

ST. MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

MEASUREMENT OF FINANCIAL PERFORMANCE

USING FINANCIAL RATIOS

IN THE CASE OF NIB INTERNATIONAL BANK S.C.

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SMU

JUNE,2014

ADDIS ABABA

**MEASUREMENT OF FINANCIAL PERFORMANCE
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IN THE CASE OF NIB INTERNATIONAL BANK S.C.**

**A SENIOR ESSAY SUBMITTED
TO THE DEPARTMENT OF ACCOUNTING
BUSINESS FACULTY
ST. MARY'S UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
OF THE DEGREE OF BACHELOR OF ARTS IN
ACCOUNTING**

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ACRONYMS

BEP-Basic earning power

EBIT-Earning before interest and tax

NCA- Net current asset

NFA-Net fixed asset

NW-Net worth

ROA-Return on asset

ROE- Return on equity

FR- Financial ratio

ABSTRACT

This study is conducted on NIB International Bank S.C. The purpose of this study is to analyze the financial statement of the bank. To assess the strength and weakness of the bank's financial performance and come up with alternative solutions.

In most firms, whether manufacturing, merchandising or service rendering, there is the absence of organized information showing the trend performance and position of each bank in the industry they are computing. This problem leads creditor, investor and other with no information about the financial condition of the bank.

To conduct this study, primary and secondary data are collected from the interview, questionnaire and financial report of the bank. To analyze these data financial ratio analysis and trend analysis are used. Finally, depending on discussions and analysis conclusions & recommendations are made.

CHAPTER ONE

1. INTRODUCTION

1.1. BACKGROUND OF STUDY

Financial performance is primarily related with analysis of financial statement to get or obtain better understanding of the firm's position and performance. Financial ratios are highly used and applied for the case of analyzing accounts for both internal & external purposes of a given firm. Financial ratios assists a given firm to summarize large quantities of financial data and qualitative evaluations, judgments & enquiries about its overall performance. [www.slideshare.net/wilbertfrank. (2010)]

The researchers preferred this scope of topic, the topic of financial performance using financial ratio, in a case of exposing, disclosing and exploiting the absence of organized information showing the trend performance, efficiency & position of NIB International Bank. These problems, hindrances & obstacles forces creditors, investors, depositors and others with no appropriate information about the financial conditions of the bank.

Financial statements are the channels of conveying and communicating a concise picture of the profitability and financial position of the business both to the management and interested outsiders. This statements are prepared for the purpose of enlightening, illustrating and disclosure of financial condition at the terminating period of the fiscal year and the day to day operating results during the year. Financial ratios are fundamentally & mainly means of analyzing, dealing & organizing financial statement accounts for both outside and inside parties regarding the organization. They are very important applications of instruments for management, and as an instruction of directions for investors, depositors, tax authority and other parties. Imagine-the ratio analysis is not modified and adopted by a given bank-then, the bank cannot identify, estimate and measure its strength, weakness & compare its performance with other banks.[IM Pandey, Financial Management, 8thEdition, 2001, Page. 29 -30.]

NIB International Bank was established in 1999A.D, on October 22 with a number of 717 shareholders with a paid up capital of birr 27.6 million to enhance the provisions of domestic and international banking services. The bank has abled to objectify a remarkable achievement, through various inclinations, starting from its foundation. As of June 30, 2013, the total capital of the bank is estimated to be 2,000,000,000. The member of shareholders is in a line of increment to a level of 400,000 of birr each 500 each. At this moment the bank has 71 various district affiliations and branches with a total of

92,000 customers, of which, 40 are in Addis Ababa and the remaining 31 are located in the regional towns. Regarding its achievement and impact on the economy of the country the bank has abled to score the recognition of a title-the best bank in Ethiopia-in a global finance magazine. The main reason for the bank achieving this title is due to its potent and capability to stay in banking industry, its impact on country's economy and its efficiency to utilize & manage financial resources properly. [NIB International Bank's July 2012 – June 2013 annual report.]

1.2. STATEMENT OF THE PROBLEM

The fundamental domain of problems and inquiries influencing the researchers to identify and recognize financial ratios like profitability, liquidity and other evaluations related to financial performance includes:

The performance, efficiency and financial position of firms & entities cannot be seen easily from financial statement figures; but, some analytical procedures, mainly ratio analysis is made.

Under this consideration, the given firm or organization is able to identify and measure its strength and weakness comparing itself with other firms in a certain industry, and also its past performance through evaluation of trend & structures in the organization's financial position over time.

Regardless of the previously stated situations, many firms do not provide enough, necessary & needed answers to the major parties of a firm concerning their liquidity, solvency, activity and profitability position. This mentioned firms have a shortage of the applicability of favorable analytical accounting tools in addition to other quantitative and qualitative techniques.

There are a number of various commercial banks which are operating and expanding their affiliate branches. In spite of this circumstance, the financial statement of these banks show the lump sum figures about their performances and activities. This problem initiated the researcher to know more of profitability, liquidity and other ratios. Their financial performance is not measured on the basic principles of financial ratios. Their deficiency to adapt financial ratio analysis implies the conditions, with its functional regard, lack of the applicability of suitable analytical procedures.

With a great consideration of the previously mentioned problems, the study aimed to generate settled information providing insight and perception regarding financial performance-in alliance with NIB International Bank S.C

In the case of listing the foundation problems and barriers related to financial performance and financial ratio in relation to NIB International Bank, it has the following features and traits. Some problems are listed as follows:-

- There are some traits & performances of non-transparency observations concerning the financial performances of a bank.
- The bureaucracy condition in a bank, its own restricting rules & regulations, doesn't allow the management system to bombard the barriers of providing open-minded and transparent financial performance of the bank.
- The financial management are limited, restricted & contextualized with the procedures, regulations and rules of the given bank.
- The financial ratio which is stated and estimated in a bank falls to the shortage & deficiency of not fulfilling the working ethics, integrity and faithfulness of the management.
- The financial ratio is not sufficient enough to tackle, target and strike the day to day performances of the bank.

1.3. RESEARCH QUESTIONS

When researchers reviewed and realized the above stated problems we can mention some important questions which enable us to raise a tentative solution and an educated discourse. Some of the ruminant questions reached out in this study includes:

- .What is the status of the firm as measured by liquidity ratio?
- .What does the profitability status and trend of the firm look like?
- .What does the debt management ratio look like?
- .What is the overall performance of the company?

1.4. OBJECTIVE OF THE STUDY

Through a matter of observing the provided data we can illuminate basic and fundamental research objectives. In a given research proposal we applied both general objectives and specific objectives by responding to the main research problems.

1.4.1. General Objectives of the Study

The general objective of this study was to evaluate the financial performance using financial ratio that shows the strength and weakness of NIB International Bank.

1.4.2. Specific Objectives of the Study

Specifically the study tried to achieve the following:

- .To measure and assess the liquidity position of the bank to evaluate the asset management practice.
- .To assess the profitability of the bank.
- .To look through efficient usage of financial ratio of the organization.
- .To identify financial weakness and strength of the bank.

1.5. Significance of the Study

The pillars of our benefits and significance for carrying out this research study was for the matters of:-

- As a means of strengthening the level of financial performance in banks.
- To give clues and directions for the matter of improving the measure of financial performance in the organization.
- It enables us to provide a chance of widening and spreading out the skill of analyzing and interpreting financial statements.
- For the matters of gaining and capturing intellectual satisfaction.

- To deactivate the negative impacts of bank system regulations & policies on the measure of financial performance.
- It may point out ways for those who want to go further to analyze, inquire and examine problems related to financial performance.

1.6. Scope of the Study

This study covers and evaluates the financial performance of 5 years- [2008/09 – 2012/13] - through financial statements of NIB International Bank S.C. This time was taken not to make our study more of complicated and perplexed; for the reason it is time taking and costly.

1.7. RESEARCH DESIGN AND METHODS

1.7.1. Research Design

The study was concerned about financial performance using financial ratio in NIB International Bank. The study treated was descriptive type, because it depends more on existing performance of the firm and describes the events, or facts.

1.7.2. Sources of Data

The data gathering's sources includes both primary and secondary data collection mechanisms. The primary sources of data embraces, holds & consists of questionnaire and interview. On the other side the secondary sources of data has its own audited financial statement, text books, manuals and internet sources.

1.7.3. Methods of Data Collection

In the process of data collection, to update the research proposal, we tried to apply primary and secondary data collection procedures.

The researchers applied both open ended and close ended techniques of data collection tools for data gathering according to their easily analyzed & complete answers for the questionnaire we made.

1.7.4. Population and Sampling Technique

In the process of preparing the research proposal, the researchers applied variety of methods of selecting & piercing out items to be observed for a given study. The first design method, random selection, engages with selecting the items randomly and spontaneously without any intended planning or forecasting. In the second place, we intended to apply the case of judgment selection through identifying the items or events based on scientific analysis, examining and interpreting.

The sample size of each respondent group is listed below:

Table 1.

Respondents	Population	No of representatives
Account Section Heads	3	2
Customer Service Office	12	6
Senior Accountant	3	2
General Account Division	2	1
Total	20	11

1.8. Limitation of the Study

One of the major problems that we faced while doing the paper was the following:

Lack of resource, shortage of time, and lack of money to investigate each and every account system. In addition to this, other resources to some extent to gather appropriate data for the study could be considered as limitation of our study.

1.9. Organization of the Study

The research study has four major chapters. The first chapter deals with introduction which includes background of the study, background of the organization, statement of the problem, research question, objective of the study, significance of the study, scope of the study, limitation of the study, research methodology and organization of the study. The next chapter deals with the literature review parts of the research study to be stroked through. The third chapter deals with data analysis and interpretation. The last chapter contains summary findings, conclusions and recommendations.

CHAPTER TWO

2. RELATED LITERATURE REVIEW

2.1. An Overview of Financial Management

Financial management was emerged as a separate field of study in the early 1990 A.D. In a time of its postulate the emphasis was on legal aspects of mergers. The information of new firms and various types of securities of firms could issue to raise capital. The focus of financial management shifted to managerial decisions regarding the choice of assets and liabilities with the goal of maximizing the value of the firm.

The focus of valuation has continued on in the 1990s. But the analysis has been expanded to include:-

1. Inflation and its effect on business decisions.
2. Deregulation of financial instructions and the resulting trend toward large and broadly diversified financial services of companies.
3. Dramatic increase in both the use of computers for analysis and the electronic transfer of information.
4. The increased importance of market and operation.[Brigham, Fundamental of Financial Management,7th edition, 1995,page. 5-6.]

2.2 Financial Statement Analysis

Financial performance involves analysis of financial statements of a firm to obtain better understanding and evaluation of its position and activities. Ratios are primary means of analyzing accounts for both internal and external purpose. They are useful tools for management aimed or a guide to investors, creditors and others. The first task of financial analysis is to select the information relevant to be decision under consideration from the total information contained in the financial statements in a way to highlight significant relationship. A complete financial statement analysis and interpretation of financial statements involve the assessment of previous time business performance, evaluation and forecasting about the potential of the expected or desired results.

•It consists of financial statements showing of a study of relationships and trends to decide whether the financial position of a bank are satisfactory or unsatisfactory.

- It helps to compare current performance of a bank with previous performance, and whether the trends show improvement or not.
- Analysis of financial performance help in assessing various risk ventures associated with the banking service.

2.3. Nature of Ratio Analysis

Financial ratio, with its own domain of contribution, is used as pillar for the purpose of judging & evaluating the financial position, diligence & performance of a given firm. Even though the accounting figures reported in financial statements are absolute, they don't provide a meaningful understanding of the performance and financial position if they have to relate with some other relevant information. In short terms, we can say, the relationship between two accounting figures expressed mathematically is known as financial ratio or shortly ratio. This ratios helps to summarize large quantities of financial data, and to make qualitative judgment about the firm's financial performance. For example: - Current ratio is calculated by dividing current asset and current liabilities. This ratio indicates the relationship between current asset and current liabilities. This relationship is an index or yardstick, which permits a qualitative evaluation to be formed about the firm's ability to fulfill its current obligation.

It measures the firm's ability to target its current obligation.

It measures the firm's liquidity.

The larger the ratio, the larger will be the firms liquidity.

Ratio analysis reflects a qualitative relationship in a case of reinforcing and making qualitative judgment. [IM. Pandey, Financial Management, 8th edition, 2001, Page. 109.]

2.4. The Purpose of Ratio Analysis

If information is needed & required as to the future capacity of a certain company in repayment of debt, a very short cue method of getting it is through ratios of short term and long term lenders before giving

any loan. It is what financial institutions frequently use to make loan. The results of financial analysis is a serious factor whether the loan is to be made or not. Short term creditors need their money back within one year. As a result, they enquire to be sure of the current asset existing which are used to liquidate short term debts. This information can be evaluated from the statements with ratios of liquidity.

The management of a firm is concerned with all aspects of its operation and its relation along with creditors, investors and the government. The firm's ability to meet its commitment to creditors- [liquidity and leverage ratio] - and to minimize costs- [activity and profitability ratio]-determines whether it fulfill its ultimate objectives of providing shareholders with a maximum return- [reflected in profitability ratios]. [Schall, Lawrence D., and Charles Harley, Introduction to Financial Management, 4th edition, 1986, page 404.]

2.5. Major Standards of Comparison

Financial ratio analysis involves comparison for a useful interpretation of the financial statement. A single ratio in itself doesn't indicate favorable or unfavorable condition of financial performance. It should be completed with some standard.

Standard of comparison may consists of:-

1. Time series analysis

The easiest way to evaluate financial ratio with the past ratio. When financial ratio over a period of time is compared, it is known as the time series-or trend- analysis.

2. Competitors ratio

It is ratio of some selected firms, especially the most progressive and successful competitors at the same point in time. It is called cross-sectional analysis.

3. Industry ratios

It is ratio of the industry to which the firm belongs?

4. Projected ratios

It is ratios developed using the projected or Performa, financial statement of the same firm.

[IM Pandey, Financial Management, 8th edition, 2001, page.110]

2.6. Types of Ratio

Some common types of financial ratios include:-

1. Liquidity ratio
2. Activity Ratios
3. Profitability ratio
4. Leverage ratio

2.6.1. Liquidity Ratio

The main types of liquidity ratios include:-

Current Ratio: - is a ratio of the firm's total current asset to its total current liabilities. A low ratio is an indicator that a firm may not be able to pay its future bills on time, particularly it causes a long period of time for the collection of cash. A high ratio may include an excessive amount of current asset and management's failure to utilize the firm's resource properly.

Current ratio= $\frac{\text{Current asset}}{\text{Current liability}} = \frac{[CA]}{[CL]}$

Current liability [CL]

Quick ratio: - it bases a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted in to cash immediately or reasonably soon without a loss of value-cash is the most liquid assets. Other assets which are considered to be relatively liquid and included in quick assets are debtors and bill receivables and marketable securities- [Temporary quoted investment]. Inventories are considered to be less liquid. Inventories normally require sometimes for realizing in to cash; their value also has a tendency to fluctuate. The quick ratio is found out by dividing quick assets by current liabilities.

Quick ratio= $\frac{\text{Current assets [CA]-inventories}}{\text{Current liabilities [CL]}}$

Current liabilities [CL]

2.6.2. Activity Ratio

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets.

Activity ratio, thus involve a relationship between sales and assets, a proper balance between sales and assets.

Some parts of activity ratio consists of:-

A. Inventory turn over

It indicates the efficiency of a given firm in producing and selling its product. It shows how many times the average birr invests in inventory which was sold during the year. The liquidity of a firm inventory may be calculated:-

Inventory turnover= $\frac{\text{cost of goods sold}}{\text{Inventory}}$

Inventory

There are four factors important in calculating inventory turnover ratio:

1. Physical turnover of inventory is measured
2. The sales figure include a markup for profit
3. Average inventory may be used
4. The inventory may be calculated usually an average figure in a manner similar to average account receivable.

B. Fixed asset turnover

The firm may wish to know its efficiency at utilization fixed asset. Fixed asset turnover may indicate a high investment in fixed assets. Such high investment in fixed asset reduces the opportunity for further investment. It also shows the contribution of the fixed assets in generating sale.

Fixed turnover= $\frac{\text{Sale}}{\text{Fixed asset}}$

Fixed asset

C. Total asset turnover

Assets are used to generate sales. Therefore, firms which manage its assets efficiently maximizes sales. The relationship between sales and assets is called asset turnover. A firm's ability to produce a large volume of sales for a given amount of assets is the most important in operating its performance. Unutilized or under-utilized assets increases the firms need for costly financing as well as expenses for maintenance. This ratio shows the firm's ability in generating sales from all financial resources committed to total assets. It is expressed as follows:

Total asset turnover= $\frac{\text{Sales}}{\text{Total assets}}$

Total assets

D. Average Collection Period

It compares the receivable balance with the daily sales required to produce the balance. It compares the size of the firm's sales and the size of its uncollected bills from customers. If the firm is having difficulty in collecting its money, it has a large receivable balance and low ratio.

Average collection period= $\frac{\text{Account receivable [A/R]}}{\text{Daily sales}}$ [IM Pandey, Financial Management, 8th edition, 2001, page 130 - 131]

2.6.3. Profitability Ratios

This is calculated to measure the operating efficiency of the company. Besides management of the company, owners and creditors are also interested in the profitability of the firm. In this condition, creditors want to get interest and repayment of principal regularly. Owners want to get required rate of return on their investment. This is possible only when the company earns enough profit. These ratios include:

A. Profit Margin

It indicates the ability of the firm to withstand adverse condition, and it may be used also as an indicator of possible success under favorable condition.

Profit margin[PM] = $\frac{\text{Net Income [NI]}}{\text{Sales}}$

Sales

B. Gross Profit Margin

It shows the profit relative to sales after the direct production costs are deducted.

Gross Profit Margin [GPM] = $\frac{\text{Sales} - \text{cost of goods sold}}{\text{Sales}}$

Sales

C. Return on Investment

It is the key indicator of profitability for a given firm. Firm with a higher rate of efficiency using their assets have relatively high rate of return. Less efficient firms have lower return.

Return on Investment = $\frac{\text{Net income [NI]}}{\text{Total asset}}$

Total asset

D. Earning Power

It measures the after tax return achieved by the company compared to the firm's resource. It links after tax profit to the book value of the asset. If a firm is using its asset efficiently, it has a high earning power when compared with similar firm.

Earning Power = $\frac{\text{EBIT}}{\text{Total Asset [TA]}}$

Total Asset [TA]

2.6.4. Leverage ratio

Long term creditors-i.e. debenture holders- are more concerned with the firm's long term financial position. These ratios indicate the extent to which the firm has relied on debt in financing assets.

This ratios include:

1. Debt ratio: - It is computed by dividing total debt [TD] by capital employed [CE] or net asset [NA].

Capital employed will include total debt [TD] and net worth [NW].

Debt Ratio = $\frac{\text{Total Debt [TD]}}{\text{Total debt [TD] + Net worth [NW]}}$

$$DR = \frac{\text{Total debt}}{\text{Capital employed [CE]}}$$

Capital employed [CE]

Because of the equality of capital employed and net assets. It can be defined as:

$$NA = CE$$

$$\text{Debt Ratio} = \frac{\text{Total debt [TD]}}{\text{Net Asset}}$$

Net Asset

2. Debt equity ratio

It is the relationship describing the lender's contribution for each birr of the owner's contribution. It is directly computed by in dividing total debt by net worth.

$$\text{Debt equity ratio} = \frac{\text{Total debt [TD]}}{\text{Net worth [NW]}}$$

Net worth [NW]

[IM Pandey, Financial Management,
8th edition, 2001, page 117-119.]

CHAPTER THREE

3. Data Analysis and Interpretation of the Study

This chapter is concerned with data presentation and analysis that are collected through primary and secondary data collections. The primary data collections include: - questionnaire and interview; while the secondary data collection includes those data gatherings which are obtained from the annual report of NIB International Bank S.C. to examine the strength and the weakness of the bank that we tried to use the bank's financial statement, mainly that of balance sheet and income statement through a fulcrum of applying and using financial ratio.

The analysis has three basic driving forces and foundational sources: - questionnaire, interview and secondary data collection. The questionnaire tried to provide open and close ended questions for a total number of 11 respondents, out of the total population, with in four fundamental departments. Here, we tried to chase after presenting the analysis and its interpretation after following these procedures.

3.1 Characteristics of the Study Population

Now we have tried to explore the data presentation and analysis of the questionnaire with a beneath reliance on sketching a figurative landscape of tables. The tables are presented as follows:-

Table: 2. Demography Table

1. Gender	Male	Female		
No. of respondent	8	3		
% of population	73%	27%		
2. Age	20-30yrs.	31-40 yrs.	40-50 yrs.	>50 yrs.
No. of respondent	6	5	-	-
% of population	55%	45%	-	-

3. Your work experience in NIB International Bank?	< 3 yrs.	3-5 yrs.	5-10 yrs.	>10 yrs.
No. of respondent	5	5	-	1
% of population	45.5%	45.5%	-	9%
4. Your current Position in NIB Bank?	Account section head	Customer service officer	Senior accountant	General account division
No. of respondent	2	6	2	1
% of population	18%	55%	18%	9%
5. Education level	Below Diploma	Diploma	Degree	Masters
No. of respondent	-	-	11	-
% of population	-	-	100%	-
6. How long have you stayed on financial ratio performance in the bank?	< 3 yrs.	3-5 yrs.	5-10 yrs.	>10 yrs.
No of respondents	3	7	-	1
% of population	27%	64%	-	9%

Source; Questionnaire Data

The involvement of women respondents is at a lower percentage of rating 27% compared with men personnel. It shows that men have a higher rate of engagement through 73% coverage from all the total respondents. Mostly the majority percentage of personnel working in the bank are adult and adolescence showing the appropriate substitution of elderly workers with adults. Most percentage of the workers rating 91% are experienced with a less than 5 years, and only 9 % of the total sampling population is experienced with more than 10 years. The education status of the workers in NIB International Bank S.C. implies that 100 % of the population sample is at a degree level. It shows the higher level of educational hierarchy is not that much common in its working personnel. It is just in a middle and better position. The majority-64% of the workers- have a better and an average working experience within relation to financial

performance, while 27% of the crew workers have below average financial performance engagement. Only 9% of the crew workers have an utmost and extreme side involvement with financial performance.

Table: 3. Table of Financial Performance

7.The current measurement of Financial ratio is satisfactory?	Strongly agree	Disagree	Agree	Strongly disagree
No. of respondent	1	1	9	-
% of population	9%	9%	82%	-
8.Does the measurement of the bank in alliance with its rules and regulations?	Yes	No		
No. of respondent	11	-		
% of population	100%	-		
9.How is the trend measurement of financial ratio in a given fiscal year?	Increasing	Decreasing		
No. of respondent	9	2		
% of population	82%	18%		
10.Is there any proper event that you respond to the evaluation of FR in relation to the bank's Performance?	Yes	No		
No. of respondent	7	4		
% of percentage	64%	36%		
11. Does these ratio properly measure the ability of the bank to meet its short term obligation?	Yes	No		

No. of respondent	9	2		
% of population	82%	18%		
12.Does the FR measure the firm's short term financial strength?	Yes	No		
No. of respondent	10	1		
% of population	91%	9%		
13.The measurement of the proportion of total assets financed by NIB Bank's creditors satisfactory?	Yes	No		
No. of respondents	8	3		
% of population	73%	27%		
14.How long will it take to prepareFR in a given fiscal year?	3 months	6 months	9 months	12 months
No. of respondent	7	3	-	1
% of population	64%	27%	-	9%
15.Is the evaluation of FR of NIB Bank in accordance with its ultimate policies and regulations?	Yes	No		
No. of respondent	9	2		
% of population	82%	18%		
16.Is the bank responding and reacting properly for a certain deviation of FR evaluation inrelation to its performance?	Yes	No		
No of respondent	9	2		

% of population	82%	18%		
17.Which rate of FR is highly implied to determine the well Performance of the bank?	Lower rate	Medium rate	Higher rate	
No. of respondent	-	8	3	
% of population	-	73%	27%	
18.What is expertise position of the person who involves in estimation and evaluation of FR of the bank?	Adequately trained	Not adequately Trained	Some training only	
No. of respondent	7	1	3	
% of population	64%	9%	27%	

Source; Questionnaire Data

The majority sections of the working crews-82% are in a realm of a special agreement in a case concerning the satisfactory condition of financial ratio measurement in NIB International Bank S.C. It shows that the bank is performing well those measurements related to financial ratio performance. There is a complete and analogous correlation of financial ratio measurement along with the bank's rules- rating 100%. The trend measurement shows an increment by 82% as a result of an excessive collection of deposits from customers. On the other side it is decreasing by 18% due to certain expenditures. The above sample indicates that more than half of the population has a certain affiliation with evaluation of financial ratio; while 36% of the workers don't have this participation. The positive approval of the respondents, concerning the appropriate measurement of financial ratio in a bank, reaches to 82%-to amplify the relationship which exists between deposit and loan; so it clearly shows the level of liquidity of the bank. The above sample portrays that 91% of the total population is, indicating the measure of financial ratio in relation to the deposit and receivables amount of the bank, able to examine the bank's short term financial strength. Out of the total respondents 73% of the sample population are responding-satisfactory- to show that most people or creditors buy share within short period of time while the new share issued. More than half of the total population of the respondents -rating 64% -suggests financial ratio is prepared with in a three months, quarterly of the fiscal year. While the other 27% implies a semi-annually preparation periods for the financial ratio measurement. There is a serious implication that 82% of the sample population agrees in a point that

the financial ratio evaluation is performed in accordance to the bank's policies. The bank reacts properly and in the right manner for certain deviations, changes and variations of financial ratio in relation to its performance up to a level of 82% coverage. Medium rate of financial ratios highly applied- covering 73%- to determine the well performance of the bank. On the other hand higher rate is partially and superficially applied. The person to be involved in estimation and evaluation of financial ratio is required to be highly trained allied with 64% of the sample population; while, 1/4th and 9% of the sample uncovers the expertise to be with partial training and adequately training.

The second portion of our analysis was established under the beneath foundation of an interview which is made to question some serious and radical questions just to find a clear pictures and an iconography with in relation to the day to day operations of Nib International Bank S.C. The interview has a serious of 15 inquiries, and it consists of the required responses from a side of the management in its affiliation. The main analysis of the interview is presented as follows:

The basic role regarding financial statement is to provide a relative information of absolute no., the co.'s relative value and through a channel of comparing absolute terms. But, on the other side, the basic phenomenon related to financial ratio is comparing one variable with other variable within a given fiscal year. It is important to assess the profitability or loss location of the bank. It has a great implication to judge the efficiency and well performance of the bank. Concerning the main areas of financial ratio evaluation in a bank, indeed is its significance to examine its efficiency, performance and position, includes managing of the liquidity, cash inflow &outflow, profitability, performance measurement, loan service and for stewardship of the infrastructure.

The main springs of the bank's financial resource is mainly on the behalf of deposit. It is clear that loan service is 100 % risky; while, cash is 0% risky. Actually the loan service which is provided to the client customers is based on capital. In reality, in bank industry, the bank's capital is too much low. The liquidity ratio of the bank needs to be 20%. If the liquidity ratio is more than 20%, the bank is enough to be liquidly to pay for liabilities. Return on equity helps to estimate the real performance and accounting measures of the bank. Capital adequacy has a significant merit to stabilize and restore the bank's capital if there is any shock in the economy; like recession, economic down turn, and depression.

3.2. Analysis of the Finding of the Study

The bank provides enough information, cash inflow & outflow in a sufficient case for the management through a case of daily report, progress report in quarterly period, and in angles of cognitive looking to the future. External parties, like National Bank, absorb some needed information like liquidity requirement of 20% through financial ratio measurement; capital adequacy through a copy of balance sheet and income statement recordings.

The bank's position for estimating liquidity and solvency, through the channel of financial ratio, is budgeting and planning the possible potential of deposit; making of loan estimation through the deposit source, selling of shares. In reality & literal sense the bank's liquidity position is not less than 20% with ruminant of 80% of loan deposit ratio. To estimate profitability position of the bank, the bank applies and utilize various services; time deposit, loan service and other business relations. Financial ratio is only directive & motivating the possible tripe of the bank's activity to retreat its healthy scene beyond understanding absolute number. The significance of financial ratio is to magnify and resolute the performance, strength & weakness, pin-pointing the bank's position.

In regard to the general outlook, In a national landscape, regulations and rules set and amended by National Bank have a striking impact for harmonious scent of the country's economy to collapse recession, inflation, economic down turn and depression. May be it is right to follow this rules as an obligation criteria; but, it is a serious impedimenta and heavy one burden for the bank.

Liquidity ratio is used to interpret liquidity position and obligation of the bank. Return on asset or return on investment, under activity ratio, functions to determine the net asset of the bank. Leverage ratio interprets the bank's long term financial position and its debt position. Profitability ratio is highly intrigued to determine the bank's capital and the overall industry.

On the other part of this study, through a collection of balanced sheet and income statement from the bank's annual report, we concentrated on five years [2008 /09 A.D – 2012/13 A.D] financial position and performance of the bank to compare the possible financial ratio in each given fiscal year. The collections of balance sheet and income statements are presented as follows:

Table 4. Summarized balance sheet

NIB International Bank S.C.

Financial Performance

Balance Sheet

	2008/09	2009/10	2010/11	2011/12	2012/13
Asset					
Cash and bank balance	1,332,685,620	2,334,559,25	2,568,663,358	3,444,564,168	2,104,846,339
Cash on hand	341,295,450	1,026,241,659	622,349,184	455,724,817	693,208,212
Reserve account with NBE	317,916,920	412,916,920	537,916,920	762,916,920	333,190,920
Payment & settlement account with NBE	402,171,911	493,347,150	394,348,252	922,347,555	170,754,408
Deposit with local banks	93,725,297	189,093,330	375,779,110	439,019,730	550,299,047
Deposit with foreign Banks	177,576,042	212,960,066	638,269,892	864,555,146	357,393,752
Other assets	238,108,548	293,884,214	379,569,306	169,865,303	362,821,611
Treasury bill	-	-	499,415,206	199,610,000	150,000,000
Government bonds	-	-	-	563,281,058	1,911,097,058
Investment in shares	2,652,500	3,778,500	3,778,500	6,993,750	62,451,000
Loans & advances	2,033,788,606	2,118,055,100	2,446,830,784	2,652,420,293	4,429,319,286
Fixed assets	42,875,885	56,230,088	72,254,150	75,073,506	124,008,321
Total assets	3,650,111,159	4,806,507,027	5,970,511,304	7,111,808,078	9,144,543,615
Liabilities					

Deposits:	2,469,931,303	3,296,389,970	4,127,188,480	5,157,401,343	6,655,214,042
Demand deposits	670,979,595	1,031,726,983	1,308,874,579	1,801,799,977	2,123,659,349
Saving deposits	1,436,580,753	1,995,516,308	2,517,185,658	3,137,259,029	3,980,683,317
Fixed deposits	362,370,955	269,146,679	301,128,243	218,342,337	550,871,375
Margins held on letters of credit	162,822,443	200,646,985	221,390,852	146,958,893	304,998,148
Other liabilities	373,500,276	514,936,300	621,072,590	539,046,136	426,095,720
Provisions for tax	45,732,463	65,710,214	84,350,956	97,641,787	92,306,387
Total liabilities	3,051,986,485	4,077,683,469	5,054,002,878	5,941,048,159	7,478,614,296
Capital and reserves	598,124,674	728,823,558	916,508,426	1,170,759,919	1,665,929,319
Share capital	416,901,000	487,129,000	579,867,000	717,018,500	999,399,000
Share premium	8,663,900	1,293,700	5,776,625	-	-
Legal reserve	91,214,596	129,729,210	179,950,849	241,559,098	384,684,562
Special reserve	900,000	1,000,000	1,100,000	1,200,000	1,400,000
Retained earning	-	-	6,777,282	26,857,574	66,445,093
Profit and loss account	80,445,178	109,671,648	143,036,670	184,124,747	214,000,664
Total capital, reserve and liabilities	3,650,111,159	4,806,507,027	5,970,511,304	7,111,808,078	9,144,543,615

Source; NIB International Bank's annual report.

Table 5.

Summarized profit and loss account

NIB INTERNATIONAL BANK S.C.

Financial Performance

Profit and Loss Account

	2008/09	2009/10	2010/11	2011/12	2012/13
Income	316,582,374	426,016,429	556,505,111	656,654,036	851,188,264
Interest income	209,998,084	253,590,455	265,458,488	332,858,672	570,518,514
Commission & service charges	48,275,800	90,192,623	151,702,013	187,978,663	199,499,593
Gain on foreigncurrency transact-ions and translations	55,076,142	77,259,553	130,435,569	124,117,439	65,828,988
Other income	3,232,348	4,973,798	8,909,041	11,699,036	13,240,241
Expenses	157,811,064	206,247,762	271,267,600	312,579,253	472,614,325
Interest expense	62,217,698	75,112,910	89,710,018	119,419,282	184,948,395
Salaries and benefit	35,548,133	53,471,759	77,123,363	96,643,155	140,070,315
Administrative & general expenses	40,906,582	54,151,280	71,059,573	80,935,745	134,126,606
Provision of doubtful debts	19,035,151	23,391,813	33,202,146	15,339,571	-
Audit fee	103,500	120,000	172,500	241,500	368,000
Net profit before Taxation	158,771,310	219,768,667	285,237,511	344,074,783	378,573,939
Provision for Taxation	(45,732,463)	(65,710,214)	(84,350,956)	(97,641,7876)	(92,306,387)
Net profit after Taxation	113,038,847	154,058,453	200,886,555	246,432,996	286,267,552

Less:					
Transfer of legal Reserve	(28,259,712)	(38,514,613)	(50,221,639)	(61,608,249)	(71,566,888)
Transfer of special reserve	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Less: directors 5% allowance	(4,233,957)	(5,772,192)	(7,528,246)	(600,000)	(600,000)
Surplus for year	80,445,178	109,671,648	143,036,670	184,124,747	214,600,664
Earnings per share	161	170	188	190	147

Source; NIB International Bank's annual report

3.3. Liquidity Ratio

Here we have attempted to focus on quick ratio and current ratio, for in case, the bank gives much insight for these ratios in its day to day performance.

3.3.1 Current Ratio:

Current ratio is simplified in a manner:

Current ratio = $\frac{\text{Total current asset}}{\text{Total current liability}}$

Total current liability

Total current asset = Total asset – Fixed asset

Table 6.

Analysis of current ratio during 2008/09-2012/13

Years	Total current Asset	Total current liability	Current ratio
2008/09	3,607,235,274	3,051,986,485	1.18
2009/10	4,750,276,939	4,077,683,469	1.16
2010/11	5,898,257,154	5,054,002,878	1.17
2011/12	7,036,734,572	5,941,048,159	1.18
2012/13	9,020,535,294	7,478,614,296	1.21

Source; NIB International Bank's annual report

Interpretation:

Throughout all five years, except for 2009/10, average current ratio of NIB bank was higher than 1.16 birr for each one birr current liability. The indication and signal of the above figure is NIB bank grasps and own sufficient liquid asset to meet the matured current liability obligation. As a result the bank has sufficient potent to quench its short term obligation.

3.3.2 Quick or acid test ratio:

Simplification of acid test ratio is expressed as:

Quick ratio = $\frac{\text{current asset} - \text{inventory}}$

Current liability

It is assumed that the bank doesn't have an inventory in regard, to say, the quick ratio has identical measurement with that of current ratio. As a result the above calculation of current ratio is used to permeate quick ratio measurement.

3.4 Activity Ratio

Here we mainly analyzed current asset, fixed asset and total asset turnover ratios to examine NIB bank's activity ratio. Activity ratio cements and solidify the disclosure of knowing how effectively the bank is managing its asset in appropriate manner.

3.4.1 Current asset turn over

It is enlightened as follows:

Current asset turn over = $\frac{\text{Total operating income}}{\text{Current asset}}$

Current asset

It shows a unit of current asset the bank used to generate income.

Table 7.

Analysis of current asset turnover ratio in a year 2008/09-2012/13

Year	Total operating income	Total current asset	Current asset turn over
2008/09	316,582,374	3,607,235,274	0.087
2009/10	426,016,429	4,750,276,939	0.089
2010/11	556,505,111	5,898,257,154	0.094
2011/12	656,654,036	7,036,734,572	0.093
2012/13	851,188,264	9,020,535,294	0.094

Source; annual report, NIB International Bank S.C

Interpretation;

Current asset turnover has been increased continuously, except for the year 2011/12, over the fiscal years 2008/09-2012/13. It shows that the amount of positive acceleration on the bank's ability to earn a large amount of income for the provided amount of current asset. The above measurement of current asset turnover ratio is an indicator for the bank for generating an income of Birr 0.087, 0.089, 0.094, 0.093 and 0.094 for each consecutive years for one birr investment in current asset. It shows that the current asset turnover ratio is decreasing at birr 0.093, in a fiscal year 2011/12, to portray the bank's inefficiency to generate the required income from utilizing and implementing the given current asset.

3.4.2 Fixed Asset Turnover

Its algebra and simplification is calculated as follows:

$$\text{Fixed asset turnover} = \frac{\text{Total operating income}}{\text{Fixed asset}}$$

Fixed asset

It shows the unit of fixed asset the bank utilized to generate income.

Table 8.

Analysis of fixed asset turnover during 2008/09-2012/13

Year	Total operating income	Fixed asset	Fixed asset turnover
2008/09	316,582,374	42,875,885	7.38
2009/10	426,016,429	56,230,088	5.89
2010/11	556,505,111	72,257,150	7.70
2011/12	656,654,036	75,073,506	8.75
2012/13	851,188,264	124,008,321	6.86

Source; Annual report, NIB International Bank S.C

Interpretation;

The bank able to generate an income of birr 7.38, 5.89, 7.70, 8.75 and 6.86 for one birr investment through utilization of fixed assets in each consecutive fiscal year respectively. The efficiency of the bank in utilizing the required fixed asset in the process of generating the necessity income decreased from 7.38 to 5.89 birr for one birr investment in 2009/10. Then, it increased to 7.70 and 8.75 birr in two consecutive years, year 2010/11 and 2011/12. And, it decreased to 6.86 birr in 2012/13.

3.4.3 Total Asset Turnover

It indicates how efficiently the bank is using its asset to generate income.

Its algebraic equation is simplified as follows:

$$\text{Total asset turnover} = \frac{\text{Total operating income}}{\text{Total asset}}$$

Total asset

$$\text{Total asset} = \text{Current asset} + \text{Fixed asset}$$

Table 9.

Analysis of total asset turnover during 2008/09-2012/13

Year	Total operating income	Total asset	Total asset turnover
2008/09	316,582,374	3,650,111,159	0.087
2009/10	426,016,429	4,806,507,027	0.087
2010/11	556,505,111	5,970,511,304	0.093
2011/12	656,654,036	7,111,808,078	0.092
2012/13	851,188,264	9,144,543,615	0.093

Source; Annual report of NIB bank

Interpretation;

NIB International Bank S.C generates an income of 0.087, 0.087, 0.093, 0.092 and 0.093 Birr for one birr investment in a total asset for each consecutive years respectively. It shows that the bank's efficiency and performance in generating operating income was increased continuously except for the year 2011/12.

3.5.Leverage Ratio

It is highly applied to examine the long term financial position of the bank. The main sections to be covered includes:

3.5.1 Debt Ratio

It measures the proportion of total asset acquired with a certain amount of borrowed money.

It is calculated as follows:

$$\text{Debt ratio} = \frac{\text{Total debt}}{\text{Total asset}}$$

$$\text{Total debt} = \text{Total liability}$$

Table 10.

Analysis of debt ratio during 2008/09-2012/13

Year	Total debt	Total asset	Debt ratio
2008/09	3,051,986,485	3,650,111,159	0.84
2009/10	4,077,683,469	4,806,507,027	0.85
2010/11	5,054,022,878	5,970,511,304	0.85
2011/12	5,941,048,159	7,111,808,078	0.84
2012/13	7,478,614,296	9,144,543,615	0.82

Source; NIB bank annual report

Interpretation;

The bank’s debt ratio is 0.84, 0.85, 0.85, 0.84 and 0.82 Birr in each consecutive fiscal years. It implies the creditors have financed more than half of the firm’s total financing per one birr investment in total asset. And, it has an identical and similar value of 0.84 birr in the first and fourth years of the fiscal period. In year 2009/10 and 2010/11 consecutive years the bank had a constant debt ratio of Birr 0.85. At the recent period of the fiscal year the debt ratio decreased to 0.082 Birr of the creditor’s 1 Birr financing. More than half of the capital is was provided by the creditors. Creditor’s choose lower debt ratio; for the reason the lower the debt ratio-the greater choice against creditors to lose in a case of liquidation. On the other hand, the higher debt ratio implies the greater chance of the expected earnings for stockholders and for the overall firm. This is due to, in case, mobilizing of the fund in the form of deposit and expending the fund in the form of loan is one of the major operations, for the bank, to generate revenue. In general the bank was highly leveraged.

3.5.2 Debt-Equity Ratio

Measures relative capital contributions of creditors and stockholders.

Its algebraic simplification is presented as follows:

$$\text{Debt equity ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

Table 11.

Analysis of debt equity ratio during 2008/09-2012/13

Year	Total debt	Total equity	Debt to equity ratio
2008/09	3,051,986,485	598,124,674	5.1
2009/10	4,077,683,469	728,823,558	5.6
2010/11	5,054,022,878	916,508,426	5.51
2011/12	5,941,048,159	1,170,759,919	5.07
2012/13	7,478,614,296	1,665,929,319	4.49

Source; Annual report of NIB bank

Interpretation;

The above table indicates that lender contribute more funds than the owners for each four consecutive fiscal years starting from 2008/09-2011/12. The lenders contribute 5.1, 5.6, 5.51, 5.07 and 4.49 Birr times of owner's contribution in each consecutive fiscal years respectively. As a result there is a high rate of debt equity ratio except for the year 2012/13.

3.6. Profitability Ratio

It measures the profit generated per birr made by the owners of the bank. Here we have tried to emphasis much on profit margin ratio, return on investment ratio, and return on equity and basic earning power ratio, for the case, we don't have that much illumination and source materials for other ratios which are included in this field of financial ratio.

3.6.1 Profit Margin

It measures net operating income per birr of revenues from service rendered by the bank.

It is estimated as follows:

$$\text{Profit margin (PM)} = \frac{\text{Net income}}{\text{Total income}}$$

Table 12.

Analysis of profit margin ratio during 2008/09-2012/13

Year	Net income	Total income	Profit margin
2008/09	113,038,847	316,582,374	0.35
2009/10	154,058,453	426,016,429	0.36
2010/11	200,886,555	556,505,111	0.36
2011/12	246,432,996	656,654,036	0.38
2012/13	286,267,552	851,188,264	0.34

Source; Annual report of NIB bank

Interpretation;

The bank's profit margin were 0.35, 0.36, 0.36, 0.38 and 0.34 for each consecutive years. The profit margin of the bank increased in a year 2008/09 – 2011/12 indicating the appropriate utilization and allocation of net income from the operation. On the other side it decreased from 0.38 – 0.34 in a year 2012/13. This is resulted from high expense incurred to generate an income in the operation.

3.6.2 Return on investment

Shows conversion of bank's asset in to profit; or it shows the profitability position of a bank.

It is calculated as follows:

$$\text{Return on investment (ROA)} = \frac{\text{Net income}}{\text{Total asset}}$$

Table 13.

Analysis of ROA during 2008/09-2012/13

Year	Net income	Total asset	Return on investment
2008/09	113,038,847	3,650,111,159	0.031
2009/10	154,058,453	4,806,507,027	0.032
2010/11	200,886,555	5,970,511,304	0.034
2011/12	246,432,996	7,111,808,078	0.035
2012/13	286,267,552	9,144,543,615	0.031

Source; Annual report of NIB bank

Interpretation;

In accordance with the above table the bank is performing well in terms of utilizing its asset to get the forecasted net earnings. From year to year, starting from 2008/09 – 2012/13, the bank registered increasing ROA and the highest was in year 2011/12 recording a transactions of 0.035 profitability or net income per the owner’s one birr investment. As shown in the above table the ROA is increasing in a year 2008/09 – 2012/13 from 0.031 to 0.035 per one birr owner’s investment. In a year 2012/13, with genuine interpretation, the NIB bank’s efficiency to utilize and implement its equity or capital was diminished to 0.031 in relation to the previous fiscal years. Generally the ROA of the bank which the net earning per unit of a given asset is improved from year to year.

3.6.3 Return on Equity

It measures the profit generated per birr made by the owners of the bank. It is calculated to see the profitability of owner’s investment. It is sometimes called return on share holders’ equity or net worth. Its algebra is computed as:

$$ROE = \frac{\text{Net Income}}{\text{Total Equity}} ; \text{ While}$$

$$\text{Total Equity}$$

$$\text{Net Income} = \text{Net profit after taxation}$$

&

$$\text{Equity} = \text{Capital and reserve}$$

Table 14

Analysis of ROE during 2008/09 – 2012/13

Year	Net Income	Equity	ROE
2008/09	113,038,847	598,124,674	0.19
2009/10	154,058,453	728,823,558	0.21
2010/11	200,886,555	916,508,426	0.22
2011/12	246,432,996	1,170,759,919	0.21
2012/13	286,267,552	1,665,929,319	0.17

Source; Annual report of NIB bank

Interpretation;

Return on equity index of NIB International Bank was at its minimum in year 2012/13; which was 0.17. It was at its amplitude position in a year 2010/11 measuring 0.22. It showed a serious of increment within a year 2008/09 - 2010/11 from 0.19 to 0.22. After meanwhile the ROE ratio decreased to a level of 0.21 and 0.17 in a year 2011/12 & 2012/13 respectively. In general the measurement of all ratio indicates how well the firm has used the resources of owners.

3.6.4 Basic Earning Power Ratio [BEP]

It is a measure of the after tax return achieved by the company compared to the firm's resources. It links after tax profit to the book value of the asset. It is calculated by dividing earnings before interest & tax to the total asset of the company. It is computed as follows:

$$\text{BEP} = \frac{\text{EBIT}}{\text{Total Asset While;}}$$

$$\text{EBIT} = \text{Interest expense} + \text{Profit before taxation}$$

Table 15

Analysis of BEP during 2008/09 – 2012/13

Year	EBIT	Total Asset	Basic Earning Power
2008/09	220,989,008	3,650,111,159	0.060
2009/10	294,881,577	4,806,507,027	0.061
2010/11	374,947,529	5,970,511,304	0.063
2011/12	463,494,071	7,111,808,078	0.065
2012/13	563,522,334	9,144,543,615	0.062

Source; Annual report of NIB bank

Interpretation;

The bank's BEP ratio were 6%, 6.1%, 6.3%, 6.5% and 6.2% for the year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. The BEP ratio increased smoothly from 6% to 6.5% within a year 2008/09 – 2011/12 for a given four consecutive years. Regardless of the above interpretation the BEP reduced by 0.3% to a level of 6.2% in a year 2012/13. In general the interpretation signifies the bank's total asset power in generating annual revenue in percentage.

CHAPTER FOUR

3. Summary, Conclusion and Recommendation

4.1 Summary

With a general implication and illustration it is possible to say, reminding the point of its disjunction, the questionnaire data has a vague and translucent mode of disclosure and uncoverment of some areas of the NIB International Bank's working traits and conducts of financial ratio measurement to a certain degree. Here we are trying to summarize some findings of the open ended and close ended types of enquiries from the primary data collections of the questionnaire. The summary is presented as follows:

- ✓ The majority of the crew workers are male personnel 3 times female employees.
- ✓ More than half of the workers are in between of 20 – 30 years of age.
- ✓ The major section of the crew workers are less than of 3 years working experience.
- ✓ The overall population has a division of 4 department's heads while the largest portion is covered by a department of customer service officer.
- ✓ The entire population of the crew workers are degree level graduates.
- ✓ The majority of the workers have of 3 – 5 years involvement in financial ratio measurement performance.
- ✓ The greater portion of majority workers agree financial measurement to be satisfactory.
- ✓ All of the workers agree the financial statement to be in alliance with the required regulations.
- ✓ The majority agree on the point the trend measurement is increasing.
- ✓ 2/3rd of the crew workers agree on point FR is evaluated in relation to the bank's performance.
- ✓ The greater portion of the crew workers agree on the point FR is properly measured.
- ✓ 1/3rd of the workers agree on the point FR is measured according to bank's short term strength.
- ✓ More than 73% of the population agree on the point proportion of total asset through creditors is satisfactory.
- ✓ More than 60% of the total crew workers agree that FR measurement evaluation carried out quarterly within 3 months period.
- ✓ More than 80% of the population sample agree on the point FR measurement is harmonious with the bank's ultimate policies.
- ✓ The larger section of the crew workers agree on the point the bank takes its own responsibilities for deviation of FR.

- ✓ The majority agree on medium rate of FR to be implied.
- ✓ 64% agree on a point expertise position of personnel involving in FR measurement are adequately trained.

In general connotations, for the last five years the NIB Bank's total income, deposit and expense showed a great pin-point changes. This reflects the company's strong performance in the bank industry. And more, all the financial statements are assessed through a channel of financial ratio analysis. The entire ratio is summarized as follows:

1. Liquidity Ratio;

- ✓ Current ratio: - starting from year 2009/10 current ratio of NIB bank was greater than 1.16 birr. It shows the bank has sufficient asset to meet its current obligation.
- ✓ Quick ratio: - it has the same ratio as that of current ratio.

2. Activity Ratio:

- ✓ Current asset turnover: - it increased continuously throughout all five fiscal years except for the year 2011/12. It shows that the bank has the ability to earn a large amount of income for a given current asset.
- ✓ Fixed asset turnover: - the efficiency of the bank in using the fixed asset declined from 7.38 – 5.89, in a year 2008/09 – 2009/10, due to high increase in fixed asset impacted from high purchase of fixed asset. While in a year 2010/11 its fixed asset turnover ratio increased from 7.70 – 8.75 pointing out the bank's efficiency in utilizing fixed asset.
- ✓ Total asset turnover: - it increased continuously throughout five consecutive years, except for the year 2011/12, pin-pointing its efficiency in generating sufficient income for investing total asset.

3. Leverage Ratio

- ✓ Debt ratio: -it increased continuously for the year 2008/09 – 2019/10; it remain the same in a year 2010/11; and slightly declined in a year 2011/12-2012/13- pointing out the bank's capital structure declined, remained the same and optimized respectively. Behold, more than half of the bank's capital is provided by creditors.
- ✓ Debt equity ratio: -it increased continuously in a year 2008/09 – 2012/13, except for the year 2010/11 – 2011/12, implying the lenders contributed more funds than the owners.

4. Profitability Ratio;

- ✓ Profit margin ratio: - increased in a year 2008/09 – 2011/12, and decreased in a fiscal year 2012/13 showing the efficiency & good performance of the management in the bank.
- ✓ Return on investment: - it increased in a year 2008/09 – 2011/12; for the reason, the amount of total asset decreased in each consecutive fiscal years. This shows the bank's net earnings per unit of a given asset was improved.
- ✓ Return on equity: - ROE has been increased from year 2008/09 – 2010/11 because of the price of shares in the capital market was lower than previous year. And, that decreased still in period from 2010/11 – 2012/13, for the reason, the price of shares in the capital market was high for the reason the shareholders expect higher dividend distribution.

4.2. Conclusions

Evaluation of financial performance through the use of financial ratio has its own much significance value to different users. It is to say, in genuine expression, managers, owners, creditors and regulatory agencies able to re-examine and look after their operation in relation to the bank. For managers- to segregate the bank's strength and weakness along with its previous year financial performance; for owners- how their business performing to maximize the wealth of the firm; for creditors- recognizing the potential of the bank to allocate and repay its debt; for regulatory agencies- the bank's integrity and faithfulness to function according to the rules set by the national bank for the purpose of cementing the country's economy. From the analysis made on the previous chapter the researchers concluded that:

- The no. of women workers in NIB International Bank tends to be 3 times at a lower rate compared with men workers. It shows that the involvement of women in the NIB Bank is at a much lower assumption compared with men relatives.
- 55% of the workers involving in the industry have an elapsed age between 20 – 30 years showing there is a fifty-fifty rate of substitution of elderly workers with adolescence crews.
- Most of the workers rating 91% of the total population are experienced with a year of less than 5 signifying the basic lack of working experience in the field.
- Almost 100% of the workers are a degree level graduates indicating higher levels of educational arenas are scarcely and rare.
- 64% of the workers have a better and an average working experience regarding FR measurement uncovering the concept more than half of the worker crews have a better and intimated disclosure with the know-how of financial ratio measurement and its evaluation.

- 82% of the crew workers agree the satisfactory conditions of FR measurement in NIB Bank. It litmus the conduct of financial ratio measurement to be in a favorable and harmonious realm- of being satisfactory- in NIB Bank.
- There is a 100% coverage rate of agreement regarding the bank's efficiency to follow its rules and regulations to succeed FR measurement. It is a serious indication for the bank to achieve its objectives as planned and forecasted, for in case, it justifies its regulations and statues in appropriate occupations.
- 82% of the FR trend measurement shows an increment stage pointing down the incrementing rate is too common, concerning FR's trend measurement, which is resulted from excessive collection of deposits from customers and the bank's higher level liquidity.
- The measurement of the proportion of the total asset financed by NIB International Bank's creditors is satisfactory rating 73%. It shows that most of the people and creditors buy share within a short period of time while the new share is issued.
- Medium rate of FR measurement is highly implied- covering 73%- to measure the well performance of the bank. It shows the fact FR measurement in NIB Bank is in between of higher rate and lower rate. It doesn't have below average or an advanced portrait. It is just in middle way.
- 64% of the total population involving in estimation of FR are highly trained in the field. It has an implication, for the fact, those people engaging in FR measurement and evaluation are well equipped and skilled to carry out the FR measurement.
- The bank's current ratio is greater than 1.16 birr in each consecutive years showing the bank holding more cash than its competitors to meet its immediate cash withdrawal for the intended depositors. It displays an improvement throughout each fiscal year indicating the bank's position to compete with other firms preventing its depositors and creditors from suffering due to fund demand.
- The activity ratio of the bank portrays its lower operating efficiency to generate income with a given amount of investment in current asset. The current asset turnover was 0.087, 0.089, 0.094, 0.093 and 0.094 for the last consecutive five years affecting its operation, profitability and leverage ratio resulting higher level of return on equity. The fixed asset turnover of the bank points out the performance of the bank using fixed asset declined and reduced from 2008/09-2009/10, and intensely improved from 2009/10 – 2011/12. Moreover, the total asset turnover uncover the fact that inefficiency of management in making the appropriate qualitative judgment in generating net income for its total asset; this is due to the fact, to generate income for a birr of capital employed in each year- the bank generate an income of less than 1 birr in each consecutive years.
- The bank has high leverage ratio. Because, more than half of its capital is provided by creditors and the bank's debt ratio is 0.084, 0.085, 0.085, 0.084 and 0.082 in previous consecutive five years.

- The bank has lower return on asset. That means 3.1%, 3.2%, 3.4%, 3.5% and 3.1% from year 2008/09 – 2012/13 respectively. The low return rate resulted from the bank's low earning power.

4.3. RECOMMENDATION

With a real sense of transaction recording accounting is of business which describes the problem of a firm and helps in finding out the possible solutions in making the most qualified decision language based on numerical and quantitative information for a given problem. As a result, good financial management is seriously important to the economic health of a business firm. Hence, in our research study we tried to penetrate and jot down the fundamental strength and weakness of NIB international bank through financial ratio analysis.

Based on a previously mentioned conclusion possible opinions of solutions are suggested to enhance the normal operation of the bank for striking impacts of avoiding its problems, obstructions and obstacles. Our fundamental recommendations include:

- It is advisable if NIB International Bank pave out the mechanisms to increase the no. of female workers.
- It is more advisable for the bank to hire workers with higher level of graduate, more than the degree level.
- It will be more appropriate if the bank continue its satisfactory scene of FR measurement in accordance with its rules and regulations.
- The bank needs to maximize its current potential of equipping highly trained personnel in FR measurement and evaluation.
- It is more appropriate for the bank to persevere its improvement of current ratio in order to compete with other related firms in the industry. This assures the depositors and creditors from suffering in need of fund.
- It is more appropriate if the bank maintains its liquidity position through using some alternatives like selling of stock and bond, and by improving its current asset turnover.
- It is preferable if the management of NIB bank able to analyze and identify the main reasons for less worth of total asset in overcoming the problem of total asset turnover.
- The management of the bank needs to be careful in planning, controlling and managing the whole affairs, or stocks of the current asset.

- It is advisable if the bank increases the operating functions of current asset in order to reduce excessive accumulation.
- It is advisable for the bank management to adapt an appropriate decision making system in the process of determining the minimum level of fixed asset that motivate its operating efficiency in a scene of effective utilization of capital asset.
- It is advisable if the bank has a close intimacy with loan takers and investors to meet the basic fund requirements.
- It is more advisable for the bank to lower its high leverage ratiomeasurement, for the reason, the financial market in Ethiopia is not appealing enough to raise fund for immediate liquidity requirement of the bank.
- To improve the return on asset of the bank, it is advisable for the bank to lower and minimize its high leverage ratio.

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INTERVIEW

1. What is an additional and the peripheral advantage of financial ratio measurement excluding financial statement of the NIB International Bank?
2. What are the main sectors in which we can evaluate the efficiency, performance and financial position of the bank using financial ratio?
3. In what angles of interpretations, can we examine and justify the strength and weakness of the bank, through using of financial ratio?
4. Is the bank giving and providing enough uncovering answers to external and internal parties concerning its liquidity, solvency, activity and profitability position?
5. In what manner that NIB International Bank estimates and determines its solvency, liquidity and profitability through the use of financial ratio?
6. Is it possible to say, in a case of NIB International Bank, financial statements sufficient enough to convey complete information about its performance and activities, excluding the possible estimation of financial ratio?
7. What is the important significance of financial ratio to examine and evaluate financial performance of the bank?
8. In what manners you observe the negative effects of rules, regulations & bureaucracy condition for not providing unqualified estimation of financial ratio to the intended internal or external parties?
9. In what manners and perspectives the bank relates its efficiency, performance & activity in relation to the scene of its financial ratio?
10. According to the previously determined financial ratio, is NIB International Bank in a favorable financial position or reluctance?
11. What are the basic types of financial ratios which are highly applied in concentric manner?
12. What are the main areas of liquidity ratio's interpretation?
13. What is the main focus of leverage ratio to the financial performance of the NIB International Bank?
14. Which are the main objective of profitability ratio to measure the performance of the bank?
15. And, what is their main interpretation?

St. Mary's University

Faculty of Business

Department of Accounting

QUESTIONNAIRE

This question is focused on **financial performance using financial ratio in NIB International Bank S.C.** the data to be collected will be exclusively used for study purpose and kept secret. No need of writing name. We thank you in advance for taking your time and answering the questionnaire genuinely.

Please put a tick mark () as appropriate and brief answer on the space provided.

Part one: Background information

1. Gender Male Female

2. Age

20-30 years 31-40 years

above 50 year

3. Your work experience in NIB International Bank

Less than 3 years 3-5 years

4. Your current position in NIB Bank-----

3 Your educational level

Below college diploma

College diploma

Degree

Masters

4 How long have you stayed on financial ratio performance in the bank?

Less than 3 year 5-10 years
3-5 years
5-10 years above 10 years



5 The current measurement financial ratio is satisfactory.

Strongly agree Agree
Disagree Strongly disagree

6 Does the measurement of the bank, concerning financial ratio, alliance with its rules and regulation?

Yes NO

7 How is the trend measurement of financial ratio in a given fiscal year?

Increasing
Decreasing

If it is increasing or decreasing, why? Explain

8 Is there any proper event that you respond to the evaluation of financial ratio in relation to the bank's performance?

Yes NO

9 Does these ratio properly measure the ability of the bank to meet its short term obligation?

Yes NO

If it is yes, explain-----

10 Does the financial ratio measure the firm's short term financial strength?

Yes NO

If it is yes, explain-----

11 The measurement of the proportion of total assets financed by NIB Bank's creditors is satisfactory?

Yes NO

If it is yes, explain-----

12 How long will it take to prepare financial ratio in a given fiscal year?

3 months 9 months
6 months 12 Months

13 Is the evaluation of financial ratio of the NIB Bank in accordance with its ultimate policies and regulations?

Yes NO

14 Is the bank responding and reacting properly for a certain deviation of financial ratio evaluation in relation to its performance?

Yes NO

If it is yes, explain-----

15 Which rate of financial ratio is highly implied to determine the well performance of NIB International Bank?

Lower rate

higher rate

Medium rate

16 What is expertise position of the person who involves in estimation and evaluation of financial ratio of the bank?

Adequately trained

Not adequate trained

Some training only

Submission Approval Sheet

This senior essay has been submitted for examination with my approval as an advisor.

NAME _____

Signature _____

Date _____