

**GOVERNMENT INTERVENTIONS IN BANKING INDUSTRY AND
PERFORMANCE OF COMMERCIAL BANKS IN TANZANIA:
THE CASE OF CRDB AND NMB BANKS.**

**By
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**A Report Submitted in Partial Fulfillment of the Requirements of the Award of
Masters of Business Administration in Corporate Management Degree (MBA-CM)
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CERTIFICATION

The undersigned certify that has read and hereby recommend for acceptance by the Mzumbe University, a Dissertation entitled **The Impact of Policies and Regulations on the Performance of Commercial Banks in Tanzania, the Case of CRDB and NMB Banks** in partial/fulfillment of the requirements for **Award of Masters of Business Administration in Corporate Management Degree** of the Mzumbe University.

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DEDICATION

I dedicate this research to my current working Company, CRDB Bank plc and the entire Banking sector to make use of this report. It is my sincere hope that the findings of this research will be useful into assisting them to perform better. Also, the research is dedicated to the Government of Tanzania for improvement of the policies and regulations. Lastly, I would like to thank my God, Lord God of universe for making this possible up to this stage.

ABBREVIATIONS AND ACCRONYMS

AfCap	Africa Capitalization Fund
ATM	Automatic Teller Machine
BoT	Bank of Tanzania
CAR	Capital Adequacy Ratio
CRDB	CRDB Bank PLC
DANIDA	Danish International Development Agency
DSE	Dar es Salaam Stock Exchange
EPS	Earnings Per Share
ER	Efficiency Ratios
ERP	Economic Recovery Programs
FSAL	Financial Sector Adjustment Loan
IFC	International Finance Corporation
LART	Loans and Advances Realization Trust
LDR	Loans to Deposits Ratio
NBC	National Bank of Commerce
NIM	Net Interest Margin Ratio
NMB	National Microfinance Bank
NPLs	Non-Performing Loans
ROA	Return on Assets
SMEs	Small and Medium Enterprises
TIB	Tanzania Investment Bank
TRDB	Tanzania Rural Development Bank
TZS	Tanzanian Shilling
SMEs	Small and Medium Enterprises
AMCOS	Agricultural and Marketing Cooperative Societies
V	Velocity of Money
RIAR	Risk Asset Ratio
LIQUID	Liquidity Ratio
AMCOS	Agricultural Marketing Cooperative Society
TCB	Tanzania Coffee Board

ABSTRACT

This Dissertation studied what was perceived to be the current problem facing the banking sector today following the unsatisfactory performance for the past three years (2015-2017). Many have been said regarding the poor performance of the banking sector. Hence, this study examines the cause of the problem.

The study used Questionnaires and interview methods to arrive to the conclusion. Case study research design was used where CRDB and NMB Banks were selected as our sample study. 50 respondents were obtained using purposive and simple random sampling techniques. 10 key respondents were interviewed to get their perceptions on the banking sector's performance. The secondary data collected confirmed our prior suspicion of the problem under study.

The findings indicated that poor performance of the banking was the result of introduction of new government policies and regulations found in the Banking and financial institutions Act, 2014 and adoption of the international banking standards such as Basel I, II and III. Some of policies introduced by the fifth government of Tanzania such as the tight spending, verification of civil servants, transfer of funds to BoT, squeeze of the money supply and government intervention in cash crops business were also factors for poor performance.

The results have shown that the Non-performing loans (NPLs) had a negative impact on the performance of the banking sector. This was the result of compliance with some regulations that shall be discussed in details later. The results have also shown that both capital adequacy and liquidity positions of the banks were affected following the decision of the government to transfer funds to BoT and the tight spending policy. Some Banks especially NMB were affected by the decision of the government to remove the civil servants with fake certificates. The squeeze of Money supply in the economy had a great impact in the banking sector.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents a background of the study, statement of the problem, objective of the study, research questions, and significance of the study, scope of the study and limitation of the study. The study investigates on the impact of policies and regulations on the performance of commercial banks in Tanzania considering CRDB and NMB Banks as case study.

1.1 Background Information

The banking institution is indispensable in modern society. It plays a vital role in the economic development of a country and forms money marketing in advanced country. In a stable economic system, banking activities hold remarkable role by enhancing financial resources for industrial activities which in turns generate employment opportunities and overall development of the country. The financial performance of banks directs the analysis of the results of a company's approaches, execution, productivity and viability in financial terms. These outcomes reflect in the organizations rate of profitability, return on resources and benefit procuring. It additionally underlines on how a bank is adequately using its money related and different assets to gain benefit. Money related execution assessment is an emotional measure to survey company's utilization of advantages from its essential method of business and age of incomes (Prakash *et al*, 2017).

In response to the 1980s economic crisis, Tanzania embarked on extensive economic reforms that included the financial sector. The financial sector reforms aimed at building an efficient, deeper and robust financial system that would support private sector growth (Brownbridge and Gayi, 2000). An efficient financial sector is of significant importance to any economy because it ensures sustainable economic growth (Beck, et al 2000). In its report the World Bank stated that, countries with well-developed financial systems tend to have better economic performance than to countries with weak financial systems (World Bank report, 1996).

In Tanzania, banking sector reform was the outcome of the Presidential Commission of Enquiry of 1990. One of the reforms among other things was deregulation of the banking sector, the outcome of which was the influx of banks into the market, including foreign banks. The outcomes of the reform were a more vibrant, effective and efficient banking system in the country. Tanzania has a rapidly developing financial sector, according to a recent study by the World Bank, by December 2011 of the 48 formal financial institutions offering microfinance; were only 20 of them were deposit-taking and are hence regulated by the Bank of Tanzania (World Bank, 2013). Ever since such time the number of banking institutions has been increasing. The Annual report of the Bank of Tanzania at the close of December 2013, lists 53 Banking institutions, out of which 34 were Commercial Banks, 12 Community banks, 5 financial institutions and 2 deposit-taking microfinance companies. Of all the 53 banking institutions, 48 were privately-owned banks and only 5 were the state-owned banks. The banking institutions had 642 branches and 1,523 ATMs (BOT, 2013).

Commercial bank plays a great role in economic development, as it fosters economic growth of any country through their financial services and intermediation role that they provide to the society and to the nation at large.

It is proven that the efficient and effective performance of the banking sector over time guarantees financial stability of any nation (Oke et al, 2012). The health of financial depends heavily on sound banking policies and regulatory systems regularly acknowledged that the chapter 11 of a bank causes unfavorable impacts on other monetarily solid banks. Every one of these contemplations clarify the utilization of supervisory experts to a substantial and exact guideline of the financial business which is unmistakably fundamental, and which is in accordance with the deregulation procedure, went for keeping up the honesty of the money related market framework, and to encourage and solid the financial division security. All things considered, Barth, Caprio and Levine (2001) contend that all administrations will in general manage and control them to guarantee the soundness of their economies. The motivation behind these guidelines is to serve the open enthusiasm, specifically the enthusiasm of buyers of banking

administrations since these guidelines are set up by the open specialist which does not have legally binding relations with the chief of the bank or the bank association, for this, operators consistently believe in this area. Along these lines the open premium is considered as the essential target in the controller's discharges (Visentini, 1997). This guideline brings about the execution of prudential standards, went for better control and control of banking dangers and better inclusion of value. Prudential control is thusly a need for all financial divisions around the world. For instance, the Basel Committee (Basel I and Basel II) presented dissolvability proportion and liquidity proportion prerequisites to secure banks, advance challenge, strength and versatility

In any case, the progression of emergencies, specifically the 2007 emergency, has driven analysts and specialists to scrutinize the conceivable flexibility of this prudential guideline, and particularly the purposes behind its powerlessness to foresee and keep away from emergencies. Every one of these reasons prompted the presentation of new models called Basel III, guaranteeing the redefinition and fortifying of the quality and amount of capital and the assessment of specific proportions, specifically the liquidity proportion, the Leverage proportion and pad against cyclic. Be that as it may, with regards to this prudential guideline, investors are punished as far as momentary execution for their dissolvability and a base long haul capital expense. The level of execution guaranteed through this guideline in connection to the administration of the dangers that outcome from it, is hence a tricky and uncertain issue (Abhiman and Saibal, 2007).

The restructuring, privatization and the supervision done by the Central Bank has transformed the Banking sector into the vibrant banking sector seen today. The supervision of banks and financial institutions done by the central banks is guided by the policies and regulations in which all the banks and financial institutions are obliged to comply.

The performance of a bank is usually measured by its profitability levels, which is essential to shareholders, customers and for the bank's continued survival and expansion (Nkegbe and Ustars, 2015).

Profitability of banks in any country is very crucial, since the soundness of the banking industry is closely connected to the soundness of the whole economy (Lipunga, 2014). The financial strength of a banking institution is unquestionably associated to its profitability, thus one of the most important goals of any bank's management and leadership is to make profits on a consistent basis since it guarantee the bank to continue operating. Therefore achieving the performance goals is vital to any bank (Adeuset *al*, 2014).

The Banking sector has also seen increased regulation by the Central Bank. The Bank (BOT) has continued with its efforts of ensuring compliance to internationally acceptable standards by developing rules and regulations for Basel II/III implementation in Tanzania (BOT, 2016b). All these dynamics have brought an increased pressure and competition in the financial sector, with banks operating within the same markets struggling to retain their customers whilst at the same time trying to expand into new markets. The banks have a lot in common, both with a history going back before the introduction of market-based reforms in the mid-1990s which led to the privatization of NBC Bank and CRDB. It is this privatization which led to NBC being split into three entities, one of them being The National Micro-finance Bank.

In the Tanzanian financial system, banking institutions are the major players, accounting for about 75% of total assets of the system. Good governance, attractive policies and effective supervision of the banking sector is an essential component of a strong economic environment. The primary objective of government policy and regulation on the banking systems is to ensure that banks and financial institutions operate in a safe and sound manner and that, they hold capital and reserves sufficient to absorb risks that arise in their operations. While the cost of ineffective and poor banking environment and supervision is indeed high, the cost of poor supervision may be even higher. Therefore, strong and effective banking supervision is essential for maintaining stability and confidence in the financial system. Public confidence is a critical aspect to any financial system (DBS report, 2010).

Having acknowledged the necessitate to construct a conducive environment to borrowing and financial sector growth overall, the government have as of late presented wide-running changes in the zones of lawful, legal, and data foundation, including the Land Act 1999 and the Companies Act 2002. Legal and court change is one of the essential needs to which expanding consideration is being paid. Be that as it may, similarly little advancement has been made, with preparing offices as yet staying needing uncommon consideration. Moreover, land libraries, organization vaults, and libraries of home loan interests are wasteful, and significant upgrades are required before they will give a valuable data premise to credit choices (Cihak and Podpiera, 2005).

The Financial Stability Report (FSR) of 2010 also reveals that while the banking sector plays a dominant role in the financial system dependability because of its intermediation work, globally, there is a proof of combination among banking and different areas as banks widen their exercises to incorporate other monetary administrations. In the created nations for position, banks are authorized under widespread financial laws which enable them to extend their administrations to incorporate banking, benefits, protection, protections and other money related administrations. In any case, the current financial laws in Tanzania confine banks from participating in non-banking money related administrations. Banks which mean to broaden into other money related administrations are required to build up isolated backups. The partition of banking administrations from other money related administrations gives some pad against the transmission of stuns crosswise over various segments in the monetary framework. All things considered, there is a critical between linkage over the budgetary sub-divisions in Tanzania. The linkages likewise infer that changes that are embraced by the other money related sub-division will at last influence the presentation of the banking sector (Tiisekwa, 2013).

The sharp decline in profitability in the banking industry can be associated with the increase in non-performing loans (NPLs); narrowing of interest margin caused by the increasing competition; reduced earnings from foreign placements; and

declining returns on government securities. The banking sector is one whose performance is affected by the performance of all other sectors in the economy whether directly or indirectly. Any amendments to the fiscal or monetary policies will affect the banks performance, since the bank basically depends on customers to save (deposit) as one of the sources of loans, and to have savings they depend on other sectors to be doing well. If the monetary and fiscal policies are favorable then many investments will prosper and people should be able to save more and hence invest more (Temu and Andindile, 2011).

The Bank of Tanzania conducts regular review of the legislative and regulatory measures in use for the banking sector and the national payment system so as to identify areas that need enhancement. The review process has led to – among others - the enhancement of the required minimum core capital for banks from TZS 5.00 billion to TZS 15.00 billion, with a view to strengthening the capability of the banking system to absorb potential losses. The proposed changes are also expected to improve solvency level of the industry, encourage consolidation and mergers, and further promote competition in the banking sector (Tiisekwa, 2013).

1.2 Statement of the Problem

The modalities of banking operations have changed a lot in the new millennium compared to the way they used to be in the years bygone. A well functioning banking operation as mentioned by Islam, (2003), a well developed efficient banking sector are important prerequisites for saving and investment decisions for rapid growth. It is the system by which a country's most profitable and efficient projects are systematically and continuously funded.

The stable and sound of the economy of any country depend on smooth operations and conducive environment of the Banking system. This is because the banks and financial institutions advance credits and easier payment system in the country. Because of the important role played by banks in the economy of a country, it is important that their operational performance is monitored on a continuous bases through regular policies and regulations reviews to accommodate numerous changes emanating from the dynamic business environment. The measurement of performance may be based on profitability, efficiency, liquidity or on other criteria

depending on the interests of a particular group of stakeholders. The framework for the preparation and presentation of financial statements presents a classification of different users of financial statements that include seven classes of users (investors, employees and groups that represent them, lenders and suppliers, customers, governments and their agencies and general public), with their information needs (Luca, 2008). That is why the government of Tanzania through the Central Bank has introduced some new policies and regulatory reforms to be adhered by all Commercial Banks and financial institutions in order to ensure a sound, stable and continuity of the Banking system. Some of these regulations are Management of Risk Assets regulations, Capital Adequacy Management regulations, Liquidity Management regulations and Credit Concentration and other exposure limits regulations. Policies implemented by government especially the fifth government are tight spending policy, tax policy and cash crops business new modality.

According to the Bank of Tanzania Report of 2016, the financial institutions have been closed up and some commercial banks profitability has improved to the greatest extent and most of them are above the regulatory requirements, the greatest profitability earned by these commercial banks indicates that the internal factors has played a great role toward this profitability. This was also supported by the Tiisekwa, 2013 study on determinants of profitability of the commercial banks where he mentioned the internal factor as an influencing factor. This study therefore aims to confirm the impacts of government policies and regulations on the internal determinants of performance of the banking system in Tanzania. There are not many studies carried out in Tanzania on the determinants of commercial banks performance that have taken the effects of regulation approach on internal performance of banking sector, this study is unique in that sense. Given all the policy and regulatory changes in terms of the capital requirements, Management of Risks Assets, Liquidity Management and the credit Concentration and other exposure limits that have taken place over the years from 2013-2018, the determinants of performance may have been affected by these policies and regulations directly or indirectly.

Of recent, there has been reported a number of Commercial Banks and financial institutions seize of their business operations or their banking business licenses being revoked due to different reasons. The Banks so affected to mention few are Covenant Bank for Women Limited, Efatha Bank limited, Meru Community Bank Limited, Bank M Limited, Njombe Community Bank Limited and Kagera Farmers' Cooperative Bank Limited while others were merged into other Banks such as Twiga Bankcorp merged into Tanzania Postal Bank (BoT, 2016).

Rumors are overheard that most commercial banks and financial institutions so affected perceived to have failed to comply with some policies and regulations set by the Central Bank. Need arises to examine the effect of these policies and regulations on the performance of the Banking system ,otherwise, if this is left unattended will impact the Banking Industry greatly in future ,hence the total collapse of the economy in the country.

1.3 Research Objectives

1.3.1 General Objective

The general objective of this study was to investigate the impact of policies and regulations on the performance of commercial banks in Tanzania.

1.3.2 Specific Objectives

The specific objectives of this study include;

- i. To identify various policies and regulations guiding banking industry in Tanzania.
- ii. To assess the implementation of the policies and regulations in relation to the performance of commercial banks in Tanzania.
- iii. To gather the stakeholders' perceptions on the banks' policies reforms and its impact on the Bank's performance.
- iv. To identify challenges and the way forward towards improving the banking industry performance.

1.4 Research Hypothesis

- i. **Ho: Null Hypothesis:** There is no relationship between performance of the Banking Industry and introduction of new government policies and regulations in Tanzania.
- ii. **H1: Alternative Hypothesis:** There is a relationship between performance of the Banking Industry and introduction of new government policies and regulations in Tanzania.

1.5 Significance of the Study

This study aimed at identifying, analyzing and providing an informed objective opinions to the government on how to improve the prevailing unpleasant banking environment in which the Banks and financial institutions operates in since inception of the fifth government of Tanzania. It is also expected that the findings of this research would assist the government through the central bank to be informed on how they have or would or might further affects the banking system if some regulations will or would continue to be implemented. Furthermore, the research shall stipulate on the measures to be taken by the banks and financial institutions in the future to rejuvenate the adverse situations should the case they occur again. In which, issues like liquidity, capital adequacy and non-performing loans (NPLs) will be covered in the report.

This study is also significant as its results will be applicable in enhancing commercial banks sustainability. Studies that seek to investigate the performance of banks and their various determinants are steps in the right direction to identifying the means of promoting the survival and growth of the sector that serves as the backbone of the financial system of developing economies.

1.6 Scope and Limitation of the Study

The research selected only two giant commercial banks in Tanzania (CRDB and NMB Banks) in Dar es Salaam which have a competitive edge over other banks like capital adequacy and liquidity position. The study covers how the external factor, in fact the government have affected the performance of the banking industry through its regulations, policies and proclamations. The study covers only

six years from 2013-2018 being the years to be studied. However, the study did not take into account the performance of other sectors of the economy which would assist to establish the interlink ages of economic sectors that would boost the performance of the banking industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is specifically for literature review. The researcher discusses both theoretical review which deals with theories, conceptual literature review which deals with the concepts related to the problem, the conceptual framework as well as the empirical literature review dealing with findings done by other researchers related to the problem and the Research gap is identified.

2.2 Definition of Concepts

2.2.1 Commercial Bank

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses.

Due to the influence of bank within a financial system and an economy, banks are generally profoundly directed by the legislature in many nations. Most banks work under a framework known as fragmentary save banking where they hold just a little save of the assets saved and loan out the rest for benefit. They are commonly subject to least capital necessities which depend on a global arrangement of capital benchmarks, known as the Basel Accords.

An organization which acknowledges stores, makes business advances, and offers related administrations. Business banks likewise take into consideration an assortment of store accounts, for example, checking, investment funds, and time store. These establishments are rushed to make a benefit and claimed by a gathering of people, yet some might be individuals from the Federal Reserve System. While business banks offer administrations to people, they are basically worried about getting deposits and lending to businesses.

2.3 Theoretical Literature Review

Studies on efficiency and performance of the banking sectors are guided by at least three theories: theory of economic efficiency, trade-off theory and the buffer theory. Among these theories, the buffer theory can best back up the foundation of this study. The theory of economic efficiency is the basic theory which can give light to any study on bank efficiency, and the basis of this theory is the necessity that banks must render their financial services at the most reduced conceivable expense (Aly et al, 1990). A bank is said to be in fact proficient in the event that it utilizes a similar information amount to get more yield in contrast with different banks. This might be reflected in the yearly benefits they procure, as stipulated by Isik and Kabir, (2002).

Another hypothesis is the trade off hypothesis of capital structure which clarifies the degree of influence of the banks, which is whether the bank is financed by value or obligation. This hypothesis demands that banks ought to complete a money saving advantage investigation before choosing whether to utilize obligation or value in their capital structure. Agreeing to Niu, 2008, the advantage of utilizing obligation in the capital structure is the assessment advantage it has over value, and, in this manner, the expense of obligation is lower than expense of value. At the point when the expense of obligation is low and the corporate duty rate is at the sufficiently high that a firm advantages extensively from obligation financing, it will utilize extra obligation as long as the minor assessment rate on obligation is lower than the corporate duty rate. Thusly, a firm needs to adjust the tax breaks of obligation and the cost identified with influence (Niu, 2008).

The most related hypothesis to this investigation is the support hypothesis which proposes that saves money with their capital insignificantly over the administrative least proportions ought to consistently build the capital proportion and slice hazard to stay away from consistence punishment by the controller (Milne and Whalley, 2001). As indicated by Milne and Whalley (2001), cradle is a term used to demonstrate the overabundance capital held by the bank past the base prerequisite. This infers banks are compelled to raise the degree of their capital proportion when

approaching the required least level. The perspective on Berger et al, (1995) is that banks may hold enormous funding to investigate future unanticipated venture openings. Banks can select to have a capital cradle to lessen the probability of their capital dipping under the statutory prerequisite, predominantly if the proportion is temperamental.

Another conceivable purpose behind holding cradle capital is identified with the degree of danger of the bank's absolute resources. As indicated by Milne and Whalley, (2001), contrasted two banks and lower portfolio hazard, manages an account with an exceptionally unsafe portfolio hold a more elevated amount of cradle capital in light of the fact that their capital is probably going to fall underneath the statutory least necessity. During money related emergencies, manages an account with modest quantity of capital may raise fundamental hazard and thus hamper budgetary dependability. On the other hand, if banks have just followed the administrative least capital just as have support capital, at that point any adjustments in capital prerequisites will have less effect on bank conduct.

As of late, the Bank of Tanzania needed to expand the bank capital level to give a support to business banks in Tanzania for them to assimilate any unanticipated money related emergencies that may hit the banks and withstand any genuine stuns to improve the budgetary strength of the banking sector. On the other hand, higher capital levels help commercial banks protect themselves against the array of risks considering the requirements of International Financial Reporting Standard (IFRS), International Accounting Standards (IASs) and the International Standards of Auditing (ISAs), BOT, 2016.

2.3.1 Policies and Regulations set by the Bank of Tanzania

The state, administration and the parliament plus their agencies are some of the government apparatus. To be able to implement the people's desire the government should have a strong and sound financial and fiscal planning. The government, its agencies and the general public at large depend on the strong Banking sector, be it the central bank, financial institutions or commercial banks for smooth operations

of the financial transactions to easier the economic activities and implement its development projects. Therefore, it is important to ensure that the banking system of the country remain strong, efficient and effective in providing its services diligently within the legal frameworks through policies and regulations set and all players (banks and financial institutions) must abide to the provisions of the sections of policies and regulations in the course of day to day operations of their businesses at all times. Failure to comply with provision of the sections of the Act would amount to substantial penalties and it may even go further to revocation of the business banking license (BOT, 2017)

These policies and regulations include but not limited to Liquidity Management regulations, Management of Risk Assets, Credit concentration and other exposure limits and Capital adequacy Management policies and regulations, for instance;

2.3.1.1 Management of Risk Assets, Regulations of 2014

The aim of these regulations is to ensure the banks and financial institutions have adequate credit and investment policies in place that identifies, measure, monitor and manage risk emanated from the businesses and ensure timely correction of the problem assets, maintain risk management standards that conform to the established international norms and build the public confidence in the banking sector. Some of these regulations included a non-performing credit accommodations (the NPLs) not be restructured than two times either for overdraft-the customer has satisfactorily paid without failed his or her financial obligations for at least six months or for term loan- the customer has satisfactorily paid without failed his or her financial obligations timely in four consecutive installments (Bank, 2013). The following sections stipulate the nature and effect of the regulations;

- i. The provision of the Section No.8(3) of the Banking and financial institutions Act ,2014 stipulates that non-performing credit accommodations shall maintain same classification category classified and known by the Bank of Tanzania as at date of on-site examination.

- ii. It was a requirement of the Circular No.FA.56/470/VOLI/50 dated 10th April 2015 that demanded any write-off of credit accommodation can only affected if it has remained in loss category for more than twelve consecutive quarters.
- iii. Section No.20 of the Banking and financial institutions Act, 2014 says where a bank or financial institution has granted more than one credit accommodation to the borrowing customer or any business entity, all those credit accommodations shall be assigned the lowest favorable classification category that is given to any of those credit accommodations.
- iv. Section No.21 of the Banking and financial institutions Act, 2014 further stipulate that the criteria for classifying a credit accommodation shall apply regardless the type of the security held by the bank or financial institution.
- v. The provision of the Section No.26(1) of the Banking and financial institutions Act,2014 require a bank or financial institution to classify credit accommodations and other assets and establish specific provisions not less than those specified in section No.27(1) as shown below:-

Classification	Number of days past due	Provision Rate
Current	0-30	1%
Especially mentioned	31-60	3%
Substandard	61-90	20%
Doubtful	91-180	50%
Loss	181 or more	100%

- vi. It is the requirement of the Section No.32 of the Banking and financial institutions Act, 2014 that demands a credit accommodation granted by the same financial institution or bank not to be considered to have settled the loan granted the same institution. If such occurs a credit accommodations shall maintain the status of the classification category (BOT, 2017)

2.3.1.2 Liquidity Management Regulations, 2014

The aim of these regulations is ensure that banks and financial institutions have in place the liquidity management policies that are adequate enough to meet all known financial obligations and commitments and plan for unforeseen changes. The regulations further ensures the banks and financial institutions implement the liquidity management standards that conforms to established international norms and lastly to build the public confidence by ensuring that the banks and financial institutions maintain adequate liquidity at all times (BoT, 2014). Some of these regulations are as follows:-

- i. Section No.7 of the Banking and financial institutions Act,2014 requires a bank or financial institutions to maintain a minimum liquid assets ratio at all times. The regulation requires them to maintain at least 20% of its demand deposits.
- ii. Further to compliance of the section mentioned above in the item (i),Section No.8(1) of the Banking and financial institutions Act,2008 demanded a bank or financial institution to maintain at all times the gross loan portfolio of not more than 80% of its total deposit liabilities.

2.3.1.3 Capital Adequacy Management Regulations, 2014

The aim of these regulations is ensure that banks and financial institutions have adequacy capital enough to cover against the risk of loss arising from the conduct of the business operations. Furthermore, these regulations aims at ensuring that the banks and financial institutions have adequate capital standards that conforms to international best practices and in turn enhance the public confidence in the banking sector. Some of these regulations are as follows:-

- i. Section No.5 of the Banking and financial institutions,2014 requires a bank or financial institution to maintain at all times at least a minimum capital level indicated in the below schedule:-

S/No.	Types of Institutions	Minimum Core Capital
1	Fully-fledged Banks	Minimum Core Capital
	Commercial Banks	fifteen billion shillings
	Cooperative Banks(Nation-wide network)	fifteen billion shillings
2	Limited Scope Banks	
	Microfinance Banks	five billion shillings
	Community Banks	two billion shillings
	Cooperative Banks(Regional)	five billion shillings
3	Specialized Institutions	
	Development Finance Institutions	fifty billion shillings
	Finance Lease Companies	one billion shillings
	Housing Finance Companies	seven and one half billion shillings
	Tanzania Mortgage Refinance Company(TMRC)	six billion shillings
	Merchant Banks	twenty five billion shillings
	Islamic Banks	fifteen billion shillings

Source: BOT, 2014

- ii. Regulation 7(2) of the banking and financial institutions (Capital adequacy) regulations, 2014 requires shareholders of a community bank to build up their capital under capital build-up programme approved by the central bank during the time of licensing for at least twice the minimum capital specified in section No.5 within five years from the date of its approved licenses.
- iii. In compliance to Section No.9(a) of the banking and financial institutions Act,2014, a bank or financial institution is required to maintain at all times a core capital of at least 12.5% of its total risk-weighted assets and off balance sheet exposure.
- iv. Section No.9(b) of the banking and financial institutions Act,2014 requires a bank or financial institutions Act,2014 to maintain at all times the total capital of at least 14.5% of its total risk-weighted assets and off balance sheet exposure.
- v. In compliance to section No.11(1) of the banking and financial institutions Act,2014 a bank or financial institution is required to measure and apply capital charges in respect of market risk and operational risk.

- vi. Section No.11(2) of the banking financial institutions Act,2014 emphasizes on the minimum capital requirements for interest rate, equity position risk and foreign exchange risk which shall be determined by Standardized Measurement Method of Basel Committee on Banking Supervision or other methods approved by the central bank.
- vii. Section No.11(3) of the banking financial institutions Act,2014 with the same emphasis demanded for capital charge for operational risk to be determined by Basel Committee Supervision or other methods approved by the central bank.
- viii. In compliance to Section No.16 of the banking and financial institutions (Capital adequacy) regulations,2014 the aggregate amount of subordinated debt shall be limited to 50% of the core capital to qualify to be included as a part of capital(supplementary capital) it meets the following criteria:-
 - a) To be discounted by 20% per year during the last five years to maturity.
 - b) To be uninsured, unsecured and not a deposit.
 - c) Have an original maturity of not less than five years.
 - d) Be subordinated to all claims of depositors and creditors of the bank or financial institution.
 - e) Shall not be redeemed at the option of the holder prior to maturity
 - f) do not have requirement of principal and interest payment.
- ix. Section No.24(1) of the banking and financial institutions(capital adequacy)regulations,2014 articulates the penalties and actions for failure to comply with requirements of the provisions of the above regulations which are-
 - a) Prohibition from declaring or paying dividends;
 - b) Suspended from expansion of networks, the branches;
 - c) Suspended from accessing credit facilities of the central bank;
 - d) Suspension from lending and investment operations;
 - e) Suspension to issue guarantees or letters of credit;

- f) Revocation of the banking license;
- g) Suspension from office of the defaulting director, employee or officer.

2.3.1.4 Credit Concentration and other Exposure Limit Regulations, 2014

The aim of these regulations is to encourage the risk diversification and limit concentration of risk in one or few segments within the credit portfolio of a bank or financial institution and set limits for investment in equity and fixed assets (BoT, 2014)

- i. Section No.6 of the banking and financial institutions(credit concentration and other exposure limits) regulations,2014 demands the total amount of the credit facilities granted, directly or indirectly to a person or his/her entities not to exceed the below limits:-

Collateral Position	Limit(as % of core capital)
Secured by collateral the value at least 125% of credit facilities(fully secured)	25%
Secured by collateral the value at least 125% of credit facilities(partly secured)	10%
Unsecured	5%

- ii. Section No.24 of the banking and financial institutions(credit concentration and other exposure limits) regulations,2014 stipulates that the sum of all equity investments by a bank or financial institutions in all the companies it invests in should not exceed 25% of its core capital.
- iii. In compliance to Section No.29 of the banking and financial institutions (credit concentration and other exposure limits) regulations,2014 a bank or financial institution may lease or purchase fixed assets for smooth business operations and anticipate future expansion provided that:-
 - a) The total investment of the bank or financial institution in purchasing those fixed assets shall not exceed 70% of its core capital.
 - b) (i) Acquisition of those assets should not be the purpose of settling debt to the bank or financial institution.

iv. Section No.31(1) of the banking and financial institutions(credit concentration and other exposure limits) regulations,2014 articulates the penalties and actions for failure to comply with requirements of the provisions of the above regulations which are as follows:-

- a) A penalty of the sum of monies to be determined by the central bank
- b) Prohibition from declaring or paying dividends;
- c) Suspension to issue guarantees or letters of credit
- d) Suspension to access credit accommodations of the central bank
- e) Suspension from lending and investment operations;
- f) Suspension of capital expenditure;
- g) Suspension from accepting deposits;
- h) Revocation of banking business;
- i) Suspension from office of the defaulting director or employee;
- j) Disqualification from holding any position in any bank or financial institution.

2.3.1.5 The Bank of Tanzania Act, 2006

The Bank of Tanzania in exercising their functions to regulate and supervise the banks and financial institutions they formulate and implement the monetary policy, issue currency, exchange rate policy and supervise banks and financial institutions(Section No.5(1) of the BoT Act,2006).Further, Section No.7(1) made an emphasis on the primary objective of the central bank that is to formulate, define and implement monetary policy that aims at maintaining price stability and sustainable growth of the national economy. The integrity of the financial system and the promotion of the sound monetary, banking and credit conditions is an area of concerned managed by the central bank(Section No.7(2) of BoT Act,2006).

- i. Section No.44 (1) of BoT Act,2006 requires banks and financial institutions to maintain cash balances with the central bank as reserves against deposits and other liabilities of the banks and financial institutions. The minimum ratio is described in the Section No.7 of the

Banking and financial institutions(Liquidity) regulation,2014 which is 20% of its demand deposits.

<https://www.tzbusinessnews.com/another-liquidity-boost-in-tanzania-banking-sector/>

- ii. Section No.44(4) of the same Act above imposes a daily penalty on any bank or financial institutions that fails to comply with the requirement of the Section 44(1) of the BoT Act,2006 on deficient amount at the rate of greater than 0.2% or three times the average yearly lending of the non-compliant bank or financial institution.
- iii. In compliance to Section No.45 of the BoT Act,2006 every bank or financial institution is required to maintain liquid asset ratio at the levels specified by the central bank.
- iv. Further, Section No.46(1) of BoT Act,2006 emphasize on the liability for failure to comply with the provisions of this section that the bank or financial institution and the officer in default are liable on conviction to a fine described under Section 66 of the Banking and financial institutions Act,2006 and their amendments from time to time.

It is important to note that the prudential standards required by the Tanzanian financial authorities are based solely on Basel I standards. It is important to note that the Tanzanian banking sector has only timidly introduced the new standards imposed by the Basel II and Basel III. In particular, it was only at the beginning of 2015 that the central bank of Tanzania adopted the new liquidity ratio (Liquidity Coverage Ratio) which is strongly inspired by Basel III. Then Law No. 2016-48 of July 11, 2016, relating to banks and financial institutions was a big step towards the application of the standards of Basel II and Basel III especially with regard to the ratio of liquidity and solvency. Although at the international level, prudential regulation refers to Basel III standards.

Consideration has been done in this study that, the government imposes prudential standards on financial institutions particularly, commercial banks, mainly concerning: the use of own funds, the solvency ratio, the liquidity ratio, the approval of loans by credit institutions to their subsidiaries and risks in general. Of course, compliance with these standards ensures the soundness of the banking system and escape from the risk of crises. In this context, Delorme (2002) argues that the prudential regulation of banks generally includes minimum capital requirements and major credit risks, and the limits of loans granted by a bank to a client. Given, according to the prerogatives of Law 2001-65, the minimum threshold of the Solvency Ratio and Liquidity Ratio are set by law, which are respectively 8% for the solvency ratio, which means that the funds each bank's net assets are required to continuously show total assets (balance sheet and off-balance sheet) weighted according to the risks incurred) and 100% for the liquidity ratio (the ratio of realizable assets to liabilities payable). Banks are required to continuously respect these two ratios.

2.4 The Effect of Regulations on Bank Performance

The review of the policies, regulations and penalties set by the central bank intends to bring about an understanding to the reader and tries to establish the connection regarding the problem under study if there is positive or negative or zero correlation of the variables. The review of above regulations and policies shall be our centre of focus to establish the relationship of dependent and independent variables. With respect to impact of guidelines on the exhibition of banks, the audit of the writing has enabled the analyst to watch uncertain outcomes. To be sure, a few creators have demonstrated the beneficial outcome of guidelines on the exhibition of banks. While others have demonstrated that this impact is somewhat negative. Accordingly, Booth et al. (2002), in their investigation of around one hundred firms in a few controlled divisions, including the financial area, demonstrate that guideline as an outside administration component can oblige choices made by the chief. Guideline diminishes the effect of administrative choices on investor riches, prompting a substitution of guideline for inside control components that become less viable in restricting office clashes. In fact, the

nearness of administrative specialists that can mediate in the order of as far as possible the attentiveness of the last mentioned.

Be that as it may, Barth et al. (2001) found that the nationalization of banks was contrarily corresponded with the advancement of the financial division and decidedly connected with proportions of bank wastefulness. All things considered, Arun and Turner (2002) point out that the wasteful aspects related with bank the executives, particularly those emerging from an absence of proper administrative inspiration, joined with solid weight from worldwide offices, have driven governments to creating nations to step by step pull back from the financial division. In like manner, as indicated by Boot and Thakor (1993), the premiums of the investors of a bank, in particular the augmentation of the investor esteem, may not correspond with those of the state guidelines in that the investors are daring people then Regulators are hazard unwilling and their primary concern is the strength of the money related framework (Capiro and Levine, 2002).

In this work, in the same logical sequence as these authors, we expect that the regulations could have both positive and negative effects on the performance of the banks in the selected commercial banks. Thus the researcher decided to use the capital adequacy ratios, liquidity ratios and NPL ratios. Similarly, the researcher defines the liquidity ratio which reflects the ability of firms to meet their short-term commitments.

2.5 Factors Influencing Performance of Commercial Banks

Performance of the banking industry is a function of both internal and external factors. Internal factors are those factors which a bank's management can control, whereas external factors are those outside or beyond the bank's management control. External factors that influence performance of commercial banks are related to legal policies and regulations and economic environment and comprise of factors like interest rates, inflation, recession, boom, regulations, market growth and market structure (Staikouras & Wood, 2011). The internal factors reflect the management policies of the banks and decisions made about the sources of funds,

expenses and liquidity management (Onuonga, 2014). Information on bank specific factors that influence commercial banks performance can be obtained from financial statements. For this reason the study will focus on key ratios of solvency and liquidity ratios extracted from the financial statements of the banks.

The size of a bank influences performance such that larger banks perform well compared to small-sized banks through harnessing the economies of scale in their transactions such that big banks will enjoy high profits (Sehrish, Irshad& Khalid, 2010). Large banks are assumed to have more advantages as compared to their smaller rivals and have a stronger bargaining capability making it easier for them to get benefits from specialization and from economies of scale and scope (Alkhazaleh&Almsafir, 2014). In addition, empirical evidence indicates that the size of a bank directly affects performance and profitability by reducing the cost of raising capital for big banks (Tariq et al., 2014).

Capital adequacy refers to a measurement of business bank's capacity or quality in money related terms. It demonstrates the bank's capacity to withstand strange and operational misfortunes. It likewise demonstrates the company's capacity to attempt extra business and measures the banks' capacity to adequately ingest hazard. In this way, the proportion is used in ensuring the bank's store contributors just as advancing effectiveness and solidness of money related frameworks (Bizuayehu. 2015).

Liquidity then again is characterized as the bank's capacity to meet its commitments, particularly those of contributors of assets to the bank (Ongore&Kusa, 2014). The accessibility of liquidity impacts banks execution since it improves the limit of the bank to get money so as to satisfy present and basic needs. For business banks to increase open confirmation, they ought to have adequate liquidity to fulfill the needs of advance holders and investors' needs (Chinoda, 2014). Deficient Liquidity levels lead to issues in creating assets and inability to satisfy present and unforeseen varieties in the wellsprings of financing (Tariq et al., 2014).

Loans to assets ratio on the other hand, is normally used to calculate the credit risk position of a bank. The ratio indicates the percentage of total assets used to provide loans. A credit risk indicator can be represented by different measurements including the ratio of loans loss provision to total loans as well as growth in bank deposits. Higher provisions for loan losses could signal a possibility of future loss on loans, and could also be a sign of a timely recognition of bad loan by cautious banks (Munyambonera, 2011). A higher ratio of NPLs to total loans and an absolute deterioration of credit portfolio quality negatively affects commercial bank's profitability (Roman and Tomuleasa, 2013). In addition, a rise in credit risk increases the marginal cost of loans, obligations and equity, leading to the enlargement of the cost of finance for the bank (Tariq et al., 2014).

Operating costs allude to the costs acquired in the typical working of the bank separated from the expense of getting reserves. Experimental proof demonstrates that low working costs lead to more noteworthy gainfulness of business banks. Different costs like the arrangements made towards awful obligations and dubious obligations impact execution and are probably going to prompt plausible yearly misfortune on resources (Chinoda, 2014). Costs are regularly the operational expense of banks and they specify a fraction of banks earnings and have an inverse relationship with bank profit, and indicate the proficiency of the bank administration and its dealings during operations (Tariq et al., 2014). The operational efficiency indicator also referred to as expenses by management is given as cost to income ratio. The higher the ratio, the less efficient the bank is, and the bank could be adversely affected in its return on assets depending on the extent of competition in the industry (Munyambonera, 2011).

Louati et al. (2015), Smaoui et al. (2011), Al-Hassan et al, (2010), Zeitum (2012) and (Al-Hassan et al. (2010) found that, the impact of internal factors like bank's size, liquidity, total capital and reserves, and capital adequacy had influence on the performance of the banks. Whereas, Zeitum (2012) said operational efficiency of a bank also influences the profitability.

As of late, especially in the most recent decade, contemplations that investigate the significance of bank capital guidelines have expanded exponentially. A few essayists analyzed the impact of capital guidelines on bank execution and found a positive relationship (Holmstrom and Tirole, 1997; Mehran and Thakor 2011) while others such as Calomiris and Kahn (1991) found a negative relationship.

2.6 Empirical Literature Review

2.6.1 Empirical Studies in Tanzania Context

In a study by Qin and Dickson, (2012) on Commercial Banks profitability position for the period of ten years (2000-2009), liquidity and asset quality were found to have a positive impact on profitability, while non-performing loans were found to have a negative influence on profitability. In addition the authors concluded that capital adequacy, liquidity and asset quality are of key importance to commercial banks profitability because in their absence banks will not make profits.

Ally, (2014) on the study of the Influence of Bank Specific and Microeconomic Factors on Profitability of Commercial Banks investigated the effects of bank specific and macroeconomic factors on banks' profitability in Tanzania using the fixed effects regression model on a panel data obtained from 23 banks from 2009 to 2013. The results showed that bank-specific factors significantly affect banks' profitability; on the other hand the macroeconomic factors were determined not to significantly affect banks' profitability.

Marobhe and Pastory,(2015) on the other hand, employed a multiple regression model in a study which confirmed that capital adequacy, liquidity, assets quality and macro-economic factors are critical components in influencing performance of commercial banks.

Other scholars inspected the effect of capital guidelines on efficiency and connected the capital prerequisite proportions with profitability in a few different ways. Right off the bat, they contend that capital guideline may influence bank profitability through loaning capacity. For instance, Kopecky and Van Hoose (2006) connected the impact of capital guideline with the quality and amount of

credit offered by banks. The writers further contended that, when a bank has administrative capital prerequisites forced just because, it faces the outstanding decrease of the advance book. Be that as it may, a short time later, the nature of the advance book may either improve or intensify.

Thakor, 1996 contended that, within the sight of extreme challenge in the financial business, expanding in the base capital, liquidity and hazard prerequisite proportions builds loaning rates, and, along these lines, decreases bank gainfulness. In this circumstance, banks will consistently like to put resources into government protections to keep away from their cash-flow to being held up.

As indicated by Thakor, (1996), the expanded guidelines in the financial area power banks to return to their inside task techniques as far as solid corporate administration, chance appraisal strategies, credit assessment methods, work of progressively qualified staff, and improved inward control methodology. As indicated by Thakor (1996), clearly manages an account with increasingly capital are monetarily ready to investigate gainful undertakings, grow tasks and take on all around evaluated levels of dangers, while those keeps money with restricted capital avoid putting huge aggregates of cash in loaning exercises, which is hazardous, and rather put a lot of their cash in less dangerous government protections. In this way, capital amplex is regarded to have a positive association with bank effectiveness.

Supporting the method of reasoning of expanding capital necessities, Das and Ghosh (2006) contended that saves money with adequate capital will be monetarily more beneficial and more secure, and in this manner dependable credit hazard the executives measures lead to improved productivity. In their investigation on the effect of capital guideline on bank working effectiveness, Das and Ghosh (2006) found a positive noteworthy connection between bank capital proportion and execution.

Additionally, Pasiouraset al, (2009) in their examination on the impact of bank capital guideline on bank security found that an expansion in the bank least capital prerequisite diminished bank budgetary strength. Be that as it may, Pasiouraset al, (2009), utilizing standard supervisory methods utilized by the World Bank led investigate on the connection between bank specialized proficiency and capital prerequisite. The investigation found a positive connection between specialized effectiveness and bank capital requirement.

2.6.2 Empirical Studies Outside of Tanzania Context

In yet another study conducted by Olweny and Shipho (2011) to determine and evaluate the effects of market structure factors, foreign ownership and market concentration on the performance of commercial banks in Kenya, a multiple linear regression method was used. The analysis of the results showed that all bank specific factors had a statistically significant impact on profitability.

Using Kenyan commercial banks sample, Odunga (2016) examined the determinants of bank working effectiveness, and found that bank capital sufficiency as one of the most critical variables which influence bank working proficiency. As indicated by Odunga (2016), for banks to deal with their working cost, they have to expand their capital. Another examination by Odunga (2016) on determinant of bank liquidity additionally discovered capital sufficiency as the significant determinant of liquidity, which implies that manages an account with progressively capital are all the more operationally steady and can without much of a stretch survive financial down turns.

Al-Mutairi and Al-Omar (2008) undertook a study to identify factors facilitating good performance in terms of profitability among commercial banks in Kuwait from 1993-2005. The results indicated that Equity, Assets quality, operating expenses ratio and total assets have a positive relationship with the Return on assets (ROA). However, the effect of loan – assets ratio and operating expenses ratio had no significant impact on banks performance.

Kosmidou (2008) determined the factors of banks profitability and performance in Greece, whereby a regression analysis was used and it was identified that, bank size and asset quality had a positive correlation and was significantly related to profitability. Chatzoglou, Diamantidis and Vraimaki (2010) also studied banking productivity in Greece. They used standard ratio analysis for measuring the performance of banks. Their outcomes showed that enormous size banks perform superior to medium and little banks. They reasoned that gainfulness is decidedly related with a bank's size.

Utilizing USA bank test and the Generalized Methods of Moments (GMM) estimation system, Berger and Bonaccorsi (2006) considered the impact of bank guidelines on gainfulness, and found that lower capital proportions increment the working productivity of banks. This outcome bolsters the thought that banks dread going out on a limb when they go past the base administrative capital proportions.

In their worldwide investigation of 72 nations because of bank supervision, guideline and checking on working productivity, Barth et al, (2013) found that banks from nations with progressively severe capital necessities are all the more operationally effective contrasted with those banks from nations with adaptable bank capital regulations.

2.7 Prudential Regulations in the Banking Systems

Following the global financial market in 1929, due to the deflation of debts, that regulation of the banking sector became indispensable (Vittas, 1992, Haussmann et al., 1996, Rojas et al., 1997). From this date, banks tend towards nationalization to make preparations for potential emergencies. In any case, note that most of banks in rising nations wound up open in the late 1980s and mid 1990s. For instance, in Russia, the financial segment likewise remains profoundly nationalized with 68% of banking resources in hands of the State in 2000. Concentrating an enthusiasm on this issue, Ciancanelli and Gonzalez, (2002) saw in numerous Asian nations (South Korea, Indonesia, Thailand), that a portion of the vexed banks have been briefly nationalized following the Asian emergency. Also, financial specialists who have

contemplated the banks believe the financial segments to appear as something else and unmistakable from different firms and having explicit qualities that require the intercession of the legislature through the burden of specific principles (Ogus 1994, Goodhart et al., 1998). In that capacity, Barth, Caprio and Levine (2001) contend that all administrations will in general direct and control banks to guarantee the security of their economies. The motivation behind these guidelines is to serve the open enthusiasm, specifically the enthusiasm of buyers in the financial administration, which is the abrogating target of the controller (Visentini, 1997). Truth be told this is basically because of the usage of guidelines that don't have a legally binding association with the executive of the bank or the association, which as of now clarifies the way that the operators consistently believe in this part. In a similar vein, Adams and Mehran (2002) contend that the specificities and idiosyncrasies of the financial segment fortify the requirement for bank guideline.

Truth be told, through the principle store ensure components and the loan specialist's last methodologies, guideline goes about as an investor security and hazard shirking system. It likewise permits the goals of the issues of office, the control of the practices of the pioneer so it acts in light of a legitimate concern for the investors. In this equivalent point of view, Barth et al. (2004) see that three noteworthy dysfunctions push the state to mediate so as to effectively build the yield of the financial market. This is the situation of unbalanced data, the presence of externalities at the large scale and miniaturized scale levels. Accordingly, to screen showcase exercises that could hurt the open enthusiasm, banking guideline is required. As indicated by Heremans (1999), banking guideline intends to ensure buyers against market disappointments.

So as to guarantee the open premium and to guarantee the best possible working of the financial division, the Basel Committee has not stopped since its establishing in 1975 to present principles of good administration and banking supervision with the point of guaranteeing the strength and unwavering quality of the banking and monetary framework. This board of trustees sets rules for monetary part supervision in a universal setting. For instance, the pioneers of the 20 (G20) bunch nations have set up rules on the supervision of the money related division in a

universal setting (at first Basel I, with the proportion Cooke, at that point Basel II with the proportion Mc Donough, and as of late the Basel III understanding). The last measures presented under Basel III are gone for ensuring banks against stuns that may result from money related and monetary pressure. Worldwide controllers, for instance, have presented changes, specifically, concerning the quality and amount of capital segments, the influence proportion, standard liquidity and the improvement of data in banks (Amina, 2018)

Truth be told, in 1988, just because, the Basel Committee distributed a lot of guidelines requiring, bury alia, banking foundations to deal with the dangers related with the financing in truth, and setting the base capital limit for spread these financings, while considering the valuation of protections and certifications. Be that as it may, these guidelines have been emphatically condemned, since they apply to all financing allowed autonomously of the real dissolvability level of the different account holders. This provoked the Basel Committee to amend its first understanding. Since July 1998, another change has been started with the goal, as indicated by WJMcDonough, of "adjusting administrative prerequisites to regard to the degree of capital with the fundamental dangers and, to furnish banks and their controllers with a few options for the appraisal of capital ampleness. This change is viewed as an endeavor to guarantee a superior match between administrative capital and monetary capital that can solidify the quality of banks through a progressively streamlined administration (Zgarni and Fadhila, 2018)

2.8 Summary of audiovisual Interview of Dr. Charles Kimei the former Managing Director of CRDB Bank PLC with International Banker TV on the Banking performance.

In the year 2016 Dr. Charles Kimei, the CEO of CRDB Bank had an interview with International Banker TV regarding the performance of the CRDB Bank and the banking sector in general. During the interview he shared some insights concerning the development of the banking sector. He highlighted the performance of CRDB Bank PLC as at December 2015 and of more emphasis the prospects of the banking sector in Tanzania.

In his presentation Dr. Kimei said that the banking sector has grown tremendously for the past 20 years with a number of Commercial banks and financial institutions raising from just one in the mid of 1990s to 59 at the close of the 2015 financial year. He narrated that though there is a big number of financial institutions but most of them are small banks, the community based banks. These small banks are quite vulnerable to the changes that occur in operating environment. Kimei demonstrated that the changes are with regards tightening of the regulatory requirements from the central bank especially the capital requirements and the introduction of operational risk buffers. He further said that following the difficulty for small banks and financial institutions to growing their own capital internally it would be difficult for them to raise their capital internationally or even domestically, hence according to him these small banks have no option other than going to merger or acquisition of the banks.

According to Dr. Kimei the vision of the CRDB Bank is to grow in terms of expansion of networks and focus more on retail business that is why during the financial year 2015 alone 76 branches were opened. He articulated that when you grow in terms of network expansion you cannot make much of the profits because you tradeoff between growth and profitability. Here, he was optimistic of the future of performance of the CRDB Bank.

On the issue of Non-performing loans(NPLs) which appeared to grow to 8.1% below the set bank's target of between 5% to 7% Kimei pointed three reasons that attributed to the growth of NPLs. These are:-

- i. Change of regulatory provisioning requirements in which the central bank introduced a new prudential regulations that requires when restructuring a credit facility you cannot upgrade it until four installments are paid consecutively even though qualitatively you see the credit facility is good. Therefore, CRDB Bank had to maintain a poor classifications of those facilities. He said that under the previous prudential regulatory regime it would not have effect.

- ii. There were government interference on Tobacco trading during the year 2014/15 which enabled the farmers to divert the funds which would have passed the normal channel, through AMCOS for the farmers to be deducted their individual outstanding loans.
- iii. There was a problem of importing sugar in the country of cheaper price and hence killing our own Sugar Industries, as a result those industries were not able to fulfill their financial obligations to the banks. The Kagera sugar and Kilombero sugar industries are the corporate customers of CRDB Bank. He ironed out further that the problem has been addressed by the new government by stopping further importation. Here again, Kimei was optimistic that the new government ,referring to the fifth government would solve the problem once and for all.

Responding to the question of diversity of the bank loan portfolio which is ranging from Microfinance to corporate clients Dr. Kimei pointed that these corporate clients seen today most of them graduated from SMEs. Hence they have grown to become corporate with a bank together. The idea of CRDB Bank was to grow their own corporate clients instead of competing on the existing one like it was a practice in 20 years back. On the issue of SMEs he said more than 65% of the SMEs are not accessing credit facilities and effort need to be done to recruit them. CRDB Bank had started re-engineering the process of recruiting the SMEs by accepting the non-traditional securities or even the customary title. This program had a support from International Finance Corporation(IFC),the African development Bank(AfDB) and European investment Bank.

The essence of idea of growing the retail business is backed by the belief that corporate loan segment was a real problem according to Dr. Kimei.

2.9 Summary of audiovisual Interview of Prof. Honest Prosper Ngowi on the Transfer of the government's funds to BOT.

During the interview with journalists Prof. Ngowi (2016) demonstrated that the decision of the government to transfer its funds to the central bank to some extent has shaken the banking sector particularly on the liquidity side. However, Ngowi

pointed out that was not the only reason that contributed to the liquidity problem of the banking sector, there are other factors that may also be considered:-

i. **Ghost workers and those with fake certificates**

The decision of the government to remove the civil servants who were accused of having fake certificates has also contributed to the liquidity problem in the banking sector because the government could not remit the funds to their bank accounts for payment of their salaries and as it was quoted by Tanzania affairs publication (TA ISSUE 122) a sum of amount of TZS 426 bn were saved by the government.

ii. **Tight spending policy**

The government tight spending policy has also reduced the supply of money in circulation .The civil servants who used to get allowances to top up with their monthly salaries, all the allowances have been slashed out. This is why the salary's life cycle in the bank accounts have been reduced substantially.

Prof. Ngowi further commented that the decision of the government to transfer its funds is a critical decision, in fact it was a policy, that would require shareholders' participation before been implemented. That the shareholders were required to be given enough time to prepare themselves for change. The involvement of stakeholders would include the people giving their opinions on the matter and the best way to handle the issue.

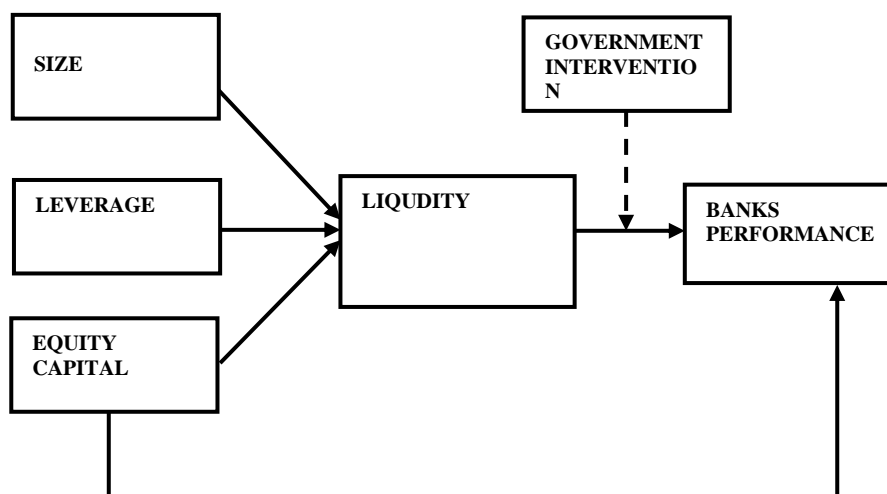
He also suggested that whenever those critical decisions made by government there should collaborative techniques and control in which the assessment of the impact may be made at any point of time to assess the effectiveness of the policies so implemented instead of waiting until things get worse. Prof. Ngowi in turn advised the commercial banks that from the very initial stages of the

implementation of the policy the commercial banks were required to request for their participation in the policy instead of keeping quiet.

2.10 Conceptual Framework

This sub-section gives the approach that will be taken in conducting the research, given the theoretical and empirical review. Proponents claim that when purpose and framework are aligned, other aspects of empirical research such as methodological choices and statistical techniques become simpler to identify. The conceptual framework also expresses the expectations of the outcomes of the effect the independent variables will have on the dependent variable.

Figure 2. 1 Conceptual Framework



Source: Authors' own conceptualization 2019

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section provides a description of the study area, and the methods employed by the researcher during data collection. It also explains the sampling procedures and the instruments which were used for data collection, data processing, analysis, and presentation. According to Kothari (2004), a research methodology is the way in which a research problem is systematically solved. Research methodology is a systematic way in which a researcher chooses to deal with particular questions in the process of conducting a research.

3.2 Research Design

This study used a case study research design, where two giant commercial banks namely CRDB and NMB were selected. In the process of conducting this research the information pertaining to the financial performances covered two phases, called phase I and phase II. Phase I is the financial performances between 2013-2015 and phase II illustrates the financial performances between 2016-2018 for both banks under study. Ideally, it is thought that performance of the banking industry deteriorated much after the inception of the fifth government through its policies and regulations so implemented. The data were collected through financial statements (profit and loss and balance sheets), banks annual reports, BOT monthly and quarterly economic reviews, the Bank of Tanzania monetary policy statements of the respective periods under review and of much emphasis the Banking and financial institutions Acts of 2006, 2008 and 2014 played the big part of the discussion.

3.3 Area of the Study

This study was conducted at CRDB Bank and NMB Bank Head Offices in Dar es Salaam. The researcher decided to choose those places because of the familiarity and accessibility of the collection of data. With regards to conducting my research to NMB Head office it was due to easy accessibility of data as I used to work with

them in the past. The fact that the information were easily available it reduced cost in terms of transport costs and time.

3.4 Study Population

The target population was the entire spectrum or variables of a system or process of interest. It is the universe of people to which the study can be generalized and where a conclusion can be drawn from the population Johnston and VanderStoep (2009). Population refers to all people or items with similar characteristics that one wishes to study (Quinlan, Babin, Carr, Griffin, & Zikmund, 2011). The population of this study comprised staff of Head Offices of CRDB and NMB Bank in Dar es Salaam.

3.5 Units of Analysis

The two banks (NMB and CRDB Banks) were selected basing on their industrial total assets parameter that accounts for 35%, industrial total deposits that accounts for 40.6% and account holders' parameter which accounts for 74% of all account holders in Tanzania. The analysis of these two banks to a greater extent was used to draw the conclusion of the entire Banking spectrum with some few deviations that the two giant banks under review have edges over other banks in terms capital adequacy and liquidity adequacy.

3.6 Sampling Procedures

Sampling is done for the purpose of measuring some elements of the population and drawing conclusions regarding the entire population. In this study the researcher applied purposive sampling and simple random sampling. Purposive sampling was used to collect data from the key respondents namely Directors and Managers and simple random sampling technique was used to collect data from bank officers. In the same spirit, purposive sampling was used to select two banks which are CRDB and NMB.

3.7 Sample Size

For the purpose of this study two banks, CRDB Bank Plc and NMB Bank Plc were selected and the reasons for selecting these two banks were:

- a) The two banks are considered industry giants, commanding a combined market share of 36.83% (BOT, 2016a) with a large branch net-work spread in all regions of the country (CRDB: 250 branches (CRDB, 2016); and NMB with 188 branches (NMB, 2016).
- b) Industrial total assets parameter that accounts for 35%, industrial total deposits that accounts for 40.6% and account holders' parameter which accounts for 74% of all account holders in Tanzania
- c) Availability of audited annual financial reports which are included in the two banks' Annual Reports.

Table 3. 1 Projected Sample Size and Techniques of key Informants from CRDB and NMB.

Selected Bank	Cadre level	Size	Sampling technique	Data collection method
CRDB Bank	Directors Managers	5	Purposive	Interview
NMB Bank	Directors Managers	5	Purposive	Interview
CRDB Bank	Other staff	25	Simple Random	Questionnaire
NMB Bank	Other staff	15	Simple Random	Questionnaire

Source: Field data, 2019

3.8 Types of Data and Data Collection Methods

3.8.1 Primary Data

Primary data are those which are collected fresh and for the first time and thus happen to be original in character. The researcher will collect primary data on the perception of stakeholders on the impact of the imposed policies and regulations in the banking sector. The data which will be collected are first hand data through which analysis and interpretation will be done. A structured questionnaires were used to gather information from other staff apart from management team while the interview method was used to solicit primary data from the Management team.

3.8.2 Secondary Data

Secondary data are those data collected from reviewed documents. Moreover secondary data is referred to as the use of data collected and recorded by other people. It is a cheap source of data since the research uses ready-made data (Kothari, 2004).

The data used for the study is historical data from the audited financial statements of the banks as presented in the two banks' published annual reports. Methods of collection included visiting websites of the two banks for a review of the official reports posted therein, and from online reports posted by Bank of Tanzania and by browsing the internet and reading published sources of other various relevant reports.

3.9 The Model Estimation

Through this study, the researcher will try to appreciate the characteristics of the banking sector in an emerging market which is the Tanzanian market and to verify if the regulatory mechanisms have an effect on the accounting performance of the commercial banks. ie if these mechanisms are used to discipline the executives so that they best represent the interests of shareholders, taking into account the existence of agency conflicts within banks and the ability of managers to behave in the opposite of the interests of the owners.

Performance = f (Regulatory ratios, Control variables)

Performance of the commercial banks is the function of regulatory ratios and the control variables.

Thus, the model to estimate is as follow:

$$ROA = B_0 + \beta_1 RIAR + \beta_2 LIQUID + \beta_3 CAR + \beta_4 NPL + \epsilon$$

Where;

$$\beta_0 = \text{Constant}$$

$$\beta_1 - \beta_4 = \text{Are Coefficients of the regression equation}$$

ε = Probable error of the regression.

Measurement of variables

*Dependent variable: The accounting performance (ROA)

In this study, the researcher intends to adopt accounting performance to test the impact of prudential regulation on banks' performance. This variable is measured by the return on assets (ROA): net income divided by total assets (Lang and So 2002, Pinteris 2002, Kwan 2003 and Capiro Laeven and Levine 2004, Belkhir, 2006; Louizi, 2006 and Zgarni&Fedhila, 2018)

*Independent variables: Regulatory ratios

The regulatory ratios introduced in this study are: the risk asset ratio, the liquidity ratio, non performing loan ratios and the capital adequacy ratios. The researcher assumes that that these ratios may have an impacts/influence on the performance of Tanzanian commercial banks listed on the central bank of Tanzania.

Risk asset ratio (RIAR)

The risk asset ratio is equal to: the own funds divided by the total commitments (the risk-weighted assets are summarizing mainly in customer receivables due to lack of data on the risks incurred by the two banks and to the extent of these risks). According to Tanzanian regulations this ratio must be greater than or equal to 8%.

Liquidity Ratio (LIQUID)

The Liquidity ratio is measured by the ratio: liquid asset divided by liquid liability. This ratio is fixed at 100% in the Tanzanian banking context.

Capital adequacy ratio (CAR)

The capital adequacy ratio is measured by the ratio: Tier I +Tier II divided by risk weighted assets

$$\text{Non-Performing Loans Ratio) = NPL} = \frac{\text{Non- Performing Loans}}{\text{Total Loans \& Advances}}$$

3.9.1 Test of Significance

The levels of significance used in this regression were 90%, 95% and 99% confidence levels, the correlation coefficient was used to determine the statistical significance of the research.

3.9.2 Regression Analysis

Linear regression is a predictive analysis. Regression models are used to explain the relationship between a dependent variable and one or more independent variables. In multiple linear regression analysis a dependent variable is predicted by two or more independent variables. In order for the results of a multiple linear regression analysis to be valid, there are a number of assumptions to be considered, but mainly there are four assumptions which include: normality of residues, linearity in the parameters, assumption about the model error and assumption about measurement error.

i. Normality of Residues or Error

This assumption requires the predictor and or response variables to be normally distributed; Specifically it is assumed that errors are normally distributed for any combination of values of predictor variables. (Wooldridge, 2013).

ii. Assumption About the Model: Linearity in the Parameters

The multiple linear regression models are considered to be linear in the regression parameters (Chatterjee and Hadi, 2012). This means that the response variable is assumed to be a linear function of the parameters ($\beta_0, \beta_1, \dots, \beta_n$) but not necessarily a linear function of the predictor variables. (Osborne and Waters, 2002).

iii. **Assumption about the Model Error**

Errors are assumed to have mean zero for any combination of values on the predictor variables, and are assumed to be independent. They are also generally assumed to have an unknown but finite variance that is constant across all levels of the predictor variables (homoscedasticity constant variance), (Chatterjee and Hadi, 2012), (Weisberg, 2005).

iv. **Assumption about the Measurement Error**

The predictor variables are assumed to be measured without errors, as errors in the response variable (but not in the predictors) will not harmfully affect inferences relating to unstandardized regression coefficients (Chatterjee and Hadi, 2012), (Montgomery et al, 2001).

Other assumptions like R^2 and multi co linearity are also taken into consideration.

3.10 Hypothesis of the Variables to be Tested

These are tentative explanations about the given research topic which tries to predict the correlation between the variables, the independent variables against dependent variable and try to establish whether there is a positive or negative correlation of the variables.

Ho=Null Hypothesis

H1=Alternative Hypothesis

Hence, the research hypotheses are as follows:-

- i. **Ho:** There is no relationship between performance of the Banking Industry and the introduction of the new policies and regulations in Tanzania.
- ii. **H1:** There is a direct relationship between performance of the Banking Industry and the introduction of new policies, regulations in Tanzania.

CHAPTER FOUR

RESEARCH FINDINGS PRESENTATION

4.1 Introduction

This chapter presents the results arising from data analysis. The results are presented according to the objectives of the study, namely; to identify various policies and regulations that were introduced in the banking system, to assess whether policies and regulations affects the performance of commercial banks in Tanzania and to determine the perception of Banking sector stakeholders on the performance of commercial banks after policy reformation. A total of 50 respondents were interviewed on the effect of policies and regulations on banks' performance.

The chapter presents the summary of findings of analyzed data obtained from the six ratios extracted from the Annual Reports of the selected banks, (that is CRDB Bank Plc and NMB Bank Plc), and covering a period of six financial years from 2013 to 2018. The conclusions drawn from the analysis of the results, recommendations, and suggestions of areas which may require further focus on future researches are also presented.

The table 4.1 presents the data collection findings on the perceptions of the respondents regarding the questions presented to them in the Questionnaire forms:-

Table 4. 1 Respondents Ratings

Q n	Scale Measurement	Very Good	Good	Average	Bad	Very Bad
		5	4	3	2	1
1	Trends of the growth of the Banking Sector	2	7	25	15	1
3	Government's tight spending policy	2	15	22	9	2
4	Foreign cash outflows on big projects	9	22	12	2	1
5	Transfer of government's funds to BOT		4		22	15
6	Effects created by non-performing loans(NPLs)	0	0	0	10	34
7	Money Supply in the Economy		2	16	16	11
8	Government's policies on strategic cash crops	5	11	14	14	6
9	Policies and Regulations set by the central bank	3	22	19	6	0
10	Growth of Development loans	1	4	20	18	7

Source: Field Data, 2019

i. Monetary Policy (MP)

In this policy two major parts were identified for improvement. The transfer of funds to BoT from the Commercial Banks and Tight Monetary policy. 20 respondents (40% of the respondents) said that they would wish the government to reverse the decision to transfer funds to BoT from the Commercial Banks as it has affected the Commercial banks to a great extent. 13 respondents (26% of the respondents) in response to this question, 12 had the opinion that Money supply in the economy as result of the tight spending policy is another area in which the government needs to improve. Thus, 66% of the respondents are of the opinion that Money policy need to review for improvement of the banking sector and the economy at large.

The fifth government of Tanzania soon after assuming the power directed all the funds of the central government, local governments and its agencies which were being held and maintained in commercial Banks to be transferred to Bank of Tanzania. The idea to centralize the collection of the government's funds were backed up by the notion that there was embezzlement of public funds, commercial banks holding government's funds at free of charge and to use the funds for

development projects following the squeeze of funds from Multinational institutions such as IMF and the world Bank. The funds were approximately amounted to TZS 600 billion. Section No.7 of the Banking and Financial institutions (Liquidity Management) regulations, 2004 published on 22nd August 2014 requires a bank or financial institution to maintain at all times minimum of liquid assets of an amount of not less than 20% of its demand liabilities. It is the requirement of the provision No.8(1) of the Banking and Financial Institutions(Liquidity Management) regulations,2008 that the banks or financial institutions to maintain at all times its gross loan portfolio at levels not greater than 80% of its total deposit liabilities. However, during the review of the reports for the periods under review especially from (2016-2018) and interim quarterly reports for the year 2016 indicated that the banks under review were real struggling to be within the ratios and some of them had already violated the compliance of the provision No.8 (1) of the Banking and Financial institutions(Liquidity Management) regulations, 2008. As shown in the following table 4.2.

Table 4. 2 Banks Performances Comparisons

S/ N	"figures in Billions" ITEM COMPARED	CRDBBANKPLC			NMB BANK PLC		
		Jun-16	Sep-16		Jun-16	Sep-16	
				% up or down			% up or down
1	Customers' deposits	4,038.62	4,051.59	0.3%	3,519	3,434	-2.4%
2	Total Assets	5,614.12	5,340.21	-4.9%	4,723	4,719	-0.1%
2	Loans, advances and overdrafts	3,500.00	3,361.24	-4.0%	2,709	2,856	5.4%
4	Allowance for probable losses	123.64	96.74	-21.8%	41.64	46.20	11.0%
5	Gross loans to total deposits ratio	89%	84%	-5.6%	78%	84%	7.7%
6	Non-performing loans and advances	405.97	378.36	-6.8%	85.53	82.39	-3.7%

Source: Field Data, 2019

From table 4.2 shows the effect created by the decision of the government to transfer all the government's funds to Bank of Tanzania. The quarterly reports as at

June and September 2016 for both banks indicated that all the banks during the interim periods violated the compliance to provision No.8(1) of the Banking and Financial institutions regulation,2008.For instance, up to the month ending June CRDB Bank PLC had a ratio of 89% contrary to the requirement of below 80% while NMB Bank PLC had reached the ratio of 78%,just 2% short to reach the threshold. During the month ending September 2016 both banks violated the requirement of the provision by sustaining the ratio of 84% for CRDB and 84% again for NMB. In these periods all the two banks were required to stop or slow down lending until the ratio normalizes. Further, towards the end of the year 2016 as at December that year NMB managed to reduce the ratio to 75.7% (Table No.4.9,S/N 11) and CRDB could not comply with the requirement of the provision by recording the ratio of 82%.

Following the government directive to transfer the government's funds to the Bank of Tanzania within two weeks from the date of the decision announcement, the banks were forced to find deposits from other sources to bridge a gap at a higher rate than normal. This raised the interest expenses on one hand and cost of borrowing (interest charged to loans) on the other hand. CRDB Bank through the so called Thamani Fixed Deposit granted the rate of 13% per annum for three years while NMB Bank through Bonds Deposit granted 14% per annum for three years compared to the average prevailing rate of 3%-8%.Table No.4.9,S/N 2 showed CRDB between 2015/2016 cost of funds raised by 27.46% shifting from TZS 106.80bn to TZS 136.13bn while during the same period NMB raised it by 49.13% shifting from TZS 68.53bn to TZS 102.19 bn. Other banks granted even the higher rates above these two giant banks. In the same spirit, the commercial banks decided to raise the interest on borrowing where CRDB Bank raised their cost of borrowing to 22% from 19% for SMEs and NMB Bank raised to 23% from 20% for SMEs. Other banks granted even the higher rate.

In their annual report for the period ending 2016 in the page No.29 on Managing Director's statement, CRDB confessed that the higher interest expense was attributed by the tightly market liquidity partly as a result of the transfer of public

corporation's funds to the central bank. Hence it was clear that the banking sector was hit by the action of the government.

ii. Agricultural Policy

9 respondents(18% of the respondents) had the opinion that Agricultural policies of the government need to review especially on strategic cash crops where most of the people said the government interfered the free market economy(Interviewee No.18).Also, the government has been advised to make assessment of Impact before and after the implementation of the policy. This advice was given by interviewees.

iii. Government intervention in Tobacco business

There was government interference on Tobacco business during the year 2015 and early in 2016 which resulted into the growth of NPLs and loan impaired provision. For instance, the NPLs for CRDB Bank grew from TZS 129.25bn at the closure of the year 2014 to TZS 270.86 the growth of 109.6% in the year 2015 causing loan impairment provision of TZS 66.88bn.In their annual report for the year ending 2015 published on 21st May 2016 page No.16 CRDB pointed out that such significant growth was attributed by the restructured tobacco loans amounting to TZS 44.17bn that was granted to 78 Agricultural Marketing Cooperative Societies (AMCOS) which failed to repay. These AMCOS in Tabora diverted the funds given and collected tobacco from various farmers and groups for auctioning them in the market. The funds were channeled through CRDB Bank accounts and retracted for payment of their outstanding loan and the farmers rose a complain to the government and the government ruled out that the bank should refund the farmers and groups.

iv. Government intervention in Coffee business

Further, early in January 2018 the Prime Minister while was in an official visit in Ruvuma region at Mbinga district he made a proclamation that he would like to see all farmers collect and process their coffee cherries/parchments through AMCOS instead of the prevailing modality of selling coffee cherries/parchments through

groups or companies. By that official announcement all the licenses that were given to groups and companies to purchase coffee parchment/cherries ceased immediately and officially been decided that the government through Tanzania Board Coffee (TCB) would not issue any other business licenses to groups and companies instead it will give to the existing and newly established AMCOS. However, the banks during the period the proclamation was made, it had already granted Input loans to the groups, AMCOS and other companies and they had huge outstanding purchase loans which were to be settled through coffee trading.

Below are outstanding coffee loans balances as at 30/04/2019 restructured and booked by CRDB Bank with no hope to be repaid because they cannot get back into the business.

CRDB BANK OUTSTANDING COFFEE LOANS AND OVERDAFTS BALANCES AS AT 30/04/2019 "TZS Millions"

S/N	LOCATIO N	TYPE OF BUSSINESS	CURRE NCY		RATE	AMT OUTSTNG	DATA SOURCES
			TZS	USD			
3	KARAGWE	Coffee trading	7,000.00		1.00	7,000.00	Internal Report
2	RUVUMA-1	Coffee trading	1,879.88		1.00	1,879.88	Internal Report
4	RUVUMA-2	Coffee trading	1,347.43	6.48	2,300.00	16,259.94	Internal Report
1	SONGWE-1	Coffee trading	3,435.59		1.00	3,435.59	Internal Report
5	SONGWE-2	Coffee trading	2,145.44		1.00	2,145.44	Internal Report
6	SONGWE-3	Coffee trading	901.35		1.00	901.35	Credit Info Report
TOTAL						31,622.19	

It is apparently looks like there is a potential loss of TZS 31.62bn for CRDB Bank PLC due to the government decision to change the coffee business model from groups and companies to collection and selling in bulk through the auction, the TCB. The amount discussed above is potential loss that expected to come from the coffee sector only for CRDB Bank. It is more likely that other banks apart from CRDB and NMB Bank like Tanzania Investment Bank (TIB) as seen in the Credit

info of one customer only residing Songwe region with reference No.5506-9E95-195E-403F who had taken TZS 3.9bn for coffee business.

v. Government Intervention in Cashew Nuts Business

During the year 2018 the government interfered the cashew nuts business leading to the widening of the deficit gap of country's balance of payments by USD 575.6 Million (equivalent to TZS 1.3 trillion) according to the Citizen magazine dated 29th December 2018. According to Cashew Board of Tanzania (CBT) 313,826.386 tonnes of the crop were produced during 2017/18 which were to be exported and receive foreign earnings in the country. However, the government interfered the business by directing the cashew nuts to be sold at TZS 3,300 instead of the indicative price set of TZS 1,550 per kg. The private buyers who were already in the process of purchasing the cashew nuts could not afford to purchase in that price saying that the price set by the government was too high and most of them had taken loans from the commercial banks. Following the refusal of the private buyers on the indicative price set the government decided to halt to the process claiming that it would buy the whole cashew produced at a price of TZS 3, 100, though there is some roamers that not all farmers have been paid and there is ongoing verification process of farmers. However, as it occurred in the tobacco the government decided to pay directly the farmers through their accounts instead of through AMCOS in which the farmers had taken Input loans. The unofficial report says that NMB Bank PLC is at the verge of losing TZS 15bn and CRDB is at the verge of losing TZS 5bn from the cashew business as a result of granting Input loans to AMCOS which have not been refunded.

vi. Tax Policies

9 respondents (18% of the respondents) in response had the opinion that there is a need to review tax policies as it appears most of people are not happy with the way they are estimated and charged tax with relevant authorities.

Respondents were asked to provide their opinions regarding the trends of growth of the Banking Sector, whereby 50% of the respondents said that the trend of

growth of the Banking sector was moderate while 32% rated bad. Only 18% of respondents rated the trend of growth to be good. This suggests that people are not very happy with the trend of growth of Banking sector.

Furthermore, respondents were also asked to provide their opinions regarding what causes the poor banking performance, 39% of the respondents said the poor banking performance was attributed by “Government policies” while 34% agreed to have been contributed by “Non-performing loans” and 19% said liquidity problem contributes to the failure of the banking sector. This suggests that in all indications, by people’s perceptions, the government policies, non-performing loans and liquidity are dominant features that contribute to failure of the banking sector.

Tight spending policy that was introduced by the fifth government was identified also as one among the policies that the government introduced in which 44% of the respondents rated moderate while 34% said that the policy is good and only 22% rated bad. This suggests that the banking sector is ok with the policy except in some areas of improvement.

Regarding the foreign cash outflows on the huge government development projects, 68% of the respondents said that the policy is good while 26% rated moderate and very few only 6% rated bad. This suggests that, by people’s opinion that there is no significant impact in the banking sector for government pursuing its development projects that take us a huge of the foreign cash outflows.

With regard the transfer of government’s funds to BOT if it had the impact on the Banking sector, 90% agreed that the decision to transfer of government funds to BOT from Commercial banks had the greater impact in the Banking sector.

Respondents also acknowledged the government intervention in the Non-Performing Loan ratios regarding the effects created by non-performing loans (NPLs) into the performance of the banking sector, 100% of the respondents

admitted that NPLs is crucial issue affecting the performance of the banking sector at the moment.

Regarding the government policies on strategic cash crops such as Tobacco, coffee and cashew nuts, 40% of the respondents said that government policies on strategic cash crops is bad whereas 28% rated moderate and only 32% rated good.

Finally the researcher was interested to gain an insight from the bank officials in response to their opinions regarding how good the policies and regulations set by the central bank, the analysis shows that 50% of the asked respondents said that the policies and regulations are good whereas 38% rated moderate and only 12% of the respondents rated bad. This implies that there are others, about 50% think that some policies and regulations need some amendments.

From the above analysis it shows that more people admit that Non-performing loans(NPLs) is an area hitting the banking sector at the moment (100% of respondents) followed by the decision of the government to transfer public corporations' funds to BOT (90% of respondents). Money supply in the economy seems to effect the banking sector(60% of respondents)and low credit accommodation growth to private sectors seems to affect the performance of the Banking sector (50% of the respondents). Other respondents were of the opinions that the failure of the Banking sector is attributed by government policies and regulations(39% of respondents). On the other hand, the respondents are of the opinion that the Monetary, Agricultural and tax policies need to be improved.

4.2 Correlation of the Determined Policies on Performance of Commercial Banks

A regression analysis was done by using SPSS software. The researcher performed a regression analysis for each bank. This means that two multiple linear regression models were analyzed, one for CRDB Bank and the second for NMB Bank so as to determine the variables (policy ratios) that have significant influence on the financial performance of the commercial banks. However all the assumptions as

stated in chapter three were taken into consideration in the regression model. Profitability of the bank was determined using ROA.

i. Descriptive Statistics

The table 4.3 and 4.4 present the descriptive statistics of our sample commercial Banks for all the variables used in the model.

Table 4. 3 Descriptive Statistics for NMB

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	6	1.7	4.1	4.2867	1.48341
RIAR	6	2.10	6.40	4.1000	1.83085
LIQUID	6	82.2	325.90	112.07	.41950
CAR	6	17	23	19.3333	2.16025
NPL	6	2.1	6.4	4.330	4.73699
Valid N (listwise)	6				

Source: Field data, 2019

Table 4. 4 Descriptive Statistics for CRDB

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	6	1	4.1	2.633	1.19094
RIAR	6	5.00	13.90	9.0167	3.52444
LIQUID	6	7.20	82.80	63.2833	27.97816
CAR	6	14.3	17	15.3000	.41952
NPL	6	5	13.9	9.4200	5.62950
Valid N (list wise)	6				

Source: Field data, 2019

The results of table 4.3 and 4.4 allow us to note that for the NMB banks studied, hold on average an asset return rate of 4.2%.With a maximum of 4.1% and a minimum of 1.7%. The standard deviation is low (1.4%), indicating the

homogeneity of our sample. Regarding the application of prudential rules in the Tanzanian banking sector, we note that most banks comply with the regulatory ratios introduced by the public authorities. In fact, the risk asset ratio, which must be less than or equal to 5%, according to the standards, is on average equal to 4.1% with a minimum value equal to 2.1% and a maximum value of 6.4%. In addition, the liquidity ratio of these banks averages 71.0%. This ratio varies between 82.9% and 7.1%. It can be seen that most banks respect the minimum liquidity ratio of 100% required by regulators.

ii. Regression Results

The regression of regulatory mechanisms on the accounting performance of Tanzanian commercial banks presents the following results (Table 4.5)

4.2.1 Regression analysis for CRDB bank

The regression analysis for CRDB Bank was done in consideration of four assumptions of normality of residues, linearity in the parameters, assumption about the model error and assumption about measurement error. Apart from the four assumptions, there was a consideration of multicollineality.

Table 4. 5 Regression Analysis for CRDB and NMB

Model		Coefficients	Std. Error	t-statistics	sign	95% confidence
1	(Constant)	-.788	11.266	-.070	0.956	142.365
	RIAR	-.267	.083	-3.229	0.091*	.784
	LIQUID	.021	.013	1.557	0.123	.188
	CAR	.283	.764	.370	0.005***	9.995
	NPL	.009	.006	1.439	-0.387	.086

R-squared = 0.3626

***Significant at 1% ** Significant at 5% and * significant at 10%

a. Dependent Variable: ROA

b. Independent variables: NPL, RIAR, LIQUID and CAR

In the light of table 4.5, it appears that Fisher's statistic, which has a near-zero probability, asserts that our model is globally significant. We can also point out that our model shows an acceptable linear fitting quality since the adjusted coefficient of determination R^2 is equal to 0.3626. This allows us to report that the independent variables explain 36.26% of the variation of the dependent variable.

Regarding the regulatory variables, we find that the capital adequacy ratio coefficient is statistically significant and positive at the 1% threshold. This result implies that the increase in the capital ratio is a factor favoring the accounting performance of CRDB commercial banks. It is consistent with our H-1 hypothesis and the one provided by the regulatory authorities that prescribed these capital requirements to ensure a minimum level of performance of the banking system and therefore its stability and strength.

From these results, we can predict that Tanzanian banks are moving massively and primarily towards the achievement of short-term performance in addition to their long-term solvency. This regulation, which has fully played its role of risk reduction, has allowed the achievement of a high level of performance and has thus achieved the objective expected by the authorities, which of constraining the behavior of banks in terms of risk taking.

In sum, the two ratios of liquidity and capital adequacy ratios prove to be considerable drivers of bank profitability in CRDB because they favor the performance of banks. However, these results must send a message to the public authorities who must ensure the excessive interest in short-term performance at the expense of long-term solvency. These regulatory restrictions that constrain banking activity are expected to regulate bank activity, which is becoming increasingly diversified and therefore provides extreme risks. Indeed, this diversification, which explains excessive risk-taking and the search for short-term performance, can go as far as the abuse of dominant position and the concentration of the sector, and may even harm the public interest.

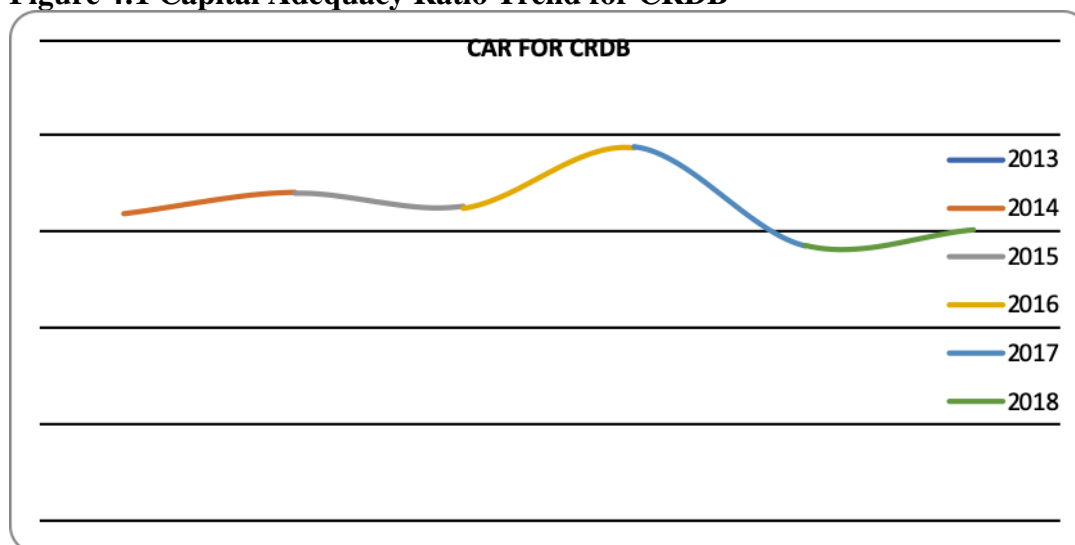
On the other hand NPL has a negative correlations with the performance of commercial banks in Tanzania, this imply that the increase in the NPL leads to poor performance of the bank while the decline in the NPL ratios facilitate the improvement of performance of commercial banks in Tanzania. It has been observed in the multi-linear regression that the NPL ratio is significant for NMB bank while this factor is not significant to explain the bank profitability for CRDB bank. This implies that CRDB bank had a high level of NPL ratio in recent years, meaning a bad quality of the loan portfolio as compared to NMB. This may be associated with fact that the portfolio quality has deteriorated in recent years and even though the increase in the rate of NPL was smaller compared to previous years.

The quality of assets management was measured by the Non-Performing Loans Ratio given by NPL. The NPL ratios of the two banks are shown in Table 4.6.

All banks' management are concerned with the quality of their assets because the performance of the banks to a large extent depends on the level of the quality of their assets. For this reason, assets management is of utmost importance to the management of a commercial bank.

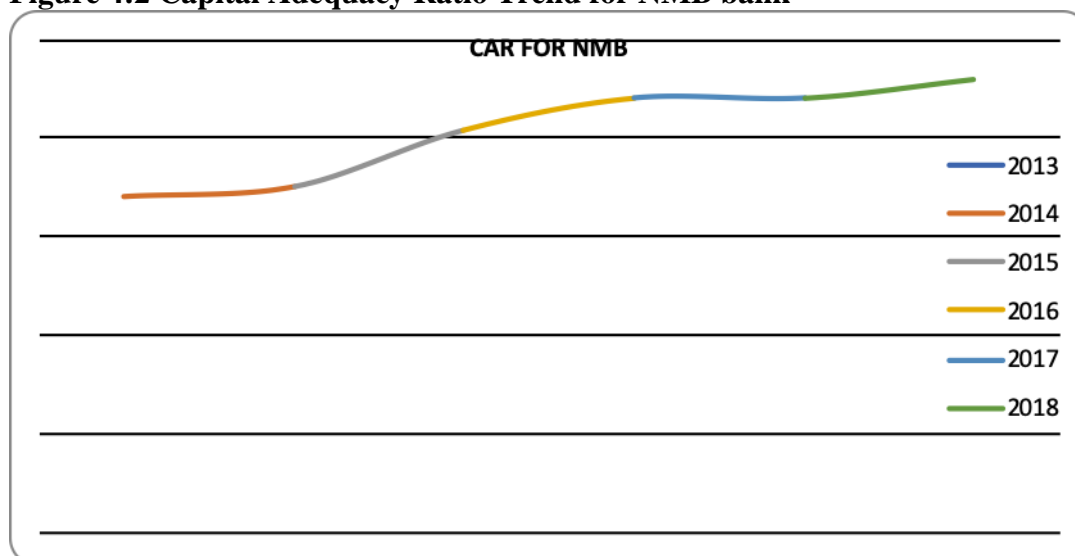
Capital adequacy is fundamental component to ensure bank dissolvability and gainfulness since banking is among the more dangerous organizations in the money related market. This may be because of the nearness of potential data asymmetry among banks and borrowers that may bring about credit default. This subsequently prompts bank misfortunes and, consequently, banks are obliged to have sufficient capital, not exclusively to stay dissolvable, yet in addition to dodge the disappointment of the budgetary framework. The degree of capital ampleness in Tanzania is dictated by the Bank of Tanzania. The Banking and Financial Institutions Act (2014) requires a bank or any financial institution, at any time, to maintain core capital of not less than 12.5% of its total risk-weighted assets and off-balance sheet exposure as well as total capital of not less than 14.5% of its total risk weighted assets and off-balance sheet exposure.

Figure 4:1 Capital Adequacy Ratio Trend for CRDB



Source: Field data, 2019

Figure 4:2 Capital Adequacy Ratio Trend for NMB bank



Source: field data, 2019

Figure 4.1 and 4.2 above shows that, on average, CRDB and NMB bank in Tanzania holds a capital requirement of about 18.35%, a level well above the stipulated capital adequacy requirement in the Banking and Financial Institution Act (2014). The maximum level of capital adequacy reported is about 23%, while the minimum is 14.3%. Although Tanzanian commercial banks, on average, have a capital ratio above the requirement, most are financed by roughly 13% equity, showing that they rely more on long-term liabilities to finance their assets. The

interesting finding is that even banks that do not comply with the minimum capital requirement set by BOT comply with the standard set by Basel (III), i.e., a minimum total capital ratio of 10.5%. The average capital adequacy ratio of Tanzanian commercial banks has had a decreasing trend since 2009: from around 18% in 2009 to around 7.5% in 2014.

Table 4. 6 Summaries of the Key Ratios

	2018	2017	2016	2015	2014	2013	AVG
RETURN ON ASSETS (ROA)							
CRDB BANK:	1.7%	1%	2.1%	3.0%	4.0%	4.1%	2.65%
NMB BANK:	1.9%	1.7%	3.2%	3.0%	4.0%	4.1%	2.98%
CAPITAL ADEQUACY RATIO (CAR)							
CRDB BANK:	16%	17%	16.3%	19.4%	14.3%	15.1%	16.35%
NMB BANK:	17%	17.53%	20.4%	22%	22%	23%	20.32%
ASSETS QUALITY RATIO (NON PERFORMING LOANS RATIO;(NPL)							
CRDB BANK:	8.3%	12.6%	13.9%	8.1%	5%	6.2%	9.01%
NMB BANK:	5.8%	6.4%	4.9%	2.1%	2.8%	2.6%	4.1%
LIQUIDITY MANAGEMENT (LDR) (LOANS TO DEPOSITS RATIO)							
CRDB BANK:	71.2%	71.7%	82.8%	77.4%	74%	67%	74.01%
NMB BANK:	82.9%	65.5%	75.7%	71%	67%	64%	71.01%

Source: Field data, 2019

From the results shown in Table 4.6, it is clear that NMB Bank showed a better management of its assets as determined by the NPL Ratios. During the six year period only twice in 2017 (6.4%) and in 2018 (5.8%) did its ratio go above 5%.

CRDB Bank on the other hand posted the lowest ratio of 5% in 2014, but had ratios of between 6.2% and 13.9% in the rest of the years, with the ratio peaking in 2016 and 2017 when the ratios recorded were 13.9% and 12.6% respectively.

The capital ratio is represented by total equity over total assets. The capital ratio indicates how much risk is covered by bank's capital, which means the bank with a higher capital ratio is considered safer than that with a lower ratio. The bank's creditworthiness is therefore enhanced, and further benefits the bank from reducing the funding cost. Given this point, it is believed that a higher capital ratio has a positive impact on a bank's performance, especially during economically difficult times.

The levels of capital adequacy of the banks were determined by the Capital Adequacy Ratio (CAR). As shown in Table 4.6, NMB Bank had a ratio of above 20% for a period of four consecutive years between 2013 and 2016, except for two years 2017 (17.5%) and in 2018 (17%). On the other hand, the CAR for CRDB Bank ranged between 14.3% in 2014 to 17% in 2018, with the highest rate of 19.42% being achieved in 2015.

The above notwithstanding, both banks were adequately capitalized and complied with Bank of Tanzania prudential guidelines on capital adequacy. The ratio required by BoT as a minimum is 14.5% of total capital to risk weighted assets.

The ratios of the two banks are indicative of their capital strength and the ability to absorb any potential shocks that may occur.

Liquidity was also one of the factors influencing banks' profitability as it appears in the result found that the less the deposits level the less the capacity to grant credits and the less the profitability of the bank, for instance in the year 2016 deposits fall by 0.34% compared to the year 2015 which resulted into the fall of profit by 46.02%. Liquidity was measured by the use of loans to deposits ratio. The Loans to Deposits Ratio (LDR) is used to determine the amount of customer

deposits which have been used by the bank for lending activities. A high ratio indicates the effectiveness of management in the utilization of collected deposits.

Both liquidity deficit and surplus must be well managed to avoid negatively impacting the financial health of a bank. Excess liquidity reduces a bank's return on assets while liquidity deficit increases cost of funds of a bank in terms higher purchasing price for required funds in addition to tarnishing a bank's reputation. For this reason a very careful management of liquidity is required in order to strike a balance between profitability and liquidity risk.

Results for both banks showed strong liquidity management practices with CRDB Bank averaging a rate of 74.1% compared to that of NMB Bank of 71.1% showing that both banks on average were able to maintain the regulatory requirement (refer Appendix II).

Looking on the above Financial Indicators show that generally the Banking Industry performance was good:

After Tax Profit (ATP) has risen by 13% between December 2013 to December 2014 and 34.8% by December 2015 for CRDB Bank while there was an increase by 16% between December 2013 to December 2014 and a slight fall by 3.7% in December 2015 for NMB Bank.

It has been observed that CRDB Bank had the increase in Interest expenses(cost of funds) by 38% from 69.28 billion in December 2013 to 95.65 billion in December 2014 and 11.8% increase in December 2015 while NMB had increased its cost of funds by 52% and 74.5% respectively during the same periods. This suggests that the two banks had been real struggling in getting deposits to back up their operations smoothly.

There was an increase in Loan loss provision for CRDB Bank though the growth was not much between 2013 and 2014. However, in 2015 the growth increased by 81.3% in which was the additional of TZS 30bn compared to TZS 5.36bn in 2014 of the impaired loans that were booked. This suggests that the loan problems

started in 2015 whereas for NMB there was a fall in Loan loss provision during the same periods under review. This suggests the periods under review(2013-2015) loan problems were not Industrial problem rather it was a management problem of CRDB Bank.

Return on assets (ROA) remained stagnant at the rate of 3% for CRDB Bank and falls to NMB Bank during the same period under review. NMB falls from 4.1% in 2013 to 4.0% in 2014 and further fall to 3.0% in 2015. This suggests that assets further employed could not yield the profits expected for both banks. This needs further investigation as both banks were able to raise their total assets above 17% for the period under review. One could expect the same could be reflected on return on assets. However, from table 4.7 and 4.8 show clearly how the banks were hit by the cost of capital (expenses) over yearly that reduced their ROA. For instance for CRDB Bank PLC between 2013 to 2014 there was additional cost of capital of TZS 26bn the increase by 38% which is quite high for the Bank while for NMB Bank there was an additional of TZS 13.37bn by the end of the year 2014 and TZS 29.27bn in 2015 which is quite high as well.

Further, there are some assets which are idle and they take large portion of the assets. The Statutory Minimum Reserves (SMR) in which all the banks and financial institutions are required to maintain at all times is meant to provide more liquidity to the banks. The banks and financial are required maintaining at least 8% dropping from 10% of its deposits and liabilities and 40% of central government deposits came into effect on 29th December 2014.

This means that no bank is allowed to utilize cash balances maintained with central bank below SMR, only the excess balance may be used for clearing purposes. This is in accordance of Section 44 of the Bank of Tanzania Act,2006 and Sections 4 and 71 of the Banking and financial institutions Act,2006.

However, Return on Equity (ROE) for the periods under review (2013-2015) has been relatively good for CRDB. It has stood at rate of 22% for 2013 and 2014 and further increase to 23% in 2015 while ROE for NMB stood at the rate of

28.6%,27% and 23% for 2013,2014 and 2015 respectively. Although there was a downtrend of ROE for NMB Bank the rate of above 23% was quite high.

There was increase in Total Assets of both banks whereas CRDB Bank risen their assets by 18% to TZS 4.21 Trillion at the end of 2014 and further increase by 28.4% as at 31st Dec 2015 while NMB managed to rise by 18% and 17.3% in 2014 and 2015 respectively. The substantial amount of assets growth came from loans, advance and overdrafts. The growth suggests that the Banks were solid enough to advance credit accommodations to private sectors to contribute to growth of economic activities in the country.

The basic earnings per share(BEPS) growth over time is an important indicator on the performance of any company. Generally, there was upward growth of earnings per share for both banks during the period under review except a slight fall of 3.9% for NMB Bank in the year ending 2015.This growth tells more on Industry's progress than growth in absolute profits of these banks. In terms of the customers' deposits both banks (CRDB and NMB) recorded upward trends in growth of its deposits. CRDB Bank recorded the growth of 12% between the years ending 2013 and 2014 and 25.2% for the year ending 2015 whereas NMB Bank recorded the growth of 16% and 19.9% in 2013/2014 and 2014/2015 respectively. This indicator signifies that there was enough liquidity to allow smooth operations of industrial sector. The significance of having enough deposits can be discussed later in terms of performance of the bank and compliance side from the regulator, the Bank of Tanzania. As it was also noticed and observed in the item (vi) that there was significance in the growth of lending business to banks during the period under review (2013-2015).A remarkable increase of loans, advances and overdrafts by 28% at the end of 2014 compared to the year ended 2013 and more similar growth of 28.1% for the period ending 2015 for CRDB Bank. On the other hand NMB recorded the growth of 24% in the year ending 2014 compared to preceding year and further increase by 23.7% at the end of accounting period of 2015.This suggests that the growth over yearly was attributed by upturn of the economy.

The Non-performing loans(NPLs) to total gross loans ratio during this period(2013-2015) has been generally good though there were some deviations above central bank requirement of 5%.Through the period under review NMB has been able to comply with the requirement of containing the NPLs to below 5% . However, it has not been the case for CRDB Bank. While NMB recorded NPLs ratios of 2.6%, 2.8% and 2.1% in the 2013,2014,2015 respectively, CRDB recorded NPLs ratios of 6.2%,5% and 8.1% in the same respective years.

Generally, looking at all the indicators above, the performance of the Banking sector for the period under review (2013-2015) was generally good with some few deviations which could not alter the conclusive opinion on the positive trends of the Banking sector for the period under review.

Let us now have a discussion on the performance of banking sector based on the selected case studies after the year 2015 soon after the inception of the fifth government. As usual we shall have a look on the same performance indicators as we had on 4.3.1 and 4.3.2 and try to establish whether there was inconsistency of those performances as opposed to phase. (refer Appendix III).

During the year ending 2016 there was a dramatic fall in the profit after tax(ATP) by 46.02% for CRDB Bank followed by subsequent fall by 47.95% in 2017 which showed that there was a serious problem affecting the bank performance in particular. NMB Bank were able to slightly increase their profit performance by 4.96% during the year 2016.However,NMB could not be able to maintain its profit in 2017 where there was a dramatic fall in profit by 38.94%.The profits for 2018 for both banks started picking up where CRDB Bank recorded a positive profit increase by 78.74% and NMB Bank by 11.35%.The analysis need further investigations as to why the deviations with regards to testing of this indicator showed a contrast opinion in the year 2016.However,such a contrasting opinion could not conclusively draw an opposite opinion with regards to the poor performance of the banking sector for the period under review (2016-2018).

Interest in Expenses (cost of capital) for both banks recorded the increase over 20% for both banks in 2016 where CRDB Bank recorded an increase in cost of capital over the preceding year by 27.46% and NMB Bank recorded an increase by 49.13% followed by further increase by 10.65% for CRDB and 17.71% for NMB in 2017. But again the ratio started improving in 2018 as indicated in the table No.4.9 and 4.10.

In the year 2016 there was a serious deterioration on the quality of the loan portfolios with a clear indication that most of bank's customers were unable to honor their financial obligations. While CRDB Bank booked loan loss provision of TZS 123.38bn in the year ended December 2016 the growth increase by 84.49%, NMB booked an amount of TZS 30.24bn the amount equivalent to growth of 132.45% over the preceding year. In a more serious note, both banks recorded again substantial amount of loan loss provision in 2017. While CRDB recorded loan loss provision to the tune of TZS 153.37bn and NMB to the tune of TZS 131bn, the growth of 24.31% and 333.19% in 2017 respectively. As usual in 2018 both banks (NMB and CRDB) were able to reduce their impairment of loan losses. CRDB recorded a decline of their impairments by 4.77% while NMB recorded decline of 6.24%. This suggests that the improvement of the quality of loan portfolios so attained was the result of the measures taken by the central banks and the commercial banks to address the challenges facing the banking sector and the economy at large. In the year 2016 CRDB Bank recorded a decline in return of average total assets to 2.1% from 3% which it managed to maintain for the past three years consecutively while NMB recorded a growth to 3.2% from 3% attained in 2015. As suggested earlier that deviations in 2016 with regards to NMB performance needs further investigation. In 2017 both banks recorded a decline in return on total assets nearly by a half; the decline on CRDB was by 52.38% while NMB was 46.88%. As expected, there was improvement of return on total assets during the year 2018 as indicated in table No.4.9 and 4.10

As indicated in three years performance before the inception of the new regime (2013-2015) the ROE were above 20% for both banks. In 2016 the return on

Equity dropped dramatically for both banks with a clear indication that the banks were in serious trouble. CRDB recorded a ROE of 10% and NMB Bank recorded a ROE of 20.7% followed by the further fall to 4.8% for CRDB and to 12% to NMB for year ended 2017. As expected, there was improvement of return on equity during the year 2018 as indicated in table No.4.9 and 4.10 whereas CRDB Bank achieved 8.3% and NMB achieved 12.7% for the year ended 2018.

During the year 2016 the total assets of the banks were more stable. The banks' total assets could not decline as expected following the decline of indicators (i-v). While CRDB recorded a minute fall by 0.05%, NMB Bank recorded a growth by 8.22%. Although this is a good indication for the banks to maintain its assets but could suggest that there were some assets were either under employed or the quality of loan portfolios were impaired to a large extent because one could not expect such growth could move inversely proportional with profits. In the year 2017 both banks were able to raise to raise their total assets again, CRDB recorded the growth of 9.18% while NMB Bank recorded the growth of 11.37% as well as the growth of assets in 2018 as indicated on table No.4.9 and 4.10.

The basic earnings per share (BEPS) growth over time is an important indicator on the performance of any company. Generally, there was downtrends growth of earnings per share for both banks during the period under review. While CRDB had dramatically fallen of BEPS by 46.07% in 2016, NMB attained a growth of 4.64% during the period. However, NMB could resist the fall in 2017 by recording a dramatic decline of BEPS by 38.71% while CRDB recorded further fall by 47.97%. As I said earlier, this downtrends tell more on Industry's progress than growth in absolute profits of these banks.

During the period under review(2016-2018) the customers' deposits were not affected significantly in terms of their declines. The banks continued to maintain the growth space over time despite the turbulence. While CRDB sustained a slight fall by 0.34%, the NMB recorded a growth of 4.84% over the preceding year of 2016. The banks experienced further growth by 4.11% and 5.90% for CRDB and 13.23% and 1.58% for NMB during the year 2016/2017 and 2017/2018

respectively. This indicator again appears to try to prove to the contrary if at all there was a problem in the banking sector. The study needs further analysis of the M3 money supply and the velocity of money during the period under review to determine its effect.

During the year 2016 the banks recorded low growth of loans, advances and overdrafts more than any other accounting year for the past four years before the inception of the new regime, the 5th government. While CRDB Bank recorded a fall by 0.41% in 2016, NMB recorded a growth of 11.79%. Further deterioration of the growth of credit accommodations was recorded in the year 2017 whereby CRDB recorded a decline of 10.73% and NMB decline by 0.10% with a clear indication that the appetite for lending in the banking sector has fallen. The low growth credit accommodation has a direct impact to the growth of private sector development and negative impact on the stimulation of economic activities such as investments in the sense that the lower the growth of lending, the lower the growth of the private sector development and investments in the country. However, in 2018 the banking sector improved their performance in terms of credit accommodation. During the accounting year 2018, CRDB recorded a growth of 7.72% and NMB recorded a growth of 24.72% and for first time within 5 years NMB became No.1 in terms of advancing loans to customers defeating its main competitor, the CRDB.

With regards to allowance for probable losses both banks (CRDB and NMB) recorded the shocking and disturbing performance of allowance for probable future losses. While CRDB recorded the growth by 86.29% over the preceding year in 2016 to the tune TZS 152.32bn, NMB recorded the increase by 45.61% to the tune of TZS 52.75bn over the preceding year. Further still the amount compounded to TZS 230.66bn for CRDB and TZS 104.65bn for NMB, the increase by 51.43% and 98.97% respectively as at December 2017. This means that if all these loans would turn in Loss category, both banks will end up with a big loss in those respective years. These figures show that the borrowing customers were unable to honour their financial obligations due to the changes of the business environment. During

the year 2016 the banks experienced the dramatic increase in NPLs ratio compared to the period 2013-2015, before the new regime. While CRDB recorded increase by 71.60% to 13.9% NPLs ratio, the NMB marked the increase by 133.33% over the preceding year 2015 to 4.9% from the ratio of 2.1%. In the same spirit, there was further increase in NPLs ratio in 2017 whereby NMB Bank marked NPLs ratio of 6.4% while CRDB were able to slightly contain it to 12.6%. Further, in 2018 both banks under review were able to reduce their NPLs ratios. While CRDB reduced to 8.3% at the close of 2018 financial year, NMB reduced it to 5.8% at the close same accounting period. It was clear that the Non-performing loans were real hitting the banking sector.

CHAPTER FIVE

RESEARCH FINDINGS ANALYSIS AND DISCUSSION

5.1 Introduction

This chapter presents the analysis and discussion of findings in relation to the specific objectives of the study. Those specific objectives of the study were to identify various policies and regulations that were introduced in the banking system, to assess whether policies and regulations affects the performance of commercial banks in Tanzania and to determine the perception of Banking sector stakeholders on the performance of commercial banks after policy reformation.

The findings indicated that, government interventions in the banking industry had an impact in the performance of commercial banks specifically CRDB and NMB. It was observed that the capital adequacy ratio has a significant positive effect at the 1% threshold on the accounting performance measured by the return on asset (ROA) of the banks. This confirms our first H-1 hypothesis and aligns with our first estimate of the effect of regulatory ratios on ROA. In respect to the liquidity ratio, we find that this ratio is a good external governance mechanism. Indeed, it turns out that the liquidity ratio has a negative effect and that has significant impact. This brings us to the presumption that the both banks in our sample had the advantage over other banks in terms of capital and liquidity adequacy as required by regulatory authorities with exception of interim periods of June and September 2016 where both banks had violated compliance to provision No.8 (1) of the Banking and financial institutions (Liquidity Management), regulation, 2008 . In fact, the increase in this ratio does not improve the performance of these banks. This observation was also noted during the interview as one respondent said that:-
“The government need to reconsider its decision of transferring its funds to BoT as the banking sector may suffer due to that decision”.

Regarding liquidity another interviewee said that *“of course the government must know that reduction of money supply does not only affect the banking sector but it has the side effect on investment”*

This study has similar results with that of Das and Ghosh (2006) who reported a positive relationship between capital regulation and bank efficiency. They contended that banks that have adequate capital will be monetarily more advantageous and more secure with respect to credit hazard the executives benchmarks. This at last improves the bank working proficiency. Another investigation with comparable outcomes is that by Pasiouraset al, (2009) who concentrated the impact of bank capital guideline on bank soundness. They found that an expansion in the bank least capital necessity results diminished bank money related strength. Be that as it may, another examination Pasiouraset al, (2009), which utilized standard supervisory techniques embraced from the World Bank, found a positive connection between bank specialized efficiency and capital requirement. This observation was supported during the during by one of our key respondents who commented that:-

“Most of the banks whose licensed were revoked were found to have capital inadequacy hence failed not only to comply with regulatory requirement but also were unable to save their customers well”.

Results show an inverse relationship between bank performance and NPL (measured by non-performing loans to total loans ratio). Similarly, the same statistical significant level is also reported between bank operating efficiency and non-performing loans. The implication of the negative relationship between bank performance and total loans to total deposits might basically imply that a bank's complete credits and advances in mix with absolute stores either from clients or from different banks are of little significance in deciding the presentation of banks. This most likely suggests that the measure of cash banks credit out is over the top, along these lines pulls in a more noteworthy possibility of default. Another ramifications of this finding is that that the cash taken by banks as interest stores, sparing stores and time stores isn't very much used to expand the benefit base of the banks, which at last damages the exhibition of the banks. It is likewise reasonable that stores comprise a significant extent of banks asset and capital, thus the more stores a bank can assemble, the more capital they need to make accessible. The outcomes are conflicting with the discoveries of Karimzadeh, 2012

who found a positive relationship. The results concedes with Dr. Kimei's observation when had the interview with International Banker TV in 2016 who said that,

“It true that our profit obtained is a little bit below our targeted budget because of the rise of NPLs(8.1%) as a result of the new prudential guidelines that were introduced, if previous regulatory regime would have persisted some of NPLs would be unclassified”.

Dr. Kimei was referring to the CRDB Bank financial performance of year 2015. The same opinion were also pointed out one of the interviewee from NMB Bank Head Office who said that, *“NPLs is the talk of the town for most of banks these days”.*

Furthermore, the same results were also obtained in the Questionnaires whereby 100% respondents had the opinion that the performance of the banking industry has greatly affected by NPLs.

The results of this objective are similar to many studies by Pastory and Marobhe, 2015, Athanasoglouet *al.* (2006), (Javaid et al, 2011). (Al-Hassan et al. (2010). Their studies were investigating on the determinants of banks profitability. The results from these studies showed that banks profitability is influenced by the internal factors such as; capital adequacy, asset quality, liquidity and expenditure management.

Other studies by Louati et al. (2015), Smaoui et al. (2011) and Zeitum (2012) found that the impact of the internal factors like bank's size, liquidity (funds deposited into current accounts), total capital and reserves, and the percentage of profit-sharing between banks, depositors and capital adequacy influence the performance of the banks. In these studies it was also recognized that intensity of the banks impact the presentation of the bank, whereas, Zeitum (2012) said operational proficiency of the bank impacts the benefit of the bank. As indicated

by the organization hypothesis, proprietorship structure could be identified with bank's productivity. Anyway in a similar report by Zeitum (2012) it was discovered that remote claimed banks are described by higher benefit pursued by private banks. Then again, government claimed banks were observed to be the most minimal in benefit. A few investigations demonstrate a negative connection among capitalization and banks' gainfulness, this implies, value and bank financing go about as substitutes as opposed to supplements. Mohd et al. (2013) in his examination found that higher influence and huge credits to resource proportions, lead to higher profitability. He additionally reports that outside possessed banks are progressively profitable than domestic ones.

The study by Zhang and Dong, (2011) found that the major determinants of banks profitability are both banks specific factors (Loans, deposits, size and capital ratio) and the macroeconomics factors (GDP growth rate and interest rate).

Several studies have been conducted in various countries about the determinants of banks profitability and their correlation. Naceur, (2003) investigated the profitability determinants within the Tunisian banking industry for the period from (1980– 2000). Naceur found that high net interest margin (NIM) and profitability are associated with banks that are highly capitalized, and that have large overheads. It was also found that macro-economic indicators such inflation and growth rates have no impact on a bank's interest margins and profitability.

The study by Athanasoglou *et al.* (2006) showed that all bank specific determinants have a significant impact on a bank's profitability and the macroeconomic determinants showed a mixed impact on profitability. However, contrary results were suggested by Heffernan & Fu (2008), the findings indicated that bank size is not an important factor in explaining performance, nor can performance differences among different types of banks be attributed to size effects.

Other studies with contrary results are those by Uhomobhi, (2008) who conducted a research investigating the determinants of bank profitability in Nigeria. The study was intended to identify significant macroeconomic determinants of bank

profitability. A panel data set which was comprised of 1255 observations of 154 banks over the period from 1980-2006 was used. A regression analysis was performed and the results showed that real interest rates, inflation, monetary policy, and exchange rate regime are significant macroeconomic determinants of bank profitability in Nigeria. The findings also showed that the banking sector development, stock market development, and financial structure have insignificant impact on profitability. Another study was conducted by Nguyen, (2011) about the market concentration and other determinants of bank profitability using evidence from 28 financially liberalized countries in the period from (1997 – 2004). The results after performing regression analysis suggested that both Return on Assets (ROA) and Pre-tax Profits are strongly related to the levels of capital adequacy, expense ratio, credit risk, and net interest income. It was also found that ROE and Pre-tax profits are positively related to capital adequacy and non-interest income.

5.2 Causes and Remedies for Poor Performance of the Banking Sector

Following our observations of the poor performance of the banking sector and analysis tendered, the following are the most possible likely causes for the banks and financial institutions' failure and the remedies taken by the government after the effect created in the banking sector:-

I. Non-performing loans(NPLs)

i. NPLs cause number 1

Section No.8(2) (a,b) of the Banking and Financial Institutions (Management of Risk Assets)Regulations,2014require a bank or financial institution not to upgrade a credit accommodation classified as non-performing loan until the loan is paid on time for four consecutive installments without fail for the case of term loan and upon satisfactory performance of at least two quarters for overdraft. Further, section No.8(3) of the same Act above insisted that such classified loan shall maintain the same status as at the date of on-site examination. This regulatory provisioning requirement impacted the banks substantially. That is why between the years ending 2016 and 2017 there was a huge amount of NPLs as we have evidenced in Table No.4.7,S/N 12 for CRDB where NPLs shifted from TZS 270.86 bn in 2015 to TZS 474.91 bn as at

December 2016 and Table No.4.8,SN 12 for NMB where NPLs shifted from TZS 136.56 bn in 2015 to TZS 185.94 bn as at December 2016 . Under the previous regulatory regime if the loan gets paid immediately upon reporting of the status to central bank, such loan would be referred unclassified.

ii. **Remedy for NPLs cause number 1**

Following the effect created by Section No.8(2)(a,b) and Section No.8(3) of the banking and financial institutions(Management of risk assets) regulations, the Bank of Tanzania through its Circular with Ref. No.FA.178/461/01/02 dated 19th February 2018 waived compliance with this regulation by allowing the banks and financial institutions to upgrade terms once the borrowing customer has paid only two consecutive loans installments. Following these changes that is why we see the 2018 financial performance of the banks has greatly improved.

iii. **NPLs cause number 2**

The requirement of the Section No.7(5) of the banking and financial institutions (Management of risk assets),regulations,2014 demand non-performing credit accommodation not be restructured more than two times. This requirement is unrealistic especially during this period of economic recession where most of the businesses are closed down because of the decline in sales, compounded tax bills hence failure to pay rent to the landlords and subsequently lead to failure to honour their financial obligation to the bank, in case of borrowing customer. Most of borrowing customers' cash flows have been affected to the extent that it is not possible to predict the exact cash flows and sales can be generated. It is my opinion that it would be reasonable to restructure a credit accommodation whenever deemed necessary during this period of recession economy. The logic is that two times loan restructuring over the entire credit cycle is not enough.

iv. **Remedy for NPLs cause number 2**

However, through the same Circular Ref. FA.178/461/01/02 dated 19th February 2018 the central bank waived the compliance to the above regulation by allowing banks and financial institutions to restructure up to four times.

v. **NPLs cause number 3**

The requirement of Regulation 7(2) of the Banking and financial institutions (Management of Risk Assets) Regulation, 2014 demand any matured or expired overdraft facility not to be extended, renewed or rolled over until all the interest and charges due have been paid meaning that even if the borrower at present has encounter temporarily (say for 3 months)financial difficulties to the extent of not being able to pay interest and charges, such credit accommodation cannot be extended or renewed or rolled over. This means that such a loan would immediately be classified.

vi. **Remedy for NPLs cause number 3**

However again through circular with Ref. FA.178/461/01/02 dated 19th February 2018 the Bank of Tanzania waived the compliance with above regulation by allowing the banks and financial institutions to roll-over, renew or extended the overdraft facilities without considering the amount of interest and charges outstanding. The banks and financial institutions were henceforth allowed to capitalize accrued interest and charges.

vii. **NPLs cause number 4**

It was a requirement of the Circular No.FA.56/470/01/VOLI/50 dated 10th April 2015 that demanded any write-off of credit accommodation can only be perfected if it has remained in loss category for more than twelve consecutive quarters, meaning that the one which stayed for over 3 years. Therefore even if the bank or financial institutions see the reasons for write-off into its books to clean up the portfolio, such cannot be effected until twelve quarters have passed. That is why following the date of implementation of the circular

towards the end of the year 2015 we have seen (in the report) the NPLs have been piled up.

viii. **Remedy for NPLs cause number 4**

Following the effect seen, the Bank of Tanzania through circular No. FA.178/461/01/02 dated 19th February 2018 have seen it necessary to waive the compliance to above circular by allowing the banks and financial institutions to assess their NPLs in loss category and write-off only those remained in the loss category for more than four consecutive quarters. This means if a bank or financial institutions find a reason for write-off of credit accommodation can do so within one year. This changes has helped the bank and financial institutions to clean up their impaired loans aiming at improving their performances and avoiding the huge amount of NPLs that tie their core capitals.

II. Transfer of government's funds to the central bank

The fifth government of Tanzania soon after assuming the power directed all the funds of the central government, local governments and its agencies which were being held and maintained in commercial Banks to be transferred to Bank of Tanzania. The idea to centralize the collection of the government's funds were backed up by the notion that there was embezzlement of public funds, commercial banks holding government's funds at free of charge and to use the funds for development projects following the squeeze of funds from Multinational institutions such as IMF and the world Bank. The funds were approximately amounted to TZS 600 billion. Section No.7 of the Banking and Financial institutions (Liquidity Management) regulations, 2004 published on 22nd August 2014 requires a bank or financial institution to maintain at all times minimum of liquid assets of an amount of not less than 20% of its demand liabilities. It is the requirement of the provision No.8(1) of the Banking and Financial Institutions (Liquidity Management) regulations,2008 that the banks or financial institutions to maintain at all times its gross loan portfolio at levels not greater than 80% of its total deposit liabilities. However, during the review of the reports for the periods

under review especially from (2016-2018) and interim quarterly reports for the year 2016 indicated that the banks under review were real struggling to be within the ratios and some of them had already violated the compliance of the provision No.8(1) of the Banking and Financial institutions(Liquidity Management) regulations,2008.This is explained better in the chapter IV clause 4.2.1 Table No.4.2

III. Government's tight spending Policy

Soon after assuming the power, the fifth government of Tanzania decided to implement tight spending policy aiming at reducing the government unnecessary expenditures such allowances, travelling costs, meetings in hotels and staff welfare items for civil servants. The decision reduced the spending and purchasing power of the people as most of them were unable to save money in the banks. It was later revealed that salaries' life cycle in the bank accounts of the civil servants were very short because most of them depended on allowances to bridge their monthly financial gap. This is evidenced by the small growth of customers' deposits in the bank on Table 4.9 and 4.10, S/N 8 for 2016.

IV. Foreign cash outflows on Infrastructures and big projects.

The fifth government of Tanzania decided also to invest into the infrastructures, the big development projects using its own funded sources, that are payable tax revenues and non-tax revenues, which basically come from the money that are in circulation. Some of these projects are the Standard Gauge, Stiegler's Gorge, Fly over's and Airline investment including airplanes purchase (in cash) and building and rehabilitation of airports. These projects since they are financed from our own sources, take us a lot of money (foreign cash outflows) and reduce the supply of money in our economy and while its payback take the longer time. That is why we find the velocity of money circulation is very low. It was estimated that the ratio attained a lowest rate for the past 10 years.

Money supply in the economy.

Table 5. 1 Growth of Money supply and extended broad Money supply(M3).

EXTENDED BROAD MONEY SUPPLY									Annual growth(%)							
M3	<u>Ju</u> <u>n-</u> <u>11</u>	<u>Jun</u> <u>-12</u>	<u>Jun</u> <u>-13</u>	<u>Jun-</u> <u>14</u>	<u>Dec-</u> <u>15</u>	<u>Dec-</u> <u>16</u>	<u>Dec-</u> <u>17</u>	<u>Dec-</u> <u>18</u>	<u>Jun-11</u>	<u>Jun-</u> <u>12</u>	<u>Jun-</u> <u>13</u>	<u>Dec</u> <u>-14</u>	<u>Dec</u> <u>-15</u>	<u>Dec</u> <u>-16</u>	<u>Dec-17</u>	<u>Dec-</u> <u>18</u>
Currency in Circulation	2,081.1	2,317.5	2,610.9		3,678.5	3,608.7	3,831.6	3,866.6	23.8	11.4	12.7			-1.9	6.2	0.9
Transferable deposits	2,846.0	3,713.8	4,406.5		5,897.2	6,475.1	7,323.7	7,857.0	16.0	30.5	18.7			9.8	13.1	7.3
Other deposits	3,771.5	3,771.9	4,233.9		6,204.4	6,536.5	7,194.6	7,316.7	19.7	0.0	12.2			5.4%	10.1	1.7
Foreign currency deposits	3,259.3	3,568.0	4,208.6		6,335.2	6,257.5	6,364.4	6,783.1	29.7	9.5	18.0			-1.2	1.7	6.6
	11,957.9	13,371.2	15,459.9	17,485.1	22,115.3	22,877.8	24,714.3	25,823.4	22.0	11.8	15.6	13.1	26.5	3.4	8.0	4.5

i. Extract from Table 5.1 Extended broad Money supply, the M3

As it is evidenced that that since the year 2011 or even more back the growth of M3 Money supply was registering two digits meaning that it was over 10% with its peak on the year 2015 whereby recording the growth of M3 money supply of 26.5%. However, table 5.1 shows that since 2016 the growth had dropped to a single digit recording an historic dramatic fall over ten years to 3.4%. This signifies that there was squeeze of liquidity in the economy to a greater extent that affected the growth of economic activities that in turn had the impact in the banking sector.

Table 5. 2 M3 and their Sources*“Figures in Billions”*

M3 AND THEIR SOURCES	Dec-15	Dec-16	Dec-17	Dec-18	Dec-16	Dec-17	Dec-18
i.Net foreign assets of the banking system	8,244.1	8,186.3	11,594.1	10,642.3	-0.7%	41.6%	8.2%
Bank of Tanzania	7,528.2	8,281.4	12,149.9	10,692.3	10.0%	46.7%	-12.0%
Net international reserves(Millions of \$)	3,762.5	4,067.7	5,719.2				
Banks	715.9	-95.1	-555.8	-50.0	-113.3%	484.4%	-91.0%
ii.Net domestic assets of the banking system	13,871.2	14,691.6	13,118.2	15,181.0			
Claims on government(net)	4,881.6	4,282.0	3,275.7	4,481.6	12.3%	23.5%	36.8%
Claims on private sector	15,492.7	16,608.9	16,895.4	17,726.6	7.2%	1.7%	4.9%
Other items net	-6,503.1	-6,199.3	-7,052.9	-7,027.2	-4.7%	13.8%	0.4%

Source: BoT Annual reports**i. Extract from Table No 5.2**

The table 5.2 item (i) shows how the movement of the foreign assets in the banking system went. There was a slight fall by 0.7% in the 2016 before taking off significantly in 2017 by registering the growth of 41.6% amounting to TZS 12.149 Trillion. However, in the 2018 the net foreign assets in the banking system experienced decline in its growth by recording a fall by 8.2% out of which the Bank of Tanzania recording forex fall by 12% .According to the BOT Economic Bulletin for the quarter ending December 2018 ,page 4 revealed that “much of the slowdown occurred in foreign exchange holdings of the Bank of Tanzania following increase in payment of government foreign obligations in favor of on-going public investments”. This means the government has declared themselves that much of the country’s forex funds are taken out of the country for financing the projects above. As I said in my earlier remarks that this has a multiplier effect on the velocity of money (V) in the circulation.

Table 5. 3 Real GDP and velocity of Money in Circulation

GROSS DOMESTIC PRODUCT	Jun-11	Jun-12	Jun-13	Jun-14	Dec-15	Dec-16	Dec-17	Dec-18
Nominal GDP at market prices	34,179 .3	35,936 .5	38,546 .5	41,231 .4	44,100 .8	47,173 .8	50,525 .1	
Real GDP growth	7.9%	5.1%	7.3%	7.0%	7.0%	7.0%	7.1%	7.2%
Extended Broad Money Supply(M3)	11,957 .9	13,371 .2	15,459 .9	17,485 .1	22,115 .3	22,877 .8	24,714 .3	25,823 .4
Velocity of Money in circulation	2.9	2.7	2.5	2.4	2.0	2.1	2.0	

Source: BoT economic Bulletins 2011-2018

i. Extract from Table No 5.3

The table 5.3 shows the statistics on how the velocity of money has fallen since the year ending 2015 going forward recording the average rate of 2. The velocity of money is the number of times a unit currency turns over in the economy. Since 2011 to 2014 the economy sustained velocity(V) of an average of 2.6, however between the year 2015 to 2018 the V was at an average rate of 2 and more fall is expected in 2018 following the review conducted by International Monetary Fund(IMF) which lowered our real GDP growth to 4.1% down to our reported expectations of 7.2%.

V. Verification of academic credentials for workers

The fifth government of Tanzania soon after assuming into power decided to make verification on the academic credentials of its workers, it was the entire move all over the country. The aim of this move was initiated by the belief that there was so many ghost workers in the payroll system of the government and some of them they had fake certificates. According to the Tanzania affairs publication(TA ISSUE 122) published on 1st January 2019 quoted Hon. President Dr. John Magufuli that TZS 237bn were being paid to ghost workers and TZS 189 bn were being paid to workers with fake academic credentials. On the other hand, the effect again was seen on the part of the banks where these workers had taken Personal loans(SWL). The effect is analyzed on the extracted tables below for NMB and CRDB which also take part of the discussion.

Table 5. 4 Analytical tables for NMB SWL loan Impairments for 2014-2017

(A):

MOVEMENT IN THE ALLOWANCE ACCOUNT FOR LOSSES ON LOANS "Figures in Billions"							
YEAR 2017	Corporate	MSE	SME	SWL	Agri-business	Other consumer	TOTAL
At 1 January 2017	8.63	4.91	3.08	20.86	15.10	0.17	52.75
Increase in allowance for loan impairment	59.52	8.24	7.20	48.58	5.33	2.12	131.00
WRITTEN-OFF AMOUNTS	0.00	-5.29	-2.22	53.79	-15.68	-1.81	-78.79
At 31 December 2017	68.15	7.86	8.06	15.65	4.75	0.47	104.95

Contribution % of impairment and written off							
Impairment				Written-Offs			
Corporate	SWL	Agri-business	SME	Corporate	SWL	Agri-business	SME
45%	37%	4%	5%	0%	68%	20%	3%

(B):

YEAR 2016	Corporate	MSE	SME	SWL	Agri-business	Other consumer	TOTAL
At 1 January 2016	6.45	3.11	2.68	11.60	12.30	0.09	36.22
Increase in allowance for loan impairment	2.18	4.00	2.38	17.85	3.69	0.14	30.24
WRITTEN-OFF AMOUNTS	0.00	-2.19	-1.98	-8.59	-0.89	-0.07	-13.72
At 31 December 2016	8.63	4.91	3.08	20.86	15.10	0.17	52.75

Contribution % of impairment and written off

Impairment				Written-Offs			
Corporate	SWL	Agri-business	SME	Corporate	SWL	Agri-business	SME
7%	59%	12%	8%	0%	63%	7%	14%

YEAR 2015	Corporate	MSE	SME	SWL	Agri-business	Other consumer	TOTAL
At 1 January 2015	7.53	3.72	2.14	15.14	10.74	0.12	39.38
Increase in allowance for loan impairment	-1.08	2.76	3.67	5.48	2.14	0.04	13.01
WRITTEN-OFF AMOUNTS	0.00	-3.37	-3.12	-9.01	-0.58	-0.07	-16.16
At 31 December 2015	6.45	3.11	2.68	11.60	12.30	0.09	36.22

(C):

Contribution % of impairment and written off

Impairment				Written-Offs			
Corporate	SWL	Agri-business	SME	Corporate	SWL	Agri-business	SME
-8%	42%	16%	28%	0%	56%	4%	19%

(D):

YEAR 2014	Corporate	MSE	SME	SWL	Agri-business	Other consumer	TOTAL
At 1 January 2014							38.14
Increase in allowance for loan impairment	0.00	0.00	0.00	0.00	0.00	0.00	16.59
WRITTEN-OFF AMOUNTS							-15.35
At 31 December 2014	7.53	3.72	2.14	15.14	10.74	0.12	39.38

Contribution % of impairment and written off

Impairment	Written-Offs percentage of Impaired loans
	28%

i. **Extracts from Tables 5.4 (A,B,C and D)**

Table 5.4(D) shows the increase in allowance for loan impairments for NMB Bank PLC in the year 2014 whereby out of the total figure of TZS 54.73bn, 28% of the Impaired loans equivalent to TZS 15.35bn were written-off in the respective year. In the year 2015 the situation became more difficult as a result of the implementation of the discussed tight regulations and policies including verification of academic credentials . Out of the TZS 52.39bn registered as impaired loans in 2015, TZS 16.16bn was written-off and out of the total figure of the impaired loans 42% emanated from Salaries Workers Loans(SWL) and 28% was from SMEs, evidenced by Table 5.4(C). The impaired loans figure grew again in 2016 amounting to TZS 66.46bn, out of that TZS 13.72bn was written-offs. Out of TZS 66.46 recorded as impaired loans 59% emanated from SWL and only 20% came from Agri-business and SMEs. Out of the amount of TZS 13.72bn written-off in 2016, 63% originated

from SWL. In an astonishing way, in the year 2017 the impaired loans grew tremendously to reach TZS 183.75bn and TZS 131bn was newly booked figure in respective year. In 2017 for the first time Corporate loans recorded 45% of the entire amount booked as impaired loans and 37% emanated from SWL. Out of the impaired loans that were written-off, 68% emanated from SWL and only 20% came from Agri-business(Agriculture).Therefore, it is clearly evidenced that the decision to remove the workers with fake certificates impacted greatly NMB Bank.

VI. Liquidity problem

Poor performance of the banking sector was also attributed by liquidity ratios introduced by the central bank in which all the banks and financial institutions are required to comply. As it was earmarked in subsection 8.2 of this chapter that CRDB Bank confessed in their annual report of 2016 page No.29 that there was a squeeze of liquidity following the decision of the government to transfer public corporations' funds to the central bank. However, the real problem of the squeeze of liquidity emanated from the squeeze of Money Supply that shall be presented in item 4.10.1 of this chapter where the growth of Money supply recorded an historical minute growth of just 3.4% followed by subsequent single digits registering in 2017 and 2018 respectively as opposed to the forth government of Tanzania.

i. Causes of Liquidity problem

Pursuant to Section no.44 (1) of BoT Act, 2006 and Section No.7 of the Banking and financial institutions Act, 2014 that require banks and financial institutions to maintain liquid asset (cash) of at least 20% of its demand deposits, the commercial banks have greatly been affected with the requirement of these sections and at some points have attributed to the poor performance of the banks. Table 4.9 ,SN 11 of Chapter Four shows that at the close of the year 2016 CRDB Bank had violated the compliance to Section No.44(1) of BoT Act,2006 and Section No.7 of the Banking and financial institutions Act,2014.

Further to the provisions of the sections above, CRDB Bank had also violated the compliance to Section No.45 and they are liable to a penalty or fine under Section No.44(4) and Section No.46(1) of BoT Act,2006.

The NMB Bank had been able to comply with the requirements of the Sections above in 2016 and 2017.However, they had high rate close to threshold.

ii. **Remedy to Liquidity problem in the Banking Sector**

Following the liquidity problem so encountered in the commercial banks and financial institutions, the central bank had made some revisions at different times during the phase II on the Statutory minimum Reserve(SMR) according the business environment.

- a) The central through a Circular No.1 issued on December 2,2016 lowered SMR to 10% to enable the commercial banks to have enough liquidity to grant credits to private sectors to boost the economic activities. During the close of the year 2016 CRDB Bank growth of credits to private sectors had been -0.41% while NMB Bank had increased the credits growth by 11.79% followed by recording a decline in growth by -0.10% in 2017.
- b) Following the unpleasing credits growth experienced in 2016 which were caused among other things by squeeze of liquidity the central bank again on March 21,2017 made amendments to the clause 2.1 of the Circular No.1 of 2016 by reducing the SMR to 8% to reverse the situation.

The changes made in SMR could not yield the positive results in terms of the credit growth for the years 2016 and 2017.However,the banks were able to maintain the constant performance as shown in Table 4.9,SN 9 for CRDB Bank and Table 4.10,SN 9 for NMB Bank.

VII. Government Intervention on Cash crops businesses

This is another cause of the banks under review failure. This has been explained in detailed in chapter Four clause 4.2.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

The study concluded that the financial performance of the commercial bank in Tanzania is influenced by the size and equity capital. Size has a positive relationship with financial performance and equity capital has a negative correlation with financial performance. Two other variables tested were leverage and liquidity showed no significant correlation with financial performance.

Leverage is the degree to which businesses uses debt in obtaining capital or assets of the company. Companies with high leverage will face the risk of bankruptcy if the debt is not managed properly. In this case, the higher learning institutions did not choose debt in optimizing their capital structure that leads to the insignificant relationship of leverage and financial performance.

Size has a significant and positive relationship with financial performance. Size was measured by the natural log of total assets. It shows that large companies can contribute to higher profits and thus increase the value of the firm. Al Majali et al. (2012) said that large size company can enjoy the economy of scale because they can operate efficiently through maximize the profit and minimize the cost.

Equity capital had a significant but negative relationship with financial performance. Equity capital is the factor that contributed to the company's profits. Equity capital as measured by the natural log of the total equity shows the capital of the higher learning institutions business is contributed by reserved, retained earnings and contributions from shareholders.

Liquidity also has no statistically significant relationship with financial performance. Liquidity is the company's ability level in managing their short-term obligations. This means that the liquidity is not a factor affecting the profitability of higher learning institutions. This factor is due to the amount of reserve that was

earned by the higher learning institutions. The amount of this reserve also caused the higher learning institutions less borrowing in obtaining capital or assets of the company and catered to pay all the claims made in the short term.

Furthermore, this study is going to help the investor, customer and government in making the decision relating to the commercial bank. Investors are concerned about profits. The results of this study can assist potential investors to make the right investment decisions in order to minimize risks and maximize profit. From this study, investors should choose commercial bank that has a large asset value and size, as measured by the natural log of total assets is directly proportional to its financial performance.

On behalf of customers, they are very concerned about commercial bank policy taken. Thus, the stability of the commercial bank is important. Customers will choose the commercial bank that can make sure they will get proper compensation if anything happened to them. Therefore, through this study, customers will definitely go for the commercial bank with higher assets.

From the study data found that most of commercial bank that get profit are the company that has three funds, namely the general commercial bank funds, commercial bank funds and shareholders' funds. This means that size and equity capital is vital in determining the profitability of the business. This can help the government, through Bank of Tanzania in creating policies that can improve the financial performance of the commercial banks in Tanzania and contribute to the national income.

6.2 Recommendations

6.2.1 Recommendations from the Study Findings

Following the effects happened the government is advised to involve stakeholders in any crucial decision they make. The participatory approach will assist the government to assess the impact of the decision to be made and give the stakeholders an opportunity to provide their opinions on how better to improve to

policies, laws and regulations set the government. Has it has been seen that stakeholders claims not to be involved in the decision of the government to transfer the government and its agencies' funds to the central banks, the change of the cash crops' modality of buying and collecting from farmers and verification of academic credentials.

The banks are, consequently, informed to plan an approach concerning examining a borrowers' organizations broadly, and an assessment procedure before issuing advances ought to be done earnestly with senior credit officials. Bank the board ought to likewise be increasingly mindful so as to work in nearness with advance officials in the advance screening procedure to diminish the rate of awful advances and ensuing unfavorable impact absolute credits on working effectiveness as indicated by While Tanzania banking segment has prominent mechanical headways, for example, electronic banking and different cashless administrations, it ought to put resources into other progressed innovative developments to lessen staff expenses and other working costs to expand their operational effectiveness.

In any crucial decisions the government make, there should be considerable enough time given to allow the stakeholders to prepare themselves for change. For instance only two weeks given to commercial banks (CRDB and NMB Banks) to transfer the funds to the central banks created imbalance in Gross loans to total deposits ratio as shown in the table No.4.2 during interim periods of June and September 2016 in which the two banks violated compliance to provision No.8(1) of the Banking and Financial institutions regulation,2008. Had they given more time, they would plan it earlier.

The central bank should continue to strengthen the accommodative monetary policies that will help the commercial banks to improve their performance. The tight spending policy of the government reduced the money supply into the economy and had a negative impact into the velocity of money by 16.6% between the years ending 2014 and 2015 by recording the lowest velocity of 2 in 2015 and 2017 far below the average of 2.6 attained for the past four years before 2015.The

central bank should ensure that the extended broad Money supply(M3) is enough in circulation to stimulate more economic activities.

The Tanzania Revenue Authority (TRA) is advised to give more time to businessmen with compounded tax bills to pay their dues instead of closing their businesses. They are advised to seat and discuss with businessmen and plan on the repayment of their dues. Further, recalculation on tax bills for over 10 years intending to verify if businessmen were paying the appropriate taxes should be dealt with care has the period is too long and one may have a tax clearance from the relevant authority to clear him.

The commercial banks and financial institutions are advised not to rely so much on government funds as their main source of deposits. They should position themselves into finding other sources of its deposits from other multinational institutions and International banks. CRDB Bank during the crucial time of the transfer of funds to the central banks they managed to get funds from AfDB amounting \$120 Million in May 2016 to back up the gap¹.

The government is advised to weigh out its decisions and assessment its impact in a wider dimension. The decision to remove the civil servants with fake certificates created more disadvantages than the advantages. The commercial banks especially NMB sustained a big loss since the government started implementing it as it is shown on table 5.4(A,B,C and D).In my view, the government could establish other criteria like Performance Management System(PMS) to deal with incompetency issues instead of relying on the academic credentials as the mistakes were already been made and some of them are in the employment for over 30 years.

The government is advised not to interfere the free market economy and introduce the command economy. Of recent the government introduced forcefully AMCOS system whereby all the farmers were required to collect and process their coffee through AMCOS. The decision in actual fact reduced the quality of coffee and

¹(<http://www.financialnigeria.com/afdb-approves-120-million-credit-line-tanzania-s-crdb-bank-sustainable-447.html>)

hence reduced the price to an average price of \$2.2 from \$2.6 obtained in 2017. This was due to the fact that AMCOS had no financial and technical capacities to process the whole coffee cherries/parchments alone. So does what happened in cashew nuts where the most of the farmers have not been paid to date.

The commercial banks are advised to diversify their loan portfolios. They should not rely so much on one segment. From the data analyzed above it appears that CRDB Bank were so much granting loans to agriculture sector and NMB Bank granted much on Salaried Workers (SWL) and both banks had concentrated on corporate segment as their major source of Interest income. Corporate segment of recent has been much more vulnerable to internal and external shocks.

6.2.2 Recommended for Further Studies

This study has only focused on the external factors specifically the government policies and regulations that impacted the performance of the Banking sector. The study perhaps would further look on the internal factors that may as well contributed to the poor performance of the banking sector. The internal policies and manuals such as credit policy, human resources policy, risk and compliance and operations policies.

Issues like the turnaround time to process a loan also has an impact on the performance of a particular bank. A study conducted by Mckinsey,(2015), an external consultant on the effectiveness of the loan appraisal procedures to CRDB Bank PLC indicated that the SMEs loan processing time was ranging from 14 days to 44 days, this time is too long for loan processing. The Mckinsey study proposed only 7 days for the effective loan processing. This area has impacted CRDB Bank to a greater extent in its 2018 performance where the Bank recorded a decline by 0.41% in the closer of the year 2016, and further decline by 10.73% in 2017 before slightly picking up by 7.72% as opposed to its main competitor, the NMB Bank where there was a growth of loan advances by 24.72% at the close of December 2018.

The study would further recommend checking of the human resources policy of a particular that could has an impact on the performing of a particular bank. Issues like remuneration package, promotion criteria ,recruitment criteria and motivation policies both monetary and non monetary have the positive impact on the performance of the bank. Risk and compliance procedures should be clear, precise and properly communicated to staffs to avoid the bank losses ,frauds and forgery that would lead to the substantial bank loss.

Operations policies of the bank also creates conducive environment for smooth operation of the business. Account opening procedure should be simple enough to allow recruitment of many customers. This may as well improve the bank's performance.

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APPENDICES

Appendix i

DODOSO

CHUO KIKUU CHA MZUMBE
QUESTIONNAIRE FORM NO.
UTAFITI WA MAENDELEO YA SEKTA YA KIBENKI TANZANIA

WEKA TICK JIBU SAHIHI KWENYE KIBOXI

JINA(HIARI) -----

MAHALI UNAPOISHI-----

KAZI UNAYOFANYA-----

JINSIA -----

1. Unaonaje maendeleo ya sekta ya kibenki tokea utawala wa awamu ya tano uingie madarakani?

(a) Mazuri sana

(b) Mazuri

(c) Wastani

(d) Mabaya

(e) Mabaya sana

2. Kitu gani unadhani kimeathiri maendeleo ya sekta ya kibenki kwenye utawala wa awamu ya tano Tanzania?

a. MikopoChechefu

b. Amana

c. Mtaji(Capital)

d. Ukwasi(Liquidity)

e. Gharama za uendeshaji

f. Sera za Serikali

3. Kwa mtazamo wako unaonaje sera ya serikali ya kubana matumizi?

a. Nzuri sana

4

- b. Nzuri
- c. Wastani
- d. Mbaya
- e. Mbaya sana

4. Kwa mtazamo wako unaonaje sera ya serikali ya awamu ya tano kwenye miradi mikubwa ya maendeleo?

- a. Nzurisana
- b. Nzuri
- c. Wastani
- d. Mbaya
- e. Mbayasana

5. Kwa mtazamo wako unadhani kuhamishwa kwa fedha za taasisi za serikali kwenda Benki Kuu kumesaidia kiasi gani sekta ya kibenki?

- a. Kumesaidiasana
- b. Kumesaidia
- c. Hakujasaidia
- d. Hakujasaidia sana
- e. Hakuna uhusiano

6. Kwa mtazamo wako Mikopo chechefu imeathiri kiasi gani sekta ya kibenki?

- a. Imeathiri sana
- b. Imeathiri
- c. Haijaathiri
- d. Haijaathiri sana
- e. Hakuna uhusiano

7. Kwa mtazamo wako unaonajemzungukowafedhakwenyeuchumi?
- Mkubwa sana
 - Mkubwa
 - Wastani
 - Mdogo
 - Mdogo sana
8. Unaonaje sera ya serikali ya kusimamia mazao ya kimkakati kama Korosho, Tumbakuna Kahawa?
- Nzurisana
 - Nzuri
 - Wastani
 - Mbaya
 - Mbayasana
9. Kwa mtazamo wako unaonaje sera za serikali katika kusimamia mabenki?
- Nzuri sana
 - Nzuri
 - Wastani
 - Mbaya
 - Mbaya sana
10. Unaonaje hali ya ongezeko la mikopo ya maendeleo kwenye sekta ya Benki?
- Imeongezeka sana
 - Imeongezeka
 - Wastani
 - Imepungua
 - Imepungua sana
11. Ni sekta zipi za uzalishaji ambazo mabenki yanakopesha sana?
- Kilimo
 - Biashara
 - Mikopo Binafsi (Personal loans)
 - Sekta zingine

e. Hawa kopeshi kabisa

12. Kwa mtazamo wako unadhani sera zipi za serikali ziki boreshwa zinaweza kufanya sekta ya kibenki ifanye vizuri zaidi?

JINA LA MDAHILI-----

TAREHE YA UDAHILI -----

Appendix ii

Appendix 11: Phase I (NMB Bank financial Indicators for 2013, 2014 and 2015)

S/N	KEY PERFORMANCE INDICATORS	Dec-13	Dec-14	%Change	Dec-15	%Change
1	After tax Profit(ATP)	133.64	154.51	16%	148.73	-3.7%
2	Interest Expenses	25.89	39.26	52%	68.53	74.5%
3	Impairment of Losses and Advances(Loan loss provision)	23.77	16.59	-30%	13.01	-21.6%
4	Return on average Total Assets	4.1%	4.0%	-2%	3.0%	-25.0%
5	Return of Average Shareholder's Fund	28.6%	27.0%	-6%		-100.0%
6	Total Assets	3,287.18	3,888.67	18%	4,563.23	17.3%
7	Basic Earnings per share	267	310	16%	298	-3.9%
8	Customers Deposits	2,558.63	2,973.01	16%	3,564.77	19.9%
9	Loans, Advances and Overdrafts	1,606.36	1,986.16	24%	2,457.28	23.7%
10	Total risk-weighted assets(On-Bal & Off Bal sheet+Market risk+OR)	1,935.88	2,445.10	26%	3,572	47.8%
11	Gross Loans to Total Deposits	64%	67%		71.0%	
12	Non-Performing Loans and Advances	42.96	56.00	30%		-100.0%
13	Allowance for Probable Losses	38.14	39.38	3%		-100.0%
14	Deposits Growth	12.7%	16.5%		19.0%	
15	Tier 1 Capital amount	422	523	24%	723	38.24%
16	Tier 2 Capital amount	442	544	23%	786	44.48%
17	Tier 1 Capital ratio	22%	21%		20.0%	-6.6%
18	Total Capital ratio	23%	22%	-2.5%	22.0%	-1.2%
19	Unit share Price (DSE records)	2,600	3,400	30.8%	2,500	-26.5%
20	Non-Performing Loans to total gross loans	2.6%	2.8%		2.1%	

Source: field data, 2019

Appendix iii

Appendix III: Phase II (2016-2018) key performance indicators- CRDB

CRDB BANK PLC								
S/N	KEY PERFORMANCE INDICATORS	Dec-15	%Change	Dec-16	Dec-17	%Change	Dec-18	%Change
1	After tax Profit(ATP)	128.90	-46.02%	69.58	36.21	-47.95%	64.73	78.74%
2	Interest Expenses	106.80	27.46%	136.13	150.63	10.65%	143.44	-4.77%
3	Impairment of Losses and Advances	66.88	84.49%	123.38	153.37	24.31%	115.04	-24.99%
4	Return of Average Total Assets	3.0%	-30.00%	2.1%	1.0%	-52.38%	1.7%	70.00%
5	Return of Average Shareholder's Fund(Equity)	23.0%	-56.52%	10.0%	4.8%	-52.00%	8.3%	72.92%
6	Total Assets	5407.82	-0.05%	5,405.16	5,901.61	9.18%	6,036.57	2.29%
7	Basic Earnings per share	49.40	-46.07%	26.64	13.86	-47.97%	24.78	78.79%
8	Customers Deposits	4,246.17	-0.34%	4,231.57	4,405.59	4.11%	4,665.34	5.90%
9	Loans, Advances and Overdrafts	3,260.59	-0.41%	3,247.26	2,898.84	-10.73%	3,122.74	7.72%
10	Total risk-weighted assets(On-Bal &Off Bal sheet+Marketrisk+OR)	3,624.43	10.05%	3,988.60	3,973.38		4,084.13	
11	Gross Loans to Total Deposits	77.40%	6.98%	82.8%	71.7%	-13.41%	71.20%	-0.70%
12	Non-Performing Loans and Advances	270.86	75.33%	474.91	393.44	-17.16%	282.08	-28.30%
13	Allowance for Probable Losses	81.77	86.29%	152.32	230.66	51.43%	191.36	-17.04%
14	Deposits Growth	23.9%	-113.39%	-3.2%	5.3%		3.4%	
15	Tier 1 Capital amount	513	4.88%	538.39	557.30	3.51%	582.572	4.53%
16	Tier 1 Capital ratio	14.2%	-4.70%	13.5%	14.0%		14.3%	
17	Tier 2 Capital amount	705	-7.72%	650.86	675.84	3.8%	655.11	-3.31%
18	Total Capital ratio	19.4%	-15.89%	16.3%	17.0%		16.04%	
19	Unit share Price (DSE records)	405	-38.27%	250	160			
20	Non-Performing Loans to total gross loans	8.1%		13.9%	12.6%		8.3%	

Appendix iv

Appendix IV Analytical table for phase II (2016-2018) key performance indicators - NMB

NMB BANK PLC								
S/N	KEY PERFORMANCE INDICATORS	Dec-15		Dec-16	Dec-17	%Change	Dec-18	%Change
1	After tax Profit(ATP)	148.73	4.96%	156.11	95.32	-38.94%	106.14	11.35%
2	Interest Expenses	68.53	49.13%	102.19	120.29	17.71%	109.62	-8.88%
3	Impairment of Losses and Advances(Loan loss provision)	13.01	132.45%	30.24	131.00	333.19%	122.83	-6.24%
4	Return on average Total Assets	3.0%	6.67%	3.2%	1.7%	-46.88%	1.9%	11.18%
5	Return of Average Shareholder's Fund	23.0%	-10.00%	20.7%	12.0%	-42.03%	12.7%	5.67%
6	Total Assets	4,563.23	8.22%	4,938.28	5,499.53	11.37%	5,706.12	3.76%
7	Basic Earnings per share	298	4.64%	312	191	-38.71%	212.00	10.99%
8	Customers Deposits	3,564.77	4.84%	3,737.21	4,231.66	13.23%	4,298.38	1.58%
9	Loans, Advances and Overdrafts	2,481.75	11.79%	2,774.46	2,771.73	-0.10%	3,456.93	24.72%
10	Total risk-weighted assets(On-Bal & Off Bal sheet+Market risk+OR)	2,932.57	20.02%	3,519.62	4,114.14	16.89%		
11	Gross Loans to Total Deposits	71.0%	6.62%	75.7%	65.5%		82.9%	
12	Non-Performing Loans and Advances			136.56	185.94	36.16%	202.54	8.93%
13	Allowance for Probable Losses	36.22	45.61%	52.75	104.95	98.97%		-100.00%
14	Deposits Growth	19.0%	-74.74%	4.8%	14.3%		-4.5%	
15	Tier 1 Capital amount	592.2	12.29%	665	694	4.44%		
16	Tier 2 Capital amount	630.1	13.95%	718.0	721.2			

17	Tier 1 Capital ratio	20.0%	-5.54%	19%	16.9%			
18	Total Capital ratio	22.0%	-7.27%	20.4%	17.5%	-14.07%		
19	Unit share Price (DSE records)	2,500	10.00%	2,750	2,750	0.00%		
20	Non-Performing Loans to total gross loans	2.1%	133.33%	4.9%	6.4%		5.8%	