**EFFECTS OF CREDIT RISK MANAGEMENT ON LOAN REPAYMENT PERFORMANCE OF COMMERCIAL BANKS IN TANZANIA.ANALYSIS OF COMMERCIAL BANKS IN DAR ES SALAAM AND ZANZIBAR**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION**

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# CERTIFICATION

The undersigned certifies that she has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation entitled: “**Effects of Credit Risk Management on Loan Repayment Performance of Commercial Banks in Tanzania. Analysis of Commercial Banks in Dar es salaam and Zanzibar”*,*** in partial fulfillment of the requirements for the degree of Master of Business Administration department of Accounting and Finance of the Open University of Tanzania.

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Signature

……………………….

Date

# DEDICATION

This work is dedicated to my beloved parents: my father and my mother my beloved husband, my lovely daughters and sons whom I love too much.

# ACKNOWLEDGEMENT

I would like to thank the Almighty God for enabling me to come this far in my education. This research report would not have succeeded without the following people and their endless support and co-operation. Hence I extend my warm gratitude to them all. I would like to acknowledge my research supervisors Dr. Janeth Isanzu and Dr.Asha Katamba for guiding me all through the writing process. I would like to thank the Almighty God for enabling me to come this far in my education. I extend my warm gratitude to them all. I wish to show my gratitude to my parents and my siblings for being a support I could lean on every time I needed to. Thank you for the tireless work and time in making my study a success. I acknowledge my husband as well as daughters and sons for their sacrifice, encouragement and unending support throughout my studies. I would also wish to acknowledge the moral support from my colleagues and course peers. Thank you for the encouragement. I would also wish to thank the respondents who took their time and responded to this study's questionnaires. Also, a big thank you to the Double M Stationery staff who took the time to print and bind my document.

# ABSTRACT

The study intended to investigate the influence of credit policies, debt collection process, risk identification process and credit scoring on loan repayment performance of commercial banks. The target population was credit risk management managers of the registered commercial banks in Tanzania working at the head office with a sample size of 34 respondents drawn using purposive sampling. Primary data was collected by use of 5 point liker scale questionnaires. A reliability test was done by using Cronbach Alpha method. Analysis was done by quantitative techniques. Quantitative analysis included the use of tables. The data was then analyzed using descriptive statistics and inferential statistics. Results indicated that organizations credit policies have a positive and significant effect on loan repayment performance of commercial banks. Also, results showed that risk identification process includes risk-ranking components where these ranking are usually based on impact, severity or dollar effects. The results also show that risk identification process by commercial banks has a positive and significant effect on loan repayment performance. It was recommended that banks should have stringent credit appraisal techniques.

**Key words**: *Credit risk management, Loan repayment performance, fully fledged bank, Tanzania.*

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# LIST OF ABBREVIATIONS

ANOVA Analysis of Variance

BIS Bank of International Settlement

BOT Bank of Tanzania

CRM Credit Risk Management

MHT Moral Hazard Theory

NPLs Non-Performing Loans

ROE Return on Equity

SACCOs Saving and Credit Cooperative Societies

SMEs Small and Medium Enterprises

SPSS Statistical Package for Social Sciences

VAR Value at Risk

US United States

# CHAPTER ONE

# INTRODUCTION

## 1.1 Overview

This chapter covers the introduction whereby the first part provides background to the study, statement of the research problem, research objectives including general and specific objectives, research questions, and significance of this research study, scope of the study and the organization of the research study or key words. The chapter also provides the theoretical literature review in which presents concise analysis and discussion of theories underpinning the concept of the project management. Then, this part provides the empirical analysis of relevant studies which have already been done on the project management. The identification of the research gap, conceptual framework, and theoretical framework are also presented in this chapter.

## 1.2 Background to the Study

Commercial banks face various risks that can be categorized into three groups; financial (with credit risk being a component), operational and strategic (Cornett & Saunders, 2012). These risks have different impact on the performance of commercial banks. The magnitude and the level of loss caused by credit risk compared to others are severe to cause bank failures (Morris, 2013). According to Rose (2012) risk to a banker means the perceived uncertainty connected with some event. The Central Bank of Tanzania (BOT) in their Prudential Guidelines (2014) classifies the commercial banks' risk factors into nine (9) categories namely: strategic risk, credit risk, liquidity risk, interest rate risk, price risk, foreign exchange rate risk, operational risk and regulatory risk. These are the major risk factors that the Bank of Tanzania identifies as the ones having grave impact on the bank operations in Tanzania. Credit risk is the risk of loss due to a debtor’s non-payment of a loan or other line of credit (either the principal or interest (coupon) or both). According to Saunders and Cornett (2018) credit or default risk is the risk that the promised cash flows from loans and securities held by financial institutions may not be paid in full. Should a borrower default, both the principal loaned and the interest payments expected are at risk. He further noted that the potential loss a financial institution can experience suggests that financial institutions need to collect information about borrowers whose assets are in their portfolios and to monitor those borrowers overtime.

Over the years, there have been an increased number of significant bank problems in both matured and emerging economies. Various researchers have studied reasons behind bank problems and identified several factors (Basel, 2016). Credit problems, especially weakness in credit risk management (CRM), have been identified to be a part of the major reasons behind banking difficulties.Sinkey (2017) defines credit risk as the uncertainty associated with borrowers' loan repayments. In general when borrowers’ asset values exceed their indebtedness they repay loans: when borrowers’ asset values are less than loan values, they do not repay. They exercise their option to default. Taking credit risk is part and parcel of financial intermediation.

Loans constitute a large proportion of credit risk as they normally account for 10-15 times the equity of a bank (Kitua, 2011). Thus, banking business is likely to face difficulties when there is a slight deterioration in the quality of loans. Poor loan quality has its roots in the information processing mechanism. Brown and Bridge (2011) observed that these problems are at their acute stage in developing countries. The problem often begins right at the loan application stage (Knight, 2013) and increases further at the loan approval, monitoring and controlling stages, especially when credit risk management guidelines in terms of policy and strategies/procedures for credit processing do not exist or weak or incomplete. The non-performing loans (NPLs) represent credits which the banks perceive as possible loss of funds due to loan defaults. They are further classified into substandard, doubtful or lost. Bank credit in lost category hinders bank from achieving their set target (Shaw et al., 2018). Credit risk management models include the systems, procedures and control which a company has in place to ensure the efficient collection of customer payments and minimize the risk of non-payment.

Globally, banks have adopted credit risk management practices. The Macaulay (2008) investigated the adoption of credit risk management practices in the United States (US) and reported that over 90% of the banks in that country have adopted the Khan practices. Effective credit risk management has gained an increased focus in recent years, largely due to the fact that inadequate credit risk policies are still the main source of serious problems within the banking industry. Moreover, banks need to manage credit risk in the entire portfolio as well as the risk in individual credits transactions. The bank of Jamaica conducted an empirical study on the implementation of credit risk management policies by commercial banks in that country. The study which involved all the 73 banks in that country found out that only 46% had implemented them in full. This was partly attributed to the poor way in which the regulations had been communicated. Credit policies establish the framework for lending and reflect an institution’s credit culture and ethical standards. To be effective, policies must be communicated in a timely fashion, be implemented through all levels of the organization by appropriate procedures and revised periodically in light of changing circumstances. Measuring the risks attached to each credit activity permits the determination of aggregate exposures to counterparties for control and reporting purposes, concentration limits and risks/reward returns.

Developing economies in the world, Tanzania included, face more uncertainties that the developed counter parts. Banking business in developing world’s therefore faces more risks. Failure to manage risks effectively in the respective banks leads to bank failures. Here in Tanzania Korir (2018) found that credit risk was only second to poor management in contributing to bank failures. On perception, Idarus (2019) found that credit risk was the most important area of risk management in Kenya. Korir (2018) noted that in 2003 alone, 4 banks in Tanzania collapsed. In recognition of the high risks involved in banking, the Central Bank of Tanzania published risk management guidelines for the purpose of providing guidance to all financial institutions on the minimum requirements for a risk management frame work and strategy. It has classified the risks facing financial institutions into nine classes namely: strategic risk, credit risk, liquidity risk, interest rate risk, price risk, foreign exchange rate risk, operational risk, reputation risk and regulatory risk. Banks can project the average level of credit losses it can reasonably expect to experience (Knight, 2018).

Risk management means, increasing the likelihood of success, reducing the possibility of failure and limiting the uncertainty of all the overall financial performance. Khan (2019) argued that the purpose of risk management is to prevent an institution from suffering unacceptable loss. He went on to explain that “unacceptable loss” is one which either causes an institution to fail or materially damages its corporate position. Banks must monitor the ever changing micro and macroeconomic environment to identify the risks therein and find ways of managing these risks. Credit risk management is very essential to optimizing the performance of financial institution. Recognizing this importance, this paper focuses on understanding the credit risk management system of commercial banks operating in Kenya and its effects on the loans repayment performance.

### 1.2.1 Commercial Banks in Tanzania

According to Rose (2012), a commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders’ wealth invested in the firm at an acceptable level of risk. Even if the institution is member-owned or has a philanthropic motivation, the principle of earning a profit still applies. Obtaining a positive net income is imperative for permanency and sustainability. What may differ between a for-profit and a not-for-profit institution is the degree of profit accumulation and the use of those profits. The Tanzanian financial system is dominated by commercial banks as financial intermediaries that act as conduits between the surplus economic units and the deficit economic units. Commercial Banks and Mortgage Finance Institutions are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued thereunder. They are the dominant players in the Tanzanian Banking system and closer attention is paid to them while conducting off-site and on-site surveillance to ensure that they are in compliance with the laws and regulations. As at December 2020 there were 34 licensed commercial banks. Out of the 34 commercial banks, 33 had headquarters in Dar es salaam while 1 bank had head quarter in Zanzibar.

## 1.3 Statement of Research Problem

The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from depositors (Saunders & Cornett, 2017). Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit creation process exposes the banks to high default risk. Loans constitute a large proportion of credit risk as they normally account for 10-15 times the equity of a bank (Kitua, 2019). The ratio for total loans to total assets for the year ended 31st December 2018 was 59.48% a slight increase from 58.2% reported in December 2013 (BOT, 2014). Thus, banking business is likely to face difficulties when there is a slight deterioration in the quality of loans.

Non-performing loans continues to be a problem with all commercial banks in Tanzania (BOT, 2014). Obiero (2015) found out that, out of the 39 banks which failed during the period of 1984 and 2014, 37.8 % collapsed mainly due to poor quality lending. The ratio of non-performing loans to gross loans increased from 5.2% in December 2013 to 5.6% in December 2014 (BOT bank supervision annual report, 2014). The increase in non-performing loans signaled an increase in credit risk. Several studies have been done globally on the relationship between credit risk management practices and nonperforming loans. For instance, Greuning and Bratanovic (2016) studied the basis of a sound credit risk management system including guidelines that clearly outlines the scope and allocation of bank credit facilities and the manner in which the credit portfolio is managed. This study reviewed how loans are originated, appraised, supervised and collected. Mutangili (2017) did a study on nonperforming Loans and macro financial vulnerabilities in advanced economies and established that a sharp increase in NPL triggers long-lived tailwinds that cripple macroeconomic performance from several fronts. In Kenya, Bessis (2012) did a study on the risk management practices adopted by banking institutions in Kenya. The study reveals that risk management in Kenya is considered a vital factor for organizations to meet their desired goals and objectives. Other studies on credit risk management include Muasya (2013) who investigated the relationship between credit risk management practices and loans losses among commercial banks in Kenya, Korir (2012) did a study to establish the effects of credit risk management practices on financial performance of deposit taking microfinance institutions in Kenya, Mwangi (2017) reviewed the effect of credit risk management on the financial performance of commercial banks, Mutangili (2019) conducted a study to establish the relationship between credit risk management and the level of non-performing loans in banks, Gisemba (2018) carried out a study on impact of credit risk management practices on financial performance among the SACCOs while Ngare (2018) conducted a survey to investigate Credit Risk Management Practices by Commercial Banks in Kenya. Based on these studies performed and risk of non-performing loans and competition faced by banks in Kenya, NPLs are a concern to commercial banks. Banks have adopted various risk management practices (Korir, 2017). It is however not clear which one is the most effective in reducing NPLs. Carrying out the research helped to empirically understand if the credit risk management in practice really matter to commercial banks then; it should significantly contribute to reduce the NPLs. This study aimed to examine the effects of credit risk management on loan repayment performance in commercial banks in Tanzania.

## 1.4 Research Objectives

### 1.4.1 General Objective

To examine the effect of credit risk management on the loan repayment performance of commercial banks in Tanzania.

### 1.4.2 Specific Objectives

1. To examine the effects of organizations credit policies on loan repayment performance of commercial banks in Tanzania.
2. To examine the effects of debt collection process on loan repayment performance of commercial banks in Tanzania.
3. To investigate the effects of risk identification process on loan repayment performance of commercial banks in Tanzania.
4. To determine the effects of credit scoring on loan repayment performance of commercial banks in Tanzania

## 1.5 Significance of the Study

 The question of credit risk and common exposures are clearly of enormous importance for regulators, industry participants and investors. The results of this research will have implications and importance to various stakeholders as follows: To regulators and policy makers, the research will provide the basis for regulatory policy framework to mitigate the financial system from financial crises and to better appreciate and quantify those credit risk exposures. To investors, this study will help them to understand the factors that influence the returns on their investments. To commercial banks, this paper will provide an insight into the credit risk attributes which may need to be incorporated in their investment decision processes.

**1.6 Scope of the Study**

The study investigates the influence of credit risk management on loan repayment performance in commercial banks in Tanzania. This research examined the risk management managers working at each bank headquarter in Tanzania, specifically Dar es salaam and Zanzibar. Credit risk management managers of all fully fledged commercial banks in Tanzania were the respondents in this study. The study covered bank headquarters at Dar es salaam and one at Zanzibar. The study was conducted for seven months period.

**1.7 Organization of the Study**

Chapter one of this study introduces the background of the study, statement of problem, the objectives of the study, research questions, significance and the scope of the study. Chapter two presents a review of literature on relevant research linked to the problem in this study. The study looked at conceptual definitions, theoretical perspectives, empirical literature review, research gap, conceptual framework.

Chapter three of this study presents the methodology used in this study. It includes the research design, area of the study, population of the study, sample size and sampling design, methods of data collection, data collection tools, reliability and validity of data and data analysis. Chapter four presents research findings and discussion. Chapter five is all about conclusion, recommendations and areas of further studies.

# CHAPTER TWO

# LITERATURE REVIEW

##  2.1 Overview

In this chapter, past studies have been reviewed in regards to the relationship between credit risk management and the loan repayment performance of commercial banks in Tanzania. Issues on the different theories of credit risk management have also been critically reviewed.

## 2.2 Definition of Key Concepts

### ****2.2.1 Bank****

Bank means an entity that is engaged in the banking business.

### ****2.2.2 Fully-Fledged Bank****

Fully-Fledged Bank means a bank or financial institution which conducts all permissible activities pursuant to the provisions of the Act.

### 2.2.3 Credit Risk Management

Credit risk management is defined as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Early, 1996: Coyle, 2015). Credit extended to borrowers may be at the risk of default such that whereas banks extend credit on the understanding that borrowers will repay their loans, some borrowers usually default and as a result, banks income decrease due to the need to provision for the loans. Where commercial banks do not have an indication of what proportion of their borrowers will default, earnings will vary thus exposing the banks to an additional risk of variability of their profits. Every financial institution bears a degree of risk when the institution lends to business and consumers and hence experiences some loan losses when certain borrowers fail to repay their loans as agreed. Principally, the credit risk of a bank is the possibility of loss arising from non-repayment of interest and the principle, or both, or non-realization of securities on the loans. Risks exposed to commercial banks threaten a crisis not only in the banks but to the financial market as a whole and credit risk is one of the threats to soundness of commercial banks. To minimize credit risk, banks are encouraged to use the “know your customer” principle as expounded by the Basel Committee on Banking Supervision (Kunt-Demirguc & Detragiache, 1997).

According to Demirguc-Khunt & Huizinga (1999), the overwhelming concern on bank credit risk management is two-fold. First, the Newtonian reaction against bank losses, a realization that after the losses have occurred that the losses are unbearable. Secondly, recent development in the field of financing commercial paper, securitization, and other non-bank competition has pushed banks to find viable loan borrowers. This has seen large and stable companies shifting to open market sources of finance like bond market. Organizing and managing the lending function in a highly professional manner and doing so pro-actively can minimize whatever the degree of risk assumed losses.

### 2.2.4 Loan Repayment Performance

Loan repayment performance" refers to the borrower's ability to make timely and consistent payments on a loan according to the terms outlined in the loan agreement. It is a measure of how well a borrower adheres to the repayment schedule and meets their financial obligations. The evaluation of loan repayment performance is crucial for lenders, as it directly impacts the lender's risk and the overall health of the loan portfolio (Waymond, 2017).

Positive loan repayment performance indicates that the borrower is fulfilling their financial responsibilities, making regular payments, and reducing the outstanding balance of the loan. This is beneficial for both the borrower and the lender, as it helps maintain a positive credit history for the borrower and reduces the risk of default for the lender. Conversely,poor loan repayment performance may involve late payments, missed payments, or defaulting on the loan entirely. This can have negative consequences for the borrower's credit score and financial standing, and it poses a risk to the lender's financial health.

## 2.3 Effect of Credit Risk Management on Financial Performance

Credit risk management plays a crucial role in influencing the financial performance of financial institutions, such as banks and lending organizations. Here are some ways in which credit risk management can impact financial performance. Lymon & Carles (1978) defined credit risk management as a process of decision making which involves minimizing losses from both bad debts and costs of debt operation while maximizing the value of credit sales. Also Pandey (1995) defines Credit Risk Management to involve the process of making decisions relating to the investment of funds. Such decisions should be carefully analyzed as they are characterized by an element of uncertainty. Bessis (1998) defines financial performance as a management initiative to upgrade the accuracy and timeliness of financial information to meet required standards while supporting day to day operations. Lymon & Carles (1978) also defined it as the operational strength of a firm in relation to its revenue and expenditure as revealed by its financial statements. In any organization especially commercial banks, financial performance is affected by credit risk. The role of bank remains central in financing economic activity and its effectiveness could exert positive impact on overall economy as a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou *et al,* 2005).

Therefore, the determinants of bank performance have attracted the interest of academic research as well as of bank management, financial markets and bank supervisors since the knowledge of the internal and external determinants of banks’ profits and margins are essential for various parties. Achou & Tenguh (2008) shows that there is a significant relationship between bank performance (in terms of return on asset) and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance. Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests. According to Van Horne (1995), the firm’s credit policies are the chief influences on the level of debtors, measuring the manager's position to invest optimally in its debtors and be able to trade profitably with increased revenue. Pandley (1995) pointed out that credit policy defines a firms’ performance, meaning that once a firm adopts an optimal credit policy, it will be able to maximize its investment revenue in debtors and this improves and promotes its financial standing and performance therefore a good credit policy decision is positively related to high financial performance.

## 2.4 Theoretical Literature Review

The study was based on portfolio theory, moral hazard theory and value at a risk (VAR) theory.

### 2.4.1 Portfolio Theory

Since the 1980s, banks have successfully applied modern portfolio theory (MPT) to market risk. Many banks are now using value at risk (VAR) models to manage their interest rate and market risk exposures. Unfortunately, however, even though credit risk remains the largest risk facing most banks, the practical of MPT to credit risk has lagged (Idarus, 2012). Banks recognize how credit concentrations can adversely impact financial performance. As a result, a number of sophisticated institutions are actively pursuing quantitative approaches to credit risk measurement, while data problems remain an obstacle. This industry is also making significant progress toward developing tools that measure credit risk in a portfolio context (Altman, 2011). They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. The combination of these two developments has precipitated vastly accelerated progress in managing credit risk in a portfolio context over the past several years.

Traditionally, organizations have taken an asset-by-asset approach to credit risk management. While each company’s method varies, in general this approach involves periodically evaluating the quality of credit exposures, applying a credit risk rating, and aggregating the results of this analysis to identify a portfolio’s expected losses. The foundation of the assetby-asset approach is a sound credit review and internal credit risk rating system. This system enables management to identify changes in individual credits, or portfolio trends in a timely manner. Based on the changes identified, credit identification, credit review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner. While the asset-by-asset approach is a critical component to managing credit risk, it does not provide a complete view of portfolio credit risk, where the term risk refers to the possibility that actual losses exceed expected losses. Therefore, to gain greater insight into credit risk, companies increasingly look to complement the asset-by-asset approach with a quantitative portfolio review using a credit model (Mason, 2009). Companies increasingly attempt to address the inability of the assetby-asset approach to measure unexpected losses sufficiently by pursuing a portfolio approach. One weakness with the asset-by-asset approach is that it has difficulty identifying and measuring concentration. Concentration risk refers to additional portfolio risk resulting from increased exposure to credit extension, or to a group of correlated creditors (Altman, 2011).

### 2.4.2 Moral Hazard Theory

 The moral hazard problem implies that a borrower has the incentive to default unless there are consequences for his future applications for credit. This result from the difficulty lenders have in assessing the level of wealth borrowers will have accumulated by the date on which the debt must be repaid, and not at the moment of application. If lenders cannot assess the borrower’s wealth, the borrower will be tempted to default on the borrowing. Forestalling this, lenders will increase rates, leading eventually to the breakdown of the market. Alary & Goller (2013) and Knight (2013) developed a model in which the performance of a loan depends on the quality of the borrower and on her effort. Initially, each bank possesses private information on the quality of a borrower. As in after extending a loan to a borrower, a bank can exploit its private information on his quality and threaten to withhold credit to extract rents from him (hold up). Anticipating that the returns of his effort will be (partially) appropriated by the bank, the borrower has then a reduced incentive to exert effort ex ante. In turn, this worsens his repayment performance (Rajan, 1992). Banks can tackle this incentive problem by committing ex ante to sharing one with another their proprietary information about borrowers’ quality. Expecting that this information pooling will promote competition among lenders; borrowers will be reassured that no hold up will be possible and will step up their effort, lowering delinquency rates (Greuning & Bratanovic, 2012).

Borrowers’ Moral Hazard -A channel through which a credit bureau can affect lending outcomes is by imposing discipline on borrowers. In Greuning & Bratanovic (2012) model, lenders’ information sharing induces borrowers to exert effort because they “perform for a broader audience”, that is, if they are delinquent on their contractual obligations, their misconduct will be disclosed to more lenders. Thus in this context information sharing mitigates borrowers’ moral hazard. However, Greuning & Bratanovic (2012) also underscore that this effect weakens if lenders pool information on borrowers’ characteristics in addition to information on delinquencies. In this case, a high quality borrower knows that anyway his high quality will be disclosed to lenders, regardless of whether his credit history is good or bad.

## 2.5 Loan Repayment Performance Measures

Loan repayment performance can be measured using various metrics and indicators. Lenders and financial institutions use these measures to assess how well borrowers are meeting their repayment obligations. Here are some common methods used to measure loan repayment performance

Examining the borrower's payment history is a fundamental way to assess repayment performance. Lenders review whether payments are made on time, if there are any late payments, and if there are instances of missed payments. Delinquency rate: The delinquency rate is the percentage of loans that have payments overdue beyond a specified period, such as 30, 60, or 90 days. A lower delinquency rate generally indicates better repayment performance. Default rate: The default rate represents the percentage of loans for which borrowers have failed to repay, either by missing several payments or by completely ceasing payments. A low default rate is a positive indicator of repayment performance. Credit Scores: Credit scores are numerical representations of an individual's creditworthiness. Late payments, defaults, and other negative factors in can negatively impact credit scores. Lenders often consider credit scores as part of the overall assessment of repayment. Debt to income ratio: The debt-to-income ratio compares a borrower's total debt payments to their income. A lower ratio indicates that the borrower has a more manageable level of debt relative to their income, which can contribute to better repayment performance. Loan Modification Request: The frequency of requests for loan modifications, such as extensions or adjustments to repayment terms, can also be an indicator. A high number of modification requests may suggest financial difficulty for borrow.

### 2.5.1 Capital Adequacy

Capital adequacy is the determination of the minimum capital amount required to satisfy a specified economic capital constraint (Miccolis, 2002). Ultimately it determines how well financial institutions can cope with the shocks to their balance sheet. Thus it's useful to track capital adequacy ratios that take financial risks, foreign exchange credit and interest rate risks, by assigning risks ratios established by the Bank of International Settlement (BIS). Capital adequacy is measured in commercial banks in relation to the relative risk weight assigned to the different category of assets held both on and off to control the incentive to take on excessive risk and to absorb a reasonable amount of losses.

### 2.5.2 Asset Quality

The solvency of financial institutions is typically at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non-performing loans and the health and profitability of bank borrowers. Credit risk is inherent in lending which is the major banking business. It arises when a borrower defaults on the loan payment agreement. A financial institution whose borrower defaults on their payment may face cash flow problems, which eventually affects its liquidity position. Ultimately, this negatively impacts on the profitability and capital through extra specific provisions for bad debts (BOU, 2012).

### 2.5.3 Management Quality

 Management quality (approximated by cost efficiency scores) has been associated with bank failures in a number of recent studies, e.g., Barr and Siems (1994). Wheelock and Wilson (2016), and Kick and Koetter (2017). Cost efficiency is approximated by a simple ratio of Operating Expenses to Total Revenues, denoted as E fficiency Ratio, which 23 measures management flexibility to adjust costs to changes in the business development signaled by revenues. The higher is the Efficiency Ratio, the higher is the default risk.

### 2.5.4 Earnings

The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. The evaluation of earnings performance relies heavily upon comparison on the key profitability measures (such as return on assets and return on equity) to industry bench mark and peer group norms (Federal Reserve Bank, 2002). Most bank studies emphasis is placed on profitability in terms of ROE and ROA. Profitability as a measure of performance is widely accepted by bankers, financial institutions, management, company owners and other creditors as they are interested in knowing whether or not the firm earns substantially more than it pays by way of interest (Sadakkadulla & Subbaiah, 2012). The return on investment ratio is used to determine profitability of a bank.

### 2.5.5 Liquidity

 Initially solvent financial institutions may be driven towards closure by management of short term liquidity. Indicators should cover funding sources and capture large maturity mismatches. Liquidity is the degree to which debts obligations coming due in the next 12 months can be paid in cash or assets that will be turned into cash .The mismatching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of commercial banks. It is unusual for microfinance to be completely matched since business transacted is often of uncertain term and of 24 different types. An unmatched position potential enhance profitability but also increase the risk of losses (The Uganda Banker, June 20).

## 2.6 Relationship between Credit Risk Management and Loan Repayment Performance

Pandley (2015) defines credit risk management to involve the process, of making decisions relating to the investment of funds. Such decisions should be carefully analyzed as they are characterized by an element of uncertainty. Bessis (2018) defines financial performance as a management initiative to upgrade the accuracy and timeliness of financial information to meet required standards while supporting day to day operations. Lymon & Carles (2017) also defined it as the operational strength of a firm in relation to its revenue and expenditure as revealed by its financial statements In any organization commercial banks in particular, financial performance is affected by credit risk. The role of bank remains central in financing economic activity and its effectiveness could exert positive impact on overall economy as a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou *et al,* 2015). Therefore, the determinants of bank performance have attracted the interest of academic research as well as of bank management, financial markets and bank supervisors since the knowledge of the internal and external determinants of banks’ profits and margins is essential for various parties. Achou & Tenguh (2018) shows that there is a significant relationship between bank performance (in terms of return on asset) and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance. Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests. Banking institutions are some of the predominant financial institutions whose changes in performance and structure have far reaching implications on the whole economy (Bohnstedt *et al.* 2020). Banking institutions are engaged in a wide range of activities like investment, trading and banking which exposes them to risk.

Therefore the instability in financial performance especially in banking industry emanates from the poor credit risk management. According to Van Home (2014), the firm's credit policies are the chief influences on the level of debtors, measuring the manager’s position to invest optimally in its debtors and be able to trade profitably with increased revenue. Pandey (2015) pointed out that credit policy defines a firms' performance, meaning that once a firm adopts an optimal credit policy, it will be able to maximize its investment revenue in debtors and this improves and promotes its financial standing and performance therefore a good credit policy decision is positively related to high financial performance Bertrand (2020) observed that capital requirement can reduce the less moral hazard incentives by forcing shareholders to absorb a larger part of the losses, thereby reducing the value of deposit insurance put in option. Benink (2011) argues this to develop new way to evade the intended consequences because supervision alone cannot prevent microfinance institutions from gaining and manipulation of risk weights based on internal ratings. Therefore, as these institutions operate with a poor credit risk management their financial performance and position are affected. Banks may also use credit committee in the approval of loans. Credit committee is the body of persons charged with making decision as regards loans: this committee is essential control in reducing credit risk and improving on loan recovery.

Decision granting loan will have been arrived at after an analysis has been carried out by the committee of more than one person thus reducing the risk of one person abusing the authority granted to him by granting loans to friends and relatives easily as this would result to poor loan recovery and hence poor financial performance (Kagaba, 2015)

## 2.7 Empirical Literature Review

Muasya (2019) analyzed the impact of non- performing loans on the performance of the banking sector in Kenya in the time of global financial crises. The findings confirmed that non- performing loans do affect commercial banks in Kenya. Further analysis of individual banks with more than ksh. 25 billion worth of asset indicated that while the impacts are negative, the magnitude of non- performing loans to both interest income and profitability are not adverse for 7 of the 13 analyzed banks and that asset quality of the whole banking sector has been improving to settle at 7.17%.

Wanjira (2018) studied the relationship between non- performing loans management practices and financial performance of commercial banks in Kenya. The study concluded that there is a need for commercial banks to adopt non-performing loans management practices. Such practices include ensuring sufficient collaterals, limiting lending to various kinds of businesses, loan securitization, ensuring clear assessment framework of lending facilities and use of procedures in solving on problematic loans among others. The study further concluded that there was a positive relationship between nonperforming loans management practices and the financial performance of commercial banks in Kenya which implies that the adoption of non- performing loans management practices leads to improved financial performance of commercial banks in Kenya.

Ochola (2019) conducted a study of the relationship between credit risk management and non- performing loans. The objective of the study was to establish the degree of effect of employing different credit management techniques on the level of non- performing loans. In assessing this, the study sought to establish the relationship between credit risk and management and non- performing loans by pursuing a survey in the Kenyan banking sector. The research found that in Kenyan setup, a combination of intensive credit risk management by the banks coupled with close supervision by Central Bank has greatly enhanced the decline of non- performing loans ratio in the banking sector. Analyzing the asset quality of the financial sector for 2003 to 2008, the ratio of gross non- performing loans to gross loans declined from a high 35% in 2003 to a low of 9.23% in 2018. The decline of this ratio confirms a close relationship between non- performing loans and credit risk management.

Githinji (2019) in a study of the relationship between credit scoring practices by commercial banks and access to credit by small and medium enterprises in Kenya 28 concludes that there is a relationship between credit scoring by Kenyan banks and access to credit by SMEs. She noted that the benefits gained from the use of credit scoring include accuracy in decision making process. The study thus recommended that banks need to use various credit assessment methods before availing loans to SMEs. In addition, the banks need to regularly review their credit policies.

Gaitho (2017) conducted a survey of credit risk practices by SACCOs in Nairobi. The findings revealed that majority of the SACCOs use credit risk management practices to mitigate risks as a basis for objective credit risk appraisal. Majority (28) out of the 31 respondents agreed that credit risk management practices have impacted positively to their organizations by ensuring efficiency in carrying out its obligations and in meeting its objectives.

Ngare (2018) conducted a survey of credit risk management practices by commercial banks in Kenya. The specific areas of research were geared towards identifying the sources of credit risk exposures in banks and strategies that the banks in Kenya have adopted to monitor and mitigate against the credit risk exposures inherent in the operations of their business. From their study, it was found that banks use qualitative loan assessment methods to make credit granting decisions while liquidity runs on the borrowers' credit concentration and adverse trading by the borrowers were the main sources of credit risk among the banks in Kenya. In addition, most banks were found to use loan diversification, bank guarantees and bank covenants to mitigate against credit risk.

Mwirigi (2016) in his study survey approach examined credit risk management techniques adopted by micro- finance institutions in Kenya. The study reveals that a significant number i.e. 92% of the respondents used credit management policies as a basis of objective credit risk appraisal. In conclusion he identifies credit risk as the most important risk with 80% of the respondents ranking it as the most important risk among other risks faced by their institutions.

Simiyu (2018) while analyzing techniques of credit risk management observed that micro- finance institutions use 6c’s techniques of credit risk management. The study further established that majority of the institutions used credit matrix to measure the credit migration and default risk.

Muthee (2019) conducted a research on the relationship between credit risk management and profitability in commercial banks in Kenya. The findings and analysis revealed that credit risk management has an effect on profitability in all the commercial banks analyzed. The study used regression analysis to establish the relationship between NPLR and ROE. A forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that the model was moderately significant. NPLR as an independent variable was linearly related with the dependent variable ROE thus simple linear regression was used.

Abdifatah (2020) in his study, a comparative analysis of credit risk management practices of Islamic and conventional banks in Kenya found that Islamic banks do not have well established credit risk management practices as compared to conventional banks. This was observed by the disparities in monitoring of the credit risk levels, the duration taken by the institution to know that the customer has defaulted and how the institutions deal w ith difficult to pay on time clients. He concluded that both the conventional and Islamic banks take risks equally important with an exception of interest rates risk in Islamic banks as their loans do not accrue interest thus have no risk with interest rates. Mathara (2017) in a study of the response of National Bank of Kenya to the challenge of non- performing loans in the bank notes that lack of adequate credit policy guidelines, poor credit risk management practices, use of quantitative methods of loan assessment and poor monitoring and evaluation systems were sources of non- performing loans in the bank. The study indicates that the absence of regularly updated credit policy and inadequate monitoring of loans to have led to a rising portfolio of non- performing loans and the failure by the bank to notice the increasing default rate of the borrowers.

## 2.8 Research Gap

In as much as a lot of researches have been done on the impact of credit risk management and financial performance of commercial banks, most of the local studies have leaned heavily towards the various tools and techniques of credit risk management, practices and strategies used by various institutions ( Wanjira,2018: Ochola,2019: Ngare,2018;Mwirigi, 2016: Simiyu,2018). The studies did not establish a clear relationship between credit risk management and loan repayment performance. In addition, and to the best knowledge of the researcher, no other research has used Capital Adequacy Ratio as an independent variable. Thus there exists a gap necessitating this study.

## 2.9 Conceptual Framework

A conceptual framework explains graphically, the main theme to be studied, including the key factors that are constraints or variables and the presumed relationship among them (Miles & Huberman, 1994). This study investigates the the influence of risk management on loan repayment performance. The conceptual framework developed illustrates the relationship existing between an independent and dependent variables.

**

## Source: Researcher (2024)

**Figure 2.1: Conceptual Framework**

### 2.9.1 Independent Variables

Independent variables in this study are those factors that influence the Loan Repayment Performance in Commercial Banks. Researcher assumed that organizational credit policies, data collection processes, risk identification processes and credit scoring can be factors that influence loan repayment performance.

### 2.9.2 Dependent Variable

Dependent variable in this study is Loan Repayment Performance.

#

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Overview

 The chapter comprises research methodology which shows research philosophy, research design, area of the study, target population of the study, sampling procedures and sample size, data collection methods, research instruments, validity and reliability of the instruments, data analyzing and research ethics.

## 3.2 Research Philosophy

A research philosophy is a belief about the way in which data about a phenomenon should be gathered, analyzed and used (Saunders *et al*., 2015). The researcher employed a Positivism philosophy. The positivism philosophy is based on the highly structured methodology to enable generalization and quantifiable observations and evaluate the result with the help of statistical methods (Saunders et al., 2015). This is the philosophy which assumes that scientific research follows a systematic procedures and hypothesis testing is one way of scientific proof.

## 3.3 Research Design

Kombo and Tromp (2009) define research design as the glue that holds all the elements in the research project together. It holds all the elements in the research project. It is the structure of research. Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in producer (Kothari, 2006). According to Mugenda & Mugenda (1999) research design is the outline plan or scheme that is used to generate answers to the research problems. It is basically the structure and plan of investigation. The research design used in this study was explanatory research design. Explanatory research seeks to establish factors associated with certain occurrences, outcomes, conditions or types of behavior. The design was appropriate because the study involved an in depth study of credit risk management and the relationship between the two variables i.e. credit risk management and the loan repayment performance of commercial banks was described extensively.

## 3.4 Area of the Study

The area of study was Dar es salaam and Zanzibar. The area was chosen because all fully fledged commercial banks has headquarters in those two areas, hence it was possible to get all required data concerning credit risk and the loan repayment performance

## 3.5 Target Population

Target population is that population to which a researcher wants to generalize the results of the study (Mugenda & Mugenda, 2003). The study population included some of the current credit risk managers of 34 fully fledged Commerce banks at Dar es salaam and one at Zanzibar. For the purpose of this study, the researcher selected risk management managers from each Bank Headquarter. Information about how risk management influence loan repayment performance was solicited. The list of the banks is at appendix ii.

## 3.6 Sapling Techniques and Sample Size

### 3.6.1 Sampling Techniques

The study used all 34 banks as a sample by using census method. The decision for using census is because the sample was small and manageable.

### 3.6.2 Sample Size

Sample size was 34 fully fledged commercial banks.

## 3.7 Data Collection Methods

In this study primary data was collected using a 5 point likert scale questionnaire. The measure for credit risk management was Non- Performing Loans Ratio (NPLR) calculated as Non-performing Loans/Total Loans and Capital Adequacy Ratio (CAR) calculated as (Tier I + Tier II)/Risk Weighted Assets]. Capital adequacy is the determination of the minimum capital amount required to satisfy a specified economic capital constraint (Miccolis, 2002). Ultimately it determines how well financial institutions can cope with the shocks to their balance sheet. Thus it’s useful to track capital adequacy ratios that take financial risks, foreign exchange credit and interest rate risks, by assigning risks ratios established by the Bank of International Settlement (BIS).

Capital adequacy is measured in commercial banks in relation to the relative risk weight assigned to the different category of assets held both on and off to control the incentive to take on excessive risk and to absorb a reasonable amount of losses.

## 3.8 Reliability and Validity of Research Tools

### 3.8.1 Validity

Validity refers to the extent to which a measurement does what it is supposed to do (Kothari, 2004). If a measurement is valid, it is also reliable but if is reliable, it may or may not be valid. In this study data was checked for its accuracy to make sure that they gave valid results. To make the questionnaires valid and worth, five questionnaires were distributed to five respondents. The pre-test aimed at testing understandability of the questions presented in the questionnaires. As regards external validity the researcher assumed and believed that each respondent chosen had rich information. The researcher also explained the purpose of the exercise.

### 3.8.2 Reliability

Reliability refers to the consistence, stability, or dependability of the data. The reliability of an instrument is increased by identifying the precise data needed and repeated use of the instrument in field testing (Kothari, 2004).Cronbach Alpha coefficient was used to measure the reliability of this study.Benchmark is that if the Cronbach Alpha Coefficient is 0.7 and above then the research instrument is reliable otherwise below 0.7 the instrument have to be dropped (Nunnally, 1978).

## 3.9 Data Analysis

The data collected from the annual reports of the banks was analyzed using multiple regression analysis: the relation of one dependant variable to multiple independent variables. The regression output was obtained using Statistical Package for Social Sciences (SPSS version 18). The data was then analyzed using descriptive statistics and inferential statistics. Inferential statistics is mathematical methods that employ probability theory for deducing (inferring) the properties of a population from the analysis of the properties of a data sample drawn from it. It is concerned also with the precision and reliability of the inferences it helps to draw. This includes the t-test, model significance (F-statistics), correlation and regression analysis. Regression analysis was used to determine the relationship between the dependent variable and the independent variables. A stepwise multivariate regression model was used.

### 3.9.1 Regression Model

 In this study, multiple regression models with four independent variables were used. The measure for loan repayment performance and for credit risk management the following model was used:

**Y =β0 + β1X1 + β2X2 + β3X3 + β4X4 +µ**

Where; Y = Loan Repayment Performance of Commercial Banks

X1 = Organizational Credit Policies

X2 = Risk Identification Practices

X3 = Debt Collection Practices

X4 = Credit Scoring

β0 = the constant term

βii= 1….4 measure of the sensitivity of the dependent variable (Y) to unit change in the predictor variables X1, X2,  X3  and X4 while µ is the error term which captures the unexplained variations in the model.

### 3.9.2 Independent Variables

Independent variables in this study are those factors that influence the Loan Repayment Performance in Commercial Banks. Researcher assumed that organizational credit policies, data collection processes, risk identification processes and credit scoring can be factors that influence loan repayment performance.

### 3.9.3 Dependent Variable

Dependent variable in this study is Loan Repayment Performance.

The significance of the credit risk management in loan repayment performance was analysed using the regression analysis SPSS output. Test of significance include coefficient of correlation (R), coefficient of determination (R-squared), t-test and ANOVA.

## 3.10 Ethical Consideration

For ethical requirements in the conduct of the study respondents were duly informed of the fact that the study was for academic purpose and that they were under no compulsion to respond to the questionnaire. The respondents were asked to participate voluntarily whilst assuring them of anonymity and confidentiality on the information given. In order to avoid plagiarism, all sources of information were duly acknowledged.

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Overview

This chapter presents the analysis of data collected and discusses the findings of the effects of credit risk management on the Loan Repayment Performance of commercial banks in Tanzania. Of the 34 commercial banks in Tanzania, full data was attained from all 34 banks and thus the study concentrated on the 34 banks. In this chapter, the results of the regression model are presented. The results are analyzed and the impact of credit risk management on Loan Repayment Performance is described.

## 4.2 Results of Reliability

In this study, construct reliability was determined using Cronbach alpha coefficients that test internal consistency of items on a scale and were thus considered reliable if the as the results showed that the Cronbach Alpha associated with the variables of the study were above 0.70 threshold as recommended by Nunnally (1978) where it is asserted that Cronbach Alpha’s should be in excess of 0.70 for the measurement intervals. The results of the reliability analysis are presented in the Table 4.1

**Table 4.1 Reliability Results**

|  |  |  |
| --- | --- | --- |
|   | Cronbach’s Alpha | Decision |
| Organizations Credit Policies  | 0.824 | Reliable |
| Risk Identification Process | 0.89 | Reliable |
| Debt Collection Practices | 0.874 | Reliable |
| Credit Scoring | 0.768 | Reliable |
| Loan Repayment Performance | 0.853 | Reliable |

**Source**: Data Analysis (2023)

## 4.3 Descriptive Analysis

Descriptive analysis of the variables are shown in table 4.2

**Table 4.2: Descriptive statistics of the variables**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Mean** | **Standard Deviation** | **Minimum** |
| **Organizational Credit Policies (X1)** | 3.12 | 1.27 | 1 |
| **Risk Identification Practices (X2)** | 3.12 | 1.27 | 1 |
| **Debt Collection Practices (X3)** | 2.94 | 1.12 | 2 |
| **Credit Scoring (X4)** | 3.12 | 1.27 | 1 |
| **Loan Repayment Performance (y)** | 3.15 | 1.04 | 2 |

**N=34**

**Source:**Data Analysis (2023)

These values provide an overview of the central tendency, spread, and range for each set of responses with the correct sample size of 34.

## 4.4 Correlation Analysis between Credit Risk Management and Loan Repayment Performance

As expounded in the preceding section, the reason as to why correlation analysis was adopted was expounded. This section presents the relationship in existence between the results as are presented in the correlation matrix below.

### 4.4.1 Organizational Credit Policies and Loan Repayment Performance

The results presented in the Table 4.3 are a correlation matrix showing the relationship between organizational credit policies and loan repayment performance.

**Table 4.3: Correlation Analysis of the Effect of Organizational Credit Policies on Loan Repayment Performance**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Loan Repayment Performance** | **Organizational credit policies** |
| Loan Repayment Performance |   | 1 |   |
|  | Correlation coefficient | 0.38 |  |
| Organizational Credit Policies |  |  | 1 |
|   | Sig.(2  | 0.012\*\* |   |
| \*\* This indicates that the value is significant at 5% level of significance |  |

**Source:** Data Analysis (2023)

The results indicated that there exist a positive and significant (r=0.380, p<0.012).This therefore implies that commercial banks’ effectiveness in implementing their organizational credit policies would result to an improvement in the loan repayment among its borrowers. This is in line with the assertion of Burns et al. (2006) who indicated that firms and individuals rely on short-term debt, in particular bank overdrafts from banks and that the organization credit policies plays a very instrumental role in the choice of individuals and firms whom bank’s advance loans to, they also asserted that strict organizational credit policies thus ensured that commercial banks only lend to credit trustworthy customers.

## 4.4.2 Risk Identification Process and Loan Repayment Performance

The results in Table 4.4 show the Pearson’s correlation coefficient matrix on the relationship between risk identification process and loan repayment performance

**Table 4.4: Correlation Analysis of the Effect of Risk Identification Processes on Loan Repayment Performance**

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Loan Repayment Performance** | **Risk Identification Processes** |
| Loan Repayment Performance |   | 1.00 |   |
|  | Correlation coefficient | 0.692 |  |
| Risk Identification Processes |  |  | 1.00 |
|   | Sig.(2  | 0.00\*\*\* |   |
| \*\*\* This indicates that the value is significant at 1% level of significance**Source**: Data Analysis (2023) |  |

The results indicates that there exists a positive significant (r=0.692, p-value<0.05)

correlation between risk identification process and loan repayment performance. This

Indicates that if the risk identification process by commercial banks is enhanced then this would be associated with an improvement in loan repayment performance. This is consistent with the view Fuser *et al* (2011) who asserted that risk identification process includes riskranking components and that they help in sort risk according to their importance and assists the management to develop risk management strategy to allocate resources efficiently and therefore improving their credit performance.

### 4.4.3 Debt Collection Processes and Loan Repayment Performance

The results presented in the Table 4.5 indicate the Pearson’s correlation coefficient between debt collection and loan repayment performance.

**Table 4.5:** **Correlation Analysis of the Effect of Debt Collection Processes on Loan Repayment Performance**

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Loan Repayment Performance** | **Debt collection Practices** |
| Loan Repayment Performance |   | 1.00 |   |
|  | Correlation coefficient | 0.419\*\* |  |
| Debt collection Practices |  |  | 1.00 |
|   | Sig.(2  | 0.05\*\* |   |
| \*\* This indicates that the value is significant at 5% level of significance |  |

**Source:** Data Analysis (2023)

The results indicated that there is a positive and significant (r=0.419, p-value<0.05)

relationship between debt collection and loan repayment performance. This therefore implies that an improvement in the debt collection among commercial banks would therefore lead to an improvement in their loan repayment performance. This findings is consistent with that of Jansson (2011) who indicated that an effective debt collection strategy starts with a clearly thought out credit policy and credit management tools to enforce this policy. Jansson (2011) further asserted that by making use of opportunities to make the collections processes strategically effective, operationally efficient and customer orientated, an organization can expect the collection function to add significant value to the business.

### 4.4.4 Credit Scoring and Loan Repayment Performance

The results in Table 4.6 show the Pearson’s correlation coefficient matrix on the

relationship between Credit Scoring and Loan Repayment Performance.

**Table 4.6: Correlation Analysis of the Effect of Credit Scoring on Loan Repayment Performance**

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Loan Repayment Performance** | **Credit Scoring** |
| Loan Repayment Performance |   | 1.00 |   |
|  | Correlation coefficient | 0.324 |  |
| Credit scoring |  |  | 1.00 |
|   | Sig.(2  | 0.035\*\* |   |
| \*\* This indicates that the value is significant at 5% level of significance |  |

**Source:** Data Analysis (2023)

The results indicated that there exists a positive and significant (r=0.324, p-value<0.05) correlation between credit scoring and loan repayment performance. This indicate that an intense credit scoring of borrowers there helps in only selecting the pool of borrowers who are credit trustworthy and thus this would have a positive implication on the loan repayment performance of loans that take. This is in agreement with the findings of Mester (2013) who argued that credit scores is used by lenders in monitoring loans.

This reduces monitoring costs and allows banks to make loans outside their branch footprints, thereby reducing the cost of lending. Mester (2013) further argues that credit scoring is less costly in terms of time spent by applicants gathering the information needed to complete the application, because customers need only to provide the information used in the scoring system. This encourages applicants for smaller loan amounts and in the view of Derban *et al.* (2012) argued that Credit scoring helps in reducing the information asymmetries between borrowers and lenders and thus allows lenders to more accurately evaluate risks and improves portfolio quality by easing adverse selection problem and lowers the cost of credit for a good borrower while increasing credit volume and improving access to credit.

### 4.4.5 Regression Analysis between Credit Risk Management and Loan Repayment Performance

**4.4.5.1 Organizational Credit Policies and Loan Repayment Performance**

In order to establish the effect of organizational credit policies on commercial bank’s loan repayment performance a regression model was estimated where loan repayment performance was considered to be a function of organizational credit policies.

**Table 4.7: Regression Analysis of the Effect of Organizational Credit Policies and Loan Repayment Performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **Coefficients Beta** | **Std.Error** | **t-stat** | **Sig.** |
| Constant | 0.015 | 0.11 | 1.348 | 0.187 |
| Organizational credit Policies | 0.008 | 0.003 | 2.63 | 0.012 |
| Coefficient of Determination | 0.543 |  |  |  |
| F-Statistics | 6.915 |  |  |  |
| Prob(F-Statistics) | 0.012\*\* |   |   |   |

\*\* This indicates that the value is significant at 5% level of significance

**Source**: Data analysis (2023)

The results in Table 4.7 shows that the organizational credit policies explains 54.3 percent of the variations in commercial bank’s loan repayment performance as indicated by an R-Square of 0.543. The results further showed that the estimated model is significant, that is organizational credit policies explained loan repayment performance of commercial banks as supported by the F-statistic of 6.915 whose reported probability was 0.012, which is less than 5 percent significance level.

The results in particular, further show that organizations credit policies has a positive effect (β=0.007) and that this positive relationship is significant (p=0.007). This is in line with the assertion of Burns et al. (2006) who indicated that firms and individuals rely on short-term debt, in particular bank overdrafts from banks and that the organization credit policies plays a very instrumental role in the choice of individuals and firms whom bank’s advance loans to, they also asserted that strict organizational credit policies thus ensured that commercial banks only lend to credit trustworthy customers.

### 4.4.6 Risk Identification Process and Loan Repayment Performance

The results also presented in the Table 4.8 show that 47.6 percent of variance in loan repayment performance that is explained by the variance in risk identification process of the borrowers by commercial banks as indicated by an R-Square statistic of 0.476. the results further show that the estimated model is significant, that is, risk identification process is a good explanatory variables for loan repayment performance of commercial banks as indicated by an F-statistic of 37.623 which is further supported by a p-value of 5 percent (Pvalue =0.00).

**Table 4.8: Regression Analysis of the Effect of Risk Identification Process and Loan Repayment Performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **Coefficients Beta** | **Std.Error** | **t-stat** | **Sig.** |
| Constant | 0.004 | 0.11 | 1.346 | 0.186 |
| Risk Identification Processes | 0.008 | 0.003 | 2.62 | 0.012 |
| Coefficient of Determination | 0.476 |  |  |  |
| F-Statistics | 37.623 |  |  |  |
| Prrob(F-Statistics) | 0.00\*\*\* |   |   |   |

\*\*\* This indicates that the value is significant at 1% level of significance

**Source**:Data Analysis (2023)

The results of regression analysis, shows that risk identification process by commercial banks has a positive significant effect (β=0.009, P-value<0.05) on the loan repayment performance of commercial banks. This is consistent with the view Fuser et al. (2011) who asserted that risk identification process includes risk-ranking components and that they help in sort risk according to their importance and assists the management to develop risk management strategy to allocate resources efficiently and therefore improving their credit performance.

### 4.4.7 Debt Collection Practices and Loan Repayment Performance

In order to establish the effect of debt collection practices on loan repayment performance of commercial banks a regression model was estimated where loan repayment performance and the results show that the debt collection practices explained 65.0 percent of the variations in loan repayment performance of commercial banks as indicated by an R-Square of 0.65.

**Table 4.9: Regression Analysis of the Effect of Debt Collection Practices and Loan Repayment Performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **Unstandardized Beta** | **Std.Error** | **t-stat** | **Sig.** |
| Constant | 0.013 | 0.01 | 1.149 | 0.259 |
| Debt Collection Practices | 0.008 | 0.003 | 2.938 | 0.005\*\*\* |
| Coefficient of Determination | 0.65 |  |  |  |
| F-Statistics | 8.629 |  |  |  |
| Prrob(F-Statistics) | 0.005\*\*\* |   |   |   |

\*\*\* This indicates that the value is significant at 1% level of significance

**Source:** Data Analysis (2023)

Further, the results in the Table 4.9 above showed that the estimated model is significant as indicated by the reported F-statistic of 8.629 whose reported statistical significance is less than 5 percent level of significance. The regression estimates also established that debt collection practices has a positive (β=0.008) and significant relationship with the loan performance as indicated by the results in the table above.This findings is consistent with that of Jansson (2011) who indicated that an effective debt collection strategy starts with a clearly thought out credit policy and credit management tools to enforce this policy. Jansson (2011) further asserted that by making use of opportunities to make the collections processes strategically effective, operationally efficient and customer orientated, an organization can expect the collection function to add significant value to the business.

### 4.4.8 Credit Scoring and Loan Repayment Performance

The effect of credit scoring on the loan repayment performance of commercial banks was further establish using regression analysis where the results are as presented in Table 4.9.The results in indicate that the amount of variance in loan repayment performance that is explained by the variance in credit scoring by commercial banks and in particular, 50.4 percent of the variance is accounted by differences in credit scoring.

**Table 4.10: Regression Analysis of the Effect of Credit Scoring and Loan Repayment Performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **Unstandardized Beta** | **Std.Error** | **t-stat** | **Sig.** |
| Constant | 0.023 | 0.009 | 2.518 | 0.016 |
| Credit Scoring | 0.005 | 0.002 | 2.184 | 0.035\*\* |
| Coefficient of Determination | 0.505 |  |  |  |
| F-Statistics | 4.764 |  |  |  |
| Prrob(F-Statistics) | 0.035\*\* |   |   |   |

**Source:** Data Analysis (2023)

The results further indicate that the estimated regression model is significant as indicated by an F-statistic of 4.764 and whose significance is also established to be below 5 percent and thus being concluded that the model itself is significant as show in the Table 4.10. The results also further indicated that credit scoring has a positive (β=0.005) and is significantly (p=0.035) related to loan repayment performance. This is in agreement with the findings of Mester (2013) who argued that credit scores is used by lenders in monitoring loans and that the credit scores limits the amount of loans that applicants seek and in the view of Derban et al. (2012) argued that Credit scoring helps in reducing the information asymmetries between borrowers and lenders and thus allows lenders to more accurately evaluate risks and improves portfolio quality by easing adverse selection problem and lowers the cost of credit for a good borrower while increasing credit volume and improving access to credit.

### 4.4.9 Effect of Credit Risk Management Practices on Loan Repayment Performance

After carrying out correlation and univariate regression analysis it was established that organizations credit policies, risk identification process, debt collection practices and credit scoring had a positive and significant effect on Loan Repayment Performance. The results however are for the univariate analysis and thus there an optimal multivariate analysis comprising of a multiple regression model was adopted. Multivariate analysis is meant to validate the results of the observed relationship from the univariate analysis. This section therefore presents the results of the multivariate analysis.

**Table 4.11: Effect of Credit Risk Management on Loan Repayment**

**Performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **Unstandardized Beta** | **Std.Error** | **t-stat** | **Sig.** |
| (Constant) | -0.037 | 0.008 | -4.624 | 0 |
| Organizations Credit Policies | 0.001 | 0.0003 | 3.335 | 0.0011 |
| Risk Identification Processes | 0.01 | 0.004 | 2.5 | 0.0136 |
| Debt Collection Practices | 0.006 | 0.002 | 3 | 0.0031 |
| Credit Scoring | 0.004 | 0.002 | 2 | 0.0475 |
| Correlation Coefficients | 0.8627 |  |  |  |
| Coefficient of Determination | 0.745 |  |  |  |
| F-Statistics | 27.641 |  |  |  |
| Prrob(F-Statistics) | 0.000 |   |   |   |

**Source:** Data Analysis (2023)

The results presented in the Table 4.11 show that the 74.5 percent in the variance of loan repayment performance of commercial banks was jointly explained by Organizations Credit Policies, Risk Identification Process, Debt Collection Practices and Credit Scoring as indicated by a coefficient of determination of 0.745. The results also indicate that the estimated model is significant as indicated by an F-Statistic of 27.641 whose associated probability value is 0.00 which is less than 5 percent significance level.

According to CBK (2012) in its risk management guidelines to commercial banks, an effective credit policy is the one that defines the credit concentration, limits and exposures the organization is willing to assume. These policies should be well documented to enable banks to take adequate measures to ensure concentration risk is mitigated. About policies on credit assessment, there must be a clear understanding of the borrower or counter-party and adequate information must be obtained to enable a comprehensive assessment of the risk profile of the customer. Lack of adequate data and information in respect of a borrower would normally lead to poor lending decisions. The results regression results indicated that organizations credit policies has a positive (β=0.001) and significant (p=0.0011) effect on loan repayment performance of commercial banks. This is in line with the assertion of Burns et al. (2006) who indicated that firms and individuals rely on short-term debt, in particular bank overdrafts from banks and that the organization credit policies plays a very instrumental role in the choice of individuals and firms whom bank’s advance loans to, they also asserted that strict organizational credit policies thus ensured that commercial banks only lend to credit trustworthy customers. The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation (Kromschroder & Luck, 2012). Then, the departments and the employees must be assigned with responsibilities to identify specific risks. An organization can identify the frequency and severity of the risks through risk mapping which could assist the organization to stay away from high frequency and low severity risks and instead focus more on the low frequency and high severity risk. Risk identification process includes risk-ranking components where these ranking are usually based on impact, severity or dollar effects (Fuser et al., 2011). The results also show that risk identification process by commercial banks has a positive (β=0.01) and significant (p=0.0135) effect on loan repayment performance. This is consistent with the view Fuser et al. (2011) who asserted that risk identification process includes risk-ranking components and that they help in sort risk according to their importance and assists the management to develop risk management strategy to allocate resources efficiently and therefore improving their credit performance. Risk identification is vital for effective risk management.

In order to manage credit bank risks effectively, management of bank have to know what risks face the bank (Kromschroder & Luck, 2009). The collection function within financial organizations can make the difference between a good performance for the business and an excellent performance. By making use of opportunities to make the collections processes strategically effective, operationally efficient and customer orientated, an organization can expect the collection function to add significant value to the business (Jansson, 2011). In line with this, the study established that debt collection practices also had a positive (β=0.006) and significant (p=0.0032) effect on loan repayment performance of commercial banks. This findings is consistent with that of Jansson (2011) who indicated that an effective debt collection strategy starts with a clearly thought out credit policy and credit management tools to enforce this policy. Jansson (2011) further asserted that by making use of opportunities to make the collections processes strategically effective, operationally efficient and customer orientated, an organization can expect the collection function to add significant value to the business. Finally, the results above indicate that credit scoring has positive (β=0.004) and significant (p=0.0474) effect on loan repayment performance of commercial banks.

The objective of quantitative credit scoring is to develop models that accurately distinguish good applicants (likely to repay), from bad applicants (likely to default) (Derban et al, 2012). This is in line with Mester (2013) who opined that credit scoring is less costly in terms of time spent by applicants gathering the information needed to complete the application, because customers need only to provide the information used in the scoring system. This encourages applicants for smaller loan amounts and in the view of Derban et al. (2012) argued that Credit scoring helps in reducing the information asymmetries between borrowers and lenders and thus allows lenders to more accurately evaluate risks and improves portfolio quality by easing adverse selection problem and lowers the cost of credit for a good borrower while increasing credit volume and improving access to credit.

# CHAPTER FIVE

# SUMMARY OF FINDINGS,CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Overview

 This chapter presents the summary of findings conclusions and recommendations for policy as well as recommendations for further research.

## 5.2 Summary of the Main Findings

The objective of the study was to establish the effect of credit risk management on the loan repayment performance of commercial banks in Tanzania. The results regression results indicated that organizations credit policies have a positive and significant effect on loan repayment performance of commercial banks. Furthermore, results showed that risk identification process includes risk-ranking components where these ranking are usually based on impact, severity or dollar effects. The results also show that risk identification process by commercial banks has a positive and significant effect on loan repayment performance. The study established that debt collection practices also had a positive and significant effect on loan repayment performance of commercial banks. Finally, the results above indicate that credit scoring has positive and significant effect on loan repayment performance of commercial banks. The objective of quantitative credit scoring is to develop models that accurately distinguish good applicants (likely to repay), from bad applicants (likely to default).

## 5.3 Conclusions

Based on the above findings the study therefore makes the following four conclusions which are based on the objectives of the study. Organizational credit policies has a significant positive effect on loan repayment performance and thus the implication of this is that a more stringent organizational credit policies would lead to ensuring that only credit worthy customers get loans and thus the loan repayment performance is maintained in a good position. The findings are in line with assertion of Burns et al. (2006) who indicated that organization credit policies plays a very instrumental role in the choice of individuals and firms whom bank’s advance loans to Risk identification process has a positive and significant effect on loan repayment performance. The implication on this is that risk identification process ensures that before even credit is extended to the borrowers the banks first evaluate the borrower’s riskiness and therefore the risky customers are minimized. The findings concur with Fuser et al (2011) who asserted that risk identification process includes risk-ranking components and that they help in sort risk according to their importance and assist the management to develop risk management strategy to allocate resources efficiently and therefore improving their credit performance. Further, the debt collection has a significant positive effect on loan repayment performance of commercial banks. This implies that an a stringent debt collection policies pursued by banks ensures that credit advanced to customers are repaid on time and thus ensuring that loan repayment is not adversely affected as a result of debt accumulating due to non-repayments. This is consistent with Jansson (2011) who indicated that an effective debt collection strategy starts with a clearly thought out credit policy and credit management tools to enforce this policy.

Finally, credit scoring has a positive significant effect on loan repayment. This therefore implies that credit scoring is an essential element that commercial banks and other organizations should pursue as it is linked to loan repayment performance. This is in agreement with the findings of Mester (2013) who argued that credit scores is used by lenders in monitoring loans. This reduces monitoring costs and allows banks to make loans outside their branch footprints, thereby reducing the cost of lending.

## 5.4 Recommendations

From the above findings and conclusions the study makes the following recommendations. First, the study recommends that companies and/or firms should have stringent credit appraisal techniques if it is to ensure that their profitability or loan repayment performance is not adversely affected resulting from poor screening of debtors. The firms should therefore adopt credit policies that would help improve prudential oversight of asset quality and to establish a set of minimum standards that should be applied before credit is advanced to customers. Further, as borrower selection is the key to successful lending, banks should focus on the selection of true borrower. But at the same time it must be taken into account that right borrower selection does not mean that banks have to adopt conservative lending policy but rather ensure that the seek to adopt knowing the customers so as to ascertain the true purpose of the loan as this would ensure that care is taken so that good borrowers are not discarded due to strict adherence to the lending policy.

The study also recommends that companies and/or firms should also adopt credit monitoring and scoring. For instance, at the branch level credit department must be adequately capable of collecting the correct and relevant information and the financial statements quickly and precisely. It is also important that credit officers be skilled enough to understand the manipulated and distorted financial statements.

To ensure effective monitoring, monitoring of credit should be conducted at regular interval to ensure that the borrower is properly maintaining the credit and utilizing the borrowed money effectively. It is also recommended that banks and any other credit lending organization should have a stringent debt collection policy as the findings indicate that debt collection practices have a significant impact on the loan repayment performance of commercial banks. Therefore the credit committees at all levels must work in co-ordination in order to ensure that credit is collected in a timely manner.

## 5.5 Limitations of the Study

Due to unavailability of information, the study didn’t include all 34 commercial banks but rather concentrated on 34 banks. The Researcher also faced financial constraints and thus the limited resources also contributed to the researcher narrowing the research to 34 commercial banks. The study was limited to the banking sector only having in mind the bigger banking and financial institutions industry in the country and the challenges facing the service industry. The data used was only from those organizations whose information is available in public domain and from their website.

5.6 Areas for Future Research

 This study could be further developed by including more independent variables to the regression model and increasing the sample size. The variables would help improve the results of the study since it would include all the other factors that affect the profitability of the banks. The increased sample size would give a better representation of the banking sector.

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# APPENDICES

**Appendix 1: Questionnaires**

**Dear respondent,**

I, **Raphia Semboja** a student of the Open University of Tanzania pursuing Masters of Business Administration (MBA),as part of my academic curriculum I am conducting a research to Assess the Influence of Risk Management Practices on Loan Repayment Performance for Commercial Banks in Tanzania. I hope to get relevant information from you as a stakeholder in matters that are important for this study. The study is solely for academic purposes and the information given will be treated with strict confidentiality. I therefore, humbly request you to spare some time and answer the following questions. Thank you very much for your understanding. You are supposed to answer the questions according to their requirements.

**Question:**

Kindly rate the level of agreement with the following statement about risk management variables on loan repayment performance adopted by your bank. 1=strongly disagree, 2 = disagree, 3= neutral, 4 = agreed, 5= strongly agree circle the required attribute.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Organizational Credit Policies (X1)** | **Strongly Disagree (1)** | **Disagree(2)** | **Neutral (3)** | **Agree (4)** | **Strongly Agree (5)** |
| 1. Transparency and communication |   |   |   |   |   |
| 2. Confidence in fairness and consistency |   |   |   |   |   |
| 3. Competitiveness of interest rates |   |   |   |   |   |
| 4. Alignment with financial needs |   |   |   |   |   |
| 5. Satisfaction with loan terms |   |   |   |   |   |
| **Risk Identification Practices (X2)** |  |  |  |  |  |
| 1. Effectiveness in risk identification |   |   |   |   |   |
| 2. Use of relevant and up-to-date info |   |   |   |   |   |
| 3. Confidence in risk assessment tools |   |   |   |   |   |
| 4. Communication of risks to borrowers |   |   |   |   |   |
| 5. Response to changes in economic conditions |   |   |   |   |   |
| **Debt Collection Practices (X3)** |  |  |  |  |  |
| 1. Fairness and ethics |   |   |   |   |   |
| 2. Clarity in information about consequences |   |   |   |   |   |
| 3. Responsiveness to individual circumstances |   |   |   |   |   |
| 4. Effectiveness in communication |   |   |   |   |   |
| 5. Satisfaction with flexibility and options |   |   |   |   |   |
| **Credit Scoring (X4)** |  |  |  |  |  |
| 1. Confidence in accuracy |   |   |   |   |   |
| 2. Inclusion of diverse factors |   |   |   |   |   |
| 3. Communication of impact on loan approval |   |   |   |   |   |
| 4. Transparency of credit scoring process |   |   |   |   |   |
| 5. Differentiation of risk levels |   |   |   |   |   |
| **Loan Repayment Performance (Y)** |  |  |  |  |  |
| 1. Satisfaction with performance |   |   |   |   |   |
| 2. Contribution to positive outcomes |   |   |   |   |   |
| 3. Management and minimization of defaults |   |   |   |   |   |
| 4. Confidence in effectiveness of strategies |   |   |   |   |   |
| 5. Likelihood to recommend services based on performance |   |   |   |   |   |

**Thank you for your Participation**

**Appendix 2: LIST OF FULLY FLEDGED COMMERCIAL BANKS IN TANZANIA**

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **NAME OF BANK** | **CONTACT ADDRESS/ WEBSITE/E-MAIL** | **PHYSICAL LOCATION OF HEAD OFFICE** |
|  |  | P. O. Box 95068, | Kijitonyama / Opst. Kijiji cha Makumbusho, |
| 1 | Accessbank (Tanzania) Limited | **Dar es Salaam**,Tel: +255 22 2774355 | **Dar es Salaam** |
|  |  | Fax: +255 22 2774340 |  |
|  |  | [www.accessbank.co.tz](http://www.accessbank.co.tz/) |  |
| 2 | Advans Bank (Tanzania) Limited | P. O. Box 34459,**Dar es Salaam**,Tel: +255 22 2401174/6Fax: +255 2401175[www.advansbanktanzania.com](http://www.advansbanktanzania.com/) | Manzese Darajani.**Dar es Salaam** |
| 3 | BancABC(African Banking Corporation (Tanzania | P. O. Box 31,**Dar es Salaam**,Tel: 2111990/2119302-3 Fax: +255 22 2112402[www.bancabc.co.tz](http://www.bancabc.co.tz/) | 5th & 6th Floor, Uhuru heights Bibi Titi Mohamed Road,**Dar es Salaam** |
| 4 | Akiba Commercial Bank Limited | P. O. Box 669,**Dar es Salaam**,Tel: +255 22 2118344Fax: +255 22 2114173[www.acbtz.com](http://www.acbtz.com/) | Amani Place, Ohio Street**Dar es Salaam** |
|  |  | P. o. Box. 9771, | Golden Jubillee building , Garden/Ohio Street |
| 5 | Amana Bank Limited | **Dar es Salaam**Tel: +255 22 2129007/8 | **Dar es Salaam** |
|  |  | Fax: +255 22 2129013 |  |
|  |  | [www.amanabank.co.tz](http://www.amanabank.co.tz/) |  |
| 6 | Azania Bank Limited | P. O. Box 9271,**Dar es Salaam**,Tel: +255 22 2412025-7Fax: +255 22 2412028[www.azaniabank.co.tz](http://www.azaniabank.co.tz/) | Mawasiliano Towers, Sam Nujoma Road**Dar es Salaam** |
| 7 | Bank M (Tanzania) Limited | P. o. Box 96,**Dar es Salaam**,Tel: +255 22 2127825Fax: +255 22 2127824[www.bankm.co.tz](http://www.bankm.co.tz/) | Barack Obama Avenue**Dar es Salaam** |
| 8 | Bank of Africa (Tanzania) Limited | P. O. Box 3054,**Dar es Salaam**,Tel: +255 22 2113593Fax: +255 22 2116422[www.boatanzania.com](http://www.boatanzania.com/) | Kivukoni/Ohio Street**Dar es Salaam** |
| 9 | Bank of Baroda (Tanzania) Limited | P. O. Box 5356,**Dar es Salaam**,[Tel: +255 22 2124472](file:///C%3A%5Ctel%5C%2B255)Fax:+255 22 2124457[www.bankofbaroda.com](http://www.bankofbaroda.com/) | Sokoine Drive/Ohio Street**Dar es Salaam** |
| 10 | Bank of India (Tanzania) Limited | P. O. Box 7581,**Dar es Salaam**,Tel: +255 22 213 5358Fax: +255 22 2135363[www.boitanzania.co.tz](http://www.boitanzania.co.tz/) | Maktaba Street**Dar es Salaam** |
| 11 | Barclays Bank (Tanzania) Limited | P. O. Box 5137,**Dar es Salaam**,[Tel: +255 22 2129381](file:///C%3A%5Ctel%5C%2B255)Fax :+255 22 2129757[www.africa.barclays.com](http://www.africa.barclays.com/) | Barclays House, Ohio Street, **Dar es Salaam** |
| 12 | Citibank (Tanzania) Limited | P. O. Box 71625,**Dar es Salaam**,Tel: +255 22 2117575,Fax: +255 22 2113910[www.citibank.co.tz](http://www.citibank.co.tz/) | Peugeot House, 36 upanga Road.**Dar es Salaam** |
| 13 | Commercial Bank of Africa (Tanzania) Limited | P. O. Box 9640,**Dar es Salaam**,Tel: +255 22 2130113Fax :+255 22 2130116[www.cba.co.tz](http://www.cba.co.tz/) | Amani Place, Ohio Street,**Dar es Salaam** |
| 14 | CRDB Bank Plc. | P. O. Box 268,**Dar es Salaam**Tel: +255 22 2117441-7Fax: +255 22 2116714[www.crdb.com](http://www.crdb.com/) | Azikiwe Street**Dar es Salaam** |
| 15 | DCB Commercial Bank Plc | P. O. Box 19798,**Dar es Salaam**Tel: +255 22 2172200/1Fax: +255 22 2172199[www.dcb.co.tz](http://www.dcb.co.tz/) | Magomeni, Morogoro Road,**Dar es Salaam** |
| 16 | Diamond Trust Bank (Tanzania) Limited | P. O. Box 115,**Dar es Salaam**,Tel: +255 22 2114888Fax: +255 22 2114210[www.dtbafrica.com](http://www.dtbafrica.com/) | Harbor View Towers Samora Avenue**Dar es Salaam** |
|  |  | P. O. Box 20500,**Dar es Salaam**, | Sokoine Drive**Dar es Salaam** |
| 17 | Ecobank (Tanzania) Limited | Tel: +255 22 2137447Fax: +255 22 2137446[www.ecobank.com](http://www.ecobank.com/) |  |
| 18 | Exim Bank (Tanzania) Limited | P. O. Box 1431,Dar **es Salaam**,Tel: +255 22 2293400Fax: +255 22 2119737[www.eximbank-tz.org](http://www.eximbank-tz.org/) | Exim Tower, Ghana Avenue**Dar es Salaam** |
| 19 | Equity bank (Tanzania) Limited | P. O. Box 110183,**Dar es Salaam**,Tel: +255 78 6985500+255 22 2865188[www.equitybank.co.tz](http://www.equitybank.co.tz/) | Third floor, Golden Jubilee, road**Dar es Salaam** |
| 20 | FBME Bank (Tanzania) Limited | P. O. Box 8298,**Dar es Salaam**,Tel: +255 22 2126000Fax +255 22 2126006[www.fbme.com](http://www.fbme.com/) | Kinondoni road**Dar Es Salaam** |
| 21 | First National Bank (Tanzania) Limited | P. O. Box 72290,**Dar es Salaam**,Tel +255 768 989000/41Fax +255 768 989010/44[www.fnbtanzania.co.tz](http://www.fnbtanzania.co.tz/) | 2nd Floor – FNB House, Ohio Street,**Dar es Salaam** |
| 22 | Habib African Bank Limited | P. O. Box 70086,**Dar es Salaam**, [Tel: +255 22 211109](file:///C%3A%5Ctel%5C%2B255)Fax: +255 22 2111014[www.habib.com](http://www.habib.com/) | Zanaki/Indira Gandhi Street**Dar es Salaam** |
| 23 | I & M Bank (Tanzania) Limited | P. O. Box 1509,**Dar es Salaam**,Tel: +255 22 2110212Fax:+255 222118750[www.imbank.com](http://www.imbank.com/) | Maktaba Street**Dar es Salaam** |
| 24 | International Commercial Bank (Tanzania) Limit | P. O. Box 9363,**Dar es Salaam**,[Tel: +255 22 2150361/2](file:///C%3A%5Ctel%5C%2B255)Fax: +255 22 2151591[www.icbank.com](http://www.icbank.com/) | Vijana House; Fire station ,**Dar es Salaam** |
|  |  | P. O. Box 804, | Harambee Plaza, Ali Hassan Mwinyi/Kaunda Drive |
| 25 | KCB Bank (Tanzania) Limited | **Dar es Salaam**,Tel: +255 22 2664388 | **Dar es Salaam** |
|  |  | Fax: +255 22 2115391 |  |
|  |  | [www.kcb.co.ke](http://www.kcb.co.ke/) |  |
| 26 | Mkombozi Commercial Bank Plc | P. O. Box 38448,**Dar es Salaam**, Tel: 2137806/7Fax: +255 22 2137802[www.mkombozibank.com](http://www.mkombozibank.com/) | St. Joseph Cathedral, Mansfield Street;**Dar es Salaam,** |
| 27 | National Microfinance Bank Plc | P. O. Box 9213,**Dar es Salaam**,Tel: +255 22 2161000,Fax: +255 22 2161361[www.nmbtz.com](http://www.nmbtz.com/) | NMB House, Jamhuri/Azikiwe Street**Dar es Salaam** |
| 28 | NBC Bank Limited | P. O. Box 1863,**Dar es Salaam**,Tel: +255 22 2113914Fax: +255 22 2112887www.nbcltd@nbctz.com | Sokoine Drive**Dar es Salaam** |
| 29 | NIC Bank (Tanzania) Limited | P. O. Box 20268,**Dar es Salaam**,Tel: +255 22 2118625Fax:+25522 2116733[www.sfltz.com](http://www.sfltz.com/) | Harbor View Towers,Samora Avenue**Dar es Salaam** |
| 30 | Peoples’ Bank of Zanzibar Limited | P. O. Box 1173,**Zanzibar,**Tel: +255 24 2231118-20Fax: +255 24 2231121[www.pbzltd.com](http://www.pbzltd.com/) | Darajani,**Zanzibar** |
| 31 | Stanbic Bank (Tanzania) Limited | P. O. Box 72647,**Dar es Salaam**,Tel: +255 22 2666430Fax: +255 22 2666301[www.stanbicbank.co.tz](http://www.stanbicbank.co.tz/) | Ali Hassan Mwinyi/Kinondoni Road**Dar es Salaam** |
| 32 | Standard Chartered Bank (Tanzania) Limited | P. O. Box 9011,**Dar es Salaam**,Tel: +255 222113785Fax: +255 22 2113770[www.standardchartered.com](http://www.standardchartered.com/) | Garden Avenue/Shaaban Robert Street**Dar es Salaam** |
| 33 | United Bank for Africa (Tanzania) Limited | P. O. Box 80514,**Dar es Salaam**;Tel: +255 22 2763452/3Fax:+255 22 2863454[www.ubagroup.com](http://www.ubagroup.com/) | Nyerere Road**Dar es Salaam** |
| 34 | UBL Bank (Tanzania) Limited | P. O. Box 5887,**Dar es Salaam**Tel: +255 22 5510 200 | 26 Mkwepu/Kaluta Street**Dar es salaam** |