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College of Business and Economics

Department of Accounting and Finance

Assessment of Financial Performance of Bank of Abyssinia

A Research Submitted to the Department of Accounting and Finance for the Partial Fulfillment of BA Degree in Accounting and Finance

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WOLKITE ETHIOPIA

DECLARATION

I undersigned, hereby declare that the senior essay work entitled “assessment of financial performance of bank of Abyssinia”, submitted to the award of Bachelor of Arts (BA) Degree in Accounting and Finance of wolkite University with the regulation of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

This study entitled 'Financial Performance Analysis' was conducted on Bank of Abyssinia. Trend financial performance analysis approaches were used. Five years audited financial reports from 2018 to 2022 of Bank of Abyssinia were taken for analysis purpose. So far, most researches have tried to assess the growth of Bank of Abyssinia relative to state-owned banks in terms of asset ownership and loan granting ability. But this paper has tried to assess specifically the five-year trend of Bank of Abyssinia as a case study.

The objective of the study is to evaluate the financial performance of Bank of Abyssinia by analyzing its past five year's performance trend and comparing the financial performance of the bank with in 2018 to 2022. Financial ratios were considered to measure the liquidity, efficiency and profitability as well as risk and solvency of Bank of Abyssinia.

In the financial performance analysis approaches i.e., the trend analysis, Bank of Abyssinia's financial performance showed that weak performance has been reported continuously in all the financial ratios (Profitability, Liquidity, Risk and Solvency and Efficiency) taken for analyzing the financial performance.

Key words; profitability, liquidity, risk and solvency, efficiency.

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ACRONYMS

BOA	Bank of Abyssinia
ROA	Return on Asset ratio
ROE	Return on Equity ratio
PER	Profit to Expense Ratio
NIM	Net Interest Margin ratio
ROD	Return on Deposit ratio
LDR	Loan to Deposit Ratio
DER	Debt to Equity Ratio
EMR	Equity Multiplier Ratio
AUR	Asset Utilization Ratio
IER	Income to Expense Ratio
OER	Operating Efficiency Ratio
ETAR	Equity to Total Asset Ratio
ELR	Equity to Loan Ratio
NPTLR	Non-Performing Total Loan Ratio
LAR	Loan to Asset Ratio
NITA	Non-interest Income to Total Asset

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CHAPTER ONE

1. INTODUCTION

1.1 Background of the Study

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. (Previous research of 2010)

The word performance is derived from the word 'performed', which means to do, to carry out or to render. It refers the act of performing, execution, accomplishment, fulfilment etc. In broader sense, performance refers to the accomplishment of a given task measured against present standards of accuracy, completeness, cost and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. Performance is used to indicate firm's success, conditions and compliance. The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the income statement. In short financial performance analysis is the process of selection, relation and evaluation. (Brigham E.F and J.F Houston 2012)

Generally, financial statements capture and report on four key business activities planning, financing, investing, and operating activities. Knowing what information is to be found plus where to find it and how to use it in financial statement is imperative to intelligently understanding, analysing, and interpreting financial data. Financial statement analysis is useful as a tool in selecting investment or merger candidates, as a forecasting tool or future financial conditions, as an evaluation tool for managerial and other business decisions (Pamela P, 2010).

To sum up, analysis of financial statements provides the essential concepts and tools needed by security analysts who make decisions on the basis of information found in financial statements (Pamela P, 2010).

1.2 Background of the Organization

The present-day bank of Abyssinia was established on February 15, 1905 [118 years to the day after the first but defunct privet bank was established in 1906 during emperor menelik2] in accordance with 1960 Ethiopian commercial code and the licensing and supervision of banking business proclamation no 84/1994.

Boa started its operation with on authorized and paid up capital of birr 50millon, and birr17.8millon respectively, and with only 131 shareholders 32 staff in about sixty years since its establishment bank of Abyssinian has registered a significant growth in paid up capital and total asset.it also attracted many professional staff members, valuable share holder and large customers from all walks of life. This performance indicates public confidence in the bank and reliability and satisfaction in its service. Currently employing the state-of-art banking technology, the bank provides excellence domestic, international and special banking service to its esteemed valuable customer. It also strives to serve all economic and service sectors via its ever increasing branch networks throughout the country. Through its 802 branches in the country BOA serves over 9.3 million customers. The bank started its operation with an authorized and paid-up capital of birr 50 million, birr 17.8 million respectively. In two decades since its establishment BOA has registered significant growth in paid up capital.

Following the proclamation, the National Bank of Ethiopian was entrusted with the following responsibilities:

- To regulate the supply, availability and cost of money and credit
- To manage and administer the countries international reserves
- To license and supervise banks and hold commercial banks reserves and lend money to them
- To supervise loan of commercial banks and regulate interest rate
- To issue paper money and coins
- To act as an agent of the government
- To fixe and control the foreign exchange rate

1.3 Statement of the problem

Performance of financial institutions is relevant from the policy point of view because as finance growth literature suggests, if banks become better-functioning entities, it is expected to be reflected in strengthening capital buffer, safety and soundness of the financial systems. (M. Joseph, 2007)

Thus, the purpose of this study is to analyze the financial performance of bank of Abyssinia to reinforce the previous works (2018-2022 year). So far, most researches have tried to assess the growth of Bank of Abyssinia in terms of asset ownership and loan granting ability. But this paper has tried to assess whether the Bank of Abyssinia is financially sound or not by specifically taking only the financial statement of Bank of Abyssinia from the year 2018-2022 year ended on Abyssinia bank.

Efficiency estimates are leading indicators, as such, efficiency measurement of individual banks is an important research activity carried out by the central bank of the country in order to identify the effects of deregulation, merger, market structure as well as their scale and scope of activity. Segmenting the industry into different strategic groups can help the banks position themselves and take long-term overhauling of their delivery design process. (M. Joseph, 2007)

Several studies have found that the performance of private banks is typically better than state owned banks. The total assets and return on assets (ROA) of Ethiopian state-owned and private banks from 1998 to 2006 shows that the share of assets of private banks grew from 6.4 percent in 1998 to 30.4 percent in 2006. This in turn implies that the share of state-owned banks 4 significantly declined. Note, however, that the values of total assets increased from 1998 to 2006 for both state-owned and private banks. This suggests that the Ethiopian banking sector has grown rapidly. (L. Porta, 2002)

As to the Bank of Abyssinia (BOA) there was no information related to the financial performance of the company. Hence, this becomes the basis of the study and the researcher has tried to analyze the financial performance of the bank by considering its past performance using the trend analysis and by comparing it with other private commercial banks using the comparative financial performance analysis approach.

1.4 Research Questions

1. How it looks like the financial performance of BOA for the last five years?
2. How efficient is BOA from 2018-2022?
3. How profitable is BOA from 2018-2022 years?
4. How liquidate is BOA from 2018-2022 years?
5. How is the risk and solvency of from BOA 2018-2022?

1.5 Objectives of the Study

1.5.1 General objectives

The overall objective of this study was to assess the financial performance of Bank of Abyssinia (BOA).

1.5.2 Specific Objectives

The specific objectives of the study were to;

1) Assess the trend financial performance of Bank of Abyssinia (BOA) for the last five years.
2) Evaluate the operating profitability of Bank of Abyssinia (BOA).
3) Evaluate the liquidation of Bank of Abyssinia.
4) Evaluate the risk and solvency and also efficiency of Bank of Abyssinia.

1.6 Significance of the Study

Financial statement analysis is important to boards, managers, payers, lenders, and others who make judgments about the financial health of organizations. One widely accepted method of assessing financial statements is ratio analysis, which uses data from the balance sheet and income statement to produce values that have easily interpreted financial meaning. (H. P. George, 2005)

Since it revolves around one of the popular issues of current business scenario, the financial aspect, the following are the expected significances of the study.

- It provides some insight about the financial performance analysis approaches of bank of Abyssinia
- It has identified the strong and weak sides of the bank (BOA) concerning its finance management.
- It also provides significant information related to the sector for those individuals who are interested.
- It has tried to give appropriate recommendations to the concerned companies so that it will help them to reassess their current practices.

1.7 Scope of the Study

The study mainly focuses on assessing the financial performance of bank of Abyssinia. The data was collected from the annual Audited financial statement of the company. Particularly income statement and balance sheet not include statement of retained earnings and statement of cash flow for the period (2018-2022).

1.8 Limitation of the Study

When conducting this research work, there are various problems hinders. Some of them are the shortage of time especially for analysis part, unwillingness of the company to provide the detail documents, shortage of fund, implementation of data collection method, lack of experience conducing the research

1.9 organisation of the study

The research contains five chapters: chapter one deals with the introduction of the study which includes background of the study, statement of problems, objectives of the study, limitation and scope of the study, and significance of the study. Chapter two presented the related theoretical review regarding the research on financial performance analysis of bank of Abyssinia and set out the empirical ground for the research. Chapter three consider about the research methodology of the study. Chapter four shows the analysis and interpretation of the data. Chapter five include summary of the study conclusion of the study and also presented suggestion for further research.

CHAPTER TWO

2. Literature review

2.1. Definition of financial performance

Finance; the management of large amount of money, basically finance represents money management and the process of acquiring needed funds. (Linda Klein 2007)

Performance the action or process of performing a task or function. It's also an act of staging or presenting a play or other form of entertainment. (Verboncu zerman 2005)

Financial performance is subjective measure of how well a firm can use asset from its primary mode of business and generate revenues.is a complete evaluation of a company's overall standing in categories; assets liabilities, equity, etc. (Rort knight 2000)

Factors that affect banks performance

Researchers in banking and finance have indicated that bank performance is related to internal and external factors. The internal factors relate to banks' characteristics and external factors are described as the economic and legal environment (Athanasoglou, 2008).

1. Internal Factors

Internal factors refer to those factors which are internal to the banking sector which have significant influence on the performance of the any bank. Some of the internal factors are insiders' abuse, weak corporate governance, management of the bank etc.

Insiders Abuse

The government owned bank suffered from frequent changes in board membership and many appointments were made based on political affiliation rather than expertise consideration. Consequent upon this, board members saw themselves as representative, of political parties in sharing the national cake emanating thereof and thus, ascribed their loyalty to the party members rather than the proper running of the bank itself. On the side of the privately-owned banks, shareholders constituted a problem. According to Olufon (1992), the owner-managers regarded banking as an extension of their operations by appointing their relatives or friends to key positions

Instead of relying solely on professional managers. Thus, their appointees were mere loyalists who cared for the interest of their masters rather than the business itself. Shareholders quarrels and boardroom squabbles were common among the banks that management attention deviated in favor of unnecessary squabbles.

Weak Corporate Governance

As a result of the insiders abuse of recruiting inexperienced and incompetent personnel to hold key positions in the bank, deterioration of management culture and weak internal control system instigated by the squabbles among the high rank management decision making team, and noncompliance with laws and prudential standards, mismanagement seemed to play a major role in bank failure in any country. Bank losses increased and management resorted to hiding the losses in order to buy time and remain in control.

Management of the Bank

Jensen and Meckling (1976) propose that an inverse monotonic relation should exist between the owner-manager's control and agency costs, and that, as ownership increases, there is increased incentive for the owner-manager to maximize the value of the firm.

2. External Factors

The external factors are those factors which are outside the banking sector but whose changes have its own impact on the performance of any bank. These include changes in government policies, changes in the economy, and changes in rates by central banks, inflation, etc.

Change in Government Policies

Banks in most economies are the principal depositories of the public's financial savings, the nerve center of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduit through which monetary and credit policies are implemented. The success of monetary policy, to a large extent, depends on the health of the banking institutions through which the policies are implemented. As a result of this central role of banks in the economy, their activities have to be kept under surveillance to ensure that they operate within the law in line with safe and sound banking practices so that the economy will not

be jeopardized. Hence, governments generally legislate to influence and/or directly control banks' activities to suit the developmental objectives of the economy.

The Economy

The health of the global economy has a fundamental influence on banks performance because it is ultimately responsible for driving company profits. Broadly speaking if the economy is growing, company profits will be improved and vice versa.

Changes in Rates by Central Banks

Looking at the changing scenario, central banks keep on changing rates like cash reserve ratio, interest rate, etc. These rates have a direct relation with the bank's performance. Thus, a change in these rates or even a speculation change in these rates will affect banks performance a lot.

Inflation

Economists will generally argue that more information is better. Having a central bank more fully communicate its objectives, its assessment of economic conditions, and the expected effects of its policy actions will enhance social welfare, because agents will be better able to align their decisions with those of the central bank and the economy will adjust more smoothly. As Woodford (2005) argues, monetary policy is more effective when it is expected, since better information on the part of financial markets about central bank actions and intentions implies that the change in the policy rate required to achieve the desired outcome can be much more modest when expected future rates also move.

2.2 Definitions of Important Terms

A bank is a financial institution that accepts deposits and channels those deposits into lending activities. Banks primarily provide financial services to customers while enriching investors. Government restrictions on financial activities by banks vary over time and location. Banks are important players in financial markets and offer services such as investment funds and loans.

A financial statement

Is written report which quantitatively describes the financial health of a company. This includes an income statement and balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.

A balance sheet is a quantitative summary of a company's financial condition at a specific point in time, including assets, liabilities and net worth. The first part of a balance sheet shows all the productive assets accompany owns, and the second part shows all the financing methods.

An income statement

Also referred as profit and loss statement (P&L), earnings statement, operating statement or statement of operations, is a company's financial statement that indicates how the revenue (money received from the sale of products and services before expenses are taken out, also known as the "top line") is transformed into the net income (the result after all revenues and expenses have been accounted for, also known as the "bottom line"). It displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including write-offs (e.g., depreciation and amortization of various assets) and taxes

Statements of retained earnings

Show changes in a company’s or an organization’s retained earnings over a specific period of time. These statements show the beginning and final balance of retained earnings, as well as any adjustments to the balance the reporting period. This information is sometimes included as part of the balance sheet or it may be combined with an income statement. However, it is frequently provided as a completely separate statement.

2.3 Important Concepts

2.3.1 Financial Statement Analysis

A careful review of a bank's financial statements can highlight the key factors that should be considered before making a trading or investing decision. Investors need to have a good understanding of the business cycle and the yield curve - both have a major impact on the economic performance of banks. Interest rate risk and credit risk are the primary factors to consider as a bank's financial performance follows the yield curve. Financial statement analysis

is important to boards, managers, payers, lenders, and others who make judgments about the financial health of organizations. One widely accepted method of assessing financial statements is ratio analysis, which uses data from the balance sheet and income statement to produce values that have easily interpreted financial meaning.

The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of a company's earnings, and the strengths and weaknesses of its financial position.

Financial statement analysis begins with establishing the objective(s) of the analysis. For example, is the analysis undertaken to provide a basis for granting credit or making an investment? After the objective of the analysis is established, the data is accumulated from the financial statements and from other sources. The results of the analysis are summarized and interpreted. Conclusions are reached and a report is made to the person(s) for whom the analysis was undertaken.

2.3.2 Types of Financial Analysis

The problem of banking and financial system soundness has become more important in all countries over the recent years. The financial sector, and especially the banking system, is vulnerable to systemic crises which has led to the creation of costly safety nets, as depositor insurance schemes with well-known moral hazard problem. It is argued that there is increasing evidence that banks are “black boxes” due to the week transparency and banks’ unwillingness to disclose information.

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. In addition to comparing dollar amounts, the analyst computes percentage changes from year to year for all financial statement balances, such as cash and inventory. Alternatively, in comparing financial statements for a number of years, the analyst may prefer to use a variation of horizontal analysis called trend analysis. Trend

analysis involves calculating each year's financial statement balances as percentages of the first 13 year, also known as the base year. When expressed as percentages, the base year figures are always 100 percent, and percentage changes from the base year can be determined.

Vertical Analysis

When using vertical analysis, the analyst calculates each item on a single financial statement as a percentage of a total. The term vertical analysis applies because each year's figures are listed vertically on a financial statement. The total used by the analyst on the income statement is net sales revenue, while on the balance sheet it is total assets. This approach to financial statement analysis, also known as component percentages, produces common-size financial statements. Common-size balance sheets and income statements can be more easily compared, whether across the years for a single company or across different companies.

Ratio Analysis

Ratio analysis enables the analyst to compare items on a single financial statement or to examine the relationships between items on two financial statements. After calculating ratios for each year's financial data, the analyst can then examine trends for the company across years. Since ratios adjust for size, using this analytical tool facilitates intercompany as well as intra company comparisons.

2.3.3 Users of Financial Statements

There are different kinds of users of financial statements. The users of financial statements may be inside or outside the business. They are classified and detailed as follows:

1. Internal Users

The internal users are the individuals who have direct bearing with the organization and include the following.

Managers and Owners

For the smooth operation of the organization the managers and owners need the financial reports essential to make business decisions. So as to provide a more comprehensive view of the financial position of an organization, financial analysis is performed with the information supplied in the financial statements. The financial statement is used to formulate contractual

terms between the company and other organizations. A variable of the financial statement like the current debt to equity ratio is important in deciding the amount of long term capital that would be required to be raised. The financial statements of other companies can also provide investment solutions to different companies. Sometimes it becomes difficult to decide the right field in which financial resources may be channelized. In such situations the financial statements of other companies provide the appropriate guideline.

Employees

The financial reports or the financial statements are of immense use to the employees of the company for making collective bargaining agreements. Such statements are used for discussing matters of promotion, rankings and salary hike.

2. External Users

Institutional Investors

The external users are basically the investors who use the financial statements to assess the financial strength of a company. This would help them to make logical investment decisions.

Financial Institutions

The financial statements are also used by the different financial institutions like banks and other lending institutions to decide whether to help the company with working capital or to issue debt security to them.

Government

The financial statements of different companies are also used by the government to analyze whether the tax paid by them is accurate and is in line with their financial strength.

Customers

The relationship between a firm and its customers can extend over many years. In some cases, these relationships take the form of legal obligations associated with guarantees, warranties, or deferred benefits. In other cases, the long-term association is based on continued attention to customer service.

2.3.4 Types of Financial Ratios Analysis

2.3.4.1 Profitability Ratios

Every firm is most concerned with its profitability. One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to determine the company's bottom line. Profitability measures are important to company managers and owners alike. If a small business has outside investors who have put their own money into the company, the primary owner certainly has to show profitability to those equity investors.

1. Return on Assets (ROA)

The Return on Assets ratio is an important profitability ratio because it measures the efficiency with which the company is managing its investment in assets and using them to generate profit. It measures the amount of profit earned relative to the firm's level of investment in total assets. The return on assets ratio is related to the asset management category of financial ratios.

2. Return on Equity (ROE)

The Return on Equity ratio is perhaps the most important of all the financial ratios to investors in the company. It measures the return on the money the investors have put into the company. This is the ratio potential investors look at when deciding whether

3. Profit to Expenses Ratio (PER)

It measures the operating profitability of the bank with regards to its total operating expenses. The ratio measures the amount of operating profit earned for each dollar of operating expense. The ratio indicates to what extent bank is efficient in controlling its operating expenses. A higher profit to expense ratio means bank is cost efficient and is making higher profits.

4. 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.

5. Non-interest Income to Total Assets (NITA)

Non-interest Income to Total Assets (NITA) is an indicator of the operational performance. It indicates the proportion of fees and other income in respect of total assets of banks. This ratio is used as a measure of profitability indicator.

6. Return on deposit ratio

To most financial analysts, return on Deposit is one of the best measures of bank profitability performance. This ratio reflects the ability of bank management to utilize the customers' deposits in order to generate profits.

2.3.4.2 Liquidity ratios

Liquidity ratios attempt to measure a company's ability to pay off its short-term debt obligations. This is done by comparing a company's most liquid assets to short-term liabilities. The higher liquidity ratios mean bank has larger margin of safety and ability to cover its short-term obligations. Because saving accounts and transaction deposits can be withdrawn at any time, there is high liquidity risk for both the banks and other depository institutions. In general, the greater the coverage of liquid assets to short-term liabilities the better as it is a clear signal that a company can pay its debts that are coming due in the near future and still fund its ongoing operations. On the other hand, a company with a low coverage rate should raise a red flag for investors as it may be a sign that the company will have difficulty meeting running its operations, as well as meeting its obligations. Measures of bank liquidity include Loan to Deposit Ratio (LDR and Loan to Asset Ratio (LAR).

1. Loan to Deposit Ratio (LDR)

This refers to the amount of a bank's loans divided by the amount of its deposits at any given time. The higher the ratio, the more the bank is relying on borrowed funds, which are generally more costly than most types of deposits. Bank with low LDR is considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high LDR.

2. Loans to Assets ratio (LAR)

The loan to assets ratio measures the total loans outstanding as a percentage of total assets. The higher this ratio indicates a bank is loaned up and its liquidity is low. The higher the ratio, the more risky a bank may be to higher defaults.

2.3.4.3 Risk and solvency ratios

One of many ratios used to measure a company's ability to meet long-term obligations. The solvency ratio measures the size of a company's after-tax income; excluding non-cash depreciation expenses, as compared to the firm's total debt obligations. It provides a measurement of how likely a company will be to continue meeting its debt obligations. Acceptable solvency ratios will vary from industry to industry, but as a general rule of thumb, a solvency ratio of greater than twenty percent is considered financially healthy. Generally speaking, the lower a company's solvency ratio, the greater the probability that the company will default on its debt obligations.

1. **Debt-Equity Ratio (DER)**

The Debt to Equity Ratio measures how much money a company should safely be able to borrow over long periods of time. It does this by comparing the company's total debt (including short term and long term obligations) and dividing it by the amount of owner's equity. This ratio indicates how much the company is leveraged (in debt) by comparing what is owed to what is owned. A high debt to equity ratio could indicate that the company may be overleveraged, and should look for ways to reduce its debt. Equity and debt are two key figures on a financial statement, and lenders or investors often use the relationship of these two figures to evaluate risk. The ratio of your business' equity to its long term debt provides a window into how strong its finances are. Equity will include goods and property your business owns; plus, any claims it has against other entities. Debts will include both current and long-term liabilities.

2. **Debt to Total Assets Ratio (DTAR)**

The debt to asset ratio is the percentage of total debt financing the firm uses as compared to the percentage of the firm's total assets. It helps you see how much of your assets are financed using debt financing. 20 The lower the Debt to Asset Ratio, the better, as companies with high amounts of debt introduce more risk. You certainly want to look very hard at companies that have more Total Liabilities than Total Assets, as this is a precarious position for a company to

be in. Depending on the industry of the company, you might expect the company to have two or three times as many assets as liabilities. Anything less than this might be a signal that the company is running into trouble.

3. **Equity Multiplier (EM)**

A measure of financial leverage calculated as Total Assets/Total Stockholders' Equity. Like all debt management ratios, the equity multiplier is a way of examining how a company uses debt to finance its assets. It is also known as the financial leverage ratio or leverage ratio. In other words, this ratio shows a company's total assets per dollar of stockholders' equity. A higher equity multiplier indicates higher financial leverage, which means the company is relying more on debt to finance its assets.

2.3.4.4 Efficiency Ratios

The efficiency ratios and other ratios are key ratios to understanding financial statements. Our ratio calculation spreadsheets reduce time and effort in calculating decision making ratios. They reduce risk for lenders and investors and enable owners, managers and consultants to increase productivity and business profits.

1. **Asset Utilization Ratio (AUR)**

How effectively the bank is utilizing all of its assets is measured by assets utilization ratio. The bank is presumably said to using its assets effectively in generating total revenues if the AU ratio is high. If the ratio of AU is low, the bank is not using its assets to their capacity and should either increase total revenues or dispose of some of the assets.

2. **Income Expense Ratio (IER)**

This is the most commonly and widely used ratio in the banking sector to assess the managerial efficiency in generating total income vis-à-vis controlling its operating expenses. Income to 21 expenses is the ratio that measures amount of income earned per dollar of operating expense. High income expense ratio is preferred over lower one as this indicates the ability and efficiency of the bank in generating more total income in comparison to its total operating expenses.

3. Operating Efficiency Ratio (OER)

It measures managerial efficiency in generating operating revenues and controlling its operating expenses. In other words, how efficient is the bank in its operations unlike income expense ratio, which measures the amount of income earned per dollar of operating expense, operating efficiency is the ratio that measures the amount of operating expense per dollar of operating revenue. Lower operating expense is preferred over higher operating expense as lower it indicates that operating expenses are lower than operating revenues.

2.4 Limitations of Ratio Analysis

Ratio analysis is useful, but analysts should be aware of these problems and make adjustments as necessary. Ratios analysis conducted in a mechanical, unthinking manner is dangerous, but if used intelligently and with good judgment, it can provide useful insights into the firm's operations. The following are some of the limitations of ratio analysis.

Different Accounting Policies

The choices of accounting policies may distort intercompany comparisons. Example some firm may allow valuation of assets to be based on either revalued amount or at depreciated historical cost. The business may opt not to revalue its asset because by doing so the depreciation charge is going to be high and will result in lower profit.

Creative Accounting

The businesses apply creative accounting in trying to show the better financial performance or position which can be misleading to the users of financial accounting.

Ratios are not Definitive Measures

Ratios need to be interpreted carefully. They can provide clues to the company's performance or financial situation. But on their own, they cannot show whether performance is good or bad. Ratios require some quantitative information for an informed analysis to be made.

Financial statements contain summarized information.

Ratios are based on financial statements which are summaries of the accounting records. Through the summarization some important information may be left out which could have been

of relevance to the users of accounts. The ratios are based on the summarized year end information which may not be a true reflection of the overall year's results.

Interpretation of the Ratio

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 or excessive cash which is bad. Similarly noncurrent assets turnover ratio may denote either a firm that uses its assets efficiently or one that is undercapitalized and cannot afford to buy enough assets.

Price Changes

Inflation renders comparisons of results over time misleading as financial figures will not be within the same levels of purchasing power. Changes in results over time may show as if the enterprise has improved its performance and position when in fact after adjusting for inflationary changes it will show the different picture.

Technology Changes When comparing performance over time, there is a need to consider the changes in technology. The movement in performance should be in line with the changes in technology. For ratios to be more meaningful the enterprise should compare its results with another of the same level of technology as this will be a good basis measurement of efficiency.

Different Financial and Business Risk Profile

No two companies are the same, even when they are competitors in the same industry or market. Using ratios to compare one company with another could provide misleading information. Businesses may be within the same industry but having different financial and business risk. One 23 company may be able to obtain bank loans at reduced rates and may show high gearing levels while as another may not be successful in obtaining cheap rates and it may show that it is operating at low gearing level. To an uninformed analyst he may feel like company two is better when in fact its low gearing level is because it cannot be able to secure further funding.

Impact of Government Influence

Selective applications of government incentives to various companies may also distort intercompany comparison. One company may be given a tax holiday while the other within the

same line of business not, comparing the performance of these two enterprises may be misleading.

Window Dressing these are techniques applied by an entity in order to show a strong financial position. This can improve the current and quick ratios and make the balance sheet look good. However, the improvement was strictly window dressing as a week later the balance sheet is at its old position.

2.5 Empirical review

Jahangir, Shill and Hague (2007) stated that the traditional measure of profitability through stockholder's equity is quite different in banking industry from any other sector of business, where loan-to-deposit ratio works as a very good indicator of banks' profitability as it depicts the status of asset-liability management of banks. But banks' risk is not only associated with this asset liability management but also related to growth opportunity. Smooth growth ensures higher future returns to holders and there lies the profitability which means not only current profits but 24 future returns as well. So, market size and market concentration index along with return to equity and loan-to-deposit ratio grab the attention of analyzing the banks' profitability.

According to Al-Shamrnari and Salirni (1998) profitability ratio especially return on equity (ROE) signals the earning capability of the organization. They also suggest that higher return on equity (ROE) ratio is appreciable as it is the primary indicator of bank's profitability and functional efficiency.

Hossain and Bhuiyan (1990) stated that there is no universally accepted operational definition of performance measures. In broad sense performance level of an enterprise can be measured by the extent of its organizational effectiveness. In the context of services rendered towards public the performance of an organization can be viewed as the extent to which its work is carried out within established specifications for goods and services produced, to the general satisfaction of 25 the clientele served, within given cost and time constraints, and in such a manner as to support or contribute to the achievement of the organization objectives.

CHAPTER THREE

3. Research Methodology

3.1 Study Design

For this research project descriptive design type of the research was used because the research conduct in order to describe the existing financial performance the bank of Abyssinia. This study entitled 'Financial Performance Analysis' was conducted on Bank of Abyssinia. Financial performance analysis trend approaches were used five years audited financial reports from 2018 to 2022 of the bank of Abyssinia were taken for analysis purpose.

3.2 Data Collection Methods and Tools

The data used for this study were secondary sources. The audited annual financial reports of bank of Abyssinia, literature from various books, reports of the bank, various web sites were used as a source of secondary data.

3.3 Method of Data Analysis

In any research undertaking, the methodology to be followed is determined by the nature of the problem statement or more specifically by the research objectives. Here in this study the analysis consists of data of five years, from 2018 to 2022 and comparison was done among each year. Five years audited annual financial reports of bank of Abyssinia were taken for analysis purpose. The data collected from last five year analyzed using table, percentage and ratio.

Chapter four

4. Data analysis, interpretation and presentation

4.1 Ratio analysis

In this chapter the results of the financial performance analysis are presented. The analysis is made from the audited financial statements of bank of Abyssinia. Five consecutive fiscal years audited balance sheet and income statement were taken from the banks considered in the study.

Trend analysis of Bank of Abyssinia's performance which includes the profitability ratios (return on asset, return on equity, net interest margin, profit to expense ratio, non-interest income to total asset), liquidity ratios (loan to deposit ratio and loan to total asset ratio), risk and solvency ratios (debt to equity ratio, debt to total asset and equity multiplier), efficiency ratios (asset utilization, income to expense, and operating efficiency). Then the comparative financial analysis of Bank of Abyssinia using the ratios explained above will be presented. The respective ratios of the bank are compared with the average ratios of 2018, 2019, 2020 2021, and 2022 taken for the study.

4.1.1 Profitability Ratios

Every firm is most concerned with its profitability. One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to determine the company's bottom line. Profitability measures are important to company managers and owners alike. If a small business has outside investors who have put their own money into the company, the primary owner certainly has to show profitability to those equity investors.

1. Return on Asset Ratio (ROA)

The Return on Assets ratio is an important profitability ratio because it measures the efficiency with which the company is managing its investment in assets and using them to generate profit. It measures the amount of profit earned relative to the firm's level of investment in total assets. The return on assets ratio is related to the asset management category of financial ratios. The higher the percentage, the better it will be, because that means the company is doing a good job using its assets to generate profits.

The calculation for the return on assets ratio is:

ROA = Net Income/Total Assets

Table 4.1 Return on Asset Ratio

	FISCAL YEAR				
	2018	2019	2020	2021	2022
NET INCOME	562,800,000	777,014,000	853,644,000	1,358,784,000	3,516,622,000
TOTAL ASSET	31,983,036,000	39,294,425,000	56,890,531,000	104,050,343,000	149,451,430,000
ROA	0.01	0.02	0.01	0.01	0.02

Source: researcher computation from the financial statement of BOA

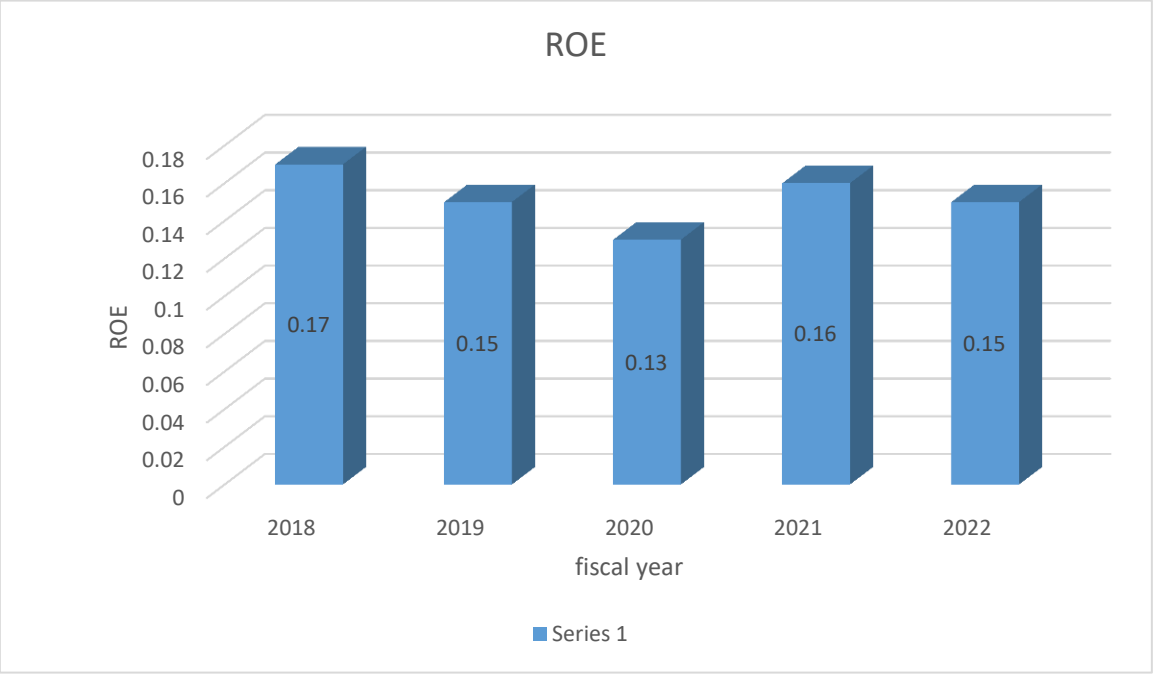
As it can be seen from the above Table 4.1, the return on asset of Bank of Abyssinia has shown declining trend from 2018, 2020 and 2021 which is 1%. And in 2019 and 2022 it has reached 2%. This implies that the assets of the bank are contributing only a little amount for the total profit of the bank. The management of the bank is not using the assets to generate higher profit which implies that most of the assets of the bank are put idle without any contribution for the profit of the company The reasons for these were the continuous increment of expenses like provision for doubtful loans and advances.

2. Return on Equity Ratio (ROE)

It measures the return on the money the investors have put into the company. This is the ratio potential investors look at when deciding whether or not to invest in the company. The return on equity ratio measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

ROE = Net profit/total equity ratio

Graph 4.1 Return on equity ratio



Source: researcher computation from the financial statement of BOA

As it is depicted on the graph, the return on equity of bank of Abyssinia has shown the maximum figure in the year 2018 which was around 17% and then it follows a declining trend. In the year 2019 it has declined, again in 2020 it has reached to the lowest point which is 13%. The return on equity ratio of 2021 and 2022 was 16% and 15% respectively. This implies that the investors of the bank were getting 17 cents for each one Birr investment they have made in the fiscal year 2018 it has shown a declining trend till 2020 and it reached at the point where investors have enjoyed only thirteen cents for each one birr investment they have made in the fiscal year 2020.As it can be seen from the financial statement of the bank, the reasons for these fluctuations were the less proportion of growth observed in the owners' equity and the continuous reduction on the net income of the bank.

3. Profit to Expense Ratio (PER)

It measures the operating profitability of the bank with regards to its total operating expenses. The ratio measures the amount of operating profit earned for each dollar of operating expense.

The ratio indicates to what extent the bank is efficient in controlling its operating expenses. A higher profit to expense ratio means the bank is cost efficient and is making higher profits. It is calculated as:

PER = Profit before tax/ Operating Expenses

Table 4.2 profit to expense ratio

	Fiscal year				
particulars	2018	2019	2020	2021	2022
Profit before tax	765,708.000	1,024,037.000	1,081,408.000	2,051,544.000	4,654,545.000
Operating expenses	380,751.000	499,120.000	671,692.000	1,127,598.000	1,882,524.000
PER	2.01	2.05	1.61	1.81	2.47

Source: researcher computation from the financial statement of BOA

As it can be observed from Table 4.2 above, Profit to expense ratio of Bank of Abyssinia was 2.05 in 2019, which means for every one birr expense the bank incurred; it has generated a profit of around 2 birr and 05 cents. In the succeeding fiscal year, the bank's profit to expense ratio has shown a declining trend. In the fiscal year 2020, Bank of Abyssinia has earned the lowest profit in which it has fetched only 1 birr and 61 cents. This ratio showed that there is an increasing trend in the expenses of the bank but a decreasing trend in the revenue of the bank. As it can be seen from the financial statement of the bank there is a continuous increment in the expense of the bank, for instance from the fiscal year 2019 and 2022 the expense has grown by more than hundred percent but such progress was not observed in the profit of the company. Therefore, these are the causes for the continuous decline in the profit to expense ratio.

4. Non-interest Income to Asset Ratio (NIAR)

Non-interest Income to Assets ratio (NITA) is an indicator of the operational performance. It indicates the proportion of fees and other income in respect of total assets of banks. This ratio is used as a measure of profitability indicator.

It is calculated as:

NITA= total non-interest income / total asset

Table 4.3 Non-interest Income to Asset Ratio

	Fiscal year				
particulars	2018	2019	2020	2021	2022
Total non-interest income	518,061.000	685,965.000	109,137.000	149,504.000	513,678.000
Total asset	31,983,036.000	39,249,425.000	56,890,531.000	104,050,343.000	149,451,430.000
NITA	0.01	0.02	0.02	0.01	0.03

Source: researcher computation from the financial statement of BOA

As seen on the above table the non interest to income ratio shows almost constant decline. The maximum percentage was 3% in 2022 and minimum percentage was 1% in 2018 and 2021. In the fiscal year 2019 and 2020 has reached constant percentage which is 2%. It can be also said that even though the total asset of the bank has shown continuous growth, the total non-interest income has also grown in proportionate amount, which 38 means the bank has equal proportion of non-interest income to its total assets at each fiscal year.

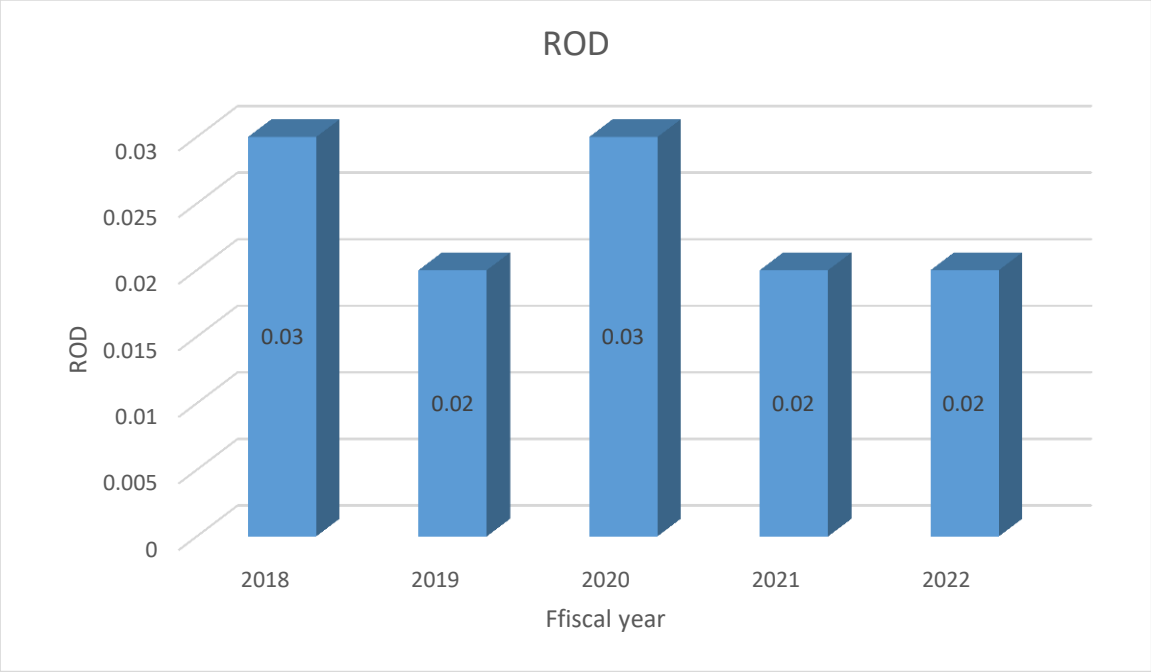
5. Return on Deposit (ROD)

To most financial analysts, return on Deposit is one of the best measures of bank profitability performance. This ratio reflects the bank management ability to utilize the customers' deposits in order to generate profits.

It is calculated as:

ROD = Net Profit after Tax / Total Deposit

Graph 4.2 returns on deposit ratio



Source: researcher computation from the financial statement of BOA

As it has been indicated in graph 4.3 above, the return on deposit ratio of Bank of Abyssinia was the same in 2019, 2021 and 2022 which was around 2 percent. The 3% of the banks profit generated from the deposit of customer in the fiscal year 2018 and 2020. The decline in 2019, 2021 and 2022 was this was because of the fact that the net income the bank is getting was showing declining trend

4.1.2 Liquidity Ratios

Liquidity ratios attempt to measure a company's ability to pay off its short-term debt obligations. This is done by comparing a company's most liquid assets to short-term liabilities. The higher liquidity ratios mean the bank has larger margin of safety and ability to cover its short-term obligations. Because saving accounts and transaction deposits can be withdrawn at any time, there is high liquidity risk for both the banks and other depository institutions.

1. Loan to Deposit Ratio

This refers to the amount of a bank's loans divided by the amount of its deposits at any given time. The higher the ratio, the more the bank is relying on borrowed funds, which are generally more costly than most types of deposits. Bank with low LDR is considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high LDR.

It is calculated as:

LDR = Loan /Deposit

Table 4.4 loan to deposit ratio

	Fiscal year				
Particulars	2018	2019	2020	2021	2022
Total loan	17,990,000.000	23,740,000.000	37,250,000	76,576,659.000	113,334,007.000
Total deposit	25,790,000.000	32,130,000.000	47,630,000.000	88,884,125.000	122,045,419.000
LDR	0.70	0.70	0.73	0.86	0.92

Source: researcher computation from the financial statement of BOA

As it can be seen from Table 4.4 above, the loan to deposit ratio of Bank of Abyssinia has reached its maximum peak in the year 2022 which was around 92 percent which implies the bank has granted seventy three percent of its deposits as a loan to its customers and only twenty seven percent was kept in the bank, this shows that although the bank was generating interest income from the loan granted, the bank may face liquidity risk because customers may withdraw their saving account and transaction deposits at any time. In 2018 and 2019, it has

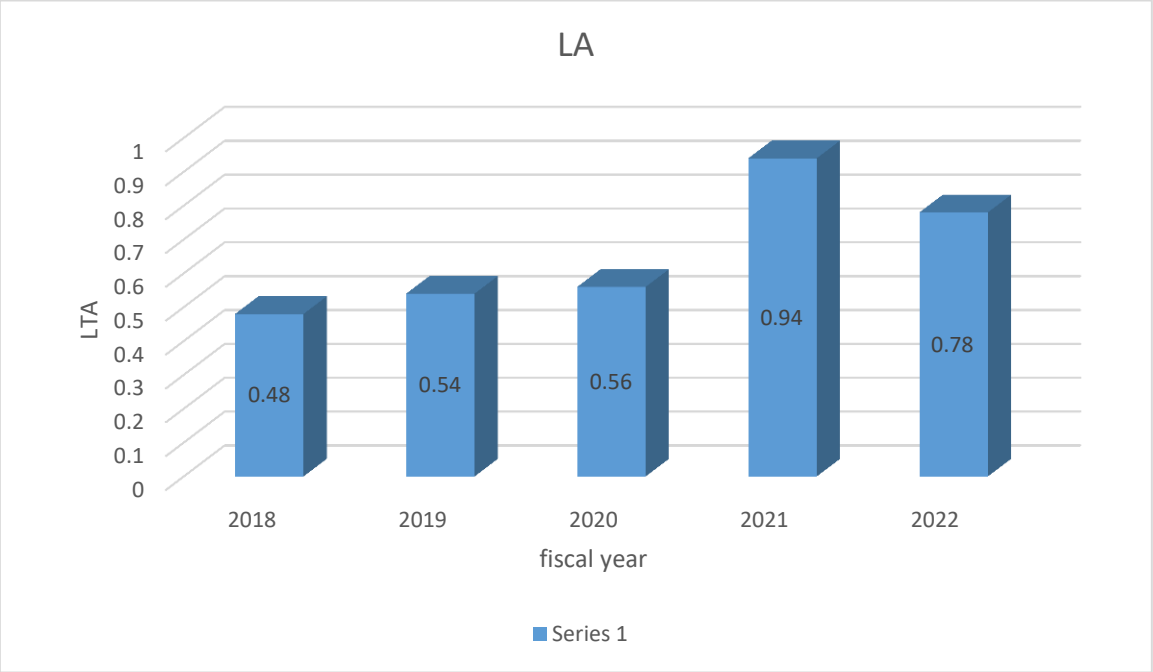
declined to 70 percent which shows the banks conservative measures taken to grant loan to customers.

2. Loan to Asset Ratio

The loan to assets ratio measures the total loans outstanding as a percentage of total assets. The higher this ratio indicates a bank is loaned up and its liquidity is low. The higher the ratio, the more risky a bank may be to higher defaults. This figure is determined as follows:

Loans to Assets = Loan / Total Asset

Graph 4.3 loans to asset ratio



Source: researcher computation from the financial statement of BOA

As it can be seen from graph 4.3 above, the loan to asset ratio of Bank of Abyssinia has shown irregular trend. In the fiscal year 2018, it was around 48 percent and in the fiscal year 2021 it has reached to around 94 percent. As it can be seen from the financial statement of Bank of Abyssinia although the loan granted to its customers has shown growth, the total asset has also increased continuously between the fiscal years 2018 to 2022 (from a total asset of 16,828,069,220 in the fiscal year 2018 to total asset of 56,890,531,000 in the fiscal year of 2022).

4.1.3 Risk and Solvency Ratios

Acceptable solvency ratios will vary from industry to industry, but as a general rule of thumb, a solvency ratio of greater than twenty percent is considered financially healthy. Generally speaking, the lower a company's solvency ratio, the greater the probability that the company will default on its debt obligations.

For a bank, debt consists essentially of sight deposits. The financial assets are the loans granted. After all, the purpose of a bank is to distribute loans!

A bank's solvency therefore consists of its ability to fulfill the withdrawal demands of its depositors. And that is where the regulatory authorities come in to ensure that bank are indeed capable of meeting their obligations. This is a matter that affects the economic stability of an entire country. Debt-Equity Ratio (DER), Debt to Total Assets Ratio (DTAR), and Equity Multiplier (EM) are the most important measures used to gauge risk and solvency of a bank.

1. Debt to Equity Ratio

This ratio indicates how much the company is leveraged (in debt) by comparing what is owed to what is owned. A high debt to equity ratio could indicate that the company may be overleveraged, and should look for ways to reduce its debt.

Equity and debt are two key figures on a financial statement, and lenders or investors often use the relationship of these two figures to evaluate risk. The ratio of your business' equity to its long-term debt provides a window into how strong its finances are. Equity will include goods and property your business owns; plus, any claims it has against other entities. Debts will include both current and long-term liabilities.

It is calculated:

DER = Total liabilities /share holders' equity

Table 4.5 debt to equity ratio

	Fiscal year				
particulars	2018	2019	2020	2021	2022
Total liabilities	27,737,677,000	34,344,039,000	51,213,137,000	95,400,689,000	135,235,245,000
Shareholder equity	2,563,112,000	2,811,564,000	3,149,158,000	5,182,210,000	8,319,680,000
DER	10.82	12.21	16.26	18.4	16.25

Source: researcher computation from the financial statement of BOA

As it has been shown in table 4.5 above, debt to equity ratio of Bank of Abyssinia was having the highest ratios in 2021 and 2022 which were 16.25, 12.21 and 16, 26 respectively which means creditors of BOA has provided about 12.21 Birr in 2019, 18.4 Birr in 2021 and 16.3 Birr in 2020 in financing for every one Birr contribution by owners. As it can be observed from the financial statement of the bank, the total liability of the bank has grown by 27,737,677,000 to 135,235,245,000 on the fiscal year 2022. This implies that the bank is highly dependent on the fund generated from creditors or it is highly leveraged. The bank's management should take serious measures in making important adjustments so as to rectify the problem.

2. Debt to Total Asset Ratio

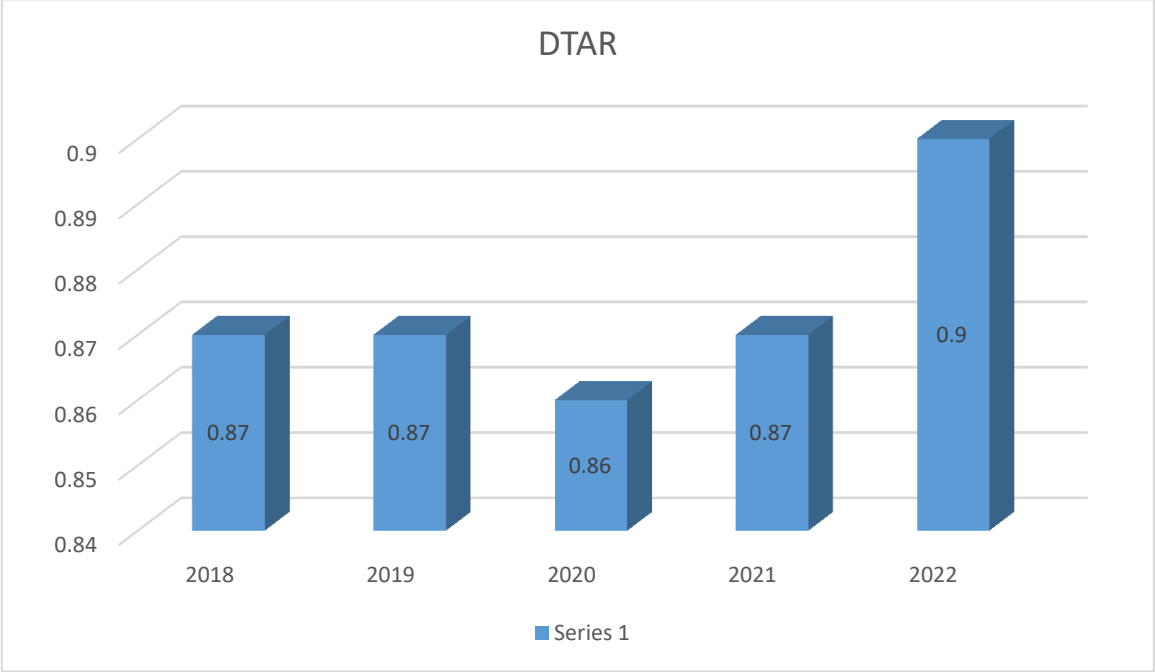
The debt to asset ratio is the percentage of total debt financing the firm uses as compared to the percentage of the firm's total assets. It helps you see how much of your assets are financed using debt financing.

The lower the Debt to Asset Ratio, the better, as companies with high amounts of debt introduce more risk. You certainly want to look very hard at companies that have more Total Liabilities than Total Assets, as this is a precarious position for a company to be in. Depending

on the industry of the company, you might expect the company to have two or three times as many assets as liabilities. Anything less than this might be a signal that the company is running into trouble.

DTAR = total liability/total asset

Graph 4.4 debts to total asset ratio



Source: researcher's computation from the financial statement of BOA

As it is shown in the Graph 4.4 above, in the year 2022, the debt to total asset ratio of the Bank of Abyssinia was around 0.9.The bank was having the same debt to total asset ratio in the fiscal years 2018, 2019 and 2021 which was around 0.87. This implies that from the bank's total assets, 87 percent of the assets were financed by the fund generated from the creditors in the fiscal year 2018, 87 percent in 2019, 86 percent in 2020, 87 percent in the fiscal year 2021 and 90 percent in the fiscal year 2022. As it can be seen from the financial statement of Bank of Abyssinia the proportion of creditors contribution to the bank's total assets is showing continuous upward trend and this implies that the bank's performance is showing a declining

trend i.e., the bank is highly dependent on the fund granted from creditors. Therefore, the bank's management should appraise the causes in detail and take corrective measures.

3. Equity Multiplier Ratio

A measure of financial leverage calculated as Total Assets/Total Stockholders' Equity. Like all debt management ratios, the equity multiplier is a way of examining how a company uses debt to finance its assets. It is also known as the financial leverage ratio.

In other words, this ratio shows a company's total assets per dollar of stockholders' equity. A higher equity multiplier indicates higher financial leverage, which means the company is relying more on debt to finance its assets.

It is calculated as:

EM = Total Assets / Total Stockholders' Equity

Table 4.6 equity multiplier ratio

	Fiscal year				
Particulars	2018	2019	2020	2021	2022
Total asset	31,983,036,000	39,249,425,000	56,890,531,000	104,050,343,000	149,451,430,000
Total stockholder equity	2,563,112,000	2,811,564,000	3,149,158,000	5,182,210,000	8,319,680,000
EMR	12.48	14.01	18.06	20.16	17.96

Source: researcher computation from the financial statement of BOA

As it can be seen from the above Table 4.6, the equity multiplier ratio of Bank of Abyssinia has shown continuous growth starting from 2018 to 2022.It has grown from 12.48 in 2018 to 17.96 in 2022 which implies the bank's total assets has been continuously financed by creditors of the bank in huge amount or the contribution of the bank's owners is getting lesser and lesser. In other words the creditors are highly investing in the assets of the company which implies the bank is becoming highly leveraged. For instance, in the fiscal year 2005, for owners each one

birr contribution, the creditors of the bank are contributing around Birr five and eighty cents, this grows to almost to Birr fourteen and Birr eighteen in the fiscal years 2019 and 2020 respectively. This shows that the management of the bank has to work hard in reducing the debt amount through maximizing the bank's profit, increasing the efficiency of the workers, and using the idle assets in generating profits, etc.

4.1.4 Efficiency Ratios

The efficiency ratios and other ratios are key ratios to understanding financial statements. Our ratio calculation spreadsheets reduce time and effort in calculating decision making ratios. They reduce risk for lenders and investors and enable owners, managers and consultants to increase productivity and business profits.

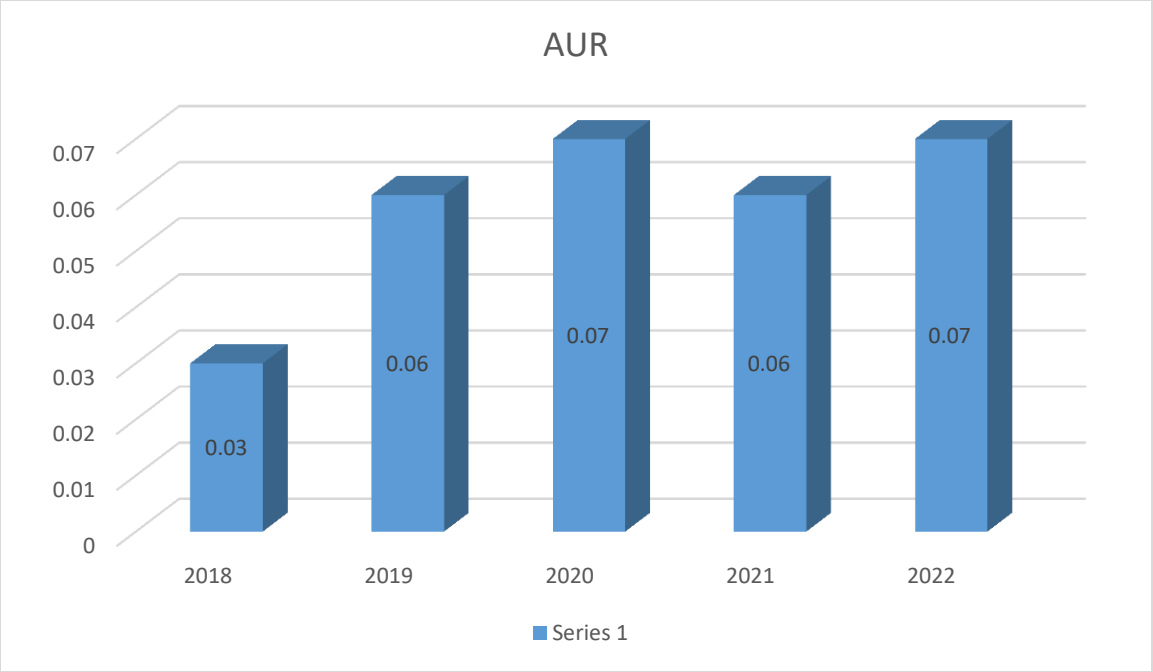
1. Asset Utilization Ratio

How effectively the bank is utilizing all of its assets is measured by assets utilization ratio. The bank is presumably said to using its assets effectively in generating total revenues if the AU ratio is high. If the ratio of AU is low, the bank is not using its assets to their capacity and should either increase total revenues or dispose of some of the assets.

It is calculated as:

AUR = Total Revenue/Total Asset

Graph 4.5 asset utilization ratios



Source: researcher's computation from the financial statement of BOA

As it has been indicated in graph 4.5 above, asset utilization ratio of Bank of Abyssinia has showed constant trend from the fiscal year 2019 and 2021 which was around six percent. And also in the fiscal year 2020 and 2022 has constant trend. In 2018 it was having an asset utilization ratio of three percent. This implies that even though the total asset proportion was increasing from year to year, the contribution of the assets to the total profit of the bank is not showing progress which implies that there are assets which are contributing nothing for the profit of the company. Therefore, the management of the bank has to make those assets which are idle to contribute for the profit of the company, if is not possible to do so the idle assets have to be disposed of and reinvesting the fund in other profitable investments.

2. Income to Expense Ratio

This is the most commonly and widely used ratio in the banking sector to assess the managerial efficiency in generating total income controlling its operating expenses. Income to expense is the ratio that measures amount of income earned per dollar of operating expense. High income expense ratio is preferred over lower one as this indicates the ability and efficiency of the bank in generating more total income in comparison to its total operating expenses.

It is calculated as:

IER = Total income / Total Operating Expenses

Table 4.7 income to expense ratio

	Fiscal year				
	2018	2019	2020	2021	2022
total income	2,217,855,000	2,781,129,000	3,861,770,000	7,532,446,000	12,483,670,000
Total operating expense	380,751,000	499,120,000	671,692,000	1,127,598,000	1,882,524,000
IER	5.82	5.57	5.74	6.68	6.63

Source: researcher's computation from the financial statement of BOA

As it can be observed from table 4.7 above, the income to expense ratio of the bank has shown variation, the total income was following the increasing or the total income that was generated from a single dollar of expense is rising. For instance, the total expense of the bank has grown (From Birr 380,751,000 to 1,882,524,000) in the fiscal year 2018 than it was seen in the fiscal year 2022 and also the total income of the bank was grown (from Birr 2,217,855,000 to Birr 12,483,670,000) in the fiscal year 2018 than it was observed in the fiscal year 2022. Generally, the management of the bank in reducing costs and maximizing the total income is shown a stronger effort. Therefore, the bank should keep measures in controlling the total expense and maximizing the total income of the company.

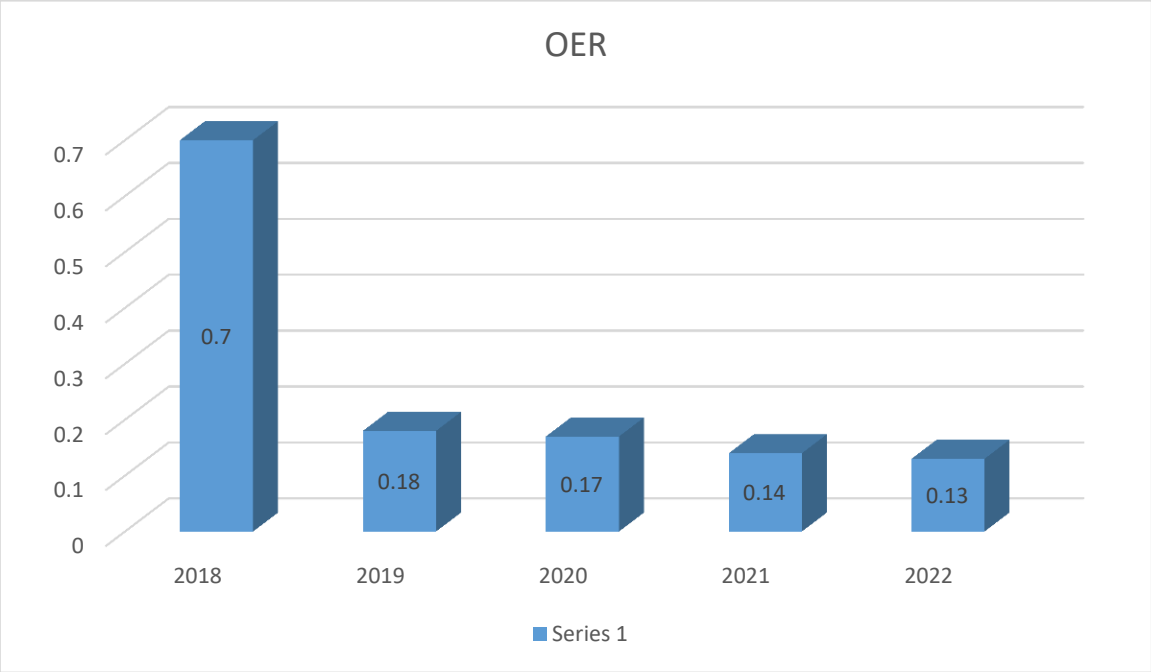
3. Operating Efficiency Ratio

It measures managerial efficiency in generating operating revenues and controlling its operating expenses. In other words, how efficient is the bank in its operations unlike income to expense ratio, which measures the amount of income earned per dollar of operating expense, operating efficiency is the ratio that measures the amount of operating expense per dollar of operating revenue. Lower operating expense is preferred over higher operating expense as lower expense indicates that operating expenses are lower than operating revenues.

It is calculated as

OER=Total Operating Expenses / Total Operating Revenue

Graph 4.6 operating efficiency ratios



Source: researcher's computation from the financial statement of BOA

As it has been seen in Graph 4.6 above, Bank of Abyssinia's operating efficiency ratio has shown a declining trend from the year 2018 to 2022 which implies the amount of expense incurred on each dollar of revenue is decreasing. For instance, in the fiscal year 2005, the bank has incurred seven cents on each of one Birr revenue it has enjoyed but it has declined to seventeen cents in 2020, fourteen cents in 2021, thirteen cents in fiscal year 2022. As it can be seen from the financial statement of the bank, the efficiency of the bank's management in controlling costs is showing an inclining trend, whose premise is not reducing the total revenue. i.e., they should seriously work in increasing expenses and minimizing costs.

Chapter five

5. SUMMURY, CONCLUSION AND RECOMMENDATION

This chapter which is entitled as conclusion and recommendation is designed to present the conclusions made from the discussion and analysis part of the study and it then provides some recommendations.

5.1 conclusion

- ✓ The return on asset of the Bank of Abyssinia has shown that the asset of the bank is contributing only a little amount for the total profit of the bank. The management of the bank is not using the asset to generate higher profit which implies that most of the asset of the bank are put idle without any contribution for the profit of the company.in fiscal year 2020 and 2022 it has shown decline. In the year 2018, 2019 and 2021 has the maximum trend. Its performance is showing the lowest rate compared it with the average return on asset ratio of the bank considered in the study.
- ✓ The report on return on equity of Bank of Abyssinia shown maximum trend in fiscal year 2018 and then if followed declining trend in fiscal year 2019 and 2020 respectively. In 2021 and 2022 trend was 16% and 15%. The minimum trend was in 2020 which is 13%. This implies that less proportionate of growth in the owners' equity.
- ✓ Profit to expense ratio of Bank of Abyssinia was 2.11 in 2019, which means for every one birr expense the bank incurred; it has generated a profit of around 2 birr and 11 cents. In the succeeding fiscal year, the bank's profit to expense ratio has shown a declining trend. In the fiscal year 2018, Bank of Abyssinia has earned the lowest profit in which it has fetched only 22 cents for its one-birr expense it has incurred. This ratio showed that there is an increasing trend in the expenses of the bank but a decreasing trend in the revenue of the bank. As it can be seen from the financial statement of the bank there is a continuous increment in the expense of the bank.
- ✓ The net interest margin ratio of Bank of Abyssinia has shown continuous improvement trend in the fiscal 2018 to 2022 which is 645,090,863 to 3,038,619,000. The bank has used the deposit to grant loan for its customer which is 7,060,000,000 in the fiscal year

2018 and 47,630,000,000 in the fiscal year 2022. The loan also has shown growth in the fiscal year 2018 to 2022.

- ✓ In the non-interest income to asset ratio the maximum percentage was 3% in the fiscal year of 2018. And the minimum percentage was 1% in the fiscal year 2020. In the fiscal year 2021 and 2022 has reached constant percentage which is 2%. It can be also said that even through the total asset of the bank has shown continuous growth, the total non-interest income has also grown in proportional amount.
- ✓ The return on deposit ratio of Bank of Abyssinia was the same trend in fiscal year 2019, 2021 and 2022 which was around 2%. The same is true for fiscal year 2018 and 2020 which is 3%. This was because of the fact that the net income the bank is getting was showing declining trend.
- ✓ In the year 2022 the loan to deposit ratio of Bank of Abyssinia has reached its maximum peak which is 73% this implies that the bank has granted seventy-three cent of its deposit as a loan to its customer. In 2018 it has declined to 19% which shows the banks conservative measures taken to grant loan to customer. This implies that the bank was generating interest income from the loan granted.
- ✓ In the year 2018 it was around 48% and in the fiscal year 2021 it has reached to around 94%, as it can be seen from the financial statement of bank of Abyssinia (BOA) thought the loan granted to customers has shown growth, the total asset has also increased continuously between the fiscal years 2018 to 2022
- ✓ The debt to equity ratio of bank of Abyssinia was having highest ratio in 2019, 2021 and 2022 which is 12.51,12.21and 16.26 respectively which means creditors of BOA has provided about 12.5 birr in 2017, 12.21 birr in 2021 and 16.3 birr in 2022 in financing for every 1 birr contribution by owners.as it can be observed from the financial statement of the bank, the total liability of the bank has grown by 14,703,643,710 to 51,213,137,000 on the fiscal 2022
- ✓ Debt to total asset ratio of BOA has Shown in the fiscal years 2018,2019 and 2021 which was around 87% , in the fiscal year 2022 which was around 0.87 in the year 2022 the debt total asset ratio of the bank of Abyssinia was around 0.9
- ✓ The equity multiplier of BOA has Shown continuous growth starting from 2016 to 2020, it has grown from 5.79 in 2018 to 18.06 in 2022 which implies the banks total asset has

been continuously financed by creditors of the bank in huge amount or the contribution the banks owners getting lower

- ✓ Asset utilization ratio of BOA has showed constant tread from fiscal year 2019 and 2021 which around 65% and also in the fiscal year 2020 and 2022 has constant tread which around 7% in 2018 was having asset utilization ratio 3%, therefore, the management of the bank has to make those assets which are idle to contribute for the profit of the company
- ✓ The income to expense ratio of the bank shows variation, the total income was following the increasing trend or that was generated from a single dollar of expense is rising. For instance, the total expense of the bank has grown (from 487,237,860 to 671,692,000) in fiscal year 2018 than was seen in the fiscal year 2022 and also the total income was grown (from birr 693,578,564 to birr 3,861,777,000). Therefore, the should keep measures in controlling the total expense and maximizing the total income of the company
- ✓ The bank of Abyssinia operating efficiency ratio has declining trend from the tear 2018 to 2022 which implies the amount of expense incurred on each dollar of revenue is decreasing. As it can be seen from the financial statement of the bank, the efficiency of the banks management in controlling costs is showing an inclining trend.

5.2 Recommendation

The profitability ratios (return on asset, return on equity, and return on deposit, and profit to expense ratio, net interest margin non-interest income to asset ratio) of bank of Abyssinia have shown a declining trend in all the study periods from the fiscal year 2018 to 2022. This implies that the performance of the bank became weaker and weaker. To improve profitability, the management of the bank of Abyssinia has to reduce the proportion of non-performing loan to total loan. Work to maximize the overall profits of the bank through investing in profitable investment.

Bank of Abyssinia's liquidity ratio has shown fluctuation in the loan to deposit ratio there was increment but in the loan to asset ratio declining. This implies that the bank has to retain most of its deposit. This in turn shows that the bank has much unproductive cash in the store. This had its own impact on the overall profitability of the bank. Therefore, the bank management has to work to retain optimum amount of cash and granting the excess amount to borrow of the bank as a loan or investing it in other profitable investments.

The risk and solvency ratio of bank of Abyssinia has shown that the company is over leveraged. This implies the bank has becoming more and more dependent on funds from creditors of the company. Therefore, the management of the bank has to work to maximize the amount of owners' equity or has to search for other source of cash.

The efficiency ratio of the bank (asset utilization ratio, income to expense ratio and operating efficiency ratio) have shown that the bank's performance is deteriorating from year-to-year. This was because the costs of the bank were increasing from time to time but the revenue of the bank was following the reverse trend. Therefore, the banks management has to work to reduce the cost and maximize revenue by reducing the expense per dollar of the revenues generated

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APPENDIX

BANK OF ABYSSINIA

STATEMENT OF FINANCIAL POSITION

AT AUG 2021

	2018	2019	2020	2021	2022
asset					
Cash and cash equivalent	4,491,584,000	4,772,202,000	6,356,285,000	12,091,041,000	18,475,298,000
Loan and advance to customers	17,780,964,000	23,421,247,000	36,798,014,000	75,576,659,000	113,334,007,000
Other asset	9,710,488,000	11,400,976,000	13,736,232,000	2,958,514,000	3,730,806,000
Total asset	**31,983,036,000**	**39,294,425,000**	**56,890,531,000**	**104,050,343,000**	**194,451,430,000**
liability					
Deposits from customer	25,794,540,000	32,146,449,000	47,627,612,000	42,539,807,000	93,460,994,000
Tax liability	218,382,000	241,293,000	220,855,000	682,094,000	1,365,460,000
Other liability	1,724,755,000	1,956,297,000	3,364,670,000	5,249,497,000	11,173,015,000
Total liability	**27,737,677,000**	**34,344,039,000**	**51,213,137,000**	**95,400,689,000**	**135,235,245,000**
Total equity	4,245,359,000	4,950,386,000	5,677,394,000	8,649,654,000	14,214,185,000
Total liability	31,983,036,000	39,294,425,000	56,890,531,000	104,050,343,000	149,451,430,000

and equity					

BANK OF ABYSSINIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	2018	2019	2020	2021	2022
INCOME					
Interest income	2,721,259,000	3,504,386,000	4,848,899,000	7,856,655,000	14,351,498,000
Interest expense	(1,056,113,000)	(1,507,616,000	(1,810,280000)	2,672,202,000	4,231,929,000
Net interest income	1,665,146,000	1,996,770,000	3,038,619,000	5,184,462,000	10,119,569,000
Net foreign exchange	11,983,000	80,910,000	175,255,000	231,042,000	774,203,000
Service charge	360,709,000	435,799,000	614,137,000	1,576,100,000	1,942,401,000
Commission earned	145,369,000	169,256,000	301,978,000	859,815,000	974,914,000
Dividend income	5874,000	3,130,000	3,130,000	9,873,000	8,030,000
Total other income	34,648,000	98,394,000	82,291,000	143,110,000	220,989,000
Expense					
Total operating expense	380,751,000	499,120,000	671,692,000	916,165,000	1,882,524,000
Profit before tax	765,708,000	1,024,037,000	1,081,408,000	2,051,544,000	4,654,545,000

Income tax expense	202,908,000	247,023,000	227,764,000	709,591,000	1,418,721,000
Profit after tax	562,800,000	777,014,000	853,644,000	1,341,953,000	3,235,824,000