KIGALI INDEPENDENT UNIVERSITY ULK

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ROLE OF BANK LOANS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN RWANDA

CASE STUDY: BANK OF KIGALI PLC

PERIOD: 2020-2023

Dissertation submitted to School of Economics and Business Studies in partial fulfillments of academic requirement for the award of a Bachelor's Degree in Accounting

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Kigali, September 2024

DECLARATION

I, **MUNYEMANA UMUHOZA Sandrine**, do declare that this thesis entitled ***" Role of Bank Loans on Financial Performance of Commercial Banks in Rwanda. Case study: Bank of Kigali Plc (2020-2023)"*** is my own work and it has never been presented to any institution for any academic award, and all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

Date........../.........../2024

Signature…………………

MUNYEMANA UMUHOZA Sandrine

APPROVAL

I, **GASASIRA Patrick** herewith certify that this thesis entitled ***" Role of Bank Loans on Financial Performance of Commercial Banks in Rwanda. Case study: Bank of Kigali Plc (2020-2023)"*** has been conducted by **MUNYEMANA UMUHOZA Sandrine** under my guidance and supervision as a partial fulfillment for the award of the Master's degree in Finance.

Signature……………………………………….

Date: ………. /……. / 2024

Supervisor: GASASIRA Patrick

DEDICATION

To:

This thesis was dedicated to:

To my family member,

To my Brothers and Sisters,

To my friends,

To my classmates and colleagues.

ACKNOWLEDGEMENTS

I praise the Almighty God Jehovah who gave me knowledge, power and patience in every endeavor of my life.

Completion of this thesis has been a result of both direct and indirect support of many people to whom I owe acknowledgement.

I would like first of all to extend my gratitude on the mind behind the establishment of a great institution of high learning ULK, herein **Prof. Dr. RWIGAMBA BALINDA** the Founder and President of ULK.

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May God bless you all.

MUNYEMANA UMUHOZA Sandrine

LIST OF ABREVIATIONS, ACRONYMS AND SYMBOLS

BNR	: Banque Nationale du Rwanda
CAPM	: Capital Asset Pricing Model
Dr	: Doctor
EAC	: East African Countries
FRw	: Franc Rwandais
GM	: Gross Profit
IFRS	: International Financial Reporting Standards
IMF	: International Monetary Fund
KPIs	: Key Performance Indicators
MPT	: Modern Portfolio Theory
NI	: Net Income
NIM	: Net Interest Margin
NPLS	: Non Performing Loans
NS	: Net Sales
PLC	: Public Limited Company
ROA	: Return On Assets
ROE	: Return On Equity
Rwfs	: Rwandan Francs
SMEs	: Small and Medium Enterprise
ULK	: Université Libre de Kigali
US	: United State

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CHAPTER 1: GENERAL INTRODUCTION

Introduction

This chapter broadly aims to show the main parts of chapter one such as background of the study, Statement of the problem, objectives of the study, research questions, research hypothesis, scope of the study, significance of study, limitation of the study as well as the structure of study.

1.1. Background of the Study

World widely most banking organizations have failed to ensure the adequate management of the credit facilities they advance to their customers. There have been several developments in the banking industry emanating from policies from the European Central Bank which have affected the demand and supply of credit within the region. Credit rationing of various forms have surfaced in the post-crisis era in attempt to control the devastating effect of credit losses which occurred during the crisis (Balcerowicz & Laszek, 2018). The writers' report that the credit risk of companies increases whenever it becomes too risky to lend to government. This is exactly the situation in the European Union area because some countries are not attractive to seek credit from banks thus compelling the European Central Bank to put in place series of measures and monetary policies to hold them in check.

In USA, the deterioration in the quality of the loan portfolio of banks was the main cause of problems in the banking system and in financial crises in developed economies. Indeed, the increase in loan defaults, banking mortgage in the United States, underlines the links between macroeconomic and financial shocks and the relationship between the friction in the loan market and the risk of financial instability (Ahlem, 2018). Loan managements generally refer to loans which for a relatively long period of time do not generate income, that is the interest and the principal for these loans have been left unpaid for at least 90 days (Hippolyte, 2015).

Loan risk management comes to maximize a bank risk adjusted rate of return by maintaining loan risk exposure within acceptable limits in order to provide a frame work for understanding the impact of loan risk management on banks profitability (Bessis, 2017).

But, some unscrupulous lenders over-inflated the debt or interest payments, resulting in the borrower effectively becoming a slave. As loans was made more attractive and available to the average American, the lending industry expanded significantly and title insurance became a requirement of the most lenders beginning in the mid-late 1900s. Policy forms continued to evolve but have retained several basic covered risks. Regardless of whether the property is located in a title or lien theory state, these covered risks relate to the rights the lender has with respect to the insured property relative to the rights of others (Mwirigi, 2015).

In Asia, Financial sector of Nepal can be divided into two parts, Banking system and Non-Banking system. The banking system comprises Nepal Rastra Bank and all commercial banks while Non-Banking system consists of the Development Banks, Finance Companies, Rural Micro Finance Development Banks, Saving and Credit Cooperatives with limited banking activities and Non-Government Organization with limited banking activities. Moreover Employees Provident Fund, Nepal Stock Exchange Limited, Insurance Companies, Deposit Insurance and Credit Guarantee Corporation, Credit Information Center Limited, Citizen Investment Trust and Postal Saving Offices are also categorized under the non bank financial system but do not come under the jurisdiction of central bank for their regulation and supervision (Karna, 2016).

In Africa firms that had been performing well suddenly announced large losses due to credit exposures that turned sour, the Reserve Bank of Zimbabwe (RBZ) pointed out what it terms "imprudent loan management practices" as being one of the major causes of the banking crisis of 2017. In response to this, commercial banks have almost universally embarked upon an upgrading of their risk management and control systems.

In EAC, Kenya Commercial Banks are able to provide the general banking products and services such as: deposits, withdraws, savings and credit scheme but the competitive advantages management pushes them to succeed as well as those that build competitive advantages in the management or strategies of the banks. Financial banks in Kenya are commercial banks which perform the activities with the aim or purpose of satisfying its customers and create value to its shareholders. Therefore, it receives deposits and offers credits to finance its customers businesses and investments, so the objective of Bank credits is to help people in need to improve their day-to-day business activities, but it is done in expecting the loan to be paid with interest; (BNR, 2018).

In Rwanda, development policy is guided by Vision 2020. This vision statement, issued by the Ministry of Finance and Economic Planning in 2000, describes the Government‘s aim to transform Rwanda into a middle income country and an economic trade and communications hub by the year 2020 (Government of Rwanda, 2018). The aim of the government is to develop a stable and sound financial sector for Rwanda. Its objectives include enhancing access to, and affordability of, financial services and the development of banking institutions and market incentives that would facilitate the entrenchment of a savings and long term investment culture amongst Rwandans (Yakini, 2018).

BK GROUP PLC is one of the Commercial banks operating in Rwanda and it is exposed to loan managements, Most of Rwandan Commercial banks had a cut dawn in the process of loan Granting in the last quarter of the year 2018 up to first quarter 2022 and this Drastic dawn word trend is suspected to be associated with inability to apply right loan management techniques. The aim of this research study is to analyze the loan management and financial performance of commercial banks in Rwanda within Bank of Kigali Plc (2019-2023).

1.2. Problem Statement

The primary issue is the insolvency of borrowers, which arises from issuing credits without thoroughly analyzing the borrower's behavior and the viability of the project being funded. This often results in borrowers failing to repay their loans, creating a significant risk for banks. Many financial institutions experience difficulties due to non-repayment of credits, leading to asset and profit reductions. According to Mathiew (2013), the probability of bad debts increases as credit standards are relaxed. Therefore, firms must ensure efficient and effective receivables management, as delays in collecting cash from debtors can lead to financial problems, increased bad debts, and strained customer relations. In banks, credit management departments have been established to enhance performance in credit risk management.

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. 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. Many commercial banks fail often due to non-repayment of loans by customers. To solve this challenge the banks adopt different strategies.

In Banks, credit management department has been created in order to help it to perform in loan risk management. Sound credit management is a prerequisite for a commercial banks stability and continuing performance, while deteriorating credit quality is the most frequent cause of poor financial performance and condition.

According to Mathiew (2018), bank 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. If payment is made late, then performance is eroded and if payment is not made at all, then a total loss is incurred. The major cause of serious banking problems continues to be directly related to low loan standards for borrowers and counterparties, poor portfolio management, and lack of attention to changes in economic or other circumstances that can lead to deterioration in the loan standing of banks (Creswell, 2016). Sound credit management is essential for maintaining optimal and sustained financial performance in banking institutions. Gitman (2017) argues that the likelihood of bad debts increases as credit standards deteriorate, posing a threat to the survival and success of the banking industry. The biggest challenge for banks and financial intermediaries is the risk of customer or counterparty default. Deteriorating credit quality is often the leading cause of poor financial performance, and late payments erode profitability, while non-payment results in total loss. It is against this background that the researcher wishes to examine the loan management and financial performance of commercial banks in Rwanda with case study of Bank of Kigali Plc from 2020-2023.

1.3. Objective of the study

1.3.1. General objective

The main objective of this study is to examine the role of bank loans on performance of commercial banks in Rwanda.

1.3.2 Specific objectives

1. To examine the effectiveness of bank loans offered by Bank of Kigali Plc.
2. To determine the contribution of bank loans contribute to the performance of Bank of Kigali Plc.

1.4. Research Questions

For all reason developed above we have to conduct this research basis on the following two research questions:

1. Does bank loans of Bank of Kigali Plc are effective managed?
2. Do loans offered by BANK OF KIGALI PLC contribute to the performance of Bank of Kigali Plc?

1.5. Research hypotheses

A hypothesis is a proposition which can be put to test to determine in validity. It may seem contrary to or in accord with common sense. It may prove to be correct or incorrect. Hence, the research problem leads researcher to formulate the following hypothesis:

1. Bank loans of Bank of Kigali Plc are effective managed
2. Loans offered by BANK OF KIGALI PLC contribute to the performance of Bank of Kigali Plc

1.6. The scope of the study

The study was limited in time, space and domain.

1.6.1 Domain Scope

This research especially inspired in domain of financial institutions, helping the researcher to confront theories learnt in class to practice on the field and encouraging practicing what researcher saw in the field like creation of small business, asking credit.

1.6.2 Geographical Scope

The study was carried out in Bank of Kigali Plc in Nyarugenge District in City of Kigali. The reason why researcher chooses Bank of Kigali Plc is that researcher can get easily information without any complication and helping to understand the data obtained by the researcher.

1.6.3 Time Scope

This study covered the period of three years, from 2020-2023, this period was considered because the availability of the data.

1.7. Significance of the study

The researcher choose to conduct research on the loan management and Financial performance of commercial banks in Rwanda because this played an important role to the researchers, social interest and academic interest.

1.7.1 Personal Interest

The research helped the researcher to get knowledge related to the loan management in commercial banks. In addition this study was enabled the researcher to fulfill the necessary requirements for the award of Bachelor’s degree in Accounting as a part of regulations of ULK.

1.7.2. Academic and scientific Interest

As the dissertation could be deposited in ULK's library, it is useful as a reference for academicians carrying out the similar study. This research has to generate additional information to further researchers who would wish to make depth research on the subject matter. This study also helped further researchers to have a broad knowledge about loan management in Bank of Kigali Plc. Also helped the researcher to be awarded the Bachelor's degree in Accounting as a part of regulations of ULK.

1.7.3. Social Interest

The research clarified to the community, the contribution of loan management on financial performance of commercial banks and the reference for policy makers in order to implement loan management policies.

The study was intended to give recommendations on how Bank of Kigali Plc can creates a better environment needs by loan management system.

The findings of the study, conclusion and recommendations, are great importance in improving Bank of Kigali Plc's financial performance through loan management. This study has also to add the stock of knowledge of loan management to Bank of Kigali Plc.

1.8. Structure of the Study

This study is organized into four chapters where Chapter one is concerning with the background to the study, statement of the problem, research question, objectives of the study, significance of the study, scope of the study, lastly how the whole study is organized.

Chapter two deals with the literature review, where this chapter examines the views of other theorists and authors as well as theoretical framework, empirical and critical review and research gap identification. Chapter three deals with research methodology which outlined the research techniques and methods that the researcher was employed in carrying out the data collection; population and the sample size selection of the study as well as methods of data analysis. Chapter four presents the analysis and presentation of data in this study and the work was ended by general conclusion and recommendations.

CHAPTER TWO: LITERATURE REVIEW

Introduction

This chapter deals with the review of relevant literature. The researchers discusses past research done on the topic and other related ones in order for the researchers to analyze, summarize and relate previous studies. This enabled the researchers to establish theoretical framework for the problem and to establish the significance of the study.

2.1. Conceptual Review

In this section, the researchers selected the key concepts including bank loans and performance.

2.1.1. Bank Loan

A bank loan is the act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount (Samuel, 2007).

A loan in terms of small business finance is a sum of money advanced to a business that must be repaid, with interest at some point in the future. The lender must bear the risk that the borrower may not repay the loan. The interest rate charged is the price for that risk. A loan is money, classified as debt, for temporary use (Asokan, K. 2000).

Loan management is a function performed within a company to improve and control loan policies that will lead to increased revenues and lower risk including increasing collections, reducing loan losses and extending loans to loan worthy and developing competitive loan control (Deslandes, 2014).

2.1.2. Performance

Steers M. (2011) defines performance as the extent to which an individual can successfully accomplish a task or achieve a goal, but comprehensive definition of performance should consider “performance as the extent to which an individual in his/her ability and within or outside the limits of a position can successfully accomplish a task or achieve a goal.

Tosi L. Rizzo (2013) states that the performance is the result of the application of mental or physical effort. Performance levels can be stated in different ways in terms of quantity or quality and may reflect some objective judgment by a manager.

Performance involves measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firms return on investment, return on assets and value added (Turyahebya, 2013)

2.2. Theoretical Framework

2.2.1 Pecking Order Theory

This theory was founded by Myers and Majluf (1985). The theory is based on the financing decisions by firms. The theory argues that firms always prefer internal sources of financing. A typical firm would always follow a certain order of financing starting from internal finances to external finances. Firms prefer retained earnings to debt. Some firms also prefer the short-term debt due to their short-term repayment period compared to long term debt which takes a longer period of time and they tend to attract more finance costs in terms of the interest payments. The non-issuance entities are a good tool for information asymmetry.

This means that issuance of equity can be costly as information asymmetry between insiders and outsiders rise (Pandey, 2005). When companies are in need of external financing, the option they have is to issue the securities that are very safe in the market which implies that they start the debt securities and the equity" qualifies to be the last resort pecking order theory appreciates a hierarchy of financing and any business entity always tries to use the internal sources when they are readily available compared to external sources.

Desai (2010) criticized the pecking order theory based on the fact that the theory is grounded on the costs of obtaining financing and it tends to ignore the factors which are likely to affect the choice of financing by various firms. The factors include, the government policy, the interest rates and the relationship between the borrowers and the lenders. Based on this theory, the decisions made by companies should be done with some level of expertise, and this requires financial management practices. The practices enabled the companies to be able to manage their finances effectively.

2.2.2 The Contingency Theory

Pike (2016) developed die Contingency theory aimed are using various financial management: concept. The theory holds that are various contextual factors that determine how an organization operate. This emails the ordinary investment outcomes history, professional competency dense and capital budgeting control policy.

The theory's proposition to the study is that there are certain financial mam semen: practices that may work well with certain firms but nor with omen. This is due to the difference in the corporate settings and external factors. This thus implies that there are no standard financial standard management practices to be applied by companies. Therefore, appropriate financial management practices should be chosen after evaluating the particular business setting to ensure it's appropriate in achieving its intended purpose. A positive Influence on the companies' financial performance will only be attained when a balance is met between the corporate setting and the system operations (Pike. 2016).

2.2.3. Cash Conversion Cycle Theory

According to Gitman (2014) the bigger the cash conversion cycle, the better the financial performance. Cash conversion cycle is important in any business entity since the business entities can know die measure of cash required. Cash conversion cycle theory centers significantly around die timeframe die organization takes to secure the raw materials and the cash inflows so as to operate effectively. Each individual business element needs to examine its cash conversion cycle this will empower them to make any enhancements since it will influence die financial performance.

The shorter die cycle, it suggests that business entities require couple of assets to work. At the point when the cash conversion cycle is short, it suggests that business entities require couple of assets to work. At die point when die money change cycle is longer it suggests that die business development is high which means higher benefits henceforth enhanced financial performance (Gitman, 2014).

2.3. Theories related to bank loans

Bank loans was measured by commercial banks' financing arrangement item in the assets of banks. To compare with economic growth, annual percentage change in the total amount of financing arrangements was used. Loans cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in form of deposits from the surplus units of the economy and passed on to the deficit units who need funds for productive purposes. Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds. Bank loans are the borrowing capacity provided to an individual, government, firm or organization by the banking system in the form of loans (Ferreira & Taci, 2010).

2.3.1. Business loan

Business loan refers to the funds needed by a business to conduct its daily operations, such as payment of wages, purchase of raw material, covering overhead costs and offering credit services. Working capital can be subdivided into two areas: regular working capital that provides a steady base for overall business objectives; and short-term working capital used to facilitate the day-to-day business operations. Sources of finance for working capital include bank loans, retained earnings, credit from suppliers, long-term loans from financial institutions, or proceeds from sale of assets. A financially stable enterprise applies optimal use of both debt and owner's equity and a company which is no longer struggling with financial problems as most companies do is seen to be setting off from its starting feet to greater business horizons thus looked at as a growing company. Such a company will never lack funding since financial Institutions will start looking at it as a potential client and they are ready to lend it money as need may be (Cuttler, 2001).

Accessing finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small scale enterprises are a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, small scale enterprises cannot acquire or absorb new technologies. Through the services offered by financial institutions helped entrepreneurs to increase business capital (Henriken, & Svoldal, 2010).

2.3.2. Agriculture loan

Commercial institutions particularly banks are the major suppliers of finance to business enterprises and agricultural sectors in other countries. It is reported that loans from United Kingdom (UK) banks provide funding for around two thirds of her businesses and they are also the largest source for over 25 percent of firms (Irwin, 2006). Although bank financing is considered helpful in other countries however, the situation is different in Tanzania especially in her agricultural sector.

According to Salami et al (2011) the share of commercial banks' loans to agriculture has been very low compared to loans issued to manufacturing, trade, and other service sectors hampering expansion and technology adoption. Access to formal credit in Tanzania is mainly confined to large urban centers, where collateral requirements are high and less attention has been paid to agribusiness due to the fact that a huge number of activities in the sectors are conducted in rural areas by smallholder famers. In an effort to boost agricultural production and productivity, smallholder farmers have to use improved agricultural technologies however, the adoption of these technologies is relatively expensive and yet small holder farmers cannot afford to self finance it (Obisesan, 2013). Enhanced provision of rural credit would therefore accelerate agricultural production and productivity.

The role of agriculture is the most dominant sector and indeed a major source of livelihood for its citizens (Ijaiya & Abdulaheem, 2000). This is because apart from providing food for the teeming population of the economy, it is the only source of raw materials that other sectors look out for before their production could take place. Also, the rearing of animals provides agroallied products for industrial growth and development, provision of employment opportunities, especially to the rural population; provision of market for the industrial sector; and provision of the needed linkage between the traditional sector and the modern sector; ensuring food security and thus serving as a catalyst for the growth of the entire economy. In line with these, Abayomi (2009) stated that the increasing production in agriculture is regarded as the most vital attendant for achieving industrialization.

Numerous studies have been conducted to reveal the impact of agricultural finance on agricultural production in both developed and developing economies. Majority of these studies seems to suggest that bank credit has a positive effect on economic growth and development. For instance, Zuberi (2009), in his study discovered that about 70 per cent of the overall credit to the agricultural sector was employed in fertilizer and seed purchases and submitted that, the majority of the increased agricultural production could be attributed to changes in the quality and quantity of fertilizer and seed. Siddiqi, Mazhar-ul-Haq and Baluch (2012) reported that the flow of fund assessed by farmers was found to have increase inputs demand for the sole aim of increasing crop production. Irrigation, the elasticity of credit amount, the use of chemical pesticides and fertilizer and number of tractors etc with respect to agricultural income as the dependent variable on per cultivated as well as per cropped acre basis revealed that credit for production and tube wells has a significant and positive impact at 95 per cent level of confidence. The use of fertilizer and number of tractors was insignificant with positive contributions. This was due largely on the inappropriate use of tractors and fertilizer.

2.3.3. Mortgage loan

Mortgage financing is offered by some commercial banks and is normally considered as a diversification strategy which is expected to lower their risks of loss through non-performing loans especially the unsecured ones. This reduction in risk is expected to result in improved performance of the commercial banks (Tse, 2002). Banks that offer mortgage loans hold diversified portfolios of mortgage loans and therefore spreading risks in a manner that would be impossible if individuals were making mortgage loans directly.

Mortgages can be used to finance both residential and nonresidential properties. For example, a family can purchase a home with a mortgage financing. This is a residential property and it can be financed with a mortgage. On the other hand, the construction of nonresidential properties such as an office building or a hotel can also be financed with a mortgage. In either case, the loan is amortized which means that the borrower pays off the loan over time in some combination of principal and interest payments that results in full payment of the debt by maturity (Mishkin and Eakins, 2009).

The interest rate that borrowers pay the lenders in exchange for having the money today is a very important factor when borrowers make their decisions about which mortgage to obtain. Additionally, mortgage contracts are detailed documents that contain several financial and legal terms to mitigate the possible risks that can be faced by mortgage lenders. One of them is the lien that is placed against the real estate property. Another one is the down payment that necessitates the borrower to pay a part of the purchase price. Borrowers should also qualify for the mortgage and be ready to buy private mortgage insurance as a guarantee for a case of a default (Aguko, 2010).

A mortgage market involves many participants and according to Fabozzi (2001), the industry can be categorized into four groups as mortgage originators, mortgage servicers, mortgage insurers and mortgage investors. A mortgage originator is the original lender of the mortgage. Commercial banks, thrift institutions, mortgage banks, life insurance companies, pension funds are the mortgage originators. After a mortgage is granted, a mortgage originator can hold the mortgage in its portfolio, sell the mortgage to an investor who will either hold the mortgage or who will add the mortgage in a pool of mortgages to be used as collateral for the issuance of mortgage-backed security, or use the mortgage as collateral for its own issuance of a mortgage-backed security (Fabozzi, 2001).

Many mortgage originators are also mortgage servicers, and mortgage servicers are the ones who complete the loan-servicing job in return for a servicing fee (a certain percentage of the total loan amount). The loan-servicing agent; 1) collects payments from the borrower, 2) passes the principal and interest on to the investor, 3) keeps required records of the transaction, and 4) maintains reserve accounts for tax and insurance payments on behalf of the borrower (Albon, 2005).

2.3.2. Loan interest rate on loan

Generally, theories agreed that; interest rates yielded by any investment taking into account the following parameters: the risk-free cost of capital, inflationary expectations, the level of risk in the investment and the costs of the transaction. Indeed, interest rates are thus made to keep inflation within a target range for the health of economic activities to safeguard economic momentum. In a surveyed study to entrepreneurship on the focus requested to anticipate if the future rise in interest rates would adversely impact their business, 86% say that their business has no borrowing but has cash reserves, which is shielding their business from such a rise. In the case to consider issues on consumer demand to fall, observation was however, that, cash reserves offset any interest rate rise. Therefore, higher interest rates will mean the cost of loans will go up, which will have a knock-on effect on peoples" disposable income (Zhi, 2010). Moreover, reduction in the volume of lending is heavily impact entrepreneurship as these justifiable grounds supports that: rise in interest rate increases the costs of borrowing, this situation tend to discourages people from borrowing and saving. People who already have loans will have less disposable income because they spend more on interest payments, thus other areas of consumption tend to fall. Rising interest rates affect both consumers and firms, as the economy is likely to experience falls in consumption and investment as it tend to discourages investment as it makes firms and consumers less willing to take out risky investments and purchases. It reduces however, confidence in the sense that, interest rates have an effect on consumer and business confidence. In this ground it increases incentive to save rather than spend as the higher interest rates make it more attractive to save in a deposit account because of the interest gained (Asantey & Tengey (2014).

2.3.5. The five C’s of Bank loans analysis

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 was 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 (Van Hoose, &. 2013).

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.

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.

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).

2.4. Review related Performance

Performance is defined as "the degree of fulfillment of objectives, goals, plans or programs that an organization has set for itself. Urged that performance is the end result of motivation, that performance is a function of ability and motivation (Benton and Halloran, 2015).

2.4.1. Indicators of performance

The profitability ratios are used to measure how well a business is performing in terms of profit. The profitability ratios are considered to be the basic company financial ratios. In other words, the profitability ratios give the various scales to measure the success of the firm. The profitability 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, 2015).

Gross Margin

Gross margin tells you about the profitability 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=

Operating Margin

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=

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:

ROA=

Return on Equity

Return on equity measures how much a company makes for each dollar that investors put into it. 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=

Return on Sales

This ratio tells you what percentage of income you generated from sales is available to retain as earnings for future investment or for dividends to be distributed to your shareholders. You can calculate it by dividing the net income (NI) by sales (S) and multiplying the quotient by 100:

ROS=

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. 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=*100

2.5. Empirical review

Waweru and Kalani (2017) 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 (2017) 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 (2018) 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. Aboagye and Otieku, (2010) 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, 2010).

Musyoki and Kadubo (2011) 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 (2010) 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 2004 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 (2010) result provides the rationale to consider other variables that could impact on bank's performance

Most relevant to this study is a working paper by Sadaqat et al., (2016) which studied financial and nonfinancial business risk. They found that non-financial and financial risk had a positive relationship with bank size. The result proposed that the banking system of Pakistan is well diversified. Moreover the size of market also effect the tendency of risk management practices (Chaudhry, 2015).

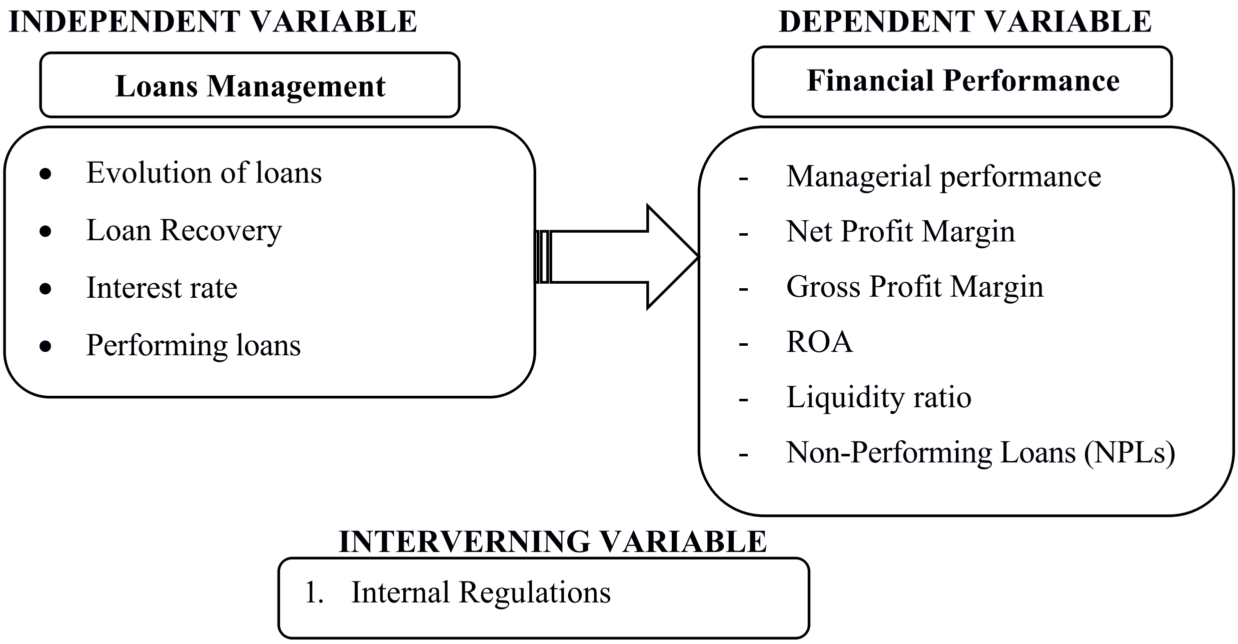
2.6. Research Gap

Generally, from almost all surveys reviewed in the literature, it was evident that loan management was essential in optimizing loan performance in commercial banks. According to Parrenas (2015), organizations have long viewed the problem of loan management as the need to control risks which make up most, if not all, of their risk exposure, credit, interest rate, foreign exchange and liquidity risk. While they recognize counterparty and legal risks, they view them as less central to their concerns.

Where counterparty risk is significant, it is evaluated using standard credit risk procedures, and often within the credit department itself. Likewise, most organizations would view legal risks as arising from their credit decisions or, more likely, proper process not employed in financial contracting. From the literature above, its clear that there is plenty of studies that have been conducted about loan management and loan performance in commercial banks and other financial institutions. However, the most of the existing literature reviewed is specifically focused on credit risk, and not loan management in general, which leaves an empirical gap. Also, the various empirical studies reviewed in the previous section have made any effort to explain the link between loan management and the modern portfolio theory, which leaves a theoretical gap. Additionally, none of these studies was conducted in Rwanda, and given the fact that every country has a different set of financial condition in which its financial institutions operate, which leave a geographical gap. These was the knowledge gaps that this study intended to fill.

2.7. Conceptual Framework

A conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply.



Source: Researcher, 2024

CHAPTER THREE: RESEARCH METHODOLOGY

The purpose of this chapter is to describe the methodological approach and techniques that was used in the study. It described the methods and techniques that was used in selecting the sample and data collection. It was further described how data was collected, processed and finally how was analyzed to give the implication of findings.

3.1 Research Design

According to Cooper (2006), the research design constitutes the way through which data are collected and analysed. The research was designed in manners that enable the researchers to collect data that was to meet the objectives of the study. This research was cross-sectional because it is qualitative and quantitative, the quantitative approach was used because the study was based on variables that was measured with numbers and was analyzed with statistical procedures. While qualitative approach was used as the study used some open ended and closed questionnaire to explore the depth understanding, views and attitudes of the research participants/ respondents on the contribution of bank loans on development of owners of small and medium enterprises. It will use inferential and descriptive statistics, thus this research is descriptive and explanatory.

3.2 Data Collection Techniques and Tools

There are a number of research instruments available to researcher to gather information such as guide for questionnaire and documentation. To carry this study a variety of tools was used, as practical means of obtaining information related to the research topic.

3.2.1. Document Technique

Documentation includes all references and hat offer to the reader a way to retrace his research. This means any written materials that contain information about the phenomenon we wish to study (Anderson, 2014).

These consist of using secondary data obtained from literature review such as books, reports, websites and journals, with information related to contribution of bank loan to the performance of Bank of Kigali Plc. These documents was used by the researchers to find out the existing literature about loan management.

3.3. Validity and Reliability tests

Validity is the extent to which a test measures what it is supposed to measure. The question of validity is raised in the context of the three points: the form of the test, the purpose of the test and the population for whom it is intended (Cronbach, 2010). Validity of the instruments tested. The process 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. This was included the item analysis that is carried out with the aid of the supervisor, research experts knowledgeable about the themes of the study.

3.4. Data processing

The researcher 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.

3.4.1. 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 credit management of BANK OF KIGALI PLC.

3.4.2. Coding

The coding was applied for classify the data aimed at easy manipulation credit management another quantitative data. It was done to categorize analysis was done by using different methods of credit management analysis of BANK OF KIGALI PLC.

3.4.3. Tabulation

The researcher 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.

3.5. Methods of data analysis

The process of data analysis was used by the researcher after data collection in order to make deep interpretation and understanding by using statistical and descriptive analysis methods.

3.5.1. Statistical Method

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

3.5.2. Descriptive Method

Descriptive research is used to describe characteristics of a population or phenomenon being studied. Descriptive research generally precedes explanatory research. Thus, Descriptive research cannot be used to as the basis of a causal relationship, where one variable affects another. In other words, descriptive research can be said to have a low requirement for internal validity. The description was used for frequencies, averages and other statistical calculations by using SPSS version 22.0.

3.5.3. Analytical method

According to Grawitz (2005), it is synthesized, that is to say globalized information and data into a coherent whole. This method will interven in the research in order to have a deep analysis on information and other different data from the field related to this research.

3.5.4. Historical method

Historical method comprises the techniques and guidelines by which historians use primary sources and other evidence, including the evidence of archaeology, to research and then to write histories in the form of accounts of the past (Prevenier, 2001). This historical method contains the techniques and guidelines by which historians use primary sources and other proves to study and to write the history. This method helped the researcher to analyze in the bank loans from BANK OF KIGALI PLC.

3.6. Limitations of the Study

This research will cover the period of four years and this period is not enough to cover everything about contribution of bank loans on performance of Bank of Kigali Plc because of time and other resource help researcher to accomplish the entire research project.

Regarding the survey, small sample was made, the reason why some of respondents choose not to answer the questionnaire. During this research the researcher will encounter some limitation regarding of lackey of answers, but rather just mentioning, and there are problems of accessing internet and money.

3.7. Ethical considerations

Prior to field work authorization sought to competent authorities and signed authorization or recommendation Letter obtained to allow credibility on the field. In terms of ethical consideration, participation in this study was made at a voluntary basis and names of interviewees was not even be recorded anywhere. If a respondent feel like they don't want to answer a particular questions or they feel like ending the interview at any stage, they was free to do so. If a respondent refuse to participate in the study, no forcing was allowed at all so that scientific ethical norms are respected.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF THE FINDINGS

4.0 Introduction

This chapter is the presentation, interpretation and discussion of results. The chapter begins with the presentation of the response rate, followed by the demographics of the respondents, then descriptive statistics and ends with the presentation, interpretation and discussion of inferential statistics for hypotheses testing.

4.2. Effectiveness of loan management offered by Bank of Kigali Plc

The performance indicators of BK Ltd improved year by year depending the environment and objectives of the bank. To analyze the performance of BK, 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).

4.2.1.Trend of loans of Bank of Kigali 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 2020-2023 was the guidelines of this section and was focused point to determine if the bank loans management applied in Bank of Kigali Plc effectives.

Table 4.1: Trend of loan granted

Year	2020	2021	2022	2023
Loan granted	851,099,810	990,267,321	1,134,512,318	1,244,843,264
Change in Rwf (000)	-	139,167,511	144,244,997	110,330,946
Change in %	**-**	**0.16**	**0.15**	**0.10**

Source: BK Ltd Annual report from 2020-2023

According to the above table the researcher have found that from 2020-2023 BK Ltd has increased its credits where 16% in 2021, 15% in 2022 and 10% in 2023. This increase of loan granted by BK ltd resulted from strong management of loan. At the end of 2021 shows how the credit amount progressed from 2020 to 2023 the amount has raised step by step at the beginning, Bank of Kigali Plc offered Rfw 851,099,810 to Rwf 1,244,843,264 from 2020 up to 2023. This considerably achievement in loan department comes from the good bank loans management and shows the effectiveness in bank loans management in Bank of Kigali Plc.

4.2.2. Distribution of loans by sectors

The following table shows the classification of loans from different sectors.

Table 4.2. Corporate loans and advanced of Bank of Kigali Plc

Corporate loans and advanced	2020		2021		2022		2023	
	"000, Frw"	**%**	**"000, Frw"**	**%**	**"000, Frw"**	**%**	**"000, Frw"**	**%**
Corporate	689,632,424	81%	820,280,672	83%	917,423,898	81%	861,819,290	69%
SMEs	128,593,947	15%	131,345,473	13%	137,272,914	12%	206,305,984	17%
Non-profit entities	9,244,305	1%	7,920,000	1%	15,384,918	1%	27,999,595	2%
Total corporate loans	**827,470,676**	**97%**	**959,546,145**	**97%**	**1,070,081,730**	94%	1,096,124,869	88%
Discount on economic refinancing loans	-4,197,265	0%	-2,235,213	0%	(6,149,016)	-1%	(5,031,355)	0%
Adjusted corporate loans	**823,273,411**	**97%**	**957,310,932**	**97%**	**1,063,932,714**	94%	1,091,093,514	88%
Total retail loans book	104,262,189	12%	115,799,258	12%	150,204,368	13%	245,363,307	20%
Total expected credit losses /credit impairment provision	-76,435,790	-9%	-82,842,869	-8%	-79,624,764	-7%	(91,613,557)	-7%
Total corporate loans	**851,099,810**	**100%**	**990,267,321**	**100%**	**1,134,512,318**	**100%**	**1,244,843,264**	**100%**

Source: Bank of Kigali Plc, Annual report from 2020-2023

The table presents data on corporate loans and advances by Bank of Kigali Plc from 2020 to 2023. It includes the amount and percentage of loans extended to different segments such as corporates, SMEs, and non-profit entities, along with the total corporate loans, adjustments for economic refinancing loans, total retail loans, and credit impairment provisions.

Corporate loans consistently form the largest portion of the total loans, although their percentage of the total has decreased from 81% in 2020 to 69% in 2023. The absolute amount of corporate loans increased from 689,632,424 Frw in 2020 to a peak of 917,423,898 Frw in 2022 before decreasing to 861,819,290 Frw in 2023.

The share of SME loans in the total loans has increased from 15% in 2020 to 17% in 2023. The amount of SME loans increased from 128,593,947 Frw in 2020 to 206,305,984 Frw in 2023, showing significant growth in this segment. The percentage of loans to non-profit entities remained relatively low but saw an increase from 1% in 2020 to 2% in 2023. The absolute amount of these loans increased from 9,244,305 Frw in 2020 to 27,999,595 Frw in 2023.

The total amount of corporate loans increased from 827,470,676 Frw in 2020 to 1,096,124,869 Frw in 2023. However, their percentage of the total loans decreased from 97% in 2020 to 88% in 2023. After adjusting for economic refinancing loans, the total adjusted corporate loans show a similar trend, with an increase in absolute terms but a decreasing percentage of the total loans. The discount on economic refinancing loans fluctuates, showing a negative impact on the total loan amounts. This adjustment reflects the discounted value of refinanced loans to stimulate economic activity.

The total retail loan book saw a significant increase from 104,262,189 Frw in 2020 to 245,363,307 Frw in 2023. The percentage of retail loans as part of the total loans increased from 12% in 2020 to 20% in 2023, indicating a growing focus on retail lending.

The expected credit losses/credit impairment provision shows a consistent negative impact on the total loan amounts, with figures ranging from -76,435,790 Frw in 2020 to -91,613,557 Frw in 2023. The percentage impact of these provisions remained steady around -7% to -9% of the total loans.

The total corporate loans, including adjustments and provisions, increased from 851,099,810 Frw in 2020 to 1,244,843,264 Frw in 2023. This shows overall growth in the bank's loan portfolio despite adjustments for refinancing and credit losses.

This shows that data reflects a strategic shift by Bank of Kigali Plc towards diversifying its loan portfolio by increasing its focus on SME and retail loans. Despite the decreasing percentage of corporate loans, the overall loan book has grown significantly. This diversification can help mitigate risks and capture new market opportunities, ensuring sustained growth and stability for the bank. Bank of Kigali Plc has shown robust growth in its loan portfolio from 2020 to 2023, with significant increases in corporate, SME, and retail loans. The bank's strategy appears to focus on diversification and risk management, with a growing emphasis on supporting SMEs and expanding retail banking services. This balanced approach is likely to enhance financial stability and drive long-term growth.

Table 4.3. Trend of loans offered by Bank of Kigali Plc to SMEs

	2020	**2021**	**2022**	**2023**
Small and medium entreprises	128,593,947	131,345,473	137,272,914	206,305,984
Variation	-	2,751,526	5,927,441	69,033,070
Trend in %	**-**	**0.021**	**0.045**	**0.50**

Source: ***Bank of Kigali Plc*** Annual report from 2020-2023

This table presents data on the loans offered by Bank of Kigali Plc to small and medium enterprises (SMEs) from 2020 to 2023. It includes the amount of loans in "000, Frw", the variation in loan amounts year-over-year, and the percentage trend of these variations.

From 2020 to 2022, the loans to SMEs showed steady, modest growth. The year-over-year increase in loan amounts was relatively small, with growth rates of 2.1% and 4.5% respectively. This indicates a consistent but slow increase in the bank's lending to SMEs during these years. In 2023, there was a dramatic increase in the amount of loans offered to SMEs. The loan amount surged by 69,033,070 Frw, representing a 50% increase from the previous year. This substantial growth highlights a significant strategic shift or an increased focus on the SME sector by the bank.

Under the Innovation Pillar, the Bank unveiled ‘Urumuri Initiative’ which was an annual youth led enterprise challenge where young people with innovative solution based project ideas with great commercial potential to support sustainable national economic growth will compete for interest-free financing to invest in their projects.

The Bank made available Rwf 60million worth of interest free financing. Over 300 project applications were received but only fifty were selected for the competition. The six winners were selected for outstanding projects promoting Made in Rwanda and employment. These include Kipepeo Kids, Nziza Igisura, Ishyo Foods Business Enterprise, Greenleaves Business Enterprise, Avo Health Business Enterprise and Amazon Nutrition Cabinet which won interest free loans. In 2021, a group of ten entrepreneurs competed for interest-free loans in an intensified business pitch under the fifth BK Urumuri Initiative. In a span of two weeks, five winners were chosen to be equipped with business skills under Inkomoko's rigorous six-month accelerator program, as well as given access to finance. Since its inception, the BK Urumuri Initiative has fostered the growth of 125 entrepreneurs, with Frw 60,000,000 provided in interest-free loans.

The Bank of Kigali and Inkomoko decided to open this opportunity to all sectors, considering the need for digital solutions through different business categories. In a span of two weeks, six winners were chosen to be equipped with business skills under Inkomoko's rigorous six-month accelerator program, as well as given access to finance through interest-free loans. Since its inception, the BK Urumuri Initiative has fostered the growth of 125 entrepreneurs, with Frw 60 million provided in interest-free loans (BK GROUP PLC, Annual Report, 2023).

This shows that the trend of loans offered by Bank of Kigali Plc to SMEs from 2020 to 2023 indicates a significant and growing commitment to supporting the SME sector. The sharp increase in 2023 highlights a strategic emphasis on expanding lending to SMEs, which can be attributed to economic, regulatory, and market-driven factors. This growing trend reflects the bank's recognition of the importance of SMEs in driving economic development and diversification of its loan portfolio.

4.2.3. Comparison between loan to deposit of Bank of Kigali Plc

The bank stresses the importance of current account and savings account as sources of funds to finance lending to customers. In this section we should the comparison between the deposits and loan issued by Bank of Kigali Plc during our period of study in order to show the compliance with BNR's regulations.

Loans to deposits ratio =

Table 4.4: Loan to deposits of Bank of Kigali Plc

Year	2020	2021	2022	2023

	(Rwf000)	(Frw'000)	(Frw'000)	(Frw'000)
Total Loan	851,099,810	990,267,321	1,134,512,318	1,244,843,264
Customers' Deposit	790,811,261	974,494,626	1,075,188,572	1,374,342,881
Total Loan/Deposit	**1.08**	**1.02**	**1.06**	**0.91**

Source: Bank of Kigali Plc's Annual Report, 2020-2023

The table presents the loan to deposit ratio (LDR) of Bank of Kigali Plc from 2020 to 2023. This ratio is a key financial metric used by banks to assess their liquidity and financial stability, and it is closely monitored by central banks as part of regulatory oversight.

The total loans extended by Bank of Kigali Plc increased steadily from 851,099,810 Frw in 2020 to 1,244,843,264 Frw in 2023. This shows the bank's growing loan portfolio over the years.

Customers' deposits also increased consistently during the same period, reflecting growing trust and confidence in the bank. Deposits rose from 790,811,261 Frw in 2020 to 1,374,342,881 Frw in 2023.

The loan to deposit ratio indicates the proportion of the bank's loans relative to its deposits. In 2020, the ratio was 1.08, meaning the bank's loans exceeded its deposits. However, this ratio decreased over the years, reaching 0.91 in 2023.

The Central Bank policy regarding the liquidity position of financial institutions state that the Bank should have at least the minimum liquid cash of 20% just in case its clients need to withdraw money to their accounts get it every and anytime they need it.

In 2020, the Bank of Kigali Plc provided its clients the total loans of 108% to the money deposited by them.

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%. Moreover, these figure mentioned in the above table highlight some threats that the bank faced therefore, there may cause of the challenges such as lacking the enough liquidity or cash to be reimburse to the owners in case they immaturely need to withdraw their money not only that but also difficulties in covering some internal costs like paying the owners deposits. During the period of the study Bank of Kigali Plc has provided more than 80% of clients' deposits but this doesn't mean the violation of BNR requirement rather it has used its own financial capacity such as reserves, capital, assets, interest received of Bank of Kigali Plc.

The data suggests that Bank of Kigali Plc has been managing its loan to deposit ratio prudently, with the ratio decreasing over the years. This indicates compliance with Central Bank regulations and a focus on maintaining a healthy liquidity position. The increasing trend in customers' deposits further supports the bank's ability to fund its lending activities while maintaining stability and mitigating risks. Overall, the bank's management of its loan to deposit ratio reflects sound risk management practices and regulatory compliance.

4.2.4. 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=

Table 4.5. Recovery Loans to total loans

Year	**2020 (Rwf000)**	**2021 (Frw'000)**	**2022 (Frw'000)**	**2023 (Frw'000)**
Total Loan	851,099,810	990,267,321	1,134,512,318	1,244,843,264
Loan recovery	779,805,725	937,783,153	1,106,149,510	1,193,034,892
RATIO	**0.92**	**0.95**	**0.98**	**0.96**

Source: Bank of Kigali Plc**'s Annual Report, 2020-2023**

The table 4.5 shows performing loans to total loan of BK that the ratio was good during our period of study 2020-2023, the normal ratio of NBR required to banks should be under 92% in 2019 and in 2020 the ratio increased up to 92%, 95% from 2021, 98% in 2022 and 96% in 2023. This shows that Bank of Kigali Plc during the period of the study was able to cover the loans offered to customers as required by national bank.

4.2.5. 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=

Table 4.6. Non-Performing Loans to total loans

Year	2020 (Rwf000)	2021 (Rwf000)	2022 (Rwf000)	2023 (Rwf000)
Non-Performing loan (NPL)	71,294,085	52,484,168	28,362,808	56,017,947
Total Loan (Rwf'000)	851,099,810	937,783,153	1,134,512,318	1,244,843,264
RATIO	**8.40%**	**6%**	**2.50%**	**4.5%**

Source: Bank of Kigali Plc's Annual Report, 2020-2023

Table 4.6 regarding the non-performing loans (NPL) to total loans ratio for the years 2020, 2021, 2022, and 2023 as per the Central Bank of Rwanda regulations, we can observe the following trends:

In 2020, the NPL was 71,294,085 Rwf and the total loans were 851,099,810 Rwf. This resulted in an NPL to total loans ratio of 8.40%.

Moving on to 2021, there was a decrease in NPL to 52,484,168 Rwf while total loans increased to 937,783,153 Rwf. Consequently, the NPL to total loans ratio decreased to 6%.

In 2022, there was a further decrease in NPL to 28,362,808 Rwf and an increase in total loans to 1,134,512,318 Rwf, leading to a significant drop in the NPL to total loans ratio which stood at 2.50%.

Finally, in 2023, there was a notable increase in NPL to 56,017,947 Rwf and total loans also increased to 1,244,843,264 Rwf, resulting in an increase in the NPL to total loans ratio which reached 4.5%.

This data indicates that there has been a fluctuation in the NPL to total loans ratio over the years under consideration. The decreasing trend from 2020 to 2022 suggests an improvement in loan quality and risk management by financial institutions. However, the slight increase observed in 2023 may warrant attention from regulatory authorities.

4.3 Contribution of bank loans on performance of Bank of Kigali Plc

4.3.1 Profitability ratios

The profitability ratios are used to measure how well Bank of Kigali Plc is performing in terms of profit. The profitability ratios are considered to the basic bank ratios, in another words the profitability ratios gives the various scales to measure the success of Bank of Kigali Plc.

4.3.1.1 Interest expense to interest income

The interest expense to interest income is a financial ratio used to measure how much expense paid by bank according to the interest income earned for the year. This table below shows the ratio presents the interest expense in income of Bank of Kigali Plc period for four years.

Table 4.7: Interest expense to interest income of Bank of Kigali Plc

Components	**2020**	**2021**	**2022**	**2023**
	(Rwf'000)	**(Rwf'000)**	**(Rwf'000)**	**(Rwf'000)**
Interest expense	32,697,702	40,301,177	49,673,037	51,452,655
Interest income	145,491,017	176,802,535	187,448,813	216,837,693
Interest expense/ Interest income	**0.22**	**0.23**	**0.26**	**0.24**

Source: Bank of Kigali Plc's Annual Report, 2020-2023

Mainly financial institution their main goal is to maximize profit in order to maximize profit their main source of income is through loan management. As we know loan management are considered to be main assets of bank for the bank to be able to collect their assets they have to incur expenses, after deducting expenses there remains income. The table above shows the proportion of expenses to interest income of Bank of Kigali Plc.

In 2020 Bank of Kigali Plc's interest income was 145,491,017 Frw, and interest expense occurred in order to get that income was 32,697,702 Frw, which was 22%. This means that on l00 Frw of income generated in loan management services, Bank of Kigali Plc incurred an expense of 22 Frw, while in 2021 the ratio on interest expenses are 23%. According to previous year Bank of Kigali Plc has made an effort because reduced of expenses because the covered yeas varied from 19% to 23% which is good indicator for good performance, as expense reduces as income increases too.

In 2022 Bank of Kigali Plc the interest income was 187,448,813 Frw, and interest expenses were 49,673,037 Frw which was 26%. On every l00 Frw gained in loan management investments Bank of Kigali Plc used an expense of 26 Frw.

For the year 2023, it is projected that the interest expense will further increase to Rwf49,673,037 and the interest income will rise to Rwf187,448,813. The estimated ratio for 2022 is 0.26.

Looking at these figures over the years analyzed in Table 4.7, we can observe a slight increase in the interest expense to interest income ratio from 2020 to 2023. This indicates that a higher proportion of the bank's income is being used to cover its interest expenses over time.

This shows that the results presented in Table 4.7 reflects the trend of interest expense to interest income ratio for Bank of Kigali Plc over a four-year period. While both interest expense and income have increased over time, the ratio fluctuates, indicating variations in the bank's interest margin and profitability. It is crucial for the bank to effectively manage its interest expenses and maintain a healthy interest margin to sustain profitability and financial stability.

4.3.1.2 Return on Equity

Return on equity reveals how much profit a company earned in comparison to the amount of shareholders equity found on balance sheets. The return on equity all investors to know how efficiently the money that they have invested in firm is being used.

Return on equity (ROE) is a measure of profitability that calculates how many dollars profit a company generates with each Frw of shareholders' equity. The formula for ROE means that ROE = Net Income/Shareholders' Equity. ROE is sometimes called "return on net worth."

Table 4.8: Return on Equity of Bank of Kigali Plc

Formula	**2020 (RWF'000)**	**2021 (RWF'000)**	**2022 (RWF'000)**	**2023 (RWF'000)**
Net income	38,533,134	51,894,970	59,724,310	74,817,679
Total Equity	259,144,020	285,700,114	319,076,380	366,357,418
ROE	**0.15**	**0.18**	**0.19**	**0.20**

Source: Annual report of Bank of Kigali Plc from 2020-2023

Table 4.8 presents the Return on Equity (ROE) of Bank of Kigali Plc for the years 2020 to 2023. ROE is a financial ratio that measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested.

In 2020, the net income of Bank of Kigali Plc was RWF 38,533,134, and the total equity was RWF 259,144,020. By applying the formula, the ROE for 2020 was calculated as 0.15 or 15%. This indicates that for every Rwandan Franc of equity invested by shareholders, the company generated a return of 15%.

Moving on to 2021, the net income increased to RWF 51,894,970 while total equity also rose to RWF 285,700,114. The ROE for this year was computed as 0.18 or 18%, showing an improvement in profitability compared to the previous year.

In 2022, both net income and total equity continued to grow to RWF 59,724,310 and RWF 319,076,380 respectively. The resulting ROE for this year was calculated as 0.19 or 19%, indicating a further increase in profitability.

Finally, in 2023, Bank of Kigali Plc achieved a net income of RWF 74,817,679 and total equity of RWF 366,357,418. The ROE for this year was determined as 0.20 or 20%, demonstrating continued growth in profitability and efficiency in utilizing shareholder funds.

Overall, the trend in ROE for Bank of Kigali Plc shows a positive trajectory over the four-year period from 2020 to 2023. This indicates that the company is effectively generating returns for its shareholders and managing its equity well.

This showa that in 2020 net income to equity was 15 Frw, on each 100 Frw invested the return was 15 Frw, according to previous year the return on equity was constant, this is not good because it means that income generated minus expenses was equal, there no remaining distributable income to shareholders. In 2021 net income to equity was 18 Fwf, which mean 100 Frw invested by shareholders, return was 18 Rwf, this is good compared to previous year of 2021, and it shows that Bank of Kigali Plc has continuous improvement maximizing shareholders wealth. In 2022 net income to equity wa 19 Frw means that ueach 100 Frw invested in Bank of Kigali Plc generated 19 Frw. The return on equity this means that the higher return on equity ratio, the more efficiency of Bank of Kigali Plc is at using its stockholders equity to generate more income but Return On Equity was generate good in the period of study because all Return On Equity was positive but management should utilize more stockholder's equity in order to generate more income. All this shows that there is a good loan management services which will push the investors continuity to invest and increase the capital of Bank of Kigali Plc.

4.3.1.3 Return on assets ratio

Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets. Net income is derived from the income statement of the company and is the profit after taxes.

Table 4.9: Return on assets ratio of Bank of Kigali Plc

Year	**2020 (RWF'000)**	**2021 (RWF'000)**	**2022 (RWF'000)**	**2023 (RWF'000)**
Net Income	38,533,134	51,894,970	59,724,310	74,817,679
Total asset	1,044,660,466	1,590,372,983	1,853,994,433	2,120,116,142
ROA	**0.037**	**0.033**	**0.032**	**0.035**

Source: Bank of Kigali Plc's Annual Report, 2020-2023

Return on assets ratio indicates the amount of net income generated by 100 Frw invested in assets of Bank of Kigali Plc from 2020-2023.

In 2020, the ROA was at its highest at 3.7%, indicating strong profitability relative to asset base.

In 2021, there was a decrease to 3.3%, suggesting either an increase in total assets outpacing net income growth or a decrease in profitability.

In 2022, it further decreased slightly to 3.2%, continuing the trend observed in the previous year.

In 2023, there was an improvement with ROA rising to 3.5%, indicating better utilization of assets to generate profits compared to the previous two years.

The fluctuations in ROA suggest varying efficiency levels in asset utilization over these years. A higher ROA typically indicates more efficient management and better performance since it shows that more profit is being generated per unit of asset.

This means that higher return on assets ratio, the more efficiency Bank of Kigali Plc is, by using its stake holder equity to generate good in period of study but management of Bank of Kigali Plc should improve the way on how they utilize its assets in order generate more income because the ROA it has reduced in 2018. ROA shows the ability of management of Bank of Kigali Plc to acquire deposits at a reasonable cost and invest them in profitable investment. This ratio indicates how much net income generated per l00 Frw of assets.

4.3.1.4 Net operating income (NOI) ratio

Net operating income (NOI) is a calculation used to analyze real estate investments that generate income. Net operating income equals all revenue from the property minus all reasonably necessary operating expenses. Operating expenses are those required to run and maintain the building and its grounds, such as insurance, property management fees, utilities, property taxes, repairs and janitorial fees.

Table 4.10: Net operating income (NOI) ratio

Year	2020	2021	2022	2023
	(RWF'000)	(RWF'000)	(RWF'000)	(RWF'000)
Net Income	38,533,134	51,894,970	59,724,310	74,817,679
Total Operating Income	80,294,930	77,068,445	88,675,988	109,817,820
NOI	**0.67**	**0.67**	**0.67**	**0.68**

Source: Bank of Kigali Plc's Annual Report, 2020-2023

Each and every financial institution work toward profit, the Bank of Kigali Plc also needs to get income or profit from its operations. In order to know how much you generate you must know how much operating income you used. Net operating income equals all revenue from the property minus all reasonably necessary operating expenses.

In 2020 and 2021, Bank of Kigali Plc gained 67% of net income. This means that Bank of Kigali Plc managed its expenses effectively in order to gain much profit.

As you can see, l00 Frw used as operating income by Bank of Kigali Plc generated a net income of 67Frw and it's a good indicator for good performance of Bank of Kigali Plc because year by year it tried to minimize its expenses in order to maximize net income.

In 2023, l00 Frw of total operating income used by Bank of Kigali Plc generated a net income of 68 Frw. This shows that comparing to the previous year (2020), Net income of Bank of Kigali Plc increased. It means that it tried to minimize the expenses in order to maximize profit. This change in income to total operating income caused by increased of expenses for years of study.

4.3.2. Liquidity ratios

Liquidity ratios measure the short-term ability of bank to pay its maturing obligations and to meet unexpected need for cash. Liquidity ratios for Bank of Kigali Plc express its ability to meet the short-term liability when they become due for payment. It also measures its ability to meet customers frequent withdraws.

4.3.2.1 Current Ratio

This ratio is calculated according to BNR instruction and it shows the ability of banks to pay short-term obligations when fall due. The current assets of Bank of Kigali Plc included: cash in hand, cash balance with BNR, due from banks, loan management services and advanced, other assets, financial investment available for sales. The current liabilities included customer deposits, due to banks, tax payables, and other payable.

Table 4.11. Current ratio

This table presents firm's ability to meet its current obligation in its daily operation and also calculating by dividing the current asset to current liabilities.

	2020	2021	2022	2023
Total current Asset	1,245,961,838	1,523,020,957	1,781,091,800	2,058,474,872
Total current liabilities	944,645,180	1,211,106,191	1,400,563,694	1,605,724,039
CURRENT RATIO	**1.32**	**1.26**	**1.27**	**1.28**

Source: Bank of Kigali Plc's Annual Report, 2020-2023

During the research period from 2020-2023, current ratio is the following: 132, 125, 127 and 128 respectively. As the standard required by central bank, liquidity ratio has to be 100% CR included. Current ratio of BK meets the requirement compared to standard of central bank which ensures that firm is able to cover its short term obligations.

GENERAL CONCLUSION AND SUGGESTIONS

GENERAL CONCLUSION

The main objective of this study is to examine the role of bank loans on performance of commercial banks in Rwanda.

The Specific objectives are:

1. To examine the effectiveness of bank loans offered by Bank of Kigali Plc.
2. To determine the contribution of bank loans contribute to the performance of Bank of Kigali Plc.

For achieving the above objective, the researchers have tried to answer the following questions which helped researchers to test the hypothesis:

1. Does bank loans of Bank of Kigali Plc are effective managed?

2. Do loans offered by BANK OF KIGALI PLC contribute to the performance of Bank of Kigali Plc?

In order to respond to those statement problems, the researchers formulated the following hypothesis:

1. Bank loans of Bank of Kigali Plc are effective managed
2. Loans offered by BANK OF KIGALI PLC contribute to the performance of Bank of Kigali Plc

Referring to these hypotheses I have organized this study into three chapters with the general introduction at first in which I have presented the significance of the study, scope, problem statement, and hypothesis and research objectives to attend which are:

The reach was classified into following four chapters:

the first chapter presents general intoduction, The second chapter is literature review which presents a full description the research topic related terms and concepts and the third chapter was research methodology.

The fourth hapter presents the presentation of the findings with verification of objectives of the study:
First objective is to assess the effectiveness of loan management offered by Bank of Kigali Plc where the level at which respondents agreed or disagreed with the above statements relating to collection policy of Bank of Kigali 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.
Corporate loans consistently form the largest portion of the total loans, although their percentage of the total has decreased from 81% in 2020 to 69% in 2023. The absolute amount of corporate loans increased from 689,632,424 Frw in 2020 to a peak of 917,423,898 Frw in 2022 before decreasing to 861,819,290 Frw in 2023.

The share of SME loans in the total loans has increased from 15% in 2020 to 17% in 2023. The amount of SME loans increased from 128,593,947 Frw in 2020 to 206,305,984 Frw in 2023, showing significant growth in this segment. The percentage of loans to non-profit entities remained relatively low but saw an increase from 1% in 2020 to 2% in 2023. The absolute amount of these loans increased from 9,244,305 Frw in 2020 to 27,999,595 Frw in 2023.

The total amount of corporate loans increased from 827,470,676 Frw in 2020 to 1,096,124,869 Frw in 2023. However, their percentage of the total loans decreased from 97% in 2020 to 88% in 2023. After adjusting for economic refinancing loans, the total adjusted corporate loans show a similar trend, with an increase in absolute terms but a decreasing percentage of the total loans. The discount on economic refinancing loans fluctuates, showing a negative impact on the total loan amounts. This adjustment reflects the discounted value of refinanced loans to stimulate economic activity. From 2020 to 2022, the loans to SMEs showed steady, modest growth. The year-over-year increase in loan amounts was relatively small, with growth rates of 2.1% and 4.5% respectively. This indicates a consistent but slow increase in the bank's lending to SMEs during these years. In 2023, there was a dramatic increase in the amount of loans offered to SMEs. The loan amount surged by 69,033,070 Frw, representing a 50% increase from the previous year. This substantial growth highlights a significant strategic shift or an increased focus on the SME sector by the bank.

The second hypothesis presents the contribution of bank loans on performance of Bank of Kigali Plc where the Return on Equity (ROE) of Bank of Kigali Plc for the years 2020 to 2023. ROE is a financial ratio that measures a company’s profitability by revealing how much profit a company generates with the money shareholders have invested. In 2020, the net income of Bank of Kigali Plc was RWF 38,533,134, and the total equity was RWF 259,144,020. By applying the formula, the ROE for 2020 was calculated as 0.15 or 15%. This indicates that for every Rwandan Franc of equity invested by shareholders, the company generated a return of 15%. Moving on to 2021, the net income increased to RWF 51,894,970 while total equity also rose to RWF 285,700,114. The ROE for this year was computed as 0.18 or 18%, showing an improvement in profitability compared to the previous year.

In 2022, both net income and total equity continued to grow to RWF 59,724,310 and RWF 319,076,380 respectively. The resulting ROE for this year was calculated as 0.19 or 19%,

indicating a further increase in profitability. Return on assets ratio indicates the amount of net income generated by 100 Frw invested in assets of Bank of Kigali Plc from 2020-2023.
In 2020, the ROA was at its highest at 3.7%, indicating strong profitability relative to asset base.
In 2021, there was a decrease to 3.3%, suggesting either an increase in total assets outpacing net income growth or a decrease in profitability. In 2022, it further decreased slightly to 3.2%, continuing the trend observed in the previous year. In 2023, there was an improvement with ROA rising to 3.5%, indicating better utilization of assets to generate profits compared to the previous two years. The fluctuations in ROA suggest varying efficiency levels in asset utilization over these years. A higher ROA typically indicates more efficient management and better performance since it shows that more profit is being generated per unit of asset. This means that higher return on assets ratio, the more efficiency Bank of Kigali Plc is, by using its stake holder equity to generate good in period of study but management of Bank of Kigali Plc should improve the way on how they utilize its assets in order generate more income because the ROA it has reduced in 2020. ROA shows the ability of management of Bank of Kigali Plc to acquire deposits at a reasonable cost and invest them in profitable investment. This ratio indicates how much net income generated per l00 Frw of assets. Generally, the objective of the study has been achieved and confirmed.

SUGGESTIONS

BANK OF KIGALI PLC should respect the BNR regulation about loans it means that it should not distributed the loans above 80% of deposit received.

BANK OF KIGALI PLC should minimize their expenses in order to increase their net profit

A collection agency to be contracted to the collection the debts on behalf of the bank on agreeable and reasonable commission.

Make a thorough analysis of client files that require loan and followed him to regular customers.

To show their desire to loans demands rather than fear;

To run more about business plan to convince plan to the BANK OF KIGALI PLC on loans deliveries.

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APPENDICES