaining national commercial banks have recorded a rise in their Load Ratio for the period under study.

Table III.6

LOAD RATIO OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEARS	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		-0.12	0.42	0.61	-0.37	-0.22	-0.38	0.51	0.73	0.73	0.72	0.02	0.50
Jordan National Bank		1.53	1.96	2.04	1.79	1.48	1.34	1.36	1.20	1.46	2.34	1.47	1.91
Jordan Bank		1.87	1.44	1.38	1.46	1.19	1.06	1.23	0.80	1.01	1.47	0.91	0.93
Cairo Amman Bank		1.05	0.85	1.01	0.61	0.66	0.70	0.58	0.72	0.73	0.59	0.57	0.55
Jordan Kuwait Bank		0.90	0.89	0.76	1.01	0.80	0.69	1.04	0.77	0.66	1.23	0.77	0.92
LOAD RATIO OF NATIONAL BANKS		0.48	0.81	0.92	0.35	0.34	0.24	0.75	0.79	0.82	0.96	0.33	0.68
FOREIGN BANKS													
Arab Land Bank		2.03	2.05	2.43	2.34	1.94	2.07	1.59	1.20	1.24	1.74	0.90	1.23
British Bank of the Middle East		1.00	1.39	1.52	1.32	1.28	1.00	1.17	1.05	0.88	1.45	0.93	0.76
CitiBank		0.45	0.85	0.81	1.06	0.89	1.17	1.29	-0.23	-3.14	1.62	0.94	0.74
ANZ Grindlays Bank		0.11	2.03	1.92	1.83	1.89	1.42	1.40	0.95	0.39	1.53	0.32	0.31
LOAD RATIO OF FOREIGN BANKS		0.56	1.63	1.63	1.56	1.48	1.33	1.33	0.86	0.30	1.56	0.73	0.76
LOAD RATIO OF COMMERCIAL BANKS IN JORDAN		2.11	5.05	5.89	3.32	3.36	2.68	5.77	5.35	4.65	6.63	2.63	4.75

$$\text{LOAD RATIO} = \frac{\text{NON-INTEREST LOAD}}{\text{VOLUME OF BUSINESS}} \times 100$$

The Load Ratio (LR) of all the national commercial banks taken together in Jordan increased from 0.48 in 1979 to 0.68 in 1992. The Load Ratio (LR) of the foreign commercial banks in Jordan at micro and at macro levels remained inconsistent in its behaviour throughout the period under study. The Load Ratio (LR) of all the foreign commercial banks in Jordan has recorded a rise from 0.56 in 1979 to 0.76 in 1992. The Load Ratio of all the commercial banks in Jordan taken together has recorded a substantial rise from 2.11 in 1979 to 4.75 in 1992.

Behaviour of Non-Interest Income Ratio (NIIR)

Table III.7 shows the behaviour of Non-Interest Income Ratio (NIIR) of the national commercial banks in Jordan at macro and at micro levels. It has remained inconsistent throughout the the period of analysis between 1979 and 1992. The Non-Interest Income Ratio (NIIR) of Jordan National Bank and Jordan Bank have remained more or less constant but has made little improvement in 1992. The Cairo Amman Bank recorded a rise in its Non-Interest Income Ratio (NIIR) from 1.49 in 1979 to 2.83 in 1992. The Arab Bank PLC and Jordan Kuwait Bank have, however, recorded a fall in their Non-Interest Income Ratio (NIIR) in 1992. The Non-Interest Income Ratio of all the national commercial banks in Jordan taken together has declined from 1.51 in 1979 to 1.39 in 1992.

The behaviour of Non-Interest Income Ratio (NIIR) of the foreign commercial banks in Jordan at micro and at macro levels remained inconsistent throughout the period of analysis between 1979 and 1992. The Non-Interest Income Ratio of each foreign bank

Table III.7

NON-INTEREST INCOME RATIO OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEARS	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		1.53	1.42	1.59	1.82	1.51	1.67	0.84	1.03	1.16	0.79	1.21	1.01
Jordan National Bank		1.41	1.60	1.45	1.36	1.37	1.38	1.18	1.39	1.83	1.39	1.71	1.82
Jordan Bank		1.65	1.43	1.40	1.27	1.37	1.13	0.94	1.33	1.98	0.92	1.48	1.92
Cairo Amman Bank		1.49	1.60	1.45	1.42	1.01	1.30	1.17	1.22	1.69	2.18	2.02	2.83
Jordan Kuwait Bank		1.38	1.65	1.47	1.00	1.05	0.98	0.84	1.19	1.24	0.97	1.15	1.30
NON-INTEREST INCOME RATIO OF NATIONAL BANKS		1.51	1.50	1.52	1.56	1.36	1.45	0.93	1.14	1.37	1.05	1.36	1.39
FOREIGN BANKS													
Arab Land Bank		1.59	2.36	1.25	1.18	1.20	1.18	1.07	1.61	1.75	1.27	1.43	1.65
British Bank of the Middle East		1.51	1.58	1.31	1.27	1.42	1.50	1.23	1.49	1.58	1.56	1.82	2.06
CitiBank		1.04	0.93	1.01	0.64	1.30	1.00	1.00	3.11	7.54	1.59	1.42	1.25
ANZ Grindlays Bank		1.36	1.57	1.38	1.62	1.58	1.64	1.93	1.76	1.35	1.10	1.14	1.37
NON-INTEREST INCOME RATIO OF FOREIGN BANKS		1.37	1.54	1.25	1.21	1.41	1.39	1.35	1.83	2.25	1.35	1.46	1.64
NON-INTEREST INCOME RATIO OF COMMERCIAL BANKS IN JORDAN		1.47	1.51	1.47	1.50	1.37	1.44	0.99	1.24	1.51	1.09	1.37	1.43

$$\text{NON-INTEREST INCOME RATIO} = \frac{\text{NON-INTEREST INCOME}}{\text{VOLUME OF BUSINESS}} \times 100$$

in Jordan has recorded a rise in 1992 as compared to 1979. The Non-Interest Income Ratio of all the foreign commercial banks in Jordan taken together indicated a rise from 1.37 in 1979 to 1.64 in 1992.

The behaviour of Non-Interest Income Ratio of all the commercial banks in Jordan taken together has remained inconsistent throughout the period of analysis. The Non-Interest Income Ratio of all the commercial banks in Jordan has recorded a slight fall in 1992 as compared to 1979.

Behaviour of Non-Interest Expenses Ratio (NIER)

The Table III.8 shows the behaviour of Non-Interest Expenses Ratio (NIER) of banks in Jordan. It has remained inconsistent at micro as well as at macro levels throughout the period of analysis. The Non-Interest Expenses Ratio (NIER) of Arab Bank PLC, Jordan National Bank and Cairo Amman bank have recorded a rise in 1992 as compared to 1979. The Non-Interest Expenses Ratio of the national commercial banks in Jordan taken together has recorded a remarkable rise from 1.99 in 1979 to 2.08 in 1992.

The Non-Interest Expenses Ratio of the foreign commercial banks in Jordan have recorded inconsistency in the behaviour at micro as well as at macro levels throughout the period of analysis. However, the British Bank of the Middle East, Citi Bank and ANZ Grindlays Bank have recorded a rise in 1992 as compared to 1979. The non-interest expenses ratio of all the commercial foreign banks in Jordan has increased considerably from 1.93 in 1979 to 2.40 in 1992. The Non-Interest Expenses Ratio of the commercial

Table III.8

NON-INTEREST EXPENSE RATIO OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEARS	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		1.41	1.84	2.19	1.46	1.29	1.29	1.36	1.76	1.89	1.50	1.22	1.51
Jordan National Bank		2.93	3.56	3.49	3.15	2.86	2.73	2.55	2.60	3.29	3.73	3.18	3.73
Jordan Bank		3.52	2.87	2.78	2.73	2.56	2.19	2.17	2.13	2.99	2.39	2.39	2.86
Cairo Amman Bank		2.54	2.46	2.46	2.03	1.67	2.00	1.74	1.94	2.41	2.77	2.59	3.38
Jordan Kuwait Bank		2.28	2.54	2.23	2.01	1.85	1.67	1.88	1.96	1.90	2.21	1.92	2.22
NON-INTEREST EXPENSE RATIO OF NATIONAL BANKS		1.99	2.31	2.44	1.91	1.70	1.69	1.68	1.92	2.19	2.00	1.69	2.08
FOREIGN BANKS													
Arab Land Bank		3.62	4.41	3.68	3.51	3.14	3.25	2.66	2.81	2.99	3.01	2.33	2.88
British Bank of the Middle East		2.50	2.97	2.84	2.59	2.70	2.50	2.39	2.54	2.46	3.02	2.75	2.82
CitiBank		1.48	1.78	1.81	1.70	2.19	2.17	2.29	2.88	4.40	3.21	2.36	1.99
ANZ Grindlays Bank		1.46	3.60	3.30	3.46	3.47	3.06	3.33	2.71	1.74	2.64	1.46	1.68
NON-INTEREST EXPENSE RATION OF FOEIGH BANKS		1.93	3.17	2.88	2.77	2.88	2.72	2.68	2.69	2.55	2.90	2.19	2.40
NON-INTEREST EXPENSE RATIO OF COMMERCIAL BANKS IN JORDAN		1.97	2.48	2.52	2.05	1.88	1.84	1.82	2.04	2.25	2.15	1.76	2.12

$$\text{NON-INTEREST EXPENSE RATIO} = \frac{\text{NON-INTEREST EXPENSE}}{\text{VOLUME OF BUSINESS}} \times 100$$

banks in Jordan taken together has indicated inconsistency throughout the period of analysis. But on the whole the Non-Interest Expenses Ratio has recorded a rise in 1992, as compared to its level in 1979.

The graph III.4 depicts the inconsistent behaviour of non-interest expenses and non-interest income ratios, during the period under the study.

Conclusion

There is a positive relationship between the bank lending and the profitability of the commercial banks, if other things are assumed as constant. The profitability model with a structured frame-work has been developed, to examine the bank lending and the profitability of the selected commercial banks in Jordan. Our performance analysis revealed that the Interest Surplus Ratio (ISR) of the national commercial banks has declined from 1.66 in 1979 to 1.10 in 1992. While Non-Interest Load Ratio (NILR) of the same commercial banks has increased from 0.48 in 1979 to 0.68 in 1992. As a consequence the Profitability Ratio (PR) of the national commercial banks has eroded from 1.18 in 1979 to 0.42 in 1992.

In case of the foreign commercial banks the interest surplus (IS) has recorded a rise from 0.88 in 1979 to 1.87 in 1992. The non-interest load also increased from 0.56 in 1979 to 0.76 in 1992. As a result the profitability of foreign commercial banks has increased from a low level of 0.32 in 1979 to as high as 1.11 in 1992.

GRAPH NO. III.4
DIFFERENT RATIOS OF NIE & NII (JORDAN)

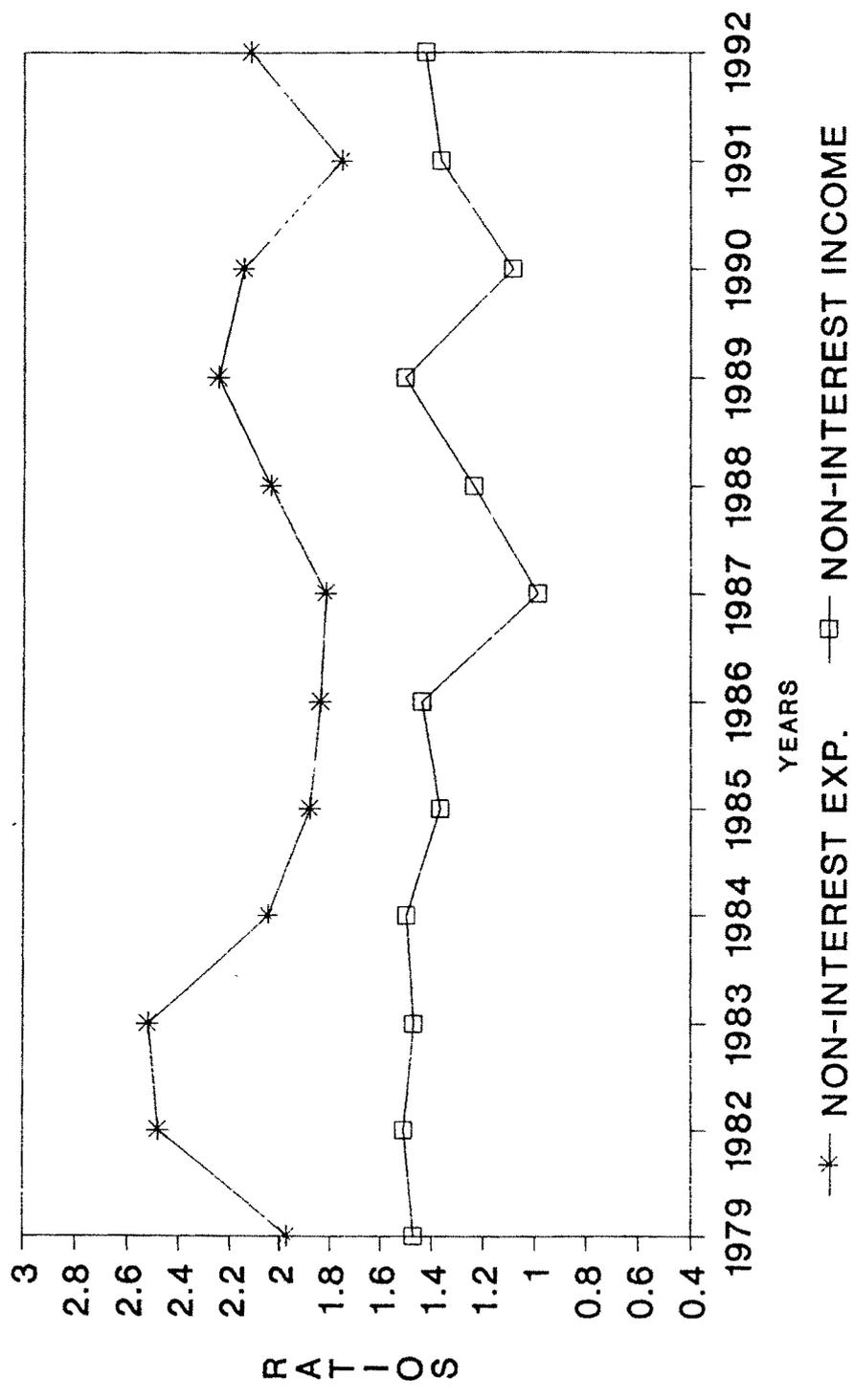


Table III.9

INTEREST INCOME RATIO OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEARS	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		2.99	3.85	3.83	3.85	3.89	4.36	4.45	5.05	5.91	6.35	3.84	4.18
Jordan National Bank		4.23	5.09	5.42	5.30	5.32	5.17	4.96	4.92	5.41	6.60	5.06	5.25
Jordan Bank		5.10	4.89	5.05	5.35	5.35	5.09	4.94	4.76	5.39	5.59	4.09	4.69
Cairo Amman Bank		3.65	4.81	4.96	5.11	3.95	4.84	4.40	4.55	4.84	4.73	4.04	4.17
Jordan Kuwait Bank		4.43	5.44	4.58	5.00	5.12	4.98	4.43	4.56	5.03	6.46	4.01	4.28
INTEREST INCOME RATIO OF NATIONAL BANKS		3.52	4.42	4.38	4.46	4.35	4.67	4.54	4.89	5.58	6.10	3.98	4.31
FOREIGN BANKS													
Arab Land Bank		4.24	4.94	4.66	4.70	4.19	4.61	4.25	4.11	4.52	5.31	4.17	5.27
British Bank of the Middle East		3.70	4.69	5.10	4.96	4.98	5.04	4.95	4.87	5.38	6.59	5.17	4.92
CitiBank		4.61	10.40	7.32	7.53	8.02	7.26	7.33	7.09	10.19	9.22	5.69	4.58
ANZ Grindlays Bank		3.65	3.51	3.80	3.72	5.07	4.54	4.40	3.18	4.50	6.04	5.15	4.99
INTEREST INCOME RATIO OF FOREIGN BANKS		3.87	5.51	5.12	5.17	5.49	5.23	5.03	4.57	5.51	6.41	4.95	5.00
INTEREST INCOME RATIO OF COMMERCIAL BANKS IN JORDAN		3.60	4.63	4.51	4.57	4.53	4.75	4.61	4.84	5.57	6.15	4.13	4.41

$$\text{INTEREST INCOME RATIO} = \frac{\text{INTEREST INCOME}}{\text{VOLUME OF BUSINESS}} \times 100$$

Table III.10

INTEREST EXPENSE RATIO OF COMMERCIAL BANKS IN JORDAN

NATIONAL BANKS	YEARS	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Arab Bank PLC		1.81	2.77	3.16	3.48	3.92	4.17	3.64	3.90	4.33	4.71	3.40	3.35
Jordan National Bank		1.78	2.30	2.14	2.53	2.91	3.07	2.89	2.99	3.24	3.68	2.98	2.56
Jordan Bank		2.35	2.41	2.54	2.85	3.27	3.25	3.27	3.28	3.85	3.98	3.18	3.25
Cairo Amman Bank		1.81	3.11	3.18	3.47	2.41	3.66	3.45	3.66	3.94	3.98	3.36	2.86
Jordan Kuwait Bank		1.89	3.07	2.89	3.15	3.64	3.77	3.30	3.56	4.10	5.09	3.04	3.20
INTEREST EXPENSE RATIO OF NATIONAL BANKS		1.86	2.77	2.95	3.27	3.53	3.83	3.46	3.68	4.11	4.49	3.32	3.21

FOREIGN BANKS

Arab Land Bank		1.72	1.96	1.85	2.18	2.08	2.31	2.49	2.67	2.93	3.21	2.87	3.57
British Bank of the Middle East		2.23	3.06	3.11	3.10	3.50	3.69	3.40	3.27	3.81	4.34	3.31	2.97
CitiBank		3.69	7.97	4.94	5.43	5.96	4.99	4.70	4.39	6.75	5.78	3.21	2.63
ANZ Grindlays Bank		3.34	2.83	2.80	3.00	3.39	3.07	2.96	2.47	3.06	4.04	3.59	3.07
INTEREST EXPENSE RATION OF FOREIGN BANKS		2.99	3.90	3.26	3.50	3.74	3.52	3.30	3.09	3.76	4.16	3.27	3.12
INTEREST EXPENSE RATIO OF COMMERCIAL BANKS IN JORDAN		2.13	2.99	3.00	3.31	3.56	3.78	3.43	3.59	4.05	4.44	3.31	3.20

$$\text{INTEREST EXPENSE RATIO} = \frac{\text{INTEREST EXPENSE}}{\text{VOLUME OF BUSINESS}} \times 100$$

So decline in the profitability of the national commercial banks is on account of fall in the interest surplus and increase in the non-interest load of the banks. So, the national commercial banks in Jordan have to increase their interest income and reduce their interest expenses. Hence, the national commercial banks have to expand their volume of lending (i.e. gross bank advances). This can help to increase their interest income. Simultaneously the national commercial banks have to control or reduce the interest expenses. However, it is a difficult task for the commercial banks. Hence, the feasible alternative is to increase their volume of lending (i.e. gross bank advances) to augment the interest income.

At the same time, the national commercial banks have to step up their non-interest income and reduce their non-interest expenses. This will correspondingly reduce the non-interest load. So, the national commercial banks should develop a new package of incentive oriented and economically viable schemes to increase their non-interest incomes. At the same time, the national commercial banks personnel should become cost and productivity conscious.

Each bank should evolve a time bound result oriented monitoring mechanism of controlling the non-interest expenses. Thus, the profitability of bank lending can be enhanced by increasing interest surplus and reducing the non-interest load.