

Loan Management and Financial Performance in Financial Institutions: A Case Study of Bank of Kigali Gisenyi Branch (Bk)(2019-2021)

¹Bizimungu Joseph, ²Dr. MISAGO Isai Kadhafi, ³Eliab Byamukama Mpora, ⁴HAGUMIMANA Frank

^{1,2,4} School of Economics and Business Studies, Kigali Independent University, Kigali, Rwanda.

³ College of Economic and Management Science, Kampala International University, Kampala, Uganda

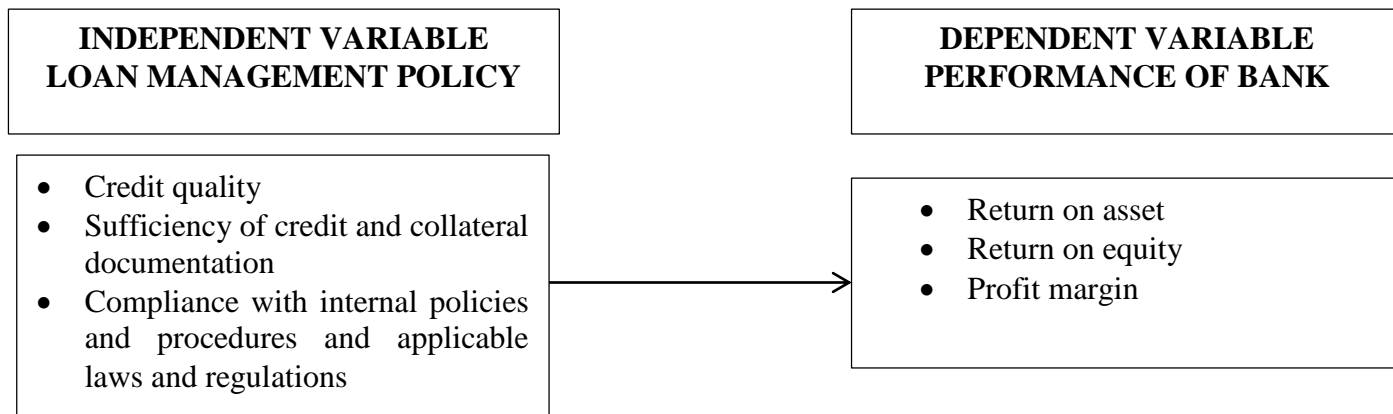
Abstract

This study examined the effect of loan management on the financial performance of commercial banks in Rwanda. Banking sectors play a key role within the development of an economy. The development role the steadiness of banking sector determines the step for development of economy. Hence the steadiness of banking sector may be a key for the event of an economy. Descriptive case study design is used since it allows to the researcher to find information about the present status of a phenomenon to describe “what exist” with respect to variables or conditions in a situation (Yin, 2003). The study considered 20 respondents as sample size. A correlation coefficient measures the strength and direction of a linear association between two. A correlation coefficient measures the strength and direction of a linear association between two variables. It ranges from -1 to 1. The closer the absolute value is to 1, the stronger the relationship. BK should reduce all those process of getting loans and help their clients who requesting for loans to get them in few days, this will help the bank to provide many loans and get profit from it.

Introduction

Commercial banks are one among the banking sectors which are the most source of funding to business activities also other projects throughout the country. They play a key role within the economy by mobilizing deposits from surplus units to deficit units within the sort of loan and advances. As noted by Daniel and Wandera (2013) they play an important role to emerging economies where most borrowers haven't any access to capital markets. Thus, they are considered as an intermediary between the depositors and borrowers. Banks financial performance is adversely suffering from the extent of non-performing loans. loan defaulting loans have been widely used as a measure of asset quality among lending institutions and are often associated with failures and financial crises in both the developed and developing countries, (Guy, 2011). According to National Bank of Rwanda (2014), Rwandan banking sector is also exposed to Different types of Risks mentioned above, through the National bank Of Rwanda (NBR) the government has set some tools and method to make sure that Loan Exposure Risks are mitigated.

The BK Rubavu branch has so far been an exemplary as far as loan management is concerned compared other institution. However, despite The BK Rubavu branch outstanding performance, the loan management is still poor due to weak loan recovery from clients. This exposes the institution to risks such as the decline of profit. This was therefore guided by the following objectives; to analyze the loan management policy in BK; to assess the level of financial performance of BK during the period of study and lastly to find out the relationship between loan management and the level of financial performance of BK.



Materials and Methods

Descriptive case study design is used since it allows to the researcher to find information about the present status of a phenomenon to describe “what exist” with respect to variables or conditions in a situation (Yin, 2003). The was conducted in three branches of Bank of Kigali Plc in Rubavu district and determined 10 respondents as sample size for the study.

The main research instrument used for this study has been the questionnaire. Different sources including text-books, journals, reports (financial reports of BK Plc), published and unpublished thesis and internet sources were used to supplement information collected from primary sources.

Results and Discussion

Biography

Findings indicate that majority of 55% of respondents were male while 45% of respondents were female. This implies that the sampled respondents include both male and female at a proportional rate. The age results shows that 30% of respondents were 51 years and above were the majority. On the education 80% of the respondents have a bachelors’ degree which were the majority. This indicated that the information was relevant to the study.

Analysis of the experience in banking services

Table 1: Showing the analysis of the experience in banking services

Experience in banking services	Number of respondents	Percentage
Less than 1 year	0	0
1-3 years	5	25
4 years and above	15	75
Total	20	100

Source: *Primary Data, 2022*

Findings indicate that 75% of respondents have an experience in banking services which is 4 years and above. This shows that majority of respondents have an experience in banking services which is significant and they are aware of the cash management so that they can provide adequate information on the variable under study.

Calculation of profit margin ratio

Table 2: showing calculation of profit margin ratio

Years	2019 (000)	2020 (000)	2021(000)
Net income	37,308,336	38,433,289	51894970
Net sales	94,773,445	112,793,315	136271358
Ratio = $\frac{\text{Net income}}{\text{Net sales}}$	39.36%	34.07%	38.08%

Source: *BK Financial statements (2019-2021)*

The above table shows that for every 100rwf invested, bank of Kigali generate a profit of in 2019 39.36rwf in 2019, it also generated a profit of 34.07% in 2020 and finally in 2021, 100 Rwf invested in Bk generated the profit of 38.08 Rwf, which is good but require bank of Kigali to improve the means of financing and decisions aimed at generate more profit.

The correlation analysis between loan management and profitability of BK PLC

Table 3: Showing the correlation analysis between loan management and profitability of BK PLC

x	y	x ²	y ²	xy
851,099,810	37,308,336	22,977,439,475,810,400,000	142,712,794,635,841,000	1,810,849,138,158,340,000
678,005,885	38,433,289	27,661,730,982,355,800,000	343,291,404,621,919,000	3,081,563,642,569,570,000
990,267,321	51,894,970	34,419,067,862,044,400,000	847,278,095,306,318,000	5,400,233,537,577,050,000
Σ=2,519,373,016	Σ=2,519,373,016	Σ=85,058,238,320,210,600,000	Σ=1,333,282,294,564,080,000	Σ=10,292,646,318,304,900,000

$$r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{(n \sum x^2 - (\sum x)^2)(n \sum y^2 - (\sum y)^2)}}$$

$$r = 0.748697766$$

$$R^2 = (0.748697766)^2 = 0.56054834 = 56\%$$

A correlation coefficient measures the strength and direction of a linear association between two. A correlation coefficient measures the strength and direction of a linear association between two variables. It ranges from -1 to 1. The closer the absolute value is to 1, the stronger the relationship. A correlation of zero indicates that there is no linear relationship between the variables. The coefficient can be either negative or positive. In our case with reference to the above computations, the result is 0.74 indicating a positive relationship which means that there is a positive relationship between the total loans and profitability. As far as the determination coefficient is concerned, the R² of 56% it means that total loans explain the variation of the dependent variable (net profit) at 56%.

Conclusions

The study examined the loan management and financial performance in financial institutions in the Bank of Kigali Gisenyi Branch. The loan may be for working capital, purchases of equipment or buildings and land. Businesses have to be creditworthy in order to be granted a loan. The loan is generally provided at a cost, referred to as interest on the debt which provides on incentive for the lender to engage in the loans. In a legal loan, each of these obligations and restriction is enforced by contract which can also place the borrower the under additional restriction known as covenant. Although this article focuses on monetary loans, in practice any material objective might be lent.

Recommendations

The recommendations include some suggestions to the BK in their loan management to get profits.

BK should reduce all those process of getting loans and help their clients who requesting for loans to get them in few days, this will help the bank to provide many loans and get profit from it.

The management of BK should help the future researchers by providing them an easy way to get information and data for their research because it was very difficult for me to get all this data.

The BK has to improve they are human connection with their clients. This should be starting by going to visit they are clients business, many clients has complains that after the bank has given them loans they don't come after to see how the business going they only come when it comes to ask for repayment, in my opinion I think this reduce clients who come to the bank because they want another connection with the bank.

To create loans and get profit BK need deposits and those deposits are from clients so it has to improve his departments like marketing and others who are in contact with clients before even working on their credit department.

Ethics approval and consent to participate

The study was conducted using some ethical values. Each respondent to the study was first informed about the purpose and objective of the study and the questionnaires to be administered. After explaining the objective of the study, respondents were assured of anonymity and confidentiality before being administered with the questionnaire because the information are to kept confidentially and being used for academic purpose only.

List of abbreviations

%	: Percentage
ATM	: Automatic Teller Machine
BNR	: Banque Nationale du Rwanda
BNR	: Banque Nationale du Rwanda
BK	: Bank of Kigali
CEO	: Chief Executive Officer
ED	: Edition
ETC	: ET Caetera
LTD	: Limited Company
NPL	: Non Performing Loan
PIN	: Personal Identity Number
PL	: Performing Loan
ROA	: Return on Asset
ROE	: Return on Equity
ROI	: Return on investment
RONA	: Return on net asset
RSSB	: Rwanda Social Security Board
Rwf	: Rwandan Franc
SMS	: Short Message Service
SWIFT	: Society for Worldwide Interbank Financial Telecommunication
TL	: Total loan
ULK	: Université Libre de Kigali

Data Availability

A data availability statement is compulsory for research articles and clinical trials. Here, authors must describe how readers can access the data underlying the findings of the study, giving links to online repositories and providing deposition codes where applicable.

Conflicts of Interest

We the Bizimungu Joseph, Dr. MISAGO Isai Kadhafi, Eliab Byamukama Mpora as authors declare(s) that there is no conflict of interest regarding the publication of this paper.

Funding Statement

This study was funded by our own incomes and aided by the university.

Authors' contributions

Academically, the findings of this study is kept in the library of ULK in reach of all University students any other person interested on the same topic of Loan management on financial performance of banking institutions especially students who undertakes research projects for academic requirements, and scientifically this study uses full to complete the previous undertaken studies related to this topic.

To BK Ltd, this study is significant because suggestions and recommendations are provided by the researcher to help the organization to improve its performance through solving or prevent some problems occurred or likely to occur in Loan management strategies. This study highlights to Commercial Banks on how management of loan can improve the state of financial performance and sustainability of the banks.

Acknowledgments

We thank the Almighty God for protecting us, Professor Doctor RWIGAMBA BALINDA-the founder and president of ULK, Dr. MISAGO Isai Kadhafi for his relentless support, advice and guidance throughout the entire preparations of this report.

References

1. A., GAMBINO *le crédit dans l'économie modern*,1 édition, paris, PUF, 1993,p98
2. African Development banks. (2000). Evaluation of the banks assistance to the social sector Rwanda. Kigali
3. B. RWIGAMBA. (2001) Scientific Methodology. Kigali: ULK
4. Brajovic Bratanovic (2000): Analysis and Management banking risk 2nd edition, world bank, washington DC
5. C. Kamana, (2009). “ *Impact of credit management on the profitability of financial institution*” SFB, Kigali, RWANDA
6. C.J. Prince (2004) householder capital formation and financing 6th edition
7. C.R. Kothari (1990). *Research methodology*, second edition
8. Comptroller, loan portfolio management, Himalaya publishing house 2000 2nd edition
9. D. Howard Crosse (1962), commercial banking 4th edition, Englewood cliffs, new Jersey
10. D. KENNETH Baily (1978)Methods of social research,New York,p266
11. Dr. P.K. KHANNA., Financial institution management (a new orientation), Himalaya publishing house 2007
12. Dr. Vasant Desai (2010), Bank Institutional management
13. E. Atman, Investment performance and economic impact , new York, 1998
14. E. BARR and J. Managerial Accounting, 2nd edition, British library,London,2006
15. GEORGE R.ET AL Management, and Capital Budgeting and Capital structure policy for financial institution :Business Publications Inc Dallas Texas 1986,p37
16. GRAWITZ,(1979).Introduction in investigation 4e edition P.225
17. Grinner and William (1990). *Research methodology*, London, routledge Education Books
18. H. Fofack, (2005), Non Performing loans in sub-Saharan Africa : Causal Analysis and Macroeconomic implications, World Bank Policy Research Working Paper no. WP3769.
19. Hoff and Stieglitz (1993): Management and financial institution 5th edition
20. J. Adeoti, &, Salomi, A. (2007). Portfolio management in Banking industry.
21. J. LECAILLON, Analyse microéconomique:lesentreprises,Production et prix,Edition Cujas, paris,1989,p.36
22. J., Rakesh Analysis banking risk a framework, Cyber Tech, 2012
23. Joseph Halevi, David laibman and Eduard J. Nell (eds). (1992). *Beyond the steady state: Essay in the bank management*, edited with London, UK
24. Kendly et al (1990). Questionnaire, New York, St martin's press
25. L. rieva (2000): Loan and Credit instrument 4th edition
26. M. Grawitz, 2001. Social sciences methods, first edition, Paris, Dalloz
27. M. John (1990) Financial Managent of Bank, Performance And Potential ,St Martin Press, New York
28. M. Zahra (2005) Financial management 3th edition
29. MANHIEM,(1995) Methodology,1^e edition P.400
30. P. Thomas Fitch, Dictionary and banking terms 4th edition Barron's Washington, (2000)
31. Peter S Rose (1978) commercial banking management, Rostow publishing company, In, Reston Virginia
32. R, J., Fitzgerald, Stan, B., &, Rhian, S. (2004). Performance measurement in Business services. New Delhi

33. R. Michael Robbert, (2008) How does financing impact investment?
34. R., Lionel. (2002). *Economics* New York, St martin's press
35. S. Prasad Vipradas (2009) Bank lending
36. S. PETER Rose, (1991), *Commercial Bank Management*, Second Edition.
37. S.Murali (2012), *bank credit management*, Himalaya publishing house, 2012
38. Sundharan and varnhney, *banking law and practices*, sultancharnd & sons, Educational publishers, New delhi, (2003)
39. W. Burton., (Ed). *Overdraft management*, New York, St Martin' press
40. W. Terry, (2007). *River of innocent*, New York, St martin; s press