

# **The Impact of Branch Expansion on Deposit Mobilization, Loan Disbursement and Profitability**

**The Case of Lion International Bank S.C.**

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**A thesis submitted in partial fulfillment of the requirements for the Degree of Master in Business Administration.**

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**The Impact of Branch Expansion on Deposit Mobilization, Loan Disbursement and Profitability: The Case of Lion International Bank S.C.**

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## **Acknowledgment**

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## **Statement of Declaration**

I hereby declare that **The Impact of Branch Expansion on Deposit Mobilization, Loan Disbursement and Profitability: The Case of Lion International Bank S.C** which is submitted for partial fulfillment of the requirements for the degree of Master's of Arts in Business Administration at Collage of Business and Economics, Addis Ababa University is wholly the work of mine. I have carried out the present study independently with the guidance and support of the research advisor Doctor Tsegabrhan Mekonen. The study has not been submitted for award of any Degree or Diploma program in this or any other university or institution and all sources of materials used for the thesis have been duly acknowledged.

Declared by:

Eyob Tekla

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Date & Signature

## **Statement of Certification**

This is to certify that Eyob Teka has carried out his research work on the topic entitled: “The Impact of Branch Expansion on Deposit Mobilization, Loan Disbursement and Profitability: The Case of Lion International Bank S.C.”.As I have evaluated, his research is original work and appropriate to be submitted as a partial fulfillment for the requirement of the Award of Master Degree in Business Administration.

**Advisor: Tsegabrhan Mekonen (PhD)**

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**Date & Signature**

## **Abstract**

*The purpose of this paper is to examine the impact of branch expansion (government policy, population growth, site of branch office and branch office rent) on deposit mobilization, loan disbursement and profitability in the context of Lion International bank S.C. The study was limited to the Bank's staffs in Addis Ababa city and the sample branches and Head office organs were selected based on convenience sampling technique. Accordingly, primary data were collected through a survey using a structured questionnaire with a sample of 108 staffs who are serving the bank by assuming different positions. Returned questionnaire were analyzed using correlation and regression analysis through the use of statistical package for social sciences (SPSS) version 22. The finding indicates that among the four independent variables, government policy is the first most significant factor that is perceived to be important in deposit mobilization, loan disbursement and profitability of Lion International Bank S.C. followed by site of branch. Population growth takes the third place and branch office rent is regarded as the fourth most important factor of deposit mobilization, loan disbursement and profitability. Government policy, population growth and site of branch office are positively related with all the dependent variables(deposit mobilization, loan disbursement and profitability) while branch office rent is negatively related with loan disbursement and profitability. In addition to this, there was a considerable growth in bank branch network, deposit, loan and profits. The relationship between these financial performance factors and branch network was significant. This means that the banks' growth in deposit, loan and profit highly relates to branch network. The bank used in this study may limit the applicability of the findings to the whole bank industry in our country. Thus, the student researcher suggests that further studies can examine more branches and different banks in the industry, which includes both private and government banks*

**Key Words:** Branch expansion, Deposit mobilization, Loan disbursement, Lion International Bank S.C.

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## **Acronyms**

AdIB - Addis International Bank S.C.

AIB – Awash International Bank S.C.

BIB - Buna International Bank S.C.

CBE - Commercial Bank of Ethiopia

DBE - Development Bank of Ethiopia

LIB - Lion International Bank S.C.

NBE - National Bank of Ethiopia

RIB - ReserveBank of India

The Bank - Lion International Bank S.C.

UNCTAD -United Nations Conference on Trade and Development

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# CHAPTER ONE

## Introduction

### 1. 1 Background of the study

Branches are the foremost interface between banks and their clients. The distribution of branches defines markets for financial services because branches are where deposits are held and loans are arranged. In order to give credit, banks should collect deposit from their customers and it is generally assumed that in order to mobilize deposit, having more branches in different areas is very important.

Aside from collecting deposits, branch networks also generate new lending, especially consumer and small business lending. While at many banking organizations, credit decisions have been centralized in regional or national credit offices, branches continue to serve as an initial point of contact for new consumer and small business customers (Hirtle, 2007). For most banks, specially banks which operate in countries where there is undeveloped financial system, branches are still the most dominant distribution channels to deliver banking services to customers, even though other alternative channels of distribution are widely prevalent. (Hailu, 2014)

Nowadays, in order to meet the needs and wants of the society, commercial banks that operate in Ethiopia are busily engaged in expanding their reach to customers by opening branches all over the country. This activity of the banks broadening their accessibility has the manifested basic aim of augmenting their performance which can be explained by the growth in deposit mobilization, profitability, loan and advance, and asset growth.

The number of bank branches in Ethiopia has increased in increasing rate since 1994 when private banks were allowed doing business in the country. That year has heralded the beginning of the banking sector in the country for the re-establishment of private commercial banks with Monetary and Banking Proclamation No 83/1994 and Licensing and Supervision of Banking Business Proclamation No.84/1994 that laid down the legal basis which allowed private sectors to engage in banking business.

Until recently, with the exception of Zemen Bank, all the private banks that commenced operation had begun their activity by opening more than one branch in the very year of their entrance into the financial market of the country.

The Ethiopian banking industry can be characterized as highly profitable, concentrated and moderately competitive. Banks in the Ethiopian case are competing in terms of service quality and efficiency, branch network expansions, advertising and prices, put in the order of their significance. (Eshete, Teshome, and Abebe, 2013)

This study is aimed at examining the impact that growth and spread of branches of Lion International Bank S.C. has on the deposit mobilization, loan disbursement and profitability of the Bank over the period since it commenced business until 2017/18 fiscal year.

According to the data that gathered from the Bank's publications, the bank had started operation by opening sixteen branches during 1999 (E.C) and reached 190 branches as of June 30, 2018. Its deposit customers also have reached 590,637 which were 17,841 in the first year of joining the financial market of the country. When it comes to deposit mobilization, loan disbursement and profitability, the bank's deposit has reached above birr 11 billion from birr 375 million which was what it has mobilized during the first year of its operation and disbursed above birr 7 billion of loan that by far surpassed its disbursement when it commenced operation ten years ago which was birr 180 million. From recording a loss of birr 829,331 at the end of 2007/8, its profit has reached birr 503,602,403 at the closing of the fiscal year 2017/18.

In view of the above discussions, this research study is inspired to examine the impacts of branch expansion has on the deposit mobilization, loan disbursement and profitability of Lion International Bank S.C. It is the aspiration of this researcher to find out if having more branches has a direct influence on collecting more deposit, giving more loans and getting better profit.

## **1.2 Overview of Banking in Ethiopia**

### **1.2.1 Historical Background**

The banking business was the first financial business started in Ethiopia after two decades following the establishment of the capital city, Addis Ababa, in 1886. (Berhanu, 2013)

As Alemayehu and Teklemedhin (2012) indicated in their article titled '*The birth and development of banking services in Ethiopia*', The year 1905 was the year in which the first bank of our country, the "Bank of Abyssinia", was established based on the agreement signed between the Ethiopian Government and the National Bank of Egypt, which was then owned by the British. The capital of the bank was 1 million shillings. According to the agreement, the bank was allowed to engage in commercial banking (selling shares, accepting deposits and effecting payments in cheques) and to issue currency notes. The agreement prevented the establishment of any other bank in Ethiopia, thus giving monopoly right to the Bank of Abyssinia. The Bank, which started operation a year after its establishment, opened branches in Harar, Dire Dawa, Gore and Dembi- Dolo as well as an agency office in Gambela and a transit office in Djibouti. Apart from serving foreigners residing in Ethiopia, and holding government accounts, it could not attract deposits from Ethiopian nationals who were not familiar with banking services.

In 1932, Emperor Haile Sellassie closed the Bank of Abyssinia, paid compensation to its shareholders and established the Bank of Ethiopia which was fully owned by Ethiopians, with a capital of pound Sterling 750,000. The majority shareholders of the Bank of Ethiopia were the Emperor and the political elites of the time. The Bank was authorized to combine the functions of central banking (issuing currency notes and coins) and commercial banking. The Bank of Ethiopia opened branches in Dire Dawa, Gore, Dessie, Debre Tabor and Harrar.

With the Italian occupation (1936-1941), the operation of the Bank of Ethiopia came to a halt, but a number of Italian financial institutions were working in the country. These were Banco Di Roma, Banco Di Napoli and BancaNazionaledeLavora. It should also be mentioned that Barclays Bank had opened a branch and operated in Ethiopia during 1942-43.

With the departure of the Italians and the restoration of Emperor Haile Selassie's government, the State Bank of Ethiopia was established in 1943 with a capital of 1 million Maria Theresa Dollars by a charter published as General Notice No. 18/1993 (E.C). The Bank which, like its predecessor, combined the functions of central banking with those of commercial banking opened 21 branches, including one in Khartoum (the Sudan) and a transit office in Djibouti.

In 1946 Banque Del Indochine was opened and functioned until 1963. In 1945 the Agricultural Bank was established but was replaced by the Development Bank of Ethiopia in 1951, which changed in to the Agricultural and Industrial Development Bank in 1970. In 1963, the Imperial Savings and Home Ownership Public Association (ISHOPA) and the Investment Bank of Ethiopia were founded. The later was renamed Ethiopian Development Corporation S.C. in 1965. In the same year, the Savings and Mortgage Company of Ethiopia S.C. was also founded.

In 1963, the State Bank of Ethiopia split into the National Bank of Ethiopia and the Commercial Bank of Ethiopia S.C. with the purpose of segregating the functions of central banking from those of commercial banking. The new banks started operation in 1964.

The first privately owned company in banking business was the Addis Ababa Bank S.C., established in 1964. 51% of the shares of the bank were owned by Ethiopian shareholders, 9% by foreigners living in Ethiopia and 40% by the National and Grindlays Bank of London. The Bank carried our typical commercial banking business. Banco Di Roma and Banco Di Napoli also continued to operate.

Following the 1974 Revolution, on January 1, 1975 all private banks and 13 insurance companies were nationalized and along with state owned banks, placed under the coordination, supervision and control of the National Bank of Ethiopia. The three private banks, Banco Di Roman, Banco Di Napoli and the Addis Ababa Bank S.C. were merged to form “Addis Bank.” Eventually in 1980 this bank was itself merged with the Commercial Bank of Ethiopia S.C. to form the “Commercial Bank of Ethiopia,” thereby creating a monopoly of commercial banking services in Ethiopia.

In 1976, the Ethiopian Investment and Savings S.C. was merged with the Ethiopian government Saving and Mortgage Company to form the Housing and Savings Bank .The Agricultural and Industrial Development Bank continued under the same name until 1994 when it was renamed as the Development Bank of Ethiopia.<http://www.abbyssinialaw.com>

### **1.2.2 The current Banking Business of Ethiopia**

After the removal from power of the Dergue regime by the EPRDF, the Transitional Government of Ethiopia was established and the New Economic Policy for the period of transition was issued. This new economic policy replaced centrally planned economic system with a market-oriented system and ushered in the private sector. Several private companies were formed during the early 1990s, one of which is Oda S.C. which conceived the idea of establishing a private bank and private insurance company in anticipation of a law which will open up the financial sector to private investors (Alemayehu and Teklemedhin, 2012). According to Boru(2014), Since 1991 Ethiopia has been taking a range of liberalization measures which are aimed at enhancing the performance of banks in the industry. Some of the measures include lifting of the lending rate cap, allowing private owners to invest in banks, introducing new financial instruments like introducing treasury bills, interbank foreign exchange market and others.

Worede (2016) on his doctoral dissertation stated that, Consequent to the policy change from a command to a market economy, the Ethiopian government took Structural Adjustment and Economic Recovery Program measures to liberalize the economy since 1994. As part of this broader reform policy and given the importance of the banking industry in the economy, financial sector reform policy measures have been undertaken by the government to develop the sector and permit private domestic investors to engage in the business of banking and finance. Consequently, the Monetary and Banking Proclamation No. 83/1994 and the Licensing and Supervision of Banking Business No. 84/1994 laid down the legal basis for private sector investment opportunity in the banking sector. This has given the opportunity for the emergence of a new era of competitive environment, the abolition of the monopoly of the public banks and establishment of 16 private banks.

In Ethiopia the financial sector remains closed to any foreign engagement and is much less developed compared with even sub-Saharan countries. Ethiopia has no capital market and very limited investing in shares of private companies. A series of financial sector reforms has been introduced since 1994, when private banks were allowed to be re-established. Besides, structural reforms focusing on lifting most domestic price controls, reducing import tariffs, and moving to a market-based system of foreign exchange allocation. Reformation in the financial system that

has been taken in the mid-1990s and currently also going on under varieties of forms brought several promising changes in the overall performance of the financial sector and in particular to the banking sector. The macro prudential regulations released by the regulatory body, the National Bank of Ethiopia (Central Bank), are conducive enough in doing business in the banking sector. This can be evidenced from the number of banks and their branch network rapid expansion. (Berhanu, 2013)

Demie (2017) stated that since 1997, the share of private banks has been gradually and consistently growing during the past consecutive years. Reports of the NBE indicated that the combined asset share of private banks was around 5.5% in 1997 and it increased to around 33% at the end of 2014. Similarly, in 1997, loans and advances and total deposit of private banks were around 5.3% and 4.9% respectively, and this figure increased to 35% and 32% percent at the end of 2014 respectively. Considering the share of these banks, the average performances of private banks have been encouraging and better than the industry average. However, unlike fast growth in number of firms, the market share of private banks is still low, indicating the need for further effort.

The improvement of the private banks in the last ten years appears admirable. In terms of the fresh loans annually disbursed, the share of the private bank is at par with the public commercial banks. In addition, private banks has also managed to entice more than half of the private sector commercial banks' loan customers .( Gashayie and Singh 2016)

Today (As of June 2018), there are 16 private and 2 state owned banks in Ethiopia. Overall asset of the commercial bank of Ethiopia has reached more than half a trillion (565.5 billion to be exact). The number of branches of banks (excluding NBE and DBE) are 4,439 with outstanding deposit of 728.8 billion. When it comes to number of staffs CBE alone has created an employment opportunity for more than 35,000 people. (Own compilation)

### **1. 2.3Background of Lion International bank**

Lion International Bank S.C.was established on October 2, 2006 in accordance with Proclamation No: 84/94 and Commercial Code of Ethiopia by 3,739 shareholders with subscribed capital of Birr 432.5 million and have had an initial paid-up capital of Birr 108.2

million; The Bank had commenced its operation on 6th January 2007 with three branches. ([www.anbesabank.com](http://www.anbesabank.com))

According to the latest report of the Bank, the bank has been able to mobilize Birr 2.8 billion during 2017/18 fiscal year, raising its outstanding total deposits to Birr 11.6 billion. Total asset of the Bank has grown to Birr 14.32 billion. While total liability stood at 12.32 billion. Besides, the capital and reserve of the Bank has reached Birr 2 billion. The paid-up capital has also reached Birr 1.18 billion. Moreover, the total outstanding loan balance was Birr 7.56 billion. The Bank has been able to maintain the non-performing loans to total loans ratio (NPLs) at 3.14 percent, which is below the industry average for the year and the National Bank of Ethiopia's (NBE) 5 percent requirement. These achievements made the bank to register a profit of Birr 503 million before tax.

The size of the total staff was 3,585. The share of the permanent staff size is 51 percent of the total workforce; while employees sourced from external agencies make up 49 percent of the total.

With distinguished services, tailored to support the needs and wants of individuals, families, small businesses, and medium and big investments, Lion has opened 40 new branches across the country during 2017/18, raising the total number to 190.

### **1. 3 Statement of the problem**

For banks which operate in countries where there is immature financial system, branches are the most principal distribution channels to deliver banking services to customers, even though other alternative channels of distribution are in existence. At the end of the fiscal year 2017/18, the numbers of commercial banks operating in the country have reached 18 with total branch offices of 4439. However, According to [worldpopulationreview.com](http://worldpopulationreview.com), Ethiopia has an estimated 2018 population of 107.53 million, which ranks 14th in the world. If we do simple arithmetic, we can conclude that there is only one bank branch for every 24,224 persons in our country.

Yigermal (2017) stated that Commercial banks (both private and state owned) invest in excessive branch expansion and the total number of bank branches opened reached above 2,700 in 2015, while it was below 400 in 2004. Of these private commercial banks opened a

total of 1600 branches in 2015. Yirga (2017) has also commented that Branch banking is the most prevalent banking system in most countries of the world. Similarly the Ethiopian banking industry is also characterized with the expansion of branches to reach the unbanked part of the society and to enhance accessibility. The total deposit mobilized has reached to birr 367.3 billion in the year 2014/15 from 37.3 billion birr in the year 2004/05. Hence, it is simple to deduce that the amount of deposit mobilized by all banks has increased drastically. Total disbursement (of loan) has reached to birr 75.4 billion in the year 2014/15 from birr 6.2 billion, in the year 2003/04. The outstanding loan balance in the year 2014/15 is seven folds than the outstanding balance of the year 2003/04.

Despite the challenges facing the Ethiopian banking industry, such as the requirement from the NBE for private banks to allocate a portion of their lending on government bills and the rise of cost of renting branch offices, the banks performances are encouraging and their geographical outreach growing year to year.

What has the spreading out of the banking network actually meant? What changes has it brought about in the distributions of deposits, loans and profitability?

Thus, the main purpose of the research is to find out the relationship between branch expansion and –

- Deposit mobilization
- Loan Disbursement
- Profitability

These are the underlying issues intended to be addressed in this paper particularly taking the case of Lion International Bank S.C.

#### **1. 4 Research questions**

To address the statement of the problem, the following major and specific research questions were posed.

- What is the relation between government policy and deposit mobilization, loan disbursement and profitability?

- What is the relation between population growth and deposit mobilization, loan disbursement and profitability?
- What is the relation between location of a branch and deposit mobilization, loan disbursement and profitability?
- What influence does cost of renting of a branch office have on deposit mobilization, loan disbursement and profitability?

## **1. 5 Objective of the study**

### **General objective**

The general objective of this study is to find out the impact of branch expansion on deposit mobilization, loan disbursement and profitability in the case of Lion International Bank S.C.

### **Specific objectives**

The specific objectives of the study are the following:

- To unearth the relationship between government policy and deposit mobilization, loan disbursement and profitability in the case Lion International bank. S.C.
- To learn the relationship between population growth and deposit mobilization, loan disbursement and profitability in the case Lion International bank. S.C.
- To find out the relationship between location of a branch and deposit mobilization, loan disbursement and profitability in the case Lion International bank. S.C.
- To discover the relationship between cost of renting of a branch and deposit mobilization, loan disbursement and profitability in the case Lion International bank. S.C.

## **1. 6Hypothesis**

In order to arrive at acceptable conclusions and after reviewing related literature as cited in the next chapter, the following hypotheses were developed and tested using inferential statistics.

H1: There is a positive relationship between government policy and deposit mobilization.

H2: There is a positive relationship between population growth and deposit mobilization.

H3: There is a positive relationship between location of a branch and deposit mobilization.

H4: There is a positive relationship between branch office rent and deposit mobilization

H5: There is a positive relationship between government policy and loan disbursement.

H6: There is a positive relationship between population growth loan disbursement.

H7: There is a positive relationship between location of a branch and loan disbursement.

H8: There is a positive relationship between branch office rent and loan disbursement.

H9: There is a positive relationship between government policy and profitability.

H10: There is a positive relationship between population growth and profitability.

H11: There is a positive relationship between location of a branch and profitability.

H12: There is a positive relationship between branch office rent and profitability.

### **1.7 Importance of the study**

Generally speaking, this study is expected to be important in supporting the relationship of branch expansion vis-à-vis deposit mobilization, loan disbursement and profitability in Lion international Bank S.C.

In a nutshell,

- The findings of this study will be of benefit to the executives of commercial banks in Ethiopia since it demonstrate the relationship between branch network spread and deposit mobilization, loan disbursement and profitability.
- The findings of this study would be used as an input for various scholars, who are going to make further studies on similar issues or area.

### **1.8 Limitation of the study**

This study has certain constrains that must be considered when assessing the outcomes of its findings and implications. The study has confined itself to surveying and interviewing of purposely sampled staffs of Lion International Bank who are working at its Head office and selected branches in Addis Ababa; and it excluded other outlying branches of the bank.

### **1.9 Definition of terms**

**Bank;** means a financial institution that invests the money of its clients and investors, and works as a financial broker between the investors who have a surplus of money (depositors) and the

investors who borrow these money to cover their investment needs (borrowers) (Albertazzi and Gambacorta, 2010 as cited in Aladwan, 2015) .

**Branch;**is a retail location where a bank, credit union, or other financial institution (including a brokerage firm) offers a wide array of face-to-face and automated services to its customers.

[www.en.wikipedia.org/wiki](http://www.en.wikipedia.org/wiki)

**Deposit mobilization;** is the collection of cash or funds by a financial institution from the public through its current, savings, fixed, recurring accounts and other banks specialized schemes. (Farlex Financial Dictionary).

**Loan;** is the extension of money from a bank to another party with the agreement that the money will be repaid. Nearly all bank loans are made at interest, meaning borrowers pay a certain percentage of the principal amount to the lender as compensation for borrowing. Most loans also have a maturity date, by which time the borrower must have repaid the loan. A bank loan occasionally is called a bank advance. (Farlex Financial Dictionary).

**Profitability;** Profitability is the ability of any business to earn income for its owners (Singh, 2015). The profitability of banks is related to the transformation of inputs (deposits) to outputs (loans).

## **1. 10 Organization of the study**

The study is structured in to five major parts (chapters). Chapter one deals with introduction of the paper. In this part of the thesis, the researcher have tried to list some introductory points about the importance, objectives and limitation of the research, state the problems that initiate the researcher to conduct the study and raise some basic research questions on the topic. It also tried to indicate some backgrounds regarding the bank on which the research conducted. In the second chapter related literatures on the topic were review. While the third chapter deals with methodologies employed to obtain the required data .The data analysis and interpretation is included in the fourth chapter of the research. And, in the last chapter, chapter five major research findings are concluded and forwarded some of the researcher recommended points. Bibliography and Annex also is attached at the back of the research paper.

## CHAPTER TWO

### Review of Related literature

#### 2.1 Introduction

It is undeniable fact that banks role in any country's development is very important. Banks form a central part of the financial market of a nation. 'Banking is the life blood of modern economy' (Assefa, 2016). It may be declared in confidence that contemporary business is so dependent upon banking that any suspension of banking activity for a day would seriously hamper the economic life of a country.

The days when bank accounts were only for making deposits, withdrawals or borrowings are gone long ago. The world in which we live currently is characterized by evolving financial institutions who have come to shape our lives in more ways than once. The banking system has come to be an integral part of today's society. Whether or not a person has a bank account, he/she cannot evade the presence of the banking system. <https://www.ciowhitepapersreview.com>.

##### 2.1.1 Definition of Banking

According to American Bankers Association (2014), the term "bank" is derived from the Italian word *banco*, meaning bench or board. Medieval Italian money changers recorded their lending transactions with merchants in a ledger that rested on a board in a given town square. This gave rise to the term "aboveboard."

Traditional banking is engaged in accepting money from depositors and loaning it to borrowers. Banks give service to a variety of customers such as individuals, private businesses and federal, state and local governments. Putting cash in a bank enables these customers to protect their money from theft or embezzlement while earning interest from the bank for using their money. Customers also benefit by having a secure, easy way to pay bills by check or, increasingly, through various forms of online payments. (American Bankers Association, 2014)

Bank is defined as a financial institution that invests the money of its clients and investors, and works as a financial broker between the investors who have a surplus of money (depositors) and the investors who borrow these money to cover their investment needs (borrowers) (Albertazzi and Gambacorta, 2010 as cited in Aladwan, 2015) .

Hoffmann (2011) defines banks as financial intermediaries between depositors and borrowers involving in the economy. Banks are differ from other types of financial institutions because they offer deposit and loan products. Singh (2015:1) has described the meaning of bank in short as a one that ‘links together customers that have capital deficits and customer with capital surpluses’.

Banking system in simple words refers to a chain of financial institutions that provide financial services like deposits, loan, money transfer, etc. to individuals and institutions with interest as the determining factor of the transaction. Banking system plays the function of a go-between those who put their money in a bank to safekeeping or earning interest and those who borrow the money for investments.

### **2.1.2 The functions of the banking system**

Banks provides varied services to their clients, such as credit services, cashing cheques, issuing letters of credit and letters of guarantee, safety deposit boxes, portfolio management, foreign currency exchange services, trading of commercial papers, bank acceptance and underwriting of financial instruments (Bendi and D'Agnolo, 2008). Moreover, Banks activities are also greatly vital to the process of money making which in turn impacts the payment system. Therefore, banks funds and money support are important for growth and development to other industrial and service sectors (Aladwan, 2015).

According to ciowhitepapersreview.com, the functions of the banking system can be classified into primary functions and secondary functions.

- **Primary functions:** The primary banking functions include two components namely depositing and disbursement of loans. The depositing function of the banking system has come to be highly developed providing a range of deposit option. Some of the popular deposits are saving deposits, fixed deposits, current deposits and recurring deposits. The disbursement of loans from the capital of savings constitute the determinant for the bank’s earnings, as the loans disbursed are charged with an interest rate levied to the borrowed amount. Some of the key loan advancements include loans, cash credits, overdraft and discounting of the bill of exchange.

- **Secondary functions:** Accompanying the primary functions is a pair of secondary functions which the bank performs, namely agency functions and general utility functions. The agency functions refer to services like funds transfer, cheque collections, portfolio management, etc. performing the role of an agent to the customer. The general utility functions refer to the special facilities or services which banking institutions provide, namely locker facilities, project reports, foreign exchange, etc. Not all utilities are provided by every bank, their disposal depends on the resources and nature of the banking institution.

### 2.1.3 Types of Banking System

Currently there are different types of banking system in operation. Below are five different types of the banking systems, which are generally used nowadays in all over the world.

- **Private Banking:** is a type of banking system that deals with the asset management of the client. It handles the financial transactions of the client such as investment, tax planning, securities, etc. The basic objective of Private banking is therefore to render financial advisory and asset management. For the existence of a private banking service, there must be a bank-client relationship that stands out for offering a personalized service.
- **Home Banking:** is another type of banking system that provides banking services to the clients at the press of a button in order to avoid the need to go to the bank for every minor services. Generally, it is a system that utilizes resources, tools and provisions aimed at bringing banking services as close and convenient to the customer as possible.
- **Wholesale Banking:** refers to the provision of banking services to big corporations or institutions. This system involves personalized and major scale operations. In other words, wholesale banking is a system that intended for large volumes of money from major economic operations.
- **Mixed Banking:** is banking system that performs both the functions of commercial (consumer) and corporate (industrial) banking operation. It is also the one that is in public and private capital.
- **Fractional Reserve banking:** is a banking system in which banks hold a fraction of their clients' deposits in reserves. The banks are not required to hold the whole amount of

their customers' deposits in their reserves. They only hold a fraction of the deposit in reserves and use the rest in lending and investments generating returns for the banks. [www.ciowhitepapersreview.com](http://www.ciowhitepapersreview.com)

#### **2.1.4 Evolution of Banking**

According to Hoggson (1926), twenty centuries before the Christian era the Babylonians were placing their treasure for safe-keeping with trusted men, to whom they paid as much as one sixtieth of the treasure for that service. He further disclosed that banking activities were at work during the second Babylonia era in the second millennium B.C. Deposits were not of money but of cattle, grain or other crops and eventually precious metals. Depositors could use written orders for the withdrawal of a certain amount of grain as a means of making payment. This system worked so well that it continued to survive even after private banks dealing in coinage and precious metals were established. The growth of banking spread throughout Europe and a number of important innovations took place in Amsterdam during the Dutch Republic in the 16th century and in London in the 17th century.

Contemporary banking practices can be traced in the Medieval Italian cities of Florence, Venice

and Genoa. The Italian bankers made loans to princes, to finance wars and their lavish lifestyles,

and to merchants engaged in international trade. Families called 'Bardi' and 'Peruzzi' were dominant in Florence in the 14th century and opened branches in other parts of Europe to facilitate their trading activities (Goldthwaite, 1995)

During the 17<sup>th</sup> and 18<sup>th</sup> centuries, the Dutch and British improved the Italian banking techniques. A fundamental change that attributed to the London goldsmiths around this time was the implementation of fractional reserve banking. By the middle of the 17<sup>th</sup> century, war had resulted in the downfall of the goldsmiths' customary business of making objects of gold and silver. In a need to find a means to make a living, and have the way to securely store precious metal they turned to accepting deposits of precious metals for safekeeping. The goldsmith would then issue a receipt for the deposit (Goldthwaite, 1995).

When the 20th century heralded the developments in telecommunications, computing and internet, it paved a way to major changes in the operation of the banking business and allows them to significantly rise in size and geographic spread. However, the financial crisis started in 2008 witnessed the demise of significant number of banks, including some of the world's largest banks, and triggered much debate about bank regulation.

### **2.1.5 Economic significance of Banks**

The principal function of a bank is to grease the gears that facilitate the economic operations. The banking system plays a major role in transferring funds from the saving units to the investing units (Hoffmann, 2011). Banks are involved in providing the needs of diverse groups and stakeholder's such as government, private undertakings, public organizations and foreign investments (Xuezhi and Dickson, 2012 cited in Pastory and Swai 2013). The role of an efficient banking system in economic growth and development lies in savings mobilization and intermediation. Banks, as financial intermediaries, channel funds from surplus economic units to deficit units to facilitate trade and capital formation among others (Berhanu, 2013). According to Limodio and Strobbe (2016), banks play a fundamental part in financial growth and development for at least three reasons beyond the conventional intermediation activities: 1) to invest in reaching new customers, providing a public good (the formal economy); 2) to introduce alternative payment systems, facilitating within-country trade; 3) to manage liquidity risk, contributing to shape macroeconomic volatility. Islam, Siddiqui and Islam (2014) emphasized that without the indispensable services of banks an economy is unable to run well because banks provide payment service to the economy. So not only the intermediary function, banks also enhance its activity by issuing note, holding demand deposit, honoring checks, facilitating international trade. So it is indisputable that banks are the most influencing part of the financial structure of a any country.

According to Alemayehu and Teklemedhin (2012), the existence of a strong and effective banking system is very important for the economic development of a country for the following reasons;

- Banks through acceptance of deposit of money from persons who do not need it at the present and lending it to persons who want it for investment, serve as financial intermediaries thereby providing ideal source of fund for investment that is crucial in increasing production, exports, creation of jobs and foreign exchange earnings of the country.
- Similarly bank lending to customers who need the money for consummation, purchase of various goods and services, construction of houses, and education increases demand for those goods and services, thereby encouraging producers and service providers to expand their undertakings and increase production. Expansion and increase in production requires employment of additional workers, thereby creating new jobs, encourage producers and suppliers of raw materials to increase their production and supply.
- Banks also play a positive role in encouraging savings by providing an incentive to save through payment of interest on deposits/savings and providing safety and security. Saving is also an important source of future investment and the improvement of the living standards of the society.
- The power of the national bank in fixing interest rates is particularly crucial in both investment and saving. If the rate of interest fixed by the bank on deposits /i.e. the interest banks pay on money deposited on saving and other accounts / is attractive, it will encourage people to save their money rather than spend it. However, such interest should not discourage people from investment and productive activities and turn them to rent collection /potential investors may decide to deposit their money and collect interest/. If the rate of interest charged by banks on money given on loan to borrowers is lower, it may encourage potential borrowers and investors to borrow and invest, thereby contributing their part in the expansion and increase of production of goods and services, creation of employment opportunities, increase in exports and foreign exchange earnings of the country.

- The existence of a network of banks covering all parts of a country facilitates business transactions in the country by making payments easier, safer and cheaper. Payment through banks also avoids the risk of loss or theft of money.

## 2.2 Theoretical Review

### 2.2.1 Branch Banking

**Unit banking** refers to a bank that is a single, usually small bank that provides financial services to its local community. A unit bank is independent and does not have any connecting banks/branches/in other areas. **Branch banking** refers to a bank that is connected to one or more other banks in an area or outside of it; to its customers, this bank provides all the usual financial services but is backed and ultimately controlled by a larger financial institution. A **branch, banking center** or **financial center** is a retail location where a bank, credit union, or other financial institution (including a brokerage firm) offers a wide array of face-to-face and automated services to its customers. [www.en.wikipedia.org/wiki](http://www.en.wikipedia.org/wiki)

Branch banking is engaging in banking activities such as accepting deposits or making loans at facilities away from a bank's home office. Branch banking has gone through significant changes since the 1980s in response to a more competitive nationwide financial services market. Financial innovation such as internet banking will greatly influence the future of branch banking by potentially reducing the need to maintain extensive branch networks to service consumers. [www.investopedia.com](http://www.investopedia.com)

A branch banking system offers some advantages over unit banks. The cost of designing products and services can be spread over a potentially larger volume. The possibility of intrabank transfers of funds can ease the management of liquidity for individual branches, by facilitating the transfer of temporary surpluses, while borrowing from other branches in deficit periods. The risk of a concentrated loan portfolio of one branch in one geographic area can be balanced by the lending of other branches in other areas. (Meyer, Khalily and Hushak 1990)

Branches of banks are the first place in which consumers have contact to banks products be it whether building assets or obtaining credit (Serna, 2005) cited in (Ferreira, Santos and

Rodriguez, 2010). Bank branches are very much similar to any other retail channel. However, for some financial products, their role assumes an increasing importance for the banks' strategy success, namely when customers need human interaction in the course of certain transactions and/or technical advice (Ferreira, Santos and Rodriguez 2009). Spieker (2004) cited in Nam and Ellinger (2008) stated that bank branches are exceedingly effective and advantageous distribution channel for retail services relative to other methods like the internet or call centers.

One of the foundations of the theoretical literature on banking regulation is that branch banking leads to more stable banking systems by enabling banks to better diversify their assets and widen their depositor base branch banking stabilizes banking systems by reducing their vulnerability to local economic shocks: branching enables banks to diversify their loans and deposits over a wider geographical area or customer base. Restrictions on branching have been linked to the volatility of banking systems (Gart 1994, Hubbard 1994 cited in Carlson and Mitchener 2005).It is very important and compulsory working on the extension of the geographical coverage of commercial banks through opening more and more branches in order to reach closer to the people as rapidly as possible (Islam, Siddiqui and Islam, 2014)

### **2.2.2 Branch expansion**

According to Hurtle (2007),

*“Recent innovations in the delivery of retail financial services have raised questions about the role of bricks-and-mortar branches in the banking industry. The advent of Internet banking, the proliferation of automatic teller machines (ATMs), and the increasing reliance on centralized call centers, combined with post-merger pushes for efficiency, all seemed to challenge the traditional branch method of delivering banking services. Yet the number of full-service branches in the United States has increased steadily since the early 1990s.”(P 28)*

The rising popularity of alternative banking channels has failed to discourage lenders from setting up brick-and-mortar branches across the country (Chakraborty, 2013).Large branch networks offer the convenience of many possible points of contact with the institution and the ability to avoid ATM surcharges and other usage fees by staying within the bank's own network. The scope and scale of large branch network are qualities that many customers value (Hirtle,

2007). Banks should form a convenient, dense network for their clients: people are in different places during the day and they should be able to find a nearby branch not only close to their homes but also close to where they work, shop and so on (Grzelonska 2005). A study titled ‘The Geographic Flow of Bank Funding and Access to Credit: Branch Networks and Local-Market Competition’ has found out that the number of branches in a county increases substantially the demand for both deposits and loans, (Aguirregabiria Clark and Wang 2017).

In America, over the last two decades the number of branches has steadily increased from around 50,000 branches in 1990 to over 80,000 branches in 2010. This is somewhat surprising given how changes in technology, such as the growth of the internet and the increased use of mobile devices, have led the consumer culture to evolve over this time period in a way that would suggest that branches are less useful in attracting customers than before. Banks have also expanded their branch networks through mergers and acquisitions, and the industry as a whole has been gradually consolidating from around 12,000 banking institutions in 1990 to 6,500 institutions in 2010. As the number of banks has shrunk, and the number of branches has grown, this implies that the firms that remain in the industry are increasingly those firms with large networks of branches that often-times extend across multiple geographic markets. Thus local competition in banking frequently involves institutions that have branches in, and compete in, a number of other markets (Kuehn, 2014). Hurtle (2007) stated that despite technological and regulatory innovations that might have been expected to reduce banking institutions’ reliance on bricks-and-mortar branches to deliver financial services, the number of full-service bank and thrift branches has increased steadily since the early 1990s.

The pervasive availability of banks with large branch networks implies certain advantages to institutions that grow their networks. One source of the advantage is the role of branches in attracting consumers to a bank (Kuehn, 2014). By opening branches in various local markets with idiosyncratic risks that are not perfectly correlated, a bank can lessen the deposit and credit risk associated with its branch portfolio (Aguirregabiria Clark and Wang 2016). Furthermore, expanding into new market will produce efficiencies enabling banks to offer improved services at preferred prices. (Evanoff and Fortier 1986)

Banks with larger branch networks can also enjoy economies of scale in operation, management, and advertising expenditures. These come from having access to a large set of financial resources, and also a large employee base, which increase the efficiency of labor. Also the costs of screening for loans are reduced if a bank can spread these costs over a larger potential customer base. Banks with wide branch networks also have the advantage of being able to spread their risks geographically. As funding sources are extended over a large geographic area, they become less vulnerable to idiosyncratic shocks. Another potential benefit of a large branch network is that it differentiates the bank from non-banking alternatives, which generally don't provide a large number of branch locations (Kuehn, 2014).

Contrary to the above discussion about the wide spreading of bank branches, there are people (publications) that argue the demise of branch banking is not far. Sullivan, Garvey, Alcocer and Eldridge (2014) affirmed that as technology enables each and every aspect of banking to go online, and as cash usage falls away, traditional branches are no longer necessary. Given their high-fixed cost, branches will need to become dramatically more productive, or significantly less costly. Banks have already reduced staff levels, closed the most uneconomic branches and started experimenting with new branch concepts. What's more, Nguyen (2014) on his part stated that after fifteen years of uninterrupted expansion, the U.S. branch network has been shrinking since 2010. He further added that this trend is widely expected to continue.

In a stark contrast to the Ethiopian regulatory body that encourage and even compel banks to open branches, until recently American banks were forbidden from opening branches in other states. Aguirregabiria Clark and Wang (2016) acknowledged that the United States has a long history of geographic restrictions related to banking (establishing bank subsidiaries) and branching (establishing bank branches). State-specific laws also forbade within-state branching until the 1980s, when individual states began loosening restrictions.

Ethiopia is a country with a large population which is one of the indicators that the untapped potential in the sector is immense. Not only that, since foreign investors are prohibited in the sector, investment in the banking sector is attractive to domestic investors than other sectors. When we look at the branch expansion of various private commercial banks in the country, we find an encouraging business expansion though not comparable to CBE's

growth (Deribie, 2013). In Ethiopia banks' branch expansion has positive association with better-off economic area and urban bias. A spatial analysis of financial access reveals that there are significant variations in bank outreach across different regions of the country. Banking facilities are concentrated in the capital city of the country (Jarso, Rao and Ravi 2015)

The natures of bank business guide the opening of branch into highly population density area where more number of customers and high transaction turnover takes place that lead to economies of scale. The geographic expansion of Ethiopian banks for the last two decades has reflected this reality. The branch distribution between Addis Ababa and regions indicate private banks have been placed 45.56% of their branches till June 2014 in Addis Ababa which is inhabited by 3.5% of total population of the country and it is the most populated city in the country, while public banks have only 20.34% of their total branches there. Placement of nearly half of their branches in this economical active city make private banks to have a share of 72.91% of the 753 total banks branches operated there during the end of 2014 Ethiopian fiscal year (end on June 30). (Jarso, Rao and Ravi 2015:12)

On their paper titled *Role of commercial bank of Ethiopia in financial inclusion* and presented on International Journal of Commerce and Management Research, Rao and Baza have revealed that the Commercial Bank of Ethiopia bank branches are increasing from period to period. The bank plays significant role in financial inclusion due to rapid increase in branches. For instance, by the year 2010, the number of CBE bank branches was only 220. While in the year 2015, it was 965 branches. Commercial Bank of Ethiopia plays role in financial inclusion through deposit inclusion and credit inclusion The CBE plays important role in deposit and credit services in jurisdiction. The deposit of the CBE was increasing from time to time. For instance in the year 2010, the deposit with CBE was 56bn. Whereas, in the year 2015, it was 241bn. The CBE loan during the two extreme periods under study was 50bn and 265bn in 2010 and 2015 respectively (Rao and Baza 2017). Deribie (2013) has stated that in spite of this aggressive move of CBE, private banks are expanding their branches year after year in an effort to deepen into the market aimed at having more customers, better profit and have a good portion of market share.

Continuous expansions in branch network in Ethiopia year after year imply the growth of competition. Despite the current progress in branch expansion, Ethiopia remains one of the

under-banked economies even at sub-Saharan African countries standard (Eshete, Teshome, and Abebe, 2013).

### **2.2.3 Deposit mobilization and branch expansion**

Deposit of a bank comprises of saving deposit, demand deposit, interest free deposit (for Muslims) and fixed time deposit. Individuals, businesses, nonprofit organizations, municipalities, regional states and federal government organs all make deposits at banks. Customers benefit by earning interest and having their funds safe and readily available to withdraw whenever they need. They also receive access to a convenient way to pay bills by check or through various forms of online payments such as POS. According to Venkatesan (2012) acceptance of deposits is the primary function of commercial banks and mobilization of savings through intensive deposit collection has been regarded as the major task of banks. Hirtle (2007) stated that one of the key functions of a branch network is to collect deposits; all else equal, the higher the level of deposits held at a branch, the more profitable the bank will be. This is because the fixed costs of branch operation can be spread across a wider deposit base. Furthermore, research also indicates that, controlling for other characteristics of the transaction; higher levels of deposits are associated with higher premiums in branch sales, consistent with the idea that deposits are a significant measure of branch performance. Tuyishime, Memba and Mebra (2015) pointed out that deposits are an indispensable tool commercial banks use to boost their profitability through advancing deposits mobilized to its customers in form of loans which make in turn interest earning. This lending activity is made feasible only if the banks can collect enough funds from their customers. Shettar (2014) emphasized that, mobilization of deposits for a bank to stay at business is as essential as oxygen for human being to stay alive.

According to Shettar (2014) mobilization of deposits is one of the central functions of banking business. It is a key source of working capital for the bank. Deposit mobilization is an indispensable factor to increase the resources of the banks to serve effectively. Mobilization of deposit plays a vital role in providing satisfactory service to different sectors of the economy a nation. The Commercial Banks must seek for deposits from the wide array of the population whether they live in urban or rural areas. This helps the banks to supply sufficient amount of capital to priority sectors for development. The success of banks highly lies on the deposit

mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund.

As all other activities of banks are basically dependent on deposits, the mobilized deposit can be referred to as the lubricant that turns the wheels of the banking industry. Growth of deposit with the banking system in any country is much applauded phenomenon. It is particularly more important in a capital scarce country because of the existence of disparity between the availability of funds and the demand for such funds (Islam, Siddiqui and Islam, 2014)

Because deposits are sought by banks to get income from investing the funds, any increase in the return obtainable from those funds should persuade banks to seek more deposits. This should in turn induce banks to offer higher deposit rates and offer depositors greater convenience through an expansion of branch networks (Hannan and Hanweck, 2008).

Despite the rise of the Internet and communication technology, branching is still the most important means that banks have to capture deposits. To increase its share of deposits, a bank should expand its branch network (Aguirregabiria Clark and Wang 2016). Increased branch density stimulates deposits and an expansion of the banking network reduces transaction costs for depositors (Meyer, Khalily and Hushak 1990). The expansion of branches led to the mobilization of greater volume of deposit. The RBI (reserve bank of India) encourages the banks to mobilize deposits, by providing subsidy for branch expansion (Shettar, 2014). Proximity of branches increases the number of customers who will deposit their money in each branch. (Grzelonska 2005)

According to Jarso, Rao and Ravi (2015:14), Ethiopian banking system have showed positive growth in terms of number of deposit accounts, deposited money and branch expansion even during the 2009 world financial crisis. Not only these items but also the amounts of disbursed loans and loan accounts have grown. All of these variables have increased by more than three times within five years period (end of June 2009 to end of June 2014). The growth rate for deposit accounts was remarkably higher than the growth rate for loan accounts, following branch expansion of banks.

The speedy increase in the number of bank branches and automatic teller machines over 2012-2014 have increased access to commercial bank services across all regional states of the country (Jarso, Rao and Ravi, 2015). As stated by Banqui (1987) cited in Isayas (2017), there is a relationship between CBE's deposits and CBE's branch expansion. Not only are deposits influenced by bank branches, but the expansion of bank branches is also influenced by the level of deposits in any area.

To sum up, nowadays, due to the fierce competition among banks in Ethiopia to mobilize deposit and in response to the problem of mobilizing enough savings, many banks have developed various means of generating deposits. Among the mechanisms for savings mobilization exploited by the banks include, trying to reach to the general public by increasing the number of their branch all over the country, paying salary on behalf of organizations to their employees, applying the use of agent and internet banking, sending staffs to economic zones to mobilize savings and tantalizing depositors with prizes by using catchphrases like “ይቆጥቡ ይሸለሙ”.

#### **2.2.4 Bank loan and branch expansion**

Credit is the lifeblood of any economy and banks are its principal provider. Banks and their customers work together when it comes to saving and lending. Banks pay interest to attract customer to make saving deposits. In turn, banks use a portion of those deposits to fund a range of credit products for consumers, businesses of all sizes and governments. Lending is the other major business activity of commercial banks because bank loans are the largest asset and the predominate source of revenue for banks. Bank loans benefit individuals, businesses and governments, giving them access to the funding they need to achieve their goals (American Bankers Association, 2014). Bank credit is a catalyst of economic development. Without adequate finance, there can be no growth in the economy. Bank lending is important for the economy in the sense that it can simultaneously finance all the sector and sub-sectors of economic arena, which comprises agricultural, commercial and industrial activities of a nation. Therefore, a bank is supposed to allocate its loanable fund among economic agent-in-deficit in a manner that it will generate sufficient income for it and at the same time benefits the borrower to overcome his/her deficit (Islam, Siddiqui and Islam, 2014).

Hirtle (2007) has stated that aside from collecting deposits, branch networks also generate new lending, especially consumer and small business lending. While at many larger banking organizations, credit decisions have been removed from the branch and centralized in regional or national credit offices, branches arguably continue to serve as an initial point of contact for new consumer and small business customers. Thus, one measure of productivity for a branch network is the volume of new retail lending generated through these contacts.

### **2.2.5 Profitability and branch expansion**

Profit and profitability are two separate concepts. The former indicates absolute measurement while the latter indicates relative measurement that is profit in relation to some other variable (Islam, Siddiqui and Islam, 2014:61). Profit is a measure of success of a company and the means of its survival and growth. Profitability is the ability of any business to earn profit for its owners (Singh, 2015). The profitability of banks is related to the transformation of inputs (deposits) to outputs (loans). Profitability is the bottom line of efficiency of banks (Worede, 2016). One of the principal activities of commercial banks is to grant loans to borrowers. Because loans are among the highest yielding assets a bank can add to its balance sheet, and they provide the largest portion of operating revenue. The higher the volume of loans extended the higher the interest income and hence the profit potentials for the commercial banks (Abdissa, 2016). Profitability is crucial for a bank to maintain ongoing activity and for its shareholders to obtain reasonable returns. The resources obtained by banks through deposits have to be deployed properly in the form of loans and advances to get the maximum return out of it, in terms of profit (Venkatesan, 2012). According to Endalamaw (2017) Profitability is a bank's first line of protection against unforeseen losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings.

Banks have good grounds to believe that profitability and size are related. Increasing bank size can enhance bank profitability by allowing banks to realize economies of scale. For example, increasing size allows banks to spread fixed costs over a greater asset base, thereby reducing their average costs. Increasing banks' asset size can also reduce risk by diversifying operations across product lines, sectors, and regions. (Mester 2010 cited in Regehr and Sengupta 2015).

Mullineaux (1978) cited in Aladwan (2015) revealed in his study that there is a positive impact of bank's size on profitability. The location of bank is also found to have positive impact on profitability. Hirtle (2007) indicated that the growth in the number of bank branches and the consolidation of branches within very large branch networks has implications for cost structure, business focus, and profitability. Aguirregabiria Clark and Wang (2016) stated that differences between banks' geographic diversification may explain a substantial part of their differences in profitability.

However, contradicting the above discussion that reveal the favorable impact bank size (branch expansion) have on the profitability of banks, there are debates that claim this is not true. For instance, Walsh, Forth, Thogmartin, Bickford, Desmangles and Berz (2010) asserted that branch-driven revenue growth is becoming harder and harder to achieve. Many banking executives, faced with a deteriorating revenue model and an expensive infrastructure, are responding by closing branches and adjusting staffing-while simultaneously looking for ways to improve sales productivity.

## **2.3 Empirical Review**

### **2.3.1 Government policy and banking business**

Governments excises power in implementing financial policies. This is manifested by setting up regulatory frameworks (UNCTAD secretariat, 2014). Hellmann, Murdock and Stiglitz (1995) stated that financial control is a set of policies intended to advance the efficiency and effectiveness of financial markets to create opportunities that induce agents in the financial sector to undertake valuable activities that are undersupplied in a competitive market. Spong (2000) also affirmed that throughout U.S. history, banking regulation has been a central aspect in establishing the role of banks within the financial system.

In India, there are different Acts passed by the Central and State Governments to regulate the operation of banks. The Reserve Bank of India (RIB) has the powers to issue licenses to open new branches and shifting of branches. Furthermore, it requires commercial banks to allocate at least 25 percent of their total number of branches proposed to be opened during a year in unbanked rural centre. (The Institute of Company Secretaries of India, 2014). Based on the policy of the incumbent government, the RBI has imposed and repealed several branching

regulations (Kozhikode, 2012). Branch expansion programs were drawn up in consultation with State Governments and banks were required to open branches at the identified centers (Akhtar and Parveen, 2014) In Pakistan, the opening of new branches and shifting of existing branches of banks is governed by regulatory body provisions. According to these provisions, banks cannot, without the prior permission in writing of governing body, open a new place branches in any part of Pakistan or abroad or change, otherwise than within the same city, town or village, the location of the existing place of business (State Bank of Pakistan, 2016).

Owing to government regulation, in the first half of 2017, Kenyan banks saw their income from interest drop by 16 percent and profits decline by 11 percent. If unmitigated, the impact on Kenyan banks' ROE could be as high as 4 to 4.5 percent (Chironga, Cunha, De Grandis and Kuyoro 2018). According to Meyer, Khalily and Hushak (1990), the Bangladesh central bank makes policies under the instruction of the Ministry of Finance. This interference affects the countries commercial banks performance and viability.

When it comes to Ethiopia, NBE's Directive No. SBB/58/2014 on its Article 4 sub article 4.1 stated that 'A bank shall obtain prior authorization from the National Bank to open a branch or sub branch office'. Furthermore, Article 7 sub-article 7.1 stipulated that 'No bank shall relocate or close its branch without prior request and authorization by the National Bank.' Private Banks in Ethiopia have other obligation to cope with yet another obligation expected by NBE. Hailu (2014) has stated that private banks are seriously shaken by a directive of the National Bank of Ethiopia (NBE) forcing them to hand over 27Pct of the loan they disburse to buy government bonds.

### **2.3.2 Population growth and banking**

According to Gashayie and Singh (2016), one of the sources of demand for banking services would come from population size and growth. Banking development in a country can be explained by the number of banks and bank branches in relation to total population of that country. Hannan and Hanweck (2008) disclosed that the increases in population contribute to the establishment of more branches in the market.

Bank branching are more dependent on population (Meyer, Khalily and Hushak, 1990). Growing population and geographic shifts in population has contributed to the rise of large branch office

networks (FDIC Quarterly, 2015). It is not unreasonable to expect that the increase in the number of branches associated with the growth in population (Hannan and Hanweck, 2008)

Chironga, Cunha, De Grandis and Kuyoro (2018) stated that some developing countries have very large populations. For example Ethiopia with 100 million and Democratic Republic of Congo 60 with million populations represent outsized potential for banks. Gashayie and Singh (2016) further suggested that Ethiopia's population will reach nearly 130 million by 2030, indicating that the long term demand prospect for banking services would continue to flourish. According to ATKearney Korea LLC (2012), emerging markets such as Pakistan and Indonesia have vast population and offer a significant growth prospects for banking services. Tran, Ong and Weldon (2015) disclosed that there is room for greater expansion of the banking in Vietnam with a rising prosperity among the young population in Vietnam and the relatively untapped benefits that can gain from banking in the country.

### **2.3.3 Location of bank branch**

Selection of branch location is of strategic importance for a bank. A good branch location ensures profitability. Monteiro (2004) in her master thesis stated that the location of a bank branch is crucial and it depends on the bank objectives in terms of growth, market position, and client segments to be reached. For customers choosing a new bank, branch location remains the biggest single factor in the decision. Convenient locations remain the most popular reason for choosing a bank (Local Banking Britain, 2014)

According to Gunasekara and Kumari (2018), among the factors affecting deposit mobilization, depositors' preference of a convenient location or region is the most important. They further added that there is a significant and positive correlation between location of a bank branch and deposit mobilization. Murthy and Haresh (1991) affirmed that the deposits of a branch depended first on the location of the branch and the region to which the branch belonged. Convenience of branch location and opening hours are crucial to capturing and maintaining public savings (Osei, 2015). Moreover, the location of bank is also found to have positive impact on profitability (Hirtle 2007).

### **2.3.4 Bank branch office rent**

Banks are concerned with costs since their profit increase if costs are kept under controlled. Branches, in particular, may be more or less costly to run than similar sized unit banks (Economic review, 1982). According to Hailu (2014), the ever increasing rental fees are making it hard for private banks in Ethiopia to expand their business. The escalating of rental fees highlights the trouble that private banks face in trying to grow the number of branches they operate throughout the country. Branch expansion is certainly expensive for conducting banking business currently in our country.

Addis International Bank stated that the increasing of office rent has escalated the expenses of its Bank. It further added that the rising cost of rent and lack of suitable buildings in business centers and unfair competition for office rent are the challenges faced to increase the branch network of the Bank (AdIB S.C. Annual Report, 2016/17). Awash Bank on its part has complained that soaring rent expenses for branch offices explains the increase in administrative and general expenses (AIB Annual Report 2014/15). Additionally, Buna Bank disclosed that the growth in total expenses was due to significant growth in ever escalating office rent coupled with branch expansion of the Bank (BIB annual report, 2016/17). However, to overcome this problem Abay Bank has suggested that to reduce rental expenses and to resolve all problems related with not having own premise, investment in constructing own building is the best way (Abay Bank S.C. annual report, 2012/13)

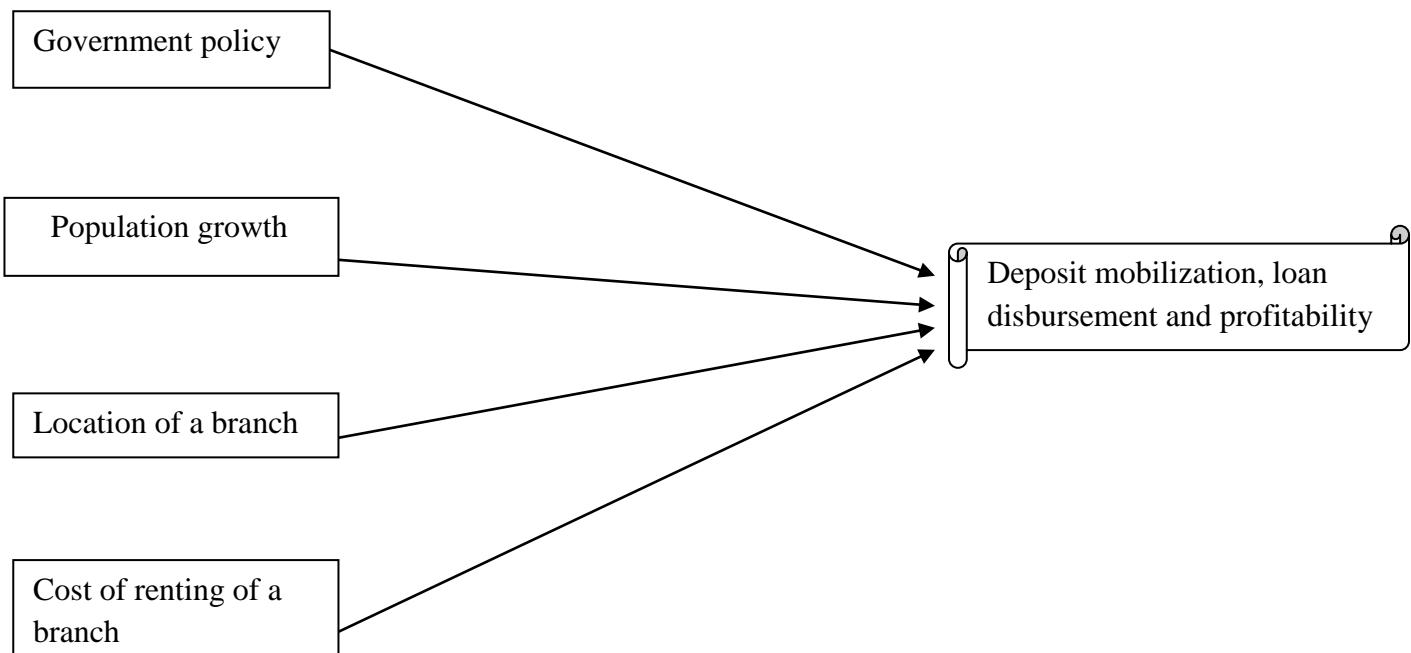
### **2.4 Conceptual Framework of the Study**

The expansion of branches is the major reason for the increase in loans, advances, and deposits (Hailu, 2014). Branching enables banks to diversify their loan and deposits over a wider geographical area or customer base (Carlson and Mitchener, 2005). Regional banks with more branches can increase their loans and adequate levels of branch expansion have positive impacts on both cost and profit efficiencies (Kondo, 2017). Banks with extensive branch networks also have the advantage of being able to diversify their risks geographically (Kuehn 2014). According to Aguirregabiria Clark and Wang (2016) a bank's deposits and profits depend on its own number of branches. The market share and the variable profit of a bank increase with the number of own branches and decrease with the number of competing banks and with the number of branches of the competitors.

The followings are the main points which are used as the basis of this study

- Government intervention affects bank performance and viability of banks (Meyer, Khalily and Hushak, 1990)
- The number of branches of a bank increase with the growth in population. There is a positive relationship between population and the number of bank branches (Hannan and Hanweck, 2008). When profit opportunities arise in a market that created by an inflow of new customers, banks are likely to open new branches (Clark, Dick, Hirtle, Stiroh and Williams, 2007)
- Convenience of branch location is crucial to capturing and maintaining deposits. (Osei 2015). A good branch location ensures more profitable customers and increases the possibility of potential sales (Perspective Analytics).
- The high cost of branch expansion especially the sky-rocketing office rent is challenging to most private banks (Hailu, 2014). Branch expansion impacts banks expense because it requires huge establishment cost and branch running costs in terms of rent (Lelissa and Kuhil, 2018).

Thus, the following research framework is developed for this study based on the ideas and concepts derived from the above reviewed literatures. This framework focus on the interrelationships among branch expansion and deposit mobilization, loan disbursement and profitability Therefore, the conceptual framework guiding this study is presented in the figure depicted follow.



Source: Developed for the study based on Chironga, Cunha, De Grandis and Kuyoro(2018), Gashayie and Singh (2016), Monteiro (2004)Hirtle(2007) and Hailu (2017)

## **CHAPTER THREE**

### **Research Design and Methodology**

#### **3.1 Introduction**

The purpose of this section is to describe the research methodology and techniques that were used to conduct the study. In order to actualize the objective of this study, it is imperative to discuss the methodology of the study such as the research design, target population, data collection instrument, data collection procedures and the method of data analysis.

#### **3.4 Data sources and collection methods**

The data source of this study is both primary and secondary data. The primary data was collected by questionnaires. The structured close ended questionnaire (Likert scale) is designed for the objective of gathering data about the impact of branch expansion on deposit mobilization, loan disbursement and profitability in Lion International Bank S.C.

Secondary data was collected from Annual Reports and Website of the Bank. Moreover, reports and directives of National Bank Ethiopia are used as additional sources. The audited annual financial reports for the Bank from the year 2007 to 2018 were the area of focuses as a source of secondary data. The other sources like literatures from various books, journals and websites also be used as a source of secondary data.

#### **3.5 Target population, Sampling techniques, sample size**

For primary data collection, staffs of Lion Bank were taken as a target population for the study. The staffs that are included in the sample are those which have at least one year of work experience in the bank. Due to time and cost constraints, the branches/staffs included in the sample are from the bank's Head Office and its selected branches that are located in Addis Ababa.

The total population of the study is 1723 permanent staffs of the Bank (headcount as of June 2018). (Though the total employees of the Bank are 3585, this figure comprises 106 non clerical

staffs and 1756 outsourced employees who are not in a position to be taken as respondents of questionnaires and/or interview.)

The sample size is determined based on the table shown below and 125 employees were selected. For the study, convenience and purposive sampling method was applied. For convenience sake, staffs of the bank who are working in Addis Ababa were selected and from these staffs, those who are branch managers and department directors were purposively included in the sample. This was due to senior staffs are believed to have enough knowledge about performance of the bank.

**Table 3.1 Sample size determination**

Population Size	Sample Size		
	Low	Medium	High
51-90	5	13	20
91-150	8	20	32
151-280	13	32	50
281-500	20	50	80
501-1200	32	80	125
1201-3200	50	125	200
3201-10000	80	200	315
10001-35000	125	315	500
35001-150000	200	500	800

(Malhotra, 2009)

### **3.6 The research design**

In order to describe and analyze the impact of branch expansion on deposit mobilization, loan disbursement and profitability, the researcher followed descriptive and analytical type of research design. These research methods are employed so as to further carry out the study and create a clear understanding about the raw data obtained into a form which helps to easily understand, analyze and interpret them as percentage and graphical illustrations.

Mixed research approach was adopted for the study. The rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method. Regarding to

the qualitative data; questionnaire is used to gather information from the employees of Lion International Bank. Regarding to the secondary data; ten years of annual reports of the bank covering 2008-2018 was analyzed.

### **3.7 Reliability and validity**

#### **3.5.1 Reliability**

According to Ernest and Zeller (1979), **Reliability** concerns the extent to which an experiment, test or any measuring procedure yields the same results on repeated trials. There are several different reliability coefficients. One of the most frequently used is called Cronbach's Alpha. Cronbach's alpha reliability analysis was conducted on the independent variables in order to determine the reliability of the instrument used and found to be higher than the acceptable cut-off point of 0.70. Hence, we can say that the model used in the study is reliable.

#### **3.5.2 Validity**

**Validity** is the extent to which a measure adequately represents the underlying construct that it is supposed to measure Bhattacharjee (2012). Some steps were taken to ensure the validity of the study such as:

- Data was collected from the reliable sources, from respondent who have experiences in working with the bank.
- Survey question were made based on literature review and frame of reference to ensure result validity.
- In order to ensure understandability of the constructs in the questionnaire, pilot test was made by distributing sample questionnaire to 20 Head office staffs of the bank. Based on the response, some adjustments were made to the constructs. Finally the questionnaires were distributed to the other staffs selected as samples.

### **3.8 Data analysis method**

Kothari (2004) defines data analysis as the computation of certain measures along with searching for patterns of relationship that exist among data-groups. Thus, in the process of analysis, relationships or differences supporting or conflicting with original or new hypotheses should be

subjected to statistical tests of significance to determine with what validity data can be said to indicate any conclusions.

The data, after gathering was processed and analyzed in accordance with the purpose of the present research plan for ensuring I have all the relevant data for making comparison and analysis. Processing implies editing, coding, classification and tabulation of collected data so that they are good to analysis. The statistical tools applied to process and analyze the collected data were percentage, tables and ratios. Besides, to analyze the data that gathered through questionnaires, the researcher have used tabulation to present data numerically and analyze by using SPSS software package then the analyzed data was interpreted quantitatively.

### **3.9 Ethical consideration**

The researcher has set out to identify and address possible ethical issues as they arose. Taking into consideration the nature of this research study and its involvement with human participants(bank staffs), ethical issues are an important consideration and is viewed as basic to the successful achievement of this study. When distributing questionnaires to Lion International Bank S.C. staffs, their willingness to fill the questionnaires was asked beforehand and also permission was sought from management of the Bank for conducting the research.

In order to keep the confidentiality of the information given by respondents, they were not required to write their name and assured that their responses will be treated in strict confidentiality. Moreover, no information was modified or changed or manipulated, hence the information was presented as collected and all the literatures consulted for the purpose of this study be acknowledged in the reference list.

## CHAPTER FOUR

### Data Analysis and Presentation of Finding

This Chapter presents interpretation and analysis of data collected through self-administered questionnaires with 140 conveniently selected clerical staffs of Lion International Bank S.C. It began with a description of the demographic and general characteristics of the participating respondents. In order to get a representative data 125 questionnaires were prepared and distributed to staffs of the Bank. Both tables and figures are used to discuss the results obtained. The results of Cronbach's coefficient alpha for reliability were examined.

Out of the total questionnaires distributed to staffs, 113 questionnaires were collected back. From these only 108 were properly filled. A visual screening of the questionnaire has also resulted in discarding 5 questionnaires due to incompleteness or error. Thus, the analysis was based on the completed and usable 108 questionnaires response. The percentage and frequency of the respondents is presented in the following table.

**Table 4.1 Response rate of Questionnaires**

	Number of staffs who		
	Correctly filled and returned	Not correctly filled	Not returned
Number	108	5	12
Percentage	86%	4%	10%

Source: survey result 2019

The data collected from the staffs consists of two parts. Part one asked about the demographic information of the respondents. The second part dealt with the survey of the respondents' (staffs') perception of what government policy, population growth, location of branch, and cost of rent has on deposit mobilization, loan disbursement, and profitability of Lion International Bank S.C.

## **4.1 Personal Profile of the Respondents**

This part of the questionnaire requested a limited amount of information related to personal and demographic characteristics of respondents. Accordingly, variables such as sex, age, educational status, work experience and position in the Bank about the respondents were collected and used as an input to the research.

The details breakdown of the demographic profile of the staffs is shown in Table 4.2. The analysis shows that from the total of 108 respondents 63% are male and 37% female. Regarding the age of the participants, the largest group (64%) is in the 26-35 years age group. The next largest group of the respondent is the age group of 18-25 (17%) followed by the age group of 36-45 (16%) while the least was in the above 55 years age group with a no percent.

When it comes to educational level of the respondents, 76% were first degree holder, 21% have Masters Degree, and the remaining 3% have Diploma.

On the other hand, the respondents include 31% of staffs with 1-3 years of work experience, 35% staffs with 4-6 years of work experience, 18% of staffs with 7-9 years of work experience and the remaining 16 percent have ten years and above work experience.

The position of the respondents in the Bank were categorized as Customer Service Officer, Senior Customer Service Officer, Auditor, Customer Relationships Manager, Branch Manager and Director with an average of 34%, 25%, 19%, 7%, 11%, and 4%, respectively.

From the above information we can conclude that the response for the questionnaire is male dominated, more than 81% are young population who are energetic, the greater part of the respondents have 4-6 years of work experience and almost all are above diploma implying that they have the capacity to understand the questionnaire and reply properly which would make the data reliable.

**Table: 4.2 Demographic Characteristics of the Respondents**

<b>Category</b>	<b>Characteristics</b>	<b>Number</b>	<b>Percentage</b>
<b>Gender</b>	Male	68	63%
	Female	40	37%
<b>Age</b>	18-25	19	17%
	26-35	69	64%
	36-45	17	16%
	46-55	3	3%
	Above 55	0	0%
<b>Educational Level</b>	Diploma	3	3%
	First degree	82	76%
	Master and above	23	21%
<b>Work experience</b>	1-3	34	31%
	4-6	38	35%
	7-9	19	18%
	above 10	17	16%
<b>Position in LIB</b>	Customer Service Officer	37	34%
	Senior Customer Service Officer	27	25%
	Auditor	20	19%
	Customer Relationships Manager	8	7%
	Branch Manager	12	11%
	Director	4	4%

Source: survey finding 2019

#### **4.2 Internal Consistency Reliability Assessments**

Reliability analysis was computed with the help of Cronbach's alpha to assess the internal consistency of the research instrument developed for this study. In doing so, SPSS (version 22.0) was utilized. From data analysis the Cronbach's Alpha for this study is good according to the standard set by George and Mallery (2003) and it is over the acceptable limit of >0.70. For all individual dimensions except Site of bank branch, Cronbach's alpha is greater than 0.70, which

indicates the existence of good internal consistency between the items and measures the anticipated dimension of the variables.

**Table: 4.3 Cronbach's alpha test for variables**

Description	Cronbach's Alpha	Number of items
Government policy and banking business	.829	7
Population growth and banking	.776	9
Site of bank branch	.611	12
Bank branch office rent	.715	7
Deposit mobilization	.746	24
Loan disbursement	.709	9
Profitability	.722	9
Cronbach's alpha test for independent variables	.844	35

Source: survey result 2019

### 4.3 Descriptive Statistics

The method of analysis was descriptive statistics which refers to a set of concepts and methods used in organizing, summarizing, tabulating, describing collections of data. In order to facilitate such operations, the mean scores of each variable were used. The major reason of using this measurement was to express the typical responses of respondents for each question that was included under each dimension of the variables. The interpretation is made also through using the overall mean of each variable. The interval for dividing the range in measuring each variable with five point scale is calculated as follows (Shrestha, 2015).

$$\text{Agreement level} = \frac{\text{max-min}}{5} = \frac{5-1}{5} = 0.8$$

Therefore the range of the score indicates:

1.00 - 1.80 strong disagreements

1.81 - 2.6 disagreement

2.61 - 3.4 neutrality

3.41 - 4.20 agreement

4.21 - 5.00 strong agreement

### **4.3.1 Branch expansion Assessment**

In order to assess the impact of branch expansion on deposit mobilization, loan disbursement and profitability in Lion International Bank, descriptive statistics were computed. Thus, in order to assess the impact of branch expansion, it is necessary to present and analyze the responses obtained from respondents about some factors related to ‘branch expansion’ which can be expressed by variables such as, Government policy and banking business, Population growth and banking, Site of bank branch, and Bank branch office rent. The result of each measurement of branch expansion is given in the tables that follow.

#### **4.3.1.1 Government policy and banking business**

There were different statements designed to assess branch expansion in Lion bank from the point of *Government policy and banking business* dimension. Thus, selected staffs of the bank have evaluated this dimension with seven items using five point Likert scale. The result in table 4.4 indicates that majority of the staffs tend to have the same opinion on the item “NBE’s directive that require banks to open at least a specified number of branches yearly is challenging requirement for LIB” with the highest mean score of 4.25 and 88% of agreement ranked first among the *Government policy and banking business* dimension item. Whereas the item “Government’s policy that prevents foreign banks to enter Ethiopia is good for local banks.” mean score is the least, 3.44 (51% of agreement). The grand mean with score of 3.88 indicate that respondents tend to agree that Government policy has an influence on banking business.

**Table: 4.4** Government policy and banking business

	Mean	Std. Dev
NBE's directive that require banks to open at least a specified number of branches yearly is challenging requirement for LIB	4.25	.855
27% bond purchase government policy affects negatively the viability of private banks in Ethiopia.	3.86	.921
Some directives of NBE are challenging to private banks	3.79	.944
Some directives of NBE affect negatively the profitability of private banks in Ethiopia.	3.95	.931
Government policy on banks treats equally private and government banks.	3.87	.977
The current financial policy of Ethiopia is encouraging to do banking business in the country	3.97	.951
Government's policy that prevents foreign banks to enter Ethiopia is good for local banks.	3.44	.950
Average	3.88	

Source: Survey data, 2019

#### 4.3.1.2 Population growth and banking

The result in table 4.5 depicts that most of the staffs tend to agree with the statement “The increase in the number of branches of LIB is associated with the growth in population” with the highest mean score of 4.33 and 89% agreement. Whereas the responses to the item “The number of branches LIB has currently are enough to serve its customers” indicated that respondents view towards the statement was disagreement with the least mean score of 3.52 when compared with the other items of this construct. The grand mean with score of 3.90 indicate that respondents are inclined to agree that Population growth has an influence on banking business.

**Table: 4.5** Population growth and banking

	Mean	Std. Dev
Population growth bring opportunities to the bank to increase number of its branches	3.89	1.096
The number of branches LIB has currently are enough to serve its customers	3.52	.999
The increase in the number of branches of LIB is associated with the growth in population	4.33	.917
Banking development in Ethiopia can be explained by the number of banks and bank branches in relation to total population.	3.98	.956
Bank branching are more dependent on population	3.80	.951
The number of bank branches is too small compared to the population of the	3.82	.974

country.		
Visibility or being known by the general public can contribute to branch expansion of the bank	4.13	.901
Inclusiveness or the need to serve all part of the society is a cause for branch expansion of LIB	3.78	1.032
Demand for banking services would come from population size and growth.	3.77	.777
Average	3.90	

Source: Survey data, 2019

#### 4.3.1.3 Site of bank branch

As presented in table 4.6 among the twelve items, the statement “Selection of branch location is important for a bank” is ranked first with the highest mean score of 4.39 and 88% of agreement and in the second stood “The bank has to continue on opening of additional new branches” with a mean of 4.22. However, the least mean score of 2.11 for the item “Branch opening distribution in Addis Ababa and outlying area is fair” indicates that most (74%) of the respondents tend to have disagreement regarding the statement. The grand mean with score of 3.41 signify that respondents are in borderline between agreement and neutrality that site of bank branch has an influence on banking business.

**Table: 4.6** Site of bank branch

	Mean	Std. Dev
The bank is engaged in aggressively expanding its branches	3.39	1.067
The bank has many branches which are near to its customers	2.98	1.167
The bank opens its branches mostly in economically better-off area	3.54	1.179
The bank opens its branches mostly in populated area	3.48	1.054
The current Infrastructures reconstruction has effect on branch expansion of the bank	3.73	.933
Branch opening distribution in Addis Ababa and outlying area is fair	2.11	1.035
Having branches in different geographic area can help the bank to diversify risk	3.88	1.061
The bank’s branches are convenient to its customers	3.22	1.016
Customers require LIB to open more branches all over the country	3.72	1.134
The bank has to continue on opening of additional new branches	4.22	.801
The branch distribution of LIB in city and outlying area is fair	2.17	1.039
Selection of branch location is important for a bank.	4.39	.956
Average	3.41	

Source: Survey data, 2019

#### 4.3.1.4 Bank branch office rent

In this variable, the highest contribution to the mean has come from the last item (76% agreement) that means the increasing rental price reduces the profitability of the bank followed by the second item (79% agreement) that states rent expense is one of the major expenditure of LIB with the mean value of 4.03 and 3.95 respectively. The least being introduction and development of ATM, internet banking and mobile banking negatively affect the need for opening branches with a mean score of 2.84, 44% disagreement and 30% neutral response. The overall mean with score of 3.60 shows that respondents are inclined to agree that branch office rent has an influence on banking business.

**Table: 4.7** Bank branch office rent

	Mean	Std. Dev
The current cost of rent LIB pays for its branch offices is fair	3.22	1.007
Rent expense is one of the major expenditure of LIB	3.95	.879
It is preferable to use other alternative banking channels in order to minimize the expense on renting branch offices	3.75	.918
The introduction and development of ATM, internet banking and mobile banking negatively affect the need for opening branches	2.84	1.103
Customers prefer to use branches rather than ATMs to withdraw cash	3.53	.999
It is preferable if LIB build rather than rent branch offices	3.84	1.024
The increasing rental price will reduce the profitability of the bank	4.03	.906
Average	3.60	

Source: Survey data, 2019

#### 4.3.2 Branch expansion and deposit mobilization

As clearly seen from the table below, the highest mean for this dimension come from the third item which is Location of the branch matters when it comes to deposit mobilization of LIB with a mean score of 4.37 (93% of agreement), and the next highest mean is “One of the key functions of a branch is to collect deposits” with a mean score of 4.24 and 86% of agreement followed by the first item which is “Increasing the number of branches has impact on deposit mobilization of LIB” with a mean score of 4.08 and 82% agreement. However, the least mean comes from item fourteen which states that the bank mostly offer gift for new depositors or customers who make deposit above a certain amount with a mean score of 2.24 ( 61% disagreement and 19% neutral

response). The overall mean with score of 3.74 shows that respondents are inclined to agree that branch expansion has an impact on deposit mobilization of the bank.

**Table: 4.8** Deposit mobilizations

	Mean	Std. Dev
Increasing the number of branches has impact on deposit mobilization of LIB	4.08	1.086
One of the key functions of a branch is to collect deposits	4.24	.895
Location of the branch matters when it comes to deposit mobilization of LIB	4.37	.677
Population growth contributes to deposit mobilization of banks	3.91	.844
Government policy on branch opening has an impact on deposit mobilization of the bank	3.84	.887
Purchase of government 27% bill has impact on the deposit mobilization process of the bank.	3.45	.970
The current aggressive branch expansion and advertisement of other banks (specially CBE) affect LIB's deposit mobilization	3.93	.919
The growth in gross domestic product (GDP) contributes to deposit mobilization of the bank.	4.09	.848
Proximity of branches increases the number of customers who will deposit their money	4.04	.835
The bank offers different products to mobilize deposit	3.66	1.076
The bank's promotion/advertisement increases its depositor number and deposit amount	3.66	1.135
The current deposit mobilization practice of the bank is	3.29	.949
The bank staffs are eager to mobilize deposit	3.85	1.021
The bank mostly offer gift for new depositor or customers who make deposit above a certain amount	2.24	1.259
The bank trains its staff to mobilize deposit	3.46	1.195
The bank collects cash directly from the customer office	3.24	1.092
The bank handles staff salary payment of the customer company	3.73	1.000
The competition from other bank is the main challenge to mobilize deposit	4.09	.902
The deposit habit of the society in private bank is the challenge to mobilize deposit	4.09	.803
The bank has good strategy to attract customers in relation to competitors	3.02	1.218
The bank's overall deposit market share can increase if it open more branches	3.94	.829
People attitude towards private banks has influence on deposit mobilization of LIB	4.05	.783
Aggressive branch expansion and advertisement of CBE has affected LIB's deposit mobilization	3.66	.842
The extended service hours of the bank has helped it to mobilize more deposit	3.85	.955
Average	3.74	

Source: Survey data, 2019

### 4.3.3 Branch expansion and Loan disbursement

In order to measure the impact that expansion of branch has on loan disbursement of the bank, staffs were forwarded with nine items. Thus, as shown below in table 4.9 most of the staffs believe that 27% bond purchase government policy affects negatively the loan disbursement of the bank (with 3.84 mean score and 64% agreement) and the least of them are with the opinion that the bank has enough deposit to satisfy the current loan request of its customers (with 3.01 mean score and 35% agreement). The grand mean score of 3.57 indicate that respondents tend to agree that branch expansion has an impact on loan disbursement of the bank.

**Table: 4.9** Loan disbursements

	Mean	Std. Dev
Increasing the number of branches has impact on loan disbursement of the bank	3.56	1.061
Location of a branch has impact on number of credit customers of the bank	3.72	.965
Government policy on branch opening has an impact on loan disbursement of the bank	3.58	.958
27% bond purchase government policy affects negatively the loan disbursement of the bank.	3.84	.958
The bank has to open more branches since branches are an initial point of contact for new credit customers	3.71	.774
Currently the bank has enough deposit to satisfy the current loan request of its customers	3.01	.995
Aggressive branch expansion of other banks can have a negative effect on the market share of LIB in relation to credit customers	3.53	.970
The expansion of branches is the main reason for the increase in loans and advances	3.37	.953
The growth in gross domestic product (GDP) contributes to loan disbursement of the bank.	3.78	.697
Average	3.57	

Source: Survey data, 2019

### 4.3.4 Branch expansion and Profitability

When it comes to the impact of branch expansion on profitability, most (80 percent) of the respondents perceive that opening of more branches enhance income diversification of the bank resulting in the increase of profitability with a mean value of 3.92. The least (45 percent) of them, which contributed to having a mean value 3.25 in responding the items formulated for this variable suppose that government policy on branch opening decreases profitability of the bank.

The overall mean with score of 3.66 shows that respondents are inclined to agree that branch expansion has an impact on profitability of the bank.

**Table: 4.10** Profitability

	Mean	Std. Dev
Increasing the number of branches increases profitability of LIB	3.77	1.007
Government policy on branch opening decreases profitability of the bank	3.25	.960
27% bond purchase government policy affects negatively the profitability of the bank.	3.61	.894
Location of a branch has impact on the bank's profitability	3.88	.660
The bank has good profit share comparing with competitors	3.42	.833
Aggressive branch expansion of other banks can have a negative effect on the profitability of LIB	3.67	.840
Increasing the number of branches increases interest income of the bank that contributes to its profitability.	3.68	.816
The growth in gross domestic product (GDP) contributes to opening of new branch that lead to profitability of the bank.	3.66	.785
Opening of more branch enhance income diversification of the bank resulting in the increase of profitability	3.92	.828
Average	3.66	

Source: Survey data, 2019

#### 4.4 Correlation Analysis

Correlation analysis was conducted to investigate the relationship between the four branch expansion dimensions and deposit mobilization, loan disbursement and profitability. According to Field (2005), a correlation coefficient is useful to summarize the relationship between two variables with a single number that falls between -1 and +1. The Bivariate correlation procedure computes the pair-wise association for a set of variables and displays the results in a matrix. It is also useful for determining the strength and direction of the association between two ordinal variables. The sign of the coefficients represents the direction of the relationship whether there is a positive correlation (as one variable increases, so too does the other) or a negative correlation (as one variable increases the other decreases).

Correlation coefficient value between 0.1 and 0.29 mean that the relationship between the two variables is weak or small. While a value between 0.3 and 0.49 is moderate or medium. Correlation coefficient value between 0.5 and 1 indicates that there is strong or large relationship

between the variables being measured (Cohen, 1988).The correlation matrix for the all variables of this study is provided below.

**Table 4.11 Correlation between variables**

**Correlations**

	GovPolicy	PopGrowth	SiteofBranch	OfficeRent	Deposit	LoanDisburs	Profitability
GovPolicy Pearson Correlation	1						
Sig. (2-tailed)							
N	108						
PopGrowth Pearson Correlation	.305**	1					
Sig. (2-tailed)	.001						
N	108	108					
SiteofBranch Pearson Correlation	-.011	.228*	1				
Sig. (2-tailed)	.907	.018					
N	108	108	108				
OfficeRent Pearson Correlation	.188	.345**	.224*	1			
Sig. (2-tailed)	.051	.000	.020				
N	108	108	108	108			
Deposit Pearson Correlation	.577**	.487**	.382**	.293**	1		
Sig. (2-tailed)	.000	.000	.000	.002			
N	108	108	108	108	108		
LoanDisburs Pearson Correlation	.503**	.395**	.308**	.097	.579**	1	
Sig. (2-tailed)	.000	.000	.001	.317	.000		
N	108	108	108	108	108	108	
Profitability Pearson Correlation	.293**	.266**	.298**	.138	.374**	.582**	1
Sig. (2-tailed)	.002	.005	.002	.154	.000	.000	
N	108	108	108	108	108	108	108

\*\* Correlation is significant at the 0.01level (2-tailed).

\*Correlation is significant at the 0.05 level (2-tailed).

Source: Survey result, 2019

**4.4.1 Correlation analysis between the four branch expansion dimensions and deposit mobilization**

According to table 4.12 correlation matrix shown below, Government policy and banking business has a strong association with Deposit mobilization with a value of .577. As indicated in the same table, Population growth and banking and Site of bank branch are positively and moderately correlated with Deposit mobilization with a value of .487 and .382 respectively. However, with beta of .293, bank branch office rent has the least one that correlated with deposit mobilization.

**Table 4.12** Correlation analysis Branch expansion dimensions and deposit mobilization

	Government policy and banking business	Population growth and banking	Site of bank branch	Bank branch office rent
Deposit mobilization	.577	.487	.382	.293

Source: Survey result, 2019

#### 4.4.2 Correlation analysis between the four branch expansion dimensions and loan disbursement

The correlation matrix in table 4.13 indicates that there is a positive significant correlation between the independent variable Government policy and banking business and the dependent variable which is loan disbursement ( $r=.503$ ). Moreover, a positive moderate correlation was observed between Population growth and banking and Loan disbursement ( $r=.395$ ) and Site of bank branch and Loan disbursement ( $r=.308$ ). Finally, positive but weak correlation between Bank branch office rent and Loan disbursement is observed ( $r=.097$ ).

**Table 4.13** Correlation analysis Branch expansion dimensions and loan disbursement

	Government policy and banking business	Population growth and banking	Site of bank branch	Bank branch office rent
Loan disbursement	.503	.395	.308	.097

Source: Survey result, 2019

#### 4.4.3 Correlation analysis between the four branch expansion dimensions and profitability

The correlation analysis of profitability with the four branch expansion dimensions indicates that the correlation coefficient for all the relationship ranges from .298 to .138 which signifies that all independent variables have positive relationship with the dependent variable. However, all the pair wise relationship coefficient values are less than .3 indicating that there is a positive but little relation between profitability and Government policy and banking business, Population growth and banking, Site of bank branch and Bank branch office rent.

**Table 4.14** Correlation analysis Branch expansion dimensions and profitability

	Government policy and banking business	Population growth and banking	Site of bank branch	Bank branch office rent
Profitability	.293	.266	.298	.138

Source: Survey result, 2019

## 4.5 Regression Analysis

Linear regression is a technique of predicting a value of some dependent variable based on the values of one or more independent variables (Marczyk, DeMatteo, and Festinger 2005). Simple regression and multiple regressions are types of regression analysis that are used for estimating or predicting the condition of the dependent variable from the independent variable(s).

In this study, multiple regression analysis is used to identify by how much the independent variables (branch expansion dimensions) explain or influences the dependent variables which are deposit mobilization, loan disbursement and profitability of Lion International Bank S.C.

In the sections that follow, it is tried to show the impact that each branch expansion dimension has on each dependent variable.

### 4.5.1 Regression analysis of branch expansion dimensions and deposit mobilization

**Table 4.15-** Model summary

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736 <sup>a</sup>	.542	.524	.25546

a. Predictors: (Constant), OfficeRent, GovPolicy, SiteofBranch, PopGrowth

Source: Survey result, 2019

The table depicts that the R is multiple correlation coefficients between predictor and outcome, with a value of 0.736. Value of R square implies 54.2 percent of the variance in the dependent variable (deposit mobilization) can be predicted from the independent variables and the remaining 45.8 percent is by extraneous variables. This shows that there are other variables which can influence the deposit mobilization of Lion International Bank S.C.

**Table 4.16- ANOVA**

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.952	4	1.988	30.461	.000 <sup>b</sup>
	Residual	6.722	103	.065		
	Total	14.674	107			

a. Dependent Variable: Deposit

b. Predictors: (Constant), OfficeRent, GovPolicy, SiteofBranch, PopGrowth

Source: Survey result, 2019

According to Field (2005), ANOVA is a result that makes sure whether the model is a significantly good degree of prediction of the outcome variable. Since the significance result on the ANOVA table shown above is 0.000 which is  $p < 0.05$ , the regression analysis proved the presence of positive/ direct association between branch expansion and deposit mobilization. The contribution of each dimension can be seen from the results of multiple regressions in the coefficient table below.

**Table 4.17- Coefficients**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.299	.235		5.536	.000
	GovPolicy	.280	.040	.497	7.027	.000
	PopGrowth	.159	.048	.247	3.300	.001
	SiteofBranch	.193	.042	.321	4.608	.000
	OfficeRent	.027	.045	.043	.589	.557

a. Dependent Variable: Deposit

Source: Survey result, 2019

The relative importance of the significant predictors is determined by looking at the standardized coefficients. The Coefficient values indicate the relationship between deposit mobilization and each predictor (independent variable). If the value is positive, it shows that there is positive relationship between predictor and the outcome, whereas a negative coefficient represents negative relationship. For these data all the four predictors have positive Coefficient value which indicates the presence of positive relationship.

The above table reveals the impact of each branch expansion dimensions and their significance. The impact of government policy, population growth, site of branch and office rent on deposit mobilization in Lion bank are 0.497, 0.247, 0.321, and 0.043 respectively. By examining this beta weight of data analysis result, it can be presumed that government policy followed by site of branch and population growth make relatively larger contribution to the prediction model.

#### 4.5.2 Regression analysis of branch expansion dimensions and loan disbursement

**Table 4.18-** Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.633 <sup>a</sup>	.401	.377	.40341

a. Predictors: (Constant), OfficeRent, GovPolicy, SiteofBranch, PopGrowth

Source: Survey result, 2019

The result of regression analysis on the independent variables (branch expansion) and the dependent variable (loan disbursement) indicates existence of positive and statistically significant relationship between them. Table 4.18 above depicts that the independent variables explain 40 % ( $R^2 = .401$ ) of variation in the loan disbursement.

**Table 4.19-** ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.202	4	2.801	17.209	.000 <sup>b</sup>
	Residual	16.762	103	.163		
	Total	27.965	107			

a. Dependent Variable: LoanDisburs

b. Predictors: (Constant), OfficeRent, GovPolicy, SiteofBranch, PopGrowth

Source: Survey result, 2019

Since the significance result on the ANOVA table (table 4.19) is 0.000 which is  $p < 0.05$ , the regression analysis proved the presence of positive/ direct association between branch expansion and loan disbursement.

**Table 4.20- Coefficients**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.983	.371		2.653	.009
	GovPolicy	.359	.063	.460	5.691	.000
	PopGrowth	.209	.076	.235	2.738	.007
	SiteofBranch	.241	.066	.290	3.640	.000
	OfficeRent	-.116	.071	-.135	-1.632	.106

a. Dependent Variable: LoanDisburs

Source: Survey result, 2019

From the above table it can be seen that all except one of the dimensions of branch expansion are positively affect loan disbursement. This enables us to know the predicted change in the dependent variable for every unit increase in that predictor. For every additional point or value for example in government policy one could predict a change of 0.460 points on the loan disbursement provided that other variables being held constant. The same are true for population growth. Generally, government policy received the strongest weight in the model followed by site of branch and population growth. This shows that they are the dominant dimensions that impact loan disbursement in Lion Bank. But the variable office rent (with beta weight of -.0135) is not statistical significant and did not contribute much towards overall loan disbursement of the bank but negatively affect the loan disbursement of the bank.

#### 4.5.3 Regression analysis of branch expansion dimensions and profitability

**Table 4.21- Model summary**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.436 <sup>a</sup>	.190	.159	.43561

a. Predictors: (Constant), OfficeRent, GovPolicy, SiteofBranch, PopGrowth

Source: Survey result, 2019

The result of regression analysis on the independent variables (government policy, population growth, site of branch and office rent) on the dependent variable (profitability) indicates the presence of positive effect on profitability. The model summary table R-Square value is only

0.190 which means that 19 % of profitability of Lion Bank can be explained by the variation of the four branch expansion dimensions namely government policy, population growth, site of branch and office rent.

**Table 4.22- ANOVA**

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.596	4	1.149	6.056	.000 <sup>b</sup>
	Residual	19.545	103	.190		
	Total	24.141	107			

a. Dependent Variable: Profitability

b. Predictors: (Constant), OfficeRent, GovPolicy, SiteofBranch, PopGrowth

Source: Survey result, 2019

Since the significance result on the ANOVA table is 0.000 which is  $p < 0.05$ , the regression analysis proved the presence of positive/ direct association between branch expansion and profitability.

**Table 4.23- Coefficients**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.853	.400		4.629	.000
	GovPolicy	.188	.068	.260	2.770	.007
	PopGrowth	.107	.082	.129	1.299	.197
	SiteofBranch	.212	.072	.275	2.967	.004
	OfficeRent	-.014	.077	-.017	-.176	.861

a. Dependent Variable: Profitability

Source: Survey result, 2019

The beta value on the coefficient table indicates level of effect each dimension of branch expansion has on the dependent variable - profitability. The highest beta level is government policy of  $B=0.260$ . Hence, if assumed other things being constant and government policy increased by one unit, it increases profitability by 0.260. The second highest beta value is site of branch which means that when other things are constant if site of branch increased by one unit, profitability goes up by 0.275. Therefore, from among the four dimensions, government policy has the strongest effect on profitability. And population growth has the lowest effect on

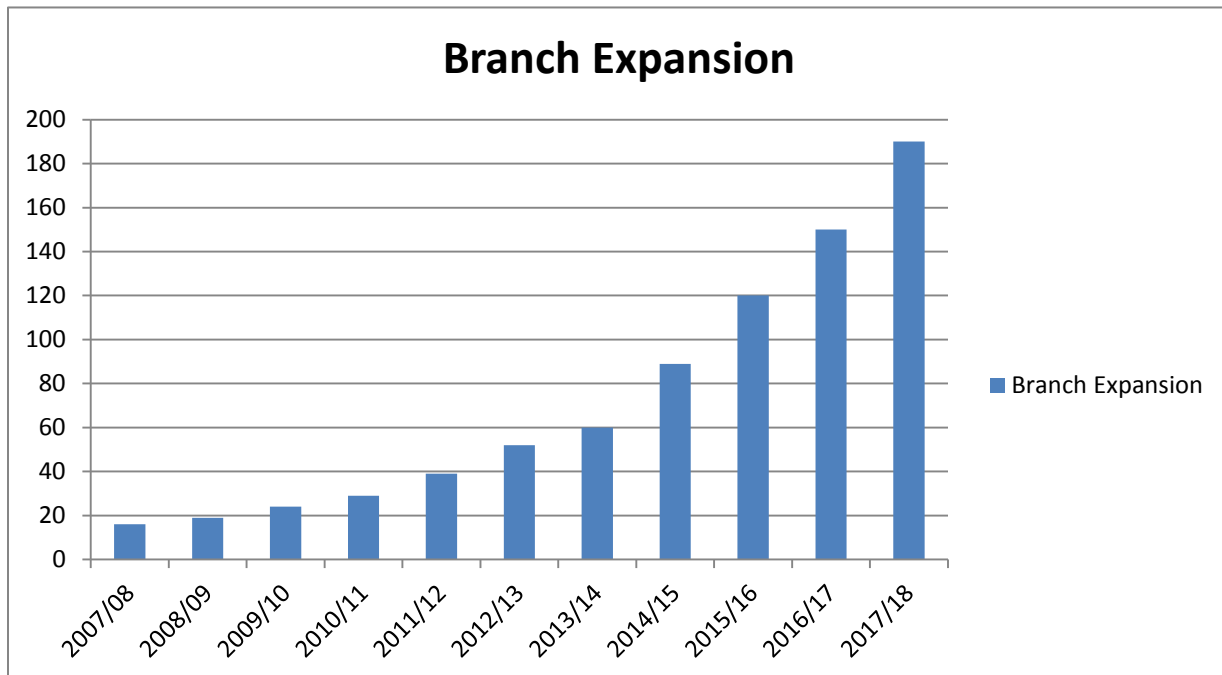
profitability. The effect of office rent is negative on overall profitability i.e. an increase in office rent by one unite result in the decrease in profitability by 0.017.

## 4.6 Presentation of Data from Secondary Sources

### 4.6.1 Branch expansion of LIB from 2007/8 to 2017/18

LIB has increased its branch network from 19 which was at the first year of its operation to 190 at the culminating of the fiscal year ended June 2018. Out of which, about sixty of them are located in Addis Ababa and the remaining in different towns of the country mostly in northern region. The branch expansion of the bank has increased at increasing rate that it has opened more than hundred branches during the last three years. The expansion of branches network shows healthy growth as per the strategic plan of the Bank.

Branch expansion and accessibility was one of the priorities of the board. Basically, the bank has embarked on expansion of branches across various regional states. (Annual report 2014/15)



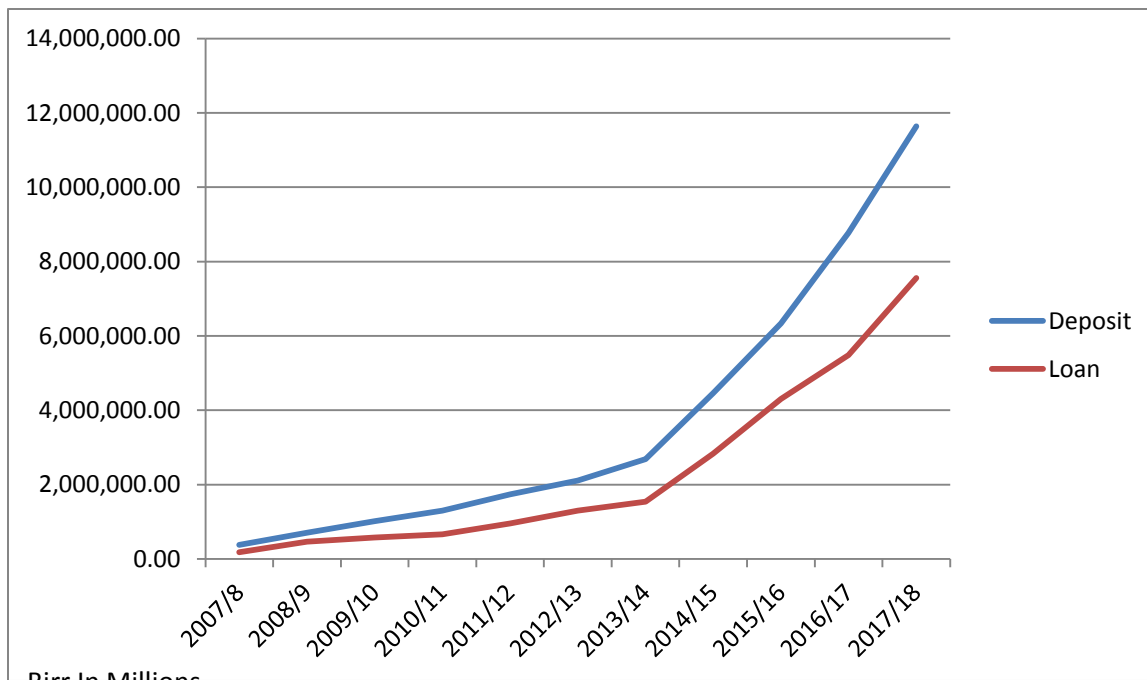
**Figure 4.1** – Branch expansion

Source: own compilation from annual reports of LIB

The financial year 2017/18 has witnessed a remarkable expansion in branch network. Accordingly, forty new branches were opened during that period, thus bringing the total number of LIB’s branches to 190 as at June 30, 2018.

#### 4.6.2 Deposit and loan of LIB from 2007/8 to 2017/18

The bank collects deposit in three forms, i.e. demand deposit, fixed time deposit and saving deposit. Among these form of deposits the largest proportion of deposit is the one that come form of saving deposit. At the ended June 2018, total deposits of the Bank have reached Birr 11.6 Billion which was 25 percent more than that of the preceding year. Parallel to the increase in deposit, the total outstanding loan of the bank grew by 36 percent and has reached Birr 7.56 billion as at the end of 2017/18 fiscal year. The outstanding balance of loans and advances accounts for 50 percent of the total asset structure of the Bank. Lion international Bank has a consistent growth record in both deposit and loans and advance. Following table shows this trend:



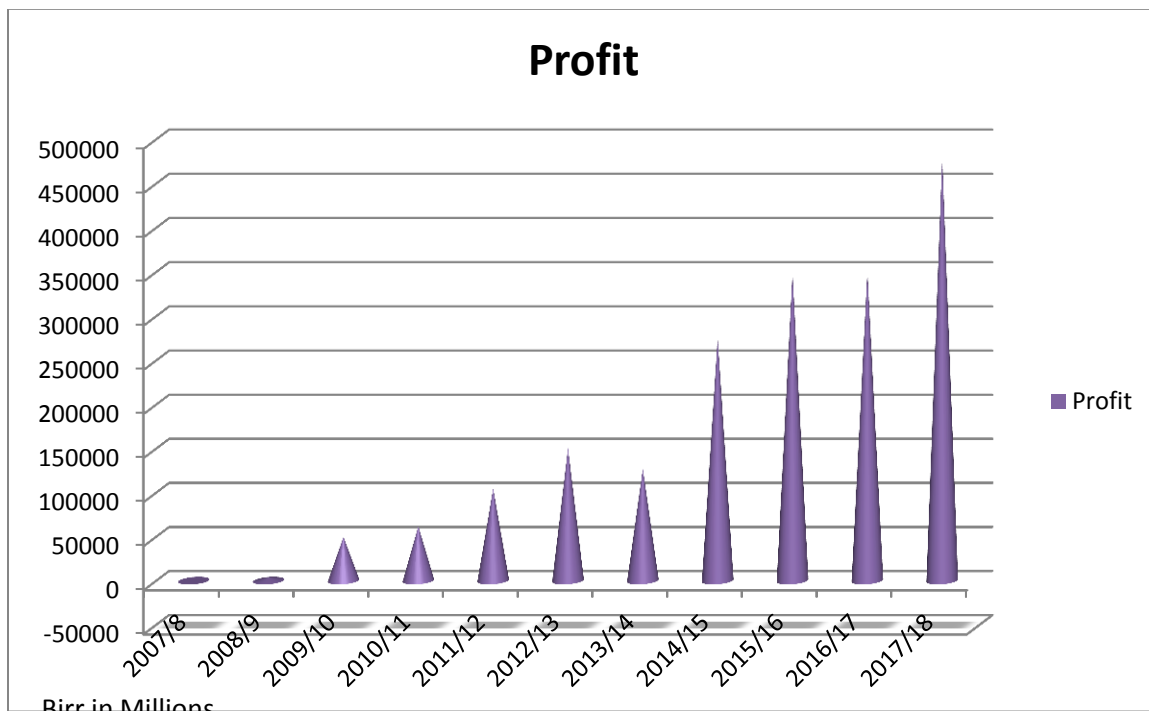
**Figure 4.2** – Deposit mobilization & Loan disbursement from 2008-2018

Source: own compilation from annual reports of LIB

From the figure shown above, it is observed that total loans and advances of the Bank noticeably rose to Birr 7.56 billion in 2017/18 from about Birr 5.48 Billion a year earlier due to the growing credit demand in the country associated with economic growth. To properly manage the increasing loan requests, aggressive works was required to increase the deposit level accordingly. As a result, the Bank’s loan/deposit ratio was improved to 65 percent from 62 percent which was the ratio of the previous financial year. Total deposits of the bank reached over Birr 11.64 billion as at the end of 2017/18 fiscal year, higher than that of last year by 25% which was Birr 8.77 billion. According to the bank’s annual report of 2017/18, this is mainly due to the successful deposit mobilization effort that was backed by aggressive resource mobilization strategy based on widening customer base and widespread branch network.

#### 4.6.3 Profitability of LIB from 2007/8 to 2017/18

For ten straight years, Lion International Bank has remained in course of profitability with a growing trend. The before tax and reserve profit of the bank for the past ten years is presented here below.



**Figure 4.3 – Profit of LIB 2008-2018**

Source: own compilation from annual reports of LIB

During the financial period ended June 30, 2018, the bank has gained the highest ever profit before tax and reserve of Birr 480.3 million with 54 percent increment over the previous year's Birr 312.8 million. According to the 'message from the board chairperson' on the bank's annual report, it is strongly believed that branch expansion is a key strategy for improved profitability of the Bank and will continue in the forthcoming fiscal years. (Annual report 2011/12)

In general, increasing its accessibility by opening more branches year to year and giving late hour service which extended the service to 11 hours a day for six days of a week, that made the Bank a pioneer in the industry (Annual report 2011/12) has enabled the bank to increase its deposit, loan disbursement and profitability.

#### **4.7 Discussion of Findings**

The objective of the study was to examine the impact of branch expansion on deposit mobilization, loan disbursement and profitability in the case of Lion International Bank S.C.

For this study, data were collected from 108 staffs of the bank and were analyzed. The first part of the analysis was concerning with general information pertaining to staff respondents. The result indicated that majority of the respondents were male. When it comes to age, the greater parts (81 percent) of the respondents are between the age of 18-35 years which indicates that the bank comprises staffs of young age which creates an opportunity for bank to further increase its branch expansion with the help of these energetic young population. Regarding the educational background, all of the respondents have diploma and above which indicates their capability to read and understand the self administered questionnaire properly. As to the work experience, majority (66 percent) of the respondents have served in the bank 1-6 years. In terms of the position in the bank, majority (59 percent) of the respondents are CSO and SCSO.

The analysis regarding the impact of branch expansion on deposit mobilization, loan disbursement and profitability of LIB indicated the overall perception of respondents regarding branch expansion dimensions namely: government policies, population growth, site of branch office and branch office rent. The discussion on the correlation between branch expansion dimensions and the dependent variable are presented as follows.

- The result of Pearson's correlation coefficient indicated that the independent variables, government policies, population growth, site of branch office and branch office rent, have

strong to moderate and positive correlation with the dependent variable *deposit mobilization*. Where the result indicated that government policies have strong and positive relationship with the dependent variable deposit mobilization with correlation ( $r=0.577$ ). Followed by population growth with value of ( $r=0.487$ ). The third dimension which has positive and significant relationship with deposit mobilization is site of bank branch with value of ( $r = 0.382$ ).The remaining dimension, bank branch office rent, have value of ( $r=0.293$ ) and positively but moderately relate to the dependent variable. These results correspond with the findings of Meyer, Khalily and Hushak (1990), Gunasekara and Kumari (2018) and Murthy and Haresh (1991).

- The correlation between the independent variables and the dependent variable which is *loan disbursement* indicated the presence of strong to weak and positive correlation. The result show that government policies have strong and positive relationship with the dependent variable with correlation value of ( $r=0.503$ ). Followed by population growth with value of ( $r=0.395$ ) and site of bank branch with value of ( $r = 0.308$ ) which have positive moderate relationship. The last dimension, bank branch office rent, have value of ( $r=0.097$ ) and positively but weakly related to the dependent variable. This has been supported by the research conducted by Hirtle (2007),
- The result of correlation coefficient indicated that the independent variables, government policies, population growth, site of branch office and branch office rent, have weak but positive correlation with the dependent variable *profitability*. The result indicated that government policies with value of ( $r=0.293$ ) population growth with value of ( $r=0.266$ ), site of bank branch with value of ( $r = 0.298$ ) and bank branch office rent with value of ( $r=0.138$ ) have positively but weakly relate to the dependent variable. These results correspond with the findings of Chironga, Cunha,De Grandis and Kuyoro (2018), AIB Annual Report 2014/15 and BIB annual report, 2016/17.

Multiple regression analysis was used to determine the relationship between the independent variables government policies, population growth, site of branch office and branch office rent and the dependent variables (deposit mobilization, loan disbursement and profitability). The result indicated that:

- The standardized beta value for government policies is 0.497. This indicates that, this dimension has relatively strong degree of importance on *deposit mobilization* than the others. Site of branch office, population growth and branch office rent with standardized beta value of 0.321, 0.247 and 0.043 respectively ranked second, third and fourth in influencing deposit mobilization. Thus, the hypothesis that there is no linear relationship between the predictors and the dependent variables is rejected.
- The beta for government policies is 0.460 indicating that this variable has relatively better importance on *loan disbursement* than the others. Site of branch office, population growth and branch office rent with standardized beta value of 0.290, 0.235 and -0.135 respectively follow government policies in influencing loan disbursement. Thus, the hypothesis that there is no linear relationship between the predictors and the dependent variables is rejected.
- The beta value for government policies is 0.260. This indicates that, this dimension has relatively strong significance on *profitability* than the others explanatory variables. Site of branch office, population growth and branch office rent with standardized beta value of 0.275, 0.129 and -0.017 respectively are the variables that take the second, third and fourth position in influencing profitability. Thus, the hypothesis that there is no linear relationship between the predictors and the dependent variables is rejected.

In general, the independent variables in the multi-regression analysis explained 54.2 % of the variance (R squared) in the dependent variable of deposit mobilization, 40.1% of loan disbursement and 19% of profitability. Thus, this result enable us to conclude that the level of deposit mobilization, loan disbursement and profitability in LIB could be interpreted as resulting from increased on the independent variables; government policies, population growth, site of branch office and branch office rent.

This research is relied on a 95% level of confidence; therefore a p-value equal to or less than 0.05 implies that the results are significant. As the regression analysis shown in chapter four and the summary table presented here below, H1, H2, H3, H5, H6, H7, H9 and H11 have a positive relationship with the dependent variables. Accordingly, these Hypotheses are not rejected. However, H4, and H10 have a positive but weak relationship with the independent variables with significance value of .557 and .197 respectively and H8 and H12 have a negative relationship

with the dependent variables with significant level of .106 and .861 which are all greater than 5% confidence interval. This indicates that, the impact of the predictor is statistically not significant. Therefore, Hypothesis 4, Hypothesis 8, Hypothesis 10 and Hypothesis 12 are rejected.

There were twelve hypotheses constructed in this study to answer the research question. Since Pearson correlation coefficient shows only the strength and direction of the relationship between variables, it is preferable to use regression analysis to test the influence of the independent variables on the dependent one.

**Table 5.1** Hypothesis results based on regression analysis

Hypothesis	Sig. level	Decision
H1: There is a positive relationship between government policy and deposit mobilization.	.000 ( $\beta=.497$ )	Accept
H2: There is a positive relationship between population growth and deposit mobilization.	.001 ( $\beta=.247$ )	Accept
H3: There is a positive relationship between location of a branch and deposit mobilization.	.000 ( $\beta=.321$ )	Accept
H4: There is a positive relationship between branch office rent and deposit mobilization.	.557 ( $\beta=.043$ )	Reject
H5: There is a positive relationship between government policy and loan disbursement.	.000 ( $\beta=.460$ )	Accept
H6: There is a positive relationship between population growth loan disbursements.	.007 ( $\beta=.235$ )	Accept
H7: There is a positive relationship between location of a branch and loan disbursement.	.000 ( $\beta=.290$ )	Accept
H8: There is a positive relationship between branch office rent and loan disbursement.	.106 ( $\beta=-.135$ )	Reject
H9: There is a positive relationship between government policy and profitability.	.007 ( $\beta=.260$ )	Accept
H10: There is a positive relationship between population growth and profitability.	.197 ( $\beta=.129$ )	Reject
H11: There is a positive relationship between location of a branch and profitability.	.004 ( $\beta=.275$ )	Accept
H12: There is a positive relationship between branch office rent and profitability.	.861 ( $\beta=-.017$ )	Reject

Source: Survey data (2019)

In general as table 5.1 shows, among the four independent variables, multiple linear regressions (Beta coefficients) analysis revealed that, government policy is the first most significant factor that is perceived to be important in the dependent variables followed by site of branch. Population growth takes the third place and branch office rent is regarded as the fourth most important factor of deposit mobilization, loan disbursement and profitability.

## **CHAPTER FIVE**

### **Summary, Conclusion and Recommendation**

In the preceding chapter the presentation, analysis and discussion of the data collected for this study was presented using descriptive statistics, correlation analysis and regression analysis. In this chapter, the summary of the findings and conclusion are drawn from the analysis. The recommendation is illustrated in the final section of this chapter based on the findings.

#### **5.1 Summary**

The purpose of this study was to investigate the impact of branch expansion (government policy, population growth, site of branch office and branch office rent) have on deposit mobilization, loan disbursement and profitability of Lion International bank S.C. Based on the findings presented in the previous section and chapter of this paper, the following conclusion were drawn.

The independent variables government policy, population growth and site of branch office are positively related with all the dependent variables while branch office rent is negatively related with loan disbursement and profitability. In line with this, there was a considerable growth in bank branch network, deposit, loan and profits. The relationship between these financial performance factors and branch network was significant. This means that the banks' growth in deposit, loan and profit highly relates to branch network. To this effect, LIB has opened about 40 branches during the fiscal year 2018/19 alone.

The possible two factors which contributed to the growth in deposit, loan and profit balances of Lion International Bank are branch expansion and extending the working hours of most of its branches up to 7.00 PM. Commensurate with this fact the total deposit balance of the bank is bigger year to year and the related loan and advance profit balances also increase with the pace of deposit balance which in turn is caused by opening more branches.

In general, the main factors that affect the deposit mobilization process of LIB and that can hinder the growth of the deposit balances of the bank are, people attitude towards using private banks, branch office location and competition with other local banks. Moreover, the increase in the number of branches and subsequently of deposit and profit of LIB is associated with the

growth in population. Surprisingly, the study has revealed that population growth does not contribute much to profitability of the Bank.

Increasing the number of branches and reaching for the unbanked but financially potential areas of the country has impact on deposit mobilization of the Bank. Selection of branch location is important for a bank to increase its deposit mobilization, disburse more loans and enhance its profitability. Unlike most of other local banks, the Bank does not offer gifts for new depositor or customers who make deposit above a certain amount which otherwise can facilitate its endeavor for deposit mobilization. Lion International Bank's branch opening distribution in Addis Ababa and outlying area is not balanced. The bank opened more branches in Addis Ababa than in other parts of the country. This is mainly due to the economic center of the city. The increasing of rental price of branch office negatively affects the profitability of the bank and rent expense is one of the major expenditure of LIB. The 27% government bill purchase does affect unconstructively the loan-able balance of the bank and subsequently its profitability.

## **5.2 Conclusion**

- ◆ There is a growth in bank branch network, deposit, loan and profits.
- ◆ The banks' growth in deposit, loan and profit highly relates to branch network.
- ◆ The main factor that affects performance of LIB is government policies.
- ◆ The increase in the number of branches deposit, and profit is associated with the growth in population.
- ◆ Selection of branch location is important for a bank to increase its deposit mobilization, disburse more loans and enhance its profitability.
- ◆ The increasing of rental cost of branch office negatively affects the profitability of the bank and rent expense is one of the major expenditure of LIB.

## **5.3 Recommendation**

Based on the results of the analysis and the conclusions drawn in the previous sections, the following measures are recommended to be considered by Lion International Bank S.C. or any interested parties that suppose the study is worthwhile.

- Since branch expansion has positive and significant effect on total deposit of commercial banks, Lion International bank should keep on expanding further its branches in order to increase its deposit as well as loan disbursement and profitability.
- If Ethiopia follows its current rate of growth, its population will double in the next 30 years, hitting 210 million by 2050. (<http://worldpopulationreview.com>). Therefore, the bank has to work out a means to benefit from this potential source of wealth. The bank must have adequate branches and deposits to meet the growing demand for loan that result from the increase in population. It cannot achieve this if there are no clear and farsighted strategies and planning prudently for the future to mobilize more deposit and urging people do savings.
- Location is one of the most important issues when it comes to requiring the services of a bank. Customers do care about the location of branches of a given bank and prefer banks with the shortest distance. Thus, banks should form a convenient and dense network of branches for their customers. People are in diverse places during the day and they should be able to find a nearby branch not only close to their homes but also close to where they work, shop, recreate and so on. Certainly proximity of branches increases the number of customers who will deposit their money in each branch. If we take the case of Addis Ababa, it is known that North-West of the city (Mesalemia, Ayertena, Kolfe, Pastor ...) is one of the busiest parts of Addis. However, the Bank does not open enough branches in this area that can enable it to tap the resource the area offers. Thus, it is advisable if the Bank considered opening more branches there and makes good use of it.
- It can be learnt from the records of the bank that its rent expense for 2016/17 fiscal year was Birr 58,554,025.00 which constitute 34% of the bank's General and Administrative expense of that year. The portion of rent expense for the fiscal year 2017/18 was soared to 39% of the G&A expense. Obviously this is a huge amount that should be reduced in order to make the Bank more profitable. Thus, Lion International Bank S.C. ought to build its own Head quarter as well as branch buildings at least at the main cities to reduce rental cost and increase its profitability.
- NBE bill purchase directive which compels private banks to buy NBE bills equivalent to 27% of their total loans at a relatively lower interest rate should be relaxed or revoked so that they can better compete with the state owned Commercial Bank of Ethiopia and

enhance their profitability. This relaxation or total reinstatement of the requirement of bill purchase can contribute in strengthening private banks and make them well prepared to withstand any competition that may arise if the government of Ethiopia allowed foreign banks to do business in our country.

#### **5.4 Suggestions for Future Research**

Although unreserved effort was exerted and it was tried to participate about 108 respondents to carry out this research, it is still not representative with regard to the whole Ethiopian banking sector. This study is just the first step and it is hoped that the findings could stimulate additional research. Few suggestions are forwarded here for the benefits of future research.

The bank used in this study may limit the applicability of the findings to the whole bank industry in our country. Thus, the student researcher suggests that further studies can examine more branches and different banks in the industry, which includes both private and government banks not only in Addis Ababa but other geographical areas throughout Ethiopia either to confirm or refine the findings of this study. This can increase the quality of the research and the wide applicability of results. Moreover, the data in this study were collected from financial sector specifically from banking industry. Further studies need to examine other service sectors to provide additional support for the generalization of the findings reported here (that related branch expansion with profitability). Additionally future research is recommended to identify other variables of branch expansion that affect deposit mobilization, loan disbursement and profitability and further intermediating factors because this study has evaluated the relationship only from four dimensions. Lastly, the research method used in the study is survey questionnaire; future research could be conducted to reinforce this study more thoroughly by using other means such as interviews and focus group discussions to gather deeper insights.

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**Appendix**  
**QUESTIONNAIRE**  
**Addis Ababa University**  
**College of Business and Economics**  
**MA Program in Business Administration**

Dear respondents,

This questionnaire is designed to collect information about **The Impact of Branch Expansion on Deposit Mobilization, Loan Disbursement and Profitability of Lion International Bank S.C.**

The information shall be used by the researcher to fulfill partial requirement for obtaining MBA in Management. The data will be used only for academic purpose. Stay assured that the information provided will be kept confidential and will not be used for any other purpose.

Therefore, you are kindly requested to provide to the best of your knowledge reliable, genuine, honest and prompt information, which will be a valuable input for the intended objective.

**Note:** please,

- Read each statement carefully
- Do not write your name
- Be informed that your confidentiality is maintained sincerely
- Put a tick (✓) mark or encircle (O) the choice corresponding to your response
- Give your answers for every statement

**Thank you in advance for your kind cooperation and timely response.**

## **PART I: RESPONDENT PROFILE**

**DIRECTION:** Please select your answer by encircling the appropriate number from the response categories against each question.

1.1 Gender: (1) Male (2) Female

1.2 Age: (1) 18-25 (2) 26-35 (3) 36-45 (4) 46-55 (5) above 55

1.3 Educational Level:

(1) Diploma (2) First degree (3) Master and above

1.4 Work experience in the banking industry:

(1) 1-3 (2) 4-6 (3) 7-9 (4) above 10

1.4 What is your position in LIB?

(1) Customer Service Officer

(2) Senior Customer Service Officer

(3) Auditor

(4) Customer Relationships Manager

(5) Branch Manager

(6) Director

**PART II - This part deals with branch expansion, government policy, location, rent, deposit mobilization, loan disbursement, and profitability.**

Please read each statements carefully and show the extent of your agreement on the statements by putting “✓” mark in the boxes using the following rating scales: Strongly disagree = (SD), Disagree = (D), Neutral = (N), Agree = (A), Strongly agree = (SA)

No		SD (1)	D (2)	N (3)	A (4)	SA (5)
<b>2.1 Government policy and banking business</b>						
1	NBE’s directive that require banks to open at least a specified number of branches yearly is challenging requirement for LIB					
2	27% bond purchase government policy affects negatively the viability of private banks in Ethiopia.					
3	Some directives of NBE are challenging to private banks					
4	Some directives of NBE affect negatively the profitability of private banks in Ethiopia.					
5	Government policy on banks treats equally private and government banks.					
6	The current financial policy of Ethiopia is encouraging to do banking business in the country					
7	Government’s policy that prevents foreign banks to enter Ethiopia is good for local banks.					
<b>2.2 Population growth and banking</b>						
8	Population growth bring opportunities to the bank to increase number of its branches					
9	The number of branches LIB has currently are enough to serve its customers					
10	The increase in the number of branches of LIB is associated with the growth in population					
11	Banking development in Ethiopia can be explained by the number of banks and bank branches in relation to total population.					
12	Bank branching are more dependent on population					
13	The number of bank branches is too small compared to the population of the country.					
14	Visibility or being known by the general public can contribute to branch expansion of the bank					
15	Inclusiveness or the need to serve all part of the society is a cause for branch expansion of LIB					
16	Demand for banking services would come from population size and growth.					

No		SD (1)	D (2)	N (3)	A (4)	SA (5)
<b>2.3 Site of bank branch</b>						
17	The bank is engaged in aggressively expanding its branches					
18	The bank has many branches which are near to its customers					
19	The bank opens its branches mostly in economically better-off area					
20	The bank opens its branches mostly in populated area					
21	The current Infrastructures reconstruction has effect on branch expansion of the bank					
22	Branch opening distribution in Addis Ababa and outlying area is fair					
23	Having branches in different geographic area can help the bank to diversify risk					
24	The bank's branches are convenient to its customers					
25	Customers require LIB to open more branches all over the country					
26	The bank has to continue on opening of additional new branches					
27	The branch distribution of LIB in city and outlying area is fair					
28	Selection of branch location is important for a bank.					
<b>2.4 Bank branch office rent</b>						
29	The current cost of rent LIB pays for its branch offices is fair					
30	Rent expense is one of the major expenditure of LIB					
31	It is preferable to use other alternative banking channels in order to minimize the expense on renting branch offices					
32	The introduction and development of ATM, internet banking and mobile banking negatively affect the need for opening branches					
33	Customers prefer to use branches rather than ATMs to withdraw cash					
34	It is preferable if LIB build rather than rent branch offices					
35	The increasing rental price will reduce the profitability of the bank					
<b>2.5 Deposit mobilization</b>						
36	Increasing the number of branches has impact on deposit mobilization of LIB					
37	One of the key functions of a branch is to collect deposits					
38	Location of the branch matters when it comes to deposit mobilization of LIB					
39	Population growth contributes to deposit mobilization of banks					
40	Government policy on branch opening has an impact on deposit mobilization of the bank					
41	Purchase of government 27% bill has impact on the deposit					

No		SD (1)	D (2)	N (3)	A (4)	SA (5)
	mobilization process of the bank.					
42	The current aggressive branch expansion and advertisement of other banks (specially CBE) affect LIB's deposit mobilization					
43	The growth in gross domestic product (GDP) contributes to deposit mobilization of the bank.					
44	Proximity of branches increases the number of customers who will deposit their money					
45	The bank offers different products to mobilize deposit					
46	The bank's promotion/advertisement increases its depositor number and deposit amount					
47	The current deposit mobilization practice of the bank is effective					
48	The bank staffs are eager to mobilize deposit					
49	The bank mostly offer gift for new depositor or customers who make deposit above a certain amount					
50	The bank trains its staff to mobilize deposit					
51	The bank collects cash directly from the customer office					
52	The bank handles staff salary payment of the customer company					
53	The competition from other bank is the main challenge to mobilize deposit					
54	The deposit habit of the society in private bank is the challenge to mobilize deposit					
55	The bank has good strategy to attract customers in relation to competitors					
56	The bank's overall deposit market share can increase if it open more branches					
57	People attitude towards private banks has influence on deposit mobilization of LIB					
58	Aggressive branch expansion and advertisement of CBE has affected LIB's deposit mobilization					
59	The extended service hours of the bank has helped it to mobilize more deposit					
<b>2.6 Loan disbursement</b>						
60	Increasing the number of branches has impact on loan disbursement of the bank					
61	Location of a branch has impact on number of credit customers of the bank					
62	Government policy on branch opening has an impact on loan disbursement of the bank					
63	27% bond purchase government policy affects negatively the loan disbursement of the bank.					
64	The bank has to open more branches since branches are an					

No		SD (1)	D (2)	N (3)	A (4)	SA (5)
	initial point of contact for new credit customers					
65	Currently the bank has enough deposit to satisfy the current loan request of its customers					
66	Aggressive branch expansion of other banks can have a negative effect on the market share of LIB in relation to credit customers					
67	The expansion of branches is the main reason for the increase in loans and advances					
68	The growth in gross domestic product (GDP) contributes to loan disbursement of the bank.					
<b>2.7 Profitability</b>						
69	Increasing the number of branches increases profitability of LIB					
70	Government policy on branch opening decreases profitability of the bank					
71	27% bond purchase government policy affects negatively the profitability of the bank.					
72	Location of a branch has impact on the bank's profitability					
73	The bank has good profit share comparing with competitors					
74	Aggressive branch expansion of other banks can have a negative effect on the profitability of LIB					
75	Increasing the number of branches increases interest income of the bank that contributes to its profitability.					
76	The growth in gross domestic product (GDP) contributes to opening of new branch that lead to profitability of the bank.					
77	Opening of more branch enhance income diversification of the bank resulting in the increase of profitability					