LOAN MANAGEMENT AND FINANCIAL PERFORMANCE OF BANKING INSTITUTIONS IN RWANDA

CASE OF COGEBANQUE PLC

PERIOD: 2019-2022

By

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Thesis Submitted in Partial Fulfilment of the Academic Requirements for the Award of Master's Degree in Finance

KIGALI INDEPENDENT UNIVERSITY ULK

OCTOBER, 2023

DECLARATION

I, **IRUMVA Jean Sauveur** declare that this is my original work, has not been submitted for any award anywhere else by the student or any other person. Except where there is reference to different writers but have acknowledged through the reference.

IRUMVA Jean Sauveur

Date: ....

Signature ……………………………........

APPROVAL

I **Prof Dr AUSTIN N. Nosike** certify that this thesis has been prepared under my guidance and has been submitted with my Approval as ULK Supervisor.

Prof Dr AUSTIN N. Nosike

Date: ……./……../2023

Signature: ………………………………..

DEDICATION

To My Family

My classmates, Friends and relatives,

I dedicate this Work

ACKNOWLEDGEMENTS

I would thanks to the Almighty God which me healthy and enable me to carry out my tasks better.

I would like to thank the management, lecturers and staff of Kigali Independent University especially **Prof Dr. BALINDA RWIGAMBA** the founder of Kigali Independent University ULK for the facilitation and support in our efforts to pursue our University studies for quality education and the logistic that supported for the completion of this dissertation. especially my supervisor **Prof Dr AUSTIN N. Nosike** who gave me her time regardless of her other heavy tasks, many thanks to the COGEBANQUE PLC management and selected staff who allowed me to do my research.

I can't forget to thank my colleagues, classmates and all of you who have contributed to my studies directly or indirectly, financially or not your contribution is incomparable.

May Almighty God bless you.

IRUMVA Jean Sauveur

LIST OF ABBREVIATIONS, SYMBOLS, AND ACRONYMS

BNR : Banque Nationale du Rwanda

CAPM : Capital Asset Pricing Model

COGEBANQUE: Compagnie Generale de Banque

e : Margin of error

EAC : East African Community

FIs : Financial Institutions

Frw : Rwandan Francs

MFIs : Microfinance Institutions

MPT : Modern Portfolio Theory

n : Sample Size

N : Entire Population

NPL : Non-Performing Loans

P : Performance

P : Present

PLC : Public Limited Company

R : Regression

ROA : Return On Asset

ROE : Return on equity

ROI : Return on Investment

Rwf : Rwandan Franc

Sig. : Significance

SMEs : Small and Medium Enterprises

Std D. : Standard Deviation

UK : United Kingdom

ULK : Université Libre de Kigali

USA : United States of America

VAR : Value At Risk

% : Percentage

LIST OF TABLES

Table 4.1: Sex of respondents 52

Table 4.2: Age of Respondents 53

Table 4.3: Marital status of the respondents 54

Table 4.4: Educational level of the respondents 54

Table 4.5: Time period of respondents being employee of Cogebanque Plc 55

Table 4.6 Level of agreement on client appraisal in Cogebanque Plc 56

Table 4.7. Level of agreement on credit risk control in Cogebanque Plc 58

Table 4.8. Level of agreement on collection policy of Cogebanque Plc 60

Table 4.10: Evolution of deposits in COGEBANQUE PLC/main branch 64

Table 4.14: Evolution of deposits in COGEBANQUE PLC/main branch 68

Table 4.15: Evolution of loan distribution in COGEBANQUE PLC (amount in Rwf) 68

Table 4.16: Evolution on net operating income in COGEBANQUE PLC 69

Table 4.17: Evolution of net profit in COGEBANQUE PLC (amount in Rwf’000) 70

Table 4.18: Net profit margin ratio (in Rwf’000) 72

Table 4.19: Return on Equity (000) 73

Table 4.20: Trend of Return on assets (in Rwf’000) 74

Table 4.21: Correlations between variables 74

Table 4.22: Model Summary 75

Table 4.23: ANOVA 76

Table 4.24: Coefficients 77

TABLE OF CONTENTS

DECLARATION .... **ii**

APPROVAL .... **iii**

DEDICATION .... **iv**

ACKNOWLEDGEMENTS .... **v**

LIST OF ABBREVIATIONS, SYMBOLS, AND ACRONYMS .... **vi**

ABSTRACT .... **xv**

CHAPTER ONE: GENERAL INTRODUCTION **1**

1.1 Background to the Study 1

1.2 Problem Statement 4

1.3. Objective of the study 5

1.3 General Objective 5

1.4 Specific Objectives 5

1.5 Research Questions 5

1.6. Hypotheses 5

1.7 Scope of the study 5

1.7.1 Geographical Scope 5

1.8 Significance of the study 6

1.9. Structure of the Study 7

CHAPTER TWO: LITERATURE REVIEW **8**

2.1. Theoretical Literature 8

2.1.2. Management 8

2.1.3 Credit management 9

2.1.2 Financial Performance 10

2.2 Theoretical Review 10

2.3. Literature related loan management....14

2.3.1. Bank lending process and credit methodology 14

2.3.1.1. Credit Information....15

2.3.1.2. Credit Assessment....17

2.3.1.3. Credit Approval....22

2.3.2. Elements of effective credit management policy....22

2.3.3. Types of loans 25

2.3.4. Performing loans 27

2.3.5. Non-Performing Loans (NPLs)....28

2.3.5.1. Loan loss provision 30

2.3.5.2. Credits monitoring and recovery....30

2.3.5.2.1. Credits monitoring 30

2.3.6. Literature related financial performance....34

2.3.6.1. Indictors of performance of banking institutions....35

2.3.6.1. Gross Margin....36

2.3.6..2. Operating Margin....36

2.3.6.3. Return on Assets 36

2.3.6..4. Return on Equity 37

2.3.6.5. Return on Investment 37

2.4 Empirical Review 37

2.4.1. Client Appraisal analysis and financial performance of commercial banks 39

2.4.2. Credit Risk Control and financial performance of commercial banks 41

2.5 Conceptual Review 44

2.5 Research Gaps 44

CHAPTER THREE: RESEARCH METHODOLOGY 46

3.1. Research Design 46

3.2. Target Population 46

3.3 Sampling size 46

3.4 Data Collection Techniques and Tools 47

3.4.1. Questionnaire 47

3.4.3: Interview 48

3.4.1. Documentary Technique 48

3.5. Validity and reliability tests 48

3.6. Data processing 49

3.6.1. Editing 49

3.6.2. Coding 49

3.6.3. Tabulation 49

3.7. Methods of data analysis 50

3.7.1. Analytical method 50

3.7.2. Historical method 50

3.7.3. Statistical method 50

3.7.4. Synthetically method 51

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION 52

4.1. Respondent identification 52

4.1.1. Respondent gender 52

4.1.2. Age of respondents 53

4.1.3. Marital status of the respondents 53

4.1.4. Educational level of the respondents 54

4.1.5. Experience of respondents 55

4.2. To assess the effect of Client Appraisal analysis and financial performance of Cogebanque Plc 56

4.2.3 To determine the effects of Credit Risk Control and financial performance of Cogebanque Plc 57

4.2.4 To establish the effect between Lending policy and financial performance of Cogebanque Plc 59

4.2.5. Effectiveness of loan management offered by COGEBANQUE PLC 62

4.2.5.1.Trend of loans of COGEBANQUE PLC 62

4.2.5.2. Evolution of deposits in COGEBANQUE PLC 63

4.2.5.3. Comparison between deposit and loan given by COGEBANQUE PLC 64

4.2.5.4. Loan recovery 65

4.2.5.5. Non-Performing Loans to total loans 66

4.3. Analysis of indicators of profitability in COGEBANQUE PLC 67

4.3.1. Evolution of deposits in COGEBANQUE PLC 67

4.3.2. Evolution of loan distribution 68

4.3.3. Evolution net operating income in COGEBANQUE PLC 69

4.3.4. Evolution of Net profit in COGEBANQUE PLC 70

4.3.5. Ratio analysis of COGEBANQUE PLC 71

4.3.5.1. Net Profit Margin ratio 71

4.3.5.2. Return on Equity ratio (ROE) 72

4.3.5.3. Return on Asset 73

4.5. Correlation between credit management and Performance 74

4.5.1 Regression Analysis 75

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS 78

5.1. Summary of the findings 78

5.1.1. To assess the effect of Client Appraisal analysis and financial performance of Cogebanque Plc. 78

5.1.2. To determine the effects of Credit Risk Control and financial performance of Cogebanque Plc 79

5.1.3. To establish the effect between Lending policy and financial performance of Cogebanque Plc 80

5.1.4. Correlation between loan management and financial performance 81

5.2. Conclusion 83

5.3. Recommendations 84

5.4 Limitations of the Study..86

5.5 Areas for Further Research 86

ABSTRACT

The purpose of the study was to examine the impact of loan management on financial performance of banking institutions in Rwanda. The specific objective of the study was to assess the client approval analysis on financial performance of Cogebanque Plc, to determine the credit risk control on financial performance of Cogebanque Plc and to establish lending policy on financial performance of Cogebanque Plc. The Research design is the plan and structure of investigation conceived so as to obtain answers to research questions. It is basically the structure and plan of investigation. The research also used a descriptive research design as it employed descriptive statistics during data presentation. The population of the study was 101 with sample size of 50 respondents. The data were collected through questionnaire; interview and documentation techniques and data were analyzed through analytical, historical, statistical and synthical. The results of the findings shows that the evolution of deposit in COGEBANQUE PLC from 2019 to 2022, Deposits of customers were increased at the following percentages 2019 up to 2020 were increased at 29.5% and from 2020 up to 2021 was 11.4%, and from 2021 up to 2022 was -0.004% COGEBANQUE PLC has realized this important increase because it has come up with loan management. The performing loans to total loan of COGEBANQUE PLC that the ratio was good during our period of study 2019 to 2022, the normal ratio of NBR required to banks should be under 90%, where from 2019 the recovery loan rate increased was 85% and in 2020 the ratio increased up to 90% in 2021 and 89% from 2022. The evolution of deposit in COGEBANQUE PLC from 2019 to 2022, deposits of customers were increased at the following percentages 2019 up to 2020 were increased at 29.5% and from 2020 up to 2021 was 11.4%, and from 2021 up to 2022 was -0.004% COGEBANQUE PLC has realized this important increase because it has come up with credit management.

Key words: Loan, Management, Financial, Performance, Banking and Institutions

CHAPTER ONE:

GENERAL INTRODUCTION

This chapter presents the background of the study, the statement of the problem, purpose of the study, objectives, research question, scope and significance of the study.

1.1 Background to the Study

In the Americas, credit is traced back to 1620 when a London merchant provided credit to facilitate the transportation of pilgrims to the American colony of Virginia. In return, the Pilgrims contracted to work for seven years (Gallinger & Poe, 2015). At the end of that period, payment would be made to the creditors based on the size of the individual investment. The original credit of £1800 could not be paid at the end of seven years, so an alternative arrangement was agreed upon: £200 to be paid annually for a term of nine years. This arrangement had to be renegotiated and finally, after 50 years, the last payment was made. Also, to finance the American Revolution, the Second Continental Congress issued bills of credit. After the signing of the Treaty of Paris, bringing an official end to the war and official recognition of the United States by England, trading resumed and American importers and wholesalers would extend generous terms to their customers, ranging from 6 to 12 months, but it was not uncommon for an account to remain unpaid for a much longer period, sometimes up to 24 months or more (Emery, 2016).

In Europe during the Middle Ages, a period which spanned 1,000 years from about 500 to 1500 A.D., credit bills was essential to the trading activities of the prosperous Italian citystates (Hill & Satoris, 2017). Lending and borrowing, as well as buying and selling on credit, became widespread practices; the debtor-creditor relationship was found in all classes of society from peasants to nobles.

A common form of investment and credit, especially in Italy, was the “sea loan” whereby the capitalist advanced money to the merchant and thus shared the risk. If the voyage was a success, the creditor got the investment back plus a substantial bonus of 20 to 30 percent; if the ship was lost, the creditor stood to lose the entire sum. Another form of credit was the “fair letter,” which was developed at fairs held regularly in the centers of trading areas during the Middle Ages Europe. The fair letter amounted to a promissory note to be paid before the end of the fair or at the time of the next fair (Gestel & Baesens, 2019). It enabled a merchant, who was short of cash, to secure goods on credit. This gave the merchant time either to sell the goods brought to the fair or to take home and sell the goods that had been purchased on credit.

In Africa, credit management is not a new concept, spanning back during the early colonial days. During the 1950s, at the peak of colonial rule, indigenous credit institutions developed alongside colonial ones (Seidman, 2016). However, while colonial credit institutions benefitted from centuries of experience in credit management, African institutions could not build on the same traditions and the lax regulatory regime was not enough to prevent the challenges associated with fraud, embezzlement and high default.

African credit institutions have served entrepreneurs and communities with very minimal state intervention or regulation. Instead of seeking recourse from the state to enforce credit contracts, merchants relied on institutions such as extended family connections, kinship groups, religious fraternities and codes of honor to safeguard their credit. Long term commitments entailed a moral authorization matrix, rather than a legal contractual matrix as a basis for trust.

In EAC, Gatuhu (2017) found that the biggest risk for financial institutions is lending money and not getting it back in Kenya,. Hence, the issue of credit management has a profound implication both at the micro and macro level.

When credit is allocated poorly it raises costs to successful borrowers, erodes the fund, and reduces banks flexibility in redirecting towards alternative activities. Moreover, the more the credit, the higher is the risk associated with it. In other words, it may disturb the normal inflow and outflow of fund a bank has to keep staying in sustainable credit market. Adequately managing credit in financial institutions (FIs) is critical for the survival and growth of the FIs (Gatuhu, 2017).

In Rwanda, credit management is grounded in the country's history of fragility resulting from political instability since independence (Nkuruzinza, 2015). This in turn has led to severe economic fragility as illustrated by the slow growth of the economy and declining income per capita over the years. During Genocide against Tutsi in 1994, which had the most devastating effect on the economy, from which the country is still yet to recover Credit access was always limited to a few, connected individuals, and was acquired at very unrealistic terms. To date, credit management in Burundi is still not fully regulated and many of those that deal in credit still rely on informal contractual arrangements (Nkuruzinza, 2015).

Cogebanque Plc is one of the Commercial banks operating in Rwanda and it is exposed to credit managements, Most of Rwandan Commercial banks had a cut dawn in the process of loan Granting in the last quarter of the year 2020 up to first quarter 202 and this Drastic dawn word trend is suspected to be associated with inability to apply right credit management techniques in order to upgrade the economy destroyed by Covid 19. The aim of this research study is to analyze impact of loan management on financial performance of banking institutions in Rwanda with a case study of Cogebanque Plc from 2019-2022.

1.2 Problem Statement

The main problem was insolvency of borrower caused by issuing of loans without analyzes the borrower's behavior and their project to be funded and final the borrowers fail to pay back those loans. However, the bank needs to manage risk of not being repaid due to dishonesty or lack of integrity of clients. Many financial institutions fail often due to non-repayment of loans by customers. To solve this challenge the banks adopt different strategies.

Financial institution appeared that Rwanda have same problems in loans management and this happens when the borrowers failure to pay back the loans which lead to reduction of the assets of banks as well as the reduction of profit. According to Mathiew (2013), the probability of bad debts increases as loan standards are relaxed. Firms must therefore ensure that the management of receivables is efficient and effective. Such delays on collecting cash from debtors as they fall due has serious financial problems, increased bad debts and affects customer relations. In Banks, Loan management department has been created in order to help it to perform in loan risk management.

Sound credit management is crucial in ensuring optimal and sustained financial performance of banking institutions among other financial institutions. Gitman (2017) supported this argument by indicating that the likelihood of terrible obligations increments from credit norms and practices was on the rise endangering survival and success of the banking industry. The biggest problem faced banking and a financial intermediary is the risk of customers or counter party default. In addition, deteriorating credit quality was the most frequent cause of poor financial performance and condition. If payment was made late, then profitability was eroded and if payment was not made at all, then a total loss was incurred. In order to cover this gap the researchers analysed the contribution of loan management on financial performance of commercial banks in Rwanda.

1.3. Objective of the study

The objective of the study is subdivided into general and specific objective of study.

1.3 General Objective

The purpose of this study was to examine the impact of loan management on financial performance of banking institutions in Rwanda.

1.4 Specific Objectives

(i) To assess the client approval analysis on financial performance of Cogebanque Plc

(ii) To determine the credit risk control on financial performance of Cogebanque Plc

(iii)To establish lending policy on financial performance of Cogebanque Plc

1.5 Research Questions

(i) What is the effect of client approval analysis on financial performance of Cogebanque Plc?

(ii) What is the effect of credit risk control on financial performance of Cogebanque Plc?

(iv) What is the lending policy on financial performance of Cogebanque Plc?

1.6. Hypotheses

H_0: There is no impact of loan management on financial performance of Cogebanque Plc

H_1: There is an impact of loan management on financial performance of Cobanque Plc

1.7 Scope of the study

The scope of the study is classified into domain, geographical and time scopes.

1.7.1 Geographical Scope

The study area for this research was Cogebanque Plc which located in City of Kigali which was selected as the main sources of information for the study. These were selected because

they are the three leading banks in the country with the highest market share in the banking industry.

1.7.2 Content scope

The study investigated the various credit management practices, specifically, credit standards, credit policy, credit terms as well as collection policy and how they affect loan performance in banking institutions in Rwanda.

1.7.4 Time Scope

The study focused on credit management in the Cogebanque Plc over a five-year period (2018 to 2022) and how they were influenced by loan performance over that period. The study was carried out in six months (February to July 2023).

1.8 Significance of the study

The study was useful in understanding the current framework for loan management and how it financial performance of banking institutions in Rwanda.

The study was also instrumental in exposing and evaluating the various risks faced by banking institutions in their credit taking operations and the various mechanisms put in place to mitigate them.

The study also assessed the linkages between the various government institutional framework regulations and the success of banking institutions in operating profitable loan portfolios.

The study also helped to explore the challenges faced by banking institutions in the credit market as well as lay out measures of addressing these challenges.

The study helped the researcher to acquire practical research skills, as well as help him to partially fulfill the requirements for the award of a Master's Degree of Finance at Kigali Independent University ULK.

1.9. Structure of the Study

The whole study was divided into five chapters; the first is introduction which explains in general the rational of the study.

The second chapter which is the literature review focuses on what are written by previous authors on topic under study.

The third chapter is about the research methodology in which are exposed the methods that was used to reach the objectives of the study; they include research design, study population, sample size, data collection techniques, and data analysis procedures.

The fourth chapter revealed the presentation of results, discussion, and interpretation according to the objectives of the study while the fifth chapter is about summary of findings, conclusion, and recommendations.

CHAPTER TWO:

LITERATURE REVIEW

This chapter is detailed with the review of the available literature related to the research under study. The review of the relevant literature considered various sources of information.

2.1. Theoretical Literature

This section clearly defines the key concepts of the research topic to help the readers' understanding.

2.1.1. Credit

Sum of money that is expected to be paid back with interest, an amount of money that is borrowed, often from a bank, and has to be paid back, with an extra amount of money that you have to pay as a charge for borrowing, (Gunn, 2016).

Credit is the amount of credit available to a company or individual from the banking system. It is the aggregate of the amount of funds financial institutions are willing to provide to an individual or organization (Zaza, 2010).

2.1.2. Management

The organization and coordination of the activities of a business in order to achieve defined objectives. Management is often included as a factor of production along with? Machines, materials, and money. According to the management (Drucker, 2015), the basic task of management includes both marketing and innovation. Practice of modern management originates from the 16th century study of low-efficiency and failures of certain enterprises, conducted by Thomas (2010).

Management consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization's resources in order to achieve the objectives of that policy.

2.1.3 Credit management

A credit management is defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. When a consumer purchases something using a loan card, they are buying on loan (receiving the item at that time, and paying back the loan card company month by month).

Any time when an individual finances something with a loan (such as an automobile or a house); they are using loan in that situation as well, the borrowing capacity of an individual or company. A journal entry recording an increase in assets, with cash basis accounting, loan is recorded when income is received. With accrual basis accounting, loan are recorded and recognized when income is earned compare to Debit (Osmond, 2013).

Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. It is the process to ensure that customers will pay for the products delivered or the services rendered. Myers and Brealey (2016) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management.

Nzotta (2015) opined that credit management greatly influences the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit management provides a leading indicator of the quality of deposit banks credit portfolio.

A key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns.

2.1.2 Financial Performance

The financial performance of banks was expressed in terms of profitability and the profitability had no meaning except in the sense of an increase of net asset. Profitability was a company's ability to earn a reasonable profit on the owner's investment (Warren, 2015). Most organizations exist is to earn profit and profitability ratios show a company's overall efficiency and performance. We can divide profitability ratios into parts: Profit margin and returns. Ratios that show margins represent the firm's ability to translate sakes dollars into profits at various stages of measurement. Ratios that show returns represent the firm's ability to measure the overall efficiency of the firm in generating returns for its shareholders (Bessis, 2017).

2.2 Theoretical Review

Theoretical review presents the different theories related loan management and performance of financial institutions.

2.2.1 Modern Portfolio Theory

Modern Portfolio Theory is an investment framework for the selection and construction of investment portfolios based on the maximization of expected returns of the portfolio and the simultaneous minimization of investment risk (Clure, 2016). Overall, the risk component of Modern Portfolio Theory can be measured, using various mathematical formulations, and reduced via the concept of diversification which aims to properly select a weighted collection of investment assets that together exhibit lower risk factors than investment in any individual

asset or singular asset class. Diversification is in fact, the core concept of Modern Portfolio Theory and directly relies on the conventional wisdom of "never putting all your eggs in one basket" (Veneeya, 2017).

Modern portfolio theory tries to look for the most efficient combinations of assets to maximize portfolio expected returns for given level of risk (McClure, 2016). Alternatively, minimize risk for a given level of expected return. Portfolio theory is presented in a mathematical formulation and clearly gives the idea of diversifying the assets investment combination with a purpose of selecting those assets that will collectively lower the risk than any single asset. In the theory, it clearly identifies this combination is made possible when the individual assets return and movement is opposite direction (Veneeya, 2017).

An investor therefore needs to study the value movement of the intended asset investment and find out which assets have an opposite movement. However, risk diversification lowers the level of risk even if the assets' returns are not negatively or positively correlated.

The modern portfolio theory explains ways of maximizing return and minimizing risk by carefully choosing different assets (McClure, 2016). The Primary principle upon which the modern portfolio theory is based is the random walk hypothesis which states that the movement of asset prices follows an unpredictable path: the path as a trend that is based on the long-run nominal growth of corporate earnings per share, but fluctuations around the trend are random. Since the 1980s, banks have successfully applied modern portfolio theory (MPT) to market risk. Many financial institutions are now using value at risk (VAR) models to manage their interest rate and market risk exposures (Veneeya, 2017). Unfortunately, however, even though credit risk remains the largest risk facing most banks, the practical of MPT to credit risk has lagged.

It suggests that it is not enough to look at expected risk and return of a particular stock, but by investing in more than one stock, an investor can reap the benefits of diversification, particularly a reduction in the riskiness of a portfolio. MPT quantifies the benefits of diversification also known as not putting all your eggs in one basket.

It considers that, for most investors, the risk they take when they buy a stock is that the return was lower than expected. In other words, it is the deviation from the average return. Each stock has its own standard deviation from mean which MPT calls it risk. Markowitz theory asserts that, the risk in a portfolio of diverse individual stock was less than the risk inherent in holding any one of the individual stocks provided the risk of the various stocks are not directly related. He showed that investment is not just about picking stocks, but about choosing the right combination of stocks which to distribute ones' nest egg (Seibel, 2017).

An increasing body of analytical work has attempted to explain the functioning of credit markets using new theoretical developments. Challenging the model of competitive equilibrium, they have explored the implications of incomplete markets and imperfect information for the functioning of credit markets in developing countries. These provide a new theoretical foundation for policy intervention. . In this explanation, interest rates charged by a credit institution are seen as having a dual role of sorting potential borrowers and affecting the actions of borrowers. Interest rates thus affect the nature of the transaction and do not necessarily clear the market. Both effects are seen as a result of the imperfect information inherent in credit markets (Horne, 2017).

Adverse selection occurs because lenders would like to identify the borrowers most likely to repay their loans since the banks' expected returns depend on the probability of repayment. In an attempt to identify borrowers with high probability of repayment, banks are likely to use the interest rates that an individual is willing to pay as a screening device.

Since the bank is not able to control all actions of borrowers due to imperfect and costly information, it formulated the terms of the loan contract to induce borrowers to take actions in the interest of the bank and to attract low risk borrowers. The result is an equilibrium rate of interests at which the demand for credit exceeds the supply.

Other terms of the contract, like the amount of the loan and the amount of collateral, also affected the behavior of borrowers and their distribution, as well as the return to banks (Moti, 2018).

Interest rates thus played the allocation role of equating demand and supply for loan funds, and also affected the average quality of lenders' loan portfolios. Lenders fixed the interest rates at a lower level and ration access to credit. Imperfect information is therefore important in explaining the projects have identical mean returns but different degrees of risk, and lenders are unable to discern the borrowers' actions. An increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan repayment. This leaded to the possibility of credit rationing (Boland, 2018).

2.2.2 Capital Asset Pricing Model (CAPM)

According to the Capital Asset Pricing Model (CAPM), no matter how much we diversify our investments, it's impossible to get rid of all the risk. As investors, we deserve a rate of return that compensates us for taking on risk. The capital asset pricing model (CAPM) helps us to calculate investment risk and what return on investment we should expect. Here we look at the formula behind the model, the evidence for and against the accuracy of CAPM, and what CAPM means to the average investor (Sharpe, 2017). When the CAPM was first introduced, the investment community viewed the new model with suspicion, since it seemed to indicate that professional investment management was largely a waste of time.

It was nearly a decade before investment professionals began to view the CAPM as an important tool in helping investors understands risk.

The key element of the model is that it separates the risk affecting an asset's return into two categories. The first type is called unsystematic, or company-specific, risk. The long-term average returns for this kind of risk should be zero. The second kind of risk, called systematic risk, is due to general economic uncertainty. The CAPM states that the return on assets should, on average, equal the yield on a risk-free bond held over that time plus a premium proportional to the amount of systematic risk the stock possesses (Markowitz, 2017). The treatment of risk in the CAPM refines the notions of systematic and unsystematic risk. Unsystematic risk is the risk to an asset's value caused by factors that are specific to an organization, such as changes in senior management or product lines. For example, specific senior employees may make good or bad decisions or the same type of manufacturing equipment utilized may have different reliabilities at two different sites. In general, unsystematic risk is present due to the fact that every company is endowed with a unique collection of assets, ideas and personnel whose aggregate productivity may vary.

2.3. Literature related loan management

This presents theories regarding credit management.

2.3.1. Bank lending process and credit methodology

To enable them function as financial intermediaries, banks collect funds from savers in the form of deposit and then supply it to borrowers as loans. Thus banks accept customer deposits and use those funds to give loans to other customers or invest in other assets that will yield a return higher than the amount bank pays the depositor (Carthy, 2010). It follows that customers' deposit is the primary source of bank loan and hence, increasing or guaranteeing deposits directly has a positive effect on lending.

Commercial banks extend credit to different types of borrowers for many diverse purposes, either for personal, business or corporate clients (Saunder & Cornett, 2013).

Bank finance is the primary source of debt funding. This intermediation functions benefit both the banks and the borrowers. The principal profit making activity of commercial banks is making loans to its customers. In allocating funds, the primary objective of bank management is to earn income while serving the credit needs of its community (Reed and Gill, 2014).

Lending represents the heart of the industry. Loans are the dominant asset and represent 5075 percent to total amount of assets at most banks, generate the largest share of operating income and represent the banks greater risk exposure (Mac Donald and Koch, 2015).

Loans and advances are defined in the respective laws of different countries. In Rwanda, under BNR/2012) loans and advances and follow credit methodology. The sections that follow discuss major issues in credit methodology that include credit information, credit management process, credit approval and credit monitoring processes as follows:

2.3.1.1. Credit Information

Engagement in financing begins with customer recruitment. An issue of knowing the customer, customarily known as KYC (Know Your Customer) is so vital before proceeding to details. Banks use various means to obtain such information about the existing or potential customer. Use of financial statement, credit report from credit bureau, customers' history if not new is the potential sources of information (Ross et al., 2013).

The purpose of information sharing is to communicate relationship information from existing lending relationships to outside lenders (Gehrig and Stenbacka, 2012).

Credit providers use credit information to conduct credit risk analysis of prospective borrowers in order to mitigate credit risk.

Further, Gehrig and Stenbacka, (2012) highlight that information sharing reduces adverse selection problems and thereby promotes financial stability; it serves as a borrower disciplining device and it reduces the informational rents that banks can extract within the framework of their established customer relationships.

In addition Barth & Song (2012) show that information exchange will assist in minimizing lending corruption in banks by reducing information asymmetry between consumers and lenders, improving the bribery control methods and reducing informational rent, and hence the bargaining power of lenders.

In Rwanda, commercial banks are using the private credit reference Bureau- the CRB Africa established by BNR. The National Bank of Rwanda continues to develop the appropriate supervisory framework aimed to ensure increased participants and/or usage and accurate credit related information. Credit reference bureau is considered as an important financial infrastructure to enhance financial intermediation through providing client historical information to financial institutions for decision making and pricing.

CRB Africa as a private organization has all information's about an individual's and/or company's credit record that a credit bureau communicates to those who request information about the credit history of an individual's and/or company's experiences with credit, leases, non-credit related bills, collection agency actions, monetary related public records, and inquiries about the individual's credit history (Vitez, 2013).

2.3.1.2. Credit Assessment

Credit management is the first step in the process to tail or make a solution to fit the customer's needs. The assessment starts with an understanding of the customer's needs and capacities to ensure there is a good fit in terms of the financing solution.

Credit assessment is the most important safeguard to ensure the underlying quality of the credit being granted and is considered an essential element of credit risk management (Cade, 2010).

The credit quality of an exposure generally refers to the borrower's ability and willingness to meet the commitments of the facility granted. It also includes default probability and anticipated recovery rate (Saunders & Cornett, 2013).

Credit assessment thus involves assessing the risks involved in financing and thereby anticipating the probability of default and recovery rate. A credit management is used by the credit official to evaluate a borrower's character, capital, capacity, collateral and the cyclical aspect of the economy, or generally referred to as the five C's (Strischek, 2011). The five C's are follows:

Character

Character refers to the borrower's reputation and the borrower's willingness to settle debt obligations. In evaluating character, the borrower's honesty, integrity and trustworthiness are assessed. The borrower's credit history and the commitment of the owners are also evaluated (Rose, 2011). A company's reputation, referring specifically to credit, is based on past performance.

A borrower has built up a good reputation or credit record if past commitments were promptly met (observed behavior) and repaid timely. Character is considered the most important and yet the most difficult to assess (Koch & MacDonald, 2013).

Bankers recognize the essential role management plays in a company’s success. Critically analyzing quality of management has been one of the ways of assessing character. The history of the business and experience of its management are critical factors in assessing a company's ability to satisfy its financial obligations.

The quality of management in the specific business is evaluated by taking reputation, integrity, qualifications, experience and management ability of various business disciplines such as finance, marketing and labor relations into consideration. These factors can be regarded as a risk mitigates if a banker views these positively. Much of its success can in fact be attributed to competent leadership. Companies with strong and competent management teams tend to survive in an economic downturn.

On the other hand privately owned companies are generally managed by its owners. In this instance, succession planning must be in place, as the role of management remains vital to the success of the company (Koch & MacDonald, 2013).

Capacity

Capacity refers to the business’s ability to generate sufficient cash to repay the debt. An analysis of the applicant’s businesses plan, management accounts and cash flow forecasts (demonstrating the need and ability to repay the commitments) will give a good indication of the capacity to repay (Sinkey, 2010).

To get a good understanding of a company’s capacity evaluating the type of business and the industry in which it operates is also vital. It plays a significant role since each industry is influenced by various internal and external factors.

Besides, the financial position is also a critical indication of a business' capacity. The company's financial position is evaluated by assessing past financial performance and projected financial performance. A company's past financial performance is reflected in their audited financial statements (Koch & MacDonald, 2013).

Financial projections consist of projected cash flows demonstrating the need for the facility and the ability to repay the facility (Sinkey, 2010). In this regard at least three years audited financial statements (balance sheet and income statement) are required for data analysis. A financial spreadsheet is used to undertake the analysis.

Commercial banks utilize the financial spread (i.e. audited financial statement analysis and ratio calculations DuPont) and it is applied through the Moody's Risk Advisor. The model also performs a peer comparison and calculates the probability of default (Koch & Donald, 2013).

Liquidity ratios which reflect the company's ability to meet its short term obligations. According to Conradie and Fourie (2010), the current ratio is calculated by dividing the current assets by the current liabilities, activity ratios which indicate whether assets are efficiently used to generate sales and leverage ratios indicate the company's financial mix between equity and debt and potential volatility of earnings.

High volatility of earnings increases the probability that the borrower was unable to meet the interest and capital repayments (Sinkey, 2010).

Performance ratios supply information about the company's sales and earnings performance. The cash flow analysis need to be done once the ratio analysis has been evaluated. The cash flow analysis allows the banker to distinguish between reported accounting profits (net income) and cash flow from operations (cash net income).

Cash flow from operations gives an indication of how much cash is generated from normal business activities. The cash flow generated must be sufficient to service the banking facilities (Sinkey, 2010).

Banks must ensure that the type of financing is aligned to the purposed of finance (Rose, 2011). Its ability to pay may be much more important. Further checking for a parent company relationship is important as a parent company's guarantee may be available. Intercompany loans might affect financial solvency. Agency ratings that predict slow payment or default should be carried out before completion of investigating capacity of a borrower (Sinkey, 2010).

Capital

Capital refers to the owner’s level of investment in the business (Sinkey, 2010). Banks prefer owners to take a proportionate share of the risk. Although there are no hard and fast rules, a debt/equity ratio of 50:50 would be sufficient to mitigate the bank’s risk where funding (unsecured) is based on the business’s cash flow to service the funding (Harris, 2013). Lenders prefer significant equity (own contribution), as it demonstrates an owner’s commitment and confidence in the business venture (Harris, 2013).

Conditions

Conditions are external circumstances that could affect the borrower’s ability to repay the amount financed. Lenders consider the overall economic and industry trends, regulatory, legal and liability issues before a decision is made (Sinkey, 2010). Once finance is approved, it is normally subject to terms and covenants and conditions, which are specifically related to the compliance of the approved facility (Leply, 2013).

Banks normally include covenants along with conditions when credit facilities are granted to protect the bank's interest. The primary role of covenants is to serve as an early warning system (Nathenson, 2014). Covenants can either be negative or positive (Sinkey, 2010).

Negative covenants stipulate financial limitations and prohibited events (Rose, 2011; Koch & MacDonald, 2013). Some examples of negative covenants are: cash dividends cannot exceed 50% of the net profit after tax (financial limitation), no additional debt may be obtained without the ban's prior approval (prohibited event), positive or affirmative covenants stipulate the provisions the borrower must adhere to (Koch & MacDonald, 2013). Some examples of positive covenants are audited financial statements must be provided within 90 days of the company's financial yearend, the borrower must maintain the following financial ratios: Interest cover ratio of 4:1 (defined as earnings before interest and tax divided by interest paid), gearing ratio of 2:1 (defined as total liabilities divided by owners' equity) and conditions normally stipulate that all the security relevant to the loan should be in order before any funds was advanced (Harris, 2013).

Collateral

Collateral (also called security) is the assets that the borrower pledges to the bank to mitigate the bank's risk in event of default (Sinkey, 2010) .It is something valuable which is pledged to the bank by the borrower to support the borrower's intention to repay the money advanced. Security is taken to mitigate the bank's risk in the event of default and is considered a secondary source of repayment. The purpose of security is to reduce the risk of giving credit by increasing the chances of the lender recovering the amounts that become due to the borrower (Koch & MacDonald, 2013).

According to Lucia and Peters (2013), in the banking environment, security is required for the following three reasons such as to ensure the full commitment of the borrower to its operations, to provide protection should the borrower deviate from the planned course of action outlined at the time credit is extended, and to provide insurance should the borrower default (Harris, 2013).

2.3.1.3. Credit Approval

Banks go through a through process in approving credit to hit the balance. Credit approval is the process of deciding whether or not to extend credit to a particular customer. It involves two steps: gathering relevant information and determining credit worthiness (Ross, Westfield and Jordan, 2010).

As has been discussed in the preceding section, the credit analysis process consists of a subjective analysis of the borrower's request and a quantitative analysis of the financial information provided. The individual steps in the credit approval process and their implementation have a considerable impact on the risks associated with credit approval.

The quality of credit approval processes depends on two factors, i.e. a transparent and comprehensive presentation of the risks when granting the loan on the one hand, and an adequate assessment of these risks on the other (Harris, 2013).

2.3.2. Elements of effective credit management policy

Establishing the basic framework for the extension of business credit is vital to the long term success of any organization regardless of its size and type.

A sound credit policy facilitated greater levels of loan performance, foster stronger relationships with your customers and above all protect your investment in accounts receivable. Elliott (2011) gave some of the key elements to be considered and implemented:

Purpose: The purpose of the policy should be the establishment of the basic framework for governance of the plan. Sub-sections will describe in specificity the details of the policy.

Objectives: Metrics should be defined which will provide the basis for policy effectiveness.

Credit limit authority/approval limit: Establish levels of authority varied by loan volume. An organization's risk tolerance should largely determine the thresholds of authority at each level elevating ultimately up to senior financial management and principals.

Garrit (2012) confirmed that these authority limits should be given thoughtful consideration as improper implementation can unduly delay the credit approval process leading to lost customers and sales (Harris, 2013).

Credit evaluation: This step is typically handled at the analyst level. Data sources such as the CRB / Transunion are a valuable resource providing credit and risk managers with a unique illustration as to how potential customers are paying other creditors. Data received from such sources should be incorporated into your decision model providing a basis for the ultimate decision on whether to extend trade credit and the establishment of a limit. If the credit limit sought by the prospective customer is below a certain threshold, this information may be sufficient in making a credit decision. Many financial managers use the "five C's of Credit" as their guide (Holger 2012).

Credit limits: There are many schools of thought on how best to establish credit limits. A balanced approach should take into consideration the customer's payment history, customer's statement of cash flows, customer's balance sheet and overall financial condition and condition of the customer's market and industry. The need for banks to measure and limit the size of large exposures in relation to their capital has long been recognized by the Basel Committee on Banking Supervision (Basel, 2014).

Terms: Terms establishment may largely be dictated by the norms of any given industry sector. Weekly terms may be customary in certain industries whereas seasonal terms may be the norm in others.

Regardless of the terms that are established, it is imperative that these terms be uniformly adhered to from the outset of the relationship with your customer.

Credit terms constitute the conditions under which organizations deliver finance or credit to customers (Moti, 2012). According to Ross et al., (2012) credit terms may include specific time period, rate of interest and other conditions under which credit is advanced by financial institutions.

Several previous studies have noted that the time period for which credit is advanced is affected by credit risk, collateral value, competition in the market and size of client's account (Ross, 2012).

Your customers may, and probably do have internal policies on when and how frequently trade payables are processed, so requiring a customer's compliance from the start is critical.

Account review: Establishing the limits and terms is not the end of the game. Policies regarding the periodic review of your customer's credit worthiness should be instituted. In addition to the usual tracking of a customer's aging, creditors should implement a plan to review a customer's credit at regular intervals such as yearly. This procedure may include having the customer complete an updated credit application which may alert you to important information such as a change in the legal composition of the business (Holger 2012).

According to Hagos (2011), the review process can be divided into two functions: monitoring the performance of existing loans and handling problem loans.

Collections: Despite the establishment and implementation of a sound credit policy, a percentage of your borrowers were ultimately unabled or unwilling to honor their commitment.

Hagos (2011) in his research on credit management, effective credit collection techniques are ones of the necessities for financial institutions in any economic climate. Knowing how to encourage customers to pay their outstanding debts to financial institutions like banks on time can increase the cash flow of banks. It is, therefore, important that a procedure should be established on how to address these situations.

Approach that begins with a friendly reminder at the early stages of delinquency graduating to a final demand should be considered. It is important to remember that the more an account ages the less likely it is to be collected (Holger 2012).

2.3.3. Types of loans

Bank loans come in many shapes and sizes, and deciding what type of loan you need can be a little overwhelming. Banks loan money to individuals and businesses to purchase homes, businesses and cars, and to pay for college. Loan types include fixed rate, variable rate, and installment, secured, unsecured and convertible. Each type of loan has unique repayment terms, and understanding those terms can make choosing the right loan easier (Pearsall, H. 2014).

Fixed Rate loans

Fixed-rate loans are among the most common consumer loans. Fixed-rate loans keep the same interest rate throughout the life of the loan. The interest rate on fixed-rate loans may be slightly higher in most cases than a variable-rate loan.

The advantage of a fixed-rate loan, especially in the case of a home mortgage, is that your payment stays the same throughout the repayment term except for slight variations to keep your escrow balance high enough to pay taxes and homeowners insurance (Wakuloba, 2010).

Variable Rate loans

Variable-rate loans have interest rates that fluctuate depending on the market rate or "prime" rate. With a variable interest rate, the amount you pay on your home loan, car loan or student loan can vary each month.

Variable interest rates are usually lower than fixed rates, which make them attractive to first-time homebuyers or those wishing to refinance a loan. Using a variable-rate mortgage to save money in the beginning and then switching to a fixed rate when market rates begin to go up is a common loan management strategy (Pearsall, H. 2014).

Installment loans

An installment loan is one that is repaid in equal amounts over a certain period of time. Repayment periods for installment loans can range from six months to 30 years. A home mortgage or auto loan can be considered a type of installment loan. Installment loans have very specific repayment terms, including a starting date, an ending date, and the amount of interest you will pay over the life of the loan (Wakuloba, 2010).

Secured loans

A secured loan is one backed up by collateral, such as a house or a car. A home equity loan is an example of a secured loan.

In the event that the homeowner defaults on the loan, the bank has the right to take the house. The most common secured loans are home mortgages, home equity loans, auto loans, boat loans and business loans (Pearsall, H. 2014).

Unsecured loans

Unsecured loans require no collateral. These loans are usually offered to individuals with very good loan scores.

The interest rates for unsecured loans are typically very high and usually correspond to a person's loan score; the higher the loan rating, the better the interest rate. Examples of unsecured loans include bank loan cards or other personal lines of loan (Nagarajan, 2011).

Convertible rate loans

Convertible rate loans can be changed from one type of loan to another throughout the life of the loan. Convertible rate loans are usually home mortgages that begin as a variable rate and then change to a fixed rate after a period of time. Small business owners often use convertible loans for startup costs and then convert the business loan to a fixed-rate secured loan (Markowitz, H. 2013).

2.3.4. Performing loans

A performing loan is a debt on which the borrower has historically made payments on time. For example, if a homeowner takes out a mortgage and pays his home loan faithfully each month, his mortgage is considered a performing loan. In some cases, loans in which payments are less than 90 days late may be considered performing (Tracy & Carrey, 2013).

According to the International Monetary Fund, a performing loan is any loan in which: interest and principal payments are less than 90 days overdue; less than 90 days' worth of interest has been refinanced, capitalized, or delayed by agreement; and continued payment is anticipated. All conditions must be present for a loan to be performing. However, the specific definition is dependent upon the loan's particular terms (Garber, 2013).

2.3.5. Non-Performing Loans (NPLs)

Radha M, et al, (2015) writes that loans and advances constitute the primary source of income by Banks. As any business establishment a bank also seeks to maximize its profit. Since loans and advances are more profitable than any other assets, a bank is willing to lend as much of its funds as possible.

But banks have to be careful about the safety of such advances. Bankers naturally try to balance the issue of maximizing profit by lending and at the same time manage risk of loan default as it would impair profit and thereby the very capital.

Thus a bank needs to be cautious in advancing loans as there is a greater risk which follows it in a situation where the loan is defaulted. In other words loan loss or defaulted loans puts a bank in a difficult situation especially when they are in greatest amount.

Despite the fact that banks hold security for the loans they grant they cannot be fully be certain as to whether they are paid or not. It is when such risks materialize that loans turn to be non-performing (Holger 2012).

The concept of non-performing loans has been defined in different literatures. According to Paterson and Wadman (2010), non-performing loans are defined as defaulted loans which banks are unable to profit from. They are loans which cannot be recovered within stipulated time that is governed by the laws of a country.

According to the International Monetary Fund (IMF, 2010), a non-performing loan is any loan in which interest and principal payments are more than 90 days overdue; or more than 90 days' worth of interest has been refinanced.

According to the BNR regulation (BNR,2013), a non-performing loan is defined as "loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances in

question. The loans or advances with pre-established repayment programs are nonperforming when principal and/or interest is due and uncollected for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity. If a loan is past due for 90 consecutive days, it was regarded as non-performing.

The criteria used in Rwandan banking business to identify non-performing loan is a quantitative criteria based on the number of days passed from loan being due (Punaldson, 2014).

The financial costs of these impaired loans are significant and may negatively affect the incomprehensive income of the banks and reduction of banks' capital.

The losses accumulation caused by impairment of loans may affect directly the performance of the banks, if there is no follow up day to day of non-performing loans (Holger 2012).

In European Central Bank (ECB) requires asset and definition comparability to evaluate risk exposures across euro area central banks. The ECB specifies multiple criteria that can cause an NPL classification when it performs stress tests on participating banks. In 2014, in a comprehensive assessment, the ECB defined loans as nonperforming if they met any of the following criteria, 90 days past due, even if they are not defaulted or impaired, impaired with respect to the accounting specifics for U.S. GAAP and International Financial Reporting Standards (IFRS) banks and in default according to the Capital Requirements Regulation. An addendum, issued in 2018, specified the time frame for lenders to set aside funds to cover nonperforming loans: two to seven years, depending on whether the loan was secured or not. As of 2019, euro zone lenders still have approximately $990 billion worth of nonperforming loans on their books.

2.3.5.1. Loan loss provision

From Financial Dictionary, loan loss provision is defined by as a non-cash expense for banks to account for future losses on loan defaults. Banks assume that a certain percentage of loans will default or become slow-paying. Banks enter a percentage as an expense when calculating their pre-tax incomes. This guarantees a bank's solvency and capitalization if and when the defaults occur.

The loan loss provision allocated each year increases with the riskiness of the loans a given bank makes. A bank making a small number of risky loans will have a low loan loss provision compared to a bank taking. Across the world, the major factor considered by the lending institutions before granting loans is the ability and the willingness of the borrower to repay the loan on the due date. When the probability to recover a loan becomes very low, the normal practice is charging an equivalent expense to the income statement (Punaldson, 2014).

2.3.5.2. Credits monitoring and recovery

The credits monitoring and credit lending process and credit recovery process are the following:

2.3.5.2.1. Credits monitoring

Lending decision is made on sound credit risk analysis /appraisal and assessment of creditworthiness of borrowers. But past records of satisfactory performance and integrity are no guarantee future, though they serve as useful guide to project trend in performance. According to Geletta (2012), loan granted on the basis of sound analysis might go bad because the borrower may not meet obligations per the terms and conditions of the loan contract. It is for this reason that proper follow up and monitoring is essential.

Monitoring or follow-up deals with ensuring compliance with terms and conditions, monitoring end use of approved funds, monitoring performance to check continued viability of operations and detecting deviations from terms of decision.

An effective credit monitoring system will include measures to ensure that the bank understands the current financial condition of the borrower or counterparty; monitor compliance with existing covenants; assess, where applicable, collateral coverage relative to the obligor's current condition; identify contractual payment delinquencies and classify potential problem credits on a timely basis; and direct promptly problems for remedial management (Punaldson, 2014).

Monitoring also focuses on making periodic assessment of the health of the loans and advances by noting some of the key indicators of performance that might include performance and activity level of the unit in charge of loans and ensure that the assets created are effectively utilized for productive purposes and are well maintained, ensuring recovery of the installments of the principal and interest as per the scheduled repayment program, identify early warning signals, if any, and initiate remedial measures thereby averting from possible default (Punaldson, 2014).

Monitoring of borrowers is very important as current and potential exposure changes with both the passage of time and the movements in the underlying variables (Punaldson, 2014).

Monitoring involve among other, frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted advisor to the borrower; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of the borrower's business through the bank's account; regular view of borrowers financial reports as well as an

onsite visit by bank's staff; updating borrowers credit files and periodically reviewing the borrowers ratings assigned at the time the credit was graphed (Tracy & Carrey, 2013).

2.3.5.3. Loan recovery

Debt recovery is defined as a process of pursuing loans which have not been repaid and managing to recover them by convincing the borrowers to make attempts to repay their outstanding loans (Early, 2015). The role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender/bank (Garber, 2013).

According to Swanson, (2012), effective management of credit recovery and NPAs comprise two pronged strategy. First relates to arresting of the defaults and creation of NPA thereof and the second is to handling of loan delinquencies. Effective credit collection techniques are one of the necessities for financial institutions in any economic climate.

Knowing how to encourage customers to pay their outstanding debts to financial institutions like banks on time can increase the cash flow of banks (Tracy & Carrey, 2013).

Therefore a number of collection techniques are employed. Under normal circumstances loan clients are expected to pay in cash or deposit or keep their installment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more personal and strict. Rhyne (2012) asserted telephone calls, personal visits, letters and legal action as loan recovery technique.

2.3.5.3.1. Credit Recovery Process

Accion (2012) defined recovery also known as collection process as the set of coordinated, appropriate, and timely activities aimed at full collection of loans from clients.

The process is intended to convert the bank's receivables into liquid assets as quickly and efficiently as possible, while at the same time maintaining the goodwill of the client in case of future transactions.

As such, the collections process requires significant interaction with the client, beginning with a careful analysis of the client's situation and continuing through timely and frequent contact over the duration of the loan. Clients should be offered payment alternatives that are timely and appropriate to each situation, and all collections activities should be recorded to facilitate continuous monitoring as well as control of client compliance with negotiated agreements (Tracy & Carrey, 2013).

Some typical collections activities are described below:

Analysis of the particular case: who is the client? What is his situation? What were the original loan conditions? Why did the loan fall past-due? Consider internal and external sources of information such as credit bureaus and bad-debtor lists (Accion, 2012).

Contact with the client: What information does the client provide? Where is the client located? What actions were taken previously?

Assessment: What problem is at the root of the current delinquency? What type of client are we dealing with?

Suggesting an alternative: What are the possible solutions? The objective here is to sell the benefits of paying on time in order to foster a positive payment culture with the client.

Securing payment commitments: Area we negotiating effectively? The bank must clearly identify when, where, how, and how much the client will pay and must remember, for example, how a client in a situation of over-indebtedness or decreased income will prioritize the payment of his bills. Are we able to get the client to commit to prioritizing repayment of this loan? (Accion, 2012).

Compliance with payment commitments: Did the client pay on the agreed-upon date? Does the client demonstrate a desire to repay the loan? The objective here is to demonstrate consistency throughout the collections process.

It is not enough to reach an agreement and depend on the client's apparent goodwill and positive attitude; collections staff must follow up on payment commitments (Punaldson, 2014).

Intensification of collections activities: What is the best action to secure collections of the loan in the most immediate manner? What assets does the client possess? How much can be collected through legal action? The sole objective when a past-due loan reaches this point is collections, even if it means losing the client (Accion, 2012).

Defining a loss: The bank must also clearly define the conditions under which a credit is deemed a loss; that is, when to cease collections activities. This may be when all possible attempts to recover the funds have proven unsuccessful and/or when the probability of payment is very low. The bank must measure the cost/benefit of legal action, reporting past-due client and other actions permitted by law (Tracy & Carrey, 2013).

2.3.6. Literature related financial performance

In the business, performance expressed as a percentage, measures the total return an investment provides over a specific period. It can be positive representing a gain in value, or negative representing a loss. While return is reported on a second-to –second and day-to-day basis, short term results are less significant an indicator of strength or weakness than performance over longer periods such as one, five, or ten years. Past performance is one of the factors you can use to evaluate a specific investment, but there is no guarantee that those results were repeated in the future.

What past performance can tell you is the way the investment has previously reacted to fluctuations in the markets, and in the case of managed funds, something about the skills of the manager (Philippe T. 2015).

2.3.6.1. Indictors of performance of banking institutions

The performance ratios are used to measure how well a business is performing in terms of profit. The performance ratios are considered to be the basic bank financial ratios. In other words, the performance ratios give the various scales to measure the success of the firm.

The performance ratios can also be defined as the financial measurements that evaluate the capacity of a business to produce yield against the expenses and costs of business over a particular time period (Kaplan, 2013). Performance is the first concern of all businesses. Profit and loss risk management is at the top of every executive's list. Quality and compliance/legal liability risk management are also important concerns.

No longer is it necessary to have separate, often conflicting and expensive system to meet these needs (Conroy, 2010). Quite often a very small percentage of the firm's best customers will account for a large portion of firm profit.

Although this is a natural consequence of variability in performance across customers, firms benefit from knowing exactly who the customer are and how much they contribute to firm profit. At the other end of the distribution, firms sometimes find that their worst customers actually cost more to serve than the revenue the deliver.

These unprofitable customers actually detract from overall firm performance. The firm would be better off if they had never acquired these customers in the first place. If a company is having a higher performance ratio compared to its competitor, it can be inferred that the company is doing better than that particular competitor.

The higher or same performance ratio of a company compared to its previous period also indicates that the company is doing well. The return on assets, profit margin and return on equity are the example of performance ratios.

Hence in order to judge the performance of the retailer perfectly, the profit margin of the 4th quarter of a retailer should be compared with the profit margin of the 4th quarter of the previous year. Below are some of the performance indicators in a company (Helgesen, 2010)

2.3.6.1. Gross Margin

Gross margin tells you about the performance of your goods and services. It tells you how much it costs you to produce the product. It is calculated by dividing your gross profit (GP) by your net sales (NS) and multiplying the quotient by 100:

$$GM=\frac{Gross\ Profit}{Net\ Sales} * 100$$

2.3.6..2. Operating Margin

According to Shefrin, (2002) Operating margin takes into account the costs of producing the product or services that are unrelated to the direct production of the product or services, such as overhead and administrative expenses. It is calculated by dividing your operating profit (OP) by your net sales (NS) and multiplying the quotient by 100:

$$GM=\frac{Operating\ Profit}{Net\ Sales} * 100$$

2.3.6.3. Return on Assets

This metric measures how effectively the company produces income from its assets. You calculate it by dividing net income (NI) for the current year by the value of all the company's assets (A) and multiplying the quotient by 100 (Philippe T. 2015).

$$ROA=\frac{Net\ Income}{Total\ Asset} * 100$$

2.3.6..4. Return on Equity

Return on equity measures how much a company makes for each dollar that investors put into it. (Kaplan, 2013). You calculate it by taking the net income earned (NI) by the amount of money invested by shareholders (SI) and multiplying the quotient by 100:

$$ROE=\frac{Net\ Income}{Shareholder\ Investment} * 100$$

2.3.6.5. Return on Investment

This is a metric that is important to stock investors as it measures the earnings produced by the company for each dollar invested in the company (Conroy, 2010). You obtain the return on investment by dividing the net profit (NP) generated for the fiscal year by the total amount invested (TI) in the company during the same time period and multiplying the quotient by 100:

$$ROI=\frac{Net\ Income}{Total\ Investment}*100$$

2.4 Empirical Review

Waweru and Kalani (2019) studied commercial banking crises in Kenya. They found that some of the causes of non-performing loans in Kenyan banks was national economic downturn, reduced consumer, buying ability and legal issues. This current study appreciate that the nonperforming loan and loan delinquency concepts are similar. However this study differs significantly from Waweru and Kalani (2019) in terms of area of study, and study methodology. These researchers covered commercial banks in Kenya while this current study focuses on microfinance institutions in Kenya. The banking and microfinance sectors operate under different regulatory authorities.

Mohammad (2015) did a study on risk management in Bangladesh Banking Sector. His main objective was to investigate the contribution of credit risk on non-performing loans. He found that, the crux of the problem lies in the accumulation of high percentage of nonperforming loans over a long period of time. As per him unless NPL ratio of the country can be lowered substantially they will lose competitive edge in the wave of globalization of the banking service that is taking place throughout the world. Since they have had a two-decade long experience in dealing with the NPLs problem and much is known about the causes and remedies of the problem, he concluded that it is very important for the lenders, borrowers and policy makers to learn from the past experience and act accordingly.

Aboagye and Otieku, (2016) conducted a study on Credit Risk Management and Profitability in financial institutions in Sweden. The main objective was to find out if the management of the risk related to that credit affects the profitability of the financial institutions. They found that credit risk management in financial institutions has become more important not only because of the financial crisis that the world is experiencing nowadays but also the introduction of Basel II. They concluded that since granting credit is one of the main sources of income in financial institutions, the management of the risk related to that credit affects the profitability of the financial institutions (Aboagye and Otiekun, 2016).

Musyoki and Kadubo (2019) also found that credit risk management is an important predictor of bank's financial performance; they concluded that banks success depends on credit risk management. Kithinji (2016) analyzed the effect of credit risk management (measured by the ratio of loans and advances on total assets and the ratio of nonperforming loans to total loans and advances on return on total asset in Kenyan banks between 2015 to 2018). The study found that the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans.

The implication is that other variables apart from credit and non-performing loans impact on banks' profit. Kithinji (2016) result provides the rationale to consider other variables that could impact on bank's performance

Kanchu and Kumar (2017) also investigated the risk management in the banking sector of India. Data was collected through secondary sources and GAP analysis was adopted to find the results. The conclusion of this paper was that function of risk management depends upon the quality of the balance sheet and size of the bank.

The activity of the efficient management information system, networking and computerization are the important factors of the effectiveness of risk management. Level of risk and level of performance may vary from person to person as the individual trait varies (Mehmood & Mehmood, 2017). In case of accounting and management perspective, risk management is of considerable debate and hence influences the decision making of the organizations and most specifically in case of commercial banks (Hall, 2018). However, corporate risk is of managerial concern and should be heighted and addressed for proper administration and for attaining economies of scale (Garcia *et al.,* 2015).

2.4.1. Client Appraisal analysis and financial performance of commercial banks

According to Ross *et al*. (2015), in advancing loans, credit standard must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose (Moti, 2018). Tight credit standards make a firm lose a big number of customers and when credit are loose the firm gets an increased number of clients but at a risk of loss through bad debts. A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery.

In agreement with other scholars. Horne (2016), advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so, the firm can make profits. This is a criteria used to decide the type of client to whom loans should be extended.

Cooper *et al.* (2018) noted that it's important that credit standards be basing on the individual credit application by considering character assessment, capacity condition collateral and security capital. Character it refers to the willingness of a customer to settle his obligations (Richard *et al.,* 2015) it mainly involves assessment of the moral factors. Social collateral group members can guarantee the loan members known the character of each client; if they doubt the character then the client is likely to default. Saving habit involves analyzing how consistent the client is in realizing own funds, saving promotes loan sustainability of the enterprise once the loan is paid. Other source should be identified so as to enable him serve the loan in time. This helps micro finance institutions not to only limit loans to short term projects such qualities have an impact on the repayment commitment of the borrowers it should be noted that there should be a firm evidence of this information that point to the borrowers character (Chijoriga, 2019).

According to Latifee (2017) on the management of credit risk, the following was observed: Many credit problems reveal basic weaknesses in the credit granting and monitoring processes. While shortcomings in underwriting and management of market-related credit exposures represent important sources of losses at banks, many credit problems would have been avoided or mitigated by a strong internal credit process. They noted too that many banks find carrying out a thorough credit assessment (or basic due diligence) a substantial challenge (Boldizzoni, 2015).

For traditional bank lending, competitive pressures and the growth of loan syndication techniques create time constraints that interfere with basic due diligence. Globalization of credit markets increases the need for financial information based on sound accounting standards and timely macroeconomic and flow of funds data.

According to Basel (2015), one of the features that banks deliberate when deciding on a loan credit application is the estimated chances of recovery. To arrive at this, credit information is required on how well the applicant has honored past loan obligations. This credit information is important because there is usually a definite relationship between past and future performance in loan repayment. Chijoriga (2019) in a study of the response of National Bank of Kenya Ltd. to challenges of non-performing loans concludes that the reliance of the bank on qualitative credit analysis methods that entails such factors as character of the borrower, reputation of the borrowed and the historical financial capability of the borrower as opposed to the used of quantitative techniques that emphasized on the borrowers projected cash flows and analysis of audited financial books of accounts have contributed to immensely to the non-performing loan portfolio.

2.4.2. Credit Risk Control and financial performance of commercial banks

Some of the key Credit controls are delinquency management, credit committees, and product design (Churchill and Coster, 2018). Based on a recent research done by DrShukla and Kagoyire (2016) to examine the impacts of credit risk management on performance in Equity bank in Rwanda, it was discovered that the amount of interest charged has an impact on how loans perform in the Commercial Banks. The research further showed that the involvement of credit committees in decision making loans is crucial in reducing credit risk or default. Additionally, the regular use of credit checks enhance credit control, while imposing fines on late payment prompts customers to pay their loans.

In addition, using customer loan application forms is a useful strategy for improving credit control and monitoring, whereas flexible repayment periods enhance loan repayment. Finally, the study showed that the regular use of credit checks is successful in credit management.

Accordingly, Muasya (2017) studied the connection between credit risk control strategies and losses of loans among commercial banks in Kenya. His investigation employed a descriptive research design. Research findings indicated that a substantial percentage of commercial banks in the country did not institute credit risk control information systems for efficient monitoring, measuring, and identifying, and controlling risk. However, he found that most of the banks management acknowledged the need for sharing information among them as a means for mitigating the risks.

Wanjohi (2017) analyzed the effect of adequate internal control on financial performance of commercial banks. The researcher used descriptive research design. The data was collected using both primary and secondary data. Descriptive statistics was used to analyse the data. Overall, for the Kenyan banks, the best financial risk management practice was Adequate Internal Controls Practice which obtained the highest mean of 90 per cent. This indicates it greatly affects financial performance.

2.4.3. Lending policy and financial performance of commercial banks

Lending policy refers to the procedures micro finance institutions use to collect due accounts. Atieno (2018) defines a collection methods as the procedures an institution follows to collect past due account. The collection process can be rather expensive in terms of both product expenditure and lost good will (Nkundabanyanga, 2015). Collection efforts may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation.

Methods used by financial institutions could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements.

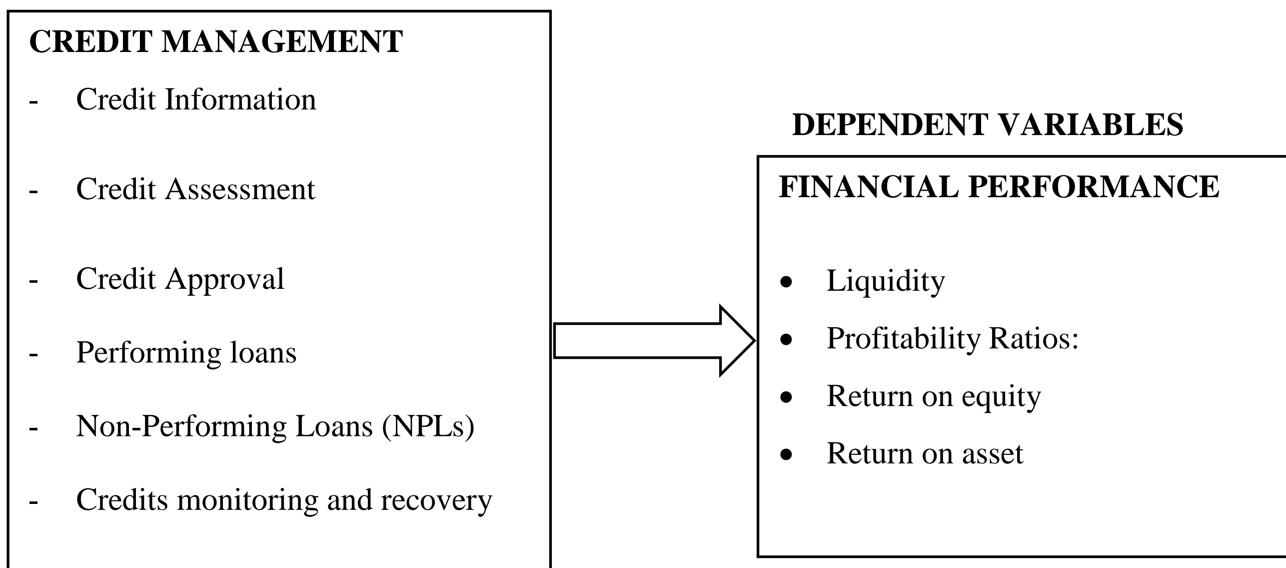
Makorere (2015) asserts that collection policy is a guide that ensures prompt payment and regular collections. The rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don't have a culture of paying until persuaded to do so. According to Ifeanyi *et al.* (2015), many micro finance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency.

The collection process can be rather expensive in terms of both product expenditure and lost good will (Ayyagari *et al.,* 2018). Collection efforts may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation. Methods used by commercial banks could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements. Nkundabanyanga (2015) asserts that collection policy is a guide that ensures prompt payment and regular collections. Collection procedure is required because some clients do not pay the loan in time hence collection efforts aim at accelerating collections to avoid bad debts.

According to Ifeanyi *et al.* (2015) posited that prompt payments aimed at increasing turn over keeping low bad debts. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institution Methods used by Micro finance institutions could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements (A Nkundabanyanga, 2015). Stiglitz and Weiss (2016) assert that collection policy is a guide that ensures prompt payment and regular collections.

2.5 Conceptual Review

The conceptual framework in this study examines the interconnection between the variables in the study. It explores how the independent variable influences or determines the dependent variable.



Source: Researcher's design, 2023

2.5 Research Gaps

The empirical study of Pyle (2019), in his study on bank risk management held that banks and similar financial institutions need to meet forthcoming regulatory requirements for risk measurement and capital.

However, it is a serious error to think that meeting regulatory requirements is the sole or even the most important reason for establishing a sound, scientific risk management system. It was held, managers need reliable risk measures to direct capital to activities with the best risk/reward ratios. They need estimate of the size of potential losses to stay within limits imposed by readily available liquidity, by loaners, customers and regulators.

They need mechanisms to monitor positions and create incentives for prudent risk taking by divisions and individuals. It depends on country and bank management systems they depend on. Investigated the relationship between bank performance and loan management, from their findings the return on assets measuring profitability was inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability. No study has been done on loan management on financial performance of Cogebanque Plc where the researcher will assess the effect of Client Appraisal analysis and financial performance of Cogebanque Plc, determine the effects of Credit Risk Control and financial performance of Cogebanque Plc and establish the effect between lending policy and financial performance of Cogebanque Plc.

CHAPTER THREE:

RESEARCH METHODOLOGY

This chapter presents the research design, population of study, sample size and selection, data collection methods and instruments. The chapter also presents the testing techniques for validity and reliability, data collection procedures, data analysis, limitation and ethical considerations.

3.1. Research Design

Research design is the plan and structure of investigation conceived so as to obtain answers to research questions. It is basically the structure and plan of investigation. The research also used a descriptive research design as it employed descriptive statistics during data presentation. The descriptive design was used as the study used some open ended and closed questionnaire to explore the depth understanding, views and attitudes on how loan management affected financial performance of commercial banks in Rwanda.

3.2. Target Population

Grinnell and Williams (1990) defined a population as the totality of persons or objects with which a study concerned. In this study the population was comprised of customers of commercial banks in Rwanda. The target population was comprised by 101 employees of COGEBANQUE Plc Head Quarters.

3.3 Sampling size

William (2014) defines a sample size as the number of objects in the sample. A sample can also be defined as all the people or classes selected to take a part in a research study.

A sample was used out of the entire population under study.

Table 3.1. Category of respondents

Category	Population	Sample size
Finance and accounting	25	11
Human resource	18	5
IT	6	6
Procurement and logistics	8	7
Marketing	20	8
Internal audit	10	7
Risk and compliance	14	6
Total	101	50

Source: Researcher's design, 2023

3.4 Data Collection Techniques and Tools

The study adopted both quantitative and qualitative methods to collect data which enable triangulation to take place. The triangulation of both methods enables the study to overcome the weakness of a single method and the quantitative and qualitative data that was collected supplemented each other to give more valid results (Saunders & Thornhill, 2019).

3.4.1. Questionnaire

According to Williams, (2014), A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents; the questionnaires technique was used to collect information about loan management and financial performance of banks, the 50 respondents was selected by giving them the questionnaires to respond. The questionnaires were addressed to employees of COGEBANQUE PLC in order to arise free expression on the loan management and profitability of COGEBANQUE PLC. This technique gave a clear understanding on how the loan management contributed on performance of COGEBANQUE PLC.

3.4.3: Interview

According to Javeau (2015), this technique consists of giving interview to the limited number of people in order to give a general idea of the range. Interview is a conversation between two people (interviewer and interviewee) where question are interred-asked by interviewer to interviewee in order to obtain information (Kothari, 2015).

In this research, the primary data is composed of information gathered from the interviewees. The researcher used primary data in which interview technique used to get some information that has not been studied on; the researcher designed interview questions which enabled the researcher to assess role the loan management on performance of Cogebanque Plc. Face to face interview was used by using the questionnaire where the researchers asked questions to employees of COGEBANQUE PLC.

3.4.1. Documentary Technique

According to Robert (2016), this technique refers to the use of secondary data from already prepared documents that are relevant to the research objectives. Grinnell and Williams (2015) noted that documentation is the analysis of data that exist in boxes, in some companies' basements or hidden in the core of a computer in this research, the researchers collected the already existing data. This technique helped the researchers to read many books, brochures, researches.

3.5. Validity and reliability tests

The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. Although unreliability is always present to a certain extent, there was generally being a good deal of consistency in the results of a quality instrument gathered at different times. The tendency toward consistency found in repeated measurements is referred to as reliability (Carmines and Zeller, 2017).

The validity of instruments was used to test validity and reliability of the instruments to be used. This included the item analysis that was carried out with the aid of the supervisor, research experts knowledgeable about the themes of the study. The process was involved in examining and assessing each item in each of the instruments to establish whether the item brings out what it is expected to do.

3.6. Data processing

The researchers processed and relevant data to the objectives of the study that is considered and transformed into meaningful information for interpretation and understanding. This process consists of editing, coding and tabulation.

3.6.1. Editing

The researchers used editing in order to check completeness, accuracy, uniformity, eligibility and comprehensibility. Editing was used as a routine task after every figures of loan management of Cogebanque Plc.

3.6.2. Coding

The coding was applied for classify the data aimed at easy manipulation loan management another quantitative data. It was done to categorize analysis was done by using different methods of loan management analysis of Cogebanque Plc.

3.6.3. Tabulation

The researchers used tabulation by defining data analysis as variable records analysis in order to obtain quantitative data about the past. The edited and coded data was transferred into tables was constructed basing mainly on the variables considered under the study.

3.7. Methods of data analysis

The process of data analysis was used by the researchers after data collection in order to make deep interpretation and understanding by using analysis methods as follow:

3.7.1. Analytical method

This method was used to analyze systematically data and information collected from different books, reports consulted during our research, (Grawitz, 2015). This method was used to analyse data collected and other information from different books, research journals and reports consulted during our research.

3.7.2. Historical method

The historical method refers to a study of event, process, and institutions of past civilizations for the purpose of finding the origins or antecedents of contemporary social life and thus understanding its natural and working (Shankar M., 2017). This method was used in order to outline the evaluation of the fact on the subject over the period studied.

3.7.3. Statistical method

A statistical method is a method of analysing or representing statistical data, a procedure for calculating a statistic, (Grawitz, 2016). The researchers used this method while analyzing data collected through the annual report of Cogebanque Plc, as well as making some comparative enhanced the drawing of some figures and tables that illustrate realities which was discussed.

3.7.4. Synthetically method

The synthetic method involves the nature of synthesis (combining separate elements to form a coherent whole) as opposite to analysis (Cooksey, 2015). This method allowed the researchers to synthesize the elements in a coherent whole while considering the parts in their whole.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

This chapter discusses the interpretation and presentation of the findings obtained from the field on the effect of credit management on the financial performance of Cogebanque Plc. Descriptive and inferential statistics were used to discuss the findings of the study.

4.1. Respondent identification

The researcher was interested in learning about respondents' personal identification in terms of gender, age, marital status, educational level, and time period of employment at Cogebanque Plc.

4.1.1. Respondent gender

This relates to determining how a respondent's gender or sex is related to the developmental activities in which Cogebanque Plc is involved. The gender of the respondents was classified and used in determining the number of males and females that comprised the sample size in order to learn about their perspectives on the research subject.

Table 4.1: Sex of respondents

	Frequency	Percent	Cumulative Percent
Male	20	40.0	40.0
Female	30	60.0	100.0
Total	50	100.0	

Source: Primary data, June 2023

The researcher was curious about the gender of the responders. Table 4.1 shows that females made up 51.5 percent of the consumers that responded, while males made up 48.5 percent of

the respondents. Because both males and females participated in the study, this suggests that it was gender sensitive.

4.1.2. Age of respondents

This variable is very important when researchers analyze respondents' answers. This variable allows him/her to know how a phenomenon studied is experienced by different age groups and this table gives more details.

Table 4.2: Age of Respondents

	Frequency	Percent	Cumulative Percent
21- 30 years	18	36.0	36.0
31- 40 years	20	40.0	76.0
41- 50 years	9	18.0	94.0
51 years and above	3	6.0	100.0
Total	50	100.0	

Source: Primary data, June 2023

According to table above presents that 40 percent of respondents are between the ages of 31 and 40, 18 percent are between the ages of 41 and 50, 36 percent are between the ages of 21 and 30, and only 6 percent are 51 and up. Because the majority-of responders were mature, the researchers pretended to receive genuine replies from them.

4.1.3. Marital status of the respondents

As part of the characteristics of the underlying demographic features of households, the researcher was interested in civil status of the respondents.

This is in-order to get information from different persons with different marital status such as single, married, widow/widower, and divorce people because all of them are concerned.

Table 4.3: Marital status of the respondents

	Frequency	Percent	Cumulative Percent
Single	18	36.0	36.0
Married	28	56.0	92.0
Divorced	3	6.0	98.0
Widower	1	2.0	100.0
Total	**50**	100.0	

Source: Primary data, June 2023

Table 3 shows that 56% of respondents are married, 36% are single, 6% are divorced, and another 2% are widowers. Having a diverse group of people adds to the confirmation of study findings.

4.1.4. Educational level of the respondents

The education level is a factor which influences the individual behavior and his capacity of analysis. The diversity of knowledge and skills required allow someone to be competent in one or another domain.

Table 4.4: Educational level of the respondents

	Frequency	Percent	Cumulative Percent
Bachelors' degree	30	60.0	60.0
Advanced level (A2)	10	20.0	80.0
Masters' degree	10	20.0	100.0
Total	50	100.0	

Source: Primary data, June 2023

The results in table 4 have shown that 60% of the respondents have bachelors' degree level of education, 20% of the respondents have Advance level (A2) as level of education and 20% of the respondents have Masters' degree as level of education. These results are showing that investigated respondents were not ignorant, so, for this reason, the research findings must be valid and reasonable.

4.1.5. Experience of respondents

The following table shows the time period of respondents being employee of COGEBANQUE PLC.

Table 4.5: Time period of respondents being employee of Cogebanque Plc

	Frequency	Percent	Valid Percent	Cumulative Percent
1 - 3 years	10	20.0	20.0	20.0
4– 6 years	24	48.0	48.0	68.0
7 years and above	16	32.0	32.0	100.0
Total	50	100.0	100.0	

Source: Primary data, June 2023

According to table 4.5, 48 percent of respondents have worked for COGEBANQUE PLC for 4-6 years, 20 percent have worked for COGEBANQUE PLC for 1-3 years, and 32 percent of respondents have worked for COGEBANQUE PLC for 7 years or more. It is extremely true to certify that the given information was correct and legitimate if the sampled respondents have been in the bank for a long time.

4.2. To assess the effect of Client Appraisal analysis and financial performance of Cogebanque Plc

An appraisal is a valuation of property, such as real estate, a business, collectible, or an antique, by the estimate of an authorized person. The authorized appraiser must have a designation from a regulatory body governing the jurisdiction of the appraiser. Appraisals are typically used for insurance and taxation purposes or to determine a possible selling price for an item or property.

Table 4.6 Level of agreement on client appraisal in Cogebanque Plc

Statements	Mean	Std.
Client appraisal is a viable strategy for credit management	1.70	0.26
The Cogebanque Plc has competent personnel for carrying out client appraisal	1.77	0.27
Client appraisal considers the character of the customers seeking credit facilities	1.75	0.29
Aspects of collateral are considered while appraising clients	1.72	0.27
Failure to assess customers capacity to repay results in loan defaults	1.74	0.29

Source: Primary data, July 2023

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to client appraisal in Cogebanque Plc, from the findings majority of them respondents agreed that Client appraisal is a viable strategy for credit management as shown by a mean of 1.70, Aspects of collateral are considered while appraising clients as shown by a mean of 1.72.

Failure to assess customers capacity to repay results in loan defaults as shown by a mean of 1.74, Client appraisal considers the character of the customers seeking credit facilities as shown by a mean of 1.75 and that the Cogebanque Plc have competent personnel for carrying out client appraisal as shown by a mean of 1.77.

4.2.3 To determine the effects of Credit Risk Control and financial performance of Cogebanque Plc

When a business uses credit control, it means they are taking steps to protect their business from risky borrowers as they issue credit. A business's success or failure primarily depends on the demand for products or services. As a rule of thumb, higher sales lead to bigger profits, which in turn leads to higher stock prices? Sales, a clear metric in generating business success, in turn, depend on several factors. Part of a company's efforts to boost its sales can include credit control. In general, credit control seeks to extend credit to a customer to make it easier for them to purchase a good or service from the business. This strategy delays payment for the customer, making the purchase more attractive, or it breaks the purchase price into installments, also making it easier for a customer to justify the purchase, though interest charges increased the overall cost.

Table 4.7. Level of agreement on credit risk control in Cogebanque Plc

Statement	Mean	Std. Dev
Imposing loan size limits is a viable strategy in credit management	1.64	0.25
The use of credit checks on regular basis enhances credit management.	1.79	0.24
Flexible repayment periods improve loan repayment.	1.77	0.30
Penalty for late payment enhances customers commitment to loan repayment	1.64	0.28
The use of customer credit application forms improves monitoring and credit management as well	1.66	0.30
Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk	1.40	0.28
Interest rates charged affect performance of loans in the Cogebanque Plc	1.28	0.31

Source: Primary data, July 2023

The study sought to establish the level at which respondents agreed or disagreed with the above statement relating to credit risk control in Cogebanque Plc, from the findings, the study established that majority of the respondents strongly agreed that interest rates charged affect performance of loans in the Cogebanque Plc as shown by a mean of 1.28, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk as shown by a mean 1.40 other agreed that, The use of credit checks on regular basis enhances credit management, Penalty for late payment enhances customers commitment to loan repayment as shown by a mean 1.64 in each case.

The use of customer credit application forms improves monitoring and credit management as well, as shown by a mean 1.66, Flexible repayment periods improve loan repayment as shown by a mean 1.77, and that the use of credit checks on regular basis enhances credit management as shown by a mean 1.79.

This shows that the use of customer credit application forms improves monitoring and credit management as well, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk and Interest rates charged affect performance of loans in the bank respectively.

4.2.4 To establish the effect between Lending policy and financial performance of Cogebanque Plc

A credit and collections policy ensures that every collector is making the same decisions when it comes to managing accounts. If one collector is allowing customers to go further past due than another, your accounts receivable department will suffer. If difficult accounts aren't being escalated to a credit manager, you have no transparency into why you aren't collecting on all your invoices. A credit and collections policy keeps everyone on the same page, which is vital to an accounts receivable department working at top performance.

Table 4.8. Level of agreement on collection policy of Cogebanque Plc

Statement	Mean	Std.
Available collection policies have assisted towards effective credit management.	1.89	0.27
Formulation of collection policies have been a challenge in credit management.	1.45	0.28
Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults	1.57	0.25
Staff incentives are effective in improving recovery of delinquent loans.	1.60	0.27
Regular reviews have been done on collection policies to improve state of credit management.	1.77	0.28
A stringent policy is more effective in debt recovery than a lenient policy	1.68	0.30
A collection policy is in place to manage account receivables	4.72	0.74
Spells out the incentives and rewards for early repayment	4.69	0.77
Spells out penalties for late and missed repayment schedules	4.79	0.71
Customers are notified severally when their repayments are due	4.70	0.38
New and poorly performing customers have tighter collection terms	4.63	0.60
Long-standing and trusted customers have more flexible collection terms	4.24	0.47

Source: Primary data, July 2023

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to collection policy of Cogebanque Plc. From the findings majority of the respondents strongly agreed that formulation of collection policies have been a challenge in credit management as shown by a mean of 1.45 others agreed that enforcement of guarantee policies provided chances for loan recovery in case of loan defaults as shown by a mean of 1.57, staff incentives are effective in improving recovery of delinquent loans as

shown by a mean of 1.60, a stringent policy is more effective in debt recovery than a lenient policy as shown by a mean of 1.68.

Regular reviews have been done on collection policies to improve state of credit management as shown by a mean of 1.77, and available collection policies have assisted towards effective credit management as shown by a mean of 1.89.

The majority of the respondents agreed that there are collection policies in place to manage account receivables in their banks, with a mean score of 4.72 and standard deviation of 0.74. The findings also revealed that majority of the respondents agreed that the collection policy improves loan performance by clearly laying out the incentives and rewards for early repayment of the loans, with mean and standard deviation scores of 4.69 and 0.77 respectively.

Also, the findings showed that majority of the respondents agreed that the collection policy spells out penalties for late and missed repayment schedules which discourages irregular and late loan repayments, with a mean score of 4.79 and standard deviation score of 0.71.

Additionally, the findings indicated that respondents agreed that through the collection policy, customers are notified severally when their repayments are due, which helps to prevent delays and missed payment schedules, with a mean of 4.70 and a standard deviation of 0.38. Furthermore, the respondents also agreed that the collection policy ensures that new and poorly performing customers have tighter collection terms, which discourages them from irregular repayment schedules as a way of avoiding tight repayment terms, with mean and standard deviation scores of 4.63 and 0.60 respectively.

Further still, the respondents also agreed that through the collection policy, long-standing and trusted customers have more flexible collection terms, which serves to incentivize them to maintain their trusted status as well as encourage others to also strive to build their trust, with

a scores of 4.24 and 0.47 for mean and standard deviation respectively. This implied that majority of the respondents agreed that the collection policy is of fundamental importance in determining the performance of the loan portfolio in Cogebanque Plc.

4.2.5. Effectiveness of loan management offered by COGEBANQUE PLC

The performance indicators of COGEBANQUE PLC improved year by year depending the environment and objectives of the bank. To analyze the performance of COGEBANQUE PLC, its better first to present the evolution of each indicators to see if the increase or decrease in time frame of year to year to year, these include Evolution of Deposit, Loan granted, Evolution of Asset and Asset Quality Ratio (AQR).

4.2.5.1.Trend of loans of COGEBANQUE PLC

The realization of loans disbursed every year was an indicator that shows how loan is managed and that bank loans management has immediately a positive impact on performance, annual reports from 2019-2022 was the guidelines of this section and was focused point to determine if the bank loans management applied in COGEBANQUE PLC effectives.

Table 4.9: Trend of loan granted

Year	**2019 (RWF 000)**	**2020 (RWF 000)**	**2021 (RWF 000)**	**2022 (RWF 000)**
Loan granted	143,629,258	157,820,211	173,989,552	139,908,453
Change in Rwf (000)	-	14,190,953	16,169,341	-34,081,099
Trend in %	**-**	**0.099**	**0.102**	**- 0.196**

Source: COGEBANQUE PLC Annual report from 2019-2022

According to National Bank of Rwanda (NBR) standard on loan providing, NBR requires all commercial banks operate in Rwanda, for total amount deposit for 100% must be used as follows: 5% reserve requirements, 15% money base and where 80% must be delivered as loan and commercial banks not go beyond on that standard of 80%.

According to the above table the researchers have found that form 2019-2022 COGEBANQUE PLC has increased its credits where from 2019 to 2020 was 9.9%; 10.4% in 2020 to 2021 and -19.6% in 2021 to 2022. This increase of loan granted by COGEBANQUE PLC resulted from strong management of loan.. This considerably achievement in loan department comes from the good bank loans management and shows the effectiveness in bank loans management in COGEBANQUE PLC.

Loans and advances to customers comprise a significant portion of the Bank's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL. Changes to the assumptions and estimates used by management could generate significant fluctuations in the Bank's financial results and materially impact the valuation of the portfolio of loans and advances.

4.2.5.2. Evolution of deposits in COGEBANQUE PLC

Under this section, the researchers would like to assess the evolution of clients' deposits in COGEBANQUE PLC from the period of 2019 up to 2022, as follow:

Table 4.10: Evolution of deposits in COGEBANQUE PLC

Years	Deposits Frw (000)	Variation in amount Frw(000)	Variation in %
2019	131,040,681	-	-
2020	169,686,398	38,645,717	0.295
2021	189,115,267	19,428,869	0.114
2022	188,317,918	-797,349	-0.004

Source: COGEBANQUE PLC, annual report and financial statement, 2019-2022

The table 4.10 shows the evolution of deposit in COGEBANQUE PLC from 2019 to 2022, Deposits of customers were increased at the following percentages 2019 up to 2020 were increased at 29.5% and from 2020 up to 2021 was 11.4%, and from 2021 up to 2022 was -0.004% COGEBANQUE PLC has realized this important increase because it has come up with loan management. The deposits of COGEBANQUE PLC are the sources of loans delivered to both customers and employees that is why employees are more concerned by the increase of deposits.

4.2.5.3. Comparison between deposit and loan given by COGEBANQUE PLC

The bank stresses the importance of current account and savings account as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compare loans and advances to customers as a percentages of core customers current and savings account, together with term funding with a remaining term to maturity in excess of one year. In this section we should the comparison between the deposits and loan issued by COGEBANQUE PLC during our period of study in order to show the compliance with BNR's regulations.

Table 4.11. Loans to deposits of COGEBANQUE PLC from 2019-2022

	2019	**2020**	**2021**	**2022**
	(RWF 000)	**(RWF 000)**	**(RWF 000)**	**(RWF 000)**
Total loan	143,629,258	157,820,211	173,989,552	139,908,453
Total deposit	134,414,593	172,886,458	189,115,262	188,317,918
LDR	**107%**	**91%**	**92%**	**74%**

Source: COGEBANQUE PLC Annual report from 2019-2022

This table highlights the changes between deposit and loans within COGEBANQUE PLC during our study. The result shows that the bank granted loans at 107% in 2019, 91% in 2020, 92% in 2021 and 74% in 2022. It must be complying with the BNR' regulations on loan granted which says that the COGEBANQUE PLC must not exceed 80% of deposit collected.

4.2.5.4. Loan recovery

Loan recovery is the terminal action that a bank may want to take in a failed credit relationship. It starts when remedial measures taken to revive a delinquent loan prove unsuccessful. Bank management is accountable to its supervising board for avoidable loan losses.

Performing Loans to total loans= $\frac{\text{Performing loan}}{\text{Total Loan}}$

Table 4.12. Recovery Loans to total loans

Year	2019	2020	2021	2022
	(RWF 000)	**(RWF 000)**	**(RWF 000)**	**(RWF 000)**
Total Loan (Rwf'000)	143,629,258	157,820,211	173,989,552	139,908,453
Loan recovery	129,466,007	133,570,253	155,732,109	125,177,549
RATIO	**0.90**	**0.85**	**0.90**	**0.89**

Source: COGEBANQUE PLC's financial statements 2019-2022

The table 4.12 shows performing loans to total loan of COGEBANQUE PLC that the ratio was good during our period of study 2019 to 2022, the normal ratio of NBR required to banks should be under 90%, where from 2019 the recovery loan rate increased was 85% and in 2020 the ratio increased up to 90% in 2021 and 89% from 2022. This shows that COGEBANQUE PLC during the period of the study was able to cover the loans offered to customers as required by national bank.

4.2.5.5. Non-Performing Loans to total loans

As the central bank instruction on nonperforming loans to total loans, each bank should not exceed 7%.

Non-Performing Loans to total loans $=\frac{\text{Non}-\text{Performing Loan}}{\text{Total Loan}}$

Table 4.13. Non-Performing Loans to total loans

Year	2019	2020	2021	2022
	(RWF 000)	(RWF 000)	(RWF 000)	(RWF 000)
Non-Performing loan (NPL)	14,163,251	24,249,958	18,257,443	14,730,904
Total Loan (Rwf'000)	143,629,258	157,820,211	173,989,552	139,908,453
RATIO	**0.10**	**0.15**	**0.10**	**0.11**

Source: COGEBANQUE PLC's financial statements 2019-2022

The table 4.13 shows NPL to total loan of COGEBANQUE PLC that the ratio was good during our period of study 2019 to 2022, the normal ratio of NBR required to banks should not exceed 7%, in 2019 the ratio was to 10% in 2018 and in 2020 the ratio increased up to 15% and 10% from 2021 and 11% in 2022 which is better compare to the standard of NBR does not exceed 7%. As required by national bank the results from table above shows that COGEBANQUE PLC respect the regulation BNR and that performance was due to reduction of non- performing loans collected from customers.

4.3. Analysis of indicators of profitability in COGEBANQUE PLC

This section analyses the indicators of profitability as well as evolution of customers, evolution of deposits, evolution of credits distributed, evolution of turnover and evolution of net profits, during the cover period of study.

4.3.1. Evolution of deposits in COGEBANQUE PLC

Under this section, the researchers would like to assess the evolution of clients' deposits in COGEBANQUE PLC from the period of 2019 up to 2022, as follow:

Table 4.14: Evolution of deposits in COGEBANQUE PLC/main branch

Years	Deposits Frw (000)	Variation in amount Frw(000)	Variation in %
2019	131,040,681	-	-
2020	169,686,398	38,645,717	0.295
2021	189,115,267	19,428,869	0.114
2022	188,317,918	-797,349	-0.004

Source: COGEBANQUE PLC, annual report and financial statement, 2019-2022

The table above shows the evolution of deposit in COGEBANQUE PLC from 2019 to 2022, deposits of customers were increased at the following percentages 2019 up to 2020 were increased at 29.5% and from 2020 up to 2021 was 11.4%, and from 2021 up to 2022 was -0.004% COGEBANQUE PLC has realized this important increase because it has come up with credit management.

4.3.2. Evolution of loan distribution

To create and maintain a solid loan distributed, each bank must set up a clearly defined evaluation method to efficiently and prudently make an independent and objective evaluation of loan applications.

Table 4.15: Evolution of loan distribution in COGEBANQUE PLC (amount in Rwf)

Year	Loan distribution in (Rwf000)	Variation in amount Frw(000)	Evolution (%)
2019	143,629,758	-	-
2020	157,820,211	14,190,453	0.099
2021	173,989,552	16,169,341	0.102
2022	139,908,453	-34,081,099	-0.196

Source: COGEBANQUE PLC annual report, 2019-2022

The table above shows how the COGEBANQUE PLC conducted its credits distribution. Therefore, the researchers have found out that from 2019 up to 2020 loans distributed has increased by 9.9%, in 20121 loans distributed were increased by 10.2% and in 2022 loans distributed increased up -19.6% compared to previous year 2020. credit are well managed; they provide all the required information on the loan to facilitate the customers to request and to take the loan.

4.3.3. Evolution net operating income in COGEBANQUE PLC

Net operating income is very important factor as well as profitability indicators, since it became in Rwanda market. COGEBANQUE PLC has come up with various innovations these were helping a company to achieve its targets, vision, mission, vision, this show how COGEBANQUE PLC gets income from its normal business activities which are to sale Products and services to the customers.

Table 4.16: Evolution on net operating income in COGEBANQUE PLC

Year	Net operating income in (Rwf'000)	Variation in amount Frw(000)	Evolution (%)
2019	18,121,966	-	-
2020	18,975,722	853,756	0.047
2021	21,669,182	2,693,460	0.142
2022	27,886,849	6,217,667	0.287

Source: COGEBANQUE PLC annual report, 2019-2022

As it is shown by the table above COGEBANQUE PLC had made increment net operating income which varied in year 2019, net operating income in 2020 has increased by 4.7%, in 2021 has increased up to 14.2% and in 2022 there was high increase of 28.7% compared to

the previous years. For all these variations of year, there has been the increment even though effective of credit management, COGEBANQUE PLC has increased its net operating income by collecting revenues in various sources and credit management tools are inclusive. From 2019 up to 2022, there is a positive evolution of operating income; this income was obtained due to the effort made of managing loan.

4.3.4. Evolution of Net profit in COGEBANQUE PLC

The net profit is defined as the turn over minus the cost of return purchasing of sells product. Or sells prices minus the net profit of return to find the net profit of company in brief, He must subtract the turnover some changes which realized. As all other factors which complete for the profitability of COGEBANQUE PLC. Researchers analyzed the evaluation of COGEBANQUE PLC.'s net profit from 2019-2022 in the following table.

Table 4.17: Evolution of net profit in COGEBANQUE PLC (amount in Rwf'000)

Year	Net profit	Variation	Evolution in %
2019	4,012,631	-	-
2020	3,836,164	-176,467	-0.044
2021	5,007,183	1,171,019	0.305
2022	9,056,876	4,049,693	0.809

Source: COGEBANQUE PLC, Annual report, 2019-2022

The table above shows that net income was -4.4% from 2019-2020, the net income has increased at 30.5% from 2020-2021 while net income increased up to 80.9% from 2021-2022. According the result obtained the net profit of COGEBANQUE PLC increased year to year where the net profit increased because of credit granted help to the performance of Cogebanque Plc.

4.3.5. Ratio analysis of COGEBANQUE PLC

In this part of the chapter we are going to talk about the contribution of Credit management tools to the profitability of COGEBANQUE PLC. To arrive there, we are going to base ourselves on the ratio of commercial, financial and economical profitability as well as the study of profitability to show the evolution of some parameters of the profitability. As we already know it that the profitability of a company is its capacity to produce profits, to calculate it we use several methods, here in this work we want to use the method of the ratios.

A ratio is a relationship between two financial great nesses. This relationship must be significant that she has to combine two amounts which takes place of causality and the link of which allows to understand better and to interpret an aspect of the company in study. The ratios of profitability are subdivided into three categories namely: ROE, ROA and Net profit margin ratio.

4.3.5.1. Net Profit Margin ratio

Net profit margin can be used to compare a company with its competitors. More efficient firms were usually seeing a higher margin. Also, it provides clues about company's pricing, cost structure and production efficiency. Net profit margin ratio measures the firm’s efficiency of operation. It reflects the relationship of prices, volume and costs.

The formula:

Net profit margin= $\frac{\boldsymbol{NetIncome}}{\text{net operating income}}$ *100

Table 4.18: Net profit margin ratio (in Rwf'000)

Period	2019	2020	2021	2022
Net Profit (1)	4,012,631	3,836,164	5,007,183	9,056,876
Total operating income (2)	18,121,966	18,975,722	21,669,182	27,886,849
Net profit ratio =1/2*100	**0.221**	**0.202**	**0.231**	**0.325**

Source: COGEBANQUE PLC, Annual reports, 2019-2022

The table above indicates that for each Rwandan franc remaining after all cost and expenses have been deducted, COGEBANQUE PLC has earned 22.1% in 2019; 20.2% in 2020 and 23.1% in 2021 and 32.5% in 2022, this shows that the bank was able to cover all costs and expenses and was able to make profits from its operations during the period of study. From 2019 to 2022 Net Profit Margin ratio because of higher rate of investment COGEBANQUE PLC invests in managing credit.

4.3.5.2. Return on Equity ratio (ROE)

Return on Equity measure the rate of return flowing to the shareholders of the company .It is the rate of return that shareholders receive as motivation for having invested their funds in the company. ROE is the most important indicator of a bank's profitability and growth potential. It is the rate of return to shareholders or the percentage return on each Rwf of equity invested in the bank.

The formula:

Return on Equity $=\frac{\text{Net Profit}}{\text{Equity Shareholder's}} * 100$

Table 4.19: Return on Equity (000)

Year	**2019**	**2020**	**2021**	**2022**
Net Profit	4,012,631	3,836,164	5,007,183	9,056,876
Shareholder' equity	29,448,954	33,287,120	38,294,303	47,351,179
ROE	**0.136**	**0.115**	**0.131**	**0.191**

Source: COGEBANQUE PLC, Annual reports, 2019-2022

The table above show for this kind of ratios, the ROE was positive for every years of research period. Return on Equity of COGEBANQUE PLC was 13.6% in 2019, 11.5% in 2020, 13.1% in 2021 and 19.1% of 2022. The ROE serves to pay the capital invested in shareholders what involves that 100 Rwf of invested capital allow recovering about 13.6 Rwf in 2019, 11.5 Rwf in 2020; 13.1 Rwf in 2021 and 19.1 Rwf in 2022. The use of Credit management tools COGEBANQUE PLC has greatly improved on the profits and profitability of the bank through the loan management of the bank.

4.3.5.3. Return on Asset

The company needs all assets to generate its profit. It is thus important to measure the profitability which it generates on its investment. The return on asset/Investment is the indicator of the efficiency of management. It indicates how the management is able to convert the company's assets into earning computation of Return on asset. This ratio is reckoned by comparing the net income with means implemented to know the total assets.

Table 4.20: Return on assets (in Rwf'000)

Period	2019	2020	2021	2022
Net Profit	4,012,631	3,836,164	5,007,183	9,056,876
Total assets	226,900,951	269,683,614	291,159,333	293,864,661
Return on assets (ROA)	**0.018**	**0.014**	**0.017**	**0.031**

Source: COGEBANQUE PLC, Annual reports, 2019-2022

According to table above shows that COGEBANQUE PLC got a lot of return in the period under the study; the study showed that the return on assets was 1.8% in 2019 and 1.4% in 2020, 1.7% in 2021 and in 2022 the ROA was 3.1%. This means that for 100 Rwf invested in assets in COGEBANQUE PLC has generated 1.8Rwf in 2018, 1.4 Frw in 2020 and in 2021 was 1.7 Frw and 3.1 Frw in 2022. On the role of credit management on return on asset ratio indicated that COGEBANQUE PLC has participated in providing credit management and this showed that credit management has a positive strong relationship of return on asset ratio in COGEBANQUE PLC.

4.5. Correlation between credit management and Performance

Table 4.21: Correlations between variables

		Credit management	Performance
Credit management	Pearson Correlation	1	.632**
	Sig. (2-tailed)		.000
	N	50	50
Performance	Pearson Correlation	.632**	1
	Sig. (2-tailed)	.000	
	N	50	50

**. Correlation is significant at the 0.01 level (2-tailed).

Findings in Table no 4.21 illustrate correlation coefficients between credit management and performance of Cogebanque Plc. There is a fantastic and superb strong correlation among credit management and performance as Pearson correlation confirmed (r=.632** with p-value of 0.000 < 0.01); however out of taken into consideration that credit management have an effect on performance with high relationship of 63.2% for credit management.

This indicated that the Pearson correlation coefficient is equal to 1 which means that there is a strong relationship between credit management and performance as stated by the rule of correlation coefficient saying that if the Pearson correlation coefficient is equal to 1 means that there is a strong relationship between two variables. This means that the change in credit management is strongly correlate with the change in the performance. It also shows that the significant coefficient between credit management and performance is equal to 0.000 which means that there is a statistically significant correlation between credit management and performance as stated by the rules of significant coefficient which says that if the significant coefficient is less than 0.05, it means that there is a strong relationship between your two variables.

4.5.1 Regression Analysis

Table 4.22: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892(a)	.796	.761	.2467

Source: Research findings (2023)

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.761 an indication that there was variation of

76.1% on financial performance of Cogebanque Plc due to changes in client appraisal, credit risk control and collection policy at 95% confidence interval. This shows that 76.1% changes in financial performance of Cogebanque Plc could be accounted for by client appraisal, credit risk control and collection policy. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.892.

Table 4.23: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.896	4	.224	2.213	.012(a)
	Residual	5.184	45	.108		
	Total	6.08	49			

Source: Research findings (2023)

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.012 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The calculated value was greater than the critical value (1.699 < 2.213) an indication that client appraisal, credit risk control and collection policy significantly influence financial performance of Cogebanque Plc. The significance value was less than 0.05 an indication that the model was statistically significant.

Table 4.24: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	0.218	0.141		1.546	0.039
	Client Appraisal	0.239	0.165	0.205	1.448	0.029
	Credit risk controls	0.392	0.271	0.027	1.446	0.032
	Collection policy	0.284	0.157	0.413	1.809	0.012

Source: Research findings (2023)

From the data in the above table the established regression equation was

$Y = 0.218 + 0.239X_1 + 0.392\ X_2 + 0.284X_3$

From the above regression equation it was revealed that holding client appraisal, credit risk control and collection policy to a constant zero, financial performance of Cogebanque Plc would be 0.218, a unit increase in client appraisal would lead to increase in performance of Cogebanque Plc by a factor of 0.239, a unit increase in credit risk control would lead to increase in performance of Cogebanque Plc by a factor of 0.392 and also unit increase in collection policy would lead to increase in performance of Cogebanque Plc by a factor of 0.284. The study also found that all the p-values were less that 0.05 an indication that all the variables were statistically significant in influencing financial performance of Cogebanque Plc.

CHAPTER FIVE:

CONCLUSION AND RECOMMENDATIONS

The chapter five presents the summary of the findings, conclusion and recommendations of the study.

5.1. Summary of the findings

5.1.1. To assess the effect of Client Appraisal analysis and financial performance of Cogebanque Plc.

The first objective of the study is to assess the effect of Client Appraisal analysis and financial performance of Cogebanque Plc where the organizations that had adopted Credit Management practices. From the findings 86% of the respondents indicated that their organizations had adopted Credit Management practices, whereas 14% indicated that their organizations had not, this implies that a significant number of organizations had adopted the use Credit Management practices.

The study sought to determine the extent to which Cogebanque Plc used client appraisal in Credit Management, from the findings 48% of the respondents indicated to a great extent, 32% of the respondents indicated to a very great extent whereas 20 % of the respondents indicated to a moderate extent, this implies that most Cogebanque Plc used client appraisal in Credit Management to a great extent.

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to client appraisal in Cogebanque Plc, from the findings majority of them respondents agreed that Client appraisal is a viable strategy for credit management as shown by a mean of 1.70, Aspects of collateral are considered while appraising clients as shown by a mean of 1.72.Failure to assess customers capacity to repay results in loan defaults as shown by a mean of 1.74, Client appraisal considers the character of the customers seeking

credit facilities as shown by a mean of 1.75 and that the Cogebanque Plc have competent personnel for carrying out client appraisal as shown by a mean of 1.77.

5.1.2. To determine the effects of Credit Risk Control and financial performance of Cogebanque Plc

The second chapter determine the effects of Credit Risk Control and financial performance of Cogebanque Plc where the study sought to determine the extent to which Cogebanque Plc used credit risk control in Credit Management, from the findings 54 % of the respondents indicated to a great extent, 30 % of the respondents indicated to a very great extent whereas 16% of the respondents indicated to a moderate extent, this implies that Cogebanque Plc used credit risk control in Credit Management to a great extent.

The study sought to establish the level at which respondents agreed or disagreed with the above statement relating to credit risk control in Cogebanque Plc, from the findings, the study established that majority of the respondents strongly agreed that interest rates charged affect performance of loans in the Cogebanque Plc as shown by a mean of 1.28, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk as shown by a mean 1.40 other agreed that, The use of credit checks on regular basis enhances credit management, Penalty for late payment enhances customers commitment to loan repayment as shown by a mean 1.64 in each case, The use of customer credit application forms improves monitoring and credit management as well, as shown by a mean 1.66, Flexible repayment periods improve loan repayment as shown by a mean 1.77, and that the use of credit checks on regular basis enhances credit management as shown by a mean 1.79. this shows that the use of customer credit application forms improves monitoring and credit management as well, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk and Interest rates charged affect performance of loans in the bank respectively.

5.1.3. To establish the effect between Lending policy and financial performance of Cogebanque Plc

The third chapter establish the effect between Lending policy and financial performance of Cogebanque Plc where the study sought to determine the extent to which Cogebanque Plc use collection policy in Credit Management, from the findings 60.0% of the respondents indicated to a great extent, 36.0% of the respondents indicated to a very great extent whereas 4% of the respondents indicated to a moderate extent, this implies that Cogebanque Plc use collection policy in Credit Management to a great extent.

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to collection policy of Cogebanque Plc. From the findings majority of the respondents strongly agreed that formulation of collection policies have been a challenge in credit management as shown by a mean of 1.45 others agreed that enforcement of guarantee policies provided chances for loan recovery in case of loan defaults as shown by a mean of 1.57, staff incentives are effective in improving recovery of delinquent loans as shown by a mean of 1.60, a stringent policy is more effective in debt recovery than a lenient policy as shown by a mean of 1.68. Regular reviews have been done on collection policies to improve state of credit management as shown by a mean of 1.77, and available collection policies have assisted towards effective credit management as shown by a mean of 1.89.

The majority of the respondents agreed that there are collection policies in place to manage account receivables in their banks, with a mean score of 4.72 and standard deviation of 0.74. The findings also revealed that majority of the respondents agreed that the collection policy improves loan performance by clearly laying out the incentives and rewards for early repayment of the loans, with mean and standard deviation scores of 4.69 and 0.77 respectively.

Also, the findings showed that majority of the respondents agreed that the collection policy spells out penalties for late and missed repayment schedules which discourages irregular and late loan repayments, with a mean score of 4.79 and standard deviation score of 0.71.

Additionally, the findings indicated that respondents agreed that through the collection policy, customers are notified severally when their repayments are due, which helps to prevent delays and missed payment schedules, with a mean of 4.70 and a standard deviation of 0.38. Furthermore, the respondents also agreed that the collection policy ensures that new and poorly performing customers have tighter collection terms, which discourages them from irregular repayment schedules as a way of avoiding tight repayment terms, with mean and standard deviation scores of 4.63 and 0.60 respectively.

Further still, the respondents also agreed that through the collection policy, long-standing and trusted customers have more flexible collection terms, which serves to incentivize them to maintain their trusted status as well as encourage others to also strive to build their trust, with a scores of 4.24 and 0.47 for mean and standard deviation respectively. This implied that majority of the respondents agreed that the collection policy is of fundamental importance in determining the performance of the loan portfolio in Cogebanque Plc.

5.1.4. Correlation between loan management and financial performance

The correlation coefficients between credit management and performance of Cogebanque Plc. There is a fantastic and superb strong correlation among credit management and performance as Pearson correlation confirmed (r=.632** with p-value of 0.000 < 0.01); however out of taken into consideration that credit management have an effect on performance with high relationship of 63.2% for credit management. This indicated that the Pearson correlation coefficient is equal to 1 which means that there is a strong relationship between credit management and performance as stated by the rule of correlation coefficient saying that if the

Pearson correlation coefficient is equal to 1 means that there is a strong relationship between two variables. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.761 an indication that there was variation of 76.1% on financial performance of Cogebanque Plc due to changes in client appraisal, credit risk control and collection policy at 95% confidence interval.

The processed data, which is the population parameters, had a significance level of 0.012 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The calculated value was greater than the critical value (1.699 < 2.213) an indication that client appraisal, credit risk control and collection policy significantly influence financial performance of Cogebanque Plc. The significance value was less than 0.05 an indication that the model was statistically significant.

From the above regression equation it was revealed that holding client appraisal, credit risk control and collection policy to a constant zero, financial performance of Cogebanque Plc would be 0.218, a unit increase in client appraisal would lead to increase in performance of Cogebanque Plc by a factor of 0.239, a unit increase in credit risk control would lead to increase in performance of Cogebanque Plc by a factor of 0.392 and also unit increase in collection policy would lead to increase in performance of Cogebanque Plc by a factor of 0.284. The study also found that all the p-values were less that 0.05 an indication that all the variables were statistically significant in influencing financial performance of Cogebanque Plc.

5.2. Conclusion

The study presents the loan management and financial performance of banking institutions in Rwanda where from the findings 86% of the respondents indicated that their organizations had adopted Credit Management practices, whereas 14% indicated that their organizations had not, this implies that a significant number of organizations had adopted the use Credit Management practices.

The study sought to determine the extent to which Cogebanque Plc used client appraisal in Credit Management, from the findings 48% of the respondents indicated to a great extent, 32% of the respondents indicated to a very great extent whereas 20 % of the respondents indicated to a moderate extent, this implies that most Cogebanque Plc used client appraisal in Credit Management to a great extent.

The study sought to establish the level at which respondents agreed or disagreed with the above statement relating to credit risk control in Cogebanque Plc, from the findings, the study established that majority of the respondents strongly agreed that interest rates charged affect performance of loans in the Cogebanque Plc as shown by a mean of 1.28, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk as shown by a mean 1.40 other agreed that, The use of credit checks on regular basis enhances credit management, Penalty for late payment enhances customers commitment to loan repayment as shown by a mean 1.64 in each case, The use of customer credit application forms improves monitoring and credit management as well, as shown by a mean 1.66, Flexible repayment periods improve loan repayment as shown by a mean 1.77, and that the use of credit checks on regular basis enhances credit management as shown by a mean 1.79.

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to collection policy of Cogebanque Plc.

From the findings majority of the respondents strongly agreed that formulation of collection policies have been a challenge in credit management as shown by a mean of 1.45 others agreed that enforcement of guarantee policies provided chances for loan recovery in case of loan defaults as shown by a mean of 1.57, staff incentives are effective in improving recovery of delinquent loans as shown by a mean of 1.60, a stringent policy is more effective in debt recovery than a lenient policy as shown by a mean of 1.68. Regular reviews have been done on collection policies to improve state of credit management as shown by a mean of 1.77, and available collection policies have assisted towards effective credit management as shown by a mean of 1.89.

The majority of the respondents agreed that there are collection policies in place to manage account receivables in their banks, with a mean score of 4.72 and standard deviation of 0.74. The findings also revealed that majority of the respondents agreed that the collection policy improves loan performance by clearly laying out the incentives and rewards for early repayment of the loans, with mean and standard deviation scores of 4.69 and 0.77 respectively.

5.3. Recommendations

From the findings of the study analyzed in the previous chapter and the conclusions reached, the researcher made various recommendations, which in his opinion, if properly considered, have the potential to improve the effectiveness of credit management and thereby improve loan performance in Cogebanque Plc. These recommendations are:

- ✓ The study recommends that Cogebanque Plc should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.
- ✓ The study also recommends that there is need for Cogebanque Plc to enhance their client appraisal techniques so as to improve their financial performance.

Through client appraisal techniques, the Cogebanque Plc was able to know credit worth clients and thus reduce their non-performing loans.

- ✓ There is also need for Cogebanque Plc to enhance their credit risk control this helped in decreasing default levels as well as their non-performing loans. This helped in improving their financial performance.
- ✓ Cogebanque Plc should seriously consider having in place effective credit standards, credit policy, credit terms and collection policies or procedures as mechanisms to guide their business, since the effectiveness of credit management is important to the successful management of banking institutions. In order to ascertain the level of credit to issue out to a borrower, the banks should use credit standards to appropriately evaluate the borrower's liquidity and cash flow, as well as the performance of their business and saving culture, that can be used in determining the borrower's ability to repay the loan.
- ✓ Cogebanque Plc should operate their credit businesses based strictly on established lending guidelines that clearly outline the business growth priorities of the senior management, as well as the conditions to satisfy in order to qualify for loan approval. These lending guidelines (credit policy) should be regularly updated in order to keep their consistency with the prevailing changes in the credit market and the overall outlook of the economy.
- ✓ There should be prior customer evaluation before loans are granted, and a continuous process of assessment before and during the course of loan repayment. In this way, the bank was in position to accurately ascertain the trajectory of the borrower's performance in terms of repayment. This should be cemented by effective customer relationship management, where the bank not only acts as a source of credit, but also as a source of vital information business management in order to improve the business performance of the borrowers, which will consequently improve loan performance.

5.4 Limitations of the Study

The respondents approached are likely to be reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their Bank. Some respondents may even turn down the request to fill questionnaires. The study handled the problem by carrying an introduction letter from the University and assuring them that the information they give would be treated confidentially and it would be used purely for academic purposes.

Employees operate on tight schedules; respondents are not able to complete the questionnaire in good time and this might overstretch the data collection period. To mitigate this limitation, the study made use of network to persuade targeted respondents to fill up and return the questionnaires.

The researcher also encountered problems in eliciting information from the respondents as some of the information required was subject to areas of feelings, emotions, attitudes and perceptions, which cannot be accurately quantified and/or verified objectively.

This might lead to lack of response due to the veil of confidentiality surrounding the Banks. The researcher encouraged the respondents to participate without holding back the information they might be having as the research instruments would not bear their names.

5.5 Areas for Further Research

The study sought to determine the effect of credit management on the financial performance of Microfinance Institutions in Rwanda. Further research is recommended on the effect of Non-Performing Loan on performance in microfinance institutions in Rwanda.

Further research should also be done on the relationship between credit management and nonperforming loans on commercial bank in Rwanda and on the reasons for loan default in commercial banks from the clients' perspective.

The study concentrated on only three credit control techniques that include client appraisal techniques, credit risk controls and collection policy. Therefore, further study should be carried out on the topic to point out the other factors that enhance mitigation of credit risk to improve performance of commercial banks in Rwanda. Further studies should be conducted using various methods of data collections such as interviews and focus group discussion to improve on accuracy of the results. Larger sample size should also be used for more accurate findings.

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Appendix I: Letter of Introduction

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: APPLIED QUESTIONNAIRE

I am a student at the Kigali Independent University ULK undertaking a Master's in Finance. I am currently undertaking a postgraduate research project on "***Loan management and financial performance of banking institutions in Rwanda. Case study: Cogebanque Plc (2019-2022)*** as a partial fulfillment of my degree requirements.

Attached herewith is a questionnaire that I am requesting to be completed. All the information you will provide will remain strictly confidential.

If you are interested in the findings of this research, it shall be mailed to you upon request. Your cooperation and existence was highly appreciated.

Sincerely,

Appendix II: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

a. Gender: Male ☐ Female ☐

b. Age Bracket (tick as appropriate)

No	Age Bracket	Tick as Appropriate
i	18 to 22 years	
ii	22 to 26 years	
iii	26 to 30 years	
iv	Above 30 years	

c. Period worked in the Bank

No	No. years	Tick as Appropriate
i	Below 1 year	
ii	2 to 3 years	
iii	4 to 5 years	
iv	Above 5 years	

d. Education level

No	Education level	Tick as Appropriate
i.	Diploma	
ii.	Bachelor Degree	
iii.	Post graduate	

SECTION B: TO ASSESS THE EFFECT OF CLIENT APPRAISAL ANALYSIS AND FINANCIAL PERFORMANCE OF COGEBANQUE PLC

To what extent do the banks use client appraisal in Credit Management?

This section has statements regarding the level of agreement on the client's appraisal. Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes using a tick (√) or cross mark (x).

Statement	5	4	3	2	1
Client appraisal is a viable strategy for credit management					
The banks has competent personnel for carrying out client appraisal					
Client appraisal considers the character of the Customers seeking credit facilities.					
Aspects of collateral are considered while Appraising clients					
Failure to assess customers capacity to repay results in loan defaults					

SECTION C: TO DETERMINE THE EFFECTS OF CREDIT RISK CONTROL AND FINANCIAL PERFORMANCE OF COGEBANQUE PLC

To what extent do the banks use Credit Risk Controls in Credit Management of Cogebanque Plc?

This section has statements regarding the level of agreement on the credit risk control of Cogebaque Plc. Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes using a tick (√) or cross mark (x).

Statement	5	4	3	2	1
Imposing loan size limits is a viable strategy in credit management					
The use of credit checks on regular basisenhances credit management					
Flexible repayment periods improve loan repayment					
Penalty for late payment enhances customerscommitment to loan repayment					
The use of customer credit application forms improves monitoring and credit management aswell					
Credit committees involvement in making decisions regarding loans are essential inreducing default/credit risk					
Interest rates charged affect performance of loans in the bank					

SECTION D: TO ESTABLISH THE EFFECT BETWEEN LENDING POLICY AND FINANCIAL PERFORMANCE OF COGEBANQUE PLC

To what extent do the banks use lending Policy in Credit Management?

The section has statements regarding the level of agreement on the lending Policy of Cogebanque Plc. Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes using a tick (√) or cross mark (x).

Statement	5	4	3	2	1
Available collection policies have assistedtowards effective credit management					
Formulation of collection policies have been a challenge in credit management					
Enforcement of guarantee policies provides for loan recovery in case of loan defaults					
Staff incentives are effective in improving recovery of delinquent loans					
Regular reviews have been done on collection Policies to improve state of credit management well					
A stringent policy is more effective in debt recovery					
Interest rates charged affect performance of loans in the bank than a lenient policy					
A collection policy is in place to manage account receivables					
Spells out the incentives and rewards for early repayment					
Spells out penalties for late and missed repayment schedules					
Customers are notified severally when their repayments are due					
New and poorly performing customers have tighter collection terms					
Long-standing and trusted customers have more flexible collection terms					

Thank you!!