



ASSESSMENT OF FACTORS THAT AFFECT THE
PROFITABILITY OF CBE
(ALEMGENA BRANCH)

A PROPOSAL SUBMITTED TO DEPARTEMENT OF
ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF
THE REQUIREMENT FOR BACHELOR OF ART DEGREE IN
ACCOUNTING AND FINANCE

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Abstract

Every business organization faces a problem which hinders its objective for which it is established. So, like any business organization CBE faces many problems which affects its profitability and the main purpose of this study is to assess factors affecting profitability of CBE Alemgena branch. The researcher use both primary and secondary source to gather data. The primary sources of data are related to the questionnaires distributed to both customers and employees of CBE Alemgena branch and they are the main sources of the study.

The researcher was use judgmental random sampling method to take twenty employees of CBE Alemgena branch. The processed data was analysed using descriptive statistics both data analysis methods. (I.e. quantitative and qualitative data analysis method) use in the study the data collected through questionnaire will be analysed using different descriptive analysis like percentage, pie-chart and tables

Abbreviation

ATM=Automated Teller Machine

BA=Bachelor of Art

CBE=Commercial Bank of Ethiopia

ROA=Return On Asset

ROE=Return On Equity

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CHAPTER ONE

1. Introduction

1.1, Background of the study

Profitability is the ability to generate profit from the sales, whether the sale is tangible (e.g., goods) or intangible (eg-paid for knowledge), whether a service or a product. Profitability is a potential of a venture to be financially successful. This may be assessed before entering into a business or used to analyse a venture that is currently operating. However, one set factory is not likely to be successful or has not been successful. It may not be necessary to abandon the venture. Like other businesses, banks profit by earning more than they pay in expenses. The major portion of a bank's profit comes from the fees it charges for its services and the interest it earns on assets. Its major expense is the interest paid on its liabilities. The major assets of a bank are its loans to individuals, businesses, and other organizations and the securities it holds. In contrast, its major liabilities are its deposits and the money it borrows from other banks or by selling commercial paper in the money market. (This matter.com/banking profitability) Instead, it is feasible to change operational factors such as pricing or costs; 3 basic situations describe a business's financial situation. It can be profitable, it can be breakeven, or it can operate at a loss.

In most cases, an organization's goal is to make a profit. With profitability, the business will serve in the long run, so measuring current and past profitability and projecting future profitability is very important. It is measured with income (money generated from the activity of a business) and expenses (cost of resources used up by the activity of a business (<http://avami journals>)). Profitability of a firm is affected by different factors such as the degree of competition, the strength of demand, the state of the economy, substitutes of products or services, the degree of cost(variable), a firm with a high fixed cost, if the firm can price discriminate, amount of sales, determination of pricing, and excess of expenses over revenue/income.

In this study, the main focus area that the study will be concerned with is the identification of factor which affects the profitability of the commercial bank of Ethiopia in a case study of the Alemgena branch, which affects the bank operation and profitability.

The banking industry is one of the significant sectors of the financial system in most countries. Banks play a crucial role in promoting the economy's growth by mobilizing

savings and using the mobilized savings to finance the most productive sectors of the economy (Alkhazaleh & Almsafir, 2014). As such, commercial banks are important to the financial segment, particularly in developing economies where capital markets need to be well-developed and strong. In economies where capital markets are still developing, banking institutions serve as a vital source of finances for enterprises. Therefore, the bank's good performance is usually measured as per its profitability levels and has been essential to shareholders, customers, and the bank's continued survival and expansion (Nkegbe & Yazidu, 2015).

The banking industry is fundamentally an industry of trust. Its stability depends on the public starting to distrust the bank, which will affect its operation hence its stability. Banking instability may lead to a financial crisis with adverse consequences for the economy; hence it is vital to have a sound, stable and healthy banking industry (kelvin mkwawa,2018).

Assessment of factors affecting the profitability of the commercial Bank of Ethiopia in the Alemgena branch has the advantage for the organization's development by identifying what factors are affecting the profitability growth, the level of service quality, investment development expenditure, and what is initiated in the organization.

The study aims to indicate the low of the market through in-depth investigation and identification of factors affecting the profitability of a commercial bank in Ethiopia.

In this study, the main focusing area the study will be concerned is the identification of factor which affects the profitability of the commercial Bank of Ethiopia in a case study of the Alemgena branch, which affects the bank's operation and profitability.

1.2 Statement of the problem

The banking sector is an important sector for the stabilization of financial systems. It plays a critical role in the economy of a country it facilitates the flow of funds in our economy and ensures financial resource are allocated efficiently towards promoting economic development and growth. Banks are embedded in our everyday lives and activities: -withdrawing salaries, paying bills, and saving for our future (kelvin mkawa,2018). As per the researcher knowledge there are many researches conducting on the external factors affecting the profitability of banks, cash management practice and loan advancing procedure but there is no comprehensive study on the internal factors that determine the profitability of a company

such as employee belongingness, lack of credit worthiness of customers, lack of well trained and skilled employee .

This paper tried to assess factors affecting the profitability of commercial bank of Ethiopia alemgena branch under various competitive conditions. There is so many factors that will affect profitability of business organization. Identifying those factors has a great significance for the successful operation of the organization because these factors will be a means for measuring the weakness and strengthens and to realize the changing business environment.

Commercial banks are important financial institutions in the financial system and the economy. They have played an important role in the tremendous economic development that has taken place in the region in recent years. Banks mobilize, allocate and invest the greatest part of the economic agents' savings. In addition, their performance has important consequences on capital allocation, firm expansion, industrial growth and economic development. Therefore Profitability of banks is very important not only at the individual bank level, but also in the macroeconomic level. Profitability is a reflection of how banks are run, given the environment in which they operate. Profitability is vital in maintaining the stability of the banking system and contributes to the state of the financial system (Goddard et al., 2004).

The goal of profit is very important to the banks to ensure their continued growth and development, as well as to enhance customer confidence in the bank. Furthermore, it aims at attracting more customers to increase the market value of the bank's shares in the financial market

The firm profitability is affected by both internal and external factors. Internal factors include shortage of capacity, fund raising problem, and lack of qualified employees. Externally, profitability affected by level of competition, shortage of raw material, governmental rule, economic instability, political situation, environmental factor, socio-cultural changes and technology. (Financial management 10th edition)

In business world there are so many factors affecting the profitability of business organization. Identification of this factor has a great significance for successful operation of the organization.

According to Dessalegn Mulugata (2012) concluded that the basic determinant factors which affect the profitability of CBE include, low customer satisfaction and customer handling,

poor time management habit in providing bank service and lack of well trained and skilled employees. But some areas of determinant factors of profitability such as, lack of proper asset utilization and capitalization by CBE, lack of credit worthiness of customers and lack of awareness of customers' about borrowing system are uncovered areas of the study. So this paper tries to identify and investigate on issues which are still uncovered factor affecting profitability of CBE in Alemgena branch. In views of the above problems,

1.3 Objective of the study

1.3.1 General objective of the study

The general objective of the study is to assess the factors that affect the profitability of commercial bank of Ethiopia, Alemgena branch and to come up with possible solution for these factors.

1.3.2 Specific objective of the study

In light of the above general objective of the study, the specific objective of the study will be:

1. To identify the problems aroused in the bank in relation with profit.
2. To investigate whether the bank is well aware of those factors affects its profitability.
3. To evaluate whether the bank gives services needed and contribute for the profitability.
4. To examine the main factors affecting the profitability of the bank.

1.4 Research questions

1. What are the problems aroused in the bank relation with profit?
2. The bank well aware of those factors affecting its profitability?
3. The bank giving services needed and contribute for the profitability?
4. What are the main factors affecting the profitability of bank?

1.5 Scope of the study

The study conducted on factors affecting profitability of Commercial bank of Ethiopia, Alemgena branch. The study is limited only in assessing the specific factors and problems

that affect the profitability of CBE some branches because of time and finance shortage, so it is impossible to cover each and every operation commercial bank in Ethiopia.

1.6 Significance of the study

Since the objective of the study is to assess factors affecting the profitability of CBE, and the researcher tries to identify the factors that affect the profitability of commercial bank of Ethiopia, Alemgena branch; the study attempts to identify those factors; competitors bank on market share, the extent of customer service of the bank and investigate the level of satisfaction and other factor. So, the researcher proposes solution based on gathered relevant information for the management of banks about existing and changing environment. This finding also will be used as a base for further research findings on the area.

1.7 Limitation of the study

The following limitations are factors which affect or limit the significance firm generating the expected out comes or information. These limitations include:-

1. Unwillingness of managers to disclose any information.
2. Unwillingness to give the financial statements
3. Lack of sufficient time to collect data
4. Cost limitation

1.8 Organization of the paper

The organization of this study takes the following form: The first chapter is introductory which consists of background of the study, statement of the research problem, objectives of the study, research methodology, significance of the study and scope and limitation of the study.

The second chapter provides the related summary of literature review on the factors affect profitability. . Chapter three presents research methodology, research design, definition of the target population, measurement instrumentation, method of data collection and finally method of data analysis. The research results and discussion is presented in chapter four. The final part chapter five summarizes the findings, conclude the paper, and forward some recommendations.

CHAPTER TWO

2. THEORETICAL REVIEW

2.1. Definition of Profit

A profit is the positive gain from investment a business operation offer substituting for expenses opposite of loss. www.investword.com. (3880/profit. Audio English net dictionary. Profit is the excess of returns over expenditure in transaction or series transaction especially the excess of the selling price to good over their cost.

It is the ratio of profit for a given year to the amount of capital invested to value sales.

This compensation accruing to entrepreneurs for the assumption of risk in business enterprise as distinguished from wage or rent [http://www. Maerriam-webster.com /dictionary profit/](http://www.Merriam-webster.com/dictionary/profit/)

2.1. Banks Profitability

Like all business bank get profit by earning more money than what they pay in expenses. The major portion of banks profit comes from the fees that it charges for its service and the interest that it earn on its assets. Its major expense is the interest paid on its liabilities.

The major assets of bank one its loans to individual, businesses and other organization and the securities that holds while its major liabilities are its deposit and the money that it borrow either from other banks or selling commercial paper in the money market.

2.1. Profit Measures

The tradition 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 banks assets and one used to provide most of bank income. However to make loans and to buy securities a bank must have money which comes privately from the banks owners in the form of bank capital from depositors, and form money that it borrows from other banks or by selling debt securities. A bank buys assets primary 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 have cash to satisfy cash withdrawal request of customers. This vault cash is held in vaults in other parts of its premises such as tellers, drawers and inside its automated teller machine (ATM) and this earns no interest. A bank must also keep a separate a

Loan loss reserves to cover possible loss 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 source: <http://www.federalreserve.gov/2008/articles/bankprofit/default.htm>.

2.1.3. Determinant of profitability

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

2.1.3.1. 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 a quality management leads to a good bank performance it is difficult if not impossible to assess management quality directly. In fact it is implicitly assumed that such a quality will be reflected in the operating performance. As such it is not uncommon to examine a bank's performance in terms of those financial variables found in those financial statements those statements the balance sheet and income statement are the two principle ones.

I. Balance sheet

The balance sheet is an integral part of financial statements that 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 of the earning power and the cost of banks. From the financial statement a variety of variables capable of influencing the bank's performance can be discerned. The determinants that receive most attention in the banking literature are cost of assets and liability composition and size. As a measure of bank cost, the capital ratio has long been a valuable tool for assessing capital and should capture the general bank's face lower expected cost of financial distress and such an advantage will then be translated into high profitability. Sources: Demagogue Kunt and Haizing (1999) and Abreu and Medes (2000).

II. Income Statement

While the balance sheet concentrates on banks financial position the income statement measure the success of its operation for a given period of time ratio obtained from the income statement are also known as operation ratio because they structure the management efficiencies in generating revenue and at the same time countering cost.

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

As conventional wisdom suggests the higher the expense of a bank the lesser the bank's profitability will be. Source Boure (1989) & siangetal (2003).

2.1.2 External Determinants

Eternal determinants or bank profitability are factor that are beyond the control of bank management. They represent events outside the influence of bank. However, the management can anticipate changes in the eternal environment and try to position the institution to take advantage of the external determinates are macroeconomic factors & financial structure variable. Source Anna P.I Vong.

2.1.4 Factors affecting profitability

Profitability is affected by changes in sale price cost capitalization professionalism operations & assed utilization.

- 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 vinery as a professional business and something done for function is very import and for the success of that business.
- Operation: factor affecting vinery profitability and viability include facility maintenance supply chain management varietal focuses and asset utilization.
- Asset utilization: liven industries significant investment in asset it is important to make the most out of the assets a winner's owner through asset utilization. Source 899 Ad amsst.Suitet.

2.2.6 Liability of Commercial Bank

The liabilities of commercial banks are claims omitted. These are the items which from the item which from the source of its fund of the liabilities the share capital of the bank is the first item which is contributed by this shareholder and is a liability to them.

The second item is the reserve fund. It consists of cumulated resources which are meant to meet contingencies such as losses in any year. The bank is required to keep certain percentage of its annual profit in the reserve fund. The reserve fund is also a liability to shareholders. The third item comprises both the time and demand deposits. Deposits are the debits of the bank to its customers. They are the main sources from which the bank gets fund 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 remained amount on interest. A borrowing from other banks is the fourth item. The bank usually borrows secured and unsecured loans from central bank. Secured loans are on the basis of some recognized securities and unsecured loans out of 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 customer and credits the amount to their accounts. Hence it is a liability to the bank on behalf of 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 acknowledged debts etc. In the last time, profit and loss are shown profits payable to the shareholders which are a liability on the bank. Source M.L JHINGAN.

2.2 EMPIRICAL REVIEW

In the literature there are three main alternative measures of profitability, namely ROA, ROE and NIM1. Many scholars recommend that ROA is the major ratio for the assessment of bank profitability given that ROA is not distorted by high equity multipliers, while ROE disregards the risks related with high leverage and financial leverage Sufian, (2011). A number of studies used ROA as measurement of profitability, for instance, (Pasiouras & Kosmidou, 2007); Athanasoglou et al., 2008 and Olweny & Shiphoh, 2011). Thus, this study tried to measure profitability by employing ROA as most of the above mentioned researchers. As noted in Olweny & Shiphoh (2011), ROA is measured as net profit divided by total assets².

The study on the determinants of banks profitability began when examined the relationship between profit rate and the bank concentration. By classifying the determinants to internal

and external determinants. Boukel (1989) to banks in twelve countries in Europe, North America, and Australia. Further study performed by Athanasologu et al (2005) classified the determinants to three specific aspects; bank specific; industry specific and macro determinants of banks profitability. Thus the following are empirical evidence on factors affecting bank profitability with a particular focus on those that have been conducted more recent.

Berger (1995) more or less belongs to one of the earliest research conducted in the are of bank profitability. Berger (1995) examined the relationship between return on equity and equity to asset ratio for a sample of United States banks for the 1983-1992 Time periods. Using the granger causality model he showed that the return on equity and equity and equity to asset ratio tend to be positively related.

Guru et al (2002) investigated the determinants of banks profitability in Malaysia, using a sample of 17 commercial banks during the 1986 to 1995 period. The profitability determinants were divided into two categories, namely internal determinants (liquidity, capital adequacy and expens management) and the external determinants (ownership firm size and economic conditions).

The factors are classified into bank specific, industry-specific and macroeconomic factors as previous researches in the determinants of banks profitability (Athanasoglou et al., 2008; Flamini et al., 2009 and Sastroswito & Suzuki, 2011). The internal factors are bank size, capital adequacy, liquidity, leverage, and operational efficiency. Bank size is measured by logarithm of total assets (log A). Bank size accounts indicate the existence of economies or diseconomies of scale (Naceur & Goaid, 2008). Theoretically,

a firm enjoys economies of scale up to a certain level, beyond which diseconomies of scale set in. This implies that profitability increase with increase in size, and decrease for the moment is diseconomies of scale. Hence, the literature has shown that there may be positive or negative relation between the bank size and profitability, but most empirical studies shows that there is a positive relationship between them (Staikouras and Wood, 2004; Athanasoglou et al., 2005; Flamini et al., 2009; Dietrich and Wanzenrid, 2009). Capital adequacy is significantly and positively related with bank profitability (Wasiuzzaman and Gunasegavan, 2013 and Perera et al., 2013). This result validate the fact that well-capitalized banks can pursue business opportunities more successfully and obtain deposits and other funding at small cost and has more time and flexibility to deal with problems arising from unanticipated losses. Liquidity represents the ability of banks that customers deposit can be met if they withdraw at any time. The ratio of liquid assets to total asset is used to measure the

liquidity of a bank (Rao & Tekeste, 2012). As noted by Daniel, (2011) the total debt ratio is considered as a proxy for leverage.

Cost income ratio (CIR) reflects bank's operational efficiency and it is defined as non interest costs divided by total of interest income and non-interest income (Dietricha and Wanzenriedb, 2009). According to Athanasoglou et al. (2005) investigation on Greek banks during the period 1985-2001 observed that operating expenses appear to be an important determinant of profitability. Efficient expenses management was one of the most significant factors in explaining high bank profitability (Guru et al., 1999).

In context of Ethiopia, to the knowledge of the researcher there appears to be very limited work on the assessment of determinants of profitability of banks. These studies include the recent studies made by Samuel (2010) assessed the impact of reducing loan disbursement on the performance of banks in Ethiopia. It also attempted to examine the possible factors that compel the banks to reduce lending, covering period 2005_2009.

According to Damen (2011) examined the determinants of Ethiopian banks profitability. The study applied the balanced panel data of seven Ethiopian commercial banks covering the period 2001_2010. The paper used ordinary least square (OLS) technique to investigate the impact of internal as well as variables on major profitability the indicator i.e. ROA.

The estimation results show that all bank specific determinants, with the exception of saving deposit, significantly affect commercial bank's profitability in Ethiopia. Market concentration was also a significant determining factor of profitability.

According to Mikael Abera (2012) assessed factors affecting profitability; empirical study on Ethiopian banking industry .This study examines the bank specific, industry specific and macro factors affecting bank profitability for a total of eight commercial banks in Ethiopia covering the period of 2000_2011. To this end, the study adopts a mixed method research approach by combining documentary analysis and in depth interviews. The finding of the study shows that capital strength , income diversification, bank size and gross domestic product have statistically significant and positive relationship with bank profitability.

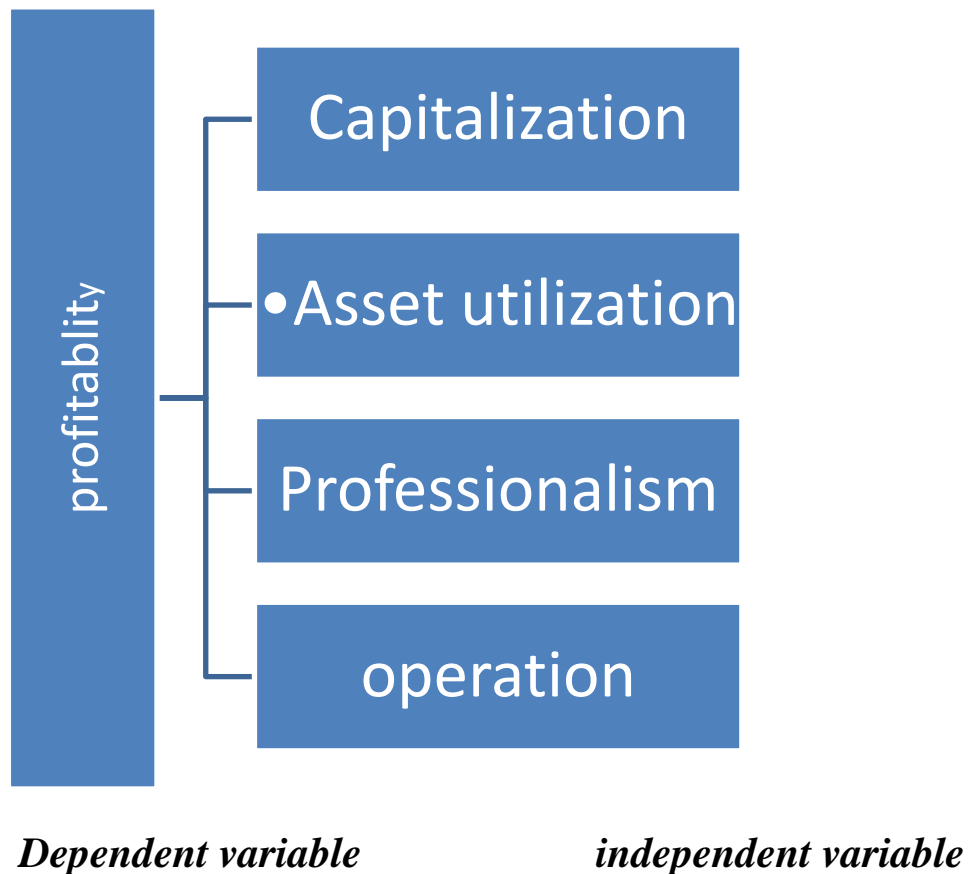
2.3. Research Gap

The gap observed in the previous researches are that.(1) As per the researcher knowledge there are many researches conducting on the external factors affecting the profitability of banks, cash management practice and loan advancing procedure but there is no comprehensive study on the internal factors that determine the profitability of a company

such as employee belongingness, lack of credit worthiness of customers, lack of well trained and skilled employee.(2) the most studies are not conductin this area (focused area gap and contextual gap) and tried to conduct a research by factor affecting the profitability of commercial bank of Ethiopia (alemgena branch).

2.4 Conceptual framework

This conceptual frame work describes the relationship of profitability with capitalization , asset utilization, operation and professionalism determinants based on the theoretical and empirical perspective and the empirical results are described from the following diagram.



CHAPTER THREE

3, Research methodology

The researcher utilized different research method and material to analysis and assess the main factor that affect the profitability of the organization; commercial bank of Ethiopia. In this study the researcher used quantitative methods. Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (Kothari, 2004).

Quantitative research is a means for testing objective theories by examining the relationship among variables, (Creswell, 2003). Quantitative research is often regard as being purely scientific, justifiable, and precise and based on facts often reflects in exact figures. This approach often appears when the audience consists of individuals or readers with a quantitative orientation.

3.1 Research design

The designs of the study descriptive type, because the research is deal with those factors affecting the profitability of the bank collect data from different source. Researchers have used a mixed research methodology that combines qualitative and quantitative methods to gather, describe, and evaluate data in order to address a business issue facing a bank. To address the research question and study design, which require gathering and analysing qualitative data employing interpretation, a quantitative technique is used.

3.2 Target population

A study into the variables affecting the profitability of Ethiopian commercial banks. The target audience consists of Ethiopian commercial banks' employees who are sufficiently knowledgeable about the factors affecting their profitability.

3.3 sampling technique

In order to complete the proposed study the researcher use judgemental sampling method to collect data from groups of manager, top employees and from active customers.

3.4 Data type

In this study the researcher used both quantitative and qualitative type of data to achieve the objective of study.

3.5 Data source

There are two types of data source. These are primary source of data and secondary source of data.

Primary data gathered from two different population based on their feature they are: active customers of the bank and employee of the bank .This data included information gathered through questionnaires distributed to the employee and to the bank active customers .A questionnaire processed a number of questions with close ended types of question that are relevant and complete as to the subject of the study designed in such ways that the respondent fill easily. And open end question will be also included.

3.6 Data collection instrument

To achieve the objective of the study, the researcher used both primary and secondary data source. Primary source data has be collect from officer and customer of commercial bank of Ethiopia in Alemgena branch by questionnaires. In order to get primary data both close ended and open ended questionnaires are use. Secondary source of data to be obtain from different second hand books such as annual report of CBE, Bank document, internet, previous researches done on the same issue and review of literature on the subject which is published and unpublished materials.

3.7 Data analysis

This section shows the analysis and interpretation of primary source using qualitative and quantitative methods. The former is used to interpret and analyse the quality of the data gathered, while the latter is used to analyse the quantified data through tables' percentages.

UNIT FOUR

Result Discussion

4.1 Data analysis and interpretation

This section presents the results of questionnaires that the researcher has been collected from the customers and employers, manger and supervisor of commercial bank of Ethiopia in Alemgena branch regarding the assessment of factors affecting the profitability of CBE. Here, the researcher distributed 25 questionnaires to respondents' to gather appropriate data. But, five (5) of them did not return, because of the respondents carelessness to hold the questionnaires in a safe place.

So this chapter present the information gathered through questionnaires to identify and investigate the inherent problems of the CBE Alemgena branch.

Furthermore, to present appropriate analysis interpretation and to present the price value of the data of the readers some of the questionnaires item are tabulated and presented by using pie charts, table with detailed necessary interpretation.

Note: this chapter has two parts: the first part concerned with assessing customer attitude and perception towards the bank service and their performance. The second part presents the employees and management response toward the required issue or response about factors that affect the bank profitability and its performance.

In order to help the research, 25 questionnaires were distributed to the customers of commercial bank of Ethiopia but unfortunately, 2 of the questionnaires' were not answered and 3 were lost. The analysis below explains findings from the research questionnaires.

4.1: Analysis of questionnaires for customer

4.1.1 Sex distribution of customer

Identification of sex distribution of customers is very important to know the female and male participation and involvement in the habit of using the banking service and to make an attempt in knowing who is poor in the habit of using banking service or to develop the habit of banking in the society as a whole.

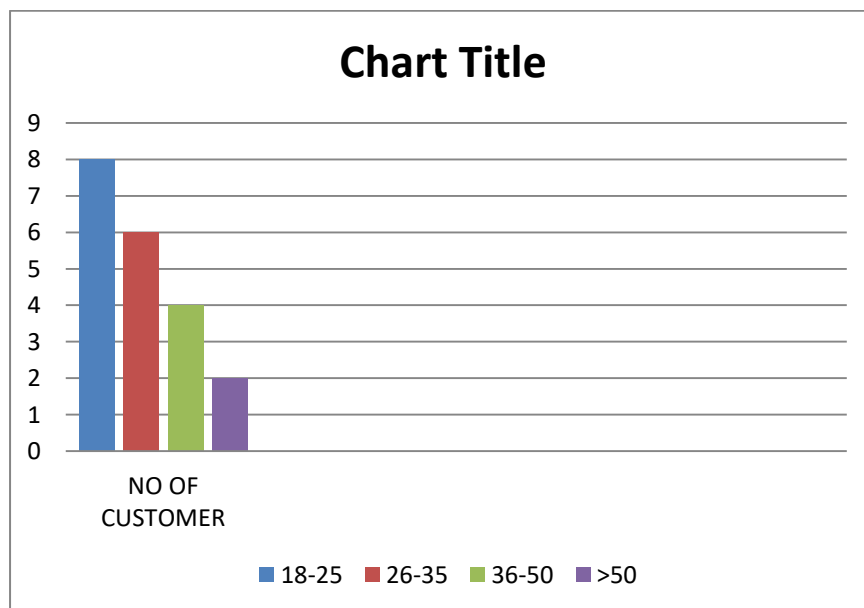
Table 4.1.1: The customer sex distribution

Sex of respondent	No. of respondent	In percentage %
Male	14	70
Female	6	30
Total	20	100

Source: -survey data collected through questionnaires2023

The above table shows, from the total target respondent of 20 customer 14(70%) of customer are male and only 6(30%) of them were females. Thus, from the above result the researcher can conclude that, the majority of the customers were male and female participation very low as compared to the male participation.

4.1.2Age distribution of customers



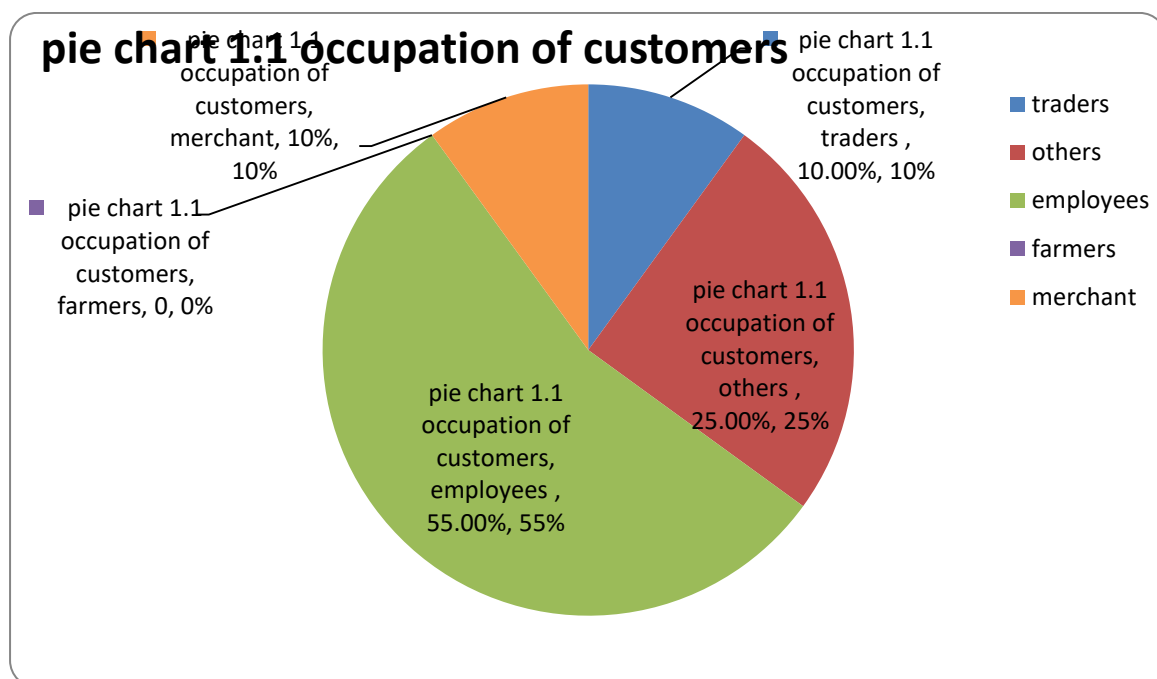
Source: -survey data collected through questionnaires2023

From the above data we can understand that most of the bank customers which accounts for 40% belong in the age range of 18-25years and this customers are 8 in number, the next 30% of the customers belongs to 26-35 years and the number of this customers are 6 in number and 36-50 years belongs in the percentile range of 20% and the remaining 2 customers which are 0.1% are above 50 years and from the above result one can understand that the majority

of the customers of the bank are adults. So one can also say that this adults which are in the age range of 18-25 are loyal and honest customers to the bank and if they are treated and if they are given best of banking service they could become the best bank customers than any other age groups and they 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 importance. It can help banker in identifying different types of customers and understand their banking service needs.



The above pie chart shows that most of target customers which are the customers constitute 55% and are 11 in number are employees, the next customers who comes next to the employees are with 2 customers and 10% range are merchant, then comes the traders accounting for 10% and with the number of 2 customers. Respondents who were included in other occupation accounts 25%. But, unfortunately there were no farmer customer was included in the respondents selected.

4.1.4 Customer service and satisfaction

Banks are financial institutions with many function: they accept deposit and make loan, issue credit like letter of credit and travele cheque, accept bill of exchange give safe custody of valuable, documents, money transfer, service, saving account current/demand service loan service and to identify the kind of the banking service mostly used by customers.

Customers of the bank were asked questions about the services they use and their response were summarized below.

Table 4.2.service by bank

s.no	Item	No of respondent	In percentage%
1	What kind of service do you use?		
	Saving account	11	55
	Money transfer account	3	15
	Current account	2	10
	Loan service account	4	20
	Total	20	100

Source: -survey data collected through questionnaires2023

From the above table the researcher concluded that most of the customers are users of saving account which accounts for 55% and 11 in number. Users of loan service account come next with 4 customers and accounts 20% from the total percentage of customer. Then, users of money market continue; accounting for 15% and 3 customers. Last but not list current account takes share for 10% and 2 customers from the 24 willing respondents. From the above data the researcher concluded that most of the customers are users of saving account.

4.1.5Customers using private bank

Identifying the customers using other private bank or even other bank is very important to the bank so that it can know its competition as well as to improve the bank and win over people to achieve its goal. It will also help banker in identifying different types of customers and their banking service needs.

Table 4.3.Satisfaction of customer

No.	Item	No. of respondent	In percentage %

1	Do you use other private banks?		
	Yes	16	80
	No	4	20
	Total	20	100

Source: -survey data collected through questionnaires2023

As the researcher showed on the table above, the 16 respondents (80%) agreed that they use other private banks but the remaining 4 respondents (20%) answered NO to the question that they use other private banks.

In addition to the question why they use private banks; the customers were also asked why they use other private banks. The respondents who use other private banks answered that it's because to use other loan service, to deposit their cash in different places, and better customer service.

4.1.6 Contribution of bank for customer personal life

Banks play a significant role in every countries economy; because they accept deposit and make loans. It channelizes funds from people who wants to save their money and to people who wants to put it for productive purpose. By doing such service 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 for customers personal and business activity, customers of the bank gave their response and it's summarized as in the table below.

Table 4.4. Contribution of bank for personal life

No.	Item	No. of respondent	In percentage %
1	What is the bank contribution for your business activity and personal life?		
	saving accounts	4	20
	money transfer	6	30
	giving loans for establishing new project	4	20

	Safety of money	5	25
	No response	1	5
	Total	20	100

Source: -survey data collected through questionnaires2023

From the above table the researcher concluded that most of customers use saving account which is 20% or 4 customers, then giving loan for establishing new project follows with 20% which are 4 respondents, next to giving loan the activity that follows it is giving safe place for the money customers deposit with 25% or 5 customers. Money transfer accounts for 30% or 6 respondent and the last 1 respondent (5%) from total 20 respondents are categorized under no response. This shows that we should be reminded that even if the bank contributes or benefits the customer in the personal life and business activities it doesn't mean that customers of the bank are satisfied by the banks service as whole.

4.1.7 Services of bank

Banks provide many services for the community. They play a very important role by performing the two essential function by depositing and lending money the bank provides loans by keeping itself as an intermediary to joint depositors and borrowers to, increase productivity of the country by earning a commission for it service. To identify whether the customer asked a loan before or not the customers 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 already?		
	Yes	8	40
	No	12	60
	Total	20	100
2	Have you faced any issue after you inquire for a loan?		

	Yes	4	15
	No	16	85
	Total	20	100

Source: -survey data collected through questionnaires2023

From the above table one can understand that 8 respondents (40%) have asked the bank for a loan and these customers might have been accepted or rejected. This customers answered “NO”, this 60% of the respondents were also asked why they haven’t asked and they mentioned some points like lack of security, lack of awareness about the credit system, long and complicated process to present legal document that ensure time ownership of properties to transfer collateral to the bank, high interest amount and fearing the risk of failure to repay the loan because of periodical change of exchange rate. In connection with the above question the customers were also asked if they have faced any problem when they asked for loan service. 16 customers or 85% of the customers responded that they haven’t faced any problems; but the remaining 4 respondents (15%) indicated that they have faced some problems like that of the bank asking high collateral and taking long and complicated process to give loan and services.

Again with related to the above question the customer of the bank were asked their view, to identify the types of borrowing system they most uses and summarized and presented below.

Table 4.6 Type of borrowing framework

No.	Item	No. of respondent	In percentage %
1	What type of borrowing system do you use?		
	short term loan	4	33.3
	medium term loan	6	50
	long term loan	2	16.7
	merchandise loan	-	-
	Total	12	100

Source: -survey data collected through questionnaires2023

According to the above table 3.6, the majority of the customer, which are 6(50%) of the total borrowers use medium term loans. Then short term is preferred with 33.3% or 4 of the respondents choosing it. Last but not list long term loan borrowers with 2 respondents or 16.7% of them choosing. From the above table the researcher concluded that most of the customer use medium loan term.

In addition to the above question the customers of the bank were asked how much they were satisfied by the bank credit system and their response summarized in the table below.

Table 4.7 Customer satisfaction

No.	Item	No. of respondent	In percentage %
1	How much you are satisfied by the bank credit system?		
	very much	7	58.3
	Little	4	33.3
	Unsatisfied	1	8.4
	Total	12	100

Source: -survey data collected through questionnaires2023

From the above table researcher understand the majority 58.3% of the customers were satisfied by the bank credit service and 4 of the respondents felt that the bank needs to work more if it wants to satisfy its customers and these respondents choose little satisfaction with 33.3% from the total respondents. 1 respondent (8.4%) of the customer was unsatisfied by the bank credit service. So the researcher concludes that the bank more or less satisfies the majority of its customer.

In relation to the above question the customers were asked whether if they have repaid their loan on timely basis or not. The respondent's answered they all have repaid their loan at specified period, from these the researcher concluded that the customers were honest of their promise and also have played a great role in the profitability of bank.

4.1.8 Types of securities

Analysis of a customer experience of borrowing and their level of satisfaction on credit service is already done. Banks usually secure their loan in one way or another. In some case a bank grant loan on a personal securities of the borrower. Generally banks requires a collateral like building (residential), vehicle, machineries, good for merchandise, movable and immovable properties were required as necessary for the repayment of loan for the probability of default by the customer to repay the loan.

Part two:- Analysis of questionnaires for employees

2.1.1. Sex distribution of employees

Identification of sex of banker is important in the banking service activity to identify females and males participation

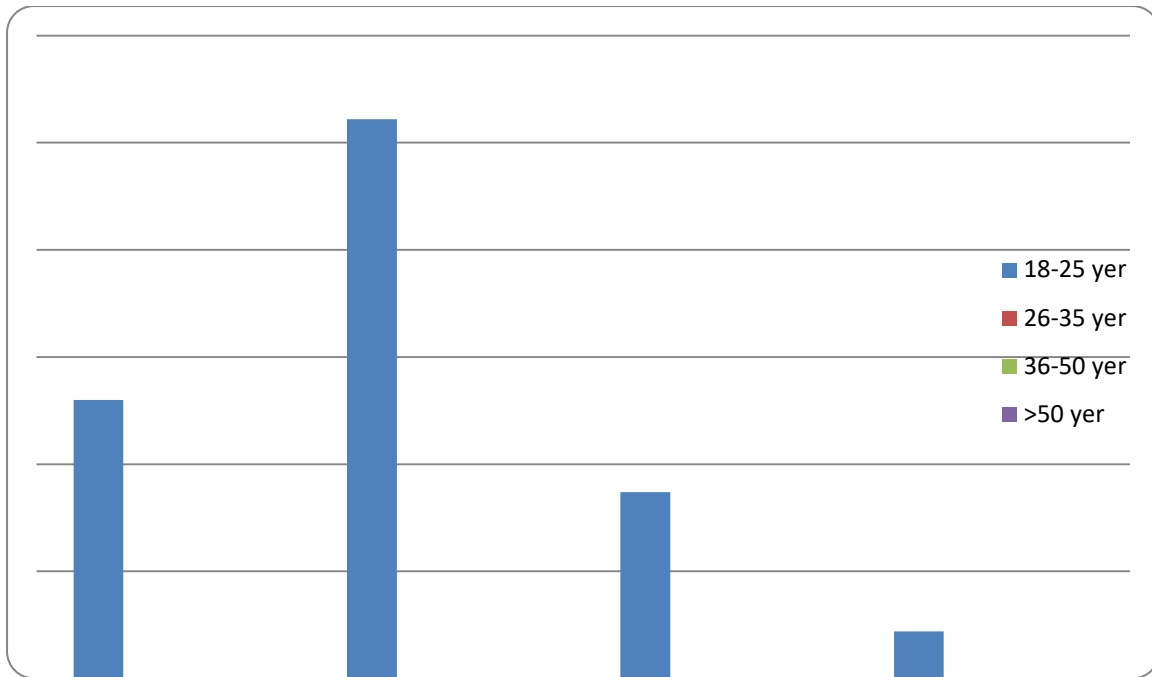
Table 4.8 sex distribution of employees

Respondent /Sex	No of respondent	In percentage
Male	18	78.2%
Female	5	21.8%
Total	23	100%

Source: -survey data collected through questionnaires2023

The above table shows as from the total respondent of 23 employees of the bank 18(78.2%) of them are male and 5(21.8%) of the employees are female, from the above result the researcher concluded that male employees of the bank accounts a great number having more than twice of female employees. So the researcher reminds the commercial bank manager to increase the number of female employees in assumption of increasing female participation as a whole.

4.3 Age distribution of employees

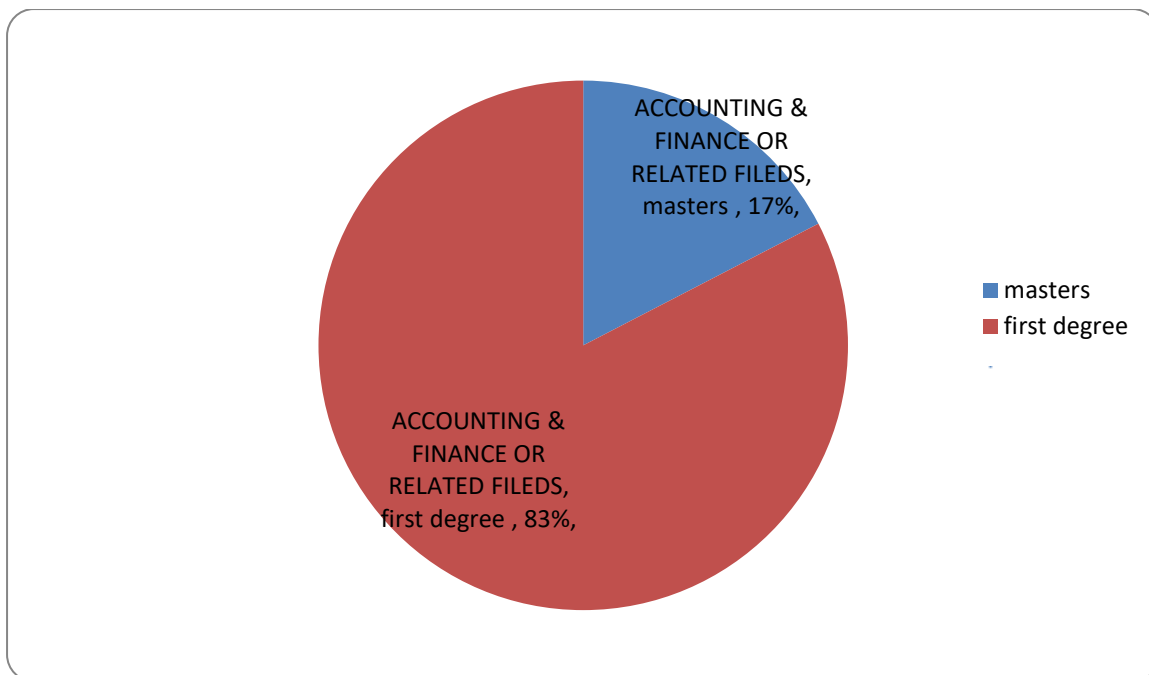


Source: -survey data collected through questionnaires2023

From the above graph one can understand that of most the employees of the bank amounting 52.2% (12 respondents belongs to 26-35 age group. 6(26%) of employees belongs to 18-25 years, 4(17.4%) of the employees were between 36-50 years and the remaining 1(4.4%) employee was more than 50 years of age. This data shows majority of the employees of the bank are a combination of young and mature, which will give the bank both motivation and experience. Supervision and professional training helps give quality service to customers in order to make their branch organization competent enough.

2.1.2. Education status of employees

Identifying the education level of employees is very essential and important for the successful operation of the bank as well as for other business organizations to give quality service effectively and efficiently. Education level of employees in the CBE of Alemgena branch is shown below by using pie chart. Pie chart 4.4.education status of employees



Source: -survey data collected through questionnaires2023

The above pie-chart shows that most of employees, 19(83%) of them are BA degree holder and 4(17%) of them are graduates with a master’s degree. The above result shows that the educational status of the banks employee should be considered very good for competition and up grading those low educational background and training special educations like computer technology and modern banking service training is important for all employee of the bank.

2.1.3. Position of employees

Table 4.9.position of employees

Position of employee	No of respondent	In percentage%
Manager	1	4.3%
Supervisor	1	4.3%
Employee	21	91.4%
Not respondent		
Total	23	100%

Source: -survey data collected through questionnaires 2023

As shown in the table 2.2. From the total of 23 respondents 1(4.3%) respondent were manager, 1(4.3%) respondent were supervisors and 21(91.4%) of the respondent are employees, from these the researcher concluded that most of the respondents were the employees.

2.1.4. Duration of employees in the bank

Knowing how long the employees were working in the bank is important to the researcher so as to help understand how well the employee's contribution to the bank is inters of profitability, customer service and sharing their experience to the new employees. Most of the respondents answered that they have been in the bank for more than 5 years and few answered that they have worked there for most of their life and insuring their trustworthiness by dedicating more than 20 years for the bank.

2.1.5. Service rendered by the bank audits Profitability

Banks are organized to perform a number of functions, primarily for the purpose of caring profit, mostly they attract deposit all kinds current saving accounts and fixed accounts but not only this, banks also provide loans and advance for those who are in need of it with others service like money transfer safe custodian with little service charges.

Employees of bank were asked what type of banking services render by the branch to get profit and the employee's response were as follows. The bank currently provides deposit mobilization, money transfer, purchase of foreign currency, money transfer and also provides loans to various business, individual and institutions with particular emphasis to priority sector at the economy to give service and to gate profit.

Banks earn profit though process of transforming funds and providing service like any other production process of any other firms.

The profit performance of any bank would be related to many factors including market share or service quality

To identify whether the bank was profitable or not and to investigate the reason for non-profitability; employees of the bank were asked and their response were as follows.

Table 4.10. Profitability of the bank

s.no	Item	No of respondent	In percentage %
1	Is the bank is profitable?		
	Yes	21	91.3%
	No	2	8.7%
	Total	23	100%

Source: -survey data collected through questionnaires 2023

Majority of the employee 21(91.3%) of them think that the bank is profitable and 2(8.7%) of the employees think that the bank is not profitable so; the researcher conclude that even though the bank is profitable it was not as much profitable enough as its objectives.

In relation to the above question the employees were asked the reason why the bank is not profitable, the response of the employees was that because they provide loan for small numbers of customers and high salary payment and people's habit in using bank services.

Again with related the above question the researcher asked the employees that what factors affect profitability of the bank: the response of the employees was that, existence of high credit interest, existence of large amount of saving account which bears interest for customer (liabilities to the bank were the main foots and also emergence of new optical competitors, default loan, risk of import and export accident. From the above analysis the researcher conclude that having excess of deposit and other factor affect profitability's.

In addition to above question the employees of bank were asked by researcher to investigate /to identify/ which service was demanded by customer, and the response obtain from the employees were as follows.

Table 4.11 Service demanded by customer

S.no	Item	No of respondent	In percentage %
1	Which services are more demanded by your customer?		

	Saving deposit	17	74%
	Demand deposit	5	21.7%
	Time deposit	1	4.3%
	Total	23	100

Source: -survey data collected through questionnaires 2023

Majority of the employees or 17 (74%) of them said that they use saving deposit, 5(21.7%) the employees said that customer need demand deposit and the remaining respondent 1(4.3%). From these researcher conclude that the customer deposit their money to save from emergency instead of advancing loan.

2.1.6. Types of securities loan

Bank frequently secure the loan in one way or another. In some cases the bank may grant a loan on personal security of the borrower or on personal securities of other person as guarantee.

To identify what kind of securities are required by the bank to advance loan employees of the bank were asked and responded as follows; bank requires collateral like buildings both (non-residential and residential), Vehicle, motors, small project, bank guarantee like lien, pledge and etc. From this in the researcher concluded that it was not easy to take loans from the organization (bank) for ordinary peoples, since such securities are difficult to acquire.

In addition to these, the employee of the bank were also asked the method of charging securities to cover the advance loan of the bank and the employee responded as; they were charging based on the national bank of Ethiopia scale /based on legal document of the customer/ and performance of the government.

4.2.6 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

s.no	Item	No of respondent	In percentage %
------	------	------------------	-----------------

1	Level of Competition?		
	Strong	15	65.2%
	Medium	5	21.7%
	Weak	3	13.1%
	Total	23	100%

Source: -survey data collected through questionnaires 2023

From the above table the researcher concluded that 15 respondents (65%) think that there is strong competition with other banks, and 5 (21.7%) think that there is a medium amount of competition between CBE and the other banks. But 3(13.1%) respondents think that there is weak or no competition at all. There for 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.

2.1.7. The impact of market competition on profitability and market share of the bank.

Private banks which are established in recent year and expanded widely at the current times has several effects on the market share and profitability of the CBE by providing best service to customers, computerization of financial information in relation to these employees of the bank were asked about the effect of market completion on the bank profitability and most of the respondents answered that there is not much effect in the market share the institution follows its ways and rules which they think makes the bank better than it's compotators.

4.2.8 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

S.No	Item	No. of respondent	In percentage %
1	Does your bank (organization) is participate on investment?		
	Yes	17	73.9%
	No	4	17.3%
	Not respondent	2	8.8%
	Total	23	100%

Source: -survey data collected through questionnaires 2023

Majority of the employee 17(73.9%) of them said that the bank participates on investment, 4(17.3%) of the employee said that the bank does not participate on investment and 2(8.8%) did not give response. So the researchers conclude 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 participates on investment and what the reasons behind the bank in not participating on investment

Table 4.14.Types of investment

S.No	Item	No. of respondent	In percentage %
1	If your answer is yes on what type of investment your bank invest?		
	Government security and insurance, import and export	6	24
	Saving and buying of band and industries	7	28

Source: -survey data collected through questionnaires 2023

From the above table the research understand that 7(28%) of bank participate on selling and buying bond and industry and the other 6(24%) of the bank respondents answered that bank participate on government security and insurance and also import and export. So the researchers conclude that most of bank participates on selling and buying of bond and industry.

In relation to the above question employers were asked to identify either the bank was profitable or not from the investment; the response of them was almost all of them i.e 13(65%) of them said the bank is profitable.

2.1.8. Impact of capitalization of asset utilization and professional capitalization asset utilization and professional

All these are refers to contribute and available capital for the business to meet future obligations, expand the business or improve existing assets and it's important to make the most out of the asset winners, owners, owns through asset utilization. With related to the above idea the employee were asked the impact of capitalization asset mutilation and professional and the response of them as follows.

Table 4.15 effect of capitalization

S.No	Item	No. of respondent	In percentage %
1	Is capitalization, asset utilization and professionalism affect the profitability the bank?		
	Yes	18	78.2%
	No	5	21.8%
	Total	23	100%

Source: -survey data collected through questionnaires 2023

The researcher understands that 18(78.2%) of the employees said that it affects profitability of the bank and 5(21.8%) of the employee said it does not affect the profitability of the bank. The researcher concludes that capitalization, asset utilization and professional affect the profitability of the bank.

In addition of the above question the employees of bank are asked how capitalization asked utilization and professionalism affect the profit of bank and their response is as increase of capitalization professionalism and increase of asked utilization there is also increase of expenditure.

With related to the above question employees are also asked why the profitability of bank is not affected by capitalization, asset utilization and professionalism and their; response was the bank manager control every activity of the bank system and upgrading the capacity of the workers.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

All the data analysis and the detailed discussions made in the receding parts of this study are means to lead the researcher to possible conclusion and recommendation. So that the study of this paper an attempt has been made to find out or investigate the main factors affect profitability of the bank. According to the finding the following conclusion has been made based on the overall interpretation and data analysis:

- Low customer satisfaction and customer handling, lack of competitive less, efficiency and time management habit in providing banking service for customer due to lack of well trained, skilled and professional employees with compared to private bank.
- Lack profitability of bank because of if term large amount of deposited account, little number of loan advance existence of high credit interest, and existence of large amount of saving of credit interest.
- Bank play a great role for the customer personal life and business activities by giving awareness about the service provided by bank and by saving their many to prevent them from un expected dangerous and robbery.
- Bank also provides credit service which enables the customer to participate in different investment and this indirectly leader to reduce unemployment in the country opening job for job seekers.
- Lack of participative of bank on investment due to the newly established in recent year and due to their financial status, even though all bank is not participate on investment, most of the bank participate on investment and maximize their profit this indirectly leads/help to increase economy of the country.
- Lack of asset utilization and capitalization because bank expect that as asset utilization and capitalization increase as their also increase as their also increase of expenditure or cost.
- Low participation of customer to ask bank for loan advance or to borrowing many from bank because of, lack of awareness about borrowing system of the bank, fear of

failure to repay the loan on the due date, under valuation of collateral securities by the bank if the borrower of security and fixed prescription of acceptable collateral by the bank the customer participation to borrow was reduced.

5.2 Recommendation

In order to give the solution for the problem raised knowing of the cause of problem is required, the researcher suggest the following recommendation.

- To alleviate the problem related to the employees competitiveness efficiency and time management habit increasing the banking services within a short period of time and to improve the customer handling technique of employee, the bank has to training to the employees and upgrade the level of employees competencies.
- It is advisable to introduce new technology, providing best banking products and service to maximize banks profitability
- It is better to develop the habit of banking in the society and increase the awareness of the customer to reduce the problem related to large number of deposit and small amount of loan advance and also by improving the loan policies the bank would be helpful for increasing the number of loan and advance services user with a view to overcome difficulties.
- The bank should have to participate on investment by improving his financial statues and also should have to participate on asset utilization by controlling every activity of the bank system and up grading the capacity of worker. Some measures suggested on credit service were.
- The customer must able to produce acceptable evidence for verification of value of asset offered as security.
- Bank should maintain technical staff required valuation of assets to avoid complaints raised against be determined with reference of the earning capacity of the customers and by arranging the first instalment after a reasonable time gap enable the borrower to establish his position and strength his repaying capacity.
- Developing the habit of banking and up grading the awareness of the customer and the society by giving training.

The bank should take character and technical ability of the borrower, the prospective of the business or activities the nature and quality of good producer

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APPENDIX-I
WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTEMENT OF ACCOUNTING AND FINANCE

Questionnaires to be filed by the customers of Alemgena commercial branch.

Dear respondents:

This questionnaire will be designed to collect information for **assessing factors affecting profitability of commercial bank Ethiopia Alemgena branch**. So you are kindly requested to complete this questionnaire genuinely and honestly. I promise you that information you provide will be kept confidentially and used for academic purpose only. I therefore kindly request you to respond each question. Please fill the question below. Remark no need of writing your name.

PART -1 QUESTIONNAIRE FOR CUSTOMERS

1 Genera back ground.

1.1 sex male female

1.2 age 18- 25 26-35 36-50 above 50

1.3 occupations merchant

Farmer

Employee

Traders

If there is other, please specify -----

2 What kind of service do you use?

Saving account service current demand

Money transfer service loan service

3 Do you use other private bank? Yes No

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

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

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

7. If your answer is yes, what make you satisfied-----

-----?

Yes No

8. What is the banks contribution for your business activity and personal life-----

-----?

9. Have you ever asked the bank for a loan previously?

Yes No

10. If your answer is No, to question 5 why you haven't asked-----

11. If your answer is yes, to question 5 have you faced any problem when you ask for a loan before?

Yes No

12. If your answer is yes, to question 5 what was a problem? -----

13. What type of borrowing system do you use?

Short term loan

Medium term loan

Long term lone

Merchandize loan

If others, please specify -----

14. How much you are satisfied by the banks credit system?

Very much

Little

Unsatisfied

15. Did you repay your loan to the bank timely? Yes No

16. If yes what type of security of the bank asked you for advancing of a loan?-----

APPENDIX –II
WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTEMENT OF ACCOUNTING AND FIANANCE

Questioners to be filled by manager, supervisor and employees of commercial bank Alemgena branch

Dear respondents:

This questioner is designed to collect information from **assessing factor affecting profitability of commercial bank of Ethiopia Alemgena Branch** from managers, supervisors and employees of the bank. I promise you all data you provide will be kept confidentially and will be used for academic purpose only. I therefore kindly request you to complete this questionnaire genuinely and honest. Please fill the questions provided below.
Remark no need writing your name.

PART -1 QUESTIONNAIRE FOR EMPLOYEES

1 General back ground

1.1 sex male female

1.2age 18-25 26-35 36-50 above 50

1.3 education status

College diploma

First degree

Master

1.4 position

Manager

Supervisor Employee

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

PART -2 questionnaires about the organization.

2 What type of service does your organization provide to its customers? -----

3 Is the bank is profitable? Yes No

3.1. If the answer is NO what is the reason?-----

3.2. What factors affect profitability? -----

4. Which services are more demanded by your customer?

Saving deposit	<input type="checkbox"/>	Fixed deposit	<input type="checkbox"/>
Demand deposit	<input type="checkbox"/>	Time deposit	<input type="checkbox"/>

5. What security or securities are required for advancing loans to customers? -----

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

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

Strong Medium Weak

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

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

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

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

12, Does your bank (organization) is participate on investment?

Yes No Not respondent

13, If your answer is yes on what type of investment your bank invest?

Government security and insurance, Saving and buying
Import and export of band and industries

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

15. Is capitalization, asset utilization and professionalism affects the profitability of the bank?

Yes No

16.1 If your answer is Yes how?-----

16.2 If your answer is NO why-----

