EVALUATING THE GROWTH OF ETHIOPIAN PRIVATE BANKS USING THE SUSTAINABLE GROWTH MODEL

A PROJECT AS A PARTIAL FULFILLMENT FOR

MASTER OF BUSNESS ADMINISTRATION

ADVISOR: DR MEHARI MEKONNEN

PREPARED BY: ABEBE WALLE

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Abstract

This paper exemplified the management of financial growth in Ethiopian private banks in light of the sustainable growth model. The actual and sustainable growth rates for each of the banks are computed. A three year combined financial statements are also used to compute these rates. The results of the research confirmed that in none of the periods the sustainable growth rate matched with the actual growth rate.

In the study it is observed that private banking industry is a growing industry which requires financing. However, as the results indicated, none of the banks attempted to align these rates.

Therefore, the researcher recommended that banks should use this powerful tool, the sustainable growth model, to manage their growth. Finally, it is recommended that banks have to improve both the performance and financial policy ratios to finance their increasing growth. To attain these improvements, banks are recommended to increase volume of deposits, have a clearly defined dividend policy, increase sales or diversify their products and improve their profitability.

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CHAPTER ONE
INTRODUCTION

1.1 Background

Starting a business and sustaining its growth requires cash. Cash is required for working capital, facilities, property and equipment. The importance exists for every business even the profitable one's to recognize, that if they try to grow too fast they can run out of cash, even if their product portfolio is a great success. This necessitates balancing between generation and consumption of cash. A failure in recognizing this could render any business, a victim of its own success.

Growth needs cash, and the faster you grow the faster you consume cash. Cash is a resource that is generated by a business primarily from three sources: equity capital, loans and retained profits. Growth therefore implies a mix of these resources, with each of these components having its own associated costs. .

On the other hand, slowly growing companies are also faced with growth problem. If such companies are not aware of the financial implications of slow growth, they might become targets for takeover by more perceptive raiders. In both cases, companies must put a limit to their growth as to conserve their financial strength. Uncontrolled/ Unmanaged growth can be devastating for a company's future. In order to find out if a company / companies is/are growing rapidly or slowly I compared the sustainable growth rate with the actual growth rate.

In this research, the researcher examined the financial aspects of managing growth in Ethiopian private banks in the context of sustainable growth model. Robert R. Higgins pioneered this model (Ross, Westerfield and Jordan: 1998).

1.2 Position of Private Banks in Ethiopia

Ethiopia has changed its economic policy, including its financial policy, since the year 1991. Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 laid down the legal basis for investment in the banking sector. Accordingly the first private bank, Awash International Bank was established in 1994 by 486 shareholders. Dashen Bank was established on September 20, 1995 as a share company with an authorized and subscribed capital of Birr 50.0 million. Bank of Abysinia, another private bank was founded by 131 shareholders with subscribed and authorized capital of 25.0 million and 50 million, respectively. Wegagen Bank with an authorized capital of Birr 60.0 million started operation in 1997. The fifth private bank, United Bank was established on 10th September 1998 by 335 shareholders and now has four branches. The last bank to be established to date is Nib International Bank that started operation on May 26, 1999 with an authorized capital of Birr 150.0 million.

According to the information obtained from the annual report of the National Bank of Ethiopia, the share of private banking capital in the year 2002/2003 reached 25.4% and branch networks share achieved was 33.9% of the total banks in the country. In this report it is indicated that, during the same year out of the total fresh loans granted, private banks share constituted 57% of the total fresh loan

grant. It is further stated in the report that, the lion's share of the total outstanding loans was claimed by public owned banks. Their share however, steadily declined from 89% in 2001/02 to 83.4% by the end of 2002/03 as private banks became more in financial markets.

1.3 OPERATIONAL DEFINITIONS OF TERMS

The researcher believes that the term growth and other terms related to it may have different meanings in different contexts. Hence, the definitions of terms as used in this study are as follows:

Growth: increase in the size and activities of a firm over the long run.

Actual growth rate: is the rate at which a company's actual sales increase on a yearly basis.

Sustainable growth rate: is the maximum growth rate a firm can achieve without external equity financing while maintaining a constant debt-equity ratio. It is the maximum rate of growth a firm can maintain without increasing its financial leverage.

1.4 Statement of the problem

One of the most frequent uses of a firm's financial forecasts is the assessment of the feasibility of its plans for growth. This assessment is necessary because most firms do not have unlimited access to external sources of funds. In light of this

- The study tried to examine the practice of Private Banks towards growth management with the focus on financial decisions.
- The study assessed whether these banks are growing rapidly or slowly for the periods under study
- The paper examined the variables of sustainable growth rate to understand the companies' decision (financial strategy) to manage their growth.

1.5 Objectives of the Study

The main objectives of the study are:

a To identify the actual growth rate of Private banks in Ethiopia
b To determine the sustainable growth rate of these companies
c To evaluate how fast or slow these banks are growing
d To look in to the practice of financial growth management in the banks
e To provide possible recommendations on financial management strategies.

1.6 Methodology

The research design used is a descriptive case study approach. The objective of descriptive case studies is to provide a description of accounting and finance practices. Such studies may be useful in attempting to determine the extent of the gap between theory and practice (Ryan B. etal, 1992:p114).

In this study, therefore, the financial decisions, when there is a disparity between actual and sustainable growth rates, are observed to reach at a conclusion regarding the soundness of the management of growth in Ethiopian private banks.

Data Set used

The data sets used in the research are the financial statements of each private bank for its operational periods convenient to compute both actual and sustainable growth rates. The statements are used for computation of actual and sustainable growth rates for each of the banks for the study periods. In addition, taking 2001 as a cut of point both rates are computed for all private banks combined from years 2001 to 2003.

Date Analysis and Interpretation

The sustainable growth rates for the banks are computed for each period and these rates are compared with the actual growth rates achieved in the year. To compute the actual growth rate total revenues (incomes) balances are used. To calculate the sustainable

growth rate, total revenues (incomes) and net profit after taxation, total revenues (incomes) and total assets, total assets and beginning of period equity and dividends declared and net income after taxation are used. These data are used to compute variables of the model such as profit margin, asset turnover, financial leverage and retention ratio respectively. The data are analyzed by presenting them in tables and graphs. Spreadsheet software (Ms excel) is used as an aid for data analysis that is for the computation of the rates and presentation of graphical representation of results.

1.7 Scope of the Study

This study is limited to describing the practice of growth management in Ethiopian private banks in light of their financial position. The study is limited to the description and evaluation of the banks ability to align actual growth and sustainable growth. The study neither attempted nor does it tried to evaluate aspects of growth management other than the financial dimension.

1.8 Significance of the Study

The study will help the student researchers understand the growth management practices of Ethiopian private banks. In addition, the recommendations that follow the study are expected important to the management of the banks to improve their financial and operational decisions.

Most of all, the practical aspects of the concepts and techniques used in the research may be used as a springboard for further study.

CHAPTER TWO

Review of Literature

Financial planning establishes the blue print for change in a firm. It is necessary because

1. It includes putting forth the firm's goals to motivate the organization and provide benchmarks for performance measurement.
2. The firm's financing and investment decisions are not independent and their interaction must be identified, and
3. The firm must anticipate changing conditions and surprises.

Companies grow at various rates and the growth of a particular company can change over time. Starting a business and sustaining its growth requires cash. Cash is required for working capital, facilities, property and equipment. The importance exists for every business even the profitable one's to recognize, that if they try to grow too fast they can run out of cash, even if their product portfolio is a great success. This necessitates balancing between generation and consumption of cash. A failure in recognizing this could render any business, a victim of its own success.

Growth needs cash, and the faster you grow the faster you consume cash. Cash is a resource that is generated by a business primarily from three sources: equity capital, loans and retained profits. Growth therefore implies a mix of these resources, with each of these components having its own associated costs. Most companies prefer, however, not to have to resort to the option of issuing new equity to finance growth (Jarvis 1992:23). In fact in less developed nations

without less developed equity markets this is not often even an option (Harrington & Wilson: 1993 cited Jarvis: 1992:p23).

On the other hand, slowly growing companies are also faced with growth problem. If such companies are not aware of the financial implications of slow growth, they might become targets for takeover by more perceptive raiders. In both cases, companies must put a limit to their growth as to conserve their financial strength.

Therefore, 'Financial planning models are necessary to assist in planning the future investment and financial decisions of a company. With out some sort of long term financial plan, the firm may find itself at a loose end in a sea of change without rudder for guidance' (Van Horne,1989 p687).

2.1 The Sustainable Growth Model

Robert C. Higgins introduced the sustainable growth model in 1997 (Higgins: 1977). In his paper Higgins demonstrated the financial policies and growth objectives established by some companies are mutually incompatible, and explored the options open to firms for remedying this worsening problem.

He defined the sustainable growth as the annual percentage of increase in sales that is consistent with the firm's established financial policies.

While developing the model, Higgins used the following assumptions underlying the model:

- The company wants to grow as rapidly as market conditions permit.
- Management is unable or unwilling to sell new equity.

- The company has a target capital structure and a target dividend policy that it wants to maintain.

Now let we see how Higgins developed the sustainable growth model. Assume that a company wants to increase sales; increase in sales requires increase in assets such as inventory, accounts receivable and productive capacity. As the company will not be selling equity by assumption, the cash required to finance this increase in assets must come from either retained earnings or increased liabilities. As equity grows, liabilities can increase proportionately without altering capital structure. The growth of liabilities and equity determine the rate at which assets expands. And, in turn the rate at which assets expands limit the growth rate in sales. Thus, what limits the growth rate in sales is the rate at which owners' equity expands. A company's sustainable growth rate therefore is nothing more than its growth rate in equity.

Hence, sustainable growth rate can be calculated as follows (Higgins, 1998:123)

$$g^* = \frac{\text{Change in Equity}}{\text{Beginning of period equity}}$$

Or, $g^* = PRAT$ Where:

P= Profit margin

R= Retention rate

A=Asset turnover

T= Asset to equity (where equity is beginning of period equity)

Sustainable growth can also be thought of in another way. Return on assets[1] (ROA) can be expressed as the product of profit margin and

asset turnover. Accordingly, the sustainable growth equation can be rewritten as (Higgins, 1998:p124):

$$g^* = RT \times ROA$$

P and A (ROA), summarize the operating performance of the business, while R and Ť describe the firm's financial policies. R captures management's attitude toward the distribution of dividend, and Ť reflects its policies regarding financial leverage.

I have depicted diagrammatically the model with its constructs, variables and assumptions on the next page.

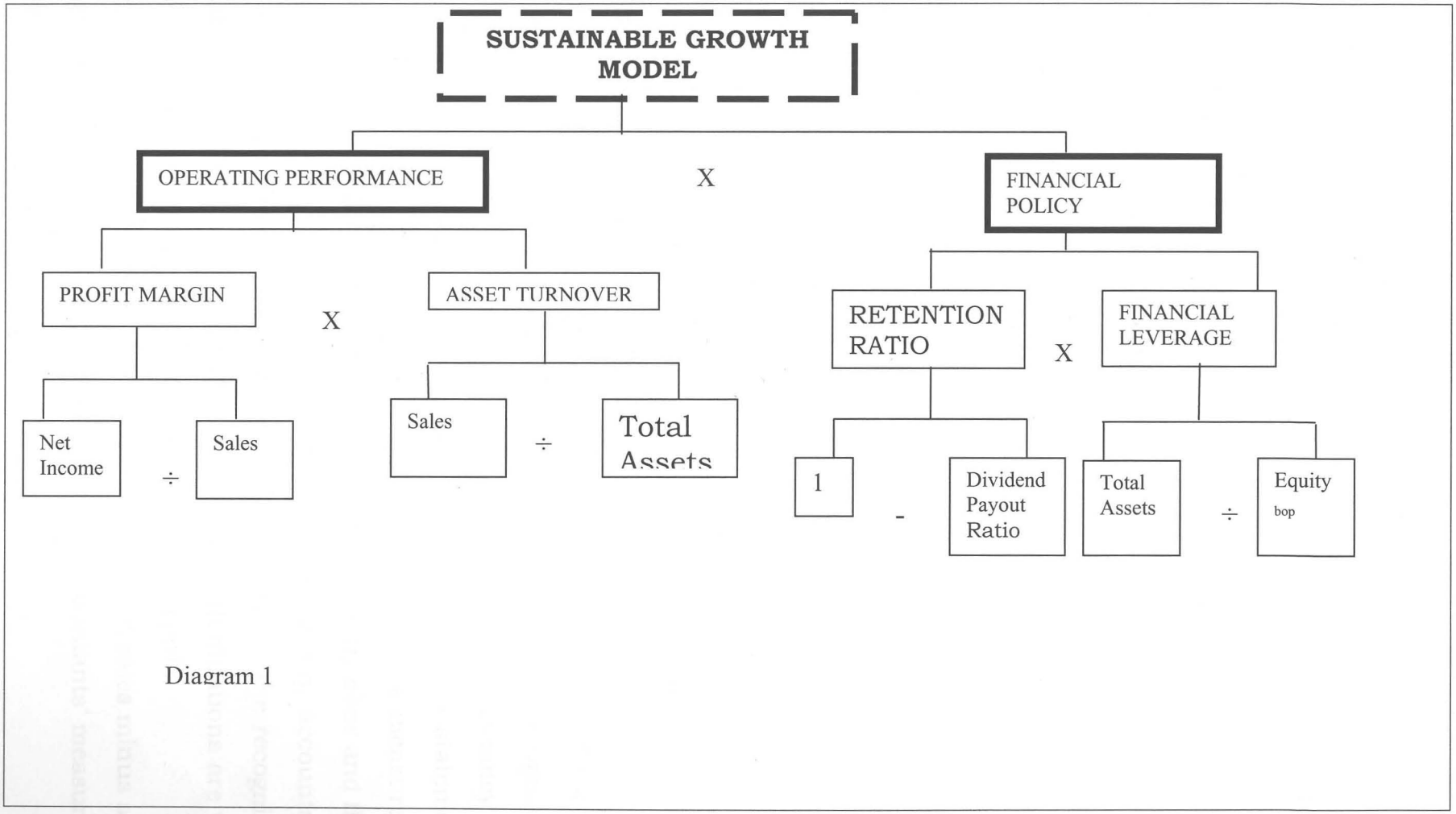

SUSTAINABLE GROWTH MODEL
OPERATING PERFORMANCE
X
FINANCIAL POLICY
PROFIT MARGIN
X
ASSET TURNOVER
RETENTION RATIO
X
FINANCIAL LEVERAGE
Net Income
÷
Sales
Sales
÷
Total Assets
1
-
Dividend Payout Ratio
Total Assets
÷
Equity bop

Diagram 1

An important inference that can be made from the sustainable growth equation is that, g^* is the only growth rate in sales that is consistent with stable values of the four ratios.

2.2 Decision Variables for the model

2.2.1 Profit margin

The term profit (income) may have different meanings and it could be useful to examine the nuances of the term. "Economists have generally adopted a wealth maintenance concept of income", (Delaney, etal, 1992:53). Under this concept Delaney and associates indicated that income is the maximum amount that can be consumed during a period and still leave the enterprise with the same amount of wealth at the end of the period as existed at the beginning. Similarly Griffiths and Wall defined economists' income as the amount a person spent whilst maintaining the value of his wealth intact (Griffith and Wall, 1984:565) Accounting income as specific events which give rise to recognizable elements of revenue and expense during a reporting period. Delaney and associates asserted that accountants and users of financial statements preferred accountings measure of income over economist's measure for the reason that accounting income is reliable. Since many ebbs and flows in the market values of assets are matters of speculation, accountants have retained the historical cost model which precludes the recognition of market value changes. Even, these market value fluctuations are very difficult and cumbersome to capture in accounting records.

Hence, in this paper's context, profit is assumed as net sales minus all of the obligations that a firm undertakes which is accountants' measure of income.

As a result, the profit margin ratio gives the earnings available for shareholders as a percentage of net sales. It measures the overall efficiency of the firm in relation to production, administration, selling, financing, pricing and tax management. The profit margin ratio provides an understanding of the firm's cost and profit structure. It also helps identify the sources of the firm's efficiency or inefficiency.

2.2.1 Asset Turnover

Asset turnover in this paper is computed as sales divided by total assets. This ratio is a measure of how well assets are being used to produce revenue.

2.2.3 Retention Ratio

Generating surplus funds from operations of a firm is a function, not only of the profit margin of the firm but also the extent to which the generated net profit is retained in the business for future use. The higher the retention ratio, the higher will be the resource generating potential of the profits to the business.

2.2.4 Financial Leverage

Financial Leverage is a measure of how much we use equity and debt to finance our assets. As debt increases, financial leverage increases. Generally, management tends to prefer equity financing over debt since it carries less risk. The Financial Leverage Ratio is calculated by dividing Total Assets by Shareholders' Equity.

2.3 Possible Remedies for Sustainable Growth Problems

Higgins (1998) has identified different remedies when companies are faced with growth problems; that is, when a firm's actual growth rate is greater than or less than the sustainable growth of the firm.

2.3.1 When Actual Growth Rate exceeds the Sustainable Growth Rate

When a company's actual growth rate (g) exceeds its sustainable growth rate (g^*), the company will face the problem of growing rapidly. Companies should realize that they couldn't sustain such activity without funding that growth. When a company grows at a rate in excess of its sustainable growth rate, it can either improve operation (increase in profit margin or asset turnover, ROA) or alter its financial policies (increase in retention ratio or financial leverage). 'Increasing operating efficiency is not always possible and altering financial policies is not always wise' (Higgins 1998: p.124). The additional cash required can be met by increasing leverage, until the company reaches its debt capacity thereby leading the company to financing problem since lenders will refuse additional credit requested. And the company will find itself without the cash to pay its bills and can go bankrupt. Therefore, management should be aware that growth above the sustainable growth rate creates financial problems that have to be anticipated and solved. If it is not anticipated and solved, the company will face shortage of cash.

In order to manage the problem of rapid growth, the company can solve the problem by borrowing if the company's growth is likely to decline in the near future as the firm reaches maturity; i.e. if the problem is ephemeral. Otherwise, if the problem persist for a long time, then management must

formulate a financial strategy from among the following options: selling new equity, increase leverage, reduce the payout ratio (cut dividend payout ratio), prune away marginal activities, outsource some or all of production, increase prices, or merge with a cash cow.

1. Sell new equity

If a company is willing to raise new equity capital by selling shares, the increased equity plus whatever added borrowing it makes possible will be sources of cash with which to finance future growth.

However, in countries where equity markets are poorly developed or nonexistent, companies must go through the difficult and costly task of seeking out investors one by one to buy new shares. Therefore, this strategy cannot be used (could be very difficult) in Ethiopia as a means to deal with rapid growth.

2. Increase leverage

Increasing leverage raises the amount of debt the company can add for each Birr of retained profits. However, there are limits to the use of debt financing. All companies have a creditor imposed debt capacity that restricts the amount of leverage they can employ. Moreover, as leverage increase, the risks borne by owners and creditors rise, as do the costs of securing additional capital.

3. Reduce the payout ratio

A cut in the payout ratio raises sustainable growth by increasing the proportion of earnings retained in the business. Though, as there is limit to leverage, there is a lower zero limits to a company's dividend payout ratio. Owners' interest in dividend payments varies inversely with their perceptions

of the company's investment opportunities. If owners believe the retained profits can be put to productive use earning attractive rates of return, they will happily forgo current dividends in favor of higher future ones. On the other hand, if company investment opportunities do not promise attractive returns, a dividend cut will anger shareholders, prompting a decline in stock price.

4. Profitable pruning

This strategy recognizes that when a company spreads its resources across to many products, it may be unable to compete effectively in any. In this case, it is better to sell off marginal operations and plow the money back into remaining businesses. Profitable pruning reduces sustainable growth problems in two ways: it generates cash directly through the sell of marginal businesses, and it reduces actual sales growth by eliminating some of the sources of the growth.

This strategy can also be used for a single-product company. Here the idea is to prune out slow-paying customers or slow-turning inventory. This lessens the sustainable growth in three ways: it frees up cash, which can be used to support new growth; it increases asset turnover, and it reduces sales. A sale declines because tightening credit terms and reducing inventory selection drive away some customers.

5. Sourcing

Sourcing involves the decision of whether to perform an activity in-house or purchase it from outside vendor. A company can increase its sustainable growth rate by sourcing more and doing less in-house. When a company sources, it releases assets that would otherwise be tied up in performing the activity and it increases its asset turnover.

6. Pricing

When sales growth is too high relative to a company's financing capabilities, it may be necessary to raise prices to reduce growth. If higher prices increase the profit margin, the price increase will also raise the sustainable growth rate.

2.3.2 When Actual Growth Rate is lower than Sustainable Growth Rate

A company faces too little growth when its sustainable growth exceeds its actual growth, and is said to grow slowly. Such companies face the problem of how to productively spend (employ) the excess profit that is above their need (find productive use for the cash flows) that leads to deteriorating asset turnover which result in build-up of under used (idle) resources, and declining financial leverage. If the problem is temporary, management can continue accumulating resources in anticipation of future growth. Nevertheless, if the problem is long-term, then management should return the money to shareholders by increasing dividend or repurchasing shares, or should buy growth, reduce liabilities, or increase assets.

1. Ignore the problem

Management can continue investing in its core businesses despite the lack of attractive returns, or it can simply hold back an ever-larger pile of idle resources. However, poorly utilized resources depress a company's stock price and make the firm a feasible and attractive target for a rider. A rider can redeploys the target firm's resources more productively and earn a substantial profit in the process.

2. Return the money to shareholders

The most direct solution to the problem of idle resources is to simply return the money to owners by increasing dividend or repurchasing shares. Nevertheless, many executives appear to have a bias in favor of growth rather than paying large dividends even when the growth creates little or no value for shareholders. This is so because, shareholders entrust managers with the task of profitably investing their capital, and for management to return the money suggests an inability to perform a basic managerial function. In other words, dividends reduce the size of management's empire.

3. Buy Growth

Motivated by self-pride in their ability as managers, concern for retaining key employees, and fear of raiders, managers often respond to excess cash flow by attempting to diversify into other business.

In general, rapidly growing companies face the problem of additional fund to finance their growth while slow growing firms seek productive use of their excessive cash. Hence, it is important for high-and-low growing companies to solve their respective growth problems by merging so that the excess cash generated by one organization can finance the rapid growth of the other.

Chapter Three

Empirical Data Analysis

In this chapter, a detailed analysis of the financial data of each of the Ethiopian private banks as well as interpretations of the results is presented. Furthermore, combined financial data are used for all private banks taking 2001 as a cut off point. The sustainable growth rates for banks are computed using the model and these rates are compared with the actual rates achieved for the same period.

3.1 Applying the model

As explained in the previous chapter, the sustainable growth rate is computed using the model $g^* = PRAT$ where:

g*= sustainable growth rate
P= profit margin
R= Retention ratio
A= asset turnover
T= financial leverage

Based on the published financial statements obtained from banks (see annex), actual and sustainable growth rates of the banks are computed and presented on this section. The results obtained are presented in tables and graphs.

The actual growth rates of Awash International Bank are greater than the sustainable growth rates for the periods 1997- 2001. It is only in 2002 that the sustainable growth rate is greater than the actual growth rate (See Table 1 and Graph 1). For almost 86% of the years the actual growth

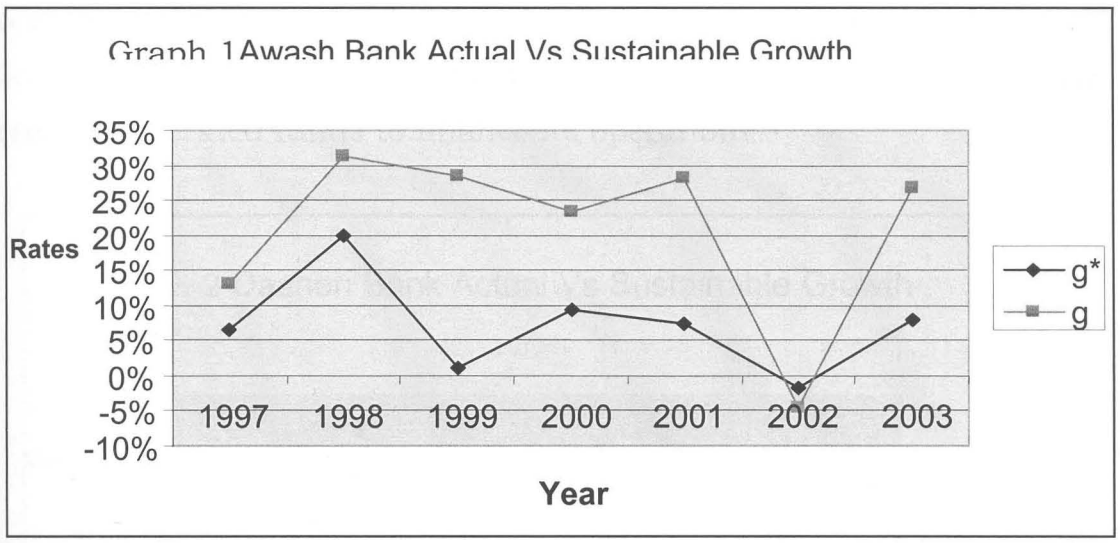
rate is higher than the sustainable growth rate. In none of these periods except in 2003, we see improvements in performance of the variables. In the year 2003, as compared with the year 2002, improvements in profit margin ratio, from 11% to 16%, in financial leverage, from 1099% to 1333, and in retention ratio from -22% to 63 % is observed. These improvements observed in 2003, however, did not bring about improvements in sustainable growth rate to match to the actual growth rate.

Table 1.Awash International Bank Actual and Sustainable Growth Rates and Variables

	1997	1998	1999	2000	2001	2002	2003
Profit Margin	18%	25%	14%	18%	19%	11%	16%
Asset Turn Over	7%	8%	8%	7%	9%	6%	6%
Leverage	1667%	1457%	1414%	1392%	1047%	1099%	1333%
Retention Ratio	32%	67%	7%	54%	44%	-22%	63%
g*	7%	20%	1%	9%	7%	-2%	8%
g	13%	31%	28%	23%	28%	-5%	27%

Source: Annual Reports for 1997- 2003

Graph two also indicate the movement of the sustainable and actual growth rates through out the years under study. It revealed that in none of the periods these rates did not correlate.



Source: Annual Reports 1997-2003

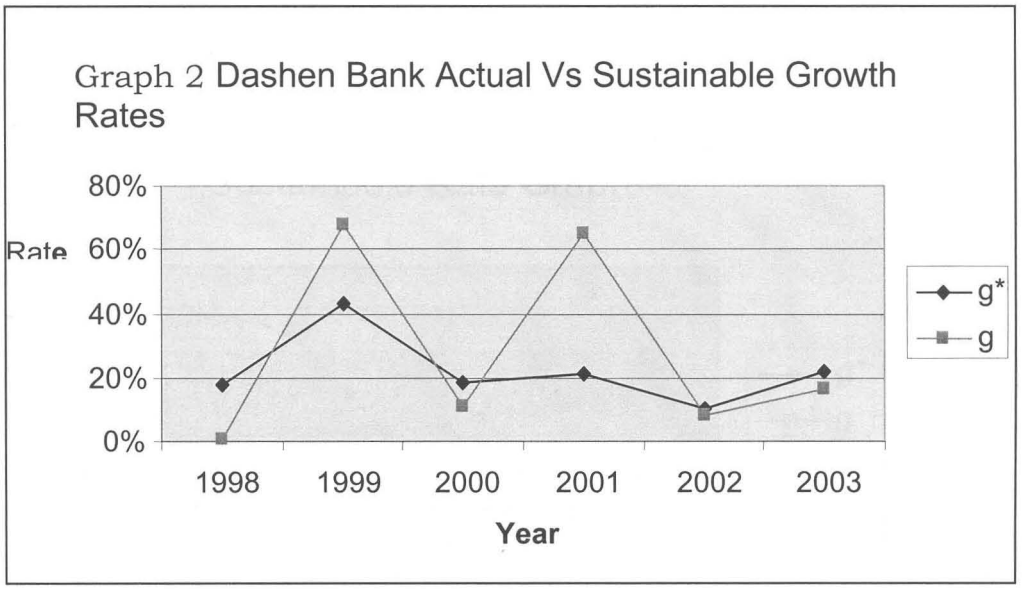
Table 2 and Graph 2 revealed that Dashen Bank's growth rates show a swinging movement, one year's actual growth rate is greater, next year the sustainable growth rate is higher. No consistent growth rates are observed in these periods under study. Coming to the variables of the sustainable growth rate, it is only in the profit margin ratio that slight improvement is observed through out the period. No consistent decline or improvements are observed in both asset turnover and leverage ratios.

Table 2.Dashen Bank Actual and Sustainable Growth Rates and Variables

	1998	1999	2000	2001	2002	2003
Profit Margin	9%	15%	16%	20%	21%	20%
Asset Turn Over	6%	8%	7%	9%	7%	7%
Leverage	3257%	3712%	1587%	1603%	1765%	1628%
Retention Ratio	100%	100%	100%	77%	37%	100%
g*	18%	45%	18%	22%	10%	23%
g	1%	68%	11%	65%	8%	16%

Source: Annual Reports, 1998-2003

Except for the years 2001 and 2002, retention ratio was 100%. It indicated us that the management of the bank was able to utilize internally generated funds to finance its operations.



Source: Annual Reports, 1998-2003

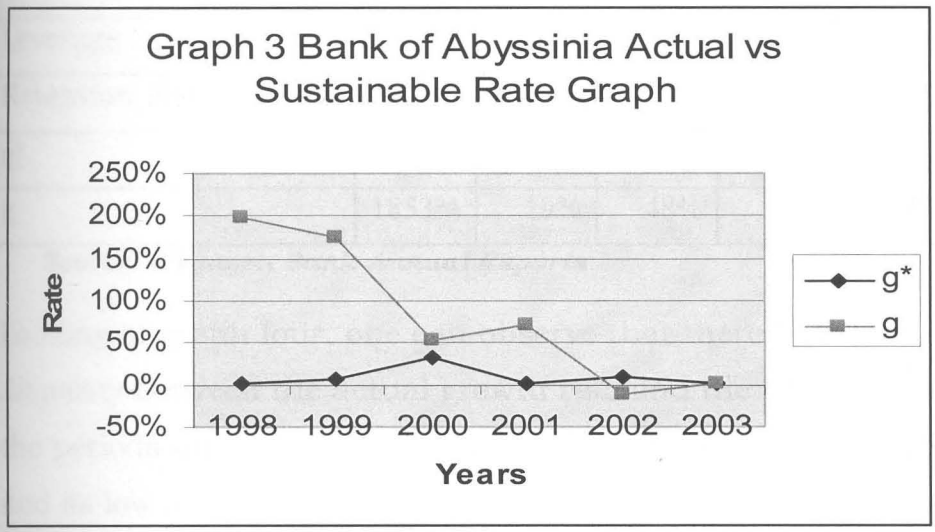
For the years 1998 – 2001, actual growth rates of Bank of Abyssinia are higher than the sustainable growth rates. The reverse is true for the years 2002 and 2003. These developments are presented in table 3 and graph 3. As indicated in table 3, the variables determining the sustainable growth rate show random walk movements.

Table 3 .Bank of Abyssinia Actual and Sustainable Growth Rates and Variables

	1998	1999	2000	2001	2002	2003
Profit Margin	4%	13%	24%	22%	-3%	7%
Asset Turn Over	5%	6%	7%	1%	7%	5.675%
Leverage	461%	1088%	1848%	727%	777%	1011%
Retention Ratio	100%	100%	100%	59%	(534%)	55%
g*	1%	8%	32%	1%	9%	2%
g	198%	174%	53%	71%	-11%	1%

Source: Annual Reports, 1998-2003

No attempts are observed to align the two growth rates. As graph 3 revealed sustainable growth rate showed improvements from 1998 to 2000. Then after, a vacillation movement is observed, i.e., it declined in 2001, increased in 2002 and again declined in 2003.



Source: Annual Reports, 1998-2003

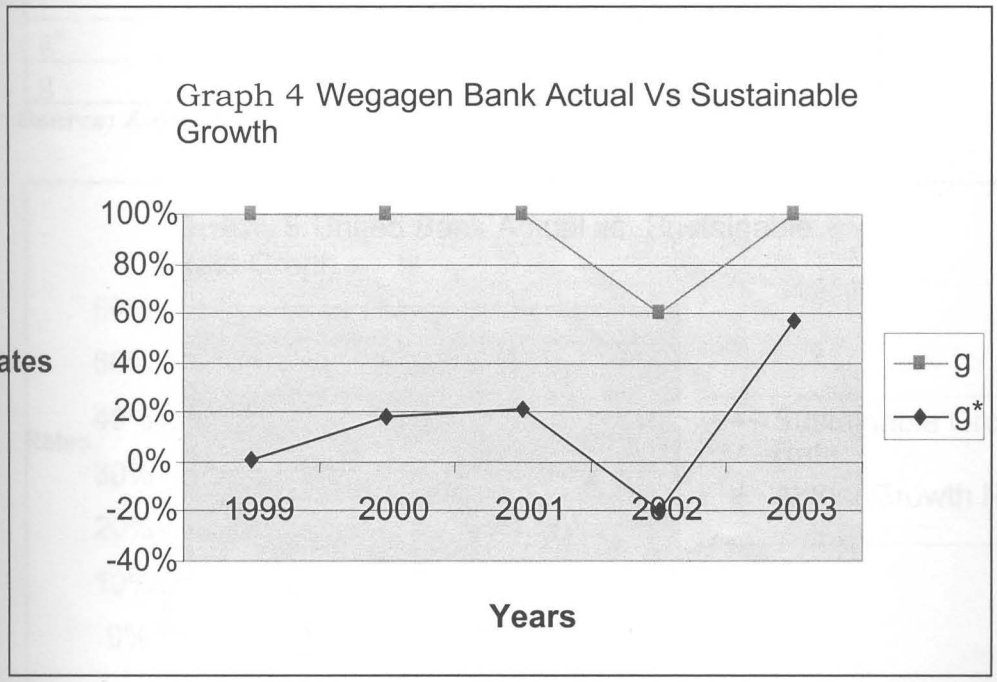
When we look at the rates of Wegagen Bank on table 4 and graph 4, except for the year 2003 in which sustainable growth rate is higher, actual growth rates are higher than the sustainable growth rates for the years 1999-2002.As shown in table 4, except in financial leverage other variables no improvements are observed in the sustainable growth variables to align the sustainable growth rate to the actual growth rate.

Table 4.Wegagen Bank Actual and Sustainable Growth Rates and Variables

	1999	2000	2001	2002	2003
Profit Margin	18%	8%	11%	10%	17%
Asset Turn Over	9%	8%	10%	10%	8%
Leverage	924%	1114%	1173%	1115%	1392%
Retention Ratio	100%	59%	100%	-13%	57%
g*	15%	4%	13%	-1%	10%
g	1853%	19%	48%	6%	7%

Source: Wegagen Bank Annual Reports

Looking at graph four, one can observe that there had been high disparity between the actual growth rate and the sustainable growth in the periods under study. This disparity goes to as high as 1838% in 1998 and as low as 3% in 2003.



Source: Annual Reports, 1999-2003

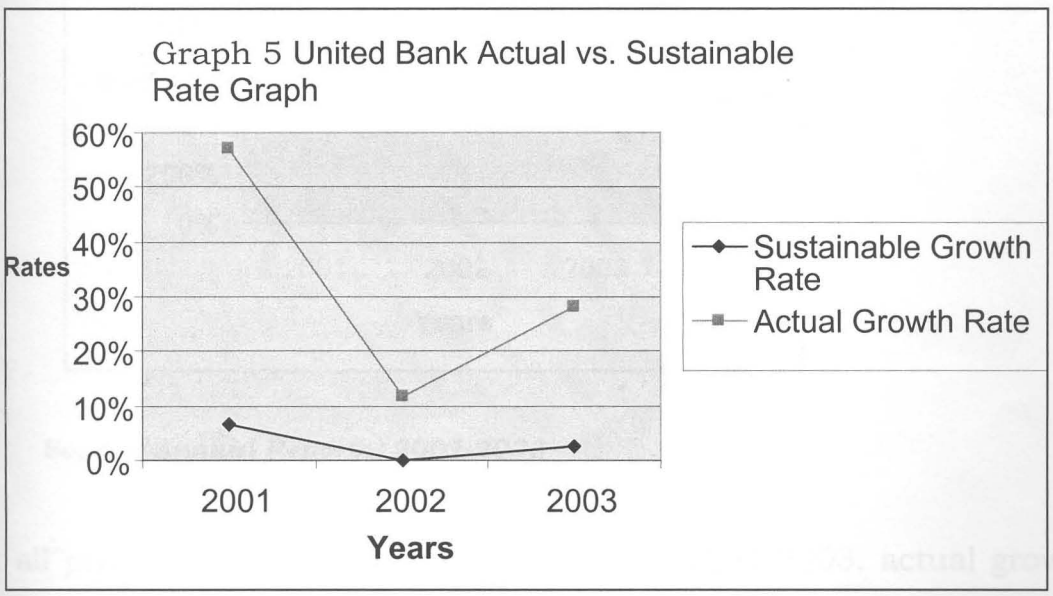
For both Nib International Bank and United Bank for the years 2001-2003 (for all of the years under study), actual growth rates are higher than the sustainable growth rates (see table 5&6 and graph 5&6).

United Bank's sustainable growth variables indicated that (See Table 5) the bank seemed unable to improve both its financial policy as revealed by leverage and retention ratios and its performance ratios, profit margin and asset turnover ratios.

Table 5.United Bank Actual and Sustainable Growth Rates and Variables

	2001	2002	2003
Profit Margin	23%	16%	17%
Asset Turn Over	10%	7%	6%
Leverage	543%	523%	585%
Retention Ratio	53%	0%	45%
g*	6%	0%	3%
g	57%	12%	28%

Source: Annual Reports, 2001-2003



Source: Annual Reports, 2001-2003

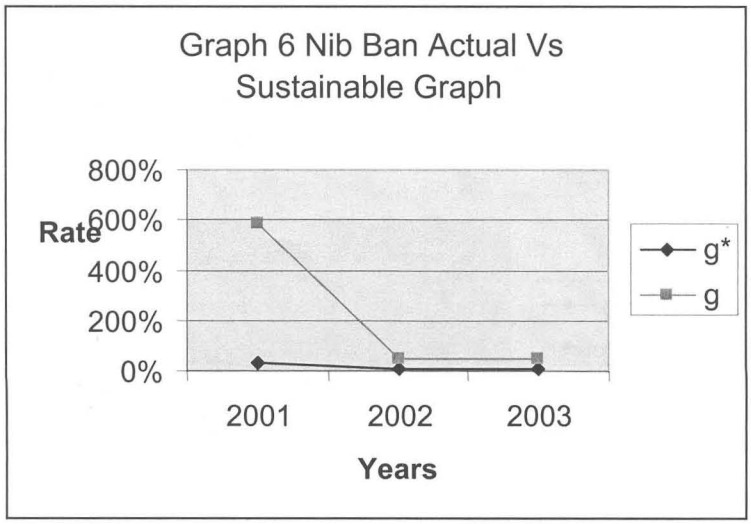
As table 6 indicated, Nib International Bank could not improve its performance ratios and financial policy ratios to match the two growth rates.

Table 6.Nib Bank Actual and Sustainable Growth Rates and Variables

	2001	2002	2003
Profit Margin	37%	29%	20%
Asset Turn Over	8%	8%	7%
Leverage	986%	948%	1033%
Retention Ratio	100%	45%	42%
g*	29%	9%	6%
g	583%	46%	45%

Source: Annual Reports, 2001-2003

Graph 6 Nib Bank Actual Vs Sustainable Growth Rate



Source: Annual Reports, 2001-2003

For all private banks combined for the years 2001-2003, actual growth rates are higher than the sustainable growth rates. The variables showed decline in the year 2002 (except financial leverage) and again progressed

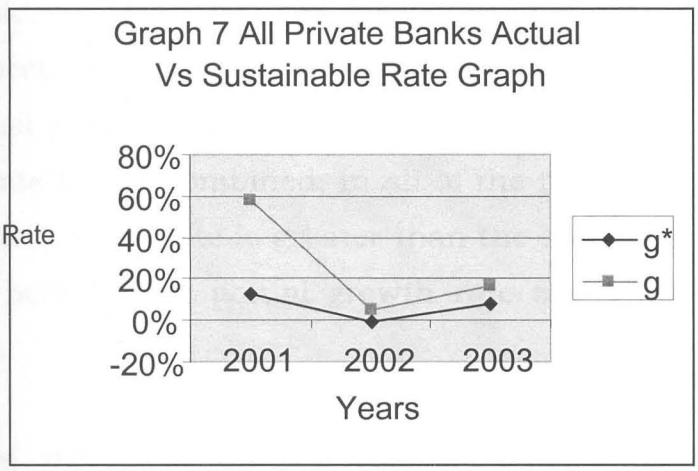
in 2003; but a slight decrease is observed in asset turnover ratio (see Table 7).

Table 7.All Private Banks Combined Actual and Sustainable Growth Rates and Variables

	2001	2002	2003
Profit Margin	21%	13%	17%
Asset Turn Over	9%	7%	6%
Leverage	1015%	1038%	1178%
Retention Ratio	69%	-6%	69%
g*	13%	-1%	8%
g	58%	5%	17%

Source: Annual Reports, 2001-2003

Graph 7 clearly demonstrated the movements of the growth rates of all private banks combined.



Source: Annual Reports, 2003

As explained above in this section, all private banks in Ethiopia did not attempt to align both rates. This could be due to many reasons; it could

be to their inability to understand the consequences of growth problem; or it could be to their inability to obtain finance either internally by improving the performance of their operation or externally by generating equity finance or obtaining loans.

3.2 Analyses of Results

The discussion of results in section 3.1 indicates that in almost all of the periods for each of the banks under study (with the exception of Dashen Bank) the actual growth rates are greater than the sustainable growth rates. For the periods 2001-2003, the combined sustainable growth rates of all private banks are greater than the actual growth rates.

Further more, the frequency of rates based on the results obtained (pages 22-28, the actual growth rates are greater than the sustainable growth rates by 86%, 67%, 80%, 100%, 100% for Awash International, Bank of Abyssinia, Wegagen, Nib International and United banks respectively. For Dashen Bank, it is only for 33% of the years that the actual growth rate is greater than the sustainable growth rate. For all private banks combined, in all of the three year periods, 2001-2003, the actual growth rate is greater than the sustainable growth rate. In none of the periods, the actual growth rate equal with the sustainable growth rate.

From these results, we can generally infer that private banking in Ethiopia is a fast growing business which requires cash to finance this growing operation. This fast growth could be due to the continuous growth of sales made, or the inability of them to raise new equity or it could be their inability to raise deposits or their inability to raise borrowing.

3.3 Evaluating the Decision Variables

A fast growing company needs sufficient financial resources to finance the growth otherwise it is prone to liquidity crisis and it eventually fails. In other words, the company will be unable to pay liabilities as they fall due, due to shortage of funds which is the result of unbalanced growth. The situation will be worst to banks as this increased growth comes from lending excessive funds which comes from depositors' money.
Given that discrepancy of the actual and sustainable growth rates of Ethiopian private banks, some of the following alternative decisions can be used either separately or in combination.

3.3.1 Financial Policy

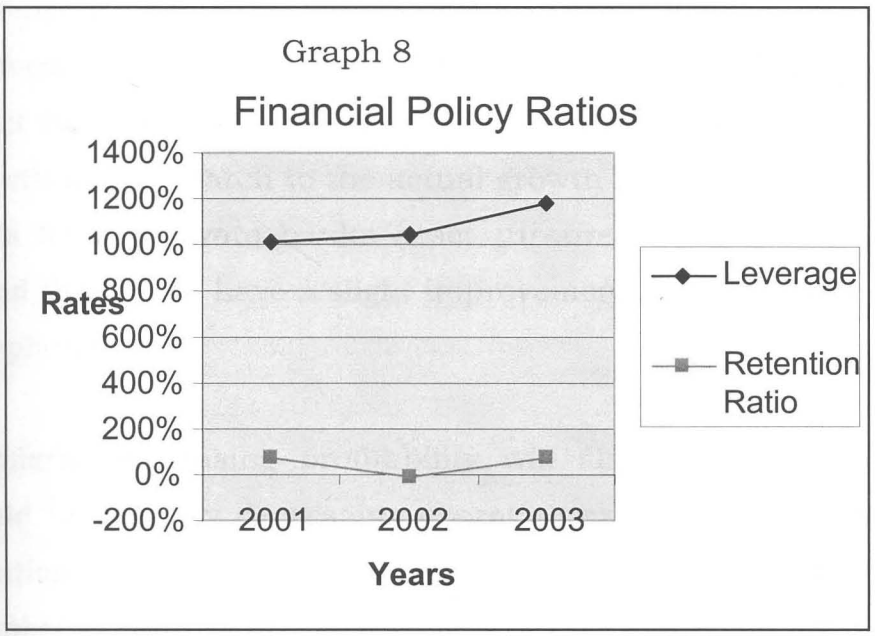
When ever a company's actual growth rates are greater that its sustainable growth rates the financing problem could be solved either by raising new equity capital, increasing leverage and/or increasing the retention ratio. Looking at graph 8 one can observe that financial leverage showed a slight improvement all of the banks taken together but retention ratio indicated a great variability in the three year periods.

1. **Raising equity Capital**

Ethiopia had no strong stock market; hence, it is a difficult option available to banks to finance their growth. Unless an active stock market where equity can easily be raised is established in the country this option must not be taken into account to finance growth.

1. Increasing Leverage

By increasing leverage, private banks can obtain funds to finance their growth. This could be done either through branch expansion so that banks could create easy access to depositors (in attracting deposits) or obtaining loan from various creditors like the National Bank of Ethiopia, Ethiopian Social Security Authority and the like.



Source: Private Banks Annual Reports

2. Increasing Retention Ratio

Increasing retention ratio could be another alternative available to banks to finance increased growth. However, this financing option might not be feasible because decreasing dividend payments to shareholders is not at the discretion of the management; even it may have a negative impact on the impression of shareholders on the performance of the management.

3.3.2 Operating Performance

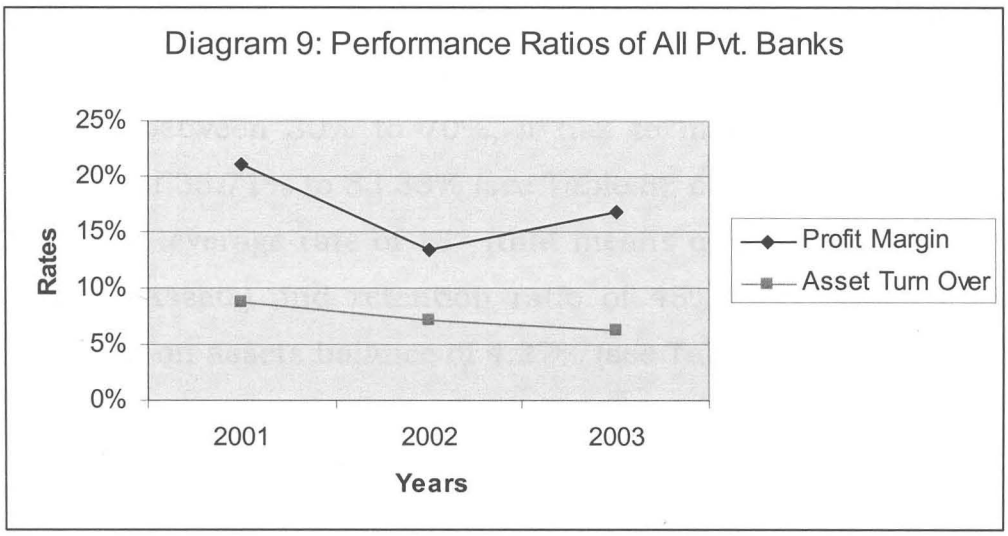
Improving operating performance is also the best solution to finance growth, i.e. when a company's actual growth rates are greater that it's sustainable growth rates.

1. Improving Asset Turnover and Profit Margin Ratios

Increasing sales revenue would bring about increased assets performance which leads to improved assets utilization (expressed by asset turnover ratio). This in due course will increase the sustainable growth rate to match to the actual growth rate. However, if we look at the facts for all private banks asset turnover ratio indicates a decreasing trend though we have a slight improvement in the profit margin ratio (see Graph 9).

Similarly, increasing profitability will also bring similar results. This could be done by decreasing operating expenses of the banks. The best solution towards this end could be accomplished by decreasing the number of non performing loans which results in the decrease in the provision for doubtful loans. The reason for this statement is that the balance of provision for doubtful loans increases with a startling rate for all of the private banks during their operating period under study. For example if we look at the value of the provision for doubtful loans for Awash International Bank, it has been increasing at an alarming rate over its operations years. For the year 1998, the balance of provision for doubtful loans for Awash International Bank was Birr 1,000,000 and for the year 2003 its balance has reached Birr 28.389,000. For comparison purposes, if we look at the total operating expenses of the respective periods of Awash International Bank, for the year 1998 it was Birr 27,854,000 and for the year 2003 it was 90,416,000. That is rates of

provision for doubtful loans out of the total operating expenses were 4% and 31% for 1998 and 2003 respectively.



Source: Private Banks Annual Reports

Finally, it is evident from the data analysis and interpretation of results that the sustainable growth model is a powerful tool in identifying the variables that influence the sustainable growth rate, and in finding solutions when sustainable growth problem occur. Moreover, the model provides a vibrant tool for examining the impact of alternative stratagem for accomplishing several bank objectives regarding return on equity (or return on assets), dividend payout ratio, and financial leverage.

In order to appreciate how the model can be used to manage growth, I have developed two decision matrixes in order to attain a target growth rate. The first matrix (Table 8 Annex I) indicates required return on equity to be achieved for a given retention ratio and target sustainable growth rate. Similarly, the second matrix (Table 9, Annex I) indicates required return on assets to be achieved (for a randomly given financial

leverage ratio of 13 times) for a given retention ratio and sustainable growth rate.

For example,

1. if Awash International Bank wants to internally finance its sales growth (actual growth) of 25% assuming that its retention ratio rests between 30% to 70%, it has to maintain return on equity rates of 35.71% to 83.33% (see Table 8); or
2. Given leverage rate of 13× (that means owner's equity is 7.69% of Total Assets) and retention ratio of 45%, the Bank must attain return on assets balance of 4.27% (see Table 9).

Chapter Four

Conclusion and Recommendation

4.1 Conclusion

This paper has highlighted the kernel of the sustainable growth model in managing growth in private commercial banks in Ethiopia. In the paper the sustainable growth rates and actual growth rates for each of the private banks are computed and compared to see how the banks have been managing growth. In addition, private banking industry as a whole is evaluated in a similar fashion as each of the banks is appraised.
For each of the banks and the industry as a whole, for the periods under study, in none of the periods the sustainable growth rate correlates with the actual growth rate indicating that growth is not properly managed from the financial perspective.

In general in almost of all their operating periods, the actual growth rate is higher than the sustainable growth rate. It is an indication that the management is unaware of the consequences of fast growth to the organization that they are managing.

Dividend payout ratio is not reduced to finance growth whenever actual growth is greater than the sustainable growth rate. Even in some periods the dividend payout ratio shows an increase (some times to the extent the dividend payout ratio is greater than the periods reported net income) in a period where actual growth rate is greater than the sustainable growth rate. It is an indication that these banks have no a clearly defined dividend policy.

It is only in the leverage ratio that we have a steady increase throughout the periods. This could be due to the yearly improvements in their ability to attract depositors.

No significant improvements are observed in the asset turn over ratio or in the profit margin ratio to finance growth. The reason to the first one could be due to their (banks') inability to diversify their services which in turn improves sales or their inability to increase sales with the existing services that they are providing. Coming to the profit margin ratio, the ever increasing amount of provisions for doubtful loans has contributed.

4.2 Recommendations

In light of the above conclusions, the following recommendations are surmised necessary to be practiced by the banks in order to properly manage their financial growth.

I. In order to bring into line both the actual and sustainable growth rates, banks need to have a clearly defined financial policy that allows the management comes to a decision as to the amount of dividend to be paid.
II. Banks need to improve the asset utilization ratio either through diversifying their services (for example diversifying loan portfolios) or through increasing sales of existing services.
III. They have to improve their profitability by minimizing the balance of nonperforming loans.
IV. Above all, they have to try to exploit the power of this model to have a sustainable growth throughout their operating period.

End Note

1. Return on Assets (ROA) is a measure of the efficiency with which a company allocates and manages its resources. Return on Assets is computed by dividing net income to total assets. (Higgins, 1998:41)

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Annex 1. **Table 8**

Return on Equity Required for Given Retention Ratios and Sustainable Growth Rates											
SGR / R	5%	7.50%	10%	12.50%	15%	17.50%	20%	22.50%	25%	27.50%	30%
100%	5.00%	7.50%	10.00%	12.50%	15.00%	17.50%	20.00%	22.50%	25.00%	27.50%	30.00%
95%	5.26%	7.89%	10.53%	13.16%	15.79%	18.42%	21.05%	23.68%	26.32%	28.95%	31.58%
90%	5.56%	8.33%	11.11%	13.89%	16.67%	19.44%	22.22%	25.00%	27.78%	30.56%	33.33%
85%	5.88%	8.82%	11.76%	14.71%	17.65%	20.59%	23.53%	26.47%	29.41%	32.35%	35.29%
80%	6.25%	9.38%	12.50%	15.63%	18.75%	21.88%	25.00%	28.13%	31.25%	34.38%	37.50%
75%	6.67%	10.00%	13.33%	16.67%	20.00%	23.33%	26.67%	30.00%	33.33%	36.67%	40.00%
70%	7.14%	10.71%	14.29%	17.86%	21.43%	25.00%	28.57%	32.14%	35.71%	39.29%	42.86%
65%	7.69%	11.54%	15.38%	19.23%	23.08%	26.92%	30.77%	34.62%	38.46%	42.31%	46.15%
60%	8.33%	12.50%	16.67%	20.83%	25.00%	29.17%	33.33%	37.50%	41.67%	45.83%	50.00%
55%	9.09%	13.64%	18.18%	22.73%	27.27%	31.82%	36.36%	40.91%	45.45%	50.00%	54.55%
50%	10.00%	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%
45%	11.11%	16.67%	22.22%	27.78%	33.33%	38.89%	44.44%	50.00%	55.56%	61.11%	66.67%
40%	12.50%	18.75%	25.00%	31.25%	37.50%	43.75%	50.00%	56.25%	62.50%	68.75%	75.00%
35%	14.29%	21.43%	28.57%	35.71%	42.86%	50.00%	57.14%	64.29%	71.43%	78.57%	85.71%
30%	16.67%	25.00%	33.33%	41.67%	50.00%	58.33%	66.67%	75.00%	83.33%	91.67%	100.00%

Table 9

Return on Assets Required for Given Retention Ratios and Sustainable Growth Rates (Financial Leverage 13X)								
SGR / R	5%	10%	15%	20%	25%	30%	35%	40%
100%	0.38%	0.77%	1.15%	1.54%	1.92%	2.31%	2.69%	3.08%
95%	0.40%	0.81%	1.21%	1.62%	2.02%	2.43%	2.83%	3.24%
90%	0.43%	0.85%	1.28%	1.71%	2.14%	2.56%	2.99%	3.42%
85%	0.45%	0.90%	1.36%	1.81%	2.26%	2.71%	3.17%	3.62%
80%	0.48%	0.96%	1.44%	1.92%	2.40%	2.88%	3.37%	3.85%
75%	0.51%	1.03%	1.54%	2.05%	2.56%	3.08%	3.59%	4.10%
70%	0.55%	1.10%	1.65%	2.20%	2.75%	3.30%	3.85%	4.40%
65%	0.59%	1.18%	1.78%	2.37%	2.96%	3.55%	4.14%	4.73%
60%	0.64%	1.28%	1.92%	2.56%	3.21%	3.85%	4.49%	5.13%
55%	0.70%	1.40%	2.10%	2.80%	3.50%	4.20%	4.90%	5.59%
50%	0.77%	1.54%	2.31%	3.08%	3.85%	4.62%	5.38%	6.15%
45%	0.85%	1.71%	2.56%	3.42%	4.27%	5.13%	5.98%	6.84%
40%	0.96%	1.92%	2.88%	3.85%	4.81%	5.77%	6.73%	7.69%
35%	1.10%	2.20%	3.30%	4.40%	5.49%	6.59%	7.69%	8.79%
30%	1.28%	2.56%	3.85%	5.13%	6.41%	7.69%	8.97%	10.26%
25%	1.54%	3.08%	4.62%	6.15%	7.69%	9.23%	10.77%	12.31%
20%	1.92%	3.85%	5.77%	7.69%	9.62%	11.54%	13.46%	15.38%
15%	2.56%	5.13%	7.69%	10.26%	12.82%	15.38%	17.95%	20.51%
10%	3.85%	7.69%	11.54%	15.38%	19.23%	23.08%	26.92%	30.77%
5%	7.69%	15.38%	23.08%	30.77%	38.46%	46.15%	53.85%	61.54%

Annex 3:

Balance Sheet of Private Banks

1. Awash International Bank

		1997	1998	1999	2000	2001	2002	2003
Assets								
	Cash on Hand and in Banks		66149318	131093149	217436732	210750067	228192610	313471101
	Treasury Bills			25000000	20000000	16250000		
	Loans and Advances		97782132	193123434	254696202	328823856	385828794	542059015
	Prepayments & other advances		1666682	6326605	8085231	17594643	17989884	
	Other Assets		8637184					11320384
	Fixed Assets & Investments		5850345	7152129	8836111	9251120	14206655	15170818
	Establishment Expenses		2106020	2962626	2304264	1316722		7055139
	Total Assets		**182191681**	**365657943**	**511358540**	**583986408**	**646217943**	**889076457**
Liabilities & Equity								
	Liabilities							
	Demand Deposits		30560817	57551833	90973663	158968246	172267805	
	Savings Deposits		79990120	164044743	200922646	232073994	201892501	
	Time deposits		7721340	33052534	53290153	57586971	137372455	
	Total Deposits		118272277	254649110	345186462	448629211	511532761	703125479
	Margin held on letter of credit		15881361	23173634	40297049	25968345	19526370	32915706
	Acceptance outstanding Creditors					10000000		
	Other Liabilities		8457475	37384188	72318176	33556789	45125069	54596361
	Provision for taxation			4526154	3783504	7893894	6182949	4080580
	Total Liabilities		***142611113***	***319733086***	***461585191***	***526048239***	***582367149***	***794718126***
	Shareholders' Equity							
	Share Capital		42752756	43002756	44119332	45914433	53369000	76948000
	Legal Reserve			1523572	2370658	3941813	5551846	8329167
	Special reserve				742101	827201	99850	749200
	Retained Earnings		-3172188	1398529	2541258	7254722	4830098	8331964
	Total shareholders' Equity		***39580568***	***45924857***	***49773349***	***57938169***	***63850794***	***94358331***
Total Liabilities & Equity			**182191681**	**365657943**	**511358540**	**583986408**	**646217943**	**889076457**

2. Dashen Bank

		1997	1998	1999	2000	2001	2002	2003
Assets								
	Cash on Hand and in Banks	165085511	258461543	273559517	305665740	370144978	391308553	520407559
	Treasury Bills			89413300	19961000		129954200	129445600
	Loans and Advances	169397847	227517817	287067620	515038789	690578472	845024455	1217873555
	Customers' liabilities on aceptances	70741313	87648664	131116002	59731540	137690879	126276928	
	Other Assets	6912269	5545769	6153973	7014612	18866536	26854554	75028770
	Fixed Assets & Investments	16591418	17370245	16591716	17218212	18175970	43760645	48716347
	Establishment Expenses	3831396	2744948	1648204				
	Total Assets	**432559754**	**599288986**	**805550332**	**924629893**	**1235456835**	**1563179335**	**1991471831**
Liabilities & Equity								
	Liabilities							
	Demand Deposits	123485740	141256945	185959585	183485014	236158036	343890193	466326634
	Savings Deposits	118474165	186544449	245245561	370582547	532904672	737269441	1056330662
	Time deposits	11007320	34542738	38108566	51196648	92169344	60557797	98727688
	Total Deposits	252967225	362344132	469313712	605264209	861232052	1141717431	1621384984
	Margin held on letter of credit	35936608	55490563	56151991	67796099	68076623	60124576	94101523
	Acceptance outstanding	70741313	87648664	131116002	59731540	137690879	126276928	
	Creditors	19356459	19374114	7128977				
	Other Liabilities	31541831	48088592	72123570	107379012	65121957	98000838	136766380
	Provision for taxation	3614773	4639764	11450567	7367386	14757796	14699117	10331984
	Total Liabilities	***414158209***	***577585829***	***747284819***	***847538246***	***1146879307***	***1440818890***	***1862584871***
	Shareholders' Equity							
	Share Capital	14900000	14900000	42126000	50000000	50000000	75000000	75000000
	Legal Reserve	875386	1700790	4034879	6772913	12144383	18090112	24721741
	Retained Earnings	2626159	5102367	12104634	20318734	26433145	29270333	29165224
	Total shareholders' Equity	***18401545***	***21703157***	***58265513***	***77091647***	***88577528***	***122360445***	***128886965***
Total Liabilities & Equity		**432559754**	**599288986**	**805550332**	**924629893**	**1235456835**	**1563179335**	**1991471836**

3.Bank of Abyssinia

		1997	1998	1999	2000	2001	2002	2003
Assets								
	Cash on Hand and in Banks	43243643	79079861	99910171	161441369	178212800	435698035	506939318
	Treasury Bills							
	Loans and Advances	33194546	103146094	252380427	513705585	668857940	631368143	747157839
	Customers' liabilities							89997621
	Prepayments & Other advances	2340504	4350824	3600109	3093774	27296314	47731181	53616210
	Other Assets	4359615	16564932	26305628	28362366	5396776	10064216	7085888
	Fixed Assets & Investments	2129427	2529601	4889127	10345037	16058928	16672960	16546683
	Establishment Expenses	1524995	767800	562923	611465	1466304	1311555	1155185
	Total Assets	**86792730**	**206439112**	**387648385**	**717559596**	**897289062**	**1142846090**	**1422498744**
Liabilities & Equity								
	Liabilities							
	Demand Deposits	7738165	33304757	52355461	80680729	94402154	133718865	206965203
	Savings Deposits	30038989	93831191	180839574	330439943	468137868	631301568	719038636
	Time deposits	6936750	23823614	60976180	70815791	89283568	144543115	150166475
	Total Deposits	44713904	150959562	294171215	481936463	651823590	909563548	1076170314
	Margin held on letter of credit	20312437	19731370	32936941	59400005	39640584	29109868	39273860
	Acceptance outstanding							89997621
	Creditors							
	Other Liabilities	2797267	7908476	16324267	43908078	42398872	53880282	66115463
	Provision for taxation		1013969	5384929	8858015	16309462	9582087	2229696
	Total Liabilities	***67823608***	***179613377***	***348817352***	***594102561***	***750172508***	***1002135785***	***1273786954***
	Shareholders' Equity							
	Share Capital	18808500	25152875	30676200	108303742	120358882	129133644	131826919
	Legal Reserve	40156	428965	2055850	5124625	10024779	10024779	11378435
	Special Reserve	16062	171586	822340	2049850	4009912	4009912	4009912
	Retained Earnings	104404	1072309	5276643	7978818	12722981	-2458030	1496524
	Total shareholders' Equity	***18969122***	***26825735***	***38831033***	***123457035***	***147116554***	***140710305***	***148711790***
Total Liabilities & Equity		**86792730**	**206439112**	**387648385**	**717559596**	**897289062**	**1142846090**	**1422498744**

4.Wegagen Bank

	1997	1998	1999	2000	2001	2002	2003
Assets							
Cash on Hand and in Banks		66149318	131093149	217436732	210750067	228192610	313471101
Treasury Bills			25000000	20000000	16250000		
Loans and Advances		97782132	193123434	254696202	328823856	385828794	542059015
Prepayments & other advances		1666682	6326605	8085231	17594643	17989884	
Other Assets		8637184					11320384
Fixed Assets & Investments		5850345	7152129	8836111	9251120	14206655	15170818
Establishment Expenses		2106020	2962626	2304264	1316722		7055139
Total Assets		182191681	365657943	511358540	583986408	646217943	889076457
Liabilities & Equity							
Liabilities							
Demand Deposits		30560817	57551833	90973663	158968246	172267805	
Savings Deposits		79990120	164044743	200922646	232073994	201892501	
Time deposits		7721340	33052534	53290153	57586971	137372455	
Total Deposits		118272277	254649110	345186462	448629211	511532761	703125479
Margin held on letter of credit		15881361	23173634	40297049	25968345	19526370	32915706
Acceptance outstanding							
Creditors					10000000		
Other Liabilities		8457475	37384188	72318176	33556789	45125069	54596361
Provision for taxation			4526154	3783504	7893894	6182949	4080580
Total Liabilities		142611113	319733086	461585191	526048239	582367149	794718126

5. United Bank

		2000	2001	2002	2003
Assets					
	Cash on Hand and in Banks	43543971	69631353	116504658	173541538
	Treasury Bills			24976300	
	Loans and Advances	87804986	132927217	160725849	283262076
	Customers' liabilities on aceptances	22796919	11886164	15268386	44853385
	Other Assets	2583401	1953351	1975886	2954175
	Fixed Assets & Investments	6151091	7474037	7831079	9349513
	Establishment Expenses	2258292	2160484	1305359	663092
	Total Assets	**165138660**	**226032606**	**328587517**	**514623779**
Liabilities & Equity					
	Liabilities				
	Demand Deposits	15676936	27516860	41880999	59878966
	Savings Deposits	43778421	89165668	113815859	172250407
	Time deposits	11208767	11904427	33245025	55323722
	Total Deposits	70664124	128586955	188941883	287453095
	Margin held on letter of credit	19161773	6570330	7558030	16497432
	Acceptance outstanding	22796919	11886164	15268386	44853385
	Creditors				
	Other Liabilities	9081185	13064735	26180359	72239151
	Provision for taxation	1814529	3124024	2692708	2197477
	Total Liabilities	***123518530***	***163232208***	***240641366***	***423240540***
	Shareholders' Equity				
	Share Capital	38168865	56774950	81915500	82996900
	Legal Reserve	862817	2141682	3092983	4400213
	Special Reserve				
	Share Premuim				26766
	Retained Earnings	2588448	3883766	2937668	3959360
	Total shareholders' Equity	***41620130***	***62800398***	***87946151***	***91383239***
Total Liabilities & Equity		**165138660**	**226032606**	**328587517**	**514623779**

6. Nib Bank

	2000	2001	2002	2003
Cash on Hand and in Banks	61414621	91460235	166693393	214222981
Treasury Bills	24574300			29611800
Loans and Advances	59115368	210117103	320555882	528385810
Customers' liabilities on aceptances	27035790	59860455	57991974	131204934
Other Assets	17147224	30802004	41441113	105351955
Fixed Assets & Investments	2511039	3130127	4691257	5633723
Establishment Expenses	46053	472758	330931	861303
Total Assets	**191844395**	**395842682**	**591704550**	**1015272506**
Liabilities				
Demand Deposits	37055823	61420600	95133668	151797197
Savings Deposits	41246021	121561170	203368839	336383551
Time deposits	330957	25404217	47132169	99933879
Total Deposits	78632801	208385987	345634676	588114627
Margin held on letter of credit	30594959	21169173	20310560	41145439
Acceptance outstanding	27035790	59860455	57991974	131204934
Creditors				
Other Liabilities	15210565	37599467	60751794	124468863
Provision for taxation	244215	6440938	8721660	5843309
Total Liabilities	***151718330***	***333456020***	***493410664***	***890777172***
Shareholders' Equity				
Share Capital	39363286	51784788	83784743	105195085
Legal Reserve	222872	3116724	6408612	9783063
Special Reserve	100000	200000	300000	400000
Share Premuim				
Retained Earnings	439907	7285150	7800531	9517186
Total shareholders' Equity	***40126065***	***62386662***	***98293886***	***124895334***
Total Liabilities and Equity	**191844395**	**395842682**	**591704550**	**1015672506**

Annex 3: Income Statements of Private Banks

1. Awash International Bank

		Awash						
		1997	1998	1999	2000	2001	2002	2003
Income								
	Interest Income	28274477	34288075	37894441	51271156	63081203	57397435	65780544
	Commission	6009139	8367723	8242362	9578347	12591231	13758945	19752486
	Gain on FOREX			11678730	9398674	15633559	13123691	23211793
	Other Income	62477	3154841	1003361	2336838	1735238	4418750	3704251
	Total Income	34905093	45810639	58818894	72585015	93041231	88698821	112449074
Expenses								
	Interest Expense	13990079	14679896	17,22150	26535349	33947340	25611168	26238167
	Salaries & Benefits	3721518	4917543	6402610	8357951	10872918	12493330	14755583
	Admin. & General	4674356	7190589	9850144	11207730	14713614	17528188	20964702
	Provision for doubtful loans	2000000	1000000	8200000	5000000	5300000	20500000	28389000
	Audit Fee	66000	66000	72851	66726	66000	69292	69000
	Depreciation							
	Total Expenses	24451953	27,854,028	41947755	51167756	64899872	76201978	90416452
Net profit before tax		10453140	17,956,611	16871139	21417259	28141359	12496843	22032622
Profit Tax		4151183	6559637	8589947	8370173	10802849	3054320	4623668
Net profit after tax		6301957	11396974	8281192	13047086	17338510	9442523	17408954
Dividends		4274012	3720687	7677779	5994503	9680822	11503593	6477797

2. Dashen Bank

		1998	1999	2000	2001	2002	2003
Income							
	Interest Income	25023805	27077174	48125359	69845963	77021905	82010244
	Other Income	11074305	33499251	18873581	36546779	38037929	51805911
	Total Income	36098110	60576425	66998940	106392742	115059834	133816155
Expenses							
	Interest on deposits	10064899	13799801	20586238	30520855	35596992	30057945
	Salaries and benefits	5168491	6637516	8414372	11241655	14122872	18662328
	Rent	2880342	2967291	4076665	4561666	5817311	6748203
	Directors remuneration	127692	42000	84000	168000	168000	302222
	Depreciation & Amortization	4325736	4811458	6065321	5001131	4648835	6130966
	Audit fees	66000	67200	70560	78000	80000	121898
	Provision for doubtful loans	2965972	8277167	3654717	9395589	6356037	23111000
	Other	3657603	5387069	5943698	8680763	9840929	11823090
	Total Expenses	29256735	41989502	48895571	69647659	76630976	96957652
	Income before tax	6841375	18586923	18103369	36745083	38428858	36858503
	Income tax	2439764	9250567	7151235	15259202	14645941	10331984
	Provision for contingencies	1100000					
	Income after tax	3301611	9336356	10952134	21485881	23782917	26526519
	Dividends				5000000	15000000	

3.Bank of Abyssinia

		1998	1999	2000	2001	2002	2003
Income							
	Interest Income	7756938	17255831	40533377	72155365	65,556,069	61951585
	Other Income	4712245	16865260	11764866	17160840	14066841	18778226
	Total Income	12469183	34121091	52298243	89316205	79622910	80729811
Expenses							
	Interest on deposits	4363578	9473877	17109627	26576369	33602829	27396458
	Salaries and benefits	1542533	2206032	3543295	5832002	7,497,889	8235060
	Rent						
	Directors remuneration	201000	146650	175250	210200	154000	204250
	Depreciation & Amortization						
	Audit fees	38500	45000	50200	55963	70000	74750
	Provision for doubtful loans	392902	3446344	4000000	10209404	20121307	23882509
	Other	3359016	6910720	6286751	10522189	10960515	13292463
	Total expenses	9897529	22228623	31165123	53406127	72406540	73085490
	Income before tax	2571654	11892468	21133120	35910078	7216370	7644321
	Income tax	1013969	5384928	8858015	16309462	9598520	2229696
	Provision for contingencies						
	Income after tax	1557685	6507540	12275105	19600616	-2382150	5414625
	Dividends			5276643	7978818	12722981	

4.Wegagen Bank

Income		1998	1999	2000	2001	2002	2003
	Interest Income	5937156	17040231	25720955	37673150	42618902	41840756
	Other Income	1725691	16668627	14541394	21724823	20090492	25481347
	Total Income	7662847	33708858	40262349	59397973	62709394	67322103
Expenses							
	Interest on deposits	3106992	8434508	14476992	16538474	20316734	17033001
	Salaries and benefits	3315187	5308060	6643322	8946576	10331079	10930583
	Rent						
	Directors remuneration		36000	10200	15331	16500	55046
	Depreciation & Amortization		329181	658362	987542	1316722	
	Audit fees	43450	48088	73434	71350	71350	75000
	Provision for doubtful loans		3530535	4006062	8426832	5311788	8456072
	General Expenses	4369406	5402043	7222129	10233355	12722141	15582536
	Total Expenses	10835035	23088415	33090501	45219460	50086314	52132238
	Income before tax	-3172188	10620443	7171848	14178513	12623080	15189865
	Income tax	0	4526154	3783504	7893894	6182949	4080580
	Provision for contingencies						
	Income after tax	-3172188	6094289	3388344	6284619	6440131	11109285
	Dividends			1398529		7254722	4830098

5. United Bank

		2001	2002	2003
Income				
	Interest Income	12782119	17094389	18488696
	Other Income	8870657	7078858	12453572
	Total Income	21652776	24173247	30942268
Expenses				
	Interest on deposits	4157370	6190411	6178073
	Salaries and benefits	3022307	3899080	4431180
	Rent			
	Directors remuneration	235587	202571	247583
	Depreciation & Amortization	1304058	1658386	2222160
	Audit fees	42000	35000	45500
	Provision for doubtful loans	767698	1243504	4653609
	General Expenses	3884271	4435718	5732427
	Total Expenses	13413291	17664670	23510532
	Income before tax	8239485	6508577	7431736
	Income tax	3186464	2703374	2202814
	Provision for contingencies			
	Income after tax	5053021	3805203	5228922
	Dividends	2350000	3800000	2900000

6. Nib International Bank

		2001	2002	2003
Income				
	Interest Income	18597232	28935141	37295314
	Other Income	12623648	16489873	28716205
	Total Income	31220880	45425014	66011519
Expenses				
	Interest on deposits	5039400	9853382	11036051
	Salaries and benefits	2991909	4250276	5887420
	Rent			
	Directors remuneration			
	Depreciation & Amortization			
	Audit fees	57500	57500	57500
	Provision for doubtful loans	600000	2945796	19747123
	General Expenses	4515727	6428848	9942311
	Total Expenses	13204536	23535802	46670405
	Income before tax	18016344	21889212	19341114
	Income tax	6440938	8721660	5843309
	Provision for contingencies			
	Income after tax	11575406	13167552	13497805
	Dividends		7285150	7800531