

CHAPTER V

PROFIT MARGIN

In the earlier III chapter, we have analysed the volume of business (VB) (i.e. Gross bank lending) Net Profit (NP) and return over assets of the commercial banks in Jordan during 1979-1992. The performance analysis has shown that the volume of business of the national commercial banks has tremendously increased from 597.8 million J.D. in 1979 to 3476.8 million J.D. in 1992, the Net Profit of the national commercial banks has also substantially increased from 7048 thousand J.D. in 1979 to 14650 thousand J.D. in 1992, almost doubled during the period 1979 and 1992. But the profitability ratio of the national commercial banks has decreased sharply from 1.18 in 1979 to 0.42 in 1992. Similarly, the return on assets also recorded a fall from 1.69 in 1979 to 0.49 in 1992. Therefore, it is necessary to investigate into the expense items of the national banks for the period under study. The declining profitability ratio and return on assets (ratios) are rather more than the (proportionate) increase in the expenditure of the national commercial banks. In order to explain this phenomenon, we have selected Profit Margin (PM) approach. Our approach is based on the reasoning that 'a fall in the profit margin affects, a current fall in the profitability of banks'.

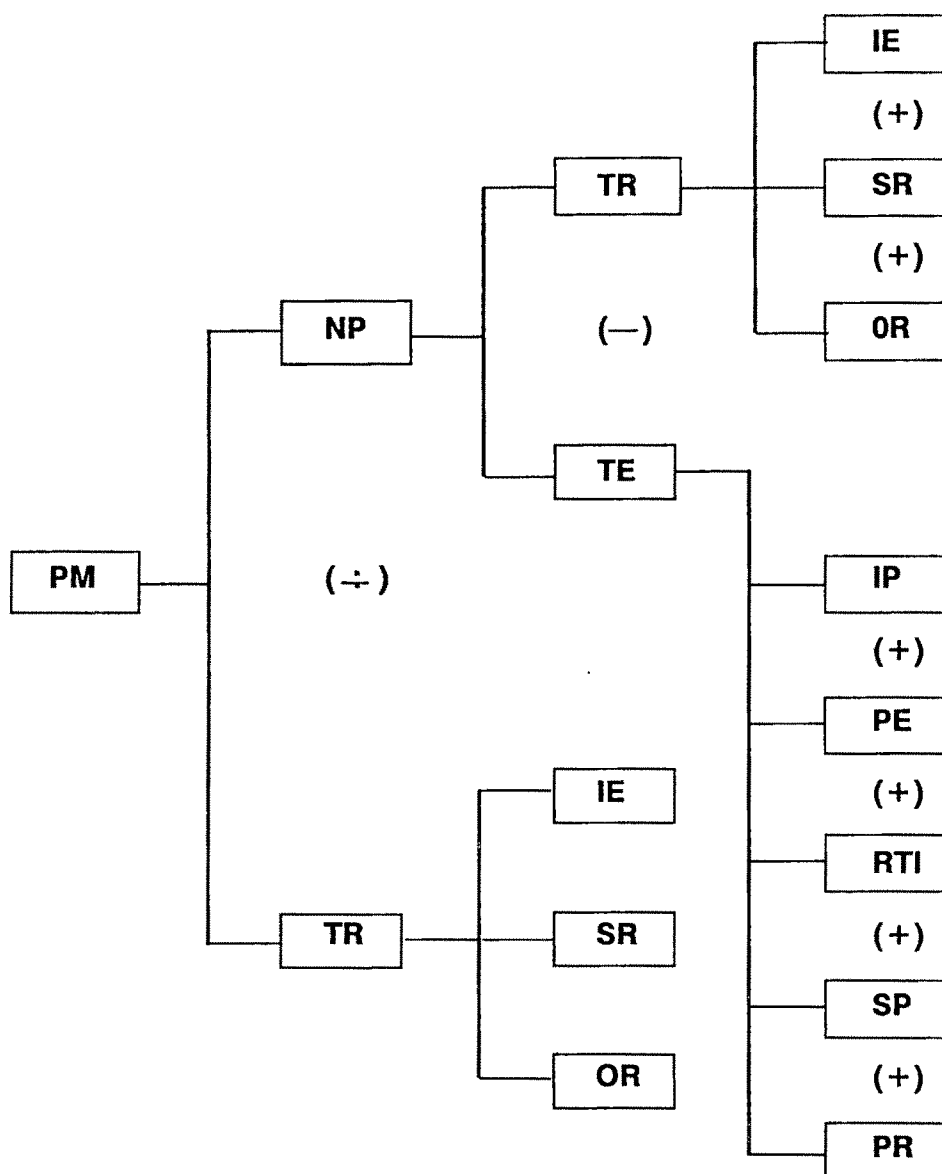
At this juncture, it is necessary to clarify the difference between profit margin and profit. The profit is the excess of earnings over expenditure for a given period of time. However, the financial analysts have used the various concepts; such as net profit; profit before tax; profit after tax, net income after tax etc., for various purposes according to the specific objective mix of analysis.

Profit margin (PM) shows the relationship of profit with operating revenue. The profit margin indicates the cost incurred by a bank per unit of its gross revenue (i.e. income from various sources).

The bank lendings (i.e. advances) are one of the principal elements of bank's earnings. Therefore, an attempt is made to evaluate the bank lending with the help of profit margin. Such an exercise will provide the final outcome about the bank lendings. As a high profit margin (PM) shows a low cost per unit in relation to total revenue, whereas a low profit margin indicates that a bank has incurred more than proportionate expenditure in relation to its total revenue.

In order to provide an indepth understanding of profit margin (PM) of a bank, a profit margin (PM) identity is given in Exhibit. V.1.

PROFIT MARGIN IDENTITY



WHERE;

PM = PROFIT MARGIN

NP = NET PROFIT

TR = TOTAL REVENUE

TE = TOTAL EXPENSES

IE = INTEREST AND DISCOUNT EARNED

SR = COMMISSION EXCHANGE AND
BROKERAGE EARNED

OR = ALL OTHER EARNINGS LESS PROVISION
FOR BAD AND DOUBTFUL DEBT AFTER
TAXATION

IP = INTEREST PAID ON DEPOSITS AND
BORROWINGS

PE = SALARIES, ALLOWANCES, BONUS,
PENSIONS, ETC. PAID

RTI = RENT, TAXES, INSURANCE, ETC. PAID

SP = STATIONARY AND PRINTING EXPENSES

PR = PUBLICITY AND PUBLIC RELATION
EXPENSES

(÷) = DIVIDED BY

(—) = MINUS

(+) = PLUS

Profit Margin Equation :

$$PM = \frac{NP}{TR} \times 100, \text{ or}$$

$$PM = \frac{TR - TE}{TR} \times 100, \text{ or}$$

$$PM = \frac{(IE+SR+OR) - (IP+PE+RTI+SP+PR)}{(IE+SR+OR)} \times 100$$

$$NP = TR - TE$$

$$TR = IE+SR+OR, \text{ and}$$

$$TE = IP+PE+RTI+SP+PR$$

Where,

IE = Interest and discount earned

SR = Commission, Exchange and Brokerage earned.

OR = All other earnings less provision for bad and doubtful debt after taxation.

IP = Interest paid on deposits and borrowings

PE = Salaries, allowances, bonus, pensions etc., paid.

RTI = Rent, taxes, insurance charges paid, etc.

SP = Stationery and printing expenses

PR = Publicity and public relation expenses.

In this Chapter, in the beginning, we shall analyse the behaviour of profit margin of selected banks during 1979-92, by using the profit margin model. Thereafter, an attempt will be made to examine the interrelationships of profit margin (PM) and income as well as expenses. So, the analysis will show the most sensitive factor responsible for positive or negative behaviour of profit margin.

Profit Margin (PM) Behaviour

Table V.1 reveals the behaviour of profit margin of the national commercial banks and the foreign commercial banks in Jordan for period 1979-92. The profit margin (PM) of the commercial banks at micro and at macro levels behaved inconsistently for the period under study. The profit margin of each individual commercial bank has declined considerably in 1992 as compared to 1979. The profit margin of all the national commercial banks taken together has declined sharply from 23.46 per cent in 1979 to 7.38 per cent in 1992. The analysis shows a considerable fall in profit margin of the national commercial banks at micro as well as macro level for the period under study.

The profit margin of the foreign commercial banks at micro and at macro level has depicted inconsistency in its behaviour throughout the period of analysis (i.e. for the period 1979-92). The profit margin of three individual foreign commercial banks have, however, recorded a rise in 1992 as compared to 1979, whereas one foreign bank has indicated a fall in the profit margin in 1992 over 1979. On the whole, the profit margin of all the foreign commercial banks taken together has increased from a low level of 6.12 per cent in 1979 to as high as 16.82 per cent in 1992. The performance analysis of profit margin shows that the foreign banks in Jordan have performed relatively better in terms of their profit margin, during the period 1979-92. The profit margin of all the commercial banks in Jordan has revealed inconsistently throughout the period of analysis under the study. The profit margin of all the commercial banks (national as well as foreign banks) in Jordan has substantially declined from a high figure of 19.21 per cent in 1979 to a low level of 8.95 per cent in 1992.

Table V.1

PROFIT MARGIN

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|------|-------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-----------------|
| | | | | | | | | | | | | | (In Percentage) |
| Arab Bank PLC | | 28.66 | 12.59 | 0.91 | 13.22 | 3.55 | 9.45 | 5.91 | 6.70 | 12.09 | 13.05 | 8.27 | 6.54 |
| Jordan National Bank | | 16.50 | 12.38 | 18.11 | 14.68 | 13.93 | 11.65 | 11.54 | 11.57 | 9.66 | 7.22 | 9.11 | 11.09 |
| Jordan Bank | | 13.09 | 16.46 | 17.50 | 15.78 | 13.26 | 12.50 | 7.37 | 11.14 | 7.27 | 2.28 | 0.00 | 7.62 |
| Cairo Amman Bank | | 15.50 | 13.12 | 12.08 | 15.84 | 17.61 | 7.92 | 6.68 | 2.98 | 2.62 | 2.24 | 1.92 | 10.80 |
| Jordan Kuwait Bank | | 28.38 | 20.79 | 15.44 | 14.03 | 11.09 | 8.74 | 1.63 | 4.06 | 4.25 | 1.86 | 3.92 | 2.86 |
| PROFIT MARGIN OF NATIONAL BANKS | | 23.46 | 14.22 | 8.52 | 14.11 | 8.49 | 9.78 | 6.35 | 6.84 | 9.46 | 9.15 | 6.35 | 7.38 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 8.53 | 12.71 | 6.45 | 3.13 | 3.12 | 3.99 | 3.23 | 4.23 | 5.56 | 5.41 | 7.10 | 6.85 |
| British Bank of the Middle East | | 9.04 | 3.89 | 7.25 | 8.70 | 3.08 | 5.36 | 6.27 | 8.71 | 9.75 | 9.77 | 13.41 | 17.08 |
| CitiBank | | 8.36 | 13.95 | 19.02 | 12.68 | 12.56 | 13.29 | 16.12 | 28.74 | 37.11 | 16.84 | 21.64 | 20.80 |
| ANZ Grindlays Bank | | 3.90 | -26.69 | -17.81 | -21.00 | -3.17 | 0.78 | 0.81 | -4.88 | 17.94 | 6.56 | 19.72 | 25.27 |
| PROFIT MARGIN OF FOREIGN BANKS | | 6.12 | -0.25 | 3.75 | 1.56 | 4.03 | 5.73 | 6.32 | 9.62 | 18.71 | 9.00 | 14.90 | 16.82 |
| TOTAL PROFIT MARGIN OF COMMERCIAL BANKS IN JORDAN | | 19.21 | 11.03 | 7.62 | 11.94 | 7.69 | 9.14 | 6.34 | 7.28 | 11.07 | 9.13 | 7.82 | 8.95 |

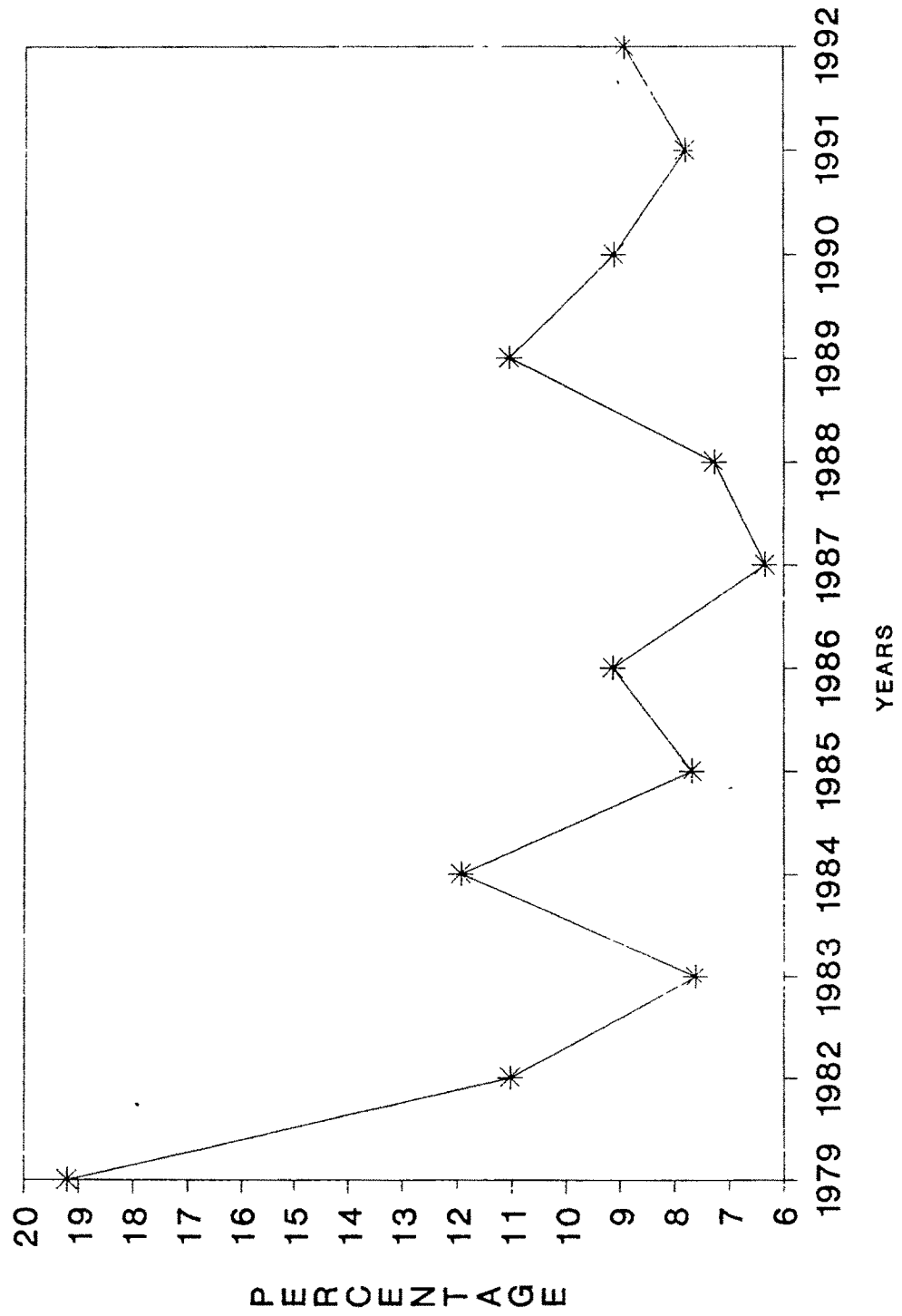
$$PM = \frac{NP}{TE} \times 100$$

Where,

NP = Net Profit

TE = Total Earning

GRAPH NO. V.1
PROFIT MARGIN



The graph V.1 also shows the inconsistent behaviour of profit margin of all the commercial banks in Jordan for the period 1979 to 1992.

Total Earning of Commercial Banks

The profit margin (PM) of the national commercial banks in Jordan has declined for the period under study. Therefore, it is necessary to focus our study on the total earnings of the commercial banks in Jordan. Table V.2 reveals the total earnings of all the commercial banks in Jordan. The total earnings of the national commercial banks at micro and at macro level have recorded a rise consistently. The total earning of all the national commercial banks taken together has increased phenomenally from 30045 thousand J.D. in 1979 to 198386 thousand J.D. in 1992, indicating rise over the period under consideration. The total earnings of all the foreign commercial banks taken together has also increased from considerably 9752 thousand J.D. in 1979 to 39569 thousand J.D. in 1992 depicting the rise. Similarly, the total earnings of all the commercial banks in Jordan taken together has recorded a phenomenal rise from 39797 thousand J.D. in 1979 to 237955 thousand J.D. in 1992.

The performance analysis of net profit (NP) and total earnings of the national commercial banks at micro and at macro level have recorded a rise but the profit margin (PM) has declined for the period under study. Therefore, it is necessary and logical to look into the different components of expenditure and analyse them systematically. The total expenditure of a bank is divided into three categories viz., Interest paid on deposits and borrowings, establishment expenses and other expenses. At first, each category of expenditure is expressed as a percentage to total income.

Table V.2

TOTAL INCOME 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 | | 15700 | 27800 | 33100 | 40100 | 42300 | 50800 | 50800 | 65700 | 86000 | 92700 | 99100 | 114700 |
| Jordan National Bank | | 3704 | 7849 | 9344 | 10146 | 11188 | 12121 | 12024 | 12506 | 14644 | 14771 | 14574 | 18240 |
| Jordan Bank | | 3422 | 5946 | 6897 | 7514 | 8516 | 10532 | 9675 | 10520 | 14161 | 14065 | 15273 | 21444 |
| Cairo Amman Bank | | 4347 | 9485 | 10095 | 10748 | 8516 | 11738 | 12795 | 15102 | 17879 | 19154 | 22607 | 28146 |
| Jordan Kuwait Bank | | 2872 | 8624 | 9356 | 10506 | 11351 | 11799 | 11514 | 13070 | 14526 | 14252 | 14153 | 15856 |
| TOTAL INCOME OF NATIONAL BANKS | | 30045 | 59704 | 68792 | 79014 | 81871 | 96990 | 96808 | 116898 | 147210 | 157942 | 165707 | 198386 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 1454 | 2510 | 2309 | 2267 | 2308 | 2760 | 3158 | 3613 | 4427 | 5381 | 8062 | 11517 |
| British Bank of the Middle East | | 1626 | 3312 | 3876 | 4863 | 5820 | 6769 | 7035 | 8267 | 10239 | 11442 | 11430 | 12476 |
| CitiBank | | 1471 | 6049 | 5201 | 5165 | 4938 | 4147 | 3816 | 5083 | 8481 | 4589 | 4298 | 4495 |
| ANZ Grindlays Bank | | 5201 | 4999 | 4599 | 4243 | 4795 | 4844 | 4953 | 4837 | 7742 | 10371 | 10563 | 11081 |
| TOTAL INCOME OF FOREIGN BANKS | | 9752 | 16870 | 15985 | 16538 | 17861 | 18520 | 18962 | 21800 | 30889 | 31783 | 34353 | 39569 |
| TOTAL INCOME OF COMMERCIAL BANKS IN JORDAN | | 39797 | 76574 | 84777 | 95552 | 99732 | 115510 | 115770 | 138698 | 178099 | 186725 | 200060 | 237955 |

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

Table V.3

TOTAL EXPENSES 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 | | 11200 | 24300 | 32700 | 34800 | 40800 | 46000 | 47900 | 61200 | 75700 | 80600 | 90800 | 107300 |
| Jordan National Bank | | 3093 | 6877 | 7652 | 8657 | 9629 | 10709 | 10636 | 11059 | 13230 | 13705 | 13246 | 16217 |
| Jordan Bank | | 2974 | 4967 | 5690 | 6328 | 7387 | 9215 | 8962 | 9348 | 13132 | 13745 | 15273 | 19811 |
| Cairo Amman Bank | | 3673 | 8241 | 8876 | 9045 | 7016 | 10808 | 11940 | 14652 | 17411 | 18724 | 22172 | 25106 |
| Jordan Kuwait Bank | | 2057 | 6831 | 7911 | 9032 | 10092 | 10768 | 11326 | 12540 | 13909 | 13987 | 13598 | 15402 |
| TOTAL EXPENSES OF NATIONAL BANKS | | 24976 | 53198 | 64812 | 69846 | 76909 | 89486 | 92751 | 110787 | 135371 | 142751 | 157080 | 185828 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 1330 | 2191 | 2160 | 2196 | 2236 | 2650 | 3056 | 3460 | 4181 | 5090 | 7490 | 10728 |
| British Bank of the Middle East | | 1479 | 3183 | 3596 | 4440 | 5642 | 6406 | 6594 | 7547 | 9241 | 10324 | 9897 | 10344 |
| CitiBank | | 1348 | 5205 | 4221 | 4510 | 4318 | 3596 | 3201 | 3622 | 5334 | 3816 | 3368 | 3560 |
| ANZ Grindlays Bank | | 4998 | 6333 | 5418 | 5134 | 4947 | 4806 | 4913 | 5073 | 6353 | 9691 | 8480 | 8282 |
| TOTAL EXPENSES OF FOREIGN BANKS | | 9155 | 16912 | 15395 | 16280 | 17143 | 17458 | 17764 | 19702 | 25109 | 28921 | 29235 | 32914 |
| TOTAL EXPENSES OF COMMERCIAL BANKS IN JORDAN | | 34131 | 70110 | 80207 | 86126 | 94052 | 106944 | 110515 | 130489 | 160480 | 171672 | 186315 | 218742 |

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

Expenditure As Percentage To Total Income

Table V.4 explains the trend analysis of total expenditure as percentage to total income of commercial banks in Jordan for the period 1979 to 1992. The trend analysis of total expenses as a percentage to total income of the national commercial banks has indicated rather erratic behaviour throughout the period of analysis, at micro as well as macro level. However, the total expenses as percentage to total income of each individual national commercial bank has recorded a substantial rise in 1992, in relation to 1979. The total expenses as percentage to total income of all the national commercial banks have gone up from 83.13 per cent in 1979 to 93.67 per cent in 1992.

The total expenses as percentage to total income of the foreign commercial banks in Jordan have indicated fluctuations. This is also in respect of each individual bank as well as for all the foreign commercial banks taken together. The total expenses as percentage to total income of the British Bank of the Middle East, Citi Bank, and ANZ Grindlays Bank have experienced a sharp decline in 1992 in relation to 1979. But the total expenses as percentage to total income of all foreign commercial banks in Jordan has slide down from 93.88 per cent in 1979 to 83.18 per cent in 1992. However, the total expenses as percentage to total income of all the commercial banks in Jordan have gone up from 85.76 per cent in 1979 to 91.93 per cent in 1992.

Thus, the analysis of total expenditure as percentage to total income shows that it has gone up substantially of the national commercial banks in Jordan for the period under study. Therefore, it is logical to probe further and conduct a detailed analysis of

Table V.4

TOTAL EXPENSES AS A PERCENTAGE TO TOTAL INCOME

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|------|-------|--------|--------|--------|--------|-------|-------|--------|-------|-------|--------|-------|
| Arab Bank PLC | | 71.34 | 87.41 | 98.79 | 86.78 | 96.45 | 90.55 | 94.29 | 93.15 | 88.02 | 86.95 | 91.62 | 93.55 |
| Jordan National Bank | | 83.50 | 87.62 | 81.89 | 85.32 | 86.07 | 88.35 | 88.46 | 88.43 | 90.34 | 92.78 | 90.89 | 88.91 |
| Jordan Bank | | 86.91 | 83.54 | 82.50 | 84.22 | 86.74 | 87.50 | 92.63 | 88.86 | 92.73 | 97.72 | 100.00 | 92.38 |
| Cairo Amman Bank | | 84.50 | 86.88 | 87.92 | 84.16 | 82.39 | 92.08 | 93.32 | 97.02 | 97.38 | 97.76 | 98.08 | 89.20 |
| Jordan Kuwait Bank | | 71.62 | 79.21 | 84.56 | 85.97 | 88.91 | 91.26 | 98.37 | 95.94 | 95.75 | 98.14 | 96.08 | 97.14 |
| TOTAL EXPENSES AS A % TO TOTAL INCOME OF NATIONAL BANKS | | 83.13 | 89.10 | 94.21 | 88.40 | 93.94 | 92.26 | 95.81 | 94.77 | 91.96 | 92.13 | 94.79 | 93.67 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 91.47 | 87.29 | 93.55 | 96.87 | 96.88 | 96.01 | 96.77 | 95.77 | 94.44 | 94.59 | 92.90 | 93.15 |
| British Bank of the Middle East | | 90.96 | 96.11 | 92.78 | 91.30 | 96.94 | 94.64 | 93.73 | 91.29 | 90.25 | 90.23 | 86.59 | 82.91 |
| CitiBank | | 91.64 | 86.05 | 81.16 | 87.32 | 87.44 | 86.71 | 83.88 | 71.26 | 62.89 | 83.16 | 78.36 | 79.20 |
| ANZ Grindlays Bank | | 96.10 | 126.69 | 117.81 | 121.00 | 103.17 | 99.22 | 99.19 | 104.88 | 82.06 | 93.44 | 80.28 | 74.74 |
| TOTAL EXPENSES AS A % TO TOTAL INCOME OF FOREIGN BANK | | 93.88 | 100.25 | 96.31 | 98.44 | 95.98 | 94.27 | 93.68 | 90.38 | 81.29 | 91.00 | 85.10 | 83.18 |
| TOTAL EXPENSES AS A % TO TOTAL INCOME OF COMMERCIAL BANKS IN JORDAN | | 85.76 | 91.56 | 94.61 | 90.14 | 94.30 | 92.58 | 95.46 | 94.08 | 90.11 | 91.94 | 93.13 | 91.93 |

TOTAL EXPENSES
----- X 100
TOTAL INCOME

expenditure of commercial banks in Jordan. For this each item of expenditure is expressed as percentage to total income. Then each item of expenditure is further calculated as percentage to total expenditure. Such an exercise will identify the variables which are responsible for decline in the profit margin of the national commercial banks in Jordan during 1979-92. So, let us proceed with the analysis of interest paid as percentage to total income.

Interest Paid As Percentage to Total Income

Table V.5 provides the data in respect of interest paid as per centage to total income of all national banks in Jordan. Analysis of data indicates that the interest paid as percentage to total income was high in respect of each individual national bank in 1992 in relation to 1979. The interest paid as percentage to total income of all the national commercial banks in Jordan taken together has gone up from 37.00 per cent in 1979 to 56.27 per cent in 1992. As against this, analytical data presented in respect of all the foreign commercial banks has indicated a fall from 57.04 per cent in 1979 to 47.06 per cent in 1992. However, in case of all the commercial banks in Jordan it has gone up considerably from 41.91 per cent in 1979 to 54.74 per cent in 1992. We will now look into the analysis of establishment expenses as a percentage to total income.

Table V.5

INTEREST PAID AS PERCENTAGE TO TOTAL INCOME

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Arab Bank PLC | | 40.13 | 52.52 | 58.31 | 61.35 | 72.58 | 69.09 | 68.70 | 64.23 | 61.28 | 65.91 | 67.51 | 64.43 |
| Jordan National Bank | | 31.51 | 34.42 | 31.12 | 38.06 | 43.39 | 46.77 | 47.02 | 47.31 | 44.85 | 46.04 | 43.97 | 36.12 |
| Jordan Bank | | 34.83 | 38.11 | 39.42 | 42.97 | 48.70 | 52.34 | 55.69 | 53.92 | 52.21 | 61.06 | 57.08 | 49.17 |
| Cairo Amman Bank | | 35.13 | 48.57 | 49.59 | 53.04 | 48.70 | 59.50 | 62.02 | 63.42 | 60.37 | 57.67 | 55.40 | 40.91 |
| Jordan Kuwait Bank | | 32.42 | 43.34 | 47.73 | 52.48 | 58.96 | 63.23 | 62.66 | 61.86 | 65.41 | 68.48 | 58.89 | 57.30 |
| INTEREST PAID AS % TO TOTAL INCOME OF NATIONAL BANKS | | 37.00 | 46.75 | 50.00 | 54.30 | 61.73 | 62.61 | 63.11 | 61.12 | 59.07 | 62.79 | 62.09 | 56.27 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 29.44 | 26.81 | 31.27 | 37.14 | 38.56 | 39.89 | 46.77 | 46.61 | 46.71 | 48.80 | 51.31 | 51.53 |
| British Bank of the Middle East | | 42.87 | 48.76 | 48.48 | 49.74 | 54.67 | 56.43 | 55.02 | 51.37 | 54.83 | 53.25 | 47.29 | 42.55 |
| CitiBank | | 65.33 | 70.36 | 59.35 | 66.52 | 63.97 | 60.43 | 56.45 | 43.03 | 38.07 | 53.48 | 45.16 | 45.03 |
| ANZ Grindlays Bank | | 66.85 | 55.75 | 54.06 | 56.28 | 50.99 | 49.71 | 46.66 | 50.03 | 52.23 | 56.52 | 57.04 | 48.32 |
| INTEREST PAID AS % TO TOTAL INCOME OF FOREIGN BANKS | | 57.04 | 55.31 | 51.14 | 54.93 | 54.17 | 53.10 | 51.75 | 48.34 | 48.42 | 53.60 | 50.96 | 47.06 |
| INTEREST PAID AS % TO TOTAL INCOME OF COMMERCIAL BANKS IN JORDAN | | 41.91 | 48.64 | 50.22 | 54.41 | 60.38 | 61.09 | 61.25 | 59.11 | 57.22 | 61.23 | 60.18 | 54.74 |

INTEREST PAID
----- X 100
TOTAL INCOME

Establishment Expenses as Percentage to Total Income

The establishment expenses as percentage to total income of the national commercial banks has increased from 14.50 per cent in 1979 to 17.18 per cent in 1992. On the otherhand, in case of all the foreign commercial banks the same has gone down from 22.90 per cent in 1979 to 15.04 per cent in 1992.

The Other Expenses as Percentage to Total Income

The other expenses as percentage to total income of all the national banks has indicated a fall from 31.96 per cent in 1979 to 20.17 per cent in 1992. However, for all the foreign commercial banks it has depicted an increase from 13.74 per cent in 1979 to 21.08 per cent in 1992. (Tables V.6 and V.7)

We have made an in-depth analysis of each item of expenditure as percentage to total income. Our empirical investigation earlier has shown that the interest paid as percentage to total income of all the national commercial banks has gone up substantially. (Table V.5). In order to varify our empirical findings we need to look by into the expenditure analysis. For this we will examine empirically each items of expenditure as percentage to total expenditure to arrive at the final conclusion. So, let us first analyse the interest paid as percentage to total expenditure.

Table V.6

ESTABLISHMENT EXPENSES AS PERCENTAGE TO TOTAL INCOME

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Arab Bank PLC | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.03 | 10.72 |
| Jordan National Bank | | 35.69 | 38.72 | 34.73 | 34.97 | 34.71 | 32.92 | 32.63 | 31.86 | 28.09 | 31.10 | 30.95 | 31.27 |
| Jordan Bank | | 38.37 | 34.90 | 32.29 | 29.05 | 27.77 | 25.61 | 28.08 | 25.93 | 22.92 | 25.74 | 28.07 | 25.90 |
| Cairo Amman Bank | | 22.98 | 19.05 | 22.87 | 22.59 | 27.77 | 22.23 | 22.12 | 22.37 | 23.33 | 25.90 | 23.07 | 22.52 |
| Jordan Kuwait Bank | | 25.21 | 21.74 | 22.68 | 22.19 | 22.21 | 22.64 | 22.36 | 19.92 | 19.81 | 22.21 | 25.32 | 26.43 |
| ESTABLISHMENT EXPENSES AS % TO TOTAL INCOME OF NATIONAL BANKS | | 14.50 | 14.73 | 14.40 | 13.28 | 13.60 | 12.34 | 12.44 | 10.86 | 9.79 | 10.55 | 12.43 | 17.18 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| British Bank of the Middle East | | 33.46 | 28.99 | 28.17 | 26.24 | 25.76 | 23.76 | 24.22 | 20.90 | 17.92 | 18.19 | 18.85 | 19.75 |
| CitiBank | | 21.55 | 8.46 | 12.88 | 14.91 | 16.50 | 18.37 | 18.32 | 13.02 | 12.86 | 23.69 | 25.94 | 25.87 |
| ANZ Grindlays Bank | | 26.38 | 40.11 | 50.77 | 51.66 | 41.94 | 40.46 | 38.36 | 32.50 | 22.84 | 21.01 | 20.84 | 20.97 |
| ESTABLISHMENT EXPENSES AS % TO TOTAL INCOME OF FOREIGN BANKS | | 22.90 | 20.61 | 25.63 | 25.63 | 24.21 | 23.38 | 22.69 | 18.17 | 15.20 | 16.82 | 15.93 | 15.04 |
| ESTABLISHMENT EXPENSES AS % TO TOTAL INCOME OF COMMERCIAL BANKS IN JORDAN | | 16.56 | 16.03 | 16.51 | 15.41 | 15.50 | 14.11 | 14.12 | 12.01 | 10.73 | 11.61 | 13.03 | 16.82 |

ESTABLISHMENT EXPENSES
----- X 100
TOTAL INCOME

Table V.7

OTHER EXPENSES AS A PERCENTAGE TO TOTAL INCOME

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Arab Bank PLC | | 31.85 | 34.89 | 40.48 | 25.19 | 23.88 | 21.46 | 25.59 | 28.92 | 26.74 | 21.14 | 21.09 | 18.31 |
| Jordan National Bank | | 16.31 | 14.47 | 16.04 | 12.29 | 7.97 | 8.66 | 8.80 | 9.31 | 17.40 | 15.65 | 15.97 | 21.52 |
| Jordan Bank | | 13.71 | 10.53 | 10.79 | 12.19 | 10.27 | 9.55 | 8.86 | 9.01 | 17.60 | 10.93 | 14.86 | 17.31 |
| Cairo Amman Bank | | 26.39 | 19.26 | 15.46 | 8.52 | 5.92 | 10.35 | 9.18 | 11.23 | 13.68 | 14.19 | 19.60 | 25.77 |
| Jordan Kuwait Bank | | 14.00 | 14.12 | 14.14 | 11.30 | 7.74 | 5.40 | 13.34 | 14.17 | 10.53 | 7.45 | 11.86 | 13.41 |
| OTHER EXPENSES AS A % TO TOTAL INCOME OF NATIONAL BANKS | | 31.96 | 27.62 | 29.81 | 20.69 | 18.61 | 17.32 | 20.26 | 22.80 | 23.10 | 18.86 | 20.28 | 20.17 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 62.04 | 60.48 | 62.28 | 59.73 | 58.32 | 56.12 | 50.00 | 49.16 | 47.73 | 45.79 | 41.59 | 41.62 |
| British Bank of the Middle East | | 14.64 | 18.36 | 16.12 | 15.32 | 16.51 | 14.45 | 14.48 | 19.02 | 17.50 | 18.79 | 20.45 | 20.61 |
| CitiBank | | 4.76 | 7.22 | 8.92 | 5.89 | 6.97 | 7.91 | 9.12 | 15.21 | 11.96 | 5.99 | 7.28 | 8.32 |
| ANZ Grindlays Bank | | 2.86 | 30.83 | 12.98 | 13.06 | 10.24 | 9.04 | 14.17 | 22.35 | 6.99 | 15.91 | 2.40 | 5.44 |
| OTHER EXPENSES AS A % TO TOTAL INCOME OF FOREIGN BANKS | | 13.94 | 24.33 | 19.54 | 17.88 | 17.59 | 17.78 | 19.24 | 23.86 | 17.68 | 20.57 | 18.21 | 21.08 |
| OTHER EXPENSES AS A % TO TOTAL INCOME OF COMMERCIAL BANKS IN JORDAN | | 27.54 | 26.89 | 27.88 | 20.21 | 18.43 | 17.39 | 20.09 | 22.96 | 22.16 | 19.15 | 19.92 | 20.32 |

OTHER EXPENSES

-----X 100

TOTAL INCOME

Interest Paid as Percentage to Total Expenditure

Table V.8 reveals the interest paid as percentage to total expenditure for the period 1979 to 1992. At the micro level it lacked consistency in its behaviour but on the whole, there has been a rising trend up to 1992. For all the national commercial banks in Jordan at an aggregate level the interest paid as percentage to total expenditure has recorded a considerable rise from 44.51 per cent in 1979 to 60.07 per cent in 1992. However, in case of all the foreign commercial banks, it has declined slightly from 60.76 per cent in 1979 to 56.58 per cent in 1992.

Establishment Expenses as Percentage to Total Expenses

In respect of the establishment expenses as percentage to total expenditure of all the national commercial banks, it has increased to 18.34 per cent in 1992 as compared to 1979 which indicated a level of 17.45 per cent. As against this the foreign commercial banks same has recorded a remarkable fall from 24.39 per cent in 1979 to 18.08 per cent in 1992. It is interesting to note that the establishment expenses as percentage to the total expenditure has though indicated a fluctuating trend during the period under review, it has however, gone up from 17.45 per cent in 1979 to 18.34 per cent in 1992. The other expenses as percentage to total expenditure of all the national commercial banks taken together slid down from 38.44 per cent in 1979 to 21.53 per cent in 1992. While, in case of all the foreign commercial banks the same has gone up from 14.34 per cent in 1979 to 25.34 per cent in 1992. Thus, the expenditure analysis highlights the fact that the increase in expenditure of the national commercial banks has been mainly due to an increase in the interest expenses of these banks during the period under the study.

Table V.8

INTEREST PAID AS A PERCENTAGE TO TOTAL EXPENDITURE

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Arab Bank PLC | | 56.25 | 60.08 | 59.02 | 70.69 | 75.25 | 76.30 | 72.86 | 68.95 | 69.62 | 75.81 | 73.68 | 68.87 |
| Jordan National Bank | | 37.73 | 39.29 | 38.00 | 44.61 | 50.41 | 52.94 | 53.16 | 53.50 | 49.64 | 49.62 | 48.38 | 40.63 |
| Jordan Bank | | 40.08 | 45.62 | 47.79 | 51.03 | 56.14 | 59.82 | 60.12 | 60.68 | 56.31 | 62.48 | 57.08 | 53.23 |
| Cairo Amman Bank | | 41.57 | 55.90 | 56.40 | 63.03 | 59.11 | 64.62 | 66.46 | 65.36 | 62.00 | 59.00 | 56.49 | 45.87 |
| Jordan Kuwait Bank | | 45.26 | 54.72 | 56.45 | 61.05 | 66.32 | 69.28 | 63.70 | 64.47 | 68.31 | 69.78 | 61.30 | 58.99 |
| INTEREST PAID AS A % TO TOTAL EXPENSES OF NATIONAL BANKS | | 44.51 | 52.47 | 53.08 | 61.43 | 65.72 | 67.86 | 65.87 | 64.49 | 64.24 | 68.16 | 65.50 | 60.07 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 32.18 | 30.72 | 33.43 | 38.34 | 39.80 | 41.55 | 48.33 | 48.67 | 49.46 | 51.59 | 55.23 | 55.32 |
| British Bank of the Middle East | | 47.13 | 50.74 | 52.25 | 54.48 | 56.40 | 59.63 | 58.70 | 56.27 | 60.75 | 59.02 | 54.61 | 51.32 |
| CitiBank | | 71.29 | 81.77 | 73.13 | 76.19 | 73.16 | 69.69 | 67.29 | 60.38 | 60.54 | 64.31 | 57.63 | 56.85 |
| ANZ Grindlays Bank | | 69.57 | 44.01 | 45.88 | 46.51 | 49.42 | 50.10 | 47.04 | 47.70 | 63.65 | 60.49 | 71.05 | 64.65 |
| INTEREST PAID AS A % TO TOTAL EXPENSES OF FOREIGN BANKS | | 60.76 | 55.17 | 53.10 | 55.80 | 56.44 | 56.34 | 55.24 | 53.49 | 59.56 | 58.90 | 59.89 | 56.58 |
| INTEREST PAID AS A % TO TOTAL EXPENSES OF COMMERCIAL BANKS IN JORDAN | | 48.87 | 53.12 | 53.08 | 60.37 | 64.03 | 65.98 | 64.16 | 62.83 | 63.50 | 66.60 | 64.62 | 59.55 |

INTEREST PAID
----- X 100
TOTAL EXPENSES

Table V.9

ESTABLISHMENT EXPENSES AS A PERCENTAGE TO TOTAL EXPENDITURE

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Arab Bank PLC | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.30 | 11.46 |
| Jordan National Bank | | 42.74 | 44.19 | 42.41 | 40.98 | 40.33 | 37.26 | 36.89 | 36.02 | 31.10 | 33.52 | 34.05 | 35.17 |
| Jordan Bank | | 44.15 | 41.78 | 39.14 | 34.50 | 32.02 | 29.27 | 30.32 | 29.18 | 24.72 | 26.34 | 28.07 | 28.03 |
| Cairo Amman Bank | | 27.20 | 21.93 | 26.01 | 26.84 | 33.71 | 24.14 | 23.70 | 23.06 | 23.96 | 26.49 | 23.52 | 25.24 |
| Jordan Kuwait Bank | | 35.20 | 27.45 | 26.82 | 25.81 | 24.98 | 24.80 | 22.74 | 20.76 | 20.69 | 22.63 | 26.36 | 27.20 |
| ESTABLISHMENT EXPENSES AS A % TO TOTAL EXPENDITURE OF NATIONAL BANKS | | 17.45 | 16.53 | 15.28 | 15.02 | 14.48 | 13.37 | 12.99 | 11.46 | 10.64 | 11.45 | 13.11 | 18.34 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| British Bank of the Middle East | | 36.78 | 30.16 | 30.37 | 28.74 | 26.57 | 25.10 | 25.84 | 22.90 | 19.86 | 20.16 | 21.77 | 23.82 |
| CitiBank | | 23.52 | 9.84 | 15.87 | 17.07 | 18.87 | 21.19 | 21.84 | 18.28 | 20.45 | 28.49 | 33.11 | 32.67 |
| ANZ Grindlays Bank | | 27.45 | 31.66 | 43.10 | 42.70 | 40.65 | 40.78 | 38.67 | 30.99 | 27.83 | 22.48 | 25.96 | 28.06 |
| ESTABLISHMENT EXPENSES AS A % TO TOTAL EXPENDITURE OF FOREIGN BANKS | | 24.39 | 20.56 | 26.61 | 26.03 | 25.23 | 24.80 | 24.22 | 20.11 | 18.69 | 18.49 | 18.71 | 18.08 |
| ESTABLISHMENT EXPENSES AS A % TO TOTAL EXPENDITURE OF COMMERCIAL BANKS IN JORDAN | | 19.31 | 17.51 | 17.45 | 17.10 | 16.44 | 15.24 | 14.79 | 12.76 | 11.90 | 12.63 | 13.99 | 18.30 |

ESTABLISHMENT EXPENSES

X 100

TOTAL EXPENDITURE

Table V.10
OTHER EXPENSES AS A PERCENTAGE TO TOTAL EXPENDITURE

| NATIONAL BANKS | YEAR | 1979 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Arab Bank PLC | | 44.64 | 39.92 | 40.98 | 29.02 | 24.75 | 23.70 | 27.14 | 31.05 | 30.38 | 24.32 | 23.02 | 19.57 |
| Jordan National Bank | | 19.53 | 16.52 | 19.59 | 14.40 | 9.26 | 9.80 | 9.95 | 10.53 | 19.26 | 16.86 | 17.58 | 24.20 |
| Jordan Bank | | 15.77 | 12.60 | 13.08 | 14.48 | 11.85 | 10.92 | 9.56 | 10.14 | 18.98 | 11.18 | 14.86 | 18.74 |
| Cairo Amman Bank | | 31.23 | 22.17 | 17.59 | 10.13 | 7.18 | 11.24 | 9.84 | 11.58 | 14.05 | 14.51 | 19.99 | 28.89 |
| Jordan Kuwait Bank | | 19.54 | 17.83 | 16.72 | 13.14 | 8.70 | 5.92 | 13.56 | 14.77 | 11.00 | 7.59 | 12.35 | 13.80 |
| OTHER EXPENSES AS A % TO TOTAL EXPENSES OF NATIONAL BANKS | | 38.44 | 31.00 | 31.65 | 23.41 | 19.81 | 18.77 | 21.15 | 24.05 | 25.12 | 20.47 | 21.39 | 21.53 |
| FOREIGN BANKS | | | | | | | | | | | | | |
| Arab Land Bank | | 67.82 | 69.28 | 66.57 | 61.66 | 60.20 | 58.45 | 51.67 | 51.33 | 50.54 | 48.41 | 44.77 | 44.68 |
| British Bank of the Middle East | | 16.09 | 19.10 | 17.38 | 16.78 | 17.03 | 15.27 | 15.45 | 20.83 | 19.39 | 20.83 | 23.61 | 24.85 |
| CitiBank | | 5.19 | 8.40 | 10.99 | 6.74 | 7.97 | 9.12 | 10.87 | 21.34 | 19.01 | 7.21 | 9.29 | 10.51 |
| ANZ Grindlays Bank | | 2.98 | 24.33 | 11.02 | 10.79 | 9.93 | 9.11 | 14.29 | 21.31 | 8.52 | 17.03 | 3.00 | 7.28 |
| OTHER EXPENSES AS A % TO TOTAL EXPENSES OF FOREIGN BANKS | | 14.84 | 24.27 | 20.29 | 18.16 | 18.33 | 18.86 | 20.54 | 26.40 | 21.75 | 22.61 | 21.40 | 25.34 |
| OTHER EXPENSES AS A % TO TOTAL EXPENSES OF COMMERCIAL BANKS IN JORDAN | | 32.11 | 29.37 | 29.47 | 22.42 | 19.54 | 18.78 | 21.05 | 24.41 | 24.59 | 20.83 | 21.39 | 22.10 |

OTHER EXPENSES
----- X 100
TOTAL EXPENSES

Conclusion

Our performance analysis reveals that the profit margin (PM) of the national commercial banks in Jordan has declined during 1979-92. The decline in the profit margin (PM) of the national commercial banks in Jordan is due to a more than proportionate increase in the expenditure of the national commercial banks. The profit margin (PM) of all the national commercial banks in Jordan has declined mainly due to the increase in the ratio of interest paid to total income and ratio of interest paid to total expenditure for the selected time span of our study.