

**The Effect of Internal Factors on the profitability of Nib International Bank Share  
Company.**

**Jimma University College of Business and Economics Department of Management**



**A Thesis Submitted to the Department of Business and Economics of Jimma  
University in Partial Fulfillment of Requirements for the Award of Business  
Administration (MBA)**

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## DECLARATION

I declare that the research Report entitled “**The effect of Internal Factors on profitability of Nib International Bank Share Company** ” submitted to Research and Postgraduate Studies’ Office of Business and Economics College is original and it has not been submitted previously in part or full to any university.

\_\_\_\_\_

Date: \_\_\_\_\_

## CERTIFICATE

We certify that the Research Report entitled: The **effect of Internal Factors on the profitability of Nib International Bank Share Company** was done by Mr./Habtamu Fantu for the partial fulfillment of Master's Degree under our Supervision.

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## ACRONYMS/ABBREVIATION

ANOVA:- Analysis of Variance

CAR: - Capital Adequacy Ratio

GDP; - Growth domestic product

NIB: - Nib international bank S.C.

NBE:- National bank of Ethiopia

NPL: - Nonperforming loan

LIQR: -Liquidity ratio

OCE: - Operational cost efficiency ratio

ROA: - Return on asset

ROE: - return on equity

S.C.:- Share company

SPSS: - statistical package for social science

## **Abstract**

*The aim of this research was to examine the effect of internal Factors on the profitability of Nib International Bank Share Company. The bank has a total capital of around 3 billion in the year of June, 30/2018 report. The scope limitation was to assess only the effect of internal factors that affect the profitability of Nib international bank Share Company. This study was used the secondary time series data to analyze the Effect of internal factors on the independent variables of (asset quality, capital adequacy, operational cost efficiency and liquidity) and the dependent variable of profitability measured by (ROA),of Nib International bank share company. The Bank from 2003 to 2018 with 16 years observations. Data was gathered from secondary source such as financial statements and balance sheets of the Nib international bank Share Company. Furthermore a descriptive and explanatory research design and linear regression model was used to examine the dependent and independent variables. This research is a quantitative research approach was used. However, the result indicates that there is a significant positive correlation between ROA of Nib international bank with capital adequacy ratio and liquidity variables, as well as a negative correlation with ROA of Nib international bank share company and asset quality and operational cost efficiency variables. Moreover, it is recommended that empirical studies should be undertaken in the same field to find out what more internal factors could affect profitability of banks.*

*KEY WORDS:- Bank Profitability, Internal Factors, Return on Asset, Asset Quality, Capital Adequacy, Operational Cost Efficiency, Liquidity*

## CHAPTER ONE

### 1.1. Background of the study

The profitability of banks are becomes one of the challenges faced by commercial banks to strengthen fanatical positions in order to meets the risk associated with openness and globalization. A financial performed banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. The determinant of financial performance are well observed and explored as it is increasingly important to strengthen the foundation of domestic financial system as a way to build up flexibility for capital flow volatility. The performance of commercial banks is affected by managerial (internal) and environmental (external) factors. Managerial factors are affected by management decisions and goals to be achieved by the management of the bank. External factors affected by external forces such as financial market structure, trade interdependences, economic growth, inflation, market interest rates and ownership structure. In this context, the importance of this study is to identify selected internal factors that affect Nib international bank Share Company.

Commercial banks play a vital role in the economic resource allocation of countries (Ongore, 2013). They contribute to economic growth of the country by making funds available for investors to borrow as well as financial deepening in the country (Otuori, 2013).The financial system of the South Eastern European (SEE) countries is characterized by the dominant role of the banking sector, with the capital market segment for long-term finance being illiquid and, in some cases, underdeveloped, while non-bank financial intermediaries, such as life insurance companies and private pension funds, are still at an embryonic stage of development (Athanasoglou *et al.*, 2006).

The Net income provides information on how well the bank is doing but the constrain on using it is that it not adjusted for the size of the bank. This makes it difficult to compare how well a bank is doing compared to one other.

In this way a basic measure of bank profitability is the return on asset ( ROA) which corrects for the size of the bank. It is true that ROA provides useful and necessary information on bank profitability but this is not on the major interest of the bank's owners (equity holders). They are more concerned about how much the bank is earning on their

equity investment, an amount that is measured by the return on equity (*ROE*), the net income per currency of equity capital (Mishkin Frederic *et al.*, 2009).

This paper seeks to examine the effect of bank-specific, internal factors on the profitability. It focuses on two main directions: Firstly, the literature review on the bank performance on profitability explains why banking activities and performance have attracted the attention of practitioners, policy makers, and researchers alike, making the investigation of bank profitability relevant issue today than in earlier times , secondly an overview of the banking sector in Ethiopia and statistically it proves if the factors taken in analysis are significant and their relation to profitability providing proofs on which of this factors are significant

The banking sector is essential for the Ethiopian economy and plays an important financial intermediary role; therefore, its health is very critical to the health of the general economy at large. In the last twenty years there has been a rapid increase in the activity of private banks in Ethiopia, and this has fostered rapid competitiveness among banks in Ethiopia. In increasing world of business and finance, the task of each bank operating to make more profit is becoming a challenge with each passing day. In order for an organization like Commercial banks in Ethiopia to operate optimally, it has to be able to measure its profitability with regards to its inputs and outputs.

The existence, growth and survival of a business organization mostly depend upon the profit which an organization is able to earn. It is true that when Profitability increases the value of shareholders may increase to considerable extent.

Commercial banks in Ethiopia have over the years depended very much on increasing lending rates in order to maximize profits, without much regard to the efficient use of resources that could be result in cost minimization. Thus, the performance of commercial banks should be measured in respect of total assets, loans, non-interest income, total overhead expenses, and book values of stockholders equity.

This thesis aims to extend the determinants of bank's profitability by examining ROA.

In general the general objective of this research is to investigate the bank specific internal factors that determine the profitability Nib international bank Share Company.

### **1.2.S tatement of the Problem**

Even though there are a lot of studies conducted in identifying determinants of profitability of commercial banks, they have been debatable because of determinants of profitability are dynamic through time to time different with the nature of the firm place (Flamini et. al(2009). Most of these studies at different time mainly focused on bank size, deposit, loan, expense capital adequacy and diversification by using panel data.

Study by Flamini.et. al(2009) shows that as asset of the bank and its profitability are positively related but according to Saira et.al(2012), they are negatively related. Study Ani et.al(2012) shows deposit has positive significant effect on bank profitability but study by Kunt and Hutitirge(1999) shows negative relationship between them. Study by Sehrish Gut et.al(2011) shows loan affectprofitability positively while study by Wood(2013) shows negative effect of this factors. Study by Obamuyi(2013) suggest profitable banks operates at lower cost but study by Necear(2003) show positive relationship between expense and profit.

In Ethiopia although there are relatively few studies have been conducted by Belayneh (2011) and Habtamu(2012) about determinant of profitability of commercial banks by using privet banks only but profit market share of these banks is only 39.31%. these studies identified no of branches as a determinant's of profitability of banks. According to the 2018/19 report of the bank market share is only 12.80% but profit share is 60.69%. Hence the bank is a less profitable bank in Ethiopia.

Some studies identified external factors like GDP, Inflation and real interest rate that affect profitability of commercial banks. but external factors are not management controllable and they are beyond the control of bank management. But banks can adjust their strategy to these macro-economic factors. These factors are the same for the industries that cannot make one bank more profitable than other.

Therefore, because some banks are more profitable than others, this study intends to identify the bank specific internal factors that determine profitability of commercial banks of Ethiopia in case of Nib International Bank S.C.

### **1.3.Objectives of the Study**

#### **1.3.1. General Objective**

The general objective of the study was to assess the effect of internal factors on the profitability of Nib International Bank Share Company.

#### **1.3.2. Specific Objective**

- 1.To identify to what extent capital adequacy affects the profitability of Nib international bank Share Company.
2. To determine the impact of operational cost efficiency on profitability of Nib International Bank Share Company.
- 3.To what extent asset quality effects profitability of Nib International Bank Share Company.
- 4.To determine the impact of liquidity on profitability of Nib international bank share company.

#### **1.4. Basic research question**

1. To what extent that managerial internal factor affects the profitability of Nib international bank Share Company?
2. What are the effects of liquidity on banks profitability?
3. Is there capital adequacy have an increase towards organization performance on profit?
4. Is there any relationship between cost efficiency and asset quality on banks profitability?
5. What are major strategies used to maximize banks profitability?

### **1.1. Dependent and Independent Variables**

#### **1.1.1. Dependent variable ( Profitability measured by Return on asset )**

Return on asset (ROA) is the major ratio that indicates the profitability of a bank. It is a ratio of net income to its total asset Khrawish (2011). It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating

net income from all the resources of the institution Khrawish (2011). Wen (2010), state that a higher ROA shows that the company is more efficient in using its resources.

### **1.1.2. Independent Variables**

#### **A) Capital Adequacy Ratio**

Bodola and Verma explained that capital adequacy ratio (CAR) is related to liability and capital side of the banks' balance sheet. It can be calculated by dividing the total capital of the bank with total asset of the bank. This ratio helps the analyst to analyze the level up to which a bank can absorb certain level of losses prior to become insolvent. Banks required ensuring a certain level of CAR. This minimum level of CAR serves as protection to customer or deposer's of the bank. It is an indicator of stability and efficiency of the financial system of bank. CAR is a protection to the depositors of the bank. The higher it is the better it would be. Aktas et al. suggest that CAR prevents bank from becoming insolvent which raises customer confidence. They further highlighted that minimum Basle capital according required that central banks should ask banks to ensure at least a minimum level of capital adequacy ratio.

#### **B) Asset Quality Ratio**

Ongore and Kusa highlighted that banks should evaluate asset quality (level of money, advance and investment) as it indicates the credit risk of the bank. An effective management of asset quality would help banks in controlling and monitoring credit risk, which leads to the higher credit rating of bank. Ahimed suggested that asset quality of bank is related to the evaluation of level of money and risk related to bank resource, ( investment and advance). The quality of asset kept by the bank is majior concern for its decision makers. An evaluation of asset quality of the bank gives an indication of level and size of credit risk faced by the bank with reference to its level of operation. Akhatar and Ahmed highlighted that an evaluation of asset quality is linked with evaluation of adequacy of allowance for loan and less losses. There are different types of risks which influence value of banks assets. This risks includes strategic, operating compliance risk. Bodala and Verma suggested that asset quality could be measured by non-performing loans with total advance of the bank.



### **C) Cosset Efficiency Ratio**

Gubta and sibal suggested that management efficiency is the extent to which bank generates income in proportion to its total asset. (dividing the net income of the bank with its total assets). If a bank applies strict costs control, then a bank would be able to generate revenues and the high level of efficiency ratio. However, there are a chance that profits in the corresponding period are not high. Due to the disparity in banking management practice, a comparison of the banks with similar condition is more meaningful. Higher management efficiency in using organizational assets higher will be return on assets and higher will be over all banks profitability and performance.

### **D) Liquidity Ratio**

Suresh and Bardashitani explained liquidity and suggested that it is extent to which a bank can convert its resource in to cash. Higher the level of fluid resource higher will be level of liquidity. It is concerned with short term ability of bank in reaping its obligation. The bank liquidity can be measured by dividing its cash and other liquid assets with short term borrowings and current liabilities. Suresh and Bardastani added to this and suggested that liquidity risk of the bank is concerned with banks' ability to fulfill or meet the un Antipater funds, which may be claimed by a depositor at any time. A strong liquid and solvent bank leads to prosperity for industry as a whole as well as shareholders of the banks. If a bank is unable to meet its short term liquidity, the bank may face crises and it may also hurt general image of the bank. So banks always ensure that it maintains appropriate liquidity position.

### **1.1. Significance of the Study**

Significance of study is an important part of the research as it exhibits the relevance of the study. Identifying bank profitability determinant factors is vitally important for all stake holders, such as the owners, the investors, the debtors, the creditors and depositors, the managers of banks, the regulators and the government. It gives direction to the debtors and the investors to make decision whether they should invest money in bank or invest somewhere else. It also flashes direction to bank managers whether to improve its deposit service or loan service or both to improve its finance. Regulatory agencies and government are also interested in financial performance for the regulation purposes. In general, the paper may have important practical implication for banks to find out what

determinants the performance on profitability are crucial so that any concerned bodies can take initiatives in managing the dominant determinants. It is also used as a starting point for further study conducted on banking performance with different technique. More over the results of the study will provide insights into how the managerial factors affect the performance of Nib international Bank Share Company. It will thus enable the top management of Nib international Bank, to undertake measures that will place the bank in a position to continually improve on its performance.

### **1.2. Scope of the Study**

The study sought to investigate the effect of internal managerial factors on profitability of Nib International Bank Share Company. Independent variables are limited on asset quality, capital adequacy, operational cost efficiency and liquidity and the dependent variable of profitability measured by return on asset (ROA). The target population is Nib International Bank Share Company operating in Ethiopia. The study was undertaken for a period of 16 years from 2003 to 2018.

### **1.3. Limitation of the Study**

The researcher faced some of the problem during conducting of this study are lack of willingness by finance and credit department to give full information about non-performing loans of the bank, since is a first time experience in conducting an individual research study. However, the researcher try to did this study by adopting a positive attitude and taking it as a challenge and discussing and receive each comment from the advisor as well as our class mat students.

### **1.4. Background of the Organization**

Nib International Bank S.C, the company on which this study has been carried out, is one of the pioneer private commercial banks that have been providing financial services in the Ethiopian banking sector for the last 20 years. It is a privately owned commercial bank established on 26<sup>th</sup> May 1999 under license Number. LBB/007/99 in accordance with the commercial code of Ethiopia and the “Licensing and Supervision of Banking Business Proclamation No. 84/1994” of Ethiopia now superseded by Proclamation No. 592/2008 to undertake commercial banking activities.

The bank commenced operation in the month of October 1999. It operates through its Head Office in Addis Ababa, start with paid-up capital of Birr 27.6 million and authorized capital of birr 150 million in 1999, now it reached a capital of nearly Birr 3 billion having over 3,900 shareholders, 215 branches, Birr 21,619 billion in deposit and Birr 13,499 billion in loans and advance with a total employee of 4,332. It had a record profit before tax of Birr 659 million on June 30, 2018 (NIB 2017/18Annual Report). The Bank is engaged in the provision of commercial banking services, mobilizing deposits, providing varieties of credit facilities, letter of credit services, foreign exchange facilities, local and international money transfer. Since the driving forces for success are human beings, NIB has been developing its human resource starting from its establishment.

### **1.5.OrganizatiOn of the Paper**

This study will be organized into five chapters. The first chapter deals with introduction. The second chapter will focuses on a review of the literature. The third chapter discus the methodology and research design. The fourth chapter will concerned with data presentation, analysis and interpretation and the last chapter deals with the summary, conclusion and recommendation of the study.

## CHAPTER TWO

### 2. Review of Related Literature

#### 2.1. Theoretical Literature

Factors influencing the performance of banks are divided into two internal and external categories (TaHERI, 2010) which in this article internal factor are dealt with. Factors that are under managerial control.

##### 2.1.1. Neo-Classical Theory

Technical efficiency is derived from its neo-classical theory of a firm which assumes profit maximizing behavior. A bank can technically be inefficient for technical reasons due to poor training or poor human capital levels of managers and subordinates. Diffusion of new technology is not instantaneous and some banks may lag behind others in the acquisition and utilization of new technology. Due to further training and update of capital, the bank can move towards efficient frontier (Honohan, 1997 ). As Derbali (2011) posits, the X-inefficiency is not caused by the variability of skills or the time variability of technology diffusion but by the use and organization of such skills and technology. The production approaches recognize that bank is producer of diversified financial services. The services are for depositors and borrowers and include not only intermediation services but also rather other financial services that can be charged from non-interest earning account (Makiyan, 2003). In the same approach the number of financial transaction logged over a period of time can be taken as the appropriate definition of output and input is purely labor and fixed asset. Thus, total costs would only cover operational costs and interest costs are excluded (De. Grauwe,2008).

The bank efficiency tends to produce results using the intermediation approach. This is because balance sheet and income statement account data is more readily available than what can be required for a production approach. Economists generally accept the principle of rational focused when analyzing banks utilizing the neo-classical theory of the firm (Bonfim,2009). Approaches of such kinds make it possible to use traditional economic measures of efficiency thus inputs, outputs, cost constraints among others. Though, in reality commercial banks operates under uncertainty and imperfect

information. This signifies that commercial banks should not be assessed on the bases of traditional efficiency measures alone and that assessing on the overall performance requires assessing both efficiency and risk factors. In this study operational cost efficiency was deemed to be one of the main determinants of banks performance. This align with the neo-classical theory which elucidates that commercial bank may be technically inefficacy for technical reasons such as poor training or poor human capital levels of managers and subordinates or because of the use of inferior or outdated technology (De Grauwe,2008).

### **2.1.2. The signaling Hypothesis**

The signaling hypothesis suggests that a higher capital is a positive signal to the market value of a bank (Ommeren, 2011). As (Berger 1995) and Trujillo-Ponce (2013 ), Observe under the signal theory, the bank management signals privet information that the future prospects are good by increasing capital. Thus, a lower leverage indicates that banks perform better than their competitors who cannot raise their equity without further deteriorating the profitability ( Ommeren,2011), consider a firm that is raising funds for an investment project.

### **2.1.3. General Equilibrium Theory or < Q > Theory**

Iqbal suggest that performance evaluation involves measuring and reporting effectiveness, efficiency and economic operations of organization. Dibrell et al. added that performance evaluation might involve an evaluation of past date of the organization. Such evaluation may become a basis of approval or disapproval of past strategies and may guide future Strategy formulation. Performance measurement forms the main core of strategic management and needs the careful attention of business analysts. Performance management literature has several performance evaluation frameworks including ratio analysis, due point analysis, balanced scorecard and economic value added. One of such models is << general equilibrium theory> or < Q > theory. Tobin suggested that the combined market. As the CAMEL frame work and requires banks to report different aspect of its financial and operational situation. CAMEL is based on five indicators, such as capital adequacy, asset quality, management efficiency, earning and liquidity. The first letter of the five factors are used the name of the model CAMEL. Ishaq et al, Bodala and Verma, Gupta and Sibal, Ongore and Kusa, and Molina are used CAMEL for

evaluation of banks performance ( Baharain, India, Pakistan and Venezuela ). CAMEL factors are explained below.

## **2.2. Empirical Literature review**

According to previous studies, internal and external factors are affecting the profitability of banks. This study is concentrating on internal factors such as asset quality, capital adequacy, operational cost efficiency and liquidity which affect the *Profitability of Nib international bank S.C.*

The following studies could be a source of help in supporting the results of this paper.

Eljelly [1] paper aimed to explore the determinants of profitability of Islamic banks in Sudan, one of the few countries that have total Islamic economic and banking systems. Using a sample of Sudanese banks, the paper found that only the internal factors to these banks have a significant impact on banks' profitability, as measured by return on assets (ROA), return on equity (ROE), and net financing margin (MARG). More specifically, cost, liquidity and size of the bank are found to have positive and significant effects on profitability. However, external macroeconomic factors are classified as redundant and have no significant effects on profitability. These results have precedence in the literature as some country-specific studies found no or very weak effects of macroeconomic variables on performance of commercial banks. Furthermore, the study found that the data are best represented with a random effects model vis-à-vis fixed effects or pooling estimation models. Finally, the study has many implications for banks, regulators and depositors with respect to liquidity, cost and bank structure in Sudan.

Javaid et al. [2] study aimed to give the analysis of the determinants of top 10 banks' profitability in Pakistan over the period 2004-2008. The focus is on the internal factors only. This paper uses the pooled Ordinary Least Square (POLS) method to investigate the impact of assets, loans, equity, and deposits on one of the major profitability indicator return on asset (ROA). The empirical results have found strong evidence that these variables have a strong influence on the profitability. However, the results show that higher total assets may not necessarily lead to higher profits due to diseconomies of scales. Also, higher loans contribute towards profitability but their impact is not significant. Equity and Deposits have significant impact on profitability.

Bintawim [3] paper objective was to provide performance analysis comparison of Saudi banks as well as to examine the impact of banks' internal characteristics indicators on financial performance. A total of eleven banks are financially analyzed between 2005 and 2009. The methodology is used including ratio analysis and panel data regression to test the research hypothesis. The results show that large banks performance has reached the mature growth unlike medium-size banks. They are growing to compete against large banks. Meanwhile, small-size banks are facing some difficulties to achieve a better growth. The results indicate all Saudi banks are doing well to maintain the stability of banking sector. In addition, regression results show that banks' size has a negative impact on financial performance, while asset utilization has a positive impact on Saudi banks profitability. Moreover, increasing banks operating expenses leads to increase the net special commission and decrease ROA and ROE.

Medabesh [4] paper is focused on identifying the determinants of Saudi bank profitability. The economic literature, classifies them into two types: internal and external for the banks. For the empirical investigation, we used solid scientific approach to find the financial and macroeconomic factors affecting generation of profits by Saudi banking sector. In this survey, we estimated an econometric model using the method of ordinary least squares, for a period dating from 1990 to 2008, and we used variables covering several financial and monetary factors, which could be related to creation of value by banks in economic literature. The model elaborated using the effectiveness approach to judge the acting of banking institutions, contribute in consolidating the operating behavior of Saudi banks, which are targeting long run investment, not concentrated on generation of short term profit and avoiding exposure to risk. This attitude gave to Saudi banking sector in international market, a good reputation and solid credibility by borrowers.

Ramadan et al. [5] studied a balanced panel data set of Jordanian banks was used for the purpose of investigating the nature of the relationship between the profitability of banks and the characteristics of internal and external factors. For this purpose 100 observation of 10 banks over the period 2001-2010 were comprised. Two measures of bank's

profitability have been utilized: the rate of return on assets (ROA) and the rate of return on equity (ROE). Results showed that the Jordanian bank's characteristics explain a significant part of the variation in bank profitability. High Jordanian bank profitability tends to be associated with well-capitalized banks, high lending activities, low credit risk, and the efficiency of cost management. Results also showed that the estimated effect of size did not support the significant scale economies for Jordanian banks. Finally, the estimation results indicated that individual effects on the profitability are present; this is concluded due to the fact that some of the differential slope coefficients are statistically significant.

Haron [6] investigated the determinants of profitability. For the past three decades, researchers have managed to examine and identify various factors that have a significant influence on bank's profitability. All previous profitability studies, however, have been of conventional banks and until now there has been no study to determine the profitability of Islamic banks. This study examines the effects of the factors that contribute towards the profitability of Islamic banks. This study finds that internal factors such as liquidity, total expenditures, funds invested in Islamic securities, and the percentage of the profit-sharing ratio between the bank and the borrower of funds are highly correlated with the level of total income received by the Islamic banks. Similar effects are found for external factors such as interest rates, market share and size of the bank. Other determinants such as funds deposited into current accounts, total capital and reserves, the percentage of profit-sharing between bank and depositors, and money supply also play a major role in influencing the profitability of Islamic banks.

Scott and Arias [7] developed an appropriate econometric model whereby the primary determinants of profitability of the top five bank holding companies in the United States could be examined and understood. The econometric model was based on internal aspects of the banking organizations as they relate to their return on assets and external aspects of the environment in which they compete as measured by growth in GDP was developed based on guidance provided by economists and industry experts to determine the impact of the external national economy of these five leading banks according to their size as measured by total assets. The results show that profitability determinants for the banking



industry include positive relationship between the return on equity and capital to asset ratio as well as the annual percentage changes in the external per capita income.

In another dimension,

Gull et al. [8] examined the relationship between bank-specific and macro-economic characteristics over bank profitability by using data of top fifteen Pakistani commercial banks over the period 2005 to 2009. The paper used the pooled ordinary least square (POLS) method to investigate the impact of assets, loans, equity, deposits, economic growth, inflation and market capitalization on major profitability indicators that is, return on asset (ROA), return on equity (ROE), return on capital employed (ROCE) and net interest margin (NIM) separately. The empirical results showed strong evidence that both internal and external factors have a strong influence on the profitability.

Bashir [9] paper analyzed how bank characteristics and the overall financial environment affect the performance of Islamic banks. Utilizing bank level data, the study examines the performance indicators of Islamic banks across eight Middle Eastern countries between 1993 and 1998. A variety of internal and external banking characteristics were used to predict profitability and efficiency. In general, our analysis of determinants of Islamic banks' profitability confirms previous findings. Controlling for macroeconomic environment, financial market structure, and taxation, the results indicate that high capital-to-asset and loan-to-asset ratios lead to higher profitability. The results also indicate that foreign-owned banks are likely to be profitable. Everything remaining equal, the regression results show that implicit and explicit taxes affect the bank performance and profitability negatively while favorable macroeconomic conditions impact performance measures positively. Our results also indicate that stock markets and banks are complementary to each other.

### **2.3.Banks Profitability Indicators**

Profit is the ultimate goal of commercial banks. All the strategies designed and activates performed. There are meant to realize the grand objectives. However, this does not mean that commercial banks could also have no other goals. Commercial banks could also have

additional social and economic goals. However, the intention of this study is related to first objective performance on profitability measured by return on asset (ROA). Others are return on equity and net interest margin, (Murthy and Sree. 2003, Alexandru.et.al. 2008).Factors influencing the profitability of banks are divided into two internal and external categories (TaHERi, 2010) which in this article internal factor are dealt with. Factors that are under management control,

#### **2.4.Research Hypothesis**

The objective of the study is to find out the relationship between internal factors and banks profitability of Nib International Bank Share Company in Ethiopia. Banks profitability or performance on profit (ROA), in this study is measured through the ratio of net income to total asset (Gul et al. 2011, Obamuyi 2013, Ongore and Kusa 2013). ROA measures the ability of the bank management to generate income by utilizing company assets of their disposal. In other words, it show how efficiency the resources of the company are used to generate the income (Ongore and Kusa, 2013). Based on the objective, we conclude at the research hypothesis.

HP1 = There is a significant impact of internal factors on the financial performance of Nib International Bank Share Company.

In order to analyze the effect to each factors the study uses the following four sub hypotheses,

**Asset quality:** - Ongore and Kusa highlighted that banks should evaluate asset quality (level of money, advance and investment) as it indicates the credit risk of the bank. An effective management of asset quality would help banks in controlling and monitoring credit risk, which leads to the higher credit rating of bank. Ahimed suggested that asset quality of bank is related to the evaluation of level of money and risk related to bank resource, (investment and advance).

Found that higher asset quality ratio of banks tend to enjoy a higher level of profits and we expect the same result from the study.

**HP1.1 = There is a significant positive impact of asset quality of bank on the Profitability of Nib international bank share company.**

*Capital adequacy (CAR)*, is calculated as the ratio of total capital to total assets ( Gul et al., Syatir,2011) . According to Syafri (2011) capital adequacy should capture the general safety and soundness of the financial institution. We expect that the increasing of this ratio with cause higher profitability, because a bank can easily adhere to regulatory capital stands the excess capital can be provide as loans.

***HP1.2 = There is significant positive impact of capital adequacy on profitability of Nib international bank S.C.***

**Liquidity risk:** Liquidity is a prime concern for banks and the shortage of liquidity can trigger bank failure. Banking regulators also view liquidity as a major concern. This is because banks without sufficient liquidity to meet demands of their depositors risk experiencing bank run. Holding assets in a highly liquid form tends to reduce income as liquid asset are associated with lower rates of return. For instance, cash which is the most liquid of all assets is a non-earning asset. It would therefore be expected that higher liquidity would negatively correlates with profitability. Indeed, Molyneux *et al.*, (1992) and Guru *et al.*, (1999) discovered that negative correlation exists between the level of liquidity and profitability.

Liquidity risk is one of the types of risk for banks; when banks hold a lower amount of liquid assets they are more vulnerable to large deposit withdrawals. Therefore, liquidity risk is estimated by the ratio of liquid assets to total assets. Based on the risk-return hypothesis, more liquidity risk is associated with higher expected returns. Otherwise stated more cash and other liquid non-earning assets result in a lower expected return because these assets do not generate any return. Following prior research of Pasiouras&Kosmidou (2007), a negative relationship for liquid assets to total asset ratio and profitability is hypothesized.

**HP1.3: There is negative relationship between the liquidity risk of a bank and the bank's Profitability.**

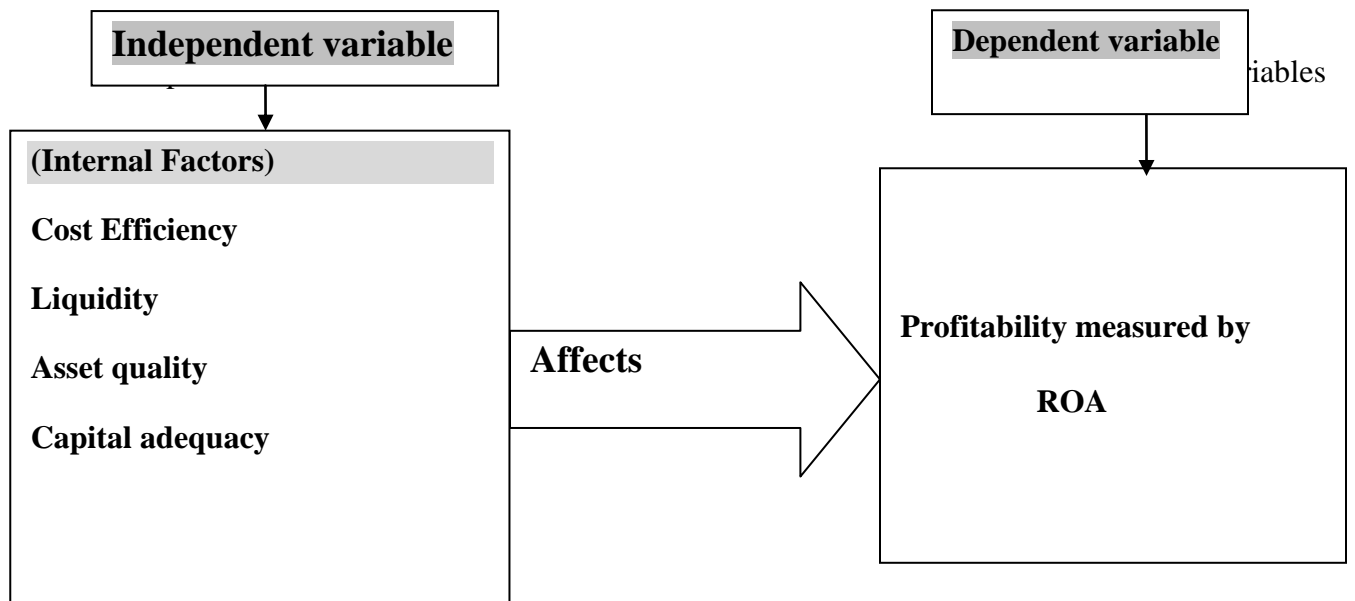
**Operating Efficiency:** The expense to income ratio is used as proxy for operating efficiency. The expense to income ratio is defined as the operating costs over total generated revenues. The major elements of operating cost are staff salaries and administrative cost. It is used as an indicator of management's ability to control costs and is expected to have a negative relation with profits, since improved management of these expenses will increase efficiency and therefore raise profits. It is also one of the key drivers of profitability that is examined. Similar to Pasiouras&Kosmidou (2007), Trujillo Ponce (2012) and others, the expense to income ratio is used, to measure banks operational efficiency. It is also used to provide information on the variation of bank cost over the banking system. A negative correlation is expected between the Operating cost and profitability implying that higher operating cost means lower profit and vice versa. However, this may not be the case as higher amounts of operating cost could also reflect higher volume of banking activities.

**HP1.4: There is negative relationship between the operational cost efficiency of a bank and the bank's profitability.**

## **2.5. Conceptual Framework**

Based on different empirical and theoretical evidences and different internal factors determine performance on profitability of commercial banks, this study expects as following dependent and independent variables will affect profitability of Nib International bank S.C. These variables may include capital adequacy, asset quality, liquidity and operational cost efficiency. The study will be focus on how these variables determine the profitability of commercial banks in case of Nib international bank share company operating in Ethiopia using data period from 2003 to 2018.

2.5.1 Figure 1 Conceptual Frame work



## CHAPTER THREE

### 3. Research Methods

#### 3.1.Introduction

Research methods address the design strategy to be used, the study unit who or what forms the population of study, whether sampling will be done and if so the sampling design to be used and sample size. It also shows the kind of data to be used where or from whom it will be collected and the instrument that will be used and how the researcher will reach respondents or data source. Finally it explains on how the data collected will be analyzed and present.

#### 3.2. Research Design

Explanatory research design examines the Cause and effect relationship between dependent and independent variables. Therefore, the study uses explanatory and descriptive research design seeks to provide more information on the various internal factors that affect, the profitability of Nib International Bank Share Company. The study will look in to the various internal factors that affect profitability. This will stem from theoretical and empirical evidence that will be gathered. Analysis will be done to deduce the extent to which each of the factors identified affects the profitability of the banks. The level of significances of each factors will also identified.

##### 3.2.1. Research Approach

For the purpose of this study quantitative research approach will be used.

##### 3.2.2. Sampling Design

The primary aim of this research is to determine the impact of internal factors on the profitability of Nib international bank Share Company. For the purpose of the study an efficient and effective manner in line with the researcher time and resource , the researcher conduct using secondary data for 16 years data's ( 2003 to 2018). Since Nib international bank started operation in 1999 and now experienced for 20 years in the industry and the study covers 16 years data which covers 80% ( 16/20 )

### **3.2.3. Target Population & Sampling Methods**

Nib International bank Share Company was established in 1999. The bank would have annual reports of 20 years. But it is impossible to get all of the annual reports due to different reasons. Therefore, the researcher will use only 16 years data from NIB International bank Share Company.

## **3.3.Data**

### **3.3.1. Data Types**

Quantitative data will be used for the purpose of this research. The purpose of using such approach is to gather data that help the researcher to investigate and explain the cause-effect relationships between dependent and independent variables. In this particular study, the effect is the bank's profitability and the study is targeted at identifying significant causes, i.e. determinants on profitability related to internal factors. A brief explanation about the data collection and analysis method adopted is given below.

### **3.3.2. Data Sources**

Data was gathered from secondary source such as financial statements and balance sheets of the Nib international bank. Data used in study is only quantitative.

### **3.3.3. Data collection Method**

The methodologies to be used in collecting and organizing the data used secondary data's from Nib international bank share company annual reports. In addition to this such data's are published as well as done by National bank of Ethiopia authorized auditor's where be used to check the validity and reliability of information gathered from secondary data's. Moreover, secondary data was obtained from company's published audited financial statement

## **3.4. Data Analysis**

This section presents the descriptive statistics of dependent and explanatory variables were used in this study. The dependent variable was return on asset (ROA) that used to measure profit performance of the bank. While explanatory variables are asset quality,

capital adequacy, operational cost efficiency and liquidity. It will be cover the period of 16 years from 2003 to 2018. For the purpose of analysis, Pearson correlation, regression analysis were used. The profit measured by return on asset (ROA) will be the dependent variable in the model. Internal factors affecting the profitability will be the independent variable. The focus of this study will be establishing the link between internal factors and Profitability. The study model will be

$$ROA_{it} = \beta_0it + \beta_1 COR_{it} + \beta_2 LQDR_{it} + \beta_3 CAR_{it} + \beta_4 AQR_{it} + E_{it} \quad (1)$$

Where:-

$ROA_{it}$  = represents Return on Asset at a time t and interest i.

Subject to:-

$COR_{it}$  = is operational cost efficiency ratio at time t and interest i .

$LQDR_{it}$  = is Liquidity ratio at time t and interest i.

$CAR_{it}$  = is capital adequacy ratio at a time t and interest i.

$AQR_{it}$  = is asset quality ratio at a time t and interest i.

Return on asset will be measured by the ratio of net income before tax to total assets.

CER (cost efficiency ratio is measured by the ratio of total non- interest expense to total income.

This study will use descriptive research type and it has used a descriptive design. It identifies and evaluates the Effect of internal factors on the profitability of Nib international bank Share Company by using data from Nib International bank of Ethiopia by using secondary data. These determinants are identified by using Wald hypothesis test with significance level of 5%. Data was collected based on the concepts defined in the research questions and hypothesis. It has identified the characteristics of internal factors affecting performance on profitability of Nib international bank by using time series data from balance sheet and income statement of Nib international bank S.C from 2003 to 2018.



## CHAPTER FOUR

### Data Analysis's, Results and Discussion

#### 4.1. Introduction

This section deals with the results of research paper like descriptive and explanatory analysis, correlation and regression analysis.

#### 4.2. Respondents Profile

The discussion part explained the variable depends on the theoretical aspects of each study variable with the collected data of this study. I.e. depend on the following table summery

Table 4.2.1 Summery of collected variable data

VARIABLES	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CASH & CASH EQUIV.	245	332	466	437	699	1,335	2,338	3,072	4,214	4,232	4,228	468	5,657	7,272	8,509	10,186
TOTAL ASSET	1,038	1,426	1,779	2,084	2,669	3,730	4,909	6,070	7,226	8,376	9,258	10747	13256	15830	21020	26,689
CURRENT LIABILITY	588	832	1,223	1,452	1,879	2,470	3,296	4,127	5,157	5,838	6,655	7,923	9,774	12423	16,416	21,619
TOTAL LIABILITY	891	1,223	1,508	1,742	2,182	3,052	4,078	5,054	5,941	6,748	7,479	8,783	11,079	13,312	18,066	23,309
TOTAL CAPITAL	125	173	224	285	425	598	729	917	1,171	1,528	1,166	1,964	2,177	2,518	2,954	3,380
PBT	19	49	66	81	106	159	219	285	344	389	392	391	441	492	682	659
TOTAL DEPOSIT	588	832	1,223	1,452	1,879	2,470	3,296	4,127	5,157	5,838	6,655	7,923	9,774	12,423	16,416	21,619
TOTAL LOANS	550	786	1,133	1,475	1,817	2,114	2,220	2,548	2,767	3,709	4,543	5,408	6,894	7,512	10711	13,499
TOTAL EXPENSE EXP. OF INTERES	36	29	45	47	60	96	132	182	193	218	275	276	467	547	736	946
TOTAL INCOME	55	78	111	128	166	254	351	467	537	608	666	666	908	1,039	1,418	16,016

#### 4.3. Descriptive Analysis

I try to conduct descriptive analysis before undertaking regression analysis. The researcher used to show how much about the relationship between dependent and independent variables. Table 4.3.1 show the descriptive analysis of variables under study. These analyses include mean, minimum, maximum and standard deviation. The value of the mean reports the arithmetical average of the variables which are included in the study. The minimum and maximum values indicate the lower and the highest value of the variable. The standard deviation indicates that the data pointes are included to be

extremely close to the mean. While high values of standard deviation indicates that data set is broaden out over a large rage of values. The descriptive analysis that would be caring out in this section mainly depends on summery statistics presented below.

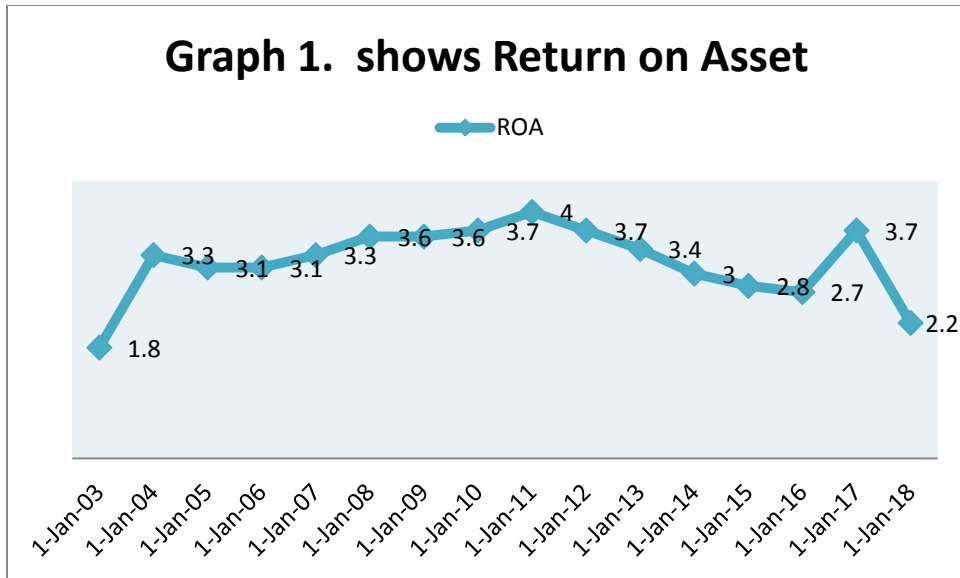
**Table 4.3.1 Descriptive analysis**

**Dependent variable (ROA ) and independent variables**

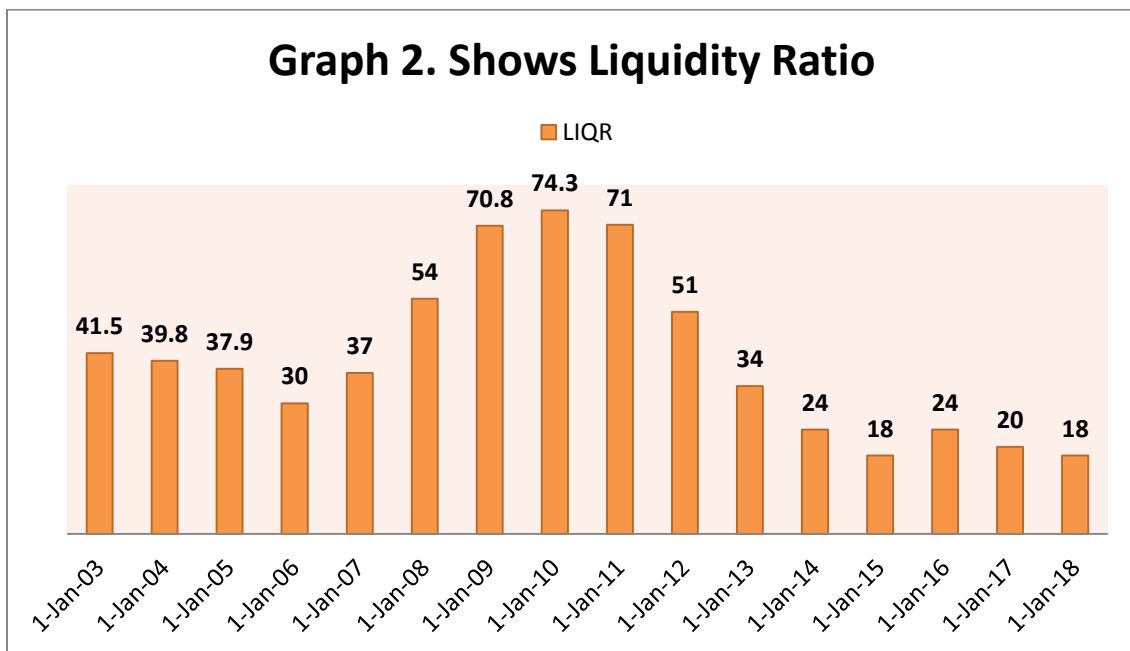
	ROA	LIQ	OCE	ASQ	CAD
MEAN	3.1875	40.3317	33.7312	6.2844	14.7938
MEDIAN	3.30	37.45	32	5.44	14.98
MAXI	4	74.30	54.50	12.34	18.27
MIN	1.80	18	28.80	2.44	12.04
STANDIV	0.58864	19.03168	6.44212	3.15794	2.05743
KURTOSIS	0.806	-0.709	7.270	-0.916	-1.033
SKEWNES	-1.017	0.655	2.489	0.613	0.194

Source: Researcher computation on SPSS Software

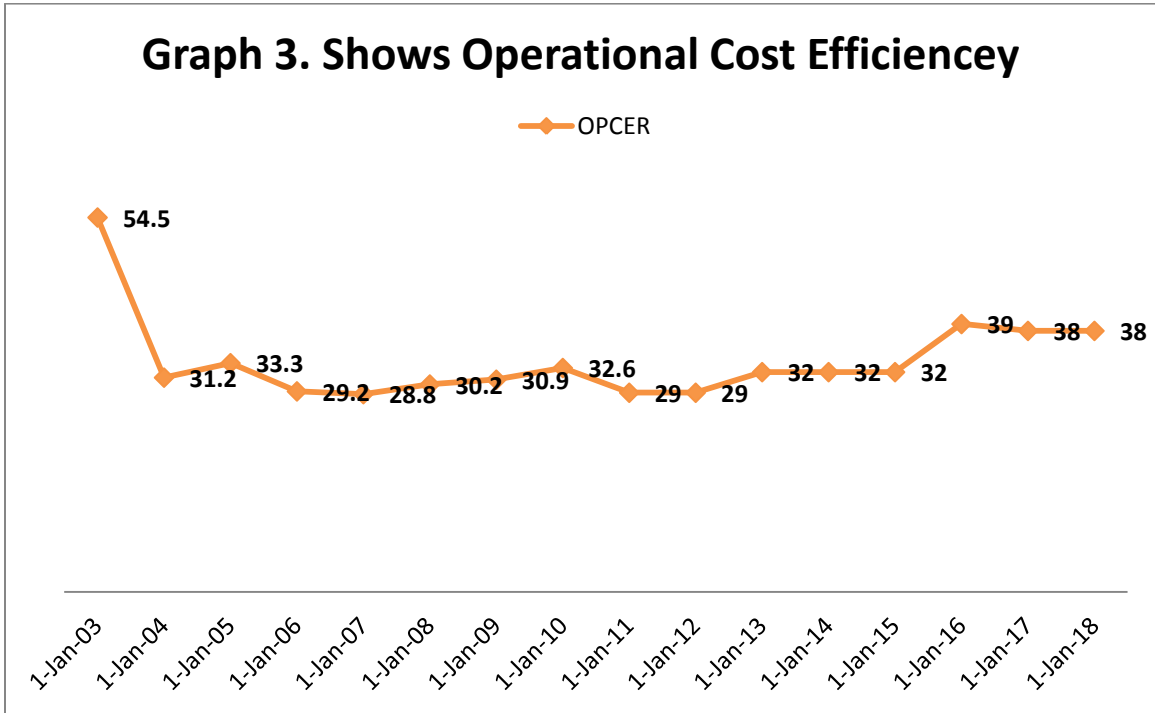
The table 4.3.1 above LIQ shows a percentage mean of 40.33 and standard deviation of 19.03, operational cost efficiency shoes a percentage mean of 33.73 and standard deviation of 6.44, Asset quality shows a percentage mean of 6.28 standard deviation of 3.16 and capital adequacy shows a percentage mean of 14.79 standard deviation of 2.06. The positive values imply that the variable under the model are significant in determining the profitability of Nib International Bank S.C. All the kurtosis values are less than 3.This indicates that all variables have platy uric distribution and the variables are not normally distributed. The values of the variable are wider around the mean.



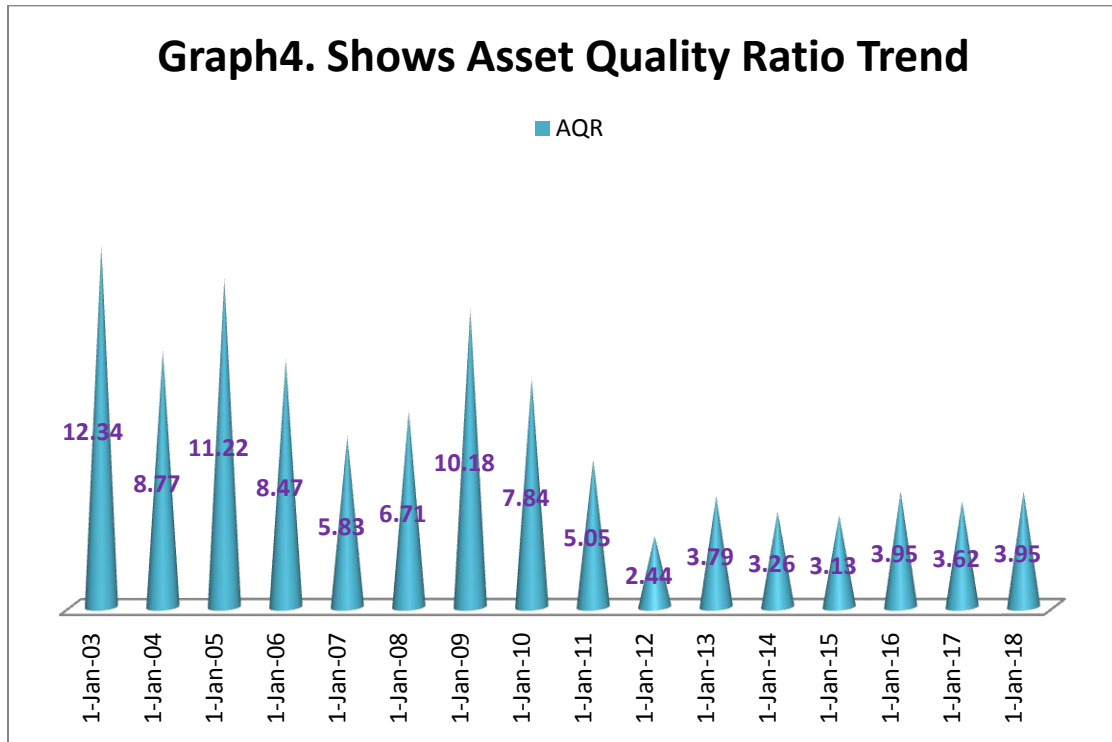
The above Graph 1 illustrated the trends of return on asset over study period. It is highly fluctuating because different variables like asset quality, capital adequacy, operational cost efficiency and liquidity of the bank. But on average the return on asset of the bank is increased over the study period.



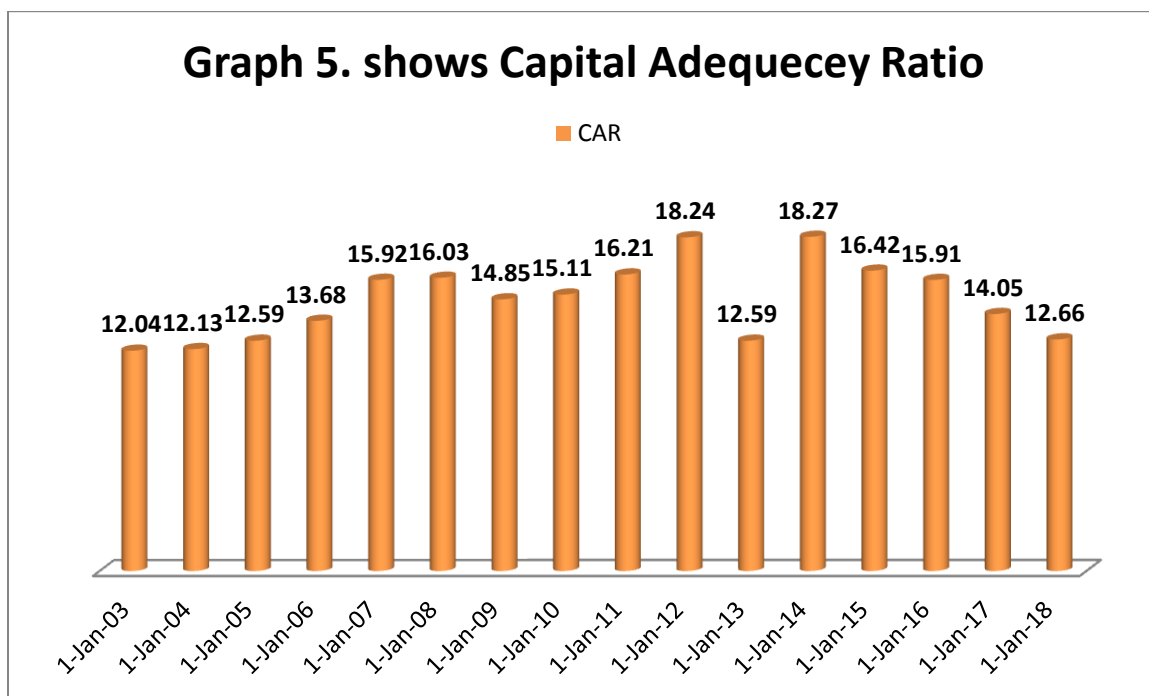
The above Graph 2 represents the trend of liquidity over a study periods. The slope is steep since 2009.



The above Graph 3 represents a series of non-interest expense for the period of sixteen years since 2018. As the graph show general expense of the bank is stable over the period of time. The slope is steep since 2003. This is because the bank hearing large number of human power, advertising and marketing strategies of the bank.



The above graph 4 illustrated a trends of asset quality ratios over the study period. It is fluctuating because it calculated by using different variable like the ratio of total non-performing loans to total loans of the bank. The ratio is increased since 2003 and becomes the slop is flat since 2011.



The above graph 5 illustrated a trend of capital adequacy ratio over the study periods. A series of capital adequacy ratio is flat through time since 2003 and increased on the period of 2012 and 2014. This is because of the banks increase their capital to fulfill the regulatory capital requirement of the bank.

#### 4.2. Association between Dependent and Independent Variables

Pearson correlation is used to determine the degree of association within the independent variables and also between independent variable and dependent variable.

This is illustrated on the table 4.4.1 below.

**Table 4.4.1 Test and Result of Multiple Linear Regression Model**

	ROA	LQR	OCER	AQR	CAR
ROA	1	0.57	-0.75	-0.21	0.38
LQR	0.57	1	-0.26	0.40	0.15
OCER	-0.75	-0.26	1	0.33	-0.45
AQR	-0.21	0.40	0.33	1	-0.66
CAR	0.38	0.15	-0.45	-0.66	1

**Source: - Researcher's Compute on SPSS**

The above table shows the correlation coefficient between the independent variables considered in regression of liquidity, operational cost, asset quality and capital adequacy of Nib International bank S.C. and Return on asset as independent variables in the model and ROA as a measure of the profitability of Nib International Bank S.C. The positive values indicate that the variables are moving in the same direction while the negative values indicate that the variables are moving in the opposite direction. All the variables having a positive correlation with ROA are Liquidity ratio and Capital adequacy ratio. While operational cost efficiency and asset quality ratio that has a negative correlation of – 0.75 and -0.21 respectively. The higher total costs net of interest expense to total income ratio causes lower profitability for bank and lower factors result in higher profits. The highest correlation was between the asset quality and Liquidity ratio which was 0.40, there was no scoring between 1.00 and 0.8, hence no strong correlation between the independent values.

#### **4.4. Effect of Internal factors on profitability**

The objective of this study was used to find the coefficients and Analysis's of variance (ANOVA) in testing the hypotheses and measure the effect of selected internal managerial factors on the performance of financial performance on ROA of Nib International Bank S.C

**Table 4.5.1 Regression Coefficients of internal factors and profitability indicators of Nib International Bank S.C.**

	Coefficient	Standard errors	T-State	P-Value	Lower 95 %	Upper 95 %
Intercept	5.196	1.20	4.33	0.01	2.552	7.840
LIQ	0.018	0.01	2.90	0.01	0.004	0.031
OCE	-0.051	0.02	-3.16	0.09	-0.087	-0.015
AQ	-0.062	0.04	-1.42	0.184	-0.159	0.034
CAD	-0.041	0.06	-0.68	0.51	-0.175	0.092

**Source: - Researchers computed on SPSS**

**Table 4.5.2 Analysis of Variance (ANOVA)**

MODELL	SS	Df	MS	F	Significancec F
Regression	3.940	4	0.985	8.613	0.02a
Residual	1.258	11	0.114		
Total	5.198	15			

**Source: - Researchers 2020**

**Table 4.5.3 Regressions Statics**

Multiple R	0.871
R-Square	0.758
Adjusted R Square	0.670
Standard Errors	0.33816
Observation	16

**Source:- Researchers 2020**

The multiple R value is the correlation coefficient of the regression. It shows the strength of the regression in the case. The multiple R was 0.871 which shows a strong correlation of linear regression.



R square is the coefficient of determination. It shows the proportion of Y that is explained by the independent variables. In this case the coefficient of determination was found to be 0.758 meaning that liquidity, Operational cost efficiency, Asset quality, and Capital adequacy ratio is only 75.80% of the financial performance of Nib International Bank S.C.

In the ANOVA analysis degree of freedom (df), sum of square (ss), and the mean of square (ms) are used to calculate the adjusted R square, T-test and F-test. F-value shows the level which shows the probability that the results occurred randomly in the regression analysis. The significance F-value was 0.02 which means that the results were not random. The level of significance that was 5 % and confidence level of 95 %. All the variables with the exception of capital adequacy, had a P-value that was less than 0.05. The case was the same when tested at a level of significance of 1 %. The P-value is used to determine whether to accept or reject a null hypothesis that there is no relationship between the selected internal managerial factors and financial performance of Nib International Bank S.C. Based on the finding the study rejects the null hypothesis that in no relationship between internal factors and profitability of NIB. And accepts the alternative hypothesis that exists relationship between internal factors and profitability of Nib international bank Share Company.

As per the regression results above, the study model are:-

$$Ii_{it} = A_0 + LIQ_{it} + OCE_{it} + ASQ_{it} + CAD_{it} + E_{it}$$

Becomes

$$Ii_{it} = 5.196 + 0.018LIQ - 0.051 OCE - 0.062AQ - 0.041CA + 0.33816$$

#### **4.5. Discussion of Research Finding**

From the regression results liquidity has a positive effect of 0.018 on the profitability. This was expected to be either positive or negative depending on the population under the study. As expected in the results, management's efficiency on operational cost was found to be negative effects. If operational costs are not well managed they could lead to a drops of 0.051 on financial performance on profit being other variables are constant.

Capital Adequacy was expected to have a positive effect on the profitability of the bank. The negative co-efficient of 0.041 means that other variables being constant and a 5 % decrease in capital would be decline of 4.1 % in profitability. Financial performance is positively affected by asset quality. If the level of non-performing loan is kept at a minimum in comparison to total loans, then the financial performance will definitely increase. The result of this study found asset quality had a negative coefficient of 0.062; means that a level of non-performing loan kept under the level of 5 % would be a 6.20% decline on profitability being other variables are constant.

## CHAPTER FIVE

### Summary, Conclusion and Recommendations

#### 5.1. Introduction

This chapter is a synthesis of the entire study and contains summary of research findings, exposition of the findings, commensurate with the objectives, conclusions and recommendation based thereon.

##### 5.1.1. Summary of the Findings

The objectives of the study was to find out if internal factors have an effect on the profitability of Nib International Bank S.C. Descriptive statistics, Pearson correlation, regression analysis and ANOVA were applied. The regression analysis and hypothesis testing showed that internal factors do have an effect on the profitability of Nib international bank S.C.

##### 5.1.2. Effect of capital adequacy on the profitability of Nib international bank

On the correlation of the study variable, the researcher conducted a Pearson correlation. The study found a positive correlation between capital adequacy of the bank and return on asset of Nib international bank. As shown by correlation coefficient of 0.38, this was also found to be significant at 5% level. From the regression model obtained, a unit increase in capital adequacy while holding other factors constant would lead to a decrease in return on asset of the bank by a factor of 0.041

The findings are in line with those of those who found that banks capital creates liquidity for the bank due to the fact that deposits are most volatile and prone to bank runs. Capital is the amount of funds available to support the banks business and act as a buffer in case of adverse situation. Moreover, greater bank capital reduces the chance of disasters.

### **5.1.3. Effect of Asset Quality on the Profitability of Nib International Bank**

The researcher conducted a person correlation of the study found a weak negative correlation between return on asset and asset quality of Nib international bank S.C. As shown by correlation coefficient of- 0.21, this was also found to be a significant at 0.05level. From the regression model obtained a unit increase in asset quality while holding other factors constant would lead to a decrease in ROA of Nib international bank S.C. by a factor of 0.062

The findings are line with {33}, who found that asset quality affects profitability and financial performance of banks. This asset includes current and fixed assets, credit portfolio and other investments. Loans are a major asset in Ethiopia banking industries, which generates a large portion of bank income. However the loans also expose the banks to latent loses derived from delinquent loans. It is a devisable for banks to keep their amount of non-performing loans to low levels by banks because such loans affect the profitability of the banks and eventual financial performance {9}.

### **5.1.4. Effect of Operational Cost Efficiency on the profitability of Nib International Bank**

On the correlation of the study variables the researcher conducts a person correlation. The study found a strong negative correlation between operational cost efficiency and ROA of Nib international bank S.C. as shown by a correlation coefficient of 0.75 at 0.05 level of confidence. The regression model obtained, a unit increase in operational cost efficiency, while holding other factors constant would lead a decrease on ROA of Nib international bank S.C. by a factor of 0.051

### **5.1.5. Effect of Liquidity on the profitability of NIB International Bank S.C.**

On the correlation of the study variable the researcher conduct a person correlation found a strong positive correlation at 0.018 between ROA and liquidity of Nib international bank S.C. The negative effect of operational cost efficiency on the financial performance supports the efficiency structure theory. The theory mentions that banks earn higher profit because they are more efficient than others. The regression analysis was showing

the same results whereby if operational cost efficiency is not well managed; they could lead to a drop of ROA by a factor of 0.57, if all other factors are held constant. This is an indicator that if banks control their costs then their profits will grow significantly.

## **5.2. Recommendation**

From the finding of this study, the government should put in place policies that encourage banks to have higher level of capital as well as their asset bases. This is ensuring that in the event of country wide financial crises in the banking industry which is key to the economy is adversely affected. The banks need to invest in efficient technologies and processes that foster maximum utilization of resources as well as reduction of costs. This will boost management of operational costs that from the funds affect the financial performance. It will ensure growth of capital as well as increase liquidity and attract cheaper rates for funds. This will ultimately make the bank more competitive in the market and globally develop the economy of the country.

## **5.3. Limitation of the Study**

The findings of this study may not be generalized to all commercial banks in Ethiopia, but can be used as a reference in both the banking industry and other financial institute as well that may have similar internal factors affecting their financial performance. The selected variables in this research study covered only four internal managerial controllable factors that is liquidity, capital adequacy, operational cost efficiency and asset quality. From the results of the research this variables covered only 75.80 % of the factors affecting the financial performance of the bank. This means that the factors considered are not all the managerial internal factors that affect the financial performance of Nib international bank S.C in Ethiopia. The study covered a period of sixteen years from 2003 to 2018. From the literature commercial banks are now upgraded their technologies so as to become more competitive in the market. The results of these technological investments will only be realized in the future and are not captured in this research study.

#### **5.4. Suggestion for Further**

From the findings of this study, it is evident that the selected internal managerial factors are covered only 75.80 % of the whole factors that affect financial performance of Nib international bank. There is still 24.20 % that is unexplained by the study and should be call for further research in the area. There should be further researches that compute a large population of more than sixteen commercial banks in Ethiopia which capture more internal managerial factors effects on the financial performance of commercial banks found in Ethiopia is not a topic widely researched. The research could even go further to not only investigate the banking industry but also the financial institution in Ethiopian case. The return on the technological investment that commercial banks have invested it will be realized in the future. A research on the effect of new technology on the financial performance of banks would be fill the gap of understanding how the return affects the banking industry especially in terms of competitiveness in modern market both globally and locally.

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SELECTED INTERNAL VARIABLES ROW DATA SCANNING FROM FINANCIAL  
REPORT OF NIB INTERNATIONAL BANK S.C. FOR THE YEAR 2003 TO 2018

VARIABLES	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CASH & CASH EQUIV.	245	332	466	437	699	1,335	2,338	3,072	4,214	4,232	4,228	468	5,657	7,272	8,509	10,186
TOTAL ASSET	1,038	1,426	1,779	2,084	2,669	3,730	4,909	6,070	7,226	8,376	9,258	10747	13256	15830	21020	26,689
CURRENT LIABILITY	588	832	1,223	1,452	1,879	2,470	3,296	4,127	5,157	5,838	6,655	7,923	9,774	12423	16,416	21,619
TOTAL LIABILITY	891	1,223	1,508	1,742	2,182	3,052	4,078	5,054	5,941	6,748	7,479	8,783	11,079	13,312	18,066	23,309
TOTAL CAPITAL	125	173	224	285	425	598	729	917	1,171	1,528	1,166	1,964	2,177	2,518	2,954	3,380
PBT	19	49	66	81	106	159	219	285	344	389	392	391	441	492	682	659
TOTAL DEPOSIT	588	832	1,223	1,452	1,879	2,470	3,296	4,127	5,157	5,838	6,655	7,923	9,774	12,423	16,416	21,619
TOTAL LOANS	550	786	1,133	1,475	1,817	2,114	2,220	2,548	2,767	3,709	4,543	5,408	6,894	7,512	10711	13,499
TOTAL EXPENSE EXP. OF INTERES	36	29	45	47	60	96	132	182	193	218	275	276	467	547	736	946
TOTAL INCOME	55	78	111	128	166	254	351	467	537	608	666	666	908	1,039	1,418	16,016

## Regression

[DataSet1] C:\Users\mm\Desktop\HABTAMU F.sav

### Descriptive Statistics

	Mean	Std. Deviation	N
RETURN ON ASSET	3.1875	.58864	16
LIQUIDITY RATIO	40.3313	19.03168	16
COST EFFECIANCY RATIO	33.7313	6.44212	16
ASSET QUALITY RATIO	6.2844	3.15794	16
CAPITAL ADECUACY RATIO	14.7938	2.05743	16

**Correlations**

		RETURN ON ASSET	LIQUIDITY RATIO	COST EFFECIANCY RATIO	ASSET QUALITY RATIO	CAPITAL ADECUACY RATIO
Pearson Correlation	RETURN ON ASSET	1.000	.565	-.750	-.210	.384
	LIQUIDITY RATIO	.565	1.000	-.255	.390	.147
	COST EFFECIANCY RATIO	-.750	-.255	1.000	.330	-.449
	ASSET QUALITY RATIO	-.210	.390	.330	1.000	-.581
	CAPITAL ADECUACY RATIO	.384	.147	-.449	-.581	1.000
	Sig. (1-tailed)	RETURN ON ASSET	.	.011	.000	.218
LIQUIDITY RATIO		.011	.	.170	.068	.294
COST EFFECIANCY RATIO		.000	.170	.	.106	.040
ASSET QUALITY RATIO		.218	.068	.106	.	.009
CAPITAL ADECUACY RATIO		.071	.294	.040	.009	.
N		RETURN ON ASSET	16	16	16	16
	LIQUIDITY RATIO	16	16	16	16	16
	COST EFFECIANCY RATIO	16	16	16	16	16
	ASSET QUALITY RATIO	16	16	16	16	16
	CAPITAL ADECUACY RATIO	16	16	16	16	16

**Variables Entered/Removed(b)**

Model	Variables Entered	Variables Removed	Method
1	CAPITAL ADECUACY RATIO, LIQUIDITY RATIO, COST EFFECIANCY RATIO, ASSET QUALITY RATIO(a)		Enter

a All requested variables entered.

b Dependent Variable: RETURN ON ASSET

### Model Summary(b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					Sig. F Change	R Square Change	F Change	df1	df2
1	.871(a)	.758	.670	.33816	.758	8.613	4	11	.0

a Predictors: (Constant), CAPITAL ADECUACY RATIO, LIQUIDITY RATIO, COST EFFECIANCY RATIO, ASSET QUALITY RATIO

b Dependent Variable: RETURN ON ASSET

### ANOVA(b)

Model	Sum of Squares	df	Mean Square	F	Sig.
1					

1	Regression	3.940	4	.985	8.613	.002(a)
	Residual	1.258	11	.114		
	Total	5.198	15			

a Predictors: (Constant), CAPITAL ADECUACY RATIO, LIQUDITY RATIO, COST EFEECIANCY RATIO, ASSET QUALITY RATIO

b Dependent Variable: RETURN ON ASSET

### Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics		
		B	Std. Error				Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF	B
1	(Constant)	5.196	1.201		4.325	.001	2.552	7.840						
	LIQUDITY RATIO	.018	.006	.574	2.911	.014	.004	.031	.565	.660	.432	.566	1.768	
	COST EFEECIANCY RATIO	-.051	.016	-.559	3.155	.009	-.087	.015	-.750	-.689	-.468	.702	1.425	
	ASSET QUALITY RATIO	-.062	.044	-.333	1.416	.184	-.159	.034	-.210	-.393	.210	.397	2.517	
	CAPITAL ADECUACY RATIO	-.041	.061	-.145	.681	.510	-.175	.092	.384	-.201	.101	.487	2.055	

a Dependent Variable: RETURN ON ASSET

**Residuals Statistics(a)**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.8861	3.9916	3.1875	.51248	16
Std. Predicted Value	-2.539	1.569	.000	1.000	16
Standard Error of Predicted Value	.119	.311	.184	.043	16
Adjusted Predicted Value	2.3571	3.9875	3.2231	.45199	16
Residual	-.60640	.89514	.00000	.28959	16
Std. Residual	-1.793	2.647	.000	.856	16
Stud. Residual	-2.183	2.988	-.032	1.002	16
Deleted Residual	-.89897	1.14050	-.03557	.41225	16
Stud. Deleted Residual	-2.765	6.563	.157	1.855	16
Mahal. Distance	.911	11.745	3.750	2.448	16
Cook's Distance	.000	.489	.092	.187	16
Centered Leverage Value	.061	.783	.250	.163	16

a Dependent Variable: RETURN ON ASSET