



# AN ANALYSIS OF PERFORMANCE OF SELECTED BANKS IN BAHRAIN

\* DR. IQBAL T. H.

## Abstract:

*The main purpose of this study is to examine the financial performance of retail and wholesale conventional banks in Bahrain. The study covers a period of five years from 2009 to 2013. Ratio analysis was used to analyse the comparative financial efficiency of banks under study and correlation analysis was used to test the significance. Descriptive statistical analysis was used to measure the dispersion and the stability-variability of the ratios. The results indicate that wholesale banks are more efficient than retail banks in terms of overall cost to income and asset utilisation whereas retail banks are more efficient than wholesale banks in staff cost to income and operations. Correlation analysis showed a high positive correlation of staff cost to income ratio with operational efficiency ratio and cost to income ratio in retail banks and positive correlation of staff cost to income ratio with operational efficiency ratio and cost to income ratio in wholesale banks.*

**Keywords:** *Conventional banks; Efficiency; Performance, Ratios.*

## Introduction

Banks play an important role in the economic development of any country. Banks provide financial assistance for industries, investors and public in general. The measurement of financial performance of banks can be expressed in terms of profitability, efficiency, solvency and liquidity. It guides all stakeholders to assess how a bank is using its resources to generate revenues. Conventional and Islamic banks operate in Bahrain to carry out the financial transactions. There are retail conventional banks to serve the financial transactions of individual customers and wholesale conventional banks to meet the financial transactions of industries and other entities with huge amount of funds. The financial performance analysis of these retail and wholesale banks provide an awareness and understanding of the comparative position of both banks which would be useful for stakeholders.

Several studies have been carried out on the comparative measurement and analysis of financial

performance of the Islamic and conventional banks in Bahrain and other Gulf countries. The present study is carried out to understand and analyse the performance in terms of efficiency of retail and wholesale conventional banks in Bahrain as there was no previous studies on the performance analysis of retail and wholesale conventional banks. This study examines the performance of conventional banks using relevant ratios.

## Review of Literature :

Through review of literature an attempt is made by the authors to understand the different dimensions of performance analysis of banks operating in Bahrain and other countries.

Hameeda Hussain and Jasim Al-Ajmi (2011) in their study emphasized that Bahrain Banks have a clear understanding of risk, and have efficient risk management practices. The results of the study revealed that the Islamic and conventional banks are facing credit, liquidity and operational risk. However, Islamic banks differ significantly from conventional banks in managing risk. The results of

\* Assistant to the President for Accreditation & Quality Assurance, Associate Professor, College of Business Administration, Kingdom University, Kingdom of Bahrain, Bahrain, E-mail: i.hawalddar@ku.edu.bh



the study revealed that the level of risk faced by Islamic banks is significantly higher than conventional banks in Bahrain.

Al-Ethawi et al (2014) stated that though there was so difference in the performance of conventional and Islamic banks, the risk management practices of Islamic banks were highly complex compared to that of conventional banks. Ika and Abdullah (2011), Yahya (2012) and Metwally (2012) also showed that there is no significant difference between the performance of Islamic and conventional banks.

Hussein and Hussein (2013) reported that conventional banks were better than Islamic banks in cost management practices. The study analysed factors such as liquidity, growth, level of risk, quality of assets and capital adequacy. The authors found that the Islamic banks performed better than conventional banks during and post financial crisis. Shah (2012) also found that Islamic banks are better than conventional banks.

Kamarudin et al (2013) stated that the cost efficiency in conventional banks were better than profit efficiency. The study revealed that large sized conventional banks operated at constant return to scale and decrease return to scale and the small banks operated at constant and increase return to scale. Thus size of the banks had an impact on its profitability. Abu-Alkheil, et al (2012) mentioned about the impact of size of banks on efficiency and profitability. Fayed (2013) and Abbas (2016) also stated that conventional banks were better than Islamic banks. Hussein (2010) observed that conventional banks are better than Islamic banks in liquidity.

A. Mobarek and A. Kalonov (2014) studied the performance analysis of conventional banks in pre-crisis and crisis periods of 18 OIC countries and found that there was dominance of conventional banks performance over other banks. There was no evidence in the studies on the impact of crisis on the performance of conventional and Islamic banks. The authors stated that there was impact of size of the bank on their performance. The large sized conventional banks showed better performance. It

was found that there was negative relationship between solvency and efficiency of banks.

Lawrence Tai (2014) studied the efficiency and performance of GCC national banks from the period of 2003 to 2011 and found that conventional banks were better than Islamic banks. The performance in terms of liquidity, profitability and solvency was comparatively better than other counterparts during the earlier part of the study period whereas the liquidity, profitability and solvency performance was better than conventional banks during the later part of the study period. The study showed that the return on average assets (profitability) of the banks depend on the bank size, general economic conditions, financial development and type of banks.

The studies had two folded findings. Few studies stated that conventional banks performed better than its competitors in the industry and in case of some studies, Islamic banks were better than conventional banks. The present study is conducted to examine the performance of retails and wholesale conventional banks in Bahrain.

### **Objectives :**

Based on review of literature the following objectives are framed.

1. To examine the efficiency of retail and wholesale conventional banks in Bahrain using ratios.
2. To compare the performance of retail and wholesale conventional banks in Bahrain.

### **Hypotheses:**

To empirically analyse the performance of retail and wholesale conventional banks in Bahrain the following null hypotheses have been developed.

*Hypothesis 1:* There is no positive correlation among staff cost to income ratio, cost to income ratio, asset utilisation ratio and operating efficiency ratio of retail conventional banks in Bahrain.

*Hypothesis 2:* There is no positive correlation among staff cost to income ratio, cost to income ratio, asset utilisation ratio and operating efficiency ratio of wholesale conventional banks in Bahrain.



**Hypothesis 3:** There is a significant difference between performance of retail and wholesale conventional banks in Bahrain.

**Research Methodology :**

The study is based on six retail and seven wholesale conventional banks operating in Bahrain. The selected six retail conventional banks are: National Bank of Bahrain (NBB), Bank of Bahrain and Kuwait (BBK), Ahli United Bank (AUB), Bahrain Development Bank (BDB), BMI Bank, and Eskan Bank. The seven wholesale conventional banks selected for the study are: Arab Bank, Arab Banking Corporation, Bahrain Middle East Bank, Gulf International Bank, Gulf International Bank, Investcorp Bank, TAIB Bank. The study covers a period of five years from 2009-2013. The required data for the study are collected from website of banks, published financial statements and investors' guide. The collected data were analysed using SPSS and Microsoft Excel. The performance of retail and wholesale conventional banks are measured using ratio analysis. Hypotheses have been tested using correlation technique.

**Analysis and Discussion :**

In order to meet the objectives of the study, we used efficiency related ratios and correlation technique.

**Cost/Income Ratio:**

The cost to income ratio is a tool used to measure the efficiency of the bank. The cost/ income ratio is calculated by dividing operating expenses and operating income. A lower cost/income ratio is better for the bank. It measures how costs are changing in relation to income.

**Table 1:** Cost/Income ratio of retail and wholesale conventional banks

Year	Retail banks				Wholesale Banks			
	Min	Max	Mean	SD	Min	Max	Mean	SD
2013	31.45	88.08	55.39	23.47	29.87	140.83	67.19	35.65
2012	32.58	96.46	58.58	25.54	24.17	323.69	89.32	107.73
2011	33.80	76.41	54.97	18.92	21.32	310.25	70.11	110.19
2010	30.62	75.62	49.51	17.92	20.63	1316.9	280.76	478.44
2009	33.97	54.74	41.91	17.73	22.51	60.67	40.33	14.54

**SD-Standard Deviation :**

The data presented in Table 1 reveals that the retail conventional banks have lower cost to income ratio compared to wholesale banks in Bahrain. The standard deviation indicates that there is high variation in the ratio for wholesale banks over the study period. However, the variation is more or less consistent in case of retails banks. The descriptive statistics presented above reveal that as compared to wholesale banks, the retail banks show efficiency with regard to the cost to income ratio.

**Staff Cost/Income Ratio:**

The staff cost to income ratio shows the percentage of a bank's income spent on staff expenditure. This ratio helps the bank in understanding the staff cost associated with their income. The comparison of staff cost to income ratio between retail banks and wholesale conventional banks are shown below.

**Table 2:** Staff cost / income ratio of retail and wholesale conventional banks

Year	Retail Banks				Wholesale Banks			
	Min (%)	Max (%)	Mean (%)	SD	Min (%)	Max (%)	Mean (%)	SD
2013	19.99	51.09	31.17	12.61	21.33	78.38	37.86	16.93
2012	18.85	53.21	32.92	14.50	18.33	149.32	45.05	47.15
2011	21.41	42.52	31.58	8.52	18.95	156.41	40.14	57.53
2010	18.62	44.29	28.515	8.74	14.09	216.63	68.14	63.64
2009	20.06	30.86	26.58	5.99	14.56	150.13	39.96	54.96

**SD-Standard Deviation :**

Table 2 shows that the staff cost/income ratio of wholesale banks was very high in the year 2010. However, for the remaining three years it is consistent. The standard deviation of this ratio for the wholesale banks is 16.93 in the year 2013 which means this ratio is less volatile. For the retails banks the ratio has increased over a period of study. However, the standard deviation indicates no much variation in this ratio.

**Asset Utilization Ratio:**

Asset Utilization Ratio is tool employed to measure how well the assets of the banks are used to generate revenue. It signifies the efficiency of the management in employing its asset for productive



use. It is computed by dividing the total revenue by the total assets of the bank.

**Table 3:** Asset utilization ratio of retail and wholesale conventional banks

Year	Retail Banks				Wholesale Banks			
	Min	Max	Mean	SD	Min	Max	Mean	SD
2013	1.32	2.89	1.8923	0.66662	1.35	17.32	6.4889	5.0567
2012	1.14	2.85	1.675	0.62561	1.44	23.24	7.4543	6.348
2011	1.15	2.90	1.7283	0.73752	1.76	3.18	5.026	5.126
2010	0.99	3.21	1.9383	0.9196	0.84	16.09	4.9014	4.5778
2009	0.94	3.86	2.0211	1.09367	1.14	17.95	4.6299	5.2358

**SD-Standard Deviation :**

It can be observed from Table 3 that the ratio of asset utilization is higher among the wholesale banks compared to retail banks. The asset utilization ratio is almost stable in among the retail banks and less volatile as indicated by the standard deviation. Though the ratio shows an increasing trend it is volatile as indicated by standard deviation. However, comparatively wholesale banks have performed well in terms of asset utilization.

**Operating Efficiency Ratio:**

The Operating efficiency ratio is a tool to measure the bank's productivity. The efficiency ratio signifies the bank's ability to support its net income from its operation. The operating efficiency ratio is calculated by dividing non-interest expense by net interest income of the bank.

**Table 4:** Operating efficiency ratio of retail and wholesale banks

Year	Retail Banks				Wholesale Banks			
	Min	Max	Mean	SD	Min	Max	Mean	SD
2013	31.47	90.08	55.38	23.47	30.02	142.83	68.19	35.65
2012	34.58	94.28	58.58	25.54	25.17	331.65	54.12	129.55
2011	33.83	78.41	54.96	18.91	25.04	317.15	53.44	149.77
2010	30.62	75.62	49.50	17.91	20.64	1316.9	245.19	494.16
2009	34.97	54.47	41.91	17.73	22.51	60.67	13.35	55.02

**SD-Standard Deviation :**

It is clear from Table 4 that the ratio of operating

efficiency is higher in case of wholesale banks when compared to retail banks as indicated by the mean. However, it is highly volatile in case of wholesale banks.

**Hypothesis 1:** There is no positive correlation among staff cost to income ratio, cost to income ratio, asset utilisation ratio and operating efficiency ratio of retail conventional banks in Bahrain.

**Table 5:** Correlation between different ratios of retail conventional banks

		Staff cost to income ratio	Cost to income ratio	Asset utilization ratio	Operating efficiency ratio
Staff Cost to income ratio	Pearson correlation	1	0.996**	-0.968**	0.996**
	Sig. (2-tailed)	.	0	0.007	0
Cost to Income ratio	Pearson correlation	0.996**	1	-0.959*	1.00**
	Sig. (2-tailed)	0	.	0.01	.
Asset utilization ratio	Pearson correlation	-0.987**	-0.959*	1	-0.968*
	Sig. (2-tailed)	0.007	0.01	.	0.01
Operating efficiency ratio	Pearson correlation	0.998**	1.00**	-0.978*	1
	Sig. (2-tailed)	0	.	0.01	.

The result of correlation analysis of retail conventional banks between various performance indicators showed that existence of significant positive correlation of staff cost to income ratio with operational efficiency ratio and cost to income ratio with value 0.996 and 0.996 respectively which is significant at 0.01 level. The result of correlation analysis also depicts that asset utilization ratio is negatively correlated with staff cost to income ratio, operating efficiency ratio and cost to income ratio with values -0.968, -0.959 and -0.959 respectively which is significant at 0.05 level. The null hypothesis is accepted at 0.01 levels of significance. Thus, there is a positive relationship among staff cost to income ratio, operational efficiency ratio and cost to income ratio.

**Hypothesis 2:** There is no positive correlation among staff cost to income ratio, cost to income ratio, asset utilisation ratio and operating efficiency ratio of wholesale conventional banks in Bahrain.

**Table 6:** Correlation between different ratios of wholesale conventional banks



		Staff cost to income	Cost to income	Asset utilization	Operating efficiency
Staff cost/ income ratio	Pearson correlation	1	0.978 **	-0.103	0.968**
	Sig. (2-tailed)	.	0	0.87	0.003
Cost to income ratio	Pearson correlation	0.998**	1	-0.097	0.985**
	Sig. (2-tailed)	0	.	0.876	0.002
Asset utilization ratio	Pearson correlation	-0.113	-0.095	1	0.047
	Sig. (2-tailed)	0.872	0.878	.	0.938
Operating efficiency ratio	Pearson correlation	0.982 **	0.985**	0.049	1
	Sig. (2-tailed)	0.003	0.002	0.938	.

The result of correlation analysis of wholesale conventional between various performance indicators showed that existence of significant positive correlation of staff cost to income ratio with operational efficiency ratio and cost to income ratio with value 0.968 and 0.978 respectively and cost to income ratio with operational efficiency ratio with the value 0.985 which is significant at 0.01 level. The result of correlation analysis also depicts that asset utilization ratio is negatively correlated with staff cost to income ratio and cost to income ratio with values -0.103 and -0.097 respectively which is not significant at 0.01 or 0.05 level. On the basis of above correlations, the null hypothesis is accepted as negative correlations are not significant at 0.01 or 0.05 level. Thus, there is a positive relationship among staff cost to income ratio, operational efficiency ratio and cost to income ratio.

**Hypothesis 3:** There is significant difference between performance of retail and wholesale conventional banks in Bahrain.

**Table 7:** Performance of retail and wholesale conventional banks

	Conventional Banks	Mean	Std. Deviation	Mean Difference	t - Value	Sig. (2-tailed)
Staff Cost Ratio	Retail Banks	29.8308	2.96325	-37.0671	-1.207	0.294
	Wholesale Banks	66.9856	68.17727			
Cost to Income Ratio	Retail Banks	52.241	6.54972	-52.5067	-1.314	0.259
	Wholesale Banks	106.5429	97.29485			
Asset Utilization Ratio	Retail Banks	1.812	0.1465	-3.546	-2.06	0.108
	Wholesale Banks	5.358	3.88139			
Operating Efficiency Ratio	Retail Banks	52.071	6.54972	-35.1424	-0.826	0.521
	Wholesale Banks	87.2134	98.33141			

It is clear from Table 7 that the mean staff cost to income ratio of retail banks and wholesale banks are 29.8308 and 66.9856 respectively. The mean difference between retail banks and wholesale banks are -37.0671, the t-value between the banks are -1.207 with p-value 0.294. Therefore, null hypothesis is accepted i.e. the mean difference is not significant as the p-value is less than 0.05 with 95% confidence level.

The mean cost to income ratio of retail and wholesale banks is 52.2411 and 106.5429 respectively. The mean differences between the banks are -52.5067, the t-value between the banks are -1.314 with p-value 0.259. Therefore, null hypothesis is accepted i.e. the mean difference is not significant.

The mean asset utilization ratio of retail and wholesale banks is 1.812 and 5.358 respectively. The mean difference between the banks are -3.546, the t-value between the banks are -2.06 with p-value 0.108. Therefore, null hypothesis is accepted i.e. the mean difference is not significant.

The mean operating efficiency ratio of retail and wholesale banks is 52.071 and 87.2134 respectively. The mean difference between the banks are -35.1424, the t-value between the banks are -0.826 with p-value 0.521. Therefore, null hypothesis is accepted i.e. the mean difference is not significant. We conclude that, there is no significant difference between performance of retail and wholesale conventional banks as the p-value is less than 0.05 with 95% confidence level.

### Conclusion:

The conventional banking system is one of the primary financial institution in the development of Bahrain. There are retail banks which serve the individual financial requirements and wholesale banks which basically cater to the requirements of firms and industry houses. In this study, an attempt is made to understand and analyse the performance in terms of efficiency of retail banks and wholesale conventional banks in Bahrain. Based on the results of the study it can be concluded that wholesale



banks are better than retail banks in terms of cost to income and asset utilisation but in case of staff cost to income and operational efficiency, retail banks better than wholesale banks. The testing of hypothesis revealed that there is a high positive correlation of staff cost to income ratio with operational efficiency ratio and cost to income ratio in retail banks and positive correlation of staff cost to income ratio with operating efficiency ratio and cost to income ratio in wholesale banks. We conclude that there is no significant difference between performance of retail and wholesale conventional banks. The future research in this direction could focus on the profitability and liquidity dimension of retail and wholesale banks.

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