



ISSN: 0975-833X

## RESEARCH ARTICLE

### RESEARCH ON “FINANCIAL PERFORMANCE ANALYSIS IN BANKING SECTOR (IN SELECTED COMMERCIAL BANKS IN ETHIOPIA)”

**\*Gudata Abara**

Department of Accounting and Finance, Assosa University, Ethiopia

#### ARTICLE INFO

##### Article History:

Received 28<sup>th</sup> July, 2015  
Received in revised form  
22<sup>nd</sup> August, 2015  
Accepted 05<sup>th</sup> September, 2015  
Published online 31<sup>st</sup> October, 2015

##### Key words:

Assets Management,  
Banking sector,  
Commercial Banking,  
Liquidity, Profitability,  
Solvency, Risk management.

Copyright © 2015 Gudata Abara. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

**Citation:** Gudata Abara, 2015. “Research on “financial performance analysis in banking sector (in selected commercial banks in Ethiopia)”, *International Journal of Current Research*, 7, (10), 21883-21886.

#### ABSTRACT

The study deals with assessment of financial performance analysis in Ethiopian commercial banking sector for a period of five years (2007-2011). It was found that state owned bank, Commercial Bank of Ethiopia stands first in assets management where as Awash International Bank took the first rank in terms of profitability performance. The third finding explains that Construction and Business Bank pertains to stand last in terms of liquidity management. Lastly, Private owned bank, United Bank stood at the first rank in terms of solvency and risk management among all sample banks under study.

## INTRODUCTION

The study was employed to solve the problem explained such as financial statements in their raw format do not reveal the information as per required by its users. There is also no performance measurement among the commercial banks operating in the country. This undermines the banks financial operations such as profitability, efficiency, liquidity, and solvency. Thus, the study employed the following hypothesis:

- H1: There is a significant difference in profitability between commercial banks
- H2: There is a significant trend movement in operational efficiency between commercial banks
- H3: There is no significant difference in liquidity management among commercial banks
- H4: There is significant movement in solvency and risk between commercial banks

## MATERIALS AND METHODS

The study employs the ratio analysis to compare the financial performance for Ethiopian Commercial Banks namely, Commercial Bank of Ethiopia, Construction and Business

**\*Corresponding author: Gudata Abara**

Department of Accounting and Finance, Assosa University, Ethiopia

Bank, Bank of Abyssinia, Awash International Bank and United Bank. To do so, ten financial ratios were used to such as operating profit margin, net profit margin, return on assets, return on equity, assets utilization, operating expenses ratio, loans to deposits ratio, loans to assets ratio, debt to equity ratio and equity multiplier. Thus, it was found that in terms of operating profit margin commercial bank stood at first rank. The second one is in terms of net profit margin; Awash International Bank was at first rank. Thirdly, united bank is first in terms of return on equity. Whereas Bank of Abyssinia was first in utilizing its assets. Lastly, construction and Business bank was ranked first in terms of debt to equity ratio. The result was checked by employing T-test analysis. This is to know whether there is significant difference in financial performance indicators between commercial banks. It was found that there is significant difference in profitability ratios among commercial banks. But, insignificant difference in terms of efficiency ratios and solvency and risk ratios.

## RESULTS

On average all banks were compared among each financial indicators. It was found that in terms of operating profit margin commercial bank stood at first rank. The second one is in terms of net profit margin; Awash International Bank was at first rank. Thirdly, united bank is first in terms of return on equity.

Whereas Bank of Abyssinia was first in utilizing its assets. Lastly, construction and Business bank was ranked first in terms of debt to equity ratio. The result was checked by employing T-test analysis. This is to know whether there is significant difference in financial performance indicators between commercial banks. It was found that there is significant difference in profitability ratios among commercial banks. But, insignificant difference in terms of efficiency ratios and solvency and risk ratios.

## T-Test

### Hypotheses Testing

We can conclude that there is no significance difference in the movement of return on assets for commercial banks since the value to T cal is greater than T critical. So this makes us to reject the sub hypothesis to be rejected. It was found that there is significant difference in operating profit margin among commercial banks.

#### 1. One-Sample Test

Test Value = 0.5288						
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
operating profit margin	.000	4	1.000	.00000	-.0940	.0940

#### 2. One-Sample Test

Test Value = 0.3						
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
net profit margin	.000	4	1.000	.00000	-.1588	.1588

#### 3. One-Sample Test

Test Value = 0.01822						
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
return on assets	1.254	4	.278	.00522	-.0063	.0168

#### 4. One-Sample Test

Test Value = 0.262						
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
return on equity	.000	4	1.000	.00000	-.1763	.1763

#### 5. One-Sample Test

Test Value = .075						
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
asset utilization	.991	4	.378	.14400	-.2595	.5475

#### 6. One-Sample Test

Test Value = 0.488						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
operating expenses ratio	.000	4	1.000	.00000	-.1593	.1593

#### 7. One-Sample Test

Test Value = .746						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
loans to deposits ratio	.000	4	1.000	.00000	-.3224	.3224

#### 8. One-Sample Test

Test Value = 0.542						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper

### 9. One-Sample Test

Test Value = 5.6						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
debt to equity ratio	.000	4	1.000	.00000	-1.4157	1.4157

### 10. One-Sample Test

Test Value = 10.2						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
equity multiplier	.000	4	1.000	.00000	-2.3884	2.3884

Since the  $T_{cal} < T_{tab}$ , hypothesis is accepted. Based on Table 1 which shows the result of t-test; the significance is 0.000. The sig is less than  $T_{tab}$  (1.000) so with 95% confidence the hypothesis  $H_0$  is accepted and we concluded that there is significant difference between commercial banks in performance based on operating profit margin dimension. It was found that there is a significant difference in trend movement in the net profit margin between commercial banks since the value of  $T$  is less than the critical value. So hypothesis will be accepted.

From the above T-test table we can conclude that there is no significant difference in financial performance measured by return on assets between commercial banks. This is attributed to the fact that all banks earned the net income generated from investment in assets throughout five years. So the hypothesis in this case will be rejected. From the above table we can deduce that there is significant difference in return on equity between commercial banks for five years (2007-11). In this case the value of  $T_{cal}$  is greater than critical value indicating there is no significant difference in assets utilization between commercial banks. This leads the hypothesis to be rejected. As per the above table the calculated  $T$  is less than  $T_{tab}$  which leads us to accept the hypothesis indicating that there is a significant difference in operating expenses ratio between commercial banks. The above t-test table indicates that there is a significant difference in loans to deposits ratio between commercial banks. Thus the decision will be accept the hypothesis.

Based on the t-test above there is a significant difference in loans to assets ratio between commercial banks since the  $T_{cal}$  is less than  $T_{tab}$  which leads us to accept hypothesis. From the above table  $T_{cal}$  is less than  $T_{tab}$  i.e. there is significant difference in debt to equity ratio between commercial banks for five years. Hence the decision is to accept the hypothesis. The above t-test showed that there is significant difference in equity multiplier between commercial banks for five years. This leads us to accept the hypothesis.

## DISCUSSION

### The study benefited different bodies in different ways

First, the researcher got knowledge regarding financial performance and develops the concept for future endeavors. Second, the study also put contribution for future researchers as references who have interest to study on the same area of study. Third, it helps the management of the banks to take

corrective action on the problem raised concerning financial performance. Lastly, it would help for the country's in such a way that performance would benefit commercial banks economic development.

## REFERENCES

- Alexandru, C., Genu, G., Romanescu, M.L. 2008. The Assessment of Banking Performances-Indicators of Performance in Bank Area. MPRA Paper No. 11600.
- Avkiran, N. K. 1995. "Developing an Instrument to Measure Customer Service Quality in Branch Banking", *International Journal of Banks Marketing*, Vol. 12(6), pp. 10-18.
- Belayneh Hailegeorgis Damena 2011. Determinants of Commercial Banks Profitability Addis Ababa University, June, 2011, Ethiopia)
- Brigham, E., and Houston, J. 2009. Fundamentals of Financial Management. Mason: Cengage Learning., Florenz C. Tugas, 2012).
- Paramasivan C., T. Subramaniam: Financial management (n.d), new age international publishers, New Delhi, page, 12-20.
- CHIEN, T., DANW, S. Z. 2004. "Performance Measurement of Taiwan Commercial Banks", *International Journal of Productivity and Performance Management*, Vol. 53(5), pp. 425-434.
- CIA World Fact Book: <https://www.cia.gov/library/publications/the-worldfactbook/geos/et.html>
- Daiff, Kirat Daiff Daiff, Kirat Daiff, 1995. Accounting Commercial Banks, Page 2, Cairo House.
- Dang, 2011, *International Journal of Economics and Financial Issues*, Vol. 3, No. 1, 2013, pp.237-252, ISSN: 2146-4138, [www.econjournals.com](http://www.econjournals.com)
- Daves, 2007. Intermediate Financial management, 9<sup>th</sup> ed., Thomson/South-Western publishers, USA, page 249.
- Dr. Anurag, B., Singh., M.S. Priyanka Tandon 2012. November., *International Journal of Marketing, Financial Services and Management Research* Vol.1 Issue 11, November 2012, ISSN 2277 3622, page 14. Or Online available at [www.indianresearchjournals.com](http://www.indianresearchjournals.com)
- Eddie McLaney and Peter Atrill, 2008, Accounting: An Introduction, 4<sup>th</sup> ed., Page 224-225, Pearson Education Limited, Prentice Hall publisher, England,).
- Electronic copy available at: <http://ssrn.com/abstract=2117189>
- Eugene, F., Brigham, Phillip R. (n.d.), Financial Management, C. Paramasivan T. Subramaniam, new age international pltd., New Delhi, India

- Eugene, F., Brigham, Joel, F., Houston, 2007. Fundamentals of Financial management, 11<sup>th</sup> edition, Thomson south-western corporation, USA, page 102.
- Florenz, C. Tugas. 2012, November, *International Journal of Business and Social Science* Vol. 3 No. 21; Centre for Promoting Ideas, USA, page 4). Retrived from [www.ijbssnet.com](http://www.ijbssnet.com)
- Frank wood and Alan Sangster 2005. Business accounting, 10<sup>th</sup> ed., Pearson Education Limited, page,637
- Frase, L., and Ormiston, A. 2004. Understanding Financial Statements. New Jersey: Pearson Prentice Hall.
- Fraser and Ormiston, 2004. <http://www.finpipe.com/equity/finratan.htm>: Description: Introduction of Financial Ratio Analysis) or Noor Asma Jamaludin, Nor Asma Lode, Junaidah Hanim Ahmad, Azlan Zainol Abidin, Amin Ali, Norazita Marina Abd. Aziz (2009), FUNDAMENTALS OF ACCOUNTING AND FINANCE, page 136, Open University Malaysia (OUM), Desktop Publishing.
- Gemechu Berhanu Kusa 2013. Determinants of Financial Performance of Commercial Banks in Kenya, *International Journal of Economics and Financial Issues*, Vol. 3, No. 1, 2013, pp.237-252, ISSN: 2146-4138, [www.econjournals.com](http://www.econjournals.com)
- George T. Friedlob and Lydia L.F. Schleifer. 2003. ESSENTIALS of Financial Analysis, Page 33., John Wiley and Sons, Inc., Hoboken, New Jersey.
- Gobezie, Getaneh, 2005. Regulating Microfinance in Ethiopia: Making it more Effective, Amhara Credit and Savings Institution (ACSI) Essay No. 3, April.
- Hempel, G., Coleman, A., Smon, D. 1986, Bank Management Text and Cases, Wiley, New York
- Hermanson, Edwards, and Maher, 2011. Accounting Principles: A Business Perspective, Financial Accounting, 8<sup>th</sup> Edition, page 469, Irwin/Mcgraw-Hill Series
- Hilbers *et al*, 2000, (Watson and Head, 1998). Cited by Jacob Donkor, Kwadwo Tweneboa-Kodua. (2013), British Journal of Economics, Finance and Management Sciences 8 July, Vol. 8 (1), page 8  
<http://www.combanket.com> Adopted from CBE Annual report, 2006.  
<http://www.investopedia.com>
- International Monetary Fund, Ethiopia: 2002 Article IV Consultation and Third Review under the Poverty Reduction and Growth Facility Arrangement – Staff Report; Staff Statement; and Public Information Notice and News Brief on the Executive Board Discussion, IMF Country Report No. 02/220, October 2002
- James Don Edwards, Roger H. Hermanson, Ernst and Young-J. W.(2004), Accounting Principles: A Business Perspective: First Global Text Edition, Volume 1, Financial Accounting, Endeavour International Corporation, Houston, Texas, USA
- Jerry, J. Weygandt, Paul, D. Kimmel, Donald, E. Kieso. 2012. Accounting principles, 10<sup>th</sup> edition,, John Wiley and Sons, Inc. USA, page 793-839.
- Leah Szlatenyi, CPA/ABV, CVA, MSPFP, MST at (401) 921-2005 or [leah@BentleyCG.com](mailto:leah@BentleyCG.com).) (n.d.). Retrieved August 2012, from [http://www.accounting4management.com/accounting\\_ratios.htm#RGmZwPOdLeiTcCLR.99](http://www.accounting4management.com/accounting_ratios.htm#RGmZwPOdLeiTcCLR.99)
- Mahmoud Shehab 1987. Frozen Money, Banks and Economy. Mars Publishing House, Riyadh, pp: 105
- Md. Anwarul Kabir, Suman Dey 2012. *Journal of Politics and Governance*, Vol. 1, No. 2/3, pp. 16-25, September 2012, A Comparative Study of Selected Private Commercial Banks in Bangladesh
- Meyer, R. L. 2002. "Track Record of Financial Institutions in Assisting the Poor in Asia" ADB Institute Research Paper, No 49, December 2002.
- Michael, C. Ehrhardt, Eugene F. Brigham 2011. Financial Management: Theory and practice, 13<sup>th</sup> edition, page 88-109. South-western cengage learning ltd., USA,
- Murthy, Y., Sree, R. 2003. Sultanate of Oman. (cited in International Journal of Economics and Financial Issues Vol. 3, No. 1, 2013, pp.237-252 ISSN: 2146-4138 [www.econjournals.com](http://www.econjournals.com), Gemechu Berhanu Kusa, Local Economic Development and Finance Specialist, Addis Ababa, Ethiopia.
- Needles, Powers, Crosson, 2002. Managerial and Financial Accounting,
- Nimalathasan, B. 2008. Lecturer, Department of Commerce, Faculty of Management Studies and Commerce, University of Jaffna, SriLanka, and Ph. D. Research Scholar, Department of Management Studies, Faculty of Business Administration, University of Chittagong, Bangladesh, page 142.
- Noor Asma Jamaludin, Nor Asma Lode, Junaidah Hanim Ahmad, Azlan Zainol Abidin, Amin Ali, Norazita Marina Abd. Aziz. 2009. Fundamentals of Accounting and Finance, Open University Malaysia (Oum), Bqoe III, page 105-126.
- Paul M. Collier, 2003. Accounting for Managers: Interpreting accounting information for decision-making, John Wiley and Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex PO19 8SQ, England
- Peter Atrill and Eddie McLaney, 2006. Accounting and finance for Non-Specialists, Fifth Edition, Page 29-30, Pearson Education Limited, Prentice Hall, England).
- Salam, 2008, p.245, Zayoud, 2005, p.166, Aqil, 2000, p.279, Taha, 2003, p.26, Walther *et al.*, 1997, p.66). Eccles (1991, p. 134) cited by [www.ccsenet.org/ijbm](http://www.ccsenet.org/ijbm) or *International Journal of Business and Social Science* Vol. 3 No. 21; page, 80-89, ISSN 1833-3850 E-ISSN 1833-8119, Published by Canadian Center of Science and Education, November 2012, page 3, Farooq Alani, Hisham Yaacob and Mahani Hamdan.
- Singh, Y.P. 2007. Accounting and financial management for IT-professionals, Page 128, New Age International (P) Ltd. Publishers
- Study material, 2013. cost and management accounting, executive program, Institute of company secretaries of India, New Delhi, Page 469.
- Tibebu Tefera 2011. Addis Ababa university, Credit risk management and Profitability of Commercial banks in Ethiopia
- Weygandt, Donald, E. Kieso, Paul D. Kimmel and Agnes L.DeFracno. 2008. Hospitality Financial Accounting. 2nd ed. New Jersey: John Wiley and Sons, Inc, Hooken, page 210.

\*\*\*\*\*