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EXPANSION VERSUS RESTRICTION OF BANK BRANCHES: AIB AT A CROSS ROADS

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ABSTRACT: *Branch banking has gone through significant changes in response to a more competitive financial services market. The main objective of this study is to investigate whether branch restrictions are favorable or not as compared to branch expansions for AIB. The collected data were analyzed by using descriptive statistics and linear regression analysis. In the study it was found out that about 58% of branches of AIB incurred a loss as at December 31, 2012. Few branches such as Head office, Legehar, Gofa Sefer, and Merkato helped the bank to be profitable at large. Specifically, out of the 49 city branches, 49% were loss making branches. Besides, out of 43 outlying branches, 67% incurred a loss. Moreover, out of 31 new branches of AIB under study, 84% were at loss as at December 31, 2012. On the other hand, we found that branch expansion drive may not help the bank rise up deposit mobilization as deposits and loans out standings will continue to be concentrated in big branches. However, as opposed to the operational inefficiencies of the new branches, the bank is moving aggressively towards expanding branches. But the expansions of new branches imply the creation of additional losses and which is adversely affecting the profitability of the bank. Therefore, the bank should restrict its branches particularly in the face of growing inefficient branches. In line with this, the existing branches should be strengthened with new banking technologies rather than distributing resources everywhere in a way to expand branches which proved to be inefficient.*

KEYWORDS: Branch expansion, Awash International bank (AIB), loans, deposits, profits, branch restriction

INTRODUCTION

In the post 1991 era immense opportunities have been created in finance sector investment with policies encouraging private investors to invest in the banking institutions. Although the history of private commercial banks is short, the banks have managed to contribute their part in provision of banking services and sharing the monopolies enjoyed formerly by the state owned banks. As one of the major private banking institutions, Awash International Bank has aggressively entered into the opening of branches throughout the country.

According to Directive No. SBB/22/96, licensing and supervision of banking business of National Bank of Ethiopia; the term "Branch" shall include any branch office, branch agency, additional office, or any place of business at which deposits are received or cheques are paid out or money is lent and other banking business is solicited.

Branch banking has gone through significant changes in response to a more competitive financial services market. Branches of a bank engage in banking activities such as accepting deposits or making loans at facilities away from a bank's home office. 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 (Investopedia, 2012).

Many literatures reveal that banks can opt for either a unit banking or branch banking mode of service delivery to reach customers as well as for the large scale of operation. Branch banking is the act of doing banking business at a location that is separate from the bank's main location of business. Many large and small banks use branch banking in order to extend the reach of their services to different locations in a community, state, or country. Although a unit banking approach concentrates on a fixed branch modality, branch banking targets a wide scale of operation. Branch banking is the most common type of banking service delivery in Ethiopia. Though many banks in the country follow the branch banking system a unit banking approach is also being practiced.

Most of the services offered at a large bank can be completed at a branch banking location. Locations found in hotels and supermarkets often do not have as many options as other branch services; it is often not possible to "drive-through" at these locations, because the bank is located inside the store. Otherwise, these locations typically offer all other services, and generally include an automated teller machine (Miller, 2003).

Todd.et al (1999) stated that expansion of scale and scope in banking represents a puzzle. Banks may be doing this to increase their shareholders' wealth and/or merely to enhance the reputation of their management or the chief executive officer. The latter could lead to herd behavior involving banks that increase size and scope despite a dissipation of shareholders' wealth. Alternatively, increasing size and scope may offer strategic benefits (and hence increase shareholder wealth) in an environment with sufficient profitability in current operations and substantial uncertainty about future core competencies.

A study conducted by Kotak (2011) has concluded that branch expansion drive, will not help banks ramp up deposit mobilization, as deposits and loan out standings will continue to be concentrated in big urban markets. Performing an extensive review of communities in the locality, analyzing demographic trends and determining and prioritizing potential branch sites within these communities, conducting a willingness survey to determine the likely response of individuals to establish a bank branch are some of the major activities to be carried out before opening new branches.

According to Mark (2012), bank branches remain the preferred sales and service channel for certain types of customer activities, though the percentage of customers whose interactions with their banks are primarily through the branches is declining rapidly. In general, while growing numbers of customers find bank branches increasingly less convenient or necessary for a variety of routine transactions, they still value face to face interactions when engaged in more complicated activities. In the age of globalization banks reach customers not only by locating themselves nearer to the customers but also by using the various modern banking products. This circumstance in turn reduces the need for appearing personally to the bank office. In line with this, it is becoming evident for bank managements to boost the potentials of existing branches with better banking technologies rather than vigorously opening branches.

Justifications of the Study

Private commercial banks at large open new branches in the more urbanized areas of the country as opposed to the remote and backward rural areas where basic infrastructures are lacking. Due to this urban biased policy, they are unable to serve the people in the rural areas. However, accessibility to the remote and backward areas does not imply the provision of efficient services.

Kozo and Kazumine (2012) found out that focusing on the local activities without expanding branch network is associated with improved cost efficiency. Also, banks expanding branch network in certain level exhibit higher cost efficiency, whereas excessive branch expansion causes lower cost efficiency. However, their results indicate that excessive branch expansion also relates to lower profit efficiency. They suggest that adequate levels of branch expansion have positive impacts on both cost and profit efficiencies for banks through diversifying bank's portfolio.

The expansion of bank branches do have a number of implications as regards human as well as physical resources specifically man power requirement, fixed assets, training of personnel and other similar resource requirements. These in turn create a pressure on the profitability of the bank in general as new branches take time to transform themselves into profit making stage.

On the other hand, the recent introduction of electronic banking in the country creates an alternative way for reaching the potential customers. For instance, Automated Teller Machine, Mobile/SMS banking, Internet Banking, Agency Banking, and others are some of options which could be used side by side to the conventional front line branch banking. These developments of course will reduce the need for opening new branches and calls for strengthening the already existing branches with up to date banking technologies.

Above all, the possible introduction of agency banking in AIB may decrease the need for opening new branches particularly in major cities of the country. In other words, the likelihood of introducing local commissioned banks in supermarkets and in different shopping malls will reduce the need for expanding bank branches.

As the first private commercial bank in the country, Awash International Bank S.C has massively engaged in the expansion of branches. As of December 31, 2012 branches of the bank totaled ninety two. Besides, the bank planned to open twenty additional city (Addis Ababa) and outlying new branches annually till 2016. To the contrary, in some countries bank branching restriction is implemented by government to benefit small unit banks. Therefore, in this study the central question is why not the bank restricts opening new branches and strengthens the existing branches with new banking technologies.

As it is obvious new branches should be opened based on potential volume of business in the locality. However, customarily in Ethiopia bank branches are opened just to create a kind of regional distribution taking the experience of other banks. However, this study is initiated with a strong conviction that aggressive move towards opening new branches should be restricted as this create a pressure on the operational efficiency of the bank. As a result, strengthening existing branches with new banking technologies and introducing new approach to banking are compelling factors in this age of globalization.

Objective

The main objective of the study is to investigate whether branch restrictions are favorable or not as contrasted to branch expansions for AIB. The specific objectives of the study are to:

- Scrutinize the performance trends of expanding new bank branches
- Justify the need for restricting branch expansions
- Forward recommendations as to the strengthening of existing branches.

METHODOLOGY

In order to fully manage the study at hand, we have set the scope of investigation to include about 30% of total branches of AIB. Moreover, for the sake of this study we defined a new bank branch as a branch whose operating years are equal to or less than four years. Branch performance comparisons have also been made, viz, Major old branches vs. New Branches. To assess the performance trends of the new branches we used figures on deposits, loans, and interest income and expense, profits and liquidity ratio.

Secondary data sources were the main source of information utilized. In addition, personal observations were also carried out to reap relevant information on the topic of the study. The secondary sources used encompass different documents of the bank such as various quarterly progress reports, annual business plans, organizational policies of the bank, marketing strategies of the bank and other relevant resources. Moreover, crucial information was collected from the reports of the National Bank of Ethiopia.

We employed descriptive statistics for the analysis of the collected data. In this study descriptive analysis was chosen because of its simplicity and clarity to draw inferences. Besides, simple regression analysis was done to know how variables like loans affect the level of interest income in the expanding branches. Moreover, how deposit amount influence interest expenses was evaluated with the use of simple regression due to the fact that these variables are key determinants of the profitability of the bank.

REVIEW OF LITERATURES

Theoretical Literature

Merits of branch banking

Aparijita (2010) discusses that rapid growth and wide popularity of branch banking system in the 21st century are due to various advantages as stated below.

1. Economies of Large Scale Operations:

Under the branch banking system, the bank with a number of branches possesses huge financial resources and enjoys the benefits of large-scale operations,

(a) Highly trained and experienced staff is appointed which increases the efficiency of management,

(b) Division of labour is introduced in the banking operations which ensure greater economy in the working of the bank. Right persons are appointed at the right place and specialisation increases,

(c) Funds are made available liberally and at cheaper rates,

(d) Foreign exchange business is done economically,

(e) Large financial resources and wider geographical coverage increases public confidence in the banking system.

2. Spreading of Risk:

Another advantage of the branch banking system is the lesser risk and greater capacity to meet risks,

(a) Since there is geographical spreading and diversification of risks, the possibility of the failure of the of the bank is remote,

(b) The losses incurred by some branches may be offset by the profits earned by other branches,

(c) Large resources of branch banks increase their ability to face any crisis.

3. Economy in Cash Reserves:

Under the branch banking system, a particular branch can operate without keeping large amounts of idle reserves. In time of the need, resources can be transferred from one branch to another.

4. Diversification on Deposits and Assets:

There is greater diversification of both deposits and assets under branch banking system because of wider geographical coverage,

(a) Deposits are received from the areas where savings are in plenty,

(b) Loans are extended in those areas where funds are scarce and interest rates are high. The choice of securities and investments is larger in this system which increases the. Safety and liquidity of funds.

5. Cheap Remittance Facilities:

Since bank branches are spread over the whole country, it is easier and cheaper to transfer funds from one place to another. Inter-branch indebtedness is more easily adjusted than inter-bank indebtedness.

6. Uniform Interest Rates:

Under branch banking system, mobility of capital increases, which in turn, brings about equality in interest rates. Funds are transferred from areas with excessive demand for money to areas with deficit demand for money. As a result, the uniform rate of interest prevails in the whole area; it is prevented from rising in the excessive demand area and from falling in the deficit demand area.

7. Proper Use of Capital:

There is proper use of capital under the branch banking system. If a branch has excess reserves, but no opportunities for investment, it can transfer the resources to other branches which can make most profitable use of these resources.

8. Better Facilities to Customers:

The customers get better and greater facilities under the branch banking system. It is because of the small number of customers per branch and the increased efficiency achieved through large scale operations.

9. Banking Facilities in Backward Areas:

Under the branch banking system, the banking facilities are not restricted to big cities. They can be extended to small towns and rural as well as underdeveloped areas, thus, this system helps in the development of backward regions of the country.

10. Effective Control:

Under the branch banking system, The Central bank than have a more efficient control over the banks because it has to deal only with few big banks and nor with each individual branch. This ensures better implementation of monetary policy.

Demerits of Branch Banking

On the other hand, branch banking systems have the following limitations as stated in Diffen (2012):

1. Problem of Management:

Under the branch banking system a number of difficulties as regards management, supervision and control arise:

> (a) Since the management of the bank gets concentrated at the head office, the managers can afford to be lax and indulgent in their duties and are often involved in serious irregularities while using the funds.
>
> (b) Since the branch manager has to seek permission from the head office on each and every matter, this results in unnecessary delay and red tapism in the banking business.

2. Lack of Initiative:

Branch managers generally lack initiative on all-important matters; they cannot take independent decisions and have to wait for the clearance signal from the head office.

3. Monopolistic Tendencies:

Branch banking encourages monopolistic tendencies in the banking system. A few big banks dominate and control the whole banking system of the country through their branches. This can lead to the concentration of resources into a few hands.

4. Regional Imbalances:

Under branch banking system, the financial resources collected in the smaller and backward regions are transferred to the bigger industrial centres. This encourages regional imbalances in the country.

5. Adverse Linkage Effect:

Under branch banking system, the losses and weaknesses of some branches also have their effect on other branches of the bank.

6. Inefficient Branches:

In this system, the weak and unprofitable branches continue to operate under the protection cover of the large and more profitable branches.

7. Other Defects:

Other defects of branch banking system arc as follows:

(a) Preferential treatment is given to the branches near the head office,

(b) Higher interest rates are charged in the developed area to compensate for the lower rates charged in the backward areas,

(c) There is concentration and unhealthy competition among the branches of different banks in big cities.

EMPIRICAL LITERATURE

Nam and Ellinger (2008) in studying the financial and market characteristics of commercial banks' branch expansion decision, they have found out that the probability that banks with high deposit growth rate, assets, loan to deposit ratio or more branches open branches in rural area is less than the probability that those open branches in both areas. However, banks with high deposit growth rate, asset, loan to deposit ratio, agricultural loan rate, ROA and rural head office are more likely to open branches in both areas rather than in urban area.

According to Franklin.et al (2012) different types of banks are likely to follow different expansion strategies. While foreign banks may cherry-pick a set of elite customers and prefer urban and developed areas, domestic banks may exploit their superior knowledge of culture, social norms, and local communities and have a comparative advantage in rural and underdeveloped areas. For example, as part of its expansion strategy, Equity Bank emphasized that local languages be spoken in its branches, which is important considering that 30-40 percent of the people in central Kenya cannot speak Swahili and only speak a minority language. In addition, government-owned banks may pursue non-profit goals in their branching and expansions.

Mark and Kris (2002) argue that states in U.S.A that permitted statewide branching experienced lower failures rates, not because branch banks are more diversified, but because these laws had transforming effects on state banking systems. They increased the level of competition by breaking up local geographic monopolies, and encouraged consolidation by forcing inefficient banks to merge or exit the system.

Restrictions on branch banking hindered the development of large-scale American enterprises in the early twentieth century. Lacking the capability to branch and faced with regulations affecting the maximum size of loans, banks were unable to provide loans to cover the massive amount of financing required by large firms. As a result, the firms were forced to obtain external funding from alternative sources such as bonds, commercial paper, or equity (Daniel, 2005).

Celent (2012) contends that branches represent the undisputed premier channel for client acquisition and will remain at the heart of retail banks' distribution strategy. Despite the growing popularity of alternative distribution channels, branches will continue to be both relevant and strategically important for the foreseeable future. Why primarily because they play a central role in converting leads and contacts into tangible sales, and (at least for the time being) they are the preferred channel among many consumers for advice involving significant financial decisions. The current branch-based business model is unsustainable, and believes most banks underestimate the changes that will have to be made to remain viable over the next five years. The importance of branches will wane facing growth in other channels. The call for branch transformation is both urgent and important. But it must not be done in a vacuum. Delivery channels and their underlying infrastructure are all interdependent.

RESULTS AND DISCUSSION

Linear Regression Analysis

Many new branches performed poor as compared to old branches as they incur loss usually, which is of course offset by other profitable branches (table 6-9). At this junction, it is of great importance to look at how much the status of loans and deposits influence the interest income and interest expenses in the new branches. To do so we use linear regression analysis.

The result from descriptive statistics in Table 1 shows that average amount of loans extended by 31 *new branches* of AIB scrutinized in detail in this study was Birr 9.8 million, whereas the average interest income earned equal an amount of Birr 923,677.4. On the other hand, the mean amount of deposits mobilized was Birr 23.7 million with average interest expense paid which amounted to Birr 401,483.8.

Table 1. Descriptive statistics (N=31)

Items	Mean	Std. Deviation
Loans	9,766,258.1	14,418,571.1
Interest income	923,677.4	1,567,811.4
Deposits	23,680,516.1	33,250,740.3
Interest expense	401,483.8	725,843.2

As it is depicted in Table 2 the R square value is 0.905 implying that 90.5% of the variations in the amount of interest expenses on deposits by 31 new branches of Awash International Bank are explained by the changes in the amounts of deposits mobilized. On the other hand, the R value indicates strong positive linear relationships between amount of interest expenses and amount of deposits mobilized.

Table 2 also shows that R^2 value for loan vs. Interest income is 0.968 implying that 96.8% of the variations in the amount of interest income on loans by 31 new branches of Awash International Bank are explained by the changes in the amounts of loans extended. On the other hand, the R value of 0.984 indicates strong positive linear relationships between amount of interest income and loans extended.

Table 2. Value of the coefficient of determination

Items	R	R Square	Adjusted R Square
Deposits vs. interest expense	0.951	0.905	0.901
loan vs. Interest income	0.984	0.968	0.967

Dependent variables: Interest expenses and Interest income

Predictors /constants: Deposits and loans

Table 3. Coefficients of the model-I (loan vs. Interest income)

Model	Un standardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
Constant	-121390.177	61737.818	-
Loans	0.107	0.004	0.984

Dependent variable: Interest income

Predictors /constant: Loans extended

The equation of least squares regression line for predicting values of Y from values of X:

Y=0.1X-121,390.2…………………………………………………………..Eq.1

Table 4. Coefficients of the model –II (Deposits vs. interest expense)

	Un standardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
Constant	-90159.233	50571.914	-
Deposits	0.021	0.001	0.951

Dependent variable: Interest expenses

Predictors /constant: Deposits mobilized

The equation of least squares regression line for predicting values of Y from values of X:

Y=0.02X-90,159.2……………………………………………………………………..Eq.2

Conventional performance Indicators

Rapid growth and wide popularity of branch banking system in the 20th century are due to various advantages. In many literatures we find the various advantages of branch banking such as Economies of Large Scale Operations, Spreading of Risk, and Economy in Cash Reserves, Diversification on Deposits and Assets, Cheap Remittance Facilities, Uniform Interest Rates, Proper Use of Capital, Better Facilities to Customers, Banking Facilities in Backward Areas, Effective Control and others. To the contrary, the disadvantages of branch banking may include Problem of Management, Lack of Initiative, Monopolistic Tendencies, Regional Imbalances, Adverse Linkage Effect, Inefficient Branches; preferential treatment is given to the branches near the head office and others.

For the purpose of this study, samples of 31 branches *(new branches)* were taken for detailed scrutiny. Moreover, their performances have been compared against the old and big branches. As it is depicted in table 5, of the 49 city branches, 49% were loss making branches. Besides, out of 43 outlying branches, 67% incurred a loss. Generally, about 58% of branches of AIB were at loss as at December 31, 2012. Few branches such as Head office, Legehar, Gofa Sefer, and Merkato helped the bank to be profitable at large (See table 9).

Table 5: Comparative figures on City and Outlying branches as at December 31, 2012

Items	Total No. of branches	No. of profit making branches	%	No. of loss making branches	%	Total (%)
City Branches	49	25	51	24	49	100
Outlying branches	43	14	32.6	29	67.4	100
Total city and outlying branches	92	39	42.4	53	57.6	100

Nevertheless, the bank is moving aggressively towards the opening of new branches. This scenario seems evident particularly in the third quarter of the financial year of 2012/13, where the total branches of AIB reached well over 100. However, above all the major problem with expanding branches is the possible creation of inefficient branches. Most of the new branches opened incur a loss for years after their commencement of operation (see tables 6, 7, and 8). Out of 31 new branches of AIB under study, 84% incurred a loss as at December 31, 2012.

Table 6: Selected Branches Performance of AIB as at June 30, 2012 (in '000 birr)

S.No	Branches*	Total deposits	Total loans	Interest income	Interest expense	Profits**	Liquidity (L/D) (%)
1	Urael	96,687	39,624	4,061	1,789	3,601	41
2	Gurd sholla	96,909	52,409	5,856	2,674	2,455	54
3	Mettu	17,949	7,277	878	531	-792	41
4	Wolliso	15,187	15,942	2,063	391	8	105
5	Mechara	8,978	9,195	872	479	-461	102
6	Hawassa	30,304	40,739	3,835	651	865	134
	Total	**266,014**	**165,186**	**17,565**	**6,515**	**5,677**	

***** The branches started operation in 2009***
***** Profit/loss as at December 31, 2012***

For instance, table 6 reveals that 6 branches namely Urael, Gurd sholla, Mettu, Wolliso, Mechara and Hawassa which commenced operation in 2009 mobilized a total of Birr 266 million deposits as at June 30, 2012. This figure when compared to Merkato branch (table 9), the amount of deposits mobilized is 47% lesser. This result agrees with the finding of Kotak (2011) which states branch expansion drive, will not help banks ramp up deposit mobilization, as deposits and loans out standings will continue to be concentrated in big branches. On the other hand, the aggregate loans provided by the above mentioned 6 branches amounted to Birr 165.2 million as at June 30, 2012. Again this amount is lesser by 106% as compared to the Legehar branch's total loans and advances extended. In line with this, interest income of the 6 branches we have seen above was only Birr 17.6 million which is very low as compared to the Merkato branch's interest income, which is Birr 27.4 million (156%) as June 30, 2012. Generally, it can be concluded that the above six branches should put in place an appropriate mechanisms to mobilize deposits as their liquidity status is low.

Table 7: Branches performance of AIB as at June 30, 2012 (in '000 birr)

S.No	Branches	Total deposits	Total loans	Interest income	Interest expense	Profits**	Liquidity (L/D) (%)
1	Wolaita soddo*	11,007	9,530	1,087	224	-268	87
2	Bule Hora*	9,419	31,024	3,216	204	1,311	329
3	Dessie*	16,947	7,798	778	370	-404	46
4	Finfinne	158,225	36,638	4,031	2,956	-402	23
5	Africa Avenue	15,356	6,052	183	273	-1,389	39
6	Fitber	21,977	932	33	90	-914	4
7	Gofa Gebriel	18,372	500	4	134	-899	3
8	Piassa	21,679	4,165	59	179	-866	19
9	Koria Hospital	10,020	1,680	35	79	-424	17
10	Asko	15,593	2,291	38	118	-674	15

11	Mehal Gebeya	24,680	1,878	15	70	-12	8
12	Humera	3,864	2,750	314	72	-751	71
13	Sebeta	12,686	4,549	237	294	-627	36
14	Ginner	6,278	2,601	278	69	-372	41
15	Bokoji	4,962	2,693	214	121	-535	54
16	Leka	11,670	667	49	225	-850	6
	Total	**362,735**	**115,748**	**10,571**	**5,478**	**-8,074**	

**** The branches started operation in 2010 and others started in 2011***

***** Profit/loss as at December 31, 2012***

In the year 2010 and 2011(table 7), a total of 19 branches opened their doors for customers to render banking services. They registered as a whole a deposit amount of Birr 362.7 million as at June 30, 2012. On the other hand, total loans and interest income were Birr 115.7 million and Birr 10.6 million, respectively. However, the figures of Merkato branch on total deposits, loans and interest income show us that it exceeds an aggregate of 19 branches by 7.7%(deposits),113.7%(loans) and 159.4% (interest income).

On the other hand, out of 19 branches four namely Fitber, Gofa Gebriel, Mehal Gebeya and Leka have a low liquidity ratio below 10% which calls for improvements in their loan status. To the contrary, Bule Hora branch's liquidity ratio is well over 100% indicating a low liquidity status and they have to work on deposit mobilizations.

Table 8. Selected branches performance summary of AIB branches as at September 30, 2012* (in '000 birr)

S/No	Branches**	Total deposits	Total loans	Interest income	Interest expense	Profits***	Liquidity (L/D) (%)
1	Meskel Flower	17,103	0	0	55	-760	-
2	Wuha Limat	21,667	568	6	264	-1,820	3
3	Traffic Tsifetbet	25,706	14,727	458	61	-26	57
4	World Bank	1,566	0	0	8	-320	-
5	Gotera	11,407	0	0	9	-1,212	-
6	Gerji Giorgis	5,593	8	0	11	-942	-
7	Churchill Road	3,804	0	0	14	-1,247	-
8	Arsi Negelle	16,362	6,517	34	22	-551	40
9	Batu	2,139	0	0	9	-721	-
	Total	**105347**	**21820**	**498**	**453**	-7,599	

**** The first quarter performance of 2012/13***
***** The branches started operation in 2012***
****** Profit/loss as at December 31, 2012***

Table 8 depicts that 9 branches namely Meskel Flower, Wuha Limat, Traffic Tsifetbet, World Bank, Gotera, Gerji Giorgis, Churchill Road, Arsi Negelle and Batu which commenced operation in 2012 granted a loan amount of Birr 21.8 million as at September 30, 2012 (first quarter performance) which is by far less as compared to Gofa Sefer branch's total loans extended.

Table 9. Selected Major Branches performance of AIB branches as at June 30, 2012 (in '000 birr)

S.No	Branches	Total deposits	Total loans	Interest income	Interest expense	Profits***	Liquidity (L/D) (%)
1	Head office*	1,186,080	919,879	95,875	33,164	42,672	78
2	Gofa Sefer*	381,339	123,174	13,598	12,345	6,591	32
3	Legehar**	602,075	340,765	33,527	18,089	18,043	57
4	Merkato**	390,792	247,374	27,417	10,184	17,631	63
	Total	**2,560,286**	**1,508,018**	**170,417**	**73,782**	**84,938**	

**** The branches commenced operation in 1995.***
***** The branches commenced operation in 1996***
****** Profit/loss as at December 31, 2012***

Excluding the four old branches viz, Head office, Gofa Sefer, Legehar and Merkato the 31 new branches which were the focus of this study raised total deposits of Birr 734.1 million. On the other hand, the total loans and advances granted amounted to Birr 302.7 million. However, the head office branch alone has raised total deposits of Birr 1.2 billion, whereas the total loans extended was Birr 919.9 million.

As we have seen above most of the new branches performance was poor. However, the wide gap in performance between few major branches and new branches should be used as a signal by the concerned entity of the bank to devise appropriate mechanisms to improve efficiencies of new branches.

Conclusion and the Way Forward

The banking industry is booming like never before and customers are obtaining improved services. Banking and technology go hand in hand, from foreign remittances to simple cheque clearances. Nowadays, everything is done online. Banks in many developing countries are increasingly relying on innovative technologies such as cell phone banking, internet banking, credit cards and automated teller machine (ATM). To penetrate existing markets and to create new markets, introducing banking technologies has no question. Of course, the challenge ahead in our country is that customers are not equally ready to adopt technology based products.

In the study we have seen that about 58% of branches of AIB incurred a loss as at December 31, 2012. Few branches such as Head office, Legehar, Gofa Sefer, and Merkato helped the bank to be profitable at large. Specifically, out of the 49 city branches, 49% were loss making branches. Besides, out of 43 outlying branches, 67% incurred a loss. Moreover, out of 31 new branches of AIB under study, 84% incurred a loss as at December 31, 2012.

On the other hand, an aggregate of 31 new branches which were the focus of this study mobilized total deposits of Birr 734.1 million whereas total loans and advances granted amounted to Birr 302.7 million. Nevertheless, the head office branch alone has raised total deposits of 64% more, while the total loans extended was 204% bigger as compared to the figures of 31 new branches opened after 2009/10. These lead us to the conclusion that branch expansion drive may not help the bank rise up deposit mobilization, as deposits and loans out standings will continue to be concentrated in big branches. In line with this, R^2 value for loan as related to interest income is 0.968 implying that 96.8% of the variations in the amount of interest income on loans by 31 new branches of AIB understudy are explained by the changes in the amounts of loans extended.

Generally, as opposed to the operational inefficiencies of the new branches, the bank is moving aggressively towards expanding branches. To put it in clear terms, the bank targeted to open 20 new branches annually till 2016.This will make total branches of AIB to be around 200 including both city as well as outlying branches at the end of 2016 financial year.

On the other hand, it seems a normal circumstance for the branches to register a poor performance in the early years of operation. However, the wide gap in performance between few major branches and new branches and; of course operational inefficiencies should be used as a signal by the concerned entity of the bank to devise appropriate mechanisms to improve efficiencies of new branches. This is particularly true as the expansions of new branches imply the creation of additional losses and which is adversely affecting the profitability of the bank.

Cognizant of the above findings, it is good for the bank to slow down the pace of opening new branches. In other words, the bank should restrict its branches particularly in the face of growing inefficient branches. In line with this, the existing branches should be strengthened with new banking technologies rather than distributing resources everywhere in a way to expand branches which proved to be inefficient.

Therefore, it is of great importance to work on the expansion of modern banking technologies such as Agency banking, Mobile banking, Internet banking, Credit cards and other types of new developments in the globalised banking industry. The expansion of modern banking technology will have a multiplier effect as it could be used as a marketing strategy to boost the reputability of the bank. This in turn attracts potential customers to deposit as well as to take loans creating a good opportunity for the bank to increase its market share.

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