THE EFFECT OF INVESTMENT ON FINANCIAL PERFORMANCES:

THE CASE OF SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY: FEYSEL FARIS

A Thesis submitted to the department of accounting and finance College of Business and Economics, in Partial fulfillment for Requirements Master of Science degree (MSc) in Accounting and Finance

Adviser

Degefe Duressa (PhD)

September, 2024

ADDIS ABABA, ETHIOPIA

THE EFFECT OF INVESTMENT ON FINANCIAL PERFORMANCES IN CASE OF SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY: FEYSEL FARIS

DECLARATION

I, Feysel Faris, hereby declare that the thesis entitled "the effect of investment on financial performances in case of selected private commercial banks in Ethiopia" submitted by me for the award of the Degree of accounting and finance, Addis Ababa' University at Addis Ababa, is original work and it has not been presented for the award of any other Degree, Diploma, Fellowship or other similar titles of any other university or institution.

Place: Addis Ababa

Date: November, 2024

Name: Feysel Faris

Signature: 

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

THE EFFECT OF INVESTMENT ON FINANCIAL PERFORMANCES IN CASE OF SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY: FEYSEL FARIS

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Approved by Board of Examiners

Board of Examiners	Signature	Date
1. _____ Chairman	_____	_____
2. Degefa Dinsa Advisor		11/03/2025
3. Abebe Yitay Internal Examiner		13/03/2025
4. Dakito External Examiner		14/03/2025

Acknowledgment

First I thank almighty GOD for unfailing love and making it possible. Many people generously have contributed to this research to materialize successfully. Dr.Degefe Duressa, my advisor, provided me with the overall guidance and professional support throughout this research. I would like to thank him first for making invaluable comments and advice.

Special thanks go to my brother, who enlightened me at every stage of this study program with his unreserved overall support, guidance, professional and critical comments on the research. for his enthusiasm in encouraging and supporting me from the very beginning of my study. He was behind my success, with their endurance and understanding.

There are a number of people on the list of my acknowledgement who have contributed to the successful completion of this research. I thank all of them.

Feysel Faris

Table of Content

Contents

ABSTRACT ..... **IX**

CHAPTER ONE **1**

INTRODUCTION **1**

1.1. Background of the Study 1

1.2. Statement of the Problem 3

1.3. Objectives of the Study 5

1.3.1. General Objectives 5

1.3.2. Specific Objectives 5

1.4. Scope and Limitation 5

1.5. Significance of the Study 6

1.6. Organization of the Study 7

CHAPTER TWO **8**

LITERATURE REVIEW **8**

2.1. Investment concept 8

2.2. FINANCIAL PERFORMANCE 9

2.2.1. measuring bank performance 9

2.3. Investment in banks 10

2.4. importance of bank Investment. 11

2.5. types of bank Investment. 13

2.5.1. investment in Fixed Assets 13

2.5.2. investment in INTANGIBLE ASSET 14

2.5.3. INVESTMENT IN SHARE OR EQUITY, ... 15
2.5.4. INVESTMENT IN BILL AND bond 15
2.6. Empirical studies 16

CHAPTER THREE 21

RESEARCH METHODOLOGY 21
3.1 Research Area 21
3.2 Research Design 21
3.3 Data Type and Source 22
3.4. Sample Size Determination and Sampling Methods 22
3.5. Methods of Data Analysis 23
3.6. Data Processing and Presentation 23
3.7. Description of Variables 23
3.7.1. Dependent Variable 23
3.7.2. Independent Variables 24
3.8. Model Specification 24

CHAPTER FOUR 27

RESULTS AND DISCUSSION 27
4.1. Variables descriptive analysis 27
4.2. Bank descriptive analysis 28

4.4. MULTIPLE REGRESSION ANALYSIS AND MODEL SUMMARY RESULTS 31
4.4.2. STATISTICAL TEST ANALYSIS FOR REGRESSION 32
4.4.2.1. NORMALITY TEST, ... 32
4.4.2.2. MULTICOLLINEARITY TEST 33
4.4.2.3. HETEROSKEDASTICITY TEST 34
4.4.2.4 ANOVA test 34

4.4.1. R square 35

4.3. Correlation analysis 35

4.4.3. Multiple Regression Coefficients 37

4.4.4. Multiple Regression Model 38

CHAPTER FIVE 40

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION 40

5.1. Summary of findings, ... 40

5.2. Conclusion 42

5.3. RECOMMENDATION 43

Abstract

Investment has been a real concern in banking industry, because right investment is potentially an effective tool that banks can use to gain a strategic competitive advantage and improve its performance. The main purpose this paper was lack of studies in banks investment impact on financial performance in Ethiopia specifically in private banks. This research conducted on banks investment impact on their financial performance, with objective of assessing the influence fixed asset investment, intangible asset investment, investment in equity or share and investment in bill and bond on return on equity in selective private banks, by taking a sample of 4(four) banks from the overall 38private banks in Ethiopia. The study used return on equity (ROE) as dependent variable and fixed asset investment (IFA), intangible asset investment (IAI)t, investment in equity or share(IE) and investment in bill and bond(IBB) as independent variables. Data were collected from companies annual report data and multiple regression and correlation analysis was used to test the hypothesis developed and to show the relationship among the dependent variable and the independent variables. The study found that two variables of investment (fixed asset investment, and investment in equity or share) have positive and significance influence on banks return on investment and intangible asset investment have negative significant influence on banks return on investment. But the influence of investment in bill and bond is insignificance. Therefore, this research suggested to private bank to keep their focus on the variables affecting return on investment and take them into consideration in formulating strategies for improving banks performance on return on equity .

CHAPTER ONE

1. INTRODUCTION

In recent years, the banking industry in Ethiopia has undergone significant transformations, with a growing emphasis on investing in different areas. Recognizing the potential impact of such investments on the financial performance of banks, it is crucial to delve into the subject and explore its implications. This section introduces the study, defines key terms, and presents a review of relevant literature from around the world, Africa, and Ethiopia.

1.1. Background of the Study

According to the National Bank of Ethiopia's official website Modern banking in Ethiopia was introduced in 1905, (NBE, 2024) Banks in Ethiopia include both public-sector as well as private-sector banks. According to the report of (NBE, 2024).There are 32 29 private and 2 government-owned banks in the country, there are also banks in the establishment phase. Financial institutions play a critical role in economic resource distribution within the country (Bula et al., 2023). To play their role as banks, to be competitive in the industry, and also to ensure the long-term profitability of banks, banks invest in different assets. Investment is one of the solutions in this competitive environment to get a competitive advantage and win over competitors in getting customers (Rahman & Akhter, 2021).

Investment refers to the sacrifice made by firms today in their resources (time, money, and effort) to get more resources tomorrow(Nishikant Jha, n.d.). Based on yearly financial reports of commercial banks, the bank's yearly purchase or investment includes; Investment in property,

plant, and equipment, investment in intangible assets, investment in security, investment in bills and bonds, and others.

Different researchers conducted to investigate the impact of investment on banks' financial performance, study Olatunji & ---Adegbite (2014) and Mukosolu Okobo & Monday (2017)from Nigeria, study the impact of fixed assets on banks' financial performance, and other researchers have conducted studies to determine the impact of fixed asset investment on the banks' financial performance.

The investment in bills and bonds is studied by (das, 2014), (Salman, Mata, Kurfi, & Ado, 2020) in Nigeria studied as one variable found a significant negative impact on banks' performance. The study of intangible asset investment impact was studied in the oil and gas sector in Nigeria, and by (innocent, nwannebuike, & effong, 2022), in Srilanka banks by (Marian & Ikpor, 2017) the impact of investment in intangible assets was positive.

Specific to Ethiopia a study was conducted to measure the impact of investment on banks' performance by including bill, equity, and fixed assets as independent variables (Bula et al., 2023).But steel there is not enough study conducted to see the impact of investment on the financial performance of banks

1.2. Statement of the Problem

The banking industry in Ethiopia has witnessed rapid growth and technological advancements in recent years. As banks increasingly invest in different areas, it is essential to examine the impact of these investments on their financial performance. To address this need, this study aims to investigate the effect of investment on the financial performance of banks in Ethiopia. Although there is a growing body of literature on the topic of investment in the banking sector worldwide, the availability of empirical studies specifically focused on Ethiopia is limited especially on the impact of investment.

However, several valuable studies have examined related aspects within the Ethiopian context. A study by Bula et al. (2023) explored the relationship between fixed asset, bill, equity, and foreign deposit investment and the financial performance of selected Ethiopian banks. The findings indicated that increased investments in fixed assets and bills have negatively influenced financial performance, leading to a reduction of profitability and operational efficiency in the banking sector, but equity investment will lead positive impact on banks' performance.

Despite the existing studies in the Ethiopian context, there are still empirical gaps related to the specific effect of investment on the financial performance of banks in Ethiopia. These gaps include: first, there is a scarcity of enough quantitative studies that provide a comprehensive analysis of the relationship between each element of investments and financial performance in Ethiopian banks, because most of the studies conducted in a general and asset structure perspective. The other is, on this dynamic banking industry necessitate up-to-date research on the impact of investments. Most of the available studies in Ethiopian literature are dated, highlighting the need for current research to reflect the changing landscape and emerging trends.

So, this study aims to address the identified empirical and knowledge gaps by conducting a comprehensive quantitative analysis of the effect of investment on the financial performance of banks in Ethiopia. By examining banks and using recent data, this study will provide insights into the specific relationship between investments that include fixed assets, intangible assets, bills and bonds, and equity or shares with financial performance.

By filling these gaps, this study seeks to contribute to the existing body of literature on the subject in the Ethiopian context and provide relevant information for banks, policymakers, and researchers interested in understanding the impact of investing in fixed assets, intangible assets, bill and bond, and equity or share on the financial performance of banks in Ethiopia.

Based on the identified problem statement and the aim of this study, the following research questions are answered in this paper:

1. What is the effect of investing in fixed assets and intangible assets on the financial performance of banks in Ethiopia?
2. What is the effect of investing in bills and bonds, and equity on the financial performance of banks in Ethiopia?
3. What is the combined effect of investing in fixed assets intangible asset and bill and bond and equity on the financial performance of banks in Ethiopia?

1.3. Objectives of the Study

1.3.1. General Objectives

To assess the impact of investments in fixed assets, intangible asset, bill and bond and equity or share on the financial performance (return on equity) of banks in Ethiopia

1.3.2. Specific Objectives

This paper has three specific objectives are

To analyze the effect of investing in fixed assets on the return on equityof banks in Ethiopia.

To examine the effect of investing in intangible assets on the return on equityof banks in Ethiopia.

To analyze the effect of investing in equity on the return on equity of banks in Ethiopia.

To examine the effect of investing in bills and bonds on the return on equity of banks in Ethiopia.

To determine the combined effect of investing on the return on equity of banks in Ethiopia.

1.4. Scope and Limitation

This study will focus on banks in Ethiopia and will specifically examine the impact of investments on their financial performance. The study will utilize financial data and other relevant information from a selected sample of banks within Ethiopia. The time frame for the study will be limited to a specific period, which will be clearly defined as 2017- 2023.

The study used independent variables related to investment including fixed asset investment, bill and bond investment, equity investment, and intangible asset investment. The dependent variable that is used as a performance indicator for this research is the return on equity.

The study considered only selective eight private banks found in Ethiopia. Namely Awash Bank(AB), Cooperative Bank Of Oromia(COOP), Dashen Bank(DB), Abay Bank(ABY), Addis International Bank (AIB), Bank Of Abyssinia (BOA), Brhan Bank(BRH) And Zemen Bank(ZB).

The scopes stated above will create limitations of generalizability of the result for overall banks in Ethiopia because it focuses on selective banks and also the bank's investment is not only limited to the above investment variables, so the result may change when other investments are included.

1.5. Significance of the Study

The findings of this study can be of great significance to various stakeholders, including banks, policymakers, investors, and researchers. Banks can use the findings to make informed decisions about their investment strategies, so the findings of this paper will provide information related to which area of investment has more impact on the bank's performance.

Policymakers can gain insights into the impact of investments in fixed assets and technology on the overall financial sector. Investors can also benefit from understanding the relationship between investments in fixed assets and technology with banks' financial performance.

Finally, researchers can build upon this study to further expand the understanding of this topic. From an academic perspective, this study's insights should contribute to the future development of this line of research, particularly in a developing country like Ethiopia. Therefore, the present study will have significant value to practitioners and scholars alike.

This study aims to contribute to the existing body of knowledge by exploring the relationship between investments in fixed assets, technology, and the financial performance of banks in Ethiopia.

1.6. Organization of the Study

To achieve the above-stated objectives, the study is structured into five chapters, including the introduction part as chapter one; which includes a background of the study, a statement of the problem, the objectives of the study, the significance of the study, the scope of the study and problem /limitation of the study. The second chapter of this research report revealed the theoretical and conceptual framework. The methodology of the research, which includes research design, the data collection and the sources of data, sampling design, methods used in the analysis of data, and the constructions of the research model to test the hypotheses was presented in the third chapter. The fourth chapter presents the results and discussions of the research study, based on data collected by the researcher from secondary sources of data to accomplish the study. The final chapter summarizes the findings of the research work, concludes the results, and forwards recommendations based on the findings of the study

CHAPTER TWO

2. LITERATURE REVIEW

This chapter explores the theoretical foundation of the impact of investment on the financial performance of commercial banks in Ethiopia. The review has theoretical aspects related to investment, and financial performance and their components. An examination of previous research studies on the subject matter in empirical review, and a conclusion from the literature review indicates the gaps the research is addressing. Finally, this chapter also shows the conceptual framework of the study.

2.1. Investment concept

Investment is a broader concept that is defined in different ways by different scholars. From an entrepreneur's perspective investment is defined as the act of holding or sacrificing current interest to obtain more benefit or profit in the future, an entrepreneur can invest in bonds, stock, land, and so on. Economists used the broader concept of investment, and explain it as transactions that improve the magnitude of real aggregate wealth in the economy, by considering its impact on the economy and they explain further by specifying it as the purchase of new real durable assets such as factories and machines (Shubita, 2023) In another way, Investment from the company perspective can be defined as the sacrifice made by firms today in their resources (time, money, and effort) to get more resources tomorrow (Marian & Ikpor, 2017)

Generally, Commercial Banks generate revenue in the form of commission and service charges, interest from loans, foreign exchange deals, and others. The fund came from different sources like depositors, debt holders, and equity holders. The collected funds are invested in different areas like; the purchasing of bonds, purchase of shares, purchase of property and equipment,

purchase of intangible assets, and others. Banks invest to get more benefits from their investment because the proper utilization of resources is reflected in the firm's performance (Harasim, 2008). *For this* paper investment is defined as the sacrifice made by banks today in their money to get more money in the future.

2.2. FINANCIAL PERFORMANCE

Financial performance indicates the organization's financial condition and accomplishment in a given period (fatihudin, jusni, & mochklas, 2018). It is the most critical and continuously monitored aspect of commercial banks (Salman, Mata, Kurfi, & Ado, 2020). It also determines the operational efficiency of the organization (merin, 2016). To sustain themselves banks first need to sustain themselves by creating financial health. And improving it (dembel, 2020)..

The financial performance of the organization can be measured by capital adequacy, liquidity, solvency, efficiency, leverage, and profitability (fatihudin, jusni, & mochklas, 2018). A firm's financial performance determines its ability to operate and also its investment decisions. It is used to measure the achievements of an enterprise (Salman, Mata, Kurfi, & Ado, 2020).

2.2.1. measuring bank performance

one of the known models that describe bank performance is the CAMELS model, it is farmwork used to evaluate the financial performance and health of banks, the model focuses on six key dimensions that are described as the abbreviation of the model: C= capital adequacy, A= asset quality, M= management quality, E= earnings, L=liquidity, and S= sensitivity to market risk. this model is widely used to assess both the profitability and stability of banks (Rostami, 2015).

Earnings(E) is one of the six dimensions in the CAMELS model that is used to evaluate banks' financial performance. earning focuses on the profitability of the institution, it analyzes bank profitability or performance by using key metrics such as return on equity (ROE) and Return on Equality (ROE) (Rostami, 2015)..

For this study, return on equity (ROE) was used to measure of financial performance of banks. Return on equity s (ROE) indicates the profitability of banks, it is a ratio of income to its total equity often described as the primary ratio, it provides information about management's performance in using the assets of the business to generate income (Adam, 2014).

2.3. Investment in banks

Investment in the bank is often analyzed using key financial theories the impact of investment on bank performance depends on various factors, including the types of investment, regulatory environment, and market conditions. Theories support and explain investments by banks in different ways.

Stakeholder theory states that investment decisions in banks need to consider banks' long-term benefits like banks' reputation and long-term profitability by gaining public trust, so it states that banks need to invest in activities or areas that benefit multiple stakeholders (Freeman & Mcvea, 2021) . But Modern bank Theory of investment suggests that banks should allocate funds efficiently between loans, securities, and other investments to generate high returns on assets. Investments in low-risk government securities may stabilize ROA but yield lower profits. Conversely, higher-risk corporate or equity investments can offer higher returns, albeit with more volatility (Heffernan, 2005).

Neo-Classical investment theory is the other investment theory that is, suggests that investment decisions of banks need to be made based on expected profitability and future cash flows (Jorgenson, 1963). portfolio theory (James, Scott, & Ariel, 2024) states that banks need to optimize their investment

portfolios to diversify risk and maximize returns, and the model also acknowledges the importance of balancing return and risk by advising Investment in both short-term (e.g ., treasury bills)and long-term instruments(e.g., corporate bonds).

The investment made by banks is expected to generate revenue. So for this research portfolio investment theory idea that suggests the need for balancing short-term and long-term investment, will used as a base to develop the analysis for this research, by thinking that the quality of earning or net interest income generated from each birr total asset will determine the performance of the banks (dembel, 2020).

The earnings of banks are influenced by a different factor, both internal and external, which are essential indicators of banks' financial health and sustainability. bank's earnings are a function of how efficiently they manage internal resources, adapt to competitive pressures, and respond to macroeconomic conditions and regulatory requirements. institutions that optimize these variables can maintain sustainable profit and return on investment even during challenging economic periods.

2.4. importance of bank Investment.

The financial service sector in Ethiopia has shown rapid growth, and the number of banks in the country increased highly during this time. Competition between banks is high, each bank works to be better than their competitor and to be the number one customer choice. In this competitive environment, to be competitive and to improve financial performance, banks need to make efficient investments in the best area.

In this current environment, it is difficult to ignore the importance of the banking sector in the country's economy. It helps countries businesses development and growth by providing financial services such as lending, borrowing, and investing. To ensure the consistent support of banks for the development of businesses and the country's economy, banks need to be healthy in their financial level, because the financial profitability and value of banks are important indicators of the economic health of a country (Shubita, 2023).

banks engaged in different investment areas to generate revenue, manage risks, and contribute to the economic stability of the country. banks Investment activities also need to align with government rules and regulations and also need to meet growing environmental, social, and governance responsibilities.

Investments made by banks are expected to provide the following benefits, the first one is providing profitability and diversification, banks Investments are expected to allow banks to generate the expected level of profit and help banks manage risks related to investment by diversifying their portfolios beyond traditional loans. This ensures a steady stream of revenue and mitigates potential losses from lending activities. Secondly, bank's investment is expected to help in achieving Economic Growth and avoiding Liquidity, By investing in corporate bonds and public infrastructure, banks supply much-needed capital to government and businesses, supporting economic growth and maintaining liquidity during volatile periods (Athanasoglou, Delis, & Christos , 2006).Additionally, banks' investment is expected to create Sustainability Initiatives: In recent years, sustainable finance has gained prominence. banks integrate ESG criteria into their investments to support green projects, renewable energy, and social impact initiatives, aligning with global sustainability goals (Athanasoglou, Delis, & Christos , 2006).

2.5. Types of bank Investment.

Banks distribute investment across diverse asset classes to manage risks and comply with regulatory requirements while contributing to economic development. Some of the major investment areas of majority banks are Government securities: Investment in treasury bills and government bonds provide banks with stable,low-risk returns and help meet reserve requirements. The next are corporate bonds and commercial papers: banks invest in these instruments for higher returns compared to government securities, though they involve increased risks. And also real estate and infrastructure financing: by providing to real estate developers and infrastructure projects, such as renewable energy, green bonds, and socially responsible ventures in alignment with the global transition toward sustainability (Athanasoglou, Delis, & Christos , 2006).

Based on yearly financial reports of commercial banks, banks' yearly purchases or investments include; Investment in property, plant, and equipment, investments in intangible assets, investments in security, investments in bills and bonds, and others. For this paper banks' investments in fixed assets (property, plant, and equipment), investment in security, investment in bonds and bills and investment in intangible assets were, used as independent variables to measure commercial banks' performance.

2.5.1. Investment in Fixed Assets

Generally Fixed assets are more permanent assets that are intended to be used in the business rather than for sale and they include machinery, equipment, buildings, and land From a banking perspective fixed assets are also sterile in nature and do not directly generate earnings to banks, they employed to facilitate the performance of general banking activities, it constitutes an

essential part of the overall resources that are available for organizational use (Jorgeson, 1963) Fixed assets play a crucial role in the banking industry, as they help banks facilitate their operations, ensure compliance with regulations, and generate revenue (Freeman & Mcvea, 2021) This literature review aims to examine recent research and scholarly articles on fixed assets in banks.

2.5.2. Investment in INTANGIBLE ASSET

It is difficult to forget the importance of intangible assets in the performance banks. In today's economic environment, intangible assets combined with tangible assets play an important role in the development of any sector (prased, 2022).

Difficult to define Intangible assets. Intangible assets can take the form of licenses, patents, trademarks, a firm's reputation, or knowledge about processes or products; and also identified with skills or competencies treated as an ability to select and use resources properly in certain activities (Harasim, 2008).

Intangible assets can be divided into two categories: the first group belongs to the asset category and is shown in the balance sheet as intangible assets, the main element of this group of assets in banks being software (license bought or own research or development), and the second group not belonging to asset category and not included in the balance sheet: this group is very big and includes, for example, human resources, customer relationship, service quality, marketing and strategic skills in a broad sense, organization culture, brand, image, and reputation (Harasim, 2008). For this paper intangible asset refers to those intangible assets that are shown in the cash flow statement of the bank's annual audited report.

2.5.3. INVESTMENT IN SHARE OR EQUITY,

Equity investment is the investment that focuses on buying shares from other organizations in exchange for a fraction of the business's future cash flow and profit. banks invest in shares to diversify their portfolios and generate capital gains. while share investments can offer high returns, they also expose banks to market risk and potential volatility strategic share investments can enhance banks' profitability, but misjudgments in market timing or sectoral risks can lead to significant losses. Bank Equity investment is the bank's strategic investment in other entities (James, Scott, & Ariel, 2024).

Risk -Risk-return trade theory suggests that share investments offer high potential returns, but they also introduce greater volatility .strategic equity investments can improve profitability, but poor market timing can lead to significant losses. Incorporating these investment strategies requires balancing risk and reward to align with regulatory requirements and market conditions (James, Scott, & Ariel, 2024).

2.5.4. INVESTMENT IN BILL AND bond

Bond Investments provide banks with stable income streams and diversification benefits. bonds, especially government or corporate bonds, are often used to manage liquidity and help banks ensure stable returns during periods of low lending activity Because the owner of the bill and bonds are government the investment in the bill and bond is considered zero-risk investment (das, 2014).

Treasury bills are discounted short-term debt securities issued by governments and central banks with maturities of up to one year (Salman, Mata, Kurfi, & Ado, 2020). A bond is basically a loan issued by a corporation or government entity to pay the bondholder a specified amount of interest for a specified time (Salman, Mata, Kurfi, & Ado, 2020).

2.6. Empirical studies

Different studies measure investment impact on its performance by focusing on different national banks. Empirical studies reveal that different forms of investment in fixed assets, intangible assets, bonds, and shares can significantly impact banks' performance. These investments influence profitability, market valuation, and overall stability, though their effect can vary across regions. Types of banks, and economic environments. In this part findings related to banks' investment will reviewed and summarized.

Concerning Intangible Asset Investment, not enough Studies are conducted to see the impact of intangible asset investment on the financial performance of the organizations. The Research result shows that intangible investment, such as technology acquisition and employee training, positively influence financial performance by enhancing productivity and employee training,b and it leads to improved financial outcomes and competitive advantages (Bontempi & Mairesse, 2015). intangible assets are vitally important for a bank's competitive advantage, and Banks need to learn how to use and manage intangible assets (Harasim, 2008), The study of intangible asset investment impact was studied in the oil and gas sector in Nigeria and found that the impact of investment in intangible assets was positive on return on equity(innocent, nwannebuike, & effong, 2022). A study in Silence banks using banks' audited financial statements of 2005-2009,

measured intellectual property impact on banks' performance and found that intellectual property has a high impact on banks' performance (Marian & Ikpor, 2017).

Bank’s investment in fixed assets, such as property and equipment, has mixed effects While tangible infrastructure enhances service quality and capacity, excessive investment can reduce profitability due to higher capital maintenance costs. studies suggest that striking a balance between fixed and intangible investments ensures better financial outcomes. Different studies conducted to see the impact of fixed asset investment on banks' performance. Study in Nigerian measured how investment in fixed assets will affect bank performance and the study used building, information communication, technology, machinery, leasehold, land, and fixtures as independent variables, to measure fixed asset investment, a dependent variable is the bank performance measured by banks' net profit. They found a significant positive influence of fixed asset investment in technology, machinery, leasehold, and fixtures on a bank's net profit but the influence is negative for building, information communication, and land. The study collected data from bank's annual reports and the data was analyzed by using multiple regressions (Olatunji & Tajudeen, 2014). Another study in Nigeria also investigated the impact of fixed asset investment on bank performance, by focusing on investment in maintaining and acquisition investment in fixed asset. the study used a regression model, for data collected from 8 randomly selected banks, and found that both maintaining and repairing fixed assets and acquisition of fixed assets are negatively related to bank return on equity s (Marian & Ikpor, 2017). Studies in India also confirmed that the relationship between fixed asset investment and the return on equity s of banks is negative, but it also found that opening a new branch has a significant positive impact on return on equity s (Marian & Ikpor, 2017). The fixed asset investment impact on banks' performance was also investigated in Ethiopia banks, by including the National Bank of

Ethiopia bill, foreign bank deposits, and equity as investment variables combined with fixed assets. The study used from 2006 to 2020 annual reports of 8 public and private banks and found that investment in fixed assets has a significant negative impact on Ethiopian banks' performance and the same for bills. However foreign bank deposits and equity investments have a positive impact on the performance of banks in Ethiopia (Adam, 2014).

Investment in government and corporate bonds offers stable returns, providing a cushion during an economic downturn (Ahmed & Teru, 2020). However, over-reliance on bonds can limit growth prospects, as the returns may be lower compared to other high-risk assets (Rop, Dryusufkibet, & Dr. Jared Bok, 2016). This aligns with findings that suggest bonds serve as a stabilizing but conservative investment choice for banks. study in Nigeria reveals that investment in bonds has a significant but negative effect on return on the asset (Salman, Mata, Kurfi, & Ado, 2020). A study in Ethiopia measured the impact of bank bills and other investments on banks' performance and found that investment in bills has a significant negative impact on Ethiopian banks' performance. A study in Nigeria that investigated the relationship between the investment portfolio and banking financial performance used treasury bills as one investment portfolio variable, and found that treasury bills have a negative and insignificant effect on financial performance (Salman, Mata, Kurfi, & Ado, 2020). study in Nigeria reveals that investment in bonds has a significant but negative effect on return on the asset (Salman, Mata, Kurfi, & Ado, 2020). Investment in Bonds provides stability for banks in returns, but banks' profitability may decline in a situation of low-interest-rate environments Khan et al. (2019).In a study on Indonesian banks, Wibowo found that investments in government bonds have a stabilizing effect on ROA, as they provide consistent returns with minimal risk. However, overreliance on these low-yield assets limits profit potential Wibowo (2013)

Different studies found that investment in bond highly affected banks profitability but it increase banks exposure to market risk Nwankwo & Okeke (2018):.

Share Investment or Equity investment provide banks with higer potential returns but come with increased risks research indicates that well -managed eqity portfolios can significantly boost profitability. However, market volatility poses a challenge, requiring banks to to carefully manage their exposure to stock market risks to avoid substantial losses. Banks' investment in shares increases its returns Wang & Wang (2020), but it also increased the bank's exposure to market risk (Rop, Dryusufkibet, & Dr. Jared Bok, 2016).

To conclude Investment strategies significantly influence banks' ROA, with both theoretical and empirical evidence pointing to the importance of diversification, risk management, and efficiency in maximizing returns. Studies by Wibowo (2013), Hakim and Sugianto (2018), and Ratnasari and Nirmala (2024) demonstrate that well-planned investments are essential for sustainable profitability. (Chen, Hsin, & Teh, 2018).also argue that diversification of investment by banks across fixed assets, bonds, and shares helps banks optimize their profit and at the same time reduce risk that comes as a result of investment choice.

2.7. Conceptual Framework and Research Hypothesis

2.7.1. Fixed asset investment and ROE

Fixed assets are more permanent asset that are intended to use in the business rather than for sale and it include machineries, equipment's, building, and land. For this paper it represent banks investment in property, plant and equipment. studies shows that the relationship between fixed

asset investment with banks performance is negative, but still banks investment in those area increased significantly, so this paper try to weather

Hypothesis 1

Ho: Bank's investment in fixed assets has a positive and significant influence in Banks return on equity(ROE)

Ha: Banks' investment in fixed assets has no positive and significant influence on Banks' return on equity(ROE)

2.7.2. Intangible asset investment and ROE

Intangible asset investment refers those intangible assets investment that shown in the cash flow statement of the bank's annual audited report

- Hypothesis 2

Ho: Banks investment in intangible asset has positive and significant influence on Banks return on equity (ROE)

Ha: Banks investment in intangible asset has no positive and significant influence on Banks return on equity (ROE)

2.7.3 Bill and bond investment and ROE

Banks investment in debt securities issued by governments and central banks

- Hypothesis 3

Ho: Banks investment in bill and bond has positive and significant influence on Banks return on equity (ROE)

Ha: Banks investment in bill and bond has no positive and significant influence on Banks return on equity (ROE)

2.7.4. Equity investment and ROE

Equity investment is the investment that focuses on buying share from other organizations in exchange for a fraction of the business future cash flow and profit

- Hypothesis 4

Ho: Banks investment in equity has positive and significant influence on Banks return on equity(ROE)

Ha Banks investment in equity has no positive and significant influence on Banks return on equity(ROE)

3. CHAPTER THREE

4. RESEARCH METHODOLOGY

In this chapter how the study is carried out, designed and implemented discussed in order to achieve the research objective. The specific purpose of this chapter explained how to empirically examine the quantitative effect of investment on the banks performance, to present essential research methodology, choose appropriate research method and develop research hypothesis with its objectives. The methodology was conducted based on general and specific objective of the study.

3.1 Research Area

This study was carried out in Ethiopia with a particular emphasis on eight private banks. The study aimed to analyze various investment aspect and their impact on banks performance. By focusing on these institutions, the research provided valuable insight in to the banking sectors, by identify trend of investment and their impact on banks return on equity.

3.2 Research Design

research design is a plan and structure of investigation and how studies are put together (Reiner, Kotzab, Müller, & Seuring, 2006) . (Cooper & Schindler, 1998) also define research design as the process of focusing on the researcher's perspective for a particular study (leedy & Ormrod, 2005) define a research methodology as a means to extract the meaning of data. As the objective of the study reveals, the very purpose of this research is to examine the effect of Ethiopia commercial Banks' Investment on their financial performances. For this reason, the research is

more of a causal type. To benefit from the advantage of quantitative research approach was used for this study.

This study employs an explanatory survey research study design following more of a quantitative approach to examine how investment in banks affects their financial performance. The research design in this study also used a descriptive analysis, to describe the investment characteristics and by focusing on each variable. Also, It examines the independent variables and dependent variables and how they are interrelated to each other, multiple regression analysis were used to test the hypothesis drown and their relationship.

3.3 Data Type and Source

To measure the investment impact on banks financial performance Secondary data were applied. The data were collected from audited financial statements (cash flow statement) of each banks included in the sample. Only data from 2017 to 2023 were used for this study. All data was recorded on yearly base

3.4. Sample Size Determination and Sampling Methods

The total population of banks in Ethiopia commercial banks. Since the study covers 7 years. 32 banks that operated in the banking sector only banks operated before 2013 were included in the study, From those banks, only eight banks were included in this study (Awash Bank (AB), Dashen Bank (DB), Oromia Cooperative Bank (coop) and Zemen bank (ZB), bank of Abyssinia (BOA), a bay bank(ABY), Brihan bank(BHB), and Addis international bank(AIB)). The remaining banks which not included in this paper because the data they report related to the variables is not clear and reported in combination with other variable.

3.5. Methods of Data Analysis

The proposed hypotheses were tested by using statistical analyses that have been carried out using the following methods: First, descriptive statistics of the variables (both dependent and independent) were calculated over the sample period. A descriptive statistics method helps the researcher picture the existing situation and allows relevant information.

Then, a correlation analysis between dependent and independent variables was made. Finally, a regression approach including all of its assumptions was employed. Data collected from banks' annual financial reports was analyzed, by using the IBM SPSS Statistics 25 software package. Before running a regression analysis, diagnostic tests (Normality, Homoscedasticity, Multicollinearity, autocorrelation) were carried out to ensure the assumptions of the Classical Linear Model were not violated.

3.6. Data Processing and Presentation

IBM SPSS statistics version 23 software was used, and the processed data were presented by using tables.

3.7. Description of Variables

3.7.1. Dependent Variable

Return on equity s (ROE) measures how effectively a bank has utilized its existing physical capital to earn income. It is measured by the ratio of Net Income to Total equity. ROE is a useful measure of how well a bank manager is doing on the job because it indicates how well a bank's assets are being used to generate profits.

3.7.2. Independent Variables

Independent variables are those variables that describe as investment

- Investment in Fixed asset (IFA) = Bank investment in A permanent asset that is intended to be used in the business rather than for sale. It represents banks investment in property, plant, and equipment.
- **Investment in intangible asset** (IIA)= intangible asset investment refers to intangible assets investment shown in the cash flow statement of the bank's annual audited report
- **Investment in bills and bonds** (IBB)= Banks' investment in debt securities issued by governments and central banks
- **Investment in share /equity** (IE)= Equity investment is the investment that focuses on buying shares from other organizations in exchange for a fraction of the business's future cash flow and profit

3.8. Model Specification

The main objective of this research is to understand the effect of Investment on the financial performances of commercial Banks in Ethiopia, the dependent variable is return on equity (ROE) and the independent variables are investment in fixed assets (IFA), investment in intangible asset (IIA), investment in equity (IE), and investment in bond and bills (IBB). The researcher developed a multiple regression model in the following form.

$$Y = \beta 0 + \beta 1IFA + \beta 2IIA + \beta 3IE + \beta 4IBB + \varepsilon$$

Where explanatory variables are:-

- Y= financial performance measured by return on equity(ROE)
- ROE=return on equity
- β0 = constant term
- β1, β2, β3, β4 =represent estimated coefficient for each independent variable
- IFA = investment in fixed asset
- IIA = investment in intangible asset
- IE = investment in equity
- IBB = investment in bond and bills
- ε = Error term
- ROEit= β0 + β1CHit + β2FAit+ β3NBEBit + β4FADit+ ε

The following general econometric model was used to estimate quantitatively the customer loyalty in selective eight privet commercial banks in Ethiopia bank.

$$Yi = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 +$$

Where

- Y is the dependent variable - ROE=return on equity
- ,X1= fixed asset investment , X2 =intangible asset investment , X3=equity investment , X4= bill and bond investment
- β0is the intercept term that gives the mean or average effect on Y of all the variables excluded from the equation, although its mechanical interpretation is the average value of Y when the stated independent variables are set equal to zero.

- B1, β2, β3 β4and β5 are also refer to the coefficient of their respective independent variables which measure the change in the mean value of Y, per unit change in their respective independent variables.

CHAPTER FOUR

4.1. DATA ANALYSIS, PRESENTATION AND DISCUSSION

This chapter presents the results and analysis of data that were related to the selected banks return on equityand investments that are gathered from banks annual report. As per the sampling design, four banks were included in the study and seven-year data were included in this study. In this part, the descriptive and regression values of the variables were presented.

4.1. Variables descriptive analysis

Descriptive Statistics			
	Mean	Std. Deviation	N
ROE	20281643.67	5180476.00	56
IFA	**404951.40**	**564833.23**	**56**
IIA	**119701.26**	**267589.03**	**56**
IE	**115258.26**	**396078.00**	56
IBB	**987430.60**	**1377779.78**	**56**

Table 4.1 variables description

The above table describes each variable's mean and standard deviation values with their respective maximum and minimum values. The ROE result that banks get annually from 56 observations shows a mean result of 20281643.67 with standard deviation of 5180476.00. Concerning banks' investment the highest mean investment of banks is on IBB is a mean investment of 987430.60 with standard deviation of 1377779.78. followed by IFA, IIA, and IE respectively with respective mean investments of 404951.40; 119701.26, and 115258.26. With standard deviation of 564833.23, 267589.03 and 396078.00 respectively.

4.2. Banks descriptive analysis

In this part summary mean and standard deviation analysis results for items related to the variables for each bank were presented and discussed. The mean is the average value of each variable respected by the bank, and the standard deviation is the measure of dispersion from the mean.

4.2.1. Return on equity

Variable		AB	ABY	AIB	BOA	BRH	COOP	DB	ZB	Total
ROE	Mean	26443074.35	20280068.48	15099890.80	20174050.45	14623900.62	21854592.54	19893154.08	23884418.04	20281643.67
	N	7	7	7	7	7	7	7	7	56
	Std. Deviation	2832183.07	3114739.12	3229072.58	4676934.29	5698273.42	3886572.41	2392723.74	3391741.61	5180476.00

The result in the above table shows that the overall mean and standard deviation of ROE are 20281643.67and 5180476.00respectively, the highest mean recorded by AB is 26443074.35, and the lowest mean recorded by BRH is 14623900.62with a respected standard deviation value of 2832183.07and 5698273.42respectively. About all banks included in this study based on their mean value of ROE from top to bottom the first is AB, followed by ZB, COOP, ABY, BOA, DB, AIB, and BRH with their respective order.

4.2.2. Investment in bill and bond

Variable		AB	ABY	AIB	BOA	BRH	COOP	DB	ZB	Total
IBB	Mean	2377433.4286	210829.1229	141027.5714	1344270.8571	595398.1429	1433595.8571	1337482.0000	459407.8571	987430.6046
	N	7	7	7	7	7	7	7	7	56
	Std. Deviation	1362172.30997	356190.43163	94515.22671	3060457.46046	371918.92938	805653.16775	591433.60591	289952.07489	1377779.77871

Concerning the bank's IBB investment the overall mean and standard deviation values are 893821.5154 and 1377779.77871 respectively, from the overall eight banks included in this study the highest mean in IBB investment recorded by AB is 2377433.429, and the lowest mean investment in IBB recorded by AIB that is 141027.5714, with respected standard deviation value of 1362172.3099 and 94515.2267. to put all eight banks included in this study in a sequence of their investment in IBB, the highest investor AB is followed by COOP in the second place and

Variable		AB	ABY	AIB	BOA	BRH	COOP	DB	ZB	Total
IE	Mean	45413.0000	19531.6643	10715.9500	10715.9500	5749.5714	21442.4715	23100.5714	7191.8571	115258.2607
	N	7	7	7	7	7	7	7	7	56
	Std. Deviation	67103.49208	16435.56093	12810.53387	12810.53387	10986.07402	16705.71166	18346.10930	9884.80747	396078.00070

BOA, DB, BRH, ZB, ABY, and AIB followed from third to eighth respectively.

4.2.3. Investment in equity

Related to banks IE investment, IE overall mean and standard deviation investment values based on the above table are 18358.5875 and 28208.8234 respectively. BOA is the highest mean investor in IE with 789821.000 investment with a standard deviation of 67103.4921, followed by AB, DB, COOP, ABY, AIB, and BOA from second to eight, and ZB is the lowest mean investment or compared to the eight banks included in this study with mean IE investment of 7191.8571.

4.2.4. INVESTMENT IN INTANGIBLE ASSET

Variable		AB	ABY	AIB	BOA	BRH	COOP	DB	ZB	Total
IIA	Mean	47441.2857	6628.4877	23820.8571	92338.0000	3234.2857	590061.8571	145636.1873	48449.1429	119701.2629
	N	7	7	7	7	7	7	7	7	56
	Std. Deviation	51397.76104	10779.24492	36646.77743	62238.19074	4606.25519	531158.23855	227025.24978	38098.91029	267589.03069

The eight Banks' investment was also measured from an IIA perspective, based on the overall eight banks' IIA investment result, the overall mean score of banks' IIA investment is 108908.4411 with a standard deviation of 269472.25089. concerning individual banks' investment in IIA, COOP bank is the leading investor with a mean investment of 590061.857 with a standard deviation of 531158.2386 and BRH is the lowest mean IIA investor with a mean of 4614.8554, other banks DB, ZB, AB, AIB and ABY found in the middle from second to sixth respectively.

4.2.5. Investment in fixed asset

Variable		AB	ABY	AIB	BOA	BRH	COOP	DB	ZB	Total
IFA	Mean	1013458.5714	189523.2857	61135.0000	796613.8571	476702.2857	61990.4286	343804.05 71	296383.7143	404951.4000
	N	7	7	7	7	7	7	7	7	56
	Std. Deviation	1164715.47945	241835.39081	64434.69846	590254.75196	347925.86360	61547.34761	198569.26226	168139.68466	564833.23047

The IFA investment of seven banks' mean and standard deviation result shows 364962.4536 and 523200.16485 respectively, from the overall seven banks the highest mean investment in IFA contributed by AB 1013458.571and the lowest mean IFA recorded by AIB is 61135.00 with respected standard deviation value of 1164715.4795and 64434.6985 respectively. from top to bottom in their respective mean IFA investment, the first is AB, followed by BRH, BOA, DB, BOA, ZB, ABY, COOP, and AIB with their respective order.

4.4. Multiple Regression analysis and Model Summary results

Regression analysis describes the proportion of variation in one dependent variable accounted for by the other independent variable (Jorgeson, 1963). In this paper, multiple regression analysis is used to see the relationship between banks' return on equityand their selective investment and to test the hypothesis stated in the previous chapter. Multiple regression method used to know in what way the combination of several different variables relates to some particular measure (Crano & Brewer, 2002).

4.4.2. STATISTICAL TEST ANALYSIS FOR REGRESSION

Before discussing regression results the researcher should assess assumptions fundamental to the regression analysis.

4.4.2.1. NORMALITY TEST,

The normality test is intended to determine whether the distribution of the data follows a normal distribution or not, it helps to check whether most data's points cluster around the mean or not. To know whether the research data is normally distributed or not, we need to use the Kolmogorov- Smirnov test using SPSS. Decision-making process in the normality test with this test, If the significance value (Sig) is greater than 0.05, then the data is normally distributed research, If the significance value (Sig) is less than 0.05, then the research is not normally distributed.the row date of bank investment that gathered from the seven banks except the dependent variable that is ROE, other variables were found to be not normal, so to make the independent variables data normal the data was changed into the square root.

	Tests of Normality		
	Kolmogorov-Smirnov[a]		
	Statistic	df	Sig.
SRIBB	.114	56	.200*
SRIE	.258	56	.109*
SRIIA	.343	56	.053*
SRIFA	.243	56	.074*
SRROE	0.68	56	.200*
*. This is a lower bound of the true significance.			
a. Lilliefors Significance Correction			

Table 4.4.2 normality.

Based on the output of the sample Kolmogorov-Smirnov test, the variable Sig value for ROE = 0.200, SRIBB =0.200, SRIE =0.109, SRIIA=0.053 and SRIFA =0.074. All values are greater than 0.05. from this, it can be concluded that the data of all the independent variables are normally distributed.

4.4.2.2. MULTICOLLINEARITY TEST

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	SRIFA	.948	1.055
	SRIIA	.932	1.072
	SRIE	.966	1.035
	SRIBB	.972	1.029

Table 4.4.2.2. Multicollinearity Coefficients

A multicollinearity test was done to check the partial effect of one independent variable on the other independent variable. A good regression model should not correlate with the independent variables or not happen in multicollinearity. Multicollinearity between independent variables can be tested based on the VIF value of multicollinearity test results from Using SPSS. In using multicollinearity test If the VIF value lies between 1-10, it shows there is no multicollinearity between independent variables. If the VIF <1 or > 10, then it shows there is multicollinearity

Based on the coefficients output collinearity statistics obtained from the SPPSS result VIF of SRIBB is 1.029, SRIE of VIF is 1.035, The SRIIA of VIF is 1.072 and The VIF of SRIFA is 1.055. All the VIF value obtained is between 1to10. From this, we can conclude that there are no multicollinearity symptoms.

4.4.2.3. HETEROSKEDASTICITY TEST

	LM	Sig
BP	28.944	.000
Koenker	32.267	.000

Table 4..4.3 hetroskedasticity

Null hypothesis: heteroskedasticity not present (homoskedasticity), if sig-value less than 0.05, reject the null hypothesis, Note: Breusch-Pagan test is a large sample test and assumes the residuals to be normally distributed linearity, homoscedasticit

4.4.2.4 ANOVA test

The F-ratio shows or tests whether the overall regression method is a good fit for the data , if p<0.05 the regression model is a good fit for the data (Dhakal, 2018). Based on the respondent ANOVA table result below p=0.012 which is less than 0.05, The result indicates the regression model is a good fit for the data.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2039128437093 00.120	4	5097821092732 5.030	4.128	.012[b]
	Residual	2716630777234 64.800	51	1234832171470 2.945		
	Total	4755759214327 64.940	55			

a. Dependent Variable: SRROE

b. Predictors: (Constant), SRIFA, SRIBB, SRIIA, SRIE

Table 4.7. ANOVA result

4.4.1. R square

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.655[a]	.429	.325	3514017.88765

a. Predictors: (Constant), SRIBB, SRIFA, SRIE, SRIIA

Table 4.4.1 R square

R square measures measured a combination of scores on the predictors, which measures the combination effect of independent variables on the variable of interest that is criterion. based on the above table R square value is 42.9 %, which means the sum of factors of independent variables (IFA, IIA, IBB, IE) factors explains 42.9 % of the change in dependent variable (ROE). From this, we can conclude that 42.9 % of ROE decisions depend upon the four investment factors in this study. Whereas, 57.1% of ROE decisions are dependent upon other unspecified independent variables. The model was considered as adequate as indicated by the

4.3. Correlation analysis

Correlation intended to answer the direction and magnitude of the relationship between the two variables (cohen, manion, & morrison, 2007) , the direction of the relationship can be +1 which is a perfect positive relationship, or -1 which is a perfect negative relationship (Jorgeson, 1963) .

Pearson r is the most commonly used statistic for parametric correlation. Pearson correlation measures the extent to which variation in one measurement is accompanied consistently by direct or inverse variation in the other measure. Based on the correlation coefficient the association

between variables can be very strong (for correlation coefficient > 0.7), Substantial (for correlation coefficient From0.50 upto0.69), Moderate (for correlation coefficient from 0.30 up to 0.49), Low (for correlation coefficient from 0.10 up to 0.29), or negligible (for correlation coefficient from 0.01 up to 0.09) (Crano & Brewer, 2002).

Based on the correlation table stated below IE has a Substantial association with ROE with 0.521, have IFA has a Moderate association with 0.472 but IIA and IBB has a lower association with ROE with -0.066 and 0.106 respectively. Concerning the association's significance level all variables IIA, IFA, IE, and IBB have significant values of 0.371, 0.006., 0.003, and .020 respectively. Because the values of significant levels for all variables except IIA are below 0.05, we can say that the association is significant.

Correlations

		SRROE	SRIBB	SRIE	SRIIA	SRIFA
Pearson Correlation	SRROE	1.000				
	SRIBB	.106	1.000			
	SRIE	.521	.189	1.000		
	SRIIA	-.066	-.147	-.125	1.000	
	SRIFA	.472	.009	.157	-.068	1.000
Sig. (1-tailed)	SRROE	.				
	SRIBB	.020	.			
	SRIE	.003	.173	.		
	SRIIA	.371	.233	.268	.	.
	SRIFA	.006	.482	.216	.367	.
N	SRROE	56				
	SRIBB	56	56			
	SRIE	56	56	56		
	SRIIA	56	56	56	56	
	SRIFA	56	56	56	56	56

Table 4.3 Correlation.

The above result indicates that three variables, IBB, IFA, and IE, are positively related to ROE, but the other variable, IIA, is negatively related to ROE. The p-value also indicates that all the independent variables are significant except IIA because their p-value is less than 0.05. The result of the collected data shows the researcher that research should be done. The independent variables significantly affect the dependent variables.

The correlation indicates that the positive increment in the independent variables has a positive and negative effect on ROE. Investment in IBB, IE, and IFA by banks would result in a positive effect on banks' ROE, which means they go with a similar direction increase in the independent variables (IIA, IE, or IFA) also increases the dependent variable that is ROE. Investment in IIA by banks would result in a negative effect on banks' ROE, which means it goes in the opposite direction.

4.4.3. Multiple Regression Coefficients

The statistical significance of each independent variable was measured to see the usefulness of each explanatory variable in the multiple regression model, if $p<0.05$ the coefficients are statistically significant (Dhakal, 2018).

According to Table 4.8 beta result, IE explains the change in ROE decision with (Beta=0.457), which means a one square root unit increase or positive change in IE would lead to a 0.457 unit increase in the level of ROE. followed IFA with (Beta=0. 0.402) in explaining the change in ROE. However, the beta value of IBB and IIA is not relevant because it is not significant, because there significant value result shows the result of 0.901and 0.90 respectively, that is above the significant level 0.05.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19147633.055	1305272.618		14.669	.000
	SRIBB	.057	.497	.019	.114	.910
	SRIE	52.473	19.148	.457	2.740	.012
	SRIIA	.250	1.963	.021	.127	.900
	SRIFA	2.312	.941	.402	2.457	.022

Table 4.4.3. Multiple regression Coefficients

Based on the above table, the significant value of IBB, IIA, IE, and IFA shows 0.91, 0.90, 0.012, and 0.022, respectively. The IE and IFA significance values are below the significance level ($p<0.05$), which means the two variables (IE, and IFA) are significant to predict ROE. Based on the above analysis we can conclude that the second (IE), and fourth (IFA) null hypotheses that say there is significant influence in determining ROE are accepted and the alternate hypotheses are rejected, which say there is no significant influence in determining ROE.

But the first (IBB) and third (IIA) variable null hypotheses which say there is significant influence in determining ROE is rejected and the alternate hypotheses which say there is no significant influence in determining ROE is accepted.

4.4.4. Multiple Regression Model

The multiple regression model in this study shows the influencing relationship between dependent variables (ROE) and independent variables (IBB, IE, IIA, and IFA). The basic objective of using regression equation on this study is to make the researcher more effective at describing, understanding, predicting, and controlling the stated variable.

Mathematically, Yi = β0+ β1X1+ β2X2+ β3X3+ β4X4+ β5X5 it means Y is the dependent variable - ROE, X1= IBB, X2 =IE, X3=IIA, and X4=IFA, are the independent variables and β0is the intercept term and also β1, β2, β3 and β4 are also refer to the coefficient of their respective independent variables which measure the change in the mean value of Y, per unit change in their respective independent variables.

Based on the significant level result because the IBB significant value is rejected, it is not included in the regression formula of the model. so the model includes only three variables X2 =IE, X3=IIA, and X4=IFA.

$$\boldsymbol{ROE = \beta 0 + \beta 2\ (IE) + \beta 4\ (IFA)}$$

Or

$$\boldsymbol{ROE} = 19147633.055 + .457\ \boldsymbol{(IE)} + .402\ \boldsymbol{(IFA)}$$

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION

This descriptive and explanatory study assessed the influence of investment on banks' performance, to make recommendations about how to improve the investment portfolio. The discussion in this part centered on the most important findings regarding the ROE as a performance indicator and bank investment that include investment in fixed assets, equity, bell and bond, and intangible assets. The study involved 7 years data of from four banks for a better understanding of the investment impact on banks' return on equity s. The banks were selected based on the availability of data concerning the variables. Data were collected from the annual reports of each bank. Analysis was done using both descriptive statistics including tools such as mean, and standard deviation, and correlation which is a multiple linear regression analysis to identify the relationship between banks' investment and return on equity s.

5.1. Summary of findings,

In this part the major findings found from descriptive statistics, correlation, and multiple regressions were presented in a summarized form, the summary result presented as follows:

Based on the descriptive analysis and mean values generated by the descriptive statistics, it shows that The ROE result that banks get annually from 56 observations in seven years shows a mean result of 20281643.67 ROE gain. From the selected investment area banks investment shows highest mean investment of banks in IBB with mean investment of 893821.5154, followed by IFA, IIA, and IE respectively with respective mean investments of 364962.4536; 108909.4411 and 18358.5875.

The highest mean recorded by AB which is 26443074.35and the lowest mean ROE recorded by BRH which is 14623900.62. Concerning investment, the highest mean IBB recorded by AB that is 2377433.429,

AB also the highest mean IE record of 45413.000, IIA investment is led by COOP bank with mean investment590061.857 and the highest mean investment in IFA invested by AB that 1013458.57. This figure shows that Awash Bank is the leading bank in many of its investments.

The Pearson correlation result shows that IE and IFA have a Substantial and moderate association with ROE respectively with .521 and.472 respective value. IIA has a lower association with -0.066, and IBB also has a lower association with ROE with .106. concerning the association's significance level, the three variables IE, IFA, and IBB have significant values of .003, .006, and .020 respectively. Because the values are below 0.05, we can say that the association is significant. However, the association significance level of the IIA variable is 0.371, which is above 0.05, so we can say that the association is insignificant. Investment in IBB, IE, and IFA by banks would result positive effect on banks' ROE, which means they go with a similar direction increase in the independent variables (IBB, IE, or IFA) and also increase the dependent variable which is ROE. but Investment in IIA by banks would result negative effect on banks' ROE, which means it goes in the opposite direction.

Based on the above table, significant value of IBB, IE, IIA and IFA shows 0.020, 0.003, 0.371 and 0.006, respectively. Except the IIA value all variables significance value are below the significance level ($p<0.05$), this means the three variables (IE, IIA and IFA) are significant to predict ROE. Based on the above analysis we can conclude that the second (IE), and fourth (IFA) null hypotheses that say there is significant influence in determining ROE are accepted and the

alternate hypotheses are rejected, which say there is no significant influence in determining ROE. But the first (IBB) and third IIA variable null hypotheses that say there is significant influence in determining ROE is rejected and the alternate hypotheses which say there is no significant influence in determining ROE is accepted.

According the table 4.8 beta result IE explain the change in ROE decision with (Beta=0.457), it means a one square root unit increase or positive change in IE would lead to a 0.457unit increase in the level of ROE. IFA followed IE with (B=0.402) in explaining the change in ROE. But the beta value of IBB and IIA are not relevant because they are not significant.

Based on the multiple regression analysis result, the two variables IE, and IFA are significant to influence ROE, and both of them IE, and IFA are positive and significant influence in determining ROE, the other variables IIA and IBB have not significant and not useful for the multiple regression models and they have no positive and significant influence in determining ROE.

5.2. Conclusion

From the finding IE, and IFA are positively association with ROE. This shows any improvement in IE and IFA can bring a positive improvement for ROE.

Based on the finding on multiple regression the two variables; IE, and IFA are significant to predict ROE and they have significant influence in determining ROE. But IBB and IBB are not significant and not useful for the multiple regression models and it has no positive and significant influence in determining ROE. From this finding we can conclude that IE, and IFA plays a very crucial role towards the improvement of ROE in banks.

5.3. RECOMMENDATION

Ways Banks Can Improve ROE Through Investment in Equity and Fixed Assets Enhancing Investment in Equity (IEQ) Strategic Equity Investments: Banks can invest in equity markets, including publicly traded stocks and private equity, to generate capital gains and dividends, thereby improving ROE (Mishkin, 2021).Diversification of Investment Portfolio: A well-diversified equity portfolio reduces risk while maximizing returns, leading to higher profitability and better capital efficiency (Freeman & Mcvea, 2021).Leveraging Investment Banking Services Banks engaged in underwriting and trading of equities can generate substantial non-interest income, which contributes positively to ROE (Freeman & Mcvea, 2021)

Optimizing Investment in Fixed Assets (IFA) Technology and Digital Infrastructure Investment: Banks investing in digital banking platforms, automation, and AI-driven financial services can reduce operational costs and improve efficiency (Olatunji & Tajudeen, 2014). Branch Network Optimization: Expanding in high-growth areas while consolidating underperforming branches can improve asset utilization and enhance financial returns (Berger & Humphrey, 1997).Real Estate and Property Management: Strategic investment in owned properties instead of leasing can lead to cost savings and capital appreciation, positively impacting ROE (Saunders & Cornett, 2022).

The study also reveals a significant relationship between IE, and IFA with ROE. Therefore, it is highly recommendable for the banks to work on IE, and IFA, especially on IE, and IFA because their effect on ROE is larger and positive.

Results provide evidence that IE, and IFA influences ROE. Therefore, this research could be used as a guide for banks to keep their focus on the variables affecting ROE and take them into consideration in formulating strategies for developing and improving ROE.

Reference

Adam, M. H. (2014, August). Evaluating the Financial Performance of Banks Using Financial Ratios- A Case Study of Erbil Bank for Investment and Finance . *European Journal of Accounting Auditing and Finance Research, 2*(6), 162-177.

Ahmed, A., & Teru, D. (2020). The impact of capital structure on financialperformance of the listed deposit money banks:evidence from Nigeria. *International Journal of Research in Finance and Management 2020;*, 13-18.

Athanasoglou, P. P., Delis, M. D., & Christos , S. K. (2006, September). *DETERMINANTS OF BANK PROFITABILITY IN THE SOUTH EASTERN EUROPEAN REGION.* Retrieved from https://www.bankofgreece.gr/Publications/Paper200647.pdf

Bontempi, M. E., & Mairesse, J. (2015). Intangible Capital and Productivity at the Firm Level:. *Economics of Innovation and New Technology · .*

Chen, N., Hsin, L. Y., & Teh, M. Y. (2018). Asset diversification and bank performance: Evidence from three Asian countries with a dual banking system. *Pacific-Basin Finance Journal*, 40-53.

cohen, l., manion, l., & morrison, k. (2007). *research methode in education* (sixth ed.). taylor and francies group.

Cooper, D. R., & Schindler, P. S. (1998). *Business Research Methods.* Irwin/McGraw-Hill, .

Crano, W. D., & Brewer, M. B. (2002). *Principles and Methods of Social Research* (2nd ed.). LAWRENCE ERLBAUM ASSOCIATES, PUBLISHERS.

das, b. c. (2014). investment in treasury bill and treasury bonds in 2013: astudy of bangladish. *international journal of economics ,finance, and management science*, 182-187.

dembel, b. (2020). factors affecting the performance of commercial banks (a case study on commercial banks in ethiopia):CAMEL rating. *research journal of finance and accounting, 11*(5), 1-11.

Dhakal, C. P. (2018). Interpreting the Basic Outputs (SPSS) of Multiple Linear Regression. *International Journal of Science and Research (IJSR)*, 1448-1452.

fatihudin, d., jusni, & mochklas, m. (2018). how measure financial performance. *international journal of civil enginerring and technology, 9*(6), 553-557.

Freeman, R. E., & Mcvea, J. F. (2021). A Stakeholder Approach to Strategic Management. *SSRN Electronic Journal*.

Harasim, J. (2008). THE ROLE OF INTANGIBLE ASSETS IN BANK'S COMPETITIVENESS AND EFFECTIVENESS. *journal of economics and management, 5*, 42-57.

Heffernan, S. (2005). *Modern Banking.* wiley.

innocent, e. c., nwannebuike, u. s., & effong, a. f. (2022). *advanced journal of management, accounting and finance, 7*(5), 32-48.

James, c., Scott, j., & Ariel, c. (2024). investing in equity funds. *The Journal of Finance*.

Jorgenson, D. (1963). Capital Theory and Investment Behavior. *The American Economic Review*, 247-259.

Jorgeson, W. D. (1963). *Capitan tyeory and invesstment bheavior* (Vols. 247-259). american economic associtions .

leedy, p. D., & Ormrod, J. E. (2005). *Practical Research: Planning and Design.* prentice Hall.

Marian, m., & Ikpor, I. M. (2017). impact of fixed asset investmrnt on banks financial performance in nigeria., (pp. 241-254).

merin, m. a. (2016). determinants of bank profitablity in ethiopia; a case of private commercial banks. *reserch journal of finance and accounting, 7*(7), 28-44.

NBE. (2024, sep 01). *Ntional bank of ethiopia*. Retrieved 09 09, 2024, from http://nbe.gov.et

Olatunji, T., & Tajudeen, A. (2014). Investment in Fixed Assets and Firm Profitability:Empirical Evidence from the Nigerian Banking Sector. *Asian Journal of Social Sciences and Management Studies*, 78-82, .

prased, s. (2022). intelectual capital and banking financial performance : asystematic review. *contemporary economic issue in asian countries*, *1.*

Reiner, G., Kotzab, H., Müller, M., & Seuring, S. (2006). *Research Methodologies in Supply Chain Management.* Physica-Verlag HD.

Rop, M. K., Dryusufkibet, & Dr. Jared Bok. (2016). Effect of investment Diversification on the Financial Performance of Commercial Banks in Kenya. *IOSR Journal of Business and Management*, 102-115.

Rostami, M. (2015). CAMELS' ANALYSIS IN BANKING INDUSTRY. *Global Journal of Engineering Science and Research Management*, 10-26.

Salman, A. D., Mata, B. A., Kurfi, A. K., & Ado, A. B. (2020). THE RELATIONSHIP BETWEEN THE INVESTMENT PORTFOLIO AND BANKING FINANCIAL PERFORMANCE IN NIGERIA. *ASIAN PEOPLE JOURNAL,, 3*(1), 141-151.

Shubita, M. F. (2023). The relationship between return on investment and Jordanian banks value. *Banks and Bank Systems,, 18* (1), 139-149.