

Comparative Analysis Of Liabilities Section And Their Effect On Bank Muscat And Bank Dhofar

¹Dr. Mohammad Noor Alam, ²Dr. Shariq Mohammed

^{1,2}Assistant Professor, Department of Accounting, CCBA, Dhofar University, Salalah, Sultanate of Oman

Email: - malam@du.edu.om, smohammed@du.edu.om

Abstract

Financial sector is considered as the foundation of economic growth. The banking sector in Oman is working well for better customer service. According to the annual report of the Oman Banking sector, it has been believed that the stable banking sector has been operating its banking services in recent years. With the increasing role of banking sector in Oman, the Central Bank reported, the banking sector is playing an important role in Oman's economic growth. Bank assets and responsibilities are important to determine business development. Liabilities are important for the organizations. When the organizations are moving toward its growth, the growth needs more financial capital. At that time organizations acquire finance by using the different external sources such as banks, financial institutions, long term and short-term loans. These sources provide support to the organization and it helps the organization to win more profits. In this way, the liabilities are helpful for the organizations in the achievement of its organizational goal of profit maximization.

Keywords: - Banking, Liabilities, Profitability, Financial performance, economic development

1- INTRODUCTION

Financial sector is considered as the foundation of economic growth. Accepting deposits by banks and making loans and gaining interest from the difference in interest rates paid to the summoners and the lenders. Performing from the bank acting by the bank and then the lender is known as a financial supplement for lending them. Through the financial expansion process, some assets have been converted into different assets or liabilities. In this way, financially interrupted people provide funds from people who have additional money or savers who do not have enough money to carry the required activities. Banking focuses on the financial interference of the financial institution that allows them to get money on monetizing and collecting. In the economy, the bank is the most important financial intervention because it adds extra and deficit to

economic agents. When you submit your money to the bank, your money goes to the big pool as well, and your account is deposited with your deposited amount. The bank's role is to provide you with a safe place to keep your money and sometimes you have the opportunity to get interest on your reserves. Current and savings accounts such as services provide easy access to your bills without using cash. At the same time, when you are less than liquid deficit, the bank is capable of presenting you something to you through the deposits of other reserves.

The banking sector in Oman is working well for better customer service. According to the annual report of the Oman Banking sector, it has been believed that the stable banking sector has been operating its banking services in recent years. According to the new shariah, starting the class branches, the banking

sector helps to increase its services, which has strong asset development. The role of the Central Bank of Oman is very important for the creation of Shariat Surveillance Authority. This option is helping organize the segment according to the law. In addition, this development also continues to increase in the commercial banking sector by increasing such business, the growth rate has reached 12% between 2010- 2014. The government is increasing its investment in infrastructure projects and finance projects as a promise to develop and is seen as one of the leading areas. In Oman, small medical institutions are also extended and those SMEs require a capital that they get from the banking sector. The Central Bank of Oman is also helping to boost the debt of SMEs. Because of the power of financial intermediation of the banks, these puzzles are resolved through the banking system hence they cease to be your problem but the banks problem. Credit fuels allow economic activity to invest outside of their cash, allowing homes to buy houses without saving their prior earnings without their cost, and governments reduce the tax cycle patterns and to improve your costs by investing in infrastructure projects. Business and homes need protection against unexpected needs for cash. Bank loans are the main direct providers, by submitting their prediction demand; they can withdraw at any time and offer credit lines. In addition, banks and their affiliate financial centers are based on it, offering large quantities, securities and related products to buy and sell, with relatively minor transaction costs. Banks allow polio in financial and foreign markets by dealing with their risks to businesses and households. Many of these devices are provided by banks through transit through devices. Banks and individuals also help foreigners to participate in foreign exchange and commodity markets. For example, it may be very difficult that only a million Japanese yen is needed for a small company to help a bank in

international currency markets to import a vehicle from Japan.

With the increasing role of banking sector in Oman, the Central Bank reported, the banking sector is playing an important role in Oman's economic growth. Bank assets and responsibilities are important to determine business development. In this study, I analyze the responsibilities of two Bank Banks Bank and bank deficit banks to determine their progress and performance. This project will be considered in comparison to the comparative analysis of both banks. As the analysis of responsibilities in banks' fields is more important, I have already reviewed the current literature. After reviewing the literature, I explained the procedure of the study.

Liabilities are important for the organizations. When the organizations are moving toward its growth, the growth needs more financial capital. At that time organizations acquire finance by using the different external sources such as banks, financial institutions, long term and short-term loans. These sources provide support to the organization and it helps the organization to win more profits. In this way, the liabilities are helpful for the organizations in the achievement of its organizational goal of profit maximization.

2- RESEARCH PROBLEM OF THE STUDY

This is the study descriptive in its nature and explaining the phenomena of the banks growth. There were numerous studies that have explained the same process but these studies were conducted in other than Oman. The literature review reveals that there are many studied conducted in the Gulf countries, emerging economies and Oman. These different studies explained the different aspects of banking sectors in these countries, whereas no one study examined the impact of liabilities on their performance.

3- 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).

Fratzschler, König, and Lambert (2016), conducted study on banking stability after the crisis. This study reviewed the effectiveness of bank regulations and the quality of governance on bank stability. This study used the figure of the 50 advanced emerging economy panel. It has come to know that the higher investment generates better banking bankruptcy. Role of freedom of independence got better, which has improved stability in reducing domestic credit deficiencies.

Another study was held in their performance in traditional banks and GCCs. Authors of this study used panels' data since 2002-2009. There were two modes in this study. The first sample was 38 traditional banks and the second sample consisted of 13 Islamic banks. He showed that bank equity is important for the explanation of bank profits in the traditional banking sector. While the bank's impact on traditional banking performance was negligible (Zeitun, 2012).

The purpose of another study is to understand the operations in Turkey between 2005 and 2014, to analyze the relationship between 44 banks' intellectual capital performance and financial performance. The performance of bank's intellectual performance is measured by the additional mechanical capacity (VAIC) method. The intellectual performance of the Turkish banking sector is usually done by human investment performance (HEC). Depending on the bank type, growth and investment banks have the highest average of VAIC. When the VAIC is divided into its components, it can be seen that the

capital job performance (CE) and the human investment performance (HEC) have positively affected the financial performance of the banks. . However, the CE has a high impact on the financial performance of the banks than ECE. Therefore, banks working in the Turkish banking sector use their financial and physical capital if they reach a higher level of profit (Ozkan, N., Cakan, S., & Kayacan, M., 2017).

This paper is aimed at profitable and productive testing of Indian banks in relation to each other. The objective is to study the benefits of banks and private sector banks of national population, with special reference to three banks selected in India during 2010-08-2011 and 2014-2015. This sample is selected by random sampling techniques and data collected from secondary sources. This study examines the relationship between Indian and commercial banks' profits, which are both public and private banks. The overall profits of banks show that both the national and private sectors of the bank are profitable. With the growing competition in the banking sector, the biggest challenge for Indian commercial banks has become the biggest challenge. Banks should look for every possibility to improve and increase profits (Patel, J., & Bhanushali, K., 2017).

This study has been determined to influence the risk of European banks' risk and profit on the basis of a crisis as a consequence of crisis and if it has a different type of banking business, Is. To do this, the structure of income is estimated at the time of 2002-2012 using the European Bank's panel data. This study also states that if there is a difference between investment-based banks and banks, financial interference is based on the impact of the income structure on profit and profit. Our results show that the increase in non-profit earnings has negative impact on profits, although the impact during the crisis was important only. Nevertheless, the impact on the

impact of all types of banking businesses is negative and important on retail banks separately, but is not important in banks' matter, which is more diverse. The increase in non-profit earning was found to increase the risk, though the crisis has decreased. Generally, the results show that the power of the market has a profound effect on financial stability (Maudos, J., 2017)

4- RESEARCH OBJECTIVES

There are following objectives of this study:

1. To understand the trends of liabilities of Bank Dhofar and Bank Muscat in last five years.
2. To understand the trends of the financial performance of Bank Dhofar and Bank Muscat in last five years.
3. To find out the impact of liabilities on the financial performance by using the data of five years of Bank Dhofar and Bank Muscat.

4- HYPOTHESES OF STUDY

H1: Bank Muscat and Bank Muscat have significant differences in the liabilities from last years.

H2: Bank Muscat and Bank Muscat have significant differences in the financial performance from last years.

H3: There is negative effect of liabilities on financial performance of Bank Dhofar.

H4: There is negative effect of liabilities on financial performance of Bank Muscat.

5- SIGNIFICANCE OF STUDY AND NEED FOR RESEARCH

The banks are considered as vertebral column in the economy of a country. Banking sector of Oman has played an important role in the economic growth and development of Oman. Current study aims to understand the impact of liabilities on business performance. As the financial analysis of the banking sector is very important. That is the reason; we also need to perform the analysis of banking sector in Oman.

6- RESEARCH METHODOLOGY

The current study relies on the numerical

and objective data derived from the financial statements of Bank Muscat and Bank Dhofar. Quantitative method is deployed. The statistical analysis is used for the data analysis. The hypothetic deductive approach is used for testing the hypotheses. The sample for this study is collected from five years (2012-2016). The financial statements are available in the websites.

6.1- TOOLS AND TECHNIQUES OF ANALYSIS TO BE USED

For the data analysis, the SPSS software will be used. In data analysis, the author performed different statistical test which include the independent sample T Test, regression analysis.

7- SCOPE OF THE STUDY

The study has been focused on the data of Omani Banks. Specifically, these banks are Bank Dhofar and Bank Muscat. The findings of the study can be used for the managers of these mentioned banks. In addition, the findings can also be applicable in other banks of Oman.

8- ORGANIZATION INFORMATION 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.

9- 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 with drawls, 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.

10- LIABILITIES ANALYSIS

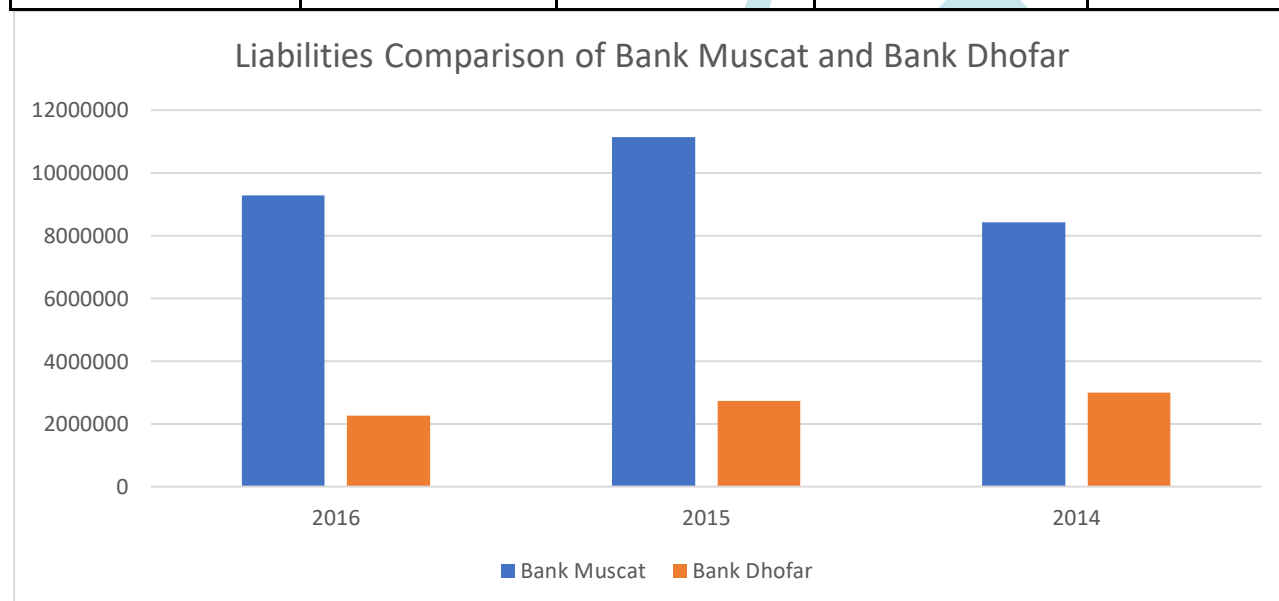
To determine the liabilities of Bank Muscat and Bank Dhofar, the financial statements of these years were downloaded from the official websites of these both banks. The data were collected from the balance sheets of both banks. The figures of liabilities of the following table showed that Bank Muscat has very much high

liabilities than Bank Dhofar from 2014-2016. Average liabilities of Bank Muscat were 9612383 “000 OMR”, whereas the average liabilities of Bank Dhofar was 2657534 “000 OMR”. The mean

difference was 6954849 “000 OMR” that showed the liabilities of Bank Muscat was much higher than the liabilities of Bank Dhofar.

Table 1: Liabilities of Banks

| Variable | 2016 ‘000’ OMR | 2014 ‘000’ OMR | 2015 ‘000’ OMR | Average Liabilities |
|-------------|-------------------|-------------------|-------------------|------------------------|
| Bank Muscat | 9273330 | 11147570 | 8416251 | 9612383.667 |
| Bank Dhofar | 2254705 | 2729306 | 2988592 | 2657534.333 |
| Difference | 7018625 | 8418264 | 5427659 | 6954849.333 |



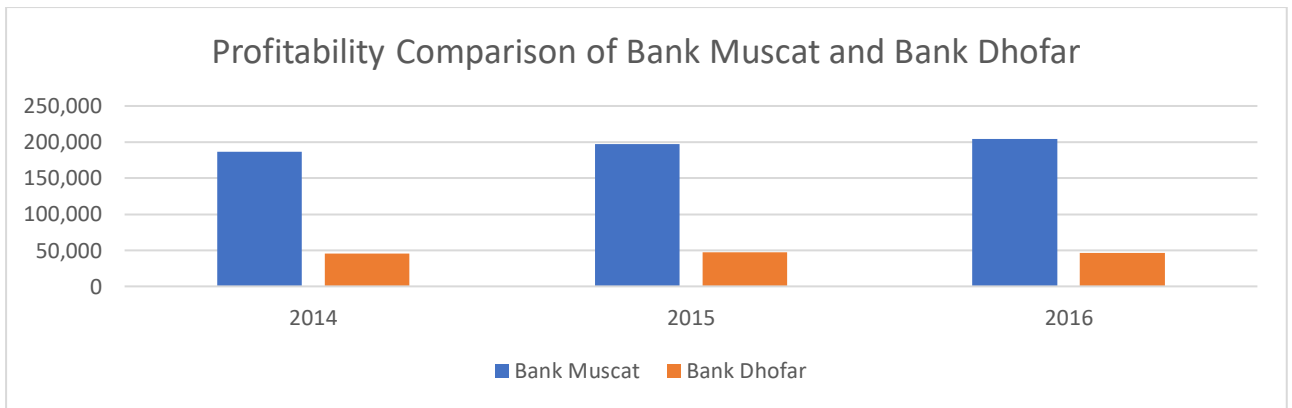
11- PROFITABILITY ANALYSIS

The financial performance is determined by the many indicators. The most renowned indicator of firm profitability is the total profit of the year. These values

were derived from the income statements of the Bank Muscat and Bank Dhofar. The values of the table showed the profits of the year are increasing from 2014 to 2016 of both banks.

Table 2: Profitability Analysis

| Variable | 2014 ‘000’ OMR | 2015 ‘000’ OMR | 2016 ‘000’ OMR | Average Liabilities 000 OMR |
|-------------|-------------------|-------------------|-------------------|-----------------------------------|
| Bank Muscat | 186,270 | 197,518 | 204,373 | 196053.6667 |
| Bank Dhofar | 45312 | 47622 | 46765 | 46566.33333 |
| Difference | 140958 | 149896 | 157608 | 149487.3333 |



The results demonstrated that the Bank Muscat has much higher profits than the Bank Dhofar. The average profit of the Bank Muscat was the 196053 “000 OMR”, whereas the average profit of the Bank Dhofar was 46566 “000 OMR”. The difference of the profit was 149487 that showed the Bank Muscat is much higher in

profit than the Bank Dhofar.

12- THE IMPACT OF LIABILITIES ON PROFITABILITY

To determine the impact of liabilities on the profitability, I used the data of three years from two banks Dhofar Bank and Bank Muscat. The data were derived from the financial statements from 2014-2016.

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------------------|----------|-------------------|----------------------------|
| 1 | .59 ^a | .24 | .074 | 1.629 |

a. Predictors: (Constant), Liabilities

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|-------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 4.027 | .232 | | 17.349 | .000 |
| | Liabilities | .35 | .010 | .277 | 5.060 | .000 |

a. Dependent Variable: Profitability

The results demonstrated that there is positive effect of liabilities on the profitability of the bank Dhofar and Bank Muscat. The liabilities of the Bank Dhofar were low, therefore, the profitability was low, whereas the liabilities of the Bank Muscat were high, and therefore the profitability was also high. There is positive significant effect of liabilities on the profitability (.27, $p < .05$).

The findings of this study demonstrated that Bank Muscat has much high liabilities than the Bank Dhofar from the last three years. Secondly, the bank Muscat also has much higher profit than the Bank Dhofar. The regression analysis showed that there is positive significant impact of liabilities on the banks' profitability.

13- 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.

Moreover, 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. The results demonstrated that the Bank Muscat has much higher profits than the Bank Dhofar. The average profit of the Bank Muscat was the 196053 "000 OMR", whereas the average profit of the Bank Dhofar was 46566 "000 OMR". The difference of the profit was 149487 that showed the Bank Muscat is much higher in profit than the Bank Dhofar. The figures of liabilities of the following table showed that Bank Muscat has very much high liabilities than Bank Dhofar from 2014-2016. Average liabilities of Bank Muscat were 9612383 "000 OMR", whereas the average liabilities of Bank Dhofar was 2657534 "000 OMR". The mean difference was 6954849 "000 OMR" that showed the liabilities of Bank Muscat was much higher than the liabilities of Bank Dhofar. In addition, the results also showed that there is positive effect of bank liabilities on the profitability.

13- 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 unattended 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.

14- 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 in 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.

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