



EPS and Financial Performance Relationship - Analysis of Selected Banks in Oman

Dr. Lenin Kumar Nooney & Bakhtawar Durrani, Department of Business Studies,
Nizwa College of Technology, Sultanate of Oman

Abstract: The earning per share (EPS) is one of the most important factor considered for company's performance. By recognizing the importance of earning per share, the authors try to analyze the relationship between EPS and Financial Performance of selected banks in Oman in this paper. The data for the analysis was collected from the financial statements of 5 banks listed in Muscat Securities Exchange covering a period of 5 years from 2010 – 2014. The data collected is analyzed by using financial tool like Profitability Performance Ratios, Liquidity Performance Ratios and Correlation is used to find out whether there is a positive or negative relationship between the selected variables.

Key Words: EPS, Financial Performance, Profitability Ratios and Liquidity Ratios

Introduction: Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and also used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

It is generally said that wealth maximization is the objective of the firm as it shows the market value of the firm's shares. A firm issues equity share to raise funds. Buyers of shares are the legal owners of the firm and are called the shareholders. Dividend and capital gain are the returns for the shareholders. By selling share, shareholders make capital gain. Payment of dividends to shareholders is not a legal obligation, it depends on the decision of the Board of directors. When share prices increases,

shareholder can earn the benefits of capital gain. If the market value of the company's shares is a function of earnings per share, then maximization of the earnings per share will result in the highest possible price for the company's shares. In such a case, shareholders will definitely get benefited, as they can get lump sum of money as capital gain if they have higher number of shares. Furthermore, maximizing profit doesn't mean to maximize the earnings per share. Because, it is possible for a firm to increase profit after taxes by selling additional equity shares. In such a case there might be a chance for earnings per share to decrease. Considering the importance of earning per share, the author in this paper made an attempt to find whether there is a relationship between EPS and Financial Performance of selected banks in Oman.

Literature review:

The earning per share (EPS) is benchmark used to measure the firm profitability. There are various



investment banks & portfolio managers who make EPS forecast to make security selection and input into valuation models, Slavin. G (2007). The data set from 1989-2005 was considered for data analysis. There were 8 variables with each observation. Panel regression was used being a research model.

Harrison, Jennifer, L & Morton. A (2010), the adjusted earnings are known as non-stationary earnings and they do not give profit oriented figures. They only contain the earning per share (EPS) numbers. The sample of 485 big Australian companies was taken in the study and various tabulations and descriptive statistics were used for data analysis.

Livnat. J & Dan. S (2000), Earning per share (EPS) has got more significance especially for market participants who are dependent on Price/Earning (P/E) measures. The sample from 1986-1996 was taken for data analysis. The cross-sectional study was chosen with the help of regression for data analysis. The study recommended that diluted EPS is more appropriate.

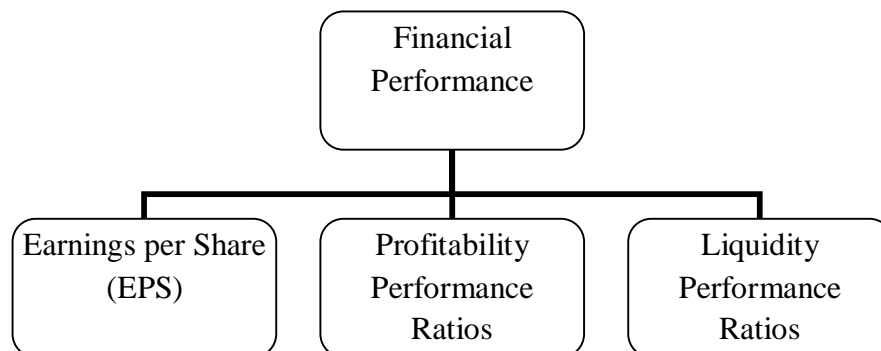
Largani. M. S, Mohammadreza. L & Pervaneh. G (2013), in their research paper investigated the relationship between shareholder value added (SVA) & accounting performance measures in Tehran Stock Exchange. Shareholder value added (SVA) was used as a dependent variable while cash flow from operations (CFO) & Earning per share (EPS) were used independent variables. Normal distribution data set, autocorrelation and K-S tests were used being statistical techniques.

The data for five years from 2006 to 2010 of 75 companies were collected for data analysis through SPSS. The result concluded that there is significant relationship between EPS & SVA.

Objective of the paper:

The objective of the paper is to identify the relationship between EPS and financial performance in terms of Profitability Performance Ratios (Return on Assets, Return on Equity and Cost to Income Ratio) and Liquidity Performance Ratios (Net Loans to Total Assets Ratio and Net Loans to Deposit and Borrowing for the selected banks).

Conceptual framework:





Methodology:

Selection of the sample: Sample selected for this paper are banks which are listed in Muscat Securities Market. Out of the 7 listed banks, sample of 5 banks are selected at random.

Period of the study: A period of five years from 2010 to 2014 has been taken for analysis, as all the short-term changes will be absorbed, while all cyclic changes will be nullified in the period.

Nature of the data: In this paper, the nature data selected are annual report of the selected banks from Muscat Securities Market.

Mode of Analysis: Data was analyzed by using financial tool like ratios and correlation analysis were used to find out whether there is a positive or negative relationship between selected variables.

Description of variables: Earnings per share is used as a dependent variable and profitability performance and liquidity performance ratios are used as independent variables.

Independent Variables:

A. Profitability Performance Ratios:

Return on Assets (ROA) = Net Profit ÷ Total Assets shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments. This ratio indicates how much net income is generated per rial of assets. The higher the ROA, the more the profitable the bank.

Return on Equity (ROE) = Net Profit ÷ Total Equity. ROE is the most important indicator of a bank's profitability and growth potential. It is the rate of return

to shareholders or the percentage return on each rial of equity invested in the bank.

Cost to Income Ratio (C/I) = Total Cost ÷ Total Income measures the income generated per rial cost. That is how expensive it is for the bank to produce a unit of output. The lower the C/I ratio, the better the performance of the bank.

B. Liquidity Performance Ratios:

Net Loans to total asset ratio (NLTA) = Net Loans ÷ Total Assets NLTA measures the percentage of assets that is tied up in loans. The higher the ratio, the less liquid the bank is.

Net loans to deposit and borrowing (NLDST) = Net Loans ÷ Total Deposits and Short Term Borrowings. This ratio indicates the percentage of the total deposits locked into non-liquid assets. A high figure denotes lower liquidity.

Dependent Variables:

Earnings Per Share (EPS): Net Income – Dividends on Preferred Stock/Average Outstanding Shares. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

Results and Analysis:

Correlation Analysis: A correlation coefficient is a statistical measure of linear association between two variables. In positively correlated variables, the value increases or decreases in tandem. In negatively correlated variables, the value of one increases as the value of the other decreases. The symbol for the sample



correlation coefficient is r . The range of the r value is exactly 0. A perfect uphill (positive) correlation coefficient is from -1 to +1. A perfect downhill (negative) linear relationship comes if the r value is exactly -1. No linear relationship if the r value is exactly +1.

Formula for the Correlation Coefficient r :

$$r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

Where n is the number of pairs of data.

Correlation analysis is done to find out whether there is a positive or negative relationship between dependent variable and independent variables.

Table 1: Ratio and Correlation Analysis for Ahli Bank

Ratios	2010	2011	2012	2013	2014	r Value
ROA	0.020	0.022	0.023	0.020	0.017	0.59
EPS	0.020	0.023	0.020	0.018	0.019	

Ratios	2010	2011	2012	2013	2014	r Value
ROE	0.157	0.172	0.148	0.142	0.144	0.94
EPS	0.020	0.023	0.020	0.018	0.019	

Ratios	2010	2011	2012	2013	2014	r Value
C/I	0.378	0.413	0.410	0.375	0.381	0.77
EPS	0.020	0.023	0.020	0.018	0.019	

Ratios	2010	2011	2012	2013	2014	r Value
NLTA	0.815	0.827	0.844	0.825	0.844	-0.08
EPS	0.020	0.023	0.020	0.018	0.019	

Ratios	2010	2011	2012	2013	2014	r Value
NLDST	1.038	1.149	1.256	1.157	1.291	-0.13
EPS	0.020	0.023	0.020	0.018	0.019	

From table 1, it can be understood that, **ROA** of Ahli Bank increased from 0.020 to 0.023 (from 2010 to 2012) then



decreased to 0.020 in 2013 and further it decreased to 0.017 in 2014. Overall it can be analyzed that ROA of Ahli Bank is low, it shows that Ahli Bank is not effectively using its assets to generate returns. The analysis reveals that the assets utilization by the bank has been not very satisfactory. Correlation between ROA and EPS show a positive relationship ($r = 0.59$) between the two variables.

ROE of Ahli Bank increased from 0.157 to 0.172 (from 2010 to 2011) then decreased to 0.142 in 2013 and increased to 0.144 in 2014. ROE of Ahli Bank from 2010 to 2014 is not satisfactory. It shows that management is not efficiently utilizing the equity for generating better returns. Correlation shows almost a positive relationship between ROE and EPS variables with r value remains at 0.94.

C/I of Ahli Bank increased in 2011 at 0.413 from 0.378 in 2010, then decreased to 0.375 in 2013 and then increased to 0.381 in 2014. Overall C/I ratio of the bank is satisfactory as the ratio is less than 0.50. It shows bank's ability to turn resources into revenue. There is a positive relationship ($r = 0.77$) between C/I and EPS.

NLTA of Ahli Bank increased from 0.815 to 0.844 (from 2010 to 2012) then it decreased to 0.825 in 2013 and increased to 0.844 in 2014. NLTA of Ahli Bank shows a dissatisfaction as the ratio is high. High ratio means the bank is having high degree of leverage and financial risk. R value is -0.08 showing a negative relationship between NLTA and EPS.

NLDST of Ahli Bank increased from 1.038 to 1.256 (from 2010 to 2012) then decreased to 1.157 in 2013 and then increased to 1.291 in 2014. NLDST shows a very high ratio which is dissatisfaction for the bank. If the ratio is too high, it means that bank might not have enough liquidity to cover any unforeseen fund requirements. As the r value is equal to -0.13, the relation between NLDST and EPS shows a negative relationship.

It is observed from Table 2 that,

ROA of Bank Dhofar decreased from 0.025 to 0.016 (from 2010 to 2014). It shows that Bank Dhofar has not effectively utilized its resources to generate returns. It clearly shows that bank has not utilized its assets in a satisfactory way. There is a negative correlation ($r = -0.25$) between ROA and EPS.

ROE of Bank Dhofar increased to 0.197 in 2011 from 0.186 in 2010, then it decreased to 0.146 in 2013 and again increased to 0.162 in 2014. ROE of the bank is not satisfactory. It shows that bank is not efficiently utilizing the equity for getting returns. R value is -0.69, which means there is a negative correlation between ROE and EPS.

C/I of Bank Dhofar increased from 0.409 in 2010 to 0.506 in 2013 and then decreased to 0.467 in 2014. It shows that bank C/I ratio is satisfactory and able to generate revenue by utilizing its resources. Correlation shows a positive relationship between C/I and EPS.



Table 2: Ratio and Correlation Analysis for Bank Dhofar

Ratios	2010	2011	2012	2013	2014	r Value
ROA	0.025	0.023	0.022	0.017	0.016	-0.25
EPS	0.041	0.013	0.034	0.048	0.030	

Ratios	2010	2011	2012	2013	2014	r Value
ROE	0.186	0.197	0.180	0.146	0.162	-0.69
EPS	0.041	0.013	0.034	0.048	0.030	

Ratios	2010	2011	2012	2013	2014	r Value
C/I	0.409	0.426	0.441	0.506	0.467	0.47
EPS	0.041	0.013	0.034	0.048	0.030	

Ratios	2010	2011	2012	2013	2014	r Value
NLTA	0.758	0.763	0.780	0.730	0.706	-0.21
EPS	0.041	0.013	0.034	0.048	0.030	

Ratios	2010	2011	2012	2013	2014	r Value
NLDST	1.010	0.984	1.023	0.936	0.908	-0.09
EPS	0.041	0.013	0.034	0.048	0.030	

NLTA of Bank Dhofar in 2010 was 0.758 then increased to 0.780 in 2012, but in 2013 it decreased to 0.730 and in 2014 it further decreased to 0.706. High ratio means having high degree of leverage and financial risk for the bank which is not very satisfactory. There is a negative correlations ($r = -0.21$) between NLTS and EPS.

NLDST of Bank Dhofar decreased from 1.010 in 2010 to 0.984 in 2011 then increased to 1.023 in 2012 and then decreased to 0.936 in 2013, further decreased to 0.908 in 2014. NLDST ratio is not very satisfactory for the bank as it is very high. It means bank might not have required liquidity to cover any

unforeseen fund requirements. The relationship between NLDST and EPS shows a negative correlation ($r = -0.09$).

It can be examined from **Table 3** that,

ROA of Bank Sohar increased from 0.012 in 2010 to 0.019 in 2014. It shows a gradual increased over the years for the bank. The analysis reveals that the assets utilization by the bank has been not very satisfactory but it shows an increasing trend which is good for the bank. Still bank have to effectively use its assets to generate returns. It shows a positive correlation ($r = 0.96$) between ROA and EPS.



ROE of Bank Sohar is 0.134 in 2010 increased to 0.198 in 2012 then decreased to 0.185 in 2013 and increased to 0.203 in 2014. Ratio is not satisfactory for the bank. Correlation shows a positive ($r = 0.97$) relationship between ROE and EPS.

Table 3: Ratio and Correlation Analysis for Bank Sohar

Ratios	2010	2011	2012	2013	2014	r Value
ROA	0.012	0.014	0.016	0.017	0.019	0.96
EPS	0.102	0.145	0.230	0.250	0.261	

Ratios	2010	2011	2012	2013	2014	r Value
ROE	0.134	0.155	0.198	0.185	0.203	0.97
EPS	0.102	0.145	0.230	0.250	0.261	

Ratios	2010	2011	2012	2013	2014	r Value
C/I	0.556	0.537	0.452	0.464	0.446	-0.98
EPS	0.102	0.145	0.230	0.250	0.261	

Ratios	2010	2011	2012	2013	2014	r Value
NLTA	0.713	0.712	0.641	0.678	0.686	-0.71
EPS	0.102	0.145	0.230	0.250	0.261	

Ratios	2010	2011	2012	2013	2014	r Value
NLDST	0.898	0.870	0.857	0.925	0.917	0.33
EPS	0.102	0.145	0.230	0.250	0.261	

C/I of Bank Sohar is 0.556 in 2010 and it decreased till 2012 to 0.452, increased slightly to 0.464 in 2013 and then decreased to 0.446 in 2014. It shows bank's ability to turn resources into revenue. There is a negative relationship ($r = -0.98$) between C/I and EPS.

NLTA of Bank Sohar decreased from 0.713 to 0.641 (from 2010 to 2012) then it increased to 0.678 in 2013 and again increased to 0.686 in 2014. NLTA of the bank shows a dissatisfaction as the ratio is high. High ratio means the bank is

having high degree of leverage and financial risk. R value is -0.71 showing a negative relationship between NLTA and EPS.

NLDST of Bank Sohar decreased from 0.898 in 2010 to 0.857 in 2012 then increased to 0.925 in 2013 and then decreased to 0.917 in 2014. NLDST show a very high ratio which is dissatisfaction for the bank. If the ratio is too high, it means that bank might not have enough liquidity to cover any unforeseen fund requirements. As the r value is equal to



0.33, the relation between NLDST and EPS show a positive relationship.

Table 4: Ratio and Correlation Analysis for Bank Muscat

Ratios	2010	2011	2012	2013	2014	r Value
ROA	0.020	0.019	0.020	0.021	0.019	-0.72
EPS	0.075	0.076	0.072	0.072	0.075	

Ratios	2010	2011	2012	2013	2014	r Value
ROE	0.148	0.156	0.146	0.144	0.142	0.53
EPS	0.075	0.076	0.072	0.072	0.075	

Ratios	2010	2011	2012	2013	2014	r Value
C/I	0.556	0.537	0.516	0.486	0.519	0.75
EPS	0.075	0.076	0.072	0.072	0.075	

Ratios	2010	2011	2012	2013	2014	r Value
NLTA	0.685	0.667	0.708	0.691	0.656	-0.81
EPS	0.075	0.076	0.072	0.072	0.075	

Ratios	2010	2011	2012	2013	2014	r Value
NLDST	1.136	1.015	1.052	1.056	1.014	-0.10
EPS	0.075	0.076	0.072	0.072	0.075	

It is clear from **Table 4** that,

ROA of Bank Muscat decreased from 0.020 in 2010 to 0.019 in 2011, then increased to 0.021 in 2013 and again decreased to 0.019 in 2014. It shows that bank has not effectively utilized its resources to generate returns. There is a negative correlation ($r = -0.72$) between ROA and EPS.

ROE of Bank Muscat increased to 0.156 in 2011 from 0.148 in 2010, then it decreased in the next 3 years to 0.142 in 2014. ROE of the bank is not satisfactory. It shows that bank is not efficiently utilizing the equity for getting returns. R

value is 0.53 which mean there is a positive correlation between ROE and EPS.

C/I of Bank Muscat decreased from 0.556 in 2010 to 0.486 in 2013 and then increased to 0.519 in 2014. It shows that bank C/I ratio is satisfactory and able to generate revenue by utilizing its resources. Correlation shows a positive relationship between C/I and EPS with r value 0.75.

NLTA of Bank Muscat in 2010 was 0.685 decreased to 0.667 in 2011 and then increased to 0.708 in 2012 and again decreased in 2013 to 0.691 and showed a



further decrease in 2014 to 0.656. High ratio means having high degree of leverage and financial risk for the bank which is not very satisfactory. There is a negative correlations ($r = -0.81$) between NLTS and EPS.

NLDST of Bank Muscat decreased from 1.136 in 2010 to 1.015 in 2011 then

increased to 1.052 in 2012 and then again increased to 1.056 in 2013, and observe a decreased in 2014 to 1.041. NLDST ratio is not very satisfactory for the bank as it is very high. It means bank might not have required liquidity to cover any unforeseen fund requirements. The relationship between NLDST and EPS shows a negative correlation ($r = -0.10$).

Table 5: Ratio and Correlation Analysis for National Bank of Oman

Ratios	2010	2011	2012	2013	2014	r Value
ROA	0.021	0.022	0.020	0.019	0.020	-0.61
EPS	0.025	0.032	0.037	0.037	0.041	

Ratios	2010	2011	2012	2013	2014	r Value
ROE	0.144	0.173	0.171	0.169	0.165	0.71
EPS	0.025	0.032	0.037	0.037	0.041	

Ratios	2010	2011	2012	2013	2014	r Value
C/I	0.511	0.471	0.473	0.467	0.476	-0.79
EPS	0.025	0.032	0.037	0.037	0.041	

Ratios	2010	2011	2012	2013	2014	r Value
NLTA	0.755	0.750	0.753	0.714	0.778	0.09
EPS	0.025	0.032	0.037	0.037	0.041	

Ratios	2010	2011	2012	2013	2014	r Value
NLDST	1.029	1.044	1.013	0.949	1.064	-0.05
EPS	0.025	0.032	0.037	0.037	0.041	

Table 5 reveals that,

ROA of National Bank of Oman increased from 0.021 in 2010 to 0.022 in 2011 then decreased to 0.020 in 2012 and further it decreased to 0.019 in 2013, but in 2014 it increased to 0.020. Overall it can be analyzed that ROA of bank is low, it shows that bank is not effectively using its assets to generate returns. Correlation

between ROA and EPS show a negative relationship ($r = -0.61$) between the two variables.

ROE of National Bank of Oman increased from 0.144 to 0.173 (from 2010 to 2011), then it decreased to 0.165 in 2014. ROE of bank from 2010 to 2014 is not satisfactory. It shows that management is not efficiently utilizing the equity for



generating better returns. Correlation shows a positive relationship between ROE and EPS variables with r value 0.71.

C/I of National Bank of Oman decreased in 2011 at 0.471 as compared to 2010 but increased to 0.473 in 2012, then decreased to 0.467 in 2013 and increased to 0.479 in 2014. Overall C/I ratio of the bank is satisfactory as the ratio is less than 0.50. It shows bank's ability to turn resources into revenue. There is a negative relationship ($r = -0.79$) between C/I and EPS.

NLDST of National Bank of Oman increased from 1.029 in 2010 to 1.044 in 2011, then decreased to 1.013 in 2012 and further decreased to 0.949 in 2013 and then increased to 1.064 in 2014. If the ratio is too high, it means that bank might not have enough liquidity to cover any unforeseen fund requirements. As the r value is equal to -0.05, the relation between NLDST and EPS show a negative relationship.

Conclusion:

There are many ratios which can be used for knowing the financial performance of a company. Among the different ratios, in this paper profitability and liquidity performance ratios are used for analyzing the financial performance of a company. Therefore, the present paper examines the relationships between financial performance and EPS. According to the data analysis results, we can conclude that Ahli Bank and Bank Sohar has a positive correlation between ROA and EPS, While there is a positive correlation between ROE and EPS for all the selected banks except for Bank Dhofar. C/I and EPS shows a positive correlations for Ahli Bank, Bank Dhofar and Bank Muscat. Only for National Bank of Oman

NLTA of National Bank of Oman decreased from 0.755 to 0.750 (from 2010 to 2011) then it increased to 0.753 in 2012 and decreased to 0.714 in 2013 and again increased to 0.778 in 2014. NLTA of bank shows a dissatisfaction as the ratio is high. High ratio means the bank is having high degree of leverage and financial risk. R value is 0.09 showing a positive relationship between NLTA and EPS.

has a positive correlation between NLTA and EPS, while there is positive correlations between NLDST and EPS for Bank Sohar only. Hence, there is a vast scope for further researches in this area.

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