COMPARATIVE ANALYSIS OF LIQUIDITY EVIDENCE FROM NIB BANK AND AWASH INTERNATIONAL BANK

A RESARCH PAPER SUBMITED TO DEPARTMENT OF ACCOUNTING AND FINANCE FOR THE PARTIAL FULFILMENT OF THE REQUIREMENT OF BACHILER OF ART DEGREE IN ACCOUNTING AND FINANCE

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ABSTRACT

This research paper titled "comparative analysis of liquidity was conducted by taking Nib international Bank (NIB) and Awash International Bank (AIB) as case study. In the everyday usage of bankers, the term "liquidity "when applied to bank assets, relates to the possibility of converting assets in to cash without serious loss of time or money .

The main objective of the study is to evaluate and compare the liquidity of NIB and AlB for the fiscal period (2011-2017G.C) .To achieve this objective, mainly secondary data source was used. And also, the research used comparative analysis and ratio analysis to measure their liquidity. Based on the finding conclusion was drawn and finally recommendation was made that supposed to be important to solve the existing problem of liquidity in both Nib international bank and Awash international Bank.

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Acronyms

NIB: Nib International bank

AIB: Awash International bank

CR: Current Ratio

NLTA: Net loan to total asset

NLDB: Net loan total deposit and borrowing

CHAPTER ONE

1.1 BACKGROUND OF THE STUDY

In the everyday usage of bankers, the term "liquidity," when applied to bank assets, relates to the possibility of converting assets in to cash without serious loss of time or money. When applied to a bank it refers to the extent, relative to the volume and character of liabilities, to which the bank hold assets that are either in the form of cash or readily convertible into cash without material loss. In many situations, the cash obtainable from liquid assets is of secondary importance, as is shown by the fact that a short-term asset may be bought with the intention of replacing it with another as soon as it matures, and so on indefinitely. This is typical of bank loans at the present time. The cash itself is not retained or even desired; there would be a saving of much effort if a longer-term security were bought in the first place and possibly a higher return would be realized in addition. But what is gained- and what makes the extra trouble and the lower return seem Justified- is the fact that the asset is safeguarded against substantial shrinkage, however temporary, in its capital value. Liquidity is the ability of an institution to generate sufficient cash or its equivalent in a timely manner at a reasonable price to meet its commitments as they fall due. These commitments can be met either by drawing from a stock of cash holdings, by using current cash inflows, by borrowing cash or by converting liquid assets into cash. Liquidity is the probability that an asset can be converted into an expected amount of value within an expected amount of time. Cash and cash equivalents are the most liquid assets within the asset portion of a firm's balance sheet. The level of liquidity can be an indicator of the success or the failure of the firm (Mainelli, 2007).

Liquid assets are important to have in times of crisis or emergency because they can be readily converted into cash. Without liquidity, money can become tied up in systems that are difficult to cash out of and even more difficult to assess for actual cash value (Chaplin, Emboli and Michael, 2000).

During times of emergency, large financial institutions shut down, making it difficult for people to access the cash they need to buy essentials like food, gasoline and other emergency supplies. Maintaining an adequate degree of liquidity in the whole banking system is extremely important, because the registration of a liquidity crisis at a single bank can have negative repercussions over the whole banking system thanks to the risk of contagion through interbank settlements (Grunin and Brattanoic, 2004).

The optimal amount of liquidity is determined by a tradeoff between the low return earned on liquid assets and the benefit of minimizing the need for costly external financing (Bhunia, 2003). A firm should ensure that it does not suffer from lack of or excess liquidity to meet its short-term compulsions. Shortfall in liquidity results in bad credit ratings, and finally it may result in the closure of the company. At the same time a very high degree of liquidity is also bad, as idle assets earn nothing. The banking environment in Ethiopia had undergone many regulatory and financial reform like other African countries and the rest of developing world. Those reforms have brought about many structural change on the liquidity position in the banking sector of the country and encourage private banks to enter and expand their liquidity level. Despite these change currently the banking industry in Ethiopia characterized by inefficient financial analysis and insufficient competition and perhaps can be distinguished by liquidity level is market concentration towards the big government owned commercial bank and having undiversified ownership structure.

The aim of these studies is to analyze the liquidity position of Nib international bank (NIB) and Awash International Bank (AIB) by using trend analysis by using different ratio for the fiscal period (2011 - 2017

1.2 Statement of Problem

Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. There

should be adequacy of liquidity sources compared to present and future needs, and availability of assets readily convertible to cash without undue loss. The fund management Practices Should ensure an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner; and capable of quickly liquidating assets with minimal loss.

Rudolf(2009) emphasizes that "the liquidity expresses the degree to which a bank is capable of fulfilling its respective obligations". Banks makes money by mobilizing short-term deposits at lower interest rate, and lending or investing these funds in long-term at higher rates, so it is hazardous for banks mismatching their lending interest rate. Liquidity management has a Significant positive effect on financial performance .Liquidity is the ability of the business to meet its cash obligation within a specific period. For instant liquidity is best measured with cash flow statement or budget. Liquidity is the ability of business to meet its cash obligation within a specific period. For instant liquidity is best measured with cash flow statement or budget. The analysis of liquidity management plays a significant role in determines success or failure of firm in business performance due to its effect on firm's operation is faced challenges of financial performance. This is seen in the fact that the firms have problems with financial performance they may defer their payment to creditors which is a harmful for companies and can result in several consequence such as worse credit term in the future.

The researcher try to studied researches undertaken before in similar areas of study, and find out that all the researchers used comparative and ratio analysis as tool for analyzing the liquidity of their case study. The previous studied are try to analyze the liquidity 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 analyze the liquidity 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. Altough study had been made before some years in relation to liquidity of analysis in diferent banks the year gap or

time gap it self show the bank to have different liquidity level. Hence, the study try to analyze and compare the liquidity level of NIB and AIB it focusing on answering the following questions.

1.3. Research questionnaires

- ✓ What does current ratio of Nib bank and Awash bank?
- ✓ What does net loan to total asset of Nib bank and Awash bank?
- ✓ What is the net loan to deposit and borrowing of Nib bank and Awash bank?

1.4. Objective of the study

As this research studied to compare and analysis the liquidity of Nib bank and Awash bank. It has the following general and specific objectives:

1.4.1. General objectives of the study

The main objectives of the study is to evaluate and compare the liquidity of Nib bank and Awash bank by used trend analysis for the fiscal period (2011-2017G.C) and to give reasonable recommendation based on the funded.

1.4.2. Specific objectives of the study

The specific objectives of the studies are:

A. To analysis and compare the current ratio of the banks.

B. To assess and compare the net loan to total asset of the banks.

C. To assess and compare the net loan to deposit and borrowing of the banks.

1.5. Significance of the Study

Banks serve as backbone to the financial sector, which facilitate the proper utilization of financial resources of a country. The banking sector is increasingly growing and it has witnesses 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. (2003) argues that the financial system, the bank in

particular, is exposed to a variety of risks that are growing more complex nowadays. Furthermore, the economic downturn of 2008 which resulted in bank failures, are triggered in the United State. And then widely spread worldwide. It therefore increasingly urges the need of more frequent banking examination. In order to cope with the complexity and a mx of risk exposure to banking system properly, responsibly, beneficially and sustainably, it is of great importance to evaluate the overall.

Liquidity of banks by implementing a regulatory banking supervision framework. From those such measures of supervisory information are: the current ratio, loan to assets ratio ,loan to deposit ratio rating system of the banks is very core.

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

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

1.6. Scope of Study

Due to lack of necessary resources and time, the scope of the study focuses on the comparison of the liquidity of Nib bank and Awash bank for the last seven years (2011-2017) in order to achieve these objectives, the researcher focus on analyzed the liquidity level produced by the management and audited. The researcher would have only include the liquidity results by analyzed the financial statements in order to analyses these

financial statements; the researcher applied comparative analysis method among many liquidity analysis tools because it is simple and expressive method.

1.7. Organization of the Research paper

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

CHAPTER TWO

2. The Review of Related Literature

2.1 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 liquidity analysis. The financial statement element, financial statement analysis and financial ratio are tried to explain in this chapter as review of related literature. The empirical study also tried to explained about their study and identify their gap.

2.1.1. Overview of Financial Statements

Financial statements are the statement of reporting by the any firm to the user of information about the strength and weakness of the given organization. Business firms typically prepare three basic financial statements to report the result of their activities

balance sheet, income statement, and statement of cash flows. To compete a though examination of firm's effectives, however need to look at move then just easily attainable number like sales, profits and total assets. It is a must to be able to reading between the lines of financial statements and make the seemingly inconsequential number accessible and comprehensible (Keown, Martin, Petty, Scott, Jr).

2.1.2. Elements of Financial Statement

Definitions of the elements of financial statements are important, because they help in determining how transaction or other economic event should be accounted for and reported in financial statements. Assets: assets are defined as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events (Fess 1990).Liabilities: liabilities are defined as probable future sacrifice 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 its 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 Waren 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 operation (fess 1990).

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

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

2.1.3. Basic Financial Statements

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

2.1.4. Balance Sheet

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

Intermediate Components of Balance Sheet

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

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

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

The Principal Categories of Liabilities Are:

- Current liability and
- Long term liability

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

Long term liabilities: are obligations that will be settled beyond the operating cycle or one year, whichever is longer. The most common long term liabilities are long term notes, bonds, differed taxes, pensions and lease obligations (Mosich, intermediate of accounting 1989).

Owner's 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 divided distribution (Mosich 1989).

Comprehensive income: it includes all changes in equity during a period except those results from investments by owners and distributions to owners (Mosich intermediate of accounting1989).

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

Limitation of the Balance Sheet

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

2.1.5. Income Statements

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

Intermediate Components of the Income Statements

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

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

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

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

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

Limitations of the Income Statement

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

2.1.6. Statements of Cash Flows

The primary purpose of the statement of cash flows is to provide information about an entity' 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. lt can be under taken by the management of a firm, or parties the firm, owners ,creditors, investors and others (Pandey,1999).

Financial statements analysis involves (1) Comparing a firm's liquidity 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 liquidity 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. In 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 100percent 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 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 liquidity of a firm. The absolute accounting figures reported in the financial statements of not provide a meaning 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 ratios

Are ratios used to judge a firm ability to meet short term obligations from liquidity ratio's much in site can be obtained in to the present cash solvency of firm and its ability to remain solvent in the event on unfavorable conditions.(Brigham Houston).

There is three commonly used liquidity ratios. Those 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.prepaied expense also includes in current assets. A relatively high value of current ratio is consider 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 is 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).

Loan to deposit ratio: those refers to the amount of bank loan divided by the amount of its deposit at any given time. The higher 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.

Loan to asset ratio: the loan to asset 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 default.

2.4.2. Asset management ratios

An asset management ratio measures how effectively the firm is managing it assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being Converted and tuned over in to sales. These ratios, thus involve a

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

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

The formula to calculate the ratio is:

Fixed asset turnover ratio = Sales/ Net fixed asset

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

Total assets turnover ratio = Sales/ Total assets

2.4.3. Debt Management Ratios (Leverage ratio)

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

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

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

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

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

The formula used to calculate:

Debt ratio = Total liabilities/ Total asset

Debt to equity ratio: whatever way the debt to equity ratio is calculation is shows the extent which debt financing has been financing has been used in business a high ratio is 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 than 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 for 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 ratio of return realized by firm's shareholders on their investment and service indicator of management performance. Higher return on shareholders' equity indicates effective management performance the reveres also true (Brigham, Houston 2006).

The formula calculated ratio is:

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

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

Basic earning power ratios = EBIT/Total assets.

2.4.5. Net Interest Margin (NIM)

Analysts focus on Net Interest Margin (NIM) ratio because small changes in a bank's lending margin can translate into large bottom line changes. The higher the ratio the cheaper the funding or the higher the margin the bank is obtaining. A bank's net interest margin is a key performance measure that drives ROA. Net interest income is the difference between interest income and interest expense. It is the gross margin on a bank's lending and investment activities.

Net Interest Margin=Interest Income-Interest expense

2.5. Types of Ratio Analysis Comparisons

2.5.1. Cross- sectional Analysis

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

2.5.2. Industrial analysis.

This analysis compares the firm's ratio with average ratio of the industry of which the firm is member. It helps to ascertain the financial standing and capability of the firm by comparing with other firms in the industry.

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

2.6. Limitations of Ratio Analysis

The ratio analysis is a widely used technique to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The followings are some of the limitation of ratio analysis, first many firms have divisions that operate in different industries: and for such companies it is difficult to develop a meaningful set of

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

2.7. Empirical Review

Abdul-Hamid and Azmi (2011) compared the liquidity performance between one Islamic bank eight conventional commercial banks for the period 2000-2009. The liquidity 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 inter-bank performance of the pioneer of Islamic banking in Malaysia using. T-tests have been used in determining their significance. They used data for one Islamic bank for the period of 2000-2009 while the data used for eight conventional banks is from 2005 to 2009. The study found that while there is no significant difference in profitability during these two periods, Islamic bank is relatively more liquid and less risky as compared to conventional banks.

Masruki et al. (2011) analyzed and measured the liquidity 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 indicate 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:

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

Tuna (2013) tried to measure the financial health of two banks in Indonesia for the period of 2008-2012, using five assessment aspects of the camel model (Capital, Asset, Management, Earnings, and Liquidity). The t-Test has been used to assess the differences between the two banks. The results in this research found no significant differences about bank soundness between the two banks.

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 liquidity 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, 2007).

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, and profitability ratio, earning ratio and liquidity ratio with bank liquidity.

2.9. Research Gap and Conclusion

The previous researches conducted about comparative analysis on liquidity of banks are not used the liquidity ratio, current ratio, Loan to asset ratio, Loan to deposit ratio, the same time in their comparative analysis. The previous 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 previous researches do not use the liquidity level above seven years but this research used the seven liquidity data of the banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter over view the methodology the study adapted in the research. 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 that was adapted 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, quantitative approach and qualitative approach. The former involves the generation of data in quantitative form which can be subjected to rigorous numerical analysis in the formal and rigid fashion. The qualitative one is concerned with subjective assessment of attitudes, opinions and behaviour. This research used quantitative types of approach because of the research used numerical data (quantitative approach)

3.3. Research Design

The problem that follows the task of defined 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 relaying on descriptive method. Because of this method is more suitable to describe, measure, compare and classify the liquidity of Nib bank and Awash 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 selects the descriptive research design to conduct the study. The descriptive research design includes survey and fact finding enquires of deferent kinds and the major purpose of this method is description of the state of affairs as it exists at present.

3.4.1. Types and Source of Data

The study used secondary data to get reliable and recent information concerning the Subject studies. The secondary data mean the data which have already been collected and analyses 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 seven years' collection. The researcher 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 used those methods 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 researcher used more data from secondary data source which was collected from both banks written source. For this particular study, the researcher used secondary data like, annual report financial statement, bulletins and others.

3. 4.2. Method of Comparison

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

3.4.3. Data Analysis Method

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

The variables to be used for this study will as follows

A.Current ratio; is calculated by dividing current asset by current liabilities. It indicate the extent to which current liability are covered by those asset expected to be converted to cash in near future. Prepaid expense also includes in current asset.

1. Current ratio=current asset/current liability

B. Loan to asset ratio: the loan to asset ratio measures the total loan outstanding as a percentage of total assets. The higher these ratios indicate a bank is loaned up and its liquidity is low. The higher ratio, the more risky a bank may be to higher defaults.

Net loan to total asset ratio= net loan/ total asset

C.Loan to deposit ratio: These refers to the amount of a bank's loan divided by the amount of s deposit at any given time. The higher the ratio, the more the bank is relying on borrowed funds. Which are generally more costly than most type of deposits. Bank with low LDR considered to have excessive liquidity. Potentially lower profits, and hence less risk as compared to with high LDR.

Next to data analysis, the researcher report the outcome of their finding based on the analysis of seven years financial statements and unstructured interview held with selected officials of the bank. In the process the collected primary as well as secondary data values are edited, summarized, categorized and possible generalization and inferences was made by the researchers.

The researchers use the descriptive data analysis technique to analyses the outcome of the study and are presented as a ratio in the form of tables.

CHAPTER FOUR

Data Analysis Presentation and Interpretation

4.1 Historical background of Nib international bank.

Founded in 1999, Nib international bank s.c .(NIB) is one of the Ethiopia's fastest growing private bank, with total asset having growth 64% between 2008 and 2010 to reach $ 400 million. It is head quartered Addis Ababa and operates a network of 48 branches, providing extensive coverage throughout the country. NIB employs a work force of about 1700 people and service more than 181000 customers, in 2010, NIB had the largest market share of loans to the Ethiopian agriculture sector, providing nearly 29% of all lending by private banks, NIB is owned by 3316 shareholders, of which Nib

insurance company s.c. (6%), Mop laco trading co. ltd.(4.6%) , and Mr. ,seid Hussein ali (2.1%) are the three largest.

4.2. Historical Background of Awash International Bank

The bank is a privately-owned company established in 1999 in accordance with the Licensing And Supervision of Banking Business Proclamation No. 84/1994 of Ethiopia to undertakeCommercial banking activities. The bank obtained its license from the National Bank of Ethiopia On 26 May 1999 and started normal business activities in the month of October 1999. It operates Through its head office in Addis Ababa and 183 branches, and 2 agency offices' for foreign Exchange transactions in and outside Addis Ababa.Awash International Bank S.C (AIB) was establish as the first private commercial bank after the Renaissance of Ethiopians private sector, on November 10 1994 by 486 founder shareholders With a paid up capital of birr 24.2 million and started banking operations on February 13, 1995. The bank's head office is located in Addis Ababa and it has 240 branches throughout Ethiopia.

4.3 Data analysis, presentation and interpretation

Based on the intended objectives of this study, this chapter is devoted to analysis and interpretation of different ratios which were computed based on the audited liquidity of Awash International Bank (AIB) and Nib international bank(NIB). In this chapter the liquidity analysis and interpretation supported by financial ratios has been discussed. And these liquidity ratios are current asset ratio, Loan to asset ratio, loan to deposits ratio statement for the records (2011-2017)has been used.

4.3.1 Liquidity Ratio

A. Current ratio

Table 4.1 current ratio of NIB and AIB

NIB Bank

Year	Current asset	Current liability	Current ratio
2011	525535	1014455	0.51804
2012	622624	1184124	0.5258
2013	577462	1406560	0.4105
2014	606093	1585126	0.3824
2015	654282	1768134	0.3700
2016	552991	1981411	0.2791
2017	687063.6	2275850	0.3019
Average Ratio			0.3983

Awash International Bank

Year	Current asset	Current liability	Current ratio
2011	3242545000	6105939000	0.5310
2012	4048099000	7743779000	0.5228
2013	2935382238	9204357666	0.3689
2014	3421623502	12545208622	0.2727
2015	5060349694	15039715466	0.3364

2016	3881989328	18520420245	0.2096
2017	5972311922	228328706	0.2537
Average Ratio			0.3493

Source-own computation from annual report of both banks (2011-2017)

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 decreasing. Current ratio of NA is increase from 51 cents of current asset for 1 birr of current liability in 2011 to 52 cents in 2012. Shown a decreasing 41 cents of current asset for 1 birr of current liability in 2013 to 30 cents in 2017.The current ratio ratio of AIB shown a gradual decrement, from 53 cents of current asset for 1 birr of current liability in 2014 to 27 cens in 2014, increase in 33 cents in 2015and 20 in 2016 and increase to 25 cents in 2017. In contrast the average current ratio NIB the ability of AIB to meet its current liability by its current asset higher.

B. Net loan to test Asset Ratio

Table 4.2 NLTA ratio of NIB and AIB

Nib international bank

Year	Net loan	Total asset	NLTA Ratio
2011	4938.74	12353.38	0.3999
2012	6093.87	14659.79	0.4156
2013	7949.37	17520.04	0.4537
2014	8663.25	19747.17	0.4387
2015	9429.63	21962.20	0.4293

2016	11333.09	24763.88	0.457
2017	12478.66	28576.43	0.4368
Average Ratio			0.432971

Awash International Bank

Year	Net loan	Total asset	NLTA Ratio
2011	2997	7945	0.377
2012	3842	10116	0.379
2013	5356	13125	0.408
2014	7532	17783	0.4235
2015	8968.10	22106.37	0.4056
2016	12264.98	25210	0.4865
2017	15215.05	31147.68	0.48337
Average Ratio			0.42372857

Source-own computation from annual report of both banks (2011-2017)

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 increase from 2011 to 2014 then decreased throughout the period for both banks for the year 2015,then increased throughout the period for both banks for the year 2016 NIB and

2016 for AIB this may be because of favorable economic conditions. Increased the demand for loans from business and allowed banks to grow their loan portfolio Generally, a higher NLTA may indicate possible liquidity problems for banks in a tight credit market in the face of a large deposit withdrawal or in case of unexpected withdrawals and also the current ratio computed above also shows decrement in the entire period this shows that the banks' ability to meet their current obligation is slightly decreasing. But, AIB is a good position than NIB in maintaining its liquidity in case of large deposit withdrawal or unexpected withdrawal.

C. Net loan to deposit and borrowing

Table 4.3 NLDB Ratio of NIB and AIB

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Nib international bank

Year	Net loan	Total deposit and ST Borrowing	NLDB Ratio
2011	4938.74	10144.5	0.486830
2012	6093.87	11841.24	0.514631
2013	7949.37	14065.60	0.565163
2014	8663.25	15851.26	0.546533
2015	9429.63	17681.34	0.53336
2016	1133.09	19814.11	0.57197
2017	12478.66	22758.50	0.5483
Average Ratio			0.538112

Awash International Bank

Year	Net loan	Total deposit and ST Borrowing	NLDB Ratio
2011	2997	6106	0.54908
2012	3841	7743	0.49612
2013	5356	9204	0.58818
2014	7532	12545	0.6
2015	8968.10	15040	0.5967
2016	12264.98	18520.42	0.6622
2017	15215.05	22832.03	0.66639
Average Ratio			0.58486

Source-own computation from annual report of both banks (2011-2017)

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 increased from 2011to 2012 for Nib bank and then decrease from 2011to 2012 for awash international bank and then decreasing tile 2015 and increasing from 2016 of Nib and increasing from 2013-2014 for AIB.The decreasing and increasing trend indicate deteriorating in the liquidity of both banks as more and more assets ,tied into

loans which are classified as illiquid assets in contrast with NIB the asset and funds of AIB is less tied in loans .

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CHAPTER FIVE

Conclusion and Recommendation

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

5.1 Conclusion

With respect to the title comparative analysis of liquidity, 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 (2011-2017). In the five years Nib Bank and awash international bank performed in a good manner and then show improvement from year to years in their liquidity independently. Throughout all five years, based on findings both have sustainable growth. Their total deposit paid up capital loan and advance increase from year to year. The liquidity measures in this study has covered the current, net loan to total asset and net loan to deposit and borrowing ratios and come up with the results and the overall trend of the liquidity ratios which measures the banks position in settling their short term liabilities evident that the average current ratio of Nib is less compared with AIB bank which is 0.398255 and 0.3493 respectively So, we can conclude that the Nib bank liquidity has well compared with AIB bank.

The average net loan to total asset ratio of NIB is 0.4329 which is greater than that of AIB ratio 042372 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 AlB compared with NIB because NIB has more ability in maintaining its liquidity in case of large deposit withdrawal or unexpected Withdrawal. The average ratio of net loan to deposit and short term borrowings of NIB is 0.53811and it is lower than AlB 0.58486 ratio Hence, AlB is managıng more efficiently for converting deposits to advances.

5.2 Recommendations

Based on finding's and conclusion given above is possible to forward valuable recommendations. The 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 liquidity 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. Generally any liquidity level should look better from period to period. In NIB and AlB this is true for some period: there is inconsistency in their liquidity position. Thus this study would like to suggest the management of both, banks (NIB and AIB) to work on increasing the overall financial and liquidity consisting so as to become a good competitor in the over dynamic banking industry. By giving a solution for their drawbacks

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