

FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS USING CAMEL RATING - AN EMPIRICAL STUDY FROM ETHIOPIA

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ABSTRACT: Banks are a critical part of the financial system in which they play an important role in contributing to a country's economic development. If the banking industry made inefficient operations, the outcome of the economy could be huge and broad. This study is aimed at analyzing the financial performance of commercial banks of Ethiopia. A total of 15 commercial banks whose operating year is at least five years have been selected as a sample. The data used for analysis were audited annual financial reports collected from the national bank of Ethiopia. CAMEL rating approach has been used to analyze the performance of each bank. They were evaluated and ranked accordingly. The study revealed that the majority of banks are performing well. Specifically private commercial banks are the top five performers of which NIB ranked at the top.

KEYWORDS: *Commercial Banks, Financial Performance, CAMEL Ratings.*

1. INTRODUCTION

Banks are a critical part of the financial system; they play an important role in contributing to a country's economic development. If the banking industry does not perform well, the effect on the economy could be huge and broad. Studies on performance of banking institutions strongly suggest that bank profitability determinants vary across countries and also among regions of the world¹. Studies on banking systems of developed countries show that net interest margins have significant positive relationship with a bank's level of capital, loan loss provisions, reserve requirements, implicit interest payments, and interest rate volatility. On the other hand, some of the benchmark results are hardly confirmed and even contradicted with bank spreads as some studies in Latin American showed².

Finance, financial instruments, financial institutions, rules and regulations, and financial markets are the five components that the financial environment of any economy comprises. From many financial organizations, banks are a central component and the most active actors in the financial structure³. A bank is a financial arbitrator that networks funds from depositors to the borrowers (from excess unit to deficit ones) in the process gaining from the spread of the different interest charged. Generally, banks are the key to the economic growth of any economy⁴. Further, banks are a major component of the financial system and are also active players in financial markets⁵. The indispensable role of a bank is to link those who have wealth (such as investors or depositors), with those who look for capital. Banks have control over a large part of the source of money in circulation. Through their influence over the volume of bank money, banks can influence the nature and character of production in any economy⁶.

Kumbirai, & Webb⁷ reasoned out that individual bank is highly associated with other banks for the payment system and other activities of the bank such that the disaster of a bank not only affects its

shareholders and depositors rather it affects other banks and even all other business. The failure of one bank creates an economic disorder situation and is viewed as a disaster for the economy.

This study aimed at measuring the performance commercial banks in Ethiopia through extensive use of CAMEL rating approach that mainly indicates the adequacy of the risk-based capital, Asset quality, Management quality, Earning capacity and Liquidity position of the bank.

1.1 Statement of the Problem

All banks have to be licensed by the countries' financial regulatory body, the National Bank of Ethiopia, to engage in the banking business. Banking, microcredit and saving businesses are areas of investment exclusively reserved for Ethiopian nationals. Foreign nationals or organizations fully or partially owned by foreign nationals are not allowed to acquire a share of Ethiopian banks, to open banks or offices, or subsidiaries of foreign banks in Ethiopia⁸.

A Bank is formed as a share company and its memorandum and articles of association must obtain approval from the National Bank of Ethiopia. The National Bank has broad powers in the affairs of banks. It can suspend or remove a CEO, director or other senior executives, limit the number of votes by proxy in shareholders meeting and voting right of holders who borrowed money from the bank. It also can suspend the voting right of an influential shareholder when he or she fails to fulfill the ethical requirements of the National Bank⁸.

Given the small size of the market (18 banks with 4137 branches) and the population of over 100 million, the banking segment is experiencing such growth levels. The number of bank branches per the number of individuals has been among the lowest in the region. For the 100 million people, there are only about 4137 branches on average across the country. As the size of the banks is small and the population of the country is very big, there is a huge opportunity for selling services to the public.

This study tried to study the financial performance of commercial banks in Ethiopia using the CAMEL rating system. It tried to include almost all of the commercial banks currently working in Ethiopia at least for five years. Very few studies are done on this topic in Ethiopia. Moreover, some of them are limited to include all of the commercial banks currently working in Ethiopia.

1.2 Objective of the Study

The main objective of this study is to evaluate and rank the performance of commercial banks in Ethiopia through CAMEL rating approaches.

2 LITERATURE REVIEW

2.1 Theoretical Review

CAMEL rating was first developed in the U.S. The banks were judged on five different components under the acronym CAMEL. CAMEL is the acronyms of Capital Adequacy, Asset Quality, Management Soundness, Earnings Capacity, for Liquidity. The CAMEL rating is applied to every bank and credit union in the U.S. and is also implemented outside the U.S. by various banking supervisory regulators. The ratings are assigned based on ratio analysis of the financial statements, combined with on-site examinations made by a designated supervisory regulator.

Capital adequacy indicates the bank's capacity to maintain capital proportionate with the nature and extent of all types of risks, and the ability of the bank's managers to identify, measure, monitor and control

these risks. It reflects the overall financial condition of the banks and also the ability of management to meet the need for additional capital. It also indicates whether the bank has enough capital to absorb unexpected losses. Capital Adequacy Ratio acts as an indicator of bank leverage⁹.

Basic ratios identify this situation are: (a) Capital Adequacy Ratio (Tier I & Tier II capital divided by Risk-weighted capital- **TTRWC**), (b) Equity Capital to Total Assets (**ECTA**), (c) Total Debt to Total Equity (TDTE) and (d) Advances to Total Assets (**TAdTA**) ratios.

For computation of the capital adequacy ratio, capital is classified as Tier-1 and Tier-2 capitals. Tier-1 capital comprises the equity capital and free reserves, while Tier-2 capital comprises subordinated debt of 5-7 year tenure. The higher the capital adequacy ratio (CAR), the stronger the bank is. However, a very high CAR indicates that the bank is conservative and has not utilized the full potential of its capital.

Asset Quality reflects the magnitude of credit risk prevalent in the bank due to its composition and quality of loans, advances, investments, and off-balance sheet activities. Following ratios are considered for the purpose of analysis (a) Net NPAs to Net Advances (b) Net NPAs to Total Assets (c) Total Investments to Total Assets.

Management Quality: Signals the ability of administrations to managing risks associated with the bank. This qualitative measure uses risk management policies and processes as indicators of sound management. Following ratios are identified to indicate the quality perspective: (a) Business per employee (b) Profit per employee (c) Total advances to total deposits (d) Return on Net Worth

Earnings Capacity shows the amount of and the trend in earnings. It also analyses the strangeness of expected earnings growth in the future. For a better understanding of above dynamics, following ratios are considered: (a) Return on Assets (ROA), (b) Net Interest Margin (NIM), (c) Interest income to Total income, (d) Cost to Income ratio

Liquidity measures the adequacy of the bank's current and potential sources of liquidity, including the strength of its fund management practices. To measure this impact, the following ratios are used: (a) Liquid Assets to Demand Deposits (b) Liquid Assets to Total Deposits (c) Liquid Assets to Total Assets

There is another and new parameter known as Sensitivity to Market Risk. It is a recent addition to the rating parameters and reflects the degree to which changes in interest rates, commodity prices, and equity prices can affect earnings and hence, the bank's capital. As there is no capital market currently available in Ethiopia, this new parameter is excluded from the study.

2.2 Empirical Review

There are a number of studies made on bank profitability. Sangmi & Nazir¹⁰ evaluated the financial performance of the two major banks operating in northern India. Their study has been done using CAMEL Parameters. They highlighted that the position of the banks under study was sound and satisfactory based on their capital adequacy, asset quality, Management capability, and liquidity.

A. Haque¹¹ tried to examine and evaluate the performance of a few major Indian banks during 2009-2013. The study compared the financial position of various indigenous and foreign Scheduled Commercial Banks. He has used Return on Asset, Return on Equity and Net Interest Margin as the parameters to evaluate the bank's performance. His result indicated that there is no significant difference of profitability among various banking groups in respect to Return on Asset, and Net Interest Margin, yet a significant means of difference is seen among the peer groups in terms of Return on Equity.

Rashed and Tamima¹² intended to measure the performance of five selected private sector banks, listed on both the Dhaka and Chittagong Stock Exchanges in Bangladesh. They use financial ratios to indicate the effects of different variables on banks' performance. They used Annual time series data of five

years from 2008-2012 of the selected banks. They employed the data in multiple regression analysis to apprehend the impact of bank size, credit risk, operational efficiency and asset management on financial performance. They arrived at a conclusion that Bank size, credit risk, operational efficiency, and asset management have a significant impact on the financial performance of Bangladeshi commercial banks.

Melaku & Melaku¹³ tried to analyze the overall performance of private commercial banks in Ethiopia using the CAMEL rating approach. They used six private banks' audited financial reports of 10 years period (2007-2016). They also tried to include more explanatory variables such as fixed asset to total assets, net profit per employee, total deposit per number branches, total loan per number of branches, measurements. The finding of the study showed that private banks are ranked from the first to the last based on CAMELS rating. On both panel model estimations, Leverage, Net Interest Expense to Gross Expense, Net Profit to the number of Employees, Total Deposit per Branch, Total Lone Branch, Net Interest Income to Total Asset, and Liquid Asset to Total Deposit were significant in determining the profitability indicators (ROA and ROE). No asset quality indicators were significant in determining the profitability ratios.

Nikita, A. et al.¹⁴ tried to investigate the performance of Indian Banks with the help of CAMEL rating system, taking a total eighteen banks (eight being Private Sector Banks and ten being Public Sector Banks) over the period of ten years from (2004 to 2013). They tried to find out the efficiency of banks with the help of Data Envelop Analysis (DEA) in order to rank them accordingly. They suggested that private sector banks are in advantage situation and they predicted that there is a possibility of further improvisation of most of the public sector banks. Private sector banks show marked consistency in their efficiency level during the period under study.

Mukdad¹⁵ analyzed the financial performance of two UAE based banks from 2004 to 2009. He used quantitative analysis to measure bank performance. He employed banks liquidity, profitability, management capacity, capital structure and share performance as reliable indicators of bank performance. Subsequently, each bank performance was then ranked. His findings showed that both banks performed reasonably well during the period studied. He, finally, arrived at a conclusion that Liquidity levels were lower for the commercial bank of Dubai is better-off in capital structure and operation control while the national bank of Abu Dhabi benefitted overall higher degree of profitability.

2.3 Summary and Literature Gap

Bank performance is a leading indicator not only for the profitability of the banks but it also identifies the wellbeing of the economy as a whole. Controlling banks in a sound condition will results in monitoring the economy in general because banks are the backbone of the economy. The studies made in Ethiopia on financial performances of banks using CAMEL rating are few in number. These few studies were done considering a few of the players of the sector (five or six of them). This study will fill this gap by considering almost all (15 of 17 commercial banks) of commercial banks in the study. It will also contribute to the literature of this area.

2.4 Conceptual Framework of the Study

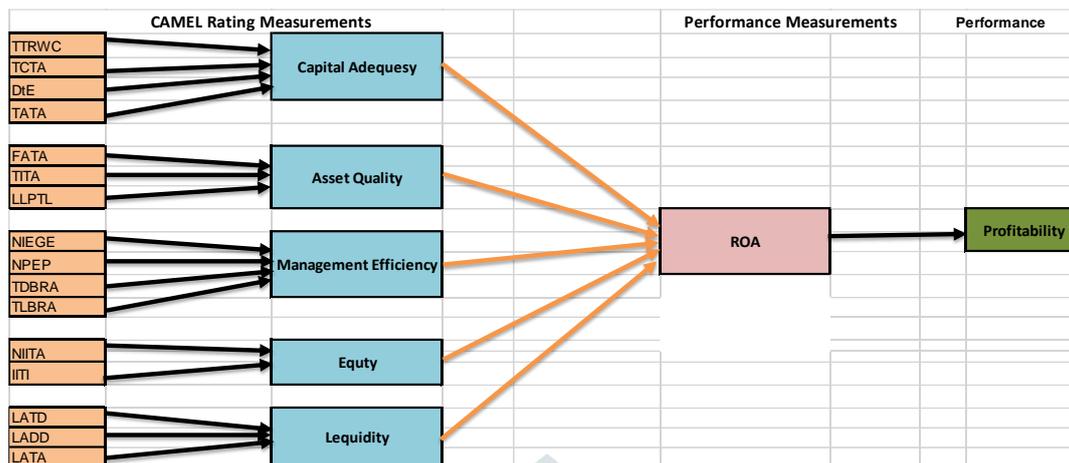


Figure 2.1 Conceptual Framework of CAMEL Ratings for Banks' Performance

3. MATERIALS AND METHODOLOGY

For the purposes of this study, the research tool used for assessing the financial performance of commercial banks in Ethiopia is the CAMEL rating model. This model was first developed in the 1970s by the three federal banking supervisors of the U.S (the Federal Reserve, the FDIC, and the OCC) as part of the regulators’ “Uniform Financial Institutions Rating System”, to provide a convenient summary of bank condition at the time of its on-site examination. The model is explained next in the method of data analysis tools.

3.1 Data Type, Sample, and Population of the Study

This study is mainly based on five years of secondary data drawn from the annual reports of the commercial banks in Ethiopia. Its time scope is, therefore, from 2012 to 2016. The population of this study is all 15 commercial banks which started their operation before 2012 in Ethiopia.

3.2 Data Analysis Tools

This study is analyzed based on different ratio analysis techniques to determine the financial performance of commercial banks in Ethiopia. The efficiency of each bank is determined by the use of audited financial reports collected from the national bank of Ethiopia (NBE), which governs financial institutions of Ethiopia. CAMEL rating method is used to determine the performance of banks and to rank them accordingly. CAMEL parameters are explained in the literature review topic.

3.3 Variable Specifications

Table 3.1 Variable Specifications of the Study

Profitability	Variables Code	Measurement
Capital Adequacy	TTRWC	Tier I + Tier II/Risk Weighted Capital
	TCTA	Total capital /Total asset
	TDTE	Total Debt /Total Equity
	TATA	Total Advance/Total Asset
Asset Quality	FATA	Fixed asset / Total assets

Management Efficiency	TITA	Total Investments to Total Assets
	LLPTL	Loan loss provision / Total loan
	NIEGE	Non-interest expense /Gross expense
	NPEP	Net profit / No. of employees
	TDBRA	Total deposit / Branch
Earning	TLBRA	Total loan / Branch
	NIITA	Net interest income / Total Asset
	IITI	Interest income / Total income
Liquidity	LATD	Liquid asset / Total deposit
	LADD	Liquid Assets to Demand Deposits
	LATA	Liquid asset / Total Assets

4 RESULTS AND DISCUSSIONS

In this study, different ratios under each CAMEL parameter is calculated for all sample banks based on the averages of the five years data of each bank, 2012 – 2016. Depending on these ratios, the individual ranks of each sub-parameter is determined for each bank and at the last column of each table, the group ratings are averaged for each category to arrive at group ranking for each parameter of CAMEL.

All these calculations of ratios and ranks are illustrated in table 4.1 through table 4.6. The first five tables are individual ratios and rankings for each CAMEL parameters, while the last table (Table 4.6) depicts the overall group ratings of all sample banks. The individual and group rankings given in this study are from 1 to 15. Rank 1 represents the best value of the particular ratio from all other fifteen banks whereas rank 15 represents the worst value of a particular ratio from all other 15 banks. The data used in this analysis were collected from National Banks of Ethiopia (NBE), which is a central bank that governs all financial institutions in Ethiopia. Note also that the selected commercial banks are listed in the table based on their establishment date in which the oldest one is listed first.

4.1 Capital Adequacy Analysis

Capital adequacy indicates the bank's capacity to maintain capital proportionate with the nature and extent of all types of risks, and the ability of the bank's managers to identify, measure, monitor and control these risks. Basic ratios identified by this parameter are Capital Adequacy Ratio (TTRWC-Tier I & Tier II capital divided by Risk-weighted capital), Equity Capital to Total Assets (ECTA), Total Debt to Total Equity (TDTE) and Total Advances to Total Assets (TAdTA) ratios. Based on this concept, the researcher has determined the capital adequacy ratios to analyze the financial performance of some selected commercial banks in Ethiopia in Table 4.1.

As it can be seen from the capital adequacy table (Table 4.1), Addis International Bank (AdIB) has the highest capital adequacy ratio of 46.34% followed by Birhan International Bank (BrIB), 29.81% whereas Commercial Bank of Ethiopia (CBE), which is the biggest and the only public commercial bank in Ethiopia, performed the least with 12.6% capital adequacy ratio.

AdIB also stands first regarding the total capital to total asset ratio with a ratio of 28.47% followed by Wogagen Bank (WB) with 18.17% performance. Still, CBE holds the worst side by 4.4% in this regard. Abay Bank (AB) and Awash International Bank (AIB) ranked first in Debt to equity ratio and Total advance to total investment ratios, respectively. CBE has scored the least in these regards also.

Table 4.1 Average Capital Adequacy Ratios of Commercial Banks in Ethiopia

S. N	Bank Nam	TTRWC		ECTA		TDTE		TAdTA		Average	
		Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
1	CBE	0.126	15	0.044	15	20.569	15	0.3648	15	15.0	15
2	AIB	0.1732	13	0.1347	9	7.1807	10	0.4966	1	9.25	11
3	DB	0.1803	12	0.1124	14	7.9345	13	0.4503	9	11.5	14
4	BOA	0.1732	14	0.1347	10	7.1807	11	0.4966	2	10.25	12
5	WB	0.2705	3	0.1817	2	4.5415	5	0.4389	11	5.5	4
6	UB	0.1993	10	0.1232	12	7.0711	9	0.4672	5	8.5	9
7	NIB	0.2331	7	0.1746	4	5.9197	6	0.4885	3	5.75	5
8	CBO	0.1899	11	0.1213	13	0.9533	3	0.4640	6	7.75	8
9	LIB	0.2680	4	0.1619	7	0.4214	2	0.4563	7	4.25	1
10	OIB	0.2050	9	0.1278	13	8.0879	14	0.4287	12	11	13
11	ZB	0.2678	5	0.1458	8	7.3180	12	0.4185	13	8.75	10
12	BuIB	0.2556	6	0.1698	5	6.2729	8	0.4879	4	6	6
13	BrIB	0.2981	2	0.1752	3	5.9795	7	0.4439	10	5.25	3
14	AB	0.2321	8	0.1673	6	0.3551	1	0.4520	8	6.25	7
15	AdIB	0.4634	1	0.2847	1	3.8682	4	0.4075	14	5	2

Source: Annual Financial Report of the Banks (2012-2016)

Generally, the above ratios indicate the financial strength and financial stability of the selected commercial banks in Ethiopia. The average ranking of all sub-parameters of capital adequacy indicates that Lion International Bank (LIB) is the best performer followed by AdIB whereas Dashin Bank (DB) and CBE have been ranked 14th and 15th respectively. Despite its largest market share and firm size, CBE has the worst scenario in all sub-parameters of Capital Adequacy Ratios.

4.2 Asset Quality Analysis

The ratios considered for the purpose of the analysis of asset quality in this study are Fixed Assets to Total Assets (FATA), Total Investments to Total Assets (TITA) & Loan Loss Provision to Total Loan (LLPTA) ratios.

Table 4.1 shows the average asset quality ratios of selected commercial banks in Ethiopia. It can be observed from this table that Abay Bank (AB) is in the first position with an average rank of 4.667 followed by Oromiya International Bank (OIB) with an average rank ratio of 5.00. Whereas, Birhan International Bank (BrIB) & Zemen Bank (ZB) have the 15th and 14th position with an average rank of 11.33 and 10.00, respectively.

Table 4.2 Average Asset Quality Ratio of Commercial Banks in Ethiopia (2012-2016)

S/N	Bank Name	FATA		TITA		LLPTL		Average Rank	
		Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
1	CBE	0.0082	15	0.4596	1	0.0262	14	10.000	13
2	AIB	0.0337	2	0.1997	10	0.0211	12	7.667	8
3	DB	0.0228	8	0.2009	8	0.0156	10	8.667	9
4	BOA	0.0366	1	0.1795	13	0.0211	13	8.667	10
5	WB	0.0335	3	0.2005	9	0.0127	9	7.000	5

6	UB	0.0194	9	0.2540	2	0.0163	11	7.333	6
7	NIB	0.0187	10	0.2371	3	0.0104	8	7.000	4
8	CBO	0.0239	6	0.1295	15	0.0063	6	9.000	11
9	LIB	0.0110	13	0.1897	11	0.0057	4	9.667	12
10	OIB	0.0276	5	0.2031	7	0.0055	3	5.000	2
11	ZB	0.0163	11	0.2272	4	0.0383	15	10.000	14
12	BuIB	0.0160	12	0.2121	5	0.0046	2	6.333	3
13	BrIB	0.0105	14	0.1858	12	0.0087	7	11.333	15
14	AB	0.0239	7	0.2042	6	0.0000	1	4.667	1
15	AdIB	0.0279	4	0.1619	14	0.0062	5	7.667	7

Source: Annual Financial Report of the Banks (2012-2016)

4.3 Management Capability Analysis

Ratios identified to indicate the management efficiency perspective in this study are Non-Interest Expense per Gross Expense (NIEGE), Net Profit per employee (NPEP), Total Deposits per Branch (TDBRA) & Total Loan per Branch (TLBRA).

Table 4.3 shows the average management capacity ratio of commercial banks in Ethiopia from 2012 to 2016. This table is constructed based on the individual components of the Management Efficiency discussed above. Each component of management efficiency are calculated and ranked and finally, their average rank has been taken to find the overall rating of the management efficiency, which is the last column of Table 4.3. Based on this table, ZB is the first ranked bank in Ethiopia regarding the management efficiency of commercial banks. It scored an average rank of 1.5 by scoring the 1st rank in all management efficiency sub-parameters except NIEGE ratio. ZB is followed by CBE with an average rank of 2.00. CBE scored 2nd rank in all of management efficiency sub parameter ratios. Here AB and OIB are the least performed in management ratio with an average rank of 14.5 and 13.25, respectively. They ranked 15th and 14th, respectively, in average management efficiency ranking.

Table 4.3 Average Management Capacity Ratio of Commercial Banks in Ethiopia (2012-2016)

S/N	Bank Name	NIEGE		NPEP		TDBRA		TLBRA		Average Rank	
		Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
1	CBE	0.5395	2	0.365	2	224.83	2	106.27	2	2.000	2
2	AIB	0.5542	4	0.1225	10	99.736	4	63.075	4	5.500	4
3	DB	0.5381	1	0.1698	4	153.46	3	86.345	3	2.750	3
4	BOA	0.5542	4	0.1225	10	99.736	5	63.075	5	6.500	5
5	WB	0.6588	9	0.1462	6	85.431	8	52.498	8	7.750	7
6	UB	0.5786	6	0.1128	12	95.632	6	57.218	7	7.750	7
7	NIB	0.5953	7	0.1307	8	88.504	7	58.597	6	7.000	6
8	CBO	0.7439	15	0.1251	9	53.003	10	33.760	10	11.00	12
9	LIB	0.6779	11	0.1401	7	48.274	11	29.768	11	10.00	11

10	OIB	0.7049	12	0.0687	15	47.391	12	25.720	14	13.25	14
11	ZB	0.5526	3	0.3679	1	374.87	1	206.63	1	1.500	1
12	BuIB	0.6673	10	0.172	3	42.232	13	28.049	12	9.500	9
13	BrIB	0.6296	8	0.1091	13	56.391	9	34.22	9	9.750	10
14	AB	0.7131	14	0.1056	14	35.710	15	21.639	15	14.50	15
15	AdIB	0.7115	13	0.167	5	40.410	14	26.658	13	11.25	13

Source: Annual Financial Report of the Banks (2012-2016)

4.4 Earnings Analysis

For a better analysis of this study, the ratios calculated are Net Interest Margin (NIM) and Interest income to total income (IITI).

Table 4.4 summarizes the average earnings ability ratios of selected commercial banks in Ethiopia from 2012 to 2016. As per this table, it can be observed that both Nib International Bank (NIB) and Buna International Bank (BuIB) ranked first by scoring an equal average rank of 3.00 in earning quality. NIB ranked third in both NIM and IITI ratios but BuIB ranked second and fourth in NIM and IITI, respectively. As a result, both score the same average rank of 3.00 to become the first in overall earning ability ratios. They are followed by United Bank (UB) with an average rank of 3.50. On the contrary, ZB and AdIB footed at the bottom by scoring an equal average rank of 14.50 in earning ability.

Table 4.4 Average Earnings Ability Ratio of Commercial Banks in Ethiopia (2012-2016)

S/N	Bank Name	NITA		IITI		Average Rank	
		Ratio	Rank	Ratio	Rank	Ratio	Rank
1	CBE	0.0364	7	0.7127	1	4.00	4
2	AIB	0.0343	9	0.6166	6	7.50	8
3	DB	0.0276	13	0.5466	13	13.00	13
4	BOA	0.0343	10	0.6166	7	8.50	9
5	WB	0.0394	4	0.6128	8	6.00	6
6	UB	0.0377	5	0.6954	2	3.50	3
7	NIB	0.0407	3	0.6887	3	3.00	1
8	CBO	0.0412	1	0.5655	10	5.50	5
9	LIB	0.0376	6	0.5616	11	8.50	9
10	OIB	0.0358	8	0.6266	5	6.50	7
11	ZB	0.0203	15	0.4505	14	14.50	14
12	BuIB	0.0408	2	0.6391	4	3.00	1
13	BrIB	0.0322	12	0.5901	9	10.50	11
14	AB	0.0332	11	0.5496	12	11.50	12
15	AdIB	0.0268	14	0.4458	15	14.50	14

Source: Annual Financial Report of the Banks (2012-2016)

4.5 Liquidity Analysis

To measure this impact, the ratios used in this study are Liquid Assets to Demand Deposits (LATD), Liquid Assets to Total Deposits (LADD) and Liquid Assets to Total Assets (LATA). The following table

(Table 4.5) presents the average liquidity ratios of selected commercial banks in Ethiopia from 2012 – 2016. It reveals that Addis International Bank (AdIB) has the best liquidity position of all fifteen banks with an average ranking of 1.00. AdIB has the best ratio not only on average but also in all three liquidity sub-parameters of liquidity. It has maintained the first position in all liquidity sub-parameters. This indicates that it has a high liquidity level. It is followed by Abay Bank (AB) with a ranking of 2.3. On the other hand, CBE and BOA remain at the bottom of the rank maintaining the least liquidity sub-parameters. They footed at 15th and 14th by scoring an average liquidity rank of 15.00 and 13.00, respectively.

Table 4.5 Average Liquidity Ratio of Selected Commercial Banks in Ethiopia (2012-2016)

S/N	Bank Name	LATD		LADD		LATA		Average Rank	
		Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
1	CBE	0.183	15	0.342	15	0.1404	15	15.00	15
2	AIB	0.2856	13	1.1737	10	0.2232	13	12.00	12
3	DB	0.3488	10	1.295	9	0.2796	10	9.67	9
4	BOA	0.2856	14	1.1737	11	0.2232	14	13.00	14
5	WB	0.3186	11	0.7969	14	0.2261	12	12.33	13
6	UB	0.3028	12	1.1163	12	0.2352	11	11.67	11
7	NIB	0.5523	7	1.6851	7	0.4029	7	7.00	7
8	CBO	0.4023	9	0.878	13	0.2877	9	10.33	10
9	LIB	0.4154	8	1.3688	8	0.3052	8	8.00	8
10	OIB	0.7441	6	1.9172	6	0.5828	6	6.00	6
11	ZB	0.923	5	3.5868	5	0.7049	5	5.00	5
12	BuIB	1.3302	4	4.2149	4	0.9463	3	3.67	4
13	BrIB	1.466	2	4.2455	3	0.8149	4	3.00	3
14	AB	1.4414	3	4.7862	2	1.0301	2	2.33	2
15	AdIB	4.0975	1	14.5599	1	2.3715	1	1.00	1

Source: Annual Financial Report of the Banks (2012-2016)

4.6 Overall Camel Rating Analysis

In the previous subtopics, the financial performance of commercial banks of Ethiopia has been analyzed using CAMEL parameters considering each of them separately. At this topic, the overall CAMEL parameters have been analyzed taking the average rank of each parameter (overall CAMEL rating). Finally, each bank is rated based on the average of these parameters. Table 4.6 shows the overall CAMEL parameter of commercial banks in Ethiopia from 2012 to 2016. For the sake of this analysis, all sample banks are categorized into three based on the average composite rank they scored. The first category (marked with “**”) is the top five banks who experienced well in CAMEL ratings. The second category is those who are in the middle of the rank (from 6 to 10 ranks). But the third category is the five banks in the bottom (marked with “****”) which scored from 11th to 15th ranks).

Based on the table, LIB & CBE scored the top and the bottom ranks, respectively, in capital adequacy parameter. Under asset quality metrics, AB ranked first and BrIB ranked last. Concerning the management efficiency parameter, ZB ranked at the top and AB at the bottom. NIB & AdIB ranked first in both Earning ability and Liquidity measurements whereas CBE & BOA footed at the bottom on these regards.

It can be noted from Table 4.6 that the BuIB, NIB, WB, UB, AB, and AdIB are banks ranked at the top five of the all selected commercial banks of Ethiopia first category). They are marked with “*” in the table. Both BuIB & NIB scored 4.6 overall CAMEL ratio and become the first ranked banks in overall CAMEL parameters ranking. In a similar fashion, both WB & UB scored 7.2 and become the followers of BuIB & NIB. The fifth rank has been secured by AB and AdIB by maintaining 7.6 overall CAMEL ratings. Generally, these group of banks showed well performance in overall CAMEL rating.

On the other hand, banks which are the least ranked (from 11 to 15) were ZB, CBO BOA, DB & CBE. This category (marked with “****”) performed poorly compared to others in these ratings. BOA ranked at the bottom and ZB at the top of this category by scoring 10.00 and 8.80 average CAMEL Rating, respectively.

Table 4.6 Overall CAMEL Rating of Commercial Banks in Ethiopia (2012-2016)

S/N	Bank Name	C	A	M	E	L	Overall CAMEL	
		Rank	Rank	Rank	Rank	Rank	Ratio	Rank
1	CBE****	15	13	2	4	15	9.8	14
2	AIB**	11	8	4	8	12	8.6	10
3	DB****	14	9	3	13	9	9.6	13
4	BOA****	12	10	5	9	14	10	15
5	WB*	4	5	8	6	13	7.2	3
6	UB*	9	6	7	3	11	7.2	3
7	NIB*	5	4	6	1	7	4.6	1
8	CBO****	8	11	12	5	10	9.2	12
9	LIB**	1	12	11	9	8	8.2	7
10	OIB**	13	2	14	7	6	8.4	8
11	ZB****	10	14	1	14	5	8.8	11
12	BuIB*	6	3	9	1	4	4.6	1
13	BrIB**	3	15	10	11	3	8.4	8
14	AB*	7	1	15	12	2	7.4	5
15	AdIB*	2	7	13	14	1	7.4	5

Source: Annual Financial Report of the Banks-2012-2016

*Category 1, ** category 2 and **** category 3 banks

5 CONCLUSION AND RECOMMENDATION

5.1 Conclusion

CAMEL approach is an important tool to assess the financial strengths of commercial banks. The analysis helps to identify the financial weaknesses of banks. It is used to find remedial measures to strengthen the bank financially. It also makes simple to compare the performance of commercial banks and rank them accordingly. The findings of this study pointed out the following points of commercial banks currently working in Ethiopia based on CAMEL rating:

- ❖ The average ranking of all sub-parameters of capital adequacy indicates that LIB was the best performer followed by AdIB whereas CBE has been ranked last. Despite its largest market share and firm size, CBE has the worst scenario in all sub-parameters of Capital Adequacy Ratios.
- ❖ Concerning asset quality, AB was in the first position followed by OIB Whereas BrIB has the last position.
- ❖ ZB was the first ranked bank in Ethiopia regarding the management efficiency of commercial banks. It was followed by CBE. Here AB was the least performed in this concern.
- ❖ In bank earning ability, NIB and BuIB ranked first by scoring an equal average rank, followed by UB. ZB and AdIB footed at the bottom by scoring an equal average rank in this regard.
- ❖ AdIB has the best liquidity position of all fifteen banks. It has the best ratio not only on average but also in all three sub-parameters of liquidity. It is followed by AB. On the other hand, CBE and BOA remain at the bottom with least liquidity sub-parameters.
- ❖ Generally, the oldest banks experienced low CAMEL parameter performances.

5.2 Recommendations

Generally, the selected banks in this study can be categorized into three groups: those whose performance is well and ranked on the top, those whose performance is worst and ranked to the bottom and those whose performance is in the middle where their performance is also in between the first and the last group.

Based on these situations, the following recommendations have been forwarded:

- The first category banks are very good in their performance of CAMEL rating and they need to maintain their performance for the future.
- The third group needs attention that their performance is unfavorable compared to the others. The management should take remedial action so that they become at least in the second category.
- Banks in the second category are in a good situation but they have room for improvement. The management should initiate the employs as well as their customers to excel their services and attract the market

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