

ABSTRACT

This study focused on evaluating the effects of non-performing loans on profitability of licensed community bank in Tanzania. Firstly, the study intends to examine the effects of non-performing loan ratio on community bank's profitability. Secondly, the study investigates the effects of loan to deposit ratio on community bank's profitability and thirdly, to analyze the effects of interest rate on loan on community bank's profitability. The study covered a period of 6 years from 2017 to 2022 and data were collected from three licensed community banks which were purposively selected and causality research design was used, whereby, both qualitative and quantitative approach were used to obtain the information. The study based on information asymmetric theory and modern portfolio theory which justify key causes of nonperforming loan which impact community bank profitability.

The study found that, non-performing loan ratio had negative statistical significance influence on the profitability of community bank. Also, Loan to deposit ratio had positive statistical significance influence on community bank profitability. Furthermore, interest rate on loan had a positive statistical significance which influence the community bank profitability.

The management of community banks should mainly focus on non-performing loan ratio, loan to deposit ratio and interest rate as these determines their profitability. The study used only three variables as the determinants of community bank profitability which are non-performing loan ratio, loan to deposit ratio and interest rate, thus making the results of this study to be very limited since there were many other determinants of profitability which were not included in this study. *Using* more than three determinants would have captured different factors which determine community bank profitability. A similar study should be carried out with more independent variables. The study showed that the three variables used in this study could explain only a small percentage of profitability. Therefore, several other factors should be involved in future studies.