



Which are the big fish in the pond?

During the past few weeks banks published their financial statements in line with the requirements of the Banking Act. Their audited financial statements showed increased profits. This week, CDH Research and Economics Department has taken interest to analyse the top 4 banks in the country which also happen to be listed on the Malawi Stock Exchange. CDH has used three measures of efficiency to analyse these banks as below.

Table with 5 columns: Metric, FMB, NBS, NBM, STANDARD. Rows include ROA (%), ROE (%), and OPERATING COST: NET TOTAL INCOME (%).

Return on Assets (ROA)

ROA (Net Profit after tax/ average total assets) is a measure of how profitable a company's assets are in generating revenue. In 2007, FMB recorded the highest ROA of 13.02 percent while NBS recorded the lowest ROA. A low ROA implies higher capital intensity and is most common in banks that require large investments. Applying this rule, NBS which recorded an ROA ratio of less than 5.0 percent is regarded very asset-heavy. None of our banks are asset-light (exceed the 20 percent threshold) probably due to the large investments they are currently making.

Return on equity (ROE)

ROE (Net profit after tax/average stockholder's equity) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. Again FMB recorded the highest return on equity while NBS recorded the lowest ROE. A good ROE must be above the risk free rate, normally the rate of interest on government securities. For 2007, the all-type average Treasury bill rate was 14.08 percent. This means that all the top 4 banks are doing more than fine on this measure.

Operating cost to net total income ratio

The operating cost to net total income ratio measures the efficiency of a bank's overheads after servicing interest to its depositors. For our purposes, total net income includes interest income plus all other income less interest expense. A 65 percent or below ratio is considered suitable. NBS bank exceeded this threshold in the year 2007 while NBM recorded the lowest cost to income ratio of 56.53 percent.

Conclusion

These measures are quite useful to determine how efficient the banking system in Malawi is. The overall impression from the analysis one forms is that there is room for more efficiencies in all areas viz; pricing, overheads, asset holding etc.

MARKET STATISTICS

Treasury Bill Yields

Table with 3 columns: Tenor days, Current %, Previous %.

RBM Bill Yields

Table with 3 columns: Tenor days, Current %, Previous %.

CDH Investment Rates

Table with 2 columns: Tenor/Period, Rate %.

Inflation Rates

Table with 3 columns: Category, Feb. 08, Mar. 08.

Middle Exchange Rates

Table with 3 columns: Currency, 15.05.08, 07.05.08.

Stock Exchange

Table with 3 columns: Index, Current Points, Previous Points.

Nominal Treasury bill stock

Table with 3 columns: In K'billion, Feb.08, Mar.08, Apr.08.

Source: NSO, RBM, MSE, CDH

African proverb: "You need more than eyes to see the unseen". Consult CDH, diversity in financial solutions