

Comparative Analysis of Financial Performance of Commercial Banks in Tanzania

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Abstract

This paper analysed the financial performance of commercial banking sector in Tanzania for the period of 7 years from 2006 to 2012. Financial ratios were employed to measure the profitability and liquidity of banks; in addition Analysis of Variance (ANOVA) was used to test the significance differences of profitability means among peer banks groups. The study found that overall bank financial performance increased considerably in the first two years of the analysis. A significant change in trend is noticed at the onset of the global financial crisis from 2008 to 2009. However, Tanzania banking sector remained stable; banks are adequately capitalized and profitable and remained in a sound position. The study found that, there is no a significant means difference of profitability among of peer banks groups in term of ROA, however, a significance differences among banks group is existed in term of ROE and NIM.

Key words: financial performance, financial ratios, commercial banks, Tanzania

1.0 Introduction

Banking sector plays an important role in sustaining financial markets and has a significant impact on the success of the economy. Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively (Din Sangm, 2010)

In Developing countries like Tanzania, banks play a major role in financial development. This is especially true since stock and corporate bond markets are usually underdeveloped. Moreover, the development of the banking system and improving of its financial performance is related to higher economic growth of a country. In Tanzania commercial banks contribute to economic growth through their financial intermediation role. Better performance of commercial banks is pro foundation for product innovation, diversification and efficiency of the commercial banks (Hempell, 2002). The stability of commercial banks as whole in the economy depends on better financial performance. Better financial performance level has tendency to absorb risks and shocks that commercial banks can face.

Commercial banks in Tanzania have undergone immense regulatory and technological changes since financial sector reforms in 1991. Tanzanian banks are faced with increasing competition and rising costs as a result of regulatory requirements, financial and technological innovation, entry of large foreign banks in the retail banking environment and challenges of the recent financial crisis. These changes had a dramatic effect on the performance of the commercial banks in Tanzania.

Studies on bank performance in Tanzania had focused on bank efficiency [see Aikaeli (2008); Gwaula (2012) using Data Envelopment Analysis (DEA). This study compares and evaluates financial performance of small, medium and large Commercial banks in Tanzania for the period from 2006-2012 using financial ratio analysis. The present study is different from earlier studies in two ways: sample coverage and methodology. The study is motivated by the fact that, the measurement of financial performance of the banking sector is important for several reasons. First, financial performance is a vital factor for financial institutions wishing to carry out their business successfully, given the increasing competition in the financial markets. Second, in a rapidly changing and more globalised financial marketplace, governments, regulators, managers and investors are concerned about how efficiently banks transform their expensive inputs into various financial products and services. Third, the financial performance measures are critical aspects of banking sector that enable us to distinguish banks that has the capability to survive and prosper from those that may have problems with competitiveness. Additionally, financial ratios enable us to identify unique bank strengths and weaknesses, which in itself inform bank profitability, liquidity and credit quality.

1.1 Research objectives

The first objective of the study is to evaluate the financial performance of commercial banks from 2006 to 2012, by making comparison among the peer banks group as large banks, medium banks and regional & small banks using ratios analysis, this aims at providing an overall subjective assessment of the current status and financial

performance of banking sector in Tanzania and distinguishes well-performing banks group from poor-performing ones to identify better governance structure

The second objective of the study is find out if there is any significance differences of profitability means among peer banks groups using Analysis of Variance (ANOVA)

1.2 The Hypotheses of the study

The following hypotheses were tested

Ho₁ There is no significance means differences on ROA among the peer banks group

Ho₂ There is no significance means differences on ROE among the peer banks group

Ho₃ There is no significance means differences on NIM among the peer banks group

The rest of the paper was organized as follows. The next section provides a summary review of literature. Section three describes the methodology of the study. Section four discusses the results of the findings and analysis; while section five concludes the discussion.

2.0 LITERATURE REVIEW

The word 'Performance' means 'the performing of an activity, keeping, in view the achievement made by it'. In other words, 'Performance' means 'the role Played by an arrangement keeping in view the achievement made by it'. In the context of the banks, it takes into account the way of their progress. (Nirmal, 2004) According to Albans (1978), 'performance' is described as the efforts extended to achieve the targets efficiently and effectively, the achievement of targets involves the integrated use of human, financial and natural resources. Financial performance is the process of measuring the results of an organization policies and operations in terms of monetary value. These results are reflected in the firm's profitability, liquidity or leverage. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Normally the ratios are used to determine the financial performance of an organization. A well designed and implemented financial management is expected to contribute positively to the creation of a firm's value (Padachi, 2006). Ultimate goal of profitability of a firm can be achieved by efficient use of resources. It is concerned with maximization of shareholders or owners wealth (Panwala, 2009). Bank financial performance evaluation is traditionally based on the analysis of financial ratios such return on equity (ROE), return on assets (ROA), net interest margin (NIM), capital asset ratio, growth rate of total revenue, cost/income ratio. However, regardless of how many ratios are being used, a model that would fully satisfy the analysis of needs and bank operations' efficiency evaluation has not been developed yet. For this reason, the financial ratio analysis is complemented with different quality evaluations, with features such as management quality, equity structure, competitive position and others to be included into the final evaluation (Tihomir 2001).

2.1 Studies on banks Financial Performance

Medhat (2006) evaluated the financial performance of Omani Commercial banks used multiple regression analysis and correlations by employing ROA and interest income as performance proxies which represented as the dependent variables, and bank size, asset management and operational efficiency as independent variables. Found that, there is strong positive correlation between financial performance and operational efficiency and a moderate correlation between ROA and bank size, while, ANOVA analysis; results indicated that, there exists an impact of those independent variables on financial performance as the F-stat was significant and below the 5%. Ahmad (2011) investigated the financial performance of seven Jordanian commercial banks; the study used ROA as a measure of banks' financial performance and the bank size, asset management and operational efficiency as three independent variables affecting the financial performance. The results of the study showed a strong negative correlation between ROA and banks' size, a strong positive correlation between ROA and asset management ratio, and a negative weak correlation between ROA and operational efficiency. Khizer at el (2011) study about banks' profitability in Pakistan, they found a significant relation between asset management ratios, capital and economic growth and with ROA, the operating efficiency, asset management and economic growth are significant with the ROE. On the other hand, domestic banks are determined to have a lesser capital adequacy ratio than foreign banks. Chiaku at el (2006) examined the comparative performance of small U.S. commercial banks, medium size commercial banks and large commercial banks for the period of 1997-2002 by employing profit efficiency (PROFEFF), return-on-assets (ROA), interest income, non interest income and loan loss reserve as criteria for the comparison. The results showed that between 1997 and 1999, small banks were more profit efficient (PROFEFF) than large banks but less than medium- size banks. Abdus at el (2006) evaluated the inter-temporal performance of commercial banks; the study was based on three categories of bank size, large, medium and small banks in the State of Utah for the period of 5 years from 2000 to 2004, by using two measures of performance – profits and quality of loans. T-tests and Kruskal-Wallis tests were applied to a variety of standard bank operations measures to determine whether there are significant differences in

performance among the three categories of banks. The performance measures used were return on assets (ROA), return on equity (ROE), loan loss reserve ratio, and loans past due 30-89 days as a percentage of total loans. The study results showed that, no significant difference in performance between small and large banks between the years 2000 and 2004. However, there was a significant difference between small and medium, and medium and large banks in their ROA; the ROA of medium banks is significantly higher than that of small and large banks. Sanaullah (2009) compared the financial performance of Islamic and Conventional banks in Pakistan from 2006 to 2009 by employing Independent sample t-test and ANOVA to determine the significance of mean differences of financial ratios between and among banks, eighteen financial ratios were estimated to measure the performances in term of profitability, liquidity, risk and solvency, capital adequacy, deployment and operational efficiency. The results of the study indicated that, Islamic banks proved to be more liquid, less risky and operationally efficient than conventional banks.

3.0 METHODOLOGY

3.1 Research Design

This study employed quantitative research approach. A quantitative approach is relevant because it employs statistics, which is a comparative methodological discipline that uses mathematical ideas for descriptive data analysis, point inference, and hypothesis testing (Creswell, 2008).

3.2 Sample size of the study

The study evaluated Financial Performance of Commercial Banks in Tanzania from 2006 to 2012 focusing on peer banks groups according to Ernst & Young (2012). With respect to sample size, the study employed 28 commercial banks; the selection of the sample size was based on the availability of the data covered by the period of study. Table 3.1 shows the population of commercial banks in Tanzania and selected of sample size.

Table 1: The study population and the selected sample size

Banks groups	Population	Start before 2006	Start after 2006	Sample Size selected
Large Banks	08	08	00	08
Medium Banks	19	13	06	13
Regional & Small Banks	14	07	07	07
Total	41	28	13	28

Source: Researcher (2013)

3.3 Sources and Types of Data

The study employed quantitative research approach based on secondary data; the data comprised of all selected commercial banks financial reports. The sources of data were Bank of Tanzania (BOT) and Commercial banks

3.4 Research Methods

This study used a descriptive financial ratio analysis to measure, describe and analyse the financial performance of commercial banks in Tanzania during the period 2006-2012. Additionally, to examine whether the difference in financial performance of the banks in 2006-2012 is statistically different among peer banks groups analysis of variance (ANOVA) is employed to test the hypothesis that the means of the peer banks group are the same on the three financial performance variables as detailed in section 3.4.1.

The following hypothesis has been tested:

$$H_0: \mu_1 = \mu_2 = \mu_3$$

Where: μ_1 is the means on (ROA, ROE, and NIM) large banks group

μ_2 is the means on (ROA, ROE, and NIM) medium banks group

μ_3 is the means on (ROA, ROE, and NIM) regional & small banks group

Inferences about the hypothesis are made by looking at test statistics and critical values associated with the mean. The F test statistic is follows F distribution with $k - 1$ degrees of freedom corresponding the between column variance in the numerator and $n - k$ degrees of freedom corresponding to within column variance in the denominator. In this study the decision criterion is P value. If P value is less than α i.e. 0.05 we will reject null hypothesis and accept the research hypothesis, If $P\text{-value} > \alpha$, do not reject the null hypothesis

The selection of financial ratios analysis together with analysis of variance method for this study is motivated by the fact that from the review of past studies on banking sector in Tanzania and to the researchers' knowledge, no study has used financial ratios analysis together with Anova to measure the financial performance of commercial banks in Tanzania during 2006-2012

3.4.1 Variables

A. Profitability Performance

Profitability is a bank's first line of defense against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. An institution that persistently makes a loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk. All the strategies designed and activities which are operated in the bank with the aim of maximizing the profit of the for the purpose of measuring profitability: Profitability is measured using the following criteria:

a) Return on Asset (ROA)

Return on Asset (ROA) is a financial ratio that shows the financial performance of a bank. The return on assets (ROA) is the net income for the year divided by total assets, usually the average value over the year. This ratio measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution (Khrawish, 2011). Wen (2010), state that a higher ROA shows that the company is more efficient in using its resources

b) Return on Equity (ROE)

Return on Equity (ROE) is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested o. ROE is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. It is further explained by Khrawish (2011) that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. Return on Equity (ROE) is an internal performance measure of shareholder value, and it is by far the most popular measure of performance, since: (i) it proposes a direct assessment of the financial return of a shareholder's investment; (ii) it is easily available for analysts, only relying upon public information; and (iii) it allows for comparison between different companies or different sectors of the economy. ROE is sometimes decomposed into separate drivers: this is called the "DuPont analysis", where $ROE = (result/turnover)*(turnover/total\ assets)*(total\ assets/equity)$. The first element is the net profit margin and the last corresponds to the financial leverage multiplier. (EU, 2010)

c) Net Interest Margin (NIM)

Net Interest Margin (NIM) is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest earning) assets. It is usually expressed as a percentage of what the financial institution earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets). The NIM variable is defined as the net interest income divided by total earnings assets (Gul et al., 2011). Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more stable the bank is. Thus, it is one of the key measures of bank profitability. However, a higher net interest margin could reflect riskier lending practices associated with substantial loan loss provisions (Khrawish, 2011).

B Liquidity

Liquidity indicates the ability of the bank to meet its financial obligations in a timely and effective manner. (Samad 2004) states that "*liquidity is the life and blood of a commercial bank*" There should be adequacy of liquidity sources compared to present and future needs, and availability of assets readily convertible to cash without undue loss. Rudolf (2009) emphasizes that "the liquidity expresses the degree to which a bank is capable of fulfilling its respective obligations". For this study liquidity ratio will be calculated as *total customer deposits to total assets*

4.0 EMPIRICAL RESULTS AND ANALYSIS

4.1 Banking Sector Profitability Performance

Profitability in this study is measured by three indicators; Return on Asset (ROA), Return on Equity (ROE) and Net interest Margin (NIM).

It can be seen (Table 2 (a & b) and figure 1, *that*, all banks' group are profitable under the period of study no banks group recorded the negative return on assets. Large banks are more profitable than the medium and regional & small banks with the average ROA of 2.33% followed by medium banks with 1.71% and the last is small banks with 1.61%. Descriptive statistics table 4.1b shows, large banks have lower risk on ROA with the

standard deviation of 0.61 and range of 1.86% in which the maximum and minimum are recorded as 3.51% and 1.65% respectively. Medium banks have lower risk on ROA compared to small banks with standard deviation of 0.67 and range of 1.63% in the maximum and minimum on ROA are recorded as 2.65% and 1.02% respectively. However, small banks have shown higher risk on ROA among the three banks groups, with the standard deviation of 1.33 and range on ROA of 3.34%, with maximum and minimum ROA of 3.64% and 0.30% respectively. The results further more found that, medium and small banks have moderate right skewed distribution on ROA which is approximately to symmetric with the measure of skewness of 0.5 and 0.89 respectively while large banks distribution on ROA is highly positive skewed with the measure of skewness of 1.27.

Table: 2a Return on Assets (ROA %) on Commercial Banks 2006 - 2012

Banks peer group	2006	2007	2008	2009	2010	2011	2012
large Banks	2.21	3.51	2.31	2.71	1.95	2.00	2.35
Medium Banks	1.02	2.47	2.06	1.19	1.43	1.17	2.65
Regional & Small Banks	0.86	2.09	0.86	0.30	1.34	2.21	3.64

Source: Calculated, BOT

Table 2 b: Descriptive statistics results on ROA % 2006 – 2012

Banks peer group	Mean	Std dev.	Kurtosis	Skewness	Range	Maximum	Minimum
large Banks	2.33	0.61	1.74	1.27	1.86	3.51	1.65
Medium Banks	1.71	0.67	-1.91	0.50	1.63	2.65	1.02
Regional & Small Banks	1.61	1.13	0.57	0.89	3.34	3.64	0.30

Source: researcher

The profitability results trends on ROA indicate an increasing on ROA for all banks groups from 2006 to 2007 with a slight decrease in 2007 to 2010, from 2.51% to 1.95% for large banks, 2.47% to 1.43% for medium banks and 2.09% to 1.34% for small banks, however all banks groups recorded an increase of ROA for 2012, in small bank was higher rate than other banks group 3.64%, followed by medium bank with 2.65% and lastly large banks with 2.35%. This profitability trends on ROA is clearly revealed in figure 4.1a

Tables 1c & d and figure 4.1b show the results of profitability results on ROE. The general performance indicates that, all three banks groups performing better, large banks recorded higher average ROE with 22.3%, followed by medium banks with 12.82% and lastly small banks with 12.82%, however, medium banks have lower risk on ROE comparing to other two groups with standard deviation on ROE of 5.31, followed with small banks by 5.65, while large showed higher risk with standard deviation on ROE of 6.85. The study found that, small banks have approximately symmetrical distribution of ROE with the measure of skewness of 0.10, comparing to large and medium banks which have highly positive skewed distribution on ROE with the measure of skewness of 1.16 and 1.44 respectively.

The results on profitability trends indicate that, all banks groups their ROE were increased from for the first two years of study from 25.24% to 35.35% for large banks, 15.17% to 24.44% for medium banks and 5.50% to 17.24% for small banks. However there were down trend on ROE for all banks groups from 2007 to 2010 from 35.35% to 14.90% for large banks, 24.44% to 11.80 for medium banks and 17.24% to 8.46% for small banks, then there was slightly increased on ROE for all banks groups from 2011 to 2012. This profitability trend on ROE for banks groups from 2006 to 2012 is clearly shown in figure 1(b)

Tables 2(e & f) and figure 1c show the results of profitability of banking sector on net interest margin (NIM). Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more stable the bank is. Thus, it is one of the key measures of bank profitability.

The general performance indicates that, small banks have higher average NIM compared to large and medium banks with 20.28%, followed by large banks with 14.80% and lastly medium banks with 12.95%, however, this high average NIM for small banks is caused by these banks charging high rate on loans facilities they are

offering to their clients and the same offering low interest rate for deposits, sometimes no interest on deposits are given for other small banks to their clients. The results also indicate that, large banks have higher risk on NIM compared to other two groups with the standard deviation of 3.35 followed by small banks with 2.31, while medium banks showed lower risk with 1.75, all banks have highly positive skewed distribution on NIM with the measure of skewness of 0.94, 1.26 and 1.10 for large, medium and small banks respectively.

Table 2c: Descriptive statistics on Return on Equity (ROE %) 2006 – 2012

Banks peer group	Mean	Std dev.	Kurtosis	Skewness	Range	Maximum	Minimum
large Banks	22.30	6.85	1.58	1.16	20.45	35.35	14.90
Medium Banks	14.06	5.31	1.94	1.44	15.03	24.44	9.41
Regional & Small Banks	12.82	5.65	-1.90	0.10	14.78	20.28	5.50

Source: researcher

Table 2e: Descriptive statistics on Net Interest Margin (NIM %) 2006 - 2012

Banks peer group	Mean	Std dev.	Kurtosis	Skewness	Range	Maximum	Minimum
large Banks	14.80	3.35	-1.24	0.94	7.63	19.74	12.11
Medium Banks	12.95	1.75	0.55	1.26	4.53	16.15	11.62
Regional & Small Banks	20.28	2.31	1.03	1.10	6.62	24.57	17.95

Source: researcher

Table: 2f Net Interest Margin (NIM %) on Commercial Banks 2006 – 2012

Banks peer group	2006	2007	2008	2009	2010	2011	2012
large Banks	19.25	19.74	15.00	12.63	12.63	12.25	12.11
Medium Banks	13.15	16.15	14.39	11.62	11.77	11.70	11.85
Regional & Small Banks	18.14	19.57	24.57	21.71	20.71	19.28	17.95

Source: study

The results on NIM trends show that, all banks groups have faced the down wards trends on NIM from 2008 to 2012, the reasons is due to increasing trends of non-performing loans for banks, high operating costs and world international financial crises occurred in 2008 had affected the financial performance of banking sector in Tanzania. The trend on NIM for banking sector in Tanzania is shown clearly in figure 1c

4.2 Banking Sector Liquidity Performance

In banking sector liquidity performance measures the ability to meet financial obligations as they become due and is crucial to the sustained viability of banking institutions. It can be seen under the period of study from 2006 to 2012, in table 3, large and medium banks have recorded high average liquidity level with average of 50.67 and 50.11 respectively compared to small banks with average liquidity level of 38.34, however this lower liquidity level for small banks is contributed by low mobilization of funds, because most of these banks are located in the rural areas where the average income is low, this bring difficult of mobilizing savings for these banks.

Also high rate of non-performing loans is another reason for liquidity level. Further the results indicate that, small banks have high risk in liquidity level comparing to other banks groups with the standard deviation of 9.01 followed by medium banks with standard deviation of 6.16. Large banks have approximately symmetric distribution of liquidity level with the measure of skewness of 0.24, while medium banks have highly negative distribution of liquidity with measure of skewness of -1.20 and small banks with highly positive distribution of 1.92.

Table 3 Descriptive statistics on liquidity 2006 - 2012

Banks peer group	Mean	Std dev.	Kurtosis	Skewness	Range	Maximum	Minimum
large Banks	50.67	3.98	-0.79	0.24	0.24	56.56	45.13
Medium Banks	50.11	6.16	1.08	-1.20	17.57	56.15	38.58
Regional & Small Banks	38.34	9.01	4.08	1.92	26.19	57.29	31.10

Source: Study survey

Figure 2 shows the liquidity positions trends of banking sector in Tanzania, the liquidity level of small banks and medium banks have continuously declining from 2009 and 2010 respectively, this due lower level of savings and increasing of non-performing loans for those banks, however large banks experiencing an upward increasing of liquidity positions, this due to higher level of mobilizing funds from savings, because large banks are concentrated in urban areas and mostly cater to large clients

4.3 Results of test statistics

The researcher wanted to find out that if there is any significant difference regarding the profitability related to ROA, ROE and NIM among all the three banking groups from 2006 to 2012 or not. This was tested under the following null hypotheses

Ho₁ There is no significance means differences on ROA among large banks, Medium banks and Regional & Small banks

Ho₂ There is no significance means differences on ROE among large banks, Medium banks and Regional & Small banks

Ho₃ There is no significance differences means on NIM among large banks, Medium banks and Regional & Small banks

The results of ANOVA are shown in tables 4.a, 4.b and 4c for ROA, ROE and NIM respectively

Insert tables

The above Anova table reveals the table p-value is 0.152 which is greater than 0.05, level of significance. Hence the null hypothesis is accepted and the alternative hypothesis is rejected. Therefore, the statistical evidence is not sufficient to accept the hypothesis that there is a significant means difference of ROA among large banks, medium banks and regional & small banks. Hence the financial performance of all three banking groups regarding this ratio is the same.

Table 4a ANOVA - ROA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2.806	2.000	1.403	2.095	0.152	3.555
Within Groups	12.054	18.000	0.670			
Total	14.860	20.000				

Table 4b ANOVA - ROE

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	375.553	2.000	187.776	5.266	0.016	3.555
Within Groups	641.902	18.000	35.661			
Total	1017.455	20.000				

The above Anova table reveals the table p-value is 0.016 which is less than 0.05, level of significance. Hence the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is a significant means difference of ROE among large banks, medium banks and regional & small banks. Hence the financial performance of all three banking groups regarding this ratio is different.

Table 4.3b ANOVA - NIM

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	203.266	2.000	101.633	15.525	0.000	3.555
Within Groups	117.836	18.000	6.546			
Total	321.103	20.000				

The above Anova table reveals the table p-value is 0.000 which is less than 0.05, level of significance. Hence the null hypothesis is rejected and the alternative hypothesis is accepted. There is a significant means difference of NIM among large banks, medium banks and regional & small banks. Hence the financial performance of all three banking groups regarding this ratio is different

5. CONCLUSIONS

This paper analysed the financial performance of Tanzania's commercial banking sector over the period of 7 years from 2006 to 2012. The results indicate that the overall banks financial performance in terms of profitability (measured in terms of ROA, ROE and NIM) and liquidity.

The indicators of profitability of ROA and ROE demonstrate, all bank groups recorded an increase in the rate of profit in the first two years of the study and large banks are found to be the more profitable in comparison to the medium and small banks, banks profitability deteriorated during 2008 to 2009 as the banks' operating environment deteriorated due to the global financial crisis and a slowing economy and another reasons could be increasing bank operating costs and reduced incomes amid the global financial crisis. Furthermore in these recessionary times, when corporate and private clients find it hard to service their debts, the level of the provision for loan losses and bad debts increased. However from 2010 all banks groups recorded an increase in the rate of profit. In the profitability indicator of NIM the performance indicates that, small banks have higher average NIM compared to large banks and medium banks, however, this high average NIM for small banks is caused by charging high interest rates on loans they offer to their client and the same times offering low interest rate for deposits while other small banks are not offering any interest for deposits.

The analysis has also covered the liquidity levels of commercial banks has reached extreme levels for small and medium banks, the liquidity levels of these banks have continuously declining from 2009 and 2010 respectively, this due low level of savings and increasing of non-performing loans, however large banks experiencing an upward increasing of liquidity level, this is due to greater level of mobilizing funds from savings, because these banks are concentrated in urban areas and mostly cater to large clients. Furthermore, the study found that, there is no a significant means difference of profitability among of banks groups in term of ROA, however, a significance differences among banks group were existed in profitability in term of ROE and NIM. Apart from the turmoil experienced in international financial markets and the domestic cyclical economic developments during the crisis period, compared to other countries bank performances as expressed by financial ratios, the Tanzanian banks' performance is average. This is consistent with the findings of Flamini et al. (2009). According to the Flamini et al. (2009.) the average ROA in Sub-Saharan Africa,(SSA) was about 2%. Thus, the average ROA of Tanzanian banks is about average of the SSA. Hence, Tanzania banking sector is stable; banks are adequately capitalized and profitable and remained in a sound position.

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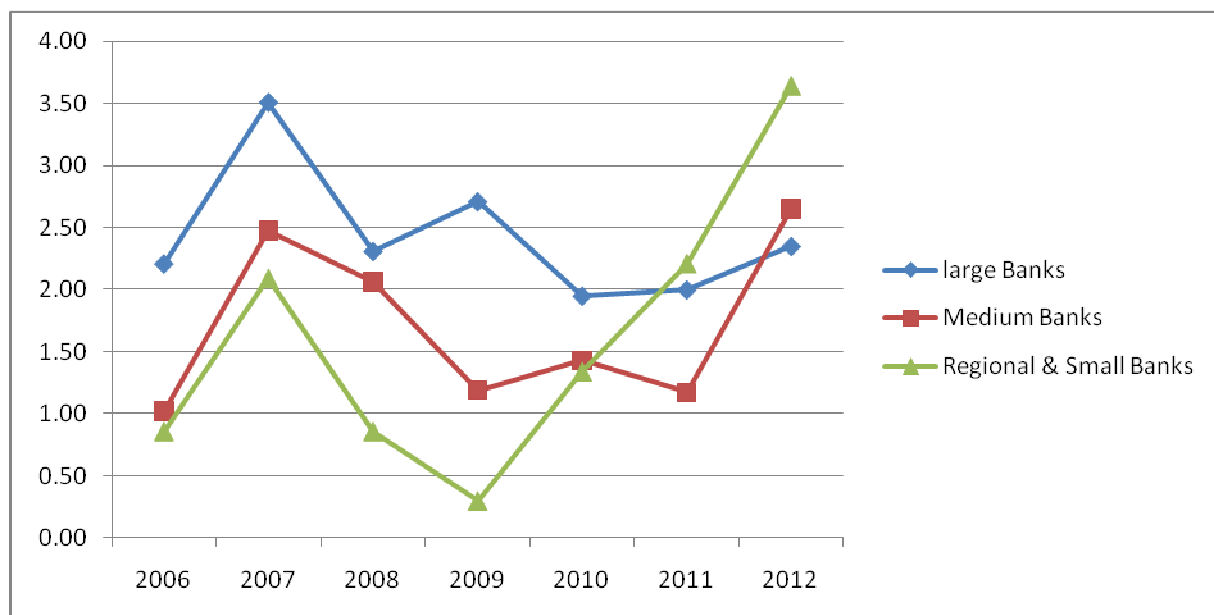
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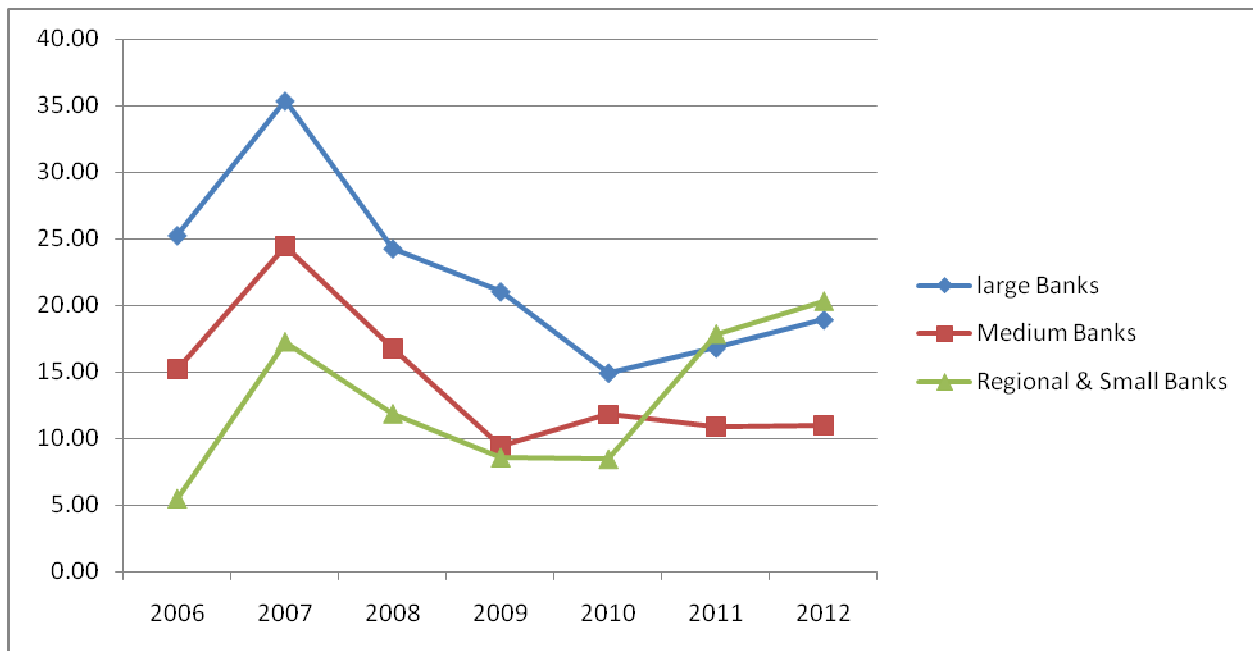
Notes

Figure 1a Profitability Trend (ROA %) 2006 - 2012



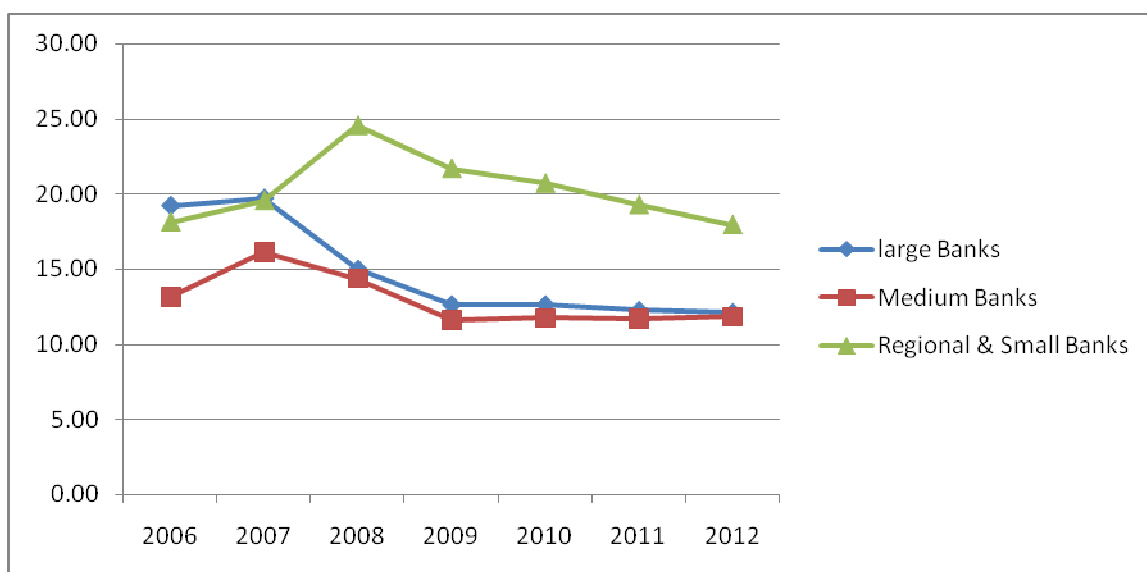
Source: researcher

Figure 1b Profitability Trend (ROE %) 2006 - 2012



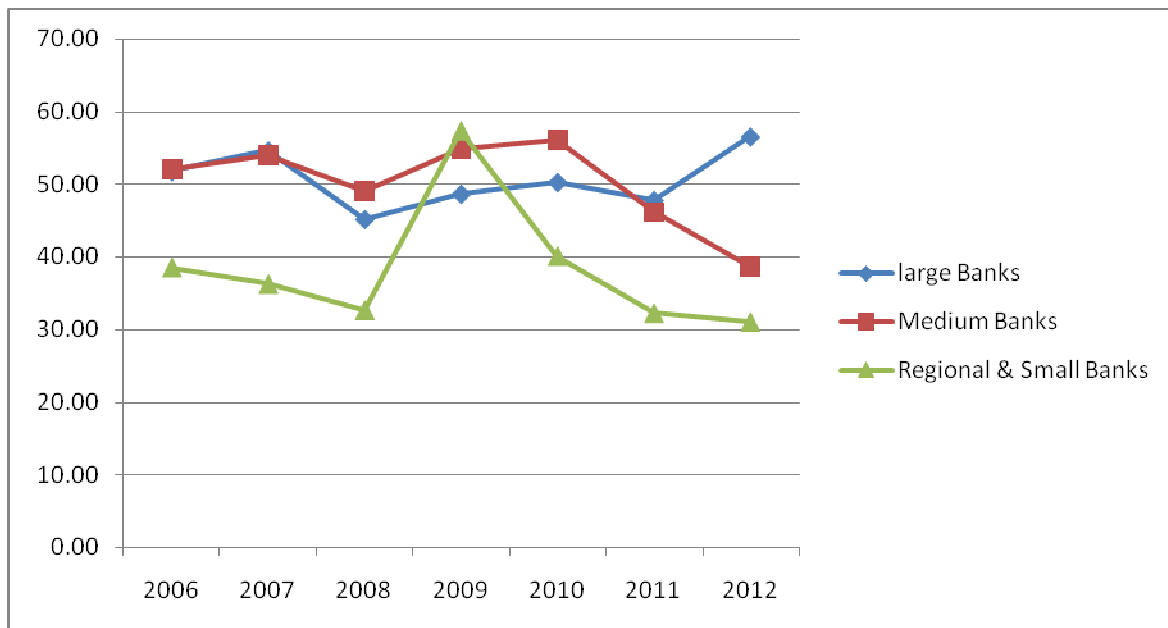
Source: Researcher

Figure 1c Profitability Trend (NIM %) 2006 - 2012



Source: researcher

Figure 4.2 Liquidity ratio (%) trends 2006 -2012



Source: Study Researcher

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