

Evaluating the Financial Performance of Ethiopian Banks Using Financial Indicators-A Case Study on Dashen Bank

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Abstract: *The general objective of this study to evaluating financial performance of a Dashen Bank; to conduct this study only a secondary source of data were used from audited annual financial reports of Dashen Bank from year 2011 to 2015. The collected data analyzed by using different financial statement ratios to indicate that the financial performance the bank. To measure the financial performance of the bank; profitability indicator, leverage indicator, activity indicator and other indicator were used. The findings in this study are in 2015 the bank shows a poor performance as compared to other period (from 2012-2014), the reason is that due to the result 2.9% of return on asset is lowest in 2015 than to other years. The bank is not much loaned up as well as its liquidity is in a good position and amount of current deposits on hand at the same time. Cash deposit ratio indicated that there is an improvement from year to year. Therefore, one can conclude that Dashen Bank was better performing from year to year. Dashen bank shows a poor performance in 2014. The reason is that return on equity of 2015 is 23% which is smallest return on equity while comparing to the others years.*

Keywords: Dashen, liquidity, profitability, efficiency in utilizing assets, and loan

1. Background of the Study

Financial statements report both on a firm's position at a point in time and on its operations over some past period, however, the real value of financial statements lies in the fact that they can be used to help predict future earnings and dividends. From an investor's standpoint, predicting the future is what financial statement analysis is all about, while from management's standpoint, financial statement analysis is useful both to help anticipate future conditions and, more important, as a starting point for planning actions that will improve the firm's future performance (Brigham, E.L. 2009).

Financial institutions provide means and mechanism of transferring resources from those who have an excess of income over expenditure to those who can make productive use of the same. The commercial banks and investment institutions mobilize savings of people and Channel/intermediate them into productive uses. Financial institutions provide all type of assistant required infrastructural facilities institutions, economic persons who can take the development in the following ways: providing funds, infrastructural facilities, and promotional activities, development of backward areas, planned development, accelerating industrialization, and employment generation (Frederic, S.M. 2004).

A commercial bank's performance is evaluated for several reasons depending on personal objectives. An entity like a bank regulator, such as may need to identify and call attention to banks that are experiencing chronic financial problems in order that they may fix them before they get out of control. This is the case with so called "bank runs." Shareholders, on the other hand need to assess which banks they can deem suitable to financially invest in. Unsurprisingly, commercial banks evaluate their own performance over a given period so that they may determine the efficacy and long term viability of management

decisions or goals so that they can alter the course and make changes whenever it is appropriate. With a constant and routine monitoring of performance, underlying problems may remain invisible and lead to financial failures further down the line (Mukdad. I, 2015).

2. Statement of the Problem

Being one and may be the major category of financial institutions, banks have a very determinant role in the healthy functioning of the economy. Meanwhile, notwithstanding with its merits, banks can be challenged by different factors. These include: individual bank characteristics which could be swayed by the internal decisions of the management and the board and the wide-ranged external factors which are out of the control of the banks (Flamini, C., Valentina C., McDonald, G., Liliana, S. (2009) as cited by Muhabie M., (2015)).

Consequently, to evaluate banks' performance, we can use different methods. These methods can be classified in three ways: The traditional method of financial indices based on balance sheet and income statement analysis, parametric methods based on the knowledge of production function and non-parametric methods that do not require production function (Van Horne, J., and Wachowicz, John, 2005 as cited by Abdi, N., (2010)).

The performance evaluation of companies is essential to provide information about company's operating performance and its net worth. Knowing organization's competitiveness and potentials of the business through financial statement analysis is useful for decision making for users of financial statement information, including managers, creditors, stockholders, potential investors, and regulatory agencies. With the objective of mobilizing resources and enhancing investments, financial institutions have irreplaceable roles in economic development of a country.

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Although some studies might have been made before some years in relation to the financial performance analysis in different banks, the time/year gap itself shows the bank to have different performance. Here in this study as to the researcher knowledge, there is no research conducted which is published and unpublished in evaluating the financial performance of Ethiopian banks using financial indicators in recent years data in the case of Dashen bank through a descriptive way of research design.

Research Questions

- 1) What does seem the trend of Dashen bank in its profitability in recent years?
- 2) Is that good enough the its debt utilization within recent years?
- 3) Does the Dashen bank utilizing its assets efficiently manner in recent years?
- 4) Does the bank capable enough to pay its current obligation in recent years?
- 5) What are financial strength and weakness of the bank?

3. General Objective

The general objective of the study is to evaluating the financial performance of Ethiopian banks: using financial indicators in the case of Dashen bank.

3.1. Specific Objective

- 1) To determine the trends of Dashen Bank in its profitability in recent years.
- 2) To evaluate the financial performance of Dashen Bank using debt ratio.
- 3) To find out whether the bank utilizing its asset efficiently in recent years?
- 4) To assess the bank whether it is capable enough to pay its current obligation in recent years?
- 5) To analyze and compare the financial strengths and weakness of the Dashen bank.

4. Research Methodology

This study is a historical research based on case study approach. In any types of research study, the methodology to be pursued is decided by the nature of more specifically by the research objectives. Here in this case study, the methodology is based upon a descriptive way of approach. A descriptive approach is a technique used to organize and summarized a set of data in concise way; helps to identify the general features and trends in a set of data and extracting useful information; and also it is very important in conveying the final results of a study (Creswell, J W 2003).

4.1. Sources of Data & Methods of Data Collections

In conducting this study only secondary data source were used to address the evaluating financial performance of a Dashen bank: using financial indicators through financial statement, which is collected from annual financial statement report from the year of 2011 – 2015 of Dashen bank website.

4.2. Method of Data Analysis and Presentation

The collected data was organized in using percentage and tables to make it easy to analyze and interpret it. In this section of the research is mainly focused in data analysis and interpretation from the data collected using the audited annual financial reports of Dashen bank from year 2011 to 2015.

5. Data Analysis, Discussion and Interpretation

5.1. Introduction

In this part the data which is a secondary collected from website audited annual financial report of Dashen Bank. Therefore, the data analyzed, discussed and indicated based up on the specific objectives that are stated in above and it is selected financial performance indicators which a sensitive for affecting of Dashen bank..

5.2. Liquidity Indicators

Liquidity ratio is indicated on the relationship between the current asset and current liability of the organization or it is a group of ratio that allows one to the firm's ability to pay of short term obligation as they become due. The higher liquidity ratio, the higher capacity pays in short term obligations and vice versa (Brigham, E.L. 2009).

With regard to the current and quick ratio the bank the researcher tried to see it but the bank performs a good within that consecutive years. But here presented is among the various liquidity measures that study uses the following two liquidity ratios.

Table 3.1: Liquidity Ratio

Ratio/year	2011	2012	2013	2014	2015
Loan to asset (LAR)	41.7%	45.4%	43.8%	42.9%	45.7%
Cash to deposit (CDR)	14.2%	18.5%	22.6%	27.8%	39.6%

(Source; audited annual report of Dashen bank)

The loan to asset ratio trend of Dashen bank from 2011 to 2015 indicated that mix of ups and downs. The deviation ranges between 45.7% in 2015 and 41.7% in 2011. This is unstable drift of loan to asset; therefore, this implied that the bank was not in a stable financial position. As the table and figure indicates the bank's loan to asset is below 50% in all years of the study. Hence, one can conclude that the bank is not much loaned up even though its liquidity is in a good position and amount of current deposits on hand at the same time.

5.3. Profitability Indicators

Profitability Ration: are calculated to measure the operating efficiency of the company. Besides managements of the company, creators and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly owners wants to get a required rate of return on their investment. This is possible only when the company earns enough profits. Profit can be measured in various ways. Gross profit is the difference between sales and the manufacturing cost of goods sold. A

number of companies define gross profit differently. They define it as earnings before depreciation, interests and taxes. The most common measures of profit are profit after tax or net income which is a result of the impact of all factors on the firm's earnings (Brigham, E.L. 2009).

Return on asset refers to what earning was generated from the invested assets. Return on asset gives an idea as how efficient management is at using its assets to generate profit. Sometimes return on asset is refers to as Return on investment (ROI) (Van H. J., and Wachowicz, J., 2005).

$$\text{Return on assets} = \frac{\text{net income after tax}}{\text{Total assets}}$$

5.3.1. Return on Asset

Table 3.2: Return on asset

Year	2011	2012	2013	2014	2015
Net income after tax	450,655,361	652,012,122	606,756,384	712,484,276	729,133,970
Total asset	14,614,795,156	17,520,042,319	19,747,174,767	21,962,202,063	24,763,885,516
ROA	3.08%	3.72%	3.07%	3.24%	2.9%

(Source; annual report of Dashen bank)

As it can be seen in the above table 3.2 Dashen bank shows a good performance in 2012 than of the other year. But, here in 2015 the bank shows a poor performance as compared to other period (from 2012-2014). The reason is that the result 2.9% of return on asset is lowest result comparing to other years, the bank should be arranging an assessment other investigation on it.

5.3.2. Return on equity

Return on equity is the amount of net income after tax as percentage of shareholders equity. Return on equity measures company profitability's with the money shareholders have invested (Brigham, E.L. 2009).

$$\text{Return on equity} = \frac{\text{net income after tax}}{\text{Shareholders' equity}}$$

Table 3.3: Return on equity

Year	2011	2012	2013	2014	2015
Net income after tax	450,655,361	652,012,122	606,756,384	712,484,276	729,133,970
Shareholders' equity	1,396,402,276	1,827,893,695	2,045,698,696	2,597,625,196	2,923,893,980
ROE	32.27%	35.67%	29.66%	27.43%	23%

(Source; annual report of Dashen bank)

The above table shows that the bank performing a good performance in 2012, because in this year it achieve 35.67% return on equity. But Dashen bank shows a poor performance in 2014 and 2015; which is the return on equity in 2015 is 23% that is the smallest return on equity compared to others years.

institution with higher debt ratio may high expected return when the company's economy is in normal condition but they are exposed to risk of loss when the economy goes in to recession (Brigham, E.L. 2009).

5.4. Debt Utilization

This ratio shows the extent to which the institution uses debt financing on its capital structure. High debt ratio results a lower profit after interest and tax amount. Any business

5.4.1. Debt Ratio

It is a financial ratio measures the proportion of both long term and current debts with total assets. This debt ratio indicates the ability of the firm to meet its liability with its total asset (Brigham, E.L. 2009).

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

Table 3.4: Debt ratio

Year	2011	2012	2013	2014	2015
Total liability	13,218,392,885	15,692,148,624	17,701,476,071	19,364,576,867	21,839,991,536
Total asset	14,614,795,156	17,520,042,319	19,747,174,767	21,962,202,063	24,763,885,516
Debt to ratio	90.4%	89.6%	89.6%	88.2%	88.2%

(Source; annual report of Dashen bank)

In the above table 3.4; the debt ratios analysis shows that a reduction of debit from year to year. This may cause reduction on depositing deposit by the clients. The reason behind since the bank serves as intermediate between the surplus unit with deficit unit the amount of deposited will be considered as a loan by the surplus unit, therefore, there is a reduction of depositing and profit might be that, as debt paid, the amount of interest expense will be higher and the profit after tax will be decline.

5.5. Asset Utilization

Activity ratios are directly linked with the route of the business revenue. The efficiency is measured in terms of generation of revenue by respective current, fixed and total assets (Brigham, E.L. 2009).

5.5.1. Total asset turnover

$$\text{Total asset turnover} = \frac{\text{Income}}{\text{Total asset}}$$

Table 3.4: Total asset turnover

Year	2011	2012	2013	2014	2015
Income	450,655,361	652,012,122	606,756,384	712,484,276	729,133,970
Current asset	14,614,795,156	17,520,042,319	19,747,174,767	21,962,202,063	24,763,885,516
TATO	3%	3.7%	3%	3.2%	3%

(Source; annual report of Dashen bank)

In the above table 3.4. the result of Dashen bank's total asset turnover ratios up and down and that Dashen bank's income of the company from year to year also therefore this table shows that a fluctuation in to total asset turnover ratio. The Dashen bank to become strong in generating higher Birr amount should more in investment in plant asset and current asset together. Generally the amount of income in all 5 years, it is lower than the total asset invested with in the 5 years and this makes the ratio to be still low in relation to the total asset.

6. Conclusion

Performance evaluation is essential for an organization. The effectiveness of an organization is measured through the assessment of performance and the result found can be a base for solution of the existing problem, future expansion, improvement of quality of work and overall development. Therefore, its major purpose is to improve profit performance of an organization in order to increase the company's effectiveness and efficiency. Based on the data collected from annual report of Dashen bank from year 2011 to 2015, the study concludes that:

- In 2015 the bank shows a poor performance as compared to other period (from 2012-2014). The reason that result 2.9% of return on asset is lowest to other years.
- The bank is not much loaned up and its liquidity is in a good position and amount of current deposits on hand at the same time.
- Cash deposit ratio has shown a there is an improvement from year to year. Therefore, one can conclude that Dashen Bank was better in the from year to year.
- Dashen bank shows a poor performance in 2015. The reason is that ROE of 2015 is 23% which is smallest ROE compared to others years.
- Total asset turnover the amount of income in all 5 years, it is lower than the total asset invested with in the 5 years and this makes the ratio to be still low, which is less than one and the debt ratios analysis shows a reduction of debit from year to year.

7. Recommendation

On the bases of the findings and conclusions drawn with regard to financial performance of Dashen bank through ratio analysis, the following recommendations are made with the hope that considering by Dashen bank. The bank shows a poor performance in 2015 as compared to other period (from 2012-2014). The reason that result 2.9% of return on asset is lowest to other years. The Bank should take of it return on asset in the coming year.

- Dashen bank shows a poor performance in 2015. The reason is that return on equity for 2015 is 23% which is smallest return on equity compared to others years. Here

the bank should study in detail the reason the shows declining the return on equity from year 2014-2015.

- Since the bank is not much loaned up and its liquidity is in a good position and amount of current deposits on hand at the same time. Therefore, the bank should keep the liquidity is in a good position and amount of current deposits on hand at the same time
- The in Cash deposit ratio has shown a there is an improvement from year to year. Therefore, one can conclude that Dashen Bank was better in the from year to year, so the bank should keep on it.
- Total asset turnover the amount of income in all 5 years, it is lower than the total asset invested with in the 5 years and this makes the ratio to be still low, which is less than one and the debt ratios analysis shows a reduction of debit from year to year. This also similar with return on equity that need the bank examine critically the income that generating in relation to total asset that have.

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