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Determinants of Financial Performance of Private Commercial Banks in Ethiopia: CAMEL Approach

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ABSTRACT

This study aims to identify bank specific CAMEL constituent determinants of financial performance of private commercial banks in the Ethiopia. The exceptional feature of this paper is the inclusion of many independent variables, the inclusion of all 16 operational private commercial banks in Ethiopia and the introduction of EPS in addition to ROA and ROE as key indicators of financial performance of private commercial banks in Ethiopia. The study used a secondary data for all private commercial at the moment in Ethiopian banking industry. Data from National Bank of Ethiopia Annual Report and head offices of the banks were used to do the analysis. The study considered bank specific CAMEL factors over the period from 2016 to 2020 and analyze them with fixed effect balanced regression model using SPSS 20. The study has found that financial performance is significantly affected by capital adequacy, management efficiency and liquidity position of private commercial bank. On the other hand the effect of asset quality and earning is weak and insignificant. To boost the financial performance of private commercial banks in Ethiopia, the study recommends banks to have better capital adequacy, management efficiency and liquidity position.

Keywords: *Balanced fixed effect regression model, determinants of financial performance, CAMEL, panel data, private commercial banks.*

INTRODUCTION

Inclusive Economic prosperity is a sign of success of a country and this is achieved through proper and efficient utilization of country's resources. In this context, banking sector is a major constituent that enables effective and appropriate utilization of financial resources of the country (Babar and Zeb, 2011). Commercial Banks play a dynamic role in the economic development of a country. They basically gather the idle savings of the people and make them available for investment purposes. They also create new demand for deposits by providing loans and purchasing investment securities. Banks also increase the mobility of capital (Saini and Sindhu, 2014). They are recognized worldwide as drivers of economic growth and job creation, thereby contribute towards alleviation of poverty. This shows that commercial banks are key to economic growth and are expected to be stable and financially sound. It is therefore, critical to measure the financial performance of the commercial banks and reflect on their performance.

According to Babar and Zeb (2011), banking industry being an important pillar of the financial sector of an economy, its performance measurement cannot be neglected. It has-been observed based on the standing of those countries that experienced crisis in their banking system that such instability can cause irreparable damage to country's economy (Ghasempour& Salami, 2016). As Rostami (2015) indicated, the CAMEL model is a tool that is very effective, efficient and accurate and can be used as a performance evaluate in banking industries and to anticipate the future and relative risk. This study focuses on the financial performance of private commercial banks in Ethiopia for the period 2016-2020. The CAMEL model which was adopted on November 1979 by FFIEC will be used to evaluate the financial performance of these banks with the view to assess the significance of their role in the growth and development of the economy of Ethiopia.

Statement of the Problem

The banking sector's performance is perceived as the replica of economic activities of the economy. The stage of development of the banking industry is a good reflection of the development of the economy (Misra & Aspal, 2013). Evaluation of financial performance of

the banking sector is an effective measure and indicator to check the soundness of economic activities of a nation. On similar study by Ermias (2016) has also investigated the effects of internal determinants of profitability of six senior private Ethiopian commercial banks of the period 2000-2014 and thereby ranked the overall financial performance of the respective banks based on CAMEL model. He noted that bank specific factors incorporated into the CAMEL model affect to the extent of 67.5% of the changes in profitability of the private commercial banks of Ethiopia. On another study, Tesfaye (2014) examined the determinants of Ethiopian banks performance considering bank specific and external variables on selected banks' profitability for the 1990-2012 periods. He found that bank specific variables by large explained the variation in profitability.

Although various studies were made to explain bank performance using CAMEL parameters, there are few studies were done in private commercial banks of Ethiopia. Besides, these studies were not exhaustive in including all the 16 private commercial banks in Ethiopia to observe the bank performance. Apart from this, only ROA & ROE are used as dependent variables. Similarly, most of the studies were conducted at different periods of time, used different methodology, and findings were varied: study between (Dakito (2015); Mulualem 2015). Hence, the novel feature of this study is the inclusion of all operational private commercial banks in Ethiopia and the addition of EPS as one dependent indicator of the financial performance of private commercial banks in Ethiopia.

Objectives of the Study

The overall objective of the study is to evaluate the financial performance of private commercial banks. Specifically, this research attempts to achieve the following objectives.

- To measure the Capital Adequacy of selected banks and their impact on financial performance
- To appraise the Asset Quality of the selected banks and their effect on the selected banks' financial performance
- To assess the extent to which Managerial Efficiency influence the financial performance of the selected banks
- To analyze the Earning Ability of the selected banks and see how they affect their financial performance
- To measure the Liquidity position of the selected banks and observe their impact on their financial performance
- To draw conclusions on the performance of the listed commercial banks for the 10-year period

Scope of the Study

The scope of the study has covered all of the sixteen operating private commercial banks in Ethiopia. The time period for the study is bounded between 2016 and 2020.

The financial performance of the banks has been measured using five elements of CAMEL, which are capital adequacy, Asset quality, management ability, earning quality and liquidity.

Literature Review

The term financial statement has been widely used to represent two statements prepared by accountants at the end of specific period. They are: Profit and loss account or income statement and Balance sheet or statement of financial position. Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. It is the technique of interpretation of financial statements with the help of accounting ratios derived from the balance sheet and profit and loss account (Thukaram, 2006).

Ratios are indicators; sometimes they serve as pointers but not in themselves powerful tools of management. The ratios help to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Thukaram, 2006). The CAMEL approach of measuring financial performance was traced back its origin to 1979, when the Uniform Financial Institutions Rating System (UFIRS) was implemented in US banking institutions to introduce ratings for on-site examinations of banking institutions. Under this system, each banking institutions subject to on-site examination is evaluated on the basis of five critical dimensions relating to the bank's operations & performance (Sahajwala & Vanden Bergh, 2000). These are Capital, Asset Quality, Management, Earnings and Liquidity and are seen to reflect the financial performance, financial condition, operating soundness and regulatory compliance of the banking institution (Mulualem, 2015). Each of

the component factors is rated on a scale of 1 (best) to 5 (worst). A composite rating is assigned as an abridgement of the component ratings and is taken as the prime indicator of a bank's current financial condition. The composite rating ranges between 1 (best) and 5(worst), and also involves a certain amount of subjectivity based on the examiners' overall assessment of the institution in view of the individual component assessments (Sahajwala & Van den Bergh,2000).

Hamdu et al (2015) used the ratio of loan loss provision to total loan and loan loss provision to total asset to evaluate asset quality of commercial banks. On the other hand, Mulualem (2015) NPLs to total loans, NPLs to total equity, Allowance for loan loss ratio. Altan et al.(l2014) Used the ratio of Fixed asset to total asset to examine the Asset quality of the bank. Non- Performing loans to Gross Loans, Allowance for Doubtful loans to Loans outstanding, Gross NPAs to Net Advances ratio, Net NPAs to Net Advances ratio, Total Investments to Total Assets ratio, Net NPAs to Total Assets ratio, and Percentage Change in Net NPAs are some of the ratios considered to assess asset quality according to literatures by (Ermias, 2016; Tesfaye2014; Mulualem2015; Anteneh et al., 2013; Minyahil, 2015)

A Performance measure is the specific quantitative representation of a capacity, process, or outcome deemed relevant to the assessment of performance. Now days, the most commonly used approach of evaluating the overall performance of financial institutions as shown/proven in different literatures is CAMEL rating system. Hence, the researcher tried to assess the financial performance of financial institutions, particularly the banking sector, using the both descriptive (CAMEL) and inferential statistics. Different researchers used CAMEL model to evaluate the financial performance of different banks. (Minyahil, 2015)

CAMEL is a rating system generally used by the government policy circle, regulating bodies of commercial banks, that is, central banks and non-governmental policy research centers for the purpose of assessing the soundness of financial institutions. In this connection, Piyu rightly observed: "Currently, financial ratios are often used to measure the overall soundness of a bank and the quality of bank management. Thus, bank regulators may use financial ratios to help evaluate a bank's performance as part of CAMEL rating system" (Piyu, 1992). The criteria for the performance of all the financial institutions under CAMEL Ratings include capital adequacy, asset's quality, management standard, earnings and liquidity maintenance (CAMEL). In some countries it is called CAMELS; because in addition to above mentioned five areas, system and sensibility is also considered as a barometer to judge a financial institutions' success or failure.

According to Christopoulos et al. (2011), the result of the asset quality ratio tended to increase over the years. It implies a low ability to detect, measure, monitor and regulate credit risks, while at the same time considering its bad and doubtful claims for the Lehman Brothers. The policy adopted in issuing loans was proven to be the worst. By granting loans to insolvent, high-risk borrowers, it led to an increase of its non-performing loans each year, namely its bad and doubtful loans.

On the other hand, empirical studies revealed that Ferrouhi (2014), Ginevicius and Podviezko (2011), Rozzani and Rahman (2013) and Sangmi and Nazir (2010) have employed the composite CAMEL ratings for comparative analysis of the financial performance of commercial banks in Morocco, Lithuania, Bangladesh, Malaysia and India. Although the CAMELS composite rating has been used for internal control and for supervisory as well as regulatory purpose, the aforementioned empirical evidences confirmed that researchers have been employing the composite rating for identifying strong as well as the weak financial performance of commercial banks.

In summary, the above reviewed literature depicts that the CAMEL model can be applied to measure and evaluate the financial performance of commercial banks. However, the results were not consistent when the CAMEL components are applied to ROA, ROE and NIM. The literature also shows that the ratios that were used to compute the CAMEL components are not consistent, that is, different researchers employed different ratios. For instance, the researchers applied the total loans to total customer deposit, total loan/total deposit or total loans to total assets for computing the liquidity position of the commercial banks. Therefore, it can be concluded that commercial banks are rated differently when the CAMEL components are applied to ROA, ROE and NIM.

RESEARCH METHODOLOGY

Research Design

In this study, a sort of explanatory research design has been used to explain the relationship between bank's performance and components of CAMEL by deriving quantitative data from the annual report of banks.

Target Population and Census Technique

The study has used census technique based on the availability of data for the period of the study. According to 2019/20 report of NBE there are sixteen licensed private commercial banks in Ethiopia. Based on the report the total number of population of private commercial banks of Ethiopia are sixteen. All these banks have five years audited financial report.

Therefore, the study has included all of those banks which have audited financial report for the considered period. The lists of banks that have been included in sample are with the criteria of five years of operation in the sector, which is from 2016 to 2020. Therefore, the matrix for the frame is 5*16 that includes 80 observations.

Method of Data Collection

Panel/longitudinal data have been used for the study as it has advantages over cross-sectional and time. Panel data involves the pooling of observations on the cross-sectional over several time periods. As Brook (2008) stated panel data can minimize the impact of omitted variables bias in regression by providing a sufficient number of observations that can address a broader range of issues than would be possible with pure time-series or cross sectional data alone.

The study has used secondary data over the period of 2016 to 2020. Data was collected from audited financial report of each private commercial bank included in the sample and annual report of NBE. All data that has been collected on annual base and the figures for the variables were on June 30 of each year under study.

Method of Data Analysis

To test the proposed hypotheses, descriptive statistical and inferential statistics has been used. Descriptive statistics such as minimum, maximum, mean, standard deviation of the variables (both dependent and independent) was used to describe the nature and dispersion of the data over the research period and across the banks. Then, a correlation analysis was used to see the existence and degree of linear relationship between dependent and independent variables.

Finally, ordinary least square/OLS regression with their assumption has been employed to assess the level of impact the independent variables on the dependent variable. Data collected from different sources will be analyzed by using SPSS 20 software package.

Model Specification

Based on theoretical and empirical literature so far made the researcher had specified the following general balanced fixed effect linear regression model.

$$y_{it}=\alpha+\beta x_{it}+u_{it}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

With subscript i denote the cross-section and t representing the time-series dimension. The left-hand variable y_{it} is the dependent variable, α is the intercept term, β is a k×1 vector of parameters to be estimated on the explanatory variables, and x_{it} is a 1×k vector of observations on the explanatory variables, t = 1, . . . , T ; i = 1, . . . , N.

Incorporating all relevant variables that affect profitability of private commercial banks the following specific model is used. The model was specified based on the assumption of normality, no hetero skedasticity, multi collinearity and serial autocorrelation of Classical Linear Regression.

The following equations indicate the balanced fixed effect model of the study with respect to three profitability indicators-ROA, ROE and EPS.

ROAit = TCTAit + LEVERAGEit + FATAit + LLPTLit + NIEGEit + NPEPit + TDBRAit + NIITAit + IITIit + LATDit + Uit

ROEit = TCTAit + LEVERAGEit + FATAit + LLPTLit + NIEGEit + NPEPit + TDBRAit + NIITAit + IITIit + LATDit + Uit

EPSit = TCTAit + LEVERAGEit + FATAit + LLPTLit + NIEGEit + NPEPit + TDBRAit + NIITAit + IITIit + LATDit + Uit

Table1. *Definition and Measurement of Study Variables*

	Variables	Measure	Indications
Dependent	ROA	Net income/Total assets	It reflects the ability of a bank's management to generate profits from the bank's assets
	ROE	Net income/Total capital	It measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
	EPS	Net income/ Number of outstanding shares	It is an important financial measurement which indicates the profitability of a company
Capital Adequacy	TCTA	Total capital/ Total asset	The ratio reflects the ability of a bank to Withstand the unanticipated losses.
	LEVERAGE	Debt/Equity	It indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity.
Asset Quality	FATA	Fixed asset/Total assets	It indicates how much fixed assets are hold by a company in comparison to total assets
	LLPTL	Loan loss provision / Total	It measures the strength of banks
Management Quality	NIEGE	Non-interest expense /Gross expense	It shows out of the gross expenses how much is the non-interest expense
	NPEP	Net profit/ No. of employees	It shows the surplus earned per Employee
	TDBRA	Total deposit/Branch	It shows average deposit mobilization per branch of a bank
	TLBRA	Total loan/Branch	It shows average loan disbursement per Branch of a bank
Earning Quality	NIITA	Net interest income / Total assets	It shows how much net interest income generated for each birr total assets
	IITI	Interest income / Total income	It indicates how much interest income is gained in comparison to total revenue(income)
Liquidity	LATD	Liquid asset/Total deposit	It shows the ability of a bank to meet its financial obligations

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Descriptive Statistics of Data Analysis

The descriptive statistics for the dependent and independent variables are presented below. It represents the variables of the sixteen private commercial banks operating in the Ethiopia whose financial results were available from the year 2016-2020.The dependent variable is financial performance measured by ROA ,ROE and EPS in terms of the net income to total asset ratio, net income to total equity and net income to number of outstanding shares respectively. Independent variables such as Total capital to total Asset, leverage, Fixes Asset to Total Asset, loan loss provision to total loan, non-interest expense to total expense, net profit to employee, total deposit to branch, total loan to branch, net interest expense to total asset, interest income to total income and liquid asset to total deposit. In order to give a brief overview of the data, the researcher presented the following tables which contain the descriptive statistics of variables of selected commercial banks in Ethiopia.

Table2. *Descriptive statistics for the Dependent and Independent Variables*

	ROA	ROE	EPS	TCTA	LEVERGE	FATA	LLPTL	NIEGE	NPEP	TDBRA	TLBRA	NIITA	IITI	LATD
Mean	0.03	0.18	29.83	0.15	0.85	0.04	0.01	0.64	151,104	21,080,450	49,199,268	0.03	0.06	0.68
Median	0.03	0.17	28.00	0.14	0.85	0.02	0.00	0.65	129,003	11,355,174	43,500,375	0.04	0.06	0.62
Std. Deviation	0.01	0.05	12.70	0.04	0.04	0.12	0.01	0.11	74,597	28,189,109	33,378,500	0.01	0.01	0.43
Minimum	0.00	0.03	4.00	0.02	0.74	0.01	0.00	0.01	17,111	10,940	14,033,991	0.00	0.02	0.06
Maximum	0.04	0.34	67.00	0.26	0.91	1.05	0.08	0.82	381,137.80	115,827,729	203,371,378	0.06	0.08	2.14
Obser vation	80	80	80	80	80	80	80	80	80	80	80	80	80	80

Source: *Secondary Data Collected from NBE (2016-2020) and SPSS output*

Descriptive statistics generated through SPSS are shown in Table 2. The dataset is comprised of a 5-year annual data for the sixteen domestically listed commercial banks in Ethiopia from 2016-2020, which totaled 80 observations. The dependent variable is measured by Return on asset, Return on equity and Earnings per share (EPS). The EPS has a minimum value of 4.00 and a maximum of 67.00. Meanwhile the mean value is 29.83.

ROA shows that the Ethiopian commercial banks attained, on average, a good performance over the last five years. As it can be seen from the above table, the average mean value of financial performance as measured by ROA for Ethiopian banking industry during the study period is about 0.03 with the minimum of 0.00 and the maximum of 0.04.The ROE has a minimum value of 0.03 and maximum 0.34 while the mean return is 0.18.

This shows that on average, the return on equity was a bit higher at about 18% when compared with the return on assets of 3%. This shows that the private commercial banks have been able to generate more return for their shareholders and generated more return per birr of invested assets, as was above15% and 1% benchmarks respectively (Babar and Zeb,2011; Desta, 2016), hence showing better earnings ability over the five year period.

Capital adequacy for the sixteen banks was measured by two ratios, namely; leverage ratio and equity capital to total assets. The leverage ratio (LR), as measured by the ratio of total debt to total equity retained a mean value of 0.85, underscoring that private banks maintain almost 9 times more debt than equity in their capital structure, hence highly leveraged. In contrast, the ratio of equity to total assets (TETA) depicted a mean value of 0.15 or 15% which was above the benchmark of 4-6% (Desta, 2016).

This result confirms that the 16banks are highly leveraged. As a result, we conclude that the 16 banks kept enough capital to cushion themselves against insolvency in the period under study, whilst ensuring that they use more debt to raise their profitability ratios. In retrospect, their capital ratios should be above the statutory requirement of 15% in Ethiopia. Banks in Ethiopia are required to maintain a capital adequacy ratio at or above 8 percent, which, in the context of the current macroeconomic and financial environment, is regarded as a safe and prudent level. (SBB, 2011). On the other hand, asset quality was measured by provisions for loan loss ratio and ratio of total loans and advances to total assets respectively. The mean value for provisions for loan loss ratio was 0.01. Further, asset quality as measured by Ratio of Fixed asset to Total Assets (FATA) retained mean value of 0.04 and standard deviation of 0.12. This outcome shows that nearly 4% of the assets of these banks are comprised of Fixed Asset.

Meanwhile management quality as measured by the Ratio of Non-interest expense to Gross expense and Ratio of Total Loans to Branch retained mean values of 0.64 and 49,199,268 respectively. Ratio of Non-interest expense to Gross expense show less efficient the management is to control its expenses .The mean value of the ratio of Total Deposit to Branch (TDBR) is 21,080,450. Average deposit mobilization per branch of a bank further management quality as measured by Net Profit to Number of Employee (NPEP) with mean value of 151,104 shows high efficiency of management.

Earnings ability measures of Net interest income To Total Asset and Interest Income to Total Income recorded means and standard deviations of 0.03 (0.01) and 0.06 (0.01) respectively. This shows that on average, 3% net interest income generated for each birr total assets.

Other ratio Interest income to Total Income average indicates 6% interest income gained in comparison to total revenue (income). Interest income to total income ratio is not appreciable but on the other hand the higher ratio also indicates the greater dependence of the bank on interest income.

The liquidity ratio of liquid asset to total deposit recorded mean value of 0.68. The Liquid Assets to Total Deposits ratios measures the liquidity available to the deposits of Banks. The high ratio indicates the conserving investment policy of private commercial banks and getting low risk and low return which enable Banks to cover unexpected deposit withdrawals, because it is above the regulatory requirement of 25%.Bank can meet any sudden withdrawal measured by the share of most sensitive liability.

Regression Results

Interpretation

if the p value (sig value) is less than 0.05, reject null hypothesis. If p value is greater than 0.05, accept null value.

ROA

Table3. *Regression Results for Determinants of Financial Performance Measured by ROA*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.011	.007		1.522	.133	-.003	.025
	LEVERAGE1	.001	.000	.322	1.754	.004	.000	.001
	FATA	.001	.005	.018	.179	.859	-.009	.010
	LLPTL	-.332	.164	-.229	-2.032	.046	-.659	-.005
	NIEGE	-.011	.007	-.196	-1.450	.001	-.025	.004
	NPEP	5.455E-008	.000	.654	3.583	.001	.000	.000
	TDBRA	-4.873E-011	.000	-.239	-1.363	.004	.000	.000
	TLBRA	-2.392E-011	.000	-.138	-.699	.487	.000	.000
	NIITA	.047	.074	.075	.632	.529	-.101	.195
	LATD	.002	.002	.174	1.292	.002	-.001	.006
	TCTA	.068	.029	.494	2.324	.003	.010	.126

Source: *Secondary Data Collected from NBE (2016-2020) and SPSS output*

ROE

Table4. *Regression Results for Determinants of Financial Performance Measured by ROE*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.053	.057		.927	.357	-.061	.167
	LEVERAGE1	.020	.004	.632	5.645	.000	.013	.028
	FATA	.010	.040	.021	.238	.812	-.071	.090
	LLPTL	-1.804	1.373	-.138	-1.314	.194	-4.547	.939
	NIEGE	-.090	.061	-.184	-1.467	.001	-.213	.033
	NPEP	5.811E-007	.000	.775	5.336	.000	.000	.000
	TDBRA	-4.484E-010	.000	-.241	-1.500	.003	.000	.000
	TLBRA	-4.836E-010	.000	-.307	-1.884	.064	.000	.000
	NIITA	.329	.612	.058	.538	.002	-.893	1.552
	LATD	.008	.015	.061	.503	.001	-.023	.038

Source: *Secondary Data Collected from NBE (2016-2020) and SPSS output*

EPS

Table5. *Regression Results for Determinants of Financial Performance Measured by EPS*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	58.195	20.302		2.866	.006	17.611	98.778
	LEVERAGE1	.469	.422	.126	1.110	.002	-.376	1.313
	FATA	-1.137	11.405	-.011	-.100	.002	-23.935	21.660
	LLPTL	265.397	440.461	.087	.603	.004	-615.071	1145.866
	NIEGE	-45.844	30.259	-.291	-1.515	.003	-106.330	14.642
	NPEP	2.002E-005	.000	.117	.673	.504	.000	.000
	TDBRA	-2.586E-007	.000	-.614	-3.070	.003	.000	.000
	TLBRA	1.308E-007	.000	.363	1.879	.065	.000	.000
	NIITA	-289.767	178.673	-.222	-1.622	.010	-646.929	67.395
	LATD	3.447	4.462	.122	.772	.004	-5.473	12.366

Source: *Secondary Data Collected from NBE (2016-2020) and SPSS output*

The regression model measured the impact of the independent variables of Capital Adequacy (Leverage and Equity to Assets ratios), Asset Quality (Provision for Loan Loss and Fixed

Asset to Total Asset), and Management Quality (NIEGE. NPEP, TDBRA and TLBRA), Earnings Ability (NIITA and NITI) and Liquidity (LATD) on the Dependent variable ROA,ROE AND EPS of the selected banks. Table3, 4 and 5 presents the regression result of panel data using random effect models. The model was established based on the conventional methods of panel data model which is known as Static panel model. On the above models, table 3, 4 and 5 shows 49.9%, 63.1%and 50.2% of respectively the variation in the dependent variables were explained by explanatory variables. The rest 50.1%, 36.9% and 49.8% were not explained by the above explanatory variables. LEVRAGE, NIEGE, NPEP, TDBRA, NIITA, and LATD variables were significant in determining the profitability indicators-ROA, ROE and EPS. As one of the capital adequacy proxy, leverage was positive and significant in determining the financial performance indicator ROA, ROE and EPS. *Ceteris paribus,* at 95% CI, a 1% increase in this variable, it increases profitability measure by around 0.1%, 2% and 4.69% respectively. Besides, TCTA ratio is also statistically positive and significant enough to determine profitability in terms of ROA. That means, at 95% CI, a 1% increase in it, increases ROA by 6.8%. Asset quality was insignificant in determining financial performance in terms of ROA and ROE for private commercial banks in Ethiopia. Even if financial performance measure in terms of EPS was statistically significant for both FATA and LLPTL, the interpretation does not give sense. Except TLBRA, all the other management quality variables are statistically significant to determine the financial performance variables of ROA and ROE. Both NIEGE and TDBRA affect the above dependent variable negatively, whereas the effect of NPEP is positive. Only NIEGE and TDBRA are statistically and negatively significant in determining EPS. For instance, the impact of net interest expense over gross expense (NIEGE) revealed that, it had a negative magnitude and significant difference with all profitability measurements. Holding other variables constant, at 95% CI a 1% increases in NIEGE; it reduces profitability of sampled private banks by 1.1%, 9% and 45.84% on ROA, ROE and EPS respectively. In general NPEP, TDBRA and TLBRA ratios explaining power were very small. Earning quality measured by net interest income to total asset ratio is only statistically and positively significant to determine financial performance in terms of ROE. Holding other things constant, at 95% CI, a1% increase in NIITA ratio, increases ROE by 32.9%.

On the other hand, liquidity variable that has been captured by liquid asset by total deposit (LATD), showed that, it had positive and significant relation with profitability measurements-ROA, ROE and EPS. Holding other variables constant, at 95% CI, a1% increase in this ratio, increases the financial performance indicators of ROA, ROE and EPS of sampled private banks by 0.2%, 0.8% and 3.45 %, respectively. Although, this ratio had positive coefficient, its parameter was not that much highly significant. Now a day, private banks are required to purchase government bonds while sanctioning loans to their customers. Hence, they generate interest income from their investment. That why this variable had positive slope. In conclusion, no asset quality proxies were significant in determining the performance indicators of both models ROA and ROE but significant on EPS.

CONCLUSION AND RECOMMENDATIONS

The study sought to examine the performance of private commercial banks of Ethiopia with the CAMEL ratings for the period 2016-2020. To conduct the study, secondary data particularly audited financial statements were collected from sixteen private banks. Besides, both descriptive and inferential analyses were used to analyze the data. The major findings of the study were as follows;

Conclusion

The study objective was meant to determine the effect of bank specific factors on financial performance of private commercial banks in Ethiopia. The conclusions are made from the study findings from the analyzed data. The study concludes that capital adequacy affects the financial performance of commercial banks. The study concludes that there exists a positive and significant association between capital adequacy and financial performance. Further an increase in capital adequacy would lead to a positive and significant increase in financial performance of the commercial banks. This shows that capital adequacy has an effect on financial performance. The study concludes that asset quality has an insignificant association with the two financial performances indicator, namely ROA and ROE, of private commercial banks in Ethiopia. The study concludes that management efficiency has a positive and significant association with financial

performance of commercial banks .The study found that an increase in management efficiency would lead to a significant increase in financial performance of private commercial banks in Ethiopia. The study concludes that earnings ability has no significant association with financial performance of private commercial banks in Ethiopia in terms of ROA and EPS. The study concludes that liquidity has a positive and significant association with financial performance of commercial banks .The study found that an increase in liquidity would lead to a significant increase in financial performance of private commercial banks in Ethiopia.

Recommendations

From the findings and conclusions an increase in capital adequacy leads to a significant increase in bank's financial performance therefore the study recommends that bank capitalization should be encouraged in all commercial banks and other financial institutions so that performance can be enhanced. Institutions should strive to retain earnings to boost up capital rather than paying inflated bonuses. Well capitalized institutions have lower financial risk and thus are more likely to survive financial crisis thus, a well-capitalized banking system will ensure financial stability and make the industry more resilient against external shocks and risk. From the findings increase in management efficiency causes a significant increase on financial performance of commercial banks, the study therefore recommends that efficient and effective management should be adopted by bank managers to ensure that banks do not become insolvent. From the findings increase in liquidity causes a significant increase in bank performance the study therefore recommends that banks continue to keep the recommended liquidity levels to be able to meet customer demand for their deposits to avoid bank runs and panic in the market. Since banks are less profitable when less liquid, bank managers should be encouraged to invest in more liquid assets. This will not only improve bank profitability but it will also enable banks meet their short term obligations as they fall due. It is possible that liquid bank assets are more profitable due of some market inefficiency.

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