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WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

**ASSESSMENT OF FACTORS AFFECTING THE PROFITABILITY OF
COMMERCIAL BANK OF ETHIOPIA: A CASE STUDY OF WOLKITE BRANCH**

**A RESEARCH PAPER TO BE SUBMITTED TO DEPARTMENT OF MANAGEMENT,
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FULFILLMENT OF THE REQUIREMENTS OF BA DEGREE IN MANAGEMENT**

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Abstract

Background: Profitability is a core indicator of the financial health and operational success of any business, including the banking sector. The Commercial Bank of Ethiopia (CBE), despite its dominance in the Ethiopian banking industry, faces various challenges at branch levels that affect its profitability. Understanding the factors influencing the profitability of individual branches, such as the Wolkite Branch, is essential for designing strategies that improve financial performance and sustain competitive advantage.

Objective: This study aimed to assess the internal and external factors affecting the profitability of the Commercial Bank of Ethiopia Wolkite Branch. Specific objectives included evaluating the impact of customer satisfaction, operational efficiency, competitive pressure, and service quality on the branch's financial outcomes.

Methods: A descriptive research design was used, combining both primary and secondary data sources. Primary data were collected through structured questionnaires administered to 30 active customers and 30 employees of the CBE Wolkite Branch. Secondary data were sourced from books, research articles, reports, and the CBE official website. Data analysis involved descriptive statistical methods, including percentages, tables, bar graphs, and pie charts to present and interpret the findings.

Results: The findings indicated that internal factors such as employee professionalism, service quality, and capital utilization, alongside external factors such as market competition from private banks and customer migration, substantially affect profitability.

Conclusion: Improving employee training and customer handling, modernizing banking services, enhancing competitive strategies, and promoting investment participation are crucial for enhancing the profitability of the CBE Wolkite Branch.

Key Words: Profitability, Commercial Bank of Ethiopia (CBE), Wolkite Branch, Customer Satisfaction, Banking Competition, Financial Performance, Service Quality.

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Contents

Abstract	II
Acknowledgments	III
ACRONYM	VIII
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 Back ground of the organization	2
1.3. Statement of the Problem	3
1.4. Objective of the Study	4
1.4.1. General Objective	4
1.4.2. Specific Objectives	5
1.5. Significance of the Study	5
1.6. Scope of the Study	5
1.7. Definition of Key Terms	5
1.8. Limitations of the Study	6
1.9. Organization of the Paper	6
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1. Definition of Profit	7
2.2. Bank Profitability	7
2.3. Profit Measures	7
2.4. Determinant of profitability	8
2.4.1. Internal Determinants	8
2.4.2. External Determinants	9
2.5. Factors affecting profitability	9
2.6. Liabilities of Commercial Banks	10
CHAPTER THREE	11
RESEARCH METHODOLOGY AND DESIGN	11
3.1 Research Design	11
3.2. Types and Sources of Data	11

3.2.1. Primary Data	11
3.2.2. Secondary Data	11
3.3. Methods of Data Collection	11
3.4. Sampling Design	12
3.5. Data Processing and Analysis	12
CHAPTER FOUR	12
DATA ANALYSIS AND INTERPRETATION	12
4.1. Introduction	12
4.1.1. Gender Distribution of Customer Respondents	13
4.1.2. Age distribution of customers	14
4.1.3. Occupation of customer	15
4.1.4. Customer service and satisfaction	16
4.1.5. Customers using private bank	17
4.1.6 Contribution of Banks to Customers' Personal Lives	18
4.1.7. Services of Banks	19
4.1.8. Types of Securities	21
4.2 Analysis of Questionnaires for Employees	21
4.2.1. Sex Distribution of Employees	22
4.2.2. Age distribution of employees	23
4.2.3. Education Status of Employees	23
4.2.4. Position of employees	24
4.2.5. Duration of Employees at the Bank	25
4.2.6. Services Rendered by the Bank Affecting Profitability	25
4.2.7. Types of Securities Used for Loan Advances	27
4.2.8. Level of competition	28
4.2.9. Impact of Market Competition on the Bank's Profitability and Market Share	28
4.2.10. Participation of bank on investment	29
4.2.11. Impact of Capitalization, Asset Utilization, and Professionalism	30
CHAPTER FIVE	32
CONCLUSION AND RECOMMENDATION	32
5.1. Conclusion	32
5.2. Recommendation	33
Bibliography	35

APPENDIX I	36
APPENDIX II	40

List of table	Page
Table 4.1. Customer sex distribution	14
Table 4.2. Service by the bank	17
Table 4.3. Satisfaction of customers	18
Table 4.4. Contribution of bank for personal life	18
Table 4.5. Loan service	19
Table 4.6. Types of borrowing system	20
Table 4.7. Customer satisfaction	21
Table 4.8. Sex distribution of employees	22
Table 4.9. Position of employees	25
Table 4.10. Prosperity of the bank	26
Table 4.11. Service demanded by the customers	27
Table 4.12. Level of competition	28
Table 4.13. Participation of bank on investment	29
Table 4.14. Types of investment	30
Table 4.15. Effect of capitalization	30

List of graph and pie chart	Page
Bar Graph 4.1. Age distribution of customer	15
Pie chart 4.1. Occupation of customers	16
Bar Graph 4.2. Age distribution of employees	23
Pie chart 4.2. Education status of employees	24

ACRONYM

ATM: Automated Teller Machine

CBE: Commercial Bank of Ethiopia

NBE: National Bank of Ethiopia

ROA: Return on Assets

ROE: Return on Equity

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Profitability signifies a venture's potential for financial success, reflecting its ability to generate profit from the sales of goods (tangible) or services (intangible, such as specialized knowledge). This assessment can be conducted before initiating a business venture or used to analyze the performance of an existing operation.

Even if a particular venture appears unlikely to succeed or has historically underperformed, abandoning it might not be the only option. It may be feasible to improve performance by modifying operational factors, such as pricing strategies or cost management. Generally, a business's financial situation falls into one of three categories: operating profitably, breaking even, or incurring a loss. An initially unsuccessful venture might achieve profitability by adjusting these operational elements.

In most cases, the primary goal of an organization is to generate a profit. Without sustained profitability, a business cannot survive in the long run. Therefore, measuring current and past profitability, along with projecting future financial performance, is critically important. Profitability is typically determined by comparing income (revenue generated from business activities) against expenses (the costs of resources consumed by those activities).

Several factors influence a firm's profitability. These include the intensity of competition, the strength of market demand, the overall state of the economy, the availability of substitute products or services, cost structures (including both variable and fixed costs), the firm's pricing power (including its ability to implement price discrimination), sales volume, and effective expense management relative to revenue.

Assessing the specific factors affecting the profitability of the Commercial Bank of Ethiopia's (CBE) Wolkite branch offers significant advantages for the institution's development. Such an assessment can pinpoint key elements influencing profitability growth and may also provide

insights into related areas like service quality levels, investment decisions, and internal initiatives within the branch.

Through in-depth investigation, this study aims to identify the factors affecting the profitability of the Commercial Bank of Ethiopia's Wolkite branch. It may also shed light on specific market challenges or vulnerabilities impacting the branch. Therefore, the primary focus of this research is the identification and analysis of factors influencing the operational performance and profitability of the Commercial Bank of Ethiopia, specifically within the case study context of its Wolkite branch.

1.2 Back ground of the organization

The story of banking in Ethiopia begins over a century ago. The first modern bank, the Bank of Abyssinia, was established following an agreement in 1905 and officially inaugurated on February 16, 1906. This pioneering institution resulted from a partnership between the Ethiopian government and the National Bank of Egypt. It served the nation until 1931, when the Ethiopian government purchased it outright and renamed it the "Bank of Ethiopia." This nationally owned bank continued operations until the Italian invasion in 1936 led to its liquidation.

During the period of Italian occupation (roughly 1936-1942), banking activities were handled by Italian banks. Following Ethiopia's liberation, a new chapter began with the establishment of the State Bank of Ethiopia by proclamation in August 1942 (commencing operations in April 1943). This bank initially handled both central and commercial banking functions for the nation.

A significant evolution occurred in 1963 when the Commercial Bank of Ethiopia (CBE) was legally established as a share company. Its specific purpose was to take over the commercial banking duties previously managed by the State Bank of Ethiopia (which concurrently became the National Bank of Ethiopia, focusing solely on central banking roles). CBE's position was further consolidated following the 1974 revolution. After the nationalization of private banks, the reorganized Addis Bank (which incorporated the former Addis Ababa Bank and the Ethiopian branches of Banco di Roma and Banco di Napoli) was merged into the Commercial Bank of Ethiopia in 1980.

Since its formation and subsequent consolidation, CBE has played a vital role in Ethiopia's development efforts. Striving to achieve world-class status, the bank provides modern and

reliable services to millions of customers, both within Ethiopia and internationally. Its business strategies remain focused on serving the public interest.

By the 2010/11 fiscal year, CBE had already established a significant presence with over 400 branches nationwide and employed a large workforce, which it regards as a key asset.

Despite increasing competition from private banks emerging over the last couple of decades, the state-owned Commercial Bank of Ethiopia continues to dominate the market. It leads in terms of assets, capital, customer base, and branch network coverage. This strong position, built on a solid capital base, rich experience dating back to its predecessors, and an extensive nationwide network, solidifies CBE's status as one of the most reliable and influential commercial banks not only in Ethiopia but also in the wider region, enabling it to serve effectively and grow its revenue sustainably. (6)

1.3. Statement of the Problem

Business organizations typically pursue two primary objectives: profit maximization and wealth maximization. As managerial performance is often evaluated based on operational efficiency and effectiveness, increasing firm profitability becomes a key focus. A firm's profitability is influenced by both internal and external factors. Internal factors can include operational capacity constraints, challenges in securing adequate funding, and a lack of sufficiently qualified employees. Externally, profitability can be affected by the intensity of competition, availability of essential resources (like capital in banking), government regulations, economic instability, the political climate, environmental considerations, socio-cultural shifts, and technological advancements. (Note: Cite source properly, e.g., Brigham & Houston, 20XX).

In the dynamic business environment, numerous factors can impact an organization's profitability. Identifying and understanding these factors is crucial for successful operations and strategic decision-making. For the Commercial Bank of Ethiopia (CBE), maintaining profitability is vital for its sustainability, growth, and ability to contribute to the national economy.

Previous research has explored factors influencing CBE's overall profitability. For instance, a study by Desselgn Mulugata (2012) identified key determinants including customer satisfaction

levels, efficiency in service delivery time, customer handling practices, and the availability of well-trained employees. However, the specific combination and impact of profitability determinants can vary significantly at the branch level, influenced by local market conditions and operational specifics. While general factors are known, there is a need to investigate the particular challenges and drivers affecting the profitability of individual branches like CBE Wolkite. Factors such as the local competitive landscape, branch-specific service quality, customer perceptions within that community, and potential issues related to specific services like credit require focused examination. (8)

This study, therefore, aims to identify and analyze the factors specifically affecting the profitability of the Commercial Bank of Ethiopia, Wolkite Branch. It seeks to understand the unique challenges and opportunities present in this specific operational context.

In light of the above, this study will address the following key research questions:

1. How does the competitive environment in Wolkite impact the market share and operations of the CBE branch?
2. What is the perceived quality of customer service at the CBE Wolkite branch, and what is the corresponding level of customer satisfaction?
3. Which specific factors (internal and external) are most significantly influencing the profitability of the CBE Wolkite branch?
4. What are the primary challenges related to the provision and management of credit services at the CBE Wolkite branch, particularly when compared to local competitors?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of this study is to assess the factors that affect the profitability of the Commercial Bank of Ethiopia (CBE), Wolkite Branch, and to propose potential recommendations based on the findings.

1.4.2. Specific Objectives

To achieve the general objective, this study will address the following specific objectives:

- To identify the effects of competitor banks on the market share of the CBE Wolkite Branch.
- To evaluate the quality of customer service provided by the branch and assess the corresponding level of customer satisfaction.
- To analyze the key internal and external factors influencing the profitability of the branch.
- To examine the contribution of different banking services to the branch's overall profitability.

1.5. Significance of the Study

This study is significant as it aims to identify and analyze factors impacting the profitability of the CBE Wolkite Branch, including competitive pressures, customer service quality, and customer satisfaction levels. The findings are expected to provide valuable insights for the branch's management, highlighting specific challenges and opportunities. Based on this analysis, the research will offer practical recommendations intended to help the branch address identified issues and potentially enhance its profitability. Furthermore, this study can serve as a foundation for future research on bank profitability within Ethiopia.

1.6. Scope of the Study

This study focuses specifically on the factors affecting the profitability of the Commercial Bank of Ethiopia's Wolkite Branch. Due to constraints related to time and finances, the research is limited to this single branch. Consequently, the findings may not be generalizable to all CBE branches or other commercial banks operating in Ethiopia.

1.7. Definition of Key Terms

- **Profit:** The financial gain realized when total revenue exceeds total expenses over a specific period.

1.8. Limitations of the Study

The study acknowledges the following potential limitations, which might have influenced the research process or the comprehensiveness of the findings:

- Potential unwillingness of some bank managers or staff to disclose certain information deemed confidential.
- Possible difficulty in accessing detailed or sensitive financial statements required for a comprehensive analysis.

1.9. Organization of the Paper

This research paper is organized into five chapters. The first chapter deals with Introduction of the study, covering the background, statement of the problem, research objectives, significance, scope, limitations, and definition of key terms. The second and the third chapter focused on review of related literature and research methodology and design respectively. The fourth chapter focuses on the analysis and interpretation of the collected data. The last chapter is concerned with providing a summary of the findings, draws conclusions, and offers recommendations based on the study's results.

CHAPTER TWO

LITERATURE REVIEW

2.1. Definition of Profit

Profit is the positive gain from investment or a business operation, representing a gain after deducting expenses; it is the opposite of loss. (11) Profit is the excess of returns over expenditure in a transaction or series of transactions, especially the excess of the selling price of goods over their cost. It can also refer to the ratio of profit for a given year to the amount of capital invested or to the value of sales. This is the compensation accruing to entrepreneurs for the assumption of risk in a business enterprise, as distinguished from wages or rent. (3,13)

2.2. Bank Profitability

Like all businesses, banks earn profit by earning more money than what they pay in expenses. The major portion of a bank's profit comes from the fees that it charges for its services and the interest that it earns on its assets. Its major expense is the interest paid on its liabilities. (5)

The major assets of a bank are its loans to individuals, businesses, and other organizations, and the securities that it holds, while its major liabilities are its deposits and the money that it borrows, either from other banks or by selling commercial paper in the money market.

2.3. Profit Measures

The traditional measures of the profitability of any business are return on assets (ROA) and return on equity (ROE). Assets are used by businesses to generate income. Loans and securities are a bank's assets and are used to provide most of a bank's income. However, to make loans and to buy securities, a bank must have money, which comes primarily from the bank's owners in the form of bank capital, from depositors, and from money that it borrows from other banks or by selling debt securities.

A bank buys assets primarily with funds obtained from its liabilities, as can be seen from the classic accounting equation:

Assets = Liabilities + Bank capital (owners' equity)

However, not all assets can be used to earn income because banks must hold cash to satisfy customers' cash withdrawal requests. This vault cash is held in its vaults, in other places on its

premises such as teller drawers, and inside its automated teller machines; this cash earns no interest. (9)

Loan loss reserves are held to cover possible losses when borrowers are unable to pay back their loans. The money held in a loan loss reserve account cannot be counted as revenue and thus does not contribute to profit.

2.4. Determinant of profitability

The determinants of bank profitability can be divided into two main categories, namely internal factors and external factors.¹

2.4.1. Internal Determinants

Internal determinants of bank performance can be defined as factors that are influenced by a bank's management decisions. Such management effects will definitely affect the operating results of banks. Although quality management leads to good bank performance, it is difficult, if not impossible, to assess management quality directly. In fact, it is implicitly assumed that such quality will be reflected in the operating performance. As such, it is not uncommon to examine a bank's performance in terms of financial variables found in financial statements. These statements, the balance sheet and income statement, are the two principal ones.

I. Balance Sheet

The balance sheet is an integral part of financial statements that² highlight the financial position of a bank at a single point in time. It reflects the bank's management policies and decisions in the allocation of resources. Balance sheet items are direct indicators of³ a bank's earning power and costs. From financial statements, a variety of variables capable of influencing bank performance are discussed in the literature. The determinants that receive most attention in the banking literature are costs, asset and liability composition, and size. As a measure related to bank structure and costs, the capital ratio has long been a valuable tool for assessing capital adequacy.

It is argued that banks with higher capital ratios face lower expected costs of financial distress, and such an advantage will then be translated into higher profitability. (7).

II. Income Statement

While the balance sheet concentrates on a bank's financial position, the income statement measures the success of its operations for a given period of time. Ratios obtained from the income statement are also known as operating ratios because they reflect management efficiencies in generating revenue and at the same time controlling costs.

One of the most important internal factors that can be constructed from the income statement is efficiency in expense management.

As conventional wisdom suggests, the higher the expenses of a bank, the lesser the bank's profitability will be. (4)

2.4.2. External Determinants

External determinants of bank profitability are factors that are beyond the control of bank management. They represent events outside the bank's influence. However, management can anticipate changes in the external environment and try to position the institution to take advantage of them. The external determinants typically include macroeconomic factors and financial structure variables. (2,10)

2.5. Factors affecting profitability

Profitability is affected by changes in sale price, costs, capitalization, professionalism, operations, and asset utilization.(14)

- Capitalization: Refers to the contributed and available capital for the business to meet future obligations, expand the business, or improve existing assets.
- Professionalism: Treating the 'vinegary' (Note: This term seems misplaced or is a likely typo in the original context) as a professional business and something done for function is very important for the success of that business.
- Operations: Factors affecting 'vinegary' (Note: This term seems misplaced or is a likely typo in the original context) profitability and viability include facility maintenance, supply chain management, varietal focus, and asset utilization.
- Asset utilization: In industries with significant investment in assets, it is important to make the most out of the assets a business owner has, through asset utilization. (1)

2.6. Liabilities of Commercial Banks

The liabilities of commercial banks are claims on them. These are the items that constitute the sources of its funds. Among the liabilities, the bank's share capital is the first item, which is contributed by its shareholders and is a liability to them.

The second item is the reserve fund. It consists of accumulated resources which are meant to meet contingencies such as losses in any year. The bank is required to keep a certain percentage of its annual profit in the reserve fund. The reserve fund is also a liability to shareholders. The third item comprises both time and demand deposits. Deposits are the bank's debts to its customers. They are the main sources from which the bank gets funds for investment and are indirectly the source of its income. By keeping a certain percentage of its time and demand deposits in cash, the bank lends the remaining amount on interest. Borrowings from other banks are the fourth item. The bank usually borrows secured and unsecured loans from the central bank. Secured loans are based on some recognized securities, and unsecured loans may be obtained using its reserve funds lying with the central bank.

The sixth item relates to bills for collection. These are the bills of exchange which the bank collects on behalf of its customers and credits the amount to their accounts. Hence, it is a liability for the bank towards its customers. These are the claims on the bank which it has to meet when the bills mature. The eighth item, contingent liabilities, relates to those claims on the bank which are unforeseen, such as outstanding forward exchange contracts, claims on unacknowledged debts, etc. Finally, profit and loss are shown. Profits payable to the shareholders are a liability for the bank. (12)

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN

This chapter covers the research design, types and sources of data, sampling design, and data analysis methods used in this study.¹ The researcher utilized different research methods and materials to analyze and assess the main factors that affect the profitability of the organization, CBE, in the Wolkite branch.

3.1 Research Design

For this study, the researcher used a descriptive research design. The researcher described the assessment of factors affecting the profitability of CBE, using the Wolkite branch as a case study.

3.2. Types and Sources of Data

3.2.1. Primary Data

The researcher used primary data to obtain up-to-date information from the concerned parties by using self-administered questionnaires for employees and customers of CBE Wolkite Branch.

3.2.2. Secondary Data

The researcher used secondary data to develop the conceptual framework of the study, including books, the internet, and record files. Secondary data about the organization were obtained from various recorded sources, such as financial records and the organization's website. Additional methods of gathering secondary data included organizational publications, data records, historical and statistical data, business documents, and so on.

3.3. Methods of Data Collection

To achieve the objectives of the study, the researcher used both primary and secondary sources of data. Primary data were gathered from officers and customers of CBE, Wolkite Branch, using questionnaires. To collect primary data, both closed-ended and open-ended questionnaires were used.

Secondary data were obtained from various sources, such as the annual report of CBE, bank documents, and published and unpublished literature reviews on the subject.

3.4. Sampling Design

Sampling method: To complete the study, the researcher used judgmental sampling to collect data from managers, top employees, and active customers.

Sample size: For simplicity, the researcher used a sample size of 30 employees and 30 active customers of CBE Wolkite Branch.

3.5. Data Processing and Analysis

In this study process, different types of raw data were collected using self-administered questionnaires. These raw data were processed, analyzed, and interpreted using tables, pie charts, and bar graphs. The researcher also used percentages to analyze the quantified data.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This section presents the results from questionnaires collected by the researcher from customers, employees, managers, and supervisors of Commercial Bank of Ethiopia in the Wolkite Branch, regarding the assessment of factors affecting CBE's profitability. Here, the researcher distributed

60 questionnaires to respondents to gather appropriate data. However, five (5) questionnaires were not returned, possibly due to respondents' carelessness in keeping them safe.

Therefore, this chapter presents the information gathered through questionnaires to identify and investigate factors affecting the CBE Wolkite Branch.

Furthermore, to facilitate appropriate analysis and interpretation and to present the data effectively for readers, some questionnaire items are tabulated and presented using pie charts and tables, with detailed interpretation where necessary.

Note: This chapter has two parts. The first part assesses customer attitudes and perceptions towards the bank's service and their performance. The second part presents the responses from employees and management regarding the factors that affect the bank's profitability and performance.

For the customer section, 30 questionnaires were distributed to the customers of Commercial Bank of Ethiopia. Unfortunately, 2 questionnaires were not answered, and 2 were lost.

The analysis below explains findings from the research questionnaires.

Part One: Analysis of Customer Responses

To gather insights from the customer perspective, 30 questionnaires were distributed to individuals identified as customers of the CBE Wolkite Branch. Of these, 26 questionnaires were completed and returned, yielding a response rate of approximately 87%. Four questionnaires were not included in the analysis (2 were returned unanswered, and 2 were not returned). The following sections detail the findings from these 26 customer responses.

4.1.1. Gender Distribution of Customer Respondents

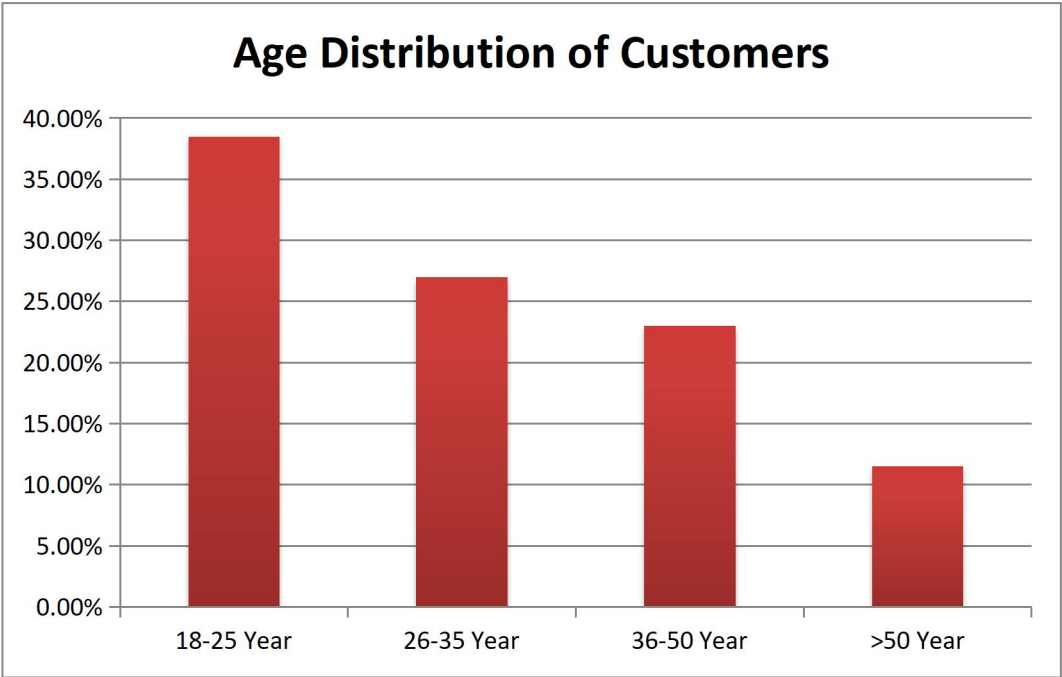
Understanding the demographic profile of the survey respondents is essential for contextualizing the findings. The gender distribution of the customer respondents was analyzed to describe the composition of the sample participating in the study. This information helps in understanding the representation of male and female customers within the respondent group and provides a basic demographic characteristic of the clientele surveyed.

Table 4.1: The customer sex distribution

Sex of respondent	No. of respondent	In percentage %
Male	18	69.2
Female	8	30.8
Total	26	100

The above table shows that, from the total target respondents of 26 customers, 18 (69.2%) were male and only 8 (30.8%) were female. Thus, the researcher can conclude from these results that the majority of the customers were male, and female participation was very low compared to male participation.

4.1.2. Age distribution of customers



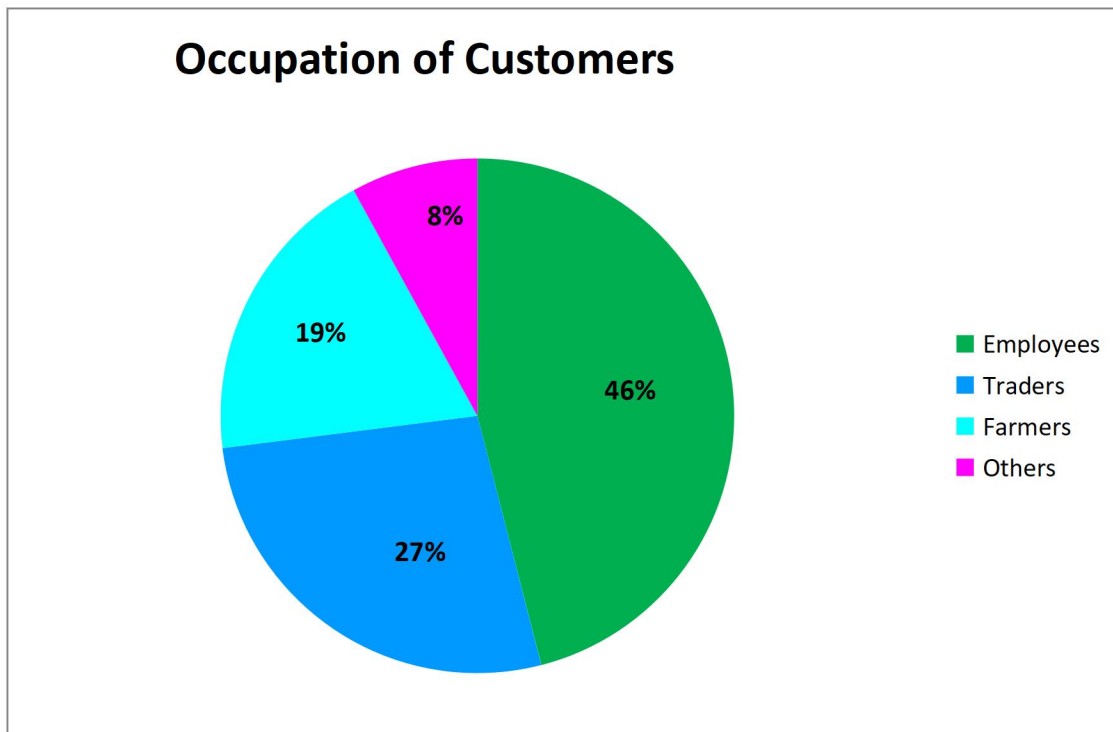
Bar-graph 4.1 Age distribution of customers

From the above data, it can be understood that most of the bank customers, accounting for 38.5% (10 customers), belong to the age range of 18-25 years. The next 27% of the customers belong to

the 26-35 years age group, numbering 7 customers. Customers aged 36-50 years constitute 23%. The remaining 3 customers, representing 11.5%, are above 50 years. From these results, it is clear that the majority of the bank's customers are adults. It can also be suggested that these adults in the 18-25 age range are potentially loyal and honest customers for the bank, and if they receive the best banking service, they could become better bank customers than those in any other age groups and could also advise others to use the bank as their primary choice.

4.1.3. Occupation of customer

Identifying the occupation of customers has many advantages. It can help bankers in identifying different types of customers and understanding their banking service needs.



Pie chart 4.1 occupations of customers

The above pie chart shows that the majority of the target customers, constituting 46% (12 customers), are employees. The next largest group are Traders, accounting for 27% (7 customers), followed by Farmers, accounting for 19% (5 customers). Respondents classified under 'Other' occupations account for 8%. Thus, from these results, the researcher can conclude that the majority of the customers were Employees.

4.1.4. Customer service and satisfaction

Banks are financial institutions with many functions: they accept deposits and make loans, issue credit like letters of credit and traveler's checks, accept bills of exchange, provide safe custody of valuable documents, offer money transfer services, saving accounts, current/demand accounts, and loan services.

To identify the kinds of banking services mostly used by customers, customers of the bank were asked questions about the services they use, and their responses were summarized below.

Table 4.2 service by bank

What kind of service do you use?	No of respondent	In percentage (%)
Saving account	14	53.8
Money Transfer Account	5	19.2
Current Account	3	11.5
Loan Service Account	4	15.5
Total	26	100

From the above table, the researcher concluded that most of the customers are users of saving accounts, which account for 53.8% of the total and represent 14 customers. Money Transfer Services come next, used by 5 customers and accounting for 19.2% of the total percentage of customers. Loan Services follow, used by 4 customers and accounting for 15.5%. Lastly, current accounts represent a share of 11.5%, used by 3 customers out of the 26 willing respondents. From this data, the researcher concluded that most customers primarily use saving accounts.

4.1.5. Customers using private bank

Identifying customers who use other banks is very important for a bank. This allows the bank to understand its competition, improve its services, and attract customers more effectively to achieve its goals. Furthermore, it helps bankers in identifying different types of customers and their banking service needs.

Table 4.3. Satisfaction of customer

Do you use other private banks?	No of respondent	In percentage%
Yes	19	73
No	7	27
Total	26	100

As shown in the table above, 19 respondents (73%) agreed that they use other private banks, while the remaining 7 respondents (27%) answered 'No' to the question about using other private banks.

In addition to being asked whether they use private banks, the customers were also asked why they use other private banks. The respondents who use other private banks cited reasons such as the ability to access other loan services, the desire to deposit their cash in different places, and better customer service.

4.1.6 Contribution of Banks to Customers' Personal Lives

Banks play a significant role in every country's economy because they accept deposits and make loans. They channelize funds from people who want to save their money to people who want to put it to productive purposes. By providing such services, banks play a significant role in improving the standard of living in particular and economic growth in general. To identify the contribution of the bank to customers' personal and business activities, customers of the bank gave their responses, which are summarized in the table below.

Table 4.4 Contribution of bank for personal life

What is the bank contribution for your business activity and personal life?	No. of respondent	In percentage%
Saving accounts	8	30.8
Money transfer	5	19.2
Giving loans for establishing new project	6	23
Safety of money	4	15.5
No response	3	11.5
Total	26	100

From the above table, the researcher concluded that the contribution most frequently cited by customers was related to saving accounts, accounting for 30.8% or 8 customers. This was followed by giving loans for establishing new projects, cited by 23% or 6 respondents. The contribution related to Money Transfer Services came next, reported by 19.2% or 5 customers. Providing a safe place for deposited money was cited by 15.5% or 4 respondents. The remaining 3 respondents (11.5%) out of the total 26 were categorized as providing no response. This finding indicates that while the bank contributes to or benefits customers' personal lives and business activities, the reported contributions do not necessarily reflect customers' overall satisfaction with the bank's services.

4.1.7. Services of Banks

Banks provide many services for the community. They play a very important role by performing two essential functions: accepting deposits and making loans. Acting as intermediaries between depositors and borrowers, banks facilitate the flow of funds by providing loans. This process contributes to increasing the country's productivity, with banks earning income from the services they provide. To identify whether customers had applied for a loan before, they were asked, and their responses were as follows:

Table 4.5 Loan service

No.	Item	No. of respondent	In percentage%
1	Have you ever asked the bank for a loan previously?		
	Yes	8	30.8
	No	18	69.2
	Total	26	100
2	Have you faced any problem when you ask for a loan?		
	Yes	6	23
	No	20	77
	Total	26	100

From the above table, it can be understood that 8 respondents (30.8%) had asked the bank for a loan. The remaining 18 respondents (69.2%) answered "No" to this question. These customers were asked why they had not applied for a loan, and they cited reasons including a lack of security, insufficient awareness about the credit system, the long and complicated process for presenting legal documents to prove property ownership for collateral transfer, high interest rates, and fearing the risk of failure to repay the loan due to periodical changes in the exchange rate.

In connection with the above question, the customers were also asked if they had faced any problems when they applied for loan services. Twenty customers (77%) responded that they had not faced any problems. However, the remaining 6 respondents (23%) indicated that they had faced some problems, such as the bank asking for high collateral and the long and complicated process involved in providing loans and services.

Furthermore, related to the above question, the customers were asked to identify the types of borrowing systems they most use, and their responses were summarized and presented below.

Table 4.6 Type of borrowing system

What type of borrowing system do you use?	No. of respondent	In percentage%
Short term loan	6	23
Medium term loan	7	27
Long term loan	9	35
Merchandise loan	4	15
Total	26	100

According to the above table 4.6, the majority of the customers, specifically 9 (35%) of the total borrowers, use Long-term loans. After Long-term loans, Medium-term loans are preferred, with 27% (7 respondents) choosing them. Short-term loans follow, chosen by 23% (6 respondents). Lastly, Merchandise loans were chosen by 15% of borrowers (4 respondents). From the above table, the researcher concluded that the majority of the customers use Long-term loans.

In addition to the above question, the bank's customers were asked about their satisfaction with the bank's credit system, and their responses are summarized in the table below.

Table 4.7 Customer satisfaction

How much you are satisfied bank the bank credit system?	No. of respondent	In percentage%
Very much	12	46.2
Little	8	30.8
Unsatisfied	6	23
Total	26	100

From the above table, the researcher understood that the majority of the customers (46.2%) were satisfied with the bank's credit service. Eight of the respondents felt that the bank needs to work more if it wants to satisfy its customers; these respondents chose 'little satisfaction,' representing 30.8% of the total respondents. Six respondents, or 23% of the customers, were unsatisfied with the bank's credit service. So, the researcher concluded that the bank more or less satisfies the majority of its customers.

In relation to the above question, customers were asked whether they had repaid their loans on a timely basis. The respondents answered that they had all repaid their loans within the specified period. From this, the researcher concluded that the customers kept their promise regarding repayment and had also played a great role in the bank's profitability.

4.1.8. Types of Securities

Banks usually secure their loans in one way or another. In some cases, a bank grants loans based on the personal security of the borrower. Generally, banks require collateral such as buildings (residential), vehicles, machinery, goods for merchandise, and movable and immovable properties. These are required to secure the repayment of loans and mitigate the risk of default by the customer.

4.2 Analysis of Questionnaires for Employees

Following the customer questionnaires, 30 questionnaires were distributed to the employees of Commercial Bank of Ethiopia, Wolkite Branch, for the purpose of this research. Unfortunately, 3

were not answered and 1 was lost. The analysis below presents findings from the employee questionnaires.

4.2.1. Sex Distribution of Employees

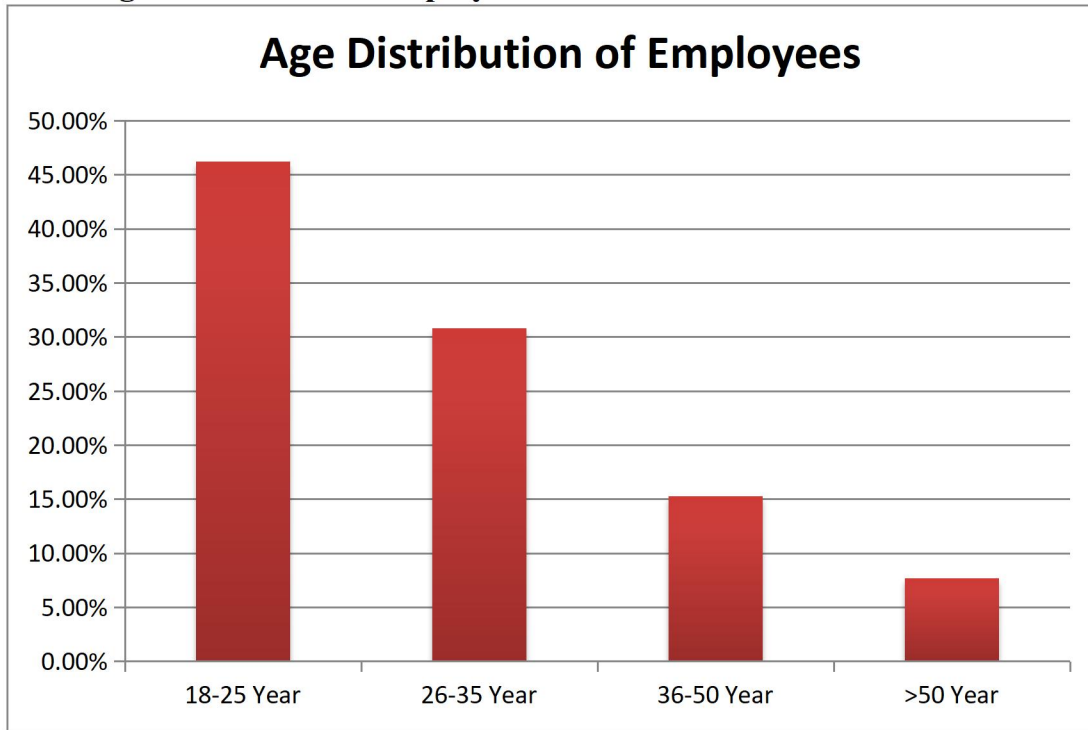
Identifying the sex distribution of employees is important in banking service activities to understand female and male participation

Table 4.8 sex distribution of employees

Respondent/Sex	No. Of Respondent	In Percentage%
Male	17	65.3
Female	9	34.7
Total	26	100

The above table shows that, from the total respondents of 26 employees at the bank, 17 (65.3%) were male and 9 (34.7%) were female. From these results, the researcher concluded that there were significantly more male employees than female employees at the bank. Therefore, the researcher suggests that the commercial bank manager consider increasing the number of female employees with the aim of increasing overall female participation.

4.2.2. Age distribution of employees



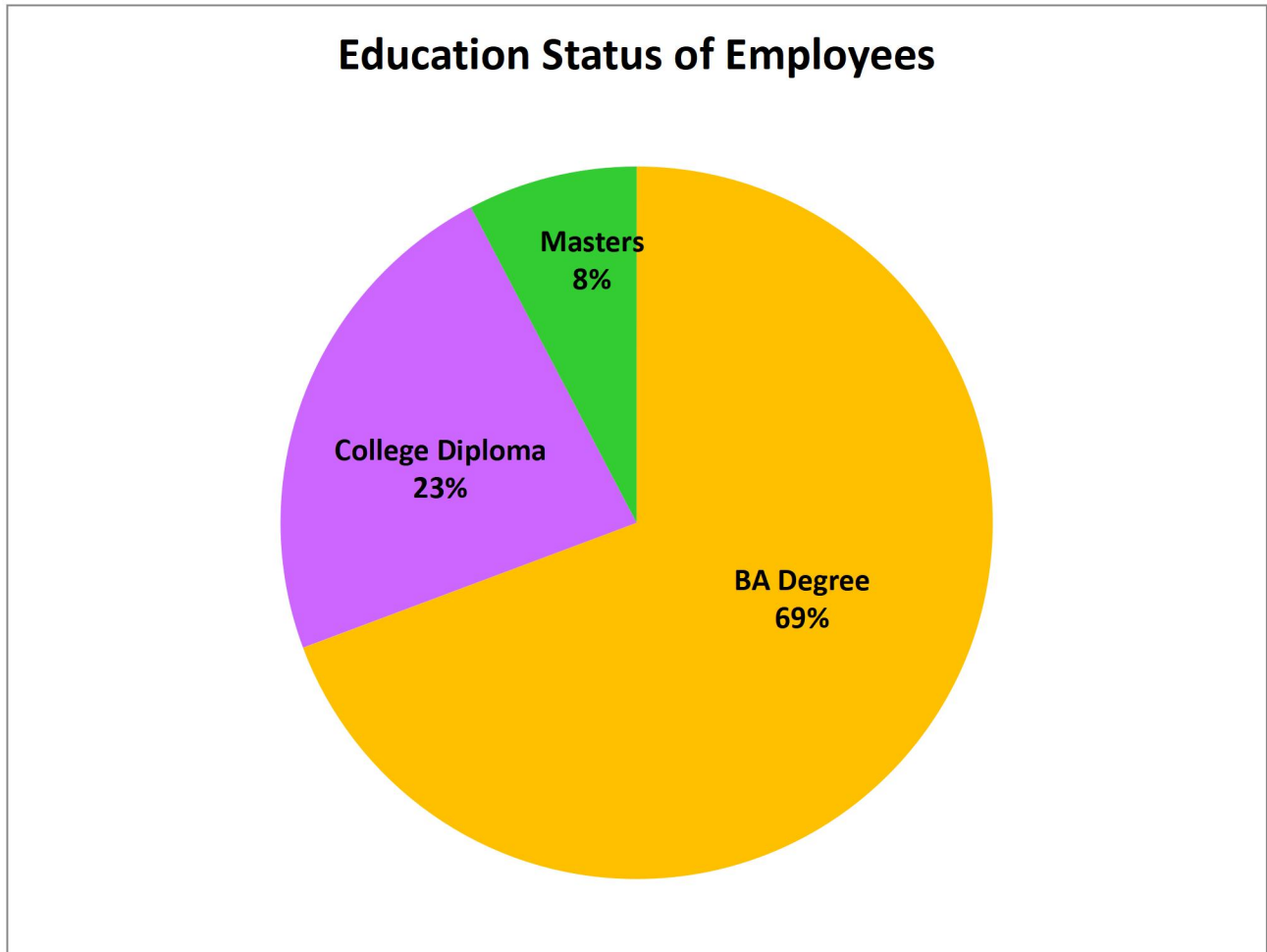
Bar-graph 4.2 Age distribution of employees

From the above graph, it can be understood that the largest group of employees at the bank, amounting to 46.2% (12 respondents), belong to the 18-25 age group. Eight employees (30.8%) belong to the 26-35 years age group. Four employees (15.3%) were between 36-50 years, and the remaining two employees (7.7%) were more than 50 years of age. This data shows that the majority of the bank's employees are a combination of young and mature individuals, which can provide the bank with both motivation and experience. Supervision and professional training help employees provide quality service to customers, making their branch organization competent enough.

4.2.3. Education Status of Employees

Identifying the education level of employees is essential for the successful operation of the bank, as well as for other business organizations, enabling them to provide quality service effectively and efficiently. The education level of employees at CBE Wolkite Branch is shown below in the pie

chart.



Pie chart 4.2. education status of employees

The above pie chart shows that most employees, specifically 18 (69.3%), hold a BA degree, while 6 (23%) hold college diplomas. The remaining 2 respondents (7.7%) are graduates with a Master's degree. The above results show that the educational status of the bank's employees is relatively high, which is good for competition, and highlight the importance of upgrading the skills of employees with lower educational backgrounds. Specialized training in areas like computer technology and modern banking services is important for all employees.

4.2.4. Position of employees

Table 4.9. position of employees

Position of Employee	No. of Respondent	In Percentage%
Manager	2	7.7
Supervisor	3	11.5
Employee	20	77
Not Respondent	1	3.8
Total	26	100

As shown in Table 2.2, from the total of 26 respondents, 2 (7.7%) were managers and 3 (11.5%) were supervisors. Then, 20 (77%) of the respondents were employees, and only 1 (3.8%) did not provide a response. From these results, the researcher concluded that the majority of the respondents were employees.

4.2.5. Duration of Employees at the Bank

Knowing how long the employees have been working at the bank is important for the researcher to understand the employees' contribution to the bank in terms of profitability, customer service, and sharing their experience with new employees. Most of the respondents answered that they had been at the bank for more than 5 years. A few answered that they had worked there for most of their lives, demonstrating their trustworthiness by dedicating more than 20 years to the bank.

4.2.6. Services Rendered by the Bank Affecting Profitability

Banks are organized to perform a number of functions, primarily for the purpose of earning profit. Mostly, they attract deposits of all kinds, including current, savings, and fixed accounts. In addition to this, banks also provide loans and advances for those who are in need, along with other services like money transfer and safe custody, often with minimal service charges.

Employees at the bank were asked what types of banking services the branch renders to generate profit, and their responses were as follows: The bank currently provides deposit mobilization, money transfer, purchase of foreign currency, and loans to various businesses, individuals, and institutions, with particular emphasis on priority sectors of the economy, in order to provide services and generate profit.

Banks earn profit through the process of transforming funds and providing services, similar to the production process of other firms. The profit performance of any bank is related to many factors, including market share and service quality.

To identify whether the bank was profitable or not, and to investigate the reasons for non-profitability, employees at the bank were asked, and their responses were as follows.

Table 4.10. Profitability of the bank

Is the bank is Profitable?	No. of Respondent	In Percentage%
Yes	22	84.6
No	4	15.4
Total	26	100

A majority of the employees (22, or 84.6%) think that the bank is profitable, while 4 (15.4%) of the employees think that the bank is not profitable. Therefore, the researcher concluded that even though the bank is considered profitable, it was not as profitable as its objectives might suggest.

In relation to the above question, employees were asked to give reasons why the bank is not considered profitable. The employees responded that the reasons included: being newly opened, providing loans to a small number of customers, high salary payments, and people's habits in using bank services.

Also related to the above question, the researcher asked the employees what factors affect the bank's profitability. Their response was that factors include: high credit interest rates, a large amount of saving accounts which bear interest for customers (constituting main liabilities for the bank), the emergence of new competitors, loan defaults, and risks related to import and export activities. From the above analysis, the researcher concluded that having excess deposits and other factors affect profitability.

In addition to the above question, the bank's employees were asked to investigate /to identify/ which services were demanded by customers, and the responses obtained from the employees were as follows.

Table 4.11 Service demanded by customer

Which Services are More Demanded by Your Customer?	No. of Respondent	In Percentage%
Saving Deposit	15	57.7
Demand Deposit	8	30.8
Time Deposit	3	11.5
Total	26	100

Majority of the employees, or 15 (57.7%) of them, said that customers primarily use saving deposits. Eight employees (30.8%) said that customers need demand deposits, and the remaining 3 respondents (11.5%) said that customers want time deposits. From these findings, the researcher concluded that customers deposit their money to save for emergencies rather than primarily seeking loans.

4.2.7. Types of Securities Used for Loan Advances

Banks frequently secure loans in one way or another. In some cases, the bank may grant a loan based on the personal security of the borrower or on the personal guarantee of another person.

To identify what kind of securities are required by the bank for loan advances, employees were asked, and they responded as follows: The bank requires collateral such as buildings (both non-residential and residential), vehicles, motors, small projects, and bank guarantees like lien, pledge, etc. From this, the researcher concluded that it was not easy for ordinary people to obtain loans from the bank, since such securities are difficult to acquire.

In addition, the employees of the bank were also asked about the method for valuing securities provided to cover loan advances. And they responded that they were valuing based on the

National Bank of Ethiopia's scale (based on the customer's legal documents) and the government's performance.

4.2.8. Level of competition

Knowing the level of competition will help the bank in understanding who their competitors are and try to improve its self to bring bank its customers and to attract new customers.

Table 4.12 Level of competition

Level of Competition?	No. of Respondent	In Percentage%
Strong	16	61.6
Medium	6	23
Weak	4	15.4
Total	26	100

From the above table the researcher concluded that 16 respondents (61.6%) think that there is strong competition with other banks, and 23% think that there is a medium amount of competition between CBE and the other banks. But 4(15.4%) respondents think that there is weak or no competition at all. Therefore, the researcher can conclude that there are important things that the bank should improve to present its self-better than the rest of the banks or organizations.

4.2.9. Impact of Market Competition on the Bank's Profitability and Market Share

Private banks, which have been established in recent years and have expanded widely in current times, have several effects on CBE's market share and profitability, primarily by providing improved service to customers and through the computerization of financial information.

In relation to this, employees of the bank were asked about the effect of market competition on the bank's profitability. However, most of the respondents answered that there is not much effect

on market share because the institution follows its own ways and rules which they think make the bank better than its competitors.

4.2.10. Participation of bank on investment

Participation of bank on investment has significant role for the development of the economy of the country. So, the banks participation on investment helps to improve the life standard of the employer by increasing the daily income and opening opportunity of job for them and also it has positive effect on the economy of the country.

In order to identify participation of bank on investment or notes the employees were asked and their response were as follows

Table 4.13 Participation of bank on investment

Does your bank (Organization) is participated on investment?	No. of Respondent	In Percentage%
Yes	18	78.2
No	6	23
Not Response	2	7.8
Total	26	100

Majority of the employee 18(78.8%) of them said that the bank participates on investment, 6(23%) of the employee said that the bank does not participate on investment and 2(7.8%) did not give response. So, the researcher concludes that even though the bank participation on the investment is not enough and should participate in the investment area so that it could help the society, the economy, as well as itself.

In addition to the above question employees were asked on what type of investment the bank participates, if the banks participate on investment and what the reasons behind the bank in not participating on investment

Table 4.14. Types of investment

If Your Answer is Yes on What Type of Investment Your bank invest?	No of Respondent	In Percentage%
Government security and insurance, Import and export	10	55.5
Saving and buying of bond and industries	8	44.5

From the above table, the researcher understood that 10 (55.5%) of the banks participate in selling and buying bonds and industrial securities, while the other 8 (44.5%) of the bank respondents answered that the banks participate in government securities, insurance, and import and export financing. So, the researcher concluded that most of the banks participate in the selling and buying of bonds and industrial securities.

4.2.11. Impact of Capitalization, Asset Utilization, and Professionalism

Capitalization, asset utilization, and professionalism are key concepts. Capitalization refers to contributed and available capital for the business to meet future obligations, expand the business, or improve existing assets. It is also important to make the most out of the assets that owners own through asset utilization.

Regarding these concepts, the employees were asked about the impact of capitalization, asset utilization, and professionalism, and their responses were as follows:

Table 4.15 effect of capitalization

Is capitalization, asset utilization and professionalism affect the profitability of the bank?	No of Respondent	In Percentage%
Yes	20	77
No	6	23
Total	26	100

The researcher understood that 20 (77%) of the employees indicated that it affects the bank's profitability, while 6 (33%) of the employees stated it does not affect the bank's profitability. The researcher concluded that capitalization, asset utilization, and professionalism affect the bank's profitability.

In addition to the above question, the bank's employees were asked how capitalization, asset utilization, and professionalism affect bank profit. Their response indicated that an increase in capitalization, professionalism, and asset utilization leads to an increase in expenditure.

Related to the above question, employees were also asked why the bank's profitability is not affected by capitalization, asset utilization, and professionalism. Their response was that the bank manager controls every activity of the bank system and upgrades the capacity of the workers.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

All the data analysis and the detailed discussions made in the preceding parts of this study are intended to lead to possible conclusions and recommendations. Thus, this study attempted to investigate the main factors affecting the bank's profitability.

Based on the overall interpretation and data analysis, the following conclusions have been made:

- Low customer satisfaction and customer handling, lack of competitive skills, efficiency, and poor time management in providing banking services to customers, potentially due to a lack of well-trained, skilled, and professional employees compared to private banks.
- Factors contributing to low bank profitability include a large volume of deposited funds (not effectively utilized), a low number of loan advances, and high interest expenses (e.g., on savings or term deposits).
- Banks play a significant role in customers' personal lives and business activities by raising awareness about the services provided and by safeguarding their money, thus protecting them from unexpected dangers and robbery.
- The bank also provides credit services, which enable customers to participate in different investments. This indirectly leads to a reduction in unemployment in the country by creating jobs for job seekers.
- Lack of participation by the bank in direct investments, potentially due to being newly established and its financial status. Although not all banks participate extensively in direct investment, most do to maximize profit, which indirectly helps to increase the country's economy.
- Lack of asset utilization and capitalization, possibly because the bank anticipates that increased utilization and capitalization will inevitably lead to increased expenditure or costs.

- Low customer participation in seeking loan advances or borrowing money from the bank due to: lack of awareness about the bank's borrowing system, fear of failure to repay the loan on the due date, and undervaluation of collateral securities by the bank and fixed, restrictive stipulations regarding acceptable collateral, which reduce customer participation in borrowing.

5.2. Recommendation

In order to provide solutions for the problems identified, understanding their causes is required.

The researcher suggests the following recommendations:

- To alleviate problems related to employee competitiveness, efficiency, and time management, such as increasing the speed of banking services and improving employee customer handling techniques, the bank should provide training to employees and upgrade their competencies.
- It is advisable to introduce new technology and provide the best banking products and services to maximize the bank's profitability.
- It is advisable to foster the habit of banking in the community and increase customer awareness to address the issue of a large number of deposits not being matched by loan advances. Furthermore, by improving loan policies, the bank can encourage an increase in the number of users of loan and advance services.
- The bank should participate in investments by improving its financial status. It should also improve asset utilization by controlling every activity within the bank system and upgrading the capacity of its workers. Some specific measures suggested for credit service are:
 - Customers must be able to produce acceptable evidence for the verification of the value of assets offered as security.
 - The bank should maintain technical staff required for the valuation of assets to avoid complaints.

- Loan terms should be determined with reference to the earning capacity of the customers.
- Arranging the first installment after a reasonable time gap can enable the borrower to establish their position and strengthen their repaying capacity.
- Develop the habit of banking and upgrade the awareness of customers and the community through training.
- The bank should consider the character and technical ability of the borrower, the prospects of the business or activities, and the nature and quality of the goods produced.

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APPENDIX I
WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT

**Questionnaire for managers, supervisors and employees of commercial bank of Ethiopia
Wolkite
branch.**

Dear Respondents: This questionnaire is designed to collect information for assessing factors affecting

the profitability of commercial bank of Ethiopia Wolkite Branch from the managers, supervisors and

employees of the bank. You are kindly requested to complete this questionnaire sincerely and honestly. Please fill the questions provided below.

Remark: no need of writing your name

Part I. Questionnaire about Respondent data.

1. General background

1.1. Age: 18-25 26-35 36-50 above 50

1.2. Gender: Male Female

1.3. Educational status: College diploma first degree masters

1.4. Position: Manager Supervisor Employee

1.5. For how long have you been working in the bank? _____

Part II. Questionnaire about the organization.

2. What type of service does your organization provide to its custom

- Personal banking services Business loans
- International banking Digital banking services
- Other(specify) _____

3. Is the bank profitable? Yes No

3.1 If the answer is No to question number 3, what is the reason?

3.2. What factors affect Profitability?

4. Which services are more demanded by your customers?

- Saving Deposit Fixed Deposit
 - Demand Deposit Recurring Deposit
5. What security or securities are required for advancing loans to customers?

6. What are the methods used by the bank to cover its loans?

7. What is the level of competitiveness in the market?

Strong Medium Weak

7.1 Why do you think so? _____

8. What is the effect market competition in the Profitability of the bank?

9. Is there any decrease in the number borrowers due to the emergence of new competition?

10. What is the problem in advancing in and repayment of a loan?

11. What are the banks strategies to compete with the competitor to maintain its market share?

12. What are the main problems that the bank currently faces? Specify.

13. Is capitalization, asset utilization and professionalism affect the Profitability of the bank?

Yes No

13.1 If your answer is Yes to question number 13, how?

13.2 If your answer is No to question number 13, Why?

Thank you for your participation!

Collector's Name: _____

Date and time of Collection: _____

Signature of Data Collector: _____

APPENDIX II
WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT

Questionnaires to be filled by the customers of CBE Wolkite branch.

Dear Respondents: This questionnaire is designed to collect information for assessing factors affecting

the profitability of commercial bank of Ethiopia Wolkite branch from the customers of the bank.
So,

you will kindly request to complete this questionnaire genuinely and honestly. Please full the questions provided below.

Remark: no need of writing your name

Part I Questionnaire about respondent personal data

1. General background

1.1. Gender Male Female

1.2. Age 18-25 26-35 36-50 above 50

1.3. Occupations: Merchant Farmer Employee Trader

If there is other, please specify_____

Part II- Questionnaire about the organization

2. What kind of service do you use?

Saving account service current account service

Money transfer service loan service

3. Do you also use other private banks in addition to CBE?

Yes No

3.1. If your answer is yes, to question number 3, why?

Better customer service Faster loan processing

Lower interest rates More digital banking services

Other (Specify) _____

3.2. If your answer is No, to question number 3, why?

4. If your answer is No, to question number 3, are you satisfied by the bank service?

Yes No

4.1. If your answer is Yes to question number 4, what make you satisfied?

5. What is the banks contribution for your business activity and personal life?

6. Have your ever ask the bank for a loan previously?

Yes No

6.1. If your answer is No to question number 6, why you haven't asked?

7. If your answer is Yes to question number 6 , have you faced any problem when you asked for a loan?

Yes No

7.1 If your answer is yes, what was the problem?

Long processing time High-interest rates

Collateral requirements Other (Specify) _____

8. Which type of the bank borrowing system do you use?

Short term loan medium term loan

Long term loan merchandize loan

If others, please specify _____

9. How much you are satisfied by the bank credit system?

Very much Little Unsatisfied

9.1 If you say very much, on what way the bank satisfied you?

9.2 If you say little, why?

9.3 If you say unsatisfied, what is the reason?

10. What type of security required by the bank, when the loan is advanced by the bank?

11. What is the main problem of the bank comparing to another private bank?

Thank you for your participation

Collector's Name: _____

Date and time of Collection: _____

Signature of Data Collector: _____