

# Financial and Operational Performance of Banks: The Case of Dashen Bank of Ethiopia

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## Abstract

The survival of commercial Banks in economic environment is very dependent upon their good performance that based on scientific investigation. As a result, its wellbeing and successful operation captures the interest of different researchers and other professionals. The objective of this research is to analyze operational and the financial performance of Dashen Bank. The data used in this study was entirely a secondary data. Financial ratio Analysis has been used to address the scientific evidence in the evaluation of performance of Dashen bank. The result of the study shows that Dashen bank has shown a good performance in operation and financial aspects by measuring return on asset return on equity. The debt ratio analysis shows that slight increase of debit. This may cause increase on depositing deposit by the clients. The operating expense ratio showed efficiency in bank cost minimization strategy.

## 1. INTRODUCTION

### 1.1. Back ground of the study

In the dynamic globalized world, Commercial Banks plays an important role as financial mediators in the economic development of the nation. Banks collect financial resources from individuals and organizations, and redistribute it to others so as to have further benefit. The role of banks as part of financial service in the economy of a country can be seen as a major resource allocator of a country. They play great role on transferring deposited money from depositors to investors. Besides intermediary function, performance of banks has implications for economic growth of nations. Poor banking performance may lead to banking failure and crises which have negative effects on the economic growth (Dawit, 2016). Financial system is serving as back bone in a country and acts as good facilitator for financial institutions. Financial institutions play vital role for the development and progress of country's economy. Strong financial system promotes investment by financing productive business, mobilizing savings, efficiently allocating resources and facilitating trade activities.

According Mukdad, (2015) commercial banks performance is evaluated for several reasons depending on their objectives. An entity like a bank regulator, such as may need to identify and call attention to banks that are experiencing chronic financial problems in order that they may fix them before they get out of control. Commercial banks evaluate their performance over a given period and determine the efficacy and long term viability of management decisions and goals so that they can alter the course and make changes whenever it is appropriate. With a constant and routine monitoring of performance, underlying problems may remain invisible and lead to financial failures further down the line.

Financial statements report both on a firms position and on its operations over some past period, however, the real value of financial statements lies in the fact that they can be used to help predict future earnings and dividends. From an investors standpoint, predicting the future is what financial statement analysis is all about, while from managements standpoint, financial statement analysis is useful both to help anticipate future conditions and, more important, as a starting point for planning actions that will improve the firm's future performance.

### 1.2. Statement of the problem

Banks play a very determinant role in the healthy functioning of the economy. According to Muhabie, (2015) banks can be challenged by different factors including 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. Banks performance can be evaluated in three ways namely; (1) The traditional method of financial indices based on balance sheet and income statement analysis, (2) Parametric methods based on the knowledge of production function and (3) Non-parametric methods that do not require production function (Abdi,2010). The performance evaluation of companies is essential to provide information about company's operating performance and its net worth. Knowing organizations 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 (Teshome, 2016).

Examining the performance of commercial banks become important for their profitable survival. The survival of commercial Banks in economic environment is very dependent upon their good performance that based on scientific investigation. As a result, its wellbeing and successful operation captures the interest of different researchers and other professionals. I wanted to conduct my research on performance of banks in the Ethiopian financial sector. To the best of my knowledge, this issue is not well researched in Ethiopia. So, I want to contribute

something in this area.

### 1.3. Objectives

1. To analyze the financial performance of Dashen Bank.
2. To evaluate operation performance of Dashen Bank.
3. To assess by laws of regulatory body the level financial and non-financial reporting.

## 2. LITERATURE REVIEW

### 2.1. Profile of Dashen Bank Share Company

Dashen Bank Share Company was established on September 20, 1995 by 11 shareholders with a capital of 14.9 million Ethiopian Birr. It started its service by opening 11 area banks in the capital Addis Ababa and other major towns of Ethiopia. Currently Dashen bank has more than 90 branches (Rahel,2015).

#### Vision

“In as much as mount Dashen excels all other mountains in Ethiopia, Dashen Bank continues to prove unparalleled in banking services”.

#### Mission

“Provides efficient and customer focused domestic and international banking services, by overcoming the continuous challenges for excellence through the application of appropriate technology”.

### 2.2. Bank Performance Indicators

Better financial and operational performance is the ultimate goal of commercial banks. All the strategies designed and activities performed are means to realize this objective. However, this does not mean that commercial banks have no other goals. Commercial banks could also have additional social and economic goals. According to Awit, (2016) studies made on performance of commercial Banks largely used Return on Asset, Return on Equity and Net Interest Margin as a common measure. There are different accounting based measures for banks operation performance. For instance, operating expense ratio.

#### Return on Equity (ROE)

ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. Khrawish, (2011) explain that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. It represents the rate of return earned on the funds invested in the bank by its stockholders. ROE reflects how effectively a bank management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE the more effective the management in utilizing the shareholders capital.

#### Return on Asset (ROA)

According to Khrawish, (2011) ROA is also another major ratio that indicates the profitability of a bank. It is a ratio of income to its total asset. It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution. A higher ROA shows that the company is more efficient in using its resources.

#### Operational Self-Sufficiency (OSS)

Operational self-sufficiency is the most basic measurement of sustainability, indicating whether revenues from operations are sufficient to cover all operating expenses. As with the preceding measures of returns, OSS focuses on revenues and expenses from the institution's core business, excluding non-operating revenues and donations. The breakeven point of OSS is 100%. The value of 1 (or 100%) and above for OSS variables shows that the institutions are operationally self-sufficient but the value below 1 (or 100%) shows that they have not yet achieved financial breakeven and also not sustainable.

#### Operating expense ratio

According to CGAP, (2009) operating expense ratio is the most generally used measure of efficiency. It indicates administrative and personnel expense of the institution yield on the gross loan portfolio. Operating expense ratio is the percentage of operating expense to average gross loan portfolio. It measures how the institution's management has been efficient in minimizing operating expenses at a given level of operation.

### 2.3. Laws of regulatory body the level financial and non-financial reporting

The National Bank of Ethiopia (NBE) as the country's central bank was first established in 1963. On May 1991, a new Monetary and Banking Proclamation No.83/1994 was enacted which reorganized the bank according to the market-based economic policy so that it could foster monetary stability, a sound financial system and such other

credit and exchange conditions conducive to the growth of the country's economy (Zemenu,2015).

According to national bank of Ethiopia report, (2015) implementing good corporate governance practices in the banking sector clearly facilitates the NBE's most important goal of fostering monetary stability and a sound financial system in the country. Thus, to enhance the achievement of such goals, the legislator has empowered it with various powers, such as, the power to prescribe the requirements for eligibility of bank directors, managers, and to reject the appointment of those nominees who do not satisfy its criteria; to ensure that banks have prepared and publicized proper financial statements and they are adequately disclosed to the public; to regulate transactions that could give rise to possible conflict of interest; to regulate the rights of shareholders and the amount of shareholdings they can hold in a bank, and to regulate risk management in banks. Moreover, in order to give teeth to the powers of the NBE, the law has empowered it to supervise compliance of rules by banks through onsite and off-site supervision mechanisms and to impose various sanctions on a non-complying bank.

The Licensing and Supervision of Banking Business Proclamation No.84/1994 allows the private sector (but, all owners should be Ethiopian nationals only) to engage in the banking and insurance businesses and it marks the beginning of a new era in Ethiopia's financial sector. Thus, after its enactment, there were increases in the number of private banking and insurance companies in Ethiopia in general. In particular, there are currently more than 17 banks operating in Ethiopia including the Development Bank of Ethiopia. Besides, there are 14 insurance companies operating in Ethiopia currently. There are some relevant laws in Ethiopia which deal with the issue of related party and related party transactions. The main laws include the Commercial code of Ethiopia, the Income Tax Proclamation No.286/2002 and the Credit Exposures to Single and Related Counterparties Directive No.SBB/53/2012(Getachew,2013).

Generally, financial sector regulation has a number of purposes/objectives. For example, in addition to the objective of ensuring the safety and soundness of the financial system, there are several other social and economic objectives of financial sector regulation. Thus, especially after occurrences of several financial crises in many parts of the world, there is a wider agreement on the need for regulation currently. But, there is still no agreement on how to enforce the regulations. Though there cannot be a single answer on this issue of enforcement, some of the possibilities include multiple oversight and broad system of checks and balances. It is clear that regulation in general and multiple oversights in particular involves costs. But, it is also argued that the costs of regulation are far less than the costs of mistakes or failure of intervention. In addition, it is stated that another possibility is to ensure that the voice of those whose interests are likely to be hurt by failure are well represented in the regulatory structures. It is further suggested that simple and transparent regulatory systems with limited regulatory discretion may be more immune to regulatory capture and that in many circumstances the cost is far less than the benefit that arises from regulatory certainty, especially in the financial sector (Getachew,2013).

According to Rao, (2016) information provided by firms includes financial and non-financial. In conjunction, financial disclosure is as a deliberate release of financial information, whether numerical or qualitative, required or voluntary or via formal or informal channels. This type of information is essential for investors to efficiently allocate scarce resources and assess investment options. But, financial information disclosure is not sufficient for decisions by firms' stakeholders. As a result, disclosure of non-financial information has got attention due to inadequacy of traditional financial information reporting to fulfill the need of stakeholders in assessing the organizations. Mohammad *et al.*, (2014) stated that a non-financial information disclosure is qualitative information in the companies' reports excluding financial statements and related footnotes.

The corporate annual report is considered a very important official disclosure vehicle since other disclosure vehicles such as conference calls and interim reports can provide more timely disclosure. Corporate disclosure can be divided into two broad categories, mandatory disclosure and voluntary disclosure. Mandatory disclosure is information revealed in the fulfillment of disclosure requirements of statute in the form of laws, professional regulations, and stock exchanges. Voluntary disclosure is any information revealed in excess of mandatory disclosure.

The importance of corporate disclosure arises from being a means of communication between management and outside investors and market participants in general. Demand for corporate disclosure arises from the information asymmetry problem and agency conflicts between management and outside investors. Enhanced corporate disclosure is believed to mitigate these problems (Harvey and Rajgopal, 2005).

### **3. RESEARCH METHODOLOGY**

#### **3.1. Research Design**

Descriptive approaches is a technique used to organize and summarize a set of data in concise way; helps to identify the general features and trends in a set of data and extracting useful information; and also it is very important in conveying the final results of a study.

#### **3.2. Data Source and Collection Methods**

The data used in this study was entirely a secondary data only. As the aim of this study is to evaluate the

consolidated performance analysis, an audited financial statement of Dashen bank which has been reported to the National Bank of Ethiopia was used. Moreover; website, journals, annual and quarterly bulletins, newspapers, data from books, publications, magazines; reports were used as the sources of secondary data.

### 3.3. Methods of Data Analysis

The data, audited financial statement reported to National Bank of Ethiopia, was coded and arranged in a way that is simple for analysis. Secondly, the arranged data have been analyzed using different statistical tools of data processing such as tables and percentages. Besides, techniques of financial analysis, such as ratio analysis have been used to address the scientific evidence in the evaluation of performance of Dashen bank. The collected data was organized in using percentage and tables to make it easy to analyze and interpret it. In this section of the research is mainly focused in data analysis and interpretation from the data collected using the audited annual financial reports of Dashen bank from year 2014 to 2016.

## 4. DATA ANALYSIS AND INTERPRETATION

In this part the data which was a secondary collected from website audited annual financial report of Dashen Bank. Therefore, the data analyzed, discussed and indicated based up on the specific objectives and selected performance indicators which affected Dashen bank Share Company.

The collected data were analyzed using different financial and operating performance indicators, and ratio analyses were applied to evaluate the trend in performance of Dashen bank considered in this particular research. The findings presented below are produced and analyzed from the audited financial statements of Dashen bank reported to the National Bank of Ethiopia covering from the period of 2014 - 2016.

### 4.1. Return on Asset

Return on asset refers to what earning was generated from the invested assets. Return on asset gives an idea how efficient management is using assets to generate profit. Sometimes return on asset; refers to as Return on investment.

$$\text{Return on Assets} = \frac{\text{Net Income after Tax}}{\text{Total Assets}}$$

**Table 1. Return on asset**

Year	2014	2015	2016
Net profit after tax	712,484,276	729,133,970	727,049,906
total assets	21,962,202,063	24,763,885,516	28,576,433,848
<b>ROA (%)</b>	<b>3.244</b>	<b>2.944</b>	<b>2.544</b>

**Source: Computed from annual reports (2014-2016 financial statements)**

As it can be shown in the above table Dashen bank shows a good performance in 2014 than of the other year. In 2016 the bank shows a poor performance as compared to other period (from 2014-2016). The reason is that the result 2.54 % of return on asset is lowest result comparing to other years, the bank should investigate on it to improve earnings from invested asset.

### 4.2. Return on equity

Return on equity is the amount of net income after tax as percentage of shareholders equity. Return on equity measures company profitability with the money shareholders have invested.

$$\text{Return on Equity} = \frac{\text{Net Income after Tax}}{\text{Shareholders' equity}}$$

**Table 2. Return on equity**

Year	2014	2015	2016
Net income after tax	712,484,276	729,133,970	727,049,906
Shareholders' equity	2,597,625,196	2,923,893,980	3,357,826,341
<b>ROE</b>	<b>27.4</b>	<b>24.94</b>	<b>21.65</b>

**Source: Computed from financial statement (annual report 2014-2016)**

Table 2 shows that the bank performing a good performance in 2014, because in this year it achieve 27.4% return on equity. But Dashen bank shows a poor performance in 2015 and 2016.

### 4.3. Debt ratio

It is a financial ratio measures the proportion of both long term and current debts with total assets. This debt ratio indicates the ability of the firm to meet its liability with its total asset.

$$\text{Debt ratio} = \frac{\text{Total liability}}{\text{Total Assets}}$$

**Table 3. Debt ratio**

Year	2014	2015	2016
Total liability	19,364,576,867	21,839,991,536	25,218,607,507
Total asset	21,962,202,063	24,763,885,516	28,576,433,848
<b>Debt ratio</b>	<b>88.17</b>	<b>88.19</b>	<b>88.25</b>

*Source: Computed from financial statement (annual report 2014-2016)*

In the above table 3 the debt ratios analysis shows that slight increase of debit from year 2014 to 2016. This may cause increase on depositing deposit (saving) by the clients. The reason behind is; since the bank serves as intermediate between the surplus unit with deficit unit the amount of deposited will be considered as a loan by the surplus unit, therefore, there is an increase of depositing and profit might be that, as debt paid, the amount of interest expense will be higher and the profit after tax will be decline.

#### 4.4. Operating expense ratio

Operating expense ratio indicates administrative and personnel expense of the bank yield on the gross loan portfolio. It measures how the bank management has been efficient in minimizing operating expenses at a given level of operation.

$$\text{Operating Expense Ratio} = \frac{\text{Operating Expense}}{\text{Average Gross loan portfolio}}$$

**Table 4. Operating expense ratio**

Year	2014	2015	2016
Operating expense	614,246,913	870,841,024	1,012,750,921
Gross loan portfolio	9,429,628,139	11,333,085,838	12,478,656,382
OER	6.5	7.7	8.1

*Source: From annual report (financial statements 2014-2016)*

The lower the operating expense ratio will show efficiency in bank cost minimization strategy. The lesser the ratio, all things being equal, the greater efficient the institution is. With this regard, Dashen bank attains lower ratio 6.5% in the year 2014. From this, one can conclude that Dashen bank incurred almost 0.65 cents for administration and personnel (operating) expense in turn to provide a 1 Birr average gross loan portfolio to its customers in the year 2014.

#### 4.5. Laws, financial and non-financial disclosure

Even though there is an attempt to deal with the regulation of related party in the banking sector under Directives No.SBB/53/2012 in Ethiopia there are many gaps in this area. There is no clear provision defining related parties to non-commercial banks as defined in the above directive. moreover, there is no clear definition for related party transaction provided in the Directive. The directive simply tried to define related party. It should be clear that the provision of loan to related parties is only one type of related party transactions as clearly provided in IFASB Statement No.57 and in other national accounting standards. On the other hand, disclosure requirement of related party relationships and related party transaction is provided neither in the above directive nor in other laws in Ethiopian financial sector. It simply provides for the reporting requirement. Furthermore, the review, approval or ratification requirements in relation to related party transactions are not provided in it.

Besides, no clear sanctions are imposed in case when the rules on related party transactions are violated. In addition, the victim of abusive related party transaction is not provided with clear legal remedies in the Ethiopian financial sector. In conclusion, it could be argued that the regulation of related parties in the financial sector in Ethiopia is given little attention. But, it should be mentioned that there are other relevant laws that deal with different issues of regulation of related party transactions in Ethiopia found scattered here and there. Though, it is good to come up with some provisions dealing with the regulation of related parties in banks, much remains to be done to come up with clear and detailed provisions on related parties and related party transactions with respect to banks, insurance companies and microfinance institutions in Ethiopia.

### 5. CONCLUSION AND RECOMMENDATION

The collected data were analyzed using different financial and operating performance indicators, and ratio analyses were applied to evaluate the trend in performance of Dashen bank considered in this particular study. The study concentrated on performance of financial sustainability and profitability and efficiency of Dashen bank over the study period. To evaluate the Financial and operational performance, Return on Assets, Return on Equity, debt ratio, operating expense ratio were used. Moreover, by laws, financial and non-financial disclosures were analyzed qualitatively.

Dashen bank shows a good performance in 2014 than of the other years when we compare result of return on asset. In 2016 the bank shows a poor performance as compared to other periods. on the other hand Dashen bank showed a good performance in 2014 on regard of return on equity while poor performance in 2015 and 2016.

The debt ratio analysis shows that slight increase of debit from year 2014 to 2016. This may cause increase on depositing deposit by the clients. The operating expense ratio showed efficiency in bank cost minimization strategy. The smallest the ratio, all things being equal, the more efficient the institution. From the result of the study one can conclude that Dashen bank incurred almost 0.65 cents for administration and personnel (operating) expense in turn to provide a 1 Birr average gross loan portfolio to its customers.

Though, it is good to come up with some provisions dealing with the regulation of banks, much remains to be done to come up with clear and detailed provisions on related parties and related party transactions with respect to banks in Ethiopia.

### Recommendations

Based on the findings of the study the following recommendations are made by the researcher:

- Since return on assets and return on equity of Dashen bank greater than zero, it should perform on it to move towards highest return and to get performance stability.
- Dashen bank should minimize operating expense ratios as there is possibility to do so.
- The requirements and the procedures of disclosure should be adopted in the regulation of related party transactions in the Ethiopian financial sector. Moreover, there should be timely publication of related party transactions and it should be easily accessible to all interested bodies.

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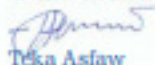
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ANNEX

**DASHEN BANK S.C.  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 30 JUNE 2016**

Currency: Ethiopian Birr

<b>ASSETS</b>	<b>Notes</b>	<b>2016</b>	<b>2015</b>
<b>Cash and balances with other banks</b>			
Cash on hand	3	1,857,847,138	1,568,011,990
Deposits with local commercial banks	4	240,268,086	227,231,733
Deposits with foreign banks		1,813,029,307	1,506,365,946
Deposits with National Bank of Ethiopia	5	<u>2,959,492,683</u>	<u>2,227,883,142</u>
		6,870,637,214	5,529,492,811
Investments	6	6,488,887,322	5,858,682,322
Items in course of collection from other banks	7	111,416,193	85,063,750
Loans and advances to customers	8	12,478,656,382	11,333,085,838
Other assets	9	1,827,360,089	1,275,026,345
Fixed assets	10	<u>799,476,648</u>	<u>682,534,450</u>
<b>TOTAL ASSETS</b>		<b><u>28,576,433,848</u></b>	<b><u>24,763,885,516</u></b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
<b>Liabilities</b>			
<b>Customers' deposits</b>			
Demand		5,939,392,178	4,761,552,597
Savings		15,227,247,207	13,594,967,837
Fixed		<u>1,591,861,583</u>	<u>1,457,587,416</u>
		22,758,500,968	19,814,107,850
Margin held on letters of credit		1,186,874,921	807,305,058
Other Liabilities	11	1,049,671,854	983,902,902
Provision for tax	17	<u>223,559,764</u>	<u>234,675,726</u>
<b>Total Liabilities</b>		<b><u>25,218,607,507</u></b>	<b><u>21,839,991,536</u></b>
<b>Shareholders' Funds</b>			
Share Capital	12	1,492,331,000	1,238,691,000
Legal reserve		1,309,739,407	1,127,976,930
Special reserve	18	10,468,505	10,468,505
Retained earnings	19	<u>545,287,429</u>	<u>546,757,545</u>
<b>Total Shareholders' Funds</b>		<b><u>3,357,826,341</u></b>	<b><u>2,923,893,980</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b><u>28,576,433,848</u></b>	<b><u>24,763,885,516</u></b>



Tekla Asfaw  
 Board Chairman

The notes on pages 25 to 35 are an integral part of these financial statements.

Currency: Ethiopian Birr

<b>INCOME</b>	<b>Notes</b>	<b>2016</b>	<b>2015</b>
<b>Interest income</b>			
Loans and advances		1,508,762,051	1,388,088,649
Fixed deposits		12,556,397	25,657,353
Foreign deposits		<u>322,024</u>	<u>473,714</u>
		<b>1,521,640,472</b>	<b>1,414,219,716</b>
<b>Interest expense</b>			
Interest paid on deposits		<u>(740,816,834)</u>	<u>(667,291,082)</u>
		780,823,638	746,928,634
Less: Provision for doubtful loans and advances		<u>(29,100,862)</u>	<u>(13,329,738)</u>
		<b>751,722,776</b>	<b>733,598,896</b>
<b>Other income</b>			
Service income	13	210,354,336	195,217,221
Letters of credit opening charges		165,698,985	169,131,507
Commission		233,393,617	224,975,181
Gain on foreign exchange		287,919,185	299,054,415
Investment income	14	202,958,626	161,520,419
Sundry income	15	<u>111,313,066</u>	<u>51,153,081</u>
		<b>1,211,637,815</b>	<b>1,101,051,824</b>
<b>EXPENSES</b>			
Salaries and benefits		569,037,459	501,119,795
Rent		121,060,742	93,660,362
General and administrative	16	198,604,996	179,697,122
Depreciation	10	123,022,686	95,301,630
Board expenses		461,538	544,615
Audit fee		<u>563,500</u>	<u>517,500</u>
		<b>1,012,750,921</b>	<b>870,841,024</b>
<b>PROFIT BEFORE PROVISION FOR TAX</b>		950,609,670	963,809,696
Provision for tax	17	<u>(223,559,764)</u>	<u>(234,675,726)</u>
<b>NET PROFIT AFTER PROVISION FOR TAX</b>		727,049,906	729,133,970
Transfer to legal reserve		<u>(181,762,477)</u>	<u>(182,283,493)</u>
<b>TRANSFER TO RETAINED EARNINGS</b>	19	<b>545,287,429</b>	<b>546,850,477</b>
<b>Earnings per share</b>	20	<b>487</b>	<b>589</b>

  
 Teka Asfaw  
 Board Chairman

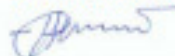
The notes on pages 25 to 35 are an integral part of these financial statements.

DASHEN BANK S.C.  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 30 JUNE 2016



Currency: Ethiopian Birr

	Notes	2016	2015
<b>Cash flow from operating activities</b>			
Profit before provision for tax		950,609,670	963,809,696
Adjustment for:			
Gain on disposal of fixed assets		(1,524,310)	(1,299,666)
Non-cash prior period items effect		-	(2,088,185)
Depreciation	10	123,022,686	95,301,630
Investment income	14	<u>(202,958,626)</u>	<u>(161,520,419)</u>
		869,149,420	894,203,056
Decrease (Increase) in items in course of collection	7	(26,352,443)	24,231,885
(Increase) in loans and advances to customers	8	(1,145,570,544)	(1,903,457,699)
(Increase) in other assets	9	(552,333,744)	(113,527,117)
Increase/ in demand deposits		1,177,839,581	158,676,837
Increase in savings deposits		1,632,279,370	1,688,918,938
Increase in fixed deposits		134,274,167	285,168,909
(Increase)/Decrease in margin held on letters of credit		379,569,863	179,320,732
(Increase)/Decrease in other liabilities	11	65,768,952	173,758,968
Business profit tax paid		(234,675,726)	(245,105,441)
Directors' remuneration paid		(400,000)	(350,000)
<b>Net cash inflow from operating activities</b>		<b><u>2,299,548,896</u></b>	<b><u>1,141,839,068</u></b>
<b>Cash flow from investing activities</b>			
Purchase of fixed assets	10	(240,263,909)	(179,012,686)
Proceeds from disposal of fixed assets		1,823,335	1,421,068
Purchase of shares		(12,173,000)	(10,840,000)
Investment income	14	202,958,626	161,520,419
Investment in GERD Bond, NBE/Treasury Bills		<u>(618,032,000)</u>	<u>(1,727,407,000)</u>
<b>Net cash used for investing activities</b>		<b><u>(665,686,948)</u></b>	<b><u>(1,754,318,199)</u></b>
<b>Cash flows from financing activities</b>			
Dividends paid		<u>(292,717,545)</u>	<u>(400,427,000)</u>
<b>Net cash used for financing activities</b>		<b><u>(292,717,545)</u></b>	<b><u>(400,427,000)</u></b>
(Decrease)/Increase in cash and cash equivalents		1,341,144,403	(1,012,906,131)
Cash and cash equivalents at the beginning of the year		<u>5,529,492,811</u>	<u>6,542,398,942</u>
<b>Cash and cash equivalents at the end of the year</b>		<b><u>6,870,637,214</u></b>	<b><u>5,529,492,811</u></b>



Teka Asfaw  
Board Chairman

The notes on pages 25 to 35 are an integral part of these financial statements.