

COMPARATIVE FINANCIAL ANALYSIS OF PROFITABILITY BETWEEN BANK MUSCAT AND BANK DHOFAR

Mohammad Noor Alam

Assistant Professor, Department of Accounting, CCBA,

Dhofar University, Salalah, Sultanate of Oman

malam@du.edu.om, mohammed8668@gmail.com

Abstract

Banking Sector in Oman has a great potential. It is playing a vital role in the economic development of Oman. The annual reports of banking sector showed that Oman has great potential in banking sector. Banking sector is contributing in the economic growth of Oman. According to the annual report of the banking sector Oman, it continues to observe the formal banking sector tighten its stable and of Oman in recent years is to serve on the banking. The annual reports of banking sector showed that Oman has great potential in banking sector. Banking sector is contributing in the economic growth of Oman. According to the annual report of the banking sector Oman, it continues to observe the formal banking sector tighten its stable and of Oman in recent years is to serve on the banking. In this study, the return on assets, return on equity, return on investment and total profitability of Bank Muscat and Bank Dhofar will be analyze to find out the significant difference between these two banks.

Keywords: Banking, ROE, ROI. Equity, Debt, Profitability, Financial performance, economic development

INTRODUCTION

Banking Sector in Oman has a great potential. It is playing a vital role in the economic development of Oman. There are numerous banks in Oman which are offering banking and financial services to the customer of Oman. The annual reports of banking sector showed that Oman has great potential in banking sector. Banking sector is contributing in the economic growth of Oman. According to the annual report of the banking sector Oman, it continues to

observe the formal banking sector tighten its stable and of Oman in recent years is to serve on the banking. It is a strong asset in the development of the new Sharia-compliant piece branches which started services for customers at expanded level. The role of the Central Bank of Oman is very important for the formation of law authority. This option is helping to organize the Sharia-compliant segment. In addition, the development of the commercial banking sector in Oman in this way, the growth rate reached 12 percent during 2010 to 2014 to expand your own business from home. The Government for the development of infrastructure projects and their investment, which is seen as one of the precious and important areas of Finance also plans, is ramping. Small organizations are adding in Oman and important in the banking sector there is a need for SMEs from the capital. The Central Bank of Oman has also promoted SMEs loans. According to the Central Bank, with the banking sector in Oman, the banking sector growing role Oman plays an important role in the economic development of the area. The Bank's assets and claims to determine business development are important. The annual reports of banking sector showed that Oman has great potential in banking sector. Banking sector is contributing in the economic growth of Oman. According to the annual report of the banking sector Oman, it continues to observe the formal banking sector tighten its stable and of Oman in recent years is to serve on the banking. As a result, the first analysis is more important in the banking sectors. This is a study which conducted on two majors and primarily source of banking sector. These banks are Bank Muscat and Bank Dhofar which are offering different type of services for the people of Oman. In this study the financial performance of the banks will be compared..

RESEARCH PROBLEM

We reviewed many studies on the banking sector. The literature review reveals that any study before this was not conducted on Bank Dhofar and Muscat Bank. In addition many other studies were conducted in some countries. The researchers paid a less attention to the banking sector of Oman, whereas, banking sector of Oman is playing a very significant role in the economic development of Oman.

LITERATURE REVIEW

In the study of banking sector in Oman, scholars esteemed commercial banks in Oman based on financial proportion. Oman has five banks, with over 260 branches. It has been analyzed that the impact of operational performance on assets management, bank size and financial performance of the ocean banks. The results show that banks are not considered to be profitable, overall, and total assets as well as profits (Tarawneh, M. 2006).

This study attempts to analyze the impact of capital structure on financial performance, of banks i.e. how the proportion of debt and equity will have an impact on financial performance. The proportion of debt and equity is determined by the corporate managers. The financial performance of a firm is directly affected by the capital structure decision. Maximization of shareholders' wealth is one of the main objectives of firm's management. To achieve this objective proper care and attention must be given while taking rational financial decisions regarding optimal capital structure which in turn reduces the cost of capital. Corporate managers should choose the combination which will maximize profitability and the firm's market value (Pinto, P., & Quadras, J. M., 2016).

The European banking system has been under considerable pressure since the onset of the financial crisis in 2007-2008. The global credit crisis, the European sovereign debt crisis has created additional difficulties. European financial / banking, increased transparency and stability in the system and banks' capital structures weaknesses identified the need to respond to the EU-wide stress tests performed by a regular basis to the European Banking Authority since 2010 (EBA) for the has been performed. In this context, this study aims to examine its financial performance has taken part in the EBA stress tests of European banks. Analysis based on actual financial data banks, capital, assets, management, earnings, liquidity framework into account, takes the results of stress tests with him. A strong multi-criteria decision assess the financial strength of banks is done through the aid rate method. The latter banks, which reduced the need imposed by the EBA capital conditions, and is used well to distinguish between those who failed to meet capitalized (Doumpos, M., Zopounidis, C., & Fragiadakis, P., 2016).

A study entitled 'a comparative study of the financial performance of commercial banks in Ethiopia: problems and possibilities. The purpose of this research, the average commercial interest rate your bank financial performance, liquidity, performance, and compare in terms of solvency was by using a. Excel does this by using a research analysis of the information in the graph and table was presented by statistical measures like. Trend and comparative analysis of financial performance view was used. Audited financial reports since 2005-2009 five-year commercial banks were points for the purpose of comparison. Taken for dealing with these trade banks, commercial bank, the Bank of Abyssinia Bank Company, part of Dashan Ethiopia, United Bank, Oiggan Bank and NB were International Bank. The establishment of the year, the amount of capital reserve and the number of their branches are taken by commercial banks to choose one of the criteria for the purpose of analysis, as well. In addition, data collected from secondary sources say hopes for commercial banks and financial performance problem with the interview and responses were presented. Six commercial banks taken for each relevant Bank an average of ratios are compared with. Then in the top of the trend analysis of six commercial

banks by using the ratio study are presented. Analysis of financial performance point of view, i.e., both trend and comparative analysis, commercial bank's liquidity, financial profits, good performance of Ethiopia (when) and saliency ratio, but showed weak performance Abyssinia Bank (BOA) is described in all of the above mentioned financial ratio. This was effective and profitable when less profitable Bank, BOA is weak; the ability to earn what is analysis. Therefore, you must manage the best possible atmosphere in order to improve the profit level to reduce administrative costs, an effective performance management by customers who use store control costs and profit by investing in banks and profitable Avenue Bank overall to make maximum profit not work help to dispose (Tamiru, T., & Worede, N., 2016).

Another study examines the financial performance of Saud Bahwan group and the competitors and their role in economic development of Oman have over the years. Debt ratio can be increased from 0.28 to 0.18, which is a slight increase and that is attributed to a decrease in EPS. Results, demonstrating the importance of Saudi Bahwan ROE and selected for the study varies between five other companies. If we consider the difference in ROE the fact that all the companies is relatively better than that of its competitor firm profits. The selected companies study the relationship between corporate social responsibility (CSR) and financial performance of Islamic banks in the region by creating a better paper over the period 2000-2014 Gulf Cooperation Council (GCC) to study Review reveals that takes data were compared by analysis of CSR disclosure of annual reports, sample data banks. The study results show that there is a significant positive relationship between CSR disclosure and financial performance GC Islamic banks in the country. Results positive relationship between the potential of CSR activities in the GCC gesture made by the Islamic banking can have a long term impact on their financial performance, CSR disclosure and GCC Islamic banks' future financial performance show. Furthermore, CSR revealed no statistically significant between the measurement index and financial performance showed a significant positive relationship between the composite measure the results of the mission and individual dimensions of CSR disclosure index except for the vision and current financial performance show relationships, products and services (Platonova, E., Asutay, M., Dixon, R., & Mohammad, S., 2018).

Objectives of study

1. To compare the return on assets of Muscat Bank and Dhofar Bank from 2014, 2015 and 2016.
2. To compare the return on equity of Muscat Bank and Dhofar Bank from 2014, 2015 and 2016.

3. To compare the return on investment of Muscat Bank and Dhofar Bank from 2014, 2015 and 2016.
4. To compare the total profitability of Muscat Bank and Dhofar Bank from 2014, 2015 and 2016.

Hypotheses

H0: There is no significant difference between the profitability of Bank Muscat and Dhofar Bank.

H1: There is significant difference between the profitability of Bank Muscat and Dhofar Bank

Significance of the study

The financial performances of the banks are very important because it describes about the success of any bank. The banking industry of Oman is very attractive therefore many foreign banks are also attracted toward the economy of Oman. Many foreign Banks also started their business for example Qatar National Bank, Bank Beirut etc. which are offering their services for the all people of Oman. Therefore, competition for Local banks also increased. The Bank Muscat and Bank Dhofar are also competing to these local and foreign banks both. As the Oman has great potential in Banking Sector. In addition, people are Muslim and prefer to Islamic Banking over other, therefore this study will provide a comprehensive understanding to under the financial performance of Muscat Bank and Dhofar Bank.

RESEARCH METHODOLOGY

The study adopted the quantitative Research Methodology. To test the hypotheses the numerical data is required. Therefore in this study we used quantitative research method. Data will be collected in numerical form from the financial statements of Bank Muscat and Bank Dhofar. Data will be collected from the secondary sources. Secondary sources are included as internet, website of banks, and reports of banks. Current study will use the numerical data of Bank Muscat and Bank Dhofar. The time series data of last three years 2014, 2015 and 2016 will be used for the analysis. Statistical tools will be applied on this data to test the hypotheses of the study.

Organization overview of Bank Muscat

Bank Muscat is one of the most powerful banks operating in Sultanate of Oman. Being a powerful financial enterprise its assets worth over USD 27 billion. It deals in operations as in corporate banking, retail banking, investment banking, treasury, private banking, and asset

management as well. It has a vast network of branches with 149 branches, 645 ATM's and CDM's and around 10,000 or more than terminals associated with it.

It has its operations in Saudi Arabia, Singapore, Kuwait and Dubai as well. To carry its operations in these destinations it has its branches in these countries as well. Sheikh Khalid is the chairman of the Bank Muscat who is willing to take the bank into heights of successes. Abdur Razak Ali Isa is the Chief executive of the bank. Clear vision of the bank aims at the slogan that "We can do more". It also states that "leadership means a challenging everything we do continuously to listen, to improve and to look for a positive change because through only questioning convention can truly deliver sustainable value".

Bank has maintained strong quality policy to sustain its reputation. For instance it has obtained its key objectives to ensure quality. The bank's objectives are establishing and maintaining quality management system in the bank. It should meet the quality standards of the international market. Bank also aims at the continuous monitoring of its products and services and valuable feedback from its customers. Bank considers human capital as the bank's major asset and is ready to invest in the career development and growth of its employees. It has also key objective to create value for the shareholders and its customers. To remain a leading authority in providing quality services as a top ranked bank and successful implementation of the government objectives are its primary goals.

The financial review of 2015 declared that bank is progressing dynamically and its revenue has been increased to 7.5% as compared to the previous year. Bank showed profit margin of 175.4 million RO. Net interest income is posted as RO 260.5 million with an increase of 6.9 percent. Operating expenses of the bank are declared as RO 171.1 million with an increase of 8.3 percent as compared to previous year. Basic earnings are reported as RO 0.777. Return on average assets is decreased to 1.72 % and share profit from associate has been increased up to RO2.56 million. The total assets of the bank are increased to RO 2816 million. Strong financial position of the bank declares that it has maintained the level of adequacy of the capital and is contributing toward the economy of Oman dynamically over the past years.

Organization Overview of Bank Dhofar

Bank Dhofar was incorporated in January 1990; the bank was named initially as Bank Dhofar al Omani al Fransi. It operated its business by inaugurating two branches in the beginning. One branch was in Muscat and other was in Salalah. Now it has established a wide network of 68 branches, 127 ATM's, 49 CDMs and 5 FEMs across the sultanate of Oman and getting the progress by leaps and bounds. The main aim of the bank is to provide easy and fast banking by becoming 'best bank for you'. Bank is providing financial services in corporate banking, treasury

and project finance services. The main objective of the bank is to satisfy the needs of the customers. It also aims to assist small, medium size businesses and market companies across the sultanate. It can be said that bank Dhofar is the fastest growing bank in Oman. At present it has its assets worth RO 3.6 billion which shows its commitment to consistency and growth. Bank is offering financial services such as electronic services, internet banking, phone banking, SMS banking, cash deposits and withdrawals, and payment machines.

Bank has many achievements till now it purchased the assets and liabilities of bank of credit and commerce international and expanded its network in 1992. Similarly it launched new head office and expanded its network with 43 branches and 55 ATM's during 2000. With an international bank it launched its merger in 2002. In 2013 bank also launched Maisarah Islamic Banking services. Bank is constantly improving its growth strategies and has maintained strong reputation and credibility. In economic growth of the Oman, it has been contributing significantly and expanding its services and network as a leading bank.

ANALYSIS AND RESULTS

Return on equity

Return on equity is the amount which is calculated by dividing the total profit including the interest on its total share capital and reserves. This ratio should be higher for the company which is performance better.

$$\text{ROE} = (\text{Profit before tax} + \text{Interest}) / (\text{Share capital} + \text{Reserves})$$

Table 1a: Return on equity of the Bank Muscat and Bank Dhofar

Variable	2014 '000' OMR	2015 '000' OMR	2016 '000' OMR
Profit for the year before Taxes + Interest	45312	47622	46765
Total Equity	321351	361029	418500
Return on Equity	.14	0.13	0.11

Table 1b: Return on equity of the Bank Muscat and Bank Muscat

Variable	2014 '000' OMR	2015 '000' OMR	2016 '000' OMR
Profit for the year before Taxes + Interest	186,270	197,518	204,373
Total Equity	1,312,067	1,396,959	1,546,740
Return on Equity	0.14	0.14	0.13

Interpretations

The financial comparison of Bank Muscat and Bank Dhofar is presented in graphs and tables mentioned above. The return on equity of Bank Muscat and Bank Dhofar was .14 in 2014. There was no significance different in 2014. But in 2013, the return on equity of Bank Muscat increased (.14) as compare to Bank Dhofar (0.13). This difference was also sustained in 2016. The return on equity of Bank Muscat was 0.13 whereas of Bank Dhofar it was 0.11 in 2016.

Return on assets

The financial performance is determined by the many indicators. The most renowned indicator of firm profitability is the return on Assets. This is calculated by division of net profit with total assets. This ratio should be higher for the better organizational performance. Here we calculated the return on assets of Bank Muscat and Bank Dhofar in Table 02a & b.

Table 2a: The return on assets of Bank Dhofar from 2014 to 2016

Variable	2014	2015	2016
Total profit for the year	45312	47622	46765
Total Assets for the year	3125032	3593061	3952043
Return on Assets	0.014	0.013	0.012

Table 2a: The return on assets of Bank Muscat from 2014 to 2016

Variable	2014	2015	2016
Total profit for the year	186,270	197,518	204,373
Total Assets for the year	9,728,318	12,544,529	10,820,070
Return on Assets	0.019	0.016	0.019

Interpretations

The return on assets of both Banks showed that Bank Muscat is performing higher than Bank Dhofar. In 2014 the return on assets of Bank Muscat was higher (0.019) as compare to Bank Dhofar (0.014). There was not big difference the return on assets of Bank Muscat and Bank Dhofar. This different sustained in 2015 and 2016 and we found that the Bank Muscat has higher return than bank Dhofar in 2015 and 2016 both years (see Table 02a&b).

Return on Investment

Return on investment is also indicator of financial performance. This is calculated by dividing the net income of the company with the company issued stocks to its shareholders and outstanding of market. For a better profitability, the higher the ratio is required for each company. Return on investment is calculated here for the 2014, 2015 and 2016 years. The analysis was performed on the data of Bank Muscat and Bank Dhofar.

$$\text{ROI} = \frac{\text{Net Income}}{\text{stock} + \text{market outstanding}}$$

Table 3a: The Return on Investments of Bank Dhofar

Variable	2014	2015	2016
Net Income	45312	47622	46765
Stocks + market Outstanding	134129	154,473	189,920
Return on Investment	0.34	0.31	0.25

Table 3b: The Return on Investment of Bank Muscat

Variable	2014	2015	2016
Net Income	186,270	197,518	204,373
Stocks + market Outstanding	218,269	229,183	249,625
Return on Investment	0.85	0.86	0.82

Interpretations

The return on investment of Bank Muscat and Bank Dhofar showed that Bank Muscat is higher ratio as compare to Bank Dhofar in all 2014, 2015 and 2016. The flow of the return on investment in these three years showed that both banks higher returns in 2014 which decreased in 2015 and again increased in 2016.

Total Profit of Bank Muscat and Bank Dhofar

The total profit of the Bank Muscat and Bank Dhofar was derived from the financial statements of 2014, 15 and 2016.

Table 4: Total Profit of Bank Muscat and Bank Dhofar

Bank Name	2014	2015	2016
Bank Muscat	186,270	197,518	204,373
Bank Dhofar	45312	47622	46765

The total profit of Bank Muscat was much higher than the Bank Dhofar. We found that Bank Muscat was earning 186270 OMR “000” in 2014 where as the profit of the Bank Dhofar in 2014 was only 45312 OMR “000”. In 2015, the profit was also higher of Bank Muscat and in 2016 the profit of Bank Muscat reached to 204373 OMR “000” whereas the profit of Bank Dhofar 46765 OMR “000”.

CONCLUSION

Bank Muscat is one of the most powerful banks operating in Sultanate of Oman. Being a powerful financial enterprise its assets worth over USD 27 billion. Bank has maintained strong quality policy to sustain its reputation. Bank considers human capital as the bank’s major asset and is ready to invest in the career development and growth of its employees. Bank Dhofar was incorporated in January 1990; the bank was named initially as Bank Dhofar al Omani al Fransi. It operated its business by inaugurating two branches in the beginning. This study is conducted to analyze the profitability of Bank Muscat and Bank Dhofar. It can be said that bank Dhofar is the fastest growing bank in Oman. At present it has its assets worth RO 3.6 billion which shows its commitment to consistency and growth. Bank is offering financial services such as electronic services, internet banking, phone banking, SMS banking, cash deposits and with draws, and payment machines. The study used the data of 2014, 2015 and 2016. The data were collected from financial statements of the company. We will analyze the return on assets, return on equity, return on investment and total profitability of Bank Muscat and Bank Dhofar. The return on equity of Bank Muscat and Bank Dhofar was same in 2014. But in 2013, the return on equity of Bank Muscat increased as compare to Bank Dhofar. This difference was also sustained in 2016. The return on assets of both Banks showed that Bank Muscat is performing higher than Bank Dhofar in 2014, 15 and 2016. Return on investment is also indicator of financial performance. The return on investment of Bank Muscat and Bank Dhofar showed that Bank Muscat is higher ratio as compare to Bank Dhofar in all 2014, 2015 and 2016 years. The total profit of Bank Muscat was much higher than the Bank Dhofar.

RECOMMENDATIONS

Recommendations for Bank Muscat

As we have observed the key functions and financial position of the bank in detail it can be noticed that bank Muscat is undoubtedly showing great progress so far. The key financial indicators of the bank are in the favor of the bank policy. However critical analysis showed that there are some key areas which can be helpful if these can be incorporated in the strategic planning of the bank. The key recommendations for the bank Muscat are as follows:

1. Creation of the corporate social responsibility culture in banking sector should be the point to focus on if bank wants to expand itself globally. Responsible corporate culture is to be maintained; only profit maximization should not only be the goal.
2. It is important for bank Muscat that they should present transparent reports and explain the relevant information to its stake holders. In this regard they can administer the funds as well.
3. Bank Muscat must grant the loans with the perspective of ethical-social responsibility to nourish its goodwill and sound impression. Money of the bank must be utilized positively to create its social worth as well.
4. Bank Muscat must make sure that the power which the bank holds must not be utilized to abuse the needy in the form of adding abusive clauses in mortgages and taking advantage from the savers.
5. Bank should act as social agent. Many international banks with the sound reputation set aside their profits for the sake of corporate citizenship which benefits them for a long run. Banks should show their concern for the social issues in the society and must contribute to resolve the serious issues of the society.
6. In case if bank observes any questionable activity, it must not let it go un attended at all as it can be disastrous at the end. For instance, any money laundering act by clients or any of the stakeholders must strongly be addressed and bank must have strict policy against it.
7. Bank can focus to sell their financial products and services other than the gulf countries as well. For this purpose fund raising is important and bank must have strategy to its growth and expansion planning which could assist them in future to grow internationally.

Recommendations for Bank Dhofar

Comparison of the financial statements of the both banks depicted that bank Muscat is in strong financial position. Bank Dhofar is also showing the progress and attained high achievements but it has limited network as compared to bank Muscat. In limited time bank Dhofar has maintained

the quality in its products and services and groomed itself as one of the effective bank in Oman. However, analysis presents that some areas of the bank needs improvement and here are some key recommendations which management can observe for a better future.

1. For the growth and expansion, bank needs to expand the network of its branches. For this purpose more locations can be targeted and bank can sell their financial products through proper advertising and campaign.
2. Capital adequacy is a must for the growth of any bank. So bank Dhofar should set proper goals and must attract the enough capital through selling shares and securities. Quality and quantity of the capital should be increased n global banking.
3. Regulators must be introduced to the banking system of the bank Dhofar so that activities related to the financial position and capital investment can be monitored and assessed timely.
4. Gross leverage ratio can be also introduced; this will maintain balance against the excessive growth by balancing the size of the present balance sheet.
5. Management of the bank must exercise proper monitoring to have an idea about the system-wide risks. Risk management techniques must be incorporated in the banking system.
6. Bank must present itself as a social corporate entity. It must deliver its services to the betterment of the society which will obviously add to its goodwill and sound reputation. It should be ethically involved in CSR activities as well.
7. Macro-prudential analysis can be involved to develop the comprehensive structure of the bank Dhofar. Capital requirements and liquidity regulation can be maintained through it.
8. Bank should focus on the business growth models and should invest in it. Similarly banking strategies can be reviewed for further improvement. Bank must focus on the intellectual capital as well to develop the core technical skills to improve the probity of approved persons.

REFERENCES

- Doumpos, M., Zopounidis, C., & Fragiadakis, P. (2016). "Assessing the financial performance of European banks under stress testing scenarios: a multicriteria approach". *Operational Research*, 16(2), 197-209.2016. <https://doi.org/10.1007/s12351-015-0192-y>
- Platonova, E., Asutay, M., Dixon, R., & Mohammad, S. (2018). The Impact of Corporate Social Responsibility Disclosure on Financial Performance: Evidence from the GCC Islamic Banking Sector. August 2018, Volume 151, Issue 2, pp 451–471 <https://doi.org/10.1007/s10551-016-3229-0>
- Pinto, P., & Quadras, J. M. (2016). Impact of Capital Structure on Financial Performance of Banks, *International Journal of Indian Management and Strategy, JIMS*, pp 54-59
- Tarawneh, M. (2006), "A comparison of financial performance in the Banking sector: Some evidence from Omani commercial Banks". *International Research Journal of Finance and Economics*, 3, 101-112.

Tarekegn Tamiru, NameKahsu Mebrahatu Assefa Worede, (2016). "Comparative Study on Financial Performance of Commercial Banks in Ethiopia: Problems and Prospects," Abstract of Economic, Finance and Management Outlook, Conscientia Beam, vol. 5, pages 1-5. 2016