Financial Performance Analysis of Private Commercial Banks of Ethiopia

Adane Wudu Abebaw

Lecturer, Department of Accounting and finance, College of Business and Economics, Debre Markos University, Ethiopia
PO box 269, Debre Markos, Ethiopia

Abstract

The study aimed to examine the performance of private commercial banks of Ethiopia with liquidity, profitability, risk & solvency and efficiency ratio for the period 2014-2017. 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. According to the overall performance of financial ratio analysis Addis International Bank stood on the top followed by Birhan International Bank. Whereas Bank of Abyssinia stood the least. In general, Addis international bank has better average performance in order to minimize the degree of financial risk, utilizing of asset to generate income, meeting its shortterm obligation and performing interims of profit, but Bank of Abyssinia has less profit per birr, utilizing of asset, margin of safety on average. AIB, BOA and UB are weak on the average rank of financial factors. Therefore, the managers of the banks advised to share experience from other high achievable banks such as ADIB, BIB on the average ranks of financial factors profitability, liquidity, efficiency, risk and solvency. In addition they make more advertisement for customers by reward increase interest for the deposit of their customers and give special training for their employees how to use asset, how to attract customers, how to motivate the investors that use their bank

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1. 1 Introduction

1.1 Background of the study

Financial sectors play crucial role in economic growth & industrialization via channeling funds from surplus unit-the depositors to the deficit units, the borrowers. In the process gaining from the spread of different Interest Charged. Their intermediation role said to be a catalyst for economic growth (Fabozzi 2010)

Bank is a financial intermediary that channels funds from surplus unit to the deficit units, further banks are fundamental components of financial sectors & are active player in financial market (Fabozzi 2010)

The banking environment in Ethiopia has for the two decades undergone many regulatory & financial reforms like other African countries & the rest of developing world. These reforms have brought about many structural changes in the banking sector of the country & have encouraged Private Banks to enter & expand their operations in the industry (Lelissa, 2007). Despite these changes, currently the banking industry in Ethiopia is characterized by operational inefficiency little & insufficient competition & perhaps can be distinguished by its market concentration towards the big government owned commercial bank & having undiversified ownership structure (Lelissa, 2007)

The banking sector is the backbone of economy in Ethiopia .As the banks are interconnected with each other for the payment and other functions, the a failure of a single bank not only affects its shareholders and depositors rather it affects all over the bank and it creates an economic turmoil situation which is regarded as a disaster for the economy that was viewed in recent global recession that occurred as the result of bank failure at the inception (Al Karim and Alam, 2013).So, banks are exposed to many types of risk that has caused in different situations which result in different level of risks. Such risks include liquidity risk related to inability to meet current demand; credit risk is a default occurs when a borrower does not make the obligated interest and principal payments in a timely manner, interest rate risk (the possibility that the bank will become unprofitable, if rising interest rates force it to pay relatively more on its deposits than it receives on its loans). Sound financial health of a bank is the guarantee not only to its depositors but is equally important for the shareholders, employees and whole economy as well. The subject of financial performance and research into its measurement is well advanced within finance and management fields the government of all nations should have maximum concern on performance of all banks which are operating in the territory of the country. In consideration of such outcome and concern, the financial health of each bank should have been measured from time to time and managed efficiently and effectively (Sangmi & Nazir, 2010)

The existence of less efficiency & little & insufficiency competition in the country's banking industry is a

clear indicator of relatively poor performance of the sector compared to the developed world financial institutions. Thus, it is important to evaluate the banks performance critically for an efficient management of banking operations as well as to ensure financial soundness of the banking industry.

So the purpose of this study is to analyze the performance of private commercial banks by ratio analysis, it takes in to account four components of banks when it evaluates performance of the Ethiopian private commercial banks, These components are profitability, liquidity, risk & solvency & leverage (efficiency)

1.2 Statement of the problem

The economic down turn of 2008 which is resulted in bank failures, are triggered in the us & then widely spread world, It therefore increasingly urges the need of more frequent banking examination this economic crisis has also highlighted that a well-functioning financial system in significantly important for economic growth. The financial system enables on economy to be more productive as it allows investors with few resources to use saving from those with few prospects of investing. This crisis produce many adverse effects towards banks. Some to mention, "Stagnant of the sector, decline in profitability, increase of the non-Performing assets & loans, past due Receivables, loan loss provision & deterioration of other key indicators of banks performance (Nada Dleca, 2012)

Ethiopian financial system is highly banking dominated (Kiyota et al., 2007) but the financial sector remains close and is much less developed. Ethiopia has no capital market and very limited informal investing in shares of private companies. A series of financial sector reforms has been introduced since 1994, when private banks were allowed to be re-established. However, the three large state-owned banks continue to dominate the market in terms of capital, deposits and assets. Banking sector in Ethiopia is undeveloped & delicate. The sector is very limited, relatively work, closed & characterized by a large share of state owner ship, for them the repressive policies imposed by the government are negatively affecting the performance of money & foreign exchange markets & weaken private commercial banks. (Admasu &Asayehgn, 2014).Hence it is very important to examine the financial performance of private commercial banks in Ethiopia.

Financial performance could be defined as a measurement of the results of a firm's polices and operations in monetary terms. In assessing the overall financial condition of a company, the income statement and the balance sheet are important reports, as the income statement captures the company's operating performance and the balance sheet shows its net worth. Financial performance could be assessed using the following key measures, which are important to assess the current financial position and performance. These are descriptive and analytical measures of financial position and performance. Descriptive measures include total assets, total liabilities, stockholders equity, total revenues, total expenses and net income. And analytical measures of financial position and performance could include profitability, efficiency, liquidity and solvency measures(Deepak and Abebaw , 2012).

Although various studies were made to explain bank performance using ratio analysis the newly established private commercial banks such as Enat bank, Addis International bank & Debub Global banks were no include in the study. The previous studies were use sample private commercial banks. Similarly, most of studies were conducted at different periods of time used different methodology & findings were varied.

Accordingly, this the study tried to include the whole population of Ethiopian private commercial banks in order to increase the accuracy of the study. The study use financial data & analyze & evaluate Ethiopian private commercial banks performance on financial ratio analysis such as liquidity ratio, profitability ratio, efficiency ratio & risk & solvency which measured by total loan to total deposit ratio, Net profit to total asset ratio total Revenue to total asset ratio & debt to Equity ratio respectively.

1.3 Objective of the study

The general objective of the study to examine the financial performance of private commercial banks of Ethiopia using ratio analysis.

The specific objective of the study is
- Examine the liquidity ratio of Ethiopian private commercial banks
- Identify profit level of Ethiopian private commercial banks
- Identify risk & solvency of Ethiopian private Commercial Banks
- Examine the efficiency of Ethiopia private commercial banks

1.4 Significance of the study

The finding of the study provides relevant information to banks on the area of financial performance that needs further improvement. The study also provides useful information for stakeholders to make better investment decisions & gives the opportunity to all stakeholders to gain knowledge about financial ratio. Finally the study help other researchers as source of reference & as stepping stone for those who want to make further study on the area,

1.5 The scope of the study

The scope of the study mainly delimited to 16 private commercial Banks of Ethiopia namely Awash International Bank, Dashen Bank ,Bank of Abyssinia, Wegagen Bank, United Bank, Nib International Bank, Cooprative Bank of oromia, Lion International Bank, Zemen Bank, Oromia International Bank ,Bunna International Bank, Birhan International Bank, Abay Bank, Addis International Bank, Debub Global Bank and Enat Bank. In order to include the newly established Ethiopian private commercial banks, the time period for the study bound 4 consecutive years from 2014-2017G.C The financial performance of banks was measured by using four factors i.e. profitability, risk & solvency liquidity & efficiency ratio.

2. Literature review

2.1 Theoretical Literature Review

Ratio analysis involves method of calculating & interpreting financial ratio to analyze & monitor the time performance the basic inputs to ratio analysis are the firm's income statement and balance sheet, the main objective of ratio analysis is to use the results for decision making purpose it. also helps identify and high lights the area of poor performance and area of satisfactory performance by high lighting areas bad performance & ratio can assists management to identify the success where their strength & weakness are & where further efforts should be directed.ratios help in identifying the success or other wise of particular choice action as comparison can be made of the pre & post action results (Gitman 2009)

A study in Australian financial institution (Elizabeth& Greg, 2004) showed that all finical performance Measures as interest Margins, return on assets & capital adequacy are positively correlated with customer service quality scores. Amid (2011) studied the financial intuition. (Performance) of seven Jordanian commercial bank, He used the ROA as a measure of banks performance and bank size asset management & operational efficiency as three independent variable affecting ROA. The result of his analysis revealed a strong Negative correlation between ROA and bank Size. Strong positive correlation between ROA and asset management ratio & a negative weak correlation between ROA and operational efficiency. Mulualem (2015) has studied the financial performance 14 Commercial bank using CAMEL approach for the period 2010-2014.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 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. (Berhane Ghebray, 2014).

The main purpose of banks as the main actors in the financial system is financial intermediation. If banks could be able to perform the financial intermediation properly by getting proper returns, they can contribute to the financial sector growth and to the economic development at large by providing the resources mobilized to good projects which possible increase employment and standard of living. Hence, public sector banks should improve their performance in this regard and the government should encourage establishment and expansion of private sector banks (Abebaw, 2012)

Financial ratios affecting financial performance

The financial ratios that affect financial performance of bank include

Liquidity ratios

Liquidity ratio Measures the bank's ability to meet its current obligation. Banks make money by mobilizing deposit and providing fund for creditors, so the bank needs to be conscious to meet the payment when depositors demands for. The inability of the bank to meet the demand of depositor leads to the liquidity risk. Therefore, 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 , 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**.** (Mulalem, 2015).

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 competitor's or the industry average, then it is considered to be indication of better performance of the bank. It can measure by return on asset (ROA) which 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, return on equity which indicates the profitability to shareholders of the firm after all expenses and taxes 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 (Van Horne, 2005)

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 can be measured by Asset Utilization Ratio (AUR) which indicate 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 increase total revenues or dispose of some of the assets, Income Expense Ratio (IER) that measures the amount of income earned per birr of operating expenses. the higher 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 and Operating Efficiency (OE) 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. (Ross, Westerfield, and Jaffe, 2005)

Risk and solvency performance

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. It can be measured by 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, 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 and 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 loan.

Thus all these factors indicates that a comprehension performance analysis should go beyond traditional measures and should employee more for ward locking and taking these issues in to consideration. The purpose of this study is to examine the future financial performance sixteen. Ethiopian private sector commercial bank by using four financial ratio analyses, profitability ratio, liquidity ratio, risk and solvency ratio, leverage (Efficiency ratio) by using tabulation, statistical tools other statistical tools such as mean and ratio.

Factors affecting Bank Financial performance

According to Muhabic (2015) there are four factors Affecting performance of banks. These are liquidity ratio. Risk & solvency profitability and Efficiency

Conceptual. Frame work of ratio analysis
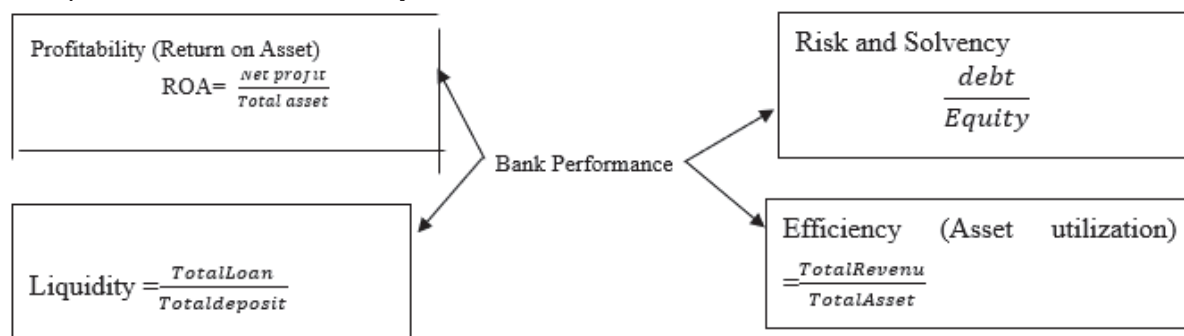
Thus all studies didn't include the newly established banks such as Enat Bank, Addis International Bank, Debub Global bank so the purpose of study is consider the newly established banks and use recent time financial data of the banks

2.2 Review of Empirical literature.

Alietal (2011) Conducted Comprehensive Study about Banks Profitability in Pakistan. Where They Found

Significant Relation Ship Between asset management ratio capital and economic growth and with ROE which they found that operating efficiency asset management.

Dakota (2015) investigated the performance of 8 commercial banks using CAMEL approach by descriptive and econometric analyses. The finding showed that NIB's overall performance was good. Furthermore, he has measured the relationship between capital adequacy and financial performance using GLS regression model. The regression results exhibited the existence of positive relationship between capital adequacy and bank performance.

Ermias (2016) evaluated the financial Performance of six senior Private Commercial Banks over the period 2000-2014 using CAMEL model. The study found out that UNB, NIB, and BOA have held from 1st to 3rd rank based on the CAMEL model composite rating system. The findings also indicated that bank specific factors incorporated in the CAMEL model affect to the extent of 67.5percent

Anteneh *e.t. al* (2013), on their study entitled health Check-up of Commercial Banks in Ethiopia, assessed the health of 8 private and public commercial banks using the 10 years annual report of each commercial banks (2000-2010) which were selected based on three criteria i.e., capital size Of the banks, year of establishment and rank of banks in 2010 African banks rating. The study finding showed that the independent variables in CAMEL framework have highly explained the performance variables i.e., return on assets and return on equity. The private banks were in a better position than the public banks in terms of asset quality, management quality, and earning.

Minyahil (2013) measured the Performance of seven Commercial Banks of Ethiopia over the period 2004/5-2010/11.The result of the study showed that, during the study period, the performance of Commercial banks in Ethiopia mainly changes in accordance with NBE directives economic growth are significant with ROE.

3. Research Methodology

3.1 Research design

The study is descriptive type of research design to describe, measure, compares and classify the financial performance of Ethiopian private commercial banks in terms of liquidity ratio, profitability ratio, Risk & solvency ratio, Efficiency ratio. The factors measured as follows

1. Profitability measured by ROA (Return on Asset) ROA (Return on asset) = $\frac{NetProfit}{TotalAsset}$

2. Risk & solvency measured by the amount of total debt affirm used to financial its total assets $\frac{Totaldebt}{TotalAsset}$

3. Liquidity ratio Measured by ratio of total loans to total deposit $\frac{TotalLoan}{Totaldeposit}$

4. Efficiency ratio measured by the ratio of total Ravenous to total asset or Asset utilization ratio $\frac{TotalRevenue}{TotalAsset}$

3.2 Research approaches

The study used quantitative research approaches. Audited financial statements of Ethiopian private commercial banks were gathered and used to statistical analysis, standardized comparisons of private commercial banks financial

3.3 Target population and sample design

There are 16 private commercial banks which is registered by NIB international bank of Ethiopia and operating banking business in Ethiopia According to Banks association and National bank of Ethiopia website (2017). In order to increase the accuracy the study takes the whole population of Ethiopia private commercial banks by using censuses Methods. Those banks are AIB, DB, BOA, WB, UB, NIB, LIB, ZB, OIB, BUIB, BIB, AB, ADIB, DGB, EB since the study consider the whole population the data starting from 2014 up to 2017 in order to include the newly established banks such as Enat Bank, Debub Global Bank and Addis International Bank .

3.4 source of data

In order to analyze the performance of private commercial banks in Ethiopia the study collected audited financial statement of sixteen Ethiopian private commercial banks. AIB, DB, BOA, WB, UB, NIB, LIB, ZB, OIB, BUIB, BIB, AB, ADIB, DGB, EB for four consecutive years from 2014 up to 2017. The second quantitative secondary data collected through structured document reviews were mainly from the record held by national bank of Ethiopia and banks themselves.

3.5 *Methods of data analysis*

The data were analyzed using descriptive statistical methods like tabulation to summarize and give condensed picture of the quantitative data & methods of the finical ratio analyze to measure. Describe and analyze the performance of the bank. Those ratios include profitability ratio, liquidity ratio. Risk and solvency ratio & efficiency ratio,

4. Result and data analysis

4.1 Liquidity ratio analysis

Liquidity ratio indicates the ability of the bank to meet its financial obligations in timely& effective manner. The high Liquidity ratio means a bank has larger margin of safety & ability to cover its short term obligations (Muhabie 2015) the liquidity position of the banks was evaluated by the total loan to total deposit ratio. The higher this ratio inducts that bank has relatively better liquidity position than the other competitor banks

Table 4.1 liquidity ratio analysis

No	Banks	2014	2015	2016	2017	Average	Rank
1	AIB	47.15	72.4	67.6	78.3	66.4	6
2	DB	56	63	67	76	66	7
3	BOA	56.7	53.9	59.6	53.7	55.9	15
4	WB	54.8	60.8	63.9	66.7	61.6	10
5	UB	56.9	61.4	65.2	71.8	63.9	8
6	NIB	69.7	70.5	60.7	66.3	66.8	5
7	CBO	97.6	84.5	79.1	78.0	84.8	1
8	LIB	32.8	63.5	67.9	74.3	59.6	11
9	ZB	47	59.8	62.3	56.8	56.5	14
10	OIB	51	62.8	61.7	61.4	59.2	12
11	BIB	63.2	65.9	65.7	78.7	70	2
12	BUIB	53.8	57	54.9	63.7	57.4	13
13	AB	59.3	64.6	64.5	66.3	63.7	9
14	ADIB	64.5	69.5	68	69.6	67.9	4
15	DGB	29	29.6	45.7	37.8	35.5	16
16	EB	47.2	72.4	67.6	78.3	68.4	3

(source: Banks Annual report 2014-2017)

According to this ratio on table 4.1 Cooperative bank of oromia at the top with average liquidity of 84.8 percent followed by Birhan International Bank &Enat Bank with 70 & 68.4 present respectively. Whereas Debub Global Bank is at the last position with the ratio of 35.5 percent. That means Cooperative bank of Oromia is able to meet its financial obligation in timely and effective manner or it has better liquidity position than the other competitor banks. Besides it has larger margin of safety and able to cover its short-term obligation. But Debub global bank has small margin of safety and least ability to cover its short term obligation.

4.2 Profitability ratio analysis

Profitability enables to evaluate how well the bank is performing in terms of profit. If profitability ratio is relatively greater than its competitors. it is considered to be indication of better performance. The profitability of the bank evaluated by Net profit to total asset (return on asset). It Shows the Profit earned per Birr of Assets (Van Horne 2005)

Table 4.2 Profitability ratio analysis (Return an asset)

No	Banks	2014	2015	2016	2017	Average	Rank
1	AIB	2.8	2.7	2.5	2.3	2.6	12
2	DB	3.2	2.9	2.5	2.2	2.7	11
3	BOA	3.1	2.7	2.9	2.8	2.9	9
4	WB	3.6	3.3	3	3.4	3.31	6
5	UB	2.7	2.5	2.5	1.8	2.4	15
6	NIB	3.9	3.3	2.9	3.2	3.3	7
7	CBO	2.1	2.7	3	3.3	2.5	14
8	LIB	2.9	2.6	2.1	1.9	2.61	13
9	ZB	5.9	5.2	4.7	5.5	5.3	2
10	OIB	3.3	5.2	2.9	2.3	3.4	5
11	BIB	6.1	4.5	6.6	6.2	5.9	1
12	BUIB	3.5	4	3.7	3.5	3.7	4
13	AB	2.4	3.7	3.1	2.6	2.8	10
14	ADIB	4.7	4.6	4.6	3.5	4.4	3
15	DGB	1.6	1.9	3	1.9	2.1	16
16	EB	2.3	2.9	3.2	3.6	3	8

(Source: Banks Annual report 2014-2017)

According to this ratio presented in table 4.2.Birhan International Bank is at top with average profitability of 5.9 percent followed by Zemen Bank and Addis International Bank with 5.3 & 4.4 percent respectively. Whereas Debub Global Bank is at the last position with the ratio of 2.1 percent. BIB has better performance in the ability of management to generate profit from the bank's asset i.e. it has better profit per birr of asset than other competitor banks, but Debub global bank has poor performance in terms of profit per birr.

4.3 Efficiency ratio analysis
These ratio measure how effectively and efficiently the firm is managing and controlling its asset. It indicates the overall effectiveness of the firm in utilizing its assets to generate sales. The efficiency of the banks evaluated by the ratio of total revenue to total asset ratio the higher this ratio indicates the bank has relatively better asset utilizing than other banks (Mohabie 2015)

Table 4.3 Efficiency ratio analysis

No	Banks	2014	2015	2016	2017	Average	Rank
1	AIB	8.7	4.1	11.4	13.6	9.5	11
2	DB	9.8	10.8	9.6	9.9	10.1	8
3	BOA	6.2	6.1	7	7	6.8	16
4	WB	9.3	9.7	9.5	10.3	9.7	10
5	UB	8.6	9.3	9.7	9.2	9.2	14
6	NIB	9.7	9.1	9	9.3	9.3	13
7	CBO	9.9	10	10.8	12.5	10.8	4
8	LIB	14.1	14	13.2	14.7	11.5	2
9	ZB	11.6	10.3	9.5	10	10.4	6
10	OIB	8.9	8.9	10.3	9.1	9.4	12
11	BIB	10.6	8.9	10.9	11.1	10.3	17
12	BUIB	9.8	10.7	10.8	10.3	10.5	5
13	AB	9.3	11	10.4	9.4	10	9
14	ADIB	11.5	12	11.9	11	11	3
15	DGB	9.8	9.7	15	11.6	11.6	1
16	EB	6.6	9	9.7	9.8	8.8	15

(Source: Banks Annual report 2014-2017)

With regard to Efficiency Ratio Debub Global Bank is at top position with ratio of 11.6 percent followed by lion International Bank and Addis International bank. Wegagen Bank is at the last position. That indicates DGB is better in the overall effectiveness of utilizing of its asset to generate income, quality of receivable and successful of the firm in its collection and better performance of inventory management practice. Besides, it has better performance in controlling its expense than other banks. But BOA is not using its asset to its capacity or generating income so it should increase total revenue of assets.

4.4 Risk & solvency ratio analysis

Risk and solvency ratio the degree of financial risk that the banks face. It can be measure by total debt to total asset ratio the lower ratio indicates lower risk & good solvency than other banks

Table 4.4 Risk and solvency ratio analysis

No	Banks	2014	2015	2016	2017	Average	Rank
1	AIB	41.5	49.7	53.9	59.4	51.1	15
2	DB	42.8	45.6	43.7	51.2	45.8	5
3	BOA	45.7	43.9	48.3	55.7	48.4	9
4	WB	40	45.3	46.9	47.9	45	4
5	UB	40	47.7	49.3	54.1	47.8	7
6	NIB	51.4	52	47.6	51.8	50.7	14
7	CBO	59.7	57.7	55.8	58	57.8	16
8	LIB	28.6	48.3	59	58.2	48.5	10
9	ZB	36	46.8	46.4	43	43.2	2
10	OIB	41.5	52.1	51.1	50.5	48.9	11
11	BIB	42.1	45.6	52.4	51.1	47.9	8
12	BUIB	45.1	54.4	45.2	54.4	49.8	12
13	AB	46.7	51	50.4	51.4	49.9	13
14	ADIB	40.5	45	43.2	46.3	43.8	3
15	DGB	29.9	29.6	45.7	37.8	31.6	1
16	EB	36.1	51.2	49.8	46.3	45.9	6

(Source: Banks Annual report 2014-2017)

With regard to risk and solvency ratio calculated in table 4.4 Debub Global Bank has better followed by zemen Bank and Addis International Bank whereas cooperative bank of ormia has highest financial risk. It indicates DGB has better performance in minimizing the degree of financial risk i.e. the bank has financed most of its asset through 69.4 percent of equity so compared to 31.6 percent of debt financing so the bank face lower risk than other banks. But CBO has higher in debt to total asset ratio i.e. the bank has financed most of its assets through 57.8 percent of debt as compared to the 43.2 percent of equity financing. So the bank is involved in risky business.

4.5 Overall average performance of Ethiopian private banks

In order to assess the overall Ranking of Ethiopian private commercial Banks the average rank has been calculated. The individual ranking of banks for the period of 2014-2017 and results shown in the table below. Based on ratio analysis Addis International Bank stood at first position Followed by Birhan International Bank and Zemen Bank while Bank of Abyssinia scored the last position

Table 4.5 the over performance Rank

No	Banks	Liquidity	Profitability (ROA)	Efficiency	Risk & solvency	Average	Rank
1	AIB	6	12	11	15	11	13
2	DB	7	11	8	5	7.75	5
3	BOA	15	9	16	9	12.5	14
4	WB	10	6	10	4	7.5	4
5	UB	8	15	14	7	11	13
6	NIB	5	7	13	14	9.75	10
7	CBO	1	14	4	16	8.75	8
8	LIB	11	13	2	10	9	9
9	ZB	14	2	6	2	6	3
10	OIB	12	5	12	11	10	11
11	BIB	2	1	7	8	4.5	2
12	BUIB	13	4	5	12	8.5	7
13	AB	9	10	9	13	10.25	12
14	ADIB	4	3	3	3	3.25	1
15	DGB	16	16	1	1	8.5	7
16	EB	3	8	15	6	8	6

(Source: Banks Annual report 2014-2017)

5. Conclusions and Recommendations

5.1 conclusions

The study aimed to examine the performance of private commercial banks of Ethiopia with liquidity, profitability, risk & solvency and efficiency ratio for the period 2014-2017 To conduct the study. Secondary data partially audited financial statement were used to analyze the data. The major finding of the study are as follows

In terms of efficiency ratio, Debub Global bank rated first and followed by lion international bank and Addis International bank. Wegagen bank had maintained the last position. Therefore, Debub global bank is better in the effectiveness of utilizing its asset to generate income which means better revenue to asset ratio than other competitor banks. Lion international bank and Addis international bank also have good asset utilization to generate income next to Debub global bank, but Wegagen bank is less effective in utilizing of asset to generate income or least in revenue to asset ratio.

With regard to profitability, Birhan International Bank placed first and followed by Zemen Bank, while Debub Global Bank Scored last position. Therefore, Birhan international bank is performing well interms of profit and better in profit earned per birr of asset than other competitor. Zemen bank also has well performance interms of profit next to birhan international bank, whereas, Debub global bank has less profit per birr of asset or poor performance interms of profit than other competitor banks.

Cooperative Bank of oromia was rated first as per liquidity Measures followed by Birhan International Bank. While DebubGelobal Bank scored the last Position so that cooperative bank of oromia has large margin of safety and able to meet its shortterm obligation in effectively and timely manner, whereas, Debub global bank has less margin of safety to meet its short term obligation.

In Risk and solvency, Debub Global Bank achieved the first Position followed by Zemen Bank. Whereas, cooperative Bank of Oromia ranked the least from the banks. Generally Debub global bank is able to minimize the degree of financial risk or less in debt to asset ratio, whereas, Cooperative bank of oromia face high financial risk or larger in debt to asset ratio. According to the overall performance of financial ratio analysis Addis International Bank stood on the top followed by Birhan International Bank. Whereas Bank of Abyssinia. Banks stood the least. In general, Addis international bank has better average performance in order to minimize the degree of financial risk, utilizing of asset to generate income, meeting its short-term obligation and performing interims of profit, but Bank of Abyssinia has less profit per birr, utilizing of asset, margin of safety on average.

5.2. Recommendations

Based on the finding of the study the following recommendations were forwarded:

The study revealed that liquidity, profitability, efficiency and risk & solvency were the key factor on performance of private commercial bank in Ethiopia. Therefore Bank Manager are advised to give due attention to those factors to improve performance by developing asset management policy for their banks in order to increase their effectiveness of asset utilization to generate sales and minimize the degree of financial risk that face them. Beside they advertise their customers by giving reward in order to decrease nonperforming loan and increase the deposit of each customer to the bank.

AIB, BOA and UB are weak on the average rank of financial factors. Therefore, the managers of the banks advised to share experience from other high achievable banks such as ADIB, BIB on the average ranks of financial factors profitability, liquidity, efficiency, risk and solvency. In addition they make more advertisement for customers by reward increase interest for the deposit of their customers and give special training for their employees how to use asset, how to attract customers, how to motivate the investors that use their bank.

The current study uses only some representation financial ratio from the factors. The financial ratio include in the research may not exhaustive and enough to evaluate the bank liquidity, profitability, efficiency and risk & solvency. Therefor future research is recommended to consider addition all financial ratios

The current study employed secondary data and the analysis was fully based on financial data. However, secondary data obtained from financial report of bank through national bank can have potential bias. The future researcher is recommended to supplement Secondary data by primary data Such as interviewing. The current study use only financial statements quantitatively. Therefore, the future researcher is recommended to consider other additional qualitative data such as newspaper. The current study uses only descriptive statistical tools in order to analyze the research. So the future researcher is recommended to supplement inferential statistical tools. The current study uses only four consecutive years of financial data in order to include the newly established banks. The future researcher is recommended to include the financial data that reported until their study.

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