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INTRODUCTION
REVIEW OF LITERATURE
NEED/IMPORTANCE OF THE STUDY
STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
REFERENCES
APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–23

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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ANALYSIS USING CAMEL MODEL: EVIDENCE FROM LARGE COMMERCIAL BANKS IN TANZANIA

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ABSTRACT

The health of any nation is closely related to the soundness of its banking system which is the result of effective and efficient management complying with rules, regulations and policies of the government and sound financial management principles. This paper set out to analyse the soundness of large commercial banks operating in Tanzania for the period of 2006-2011. The aim is to apply CAMEL approach to evaluate the capital adequacy, Asset quality, Management efficiency, Earnings and Liquidity. The application of CAMEL model to major Tanzania financial institutions allows us to obtain a ranking of banks. We applied equity to total asset ratio for the analyse of capital adequacy, loan and advances to total asset for the analyse of assets quality, return on equity for analysing management quality, return on assets to analyse earnings and liquidity asset to total assets ratio to analyse liquidity of banks.

KEYWORDS

CAMEL approach, large banks, Tanzania.

INTRODUCTION

Bank in today's world play a very important role in maintaining the stability and the economy of the nation, apart from the main function of just being used for deposit of money it acts as an intermediary to serve the economy. Therefore, the health and soundness of banks is very crucial to ensure economic development of any country. A strong financial system with competitive environment promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services. Banking system as a main engine of financial system plays a very important role in the economic life of the nation.

In the last two decades, The Tanzanian banking sector has gone through series of financial reforms which includes liberalization of the business to foreign banks, privatization and listing bank shares, these reforms has come with positive allowing diversifications into intermediary business beyond the traditional deposit and loan activities. In the meantime, the changing structures of the banking sector and the favorable economic condition in the recent decade have promoted the development of the commercial banks.

In a developing country such as Tanzania where the capital market is still underutilized the banking system as a whole play a crucial role in the progress of economic development like heart in the economic structure and the Capital provided by it for industry, agriculture and allied activities is like blood in it. .A profitable and sound banking sector is at a better point to endure adverse upsets and adds performance in the financial system (Athanasoglou et al., 2008)

PROBLEM STATEMENT

Banking sector in Tanzania is one of the rapidly expanding industries. Every bank is trying to enhance overall performance and maximize value to be ready to absorb any shocks and to obtain competitive advantage and sustainability in financial system. This study will identify and evaluate the financial ratios that contribute to the financial soundness and health of large commercial banks that operate in Tanzania.

AIM OF THE STUDY

The aim of this research is to evaluate and rank the financial soundness of large commercial banks operating in Tanzania by using financial ratio from CAMEL rating framework for a period of 2006 to 2011.

OBJECTIVES OF THE STUDY

Primary objective of this study is to give the answers of following questions.

1. What are the financial ratios from CAMEL framework of large commercial banks in Tanzania from 2006 to 2011?
2. What are the position of the banks in terms of ranking of the best performer and the least performer of large commercial banks in Tanzania from 2006 to 2011?

SIGNIFICANCE OF THE STUDY

This study is not only helpful for the bank managers but also valuable for other stakeholders such as depositors, government, investors and other financial institutions.

Health and soundness of banks is important to investors, depositor's, regulators as they are interested on how their interest is being protected. For Regulators of banks are interested in protection the banking system and they are protecting the confidence of public. Other stakeholder can also get benefit from this study to know that how banks are performing and decide which bank is suitable for investing.

From the managerial perspectives, it is important to evaluate bank performance especially large ones in order to be able to detect and control problems to avoid bank failure in the long run, the good news also in evaluating the banks and compare with others helps in the determining ratios associated with success and competitive advantage to outline the actions that can move forward the performance of banks.

LITERATURE REVIEW

Many scholars from different countries have analyzed the soundness of banks using different kind of ratio and come out with different kind of results. Kumbirai and Webb (2010) examined the performance of South Africa's five largest commercial banks for the year 2005 – 2009. The study used financial ratios to measure the profitability, liquidity and credit quality. The results revealed an improvement in the bank performance in terms of profitability, liquidity, and credit quality from 2005 to 2007.

In another study done by Gupta and Kaur (2008) using CAMEL model they examined the performance of banks in India and ranking them., also in similar manner Gupta (2008) analyzed the performance of 30 Indian private banks using CAMEL Model for the period 2003-2007 and gave rating to top five and bottom five banks. Jha and Hui (2012) in Nepal using 18 commercial banks applied CAMEL to compare the financial performance of different structured banks. The study involved was from the years 2005 - 2010. The analysis was based mainly on the descriptive financial analysis to describe, measure, compare, and classify the financial situations. The results revealed that ROA of public sector banks were higher than those of joint venture and domestic public banks. Moreover, the values determined for the financial ratios discovered that joint venture and domestic public banks were also not so strong in Nepal to manage the possible large-scale shock to their balance sheet.

On the other hand, Mishra (2012) conducted a similar kind of study to analyzed the performance of different Indian public and private sector banks over the decade 2000-2011 using CAMEL approach and found that private sector banks are at the top of the list, with their performances in terms of soundness being the best. This also can be shown in Mishra and Aspal (2013) evaluated the performance and financial soundness of State Bank Group using CAMEL approach and rated different banks using through Capital adequacy, Asset quality Management efficiency, Earning Quality, and Liquidity.

In more recently study Ferrouhi (2014) analyzed the performance of major Moroccan financial institutions for the period 2001-2011 using CAMEL approach. financial ratio was used for each of capital adequacy, assets quality, management quality, earning ability, and liquidity position measures. The results from the study measurements on six Moroccan institutions indicated that all the six banks did well over the period of study. Furthermore, findings were based on ranking the average of each ratio, showed that some banks performed better than others.

In India a study was conducted by Gupta (2014) to examine the performance of public sector banks. The study adopted CAMEL approach for a five-year period 2009-2013. The results showed that there is a statistically significant difference between the camel ratios of all the public sector banks in India. Therefore, the overall performance of public sector banks is different.

RESEARCH METHODOLOGY

The purpose of this paper is to analyse the performance of large banks commercial banks operating in Tanzania for the period 2006-2011 using CAMEL approach, to evaluate the bank's capital adequacy, asset quality, management, earnings and liquidity and to rank the banks. To do this, we first define different ratios used to evaluate banks capital adequacy, asset quality, management, earnings and liquidity.

According to literature review above, we use in the present study following ratios to evaluate capital adequacy, asset quality, management, earnings and liquidity:

CAPITAL ADEQUACY

It is a measure of a bank's financial strength, the ability of the banks to provide capital when the need arises in terms of its ability to withstand operational and abnormal losses. Adequate bank capital show ability of bank to handle losses and to reduce bank risks by acting as a buffer (Zhong, 2007). It expresses the proportion of total assets financed by the bank's equity capital. High equity to asset ratio reflects the low need to external funding. The ratio used for this study is

Capital Adequacy =Total equity (TE) / total assets (TA) (1)

ASSET QUALITY

Asset of banks mainly composed of loans and advances as the main source of income and are expected to have a positive impact on bank performance. The ratio used It is the ratio of Total Loan, advances and financing to Total Asset, this ratio determines the degree of use of asset in term of Loan. As Loan is the main source of bank's income and is also expected to have positive impact on profit, the higher this ratio, the more profitable the bank is in a stable economy and the worst on the other hand when the borrowers fall to pay their promises.

Other things constant, the more deposits are transformed into loans, the higher the interest margin and profits. to reduce non-performing assets and extent of weak assets can be analyzed to assess bank's asset quality (Brickwork, 2009).

Asset Quality=Total loans and advances (TL&A) / total assets (TA) (2)

MANAGEMENT

This measures the capability of the management of a bank to position its resources and utilize the facilities in the bank productively and in the process reduce costs and maximize profit It is a measure of the profitability of a bank. In calculation of this ratio, Profit after tax is expressed as a percentage of equity.

ROE= profit after tax/total equity (3)

EARNINGS

This is measured by return on asset (ROA) ratio exposes the earning capacity of profit by using total assets. The higher ratio indicates the efficient use of assets to generate more profit. The low ratio might indicate that a bank has invested too much money in its assets.

ROA= profit after tax/total Asset (4)

LIQUIDITY

This is the ability of banks to withstand deposit withdraw and have adequacy liquidity sources for use without affecting the operation of the bank the availability of assets readily to be turn into cash without undue loss, access to money markets and other sources of funding, the level of diversification of funding sources. The higher this ratio is, the stronger is a position of a bank to absorb liquidity shocks.

Liquidity=Liquidity asset/total assets (5)

RESULTS AND DISCUSSION

CAPITAL ADEQUACY

TABLE - 1: TOTAL EQUITY TO TOTAL ASSET

serial	Banks	2006	2007	2008	2009	2010	2011	AVERAGE	Rank
1	Barclays	8	11	10	12	12	10	9.857	4
2	Citibank	9	14	41	24	21	15	15.71	1
3	CRDB	8	9	10	11	10	9	9	6
4	Exim	8	8	13	11	11	11	9.714	5
5	NBC	10	11	12	13	10	10	10.286	3
6	NMB	11	11	12	12	11	13	10.857	2
7	Stan Chart	7	13	9	11	11	11	9.714	5
8	Stanbic	10	8	11	11	11	11	9.714	5

Source: compiled Annual reports from 2006-2011

FIGURE - 1: TOTAL EQUITY TO TOTAL ASSETS

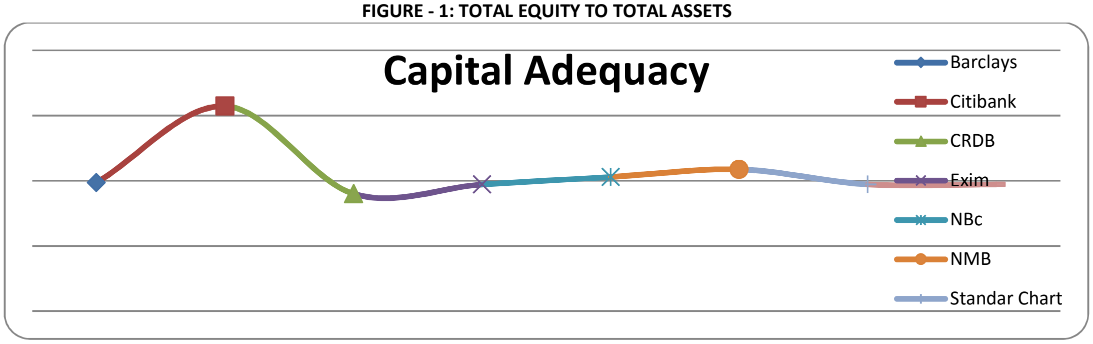

Table-1 and figure -1 are representing the bank's Capital adequacy of commercial banks for the period of 2006-2011. The results of figure-1 clearly show that Citibank has larger capital adequacy than other commercial banks. From the above table we can see that Citibank Bank's capital adequacy ratio is (15.714) which is highest amongst so it ranks number one among the selected 8 large bank followed by NMB with (10.857) and NBC in the third position (10.286) and CRDB bank's capital adequacy ratio is (9) which is the lowest. According to above CAR most of the private banks are performing well better compare than public bank.

ASSET QUALITY RATIO

TABLE - 2: LOAN AND ADVANCE TO TOTAL ASSET

serial	Banks	2006	2007	2008	2009	2010	2011	AVERAGE	RANKS
1	Barclays	59	46	54	54	43	42	43.429	3
2	Citibank	14	21	43	31	18	19	21.714	8
3	CRDB	45	51	58	51	49	53	44.714	2
4	Exim	46	43	42	44	48	50	39.857	5
5	NBc	44	48	59	52	48	45	43.143	4
6	NMB	17	30	41	40	41	52	32.429	7
7	Stan Chart	78	51	51	41	43	51	45.857	1
8	Stanbic	47	26	41	36	50	59	37.857	6

Source: compiled Annual reports from 2006-2011

FIGURE - 2: LOAN AND ADVANCE TO TOTAL ASSET

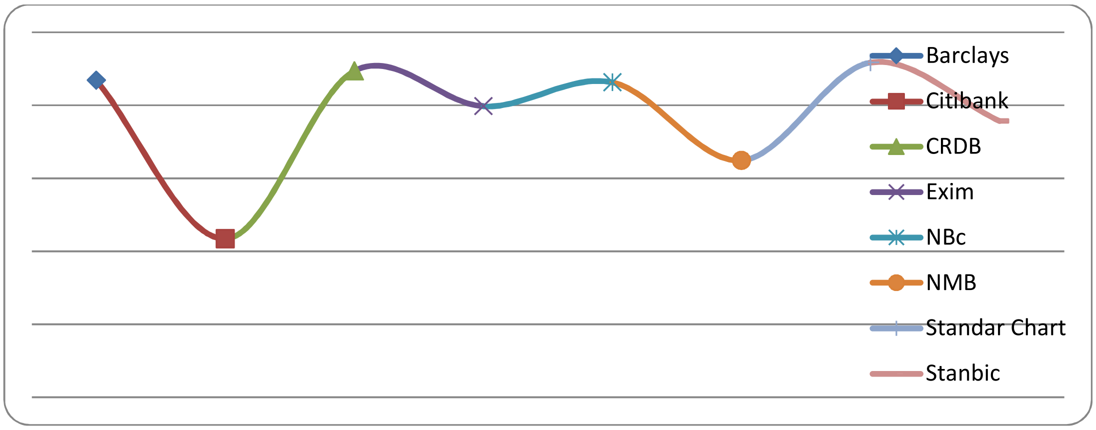

Table-2 and figure -2 are representing the Asset quality of commercial banks for the period of 2006-2011. The higher the ratio the more the risk the bank as it express high credit level and this can affect profit is as loans are the source of banks income. The results clearly reveal that Stanchart (45.857) bank limited have larger ratio of loan and advance to total asset than other commercial banks followed by CRDB (44.714) that is Barclays (43.429) banks. Citibank is the one with the lowest (21.714) loan advance to total asset than all commercial banks

MANAGEMENT EFFICIENCY

TABLE - 3: PROFIT AFTER TAX TO TOTAL EQUITY

serial	Banks	2006	2007	2008	2009	2010	2011	AVERAGE	RANK
1	Barclays	10.4	25.9	0.2	-8	-6.1	0.3	4.1	8
2	Citibank	45.7	36.4	26.3	25.5	21.3	18	25.6	3
3	CRDB	38.2	42.9	33	26.3	21.6	15.2	26.171	2
4	Exim	36.8	32.8	22.8	22.4	22.6	17.1	22.929	5
5	NBC	32.2	42.3	32.5	27.1	1.4	7.7	21.314	6
6	NMB	38.5	36.4	34.6	27	25.5	27.9	27.986	1
7	StanChart	18.8	52.9	22.4	25.5	18.9	28.3	24.686	4
8	Stanbic	-18.7	21.2	22.2	22.3	14	19.7	12.386	7

Source: compiled Annual reports from 2006-2011

FIGURE - 3: PROFIT AFTER TAX TO TOTAL EQUITY

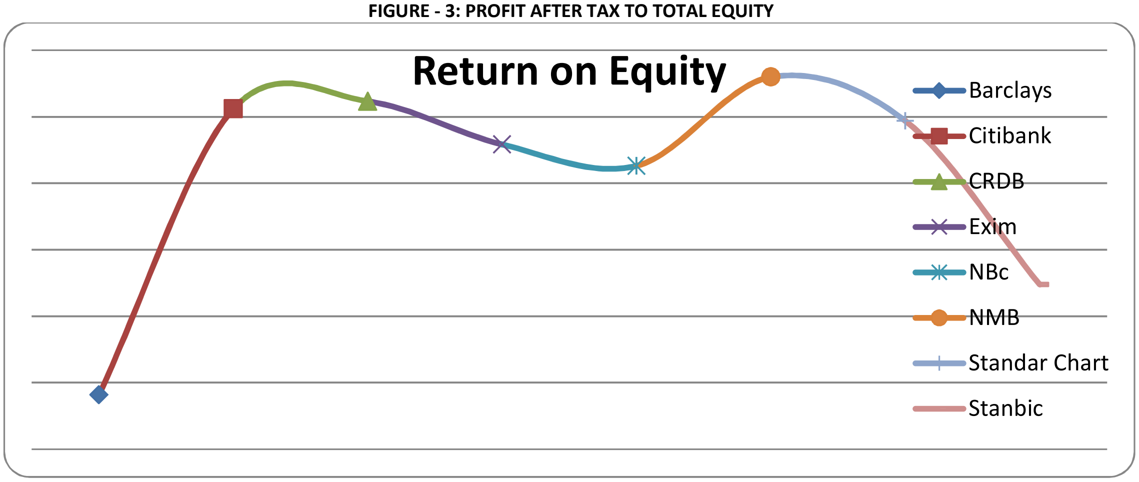

Table-3 and figure-3 above are representing the bank management efficiency of commercial banks for the period of 2006-2011. Profit after tax is expressed as a percentage of equity. The results clearly indicate that NMB has the highest return to total equity than other commercial banks operating in Tanzania which is (27.986), followed by CRDB (26.171) and Citibank (25.6) on third position. Barclay's bank has the lowest return on equity with (4.1) than all commercial banks.

EARNING ABILITY

TABLE - 4: PROFIT AFTER TAX TO TOTAL ASSET

serial	Banks	2006	2007	2008	2009	2010	2011	AVERAGE	Rank
1	Barclays	0.8	2.6	0	-0.9	-0.7	0	1.114	8
2	Citibank	3.9	4.1	4.6	5.7	4.7	3.1	4.586	1
3	CRDB	2.9	3.7	3.1	2.8	2.3	1.5	3.186	4
4	Exim	3	2.7	2.5	2.7	2.5	1.9	3.043	5
5	NBC	3.3	2.7	3.8	3.4	0.2	0.8	2.886	6
6	NMB	4.4	4	3.8	3.1	2.9	3.4	3.943	2
7	Stan Chart	1.3	5.4	2.4	2.5	2.1	3.1	3.257	3
8	Stanbic	-1.9	1.9	2.1	2.4	1.6	2.2	2.043	7

Source: compiled Annual reports from 2006-2011

FIGURE - 4: PROFIT AFTER TAX TO TOTAL ASSET

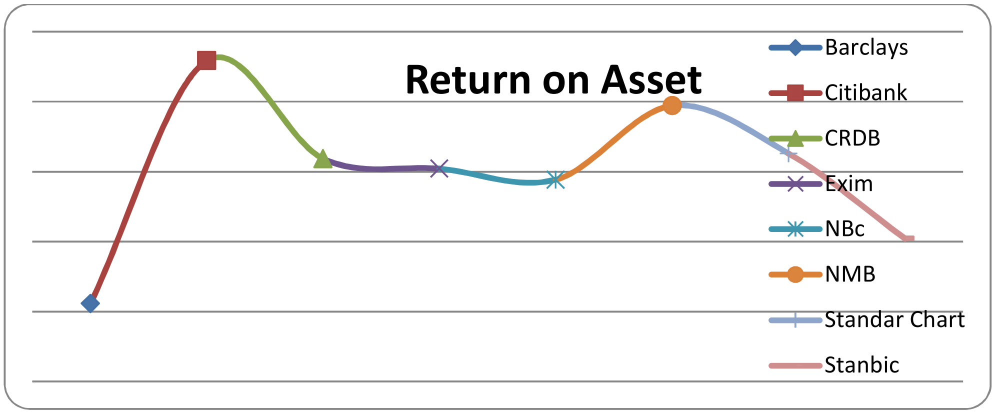

Table -4 and figure-4 are representing the bank earning ability of commercial banks for the period of 2006-2011. The results show that Citibank has the highest return to total assets than other commercial banks operating in Tanzania with return on asset of (4.586) so it ranks number one among the selected 8 large bank. The second bank is NMB with return of (3.943) the third position is Stanchart with return of (3.257) Barclay's bank has the lowest return on asset (1.114) than all commercial banks. Majority of the banks are performing well.

LIQUIDITY

TABLE - 5: LIQUIDY ASSET TO TOTAL ASSET

serial	Banks	2006	2007	2008	2009	2010	2011	AVERAGE	Rank
1	Barclays	40	48	39	37	50	52	38.857	6
2	Citibank	81	69	46	55	72	71	57.143	1
3	CRDB	53	46	40	45	47	43	40	5
4	Exim	48	50	51	45	44	42	40.857	4
5	NBC	52	47	36	41	43	45	38.571	7
6	NMB	80	66	56	57	56	44	52.1429	2
7	StanChart	12	40	38	49	48	48	34.429	8
8	Stanbic	48	71	55	60	42	37	45.57143	3

Source: compiled Annual reports from 2006-2011

FIGURE - 5: LIQUIDY ASSET TO TOTAL ASSET

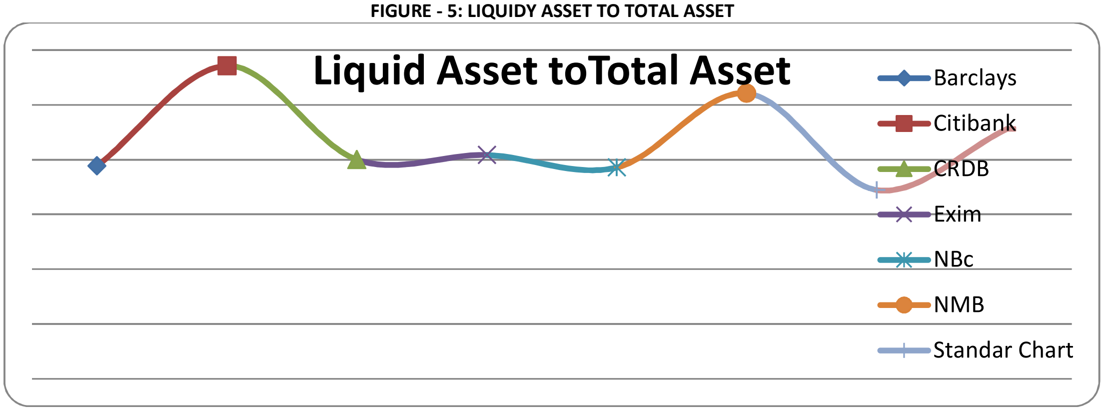

Table-5 and figure-5 are representing the bank Liquidity ability of commercial banks for the period of 2006-2011. The results reveals that Citibank has the highest liquidity of (57.143) than other commercial banks operating in Tanzania the second position is NMB (52.142) and Stanbic (45.571) bank in third position. Stanchart bank has the lowest liquidity ratio (34.429) than all commercial banks.

CONCLUSION

This research paper was to analyse the soundness and health of large commercial banks operating in Tanzania for the period of six years (2006-2011). Five financial ratios have been used to measure capital adequacy, Asset quality, Management quality, earnings and liquidity. The findings show that both banks are financially viable as both have used the appropriate financial ratios to become more competitive and maximizing their profits. The bank has shown highest performance. Three banks were top performers in all the financial ratios, namely Citibank, NMB and Stanbic bank.

LIMITATIONS
The research only involved largest banks operating in Tanzania. This give little room to generalize the results to all banks. There is still room to further analyse and rank different categories of commercial banks operating in Tanzania

SUGGESTIONS FOR FURTHER STUDIES
The following suggestions were made for further research based on the findings of this study. The study was done in Tanzania. Further research is encouraged to have other countries also covered to check whether the results are still the same. In future a comparison should be done between the financial performance of large medium banks and small banks that have not. The study can also add years to the gain more understanding of the soundness and health of the commercial banks.

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