Comparative analysis liquidity of Dashen Bank and Awashe International Bank.

A Research Proposal Submit to the Department of Accounting and Finance for Partial Fulfilments of BA Degree in Accounting and Finance

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ABSTRACT

This research paper titled “comparative analysis liquidity ” was conducted by taking Awash International Bank (AIB) and Dashen Bank as case study. The main objective of the study is to evaluate and compare the financial performance AIB and NIB for the fiscal period (2010-2016 G.C). To achieve this objective, mainly secondary and primary data sources was used. And also, the research used comparative analysis and ratio analysis to measure their financial performance. Finally, the research offered suggestions for the improvement of efficiency in financial performance in selected banks.

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CHAPTER ONE

1. Background of the study

liquidity is the ability of the bank to convert the asset to cash being one of the major characteristics, defines competitiveness, potentials of the business, economic interest of the company's management and reliability of present and future contractors .Therefore, financials performance analysis and identification of their weakness and strengths using financial performance indicators has it is contribution to the management, shareholders ,the public (customer of the bank),the regulator (the government),the financial sector, and the economy as a whole .Financial information analysis is the process of identifying the financial strength and weakness of the companies by properly establishing relationship between items of balance sheet and the profit and loss account. It involves careful selection of data from financial statements for the purpose of forecasting the financial health of the firm and the user can easily identify any weakness in the firm's financial health that could lead future problems and to determine any strength the firm might capitalize upon (Pandey 1999).

liqudity is the ability of the bank to fullfillprovide a means and mechanism of transferring resources from those who have an excess of income over expenditure to those who can make productive use of the same .The commercial bank and investment institution mobilize saving of people and channel or intermediate facility institution ,economic person who can take the development in the following ways :providing funds infrastructural facilities and promotional activities, development of backward areas, planned development ,accelerating industrialization and employment generation (Frederic 2004) .Some time the elements of financial statement are not correctly inform us the strength and weakness of the company in proper manner and the statement do not include many items that contribute to general growth and wellbeing of the firm. Income number are often affected by accounting methods employed (Pandey 1999).

Firms prepare financial statements at the end of the fiscal year to show their operating results as a means of conveying to management and interested outsiders a concise picture of the profitability and financial position of the business. Therefore, financial

statement is the major employed by the firms to present their financial situation to stockholders, creditors and the public (Edward et.al. 1987).

The function of finance comprises three decisions, the investment decision, financing decision and the dividend decision. Financial analysis is the most widely method for determining an organization's strength and weakness (Horne 1971).

Financial analysis establishes relationship between the items of the balance sheet, Retained earnings statements and the profit and loss statements. Financial analysis involves careful selection of data from financial statements for the purpose of showing past financial performance and to forecast future financial health of the firm. This is accomplished by examining trends in key financial data, comparing financial data across firms and analysing key financial ratios. The objective is to identify any weakness in the firm's financial health that could lead to future problems and to determine any strength the firm might capitalize upon (Pandey, 1999).

The ratios give us two ways of making meaningful comparisons of a firm's financial data; first we can examine the ratio across a time to identify any trends; and secondly; we can compare the firm ratios with those of other firms or we can analyse the ratio in industry, which can also be summarized as: Cross-sectional analysis, Industrial analysis, Time series or Trend analysis (Brigham, 2010). In short, such a financial analysis will allow us to see if the company is as good as the management claims it to be (Martin, 2003).

The aim of these study is to analyse the financial statements of Nib International Bank (NIB) and Awash International Bank (AIB) by using trend analysis by using different ratio for the fiscal period (2006-2016 GC).

1.2. Statement of Problem

Financial performance analysis enables to make decision and to regulate profit distribution. These include business enterprise, its owners, its creditors and all others parties who have an economic stake in its financial strength and profitability of the business enterprise. (Keown, Martin, petty, 2003).

A commercial banks financial performance is evaluated for several important reasons depending on their objectives. An entity like a bank regulator, such as may need to identify and call attention to banks that are experiencing chronic financial problem in order that they may fix them before they get out of control. This is the case with so called “bank runs.” Shareholders, on the other hands need to assess which banks they can deem suitable to financially invest in. Unsurprisingly, commercial bank evaluates their Owen performance over a given period so that they may determine the efficiency and long term viability management decisions or goals so that they can alter the course and make change whenever it is appropriate. With constant and routine monitoring of performance underlying problems may remain invisible and lead to financial failures further down the line (Mukden, 2015).

There are different ways of using ratio analysis information both within and outside and among different type of users. This diversity reflects the fact that financial analysis information plays an important role in much type of decisions. (Brigham, 2006)

Abdul-Hamid and Azmi (2011) compared the financial performance between one Islamic bank eight conventional commercial banks for the period 2000-2009. The financial measurements used in this research are based on the criteria such as profitability, risk and solvency, and community involvement. The study found that while there is no significant difference in profitability during these two periods, Islamic bank is relatively more liquid and less risky as compared to conventional banks.

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 results in this research found no significant

1.3. Research Question

- ✓ What is the liquidity level of Awash international bank and Nib international bank?
- ✓ What does financial leverage of Awash International bank and Nib International banks?
- ✓ What does profitability level of the Awash International bank and Nib International bank?
- ✓ What is the asset management level of Awash International bank and Nib International bank?

1.4. Objective of the Study

As this research studied to analyse the financial performance of Awash International Bank (AIB) and Nib International Bank (NIB) it has the following general and specific objectives.

1.4.1. General objectives of the study

The main objectives of the study is to evaluate and compare the financial performance AIB and NIB by using trend analysis for the fiscal period (2006-2016 G.C) and to give reasonable recommendation based on the findings.

1.4.2. Specific objectives of the study

The specific objectives of the studies are: -

- ✓ To assess and compare liquidity of Awash international bank and Nib international bank.
- ✓ To analysis and compare the financial leverage of the banks.
- ✓ To assess and compare the profitability of the banks.
- ✓ To assess and compare the asset management level of the banks.

1.5. Significance of the Study

Banks serve as backbone to the financial sector, which facilitate the proper utilization of

financial resources of a country. The banking sector is increasingly growing and it has witnessed a huge flow of investment. In addition to simply being involved in the financial intermediation activities, banks are operating in a rapidly innovating industry that urges them to create more specialized financial services to better satisfy the changing needs of their customers. Sundararajan et al. (2002) argues that the financial system, the bank in particular, is exposed to a variety of risks that are growing more complex nowadays. Furthermore, the economic downturn of 2008 which resulted in bank failures, are triggered in the United State. And then wildly spread worldwide. It therefore increasingly urges the need of more frequent banking examination. In order to cope with the complexity and a mix of risk exposure to banking system properly, responsibly, beneficially and sustainably, it is of great importance to evaluate the overall performance of banks by implementing a regulatory banking supervision framework. From those such measures of supervisory information are the market value ratio, asset management ratio, liquidity ratio, profitability ratio and debt management ratio rating system of the banks are very core.

Therefore, this study is significant; for it assesses determinants of bank performance based on the ratio model and for it gives important insight to supervisors as well as managers of Awash international bank and Nib international bank. It also shades light about the importance of ratio Model to risk managers and others who are interested to examine the performance of the banks.

Finally, the study helps other researchers as a source of reference and as a stepping stone for those who want to make further study on the area afterwards. Beside this, it gives the opportunity to all stake holders to gain knowledge about the banks financial issue. The paper is expected to help interested parties in deciding investment in terms of its effect on performance. This in turn to assist the firm to plan and implement actions aiming at improving firm’s performance by evaluating the existing performance. Furthermore, it would serve as a ground to other researchers who want to study in the same area.

1.6. Scope of Study

Due to lack of necessary resources and time, the scope of the study focused on the comparison of the performance of Nib International Bank and Awash International Bank for the last ten years (2006-2016) in order to achieve these objectives, the researcher focused on analysing the financial statements produced by the management and audited. The researcher would only include the financial results by analysing the financial statements in order to analyse these financial statement, the researcher applied comparative analysis method among many financial analysis tools because it is simple and expressive method.

1.7. Organization of the Research paper

The research paper had five chapters the first chapter was the introduction part, the second chapter be the review of the related literature, the third chapter was research methodology to be used, data presentation and analysis was included in the fourth chapter, and the fifth chapter gave conclusion and recommendation.

CHAPTER TWO

2. The Review of Related Literatures

This chapter reviews some literatures related with the problem which helps the researcher to compare and contrast the theory to the actual practice. This chapter also offer the literatures review about the financial performance analysis. The financial statement element, financial statement analysis and financial ratio are tried to explain in this chapter as review of related literature. The empirical study also tried to explained about their study and identify their gap.

2.1.1. Overview of Financial Statements

Financial statements are the statement of reporting by the any firm to the user of information about the strength and weakness of the given organization. Business firms typically prepare three basic financial statements to report the result of their activities balance sheet, income statement, and statement of cash flows. To compete a though examination of firm's effectives, however need to look at move then just easily attainable number like sales, profits and total assets. It is a must to be able to reading between the lines of financial statements and make the seemingly inconsequential number accessible and comprehensible (Keown, Martin, Petty, Scott, Jr).

2.1.2.Elements of Financial Statement

Definitions of the elements of financial statements are important, because they help in determining how transaction or other economic event should be accounted for and reported in financial statements.

Assets: assets are defined as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events (Fess 1990).

Liabilities: liabilities are defined as probable future scarifies of economic benefits arising from present obligations of the accounting entity to transfer assets or provide services to other entities in the future as a result of past transactions or event (Fess Warren 1990).

Equity or net assets: equity is the residual interest in the assets of an entity after its

total liabilities have been deducted from it total assets. Because equity is a residual interest, it cannot be measured independently of assets and liabilities. The relationship between assets, liabilities, and equity is the basis for the accounting equation (Fess Warren 1990).

Assets = liabilities + equity

Revenues: revenues are periodic inflows of assets or settlements of goods, the rendering of services or other earning activities that constitute an entity's major or primary operations (Fess 1990).

Expenses: expenses are the periodic use of assets or the incurring of liabilities or both as a result of delivery or production or goods the rendering of services, or other earning activities that constitute an entity's major or primary operations. The essential characteristics of expenses are that they are incurred in the process of gathering revenue (Fess Warren 1990).

Gains and losses: gains are increases in equity or net assets that result from peripheral or identical transactions by an entity. In other words, gain arises from transactions and economic events that do not result in either revenues or owner's investments. Losses are decreases in equity or net assets arising from peripheral or identical transactions and economic events that do not result either expenses or distribution to owner (Fess Warren 1990).

2.1.3. Basic Financial Statements

Business firms typically prepare three basic financial statements to report the result of their activities balance sheet, income statement, and statement of cash flows.

2.1.4.Balance Sheet

The balance sheet or statements of financial position, presents a snapshot of the resource of firm (assets) and the claims on those resources (liabilities and equity) as of specific time. The assets portion of the balance sheet report the effect of the firm's investing decisions. The liabilities and owner's equity portion of the balance sheet reports the effects of a firm's financing decisions (Brigham, 2006).

Intermediate Components of Balance Sheet

In the balance sheet assets, liabilities and owner's equity accounts are grouped together in certain classes to assist users. In general, the classification should indicate the amounts and liquidity of available resource, management's intent with respect to the use of those resources and the amounts and timing of obligations that require liquid resource for settlement. Balance sheet may be in to three broad categories, assets, liabilities and owners' equity (Fess).

Assets Categorized as

Current assets: are cash and other assets that can reasonably expected to be converted to cash or consumed during one or the normal operating cycle of the business whichever is longer. Examples of current assets include cash and cash equivalents, short term receivables, inventories, prepaid expense and etc. (Fess 1990).

Noncurrent assets: assets are classified as noncurrent asset if they are non-expected to be converted to cash or consumed during one year or the normal operating cycle of the business, whichever is longer. Noncurrent asset includes investment and special purpose funds, property, plant and equipment, and intangible assets (Fess 1990).

The Principal Categories of Liabilities Are:

- Current liability and
- Long term liability.

Current liabilities: are obligations that are expected to be eliminated either through the use of existing current assets or by creation of other current liabilities. To be classified as current liability, the obligations must be mature within one year or operating cycle, whichever is longer. Current liability includes notes payable, account payable, accrued liabilities and etc. (Mosich, intermediate accounting, 1989).

Long term liabilities:- are obligations that will be settled beyond the operating cycle or one year, whichever is longer. The most common long term liabilities are long term notes, bonds, differed taxes, pensions and lease obligations (Mosich, intermediate of

accounting 1989).

Owners' equity or stockholders' equity: it is typically consisting of three categories,

- Common stock (contributed capital)
- Retained earnings and
- Accumulated other comprehensive income.

Contributed capital: - when a corporation issues stock for cash, it assets increases by the amount of cash contributed the amount of the increase in assets is credited to contribute capital indicating that the additional assets came from the owners (Fess).

Retained earnings: - is the account used to record net income or net loss and dividend distribution (Mosich 1989).

Comprehensive income: it includes all changes in equity during a period except those resulting from investments by owners and distributions to owners (Mosich intermediate of accounting 1989).

Uses of Balance Sheet: -The balance sheet is a primary source of information about company's liquidity and financial flexibility. Liquidity depends on the amount of time expected to laps until an asset is converted in to cash or liability is paid. Financial flexibility is a company ability to alter its future cash flows by responding to expected need and opportunities. It provides information about the nature and amounts of investment in firm's resources, obligations to creditors and the owner's equity in net resources. The balance sheet is useful in assessing at firm's profitability by relating net income to assets, owner's equity. Investors can determine the company's returns on invested resource.

Limitation of the Balance Sheet

The balance sheet does not reflect current value because accountants have adopted a historical cost basis in valuing and reporting assets and liabilities. The balance sheet omits many items that are of financial value to business but cannot record objectively. Some resource that are not recorded in the accounts because the accounting process is

based on transactions.

2.1.5.Income Statements

The statement of income often called statement of earnings the import that measures the success of firm operations for a given period to time, the business and investment value and credit worthiness. It provides investors and creditors with the information that helps them predict the amounts, timing and uncertainty of future cash flow (Fess 1990).

Intermediate Components of the Income Statements

Operating section: -a report of the revenues and expenses of the company's principal operations.

Non-operating section: provides a report of revenue and expenses resulting from non-principal activities of the company's operation.

Income tax: a short section reporting federal and states taxes levied on income from containing operation.

Discontinued operations: report material gains and losses resulting from disposition of a segment of the business. Extraordinary items: report unusual and infrequent material gains and losses (Fess 1990).

Use of the Income Statement: - Investors and creditors can use the information on the income statement to evaluate past performance of the firm. The income statement helps users determine the risk (level of uncertainty) of achieving particular cash and lows (Fess 1990).

Limitations of the Income Statement

The statements do not include many items that contribute to general growth and wellbeing of the firm. Income numbers are often affected by accounting methods employed (Fess 1990).

2.1.6. Statements of Cash Flows

The primary purpose of the statement of cash flows is to provide information about an entity's cash receipts and cash payments during a period. A secondary objective is to provide

information on a cash basis about its operating investing and financing activates (Fess 1990).

Intermediate Components of the Cash Flows

Operating activities: involve the cash effects of transactions that inter in to a determination of net income, such as cash receipts from sales of goods and services and cash payments to suppliers and employees for acquisition of inventory and any expenses.

Investing activities:generally, involves long term assets and include making and collecting loans and acquiring and disposing of investments and productive long lived assets.

Financing activities: involves liability and stock holder's equity item and include obtaining cash from creditors and repaying the amount of paying the amounts of paying capital from owner and providing them with a return on, and return of, their investment (Fess 1990).

2.2. Financial Analysis

Financial analysis: is the process of identifying the financial strength and weakness of a firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. It can be under taken by the management of a firm, or parties the firm, owners, creditors, investors and others (Pandy, 1999).

Financial statements analysis involves (1) Comparing a firm's performance with that of other firms in the industry and (2) Evaluating trends in the firm's financial position over time (Brigham, Ehrhardt, 1990).

2.3. Types of Financial Statement Analysis

Any successful owner wills constantly evaluate the performance of his or her firm competing it with the firm's historical figures with its industry competitors and even with successful business from other industries. To compete a though examination of firm's effectives, however need to look at move then just easily attainable number like sales, profits and total assets. It is a must to be able to reading between the lines of financial statements and make the seemingly inconsequential number accessible and

comprehensible. To do this the following types of analysis are used. (Keown, Martin, Petty, Scott, Jr)

2.3.1. Horizontal Analysis

When an analyst compares financial information for two or more years for a single company; the process is referred to as horizontal analysis, since the analyst is reading across the page to compare any single line item, such as sales revenues. I addition to comparing dollar amounts, the analyst computes percentage changes from year to year for all financial statement, such as cash and inventory. Alternatively, in comparing financial statement for a number of years, the analyst involves calculating each year's financial statements balances as percentage of the first year, also known as the base year. When expressed as percentage, the base year figures are always 100 percent and percentage changes from the base year can be determined (Pandy 1999).

2.3.2. Vertical Analysis

In vertical analysis, percentages are used to some the relationship of the deferent parts to a total in a single statement. The account sets a total figure in the statement equal to 100% and computes each components percentage of that total. (The figure would be total asset or total liabilities and stockholder's equity on the balance sheet and net revenue or net sales on the income statements. The resulting statement of percentages sis called a common size statement (pandy 1999).

2.3.3. Ratio Analysis

Ratio analysis is a powerful tool of financial analysis in financial analysis a ratio is used as index yardstick for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements of not provide a mining full understanding of performance and financial position of firm financial ratios give the analyst away making meaningful comparisons of a firm's financial data at different point in time and with other firms it represents an attempt to scandalize financial information to facilitate meaningful comparisons (Brigham, Houston 2006).

2.4. Basic financial Ratios

Several ratios can be calculated from the accounting data contained in financial statements. These ratios can be grouped in to various classes according to the financial activity or function to be evaluated. The parties which generally under take financial analysis are short term creditors' and long term creditors, owners and management. In the view of the requirements of various users of ratios, we may classify them in to the following five categories:

1. Liquidity ratios
2. Asset management ratios
3. Profitability ratios
4. Debt management ratios

2.4.1. Liquidity Ratio:

Are ratios used to judge a firm ability to meet short term obligation from liquidity ratios much in sight can be obtained in to the present cash solvency of firm and its ability to remain solvent in the event on unfavourable conditions. (Brigham and Houston). There is three commonly used liquidity ratios these are

Current ratio: is calculated by dividing current assets by current liabilities. It indicates the extent to which current liabilities are covered by those assets expected to be converted to cash in near future. Prepared expense also includes in current assets.

A relatively high value of current ratio is considered as indication that the firm is liquid and has ability to pay its bills. On the other hand, a relatively low value of current ratios is considered as an indication that the firm will find difficult paying its bills. As conventional rules, current ratios of 2 to 1 (current assets twice of current liabilities) or more consider to be satisfactory (Brigham, Houston 2006).

2.4.2. Asset management ratios:

An asset management ratio measures how effectively the firm is managing it assets. These ratios are also called turnover ratios because they indicate the speed with which

assets are being converted and tuned over in to sales. These ratios, thus involve a relationship between sales and the various assets, and presume that there exists an appropriate balance between sales and the various assets. A proper balance between sales and assets generally reflects the assets managed well. Or high turnover ratios are usually associated with good assets management and low turnover ratio is bad asset management (Brigham, Houston 2006).

Fixed assets turnover: this ratio measures the efficiency of with which the firm is utilizing its investment in fixed assets. Generally, a high fixed assets turnover ratio indicates efficient utilization of fixed assets. In generating sales, while a low ratio indicates inefficient management and utilization of fixed asset (Brigham, Houston 2006).

The formula to calculate the ratio is:

Fixed asset turnover ratio = Sales/ Net fixed asset

Total assets turnover ratio: this ratio reflects how well the company's assets are being used to generate sales. High total assets turnover ratios are suggest indicating successful asset management, and low ratio indicates unsuccessful management. It is calculated by dividing sales by total assets (Brigham, Houston 2006).

Total assets turnover ratio = Sales/ Total assets

2.4.3. Debt Management Ratios (Leverage ratio)

It shows the extent to which a firm uses debt financing. Financial leverage has three important implications:

1.By raising fund through debt, stock holder can maintain control of firm while limiting their investment.

2.Creditors look to the equity, or owner supplied funds, to provide margin of safety, so if the stock holders have provided only a small portion of total financing, the risk of enterprise are borne mainly by its creditors.

3.If the firm earns more on investment financed with borrowed fund than it pays in interest, the return on the owners' capital is magnified or "leveraged" (Brigham, Ehrhardt)

Debt ratio (Total debt ratio): It measures the percentage of funds provided by current liabilities and long term debt. (Brigham, Houston 2006). The formula used to calculate:

Debt ratio = Total liabilities/ Total asset

Debt to equity ratio: whatever way the debt to equity ratio is calculation is shows the extent which debt financing has been financing has been used in business a high ratio is unfavourable form the firm's point of view. This introduces inflexibility in the firm's operations due to the increasing interference and pressures from creditors. A low debt to equity ratio implies a greater claim of owners then creditors. From the point of view of creditors, it represents satisfaction capital structure of the business since a high proportion of equity provides larger margin of safety from them. (Brigham, Houston 2006) The formula to calculate the ratio is:

Debt to equity ratio = Total debt/Shareholders' equity

Time interest earned ratio (Interest Coverage ratio): this ratio indicates the extent to which the earnings may fall without causing any embarrassment to the firm regarding the payment of the interest charges. And earnings before interest and tax are used in the numerator rather than net income, because interest paid with pre-tax dollars, the firm ability to pay current interest is not affected by taxes. A higher ratio is desirable; but too high ratio indicates that the firm is every conserve in using debt. A lower ratio indicates excessive use of debt, or inefficient operations. (Brigham, Houston, 2006)

Interest coverage ratio = EBIT/Interest expenses

2.4.4. Profitability Ratios

Profitability is the net result of policies and decisions. The ratios examined thus far provide useful clues as to be the effectiveness of firm's operations, but the profitability

ratios go on to show the combined effects of liquidity asset management and debt on operating results.

Operating profit margin: The operating profit margin identifies how a company is performing with respect to its operation before the impact of interest expenses is considered. (Brigham, Houston 2006)

Operating profit margin= operating income (EBIT)/ Sales

Profit margin: The profit margin which is also called the net profit margin on sales is calculated by dividing net income by sales. It gives the profit per dollar of sales. (Brigham, Houston 2006)

Profit Margin = Net Income/ Sales

Return on Asset (ROA): measures the overall effectiveness of management in generating profits from its total assets (Brigham Houston, 2006). The formula to calculate this ratio is:

Return on Asset (investment) ratio = Net income/ Total asset

It evaluates the use of total funds without any regard the source of funds.

Return on shareholder equity ratio: measures the rate of return realized by firm's shareholders on their investment and service indicator of management performance. Higher return on shareholders' equity indicates effective management performance the reveres also true (Brigham Houston 2006). The formula calculated ratio is:

Return on share equity ratio = Profit net after taxes/ Shares' equity

Basic earning power ratio: this ratio is calculated by dividing earnings before interest and taxes by total assets :(Brigham Houston, 2006). Basic earning power ratios = EBIT/Total assets

2.4.5. Net Interest Margin (NIM)

Analysts focus on Net Interest Margin (NIM) ratio because small changes in a bank's lending

Margin can translate into large bottom line changes. The higher the ratio the cheaper the funding

Or the higher the margin the bank is obtaining. A bank's net interest margin is a key performance

Measure that drives ROA. Net interest income is the difference between interest income and

Interest expense. It is the gross margin on a bank's lending and investment activities.

Net Interest Margin=InterestIncome-Interest expense

2.5. Types of Ratio Analysis Comparisons

2.5.1. Cross- sectional Analysis:

Cross-sectional analysis involves the comparison of different firm's financial ratios at the same point of time. Analysis is often interested in how well a firm will compare its ratio values to those of key competitors or group of competitors having similar operation ratio.

2.5.2. Industrial analysis:

This analysis compares the firm's ratio with average ratio of the industry of which the firm is member. I t helps to ascertain the financial standing and capability of the firm by comparing with other firms in the industry.

2.5.3. Time Series (Trend) Analysis:

Time series analysis evaluates a firm's performance over a period of time. Comparison of present to past performance, using ratios, allows analyst to assess the firm's progress. It gives indication of the direction of changes and reflects whether financial performance has improved, Deteriorated or remains constant over time.

2.6. Limitations of Ratio Analysis

The ratio analysis is a widely used technique to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The followings are some of the limitation of ratio analysis, first many firms have divisions

that operate in different industries; and for such companies it is difficult to develop a meaningful set of industry averages. Therefore, ratio analysis is more useful for narrowly focused firms than for multidivisional ones. Secondly, Inflation has distorted many firms' balance sheets; book values are often different from market values. Market values would be more appropriate for most purposes, but we cannot generally get market value figures because assets such as used machinery are not traded in the marketplace. Further, inflation affects asset values, depreciation charges, inventory costs, and thus profits. Therefore, a ratio analysis for one firm over time or a comparative analysis of firms of different ages must be interpreted with care and judgment. Finally, it is difficult to generalize about whether a particular ratio is "good" or "bad." For example, a high current ratio may indicate a strong liquidity position, which is good, but it can also indicate excessive cash, which is bad because excess cash in the bank is a non-earning asset (Brigham and Houston 2006).

2.7. Empirical Review

Abdul-Hamid and Azmi (2011) compared the financial performance between one Islamic bank eight conventional commercial banks for the period 2000-2009. The financial measurements used in this research are based on the criteria such as profitability, risk and solvency, and community involvement. The study evaluated inter-temporal and interbank performance of the pioneer of Islamic banking in Malaysia using. T-tests have been used in determining their significance. They used data for one Islamic bank for the period of 2000-2009 while the data used for eight conventional banks is from 2005 to 2009. The study found that while there is no significant difference in profitability during these two periods, Islamic bank is relatively more liquid and less risky as compared to conventional banks.

Masruki et al. (2011) analysed and measured the performance of both Islamic and conventional banks in Malaysia over 5 years, 2004-2008. Their results should that Islamic banks have less level of profitability than its rival banks. Moreover, the results also indicated that conventional banks encountered high credit risk than Islamic banks.

Husein (2014) analysed the data of 102 individual Islamic banks in Indonesia over the

period 2010-2012. His objective was to investigate whether the bank size has significant effect on risk using the z-score as a measure of stability. The research findings were as follows:

1. The banks size has significant difference in terms of its stability
2. Overall, Islamic bank stability is affected by the assets and income diversity
3. Large Islamic banks tend to be financially stronger than small Islamic banks
4. Small banks tend to be more stable than medium Islamic banks.

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.

Berger & Humphrey (1997) assert that the whole idea of measuring bank performance is to separate banks that are performing well from those which are doing poorly. They further indicated that, “evaluating the performance of financial institution can inform government policy by assessing the effects of deregulation, mergers and market structure on efficiency”. Bank regulators screen banks by evaluating banks’ liquidity, solvency and overall performance to enable them to intervene when there is need and to gauge the potential for problems. On a micro-level, bank performance measurement can also help improve managerial performance by identifying best and worst practices associated with high and low measured efficiency.

2.8. Research Gap and Conclusion

The pervious researches conducted about comparative analysis on financial performance of banks are not used the profitability ratio analysis, liquidity ratio, asset management ratio, debt management ratio and market value ratio at the same time in their comparative analysis. The pervious study was conducted only to separate the bank that is doing poorly but the current study intends beyond this by identifying the banks that perform poorly and to will give better treatment to them. All pervious researches do

not use the financial statement above seven years but this research used the ten-year financial data of the banks.

In general, this research tried to uses the comparative and ratio analysis as the main tools in the study of financial data of the Awash and Nib international bank.

2.9. Conceptual Framework

The liquidity ratio, asset management ratio, profitability ratio, market value ratio and debt management ratio rating system is an international bank-rating system which used by bank supervisory authorities to rate financial performance of banks and other institutions. Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention (Trumann, 2006).

Based on the insights gained from review of the literature, the following conceptual framework showing the relationship between independent variables and dependent variable was created. Five research hypotheses were developed to investigate the relationship among the variables included in the conceptual framework. These hypotheses test if there is a significant positive relationship between the asset management ratio, debt ratio, profitability ratio, earning ratio and liquidity ratio with bank performance.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Introduction

This chapter over view the methodology the study adopted in the research .It includes the research design used to assess about the research and detail methodology showing the logical framework that discuses research designed ,sampling designed and research method was presented .To achieve the objective of this research the appropriate method was adopted and method that was used to collect the data and the method employed to run the data analysis and interpretation was discussed under this chapter.

3.2. Research Approach

There are two basic research approaches viz, quantitative approach and qualitative approach. The former involves the generation of data in quantitative form which can be subjected to rigorous numerical analysis in the formal and rigid fashion. The qualitative one is concerned with subjective assessment of attitudes, opinions and behaviour. This research used quantitative types of approach because of the research used numerical data (quantitative approach).

3.3. Research Design

The formidable problem that follows the task of defining the research problem is preparation of the design of the research project popularly known as research design. To achieve stated objective of study, the research used descriptive research methods. Descriptive research designs focus on describing station at set of circumstance by observing to give scientific description. The researcher also relayed on descriptive method, because of this method is more suitable to describe, measure, compare and classify the financial performance of Awash and Nib international banks.

3.4. Study Design

The research problem having been formulated in clear cut terms, the research required study design. This study design facilitates research to be as efficient as possible

yielding maximum information and reduced the effort, cost and time. The researcher selected the descriptive research design to conduct the study. The descriptive research design includes survey and fact finding enquires of deferent kinds and the major purpose of this method is description of the state of affairs as it exists at present.

3.4.1. Types and Source of Data

The study used secondary data to get reliable and recent information concerning the subject studies. The secondary data mean the data which have already been collected and analysed by some else. The researcher used secondary data which is important for the analysis from the audit financial statements of the banks for the last ten years collection .The research also used secondary data type to perform the study and also used secondary data collection method to better achievement of the study. The reason why the researcher use those method are because of more comfortable to the studding practise of the researcher and inability of researcher to meet the home office of the organization to get the primary data.

The research used more data from secondary data source which was collected from both banks written source. For this particular study, the research used secondary data like, annual report, financial statement, bulletins and others.

3. 4.2. Method of Comparison

In order to collect data which is helpful to the study the research used data comparison method because it is the best method to achieve the aim of the research.

3.5.3. Data Analysis Method

After the collection of the necessary data, the data was organized by using tables to make it ready for processing. And the tabulated data will be analysed by using the appropriate calculate ratio basically, the comparative analysis and ratio analysis method and it was presented using graphs, charts, table and percentage.

The measurements and variable to be used for this study was as follows

1.Liquidity Ratio**: -**Are ratios used to judge a firm ability to meet short term obligation from liquidity ratios much in sight can be obtained in to the present cash solvency of

firm and its ability to remain solvent in the event on unfavourable conditions

Liquid ratio=liquid ratio/current liability.

A. Current ratio: is calculated by dividing current assets by current liabilities. It indicates the extent to which current liabilities are covered by those assets expected to be converted to cash in near future. Prepared expense also includes in current assets.

Current ratio =Current asset /Current liability

2. Activity Ratio

A. Fixed Asset Turnover Ratio: this ratio measures the efficiency of with which the firm is utilizing its investment in fixed assets. Generally, a high fixed assets turnover ratio indicates efficient utilization of fixed assets.

Fixed Asset Turnover Ratio = Sales /Net fixed assets

B. Total asset Turnover Ratio: this ratio reflects how well the company's assets are being used to generate sales. High total assets turnover ratios are suggest indicating successful asset management, and low ratio indicates unsuccessful management. It is calculated by dividing sales by total assets (Brigham, Houston 2006).

Total assets turnover ratio = Sales/ Total assets

3. Leverage Ratio: **-** It shows the extent to which a firm uses debt financing.

A. Debt ratio: - It measures the percentage of funds provided by current liabilities and long term

Debt to equity ratio = Total debt/Shareholders' equity

B. Debt to Equity ratio: whatever way the debt to equity ratio is calculation is shows the extent

Which debt financing has been financing has been used in business a high ratio is

Unfavourable form the firm's point of view.

Debt to equity ratio = Total debt/Shareholders' equity

C. Time interest earned ratio: this ratio indicates the extent to which the earnings may fall

Without causing any embarrassment to the firm regarding the payment of the interest Charges

Interest coverage ratio = EBIT/Interest expenses

4. Profitability Ratio

Profitability is the net result of policies and decisions. The ratios examined thus far provide useful clues as to be the effectiveness of firm's operations, but the profitability ratios go on to show the combined effects of liquidity asset management and debt on operating results.

A. Basic Earning Power Ratio :-this ratio is calculated by dividing earnings before interest and

Taxes by total assets :(Brigham Houston, 2006)

Basic earning power ratios = EBIT/Total assets

B. Operating Profit Margin:-The operating profit margin identifies how a company is

Performing with respect to its operation before the impact of interest expenses is Considered. (Brigham, Houston 2006).

Return on share equity ratio = Profit net after taxes/ Shares' equity

C. Net profit margin: - The profit margin which is also called the net profit margin on sale is

Calculated by dividing net income by sales

Profit Margin = Net Income/ Sales

D. Return on Asset: measures the overall effectiveness of management in generating profits

From its total assets (Brigham Houston, 2006)

Return on Asset (investment) ratio = Net income/ Total asset

E. Return on Equip: measures the rate of return realized by firm's shareholders on their investment and service indicator of management performance.

Return on share equity ratio = Profit net after taxes/ Shares' equit

CHAPTER FOUR

Data Analysis Presentation and Interpretation

4.1 Historical Background of Awash International Bank

Awash International Bank S.C (AIB) was establish as the first private commercial bank after the renaissance of Ethiopians private sector, on November 10 1994 by 486 founder shareholders with a paid up capital of birr 24.2 million and started banking operations on February 13,1995. The bank's head office is located in Addis Ababa and it has 240 branches throughout Ethiopia.

4.2 Historical Background of Dashenl Bank (NIB)

The bank is a privately-owned company established in 1999 in accordance with the Licensing and Supervision of Banking Business Proclamation No. 84/1994 of Ethiopia to undertake commercial banking activities. The bank obtained its license from the National Bank of Ethiopia on 26 May 1999 and started normal business activities in the month of October 1999. It operates through its head office in Addis Ababa and 183 branches, and 2 agency offices for foreign exchange transactions in and outside Addis Ababa.

4.3 Data Analysis, presentation and Interpretation

Based on the intended objectives of this study, this chapter is devoted to analysis and interpretation of different ratios which were computed based on the audited financial statement of Awash International Bank (AIB) and Nib International Bank (NIB). In this chapter the financial analysis and interpretation supported by financial ratios has been discussed. And these financial ratios are Liquidity, Leverage, Activity, profitability. For this purpose, the balance sheet, Income statement, Cash flow statement and change in stockholder's equity statement for the records 2007-2016 has been used.

4.3.1. Liquidity Ratio

A. Current ratio

Table 4.1Current ratio of AIB and NIB

Awash International Bank

	Current asset	Current liability	Current ratio
2007	1,128,000,000	3,112,000,000	0.3625
2008	1,714,280,000	3,869,527,000	0.4430
2009	3,186,776,000	4,962,409,000	0.6422
2010	3,242,545,000	6,105,939,000	0.5310
2011	4048099000	7743779000	0.5228
2012	2935382238	9204357666	0.3189
2013	3421623502	12545208622	0.2727
2014	5060349694	15039715466	0.3364
2015	3881989328	18520420245	0.2096
2016	5972311922	22832028706	0.2537
Average Ratio			0.3893

Nib International Bank

Year	Current asset	Current liability	Current ratio
2007	696000000	1879000000	0.3704
2008	1332683000	2469929000	0.5396
2009	2334557000	3296388000	0.7082
2010	2568661000	4127187000	0.6224
2011	3444561000	5157400000	0.6679
2012	2730682840	5838126809	0.4677
2013	2104846339	6655214042	0.3162
2014	1915986824	7923293176	0.2418
2015	1797686198	9774115874	0.1839
2016	2,977,980,347	12,423,022,987	0.2397
Average Ratio			0.4358

Source- own computation from annual report of both banks (2007-2016)

Current ratio indicated that the extent to which current liability is covered by those current asset. By looking at the given table above we could observe that the liquidity of the both banks gradually decreasing, current ratio of AIB is increase from 36 cents of current asset for 1 birr of current liability in 2007 to 44cents in 2008, show an decreasing 52 cents of current asset for 1 birr of current liability in 2011 to 25 cents in 2016. The current ratio of NIB show a gradual decrements, from 70 cents of current asset for 1 birr of current liability in 2007 to 31 cents in 2013,increase in 24 cents in 2014 and18 in 2015 and increase to 23 cents in 2016. In contrast the average current ratio NIB the ability of AIB to meet its current liability by its current asset higher.

Figure 4.1.Current ratios of AIB and LIB

B. Net loan to Total Asset ratio

Table 4.2 NLTA ratio of AIB and NIB

Awash International Bank

Year	Net Loan	Total Asset	NLTA Ratio
2007	2,403,000000	3,830,000,000	0.6274
2008	2,610,908,000	4,820,224,000	0.542
2009	2,563,822,000	6,422,547,000	0.3992
2010	2,997,376,000	7,944,780,000	0.3773
2011	3,841,550,000	10,115,780,000	0.37976
2012	5,355,718,376	13,125,216,559	0.408

Nib International Bank

Year	Net Loan	Total Asset	NLTA Ratio
2007	1,755,000,000	2,607,000,000	0.6732
2008	2,033,789,000	3,650,107,000	0.562
2009	2,118,055,000	4,806,504,800	0.4407
2010	2,446,830,000	5,970,507,000	0.40982
2011	2,652,420,000	7,111,522,000	0.373
2012	3,608,327,548	8,275,695,377	0.4360

2013	7,532,303,953	17,783,926,770	0.4235	2013	4,429,319,286	9,144,543,615	0.4843
2014	8,967,602,629	22,106,346,493	0.4056	2014	5,407,739,082	10,747,283,267	0.5031
2015	12,264,977,656	25,210,501,454	0.4865	2015	6,894,044,536	13,256,124,481	0.520
2016	15,215,052,070	31,147,684,666	0.4884	2016	7,511,984,948	15,830,321,762	0.4745
Average Ratio			0.4424	Average Ratio			0.4867

Source- own computation from annual report of both banks (2007-2016)

Net loan to total asset ratio measures the percentage of assets that is tied up in loans. The higher the ratio, the less liquid the bank is In as much as the ratio of net loans to total assets does not directly measure liquidity, it gives an indication of how much of the bank assets are tied into illiquid loans. From the trend displayed by the above table, NLTA decreasing from 2007 to 2011 then increased throughout the period for both banks except for the year 2014 for AIB and 2016 for NIB this may be because of favorable economic conditions increased the demand for loans from businesses and allowed banks to grow their loan portfolios. Generally, a higher NLTA may indicate possible liquidity problems for banks in a tight credit market in the face of a large deposit withdrawal or in case of unexpected withdrawals and also the current ratio computed above also shows decrement in the entire period this shows that the banks' ability to meet their current obligation is slightly decreasing but AIB bank is in a good position than NIB in maintaining its liquidity in case of large deposit withdrawal or unexpected withdrawal.

B. Net loan to deposit and borrowing

Table 4.3 NLDB Ratio of AIB and NIB

Awash International Bank **Nib International Bank**

Year	Net Loan	Total deposit and ST Borrowing	NLDB Ratio	Year	Net Loan	Total deposit and ST Borrowing	NLDB Ratio

2007	2,403,000,000	3,112,000,000	0.77217	2007	1,755,000,000	1879000000	0.9340
2008	2,610,908,000	3,869,527,000	0.675	2008	2,033,789,000	2469929000	0.82342
2009	2,563,822,000	4,962,409,000	0.51665	2009	2,118,055,000	3296388000	0.6434
2010	2,997,376,000	6,105,939,000	0.4908952	2010	2,446,830,000	4127187000	0.5929
2011	3,841,550,000	7,743,779,000	0.496082	2011	2,652,420,000	5157400000	0.51429
2012	5355718376	9204357666	0.5818	2012	3,608,327,548	5838126809	0.6180
2013	7532303953	12545208622	0.6	2013	4,429,319,286	6655214042	0.6655
2014	8967602629	15039715466	0.5962	2014	5407739082	7923293176	0.6825
2015	12264977656	18520420245	0.6622	2015	6894044536	9774115874	0.7053
2016	15215052070	22832028706	0.6664	2016	7,511,984,948	12,423,022,987	0.6047
Average Ratio			0.6057	Average Ratio			0.6784

Source- own computation from annual report of both banks (2007-2016

This ratio indicates the percentage of the total deposits locked into non-liquid assets. A high figure denotes lower liquidity.Net loan to deposit and borrowing followed a similar trend also it is decreasing from 2007 to 2010 then increasing from 2011 to 2013 and then decreasing tile 2014 and increasing from 2015 to 2016 of AIB and in 2016 for NIB.

The decreasing and increasing trend indicate deteriorating in the liquidity of both banks as more and more assets, customer deposits and short term funding are tied into loans which are classified as illiquid assets. In contrast with NIB the assets and funds of AIB is less tied in loans.

CHAPTER FIVE

Conclusion and Recommendation

This chapter is focus in summarizing the major finding obtained from the analysis part. Then based on the findings conclusions and recommendation were drawn.

5.1 Conclusion

With respect to the title comparative analysis of financial performance, the two financial statements of the bank have been analyzed. These are balance sheet and income statement. The analysis highly depends on secondary data which is gathered from accounting department involving the audited financial statement of the year (2007-2016).

In the five years Awash International Bank and Nib International Bank performed in a good manner and then show improvement from year to years in their performance independently. Throughout all five years, based on findings both have sustainable growth. Their total deposit paid up capital loan and advance increase from year to year.

The liquidity measures in this study has covered the current, net loan to total asset and net loan to deposit and borrowing ratios and come up with the results and the overall trend of the liquidity ratios which measures the banks position in settling their short term liabilities evident that the average current ratio of NIB is more compared with AIB bank which is 0.2898 and 0.2783 respectively So, we can conclude that the NIB bank liquidity has well compared with AIB bank. The average net loan to total asset ratio of NIB is 0.4836 which is greater than that of AIB ratio 0.4424 in as much as the ratio of net loans to total assets does not directly measure liquidity hence, and we can say that the risk is more in AIB bank compared with NIB Bank because NIB has more ability in maintaining its liquidity in case of large deposit withdrawal or unexpected withdrawal. The average ratio of net loan to deposit and short term borrowings of AIB is 0.6213 and it is lower than NIB 0.6552 ratio Hence, AIB bank is managing more efficiently for converting deposits to advances.

With an intention to assess the trend of AIB and NIB in their performance in utilizing

there resources efficiently, this study has gone through and examined the Total asset turn over and Fixed asset turn over ratios and come with On average, NIB‘s ability to generate more revenue from its Fixed assets was more than double that of AIB, being 5.300 to 2.8719 respectively. This shows that for fixed assets held, NIB had a better record of generating sales, and also the total asset turnover of AIB is higher than NIB which is 0.0861 and 0.0836 respectively Hence, AIB is generating higher revenue from its total asset compared to NIB.

Three leverage ratios are used in this study so as to come up with an insight as to how the Bank’s was using debts to finance their asset, the strength and weakness of the bank’s in satisfying periodic interest payments as well as the Bank’s ability to meet additional capital need. As to the debt ratio the average debt ratio of AIB is slightly higher than NIB 0.8774 and 0.8252 which shows that awash use more debt to finance its asset. Regarding the time interest earned ratio NIB has higher average ratio of 2.809 than that of AIB’s 2.598. Therefore comparatively NIB had more ability to cover its interest by its earnings before interest and tax than AIB. The average capital adequacy ratio of NIB is highly lower than AIB which is 4.75 and 7.18respectively shows that NIB is in good position in meeting additional capital requirement. Generally because of the nature of the financial industry which related to maintaining deposits which is a major liability for the banks it is expected for them to maintain high debt to equity ratio and Debt ratio therefore the research is refrained from stating whether the financial performance is good or bad independently for the bank’s rather it stated comparative performance as stated above.

This study has computed the major profitability measures including basic earning power, operating profit margin, net profit margin, return on asset, and return on equity. The average ratio of basic earning power of NIB is slightly higher than AIB, 0.059 and 0.0588respectively this indicates that NIB is generating higher Earnings from its asset when compared to AIB. AIB has average operating profit margin of 0.6802 when compared to 0.6404 of NIB it prove that AIB is more efficent in minimizing its operating expenses in relating to its operating revenue. Regarding the net profit magin AIB is slightly higher than NIB 0.3054 for AIB and 0.2666 which shows that AIB good in making net profit from every birr it generates from revenue.

Both banks have almost the same average ROA which is 0.026 of AIB and 0.0244 of NIB. In generating profit from its total investment both banks have almost the same percentage. So as to the ROE AIB is in good position in generating profit from its investment than NIB which is proved by the average ROE of 0.216 and 0.139 respectively.

Price to earnings ratios are used in this study to measure how much investor is willing to pay Birr of reported profit. The price to earnings for AIB on average was 2.272, lower than NIB's 3.46. From this statistical ratio, NIB is able to show that its investors have higher expectations of their company performance by being committed to paying a higher price per share to own NIB stock over the past four year time span.

5.2 Recommendations

Based on findings and conclusion given above is possible to forward valuable recommendations. This study brings the issue understudy to attention and leads further researches by the management of the organization as well as by other concerned bodies.

- Based on the findings and under consideration of the nature of the industry the current ratio both banks slightly in good position to meet their short term obligations and they can maintain short term creditor's margin of safety, and achieve the specific requirement set by National Bank of Ethiopian. This is appreciable performance of the two banks and it is recommended that to keep their performance by achieving high current ratio for the remaining life of the banks.

- NIB need to improve its performance in meeting its liquidity in case of large deposit withdrawal or unexpected withdrawal by decreasing the percentage of asset tied up in loan and also it has to improve its net loan to deposit and short term borrowing ratio figure by reducing the total deposit locked in to non-liquid asset.

- According to the analysis made on the two banks, both use large amounts of debt to finance their activity. This has positive implications of the banks because the main source of finance and liabilities of the banks are deposit from customers. Both bank

has high deposit mobility thus it is recommended that to keep and to continue this performance and also the capital adequacy ratio of both banks are decreasing continually hence long term solvency is well so it recommended to keep and improve this performance.

- Both banks need to consider its total asset turnover position so as to efficiently utilize their resources.
- The operating expense also need a close attention since an increment is observed in most of the period considered in this study this result in increment in earnings before interest and tax and the net profit in effect result in higher profitability ratios.
- Generally any financial and operating performance should look better from period to period. In AIB and NIB this is true for some period; there is inconsistency in their performance. Thus this study would like to suggest the management of both, banks (AIB and NIB) to work on increasing the overall financial and operating performance consisting so as to become a good competitor in the ever dynamic banking industry. By giving a solution for their drawbacks.

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