



## “AN ANALYTICAL STUDY OF THE PERFORMANCE OF FOREIGN BANKS IN SULTANATE OF OMAN”

**Dr. Riyas. Kalathinkal\* Mr. Sibi John\***

*\*Faculty, Department of Business Studies, Shinas College of Technology, Ministry of Manpower, Sultanate of Oman*

### **Abstract**

The main objective of this research is studying the performance of foreign banks in Sultanate of Oman which will focus on 3 foreign banks for 3 years depend on the CAMEL rating approach. CAMEL rating has become significant devices for examiners and regulators for testing the performance of the banks. It is used to offers an accurate , reliable evaluation of a bank's financial performance and operation in the areas such as Capital Adequacy, Assets Quality , Management Soundness, Earning ability and Liquidity. Regarding to the CAMEL ratio it can be observed that Qatar National Bank scored the highest ratios in Capital Adequacy (17.86%), Assets Quality (3.28%), Management Soundness (12%), Earning and Profitability (0.384 OMR per share) ratios. That means that Qatar National Bank is having ability to maximize their use of available resources. Also, it has sufficient internal control and timely identification of the risk practices. Whereas this bank scored low ratio in liquidity (27%) which means that they have less liquid assets to control their risk. On the other hand, Bank of Sadrat Iran scored the lowest ratios in Capital Adequacy (8.43%), Assets Quality (1.63%), Management Soundness (3%), Earning and Profitability ratios (0.122 OMR per share). That indicate that bank of Sadrat Iran need to be observed and the level of its capital should be increased in order to maintain a good capital adequacy ratio. Also, they need to change their policy to maximize their profit and try to reduce the cost of share to achieve high level of profit by this role its profit can be increased. Whereas this bank scored higher ratio in liquidity (80%) which means it has enough liquidity resources. That high ratio in liquidity means that the bank has enough liquid assets which can be easily converted into cash without any loss.

**Key terms:** CAMEL ratio.

### **1. Introduction**

Performance analysis define as examination of several financial performance factors such as (Return on Assets & Return on Equity) in differentiating with the result accomplished by the competing entity about the same size The financial performance helps to measure the financial position, efficiency, effectiveness, liquidity, solvency and profitability so, it is a good indicator. This study is going to apply the CAMEL Rating System, which is an International Standard System. This ratio is required by inspector and organizer for testing the bank's performance. It is very secure so, it cannot be disclose to anyone. In addition this ratio keeps the bank safely because it depends on various information which is derived from several resources such as budget, cash flow, financial statement, funding system and macroeconomic data.

### **2. Research Objectives**

- To study the performance of foreign banks in Sultanate of Oman.
- To find out the performance analysis for the foreign banks in Sultanate of Oman in term of profitability, liquidity and leverage.
- To analyze the overall performance for the foreign banks in Sultanate of Oman and compare them all in order to find which bank is the best in term of performance.

### **3. Need of the Study**

This study is useful because it will lead to interpret the performance of foreign banks in Oman and how such banks are performing. Also, it helps to identify which banks give accurate results throughout the financial ratios. In addition, ratio analysis helps to compare various figures from financial statement and gather information about the firm performance which focuses in the explanation rather than calculation. There are wide range of users can benefit from this study such as internal and external users. The internal users can use this study as a guide how the performance can improve the efficiency of the work, fined the area of weakness & strength, making decision and comparative judgment. Through the ratio business managers will be able to evaluate the firm performance as reference to profitability, assets usage, liquidity and leverage or market valuation. Moreover external users can benefit from the study to get the information regarding to financial position, performance, creditworthiness and profitability.

### **4. Scope of the Research**

Due to the lack of information available in the internet only 3 foreign banks have been selected to this study among 9 foreign banks operated in Oman. Moreover, it is examine the performance of foreign banks for the past 3 years only as the past data are not available in the internet. In addition, time allocated to study the performance of those foreign banks is limited to more or less 3 months only which is not enough to use all the financial ratios in the analysis as more time is required to get the needed data.



## 5. Literature Review

**Claessens, S, Kunt, D, and Huizinga .H, 2000.** They studied about Comparison between different banks. They are examining how the foreign banks presence in domestic banking market. In addition, they are tested comparative about net interest margins, overhead, taxes paid and profitability between foreign and domestic banks. As well as, they found the foreign banks have less profit than domestic banks in developed countries but the opposite in developing countries. They are found a reduction in profitability and margins for domestic banks linked with an increased presence of foreign banks .But on the other hand, in 2012 **Claessens. S and Horen .N** , are tested a comprehensive database on bank ownership for 137 countries from 1995 to 2009 . As well as, they review behavior and impact of foreign bank. Foreign banks have higher capital and more liquidity but lower profitability than domestic banks. The foreign banks is negatively associated with domestic credit creation only in developing countries. The foreign banks reduced credit more than domestic banks during the global crisis, unless when host banking systems dominated by them .The financial services has degree of globalization during past two decades. And they find limited available to answer the question about impact on financial sector development and stability of lending. **While, Goldberg, L, Dages. G, and Kinney's, May 2000).** They researched an importance in overall economic development and stabilization of strong domestic financial systems highlighted by Asian Crisis. To achieve this goal the less agreement is clear on the role of foreign banks .They found that the foreign banks have higher growth on loan rates with lower volatility of lending, contributing to lower overall volatility of credit than domestic banks . Moreover, foreign banks in both countries show the growth on notable credit during periods of crisis. In Argentina, foreign and domestic privately-owned banks have similar loan portfolios. On the other hand, in Mexico, both foreign and domestic banks have similar loan responsiveness and portfolios with lower levels of impaired assets. They find State-owned banks as well as banks with high levels of impaired assets in Argentina. But less loan growth and weak responsiveness to market signals find in Mexico. Overall growth, volatility, and cyclical of bank credit are suggested by critical element of bank health. To greater stability of credit in times of crisis and domestic financial system weakness. It must dissimilar in ownership.

**Uyen. D (2011) states that** “CAMEL rating has become important tool for examiners and regulators for testing the performance of the banks. This rating ensures healthy conditions of the banks by reviewing various aspects of a bank based on different information sources such as financial statement, funding sources, macroeconomic data, budget and cash flow. Moreover he found that the CAMEL system is useful. The rating is used based on both quantitative and qualitative information of the bank. Quantitative date done by computation of the ratio which is depends on the numbers take from financial statement. While the Qualitative date based on the interpretation and significance which helps to measure the performance of the banks. The CAMEL model is become popular among regulators due to its effectiveness.

## 6. Research Approach

The research will use a deductive approach which means starting from a general area and then go specifically for the core of the topic. Research starts from finding all banks operated in Oman as per the data of Central Bank of Oman and then those banks has been classified into different categories. Among 9 foreign banks available in Oman only 3 foreign banks have been selected in order to study their performance in this paper.

## 7. Research Design

The design of the research contains both exploratory and descriptive research. Exploratory research refer to the information that already exist in financial statement for 3 foreign banks and use ratio analysis to explore new results which are not exist before. Also, this research is going to describe the quality of the performance from the data that are obtained from income statement and balance sheet by using the financial ratios.

## 8. Source of data Collected

The research information is extracted from website of Central Bank of Oman and foreign banks websites. Those include the income statement and balance sheet of three foreign banks that have been selected which is secondary data. The secondary data that have been used because of many advantages such as saving money and time, updated data , the information can obtained quickly and easily . On the other hand, the primary data is less reliable as compare to secondary data.

## Type of data Collection

This study use qualitative research which is consider as one type of data collection that focus on searching about the quality performance of foreign banks in Oman. The population of the research includes all banks operated in Oman. As regard to the central bank of Oman there are 18 banks which are categorized into 3 types: local banks (Bank Dohfar, Bank Muscat, National Bank Oman, Oman Arab Bank, Bank Soharand Ahli Bank), specialized banks (Oman Housing Bank and Oman Development Bank) and commercial banks (Bank Melli Iran, Bank of Baroda, Bank Saderat Iran, Habib Bank Limited, Islamic Bank of Abu Dhabi, Qatar National Bank, HSBC, State Bank of India, Standard Chartered Bank and Bank of Beirut). The sampling frame in this study is 9 foreign banks. Referring to the availability of the information the sample size of the



research is limited to only 3 foreign banks. The sample size was selected randomly and depending only on the availability of the data required to complete this study. Statistical data has been retrieved from the financial statements of the foreign banks and excel sheet will be used in order to apply financial ratios. After the application of the financial ratios par charts will be used to compare the performance of those banks.

### 9. Tools to be Used

This project use CAMEL Ratios, which is abbreviation of five factors, which are:

- C-Capital Adequacy Ratio
- A-Asset Quality Ratio
- M-Management Quality Ratio
- E-Earning Ability Ratio
- L-Liquidity Ratio

### 10. Camel Rating

CAMEL rating has become an important tool for examiners and regulators for testing the performance of the banks. This rating ensures healthy conditions of the banks by reviewing various aspects of a bank based on different information like financial statement. It is effective devise for internal management to measure the soundness of banks. CAMEL has five components to evaluate the safety, soundness and performance of banks.

**Table No. 1,Camel Rating**

RATIO	HSBC			SADRAT IRAN			QATAR NATIONAL		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
<b>CAR</b>	20.88%	13.54%	8.13%	8.00%	7.80%	9.50%	23.69%	18.13%	11.75%
<b>RTA</b>	3.66 %	1.62%	0.30%	3.44%	1.00%	0.45 %	3.66%	3.66%	2.51%
<b>RNW</b>	12%	14%	2%	6%	2%	1%	12%	12%	13%
<b>EPS</b>	0.169	0.160	0.046	0.169	0.265	0.073	0.027	0.135	0.156
<b>LA/TA</b>	2%	62%	62%	2%	94%	94%	52%	2%	1%

### 11. Major Findings

Applying the CAMEL rating approach in 3 foreign banks operated in Oman, findings are as follows:

- 1) As regard to the Capital Adequacy ratio, Qatar National Bank scored the highest rate which is 17.86% and that ratio is more than the required rate for capital adequacy stated by the CBO while the Bank Sadrat Iran scored only 8% which considered very low comparing to the required ratio.
- 2) As regard to the Return to Total Assets ratio, Qatar National bank achieved the highest level of assets quality which is 3.28% as compared to other bank while the Bank of Sadrat Iran scored only 1.63% which considered very low comparing to other 2 banks.
- 3) As regard to the Return on Equity or net worth, Qatar National bank has achieve the highest average in the management soundness which is 12% while the Bank of Sadrat Iran scored only 3% which considered very low comparing with the other 2 banks.
- 4) As regard to the Earning Per Share, Qatar National banks has the highest earning per share ratios which is 0.384 OMR and that means the earning available to the investors are high while the Bank of Sadrat Iran scored only 0.122 OMR which considered very low comparing with the level achieved by other 2 banks.
- 5) As regard to the Liquid Assets to Total Assets, Bank of Sadrat Iran has the highest liquidity ratio which is 80% while Qatar National banks scored only 27% which considered very low comparing with the level achieved by other 2 banks.

The main finding of this study is that Qatar National Bank is the best bank depending on the CAMEL rating approach with the highest ratio in capital adequacy, assets quality, management soundness and earning and profitability while Bank of Sadrat Iran achieved very low ratios in the mentioned ratios leading it to be the worst bank among those three tested banks.

### 12. Recommendations

The CAMEL ratio becomes the most common tools for evaluating the performance of the bank around the world. It is a unified method used by all the banks in the world to measure the performances of banks regardless of the economy in which the bank is operating in that make this method more desirable. However, this method depends on accounting numbers available in the financial statements of the bank which are past data and accountant can manipulate them. Therefore wrong results will be achieved. It is recommended to use different techniques in evaluating banks performance like internal and external in order to get accurate and reliable evaluation.



Furthermore, it is recommended for further studies to use a sufficient number of years like 20 years in their evaluation of the performance of the banks in order to get more reliable and accurate comparisons and evaluation as this study includes only 3 years from 2010 to 2012. Moreover, other researchers can evaluate all of the available foreign banks in Oman instead of using only 3 foreign banks and compare them together along the comparison with local banks performance. These will enable the researcher to get better results as more banks will be available for comparisons and external factors affecting the performance can be determined easily. This research used only one ratio under each categories of CAMEL rating approach but the other researchers can use the remaining ratios in order to get more reliable and useful data.

### 13. Conclusion

The main objective of this research is studying the performance of foreign banks in Sultanate of Oman which focused on 3 foreign banks (HSBC, Qatar National Bank and Bank of Sadrat Iran) for 3 years (from 2010 to 2012) depending on the CAMEL rating approach. A comparison between the performance of those three banks took a place and found that Qatar National Bank was the best bank among those three banks and scored the highest ratios in Capital Adequacy (17.86%), Assets Quality (3.28%), Management Soundness (12%), Earning and Profitability (0.384 OMR per share) ratios. That means that Qatar National Bank is having ability to maximize their use of available resources. And has sufficient internal control and timely identification of the risk practices. Whereas this bank scored low ratio in liquidity (27%) which means that they have less liquid assets to control their risk. On the other side, Bank of Sadrat Iran scored the lowest ratios in Capital Adequacy (8.43%), Assets Quality (1.63%), Management Soundness (3%), Earning and Profitability ratios (0.122 OMR per share). That indicate that bank Sadrat Iran need to be observed and the level of its capital should be increased in order to maintain a good capital adequacy ratio. Also, they need to change their policy to maximize their profit and try to reduce the cost of share to achieve high level of profit by this role its profit can be increased. Whereas this bank scored higher ratio in liquidity (80%) which means it has enough liquidity resources. That high ratio in liquidity means that the bank has enough liquid assets which can be easily converted into cash without any loss.

### 14. Bibliography

1. CheasanCarolyne, 2002, Manager restructuring and financial performance of commercial Bank in Kenya, D/611P/8495/98.
2. Edward Altman, 1968, Financial ratios, Discriminant analysis and the Prediction of Corporate Bankruptcy, VOL. XXIII, SEPTEMBER 1968, No.4.
3. James R. Barth, Gerard Caprio Jr., and Ross Levine, 2000, banking system around the Global. Do Regulation and Ownership Affect performance and stability? , (p. 31 - 96)
4. Lim Yee Theng and Teh Boon Heng, 2011, a comparison on Efficiency of Domestic and Foreign Banks in Malaysia: A DEA Approach, Vol.1, No.4, Oct 2011, pp.33-49
5. Muhammad Farooq Arby, 2003, Structure and Performance of Commercial Banks in Pakistan, MPRA Paper No. 4983, posted 20. September 2007
6. NsambuKijjambuFrederick, 2014, Factors Affecting Performance of Commercial Banks in Uganda A Case for Domestic Commercial Banks,ISBN: 978-1-922069-42-9
7. Ravi Thirumalaisamy, 2014, Change Management in Financial Efficacy of Banks: Evidence from Oman, ISSN: 2041-3238, e-ISSN: 2041-3246.
8. StijinClaessens, DemirgucKunt, Harry Huizing, 2000, Howforeign entry does affected domestic banking market, ISSN: 2041-3238, e-ISSN: 2041-3246.
9. UyenDang , 2011 , The CAMEL Rating System in Banking Supervision a case study , Identification number: 10312 .www.banksaderat.ae,“Financial Institutions”,[https://www.google.com/search?q=http%3A%2F%2Fwww.banksaderat.ae%2F&hl=en&gbv=2&oq=&gs\\_l=/](https://www.google.com/search?q=http%3A%2F%2Fwww.banksaderat.ae%2F&hl=en&gbv=2&oq=&gs_l=/) 11 Feb, 2015.
10. www.federalreserve.gov , “CAMELS Rating System “, <http://www.federalreserve.gov/BoardDocs/press/general/1996/19961224/default.htm/12Mar,2015>.
11. www.gmariegroup.com . “Performance analysis “, [http://www.gmariegroup.com/white\\_papers/gmg\\_white\\_paper\\_performance\\_analysis.pdf](http://www.gmariegroup.com/white_papers/gmg_white_paper_performance_analysis.pdf) / 19 Feb, 2015.
12. www.investopedia.com . "Definition of CAMELS Rating System", <http://www.investopedia.com/terms/c/camelrating.asp/> 09 Mar, 2015.
13. www.investopedia.com . "Definition of Ratio Analysis", <http://www.investopedia.com/terms/r/ratioanalysis.asp/> 19 Feb, 2015.
14. www.investopedia.com." Ratio Analysis: introduction ", <http://www.investopedia.com/university/ratio-analysis/using-ratios.asp/> 19 Feb, 2015.
15. www.qnb.com, “Financial Institutions” [http://www.qnb.com/cs/Satellite/QNBQatar/en\\_QA/enHome/](http://www.qnb.com/cs/Satellite/QNBQatar/en_QA/enHome/) 11 Feb, 2015.



16. www.xe.com, “XE Currency Converter  
“<http://www.xe.com/currencyconverter/convert/?Amount=1&From=EUR&To=OMR>/11 Mar, 2015.
17. www.xe.com, “XE Currency Converter “,  
<http://www.xe.com/currencyconverter/convert/?Amount=1&From=QAR&To=OMR/> 11 Mar, 2015.
18. www.schiffhardin.com,”camels-ratings”,www.schiffhardin.com.../camels-ratings-what-they-mean-and-why-they-matter /30 Mar.2015.
19. www.slideshare.net ,“CAMALS Rating“ <http://www.slideshare.net/parveenbari/camels-rating/> / 19 Mar, 2015 .
20. www.slideshare.net ,” CAMALS Approach “[http://www.slideshare.net/VishalParmar5/camels-approach?next\\_slideshow= 2/](http://www.slideshare.net/VishalParmar5/camels-approach?next_slideshow=2)18 Mar, 2015.
21. www.slideshare.net ,” CAMELS Formulas and Ratios “,[http://www.slideshare.net/HIMANIPADIA/assessment-of-performance-of-public-sector-banks-under-camel-framework?related=1/](http://www.slideshare.net/HIMANIPADIA/assessment-of-performance-of-public-sector-banks-under-camel-framework?related=1)16 Mar, 2015.
22. www.slideshare.net ,” CAMELS modeling “, <http://www.slideshare.net/quantanalytics/camels-modeling/>14 Mar, 2015.
23. www.slideshare.net , “CAMALS Rating “[http://www.slideshare.net/SagarPatil14/camel-ratings-ppt?next\\_slideshow=1 /](http://www.slideshare.net/SagarPatil14/camel-ratings-ppt?next_slideshow=1) 12 Mar, 2015.
24. www.zawya.com , “Financial Institutions” [http://www./company/profile/5262/HSBC\\_Bank\\_Oman/](http://www./company/profile/5262/HSBC_Bank_Oman/) 11 Feb, 2015.
25. www.zawya.com ,” Profile of HSBC\_Bank\_Oman, [https://www.zawya.com/company/profile/5262/\\_SAOG/HBMO.MSM/](https://www.zawya.com/company/profile/5262/_SAOG/HBMO.MSM/) 13 Mar, 2015.
26. www.zawya.com , “Ratios of HSBC Bank Oman” ,  
[https://www.zawya.com/middleeast/company/ratios/5262/HSBC\\_Bank\\_Oman\\_SAOG/HBMO.MSM/](https://www.zawya.com/middleeast/company/ratios/5262/HSBC_Bank_Oman_SAOG/HBMO.MSM/) 15 Mar, 2015.