

# Impact of Current Crisis in Bangladesh on the Future Profitability of Commercial Bank PLC

The ongoing economic and financial crisis in Bangladesh poses significant challenges and opportunities for Commercial Bank PLC (COMB.N0000). This analysis will explore the bank's exposure and dependency on the Bangladesh market, as well as the broader implications of the crisis on its future profitability.



## 1. Political Crisis in Bangladesh

Bangladesh is currently facing a significant political crisis, primarily characterized by increasing tensions between the ruling government and the opposition parties. The political instability is exacerbated by mass protests, strikes, and allegations of electoral fraud and human rights violations. The ongoing crisis has led to widespread public discontent and disrupted daily life across the nation. The government's efforts to maintain control have resulted in stricter regulations and curtailment of civil liberties, further fueling public outrage and uncertainty. This political turmoil is taking place against the backdrop of an economy that is already struggling with inflation, a weakening currency, and challenges in key export industries such as the ready-made garment sector.

The political crisis in Bangladesh poses substantial risks to the future of the country's banking sector and overall economy. The instability can lead to decreased investor confidence, capital flight, and reduced foreign direct investment (FDI), all of which are crucial for Bangladesh's economic growth. The banking sector, already facing issues with rising non-performing loans and liquidity pressures, may experience further strain as businesses face disruptions and economic activity slows down. In the long term, prolonged political unrest could deter international trade partnerships and slow down the progress of major infrastructure projects. As the crisis continues, the banking sector may need to focus on enhancing risk management practices and developing contingency plans to navigate the challenges ahead, while the government must prioritize creating a stable political environment to foster economic resilience and growth.

## 2. Exposure and Dependency on Bangladesh Market

Commercial Bank PLC has a substantial presence in Bangladesh through its subsidiary, CBC Bangladesh. The bank has been operating in the country since 2003 and has established itself as a significant player in the banking sector, focusing on corporate banking, consumer banking, treasury management, and digital banking.

### Key Financial Metrics:

- **Total Deposits:** BDT 96.917 billion in 2023, a growth of 22.44% CAGR over five years.
- **Gross Advances:** BDT 64.002 billion in 2023, with a 10.73% CAGR over five years.
- **Profit Before Tax:** BDT 8.792 billion in 2023, showing a robust 29.22% CAGR over five years.
- **Profit After Tax:** BDT 4.663 billion in 2023, with a 27.07% CAGR over five years.
- **Net Interest Margin:** 5.03% in 2023, an improvement from 4.05% in 2022.

CBC Bangladesh's impressive financial performance indicates a strong dependency on the Bangladesh market for growth and profitability. The bank's operations in Bangladesh accounted for a significant portion of its international operations, contributing to 78.57% of the consolidated profit before taxes for the year ended December 31, 2023.

**Asset Exposure: 25.43% Profit Before Tax Exposure: 94.98% Revenue Exposure: 69.63%**

### Implications of Exposure

1. **High Profit Dependency:** With nearly 95% of PBT coming from Bangladesh, Commercial Bank PLC is heavily reliant on the profitability of its operations in Bangladesh. This makes the bank vulnerable to economic and financial instability in the country.
2. **Significant Revenue Contribution:** Bangladesh contributes almost 70% of the total revenue, indicating that any adverse economic developments in Bangladesh could significantly impact the bank's revenue streams.
3. **Asset Exposure:** Although the asset exposure is relatively lower at 25.43%, it still represents a substantial portion of the bank's total assets. The impact on asset quality due to rising non-performing loans could be a significant concern.

### 3. Exposure of Commercial Bank PLC to Bangladesh

Based on the annual report and financial data, the percentage exposure of Commercial Bank PLC to its Bangladesh operations.

#### Asset Exposure

25%

##### 1. Total Assets in Bangladesh

- Total Assets of CBC Bangladesh (2023): BDT 190.679 billion
- Total Assets of Commercial Bank PLC (Group) as of December 31, 2023: LKR 2.61 trillion

**Exchange Rate:** To convert BDT to LKR, we'll use an approximate rate of BDT 1 = LKR 3.48 (as per historical averages).

- Total Assets in LKR: BDT 190.679 billion  $\times$  3.48 = LKR 663.563 billion
- Percentage Exposure (Assets):

$$\frac{\text{LKR 663.563 billion}}{\text{LKR 2.61 trillion}} \times 100 = 25.43\%$$

#### Profit Before Tax Exposure

95%

##### 2. Profit Before Tax (PBT) from Bangladesh

- Profit Before Tax (PBT) from Bangladesh (2023): BDT 8.792 billion
- Total Profit Before Tax (PBT) for Commercial Bank PLC (Group) 2023: LKR 32.23 billion
- PBT in LKR: BDT 8.792 billion  $\times$  3.48 = LKR 30.61 billion
- Percentage Exposure (PBT):

$$\frac{\text{LKR 30.61 billion}}{\text{LKR 32.23 billion}} \times 100 = 94.98\%$$

#### Revenue Exposure

70%

##### 3. Revenue from Bangladesh Operations

- Total Revenue from Bangladesh Operations (2023): BDT 22.5 billion
- Total Revenue for Commercial Bank PLC (Group) 2023: LKR 112.42 billion
- Revenue in LKR: BDT 22.5 billion  $\times$  3.48 = LKR 78.3 billion
- Percentage Exposure (Revenue):

$$\frac{\text{LKR 78.3 billion}}{\text{LKR 112.42 billion}} \times 100 = 69.63\%$$

## 4. Impact on Commercial Bank PLC's Future Profitability

The current crisis in Bangladesh is likely to have a mixed impact on Commercial Bank PLC's future profitability:

### Positive Impacts:

#### 1. Opportunities for Growth:

- Despite the challenges, Bangladesh's commitment to infrastructure development and foreign investments may create opportunities for CBC Bangladesh to expand its corporate banking and treasury management services.
- The government's focus on achieving sustainable development goals and economic diversification may provide avenues for growth in new sectors.

#### 2. Strong Market Position:

- CBC Bangladesh's strong market position, evidenced by its awards and recognitions, positions it well to capture market share from struggling competitors.

#### 3. Resilience and Adaptability:

- The bank's robust risk management framework and diversified product portfolio enable it to navigate the crisis effectively and adapt to changing market conditions.

### Negative Impacts:

#### 1. Increased Credit Risk:

- The rise in non-performing loans in Bangladesh's banking sector may increase the credit risk for CBC Bangladesh, potentially leading to higher impairment charges.
- As of December 31, 2023, the credit-impaired (Stage 3) loans to customers of the Bank increased to Rs. 143.5 billion, constituting 11.3% of the gross loans and advances.

#### 2. Pressure on Margins:

- Rising inflation and operational costs may squeeze profit margins, particularly in the retail and SME banking segments.

#### 3. Foreign Exchange Risks:

- Depleting foreign exchange reserves and currency depreciation may affect cross-border transactions and profitability.

## 5. Future Prospects of Bangladesh Banking Sector

The future prospects of the Bangladesh banking sector are influenced by the government's economic policies, regulatory environment, and external factors. While challenges persist, there are positive signals:

- **Graduation from LDC Status:** Bangladesh remains on track to graduate from the Least Developed Country (LDC) status by 2026 and aims to achieve upper middle-income status by 2031.
- **Infrastructure Development:** Ongoing projects like the Rooppur Nuclear Power Plant and Metro Rail project in Dhaka are expected to drive economic growth.
- **Policy Measures:** Proactive policy measures and solid growth records are expected to sustain the country's economic momentum.

### Conclusion

Commercial Bank PLC's exposure to the Bangladesh market presents both risks and opportunities in the current crisis. While rising inflation, financial sector vulnerabilities, and external pressures pose challenges, the bank's strong market position, diversified operations, and robust risk management provide a cushion against adverse impacts. With Bangladesh's commitment to infrastructure development and economic diversification, Commercial Bank PLC is well-positioned to leverage growth opportunities and sustain its profitability in the long term.

The bank's future strategy should focus on strengthening its risk management practices, expanding its digital banking services, and exploring new market segments to mitigate risks and capitalize on emerging opportunities in Bangladesh.