St. Mary's University, Faculty of Business
Department of Accounting

Assessment of Current Asset Management in case of NIB International Bank (NIB)

By

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SMU

Addis Ababa

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A senior essay submitted to the Faculty of Business Department of Accounting in partial fulfillment of the requirement for the degree of Bachelor of Arts in Accounting

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First of all thanks for ours almighty God for everything we done. Secondly advisor Mrs. Getahun Guta for giving us the right advice during done the research effectively and efficiently. Thirdly thanks to Mrs. Gebeyehu Girma staff member of NIB for providing information and reading material.

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Abstract

This study are attempted to examine the current asset management practice of NIB. This bank is engaged in providing different kinds of financial service like Domestic and International Banking Services. This study has attempted to the problems and objectives of the study. The main objectives of this study are to assess the current assets management of NIB and to see the loan collection policies and procedure.

The research design is descriptive type. Moreover both secondary and primary data had collected from the bank. The secondary data had included the recent six years of audited financial report, cash procedure manual, credit policy manual and for the primary data interview was conducted. The respondents were selected with the credit department, risk department and accounting and finance department.

The data from the bank had been collected, analyzed and interpreted using some statistical techniques such as trend analysis, vertical and horizontal analysis methods which had been supported with percentage and table.

Based on the analysis and interpretation, conclusions had been made. Finally recommendation had been drawn that assumed to be useful to solve the existing problems of the current asset management practice in NIB.

ACRONYMS AND ABBREVIATIONS

NIB- NIB International Bank

NBE- National Bank of Ethiopia

NOW- Negotiable order of withdrawls

ATS- Automation Transfers

MMDAs- Money Market Deposit Accounts

CBE-Commercial Bank of Ethiopia

St. Mary University accounting department

Interview questionnaire

1. Does the NIB manage their current asset?

2. What are the techniques uses to manage the current asset?

3. What type of deposit the bank hold in NBE?

4. Does the legal reserve enough for management purpose and for secure the policy?

5 Do you think your bank has a good cash authorization system why or why not?

6. Do you think your bank has a good loan authorization system why or why not?

7. What types of loan services provided by bank

8. There is a problem in collection of loan?

9. Do you think your bank has a good loan and advance management?

10. Does the bank invest idle cash properly? What kind of investment?

11. Where is source of income?

12. Anything you want to add?

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APPENDIX

NIB INTERNATIONAL BANK
FINANCIAL PERFORMANCE
BALANCE SHEET

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
ASSET						
Cash & Bank Balances (liquid Assets)	**1,332,685,620.00**	**2,334,559,125.00**	**2,568,663,358.00**	**3,444,564,168.00**	**2,730,682,840.00**	**2,104,846,339.00**
Cash on hand	341,295,450.00	1,026,241,659.00	622,349,184.00	455,724,817.00	520,141,956.00	693,208,212.00
Reserve Account with NBE	317,916,920.00	412,916,920.00	537,916,920.00	762,916,920.00	568,916,920.00	333,190,920.00
Payment and settlement account	402,171,911.00	493,347,150.00	394,348,252.00	922,347,555.00	266,021,341.00	170,754,408.00
Deposit with local Banks	93,725,297.00	189,093,330.00	375,779,110.00	439,019,730.00	477,799,107.00	550,299,047.00
Deposit with Foreign Bank	177,576,042.00	212,960,066.00	638,269,892.00	864,555,146.00	897,803,516.00	357,393,752.00
Fixed Assets	42,875,885.00	56,230,088.00	72,254,150.00	75,073,503.00	95,520,427.00	124,008,321.00
Other Assets	238,108,548.00	293,884,214.00	379,569,306.00	169,865,303.00	339,635,504.00	362,821,611.00
Customers liabilities for commercial						
Preliminary Expense						
Government Bonss(NBE Bills)				563,281,058.00	1,211,281,058.00	1,911,097,058.00
Treasury Bills				199,610,000.00	250,000,000.00	150,000,000.00
Investment in Share	2,652,500.00	3,778,500.00	3,777,500.00	6,993,750.00	4,024,800.00	62,451,000.00
Outstanding Loans & Advances	**2,033,788,606.00**	**2,118,055,100.00**	**2,446,830,784.00**	**2,652,420,293.00**	**3,608,327,548.00**	**4,429,319,286.00**
Domestic Trade & Services	369,979,540.00	359,829,118.00	418,822,897.00	457,329,889.00	673,057,808.00	759,049,235.00
Import	352,750,198.00	238,829,755.00	293,677,498.00	385,586,745.00	495,956,498.00	518,172,091.00
Bulding and Construction	351,129,922.00	551,013,741.00	563,688,148.00	512,259,310.00	687,413,605.00	878,380,955.00
Manufacturing	589,877,702.00	540,153,187.00	537,559,013.00	711,107,133.00	854,158,241.00	1,175,874,904.00
Transportation	106,678,659.00	84,366,733.00	79,444,216.00	83,758,344.00	80,672,984.00	104,382,693.00
Hotels and tourism	36,101,474.00	76,996,930.00	95,727,903.00	80,508,010.00	156,035,486.00	249,858,235.00
Agriculture	114,642,047.00	140,345,969.00	151,822,449.00	123,490,132.00	111,859,006.00	112,285,011.00
Export	184,477,883.00	217,820,037.00	389,550,637.00	392,578,992.00	624,537,035.00	714,104,910.00
Personal	8,177,142.00	10,933,950.00	15,843,106.00	19,908,767.00	25,239,043.00	30,884,419.00
Advance on Import & Export Bills						
less: Provision for Dd	80,025,961.00	102,234,320.00	99,305,083.00	114,102,029.00	100,572,158.00	113,673,167.00
TOTAL ASSETS	**3,650,111,159.00**	**4,806,507,027.00**	**5,471,096,098.00**	**7,111,808,078.00**	**8,239,472,177.00**	**9,144,543,615.00**
LIABILITIES						
Deposit	**2,469,931,303.00**	**3,296,389,970.00**	**4,127,188,480.00**	**5,157,401,343.00**	**838,126,809.00**	**6,655,214,041.00**
Demand Deposit	670,979,595.00	1,031,726,983.00	1,308,874,579.00	1,801,799,977.00	2,018,573,499.00	2,123,659,349.00
saving Deposits	1,436,580,753.00	1,995,516,308.00	2,517,185,658.00	3,137,259,029.00	3,476,578,086.00	3,980,683,317.00
Fixed Deposits	362,370,955.00	269,146,679.00	301,128,243.00	218,342,337.00	342,975,224.00	550,871,375.00
Bank Overdraft						
Inter-Bank Advacne						
Margin Held on letter of Credit	162,822,443.00	200,646,985.00	221,390,852.00	146,958,893.00	257,480,128.00	304,998,148.00
Other Liabilities	373,500,276.00	514,936,300.00	621,072,590.00	539,046,136.00	548,896,766.00	426,095,720.00
Provision for Taxation	45,732,463.00	65,710,214.00	84,350,956.00	97,641,787.00	103,245,450.00	92,306,387.00

Bank's Liabilities for Commercial L/Cs						
TOTAL LIABILITIES	**3,051,986,485.00**	**4,077,683,469.00**	**4,054,002,878.00**	**5,941,048,159.00**	**6,747,749,153.00**	**7,478,614,692.00**
CAPITAL AND RESERVES	**598,124,674.00**	**728,823,558.00**	**916,508,426.00**	**1,170,759,919.00**	**1,527,946,224.00**	**1,665,929,319.00**
Share Capitals (i.e Paid up Capital)	416,901,000.00	487,129,000.00	579,867,000.00	717,018,500.00	943,806,500.00	999,399,000.00
Share Premium	8,663,900.00	1,293,700.00	5,776,625.00		16,000,000.00	
Legal Reserve	91,214,596.00	129,729,210.00	179,950,849.00	241,559,098.00	313,117,678.00	384,684,562.00
Special Reserve	900,000.00	1,000,000.00	1,100,000.00	1,200,000.00	1,300,000.00	1,400,000.00
Retained Earnings			6,777,282.00	26,857,574.00	39,746,306.00	66,445,093.00
Profit & Loss Account	80,445,178.00	109,671,648.00	143,036,670.00	184,124,747.00	213,975,740.00	214,000,664.00
TOTAL LIABILITIES & CAPITAL RESERVES	**3,650,111,159.00**	**4,806,507,027.00**	**5,970.511,304.00**	**7,111,808,078.00**	**7,239,472,177.00**	**9,144,543,615.00**

NIB INTERNATIONAL BANK S.C						
FINANCIAL PERFORMANCE						
PROFIT AND LOSS ACCOUNT						
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
INCOME	**316582374**	**426016429**	**556,505,111.00**	**656,654,036.00**	**759,429,631.00**	**851,188,264.00**
INTERST INCOME	209,998,084.00	253,590,455.00	266,283,969.00	332,858,672.00	433,645,833.00	570,518,514.00
COMMISSION AND SERVICE CHARGE	48,275,800.00	90,192,623.00	151,702,013.00	187,978,663.00	219,943,782.00	199,499,593.00
Gain on Foreign CurrencyDealing	55,076,142.00	77,259,553.00	130,435,569.00	124,117,439.00	93,769,088.00	65,828,988.00
Other Income	3,232,346.00	4,973,798.00	8,083,560.00	11,699,262.00	12,070,928.00	15,341,169.00
EXPENSE	**157,811,064.00**	**206,247,762.00**	**271,267,600.00**	**312,579,253.00**	**369,949,861.00**	**472,614,325.00**
Interest Expense	62,217,698.00	75,112,910.00	89,710,018.00	119,419,282.00	151,907,746.00	184,948,395.00
Salary and benefit	35,548,133.00	53,471,759.00	77,123,363.00	96,643,155.00	115,766,280.00	140,070,315.00
General Expense	40,906,582.00	54,151,280.00	71,059,573.00	80,935,745.00	100,565,514.00	134,126,606.00
Provision for doutful Debts	19,035,151.00	23,391,813.00	33,202,146.00	15,339,571.00	1,411,321.00	
Provision for loans and Advance						13,101,009.00
Audit Fee	103,500.00	120,000.00	1,172,500.00	241,500.00	299,000.00	368,000.00
NET PROFIT BEFORE TAXATION	**158,771,310.00**	**219,768,667.00**	**285,237,511.00**	**344,074,783.00**	**389,479,770.00**	**378,573,939.00**
PROVISION FOR TAXATION	45,732,463.00	65,710,214.00	84,350,956.00	97,641,787.00	103,245,450.00	92,306,387.00
NET PROFIT AFTER TAXATION	**113,038,847.00**	**154,058,453.00**	**2,042.00**	**246,432,996.00**	**286,234,320.00**	**286,267,552.00**
PRIOR YEAR ADJUSTMENT						
Less: Transfer to Legal Reserve	28,259,712.00	38,514,613.00	50,221,639.00	61,608,249.00	71,558,580.00	71,566,888.00
: Transfer to Special Reserve	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00
Founders' Benefit						
less: Directors' 5% Allowance	4,233,957.00	5,772,192.00	7,528,246.00	600,000.00	600,000.00	600,000.00
Balance Brought Forward	53,786,837.00	80,445,178.00	109,671,648.00	148,520,252.00	203,911,996.00	
DIVIDEND PAID	53,786,837.00	80,445,178.00	104,188,066.00	128,733,003.00	171,236,015.00	
SURPLUS FOR THE YEAR(i.e BALANCE CARRIED FORWARD)	**80,445,178.00**	**109,671,648.00**	**-52,364,261.00**	**203,911,996.00**	**246,651,721.00**	**214,000,664.00**
EARNING PER SHARE	**162**	**170**	**188**	**190**	**172**	**147**

Case Study Protocol

The researcher collected the data by conducting interview by selecting the respondent applying judgmental sampling that were expected as well adequate and knowledgeable about the study. The respondents were credit and risk department and accounting and finance department manager. Risk and credit manager was answered loans and advance and its related questions and also he was provided for the researcher the most valuable information about short term credit, loans and advances. The accounting department was answered cash, account receivable and cash related questions.

Before the interview was conducted the researcher was made an appointment with the respondents. In order to get adequate and reliable information about the study the interview was conducted with convenient time and place. The researcher planned to conduct 30 minutes interview within each department. Moreover, the researcher collected relevant document with the relevant six years audited financial report, cash procedure and credit policy manual NIB.

The collected data then analyzed, interpreted using statistical techniques, such as horizontal, trend and vertical analysis methods supported by tables and percentages. Based on the analysis and interpretation, conclusion will be drawn that assumed of be useful to solve the existing problem of the current assess management of NIB.

Declaration

We the undersigned declare that this senior essay is our original work, prepared under to guidance of Ato Getahun Guta. All source of material used to the manuscript have been fully acknowledgment.

Name	Signature
1. Mulualem W/Brihan	________________
2. Haimanot Moges	________________
3. Mekonnen Hailu	________________

Place of submission: St. Mary's University

Date of Submission: ________________

Submission Approval Sheet

This senior research has been submitted to department of accounting in fulfillment of BA degree in accounting with my approval as an advisor:

Name ____________________

Signature ____________________

Date of Submission ____________________

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

Banks are financial intermediaries that accept deposit from individual and institutions and make loans. Banks provide a service to the public by transforming one type of asset in to another.
Commercial banks play an important role in facilitating economic growth on macroeconomic level and they are the primary and source of credit for business entities and individuals on micro economic level. Because of the special role that commercial banks play in the financial system, banks are regulated and supervised by several federal and state government entities (fabozzi and Modigliani, 1996, p.48)

According to chrles harvery(1996) the development and evolution of banking can be related to the type of economic system followed by various Ethiopian governments. Banking in Ethiopia has a hundred years of history without going that for back the Ethiopia economic environment can be classified in three major phase. The phase are mixed economy, which covers the period before 1974 revolution: command economy which it was declared associate centrally planned command economy and market oriented economy which covers the period since 1991, which anew government took power.
Current asset management is helpful for planning and controlling of the bank to maintain its liquidity. Fully managed of current asset helps the bank to redeem deposit of demand, operating expense, capital investment and dividend payment (hughes & macdonal, 2002, p.109).

The result obtained from current asset management reveals the outcomes of past performance and guidethe managers for better future performance highlighting the weakness in the past and the action to be takenin the future. For this reason, therefore making current asset analysis is important to bank’s managers in their in effort to obtain better current asset management.
In this study the researchers has made careful analysis of current asset of the bank for the period 2008 to 2013 GC. By doing so, the researcher has identified the problem of current asset management and recommended to manager of the bank for better future operation.

1.2. Background of NIB International Bank Share Company

Nib international bank share company was established on May 26et 1999 under license no.lbb/007/99 in accordance with the commercial code of Ethiopia no.84:194 by 717 shareholders with paid up capital of birr 17.6 million of provide full fledged domestic and international banking service. This bank of commenced operation on 28th October 1999, which makes it the youngest of all privately owned commercial banks.

The head office of Nib international bank in Addis Ababa located in Bole Denbel building on the way to Africa Avenue. It’s main branch is shola branch located in megenagna area.
The bank has registered remarkable achievements by all measures since its establishment. As of march 31st 2013 the total capital of the bank reached birr 1.66 billion. The member of shareholders also increased to 4340. Currently the bank is operating with 71 branches. 40 of them in Addis Ababa and 30 of them outlay branches.
The recognition of its outstanding achievement of the bank has been named “the recognition of its Ethiopia’ for two consecutive years (2001-2002) by global finance magazine, renowned USA based magazine. The bank tries to stimulate growth.

Current asset management of the bank is done by opening different account in NBE and other foreign and local bank by managed its cash on hand.

MAIN OBJECTIVES

To provide efficient commercial banking services to the business community and the public at large.

1. Help spread and deepen banking habit among the population.
2. Introduction and popularize modern banking practices in the country
3. Maximize operational results and thereby enhance shareholder’s benefits.

PRINCEPAL ACTIVITIES OF THE BANK

- Deal in all types of commercial banking activities.
- Accept all types of deposits i.e. savings, demand and item deposit.
- Extend loans and advances and grant overdraft facilities to customers.

- Draw accept, discount, buy and sell bills of exchange, drafts and promissory notes payable in or outside Ethiopia.
- Issue or accept checks and traveler checks acceptable in or outside Ethiopia.
- Provide financial guarantees.
- Carryout international banking transaction and engage in inter-bank businesses
- Lease safes or safe compartments
- Invest in public and private securities and deal in stock exchange business
- Act as trustee, share subscription agent and underwriter99
- Engage in other activities that are normally carries out by commercial banks

Source: - from broacher and website of the bank (www.nibbank.com)

1.3 Statement of the Problem

Financial intermediate particularly banks plays special role in economic development of the nation. They acquire surplus fund from economic units like business firms, governmental agencies and individuals for the purpose of making available funds to the other economic units. Unlike other financial institutions, banks are more likely to fail due to liquidity problem unable to honor their promise to redeem deposits on demand. Lack of adequate liquidity is often one of the first signs that a bank is serious financial trouble. The troubled bank begins to lose deposits, which erodes its supply of cash and forces the institution to dispose of its more liquid assets (rose, 199, p: 347).

Providing loans to various participant of the economy is one of the main tasks of any commercial bank. As indicated under articles of the regulation no.202/1994 providing short and medium term loans and also buying and selling negotiable instruments and securities issued by the government, private organization or any other person are two of the many purposes of the bank. In order to ensure their accountabilities banks require a sound current asset financial and management, which has critical on banks day-to-day operation.

Assessed of current asset management help the management to know liquidity of the bank and composition of current asset of the bank. Such information is missing the management why fail or unable to honor to promise redeem deposit on demand and the first signs that bank is a serious financial trouble.

1.4 Research Question

As per this study the researcher will try to assess and analyze data finding about problem areas of current asset financing and management practice of NIB international bank by raising the following inquiries:

A. How does the bank been implement the lending policies?

B. How the bank manages its liquidity?

C. What techniques does the bank use to manage its cash and short-term receivables?

D. How the bank established system to cross checking duty to current asset management?

E. How the legal reserves enough for management purpose and for secure the policy?

1.5. Objective of the Study

The general objective:-The general objective of the study is primarily intended to assess the current asset management of NIB international bank Share Company in the recent six years (2008-2013) in order to precede solution for identified problems.

Based on the general objective the study has the following specific objectives:

- To assess the short-term loan collection policies and procedures
- To identify the problem the bank face during in managing its cash and short term receivables.
- To assess the liquidity position of the bank
- To give some constructive suggestions and recommendation based on the fact of the study

1.6 Research Methodology and Design

1.6.1 Research Design

This research had focused on the current asset management practices of NIB international bank Share Company which had conducted at the head office of the bank.

The research objective is descriptive type and the researcher had used both quantitative and qualitative research approach used to assessed current asset management of NIB. For primary data collection purpose interview had conducted and the secondary data the researcher has gathered different source of information such as Annual report, journal and manuals from NIB.

1.6.2 Population and Sampling Technique

The researcher had used census for conducting research. The study had conducted on managers, credit officer and employee of NIB international bank. The research was done by contacting 3 managers, 2 credit officers and 4 employees in aggregate 9 censuses had been used. Researcher had taken the census by non probability census technique called judgmental or purposive sampling technique. This sampling technique had helped the researcher need to reach a target sample quickly and to get a census which has specialist knowledge to research issue.

1.6.3 Research Approach

The study applied descriptive type research approach. This was because of applied descriptive approach is focus on real world question and applicable. It also answering practical question to provide relatively immediate solution related to current asset management and findings generally lead to management's action rather than additional research.

1.6.4 Type and Sources of Data

1.6.4.1 Primary Data

The information concerning current asset management of the bank had been gathered through interview questions. The respondents had been selected with non-probability sampling particularly judgmental sampling. To gather relevant data those who are consider to be knowledgeable about the topic had been selected. The respondents are the credit, accounting and financing and risk department manager of NIB. The interview had been conducted at the right time and place.

1.6.4.2 Secondary Data

The secondary data were collected from unpublished material of NIB credit policies and procedures manual, cash management manual and published audited financial statement of the recent and consecutive six year (2008-2013) of NIB. Also books journals, thesis and related materials had been used. The researcher had examined and evaluated the reliability, adequacy and suitability of them; because those data would have indispensable worth for the research.

1.6.5 Data Gathering Instrument

The researcher had used unstructured interview techniques to gathering data and information from NIB. The researcher choice unstructured interview because of it is an appropriate for primary data collection methods and it also gives flexibility to researcher, rise question for answered question and the answer is not definite.

1.6.6 Method of Data Analysis

For the purpose of obtaining relevant information about the subject matter, the answers of the interviewed had been analyzed by applying the case study principles. The audited financial statements also being analyze based on ratios, which had constructed by the researcher.

In addition to this among the major current asset items vertical and horizontal analysis had been conducted. The loan authorizations on procedures are present and the reserve and liquidity requirement work had been evaluated. In addition to this income analysis also had been evaluated. Tables had been used to identify the trends of the ratios.

1.7 Significance of the Study

This study is useful in bringing in to light the strong and weak points in current asset management of the Nib international bank in particular. In addition the researcher believes that the study might be helpful to the reader to have practical understanding to current asset management in the Ethiopian context, and make further studies to answer why this process is adopted in Ethiopia and why the corresponding outcomes followed. The study will also initiate other researches for further study.

1.8 Scope of the study

The study is restricted to current asset management of NIB international bank. Our focus is the current asset analysis of past six years (2008-2013). Since the current asset includes cash on hand, payment and settlement account, reserve with NBE and deposit in foreign and local bank.

1.9 Limitation of the Study

According to the information from National Bank of Ethiopia, as given 2012 and there are 850 government and 1050 private bank branches throughout the country. In Addis Ababa there are more than 500 position even to assess current asset management of all investigate problem of current asset management of all bank found in Ethiopia would require extensive study, much more time, sufficient information of Nin international bank at head office. Based on this study we could not generalized current asset management of all the Ethiopia banks. In addition to this the researcher could not be able to analyzed, Nib international bank as compared with industry average of the whole banks in Ethiopia due to standardized industry average.

1.10 Organization of the Study

The paper would have four chapters. Chapter one of the paper give a general introduction to the paper including the background of the study, statement of the problem, research questions, objectives of the study, research methodology and design significance of the study, limitation of the paper and organization of the paper. Chapter two includes relevant literature review on the subject. The data analysis will be provided in chapter three. The last chapter, chapter four, gives the conclusion of the study and the recommendation forwarded.

CHAPTER TWO

2. Literature Review

2.1 Definition of Current Asset

According to chasten (1998) current assets are cash and other assets that can be reasonably expected to be converted to cash or consumed during one year or the normal operation cycle of the business, whichever is longer. The operating cycle is the time between the acquisition of investment and the conversion of that inventory back in to cash.

2.1.1. Cash and Cash Equivalent

Cash is often called “non earning asset”. It is needed to pay for lab our and draw materials, to pay dividends and so on. However cash itself (and also commercial checking account) earns on interest. Thus, the goal of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, at the same time, to have sufficient cash (1) to take trade discounts, (2) to maintain its credit rating and (3) to meet unexpected cash need (bringham, 1995;p. 700).

Cash is the most common current asset. It is listed first under current asset because it is the most liquid. All cash balance on hand and on deposit that are readily available for current operating purposes should be included in the cash category under current assets. Cash is a medium of exchange used to purchase goods and services and to charge obligations. Cash almost no restrictions on its use in business transactions. Cash almost include currency and coins, personal checks, money orders, demand deposits, cashier’s payment order, bank drafts petty cash, change funds and most saving deposits. (Bringham,1995;p.700).

Cash Equivalent: are short term marketable securities, generally with original maturities of 90 days or less, that is readily convertible to known amount of cash. These securities are combined with cash for reporting purpose (chasten, 1998, p. 211).

2.1.2 Marketable Securities

Are more liquid group of assets, and thus the next category presented under current assets. At the time of acquisition, debt and equity securities classified as trading, available for sale and held to maturity.(chasten,1998,p.211).

Trading securities: are scurries that have been bought and held principally for the purpose of resale in the near time. (chasten, 1998: 212).

Available for securities: that are expected to be sold in the next or operating cycle whichever is longer. (chasten, 1998: 212).

Held to maturity: securities that are being held to maturity and will mature within the year or operation cycle which ever longer (chasten, 1998: 212).

2.1.3 Short-term Receivables

Short-term receivable are claims to cash that are expected within one year or the operating cycle, which ever longer. There are two types of short term receivables. These are:-

Trade receivable: results from sale of goods or services on account. A customer promise to pay according to specified terms.

Non trade receivables: arise when a company lends money on short term basis. They are supported by a formal contractual agreements specifying the term of repayment (chasten, 19998, p.212).

2.2 Current Asset Management

2.1.2 Cash Management

According to Cooley (1994) cash management is the planning and controlling of cash flows to increase a company's profitability and to maintain its liquidity. Car fully managing cash flows helps a company to pay operating expenses and debt service and to make capital investments and dividend payments.

Cash management is the art of keeping corporate cash balances at the lowest level, since cash is a non productive asset, without jeopardizing short term liquidity. Bankers assist corporate cash mangers in establishing zero balance accounts, which are empties in to interest earning accounts at the end of every day. Controlled disbursement accounts are which allow the company to estimate with a very high degree of accuracy, the total volume of checks that will clear against its corporate checking account every day. The ultimate goal is to accelerate collection of receivables from customers, while delaying payable as much as possible, to investment and franc in to interest-bearing over night account.

Banks are active participants in various payment and clearing system around the globe. A payment system is the system of instruments and rules which permits agents for their individual customers and for their corresponding banks as well (hughes and macdonald, 2002, p. 109).

According to Neveu (1985) cash management strategies are building for two goals. These aims are providing the cash need to meet the firm's payments and to minimize the amount of idle cash held by the firm and it results the idea that unused assets earn no rate of return for the firm.

Reducing the level of cash in order such balance to eliminate idle balances can produce shortages in the amount of cash available to make required payments.

Cash balance requirements

There are three major requirements to meet the goal of the corporation to attain the cash need. These are:-

I. **Transaction requirement: -** are the amount of cash needs to meet the forecast out flow contained in the firm's cash budget.
II. **Compensating balance requirement: -** are the amount of cash needs to meet certain lending term of commercial loans. A company maintains a compensating balance with a commercial bank to increase its cash requirement; such balance may to compensate the for service such as free checking, credit information and investment advice. These balances increase the bank's profitability and generally increase the cost of loan.
III. **Precautionary requirement: -** is the amount of cash needed to meet anticipated cash payment. Cash balance held for precautionary requirements reflects the uncertainty of future cash flows. It is a common practice, however, to keep at least some of the firm's precautionary balances invested in marketable securities.

The desired minimum cash balance

The desired minimum cash balance is the minimum of cash, after meeting transactions requirements, needed to satisfy precautionary and compensating balance requirements. The interactions among the above three requirements are result in the need to identify the minimum cash balance that is desired at any given point in time. When cash budgets are prepared on a monthly basis, the desired minimum cash balance, the difference between these two amounts is considered idle cash (Neveu, 1985, p. 178).

Types of cash asset owned by banks

Cash and due from banks consists of vault cash, deposits held at federal reserve banks , deposits held at other financial institution s, and cash items in the process of collection. Vault cash is coin and currency that the bank holds to meet customer withdrawals. Deposits held act federal reserve's (or other) banks are demand balances used to meet legal reserve requirements, assist in check clearing and wire transfers, or effect the purchase and sale of treasury securities (Koch, 1995, p. 95).

Objectives of cash management

- According to Koch (1995) banks holds cash asset to satisfy the following objectives:
- Regulatory agencies mandate legal resave requirements that can be met by holding qualifying cash assets.
- Banks serve as clearing house for nation's check payment system.
- Bank supply coins and currency to meet customer's regular transaction needs.
- Bank use cash balance to purchase service from correspondent bank.

Cash management techniques

Cash management is a function usually carried out the company treasure. The cash budget is the primary tool used in the management process. It serves as a basis for cash planning and control. The goal of efficient cash management is to attain maximum cash availability and earn maximum interest income any idle funds. It comes as a result of collection amounts due as soon as possible while paying amounts owed as late as possible and still maintaining the firm's credit standing.

Most cash management activities are performed jointly by the firm and its bank, but the financial manager is responsible for the effectiveness of the cash management program. Cash management techniques fall generally in to four categories:

1) Synchronizing cash flow,
2) Using float,
3) Accelerating collections,
4) Controlling disbursements

2.2.2 Management of Short Term Investment

Are any securities that bought and sold in the primary or secondary security markets. These securities are reaching to maturity within one year and are noted for their low risk and ready marketability. These securities are considered appropriate investments in the current asset management of non-financial corporations. Investments such as treasury bill commercial paper, negotiable certificates of deposits, federal agency securities, bank acceptances and money market mutual funds are suitable as short term or temporary investment alternatives. The researcher tries to see only Treasury bill because the rests are not applicable in Ethiopia context.

Treasury bill: - commonly referred to as t-bills, are the direct obligations of the state government. Bill is particularly attractive to bank because of their high degree of safety. Bills are supported by the taxing power of the federal governments; their market prices are relatively stable, and they readily marketable. Bills are issued and traded at discount from their par value without a promised interest rate.(Sinkey J.F.200.p.90)

The minimum purchase size of t-bill is $ 10,000.00. New issues of t-bills are sold by state treasury and are available in three original maturities: 91 days, 182 days, and 52 weeks. Other maturities can be obtained by purchasing previously issued t-bill in the resale markets. They yield the smallest rates of return among short-term investment because they have no default risk. The short term maturities of t-bills serve to minimize interest rate risk. Because of t-bills daily contain no default risk and very little interest rate and market risks; they are often called risk free securities (Neveu, 1985, p.179-181).

2.2.3 Management of Accounting Receivable

Account receivable are granted when corporation sell its products and service on credit. Receivable are a component's of a compo ration's working capital and represent investment s a firm makes in seeking of increase share holders' wealth. Major types of account receivables are retail credit and commercial credit.

Retail credit: - it is a credit sales made by retailers to consumer.

Commercial credit: - it is credit sale between corporations are done on a commercial credit bases and are called account. The type of credit is unsecured, non interest bearing, and allows the customer up to 90 days of remit payment (Neveu 1985, p. 184).

The effectiveness of a company's credit policies can have a significant impact on its total performance. For a business of grant credit of its customer it has to establish credit and collecting policies and evaluation individual credit applicants.

2.2.3.1 Credit Policy and Analysis

Credit policy

The goal of credit management is to establish policies and strategies that are consistent with the overall risk return characteristics of the corporation. Credit policy consists of these four variables.

1. **The credit period: -** the length of company's credit period (the amount of time a credit customer has to pay the account in full) is frequently determined by industry customer s, and thus it tends to vary among different industries.
2. **The credit standards: -** which refer to the minimum financial strength of acceptable credit customers and the amount of credit variables to different customers.

Credit standards are the criteria a company uses to screen credit applicants in order to determine which of its customers should be offered credit and how much. The process of setting credit standards allows the firm exercise a degree of control over the quality of accounts accepts. The quality of credit extended of customers is a multidimensional concept involving the following:

- The time the customer takes to repay the credit obligations given that it is repaid.
- The probability that a customer will fail to repay the credit extended to it.

2 **The firm's collection policy: -** which is measured by its toughness or laxity in following up on slow-paying accounts. It the procedures followed by firms in collecting account receivables.

3 **Any discounts: -** given for early payment, including the amount of discount and period.

Credit analysis

Credit analysis refers to the process of deciding whether or not to extend credit to s particular customer. The primary job of a loan officer is to decide on condition and the amount of loan. To do this the loan officer has track the applicant's credit history as well as check previous and current financial statements. The nature of the tasks is repetitive, yet unstructured. To improve the though put and accuracy of the loan review, several credit analysis expert systems have been developed.

In credit analysis the following three questions must be answered

1. Is the borrower creditworthy?
2. Can the loan agreement be properly structured and documented?
3. Can the bank perfect its claim against the asset or earnings of the customer?

➢ **Is the borrower creditworthy?**

The question that must be deal before any is whether of not the customer can service the loan. That is, payout the credit when due, with a comfortable margin for error. This involves a detailed study of six aspects of the loan application character, capacity, cash, collateral, collateral, conditions and control.

➢ **Can the loan agreement be properly structured and documented?**

The loan officer is responsible to both the customer the bank's depositors and stockholders and must seek to satisfy the demand of all. This requires the drafting of a loan agreement that meets the borrower's need for funds with comfortable repayment schedule. The borrower must be able to comfortably handle any required loan payments, because the bank's success depends fundamentally on the success of its customers.

➢ **Can bank perfect its claim against the borrower's earnings and any asset that may be pledged as collateral?**

Most borrowers at one time or another will be asked to pledge of some of their assets or to personally guarantee the repayment of their loans. Getting a pledge of certain borrower assets as collateral behind a loan really serves two purpose for a lender:

1. **If the borrower can't pay:-** the pledge of collateral gives the lender the right to seize and sell those assets designated as loan collateral, using the proceeds of the sale to cover what the borrower did not pay back.
2. **Collateralization of a loan: -** give the lender a psychological advantage over the borrower. Because specific assets may be at stake, a borrower feels more obligated to work hard to repay his or her loan and avoid losing valuable assets.

The goal of a bank taking collateral is to precisely define which borrower assets are subject to seizure and sell to document for all other creditors to see that the bank has legal claim to those assets in the event of non performance on a loan.

When a bank holds a claim against borrower assets that stands superior to the claims of other lenders and to the borrowers own claim. Banks have learned that the procedures necessary for establishing a perfected claim on someone else's property differ depending on the nature of the asset pledged by the borrower and depending on the laws of the state or nation where the assets reside (Rose, 1999, p. 532).

In making its own independent assessment, a firm traditionally considers the five Cs or credit analyses; character, capacity, collateral, and condition.

- **Character: -** has to do with the probability that a customer will try to honor his/her obligations. This factor is of considerable importance because every credit transaction implies a promise to pay. Experienced credit mangers frequently insist that character is the most important issue in credit evaluation.
- **Capacity; -** describes a subjective judgment of customer's ability to pay. It is gauge by the customer's past business performance record, supplemented by physical observation of the plant or store and business methods.
- **Capital: -** is measured by the general financial position of the firm as indicate by financial ratio analysis. Special emphasis is placed on tangible net worth of the enterprise.
- **Collateral: -** is representing by assets the customer officer as a pledge for security of the credit extended.

- **Conditions: -** relates to the impact of general economic trends on the firm or special developments in certain areas of the economy that may affect the customer's ability to meet the obligation.

2.2.3.2 Elements of a Credit Management Policy

- **Criteria for extending credit: -** two types of decision are involved in extending credit. When a customer seeks credit for the first time then the customer required to submit financial and related data with credit references. The services of a credit agency or credit bureau used to obtain additional information about customer's financial condition and recent credit history. Other type of decision order. When an established credit customer submits a purchase order. Relate orders from an established credit customer filled routinely unless the dollar value of the order increase significantly, the customer request extended credit terms. Or the customer becomes as low-paying account.
- **Technique to protect receivables: -** most account receivables represent sale made on open account. This means the seller is unsecured creditor of the customer. The best way for a seller to protect its account receivable is to refuse credit to those potential customers that are seen as marginal credit risks. The merchandize sold on credit is used as collateral to secure the sale, and then the seller becomes a secured creditors of the customer.
- **Collecting procedures: -** credit policy contains procedures used in collecting slow-paying and delinquent accounts. The policy must sellout which steps the corporation is willing to take in collecting receivables and in what order these action are to be taken.

Some corporations use serious of short term letters that are sent sequentially. Each letter become more insistent and demanding the final letter may threaten legal action and suspend credit facilitates. Telephone calls requiring payment and an expansion as to why the account is overdue can be helpful to the seller in deciding how much additional effort should go in to collecting particular account (Neveu, 1985, p. 185).

There are three primary issues in management of account receivables:-

1) To whom to extend credit
2) What should be the terms of the credit
3) What procedures should be used to collect the money

- **To whom to extend credit: -** extending credit should be based on upon a comparison of costs and benefits. The potential cost of extending credit is the customer will not pay. The potential benefit of extending credit is not just the hope for profit one the transaction, but rather the potential value of the customer for long-term relationship.
- **Determine the term of account receivables: -** once the decision to grant credit has been made. The firm must establish the terms of the credit. These terms are called the terms of sale and give the buyer the time period for which, and the price act which, payment is due.
- **Account receivable effect: -** collection of account receivable is an important process for a corporation and requires a well-designed and well-implemented policy. One technique is the factoring of account receivables firm will sell their account receivable outright to another firm for an agreed-up on price. The buyer has developed an expertise in collections. Another technique to expedite the credit of account receivables is to utilize lock boxes. Lock boxes are payment collection locations spread geographically so as to reduce the amount of time required for checks mailed to the firm to be deposited and cleared. The reduction of mailing time and check clearing time for the bank can produce significant saving when large sum of money are involved (chambers, 1994, p. 548-552).

2.2.3.3 Gathering Information on the Credit Applicant

Information for evaluating the creditworthiness of a customer is available from a variety of sources, including financial statement submitted by the customer, credit reporting organizations, banks and the company's own prior experience with the customer. These sources differ with respect to their costs and the reliability of the information they provide.

A. **Financial statements: -** a company can ask a credit applicant to supply various kinds of financial information. Such as income statements and balance sheet (preferable audited ones), and possibly even a forecasts and budgets. Thus information can be used to evaluate the applicant's financial strength and the applicant's ability to repay credit obligation. Unwillingness on the part of the applicant to supply financial statements may indicate financial weakness and suggest the need for more detailed checking the outright refusal to extend credit, or both.

B. **Credit-reporting organizations: -** a number of organizations collect information on the financial position and credit standing of business. Other companies and lending institutions that are considering extending credit to a company may obtain information about it from these organizations, usually for a fee.

C. **Banks: -** many banks will assist their business customers in obtaining information on the creditworthiness of other business. Through its contacts with other banks, a customer's bank often can obtain detailed information on the payment patterns and financial status of the company under investigation and pass this information on to a customer.

D. **Prior experience with the customer: -** a company's experience with a credit customer can be extremely useful when deciding whether to continue extending credit, increase the amount of credit it currently grants to the customer or both.

The establishment of an optimal credit requires the company to examine and attempts to measure the marginal costs and marginal returns (benefits) associated with alternative policies. Capital funds employed of support the highest level of receivables.

2.2.4 Short-term Loan Management

It is one of the major functions which financial institutions undertake for proper mobilization of funds. Its function also includes loans and advances. Safety of financial institutions loan and advance is taken and conditions on which the loan will be made available.

2.2.4.1 Bank Lending Policies and Procedures

The principal reasons banks are chartered by state and federal authorities are to make loans to their customer. Making loans is the principal economic function of banks fund consumption and investment spending function has great deal to do with the economic health of its region, because bank loans support the growth of new business and jobs within the bank's trade territory and promote economic vitality (rose, 1999, p. 517).

2.2.4.2 Regulation of Lending

The loan portfolio of any bank is heavily influenced by regulation, because the quality of a bank's loan has more to do within risk and safety any other aspects of banking business. The quality of bank's loan portfolio and the soundness of its lending policies are the areas federal and state bank examiners look at most closely when examining a bank (Rose, 1999, p. 522-524).

2.2.4.3 Short Run Period Credit Activities

Short term credit is for a period not exceeding three years and will be granted on case by case basis depending on the ability of the business to repay the credit facility extended. Loans made of business are one of the largest components of a bank's total loan portfolio. They are provided in either of the following forms.

A. Term loans

Term loans are those which are made for a short period of time that dose not exceed three years. The most common maturity is one year but could be extended to three years depending upon the ability of business of repay the credit facility extended. A term loan is one form of finance which helps the borrower to buy goods, raw materials services and purchase of equipment. The loan is repayable according to predetermined repayment schedule on lump sum, monthly, quarterly, semi-annually or yearly basis.

B. Line of overdraft credit

It is anther short term loan facility which, when approved by a bank permits a well established customer of utilize its resources up to an upper limit determined by the bank taking in to account the borrower's income. It distinguishes from term loan. It extended to business but without predetermined repayment schedule. Indeed customers can use line of credit as stand-by credit which may never be utilized at times. The repayment period of line of credit, like its use, is open-ended. Withdrawals and deposits are recorded in a current account which the customer must have with the bank.

C. Merchandise loan

This is the type of loan being advanced against predetermined margins on goods which are durable and marketable and put under dual control by the bank and customer. However, the bank could use a borrower's warehouse provided a dual control system can be arranged in a reliable manner. It must be ensured that the goods to be pledged must be durable and marketable and the bank must put in place its own guard and the goods of be insured against fire and burglary.

D. Construction loan

The bank provide medium term loan for completion of building, under construction or modification which does not exceed 25% the project and repayment is ensured from independent source(NIB,2003, p. 5-7).

2.2.5 Liquidity in Banks

Banks satisfy the strong need of many customers for liquidity. Financial instruments are liquid if they can be sold quickly in a ready market with little risk of loss to the seller. The most important tasks faced by the management of any bank is ensuring adequate liquidity. A bank is considered to be liquid if it has ready access to immediately spendable funds at reasonable cost at precisely the time those funds are needed. This suggest that a liquid bank either has the right amount of immediately spendable funds on hand when they are required or can quickly raise liquid funds by borrowing selling assets.(Rose,1999,p.347)

Lack of adequate liquidity is one of the first signs that a bank is in serious financial trouble. The redoubled bank begins to lose deposits, which erodes it supply of cash and forces the institutions to dispose of its more liquid assets. Banks assume that liquid funds can be borrower virtually without limit any time they are needed. Therefore, they see little need to store liquidity in the form of easily marketed, stable price assets. Liquidity management is important, because a bank can be closed if it cannot raise enough liquidity even though, technically, it may still be solvent (Rose, 1999, p.347).

Banks need liquidity to meet deposit withdrawals and to fund loan demand. The variability of loan demand and the variability of deposit flows determine a bank's liquidity needs. The more volatile a bank's loan and deposit /liability flows are the more liquidity it needs. Confidence in bank permits it to avoid deposit runs or liquidity crises. The federal safety net of deposit insurance and the discount window provide the government guarantees that in still public confidence in the banking system. As the major providers of liquidity to the economy, banks play an important role of in stabilizing the overall economy and spreading the confidence effect from the financial sector to the real sector (Sinkey, 2002, p. 432).

According to Sinkey (2202) bank's customers can meet their liquidity needs by:

- Withdrawing funds they have on deposit with the bank (i.e. utilizing their existing net cash flows).
- Drawing down established lines of credit.
- Establishing new credit facilities.
- Selling assets.

2.2.6 Sources of Demand and Supply for Liquidity

For most banks, the most pressing demands for spendable funds come from two sources. From two sources:-

i. Customers withdrawing money from their deposits
ii. Credit requests from customers the bank wishes to keep, either in the form of new loan request, renewals of expiring loan agreements, or drawings up on existing credit lines

Other source of liquidity demand include paying off obligations a rising from bank borrowings, such as loans the bank may have received from other banks or from the central banks. Similarly, payment of income taxes or cash dividends to the bank's stockholders periodically gives rise to demand for immediately spendable cash.

To meet the foregoing demands for liquidity, bank can draw upon several potential sources of supply. The most important source is receipt of new customer deposits, both from newly opened accounts and from new deposit placed in existing accounts. Another important element in the supply of bank liquidity comes from customers repaying their loans, which provides fresh funds for meeting new liquidity needs, as do sales of bank assets especially marketable securities from the bank's investment portfolio. Liquidity also flows in from revenues generated by selling non deposit services and borrowing in the money market (Rose, 1999, p. 348).

Liquidity has a critical time dimension some bank liquidity need are immediate or nearly so. Longer-time liquidity demands arise from seasonal, cyclical, and trend factors. Timing is critical to liquidity management banks must plan carefully how, when, and where needed liquidity fund can be raised (Rose, 1999, p. 349).

2.2.7 Bank Liquidity Problems

Most liquidity problems in banking arise from outside the banks as a result of the financial activities of its customers. In effect, customer's liquidity problems gravities toward their banks.

The essence of the liquidity management problem for bank described as:

i. Rarely are the demands for bank liquidity equal ti the supply of liquidity at any particular moment in time. The bank must continually deal with either a liquidity deficit or liquidity surplus.
ii. There is a trade-off between bank liquidity bank liquidity and profitability. The more bank resources are tied up in readiness to meet demands for liquidity; the lower is that banks expected profitability. (Rose,1999,p.347)

Why banks face significant liquidity problems?

The significant exposure of banks to liquidity pressures arises from several sources:-

i. Banks borrow large amount of short-term deposits and reserves from the individuals and business and other lending institutions and then turn around and make long-term credit available to the borrowing customers.

A problem related to the maturity mismatch situation is that banks hold an unusually high proportion of liabilities subject to immediate payment, such as demand deposits, now accounts, and money market borrowing. Thus, banks must always stand to meet immediate cash demand that can be substantial at times. (Rose, 1999, p.347)

ii. Another source of liquidity problems is the bank's sensitivity in interest rates. When interest rate rises, some depositors will withdraw their funds in search of higher retunes elsewhere. Many loan customers may postpone new loan requests or speed up their drawing on those credit lines that carry lower interest rates. Thus, changing interest rate, affect both customers demand for loans, each of which has a potent impact on bank's liquidity position. Moreover, movements in interest rate affects the market value of assets of the bank may need to sell in order to raise additional liquid funds, and they are directly affect the cost of borrowing in the money market (Rose, 1999, p. 350-351).

2.2.8 Asset Liquidity Management

The oldest approach to meeting bank liquidity need is asset liquidity in the form of holdings of liquid assets predominantly in cash and marketable securities. When liquidity is needed, selected assets are sold for cash until all the bank's demands for cash are meet. This liquidity management strategy is often called assets conversion because liquid funds are raised by converting non cash assets into cash. This strategy is used mainly by smaller banks that find it a less risky approach to liquidity management than relying on borrowings. But asset conversion is not a cost-less approach to liquidity management. (Rose, 1999, p.347)

Characteristics of liquid assets

1. A liquid asset must have a ready market so that it can be converted in to cash without delay.
2. It must be reversible so that the seller can recover his or her original investment (principal) with little risk of less.
3. It must have a reasonable stable price so that, no matter how quickly the asset must be sold or how large the sale is, the market is deep enough to absorb the sale without a significant decline in price (Rose, 1999, p. 352).

2.2.9 Deposit Services Management

Deposit is the foundation upon which banks thrive and grow. They are a unique item on bank's balance sheet that distinguishes it from other types of business firms. The ability of a bank's management and staff to attract consumers is an important measure of banks acceptance by the public.

Deposit provides the raw material for bank loans and represents the ultimate source of bank profits growth. Deposits generate cash reserve and it is out of the excess cash reserves a bank holds that new loans are credited. Good indicators of management effectiveness in any bank are whether or not deposited funds have been raised at the lowest possible cost and whether enough deposits are available to fund those loans the bank wished to make (Rose, 1999, p. 387).

Major categories of deposit offered by banks

1. Transaction (payment) deposits

Transaction deposits are transaction accounts which are payments can be made by using checks, drafts, payment orders of withdrawal, or telephone transfers drawn against funds on deposit (Friedman, 1998, p. 61).

According of Rose (1999) it is one of the oldest deposit service offered by banks centered on making payments on behalf o the bank's customers. Transaction deposit service requires the bank to honor immediately any withdrawals made by the customer to be recipient of the funds withdrawn.

Transaction deposits include:-

A. **Demand deposit: -** are transactions accounts that are held by individuals, partnerships, corporations, and governments, which do not earn an explicit interest payment but provide the customer with payment services, safekeeping of funds and recordkeeping for any transactions carried out by check, and to withdraw cash on demand. Demand deposit are among the most volatile and least predictable of a bank's source of funds, with the shortest potential maturity because they can be withdrawn without prior notice.

B. **Interest-bearing demand deposits: -** are transaction accounts that provide all of the foregoing service and pay interest to the depositor as well. These deposit include negotiable order of withdrawal (NOW) accounts and, automatic transfers ATS) and money market deposit accounts (MMDAS).

2. Non transaction (saving of thrift) deposit

Saving or thrift deposits are designed to attract funds from customers who wish to set aside money in anticipation of future expenditures or financial emergencies. These deposit pay higher interest rates than transaction deposit do. While their interest cost is higher, thrift deposits are less costly for a bank to process and to manage (Rose, 1999, p. 389).

Types of non-transaction deposit

a) Passbook saving accounts

Passbooks saving accounts were traditionally the stable deposit of savings banks and savings and loan associations.

Deposit the relatively low interest rates banks and thrifts pay on passbook accounts and the greater convenience and higher returns available on saving certificates (small-denomination fixed maturity time deposits), most consumers continue to hold on their on to their on to their passbooks.

b) Time deposits

Time deposits are defining as any deposit in bank account that cannot be withdrawn before a specified date or without advance notice. Time certificates of deposit are offered in various denominations and varying maturities. A time deposit cannot be withdrawn for at least seven days after it is made. If it is withdrawn before that or before maturity of the time deposit contract, an interest penalty is charged. Individuals and business have offered time deposit, which carry fixed maturity dates (usually covering 30, 60, 90 or 180 days) with fixed rate (Friedman, 1998, p. 62).

2.2.10 Liquidity and Legal Reserve Requirement

2.2.10.1 Liquidity Requirement

According to directive issued by national bank of Ethiopia as indicated under articles 16 and 36 of licensing and supervision of banking business proclamation no. 84/1994 “current liabilities” shall mean the sum of demand (current) deposits, saving deposits and time deposits and similar liabilities with less than one month maturity period.

According to this directive total requirement any licensed bank shall maintain liquid assets of not less than 15% (fifteen percent) of its total current liabilities. Specific requirements for the purpose of meeting the liquidity requirement, each bank shall maintain at least five percentage (5%) of the current liabilities in the form of primary reserve assets and ten percent (10%) of the current liabilities in the form of secondary reserve assets. Bank shall submit to the supervision department of the national bank of Ethiopia properly certified weekly liquidity positions showing the end-of-week balance of each Wednesday not later than Thursday the following week.

2.2.10.2 Reserve Requirement

Directive number SBB/37/2004 statutory reserve requirement, which obliges banks to hold a proportion of their deposit balance with the NBE, is one of the important monetary policy instrument and prudential regulation tools: whereas, a bank operating in Ethiopia currently has one reserve account with the NBE which is used to carry out day-to-day settlement of transactions through the NBE and to maintain statutory reserve balance.

Banks operating in Ethiopia shall two separate birr accounts with the NBE of be used as reserve account and payment and settlement account?

A reserve account: - shall exclusively be used of maintain the reserve balance. Any bank operating in Ethiopia shall at all times maintain in its reserve account 5% of all birr and foreign currency deposit liabilities in the form of demand (current) deposit, saving and time deposits.

A payment and settlement account: - shall be used carry our all day-to-day transactions of banks through the NBE.

Reserve deficiencies

Deficiencies in reserve balance are subject to a penalty, the penalty shall be assessed at a rate twice the current average rate of interest on loans and advances charged by banks computed on the amount of the deficiency reserve and multiplied by the number of days over which the reserve account remained deficient, the NBE may waive the penalty stated here in above on grounds it considers acceptable.

Horizontal analysis

This is a trend analysis that compares similar accounts from year to year. While the income statement and balance sheets are arranged in vertical columns. The horizontal analysis helps us to compare the annual change in relative terms horizontally.

Vertical analysis

Vertical analysis is the process of finding the proportion that an item, such as cash, represents of a total groups of analysis. A vertical analysis of annual balance sheets reveals how the mix of assets and financing is changing overtime. By employing this analysis, the NIB cash assets will be analysis having taken the balance sheet from year 2008 to 2013 into under consideration

CHAPER THREE

Data Presentation, Analysis and Interpretation

Under this section the student researches have gathered the financial data from the different source of information put in black and white by the bank. Having collected the financial data they have analyzed in view of the literature review depicted in chapter two.

3.1. CURRENT ASSET MANAGEMENT AS NIB

3.1.1. Cash management

Cash

Cash is the basic input needed to keep the bank running on a continuous basis. It also the ultimate output expected to be realized after a service is delivered. The bank should keep sufficient cash neither more, nor less. Cash shortage affects the bank's daily operation, while excessive cash will simply remain idle without contributing anything towards the company's profitability. Thus, a major function of the financial management is to maintain sound cash position.(Annual Report Bulleting of the bank)

The purpose of this section is many of know whether bank has effective cash procedures maintaining adequate cash management for use in conducting its normal activities. The cash balance of the bank includes:

Cash foreign currency

Cash foreign currency includes cash, notes of various currencies and coin in some case. The balance shows in this account is the counter value of the foreign currency cash holding in birr.

Cash local currency

Cash local currency is held in two forms. These include vault cash and petty cash. Vault cash may consist of birr notes and coins, is the amount of cash held in the vault for servicing the petty cash. This is kept under dual control at all times. Petty cash may consist of birr notes and coins forming part of it. The holding of petty cash remains under the control of the cashier branch of daily use. The balance of this fund remains constant, although it is made up of revenue stamps, postage stamps and miscellaneous receipts. Hence cash is being one of the most liquid assets;

analysis of cash is going to be analyzed by calculating its percentage share from the current assets. (Annual Report Bulleting of the bank)

$$\textbf{Share from Current Asset} = \frac{\textbf{cash on hand}}{\textbf{Current asset}}$$

As per this study the researcher take cash on hand, treasury bills, deposit with local and foreign banks as current assets.

Table 1: trends of cash

for the year ended 30 June 2008 to 30 June 20013 in birr (000,000)

Categories of assets	2008	2009	2010	2011	2012	2013
Cash on hand	341	1026	622	455	520	693
Current assets	1332	2334	2568	3444	2730	2104
Share from current assets	25.6%	44%	24.2%	13.2%	19%	33%

As we observe from the above table, the share of cash on hand balance of NIB accounted for 25.6%, 44%, 24.2%, 132%, 19% and 33% from the total current assets for the consecutive years.

Even if the trend of cash on hand shows in significant variation from year-to-year, we observe that in year 2009 there is a bit greater share of cash on hand from the total of current assets.

Deposits

The NIB has separate general ledger accounts in NBE which reflects balance of the bank's current accounts. Receipts, borrowing, payments and repayments that takes place between the bank and the national bank cleared against NBE accounts. In line with NBE's reserve requirement a minimum balance of 5% of the bank's current liabilities should also be kept in this account at all time. If there is a deficiency in the required reserve balance, is subject to penalty. The penalty shall be assessed at the rate twice the current average rate of interest fixed on loan and advances.

The foreign banks general account balance shows the amounts of foreign currency deposited foreign banks and give the counter value in birr. The amounts of cash deposited with local banks are also reflected by its own accounts.

Table 2: trend of deposits

For the year ended 30 June 2008 to 30 June 20013 in birr (000,000)

Categories of deposit	2008	2009	2010	2011	2012	2013
Reserve account with NBE	317	412	537	762	568	333
Deposit with local bank	93	189	375	439	477	550
Deposit with foreign banks	177	212	638	864	897	357
Payment and settlement account with NBE	402	493	394	922	266	170
Total deposit	989	1306	1944	2987	2208	1410
Current assets	1332	2334	2568	3444	2730	2104
Share from current assets	74.2%	56%	75.7%	86.7%	80.8%	67%

Source: annual report bulleting of the bank

As we observed from the above table, the percentage share of deposit of the bank accounted for 74.2%, 56%, 75.5%, 86.7%, 80.8% and 67.9% from the total current assets for the six consecutive years.

Cash management technique

According to the interview finance and account manager of NIB international bank uses certain techniques to manage its cash. Every branch banks are hold cash based on cash limited transaction of the branches. The bank assigns cash limit to branches considering the volume of their cash transaction and their distance from the head office. Cash folding limit is assigned for amount limit is restricted up to birr 3,000,000.

Branch banks are controlled by the Head Office. If branch banks hold excess cash, it sends to the head office. Whereas, if the branch banks show a shortage of cash, it takes from the head office. However, if the head office holds excess cash immediately send to the NBE, regional branches will be open current account with CBE to facilitate cash withdrawal and open deposit accounts, in this bank in the event of shortage or excess of cash. The mount of such deposit will be decided by the head office financial department. Inter-bank cash transfers (cash in transit) and cash in premise are insured with the limited amount by NIB insurance s.c. also, the movement of cash from one place to another should not be known to unauthorized person except those employees concerned.

The bank opens two accounts with the NBE to manage its cash:-

Payment and settlement account- used to carry out all day-to-day transaction requirement purpose for the bank through the national bank of Ethiopia.

Reserve account- maintain for reserved balance purpose. It reserves 5% of all birr and foreign currency deposit liabilities held in the form of demand (current) saving and time deposit.

In order to handle liquidity problem, the bank require its share holders for additional investments and the bank borrow from other financial institutions. Another important technique to guide the bank's liquidity is adequate mobilization of deposit.(according to interview)

Liquidity and reserve requirement of the bank

For the purpose of ensuring the bank adequate deposit mobilization and honor its customers' withdrawals the NBE regulates the overall banking operations in Ethiopia.

As per reserve requirement directive number SBB/37/2004 every licensed bank is expected to maintain 5% of its total deposit (demand of current, saving and time deposits) in balance held with NBE. However, deficiencies in reserve balance are subject to penalty. The penalty shall be assessed at a rate twice the current average rate of interest fixed on loans and advance charged by bank from time to time based on deficiency in reserve to compute over the period covered by the report, the reserve account of the bank held in national bank of Ethiopia from 2001 to 2006 is summarized in the following table.

Table 3: trends reserve account held in NBE

For the year ended 30 June 2008 to 30 June 2013 in birr (000,000)

Year	Total deposit	Requirement reserve 5% of total deposit	Actual reserve with NBE	Excess (deficit)
2008	2469	123.45	317	193.55
2009	3296	164.8	412	247.2
2010	4127	206.35	537	330.65
2011	5157	257.85	762	504.15
2012	5838	291.9	568	276.1
2013	6655	332.75	333	0.25

Source: annual report bulleting of the bank

From the above table it can be seen that the bank has meet its requirement of reserve in NBE. The all ready cash balance in NBE has been excess in the year 2008, 2009, 2010, 2011, 2012 and 2013. For the excess reserve had been invested in some suitable investment areas like government bonds and treasury bills they can generate significant earning to the bank. As clearly observed above, the bank has incurred high amount of opportunity cost due to failing to invest its idle cash with regard to excess reserve.

With respect to the liquidity requirement, the NBE has laid down the directive that enforces any Bank in Ethiopia to maintain at least 15% of its total liabilities. Form these percentage at least 5% should be covered by primary reserve (cash on hand and balances' held in NBE) and 10% by secondary reserve (balances in other licensed Banks in Ethiopia and Foreign banks, negotiable instruments that NBE may approve payable to within 186 days, treasury notes and bills maturing within 370 days: other assets NBE may approve).Accordingly the liquidity of the Bank is shown in the following table

Table 4: Liquidity of the NIB

- For the year ended 30 June 2008 to 30 June 2013 in birr (000,000)

Year	A= total liability	B= liquidity Requirement	C= required primary reserve 5%A	D= Required secondary reserve 10%	E= Actual primary reserve	F= actual secondary reserve	G= total actual reserve = E+F
2008	3051	457.6	152.55	305.1	658	910	1568
2009	4077	611.5	203.8	407.6	1438	1187	2625
2010	5054	758.1	252.7	505.4	1159	1786	2945
2011	5941	891.1	297.03	594.03	1217	3156	4373
2012	6747	1012	337.33	674.66	1088	3190	4278
2013	7478	1121.7	373.9	747.8	1026	3500	4526

Source: Annual report bulletins of the NIB

Actual primary reserve (E) = cash on hand + reserve with NBE

Actual secondary reserve (F) = deposit with CBE + deposit with foreign bank + treasury bills.

As can be seen from the above table, the bank has no liquidity problem. It is adequately fulfill the liquidity requirements more than expected in both primary and secondary reserve requirements. The total actual reserve of the bank is increasing from year to year except for the last year. In the first three years, the actual primary reserves are more than doubled of the required amount. In the case of secondary reserve requirement it is almost doubled to the required amounts for the whole years. It is clearly observed that, in most of the years the bank hold excess liquid assets in both primary and secondary reserve. Therefore, the bank has tried to reduce this excess by adjusting its strategy and invest in some suitable project areas.

3.1.2. Cash authorization

According to the interview of finance and account manage, no one else other than those authorized should be allowed to the area even those who deal with cash should not room around the cash area and should not cause unnecessary commotions. The safes which teller use to put money should be kept locked even after the cash work that was being carried out in the tellers and unauthorized person should not be allowed to enter the cash area at any time. Since the cash work requires care and accuracy, nothing to disrupt attention the tellers should be tolerated.

3.1.3. Account receivable (loan and advance) management

Loans and advance are parts of NIB current asset management. Loan management given due to attention by NIB because it has a risk of uncollectabilty within a given period and the bank may fail to generate the desired level of earning and development if the UN collection covers a significant level of shares. The percentage share of loans and advances from the total assets of the banks are given in the following table.

Table 5: percentage share of loans and advances from the total asset

From the year ended 30-June 2008 to 30- June 2013 in (‘000birr)

Description	2008	2009	2010	2011	2012	2013
Loans and advances	2033	2118	2446	2652	3608	4429
Total assets	3650	4806	5471	7111	8239	9144
Percentage share of loan advances (%)	55.6	44.06	44.7	37.29	43.79	48.43

Source: annual report of bulletins of the bank

As a researcher observes from the table above, the percentage share of loans and advance account is presented as follows. In the first years 2008 the percentage share of loans and advance account is almost the higher with compare to 2011 but the percentage share of loans and advance account of 2009,2010,2012 and 2013 is fail between t the two year . This is because of the substantial incremental of total asset with in proportion increment of total loans and advances covered in birr amount.

Types of loan services provided by the bank

NIB Share Company currently is providing different types of loan for its customers. Among this, term-loan, over draft, letter of credit, loan service, advance against export bill and letter of guarantee, term-loans are classified in to three.(NIB bulleting)

Short term loan

Short term loan is provided to customers, which payable within one is year period from Starting to loan of the contract date. In some companies engaged in business sector can a quire the loan if they fulfill the following requirements.

Making available the necessary documents required by the bank like audited financial statement.

Working at least for one year in the business with the loan is requested and should have permanent address of business area.

Having account in the branch in which the loan requested.

Whose name is not registered in giving dishonored check up paying a bank loan.

This type of loan is bank based up on the nature of the business and its cash flow statements monthly, quarterly, semi-annually or fully paid once in a year. (NIB bulleting)

Medium term-loan

This type of loan according to the bank is the loan payable fully up to 5 years time period starting from the formation of the contract. Most of the time, this loan is available for producing industry tools, transportation vehicles and agricultural tools. In this type of loan the customers can get the loan when they fulfill the following requirements.

- Registered license from concerned government bodies.
- Financial statements.
- Accounts showing the book value and market value of fixed asset.

In this type of loan, the bank requires the borrower to pay back their dept according to the nature of the project, either quarters, semi-annually or annually. (NIB bulleting)

Long term loan

This loan service make based on long-period of time investments. The period of the payment is more than 5 years, but according to the policy of NIB at present the payment period is not mere than 10 years. (NIB bulleting)

Loan authorization procedures

To tale loan from the bank, customers must fulfill requirements like name, address, purpose of loan, period of payment and type of loan. After presentation of application by the customer for the loan, the bank demands various evidences like feasibility study, relationship of the customer, past history of the customer, renewed financial statements, ownership evidences and profile of the management, besides these the bank needs collateral for the loan.

The legible collaterals according to the bank include:

- ❖ Bank guarantee
- ❖ Letter payment approved by national bank
- ❖ Residential building
- ❖ Merchandise

Then bank estimates the value of the collaterals presented to ascertain its fitness. Some collateral that need insurance coverage by the borrower are machineries and commodities. The bank normally informs the borrower to renew the insurance coverage because the borrower is required to maintain the insurance coverage until the loan is fully paid bank. (NIB bulleting)

Collection of the loan

As per the contra actual agreement, the borrower are expected to pay back their depths is time. However, some borrower may not comply the prescribed contract, in such cases, the bank remains this borrows through telephone and memorandum and as a result, most of the borrowers conduct the payment, in addition to this, the bank facilitates the payment and to decrease the rate of uncollectible. (NIB bulleting)

Problem of loans

The problem of loan is loans which are currently in default and expected to obtain a default states. According to the bank, there are internal and external factor that contribute for problem loans to exist. From the internal factor, some of the causes are extending loan without sufficient study, misallocations of loans by borrowers, incompetence of the organization’s management and unwillingness to pay the dept. the external factors include unexpected market competition, accidents like fire etc.

To alleviate the prevailing problem loans, the bank is taking some remedial actions like evaluating loan requests more prudently in professional and ethical manner. The other remedial action that the bank undertakes is making continuous call to pay their dep't in time. (NIB bulleting)

3.2. Data analysis

3.2.1. Analysis of cash by horizontal and vertical analysis

In this term, change of each year cash assets will be analyzed by taking the base year of 2010. Here the formula to compute the decrease/increase in percentage in the application of horizontal analysis is:

$$\text{Horizontal analysis} = \frac{\text{Current year-base year}}{\text{Base year}}$$

Table 6: NIB share company partial comparative balance sheet horizontal analysis for cash

For the year ended 30 June 2010 to 30 June 2013 in (000,000birr)

Description	2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Cash on hand	622	100	455	(26.8)	520	(16.3)	693	11.4

Source: own survey (analysis)

From the above table that shows partial comparative of balance sheet it can be observed that the cash on hands is showing decreasing in year 2011 and 2012 by 26.8% and 16.3% but it increases by 11.4% in year 2013.2011 up to 2013.

Table 7: NIB share company partial comparative balance sheet horizontal analysis for Deposit with local banks

For the year ended 30 June 2010 to 30 June 2013 in (000,000birr)

Description	2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Deposit with local banks	375	100	439	17	477	27.02	550	31.8

Sources: own survey (analysis)

From the above table that shows partial comparative of balance sheet it can be observed that the deposit with local bank is showing increasing in year to year 2011 up to 2012 by 17%, 27.02% and 31. %8. this show the bank increasing it is current asset.

Table 8: NIB share company partial comparative balance sheet horizontal analysis Reserve account with NBE

For the year ended 30 June 2010 to 30 June 2013 in (000,000birr)

Description	2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Reserve account with NBE	537	100	762	29.9	568	5.77	333	(37.98)

Sources: own survey (analysis)

From the above table that shows partial comparative of balance sheet it can be observed that. Reserve account with NBE is increase in the year 2011 by 29.9% and 2012 by 5.77% but significant decreasing in the year 2013 by 37.98%.

Table 9: NIB share company partial comparative balance sheet horizontal analysis Deposit with foreign banks

For the year ended 30 June 2010 to 30 June 2013 in (000,000birr)

Description	2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Deposit with foreign banks	638	100	864	35.4	897	40.59	357	(44)

Sources: own survey (analysis)

From the above table that shows partial comparative of balance sheet can be observed that deposit with foreign banks account is showing higher increment in the year to years from 2011 up to 2012 by 35.4% and 40.59% but significantly decreasing in the year 2013 by 44%.

Table 10: NIB share company partial comparative balance sheet horizontal analysis

Payment and settlement account

For the year ended 30 June 2010 to 30 June 2013 in (000,000birr)

Description	2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Payment and settlement account	394	100	922	134	266	(32.4)	170	(56.8)

Sources: own survey (analysis)

From the above table that shows partial comparative of balance sheet it can be observed that payment and settlement account is increased significantly year 2011 by 134% it is almost double compared to the base year but the year 2012 and 2013 significantly declined by 32.4% And 56.8%

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Table 11: NIB share company partial comparative balance sheet vertical analysis

From the ended 30 June 2008 to 30 June 2013 in (000,000birr)

Description	2009		2010		2011		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Cash on hand	1026	21.34	622	11.36	455	6.39	520	6.31	693	7.57
Reserve account with NBE	412	8.59	537	9.81	762	10.71	568	6.89	333	3.64
Payment and settlement account in NBE	493	10.25	394	7.2	922	0.129	266	3.22	170	1.85
Deposit with local banks	189	3.93	375	6.85	439	6.17	477	5.78	550	6.01
Deposit with foreign banks	212	4.41	638	11.66	864	12.1	897	10.89	357	3.90
Total cash asset	**2334**	**48.56**	**2568**	**46.93**	**3444**	**48.43**	**2730**	**33.13**	**2104**	**23.00**
Other asset	293	6.09	379	6.92	169	2.37	339	4.11	362	3.95
Government bond(NBE Bill)	--	--	--	--	563	7.91	1211	14.70	1911	20.89
Treasury bills	--	--	--	--	199	2.79	250	3.03	150	1.64
Investment in share	3	0.062	3	0.054	6	0.084	4	0.048	62	0.678
Loan and advance	2118	44.06	2446	44.7	2652	37.29	3608	43.79	4429	48.43
Fixed assets	56	1.16	72	1.31	75	1.054	95	1.15	124	1.35
Total assets	**4806**	**100**	**5471**	**100**	**7111**	**100**	**8239**	**100**	**9144**	**100**

Source: own survey (analysis)

From the above table that shows partial comparative of balance sheet it can be observed that the percentage share of the total cash asset balance is highest in year 2009 is 48.56%, 2010 is 46.93% and 2011 is 48.43% almost the three year are the same current asset ratio to total asset but year 2012 is 33.13% and d and again in the year 2013 is 23% the total cash asset decreased by 15.3% from the preceding year for 2012 and by 10.13% the preceding year for 2013. As the analysis of the above table shows tendency of percentage share of cash assets are decreasing over the two final years this is due to the increasing percentage of share of loans and advances.

3.2.2. Source of income for NIB

The major sources of income for NIB are from interest charged and collected from loans and advances extend to clients. NIB has to revise interest rate charges from to time to match it with related costs with due consideration of the competitive environment. The bank also supported by commission and fees charge for various types of services given to clients. The major source of income from this category is from international trade transactions. Guarantee fees charge also constitute significant source of income to the bank. The fee charge in this respect must be commensurate with the risk being undertaken.

3.2.3. Income analysis

Despite the fact that impact of the internal and external economy slow down and banking activities the aggregate operational income of the bank reflecting an increase over the whole fiscal years. The details of the analysis could be seen the following table.

Table 12: variation of operation income

Item	2008	%	2009	%	2010	%	2011	%	2012	%	2013	%
Interest income	209	66.13	253	59.38	266	47.8	332	50.6	433	57	570	66.98
Commission	48	15.18	90	21.12	151	27.15	187	28.5	219	28.85	199	23.38
Gain on currency	55	17.4	77	18	130	23.38	124	18.9	93	12.25	65	7.63
Other income	3	0.94	4	0.93	8	1.43	11	1.67	12	1.58	15	1.76
total	316	100	426	100	556	100	656	100	759	100	851	100

Source: annual report bulletins of NIB

In the year 2009, the aggregate operational income of the bank recorded as birr 426 million which is reflecting an increasing of birr 110 million or 34.8% over the preceding fiscal year. In the year 2010, the aggregate operational income of the bank recorded as birr 556 million which is reflecting an increase 130 million of 30.5% compare to with the preceding fiscal year 2009. In year 2011, it recorded birr 656 million which is reflected 18 % with compared to with that of the preceding fiscal year 2010. In the case of year 2012 the aggregate income is birr 759 million which is reflecting an increase 103 million of 15.7% when compared to the preceding fiscal year 2011. The bank was registered aggregate income of birr 851 million which is showing an increase of birr 92 million of 12.12% which is compared to the preceding year in the year 2012.

As clearly observed from the above analysis, income from interest on loans and advance are covered the highest contribution of income over all the years.

CHAPTER FOUR

4. SUMMARY, CONCLUSION, AND RECOMMENDATION

4.1 Summaries of findings

As indicated in the table 1, as we observe from the above table, the share of cash on hand balance of NIB accounted for 25.6%, 44%, 24.2%, 132%, 19% and 33% from the total current assets for the consecutive years. Even if the trend of cash on hand shows in significant variation from year-to-year, we observe that in year 2009 there is a bit greater share of cash on hand from the total of current assets. It seems to indicate the bank holds idle cash (excess cash) that can reduce it future profit when it compares from year to year percentage share where as in 2011, the bank decrease holding of idle cash since the percentage share total current asset is lesser

The trend analysis of deposits in table 2 shows as, the percentage share of deposit of the bank accounted for 74.2%, 56%, 75.5%, 86.7%, 80.8% and 67.9% from the total current assets for the six consecutive years. The trend of deposit shows a significant different percentage share throughout the years. That it has decreased from year 2009 and increased from year 2013 to 2008, 2010.2011 and 2012.

Cash management technique for NIB. Every branch banks are hold cash based on cash limited transaction and Bill of the branches. The bank assigns cash limit for branches undertaking consideration the volume of their cash transaction and distance from the head office. Inter-bank cash transaction (cash in transit) and cash in premise are insurance with limited amount by NIB insurance share company.

Trend analysis of reserve account has from the above table 3 it can be seen that the bank has meet its requirement of reserve in NBE. The all ready cash balance in NBE has been excess in the year 2008, 2009, 2010, 2011, 2012 and 2013. For the excess reserve had been invested in some suitable investment areas like government bonds and treasury bills they can generate significant earning to the bank. As clearly observed above, the bank has incurred high amount of opportunity cost due to failing to invest its idle cash with regard to excess reserve. Therefore, the Bank has must assess short-term and long term investment opportunities and invest its idle cash to maximize the wealth of its share holders to increase the paid up capital of the bank.

As can be seen from the above table 4 the bank has no liquidity problem. That is to say, it is adequately fulfill the liquidity requirements more than expected in both primary and secondary reserve requirements. The total actual reserve of the bank is increasing from year to year except for the last year. In the first three years, the actual primary reserves are more than doubled of the required amount. In the case of secondary reserve requirement it is almost doubled to the required amounts for the whole years. It is clearly observed that, in most of the years the bank hold excess liquid assets in both primary and secondary reserve. Therefore, the bank has tried to reduce this excess by adjusting its strategy and invest in some suitable project areas.

As a researcher observes from the table above 5, the percentage share of loans and advance account is presented as follows. In the first years 2008 the percentage share of loans and advance account is almost the higher with compare to 2011 but the percentage share of loans and advance account of 2009,2010,2012 and 2013 is fail between t the two year . This is because of the substantial incremental of total asset with in proportion increment of total loans and advances covered in birr amount.

Horizontal analysis:-

- From the above table 6 that shows partial comparative of balance sheet it can be observed that the cash on hands is showing decreasing in year 2011 and 2012 but it the table show incremental in 2013. It can be seen that deposit with local banks account is showing higher increment in the year to years from 2011 up to 2013. . Reserve account with NBE is increase in the year 2011 and 2012 and significant decreasing in the year 2013.At the last payment and settlement account is increased significantly year 2011 but the year 2012 and 2013 significantly declined.
- From the above table 7 that shows partial comparative of balance sheet it can be observed that the deposit with local bank is showing increasing in year to year 2011 up to 2012 by 17%, 27.02% and 31. %8. this show the bank increasing it is current asset
- From the above table 8 that shows partial comparative of balance sheet it can be observed that. Reserve account with NBE is increase in the year 2011 by 29.9% and 2012 by 5.77% but significant decreasing in the year 20013 by 37.98%.
- From the above table that shows partial comparative of balance sheet it can be observed that deposit with foreign banks account is showing higher increment in the year to years from 2011 up to 2012 by 35.4% and 40.59% but significant decreasing in the year 20013 by 44%

- From the above table that shows partial comparative of balance sheet it can be observed that payment and settlement account is increased significantly year 2011 by 134% it is almost double compared to the base year but the year 2012 and 2013 significantly declined by 32.4% And 56.8%

Vertical Analysis:- From the above table that shows partial comparative of balance sheet it can be observed that the percentage share of the total cash asset balance is highest in year 2009 is 48.56%, 2010 is 46.93% and 2011 is 48.43% almost the three year are the same current asset ratio to total asset but year 2012 is 33.13% and d and again inn the year 2013 is 23% the total cash asset decreased by 15.3% from the preceding year for 2012 and by 10.13% the preceding year for 2013. As the analysis of the above table shows tendency of percentage share of cash assets are decreasing over the two final years this is due to the increasing percentage of share of loans and advances.

Income Analysis: -In the year 2009, the aggregate operational income of the bank recorded as birr 426 million which is reflecting an increasing of birr 110 million or 34.8% over the preceding fiscal year. In the year 2010, the aggregate operational income of the bank recorded as birr 556 million which is reflecting an increase 130 million of 30.5% compare to with the preceding fiscal year 2009. In year 2011, it recorded birr 656 million which is reflected 18 % with compared to with that of the preceding fiscal year 2010. In the case of year 2012 the aggregate income is birr 759 million which is reflecting an increase 103 million of 15.7% when compared to the preceding fiscal year 2011. The bank was registered aggregate income of birr 851 million which is showing an increase of birr 92 million of 12.12% which is compared to the preceding year in the year 2012.As clearly observed from the above analysis, income from interest on loans and advance are covered the highest contribution of income over all the years.

4.2. Conclusion

To conclude this paper, the data which are collected, have been analyzed and interpreted within the boundary of its constraints. So, the issues addressed in this study are shortly concluded in the following presentations.

The main objective of this study is to find out the effect of current asset management by making through assessment of the current asset management of NIB Share Company. In doing so, the study tried to present and analyzed data that have been gathered through primary and secondary sources.

With respect to cash management, among the item of assets, cash on hand and deposit with foreign and local banks had been great variation year to years, whereas reserve account with NBE is decreased over the years.

The loan and advance of the bank increased year to year this is because of the substantial incremental of total asset with in proportion increment of total loans and advances covered in birr amount

As far as liquidity requirement of the bank is concerned, the bank had no problem in fulfilling the minimum requirement, rather, the banks liquid assets both the primary and secondary reserves had been excess in all the years. From this, one can conclude that the bank had idle cash in those years.

The major earnings of the bank are mainly from the interest generated from the extended loans and advances. The bank also supported by commission and fees charged from a service given of international trade transactions. The bank has to fulfill how to decide to allow or not and the type of loans to extended with criteria for eligibility. Finally the bank has been taking certain crucial measures to alleviate the existing and potential problem loans by assigning well experienced and treating the customers who dishonor their debts using different techniques in order to enable them pay bank their obligations.

4.3. Recommendations

Based on the data findings and conclusion made, the researcher has forward the following recommendations.
The bank should invest in other short term investment the excess cash on hand, excess reserve which hold in NBE.
In order to minimize the rate of existence of loans problems, it is advisable to focus on internal factors, contributing to problems of loans which are controllable like undertaking more prudent and sufficient study before extending the loan. In addition, make supervising the working conditions of the borrowers and consulting them not to default on continuous basis.

The bank has must assess short-term and long term investment opportunities and invest its idle cash to maximize the wealth of its share holders to increase the paid up capital of the bank.

In order to make the bank more effective and efficient, the bank should look for well trained and experienced financial manager who can reduce the opportunity cost to be incurred and the penalty to be charged.

The bank's cash assets, despites in foreign banks account are higher that deposit in local banks account. Therefore in order to avoid the risk that may a risk and the difficulty of litigating for potential problems, the bank has to be decrease the share of deposit in foreign banks.

Generally, the bank's total current asset management is good with regard to increasing earnings from year to year. However, the bank is poor managing in keeping its current assets idle cash, which would have being generating significant income for the bank. Therefore, the bank should invest idle cash in area of T-Bill and short term loan.