

Mercantile Bank profit lowers as provision climbs in 2022

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Mercantile Bank Limited, a listed private commercial bank, suffered a substantial decline of over 35 per cent in its net profit in the year 2022, though the lender last year registered a 28 per cent year-on-year rise in operating profit.

The lender's net profit fell to Tk 220 crore in 2022 from Tk 341 crore in the previous year, while its operating profit surged from Tk 919 crore in 2021 to Tk 1,273 crore last year.

The still well-performing lender suffered setbacks last year due mainly to high provisions it had to keep for loans and advances, The Business Post came to know after carrying an analysis on the lender's annual financial report.

The publicly-traded private commercial bank put aside Tk 413 crore as provision in 2022, which was much higher than the provision figure of Tk 189 crore in 2021.

Meanwhile, the lender's operating costs also increased, with the bank spending Tk 821 crore in this regime in 2022, reflecting a 13.11 per cent rise from the expenses of Tk 726 crore a year earlier.

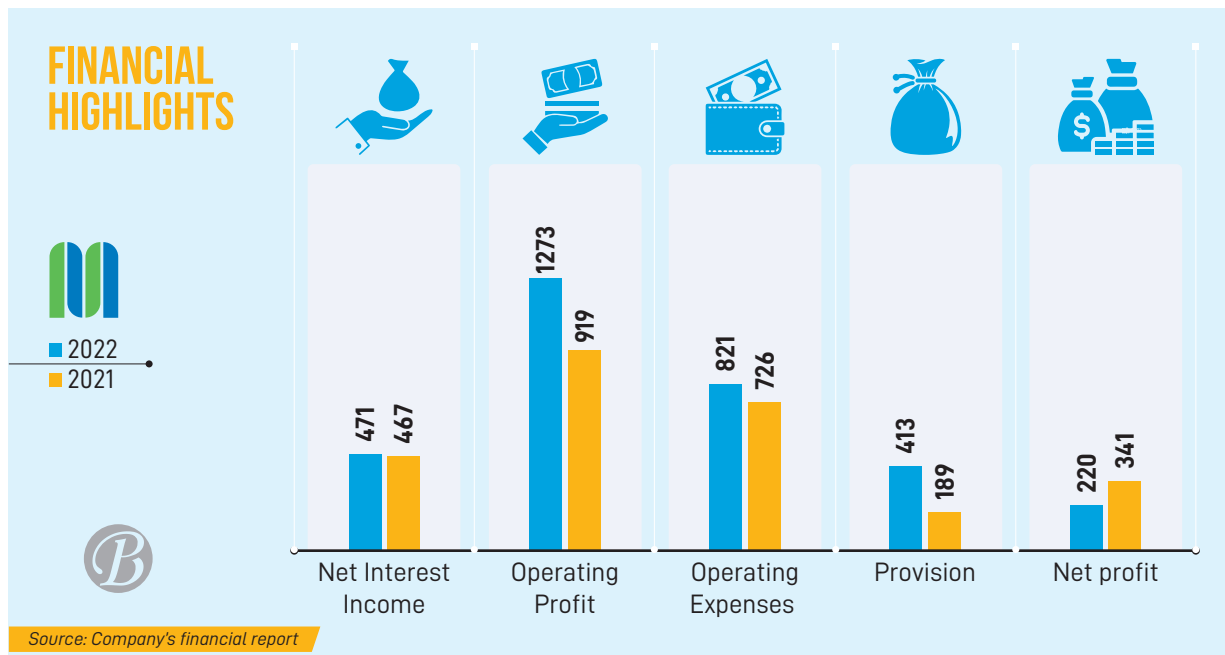
This increase can be attributed to various factors, mainly the inflationary pressure and higher operational expenses.

One significant aspect of the bank's operations is its investment in the equity shares of its subsidiaries, such as Mercantile Bank Securities Limited, MBL Asset Management Limited, and Mercantile Exchange House UK Limited.

As on December 2022, the carrying value of these investments reached Tk 364.8 crore, demonstrating the bank's commitment to diversifying its revenue streams.

Mercantile Bank, in terms of income sources, experienced an overall growth in other operating incomes, which encompasses investment income, commission income, exchange and brokerage income, and other sources.

This category witnessed a notable



increase of 22.29 per to Tk 1064 crore in 2022 over the previous year.

The bank's total assets also expanded by 6.38 per cent, reaching Tk 382 crore in 2022. Loans, advances, and investments remained the primary contributors to the bank's income sources.

This growth in assets, however, was accompanied by a 6.58 percent increase in total liabilities, which rose to Tk 357 crore in 2022. Growing deposits, additional obligations, and increased borrowing contributed to this rise in liabilities.

The lender also experienced growth in its deposit base, reporting a 2.51 per cent increase to Tk 281.79 crore in 2022. The bank managed to secure more low-cost funds, with fixed deposits accounting for 38.48 per cent of the total deposits.

The listed bank's cost of deposits decreased marginally from 4.76 per cent in 2021 to 4.68 per cent in 2022.

Loans and advances remained a crucial component of the bank's total

assets, constituting 73.46 per cent of its portfolio. In 2022, this division demonstrated a growth rate of 5.29 percent, with total loans and advances reaching Tk 280.89 crore, compared to Tk 266.76 crore in the previous year.

The bank's loan portfolio spans various sectors, including corporate, SME, and retail, with recent emphasis on expanding the latter two sectors. The bank extended loans to key industries such as trade and commerce, garments, agriculture, transport, construction, and pharmaceuticals, among others.

In terms of trade finance, the bank experienced an 8.47 per cent decrease in the import business, totaling nearly Tk 255 crore in 2022. The bank, however, witnessed a significant growth of 27.41 per cent in export trade, reaching Tk 209 crore last year compared to Tk 164 crore in 2021.

This growth in export trade indicates the bank's efforts to support and facilitate international business transactions.

Looking at the broader economic landscape, the banking sector faced numerous challenges during the first quarter of fiscal year 2023. Global interest rate hikes and depreciation pressures on the local currency taka increased the cost of external borrowings, posing risks to asset quality.

Additionally, the intervention of the central bank in the foreign exchange market, coupled with high credit demand, negatively impacted the liquidity conditions within the banking sector.

The challenging economic conditions, including tighter financing conditions, weaker growth, and elevated debt levels, pose significant fiscal challenges for emerging markets and developing economies.

These challenges are further exemplified by the recent decline in bond issuance. Despite these hurdles, the timely financial and policy support provided by the government and the Bangladesh Bank helped the economy recover gradually.