The Performance and future prospects of Islamic Banks in Oman with reference to bank Nizwa

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Abstract The banking sector plays an important role in the economic development, and that the total dependence of the stability and growth of any economy in any country depends to a large extent on the stability of the economic sector of that country (Ahmad, A.2010). It also acts as an intermediary between the deficit and surplus units of the state and facilitates financial matters for productive purposes, which contributes to the development of the economy (K.K. Siraj and P. Sudarsanan Pillai.2012). This study will explain the performance and growth of bank Nizwa in Oman. The results of the study would be useful for customers and investors as they can see what the performance of bank Nizwa has been done for 5 years and that will facilitate their and financial services and choose the best for them, further for bank Nizwa can improve their performance as well as potential stakeholders.

Keywords: Islamic Banks, Performance, Growth, Nizwa, Economy

I. INTRODUCTION

Oman has been emerging as a developing financial system during the last few decades. No doubt, the banking area has made a exceptional contribution for the sustainable increase in the Omani economic system. As a result of globalization and liberalization policies followed by the government, there was a constant growth within the overall business of the banking sector. Omani banking sector has grown at par with international requirements in current years in terms of prudential norms, technology adoption and operational style. Over the years, Islamic banks in Oman have positively reacted to the modifications in the global and national financial system. Regardless of the demanding situations dealing with the economy, the banking sector remained resilient, supporting monetary diversification tasks and credit needs. But the banking sector is anticipated to gear up to fulfil worldwide demanding situations posed with the aid of competitions, monetary conditions and global regulatory norms. Implemented studies and understanding control always play a critical position in strategic making plans, selection making and developing regulations for sustainability and growth (CBFS, 2017).

II. LITERATURE REVIEW

The term "Islamic banking" means banking that is in line with Shari'a and Islamic values, as well as the management of conventional risks and good governance through the principles created in Islamic law (shari'ah). The banks that have no Interest-free is a concept that refers to several tools and processes used to avoid interest. The use of the Islamic Bank will not only be limited to transactions based on the prohibited benefits of Sharia but also avoids immoral practices and participation in various activities in order to achieve the objectives in the Islamic economy (Said, Ahmad & Javaid, 2009).

Islamic banks continue to achieve a lot of success and progress, both globally and locally. At the global level Islamic banks have grown according to Ernst & Young's report, Islamic banking in commercial banks was $ 778 billion in 2014, which stood at 17% between 2009 and 2013. As in 2013, the results showed that Islamic banks were able to record terrible profits of over $ 10 billion for the first time in six markets in Turkey, Qatar, Indonesia, UAE, Malaysia and Saudi Arabia (Mustafa AL-Naabi, 2015)

The Islamic industry started in Egypt at the hands of Ahmad Al-Najjar. The first Islamic bank was opened in 1963. From the beginning, the Islamic industry has grown enormously. In 2018 Islamic banking assets were estimated at $ 3.4 trillion with an average annual growth rate of 19.7 per cent, the number of customers in Islamic banks has been estimated at over 38 million. Meanwhile, Islamic banks have become important elements that have contributed to the development of the economy in these countries, but especially in the Middle East and North Africa, where Islamic banks in these countries are considered an appropriate alternative that meets the financial and banking needs of people without affecting their religious, social beliefs and values (Ali, 2012).

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Several studies have identified the main indicators of the performance of banks such as profits, liquidity and growth, and most of researchers agree that the main determinant of the Bank's performance is its profitability because this is one of the main purposes of these institutions.

Some studies have also been published by statisticians and economists which included study conducted by Bachir that the use of ratios related to the capital, loans, expenses, liquidity and the method of funding for institutions. Also, for macro-economic factors, variables that are related to the country's tax policy and banking structure have been used, this study indicates that capital ratios and adequate loan portfolios play an important role in interpreting the performance of Islamic banks. Meanwhile, another previous study by Molyneux and Thornton has been published which included about 18 European banks, a positive correlation between interest rates, return on equity, concentration of banks and government ownership. At the same time, there have been other studies concerned about the size of the bank, which means that the bank's total assets and their impact on performance, the results have been found controversial. A study also found by Goddard et.al that there is a positive relationship between profitability and risk, but the size of the bank is not important. A previous study by Javier, et.al has shown that the higher volume, which includes higher total assets, may not necessarily lead to higher bank profits. On the other hand, Rahman et.al found that the size and profitability of them have a positive relationship, this is a controversial result. Therefore, questions are raised about the extent to which the profitability of Islamic banks will be affected. According to the financial indicators used and through studies, the performance of Islamic banks compared to conventional banks is different. Ben Khediria et al. (2015) It has been revealed that Islamic banks are better in terms of the more profitable, more liquid, better capitalized and have lower credit risk from conventional banks.

ISLAMIC BANKS COME LATER TO OMAN

Oman considered is a relatively small country, so it was cautious to open its doors to Islamic finance, but in recent years has seen great growth in the country, which led to the stability of the economy almost and changes positively (Dr Jamil Ak El Jaroudi, 2014). A royal directive was issued in May 2011 to allow the establishment of Shariah-compliant financial banks by the International Bank for Reconstruction and Development (IBRD) of the Central Bank, the fund was established after the dialogue between the global Islamic banking community and other regional and local experts. The Central Bank has learned from the Islamic banking markets around the world and has been able to combine best practices to give Oman a dedicated regulatory framework. Therefore, the ideal environment should have been created before Islamic finance was launched. A key factor in the demand for Islamic banking in the Sultanate of Oman is the rapid growth of the economy, which has led to a climate of improved trade and increased fundraising and investment from companies and residents in Oman (Dr Jamil Ak El Jaroudi, 2014). Although Oman did not start Islamic banking until relatively late. However, it is expected that the Islamic industry will grow rapidly and in a timely fashion, thereby making a meaningful contribution to the country's economy and contributing to the savings mobilization strategy.

Islamic banks in Oman have achieved a very significant leap in their profits, reaching RO 4.1 billion at the end of June 2018 compared to RO 3.56 billion in 2017. Due to the increase and rapid growth in financing offered by Islamic banks, the share of Islamic banking increased to 12.7 percent in 2018, according to statistics released by the Central Bank of Oman (CBO). On other hand, there was also an increase in the value of financing Islamic banks by RO 3.32 billion compared to RO 2.75 billion in 2017 this has seen impressive growth of more than 20 percent. Therefore, the total deposits of Islamic banking institutions in Oman increased by 18 percent to RO3.15 billion in 2018 from RO2.66 billion in the preceding year. Also, data provided by the Central Bank of Oman (CBO) showed that the main capital and financial reserves in the Islamic banking system amounted to RO 464.4 million in June 2018, while in 2017 it was RO 430.6 million. Either from the total general allocations of Islamic banks and frames remained the same unchanged, where it was 34.9 million Omani riyals in the year 2018 and was the same number for the year ago (muscatdaily.com, 2018).

FIRST ISLAMIC BANKS IN OMAN

Bank Nizwa is the first Islamic financial institution in Oman and will lead the way in opening the Omani market to both customers and investors in Islamic matters (Dr Jamil Ak El Jaroudi, 2014). The Islamic finance industry was launched in January 2013 by Bank Nizwa, which opened its first 3 branches that year, because it is the first integrated Islamic bank in the country, which is believed to be the bears responsibility for ensuring the penetration of the market. Also, to prove that Islamic finance is a professional service-oriented industry can be a part of a person's daily life. The Central Bank of Oman (CBO) launched the regulatory framework for Islamic banks (IBRF), then start to need for a strong and coherent banking industry, Omani society embraced the idea of Islamic banks. Many customers have also visited Bank Nizwa branches to assist them in Shariah-compliant financing. When the Islamic banks were established, and the Bank Nizwa was launched that led to the development of a higher level and the creation of a prosperous society and a stable economy.

Bank Nizwa has won the best Islamic bank in the Sultanate of Oman through a survey Islamic Finance News Best

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Banks Poll 2018: Innovation, creation, and tradition. IFN Best Banks Poll is one of the most important awards in the Islamic finance industry.

In 2018, Bank Nizwa recorded many positive results and showed strong success, flexibility and good performance in various. Where the highest growth rate in the banking sector in Oman was a net profit of RO 7.5 million after tax for the period ended 31 December 2018. In addition, the bank's total assets increased by 25% to reach RO 873 million compared to RO 697 million in the previous year, total customer deposits stood at RO 712 million, an increase of 35%.

RESEARCH GAP

The Islamic banking industry has achieved a serious growth rate over the past five years, equivalent to 20 percent, so it is expected that the rate will increase further in the coming years Bank Nizwa is considered to be a centre of excellence in Islamic banking, it is providing a fair and equitable model of economic growth through a range of their banking tools, such as Islamic bonds, also known as sukuk, which contribute to the promotion of new horizons through the financing of public sector projects. Along with that, there were no specific studies conducted in bank Nizwa in terms of financial performance and future prospects. Hence, this study attempts to know the performance and future prospectus of Islamic bank in Oman with reference to Bank Nizwa.

OBJECTIVE OF THE STUDY

The main objective of this study is

- To measure the Performance and growth of Bank Nizwa and clarify the overall performance of Islamic banks.
- The secondary objective is to see whether Islamic banks operate efficiently.

III. RESEARCH METHODOLOGY

The descriptive research design was used in the study. The secondary data was collected through company annual report for the period of five years from 2014 to 2018 and the calculated numerical values are extracted from S&P capital IQ sources. The primary sources also used through collecting the information from economic advisors and bank personnel who is dealing with Islamic banks in Oman.

DATA ANALYSIS METHOD

The collected data was analyzed using various relevant financial performance and growth indicators such as Profitability Ratios, Margin Analysis, Capital and Funding analysis, Growth trend over Prior Years and Compound Annual Growth Rate. There are around fifty variables and around twenty ratios were used to assess the performance and future growth trends of Bank Nizwa.

IV. RESULTS AND DISCUSSION

The present study is study more about the growth of Islamic banking in Sultanate of Oman. The financial performance and growth indicators were used to understand the growth in financing and business of Bank Nizwa.

Table 1: Profitability Ratios

For the Fiscal Period Ending	12 months Dec-31-2014	12 months Dec-31-2015	12 months Dec-31-2016	12 months Dec-31-2017	12 months Dec-31-2018
Return on Assets %	(3.4%)	(1.8%)	0.0%	0.6%	NA
Return on Equity %	(5.7%)	(4.1%)	0.1%	2.9%	5.6%
Return on Common Equity %	(5.7%)	(4.1%)	0.1%	2.9%	5.6%
Shareholders Value Added	(24.0)	(20.8)	(15.1)	(11.7)	NA

(Sources: Company annual report, S&P Capital IQ and Restated by the researcher)

The banking profits were shown to be growing at 5.6 percent in 2018, while return on assets were growing at 0.6 percent, leading to a slowdown in shareholders' value added. The causes for this decline in shareholders' value were attributed to the decline in economic activity, Non-performing asset impacts and credit rating impact.

Table 2: Margin Analysis

For the Fiscal Period Ending	12 months Dec-31-2014	12 months Dec-31-2015	12 months Dec-31-2016	12 months Dec-31-2017	12 months Dec-31-2018
SG&A Margin %	57.3%	33.9%	17.7%	13.6%	NA
Net Interest Income / Total Revenue %	10.9%	(6.0%)	(7.1%)	(17.7%)	108.0%
EBT Margin %	(145.2%)	(55.2%)	0.7%	19.8%	33.6%
Earnings from Cont. Ops Margin %	(128.0%)	(53.1%)	0.7%	18.5%	29.9%
Net Income Margin%	(128.0%)	(53.1%)	0.7%	18.5%	29.9%
Net Income Avail. for Common Margin %	(128.0%)	(53.1%)	0.7%	18.5%	29.9%
Normalized Net Income Margin %	(90.7%)	(34.5%)	0.4%	12.4%	21.0%

(Sources: Company annual report, S&P Capital IQ and Restated by the researcher)

Notice that in terms of amount, Net Interest Income and Total Revenue is higher in 2018 than last 4 years. Nonetheless, the normalized net Income margin gradually increased in the last three years. EBT margin in 2018 is 33.6% and that increased from last year in the rate of

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13.8%, as trends of changes in the ratio value indicate how stable a bank is in the industry.

Table 3: Capital and Funding

For the Fiscal Period Ending	12 months Dec-31-2014	12 months Dec-31-2015	12 months Dec-31-2016	12 months Dec-31-2017	12 months Dec-31-2018
Avg. Common Equity / Avg. Assets %	60.4%	43.2%	29.4%	21.3%	NA
Avg. Total Equity / Avg. Assets %	60.4%	43.2%	29.4%	21.3%	NA
Total Equity + Allowance for Loan Losses / Total Loans %	740.7%	334.1%	197.9%	110.7%	NA
Gross Loans / Total Deposits %	34.7%	33.1%	33.4%	40.0%	NA
Net Loans / Total Deposits %	34.4%	32.7%	33.1%	39.6%	NA
Tier 1 Capital Ratio %	45.7%	34.7%	22.6%	16.3%	NA
Total Capital Ratio %	46.4%	35.8%	23.7%	17.3%	NA
Core Tier 1 Capital Ratio %	45.7%	34.7%	22.6%	16.3%	NA
Tier 2 Capital Ratio %	0.7%	1.1%	1.0%	0.9%	NA
Interbank Ratio	17.3%	19.6%	21.2%	17.9%	-

(Sources: Company annual report, S&P Capital IQ and Restated by the researcher)

As can see, Tier 2 Capital Ratio in 2017 is less than 1 because the debt is increasing. This makes the business riskier to new potential credits. Where the required percentage for Tier 1 capital was 16.3 %. The selected bank has a Capital ratio of 17.3%. The capital rate measures the amount of equity capital that the bank has to repay loans and other assets in its balance sheet. The higher the capital figure shows the bank is in stable position in terms of financial viability.

Table 4: Growth over Prior Year

For the Fiscal Period Ending	12 months Dec-31-2014	12 months Dec-31-2015	12 months Dec-31-2016	12 months Dec-31-2017	12 months Dec-31-2018
Net Interest Income	(5.9%)	NM	NM	NM	NM
Non Interest Income	217.6%	82.2%	48.0%	40.6%	NA
Provision for Loan Losses	247.6%	34.2%	(29.4%)	36.1%	3.7%
Total Revenue	148.2%	64.5%	61.1%	28.2%	22.6%
Earnings from Cont. Ops.	NM	NM	NM	3,351.0%	98.4%
Net Income	NM	NM	NM	3,351.0%	98.4%
Normalized Net Income	NM	NM	NM	3,587.5%	108.7%
Diluted EPS before Extra	NM	NM	NM	3,357.5%	98.4%
Dividend per Share	NA	NA	NA	NA	NA
Gross Loans	NA	113.0%	69.7%	84.6%	NA
Allowance for Loan Losses	NA	113.0%	69.1%	83.9%	NA
Net Loans	NA	113.0%	69.7%	84.6%	NA
Non Performing Loans	NA	NA	NA	NA	NA
Non Performing Assets	NA	NA	NA	NA	NA
Total Assets	29.1%	36.7%	49.1%	35.0%	NA
Total Deposits	184.3%	123.6%	68.0%	54.2%	NA
Tangible Book Value	(4.9%)	(4.1%)	0.1%	2.9%	5.2%
Avg. Interest Earning Assets	NA	NA	NA	NA	NA
Avg. Interest Bearing Liabilities	NA	NA	NA	NA	NA
Common Equity	(5.1%)	(4.1%)	0.3%	2.9%	3.4%
Total Equity	(5.1%)	(4.1%)	0.3%	2.9%	3.4%

(Sources: Company annual report, S&P Capital IQ and Restated by the researcher)

Net Income is shown 98.4 percent in 2018 but it was 3,351.0% in 2017 that mean there some loss. If net income runs counter to negative profits that means the banks lose money it will be classified as a loss but if the bank has made a profit it means, there is an income. Because the firm's Tangible Book Value is more than the common stock of 1.8 percent, the firm is considered undervalued, meaning that the value of the firm's shares is more than the value of its assets.

Table 5: Compound Annual Growth Rate Over Two Years

For the Fiscal Period Ending	12 months Dec-31-2014	12 months Dec-31-2015	12 months Dec-31-2016	12 months Dec-31-2017	12 months Dec-31-2018
Net Interest Income	NA	NM	NM	NM	NM
Non Interest Income	NA	140.6%	64.2%	44.2%	NA
Provision for Loan Losses	NA	116.0%	(2.7%)	(2.0%)	18.8%
Total Revenue	NA	102.1%	62.8%	43.7%	25.4%
Earnings from Cont. Ops.	NA	NM	NM	NM	727.4%
Net Income	NA	NM	NM	NM	727.4%
Normalized Net Income	NA	NM	NM	NM	777.2%
Diluted EPS before Extra	NA	NM	NM	NM	728.3%
Dividend per Share	NA	NA	NA	NA	NA
Gross Loans	NA	NA	90.1%	77.0%	NA
Allowance for Loan Losses	NA	NA	89.8%	76.3%	NA
Net Loans	NA	NA	90.1%	77.0%	NA

(Sources: Company annual report, S&P Capital IQ and Restated by the researcher)

Revenue dropped by almost 18.3 percent (25.4 actual percent) in 2018 from 2017s revenues. That means the business is making a loss. provision for loan losses is increased than last year it was (2.0%) in 2017 and in 2018 is increased of 18.8% percent.

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V. CONCLUSION

From the above analysis it is found that total assets grew by around 25% when compared to last year 2017. The financial indicators portfolio grew in both businesses; corporates has given the momentum to continue the growth aspects of the bank financial performance. In this research, it is concluded that there is much potential for growth in Islamic banking in Oman as there is a strong and growing demand for Bank Nizwa. Despite challenges facing Islamic banking from conventional banking, lack of specialized staff and lack of branches in Islamic banking it was found that Oman economy have a definite interest in Islamic banking, a new entrant in Oman's financial market. As trade and profit are encouraged through Islamic banking, which prohibits interest (Riba), this confirms people's enthusiasm to follow Islamic law in the conduct of their lives with its provisions in the various aspects of their activities and operations, reinforcing greater adherence to Sharia in economic matters. From the economic and financial perspective, it is concluded that Bank Nizwa has a positive effect on Oman's national economy.

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