DETERMINANTS OF COMMUNITY BANKS PROFITABILITY IN TANZANIA: THE CASE STUDY OF MUFINDI COMMUNITY BANK (MUCOBA)

By

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A Dissertation submitted in partial fulfilment of the requirements for Award of Degree of Master of Science in Accounting and Finance of Mzumbe University

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CERTIFICATION

We, the under signed, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Determinants of Community Banks Profitability In Tanzania -The Case of Mufindi Community Bank (MuCoBa)** in partial/fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance of Mzumbe University.

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DECLARATION

I, Abbas Evaristo Sanga, do hereby declare that this dissertation is my own original work and that it has never been nor currently being presented in any other university for a similar or any other degree award.

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DEDICATION

This work is dedicated to my Parents Mr. Evaristo Sanga and Mrs. Anna Sanga who laid down the foundation of my education. I remember and keep my parents words, that it worth more to their children education than material things for betterment of future.

LIST OF ABBREVIATIONS AND ACRONYMS

AKIBA	-	AKIBA Commercial Bank.
BoT	-	Bank of Tanzania
CRDB	-	Community Rural Development Bank
MuCoBa	-	Mufindi Community Bank
DCB	-	Dar Es salaam Community Bank
CB	-	Community Bank
EQ	-	Equity.
GDP	-	Gross Domestic Products.
INFL	-	Inflation.
IMF	-	International Monetary Fund
IDR	-	Interest Deduction Rate
NII	-	Non Interest Income.
EQ	-	Equity
OE	-	Operating Expenses.
NBC	-	National Bank of Commerce.
LLP	-	Loan Loss Provisions.
MSG	-	Money Supply Growth.
ROA	-	Return On Assets.
ROE	-	Return On Equity
RBV	-	Resource Based View.
SPSS	-	Statistical Package for Social Science.
TA	-	Total Assets.
PRTO	-	Provision for Loan Loss
LOTA	–	Loans and Advances to Total Assets

ABSTRACT

The study aimed at looking on the Determinants of Community Banks profitability in Tanzania a case of Mufindi Community Bank. This was because community banks have a number of problems that affect its profitability such as loan default, increasing operating expenses, interest rates, credit risk management and banks management of loan portfolios.

In the light of attaining such aim; the objectives of the study was to assess the determinants of the community bank's profitability, to examine the internal factors that determines the performance of community bank profitability, to examine factors determining bank interest, to assess the performance of community banks loan portfolio. To examine the credit risk management procedures by the community bank, and to examine the effect of operating expenses to community bank profitability.

Information for Six years (2005-2011) from MuCoBa annual reports obtained from their documents and which is published on their website provided qualitative and quantitative data for analysis. To find relationship the model of William Bentum (2012) was applied in descriptive analysis. The results have been organized and processed in figures and presented in tables. Results from the study reveal that the performance of the MuCoBa has been highly volatile with the banks reporting lowest ROA in year 2007 and 2008. The study also revealed that existing community bank performance or profitability is so depending on efficiency of endogenous variable which is under community bank management control as the key button to touch for successful performance of community banks. This study also indicate volatility of community bank ROA in Tanzania is explained most by variables of interest rate charged by the bank, operating expenses, loan portfolio, credit risk, on which have shown statistically significance in explaining variation of MuCoBa ROA. High interest rates were among the factors, which need attention for the purpose of increasing performance of MuCoBa.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

The Government of Tanzania started financial sector reforms in 1991 (Rindhawa and Gallardo, 2003), in order to create an effective and efficient financial system so as to contribute positively to agricultural and industrial sectors development and alleviation of poverty in the country. The framework of the reforms consisted of the Government's commitment to permit banking institutions to operate on a commercial basis, making financial business and management decisions free from outside intervention. Reform elements which were embodied in Banking and Financial Institutions Act of 1991 included liberalization of interest rates, elimination of administrative credit allocation, strengthening the Bank of Tanzania's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing the entry of local and private banks into the market.

The banking Industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment. The needs for good financial decisions remain of paramount important especially in the world of uncertainties.

Professor Wangwe and Lwakatare M (2004) have pointed out that, despite progress being achieved in the financial sector reform, financial services to the poor and low income households in the rural and urban areas have been slow to develop and the access of these large segments of the population to financial services has remained stunted.

A developed and better achievable financial sector reform is essential when low-income households, who have constituted 90% of the rural and urban population, have been reached with sound financial sector (Professor Wangwe and Lwakatare, 2004). Government of Tanzania realized that in order to have an efficient and effective financial system to lower income households, additional focus must be placed on the expansion of microfinance sector to be an integral part of the country's financial system (Reform Policy Statement of 1991).

The importance of bank profitability can be appraised at the micro and macro levels of the economy. At the micro level, profit is the essential prerequisite of a competitive banking institution and the cheapest source of funds. It is not merely a result, but also a necessity for successful banking in a period of growing competition on financial markets. Hence, the basic aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business (Bobáková, 2003: 21). At the macro level, a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. The importance of bank profitability at both the micro and macro levels has made researchers, academics, bank managements and bank regulatory authorities to develop considerable interest on the factors that determine bank profitability (Athanasoglou , 2005: 5).

The analysis of determinants of bank profitability was of great significance both in terms of monetary policy and financial stability of the bank. Knowledge of determinants of bank profitability can influence bank on decision making which was crucial to a proper assessment of the macroeconomic impact of changes in their official intervention of profits. In turn, profit contributes to a more efficient allocation of resources in the economy, while assuming particular importance for the activity of banks. This reinforces the need for a conceptual framework permitting an assessment on which of the developments observed were in line with the determinants commonly identified in the literature, in terms of volume of profit generated.

1.2 Development of Financial Institutions in Tanzania

The first financial institution to be formed in Tanzania was the German commercial bank known as the Deutsche Ostafricanishe (1905). Others dominated in 1919 to 1950 were the big three commercial banks of the British origin namely the National & Grind lay Bank, the Barclays bank D.C.O and the Standard bank. Other banks from Pakistan, India and Netherlands were established in 1950s.

After independence, the Government established the new financial system that would compete with foreign owned financial institutions and cater for the financial needs of the traditional sectors and indigenous people. Africans who were neglected by foreign financial institutions hence formed National Cooperative Bank (1962) and the Tanzania Bank of Commerce (1965).

Also the People's Bank of Zanzibar (1966) to function as commercial bank and central bank of Zanzibar (Lwiza 2002). Basically, the financial sector has gone through different phases namely the government owned and controlled system, a system that was adopted after independence and the privately owned and controlled system that was adopted in 1990s. The financial sector reform came into effect with enactment of the banking and financial institutions act (BFIA) in 1991 based on recommendations of the presidential commission (1990) on the problems of the financial sector in Tanzania (Lwiza 2002). This act legalized the establishment of private financial institutions and gave the BOT the responsibility to licensing, regulating and supervising banks and non bank financial institutions. In 1992 the entry of private banks was permitted and Standard Chartered and Meridian-BIAO began operation in 1994.

Due to financial sector reform and restructuring program in 1996 the country experienced a dramatic expansion in financial sector (Chijoriga, 1997). During this period public owned banks were privatized and private banks were opened. The reform in question has facilitated fast growing private sector and created greater demand for loan products among other banking services. Such trend has encouraged the growth of the banking industry significantly.

Due to the this sector financial sector reform led to more and more financial institutions to be opened elsewhere in the country for example the introduction of regional banks like Mbinga Community Bank, Njombe Community Bank, Mufindi Community Bank therefore the question in mind on these regional banks remain on how they generate profit and what are the determinant of the same. Economists argue that a close look on the proper determinants of their profits that could help them to flourish well in the game. Tanzania embarked on financial liberalization in 1992 with the aim of sustaining growth in the real sector by boosting resource mobilization, motivating competition in the financial market and enhancing quality and efficiency in credit allocation. These reforms have changed the direction and quality of financial services offered in the country.

New merchant banks, commercial banks, bureau de change, insurance companies, stock exchange and related financial units have been established. The entry of new banks and non-bank financial institutions has enhanced the competition and improved the quality and type of financial products and services provided (PRIDE, 2005).

Banking and financial Institutions offer different financial services in Tanzania one of them is provide loan to the individual working poor or small and micro enterprises. The Individual working poor or small and micro enterprises are involved in a wide range of businesses including trading, small scale manufacturing, agriculture crop farming and animal husbandry, and services of food vending, transport, hair and beauty saloons (URT, 2002).This study look on the main determinant of the community Bank profitability. Banks that were actively involved in microfinance and microcredit services delivery to working poor or small and micro enterprises include the National Microfinance Bank (NMB), CRDB bank, Akiba Commercial Bank (ACB) and a few Community/regional banks namely, Dar es Salaam Community Bank, Mwanga Community Bank, Mufindi Community bank, Kilimanjaro Cooperative Bank, Mbinga Community Bank and Kagera Cooperative Bank.

The focus of this study was on the assessment of the determinant of community bank profitability on individual working poor or small and micro enterprises in banking industry in Tanzania where as the Community bank in Tanzania is the area of study. The Mufindi Community Bank was chosen as a case study where the results can be generalized to other community banks and also to other commercial banks which offer banking services to individual working poor or small and micro enterprises.

Investigation into the determinants of the profitability of community banks takes an interesting research avenue in the sector. Conventionally, profitability was defined in term of traditional financial ratio i.e. operational self-sufficiency and return of assets etc. Some CB charges their clients exorbitant interest rates. Lewis (2008) calls them Microloan Sharks involved in not micro lending but microloan-sharking. Cull et al. (2007) found evidence that raising interest rates resulted in increased profitability for individual based lending CB whereas for solidarity based lenders, the reverse was true. This paper also found evidence that raising the interest rates lead to improved financial performance and profitability with lower subsidy dependence and higher operational self-sufficiency. Whereas rising costs are associated with lower profitability. An important result is that clients with smaller loan sizes (CB with predominantly women borrowers) pay higher interest rates relatively to the clients with large loans because increase in transaction costs induces CB to raise interest rates.

Community bank provides full business Banking services including commercial lending, leasing and additional services ranging from financial planning to was (Strahan and James (1998),. He further urged that, community banks have the following features. They focus attention on the needs of local families, businesses and farmers. They channel most of their loans to the neighborhoods where their depositors live and work, helping to keep local communities vibrant and growing. Community bank officers are generally accessible to their customers on site. Community bank officers are typically deeply involved in local community affairs, many community banks used to consider character, family history and discretionary spending in making loans.

They offer quick decision-making on business loans, because decisions are made locally. Because community banks are themselves small businesses, they understand the needs of small business owners. Their core concern is lending to small businesses and farms. The core concern of the mega bank is corporate.

The depositors are at liberty to call on a bank at any time to withdraw their deposits, and the bank is bound to pay according to banker-customer contractual relationship. Since the core banking business is lending, for a bank to succeed, and outperform its competitors, its loans and advances must be bigger and growing, to enable the bank to generate the return to shareholders and assure itself a survival in the marketplace.

Most studies on US banking define community banks on the basis of the nature of clientele (small business), geographic reach (generally restricted to a particular region), size (less than $1 Billion) and different parameters applied to provide loans (more personal than statistical data is relied on) (Bassett and Thomas, 2001).

1.3 Background of the Study

The historical background of MuCoBa starts in 1984 when some residents of Mufindi district established a local NGO called Mufindi Education Trust (MET) with the aim of promoting secondary education in the district in order to fight against illiteracy.

In 1996 MET established a revolving fund that was known as Incomet Fund Ltd under the support of a Belgian NGO called by then ACT (now TRIAS) with the primary objective of providing credit facilities to its workers. The Fund proved to be very useful especially to the medium and low income earners and therefore its services were extended to others. The Fund was very useful to such people because at that time there was only one bank in the district (The National Bank of Commerce Ltd) and besides its presence, the conditions to acquire both deposit and credit facilities were not suited to the low and medium income earners.

Due to good experience of this Fund, it was observed that having an institution that would provide microfinance services to all residents in the district would be of paramount importance and hence, the idea of forming MuCoBa.

Mufindi Community Bank Ltd (MuCoBa) was established in December 1998 under Companies Ordinance (Cap 212) with Registration No. 35471. MuCoBa was given a licence by the Bank of Tanzania (BOT) to conduct banking operations as a first Community Bank in Tanzania in May 1999 with licence No. MFI A 00001. MuCoBa started operations to the public in June 1999.

Mufindi Community Bank Limited (MuCoBa) as a private microfinance bank dedicated to finance poverty alleviation programe, aimed at uplifting the standard of living of the majority of low income people in the District. It has been registered and incorporated in Tanzania under the Companies Ordinance (Cap 212), and licensed by the Bank of Tanzania under the Banking and Financial Institutions Act, 1991, as a regional unit commercial bank. Mufindi was incorporated in December 1998 as a first community Bank in Tanzania. In May 1999 it received a banking license from the Bank of Tanzania, the national banking regulator with License No 00001. MuCoBa commenced commercial banking services to the public in June 1999[1].

MuCoBa was established to serve the microfinance services needs of the poor people of Mufindi District. The principle activities of MuCoBa bank include;

Mobilization of financial resources from individuals, institutions and donor agencies for financing the informal sector in order to support the government's endeavours in poverty alleviation;
Providing an enabling environment for self-employment for the population in Mufindi District.

[1] Mufindi Community Bank historical Background

Providing commercial services and support to target groups at a minimum risk and full cost recovery and a profit margin rate in order to enable the bank to consolidate itself and maximize returns to its shareholders.
Providing micro finance loans and salaried employee loans (MuCoBa)

The MuCoBa was taken as the case study because it is purely a local bank which is managed and run by indigenous themselves, so it is the right bank which represents the precise community of Tanzanian as far as it is located in the Mufindi District. Also many researchers have put their efforts to research on large financial institutions (Commercial banks) and microfinance institutions where as the community banks are left aside.

1.4 Problem Statement

Banking and financial institutions play an important role in providing financial services to the society and the community as whole. Among the services offered by the financial institutions in Tanzania are loan services and other services. Thus it is a duty of the banking institutions to make sure that loans are repaid on time and avoiding loan defaulting.

In spite of the measures that have been taken by Bank of Tanzania in establishing rules and regulations to assist Financial Institutions to manage risk and loan defaults, report from Bank of Tanzania indicates that for the years 2004, 2005 and 2007 the average loan defaults in Tanzania banks were at the rate of 34%, 20.1% and 18.3% respectively. The above trend show that the problem has been decreasing from the year 2004 to year 2007 and for the year 2008 loan defaults increased to 29.6% from 18.3% of year 2007 (BOT, 2009).Currently 2013 the loan defaults stood at 7.3% for the entire banking industry (BOT). The banking sector which comprised of only three commercial banks before the reforms saw a rapid increase in the number of banking institutions reaching 42 as at the end of December 2010.

With these developments, customer service improved remarkably, with new products and services introduced, such as the Automated Teller Machines (ATMs), Debit cards and other services. Tanzania Mainland's 50 Years of Independence: The Role and Functions of the Bank of Tanzania (2011).

Loan repayment is an issue of greater concern to almost every banking and financial Institutions. Poor loan repayment may result into poor performance of banks leading to bank failure (Chijoriga1997).Various measures have been taken to control the problem of loan default in Tanzania including screening where lender screen out bad borrowers, monitoring of risk associated with the business of borrowers, building long term customer relationship, credit rationing, collateral, loan commitments and compensating balances Richard (2008).

Many studies have been done to establish reasons as to why the community banks has failed to reduce the community poverty, however few studies to assess the determinants of community bank's profitability. This study therefore aimed at assessing the determinants of community bank's profitability.

1.5 The Research Objectives

The general objective of this study was to identify the determinants of the community bank's profitability. This was achieved through the following specific objectives.

1.5.1 Specific objectives

i. To examine factors affecting bank profitability
ii. To examine the effect of bank interest on community bank profitability.
iii. To assess the performance of community banks loan portfolio.
iv. To examine the credit risk management procedures by the community bank
v. To examine the effect of operating expenses to community bank profitability.

1.5.2 Research Question

To provide a basis of concluding on problem statement stated above, the report seeks to answer the following research questions;

i. What are the factors affecting bank profitability?
ii. What are the effects of interest rate on bank profitability?
iii. What is the performance of loan portfolio management to community Bank profitability?
iv. What are credit risk management procedures used by community banks?
v. What is the effect of operating Expenses to the community bank profitability?

1.6 Significance of the Study

Firstly, this study was extending awareness on profit issues especially by enlighten the community bank on which category has more or less contributions in profits. Also the management of the bank would benefit from research by utilizing the findings to adjust or re-design their profit management programmes.

Secondly, this will add knowledge to other researchers on matters concerning determinants of profitability. Lastly, this study will portray good features to other academicians who like to use it as a reference on their studies or as a source of material for further studies.

1.7 Scope of the study

The study focused on assessment of Determinants of community bank profitability in banking industry in Tanzania where as the Community banks in Tanzania is the area of study. The MuCoBa Bank is chosen as case for this study where the results can be generalized to other community bank. MuCoBa is found in Iringa Region and prior research no evidence that other study had been taken on this study.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter provides reviews from various authors, academicians, professionals; journals and newsletters .The reviews include definitions, Concept of community Bank profitability, Factors that determines bank interest, Bank's loan portfolio and operating Expenses on the determination of community banks performance. Literature reviews are from various publishers in Tanzania, Africa and all over the world who have done similar research on determinants of community banks profitability.

Literature reviews were from various publishers in Tanzania, Africa and all over the world who have done similar research on the determinants of community banks profitability. Literature review is divided into two major frameworks named, Theoretical and Empirical literature review frameworks.

2.1. OPERATIONAL DEFINITIONS

Essentially, company-level determinants of bank profitability comprise characteristics of individual bank companies that affect their profitability. Shareholders and managerial decisions and activities can directly influence these characteristics; hence, they also differ from company to company. They include Loan, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labour productivity, state of information technology, risk level, Expenses, management quality, bank size, bank age, restructuring, ownership, ownership concentration, control-ownership disparity and structural affiliation.

2.1.0 Community Bank

Community bank is locally owned and operated commercial bank. It derives its sources of funds from and it lends money to the community where it operates and is not affiliated with a multibank holding company (Jayaratne and Wolken. 1999). Generally community bank offers services as commercial banks. Most studies on US banking define community banks on the basis of the nature of clientele (small business), geographic reach (generally restricted to a particular region), size (less than $1 Billion) and different parameters applied to provide loans (more personal than statistical data is relied on) (Bassett and Thomas, 2001).

2.1.1 Community Bank's profitability

Profitability can be defined as the ability to earn a profit, or the state of yielding a financial profit or gain in a business or a bank. The traditional definition of bank profitability is financial ratios i.e. operational self-sufficiency and return on Assets etc. Profitability refers to the potential of a venture to be financially successful. This may be assessed before entering into a business or it may be used to analyze a venture that is currently operating. Although it may be found that one set of factors is not likely to be successful or has not been successful, it may not be necessary to abandon the venture.

It may instead be feasible to change operational factors such as pricing or costs or other necessary factors for the business to be successfully. There may be a number of parties interested in the profitability of a particular venture. For example, sometimes people are owners of businesses but they are not operators, giving them a reason to be interested in the financial health and direction of the venture. Stakeholders who have money invested are also likely to be highly concerned with the profitability of a bank. Employees, especially those at the managerial level, should also care because lack of profit can threaten job security and may damage a person's professional reputation. In this study the main intention was to look on determinants of the aforesaid community bank's profitability.

Therefore the main component of profitability taken to be the depended variable was ROA that used to determine effect of other factors on this depended variable. Formulary for ROA= [Net Income of Current year /average assets x 100] Average Assets = (Total Asset of Previous year +Total Asset of Current Year.

2.1.2 Bank Interest Rate

The interest rate can be defined as the percent charged, or paid, for the use of money. It is charged when the money is being borrowed, and paid when it is being loaned. The interest rate that the lender charges is a percent of the total amount loaned. Similarly, the interest rate that an institution, such as a bank, pays to hold your money is a percent of the total amount deposited. Anyone can lend money and charge interest, or hold deposits and pay interest. However, it's usually the function of banks to make loans or hold deposits

Interest expenses and interest income, affect net interest income and hence bank profitability. In view of this, interest rates have also been considered as determinants of bank profitability in most bank research.

Short and Long Term Effects of Interest Rate on Assets.

The effects of interest rate changes on financial institutions' portfolios depend on the extent and speed with which rate change on short -and long -period securities. They also depend on the proportion of an institution's assets and liabilities that are long period rather than short period and the speed and flexibility with which the institution can alter its revenue streams and cost of funds.

a) Short term Asset gains

When interest rates fluctuate as result of changes in monetary policy or general economic conditions, community banks usually encounter a comparative change in the rate of return they earn on their assets.

This occurs because banks hold many assets of relatively short maturity, and the rates booked on short-period loans fluctuate quickly when interest rates fluctuate.

b) Long-term Asset gains

The only components of a banks' investment portfolio that was not encounter rapidly falling yields when interest rates decrease are specifically: consumer loans, fixed-rate, mortgage loans, rates on bank credit card loans, business term loans, long period investment securities, real assets, such as rental offices in the bank building. Consequently, even the longer -period components of a bank's assets portfolio are susceptible to yield declines when market interest rates fall, although their yields fall more gradually than short-period yields. In the short run, however, as general market interest rates descend, the market value of longer assets with fixed contractual terms was rise. Thus, the bank could, if it wishes, sell some of its longer -period assets at an appreciated price after market interest rates fell. In the short run, such sales would increase a bank's profitability.

Interest rates are the signals that affect the channeling of funds to demanders or borrowers from suppliers or savers, directly or through financial intermediaries here the community banks. Since interest rates and time are closely related, the expression "time is money" is helpful in understanding the financial demand-supply linkage and the determination of interest rates. Therefore in view of this assertion we looked at the main effect of interest as defined above to the bank profitability descriptively and quantitatively. NIIT = [Net Interest Income/Total Assets] *100

NIIT = Net Interest Income.

2.1.1.3 Bank Loan Portfolio

In finance, a **loan** is a debt evidenced by a note which specifies that, among other things, the principal amount, interest rate, and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower.

In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of

money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount.

The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent.

Loan can also be defined as the process of providing the borrower with an amount of funds (Principal) that must be repaid to the lender here the community bank at maturity along with an additional amount (Interest). I.e. borrow TZS 100,000 today repay TZS 100,000 principal plus TZS 10,000 interest in one year. Many of community bank loan are of this type. Or provides funds to borrower with an amount of funds that is to be repaid with interest by making fixed regular payments until maturity. Therefore it is assumed that the banks make profitability from the interest paid by the borrowers hence this study looked on the relationship between loans and banks profitability. This measured by LOTA= Total Loans and Advances/Total Assets.

2.1.1.4 Credit Risk Management

Credit risk can be defined as risk of loss arising from a borrower who does not make payments as promised.Credit risk management starts with assessing loss resulting from a risk due to borrowers' default. There is no easy way to deal with risks, but large risks can be aggregated and different prices can be charged for different people to curb for different degree of risks. This means that different people and / firms may accept different degrees of risks and its impact can be separated in time and spread over different time period depending on individual firm's policy.

Risk Management in Banks

Various financial risks are exposed into banks' activities and within these activities there are different processes such as analysis, evaluation, acceptance and management of some degree of risks. Banks aim at achieving a better trade-off between risk and return and minimizing effects of risks on financials bank performance. Bank policies on risk management are designed to examine and recognize these risks, to formulate a suitable risk limits and regulations, also to guide risks and support these risks by precisely updating information system of the banks.

Management of banks tends to review regularly risk management policies and systems to bear on products and markets changes. Additionally, internal auditing is accountable and responsible for regular review of risk management and control environment. According to Tanzanian Central Bank (Bank of Tanzania) which is responsible for controlling and monitoring all community banks within a country, an effective framework of risk management in banks or financial institutions involves processes identification, measurement, monitoring and controlling risks as presented below: Risk identification is made for the purpose of managing risks.

Banks must determine or recognize the existing risk within its environment or the risk likely to happen from its activities. This is a continuous process and is practiced in both levels (transaction and portfolio).Loan Loss Provision/Total Loans is an indicator of credit risk. It shows how much a bank is provisioning in year t relative to its total loans.

2.1.1.5 Expenses

Expenses can be defined as Money spent or cost incurred in an organization's efforts to generate revenue, representing the cost of doing business. Expenses may be in the form of actual cash payments (such as wages and salaries), a computed expired portion (depreciation) of an asset, or an amount taken out of earnings (such as bad debts). Expenses are summarized and charged in the income statement as deductions from the income before assessing income tax. Whereas all expenses are costs, not all costs (such as those incurred in acquisition of income generating assets) are expenses.

The expenditure items that fall within the control of bank management can be broadly divided into categories: staff expenses, provision for loan losses, and other general expenses. Expenses, such as payment for income tax, are considered statutory expenses and hence beyond the control of management. In the case of making provisions for loan losses, for example, the amount set aside for these expenses is reflected in the quality of their credit policies undertaken by the bank.

To this extent, one of the major expense incurred in generating revenue include interest paid out to depositors which is termed as interest expenses.

Other expenses are non-interest expenses such as overhead expenses, operating expenses, salaries and wages paid to employees and miscellaneous expenses, the more expenses incurred by the bank, the less profit the bank was make.

Operating Expenses

Operating expenses are defined in the OECD Bank Bulletin (1987), as including all expenses relating to the ordinary and regular banking business other than interest expenses, fee and commission expenses, provisions, income taxes and computer programming and equipment maintenance costs. Thus, operating costs comprises all expenses related to the use of physical and labour factors. Since these expenditures are management controllable expenses, and if controlled properly, can contribute positively to the generation of operating revenue.

Personnel Expenses

In view of the size of the wages and salaries components in the operating expenses of community bank, inter-firm differences in labour productivity (the amount of product per worker per unit of time) may also affect operating expenses and hence profitability. The cost of labour, property, rents and technology would be the most significant cost items in the community banks operating expenses.

Consequently in order to assess a firm‘s efficiency at expenses management, we would have to repel the expenditure to reflect variations in activity level.

To this extent, the usual practice in most bank research reviewed in chapter four was to deflate total expenditure by total assets which would indicate the cost incurred per monetary unit of asset. This variable measured by the following formula OE/TA = Non-Interest Expenses (Personnel cost + directors' fee +audit fee +depreciation etc.)/ TAs *100

TA = Total Asset

2.2. Theoretical literature review

The main purpose of this theoretical review is to establish a theoretical framework of community bank profitability to determine the variables which should be included in profitability models.

In this context, environmental factors and financial reporting procedures are taken into account. To begin with profitability is simply the difference between total revenue and total cost.

Thus, the factors which affect community bank profitability would be those which affect banks' revenue and costs. Hence, the impacts of the said determinants of community bank profitability are to be analysed with a view to their impact on bank revenue and costs. This theoretical study focuses on the dependent variable namely bank profitability. This was followed by the internal determinants of community bank profitability such as Loan portfolio, Expenses, Interest and credit management.

In the literature, according to Sufian and Chong (2008) indicate that, banks profitability is best measured by ROA, mostly taken as a function of internal and external determinants. Internal determinants are factors that influenced by a bank's management decisions and policy objectives. Such profitability determinants are the provisioning policy, capital adequacy, expense management, and bank size (Total Assets).

Cooper, Jackson and Patterson, (2003) and Duca and McLaughlin (1990), among others conclude that, variations in bank profitability are largely attributable to variations in credit risk, since increased exposure to credit risk is normally associated with decreased firm profitability. This triggers discussions concerning not the volume but the quality of loans made.

In this direction, Miller and Noulas (1997) suggest that, the financial institutions being exposed to high-risk loans increases the accumulation of unpaid loans and decrease the profitability.

Berger (1995) has suggesting that, leverage (capitalisation) has demonstrated to be important in explaining the performance of financial institutions, although its impact on bank profitability is ambiguous. According to Begger, lower capital ratios suggest a relatively risky position, and one might expect a negative coefficient on this variable.

However, it could be the case that higher levels of equity would decrease the cost of capital, leading to a positive impact on bank profitability (Molyneux, 1993). Moreover, an increase in capital may raise expected earnings by reducing the expected costs of financial distress, including bankruptcy (Berger, 1995).

For the most part, the literature argues that reduced expenses improve the efficiency and hence raise the profitability of a financial institution, implying a negative relationship between the operating expenses ratio and profitability (Bourke, 1989). However, Molyneux and Thornton (1992) have observed a positive relationship, suggesting that high profits earned by firms may appropriated in the form of higher payroll expenditures paid to more productive human capital. In any case, it would be beneficial to identify the dominant effect in a developing banking environment like that found in the Philippines (Sufian and Chong , 2008).

However, whatever would trigger the profitability of the firm depends largely on the resources available to firm, since one key requirement for corporate success in this competitive environment is recognizing how to sustain competitive advantage. In Porter (1995) view, we can create competitive advantage as we make tough choices about what we want to do and not do. Competitive advantage normally defined as the ability to earn returns on investment consistently above the average for the industry (Porter, 1985).

The resource-based review (RBV) is business management tool that used to determine resource available to the company .The fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Wernerfelt, 1984, p172; Rumelt, 1984, p.p 557-558). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Barney, 1991, p.p 105-106; Peteraf, 1993, pp 180).

Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Barney, 1991, p117). If these conditions hold, the firm‘s bundle of resources can assist the firm sustaining above average returns.

The resource-based perspective, on the other hand, argues that sustained competitive advantage generated by the unique bundle of resources at the core of the firm (Barney, 1991). In other words, the resource-based view describes how business owners build their businesses from the resources and capabilities that they currently possess or can acquire. The theory addresses the central issue of how superior performance can attain relative to other firms in the same market and posits that superior performance results from acquiring and exploiting unique resources of the firm.

Implicit in the resource-based perspective is the centrality of the venture‘s capabilities in explaining the firm‘s performance. Resources have been found to be important antecedents to products and ultimately to performance (Wernerfelt, 1984).

According to resource-based theorists, firms can achieve sustainable competitive advantage from such resources as management skills (Castanis and Helft, 1991), tacit knowledge (Polanyi, 1966), capital, employment of skilled personnel (Wernerfelt, 1984) among others. Resource based theorists contend that the assets and resources owned by companies may explain the differences in performance (Profitability). Resources may be tangible or intangible and harnessed into strengths and weaknesses by companies and in so doing lead to competitive advantage.

2.3 Empirical Literature review

Quality of Loans

The ratio of Loan loss provisions to total loans on return on assets of banks in the Philippines by Sufian et al (2008) shows that, the proportion of loan loss provisions to total loans was statistically significant at the one percent level. To the authors, the results suggest that Philippines banks with higher credit risk tend to exhibit lower profitability levels.

The empirical findings imply that Philippines banks should focus more on credit risk management, which has proven problematic in the recent past. Serious banking problems have arisen from the failure of financial institutions to recognize impaired assets and create reserves for writing off these assets. Efforts to smooth these anomalies according to the authors, would be significantly aided by improving the transparency of the financial system, which in turn would assist financial institutions to evaluate credit risk more effectively and to avoid problems associated with hazardous exposure (Sufian and Chong , 2008)

Expenses

Expenses as a variable in the profit determinants model of community banks is found in almost all the studies done in this area of study; example are P.I Vong et al (2009) etc, according to some of these researchers especially Rasiah (2010) the Commercial/community banks expenses reflects on the expenditures that fall within the

control of bank management and they could be classified into two categories thus interest and non-interest expenses.

One of the major expenses incurred by banks as they generate revenue is interest expenses paid out to depositors which is termed as interest expenses. On the other hand, non-interest expenses include Overhead expenses, Operating expenses, Salaries and wages paid to employees and Miscellaneous expenses.

Even though it is obvious that the more the expenses incurred by the bank, the less profit the bank will make. But according to Vong P. (2009), the effect of expenses as a variable on banking performance and profitability is mixed.

They stressed that investigations of Bourke (1989) and Jiang et al. (2003) revealed a negative relationship between expenses and profitability which implies that banks with low operation costs makes high profit. This is in line with the observations of Karkrah and Ameyaw (2010) which revealed that non-interest expenses represent a significant driver of profitability of banks in Ghana and impacts negatively on profitability.

One the other P.I. Vong et al.(2009), further document that the findings of Molyneux and Thomton (1992) show that, the expense variable impact positively on European Banks profitability because the payment of higher wages to employees reflects on the higher of productivity of Bennaceur (2003) and Guru et al (2002) also observed the relationship between profitability and expenses. Both researchers argued that this relationship exit because banks are able to pass on their overhead costs to depositors and borrowing in terms of low deposit rates and larger lending rate Vong P (2009).In order to include the expense variable in their model. Karkrah and Ameyaw (2010) and P.I Vong (2009) presented the ratio of non-interest expenses to Assets (NETA) as proxy for total Expenses.

Interest rate

Devinaga Rasiah (2010) advocates that interest rate have been captured in most studies as profitability determinant of commercial banks because net interest income which results from the deference between interest income and interest expenses has enormous

impact on banks profitability. He stated that most research papers on banks' profit determinants present the interest rate as external variable because changes in interest rates is mostly cause by government economic policies and supply and demand market conditions. Moreover, He mentioned that the impact of interest rate changes on the commercial banks profitability depend on the extent and speed at which the change have on short and long term period of banks portfolio.

And also the speed and flexibility with which the bank can amend its revenue sources and cost of funds to match up to the change. In addition, it is also about the proportionality of the bank's assets and liabilities that are long period rather than short period.

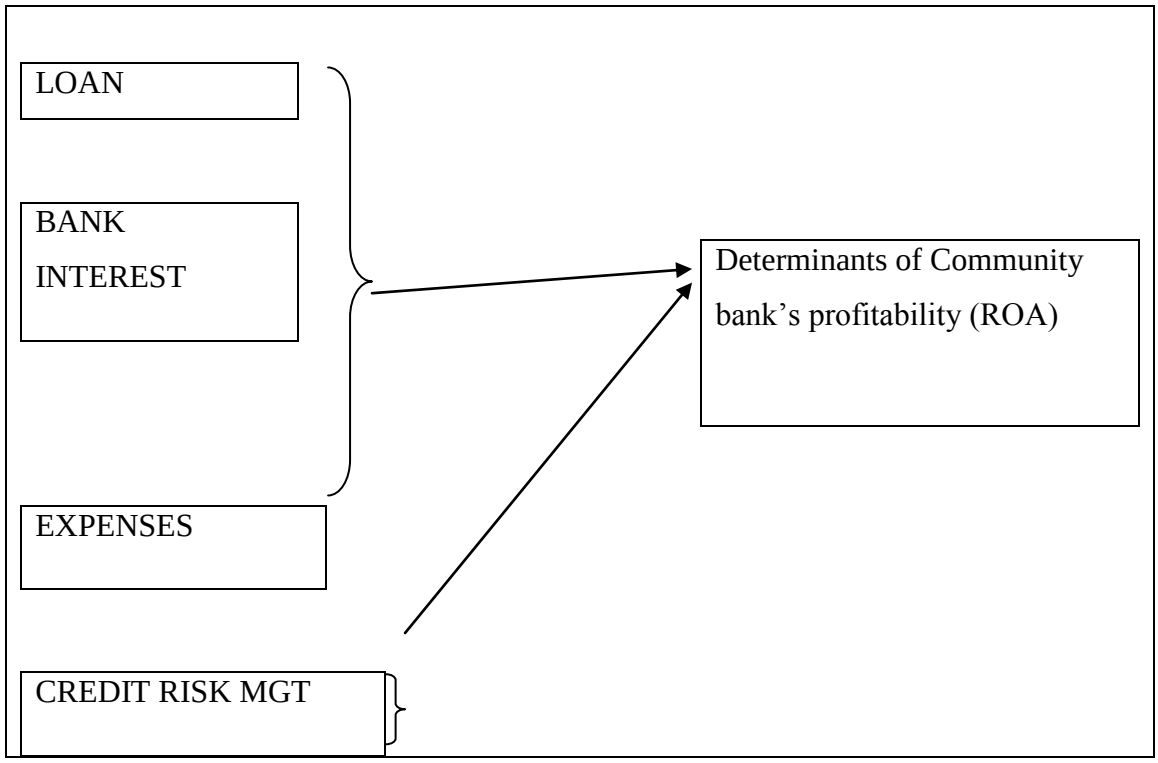
2. 4 Conceptual Framework

2.4.1 Conceptual Framework

Conceptual framework was guided based on research topic of determinants of community banks profitability.

In measuring profitability or ability of management to generate profit from external and internal determinants, ROA has been taken as the function of internal and external determinants of bank performance. Identification of these key determinants factor of profitability is important to allow decision makers to formulate policies for improving community banks in Tanzania.

Figure 2.1: Determinants of Community Banks' Profitability



Source: Self extracted/Compilation

CHAPTER THREE

RESEACH METHODOLOGY

3.1 Introduction

This Chapter presents the research methods and techniques used in the data collection for the study. It also showed the various sources of the data and the type of the data collected, as well as the techniques that was employed in the data analysis. It describes the sampling procedures and the instruments used in the data collection. This portrayed the process and manner in which this research was carried out. The Chapter also describes the models which used in estimating various variables.

3.2 Research Design

A Research design was concerned with turning a research question into a testing project. The best design depends on the research questions. Every design had its positive and negative sides. The research design has been considered a "blueprint" for research, dealing with at least four problems: what questions to study, what data are relevant, what data to collect, and how to analyze the results.

The design could be divided into survey, experimental, and case study design. In this study, it was observed to be important to adopt a case study design. Case study design was a qualitative analysis which involves a careful and complete observation of a social unit, be that unit a person, a family, an institution, a cultural group or even the entire community. It was a method of study in depth rather than breadth.

In this study the researcher used a case study design because of the fact that of making enough provision for protection against bias while maximizing reliability aiming to complete the study in an economical manner.

This design was important than the other (survey and experimental designs) due to the fact that it was easy to collect data from the selected population.

3.3 Area of the study

The research was carried at the Mufindi Community Bank to represent other community banks. Since the research sought to study determinants of community bank profitability, the study was mainly being descriptive. The descriptive research was used to obtain information concerning the current status of the phenomenon to describe 'what exists' with respect to variables or condition in a situation. The study was on quantitative research in which data collected by using questionnaires and data analysis procedure was by using tables, graph and statistics.

3.4 Data Collection Methods.

Data collected in the phase of the research objectives were interviewers met the respondents or self administered questionnaire were filled out by selected people.

In getting necessary and valid data for the research purpose of making the study effective the data collected by using both primary and secondary data collection methods of information.

3.4.1 Sample Size

The study used sample size of 70 respondents who represented all the bank officers and customers both male and female. Out of 70 respondents 28 were Bank officers and 42 were Customers who were required to respond on loan repayment schedules. The selected sample was sufficient to represent the population of the study which generalized from the results to represent other community banks of Tanzania. The sample size should be at least 30 to provide accuracy in data collection. Therefore because this study was used questionnaire in data collection, the sample size of 70 respondents was selected.

Table: 3.1 Sample size of the study

Departments	**No. of employees**	**Sample Size**	**Techniques.**
General Manager	**1**	**1**	Purposive
Finance Department	**3**	**3**	Purposive
Risk Officer	**1**	**1**	Purposive
Credit Department (Group lending and Individual lending)	**10**	**10**	Purposive
I.T Department	**1**	**1**	Purposive
Operation Department	**6**	**6**	Purposive
Business Officers	**2**	**2**	Purposive
Bank Clerk	**2**	**2**	Purposive
Office Attendant	**2**	**2**	Purposive
Customers	**560**	**42**	Simple random
Total	**689**	**70**	

3.4.2 Target population.

The target population of the researcher used the bank officers and customers at MuCoBa in all Departments and sections.

3.4.3 Sampling techniques.

3.4.3.1 Sampling techniques.

To get a sample a researcher used both probability and non probability sampling techniques. Researcher used Judgmental/purposive sampling technique to, director, heads of department and head of sections, bank officers and simple random sampling to customers at MuCoBa.

3.4.3.2 Simple random techniques.

A simple random sample ('SRS') of a given size, all such subsets of the frame were given an equal probability. Each element of the frame thus had an equal probability of selection: the frame was not subdivided or partitioned. Furthermore, any given pair of elements had the same chance of selection as any other such pair (and similarly for triples, and so on). This minimized bias and simplified analysis of results. In particular, the variance between individual results within the sample was a good indicator of variance in the overall population, which maked it relatively easy to estimate the accuracy of results.

Simple random technique was used in this study to get the number of ordinary staffs and other customers and bank officer at the lower levels working in various sections at MuCoBa. The researcher used table of random number to select population. The reason behind of using this method was because every bank officers and customers at MuCoBa had an equal chance of being selected as sample.

3.4.3.3 Purposively or judgmental sampling.

Sample size a purposive sample selected in a deliberative and non-random fashion to achieve a certain goal**.** Purposive sampling represents a group of different non-probability sampling techniques.

Also known as judgmental, selective *or* subjective sampling, purposive sampling relies on the judgment of the researcher when it comes to selecting the units (e.g. people, cases/organizations, events, pieces of data) that are to be studied. Usually, the sample being investigated is quite small, especially when compared with probability sampling techniques.

Purposive technique method was used in this study to obtain data from the bank officers and customers at MuCoBa, Director, Head of departments and sections purposely because data were easily collected. Also this method was used because the study was not managed to cover the whole population.

3.5.1 Primary data collection.

In this method of data collection a researcher used interview, questionnaire, and observation, where by data were collected directly from MuCoBa officers together their contact information obtained from the banks. The data from these sources were the information about the financial reports, borrower's characteristics, the institutional factors and their business characteristics. The questionnaires were circulated to officers who were self-administered in order to increase validity

Interview.

This technique of data collection that involves presentation of oral verbal stimuli and obtaining replies from the respondents. This method used through personal interview and if possible telephone interviews. There were two types of interview i.e. structured and semi structured.

Therefore, the interview guide prepared and set of questions was set to help to explore the inner most required data. The interview conducted with individual respondent; the researcher prepared a conference room where he was calling individual respondent by appointment and time. There were no interaction from other staffs in interview room, and the interview data recorded on notebook.

However the interview used to some of borrowers to bring further information about the variables involved in the analysis and the relevant document found at MuCoBa office used. This used to assist in describing the phenomena, quantify, identify the specific problem and evolve a theory of the Determinants of community bank profitability.

The advantage of using interview was easy to get information that may be lacked in the questionnaire. But on the other hand, interview encourages biasness since you have to select some units of inquiry to conduct interview with them.

3.5.2 Secondary data collection.

In this a researcher employed documents from various Departments and sections of MuCoBa.

Documentation.

Document was a written or printed paper that bears the original, official, or legal form of something and can be used to furnish decisive evidence or information. Or, something, such as a recording or a photograph, that can be used to furnish evidence or information. In this study as a part of data collection method, the researcher passed through relevant documents and records like quarterly and annual financial statements to be examined so as to see the determinants of Community bank profitability a case of MuCoBa.

The advantages of documentation it was relatively inexpensive, good source of background information, provides a “behind the scenes” look at a program that may not be directly observable and also may bring up issues not noted by other means. Likewise, there were disadvantages of using this method, which were;

Information may be inapplicable, disorganized, unavailable or out of date, could be biased because of selective survival of information, information may be incomplete or inaccurate, and can be time consuming to collect, review, and analyze many documents.

3.6 Data Processing and Analysis.

Data Process and Analysis included in this study were inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information,

suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domain.

This study employed different methods to analyze the collected data, both qualitative and quantitative by using computer programe of Statistical Package for Social Science (SPSS) depending on the kind of the collected data for easy interpretation. Data collected and analyzed from different units of inquiry and then edited. Editing was a process of checking, to detect and correct errors and omissions. Edited data were then subjected to codification and classification. Coding process assigns numerals or the symbols to the various response of data set. And recording of the data was done on the basis of this coding scheme. The codification was done by assigning each answer numeral and groups them in related answers. The data also were tabulated in order to make easy interpretation of data. Furthermore, qualitative analysis included data reduction, use of tables, summaries, ranking and comparisons. Data from the study were analysed and presented through descriptive statistics such as frequency distribution table, bar and pie charts, and cross tabulation so that to test the relationship and significance of independent factors in determinants of bank profitability.

Information from the respondents was subjected to content interpretation to provide answers to the questions that triggered the research. This provided a proper appreciation of the quality of research information that was be obtained.

3.7 Ethical Consideration

In the context of research, ethics refers to the appropriateness of the researcher's behaviour in relation to the right of those who become a subject of the study, or affected by it.

In this study, ethical issues were of concern during the research preparation, in seeking access to an organization and to individuals, in collecting data, during data analysis and in report writing.

In fact the privacy and confidentiality of both data and respondents was highly considered and respected, no names of any individual was disclosed in the report and respondents was informed consent to participate in the study. Anonymity of respondents was also be ensured in filling up the questionnaires.

3.8 Choice of Variables

Having explained the context of the statistical techniques employed, the study turn to the choice of variables to be used and their measurement. With that, it was assumed that demographic and socio-economic variables such as age, education, income, etc. were likely to influence the probability of the determinants of community profitability. The respondents in the sample were assumed to be categorized independently of each other.

3.9 Validity of the Data

Validity is the ability of the measuring instrument or research study to measure what it claims to measure. To ensure validity, the measuring instrument (questionnaire) was tested; so as to refine it to ensure that respondents had no problem in answering the questions and that there would be no problem in recording data. This enabled to obtain some assessment of the validity of questions and the likely reliability of the data to be collected.

3.10 Reliability of the Data

Reliability was concerned with the consistency of the results of the study, when it was to be replicated. Here replicate imply that the result obtained was applicable to other context of similar nature.

The important prerequisites for reliability were that all documentations should be in order and can easily be found. These prerequisites were taken into consideration in this study. The findings of this study were intended to be applicable to other financial institutions within and outside the country.

Also the findings of the study were intended to highlight lessons that may be relevant, salient and applicable in other context of similar nature. To enhance the reliability of this study the population sample was be selected very carefully and in a systematic way so as to enable systematic collection and analysis of data.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Introduction

The aim of the study was to identify the determinants of the community bank's profitability the case study of Mufindi Community Bank Specifically, the study aimed at identifying factors affecting community banks profitability, examining factors affecting bank interest, assessing community banks loan portfolio, identifying the effect of expenses and the impact of credit risk on profit at Mufindi Community Bank in Tanzania. The main source of data for the findings was primary and secondary data.

This chapter presents and discusses the results of the analysis that has been conducted to address specific objectives of the research. It is divided into four major sections. The first section presents the demographic characteristics of sample of respondents comprised of General Manager, Finance Department officer, Risk Officer, Credit Department Officer (Group Lending and Individual Lending), IT Department Officer, Operational Officer, Business Officer, Bank Clerk Officer, Office Attendant as the determinants factors to community bank's profitability in the study area.

In the second section, factors affecting bank interest, assessing community banks loan portfolio are analyzed. The third section shows the effect of expenses on profit at Community Bank in Tanzania. Finally, the fourth section analyses ways to establish Community banks in the study area.

4.2 Characteristics of Respondents

Social Demographic characteristics of the Sample of General Manager, Finance Department officer, Risk Officer, Credit Department Officer (Group Lending and Individual Lending), IT Department Officer, Operational Officer, Business Officer,

Bank Clerk Officer, Office Attendant and Customers from different section as the determinant factors of the community bank's profitability in the study area.

4.2.1 Sex of the Respondents

The results revealed that 35.7% out of 70 respondents were males and 64.3% of other the respondents were females as shown in the Table below. This shows that both males and female interviewed found to be customers and employee at Mufindi Community Bank. Empirical evidence shows that, men and female are likely to participate in accessing bank loan for the strengthening their business activities in the study area.

4.2.2 Age of Respondents

Findings show that out of 70 respondents 9.5% of the respondents were in the age group of 18 and 25 years, 33.3% were between 26 and 32 years, 19% were between 33 and 40 years, 38.1% were in the age of 41years and above. Hence, most interviewed age groups were responding on the determinants of the community bank's profitability in the study area. This implies that all employed age group are to be involved in accessing community bank's profitability in the study area.

4.2.3 Level of Education of Respondents

The results show that out of 28 respondents, 59.5% had primary school education, and 14.3% had secondary education and 26.2% had College Education and above. The dominancy of the respondents interviewed was much involved in determining factors of the community bank's profitability in the study area as per Other studies have shown that people with education levels are likely to understand the community bank's profitability at Mufindi Community Bank, (2013).

4.2.4 Marital Status of Respondents

The results show that out of 70 respondents, 19% of the respondents were Single, 64.3% of the respondents were the Married, 00% of respondents were Divorced, 4.8% of respondents were Separated and 11.9% of respondents were the Widow in the study area. The empirical evidence revealed that the whole section in the study was involved in determining factors of the community bank's profitability in the study area according to their position, duties and responsibility.

Table 4.1: Socio-demographic characteristics of respondents

Parameter	Frequency	Response (%)
Sex		
Male	32	35.7
Female	38	64.3
Age		
18-25 years	4	5.7
26-32 years	42	60
33-40 years	8	11.4
41 years and above	16	22.9
Level of education		
None	00	00
Primary education	43	61.4
Secondary education	16	22.9
College education and above	11	15.7
Marital Status		
Single	31	44.3
Married	19	27.1
Divorced	9	12.8
Separated	6	8.6
Window	5	7.1

Source: Mufindi Community Bank 2013

4.3: Respondents awareness on Community Banks Profitability

The researcher here wanted to measure the respondents' knowledge and understanding of Community Banks Profitability through determining their sources of income, their trend of being customers of community bank, loan characteristics, Business characteristics and spending loan on the purpose specified agreement and its functions.

It was found that the rate of people's awareness to Community Banks Profitability in the study area was high. Empirical evidence revealed that 74% of respondents were the customers of Community Bank and 26% of the respondents were the bank officers as shown by the following figure:-

Table 4.2: Respondents awareness on the existence of Community Banks Profitability

Parameter	Frequency	Response (%)
Respondents		
Bank Customers	42	74
Bank Officers	28	26

Source: Fieldwork Research Survey, 2013

4.4: Factors Affecting Community Banks Profitability

In this the researcher wanted to find whether there is determinants of Community Bank profitability through loan characteristics and Business ownership structures among the Community Bank customers that resulted into increasing number of bank customers in the study area.

(i) Loan repayment

The respondents' attitude in loan repayment history as the credit risk monitoring and supervision strategies indicates that 57.1% of respondents out of 28 respondents from Bank officials group strongly agreed that loan repayment in schedule were very good

among the Community bank Customers in the study area, 25% of respondents out of 28 respondents loan repayment in schedule were good from Community bank customers this assisting credit risk monitoring and supervision strategies is widely applicable by the credit teams in their daily routine. Another segment amounting to 17.9% disagreed on the same concept as shown by the following table 3.

The researcher provides that almost 76% out of 42 customer's responded support the view that the use of loan repayment history in managing, credit risk monitoring and supervision strategies is not widely applicable by the credit teams in their daily routine particularly for the micro and small business firms in Tanzania. But, loan repayment history should be useful in designing effective and efficient strategies rather than becoming defensive in a hard and unfair approach as a case of the Community Banks in the Tanzanian market. Such aspect does not infer on the resource dependence theory given its lack of fairness in decision between the two parts of the transaction. For example, because of the prevailing unfairness state, the Community Banks have opted to design the graduated loan strategy as a means of loan recovery management and credit risk monitoring and supervision strategies.

Table 4.3: Shows Loan repayment schedule among Community Bank Customers

Character	Frequency	Percent
Very Good	16	57.1
Good	7	25
Disagree	5	17.9

Source: Fieldwork Research Survey, 2013.

(ii) Source of Credit on Influencing Community Bank Profitability

However, some of the respondents mostly from Bank officers group argued that the Community bank in the study area had another source of credit that influencing bank profitability.

It was found that 75% of the respondents agreed on other source of credit influencing Bank profitability while 25% of the respondents disagreed. This revealed that there were determinants of Community bank profitability in the study area

ROA it reflects the management's ability to utilize the banks financial and real investment resources to generate profits. For any bank, ROA depends on the bank Loan, Interest rate, Operating Expenses and credit risk management.

Therefore, fluctuations of ROA are the results of impact from Amount of Loan, Interest rate charged, operating expenses incurred and Credit risk management. In this study specific variable of bank variables loan loss provision; net-interest income; operating expenses; Loan and Advances to total loan were the causes for high fluctuations of MuCoBa ROA.

However, in this study shows that, the banks internal factor are key drivers in explaining variation on MuCoBa bank profit. Therefore, total risk ROA; it can be reduced by proper management of specific internal bank variables loan loss provision; net-interest income; operating expenses and credit risk management.

4.5: Loan Portfolio Management

The researcher here wanted to measure the respondents' knowledge and understanding of loan portfolio management through determining how the bank manages loans, It was found that the rate of people's knowledge in the study area was high. Empirical evidence revealed that 84% of respondents strongly agreed that the Community Bank uses different methods to manage loan portfolio and 14% not agree of the respondents were the as shown by the following figure:-

Table 4.4: Respondents awareness on the Loan Portfolio management

Parameter	Frequency	Response (%)
Respondents		
Strongly Agree	24	86
Not Agree	4	14

Source: Fieldwork Research Survey, 2013

Loan portfolios are pools of loans that banks, investment firms or even government agencies own and manage.

Loan portfolios are assets because of the recurring revenue that the loan payments create. However, a loan portfolio can also put a business in financial peril if large numbers of borrowers default on loan payments

A loan portfolio normally holds a certain type of loan such as commercial loans, mortgages or home equity lines of credit. Portfolio managers obtain loans for the portfolio by writing loans or by purchasing loans. For Mufindi Community Bank it was discovered that Agriculture, Business and Employees loan portfolio are sold. However, banks keep home equity loans portfolios in-house and use income generated from these loans to fund new home equity loans.

When loans within the portfolio are paid off or refinanced, the fund manager uses the cash proceeds from the payoff to buy new loans. The interest rates on newly written loans may exceed the rates paid on recently paid-off loans, in which case the revenue produced by the portfolio increases, but the reverse can also happen and cause the revenue to decrease. Some loan portfolios finance the purchase of loans by selling bonds that are tied to the portfolio, and bond holders receive bond interest payments that are tied to the interest payments on the underlying bonds.

A loan portfolio has an overall value that depends on the size of the portfolio and the amount of revenue that it creates. The portfolio loses value every time a borrower defaults on one of the underlying loans. If enough borrowers default on loans, then the portfolio owner has to adjust its accounts to show that the portfolio, as an asset, has lost value.

Effective risk identification starts with the evaluation of individual credits. Rating the risk of each loan in timely credit evaluations is fundamental to loan portfolio management. Some banks apply risk ratings to relationships, others prefer to rate each facility, and still others rate both relationships and facilities. Risk ratings should also be applied to off-balance-sheet exposures like letters of credit and unfunded commitments that the bank is obligated to fund unless there is a default.

In Mufindi Community Bank it was found that the risk identification and evaluation was commonly used. These evaluations allow the prompt detection of changes in portfolio quality, enabling management to modify portfolio strategies and intensify the supervision of weaker credits in a timely manner.

4.6: Bank Interest rates

The results shows that, 64.3% of the respondents out of 28 respondents who were the Bank officers argue that interest paid affecting very much Community bank Profitability in the study area and 21.4% of the respondents out of 28 respondents argued that somehow the interest affecting Community bank Profitability, while 14.3% of the respondents out of 28 respondents among the Bank officers argued that not at all the interest paid affecting Community bank Profitability in the study area. This revealed that interest paid to Community bank Profitability in the study area have an impact to community Bank Profitability

High interest rate is perceived as one among the causes of rising problem of non-performing Businesses among the Community bank Customers in the study area.

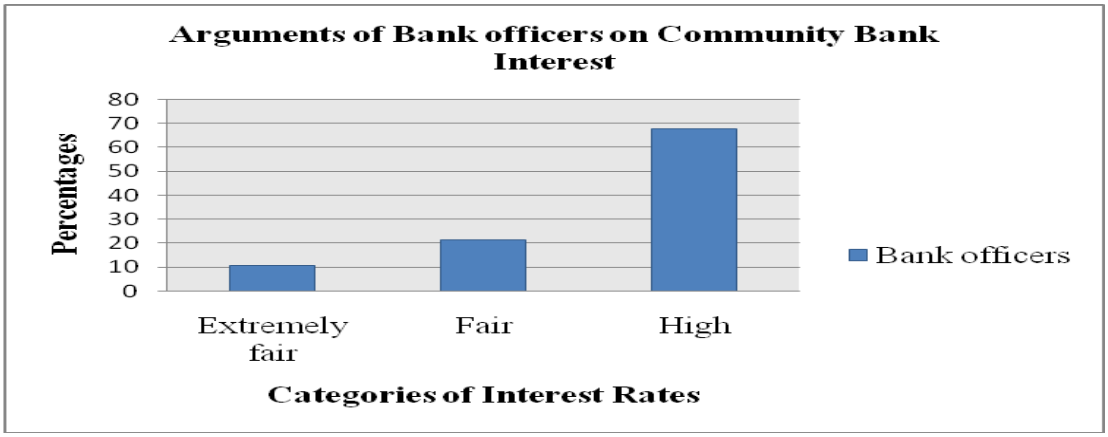
Due to this the resource dependence theory is limited in its application; this is corresponding with the respondents' attitude as shown in Table 4, that indicates that 60.7% out of 28 respondents strongly agreed that high interest rate is the common causes of rising problem of nonperforming business when they pay back loan to bank. This may be due to a reason that the borrowers fails to operate in a way that can make profit to meet the set interest rate and allow for financing other necessary aspects such as operations costs and remain with savings that can be reinvested or divided as dividend to the owners. This indicates doubtful state for the Community banks to attain a going concern particularly if the loan as a prominent product in a Tanzanian context and the world over has to be maintained (Broadbent et. al, 1994).

Table 4.4: Interest rates Imposed by Community Bank

Character	Frequency	Percent
Extremely Fair	5	17.9
Fair	6	21.4
Very High	17	60.7

Source: Fieldwork Research Survey, 2013

Figure 4.1: Interest rates Imposed by Community



Source: Fieldwork Research Survey, 2013

Interest rate in this study is explained by the variation in Net-interest income to total asset. In this study interest rate is significant in explaining variation of ROA, this is shown by correlation of 0.029 on which increase of NII/TA results into increase of ROA. It was revealed by bank officers that high interest rate is the common causes of rising problem of non-performing business when they pay back loan to bank while 21.4% out of 28 bank officers argued that community bank interest rate were fair and 10.7% out of 28 bank officers there were extremely fair on interest rates from Community bank in the study area. In addition, the coefficient of NII/TA conforms to prior restriction by positive direction to ROA.

Therefore this is to say when the community bank charge high interest rate to borrowers results to high revenue for the bank hence net interest income increases and vice versa. But also can results to non-performing business due to increase loan defaulters when it comes to repayment.

An increase in interest rates could mean higher bank earnings, in theory good for bank margins, An increase in interest rates would fatten net interest margins at those banks where the rates they charge borrowers rise more quickly than their own cost of funding, but coming to reality rising the bank interest would results to loan default (Non performing loan) to increase due to the fact that borrowers will fail to trade as they planned because high interest rate will outweigh the profit of their business, to the other hand high interest would weapons to the competitor to be the market so there is a danger of losing customers.

4.7: Effect of Operating Expenses on Community Bank Profitability

In this the researcher wanted to find whether the operating expenses had an effect on the determinants of Community Bank profitability through types of bank expenses, trend of bank expenses and performance of bank credit risk in the study area.

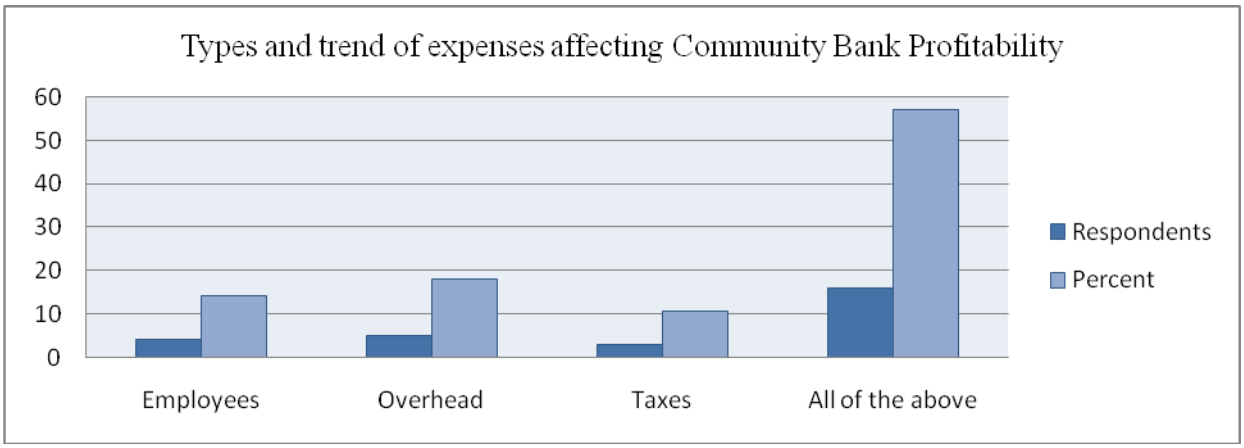
The findings from the study area showed that Community Bank operating expenses had an effect on bank profitability, as it was revealed from respondents that out of 28 respondents who were the bank officers only 26 respondents who are equal to 92.9% managed to provide their response.

Most of these respondents were from General Manager, Finance Department officer, Risk Officer, Credit Department Officer (Group Lending and Individual Lending), IT Department Officer, Operational Officer, Business Officer, Bank Clerk Officer, and Office Attendant.

This is because in order for the respondent to answer this question, he/she should be keep in touch with all these documents in day to day activity. This being the case, they found to be in a better position to answer the question clearly. While 2 of respondents out of 28 who are equal to 7.1% of the respondents disagree on the effect of operating expenses on Community Bank profitability in the study area.

Furthermore, the result shows that out of 28 respondents 10.7% from Bank officers group indicated that bank taxes expenses had an effect on Community Bank profitability, 14.3% of all responses from Bank officers group claimed that employees expenses had an effect on Community Bank profitability, 17.9% of all responses from Bank officers group argued that overhead expenses had an effect on Community Bank profitability while 57.1% of all responses from Bank officers group indicated that both employees expenses, overhead expenses and bank taxes expenses had an effect on Community Bank profitability in the study area as shown by the following figure:-

Figure 4.2: Types and trend of Expenses Affecting Community Bank Profitability



Source: Fieldwork Research Survey, 2013

For the most part, the literature argues that reduced expenses improve the efficiency and hence raise the profitability of a financial institution, implying a negative relationship between the operating expenses ratio and profitability (Bourke, 1989).

However, in this study shows that operating expenses ratio has positive coefficient with ROA same to finding of Molyneux and Thornton (1992) who have observed a positive relationship, suggesting that high profits earned by firms may appropriated in the form of higher payroll expenditures paid to more productive human capital.

In addition operating expenses in this study has shown statistic significance in explaining variation of ROA, ranking the first and followed by Net interest income in the model of internal determinants of ROA. Therefore, based on finding increased on operation expenditure was found as the resource for increase Community bank performance. When the community bank increases the cost of operation say paying for most talented staff results to the increase in return of assets in the bank.

4.8: Bank Credit Risk Management Policy

Research findings discovered that credit risk management policy is one of the tools for monitoring and supervising Community Bank risk in the study area. 89.3% of the respondents strongly agreed that credit risk management policy was used in day to day operation to Community Bank in the study area.

There were complaints from the respondents that the credit risk management policy were not used in Community Banks operation which lead to Community Bank experiencing credit risk in the study area. This was confirmed by the responses from the questionnaires with community Bank officials who said that only 30% of the bank risk came from credit risk which 86% of the respondents consented to. Few of the respondents 14%, claimed that credit risk was not a big problem because they could bear with it due to their business sizes. This problem is among the determinant factors affecting Community bank profitability in the study area and Tanzania at large.

However, the respondents' attitude on the operating and technological risks as types of the common types of risk experienced by the Community Banks in Tanzanian context.

It revealed that 82% out of 28 respondents strongly disagreed on the operating and technological risk as the common types of risk experienced by the Community Banks in Tanzanian, as they transact with their credit customers. This could be due to the reason that the techniques for credit forecasting and determination are not clearly laid down and understood thoroughly by the internal stakeholders particularly at the operation level.
According to this study banks are expected to hold reserves against expected credit losses which are considered a cost of doing business, therefore for a portfolio of credit products with defaults, loss amounts are also uncertain due to correlation of defaults between products or Loans. Due to this it's necessary to have the contractual agreement that outlines the payment obligation from the borrower to the bank; it may be secured with either collateral or payment guarantees to ensure a reliable source of secondary repayment in case of the borrower defaults.

In this study it have been found that the credit risk management policy were not used in Community Banks operation which lead to Community Bank experiencing credit risk in the study area. This was confirmed by the responses from the questionnaires with community Bank officials who said that only 30% of the bank risk came from credit risk which 86% of the respondents consented too.

Risk Management in Banks

Various financial risks are exposed into banks' activities and within these activities there are different processes such as analysis, evaluation, acceptance and management of some degree of risks. Banks aim at achieving a better trade-off between risk and return and minimizing effects of risks on financials bank performance. Bank policies on risk management are designed to examine and recognize these risks, to formulate a suitable risk limits and regulations, also to guide risks and support these risks by precisely updating information system of the banks.

Management of banks tends to review regularly risk management policies and systems to bear on products and markets changes.

According to Tanzanian Central Bank (Bank of Tanzania) which is responsible for controlling and monitoring all community banks within a country, an effective framework of risk management in banks or financial institutions involves processes identification, measurement, monitoring and controlling risks as presented below: Risk identification is made for the purpose of managing risks. Banks must determine or recognize the existing risk within its environment or the risk likely to happen from its activities.

Risk management is a continuous process and is practiced in both levels (transaction and portfolio). In this study it was found that risk can be managed by the following instruments;

(i) **Risk Measurement;**

This is considered as the process of measuring the degree of risk so as to be able to ascertain their effects on the profitability and capital of the banks. For effective risk management system, risks must be timely and precisely measured. Controls of risk level of the institutions depend on risk measurement system of that institution. Risk measurement asses both levels i.e. transaction and portfolio.

(ii) Risk Monitoring:

For effective management information in order to monitor risks; timely, informative, frequent and precise monitoring reports should be reached to personnel for prompt actions when demanded.

In the study area it was found that the credit team from the loan department makes supervision to customers to look on some issues pertaining to loan recovery and possibly rectifying some of issues that may be found undesirable in relation to the policy of the bank. The importance of supervision is that the team may discover some problems that are urgent and rectify it immediately. Another important of monitoring is that it lead to the improvement the relationship between borrowers and the bank.

(iii)Risk Controlling:

Here measured risks should be compared to risk policies, standard of the institutions and then communicate with risk levels to check the possible exposure of risks.

The use of risk policies of bank is one of control procedures by the bank, this help the decision makers to follow precisely the function of and the impacts of credit risk policy.

(iv) Collateral requirements

In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default that is, any borrower failing to pay the principal and interest under the terms of a loan obligation. If a borrower does default on a loan (due to insolvency or other event), that borrower forfeits (gives up) the property pledged as collateral and the lender then becomes the owner of the collateral. In a typical mortgage loan transaction, for instance, the real estate being acquired with the help of the loan serves as collateral. Should the buyer fail to pay the loan under the mortgage loan agreement, the ownership of the real estate is transferred to the bank. The bank uses a legal process called foreclosure to obtain real estate from a borrower who defaults on a mortgage loan obligation. This help the bank to manage the risk that can arise due to loan defaulting.

4.7.1 Results of the Models

This section deals with the results of the study which include the descriptive statistics, and tests for multicollinearity which is relevant for the study. The descriptive statistics are calculated and presented in the following for ready reference.

Table 4.5 ROA and selected Variables in %

Year	ROA	NII/TA	OE/TA	LLP/TL	LOTA
2005	4.3886	12.9029	12.5499	4.2147	70.6539
2006	4.1115	16.5594	12.6868	1.9509	70.9426
2007	3.6692	14.6170	14.1655	2.9317	57.2521
2008	3.8084	15.9150	14.7055	3.5499	54.027
2009	9.9497	17.8218	16.1525	2.5979	50.8765
2010	10.663	13.2198	13.8801	1.4024	54.2961
2011	9.3709	14.7895	13.7200	0.9953	61.931
Total N	7	7	7	7	7

Sources: Author's compilation from MuCoBa Annual Reports 2005-2011

Table 4.6 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Return On Assets	7	3.67	10.66	6.5659	3.23686	-2.587	1.587
Non Interest Income	7	12.90	17.82	15.1180	1.77441	-.914	1.587
Expenses	7	12.55	16.15	13.9973	1.28876	-.373	1.587
Loan loss Provision	7	1.00	3.55	2.0918	.96215	-1.399	1.587
Loan and Advances over Total Assets	7	50.88	70.94	59.9136	7.99815	-1.481	1.587
Valid N (listwise)	7						

Table 6 shows descriptive statistics for all the variables. ROA, NII/TA, OE/TA, LLP/TL and LOTA all have a positive mean value which ranges from a low of 2.0918that is LLP/TL to 59.9138 which is LOTA. Standard Deviation (S.D) of LLP/TL is 0.96215 which indicates that observations in a data set are more close to the mean. All other variable have low S.D values which show the consistency of the data set.

4.7.2 Correlations

A correlation was used in finding the impact of third variables to dependent variable. Correlations enable to test if independent variables depend in each other or statically relate each other. Independent variables should not statistically depend in each other's for avoiding the impact of third independent variables to dependent variable. Independents variables are correlated when are at 5% significant level. For the purpose bank specific variables like NII/TA; OE/TA; LOTA; LLP/TL are presented in table 7

The following observations can be made from the table 7

NII/TA variable was correlated with OE/TA

-OE/TA variable was statistically correlated with NII/TA.

LLP/TL was correlated with OE/TA

-LOTA variable was not statistically correlated with any variables at table

Table 4.7 Correlations of variables

		Return On Assets	Net Interest Income	Expenses	Loan loss Provision	Loan and Advances over Total Assets
Return On Assets	Pearson Correlation	1	.029	.375	-.449	-.471
	Sig. (2-tailed)		.951	.407	.312	.286
	N	7	7	7	7	7
Net Interest Income	Pearson Correlation	.029	1	.656	.539	-.286
	Sig. (2-tailed)	.951		.109	.212	.533
	N	7	7	7	7	7
Expenses	Pearson Correlation	.375	.656	1	.495	-.768*
	Sig. (2-tailed)	.407	.109		.259	.044
	N	7	7	7	7	7
Loan loss Provision	Pearson Correlation	-.449	.539	.495	1	-.524
	Sig. (2-tailed)	.312	.212	.259		.227
	N	7	7	7	7	7
Loan and Advances over Total Assets	Pearson Correlation	-.471	-.286	-.768*	-.524	1
	Sig. (2-tailed)	.286	.533	.044	.227	
	N	7	7	7	7	7

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

The analysis shows that NII/TA and OE/TA have positive correlation with ROA while LLP/TL and LOTA have negative correlation with ROA.

This depicts that when interest rates are highly charged profitability increases and net interest income increases simultaneously. While when loan loss provisions increases resulting to reduction of profit together with increasing of risk due to defaulters. Active loan portfolio management embracing diversification of exposures across industries and geographic areas can reduce the variability of losses around the mean.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of the study was to identify the determinants of the community bank's profitability a case study at Mufindi Community Bank. Tanzanian community banks and specifically the study focused on identifying factors affecting community banks profitability, The findings shows that there age, gender, education level, source of income from other activities, loan characteristics, and availability of source of credits to community bank profitability, interest rate imposed by community bank with relationship to loan repayment among bank customers determine Community bank profitability in the study area. Other factors, credit risk management policy, trend of borrowers and business ownership structure have negative relationship with loan repayment. However research results show that, borrowers' characters, loan characteristics, interest rate imposed by community bank and characteristics of borrowers, credit risk management policy, and ownership structure of business and operation expenses have significant influence on community bank's profitability. Except loan diversion, availability of other sources of income, and grace period, this has no significant influence on determinants of community bank's profitability in the study area.

5.2 Conclusion

Based on the major findings of this study, the following conclusions could be drawn along with some policy implications to be brought to the attention of the institution and any other interested parties.

Generally, the evidences in the study reveal that the overall repayment behavior of the borrowers is influenced by several factors categorized as borrowers‟ characteristics, Type of business of borrowers, business characteristic and loan characteristics.

The research found that other factors has significant influence on loan repayment and community bank profitability while others have no significant influence on determining Community bank profitability. Loan characters like high interest rates, availability of income generating activities and operating expenses were found to enhance the probability of Community bank. However, designing the lending strategy in such a way that factors enhancing the repayment performance is duly taken into account and this needs a great care. For instance income was found to significantly increase the probability of repaying loan in full. But it is not recommended to exclude those with low income hoping to reduce loan default, since this contradicts the very objective of community banks.

5.3 Recommendations

Based on findings of the study and conclusion thereof, it is recommended that the Community bank should observe appropriate loan amount, interest rate, grace period and screening that just suffice the borrowers' characteristics and hence improves the profitability of the bank.

Other factor, interest on loan repayment was also among factors influencing community bank profitability and it was negatively related with operating expenses. Availability of other sources of income activities and business ownership structures were insignificant for the study to conclude that has influence on community bank profitability. Specifically, education level on loan, business structure and ownership to customers, loan characteristics, interest rate, and credit risk management policy and loan recovery were found to be determinant factors on community bank profitability.

So there was a need for a continuous supervision on loan utilization and training so as to reduce both the problem of using loan for non-income generating activities. Community banks that desire to survive and thrive should pay attention to these variables.

Most of these are strategic variables over which management and the board of directors have considerable control. Staffing issues, decisions about deposit mix, credit standards, and quality and branching decisions are within the scope of managerial decision making. The contractual agreement that outlines the payment obligation from the borrower to the bank, it may be secured with either collateral or payment guarantees to ensure a reliable source of secondary repayment in case of the borrower defaults. While the liquidity ratio is partly determined by exogenous factors such as market loan demand, competition and the stage of the business cycle, it is controllable within limits. The future for community banks favors those that are sufficiently adept at understanding operating efficiency. As the banking industry, attention must be paid to efficiency as a potential strategic advantage.

There are several other important factors which may have determine community bank profitability to both customers and bank itself, such as factors on loan repayment behavior, policy and regulation of community banks, borrowers market places and loan processing which are not considered in this study. This may be left for future investigation.

Community bank in Tanzania should make sure that effective internal management is improved and maintained to withstand the total risk impact on ROA.

Community Banks in Tanzania should make use of Dar es Salaam stoke exchange (DSE) in raising new capital and depositor's money in order to increase performance.

Areas for Improvement

Community Banks to improve internal management that may with stand the total risk impact on Return on total asset.

Community Banks to use Dar es Salaam Stock Exchange (DSE) in raising new capital and depositors money in order to increase profitability.

Community Bank to increase payroll expenditure on human capital with productive banks talents, as found on cellular phones in Tanzania on which human capital is rewarded according to contribution. This encourages innovation and creativity skills; Human capital with quality banking skills should be highly rewarded.

Community bank to reduce or eliminate services charges to encourage number of depositors with banks so as to bridge the saving – investment gap at affordable interest charges on loan offered by Banks.

The bank's loan portfolio should continue to spread across all sectors of the economy such as Manufacturing, Trade, Construction, Real Estate (If applicable), Agriculture and Rural Development sectors as they are doing in order to robust the growth in the loan book.

Along with the focus on growing such determinants of bank profitability, the bank should not lose its insight to the Corporate social Initiatives (CSI) such as Health, Education, Environment and Arts so that to gain reputation in the society eventually catering more customers.(Creates a favorable public image)

5.4 Areas for Further Research

i. A comparative study may be done on the factors influencing loan repayment behaviour across all community Banks in Tanzania.
ii. Credit risk management policy in all community banks in Tanzania.

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APPENDIX 1

QUESTIONNAIRE

Dear sir/Madam,

I am a student of Master of Science in Accounting and Finance (Msc. A &F) at Mzumbe University, Undertaking a Dissertation to determine the **Determinants of community Banks Profitability in Tanzania a case of Mufindi Community Bank (MuCoBa).** The research is for academic purpose only and not otherwise. To this end I kindly request that you complete my questionnaire, although your response is of the utmost Importance to me.

Your objectives and prompt response will be immense help to this dissertation and all information provided by you remains confidential.

Yours sincerely,

Abbas Sanga

Student

PLEASE ANSWER THE FOLLOWING QUESTIONS BY TICKING (√_) THE RELEVANT BLOCK OR WRITING DOWN YOUR ANSWER IN THE SPACE PROVIDED.

Section A- Background Information

This section of the questionnaire refers to the background or Biographical information, although am aware of the sensitivity of the questions in this section, the information will allow me to compare groups of respondents, once again am assuring you that your response will remain anonymous. Your co-operation is appreciated.

1 i.Name……..……..

ii.Your contacts……. …….

iii. Gender

Male/Me	1	
Female/Ke	2	

iv. Age

18-25	1	
26-32	2	
33-40	3	
41 and Above	4	

v. Marital Status

Married	1	
Single	2	
Divorced	3	
Separated	4	
Widow	5	

vi. Level of Education

None	1	
Adult Education	2	
Primary	3	
Secondary	4	
College +	5	

Section B-Loan characteristics (Customer)

2. (a) How do you find the loan repayment schedule of your bank?

Very Good	1	
Good	2	
Acceptable	3	
Bad	4	
Very bad	5	

Section C- Business Characteristics (Organization)

3. (a). What is the ownership structure of your Business?

Sole proprietor	1	
Partnership	2	
Limited company	3	

(b). Does the ownership structure influence your loan repayment?

Strongly disagree	1	
Disagree	2	
Strongly agree	3	
Agree	4	

4. (a).Does the loan repayment affect your Bank profitability?

Strongly agree	1	
Agree	2	
Neither Agree nor Disagree	3	
Disagree	4	
Strongly disagree	5	

(b) Do you have loan Portfolio?

Not all	1	
All	2	
Some of them	3	
Not applicable	4	
None of the above	5	

(c) Was the profitability of your bank affected by its loan Portfolio?

Strongly agree	1	
Agree	2	
Disagree	3	
Neither agree nor Disagree	4	
Strongly Disagree	5	

Section D-Interest Earned and Interest Paid

5. (a). Do you have any other source of credit?

Fully	1	
Partly	2	
Not at all	3	
Not applicable	4	
None	5	

(b). Does the Interest paid have an impact on the bank profitability?

Very much	1	
Somehow	2	
A little	3	
Not at all	4	
Not applicable	5	

6.(a). What is your opinion on the interest rate imposed by the bank?

Extremely fair	1	
Fair	2	
High	3	
Very High	4	
None	5	

Section E-Operating Expenses and Credit risk

7. (a). Do expenses affect the profit of your bank?

Strongly agree	1	
Agree	2	
Neither agree nor disagree	3	
Disagree	4	
Strongly Disagree	5	

(b). What are the type of expenses do you have in your bank?

Employees	1	
Overhead	2	
Taxes	3	
All of the above	4	
Others specify……..	5	

(c). what is your opinion on the expense of your bank with regards to profit?

Extremely fair	1	
Fair	2	
High	3	
Very high	4	

(d). Does the expenses affect your performance?

Not at all	1	
A little	2	
Somehow	3	
Very Much	4	
None of above	5	

8. (a).Do you have credit risk management policy for your bank?

Yes	1	
No	2	

(b).Does credit risks affect the performance of your bank?

Strongly Agree	1	
Agree	2	
Neither agree nor Disagree	3	
Disagree	4	
Strongly Disagree	5	

(C)What is the status of credit risks in your bank?

Very high	1	
High	2	
Normal	3	
Not at all	4	

Thanks for your cooperation!!