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ANALYSIS OF THE OVERALL FINANCIAL PERFORMANCE OF THE BANK DHOFAR

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ABSTRACT

Purpose: This study aims to analyze Bank Dhofar's financial performance from 2019 to 2023, evaluating itsefficiency in resource utilization, profitability, and growth within a competitive market context. The analysis provides crucial insights for investors, stakeholders, and bank management to make informed decisions.

Design/methodology/approach: Employing a quantitative analytical approach, this research utilizes secondary data from Bank Dhofar's annual financial reports available from the Muscat Securities Market. The study examines profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios to assess the bank's financial resilience and operational efficiency amidst changing market conditions.

Research limitations/implications: Limitations include the reliance on secondary data sources and the scope confined to Bank Dhofar's financial reports. Future research could expand to include primary data collection and comparative analyses across multiple banks for broader insights.

Social implications: Understanding Bank Dhofar's financial performance enhances stakeholders' understanding of its operational effectiveness and strategic direction, fostering confidence in the bank's stability and growth potential. This knowledge is crucial for maintaining trust and transparency in the financial sector.

Originality/value:This study contributes to the literature by providing a comprehensive analysis of Bank Dhofar's financial performance over a five-year period, highlighting strategic areas for improvement and suggesting

recommendations to sustain and enhance its competitive edge in the banking industry.

KeyWords

Financial performance, Banking sector, operational efficiency, profitability, liquidity ratios, asset quality ratios, capital adequacy.

1. Introduction

In an increasingly competitive global banking environment, financial institutions face constant pressure to maintain and enhance their financial performance. The effectiveness of a bank's financial management directly impacts its ability to compete, grow, and deliver value to shareholders. In this context, analyzing the financial performance of banks becomes essential for stakeholders, including investors, regulators, and policymakers, to make informed decisions (Mohammed et al., 2019).

Bank Dhofar, one of the leading banks in the Sultanate of Oman, has been a pivotal player in the country's banking sector. Established in 1990, the bank has expanded its operations to provide a wide range of financial services, including retail banking, corporate banking, investment banking, and treasury services. Over the years, Bank Dhofar has built a reputation for its customer-centric approach, innovative banking solutions, and strong financial performance (Al-Bimani & Matriano, 2021). However, the banking sector is subject to various external and internal challenges, such as economic fluctuations, regulatory changes, technological advancements, and shifts in consumer preferences. These factors necessitate a comprehensive evaluation of a bank's financial health and performance metrics.

This study aims to analyze the financial performance of Bank Dhofar over a specific period, focusing on key financial indicators such as profitability, liquidity, asset quality, and capital adequacy. By examining these indicators, the study seeks to identify trends, strengths, and areas for improvement in the bank's financial management. The findings of this study will provide valuable insights into the bank's operational efficiency, risk management practices, and strategic positioning in the market. Furthermore, this analysis will serve as a benchmark for comparing Bank Dhofar's performance with that of its peers in the banking industry. It will also offer recommendations for enhancing the bank's financial stability and competitiveness in the future. The outcomes of this study will contribute to a deeper understanding of the dynamics of Bank Dhofar's financial performance and its implications for stakeholders.

1.1 Statement of the Research Problem

The current state of the economy and its fluctuations impact the financial situation. In addition to loan and interest margins, return on assets and interest rates also have an impact on Bank Dhofar's financial performance.

Moreover, these elements dictate excellent or poor financial performance. Banks priorities finance and performance; however, they exhibit a lack of concern regarding the determinants or mechanisms that influence financial performance. This results in poor financial performance due to a disregard for the factors that influence it. This study examines Bank Dhofar's financial performance.

1.2 Aims and Objectives of the Study

1. To examine the significance of Bank Dhofar's main financial performance indicators and between 2019 to 2023.

2.To examine Bank Dhofar's primary financial ratios and determinants of profitability, liquidity, asset quality ratios and capital adequacy.

3.To evaluate the bank's financial performance trends to industry benchmarks in order to assess its overall performance.

4.To analyze the bank's weaknesses and strengths and determine the macroeconomic variables influencing the bank's overall performance over duration (2019 -2023).

5.To provide recommendations for enhancing strategic decision-making and financial performance considering the analysis conducted.

1.3 Research Questions

1. What are the factors affecting the overall financial performance of Bank Dhofar?

2. What is the impact of the factors that affect the financial performance of Bank Dhofar?

3. What are the main financial performance indicators of Bank Dhofar?

4. What are the macroeconomic variables affecting the bank’s overall performance during the period (2019–2023)?

5. What are the recommendations to enhance strategic decision-making and financial performance in light of the analysis conducted?

2. LITERATURE REVIEW

2.1 Introduction

Financial performance, which measures how effectively an organization uses its core assets to create income, is a naturally subjective standard. Additionally, it serves as a broad gauge of a business's financial health over a specific time frame. In general, investors use the evaluation and measurement of financial performance to provide information and describe the characteristics of their investments (Jadah et al., 2020). Financial performance is a subjective measure because it depends on the diligence with which an entity's assets work in conjunction with its core business to generate revenue. Additionally, it serves as a broad indicator of a firm's financial performance at a specific moment in time. Furthermore, investors use financial performance measurement and evaluation as determining factors in their investment attitude (Lotto, 2019). This chapter will begin with a literature review on performance determinants, followed by an analysis of the effects of each determinant. Then, it aims to appraise and analyse the financial metrics used in bank financial health evaluations and give recommendations to banks in order to handle their financial performance.

Qing et al. (2022) contend that numerous metrics exist for assessing financial performance. For example, return on sales indicates the proportion of a company's earnings to its sales; return on assets assesses the efficiency with which a company utilises its assets; and return on equity discloses the return that investors anticipate on their investments. Evaluation of a company's performance is possible in three dimensions. The organization's efficacy, or the efficiency of transforming inputs into outputs, is the first dimension. The second dimension pertains to profitability, which denotes the extent to which a company's earnings exceed its expenses. The market premium, which is the point at which a company's market value surpasses its book value, constitutes the third dimension.

2.2 The importance of the main financial indicators of banks

The financial soundness and efficiency of banks are important not only to investors but also to regulators and policymakers. The financial indicators employed provide a comprehensive understanding of the operational efficiency, stability, growth, and risk profile of the bank in a fair and Acura review of scientific literature highlights the significance of basic financial indicators in the functioning of the banking system. These indicators are then utilized in papers, typically revealing profitability, liquidity, asset quality, and capital adequacy. adequacy. It includes several financial ratios (Da Silva et al., 2017).

2.2.1 Profitability Indicators

Profitability indicators are important because they address a key issue in evaluating a bank: its ability to produce earnings predicated on the resources it uses. This bucket contains two key ratios: return on assets and return on equity. Return on Assets (ROA) serves as a crucial metric for assessing management effectiveness, as it provides insight into the amount of net income generated by your total assets. As Prokopenko et al. (Prokopenko et al. (2023) point out that banks of various sizes often use ROA, which standardizes profits by the asset base, to assess their performance. Similarly, ROE, on the other hand, quantifies the return on equity, indicating the efficiency with which a bank utilizes its equity to generate gains. indicator for shareholders, as it directly reflects the profitability of their investments (De Araujo et al., 2018). Banks are also frequently associated with high profitability ratios, serving as yet another indication of the bank's desirability to investors due to its established efficient operations and well-balanced management practices.

2.2.2 Liquidity Indicators

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2.2.3 Asset Quality Indicators

As a result, asset quality indicators are the key assent which determine and report the risk associated with the loan portfolio of a bank. The Non-Performing Loans and Loan Loss Provision makeup key ratios within this segment. The NPL ratio, which reflects the proportion of loans that are in default or are about so, is an important indicator that tells you about the quality of a bank's assets. Huang et al. (2020) add that NPL ratios above acceptable levels suggest that the bank is not solvent nor is it holding the right type of assets. The LLP ratio refers to the reserves kept for loan losses to offset bad debts. Huang et al. (2020) argue that sufficient loan loss provisions are

required to allow banks to absorb losses and preserve their solvency. This assists in helping banks manage their credit risk and maintain financial stability.

2.2.4 Capital Adequacy Indicators

Capital adequacy indicators Capital adequacy indicators are measures of a bank's capacity to absorb losses and protect depositors. Their main benchmarks are the Capital Adequacy Ratio and the Tier 1 Capital Ratio. The Capital Adequacy Ratio (CAR) serves as a regulatory measure to guarantee a bank's ability to meet its obligations during extended periods of stress on its balance sheet. According to Basel 3, a strong capital-to-risk-weighted asset ratio is the key to a stable banking sector (Khan et al., 2020). The Tier 1 Capital Ratio, which compares Tier 1 capital to risk-weighted assets, is a more conservative measure of a bank's financial strength. Tier 1 capital: According to Musa et al. (2021), Tier 1 capital, the core capital, acts as a buffer against unexpected losses and is critical for the bank's long-term viability. A high capital adequacy ratio is a sign of a low-risk and strong financial institution that can yield compliance and investor confidence, thereby boosting financial performance.

2.3 Financial ratios used to analyze the financial performance of banks

Evaluating banks' financial performance is critical for stakeholders including investors, regulators, and bank management. Financial ratios provide comprehensive tools for assessing different aspects of a bank’s operations, including profitability, liquidity, asset quality, and capital adequacy. This literature review examines these key ratios, drawing from recent academic research and industry reports.

2.3.1 Profitability Ratios

Profitability ratios are essential for assessing a bank’s ability to generate earnings relative to its resources. Key metrics include return on weighted average total equity (including additional Tier 1 capital), return on weighted average paid-up capital, and return on average assets. Return on Weighted Average Total Equity, which includes AT1 capital, provides a comprehensive view of profitability by incorporating the cost of AT1 instruments, which are crucial for modern bank capital structures (European Banking Authority, 2018). Return on Weighted Average Paid-up Capital focuses on the return generated on the capital paid in by shareholders, reflecting effective capital management (Bharathi & Mayya, 2022).

DeYoung & Rice (2004) widely use Return on Average Assets as a key indicator for comparing banks of different sizes, as it measures how efficiently a bank uses its assets to generate earnings. Furthermore, the non-interest income to operating income ratio emphasizes the diversification of a bank's revenue streams, indicating more stable revenue (Demirgüç-Kunt & Huizinga, 2010). The Operating Expenses to Operating Income ratio, or

cost-to-income ratio, assesses operational efficiency; a lower ratio indicates higher efficiency (Bharathi & Mayya, 2022).

2.3.2 Liquidity Ratios

Liquidity ratios evaluate a bank's ability to meet its short-term obligations, ensuring it can handle sudden cash flow demands. A lower ratio indicates better liquidity (King & Tarbert, 2020). The Basel Committee on Banking Supervision created the Liquidity Coverage Ratio (LCR). It makes sure that banks have enough high-quality liquid assets to cover their net cash outflows over a 30-day stress period. This makes them more resistant to short-term liquidity disruptions (Ardekani et al., 2020). The Net Stable Funding Ratio aims to promote long-term funding stability by requiring banks to maintain a stable funding structure relative to their assets and off-balance-sheet activities, ensuring they do not rely excessively on short-term wholesale funding (Al, 2021).

2.3.3 Asset Quality Ratios

Asset quality ratios are crucial for understanding the credit risk associated with a bank's loan portfolio. The Loan Loss Provisions to Total Loans ratio measures the reserves set aside for potential loan losses relative to the total loan portfolio, reflecting the bank's risk management practices (Ozili, 2018). The ratio of non-performing loans to total loans indicates the proportion of loans that are in default or close to default, which is a critical measure of asset quality (Nugroho et al., 2020). Non-Performing Loans Net of Interest Reserve to Total Loans adjusts the NPL ratio by excluding interest reserves, providing a clearer picture of credit risk (European Central Bank, 2021). Net Non-Performing Loans measures the amount of non-performing loans after deducting provisions, highlighting the actual exposure to credit risk (Ozili, 2018). The Non-Performing Loans Coverage Ratio indicates the extent to which a bank's loan loss provisions cover its non-performing loans, with higher ratios suggesting better coverage and stronger financial positions (ECB, 2021).

2.3.4 Capital Adequacy Ratios

Capital adequacy ratios assess a bank's ability to absorb losses and protect depositors and creditors. According to Basel III, the Common Equity Tier 1 (CET1) ratio is a key sign of financial stability because it shows how much core equity capital a company has compared to its risk-weighted assets (BIS, 2018). The Tier 1 capital ratio comprises CET1 capital and additional Tier 1 instruments, providing a more comprehensive measure of capital adequacy. The Total Capital Adequacy Ratio encompasses all types of regulatory capital relative to risk-weighted assets, reflecting a bank's overall capital strength. Finally, the shareholder's equity to total assets ratio

measures the proportion of total assets financed by shareholders' equity, indicating financial leverage and stability (Baldwin et al., 2019).

3. RESEARCH METHODOLOGY

3.1 Introduction

The exploration technique is a method used to study the subject. It is crucial to use a systematic approach to meticulously prepare this inquiry. This ensures the accuracy and reliability of the results (Kim et al., 2020). It will elaborate on the principal approach for the secondary data in this chapter.

The primary goal of this study is to analyze Bank Dhofar's overall financial performance. This chapter will outline the methods used to conduct the study, including the research design, in addition to the data collection techniques, methods of data collection, data analysis techniques, and legal, ethical and social considerations.

3.2 Research Design

The exploration configuration refers to the collection of fundamental information through the application of research methodologies. In simpler terms, research refers to the process of gathering and analysing information or data through the formulation of a hypothesis, resulting in well-structured and significant results (Sohangir et al., 2018).

Achieved obtained the financial details and data of Bank Dhofar from the Muscat Securities Market, covering the period from 2018 to 2023. Furthermore, the successful completion of this research project hinges on the utilization of secondary data, a readily accessible source of information, and financial reports sourced from the Muscat Securities Market (Queiri et al., 2021).

This research will rely on secondary sources, avoiding the use of primary sources. Therefore, we will use the numbers from the Muscat Securities Market website as a reliable source. We will examine the financial reports for BankDhofar from 2019 to 2023. By analysing these data and financial reports, the researcher will have a deeper understanding of the study criteria and will be able to identify the research problem and develop appropriate solutions to it. Secondary data refers to information collected from papers or the Internet.

Quantitative information refers to any data that can be quantified, specifically in the form of numbers. Anything that can count, measure, and assign a numerical value is considered quantitative. This sort of data analysis involves the collection, evaluation, and presentation of a large amount of data in order to identify patterns and trends. The effectiveness of this type of study stems from the numerical nature of the data and its mathematical processing (Sohangir et al., 2018).

4. DATAT ANALYSIS

4.1 Introduction

Data analysis techniques have the ability to improve any category of information by extracting actionable insights. The overwhelming amount of data may obscure metrics and trends, but data analysis techniques can uncover them. The company or system can then use this data to improve processes, thereby enhancing overall productivity (Staff, 2024).

Quantitative analysis in finance is the use of mathematical and statistical methods to analyze financial and economic data to make trading, investment, and risk management decisions. Qualitative analysis is the summarization of verifiable and measurable information, such as revenues, market share, and wages. Understanding the company's behavior and performance is the essence of qualitative analysis. The quantitative stakeholders or those who measure performance can draw plausible conclusions based on the results of the deliverables. For business owners and company directors, traditional decision-making relied heavily on intuition and experience. Quantitative analysis, on the other hand, is the optimum way to produce sound decisions in the era of data technology (Staff, 2024).

This study involves a systematic examination of a business organization's financial data framework, with the aim of obtaining clear and meaningful information about a firm's stability, viability, performance, activities, and opportunities. We conducted a thorough analysis of the investing company's historical and current financial data, using its balance sheet, profit statement, and statement of profits and losses as proof (Van Mourik & Katsuo, 2014).

The following chapter will present the analysis of Bank Dhofar's financial performance. The chapter includes the financial data presented in the bank’s annual reports attached to the Muscat Securities Market for the period from 2019 to 2023.

4.2 Profitability

The primary metric for assessing a company's financial strength is its profitability. It is a measure of how effectively it converts costs and investments into revenues. This parameter necessitates the consideration of a comprehensive set of indicators that delve into the enterprise’s interior mechanism and well-being (Qing et al., 2022).

The assessment includes: RWA and AT1; shareholders’ equity. Average paid-up capital: average Assets and non-interest income contribute to operating income, and operating expenses contribute to operating income. By studying interconnected factors extensively, one gains a holistic understanding of Bank Dhofar’s profitability, whether strategies succeed, and its overall financial condition. This evaluation furnishes important insights that

assist stakeholders in making informed decisions regarding investment, leadership and strategic planning going forward (De Araujo et al., 2018).

4.2.1 Return on Weighted Average Total Equity (including AT1)

Year	Return on Weighted Average Total Equity (including AT1)
2019	4.37%
2020	4.43%
2021	3.60%
2022	4.83%
2023	5.40%

Table 4. 1: Return on Weighted Average Total Equity (including AT1)

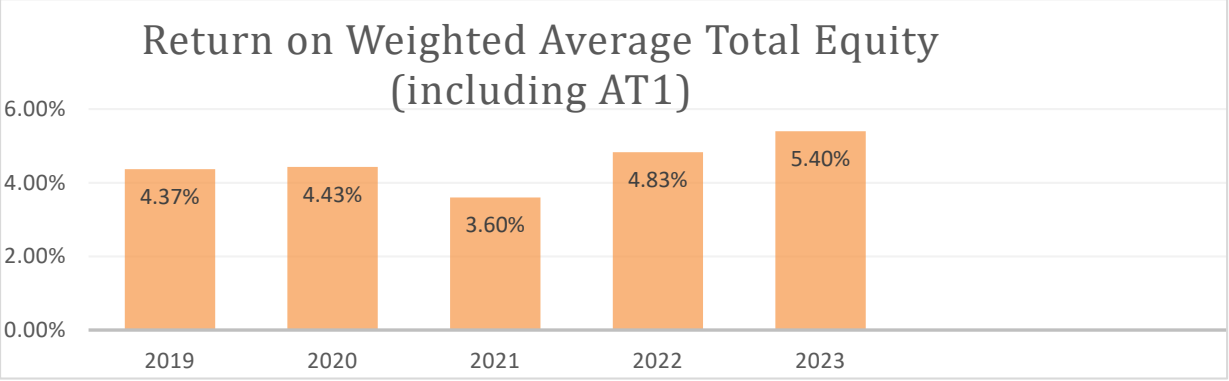

Figure 4. 1: Return on Weighted Average Total Equity (including AT1)

From the table above, it is easier to notice that return slightly increased from 4.37% to 4.43% in the 2019–2020 period, an indication of marginal improvement in profitability. However, the subsequent period of 2020–2021 recorded a significant decline to 3.60%. This was likely due to lower profitability or a high equity base, which weakens returns. The year 2021-2022 should only be considered a recovery year because returns have increased by 4.83%. Therefore, it was either a matter of profitability growing or the bank starting to utilise equity more efficiently. Furthermore, 2022-2023 continues the improving pattern with a return of 5.40%, exhibiting the continued growth trend in bank resource use.

Furthermore, minor improvements in profitability or better efficiency can explain the 0.06% differences between 2019-2020 and 2020-2021. Therefore, the decline from 4.43% to 3.60% (2nd pattern: 0.83%) can be attributed to periodic fluctuations on an annual basis due to various factors such as the economy, competition, LL provisions, or the base effect. The difference from 3.60% to 4.83% in the third quarter: +1.233% indicates a return

to the recovery phase, which could be attributed to organic growth in the asset book, improved asset quality, income growth, or artificial intelligence. The difference from 4.83% to 5.40% in the fourth quarter, which is +0.57%, indicates a period of continuous growth and a return to the best return patterns. In an overall perspective, the bank shows resilience and recovery after a decline in 2021, indicating an ability to adapt and grow profit (Bharathi & Mayya, 2022).

4.3 Liquidity

Liquidity ratios are basic financial ratios used to determine a bank's ability to pay off its short-term debts without additional capital. These ratios give us an idea of the financial health of an entity, specifically how efficiently it converts its assets into cash in order to pay its liabilities. To offer a more complete picture of Bank Dhofar's liquidity management and therefore its overall soundness, it makes sense to examine a more extended period for the bank and a greater variety of liquidity ratios such as net loans to total deposits, liquidity coverage Ratio and net stable funding ratio (King and Tarbert, 2020).

The net loans-to-total deposits ratio is a key metric that gauges a bank's ability to mobilize its deposits in order to yield loans. This ratio has fluctuated over the past five years at Bank Dhofar, reflecting the fluctuations in lending activities and deposit growth. A high ratio reflects a strategic leaning towards balance sheet optimisation, which can drive returns but also expose liquidity risk if not managed effectively. The liquidity coverage, net stable funding, and net loans to total deposits ratios of Bank Dhofar are noteworthy.

4.3.1 Net Loans to Total Deposits

Year	Net Loans to Total Deposits
2019	104.08%
2020	114.13%
2021	112.45%
2022	118.63%
2023	114.14%

Table 4. 2: Net Loans to Total Deposits

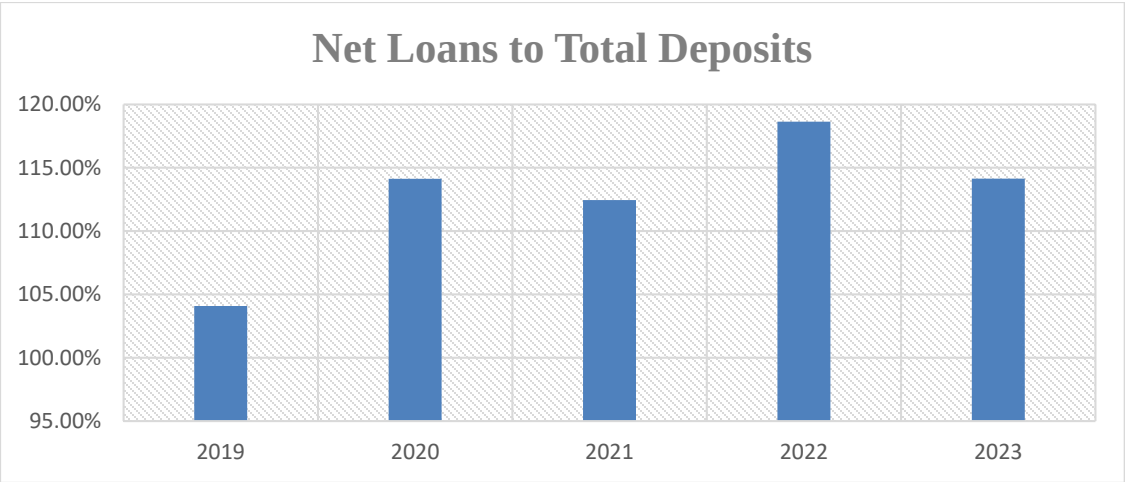

Figure 4. 2: Net Loans to Total Deposits

According to the table above, the period between 2019 and 2020 shows a rise from 104.08% to 114.13% (10.05 percentage points), indicating a significant increase in lending activity compared to deposit growth. As for 2020–2021, it decreased from 114.13% to 112.45% (1.68 percentage points), indicating a slight correction or stabilization in the growth of loans compared to deposits. In 2021-2022, the growth in net loans surged from 112.45% to 118.63% (6.18 percentage points), surpassing the growth in deposits. Also, 2022–2023 will decline from 118.63% to 114.14% (4.49 percentage points) to rebalance slightly, but the ratio is still high, indicating a continued focus on lending.

Over the five-year period, the ratio has fluctuated, reaching a low of 104.08% in 2019 and a high of 118.63% in 2022. The overall trend indicates that Bank Dhofar has maintained a high level of lending relative to its deposits, with some fluctuations reflecting changes in loan demand and deposit growth. High ratios generally indicate a strong focus on lending activities, which can be profitable but also carry risks if not matched by sufficient deposit growth. The rise in net loans to total deposits also indicates that the bank needs to carefully manage its liquidity to ensure its ability to meet withdrawal requests and other obligations.

4.4 Asset Quality Ratios

Asset quality is an important parameter that determines a bank's financial health and risk management capabilities. It indicates the health of the bank's loan books and its approach to operating in terms of credit risk. This requires consideration of a broader range of indicators that cover asset quality and the effectiveness of risk mitigation strategies. The loan loss provision to total loans, non-performing loans to total loans, non-performing loans, net interest margin to total loans, net non-performing loans, and non-performing loan coverage ratio are some of the ratios that are used to judge the performance of liquidity management (A wide range of interconnected

variables result in a combined profile, asset quality, risk assessment, and financial flexibility. variables. This detailed assessment includes valuable information about the investments, returns, and prospects of the global cochlear implant market from 2019 to 2023. The analysis considers loan loss reserves/total loans, NPLs to total loans, NPLs, net interest margin to total loans, and the NPL coverage ratio (Ozili, 2018).

4.4.1 Loan Loss Provisions to Total Loans

Year	Loan Loss Provisions to Total Loans
2019	3.72%
2020	4.23%
2021	4.77%
2022	5.93%
2023	5.14%

Table 4. 3: Loan Loss Provisions to Total Loans

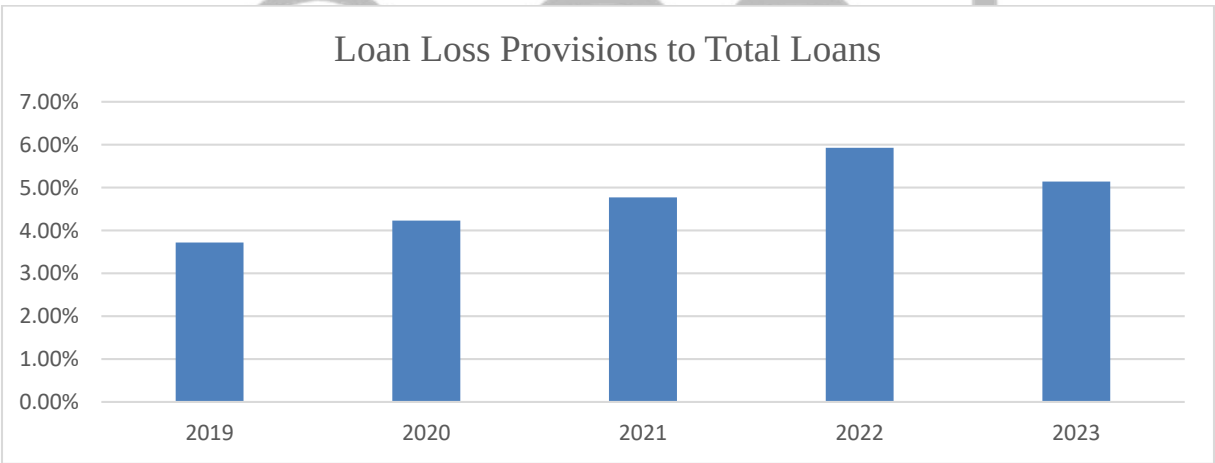

Figure 4. 3: Loan Loss Provisions to Total Loans

The table above shows the 2019–2020 period, where an increase from 3.72% to 4.23% (0.51 percentage point) indicates a moderate increase in the loan loss allowance ratio. The increase in 2020–2021 from 4.23% to 4.77% (0.54 percentage points) also indicates a continued but moderate increase in allocations. Also, in 2021–2022, the increase from 4.77% to 5.93% (1.16 percentage points) indicates a significant increase, perhaps reflecting higher perceived risks in the loan portfolio. But for 2022–2023, the decrease from 5.93% to 5.14% (0.79 percentage points) indicates a reduced need for provisions, perhaps due to improved loan quality or the recovery of previous provisions.

The ratio has shown a general upward trend over the past five years, rising from 3.72% in 2019 to a peak of 5.93% in 2022, followed by a slight decline to 5.14% in 2023. The general trend also indicates an increase in loan loss provisions compared to total loans, which will peak in 2022 and decline slightly in 2023. The steady increase in provisions from 2019 to 2022 indicates growing concerns about loan quality as the bank allocates more funds to cover potential losses. A reduction in 2023 indicates some improvement in the loan portfolio or the success of recovery efforts, reducing the need for high provisions.

5. Conclusion

this comprehensive study has analyzed the financial performance of Bank Dhofar over the period from 2019 to 2023. By examining key financial indicators such as profitability, liquidity, asset quality, and capital adequacy, the study has provided valuable insights into the bank's operational efficiency, risk management practices, and strategic positioning within the competitive banking sector.

findings reveal that Bank Dhofar has demonstrated resilience and recovery in its financial performance, particularly in profitability metrics, despite facing challenges such as economic fluctuations and regulatory changes. The bank's profitability indicators, including Return on Assets (ROA) and Return on Equity (ROE), showed an overall positive trend, reflecting effective management and strategic utilization of resources.

Liquidity ratios indicated that Bank Dhofar has maintained a high level of lending relative to its deposits, necessitating careful management to ensure sufficient liquidity to meet obligations. The asset quality assessment highlighted the bank's proactive approach to managing credit risk, with a notable increase in loan loss provisions over the study period, reflecting heightened risk awareness and mitigation strategies.

Capital adequacy ratios demonstrated that Bank Dhofar is well-capitalized, with strong Tier 1 and Total Capital Adequacy Ratios, ensuring the bank's capacity to absorb potential financial shocks and protect depositors.

Overall, the study underscores the importance of continuous monitoring and strategic management of financial performance indicators to maintain stability and competitiveness in the banking sector. The recommendations provided aim to enhance Bank Dhofar's financial stability and strategic decision-making, contributing to its long-term growth and value creation for stakeholders. This analysis not only serves as a benchmark for Bank Dhofar but also offers a framework for other banks to evaluate and improve their financial performance.

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