COMPARATIVE FINANCIAL PERFORMANCE ANALYSIS OF ABYSSINIA BANK AND NIB INTERNATIONAL BANK

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ACRONYMS

BOA-Bank of Abyssinia

FATO- Fixed Asset Turn Over

GAAP-General Accounting Accepted Principle

NIB-Nib International Bank

NIM- Net interests margin

NLDB- Net Loan Deposit and Borrowing

NLTA- Net Loan Total Asset

ROA-Return on Asset

ROE-Return on Equity

TIE- Time Interest Earned

EBIT-Earning Before Income Tax

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ABSTRACT

This study entitles Comparative Financial Performances Analysis Would be On Bank of Abyssinia and Nib International Bank. Comparative financial analysis approach would be used. Five- years audited financial reports from 2013-2017 of the company's has taken for analysis purpose. So far, most researchers have tire to assess the growth of private banks relative to state-owned banks in terms of asset owner ship and loan granting ability. But this research has tries to assess whether the private commercial banks are financially sound or not by specifically taking Bank of Abyssinia and Nib International Bank as a case study. Secondary data source was used by the researcher.

CHAPTER ONE

1.1 Background of the Study

Though economic development of a particular country was dependent on a number of factors such As industrial growth and development, modernization of agriculture, expansion of domestic and foreign trade, political stability, its dependence to largest extent on the banking sector was undeniable and/or banks play a key role in improving economic efficiency by channeling funds

From resource surplus unit to those with limited access and/or the needy. Misra&Aspal (2013).

According to Zerayehu et al., (2013) and Ermiase Mengesh (2016) a sound financial system was indispensable for a healthy and vibrant economy. The financial system in Ethiopia, which was characterized as highly profitable, concentrated, and moderately competitive is dominated by banking industry and it was also amongst the major under banked economy in the world (WorldBank, (2013).

Hence, maximum care should be taken in order to maintain the safety and soundness of private Commercial banks in Ethiopia. Any failure /incident in the banking industry especially in country where the commercial banks dominate the financial sector would definitely have contagious effect that can lead to bank runs and crises. Hence, it would be mandatory to scrutinize and take proactive measures to maintain the health of the economy and build up the public confidence.

When analyzing financial fitness, corporate accountants and investors alike closely examine a company’s financial statements and balance sheets to get a comprehensive picture of Profitability. The study used to solve the problem explained such as financial statements in their raw format do not reveal the information as per required by its users. There are a number of metrics and corresponding financial ratios that are used to measure profitability. Typically, analysts look to the standardized profitability metrics outlined in the generally accepted accounting principles (GAAP), because they are easily comparable across business and Industries, but some non- GAAP metrics are widely used.

There was also no performance measurement among the private commercial banks operating in the country. This undermines the banks financial operations such as profitability, efficiency, Liquidity and solvency. The study employs the ratio analysis to compare the financial performance for selected private Commercial Banks in Ethiopia. Presently there were sixteen private commercial banks and two State owned banks operating in Ethiopia. From those banks we were select two private Commercial banks namely Bank of Abyssinia and Nib International Bank. To do so, fifteen financial ratio analysis used such as, operating profit margin, net profit margin, return on assets, return on equity, assets utilization, operating expenses ratio, loans to deposits ratio, loans to assets ratio, debt to equity ratio, earning per share, price earnings ratio, dividend pay-out ratio, dividend yield ratio, inventory turnover ratio and equity multiplier.

Most of the studies on bank profitability have categorized the determinants of profitability in to Endogenous and exogenous factors. The endogenous factors are those firm specific factors that Result from the decision and policies of management. Hence, efficiency, profitability, liquidity, Capital structure and asset quality ratios were among the endogenous factors. On the other hand, Market concentration, ownership, and other macroeconomic factors such as economic growth and inflation were classified as exogenous factors.

Unlike in Ethiopia, there are many literatures and arguments as to which factors determine commercial banks profitability in the developed world. Hence, owing to existence of very limited literature in the subject matter and inspired by ratio Analysis we explored the performance among selected private commercial banks in Ethiopia. The Rationale behind focusing on bank specific variables only is owing to the existing less Competitive and highly protected Ethiopian banking environment. Moreover, the exogenous Factors are not expected to differ among the target banks that are selected for this particular study since all are operating under the same financial system, same regulatory organ and are within the same geographic area.

Therefore, this work solely seeks to examine the effect of bank specific variables to rank the overall financial performance of selected private commercial banks. The project used six years of secondary data in the industry so as to systematically analyze the effects of banks specific performance analysis.

1.2 Statement of the problem

Competition in the Ethiopian banking industry is labeled as incontestable and difficult to enter Owing to legal, technological and economic policy factors. Zerayehu et al. (2013) as a matter of Fact, the Ethiopian government has implemented a number of reforms in the banking sector since it took power. However, all the measures taken to improve the banking sector significantly fall short. Hence, the existing Ethiopian financial sector is not able to offer adequate and competitive Services on the scale required and it is not yet competitive and efficient. Admassu & Asayehgn (2014), Ermiase (2016).

Being one and the major category of financial institution bank have a very determinant role in the health functioning of the economy. Meanwhile, notwithstanding with it is merits, bank can be challenged different factors. These include individual bank characteristics which could be swayed by the internal decisions of management and the abroad and the wide ranged external factor which are out of control bank (Muhabie 2015)**.**

The researcher try to studied researches undertaken before in similar areas of study, and find out that all the researches use comparative and ratio analysis as tool for analyzing the financial performance of their case study. The previous studied are try to analyses the financial performance of only a single firm and the other one tried to make comparative study between two competing firms and compare the results with one another. However, the recent researches tried to compare the findings with the normal theoretical gap between standards and give recommendation.

This research also used comparative and ratio analysis as a tool for study and it tried to analyses the financial performance of two firms and make comparison of the findings between them by calculating the total average of the ratios that create the study gap between the previous researches. Although study had been made before some years in relation to financial performance analysis in different banks the year gap or time gap itself shows the bank to have different financial performance. Hence, the study tried to analyses and compares the financial statements of BOA and NIB it focusing on answering the following questions.

1.3 Objectives of the Study

1.3.1. General Objective

The general objective of the study is to assess the comparative financial performance of Bank of Abyssinia with Nib international bank

1.3.2. Specific objectives of the study

The specific objectives of the studies are: -

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

1.4. Research Question

1. What is the liquidity level of Abyssinia bank and Nib international bank?

2. What does financial leverage of Abyssinia bank and Nib International banks?

3. What does profitability level of the Abyssinia bank and Nib International bank?

4. What is the asset management level of Abyssinia bank and Nib International bank?

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 In order to cope with the complexity and a mix of risk exposure to banking system properly, responsibly, beneficially and sustainably, it was 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 was very core.

Therefore, this study was 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 Abyssinia bank and Nib international bank. It also shades light about the importance of ratio Model to risk managers and others who were interested to examine the performance of the banks.

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 Abyssinia Bank for the last Five- years (2013-2017) in order to achieve these objectives, the researcher focused on analyzing the financial statements produced by the management and audited. The researcher would only include the financial results by analyzed the financial statements in order to analyzed these financial statement, the researcher applied comparative analysis method among many financial analysis tools because it was simple and expressive method.

1.7 Limitations of the Study

In conducting detail researches on financial performance, it is compulsory to have much more time, adequate information, expertise knowledge, There are different types of financial analysis methods like fund flow analysis, ratio analysis, common size statements analysis, cost-volume-profit analysis, profitability of capital and leverage analysis, But this study had focused on only the financial ratio analysis and presented the trend changes on the different ratios but it did not analyze the causes for these changes in detail.

Even though there are a number of important determinant variables which have significant influence on the financial performance of any company like political affairs, inflation, economy, management philosophy, they were not considered in this study. The researcher could not get any standardized data from the National bank of Ethiopia that can be used as a bench mark in making comparison analysis.

1.8. 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

Introduction

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. 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).

2.1.1. 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)**.**

2.1.2. 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.

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 Sheeting 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 were:

- ❖ 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.

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)**.**

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 four categories:

- Liquidity ratios
- Asset management ratios
- Profitability ratios
- 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 unfavorable conditions. (Brigham and Houston). There are 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:

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

- 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 unfavorable 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

2.5. 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. 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. 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.

Masruki et al. (2011) analyzed 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) analyzed 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:

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. 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.

2.9. Research Gap and Conclusion

The pervious researches conducted about comparative analysis on financial performance of banks were 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 would give better treatment to them. All pervious researches do not use the financial statement above Three years

but this research used the Five-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 Abyssinia and Nib international bank.

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 via, 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 was concerned with subjective assessment of attitudes, opinions and behavior. 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 was more suitable to describe measure, compare and classify the financial performance of Abyssinia 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.

3.5. 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 analyzed 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 Five-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 practice 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. 6. Method of Comparison

In order to collect data which is helpful to the study the research used data comparison method the financial performance of Abyssinia and Nib international banks. Because it is the best method to achieve the aim of the research.

3.7. 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 would be analyzed 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:

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 unfavorable conditions.

Liquid ratio=liquid ratio/current liability.

Current ratio: was 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

Fixed Asset Turnover Ratio: this ratio measures the efficiency of with which the firm was 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

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

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

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

Debt to equity ratio = Total debt/Shareholders' equity

Debt to Equity ratio: whatever way the debt to equity ratio was calculation in shows the extent which debt financing has been financing has been used in business a high ratio was Unfavorable form the firm's point of view.

Debt to equity ratio = Total debt/Shareholders' equity

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

Profitability Ratio

Profitability was 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.

- **Basic Earning Power Ratio**:-this ratio was calculated by dividing earnings before interest and Taxes by total assets :(Brigham Houston, 2006)

  Basic earning power ratios = EBIT/Total assets

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

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

- **Net profit margin**: - The profit margin which was also called the net profit margin on sales Calculated by dividing net income by sales

  Profit Margin = Net Income/ Sales

- **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

- **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' equity

CHAPTER FOUR

4. 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 Abyssinia Bank (BOA) 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 (2013-2017) has been used.

4.1. Liquidity Ratio

A. Current ratio

Table 4.1 Current ratio of BOA and NIB

Abyssinia Bank **Nib International Bank**

	Current asset	**Current liability**	**Current ratio**		**Year**	**Current asset**	**Current liability**	**Curren ratio**
2013	6,060930000	15,851260000	0.3823		2013	2104846339	6655214042	0.3162
2014	6,542820000	17,681340000	0.370		2014	1915986824	7923293176	0.2418
2015	5,529910000	19,814110000	0.279		2015	1797686198	9774115874	0.1839
2016	6,870640000	22,758500000	0.3018		2016	2,977,980,347	12,423,022,987	0.2397

2017	5,254710000	27,782520000	0.1891			2017	3,281.92	16,416.44	0.1999
Average Ratio			0.3045			Average Ratio			0.2363

Source- own computation from annual report of both banks (2013-2017)

Current ratio indicated that the extent to which current liability is covered by those current assets. By looking at the given table above we could observe that the liquidity of the both banks gradually decreases, the current ratio of both banks decreasing from 2013 to 2017 except the year of 2016 that increased a little bit when compared to the previous year.

The current ratio of Abyssinia Bank is shows a gradual decrement from 38 cents of current asset for 1 birr of current liability in 2015 to 27 cents then increased to 30 cents in 2016 and then decreased in the following year to 18 cents. The same is true also for NIB, as the current ratio of NIB show a gradual decrement, from 31 cents of current asset for 1 birr of current liability in 2013 to 18 cents in 2015, then increase in 23 cents in 2016 and then decrease in the following year to 19 cents. But the average current ratio of Abyssinia Bank compared to the ability of NIB to meet its current liability by its current asset is higher.

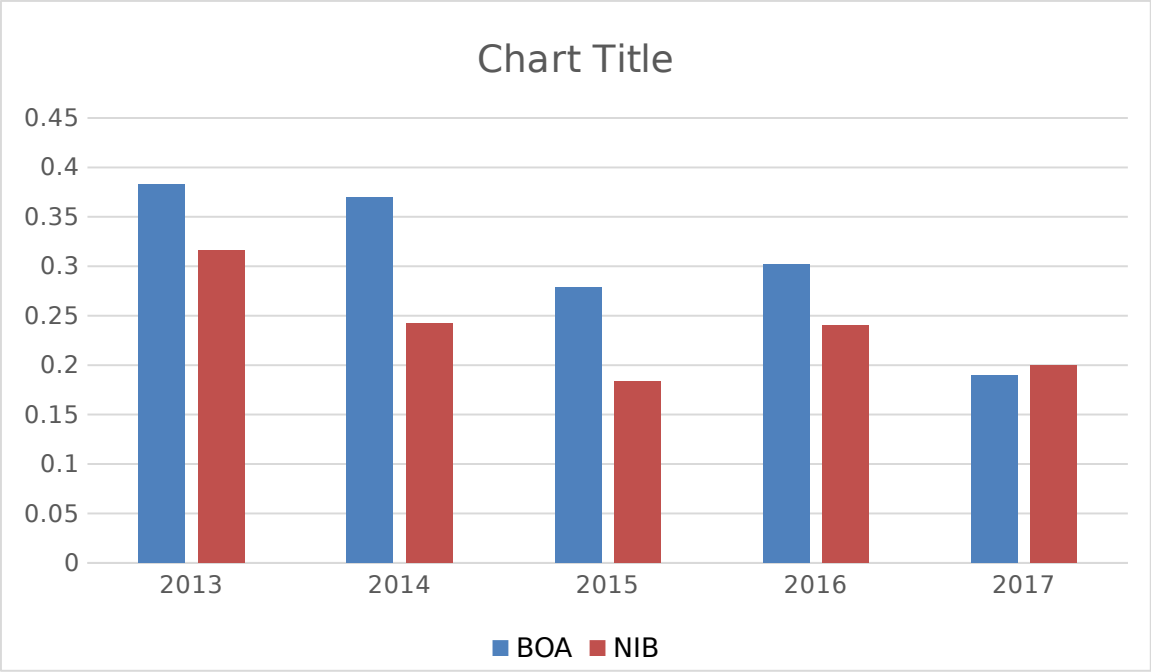

Figure 4.1 current ratio of BOA and NIB

B. Net loan to Total Asset ratio

Table 4.2 NLTA ratio of BOA and NIB

Abyssinia Bank **Nib International Bank**

Year	**Net Loan**	**Total Asset**	**NLTA Ratio**
2013	8,663250000	19,747170000	0.4387

Year	**Net Loan**	**Total Asset**	**NLTA Ratio**
2013	4,429,319,286	9,144,543,615	0.4843

2014	9,429630000	21,962200000	0.43		2014	5,407,739,082	10,747,283,267	0.5031
2015	11,333090000	24,763880000	0.4576		2015	6,894,044,536	13,256,124,481	0.520
2016	12,478660000	28,576430000	0.4366		2016	7,511,984,948	15,830,321,762	0.4745
2017	17,717490000	34,624600000	0.5117		2017	10,711.30	21,019.71	0.5095
Average Ratio			0.4548		Average Ratio			0.4983

Source- own computation from annual report of both banks (2013-2017)

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 increasing from 2013 to 2017 for BOA except the year 2016 and NLTA increasing from 2013 to 2015 for NIB the decreasing in following years.

These incensement of NLTA throughout the period for both banks except for the year 2016 for BOA and 2016 & 2017 for NIB 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 Abyssinia bank is in a good position than NIB in maintaining its liquidity in case of large deposit withdrawal or unexpected withdrawal.

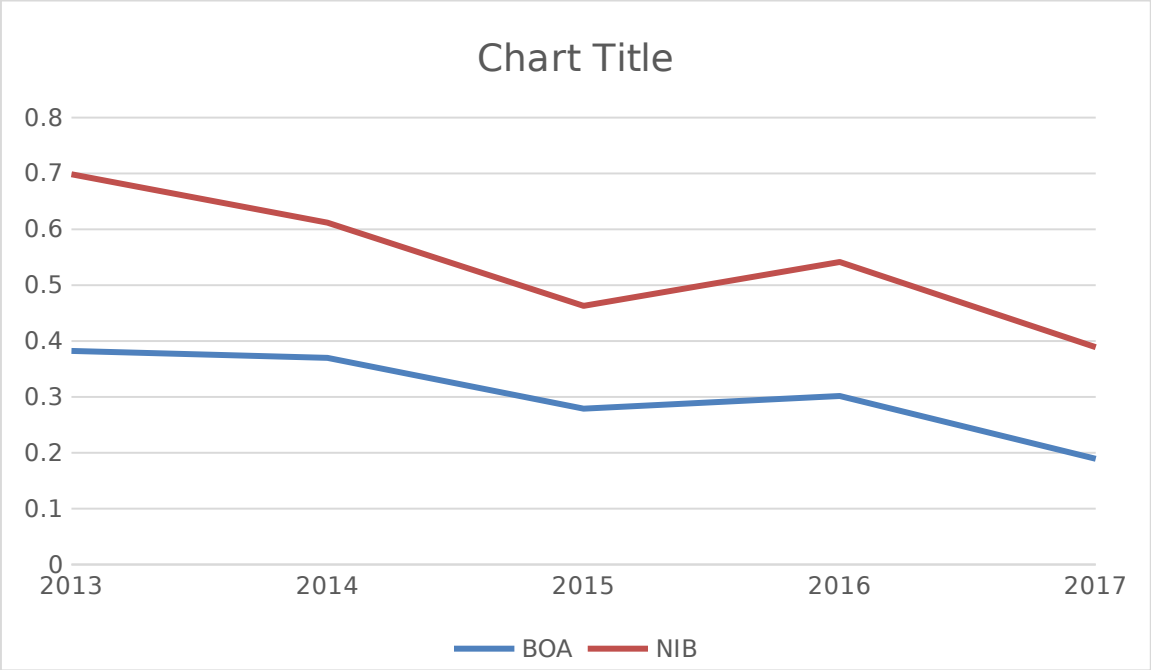

Figure 4.2 NLTA ratios of BOA and NIB

B. Net loan to deposit and borrowing

Table 4.3 NLDB Ratio of BOA and NIB

Abyssinia Bank **Nib International Bank**

Year	Net Loan	Total deposit and ST Borrowing	NLDB Ratio
2013	8663250000	15851260000	0.5465
2014	9429630000	17681340000	0.5333

Year	Net Loan	Total deposit and ST Borrowing	NLDB Ratio
2013	4,429,319,286	6655214042	0.6655
2014	5407739082	7923293176	0.6825

2015	11333090000	19814110000	0.5719		2015	6894044536	9774115874	0.7053
2016	12478660000	22758500000	0.5483		2016	7,511,984,948	12,423,022,987	0.6047
2017	17717490000	27782520000	0.6377		2017	10,711.30	16,416,440,000	0.6524
Average Ratio			0.5675		Average Ratio			0.6621

Source- own computation from annual report of both banks (2013-2017)

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 2013 to 2014 then increased in 2015 and then decreased in 2016 and increased in 2017 for BOA. In case of NIB it is increasing from 2013 to 2015 and decreasing in 2016 then increasing in 2017. 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 BOA is less tied in loans.

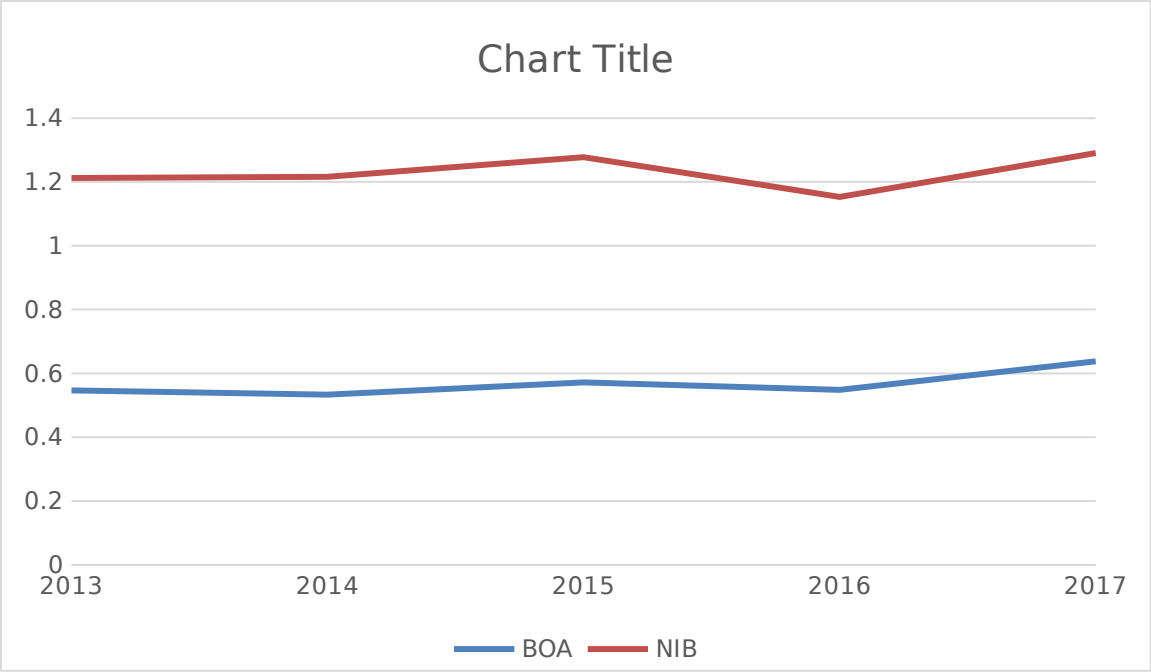

Figure 4.3 NLDB ratios of BOA and NIB

4.2 Activity Ratio

A. Fixed Asset Turnover Ratio

Table 4.4 FATO ratio BOA and NIB

Abyssinia Bank

Year	Total Revenue	Fixed asset	Fixed asset turnover
2013	1,816820000	318900000	5.6972
2014	2,144990000	598940000	3.5813

Nib International Bank

Year	Total Revenue	Fixed asset	Fixed asset turnover
2013	851,188,264	124,008,321	6.863
2014	1,038,898,163	253900056	4.0917

2015	2,515270000	682530000	3.6852		2015	1,208,758,139	305227206	3.960
2016	2,733280000	799476000	3.4188		2016	1,431,029,226	393,522,482	3.6364
2017	3,415090000	832394000	4.1027		2017	1,948.61	520630000	3.7428
Average Ratio			4.0970		Average Ratio			4.4588

Source- own computation from annual report of both banks (2013-2017)

Fixed asset turnover measures The efficency of the firm in utilize its investment in fixed asset. The high fixed asset turnvoer ratio indicate efficent utilization of fixed asset. In the above table the FATO ratio of both banks is postive that is good but when we compare it to one another FATO ratio is clearly indicate that through out the period 2013-2017 of NIB, FATO is greater than BOA except the year 2017, which shows that NIB is more efficent in utilization of its investment in fixed asset. BOA have low ratio except the year 2017, because of its high investment in its fixed asset.

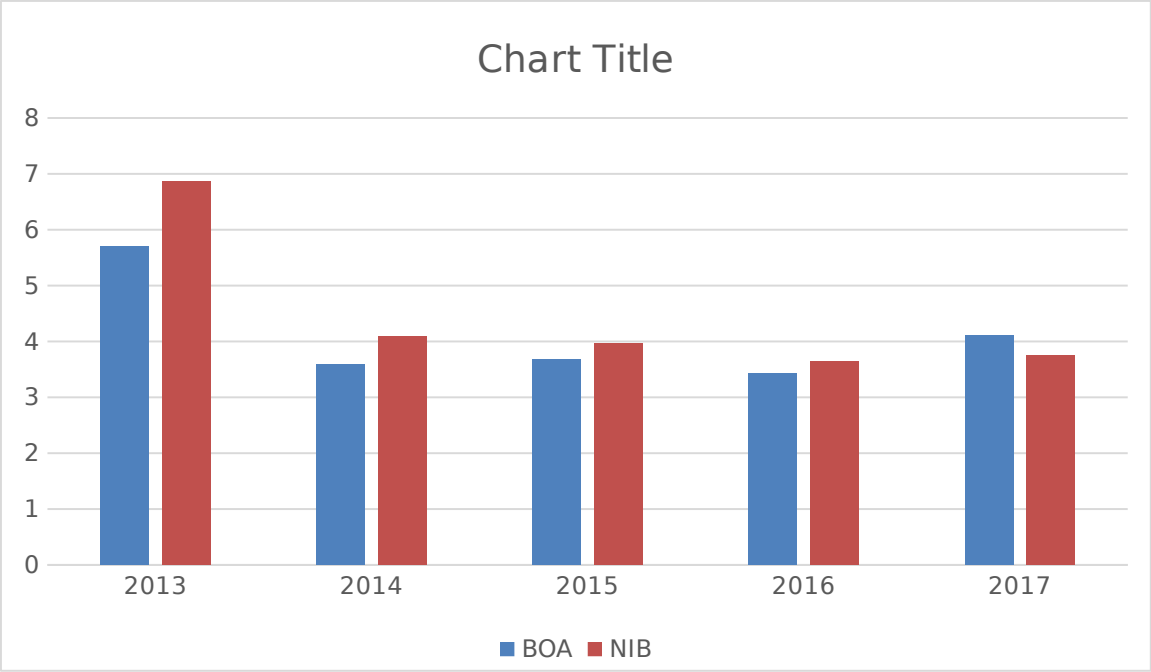

Figure 4.4 FATO ratios of BOA and NIB

B. Total Asset Turnover Rate

Table 4.5 Total asset turnover ratio of BOA and NIB

Abyssinia Bank

	Total Revenue	**Total asset**	**Total asset turnover ratio**
2013	1,816820000	19,747170000	0.092
2014	2,144990000	21,962200000	0.0976

Nib International Bank

Year	**Total Revenue**	**Total asset**	**Total asset turnover ratio**
2013	851188264	9144543615	0.093
2014	103889816	10747283267	0.0752

2015	2,515270000	24,763880000	0.1015		2015	1208758139	13256124481	0.0685
2016	2,733280000	28,576430000	0.0956		2016	1,431,029,226	15830321762	0.0904
2017	3,415090000	34,624600000	0.0986		2017	1,948610000	21,019710000	0.0927
Average Ratio			0.0971		Average Ratio			0.0839

Source- own computation from annual report of both banks (2013-2017)

Total asset turnover show how well the company assets are being used to generate revenue. High total asset turnover ratios indicate successful asset management. The above table indicates the total asset turnover ratio of the two banks. Total asset turnover of BOA is variable throughout the years. The total asset turnover ratio of NIB shows decreasing from generating 9.3 cents from 1 birr of investment in total asset in 2013 to 6.8 cents in 2015. Generally, BOA is more successful than NIB in asset management.

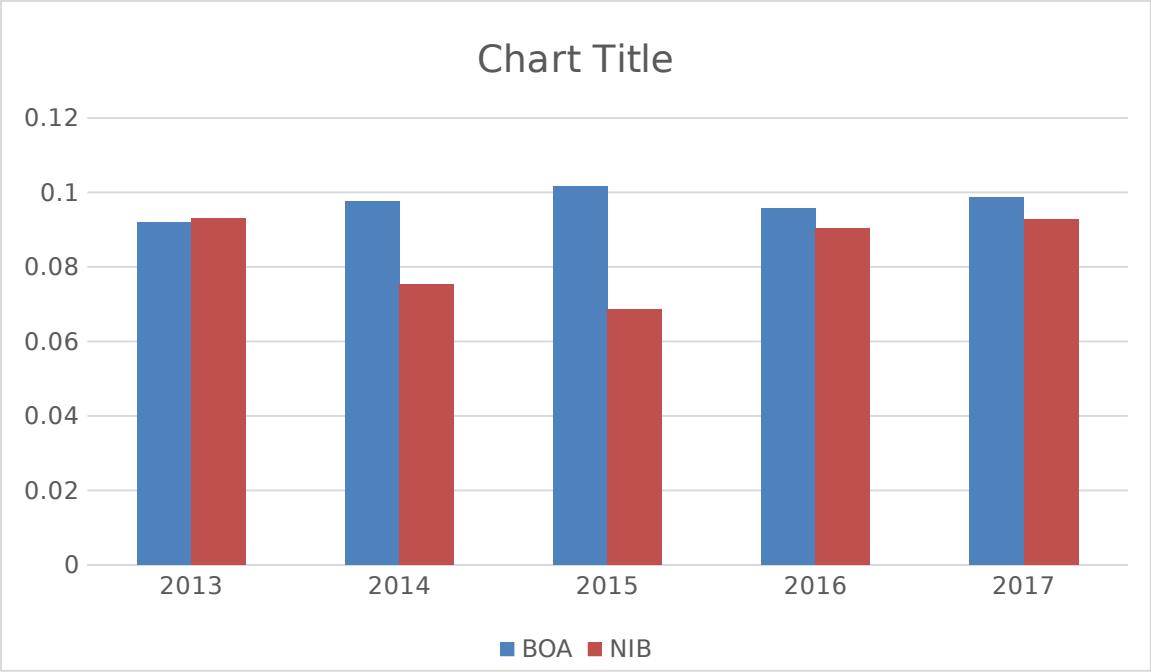

Figure 4.5. Total asset turnover ratios of BOA and NIB

4.3 Leverage Ratio

A. Debt ratio

Table 4.6 Debt ratio of BOA and NIB

Abyssinia Bank

Year	Total debt	Total asset	Debt ratio
2013	17,701000000	19,747170000	0.8964
2014	19,364570000	21,962200000	0.8817
2015	21,839990000	24,763880000	0.8819
2016	25,218600000	28,576430000	0.8824

Nib International Bank

Year	Total debt	Total asset	Debt ratio
2013	7478614296	9144543615	0.817
2014	8782926239	10747283267	0.8172
2015	11078820397	1325612448	0.8357
2016	13,312,365,885	15,830,321,762	0.8409

2017	30,631620000	34,624600000	0.8846		2017	18,066000000	21,019710000	0.8595
Average Ratio			0.8854		Average Ratio			0.8341

Source- own computation from annual report of both banks (2013-2017)

Debt to asset ratio shows the proportion of financing the business from debt and equity. As can be observed from the above table BOA use 89.64,88.17,88.19,88.24 and 88.46 cents from debt to finance its one birr of total asset through the years 2013-2017 respectively, the reaming is from shareholders equity whereas NIB is financed through 81.5, 81.7, 81.7, 83.5, 84 and 85.95 cents from debt and the remaining from shareholders' equity. As clearly stated above the asset structure of both banks are highly leveraged this is because of their operating activity. When comparing the ratio of the banks BOA is in higher leverage position.

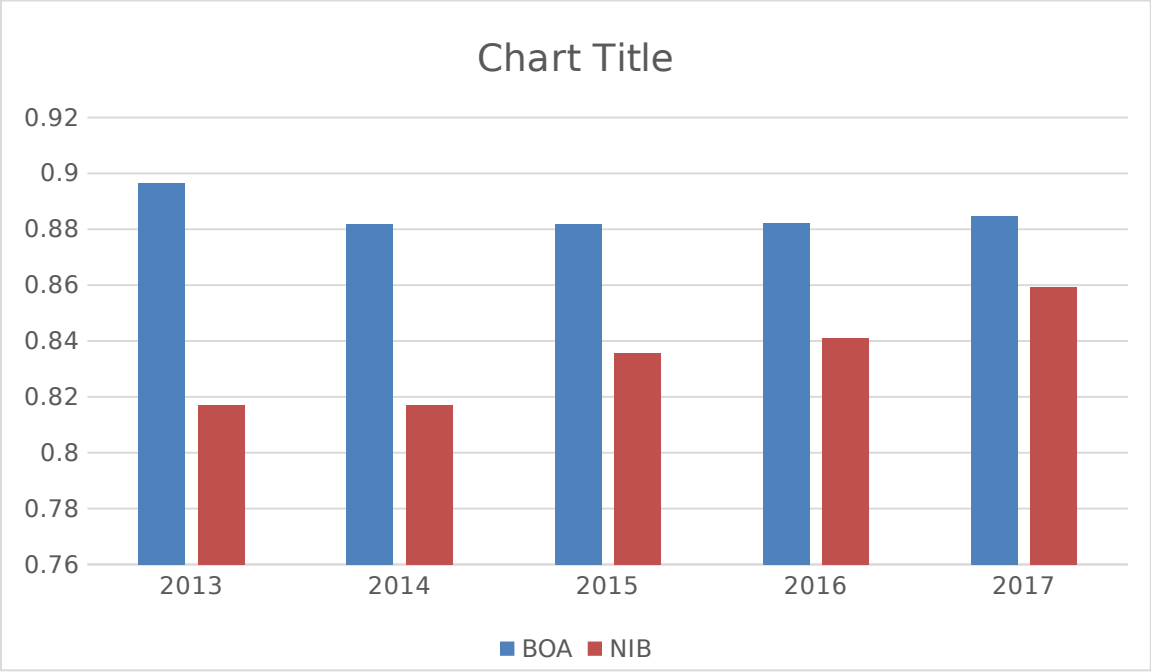

Figure 4.6 Debt ratios of BOA and NIB

B. Debt to Equity ratio (Capital adequacy ratio)

Table 4.7 Debt to equity ratio of BOA and NIB

Abyssinia Bank **Nib International Bank**

Total debt	Total equity	Debt to equity ratio		Year	Total debt	Total equity	Debt to equity ratio
17,701,000,000	2,045,700,000	8.6530		2013	7478614296	1,665,929,319	4.489
19,364,570,000	2,597,620,000	7.4547		2014	8782926239	1,964,357,028	4.471
21,839,990,000	2,923,890,000	7.4694		2015	11078820397	2,177,304,084	5.088
25,218,600,000	3,357,830,000	7.5103		2016	13,312,365,885	2,517,955,877	5.286
30,631,620,000	3,992,980,000	7.6713		2017	18,066000000	2,954000000	6.116
7.7518		Average Ratio			5.09		

Source- own computation from annual report of both banks (2013-2017)

Capital adequacy reflects the overall financial condition of the bank and also the ability of the management to meet the need for additional capital. To determine the capital adequacy the ratio of the debt to equity is used. The lower the debt to equity ratio the better the firms' adequacy to meet the additional capital needs the better its position. As reflected in the table capital adequacy ratio of BOA is higher than that of NIB and reaching its highest point which is 8.65 in the year 2013 showing a stronger capital adequacy on average also BOA capital adequacy is stronger.

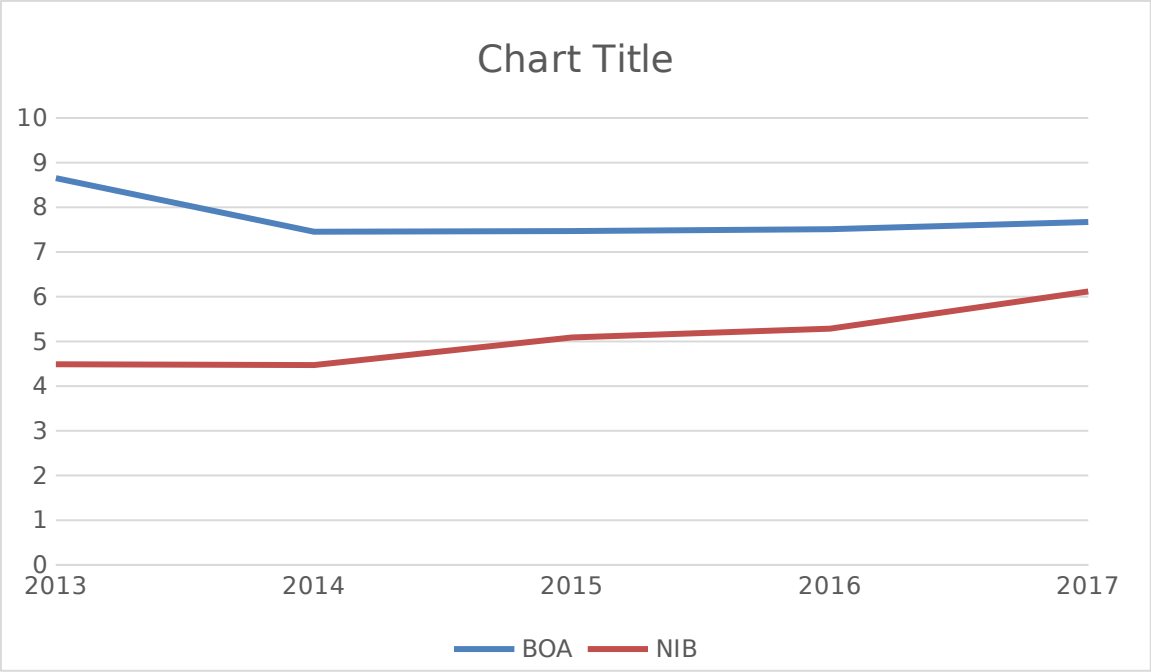

Figure 4.7 Debt to equity ratio of BOA and NIB

C. Time interest earned ratio

Table 4.8 Time interest earned ratio

Abyssinia Bank

Year	EBIT	Interest	TIE ratio
2013	1,302840000	489880000	2.659
2014	1,530750000	573160000	2.670

Nib International Bank

Year	EBIT	Interest	TIE ratio
2013	563522334	184,948,395	3.046
2014	644418388	229802244	2.804

2015	1,631100000	667290000	2.444		2015	741295208	300494498	2.467
2016	1,691430000	740816000	2.534		2016	851061532	392307725	2.169
2017	1,901020000	921256000	2.283		2017	1,212920000	530762000	2.285
Average Ratio			2.518		Average Ratio			2.554

Source- own computation from annual report of both banks (2013-2017)

Time interest earned ratios shows the ability of the firm to cover its interest through its earnings before interest and tax, higher ratio is desirable. From the above table TIE ratio of NIB has reached its highest ratio in 2013 which is 3.046 and then decreased in the following years to 2.8, 2.46, 2.169 and 2.285 respectively. In other hand BOA ability of covering its interest is decreased from its highest point of 2.67 in 2014, 2.44, 2.53 and 2.28 respectively. This variation and low coverage ratio arise due to excessive use of debt by the bank. Therefore, comparatively NIB had more ability to cover its interest by its earnings before interest and tax than BOA. This is because of NIB is conservative in using debt in relating to BOA.

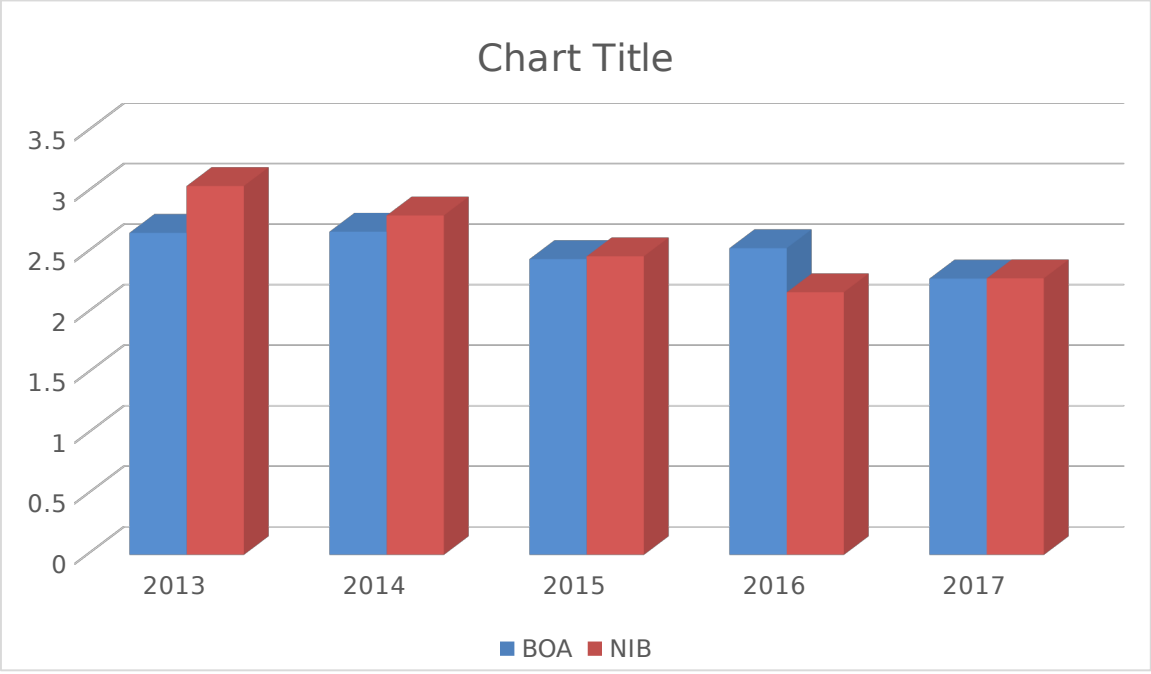

Figure 4.8. Time interest earned ratio of BOA and NIB

4.4 Profitability Ratio

A. Basic Earning Power Ratio

Table 4.9. Basic earning power ratio of BOA and NIB

Abyssinia Bank **Nib International Bank**

Year	**EBIT**	**Total asset**	**Basic earning power ratio**	**Year**	**EBIT**	**Total asset**	**Basic earning power ratio**
2013	1,302840000	19,747170000	0.065	2013	563522334	9144543615	0.061
2014	1,530750000	21,962200000	0.069	2014	644418388	10747283267	0.06
2015	1,631100000	24,763880000	0.065	2015	741295208	1325612448	0.056
2016	1,691430000	28,576430000	0.059	2016	851061532	15830321762	0.053
2017	1,901020000	34,624600000	0.054	2017	1,212920000	21,019710000	0.057
Average Ratio			0.063	Average Ratio			0.057

Source- own computation from annual report of both banks (2013-2017)

This ratio shows the earning power of the firm's assets before the influence of taxes and debt, and it is useful when comparing firms with different debt and tax situations. The Basic earning

power ratio of BOA has increased from 0.065 in 2013 to 0.069 in 2014 and decreased to 0.065, 0.059, and 0.054 in 2015, 2016 and 2017 respectively. Whereas NIB has decreasing from 0.061 in 2013 to 0.06, 0.056 and 0.053 in 2014, 2015 and 2016 respectively. Therefore, during all the accounting period, from 2013 to 2016 BOA have a higher ratio than NIB except the year 2017 where BOA have lower basic earning power ratio than NIB. This indicates that BOA is generating higher Earnings from its asset when compared to NIB.

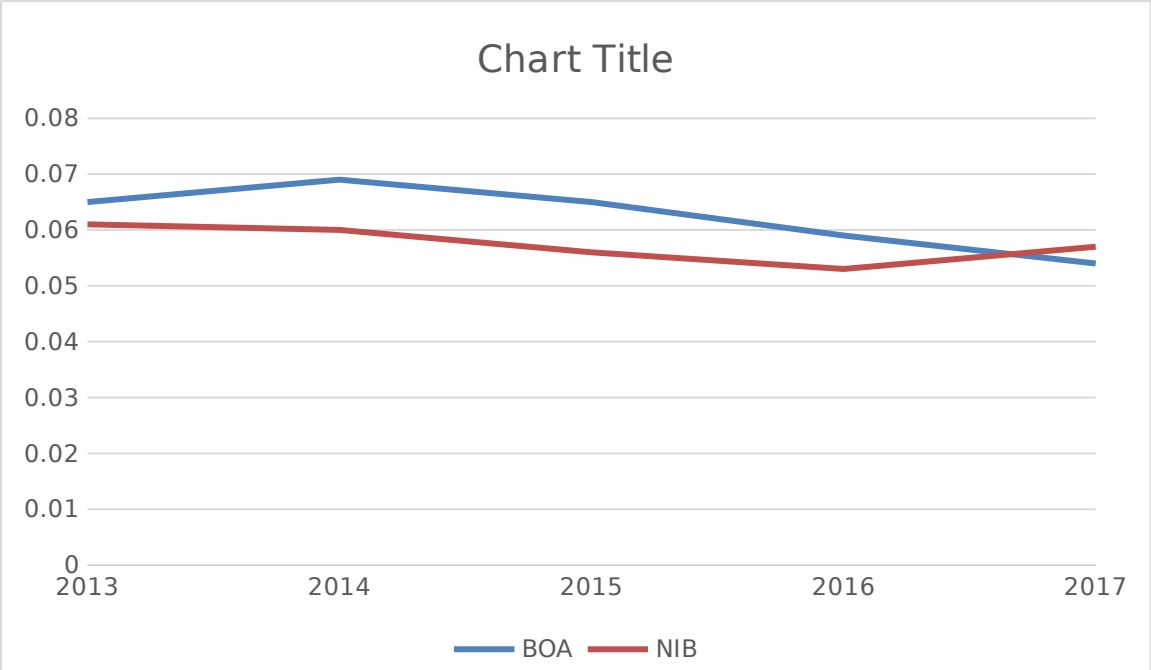

Figure 4.9. Basic earning power ratio of BOA and NIB

B. Operating Profit Margin

Table 4.10 Operating profit margin of BOA and NIB

Abyssinia Bank **Nib International Bank**

Year	EBIT	Total revenue	Operating profit margin
2013	1,302840000	1,816820000	0.7171

Year	EBIT	Total revenue	Operating profit margin
2013	563522334	851188264	0.662

2014	1,530750000	2,144990000	0.7136		2014	644418388	1038898163	0.620
2015	1,631100000	2,515270000	0.6484		2015	741295208	1208758139	0.613
2016	1,691430000	2,733280000	0.6188		2016	851061532	1431029226	0.595
2017	1,901020000	3,415090000	0.5566		2017	1,212920000	1,948610000	0.622
Average Ratio			0.6509		Average Ratio			0.6224

Source- own computation from annual report of both banks (2013-2017)

The operating profit margin ratio reflects the company earnings before intrest and tax as well as the ability of the enterprises managemnt to minimize the operating expense inrealtion to the oprating revenue.

According to the above inforamtion througout the years BOA have better operating profit margin. The reason behined is that gross rate of operating expense was smaller than the growth rate of revenue and the reverse true for decreasing of gross profit margin of the two banks. Generally BOA is more efficent in minimizing its operating expenses in relating to its operating revenue.

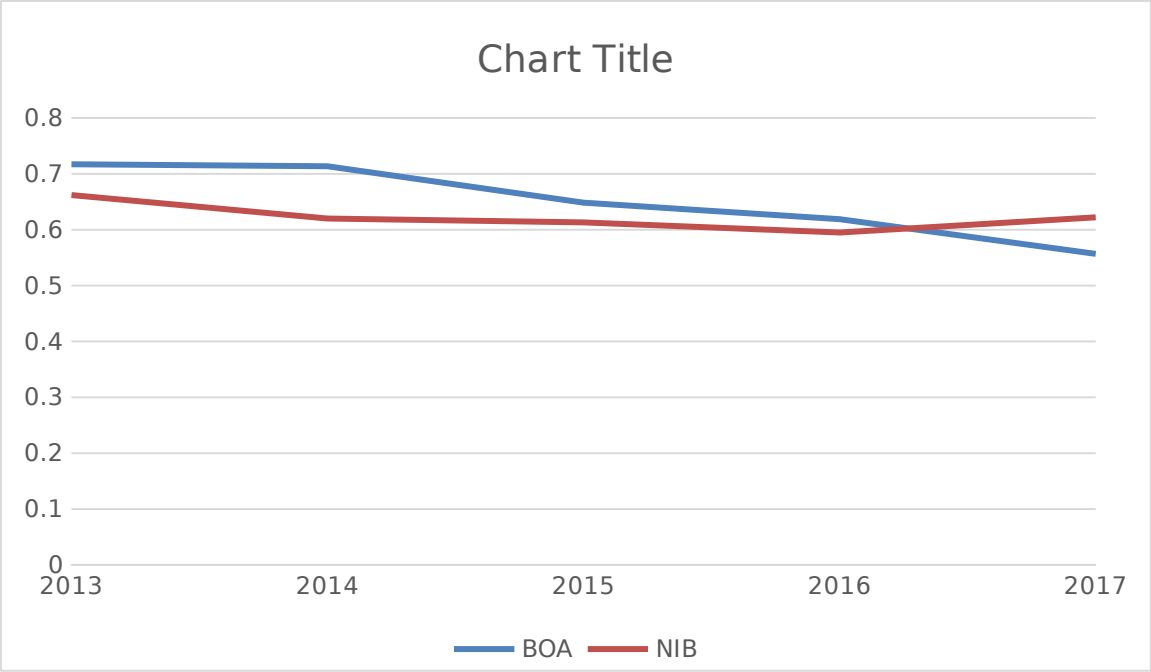

Figure 4.10. Operating profit margin of BOA and NIB

C. Net proft margin

Table 4.11 Net proft marginof BOA and NIB

Abyssinia Bank **Nib International Bank**

Year	**Net Profit**	**Total revenue**	**Net proft margin**		**Year**	**Net Profit**	**Total revenue**	**Net proft margin**
2013	606790000	1,816820000	0.3339		2013	286267552	851188264	0.336
2014	71248 0000	2,144990000	0.3321		2014	234626028	1038898163	0.225
2015	729130000	2,515270000	0.29		2015	252104659	1208758139	0.208
2016	727050000	2,733280000	0.266		2016	266309214	1431029226	0.186

2017	756110000	3,415090000	0.2214		2017	682000000	1,948610000	0.350
Average ratio			0.2886		Average ratio			0.261

Source- own computation from annual report of both banks (2013-2017)

The profit margin tells how much profit a company makes for every birr it generates in its revenue or sales. The above table express the net profit margin of the two banks, during 2013 the net gross profit margin of BOA 0.3339 which is the highest this means that from every birr of revenue the bank is able to generate a net profit of 33.39 cents, whereas the net profit margin of NIB reached its highest point in the year 2017 which is 35 cents for every birr of revenue. In general, the above table shows that the rate is decreasing from time to time but BOA is better than NIB.

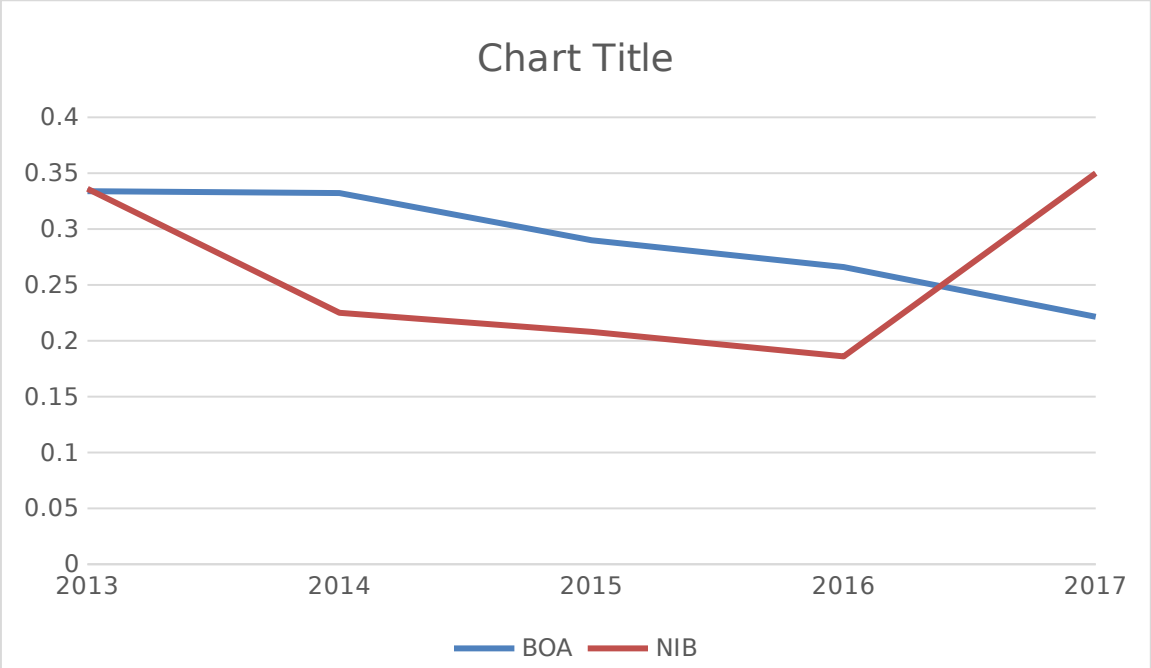

Figure 4.11. Net profit margin of BOA and NIB

D. Return On Asset

Table 4.12 Return on asset of BOA and NIB

Abyssinia Bank

Year	**Net profit after tax**	**Total asset**	**Return on asset**
2013	606790000	19,747170000	0.030
2014	712480000	21,962200000	0.032
2015	729130000	24,763880000	0.029
2016	727050000	28,576430000	0.025
2017	756110000	34,624600000	0.021
Average Ratio			0.027

Nib International Bank

Year	**Net profit after tax**	**Total asset**	**Return on asset**
2013	286267552	914454361	0.031
2014	234626028	10747283267	0.021
2015	252104659	13256124481	0.019
2016	266309214	15830321762	0.017
2017	682000000	21,019710000	0.032
Average Ratio			0.024

Source- own computation from annual report of both banks (2013-2017)

Return on asset measures the overall effectiveness of management in generating profit from its total asset. The higher ratio in return on equity is favorable to the firm. The above table show form each birr of the total asset NIB increased from 0.031-0.017 and decreased to 0.032 and in BOA total asset decreased from 0.03072-0.03244 and then raised 0.02944, 0.02544 and 0.02183 birr of net income for the fiscal year 2013-2017, which shows BOA is in higher position in generating profit from its total investment.

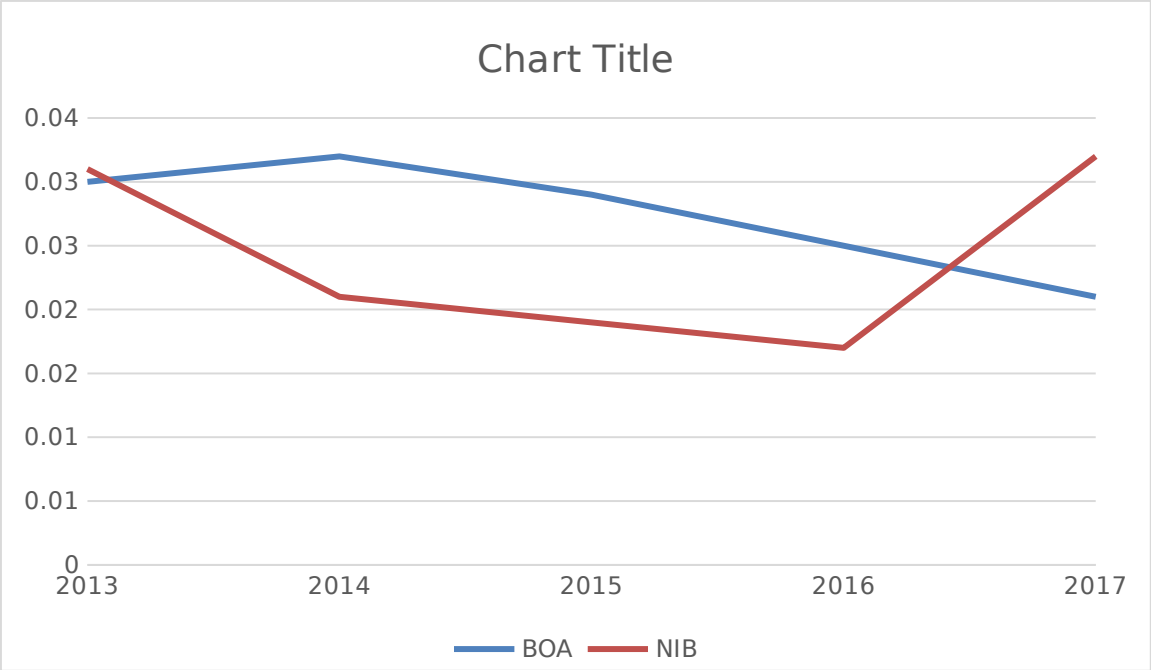

Figure 4.12 Return on asset of BOA and NIB

A. **Return On Equity**

Table 4.13 Return on equityof BOAand NIB

Abyssinia Bank

Year	Net Profit	Total Equity	Return on equity
2013	606790000	2,045700000	0.2966
2014	712480000	2,597620000	0.2742
2015	729130000	2,923890000	0.2493

Nib International Bank

Year	Net Profit	Total Equity	Return on equity
2013	286267552	1665929319	0.171
2014	234626028	1964357028	0.12
2015	252104659	2177304084	0.115

2016	727050000	3,357830000	0.2165		2016	266309214	2517955877	0.106
2017	756110000	3,992980000	0.1893		2017	682000000	2,954000000	0.23
Average Ratio			0.2452		Average Ratio			0.148

Source- own computation from annual report of both banks (2013-2017)

Return on equity measures the rate of return realized by firm's shareholders on their investment. Higher return on equity indicates effective management performance. The above table is show as from each birr at shareholders equity NIB has manage to raise from 0.171, 0.12, 0.115, 0.106 and decreased to 0.23 birr of net income from 2013-2017 and also BOA can raise 0.2966, 0.2742, 0.2493, 0.2165 and 0.1893 birr of profit for each year. Therefore, BOA is generating higher profit than NIB from its investment during all years.

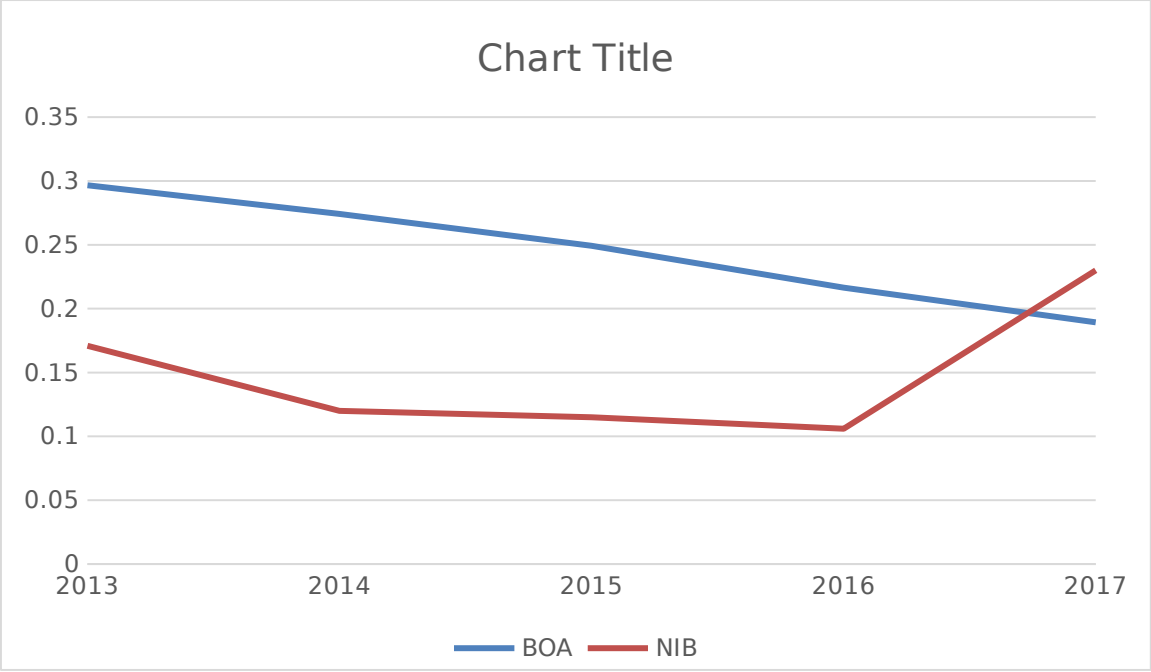

Figure 4.13. Return on equity of BOA and NIB

CHAPTER FIVE

5. 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 (2013-2017).

In the five years Abyssinia 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 Abyssinia Bank is more compared with Nib International bank which is 0.2363 and 0.3045 respectively. So, we can conclude that the Abyssinia bank liquidity has well when compared with Nib International bank. The average net loan to total asset ratio of Nib International Bank is 0.4983 which is greater than that of Abyssinia Bank ratio 0.4548 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 Abyssinia bank compared with Nib International Bank because Nib International Bank 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 BOA is 0.5675 and it is lower than NIB of 0.6621 ratios. Hence, BOA bank is managing more efficiently for converting deposits to advances.

With an intention to assess the trend of BOA 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 higher than that of BOA, being 4.4588 to 4.0970 respectively. This shows that for fixed assets held, NIB had a better record of generating sales, and also the total asset turnover of BOA is higher than NIB which is 0.0971 and 0.0839 respectively. Hence, BOA 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 BOA is slightly higher than NIB 0.8854 and 0.8341 which shows that Abyssinia use more debt to finance its asset. Regarding the time interest earned ratio NIB has a little bit higher average ratio of 2.554 than that of BOA's 2.518. Therefore, comparatively NIB had more ability to cover its interest by its earnings before interest and tax than BOA. 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 BOA is slightly higher than NIB, 0.063 and 0.057 respectively; this indicates that BOA is generating higher Earnings from its asset when compared to NIB. BOA has average operating profit margin of 0.6509 when compared to 0.6224 of NIB, it proves that BOA is more efficient in minimizing its operating expenses in relating to its operating revenue. Regarding the net profit margin BOA is slightly higher than NIB, 0.2886 and 0.261 respectively, which shows that BOA is good in making net profit from every birr it generates from revenue.

Both banks have almost the same average ROA which is 0.027 of BOA and 0.024 of NIB. In generating profit from its total investment both banks have almost the same percentage. So as to the ROE, BOA is in good position in generating profit from its investment than NIB which is proved by the average ROE of 0.2452 and 0.148 respectively.

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 banks have 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.

Generally, any financial and operating performance should look better from period to period. In BOA 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 (BOA 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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