

Evaluation of Financial Performance of the Banking Sectors in Ethiopia: The Case of Zemen Bank

Muhabie Mekonnen Mengistu

Institute of Governance, Humanities and Social Sciences, Pan African University, Yaoundé, Cameroon

Abstract

This study was aimed at evaluating the financial performance of the banking sectors in Ethiopia with a special focus on Zemen Bank S.C. for the period 2009 to 2014. To meet the objective of the study, secondary sources of data, such as annual reports of the bank have been utilized. After collecting the necessary data, appropriate financial ratios and descriptive statistical techniques were employed for analyzing, interpreting and giving a condensed picture of the collected data. Accordingly, the results of the study reveal that the financial performance of the bank had kept on improving, if not fluctuating over time. Besides, the bank has performed well in profit earning and efficiently managing its assets for generating revenue, whereas there is a need for improvement in its much dependence on outside financing and the high proportion of non-performing loans.

Keywords: Financial Performance, Ratios, Banking sectors, Zemen Bank, Ethiopia

1. INTRODUCTION

1.1. Background of the Study

The history of banking in Ethiopia traces back to a century. However, before the introduction of the modern banking system in Ethiopia, traditional financial institutions such as 'Equb' and 'Idir' has contributed a lot in sharing risks, developing saving habits and by positively impacting on the economic betterment and social wellbeing of the society. Later on, following the agreement between emperor Menelik II and Ma Gillivray, representative of the British owned National Bank of Egypt, modern banking in Ethiopia has come in to birth in 1905. This agreement has made true the opening of the first bank of Ethiopia called Bank of Abyssinia in 1906. Moreover, historical records show that different types of banks (private and public, domestic and foreign) in different regimes have been seen in Ethiopia. However, the adoption of a free market economic system of EPRDF is believed to be the root for the emergence of the current banks in the country.

Banking sector in Ethiopia is expanding through time. Particularly starting from the 1990s to the present days, numbers of banks have come into existence. Among these, Zemen Bank is the newly emerging one. Having the vision of bringing a new dynamism of the financial sector and the banking business in Ethiopia, Zemen Bank was introduced in 2008. Its adoption of more advanced banking technologies such as ATMs, Internet and Mobile banking within a short period of time enables the bank to deliver incomparable customer services. According to Ermyas T. Amelga, the then board chairman of the bank, at times of its opening, Zemen has faced numerous challenges both from outside and inside macroeconomic pressures. However, by challenging the challenges, it has realized to be one of the highly competing banks in Ethiopia.

These days, the bank is very profitable and has made excellent progresses, especially due to the favorable dynamic macroeconomic environments, including Strong GDP growth, low inflation, and the ongoing execution of large scale projects and with growing customer deposits, increasing loan demand, and rising requests for trade facilities (Berhane Ghebray, 2014). But more importantly, the researcher has come across with the idea of assessing the current performance of the bank through scientific ways, which would have a big plus. Scholars in the field stated that expressing financial statement information in the form of ratios enhances its usefulness. Ratios permit comparisons over time and among companies, highlighting the similarities, differences, and trends. This by and large benefits internal and external users of financial information. Hence, it is worth noting that evaluating the performance of financial institutions such as banks can improve the managerial performance, inform government policy by assessing the effects of deregulation, mergers and market structure on efficiency and make possible a wide range of users in making economic decisions.

1.2. Statement of the Problem

The performance evaluation of companies is essential to provide information about company's operating performance and its net worth. Knowing organization's competitiveness and potentials of the business through financial statement analysis is useful for decision making for users of financial statement information, including managers, creditors, stockholders, potential investors, and regulatory agencies.

With the objective of mobilizing resources and enhancing investments, financial institutions have irreplaceable roles in economic development of a country. Being one and may be the major category of financial institutions, banks have a very determinant role in the healthy functioning of the economy. Meanwhile, notwithstanding with its merits, banks can be challenged by different factors. These include: individual bank characteristics which could be swayed by the internal decisions of the management and the board and the wide-

ranged external factors which are out of the control of the banks (Flamini, C., Valentina C., McDonald, G., Liliana, S. (2009)).

To Nada Dreca (2012), the banking sector is affected by the global financial crisis. He argued that this crisis produces many adverse effects towards banks. Some to mention, 'stagnation of the sector, decline in profitability, increase of the non-performing assets and loans, past due receivables, loan loss provision and deterioration of other key indicators of banks' performance'.

Banking sector in Ethiopia, according to Admassu Bezabeh and Asayehgn Desta, (2014), is undeveloped and delicate. They furthermore stated that the sector is very limited, relatively weak, closed and characterized by a large share of state ownership. For them, the repressive policies imposed by the government are negatively affecting the performance of money and foreign exchange markets and weaken private commercial banks. Controlling interest rates on deposits and the loan policies are also other impinging factors for the development of the sector. In due course of this study, the results reveal that the extent of financial repression has negatively affects savings, capital formation and financial development. This finding congruent with the research result of Tom Keatinge (2014) which confirms that the banking industry's nonperforming loan ratio is commendably low, and profitability is good, but the dominance of public sector banking significantly restricts financial intermediation and economic growth.

Irrespective of the aforementioned predicaments of the sector, the number of banks in Ethiopia is increasing from time to time. This is resulted with the increasing in competitions among banks. This in turn leads to dramatic effect on the performance of banks, particularly in financial and technological innovations. Under these stiff competitions, Zemen Bank is one of the newly emerging banks of the country. The Bank was established in Addis Ababa in 2008 and registered as a share company in accordance with the provisions of the Licensing and Supervision of Banking Business Proclamation no. 84/94 and the Commercial Code of Ethiopia of 1960. Principally, the bank's activity is commercial banking — collecting deposits, providing loans, and securing the foreign exchange funds needed to facilitate trade related services.

Since banks in Ethiopia are playing an important role in intermediating finance and wheeling the economy to function, studying the financial performance of banks in the country is timely and necessary. Measuring the performance of banks generally in the world and particularly in Ethiopia has attracted augmented attention over the past years. Meanwhile, little has been done. This is more prevalent when it comes to Zemen Bank. Thus, this study aimed at evaluating the financial performance of the banking sectors in Ethiopia, particularly Zemen Bank at a focus.

1.3. The Objective of the study

The objective of the study is to evaluate the financial performance of the banking sectors in Ethiopia with a particular focus on Zemen Bank S.C.

2. METHODOLOGY OF THE STUDY

The study was entirely depends on secondary sources of data; in one hand, different literatures were extracted to establish a theoretical framework of the study and on the other, audited financial statements of the sample bank i.e. Zemen Bank S.C. were the major sources of data. The study, Moreover, delimited to 2009-2014 financial reports of the bank. After collecting the data from the bank's website, the data were analyzed using (1) descriptive statistical methods to summarize and give a condensed picture of the quantitative data and (2) methods of the financial ratio analysis to measure, describe and analyze the performance of the bank were employed. These ratios include:

I. Profitability Ratios

It is the most common method of financial ratios which is used to measure the performance of banks. Profitability enables to evaluate how well the bank is performing in terms of profit. As a rule, if a profitability ratio is relatively greater than its competitors or the industry average, then it is considered to be indication of better performance of the bank. It is mostly measured using the following criteria:

a. Return on Assets (ROA)

The ROA reflects the ability of a bank's management to generate profits from the bank's assets. It shows the profits earned per birr of assets. It also indicates how effectively the bank's assets are managed to generate revenues, although it might be biased due to off-balance-sheet activities.

ROA can be computed as: $ROA = \text{Net Profit after Tax} / \text{Total Assets}$

b. Return on Equity (ROE)

ROE indicates the profitability to shareholders of the firm after all expenses and taxes (Van Horne 2005). According to Ross, Westerfield, Jaffe (2005), the higher ROE means better managerial performance; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets.

ROE can be computed as: $ROE = \text{Net profit after tax} / \text{Shareholders' Equity}$

c. Net Interest Margin (NIM)

NIM is the difference between interest income and interest expenses as a percentage of total loans and advances which includes deposits with foreign banks, treasury bills and other investments. The higher NIM the cheaper the funding or the higher the margin the bank is obtaining.

NIM can be computed as: $NIM = (Interest\ Income - Interest\ Expense) / Total\ Asset$

II. Liquidity Ratios

This ratio indicates the ability of the bank to meet its financial obligations in a timely and effective manner. The high liquidity ratios mean a bank has a larger margin of safety and ability to cover its short-term obligations. This is measured by using:

a. Cash Deposit Ratio (CDR)

Cash is the most liquid asset of the banks. A higher CDR indicates that a bank is relatively more liquid than a bank which has lower CDR.

CDR can be computed as: $CDR = Cash / Deposit$.

b. Loan Deposit Ratio (LDR)

This ratio indicates the percentage of the total deposits locked into non-liquid assets. A higher LDR denotes lower liquidity.

LDR can be computed as: $LDR = Loan / Deposit$

c. Loan to Asset Ratio (LAR)

This ratio measures the percentage of assets that is tied up in loans. The higher the ratio indicates the less liquid is the bank.

LAR can be computed as: $LAR = Loan / Asset$

III. Risk and solvency ratios

The extent to which a firm relies on debt financing rather than equity is measured using these ratios. Furthermore, Risk and solvency ratios evaluate the risks associated with the bank's asset portfolio, i.e. the quality of loans issued by the bank. If the amount of assets is greater than the amount of its all types of liabilities, the bank is considered to be solvent. The following ratios can be used for measuring the Risk and solvency of the banks.

a. Debt to Equity Ratio (DER)

It measures the ability of the bank capital to absorb financial shocks. In case, creditors default in paying back their loans or the asset values decrease, the bank capital provides shielding against those loan losses. Mostly, the lower DER is considered better relative to higher DER.

DER can be computed as: $DER = Total\ Debt / Shareholders'\ Equity$

b. Debt to Total Asset Ratio (DTAR)

It measures the amount of total debt a firm used to finance its total assets. The higher DTAR means the bank has financed most of its assets through debt as compared to the equity financing. This implies the bank is involved in more risky business.

DTAR can be computed as: $DTAR = Total\ Debt / Total\ Assets$

c. Non- Performing Loans to Total Loan Ratio (NPTL)

Loans become nonperforming when borrowers stop making payments and the loans enter default. A lower NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans.

NPTL can be computed as: $NPTL = Non-performing\ Loans / Total\ Loans$

IV. Leverage/ Efficiency ratios

These ratios measure how effectively and efficiently the firm is managing and controlling its assets. The efficiency ratios also indicate the overall effectiveness of the firm in utilizing its assets to generate sales, quality of receivables and how successful the firm is in its collections, the promptness of payment to suppliers by the firm, effectiveness of the inventory management practices, and efficiency of firm in controlling its expenses. The higher value of these ratios indicates the firm is doing well. It is mostly measured using the following criteria:

a. Asset Utilization Ratio (AUR)

It is used to measure how effectively the bank is in utilizing its total assets. If the ratio of AUR is lower, the bank is not using its assets to their capacity and should either increase total revenues or dispose of some of the assets (Ross, Westerfield, and Jaffe 2005).

The AU can be computed as: $AU = Total\ Revenue / Total\ Asset$

b. Income Expense Ratio (IER)

It is the ratio that measures the amount of income earned per birr of operating expenses. The Higher IER is preferred over the lower one as this indicates the ability and efficiency of the bank in generating more total income in comparison to its total operating expenses.

IER can be computed as: $IER = Total\ Income / Total\ Operating\ Expenses$

c. Operating Efficiency (OE)

The OE is the ratio that measures the amount of operating expense per dollar of operating revenue. It is also used to measure the managerial efficiency in generating operating revenues and controlling its operating expenses.

The Lower OE is preferred over the higher OE as lower OE indicates that operating expenses are lower than operating revenues.

OE can be computed as: $OE = \text{Total Operating Expenses} / \text{Total Operating Revenue}$

3. DATA ANALYSIS AND INTERPRETATION

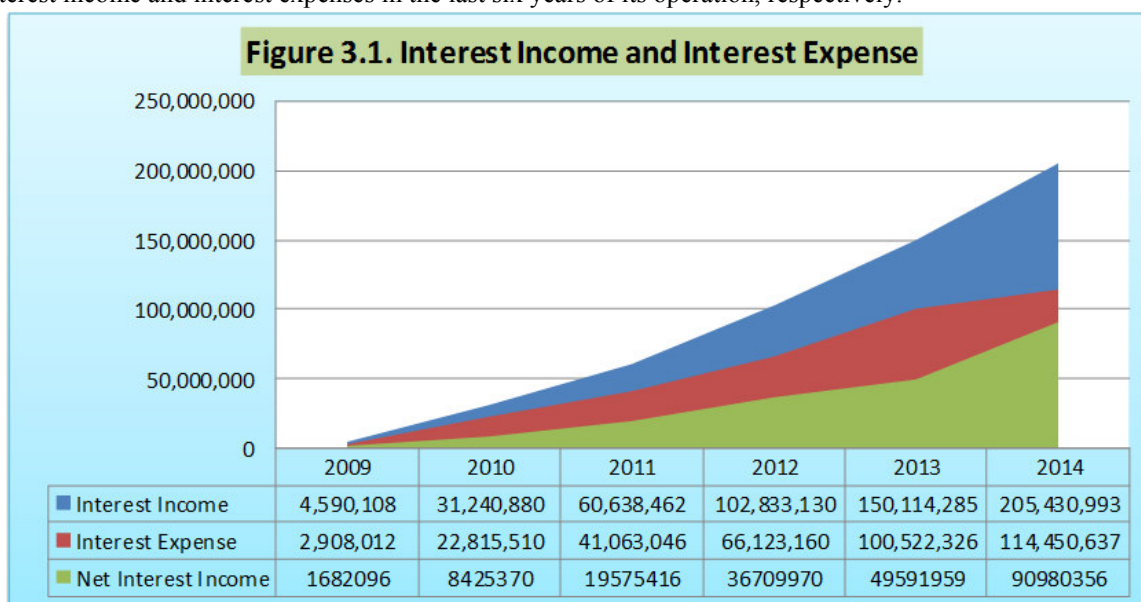
In this part of the research, the collected financial data have been analyzed, discussed and interpreted accordingly. The first part of it presents the financial highlights of the bank. In the second place, based on the data already uncovered in the first part, different ratio analysis has been undertaken.

3.1. Financial Highlights of The Bank

3.1.1. Incomes and Expenses

3.1.1.1. Interest Income and Interest Expenses

Zemen Bank, hereafter referred to as the bank, has shown a remarkable growth in earning interest incomes. As explicitly depicted in the following graph and/or table (figure 3.1 & table 3.1), the Bank's interest income has averagely grown by 62% in the last six consecutive years. Correspondingly, the 2010 interest income growth in accordance with the base year is recorded at 581%. This is very substantial in comparison with the later years. Likewise, the interest expenses which have been incurred to earn the interest incomes have also increased significantly. Furthermore, on average; the bank has earned Br 92,474,643, and incurred Br 57,980,449 as interest income and interest expenses in the last six years of its operation, respectively.



Source: Bank's Annual Reports (2009-2014)

3.1.1.2. Operating Income and Operating Expense

Like that of the interest income and interest expenses, the operating income and operating expenses disclose an altogether increasing trend throughout the study periods of the bank. Table 3.1 below clearly exhibits that the net operating income of 2010 has revealed an 831% positive change from the previous year. It seems inflated. However, since the first year was the beginning of the bank, it might perform below the expectations. In the same token, the net income of the bank averagely increases by 53% in the remaining budget years. This denotes that both operating income and operating expenses has increased significantly all over the study periods.

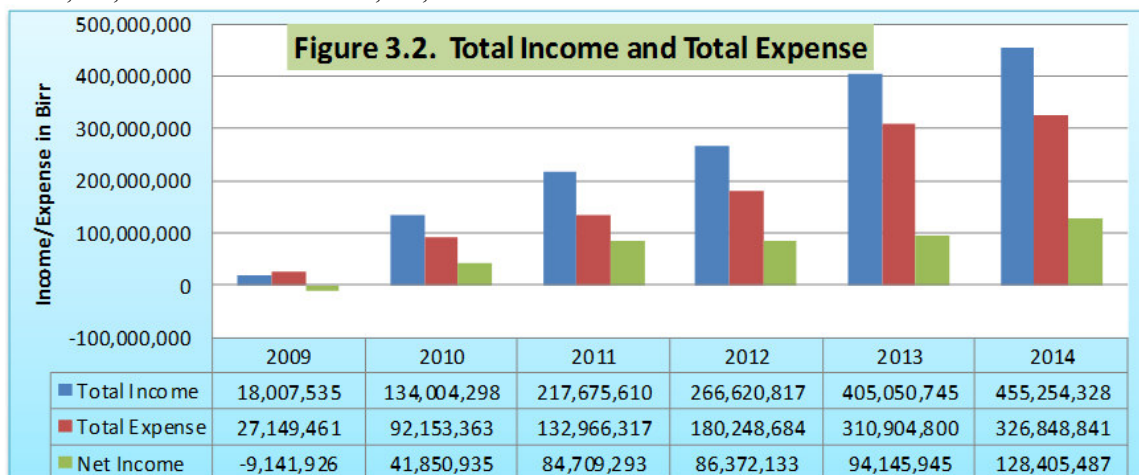
Table 3.1. Operating Income and Operating Expenses of the Bank

Description/Fiscal Years	2009	2010	2011	2012	2013	2014
Operating Income	13,417,427	102,763,418	157,037,148	193,856,129	304,528,419	340,803,691
Operating Expenses	22,267,676	38,029,526	49,985,178	70,544,203	82,120,977	120,309,534
Net Operating Income	-8,850,249	64,733,892	107,051,970	123,311,926	222,407,442	220,494,157
Percentage Growth	-	831%	65%	15%	80%	(0.9%)

Source: Bank's Annual Reports (2009-2014)

3.1.1.3. Total Income and Total Expense

During the last six years of its operation, Zemen Bank has recorded a mean total income of Birr 249,435,556 which ranges between Birr 18,007,535 and 455,254,328 in 2009 and 2014 respectively. The general income growth rate of the bank in these periods was steady. Besides, the average total expense of the bank was Birr 178,378,578. Meanwhile, the net income after tax has loss and profit trend. In 2009, the bank had faced a loss of Birr 9,141,926 though it has enjoyed a large sum of profit during the remaining fiscal years that varies between Birr 128,405,487 in 2014 and Birr 41,850,935 in 2010.

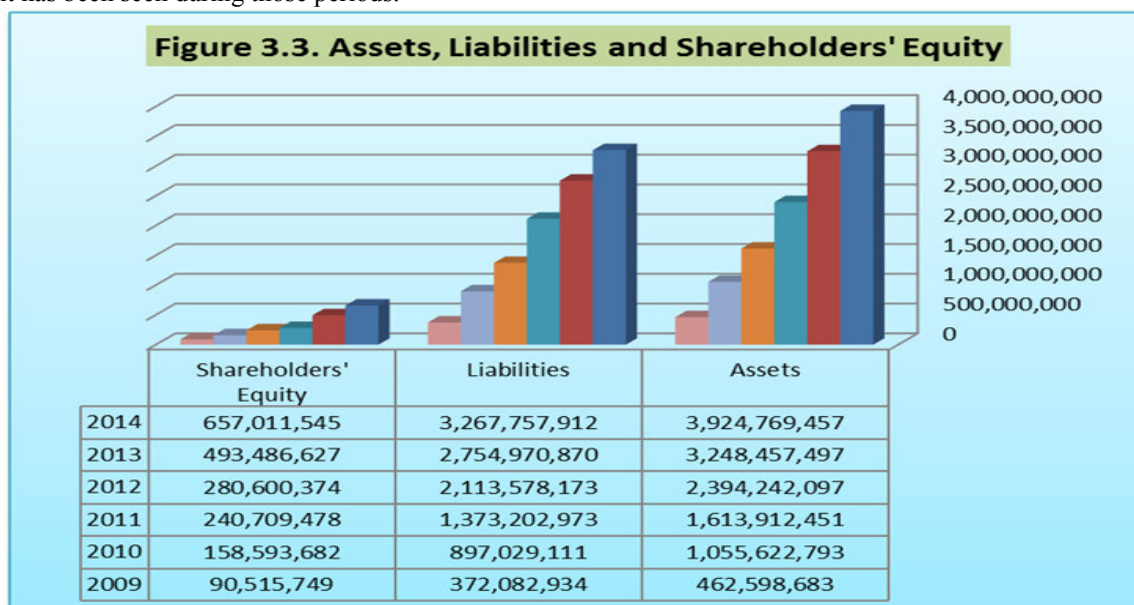


Source: Bank's Annual Reports (2009-2014)

3.1.1.4. Assets, Liabilities and Shareholders' Equity

The total asset and liability of the bank had increased in an increasing rate. With those limited years of its business undertakings, the bank had increased from millions to billions of Birr as far as asset and liability is concerned. This is one of the manifestations of the good fortune of the bank. To be more specific; the bank's asset, liability and shareholders' equity averagely were Birr 2,116,600,496; 1,796,436,996 and 320,152,909 respectively. In the case of assets, Birr 3,924,769,457 in 2014 and Birr 462,598,683 in 2009 had been recognized as the maximum and minimum amounts during the study periods respectively. Similarly, Birr 3,267,757,912 and 372,082,934 were the highest and lowest liability sums. Besides, the maximum and minimum shareholders' equity had been reflected as Birr 90,515,749 and 657,011,545, respectively.

To sum up, the above trend analysis of assets, liabilities and shareholders' equity signify a consistence increment of these items from year to year. This is basically an indication of the better future of the bank to grow as it has been seen during those periods.

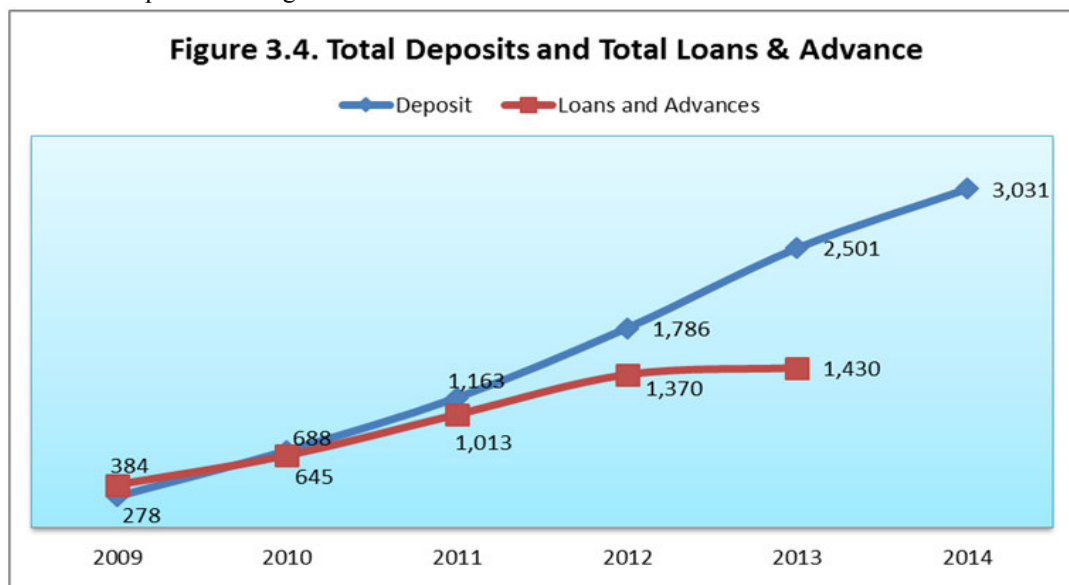


Source: Bank's Annual Reports (2009-2014)

3.1.1.5. Total Deposit and Total Loans & Advance

It is evident that both the deposit and loans and advances had been increased from year to year. During the study

years, the average total deposit and total loans and advances were Birr 1,574,373,801 and 838,363,532 respectively. The loans and deposits trends of the bank were consistently progressive. Nonetheless, the rate of advancement of deposits was higher than the loans and advances.



Source: Bank's Annual Reports (2009-2014)

3.2. Ratio Analysis

3.2.1. The Profitability Performance of the Bank

To measure the profitability of the bank, ratios such as ROA, ROE, and NIM have been utilized. Accordingly, the results are presented as follows.

3.2.1.1. Return on Asset (ROA)

This ratio helps us to evaluate how well the bank uses its assets in its operations. The lower the ROA means the less profitable is the bank and vice versa. Based on this line of reference, the ROA of Zemen bank looks like as follows.

As it can be possible to recognize in the following table and figure (see Table 3.2 & figure 3.5), Zemen Bank has shown a notable increase in ROA of the first two years of its operation. But after sometime, particularly starting from 2012, its performance on ROA fluctuates. This implies that the bank has shown a better level of efficiency in utilization of assets to generate profit in the initial periods (excluding 2009) than the succeeding years of operation. But on average, the bank had shown a 2.84% performance of ROA. The different sizes of loans by the national bank of Ethiopia in different fiscal years have been mentioned as a significant factor for the fluctuation of the return on Asset of the bank. Thus, from the computation made below, one can deduce that for every Birr invested in assets, Zemen Bank had earned about 39.6, 52.5, 36.1, 29.0, and 32.7 cents in 2010, 2011, 2012, 2013, and 2014, respectively. But in 2009, the bank incurs a loss of 19.7 cents while it had invested 1 Birr on Assets. In general, averagely, the bank had earned about a 2.84% from its each and every asset invested.

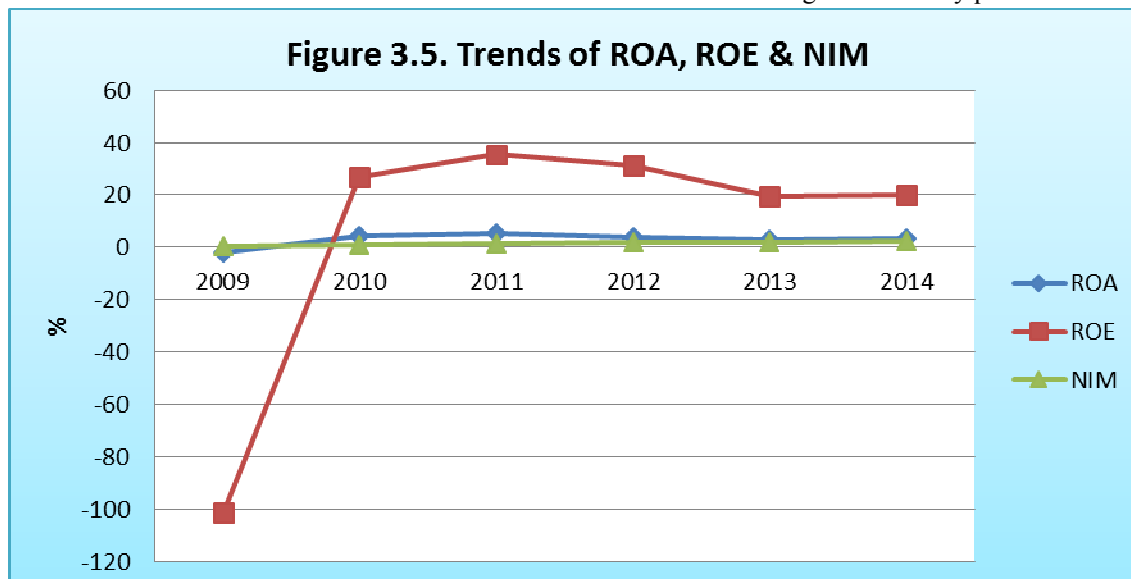
Table 3.2. Profitability Ratios

Ratios/Years	Computation Formulas	2009	2010	2011	2012	2013	2014	Average
Return on Asset (ROA)	$\frac{\text{Net Profit after Tax}}{\text{Total Assets}}$	(1.97 %)	3.96%	5.25%	3.61%	2.90%	3.27%	2.84%
Return on Equity (ROE)	$\frac{\text{Net profit after tax}}{\text{Shareholders' Equity}}$	(101%)	26.39 %	35.19 %	30.78 %	19.08 %	19.54 %	5.0%
Net Interest Margin (NIM)	$\frac{\text{Interest Income} - \text{Interest Expense}}{\text{Total Asset}}$	0.36%	0.80%	1.21%	1.53%	1.53%	2.32%	1.29%

Source: Bank's Annual Reports (2009-2014)

3.2.1.2. Return on Equity (ROE)

The ROE is the ratio of the net income that shareholders receive to their equity in the stock. The lower value of this ratio shows the lower is the financial performance and vice versa. In view of that, the Return on Equity of Zemen bank in 2009 was very incomparable with respect to the rest of the accounting periods. It was relatively very low. This is why? Because, the year 2009 is the starting year of the bank. Thus, in this year, Zemen had spent more than it makes. Meanwhile, the bank shows a continuous increase in the following two years, i.e. 26.39% in 2010 and 35.19% in 2011. Again in the year 2012 and 2013, the ROE drastically decreases by 4.41% and 11.7%, respectively. However, in 2014, it had shown a slight (at 0.46%) increment. In a nutshell, averagely, the shareholders of Zemen Bank had earned 5.0% of their investment throughout the study period.



Source: Bank's Annual Reports (2009-2014)

3.2.1.3. Net Interest Margin (NIM)

This ratio is used to measure the amount of operating income to earning asset. The lower the NIM ratio means the lower is the quality of the management decision. As far as Zemen bank is concerned, unlike that of the above two profitability ratios, the Net Interest Margin of the bank had shown a continuous percentage increase from the year 2009 to 2013. Meanwhile, it had shown a petite decrement in the year 2014 (see table 3.2 & figure 3.5). Hence, the decision making quality of the management of the bank in generating the net interest income vis-à-vis the total assets has improved over the study periods.

3.2.2. Liquidity Ratios

The Liquidity ratios are ratios which are used for measuring the ability of the bank to meet its financial obligations as they become due and are crucial to the sustained viability of the banking institutions.

3.2.2.1. Loan to Deposit Ratio (LDR)

The LDR is a ratio that is used in determining the amount of loans that a bank has out versus the amount of current deposits on hand at the same time. The LDR also shows the bank's ability to cover loans. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirement and vice versa. For that reason, a lower LDR has been always favorable than the higher LDR. In this study, Zemen Bank had shown approximately a steady performance. It is cognizant that the minimum (47.18%) and the maximum (67.93%) LDR had been seen in the last and first years of the study, respectively. Nonetheless, in the remaining years of the study, the bank had shown less than one percent variations. Even though it was not much significant, a relative diminution of the LDR in the later years of operation indicates the improvement of the bank's position or the shift of the focus of the bank from loan to deposit. At the last, since the bank's LDR in all years of operation (2009 to 2014) is below 100%, one can conclude that the bank relied on its own deposits to make loans to its customers, without any outside borrowing.

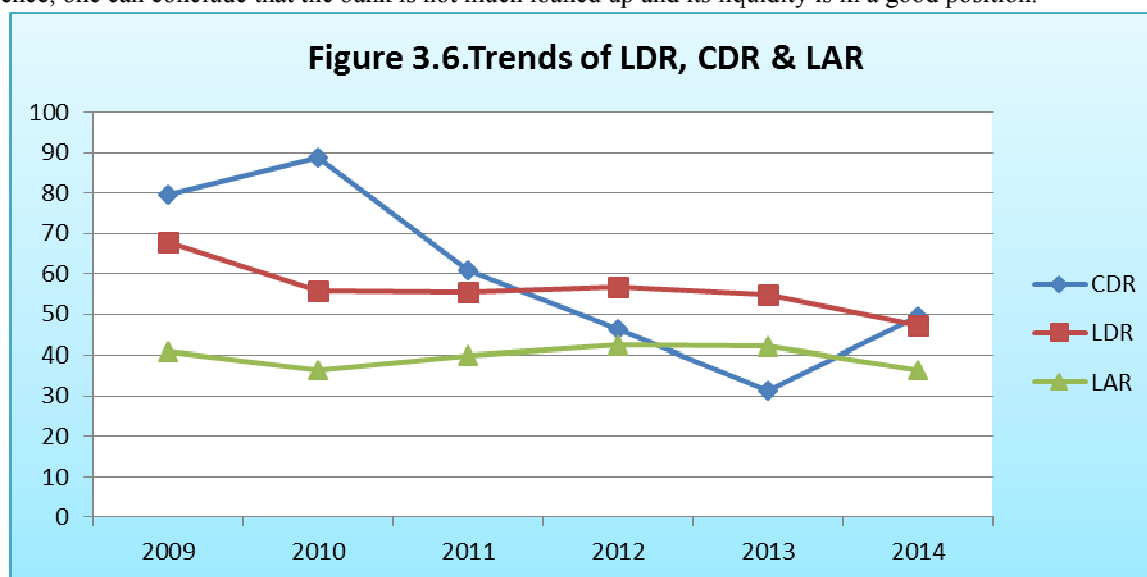
Table 3.3. Liquidity Ratios

Ratios/Years	Computation Formulas	2009	2010	2011	2012	2013	2014	Average
Loan to Deposit Ratio (LDR)	$\frac{\text{Loan}}{\text{Deposit}}$	67.93%	55.80%	55.50%	56.69%	54.77%	47.18%	56.31%
Loan to Asset Ratio (LAR)	$\frac{\text{Loan}}{\text{Asset}}$	40.80%	36.37%	39.98%	42.30%	42.16%	36.43%	39.67%
Cash Deposit Ratio (CDR)	$\frac{\text{Cash}}{\text{Deposit}}$	79.68%	88.83%	60.82%	46.20%	31.38%	49.29%	59.37%

Source: Bank's Annual Reports (2009-2014)

3.2.2.2. Loan to Asset Ratio (LAR)

The LAR is used to measure the total loans outstanding as a percentage of total assets. The lower this ratio signifies a bank is more liquid. So, the lesser the ratio means the less risky a bank to higher defaults. The LAR trend of Zemen bank from 2009 to 2014 was a mix of ups and downs. The deviation ranges between 42.30% in 2012 and 36.37% in 2010. This unstable drift of LAR implied that the bank was not in a stable financial position. As the table and figure indicates the bank's LAR is below 50% in all years of the study. Hence, one can conclude that the bank is not much loaned up and its liquidity is in a good position.



Source: Bank's Annual Reports (2009-2014)

3.2.2.3. Cash Deposit Ratio (CDR)

The CDR is the ratio of average cash balance held by the bank against the total deposits. If the amount of money the bank have as a percentage of the total amount of money the customer have deposited into the bank is high, the confidence and trust of the depositors will increase. Therefore, always the higher CDR has been favorable than the lower. According to the table above and the figure below (see figure 3.6 & table 3.3), CDR has shown a slight improvement in the first two years and then it drastically decreases from 2011 to 2013. But in the last year, there was an increment of 17.91% as compared to the preceding year. Therefore, one can conclude that Zemen Bank was better in the first years of its business than the later ones.

3.2.3 Risk and Solvency Ratios

Using risk and solvency ratios, the degree of the financial risk that the bank faces has been discussed hereunder.

3.2.3.1. Debt to Equity Ratio (DER)

The ratio of debt to equity or net worth connotes that the degree of financial leverage that the bank is using to enhance its return. Furthermore, DER indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity. A higher DER generally means that a bank has been aggressive in financing its growth with debt.

The DER of Zemen bank has shown a continuous increase from 2009 to 2012. To the reverse, it has been recorded as a bit lower in 2013 and 2014. But in a nutshell, in those six years of operation, the bank had a 5.59% mean of DER. This denotes that the bank has taken a little debt and thus has low risk. However, it should not be forgotten that if the bank has used much debt to finance the growing operations (high DER); it could

potentially generate more earnings than it would have without this outside financing.

Table 3.4. Risk and Solvency Ratios

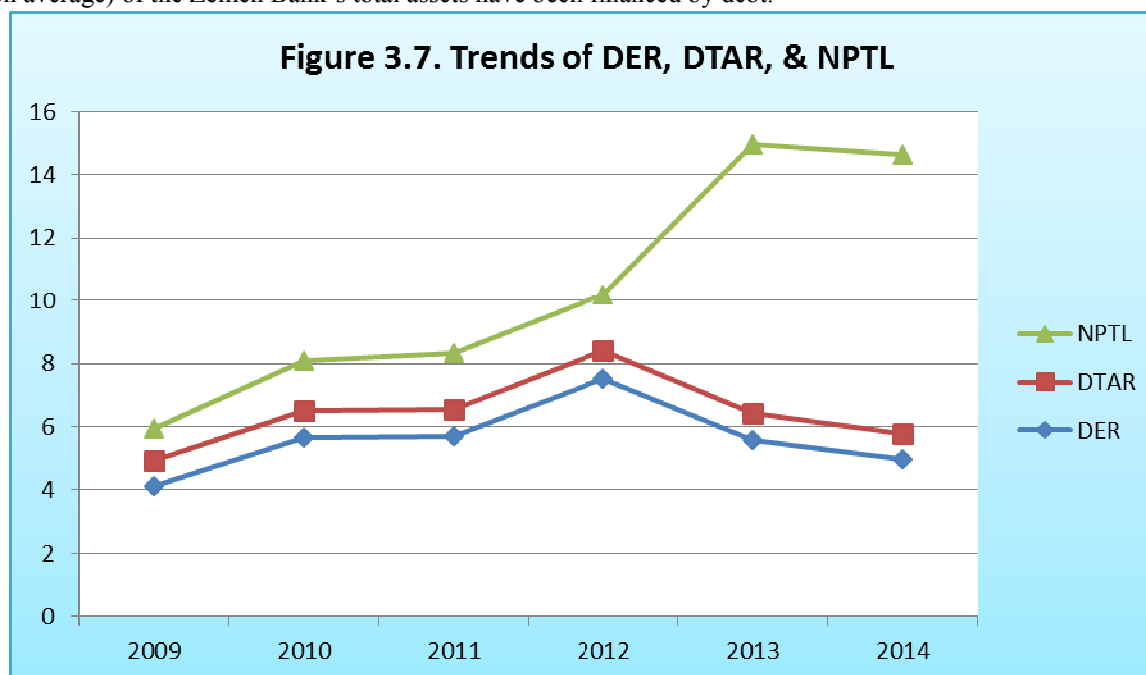
Ratios/Years	Computation Formulas	2009	2010	2011	2012	2013	2014	Average
Debt Equity Ratio (DER)	$\frac{\text{Total Debt}}{\text{Shareholders Equity}}$	4.11	5.66	5.71	7.53	5.58	4.97	5.59
Debt To Total Asset Ratio (DTAR)	$\frac{\text{Total Debt}}{\text{Total Assets}}$	0.80	0.85	0.85	0.88	0.85	0.83	0.84
Non- Performing Loans to Total Loan Ratio (NPTL)	$\frac{\text{Non – performing Loans}}{\text{Total Loans}}$	1.05	1.56	1.78	1.79	8.52	8.83	3.92

Source: Bank's Annual Reports (2009-2014)

3.2.3.2. Debt To Total Asset Ratio (DTAR)

The DTAR is used to measure the percentage of a bank's assets that are financed with debt. The higher the ratio means the higher the degree of leverage, and consequently, the bank may face a financial risk or potential problems such as incapability to meet the debt payments. Traditionally, a less than 50% DTAR is considered as prudent.

In the last six consecutive years of business operations, The DTAR of Zemen Bank was all in all above 50%. In addition, it had almost similar values (range between 80 to 88 percent). This implies that the bank had a high degree of leverage and thus a lower degree of financial flexibility. In other words, it indicates that 84% (on average) of the Zemen Bank's total assets have been financed by debt.



Source: Bank's Annual Reports (2009-2014)

3.2.3.3. Non- Performing Loans to Total Loan Ratio (NPTL)

This ratio is used to measure the percentage of gross loans which are doubtful in banks' portfolio. The lower the ratio of NPTL indicates the better is the asset/credit performance of a bank.

Both table 3.4 and figure 3.7 shows that the NPTL of Zemen Bank continuously increased throughout the study period, except the 2014 insignificant reduction. This signifies that the asset quality of the bank lowers and the risk associated increases over time. Therefore, it is advisable for the bank to reduce the size of doubtful loans in its portfolio.

3.2.4 Leverage/ Efficiency Ratios

The efficiency or commonly called as leverage ratios are financial ratios which are used to measure the manner of the bank in controlling and managing its assets effectively and efficiently.

3.2.4.1 Asset Utilization Ratio (AUR)

The AUR is an analysis tool that is used to recognize whether a bank is wasting its assets or putting them to generate revenue. A higher AUR means good for the bank (or) it indicates the bank is utilizing its assets well. As the following table reveals Zemen bank has shown an increasing trend in the first three years (2009, 10 & 11) and it turns down and again up and down at the last. Therefore, it is possible to say that Zemen bank is

performing well in employing its assets for making revenue. Nonetheless, the unstable flow of the AUR trend reminds the bank to find solutions which could evade the continuous fluctuations of the asset utilization.

Table 3.5. Efficiency Ratios

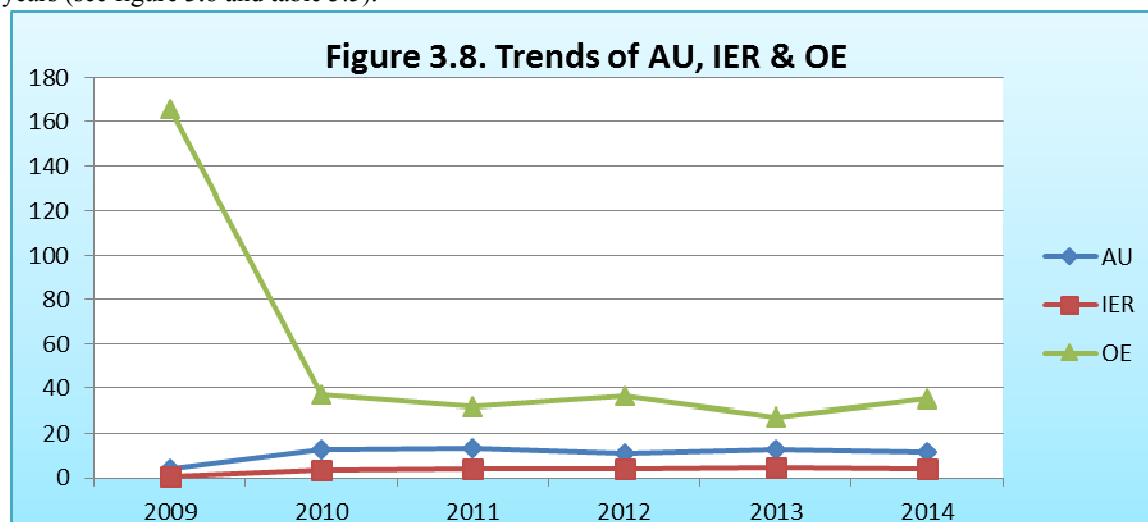
Ratios/Years	Computation Formulas	2009	2010	2011	2012	2013	2014	Average
Asset Utilization Ratio (AUR)	$\frac{\text{Total Revenue}}{\text{Total Asset}}$	3.89	12.79	13.49	11.14	12.47	11.60	10.90
Income Expense Ratio (IER)	$\frac{\text{Total Income}}{\text{Total Operating Expenses}}$	0.81	3.52	4.35	3.78	4.93	3.78	3.53
Operating Efficiency (OE)	$\frac{\text{Total Operating Expenses}}{\text{Total Operating Revenue}}$	165.96	37.01	31.83	36.39	27.00	35.30	55.58

Source: Bank's Annual Reports (2009-2014)

3.2.4.2 Income Expense Ratio (IER)

This ratio is a broadly used efficiency ratio that is used to measure the managerial efficiency of the bank in generating a total income while controlling its operating expenses. The higher the IER is always favorable than the lower one.

In the case of Zemen bank, during the last six years, it has earned Birr 0.81, 3.52, 4.35, 3.78, 4.93 and 3.78 per Birr 1 of operating expenses in 2009, 2010, 2011, 2012, 2013 and 2014, respectively. In short, on average, the bank earned Birr 3.53 while expensing a single birr for its operating activities. Plus to that, the trend progression of the bank was just like the Asset Utilization Ratio (AUR). It has shown a swinging pattern over the years (see figure 3.8 and table 3.5).



Source: Bank's Annual Reports (2009-2014)

3.2.4.3 Operating Efficiency (OE)

It is one of the mostly used efficiency ratios which are used for measuring the amount of the operating expense of the bank vis-à-vis its operating revenue. The lower OE means that the operating revenues are higher than the operating expenses.

Table 3.5 and figure 3.8 clearly depicted that Zemen Bank has incurred Birr 1.66, 0.37, 0.32, 0.36, 0.27, and 0.35 of operating expenses per a one Birr operating revenue in 2009, 2010, 2011, 2012, 2013, and 2014, respectively. The only year where the operating expenses are higher than operating revenue was the 2009. In this year, the operating expenses outweigh the operating revenue by almost 66%. This implies, in other words, the bank incurs a 0.66 cents extra expense in earning every single Birr. Since the operating expenses to operating revenue was lower than 100% (a 55.58% on average), one can conclude that the bank's managerial efficiency in making operating revenues over its operating expenses was in a good position. Furthermore, the lowest (best performance) of all of the operating efficiency of the bank has been revealed in 2013, whereas the highest of all has been exhibited in 2009. In the first three years of operation, the OE has been decreasing in at increasing rate. However, in the later years, the OE of the bank had a rise and fall patterns. But still, the percentage changes were very minimal.

4. Conclusion and Recommendation

This paper was typically an analytical type of research which was aimed at measuring the financial performance

of Zemen bank over the periods of 2009-2014. It has employed financial ratios and descriptive statistical tools to analyze the data. In doing so, the discussions, analysis and interpretations of the data have come across with sound findings. Thus, based on the results of the study, the researcher draws the following conclusions and suggestive solutions.

The overall result of the study shows that except in 2009, in the remaining years of the study, the financial performance of the bank had kept on improving, if not fluctuating over time. The case in point is the remarkable growth of the bank's interest incomes over interest expenses, the earning of large sums of profits, the augmentation of total assets over total liabilities and an all-together advancement of the deposits and loans and advances from year to year.

To measure the Profitability of the Bank, ratios such as ROA, ROE, and NIM have been employed. The result of the ratios revealed that the bank had an experience of an increasing pattern of those ratios in the first few years of its functioning. However, it has consistently fluctuates in the remaining years of the study. Particularly, so far as ROA is concerned, the bank has shown a better level of efficiency in the utilization of its assets to generate profit in the initial periods (excluding 2009) than the subsequent years of operation. Therefore, it is recommended that the bank should assess how well it performs in utilizing its assets in its operations. Likewise, the ROE of the bank follows the same trend of ROA. However, unlike that of the above two ratios, the NIM has kept on increasing with the passage of time. Hence, this shows that the quality of the management decision making of the bank in generating the net interest income vis-à-vis the total assets has improved over the study periods.

The study also uncovers that the liquidity of the bank has been improved through time. It was evident that both LDR and LAR have shown advancement though sometimes they had ebbed and flow. This swinging dimension of these ratios connotes that the bank was not in a stable financial position. Wherefore, the bank should find solutions which may save it from such type of financial wavering. Furthermore, since the CDR of the bank has shown a decreasing trend, it might negatively affect the general performance of the bank. As a result, the bank should increase its cash balance against its total deposits. In doing that, the confidence and trust of the depositors will increase.

The degree of the financial risk associate to the bank has also been analyzed using the risk and solvency ratios. The findings of these ratios (DER, DTAR and NPTL) show that an initial tremendous increments and a drastic fall in the succeeding periods. For instance, according to the result of the DER, Zemen bank was initially more financed by debt than its stakeholders' contributions. But later on, the debt to owners' equity proportion has shown a decreasing pattern. This indicates that the bank has taken a little debt and thus has low risk. However, it should not be forgotten that if the bank has used much debt to finance the growing operations (high DER); it could potentially generate more earnings than it would have without this outside financing. Besides, the DTAR of the bank indicates that it had a high degree of leverage and thus a lower degree of financial flexibility. This implies that a higher proportion of the Bank's total assets have been financed by debt. Therefore, it is highly recommended that Zemen bank has to decrease its much dependence on outside financing. It is also advisable that the bank should reduce the size of doubtful loans in its portfolio since the result of NPTL revealed that the percentage of non-performing loans to the total loans has continuously increased.

Finally, the efficiency level of the bank has been measured. The results of the ratios analysis disclosed that the bank had a good rate of efficiency. It is for example underpinned by the result of AUR in which Zemen bank has performed well in employing its assets for generating revenue. Meanwhile, the unstable flow of the AUR trend signifies that the bank should find solutions, which could evade the continuous fluctuations of the asset utilization. Plus to that, the IER ratio depicts that the managerial efficiency of the bank in generating a total income while controlling its operating expenses was good except its oscillations. Eventually, the OE of the bank asserts that the bank's managerial efficiency in making operating revenues over its operating expenses was in a good position.

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APPENDICES
APPENDIX A: CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ZEMEN BANK
Zemen Bank S.C.
Consolidated Profit And Loss Account
For The Year Ended 30 June

Currency: Birr

Description/Fiscal Years	2009*	2010	2011	2012	2013	2014
INTEREST INCOME	4,590,108	31,240,880	60,638,462	102,833,130	150,114,285	205,430,993
INTEREST EXPENSE	(2,908,012)	22,815,510)	(41,063,046)	(66,123,160)	(100,522,326)	(114,450,637)
NET INTEREST INCOME	1,682,096	8,425,370	19,575,416	36,709,970	49,591,959	90,980,356
Provision for doubtful loans and advances	(1,973,773)	(4,022,195)	(5,494,767)	(6,641,528)	-	-
	(291,677)	4,403,175	14,080,649	30,068,442	-	-
Fees and commission income	7,368,226	52,390,368	88,204,861	101,747,913	151,144,416	158,569,298
Gains on foreign exchange dealings & fluctuations (net)	3,058,573	47,331,338	65,648,552	57,446,887	101,788,481	90,547,868
Other income	2,990,628	3,041,712	3,183,735	4,592,887	2,003,563	706,169
OPERATING INCOME	13,417,427	102,763,418	157,037,148	193,856,129	304,528,419	340,803,691
OPERATING EXPENSES	22,267,676	38,029,526	49,985,178	70,544,203	(82,120,977)	(120,309,534)
Impairment losses on loans and advances	-	(9,141,926)	-	-	(98,596,589)	(55,476,734)
PROFIT (LOSS) BEFORE TAXATION	(9,141,926)	59,995,141	121,132,619	123,311,926	123,810,853	165,017,423
TAXATION CHARGE	-	18,144,206)	(36,423,326)	(36,939,793)	(29,664,908)	(36,611,936)
PROFIT AFTER TAXATION	-	41,850,935	84,709,293	86,372,133	94,145,945	128,405,487
Board of Directors' remuneration	-	(922,957)	(395,833)	(383,333)	(415,890)	(450,000)
Transfer To Legal Reserve Allocation for Promoters	-	(12,748,215)	(21,177,323)	(21,593,033)		
	-	(2,910,272)	(6,353,197)			
Transfer to Retained Earnings	-	25,269,491	56,782,940	64,395,767	93,730,055	127,955,487
EARNINGS PER SHARE (of Birr 1000 each)	-	387	581	577 **	410.55	320.80

* The 2009 income statement indicates only the period from 1 OCTOBER 2008 TO 30 JUNE 2009

** It includes transfer of retained earnings from the previous years' income.

APPENDIX B: CONSOLIDATED BALANCE SHEET OF ZEMEN BANK
Zemen Bank S.C.
Consolidated Balance Sheet
As At 30 June

Currency: Birr

<i>Description/Fiscal Years</i>	<i>2009*</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
ASSETS						
Cash And Balances With National Bank Of Ethiopia And Other Banks	221,392,943	611,141,902	707,024,122	825,278,173	784,637,806	1,493,765,017
Government Securities	-	-	216,483,887	465,511,387	1,067,549,387	947,081,887
Loans And Advances To Customers	186,759,803	377,920,104	633,735,915	994,558,320	1,252,925,820	1,303,682,120
Investment In Equity Shares	-	-	-	1,259,000	5,031,000	5,031,000
Other Assets	18,931,816	18,394,934	12,947,472	59,521,073	69,601,517	100,609,223
Property Held For Sale	-	-	-	1,103,050	8,644,675	8,320,023
Property, Plant And Equipment	20,318,570	20,785,007	22,832,809	22,774,916	28,023,709	32,942,596
Intangible Assets	10,341,854	12,878,029	20,903,291	24,172,628	24,582,052	26,002,054
Leasehold Land	-	-	-	-	7,461,531	7,335,537
TOTAL ASSETS	462,598,683	1,055,622,793	1,613,912,451	2,394,242,097	3,248,457,497	3,924,769,457
Liabilities						
Customer Deposits	277,847,796	688,024,663	1,162,559,428	1,792,882,830	2,504,926,543	3,033,129,659
Other Liabilities	21,544,966	60,461,114	117,938,639	203,404,755	105,235,534	106,676,613
Finance Lease Obligation	-	-	-	-	6,047,650	6,047,650
Margins Held On Letters Of Credit	72,690,172	130,399,128	56,281,580	80,414,345	109,118,199	85,363,953
TOTAL LIABILITIES	372,082,934	897,029,111	1,373,202,973	2,113,578,173	2,754,970,870	3,267,757,912
Shareholders' Funds						
Share Capital	99,657,675	120,575,976	149,576,000	149,576,000	343,813,000	449,576,000
Share Premium			425,000	425,000	425,000	425,000
Retained Earnings	(9,141,926)	25,269,491	56,782,940	75,080,803	70,193,569	95,854,115
Legal Reserve		12,748,215	33,925,538	55,518,571	79,055,058	111,156,430
TOTAL CAPITAL AND RESERVES	90,515,749	158,593,682	240,709,478	280,600,374	493,486,627	657,011,545
TOTAL LIABILITIES, CAPITAL AND RESERVES	462,598,683	1,055,622,793	1,613,912,451	2,394,242,097	3,248,457,497	3,924,769,457

* The 2009 financial position indicates only the period from 1 OCTOBER 2008 TO 30 JUNE 2009

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