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FINANCIAL PERFORMANCE EVALUATION OF BANKS LISTED IN MUSCAT SECURITIES MARKET, OMAN: A CAMEL'S ANALYSIS MODEL APPROACH

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Abstract: The study is to examine the financial performance of banks listed in MSM, Omanthrough CAMEL model approach. The variables are computedusing financial ratios and compare them with established standards related to the Camel's standard to find out how important it is to implement a standard in the bank and ANOVA is calculated to determine whether results are meaningful. In other words, they help to determine whether you should reject the null hypothesis or accept the alternative hypothesis.The present research study uses descriptive analysis to achieve objectives of the study.The study's aim is to find out how CAMEL components affect the financial performance of MSM-listed banks. The findings support the impact of the CAMEL parameters on commercial bank results. Capital adequacy, asset quality, management efficiency, and liquidity are considered independent variables in the CAMEL model, whereas financial output is considered a dependent variable. All banks should follow and implanting perfect strategy in how used efficiency and effectively asset to generate profit. Moreover, monitoring credit risk of banks and control it.

Key Terms: Capital Adequacy, Asset Quality, Management Efficiency, Earnings, Liquidity

I. INTRODUCTION

Banking sector became significant for the economic growth of every country and governments start to attract more attention in this aspect. The financial performance not stable and change from bank to bank and year from year. Usually using financial ratio to measure the performance in monetary institution.Bank is financial institution it works in the field of investing capital and deals with a group of clients who put their money in the form of depositsin return, it provides them with many services, including loans and deposit**.** In addition, the bank consists of main departments, namely, customer service,

treasury, banking operationsMoreover, Types of banks in terms of the service they provideCentral, investment, commercial and specialized banks.Central banks are the heart of the banking system because it oversees banking activity in general and issues banknotes. Commercial banks are the mediator between depositors and borrowers, and an example of commercial banks is Bank Muscat and Arab Bank.Simply investment banks are the banks that finance major investment projects and stimulate the state's economy and export securities to

companies. The specialized banks are limited to one type of economic activities, whether it is agricultural or tourist activity. Industrial banks aim to revitalize and maintain the industrial aspect. Islamic banks, called non-profit banks, operate in accordance with the provisions of Islamic Sharia. Also, camel rating system is one of the best tools to measure and rating performance of banks wherein the bank regulators or examiners evaluate the overall performance of the banks and determine their strengths and weaknesses depend on the financial statement of banks.

II. REVIEW OF LITERATURE

The traditional approach of ratio analysis under the CAMEL approach is used to evaluate and compare SBI's pre-merger and post-merger financial results, as well as to compare SBI's pre-merger and post-merger profitability. Finally, it can be concluded that there are no significant gains from this merger. Consolidation of poorer and less productive partners could have resulted in more liabilities and nonperforming assets (NPAs) in addition to deposits and earnings(Shaifali Mathur and Aditi Sharma 2021).

Financial Performanceof the business banks in Jordan Based on the CAMELS Framework for a time of five-year during 2014-2018. They center that Jordan banks ought to diminish the working costs and oversee them in a superior manner. The Main target of this investigation is breaking down and assessing the monetary exhibition of the Jordanian banks. This examination had utilized the mean mothed. The finding of this investigation will draw in the consideration of supervisors and partners and academicians (Ammar Daher Bashatweh,Emad Yousif Ahmed 2020).

In order toinspect the financial fulfillment of choose private and public sector using the CAMEL approach, performance of five banks from private sector and five banks from public sector was collected during 5 years from 2012 to 2013. The Capital market asset sharing the value from both directly and indirectly. Since, financial stability of the country is very importance, Banks are organized in many countries. A lot of the nations have a partial reserve banking system the author concluded that parameters of camel model are the best tools to evaluation performance at private sector than the public sector (S. Panbli and Kiran Bride 2019).

Performance Evaluation of Banks in Turkey using Camels Method is caried on. This examination used to dissect and analyze the exhibitions of the banks in the example. also, register CAMELS proportion. information utilized in this investigation has been gathered from true sources like Bank Association of Turkey, Banking Regulation and Supervision Agency (BRSABDDK) and furthermore official sites of each bank, twelve years' time span (2005-2016). It can catch the adjustments in the presentation of a bank promptly they happen. With CAMELS investigation, it is likewise very straightforward the explanation of inadequacies via cautiously examining the proportions behind the CAMELS proportionMasoud Ghazal 2018).

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III. RESEARCH DESIGN

3.1 Population of the study

For the purpose of present research study total number of banks operating in Oman are considered as population and there is total 17 banks operating as per Central Bank of Oman report.

3.2 Sample Size

For the current research study banks listed in Muscat Securities Market (MSM) are considered and there is total 9 banks listed in MSM, Oman. Since data is available for all the banks listed, all of them are constituted for the sample of the study. These banks are from both public and private sectors. The list of banks analyzed for the present research study are presented in below table. In this study we are focusing on banks that listed in MSM:

S. No	Banks
1	AHLI BANK
2	BANK DHOFAR
3	BANK NIZWA
4	HSBC BANK OMAN
5	NATIONAL BANK OMAN
6	BANK MUSCAT
7	SOHAR INT. BANK
8	OMAN ARAB BANK

3.3 Study period

The current research study is carried out based on the selected banks annual reports for the period of nine years starting from 1st January 2012 to 31st December 2020.

3.4 Data collection

The data required for the current research study was extracted from the audited annual reports (Balance Sheet and Income statement) of the banks listed in MSM for the last 9 years (2012-2020) available at MSM website. The required data is also taken from the reports available in the websites of concerned banks under study and Central Bank of Oman.

3.5 Methodology and Tools

3.5.1: CAMELS Model:

This study tries to know more by using secondary data and various techniques to evaluate the performance of Omani bank in MSM. Therefore, the study will be using different methods in gathering data such as, Arithmetical Mean, Standard Deviation, and ANOVA. These are the tools to be use in our study while assessing the Banks's performance in the MSM through CAMEL Model.

3.5.2 ANOVA:

ANOVA is one way to determine whether survey or trial results

are meaningful. In other words, they help you determine whether you should reject the null hypothesis or accept the alternative hypothesis. For example, when you have different groups, and you want to see what different between them.

3.6 Research Objectives:
1) To assessthe financial performance of banks listed in MSM, Oman.
2) To evaluate each and every parameter of CAMELS model approach for the banks listed in MSM Oman
3) To provide ranksto banks under study on the basis of CAMELS parameters and recommend concerned banks for further improvement and enhancement.

3.7 HYPOTHESES OF STUDY:

Based on the objectives to be accomplished, following hypothesis has been developed for each parameter of CAMELS model.

3.7.1. Hypothesis for Capital Adequacy:

Ho: There is no significant difference in the financial performance of banks listed in MSM, Oman based on Capital Adequacy

H1: There is a significant difference in the financial performance of banks listed in MSM, Oman based on Capital Adequacy.

3.7.2. Hypothesis for Assets Quality:

Ho: There is no significant difference in the financial performance of banks listed in MSM, Oman based on asset quality

H1: There is a significant difference in the financial performance of banks listed in MSM, Oman based on assets quality.

3.7.3. Hypothesis for Management Efficiency:

Ho: There is no significant difference in the financial performance of banks listed in MSM, Oman based on management efficiency

H1: There is a significant difference in the financial performance of banks listed in MSM, Oman based on management efficiency.

3.7.4. Hypothesis for Earnings:

Ho: There is no significant difference in the financial performance of banks listed in MSM, Oman based on earnings

H1: There is a significant difference in the financial performance of banks listed in MSM, Oman based on earnings.

3.7.5. Hypothesis for Liquidity:

Ho: There is no significant difference in the financial performance of banks listed in MSM, Oman based on liquidity

H1: There is a significant difference in the financial performance of banks listed in MSM, Oman based on liquidity.

3.7.6. Hypothesis for Sensitivity to Market Risk:

Ho: There is no significant difference in the financial performance of banks listed in MSM, Oman based on sensitivity to market risk

H1: There is a significant difference in the financial performance of banks listed in MSM, Oman based on sensitivity to market risk.

RESULTS AND DISCUSSION

1- Capital Adequacy ratio:

Table 1.1 (capital Adequacy)

Bank	AHLI BANK	BANK DHOFAR	BANK NIZWA	HSBC BANK OMAN	NATIONAL BANK OMAN	Bank Muscat	SOHAR INT. BANK	OMAN ARAB BANK
Average Values	15.25	15.49	33.06	21.97	16.2	15.63	14.16	9.26
Rating	1	1	1	1	1	1	1	2

It illustrate the capability of the bank to meet commitments on time and other risks and it used to protect depositors and enhance the stability and efficiency of financial systems of any banks .Most of the banks listed in MSM have ability and enough capital to meet any risks related to financial obligation that's because get rating of 1 in camels model which the means the best .Moreover, it protect depositors from credit risks, operational risks, and others. This strengthens the relationship and trust between the bank and its customers.

Table 1.2 ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	19508.5	8	2438.57	0.97511	0.46363	2.08919
Within Groups	157550	63	2500.8			
Total	177059	71				

According to above table, the calculated value (0.751617) is less than critical value (2.089185) Null hypothesis that is H0 should accepted there is no significant different in the capital adequacy of bank listed in MSM.it means there is no different in performance of bank all banks same

2. Asset Quality

Table 2.1: Asset Quality (Total Assets Turnover Ratio).

Bank	AHLI BANK	BANK DHOFAR	BANK NIZWA	HSBC BANK OMAN	NATIONAL BANK OMAN	Bank Muscat	SOHAR INT. BANK	OMAN ARAB BANK
Average Values	1.43	1.27	1.18	0.62	48.57	1.58	1.06	1.25
Rating	1	1	1	1	5	2	1	1

It evaluates the nature of a bank's resources. Resource quality is significant, as the estimation of resources can diminish quickly in the event that they are high danger.Most of the banks listed in MSM have ability and enough Assets to meet any risks related to resource of banks that is

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because get rating of 1 in camels' model which the means the best. Moreover, only two banks get different rating, the first is bank Muscat which get rating of 2 which mean can be dealt with routinely. The last bank which is <u>National bank Oman</u>get rating of 5 which is poor rating it mean the bank has risk and need to pay more in insurance premium.

Table 2.2: ANOVA.

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	19508.5	8	2438.57	0.97511	0.46363	2.08919
Within Groups	157550	63	2500.8			
Total	177059	71				

The above table demonstrates that the calculated value (0.975115) is less than critical value (2.089185) null hypothesis that is Ho should be accepted that is there is no significance difference in the asset quality of banks listed in MSM. That is mean there is no difference between performance of banks, all banks are same performance in this ratio.

3.Management efficiency

Table 3.1: management efficiency (credit deposit ratio).

Bank	AHLI BANK	BANK DHOFAR	BANK NIZWA	HSBC BANK OMAN	NATIONAL BANK OMAN	Bank Muscat	SOHAR INT. BANK	OMAN ARAB BANK
Average Values	84.88	82.30	42.00	68.12	42.24	75.68	24.56	24.4
Rating	5	5	4	5	4	5	1	1

All Private and public banks listed in MSM rating 1 due to good investment their money to get profit also this figure reflect how much management strong to control and protect their capital from any risk and follow a well thought out investment plan. According to credit deposit ratio which show relationship between deposit and lending. The rating of Oman Arab banks and bank Sohar 1 which means the best in controlling and manage between deposit and lending also, it means they depend on its own deposits to make loans to its customers, without any outside borrowing. On the other hands,Ahli bank, bank Dhofar, HSBC bank and bank muscat get theworst ratio which is 5 in the term of controlling between deposit and lending also it means this company use outside deposit to get loan for their costumer. At the end bank Nizwa and national bank facing same problem related to above banks but still little better than other because the rating is 4.

Table 3.2: ANOVA.

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4937.891	8	617.2364	0.526618	0.832098	2.089185
Within Groups	73840.78	63	1172.076			
Total	78778.67	71				

In credit deposit ratio its clear to see that calculated value less than critical value and give us same result of last value and confirm us that management ratio (credit deposit ratio) will not affect efficiency of performance of banks. Also, hypothesis that is H0 should accepted there is no significant different in the management ratio of bank listed in MSM.

4.Earning Quality:

Table 4.1: Earning Quality (Net Profit Ratio).

Bank	AHLI BANK	BANK DHOFAR	BANK NIZWA	HSBC BANK OMAN	NATIONAL BANK OMAN	Bank Muscat	SOHAR INT. BANK	OMAN ARAB BANK
Average Values	53.77	38.97	46.07	22.25	37.60	41.29	35.19	34.16
Rating	1	1	1	1	1	1	1	1

This criterion emphasizes how a bank generates income. This also describes the long-term viability and growth of earnings. Earning quality refers to a bank's profitability as well as its ability to sustain quality and reliably earn. This metric determines whether a company is profitable or not. The banks' operating effectiveness. Earning quality have the many ratios such as: Net Profit Ratio. The net profit ratio is a measure of a company's operating performance. Increases in the ratio signify improved results and decreases in the ratio indicate management inefficiency and high selling and distribution expenses. Most of the banks listed in MSM have ability and enough earning quality to meet any risks because get rating of 1 in CAMELS model which the means the best. And the second ratio is Interest Income to Total Income Ratio. The bank's ability to generate income from its lending is measured by the interest income to total income ratio. This ratio calculates the profits from lending activities as a percentage of the bank's overall revenue for the year. Advance income, interest on loans, and dividend income are all examples of interest income. All the banks listed in the MSM getting rating of 1 in CAMELS model which means the best and it is risk free.

Table 4.2: ANOVA.

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4599.183369	8	574.8979	2.681609	0.01329	2.089185

Within Groups	13506.28356	63	214.3855				
Total	18105.46693	71					

The table above will test the overall significance of relationship between calculated value and critical value. If the calculated value is less than critical value which mean is null hypothesis that is should be accepted that is there is no significance difference in the ratio of banks listed in MSM. And if calculated value is more than critical value which mean null hypothesis should be rejected that is there is a significance difference in the ratio of banks listed in MSM. According to the numbers in the table above, we see that the calculated value is more than critical value it is mean null hypothesis should be rejected that is there is a significance difference in the Earning Quality (Net Profit Ratio) of banks listed in MSM.

5.Liquidity Management:

Managing the liquidity of financial institutions like banks is the primary objective of its management. Liquidity is the ability of a business to convert its financial assets into cash as soon as possible or as quickly as possible, or we can say the availability of funds, to pay off all its financial obligations when they are outstanding. It is the cornerstone of every treasury and finance department.

Bank	AHLI BANK	BANK DHOFAR	BANK NIZWA	HSBC BANK OMAN	NATIONAL BANK OMAN	BANK MUSCAT	SOHAR INT. BANK	OMAN ARAB BANK
Average Values	65.24	77.52	35.00	45.46	60.50	25.64	39.15	70.47
Rating	1	1	1	1	1	1	1	1

Table 5.1: Liquidity (Current Ratio).

As we see in the above table, most of banks has a good liquidity and do well. BANK NIZWA has best liquidity. So, it has an ability to convert its financial assets into cash most rapidly. While, HSBC BANK OMAN has less liquidity when comparing with other banks which listed in MSM. So, it has less availability of the funds to pay off all its financial obligations when they become due.

Table 5.2: ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	3131.58	8	391.448	4.60305	0.00019	2.08919
Within Groups	5357.58	63	85.041			
Total	8489.16	71				

The above table will show us if there is relationship or effect capital adequacy in financial performance of banks, according to above table, Null hypothesis that ss H0 should accepted there is no significant different in the Liquidity Management of bank listed in MSM, it means there is no different in performance of bank all banks same.

6.Sensitivity to Market Risk:

Bank	AHLI BANK	BANK DHOFAR	BANK NIZWA	HSBC BANK OMAN	NATIONAL BANK OMAN	BANK MUSCAT	SOHAR INT. BANK	OMAN ARAB BANK
Average Values	21.84	10.89	60.88	17.23	8.55	4.48	12.51	12.73
Rating	5	5	4	5	5	5	5	5

Table 6.1: Sensitivity (Sensitivity Ratio)

Sensitivity to market risk indicates the extent to which fluctuations in interest rates, foreign exchange rates, commodity prices, or equity prices can negatively affect earnings of financial institution or capital. For most public banks, market risk mainly shows exposure to adjusting interest rates.

As we see in the above table, most of banks not has a good Sensitivity and do not well.

BANK NIZWA has less Sensitivitywhen comparing with other banks. So, its changesin interest rates of bank effect little bit on its earnings than other. While, BANK MUSCAT has more Sensitivity when comparing with other banks which listed in MSM. So, it has more changes in interest rates than other and equity prices can negatively affect earnings.

Table 6.2: ANOVA.

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2017.231	7	288.1759	0.427864	0.880741	2.178156
Within Groups	37717.26	56	673.5225			
Total	39734.49	63				

According to Table above illustrate that The calculated value(0.427864) is less than Critical value (2.178156) it means hypothesis that is H0 should accepted there is no significant different in the sensitivity ratio of bank listed in MSM and sensitivity ratio will not affect performance of banks.

V. FINDINGS

The findings support the impact of the CAMEL parameters on commercial bank results. Capital adequacy, asset quality, management efficiency, and liquidity are considered independent variables in the CAMEL model, whereas financial output is considered a dependent variable. All banks

should follow and implanting perfect strategy in how used efficiency and effectively asset to generate profit. Bank muscat and HCBS bank get the best ratio in 2020 by around 20%. That due to increase deposit money and do big investment also because has good and strong management.On the other hands, last 3 years of bank Sohar facing some problems related used of asset to generate profit that causes loss in asset.Bank Dhofar it's the best in the aspect of management efficiency because there is a huge increase from 10% to 98% in 9 years. However, bank Nizwa is worthiest in this aspect fall by 50% from 2012 to 2020.Ahli bank and National bank best ability and enough earning quality to meet any risks, bank Nizwa but has less ability of it.

VI. CONCLUSION AND RECOMMENDATIONS

The research attempts to examine and compare the performance of banks listed in MSM. For the duration of 2012 to 2020, various types of techniques were used to achieve the study's goal, including descriptive statistical analysis, CAMELS analysis, and ANOVA. The study's aim is to find out how CAMEL components affect the financial performance of MSM-listed banks. The findings support the impact of the CAMEL parameters on commercial bank results. Capital adequacy, asset quality, management efficiency, and liquidity are considered independent variables in the CAMEL model, whereas financial output is considered a dependent variable. The sample size for this analysis is eight banks, with financial data obtained from their annual reports reported on MSM for a nine-year period (2012 to 2020).

All banks should prepare and design perfect plan to make sure increase capital also, to evaluate bad debt and which time will converted to equity. Moreover, when merging with others bank the common benefit of all banks should come in first point. Banks should follow and implanting perfect strategy in how used efficiency and effectively asset to generate profit. The important step here to increase or raise the value of quality of management and management process to ensure quality of banks performance. And to control and balance between lending and deposit. Also, create new way to attract or bring more customer.The banking administration must identify and expose errors and solve related problems to improve Iraqi banking realities and provide better banking services to attract customers and increase their competition for profit.Bank securitization can be used to convert a mortgage portfolio (which is a personal equity asset) into cash (very liquid assets). When a bank takes out a mortgage, it has the rights to the future flow of income that the lender provides by repaying the loan. Effectively, it makes a property on its balance sheet.

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