

A Comparative Performance of Two Banks in United Arab Emirates

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Abstract

The purpose of this study is to analyze the financial performance of two UAE based banks between the years 2004 and 2009. Quantitative analysis was undertaken by looking at various sets of ratios that are routinely used to measure bank performance. Conclusions were then drawn from the computation of the relevant ratios that allowed the author to make an effective comparison of said banks. The main ratios that were employed put a particular focus on the banks liquidity, profitability, management capacity, capital structure and share performance as reliable indicators of a bank performance. Subsequently, each bank performance was then ranked via the use of descriptive statistical analysis. This type of analysis was used to summarize the performance of each bank based on two criteria, dispersion and the overall stability of each banks performance. The findings showed that both banks performed reasonably well during the period studied. Liquidity levels were lower for the commercial bank of Dubai, while the national bank of Abu Dhabi benefitted by having an overall higher degree of profitability. The commercial bank of Dubai took better control of its operations when compared with the national bank of Abu Dhabi. Among its other superior qualities was a strong and highly resilient capital structure. Calculation of the four ratios of share performance clearly showed that the national bank of Abu Dhabi is largely better off financially than the commercial bank of Dubai.

Keywords: Banking, Financial Analysis, Performance Measurement, Financial Ratios, United Arab Emirates

1. Introduction

A commercial bank's performance is evaluated for several reasons depending on personal objectives. An entity like a bank regulator, for example, may need to identify and call attention to banks that are experiencing chronic financial problems in order that they may fix them before they get out of control. Such is the case with so called "bank runs". Shareholders, on the other hand need to assess which banks they can deem suitable to financially invest in. Unsurprisingly, commercial banks evaluate their own performance over a given period so that they may determine the efficacy and long term viability of management decisions or goals so that they can alter the course and make changes whenever it is appropriate. With a constant and routine monitoring of performance, underlying problems may remain invisible and lead to financial failures further down the line.

2. Research Objectives

The overall objectives of this research is to measure the performance of two leading private sector commercial banks using five groups of financial ratios that will indicates the performance developments over the period 2004-2009. Moreover, the study will make comparative assessment of the performance between the two banks.

3. Research Methodology

To measure the financial performance and make a comparison between commercial bank of Dubai and national bank of Abu Dhabi, the research is going to use five main groups of parameters. In each group, different ratios are going to employee to measure the performance. These ratios are going to be ranked for comparison purpose. The data for this research was obtained from Abu Dhabi financial service company. The descriptive measurements are going to be used to measure the performance and the stability of these ratios over the years 2004-2009.

4. Literature Review

Misra and Aspal (2013) analyzed the financial position and performance of the state bank group using camel model. They tested their hypothesis on six banks on the basis that there is no significant difference in performance using twenty financial ratios. Their findings showed that different banks obtained different ranks with respect to camel ratios. Their study also depicted that thought ranking of ratios is different for different banks in state group. But there is no statistically significant difference between banks the camel ratios. It signifies that overall performance of state group is same.

Kumbirai and Webb (2010) investigated the performance of South Africa's commercial banking sector for the period 2005 – 2009. They use financial ratios to measure the profitability, liquidity and credit quality performance of five large South African based commercial banks. The results showed an improvement in the bank performance in terms of profitability, liquidity, and credit quality from 2005 to 2007. They also found

significant differences in profitability performance for the period 2005-2006 and the period 2008-2009.

Tuna (2013) tried to measure the financial health of two banks in Indonesia for the period of 2008 – 2012, using five assessment aspects of the camel model (Capital, Asset, Management, Earnings, and Liquidity). The t-Test has been used to assess the differences between the two banks. The results in this research found no significant differences about bank soundness between the two banks.

Gupta (2014) evaluated the performance of public sector banks in India. He used camel approach for a five year period 2009-2013. The results showed that there is a statistically significant difference between the camel ratios of all the public sector banks in India. Therefore, the overall performance of public sector banks is different.

To identify selected determinants of profitability in six major European banking sectors, Goddard, Molyneux and Wilson (2004) used cross-sectional, pooled cross-sectional time series and dynamic panel models. They analyzed data on 665 banks from six European countries for the period 1992-1998. The results of the empirical analysis suggest that, despite the growth in competition in European financial markets, there is still significant persistence of profit from one year to the next.

Al Tamimi (2010) investigated some influential factors in UAE's Islamic and conventional national banks during the period 1996-2008. Two dependents variables were used separately against five independent variables which are the financial development indicator, liquidity, concentration, cost, and branch number in using regression analysis. His analysis showed that liquidity is most influential factor for conventional banks. For Islamic banks, his results stated that the influential factors are the cost and the branch number.

Tarawneh (2006) analyzed the financial statement of five Omani banks for the financial period 1999-2003. In addition, he used simple regression to estimate the impact of asset management, operation efficiency, and bank size on the financial performance of these banks. The results showed that financial performance of the banks was strongly and positively influenced by the operational efficiency, asset management, and bank size.

Jha and Hui (2012) compared the financial performance of different structured banks in Nepal using camel framework. The study covered the years 2005 to 2010 to assess the financial performance of the eighteen commercial banks in Nepal. The analysis was based mainly on the descriptive financial analysis to describe, measure, compare, and classify the financial situations. The authors then used multivariate regression model to test the significance of the variables used. They found that ROA of public sector banks were higher than those of joint venture and domestic public banks. Moreover, the values determined for the financial ratios revealed that joint venture and domestic public banks were also not so strong in Nepal to manage the possible large-scale shock to their balance sheet.

Ferrouhi (2014) analyzed the performance of major Moroccan financial institutions for the period 2001-2011 using camel approach. He used one financial ratio for each of capital adequacy, assets quality, management quality, earning ability, and liquidity position measures. The testing of the above measurements on six Moroccan institutions revealed that all the six banks did well over the period of study. His findings were based on ranking the average of each ratio, showed that some banks are better off than others.

5. Liquidity Analysis

5.1 Loan to Total Assets Ratio

Based on mean measure, the below tables 1 and 2, show that commercial of Dubai has offered more loans to its customers than national bank of Abu Dhabi over the years of study, as a percentage of its total assets. They also indicate that the commercial bank of Dubai has less liquidity level than national bank of Abu Dhabi. In addition, the standard deviation and the coefficient of variation indicate the higher instability level of this ratio over the time in commercial bank of Dubai than in national bank of Abu Dhabi.

5.2 Loan to Customers Deposits

This ratio shows the ability of a bank to use the customers deposit in offering loans. Based on the mean measure, tables 1 and 2 show that commercial of Dubai is able to use the customer's deposits to offer loans more than national bank of Abu Dhabi. Again, a high ratio reflects a lower level of liquidity. On the other hand, and based on standard deviation and coefficient of variation, these tables indicate a high dispersion and instability levels of this ratio in national bank of Abu Dhabi than commercial bank of Dubai.

5.3 Shareholders' Equity to Total Assets

This ratio shows bank money as a percentage of total assets. The high ratio shows the ability of a bank to use its own money and indicates more liquidity. Based on the mean measure, the tables 1 and 2 demonstrate that commercial bank in Dubai is more able to use its own money than national bank of Abu Dhabi. Thus, this bank enjoys a higher level of liquidity than its competitor. Based on both standard deviation and the coefficient of variation, the analysis also shows that commercial of Dubai has higher level of dispersion and high rate of instability than the national bank of Abu Dhabi.

Table 1: Liquidity Ratios: Commercial Bank of Dubai

Ratio	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Loans to Total Assets %	71	61	68	68	80	77	70.83	6.85	9.67
Loans to Costumers Deposits %	101	88	92	98	111	102	98.66	8.09	8.20
Shareholder's equity to Total Assets %	20	19	20	16	13	15	17.16	2.93	17.07

Table 2: Liquidity Ratios: National Bank of Abu Dhabi

Ratio	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Loans to Total Assets %	63	61	57	57	68	67	62.17	4.75	7.64
Loans to Costumers Deposits %	91	86	81	98	108	109	95.50	11.54	12.08
Shareholder's equity to Total Assets %	9.20	8.62	8.92	8.04	8.72	10.38	8.98	0.786	8.75

6. Profitability Analysis

6.1 Profit Margin Ratio

Profit margin ratio shows the profitability percentage from a bank operation. It is calculated by dividing net profit by net interest income. The comparison between the two means reveals that national bank of Abu Dhabi bank enjoy high level profitability with mean of 104.16 than commercial bank of Dubai which has a mean of 92.67. This has been associated with high dispersion, instability and risk based on the standard deviation and coefficient of variation as it shown in tables 3 and 4.

6.2 Return on Shareholders' Equity

This ratio shows the profitability in relation to the shareholders equity. The high ratio indicates an increase in the profitability of shareholders and presumably leads to increase the dividend level. National bank of Abu Dhabi captures the highest ratio and should attract more investor to invest their money in this bank. But this high profitability ratio has associate with high level of dispersion and more instability in this ratio, based on the standard deviation and the mean figures as it shown in tables 3 and 4.

6.3 Return on Assets

Return on assets ratio shows the profitability of using the assets. The high ratio indicates the efficient use of assets to generate more profit. The low ratio might indicate that a bank has invested too much money in its assets. Based on the analysis in tables 3 and 4, both banks have similar means and standard deviations. The variability of this ratio indicates that national bank of Abu Dhabi has high level of variability than commercial bank of Dubai as the coefficient of variation indicates.

Table 3: Profitability Analysis: Commercial Bank of Dubai

Ratio	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Profit Margin %	103	122	96	107	67	61	92.67	23.85	25.74
Return on Shareholder's Equity %	17	20	16	20	16	15	17.33	2.16	12.46
Return on Total Assets %	3.32	3.60	3.22	3.08	2.16	2.18	2.93	0.61	20.81

Table 4: Profitability Ratios: National Bank of Abu Dhabi

Ratio	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Profit Margin %	113	154	104	104	84	66	104.16	29.75	28.56
Return on Shareholder's Equity %	22	35	24	22	21	15	23.17	6.55	28.27
Return on Total Assets %	2.02	3.04	2.09	1.80	1.83	1.53	2.05	0.52	25.46

7. Management Capacity

7.1 Loans to Total Assets

This ratio indicates the ability of the management to use the assets in offering loans which ultimately creates high profitability. Tables 5 and 6 show that commercial bank of Dubai is offering more loans as a percentage of the total assets with mean of 70.83 where the mean for the national bank of Abu Dhabi is 62.16. This is associated with a high dispersion and instability levels that put the commercial bank of Dubai at higher risk than national bank of Abu Dhabi.

7.2 Net Interest to Net Interest Income

This ratio shows the ability of the management in creating net interest revenue with less interest expense. Tables 5 and 6 indicate that the mean measure for commercial bank of Dubai is 68.66 against 47 for the national bank of Abu Dhabi. This means that commercial bank of Dubai managed to create the net interest with less interest expense. The analysis also states that the on the basis of standard deviation and the coefficient of variation, commercial bank of Dubai has less dispersion level and more stability of this ratio than national bank of Abu Dhabi

7.3 Investment to Total Assets

This ratio shows the ability of bank management to allocate the appropriate amounts for investment. It is calculated by dividing the total amount invested by total assets. The high ratio will presumably create high income. The analysis in table 5 and 6 shows that national bank of Abu Dhabi enjoy high investment as a percentage of the total assets, since it has a mean of 10.48 comparing with 6.18 for commercial bank of Dubai. The standard deviation and the coefficient of variation clearly indicate that national bank of Abu Dhabi has a high dispersion level and less variability in this ratio comparing the commercial bank of Dubai.

Table 5: Management Capacity Ratios: Commercial Bank of Dubai

Details	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Loans to Total Assets %	71	61	68	68	80	77	70.83	6.85	9.67
Net interest income to interest income ratio %	85	72	62	63	65	65	68.66	8.73	12.71
Investment to Total Assets %	5.09	7.45	5.64	7.52	6.24	5.16	6.18	1.09	17.64

Table 6: Management Capacity Ratios: National Bank of Abu Dhabi

Details	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Loans to Total Assets %	63	61	57	57	68	67	62.16	4.75	7.64
Net interest income to interest income ratio %	52	44	37	34	49	66	47	11.59	24.60
Investment to Total Assets %	12.38	11.55	10.83	8.07	9.88	10.18	10.48	1.49	14.22

8. Capital Structure Ratios

8.1 Total Liabilities to Total Assets

This ratio shows the portion of money financed the total assets by outsources. The higher the ratio, the more of a firm's assets are provided by creditors relative to owners. Creditors prefer a low or moderate ratio, because it provides more protection in case a firm experience financial problems. The high ratio indicates the weak financial structure. The mean measurement in tales 7 and 8 indicates that commercial bank of Dubai is more financially stronger than national bank of Abu Dhabi. But the later bank has managed to control its liabilities over the years as it has less standard deviation and coefficient of variation.

8.2 Total Liability to Total Equity

This ratio the structures the relation between two types of finances, outsource finance represented by total liabilities and inside finance represented by shareholder's equity. The high ratio indicates the weak financial structure. Tables 7 and 8 demonstrate that the national bank of Abu Dhabi has high ratio than commercial bank of Dubai, as the means indicate. On average, commercial bank of Dubai creditors provided 5.05 Dirhams in financing for every Dirham contributed by owners, comparing to 10.20 Dirhams for national bank of Abu Dhabi. On the other hand, national bank of Abu Dhabi has managed to control the variability of this ratio better than its

competitor bank, as the standard deviation and the coefficient of variation showed.

8.3 Share Capital to Total Assets

This ratio shows the percentage of the capital to total assets. A high ratio indicates a strong financial structure. According to the mean measurement in tables 7 and 8, commercial bank of Dubai has better financial structure than national bank of Abu Dhabi with higher standard of deviation. The coefficient of variation shows a similar level of variability.

Table 7: Capital Structure Ratios: Commercial Bank of Dubai

Details	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Total Liabilities to Total Assets %	80	82	80	84	87	86	83.16	2.99	3.60
Total Liabilities to Equity %	411	442	391	540	660	588	505.33	107.65	21.30
Share Capital to Total Assets %	5.16	4.10	5.62	3.70	3.95	4.80	4.55	0.78	17.14

Table 8: Capital Structure Ratios: National Bank of Abu Dhabi

Details	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Total Liabilities to Total Assets %	91.00	91.38	91.08	91.96	91.28	89.62	91.05	0.78	0.86
Total Liabilities to Equity %	986	1060	1021	1143	1047	863	1020	93.02	9.12
Share Capital to Total Assets %	1.67	1.10	1.21	1.41	1.20	1.10	1.28	0.22	17.18

9. Share Performance indicators

9.1 Market Value

Tables 9 and 10 below show the developments of share prices over the years 2005-2009. The mean of the prices is 54 in national bank of Abu Dhabi which is higher than the mean of the share prices in commercial bank of Dubai which is 30.85. This means that the public were more willing to invest in this bank. Commercial bank of Dubai has less standard deviation and high coefficient of variation than its competitor bank which means the high instability of the share price movements.

9.2 Price Earnings Ratio

This ratio relates the share price to the earnings per share. This ratio expresses the multiple that the market places on a firm's earnings per share. A high P/E multiple often reflects the market's perception of the firm's growth prospects. Thus, if investors believe that a firm's future earnings potential is good, they may be willing to pay a higher price for the stock and thus boost its P/E multiple. The mean measurement in tables 9 and 10 is slightly different between the two banks. On average, investors are willing to buy a share of commercial bank of Dubai at price of 15 times more the its earnings per share, while the case of national bank of Abu Dhabi is 13 times. The standard deviation and the coefficient of variation show high dispersion and more instability of this ratio in relation to commercial bank of Dubai comparing to national bank of Abu Dhabi. This means that the later bank is less affected by the stock market.

9.3 Market Value to Book Value

This ratio structures the relation of share price to book value. This ratio is a blend of historical accounting and market indicators. It expresses the differential between the book value of the net assets of a firm and the market value of it. A high ratio means an increase in the stock price of the book value per share, and the company is doing well, since the market is willing to pay more than the equity per share. Tables 9 and 10 below, state that the mean of this ratio is 3.21 for the national bank of Abu Dhabi while the mean of commercial bank of Dubai is 2.66. Moreover, the fluctuation around the mean and the coefficient of variation are also high for the same bank. This ratio is affected by both inside and outside finance and economic factors.

9.4 Earnings per Share

This ratio measures the profitability of the shareholder's equity. The ratio provides a measure of overall performance and is an indicator of the possible amount of dividends that may be expected. The analysis in tables 9 and 10, below shows that national bank of Abu Dhabi enjoy high profitability per share with high standard deviation and low level of instability of this ratio.

Table 9: Share performance Ratios: Commercial Bank of Dubai

Details	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Market value (\$)	135	24.3	7.60	10.30	4.17	3.70	30.85	51.58	167
Price Earnings Ratio (Times)	20.98	27.68	13.30	12.43	7.63	8.13	15.02	7.84	52.20
Market value to book value (Times)	3.56	5.40	2.10	2.44	1.25	1.22	2.66	1.60	60.15
Earnings Per Share (\$)	6.43	0.88	0.57	0.83	0.55	0.46	1.62	2.36	146

Table 10: Share performance Ratios: National Bank of Abu Dhabi

Details	2004	2005	2006	2007	2008	2009	Mean	Standard Deviation	Coefficient of Variation
Market value (\$)	205	54.25	20.75	22.70	8.86	12.40	54	75.70	140
Price Earnings Ratio (Times)	16.97	19.80	12.06	14.42	5.80	8.93	13	5.16	39.69
Market value to book value (Times)	3.74	6.97	2.82	3.22	1.22	1.32	3.21	2.10	65.42
Earnings Per Share (\$)	12.08	2.74	1.72	1.57	1.53	1.39	3.50	4.23	120

10. Conclusion

The central concern of the paper has been to conduct a comparative performance of two banks in United Arab Emirates for the period of 2004-2009. Five groups of parameters have been used to measure liquidity level, profitability level, management capacity, capital structure and share performance. The findings show that both banks are financially viable as both have used the appropriate financial tools and policies to manage their organizations and to adapt with their environment, to become more competitive and maximizing their profits. The liquidity level in commercial bank of Dubai is less than in its competitor bank. The research findings also show that Abu Dhabi bank possesses high profitability level with high level of instability. As far as management capacity ratios, the analysis declared that commercial bank of Dubai offered more loans than its competitor bank, while national bank of Abu Dhabi allocated more money to its investments than giving loans. Moreover, commercial bank of Dubai managed to earn its interest revenue with the less level of expenses. In addition, the analysis showed that commercial bank of Dubai has strong financial structure than its competitor bank. Finally, the overall analysis of the share performance stated that national bank of Abu Dhabi is better off in relation to the most important ratios, market value and earnings per share than its competitor bank.

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