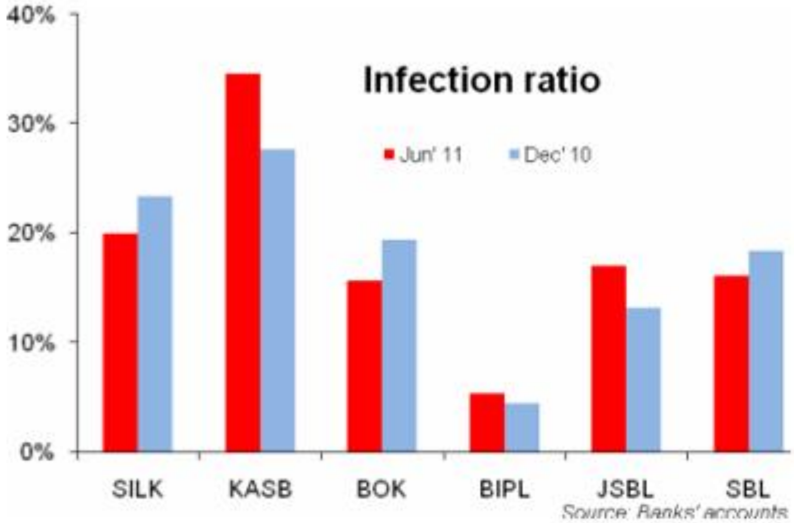
Small banks: Ripe for acquisitions



In an industry where big banks are standing strong and sturdy, many more potential large banks are also eager to join the big league; it is the smaller banks that have to step up their game in the face of fierce competition. Under these circumstances, the improvement in the bottom-line performance of small banks, though small, deserves appreciation. Five out of the six small commercial banks - Bank Islami Pakistan (BIPL), Samba Bank (SBL), Silk Bank (SILK), JS Bank (JSBL) and Bank of Khyber (BOK) - managed to record positive bottom-line, in 1HCY11, but huge losses incurred by KASB pushed the groups collective bottom-line down in to negative territory. Yet this result represents significant improvement in performance since four banks; BIPL, JSBL, SBL and KASB had recorded losses during the corresponding period of last year. Barring KASB, which recorded losses worth Rs.2.17 billion, the other five small banks cumulatively churned out a profit of Rs.890 million in 1HY11. During the same period, the group of five large banks and nine mid-sized banks earned hefty profits of around Rs.40 billion and Rs.9 billion, respectively, in 1HCY11. Expansion in earning assets drove markup revenues upward, as the combined top-line improved to Rs.15.5 billion in 1HCY11, marking a year-on-year jump of 28 percent. Following the industry-wide trend, the accumulated investments reached Rs.108 billion at the end of June 2011, as opposed to Rs.84 billion at the end of December 2010. Although the industrys (all commercial banks) cumulative advances fell by 1 percent during the first six months of CY11; bucking the industry-wide trend, the smaller players managed to stay active on the financing front taking their combined advances up by 6 percent during the first six months of CY11 to Rs.143 billion as of June 30, 2011. Simultaneously, the small banks aggregated advances to deposit ratio (ADR) stood at 57 percent as of June 30, 2011; a notch above the average ratio of 55 percent for all commercial banks. Marketing efforts have borne fruit for the small banks in the form of 14.7 percent growth in deposit base during the first six months of this calendar year to Rs.250 billion. Over the same time the deposit base of all commercial banks jumped by 9 percent. However, at this level the deposit base of the group of small banks accounts for nearly 4.5 percent of the total deposit base of all commercial banks. Among the group, JSBL enjoys the highest CASA ratio at 58 percent as on end-June 2011, while KASB faces the lowest at 47 percent. JSBL and SBL witnessed year-on-year growth in non-markup income in 1HCY11, but overall the investment banking activities of smaller banks remained gloomy with their aggregated non-markup income down by 37 percent, year-on-year, to Rs.1.2 billion in 1HCY11. In light of inflationary pressure, the groups administrative expenses jumped by 17 percent in 1HCY11. While on the front of cost-efficiency, JSBL enjoys the lowest administrative expenses per branch, while Samba faces the highest among this group. The smaller banks managed to fetter growth in non-performing loans, given that the toxic loans grew by just around 5 percent during the first-half to Rs.32 by end-June, 2011. This is in stark contrast to the five largest banks that saw their NPLs mushrooming by 14 percent, over the same period. However, the groups average infection ratio stood at 20 percent on June 30, 2011, versus 13 percent for the nine mid-sized banks and 13.2 percent for the five large banks. Given the relatively large proportion of the countrys population which remains untapped by the banking sector, small banks can grow manifold by picking the right niches. However, given that many mid-sized banks are breaking their backs to capture a larger market share, it is quite likely that some of the small banks may soon fall prey to acquisitions by larger players.